

## DO “ONE-STOP SHOPS” WORK?

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### I. Foreign Direct Investment and Politics

The attractiveness of a country to foreign investors and the feasibility of individual investment projects is closely linked to a country’s policy environment. However, this dependence does not only refer to the overarching legal framework or the general policy prescriptions. Equally, if not more important is the practical administrative implementation of these policies.

These administrative procedures can pose serious impediments even in countries with an apparently quite liberal investment environment. Many governments realize with frustration that investors openly complain about difficulties even after the introduction of broad liberalization measures with respect to foreign direct investment (FDI). What frequently happens is that broad policy reforms do not actually translate into improvements in the various bureaucratic processes investors have to go through.

Most investment promotion agencies (IPAs) therefore recognize early on that promotion activities by themselves are not sufficient to attract investors to the country. In fact, such a strategy can easily backfire. A good marketing and public relations effort might well result in a strong response from abroad, with many interested investors visiting the country to explore it more carefully as a potential investment location. But in situations where administrative processes pose a serious problem, potential investors are likely to find out fast. Own experiences with obtaining visas and entering a country might be taken as a first indication. Reflections and opinions of existing investors who incurred unnecessary costs and losses due to delays resulting from actions – or a lack of action – by government agencies will leave lasting impressions. Should it turn out that administrative practices do pose a serious burden, potential investors are likely to walk away, not to return for a long time as the country now has a stigma of not being investor-friendly.

It is not that investors just fundamentally abhor government agencies and specific rules and regulations any investor has to follow. In fact, they are quite used to dealing with government administrations in their home countries. They also do not expect that all these procedures will always be unproblematic and work seamlessly. But they will be most sensitive to discretionary behavior and a general unpredictability with respect to obtaining approvals. Especially when they recognize that the success of their venture will to a large degree depend on paying bribes or relying on personal relations with well-connected individuals, serious investors will think twice before committing their capital.

All this means that IPAs cannot remove themselves from the question of the policy environment within their own country and its practical implications for investors. On the contrary, by advertising their country as an attractive investment location, their credibility rests with the satisfaction of their potential investors and clients. Should investors find that their expectations were not fulfilled, they will often feel betrayed and lose trust in the IPA as an objective counterpart.

Recognizing that existing administrative practices pose a threat to their policy reform efforts, governments therefore often try to find practical solutions to creating a more attractive business environment. An IPA, being the point of first contact and gate of entry for foreign investors, seems to be the most appropriate candidate to tackle these issues. During the 1980s, the concept of a “One-Stop Shop” (OSS) came into fashion as a vehicle to deal with administrative barriers to provide a more streamlined and investor-friendly policy environment. However, as the following discussion will show, the experience with the OSS concept is checkered and not particularly positive in many instances.

## II. The “One-Stop Shop” in Theory and Practice

When trying to establish an investment project and making it operational, investors tend to face a myriad of steps where they need to interact with various government agencies to obtain all the necessary permits, licenses, approvals and clearances. As a first step, a potential investor needs a visa to enter in order to explore the country as a potential investment location. Having developed an interesting investment project, in some cases a foreign investment and/or general industrial license needs to be obtained. Sectoral or industry-specific licenses are generally required before operations can be initiated. The new company needs to be incorporated and registered. The paid-in capital often needs to be valued when in-kind and certified. Tax authorities need to register the company. Registration and approval procedures need to be completed with finance, banking and trade authorities in cases involving foreign exchange and export/import transactions. Central, regional and municipal authorities have to clear access to land and approve the construction and occupation of production facilities. For the hiring of domestic and foreign workers, approvals need to be obtained from labor and immigration offices. Clearances and inspections are required from a number of authorities, including environment, health, safety and labor. In short, an investor has to be in contact with a number of different government authorities to go through their administrative procedures before operation can begin. A delay in any of these steps will translate into additional costs and foregone revenue, and any permit, approval or clearance not forthcoming can jeopardize the entire project.

Given the complexity of this process, the concept of an OSS seems very appealing. The basic idea is that an investor would only have to be in contact with one single entity to obtain all the necessary paperwork in one streamlined and coordinated process, rather than having to go through a labyrinth of different government bodies. In practice, however, such a mechanism works in barely any country of the world.

In its narrowest definition, such an OSS would effectively mean that one government agency has all the authorities necessary to grant the various licenses, permits, approvals and clearances. Without such an all-embracing authority, the agency could in fact not wield much control over the process. It could therefore not actually provide all the necessary clearances at various stages of the administrative process, having to depend on other authorities instead.

In practice, however, such an idealistic notion of the OSS has proven unrealistic. Practically all governments that tried to implement this form of an OSS encountered significant resistance by the various government agencies responsible for the different administrative procedures. Most importantly, other ministries and agencies fear that the creation of such an OSS would result in curtailing their authority and mandate, quickly leading to intensive turf battles within the government bureaucracy.

But more relevant than whether such an OSS is politically feasible is the question whether a single agency should actually have this much authority and power. It is important to recognize that most agencies and administrative processes were created in response to particular policy concerns of the government. Be it concerns related to immigration, environmental degradation, tax evasion or health and safety problems, each agency tries to address a particular issue with specialized staff and processes. Any OSS that wants to provide qualified authorizations in any of these areas, would in fact have to re-build these (or similar) structures in-house. Otherwise approvals such as environmental impact assessments, VAT reimbursements or health and safety certificates would most likely not meet the underlying policy objectives. But such a mirroring of administrative capabilities would quickly turn an OSS into a bureaucratic super-agency with massive staff and resource requirements. It is unlikely that any such agency would be capable of providing fast and client-oriented services to the private sector.

Governments therefore typically shy away from establishing such an OSS in the narrow sense. Instead they tend to rely on some form of coordination mechanism where the various authorities maintain their existing mandates and responsibilities. The typical structure of such a coordinating mechanism consists of the delegation of staff from the various ministries and agencies to establish their offices in the same location, frequently an IPA.

But putting together even such an OSS is not at all an easy task. Other authorities are still likely to feel threatened, even if the OSS mandate is carefully defined as a coordinating function only. Ministers and agency heads tend not to show a strong interest in cooperation as they feel unsure about the true intentions of the OSS, fearing incursions in their fields of responsibility. In many cases, these authorities therefore only delegate junior staff to the OSS who do not have sufficient authority to actually grant approvals. This, in fact, means that paperwork is simply collected at the OSS offices and transferred to the main offices of the relevant authority just to pass through the same administrative process as before. In such a situation the potential investor has gained nothing. The OSS is simply a mailbox operation, where the investor submits his

paperwork just to pursue it directly with the relevant authority in order to see his application through. The “One-Stop Shop” has actually turned into a “one more stop”, as investors are now forced to interact with one more entity in the process of implementing their projects.

Any OSS management also finds out quickly that placing different offices in the same location does not make for a coordinated process. Initially, the various officers will simply apply their existing procedures without much concern for the bigger picture. At the same time, authorities will typically not be particularly receptive to criticism and suggestions for improvement as they generally consider the OSS management as unqualified to comment on their procedures.

Finally, it is important to recognize that the mentality of officers in an IPA is quite different from civil servants in other authorities. The typical civil servant responsible for granting licenses, permits and approvals sees his primary function as controlling and regulating investment. They see it as their primary objective to ensure that investments meet the overall policy requirements within their area of responsibility, and making life easier for investors is, at best, only a secondary thought. Combining the client- and service-oriented spirit of an IPA with the control mentality of regulatory agencies tends to create distrust and friction, and makes a fruitful collaboration often quite difficult.

For all these reasons, OSSs frequently run into serious difficulties. The expected efficiency gains do not materialize as hoped for, investors complain that little has changed except that one more step has been added, and tensions rise within government because of turf battles and in-fighting. Few governments managed to escape this fate.

The most outstanding and well-known examples where such an OSS system works reasonably successful are the Economic Development Board (EDB) of Singapore, the Malaysian Industrial Development Authority (MIDA) and the Industrial Development Authority (IDA) of Ireland. In all three cases, investors can rely on the agencies to provide practically all the approvals and clearances needed. The EDB and IDA in fact managed to obtain direct control over a number of approval procedures such that investors only have to deal directly with a small number of separate authorities, and even in those cases both agencies tend to be highly effective in ensuring cooperation. MIDA, on the other hand, started as a pure coordination mechanism and experienced the typical starting problems of an OSS. But with the strong support by Prime Minister Mahatir directly, the involvement of MIDA on behalf of an investor effectively guaranteed approvals and permits to be forthcoming without difficulties.

In evaluating the particular effectiveness of these agencies it is key to recognize that they receive their power and effectiveness not through a particularly strong and all-embracing legal mandate, but rather through political clout and seniority. Common to all these cases is that the agencies received the full support from the most senior levels of government, and that all governments made the attraction of FDI a central pillar of their economic development strategies. Hence, when these agency approach particular authorities on behalf of investors, this practically amounted to the same as a direct request from the

Prime Minister's office, making the handling of these applications an immediate priority. In addition, it is important to recognize that these agencies also benefited from an environment where less licenses, approvals, permits or clearances were necessary. Besides creating these agencies, the governments also introduced a series of other reform measures, all geared towards eliminating obstacles to investment.

Thus, establishing an effective OSS requires the full attention and support by senior government as a key priority. Only then can the agency effectively design a streamlined process to implement investment projects without becoming immersed and distracted by intra-governmental politics.

### III. The OSS as a Vehicle for Policy Reform

Experience shows that, even under the best circumstances, the creation of an OSS will not automatically result in a streamlined and efficient process of implementing investment projects. Clearly no agency can just take charge of all the various administrative procedures and simply shorten the timeframe and procedural steps applied. Instead an OSS will necessarily have to work closely together with all the other authorities to carefully adjust and re-engineer individual processes such that they are less burdensome for investors without compromising other policy objectives.

This is a time-consuming political process which cannot be achieved overnight. However, a strong OSS can serve as the key catalyst in such a policy reform process. With sufficient political support from senior government, the various authorities can not only be convinced to assist in the implementation of individual investment projects, but instead to cooperate in seriously reviewing and reforming their procedures. But for this to work, the OSS management needs to prepare the ground carefully.

As a first step, the OSS management needs to develop a close and professional working relationship with the representative officers of the various agencies by making them feel part of the overall effort to attract investment. Only then will these officers be willing to conduct their administrative work such that it contributes to the overall objective of handling investor applications as rapidly as possible. But such a streamlining can not take care of structural weaknesses in particular processes that might require more fundamental reforms.

To develop viable reform options, the management has to show that it sincerely wants to get a detailed understanding of the various processes and the underlying policy objectives. In close collaboration with the delegated officers as well as the authorities themselves, the management should then try to design alternatives that meet both investor objectives and government concerns in a better fashion. Naturally not all such reforms can always be put in place in a friendly and collaborative environment. In situations where other parts of government are not readily willing to cooperate, the OSS will require strong political support to force through the necessary changes. In the long term,

this should result in a structurally more attractive investment environment, where an OSS is actually no longer necessary.

Overall, the most important function of an OSS does not actually rest in developing a mechanism that makes it easier for investors to get around administrative bottlenecks. The true strength of an OSS lies in fact in the possibility of identifying shortcomings in the administrative implementation of a country's investment policy and to remove all these bottlenecks. Hence, at the core of an OSS lies policy reform, rather than short-term, ad-hoc solutions to problems investors face.