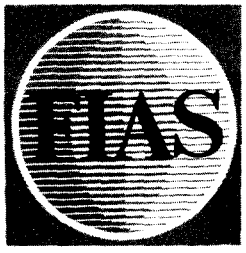

Foreign Investment Advisory Service
Occasional Paper 2

Facilitating Foreign Investment

Government Institutions to Screen, Monitor, and Service Investment from Abroad

Louis T. Wells, Jr.
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Foreign Investment Advisory Service (FIAS)
a joint facility of
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List of Abbreviations

Brazil
INPI National Institute for Industrial Property
SEI Special Secretariat of Informatics

Dominican Republic
IPC Investment Promotion Center
BII Board of Industrial Investment

Ghana
GIC Ghana Investment Center

Indonesia
BKPM Capital Investment Coordinating Board

Ireland
IDA Industrial Development Authority

Kenya
IPC Investment Promotion Center
IFC Investment Facilitating Committee

Korea, Republic of
FIPD Foreign Investment Policy Division

Mexico
DGIE Directorate General of Foreign Investment
CNIE National Foreign Investment Commission

Philippines
BOI Board of Investment
OSAC One-Stop Action Center

Singapore
EDB Economic Development Board

Thailand
OBOI Office of the Board of Investment
BOI Board of Investment
ISC Investor Service Center
OSSC One-Stop Service Center

Turkey
FID Foreign Investment Directorate

1

Rhetoric and Reality

In the past few years, a large number of developing countries have begun to change their policies toward foreign direct investment. Many countries have shifted from restrictive policies that reflect skepticism about the advantages of such investment to policies that seek to attract increasingly larger amounts of foreign investment. The changes in attitudes toward foreign investment have been accompanied by changes in the institutional arrangements by which governments manage their relations with foreign investors. Many of these changes have been significant; yet in a wide range of cases these newly configured institutions have not succeeded in accomplishing the various goals that typically have been assigned to them. The fact is that the rhetoric of change has outrun the reality.

One of the most widely recommended and widely instituted changes has been the move to some kind of "one-stop shop" approach to the management of a government's relations with foreign investors. The one-stop shop takes various forms in practice. The expectation that typically lies behind such a title, however, is that a single organization in a country is to have responsibility for conducting or coordinating various matters related to the entry or supervision of foreign investment. Thus, a would-be foreign investor would have to deal only with this one organization to obtain all the permits needed to invest in the country.

One organization with responsibility for all investment matters could achieve several goals. In its evaluation of proposed investments, such an organization could weigh rationally all the advantages and disadvantages of a proposed investment because of its broad perspective and its ability to assemble expertise on a variety of matters in one place. In addition, it could capture the learning benefits to be derived from frequent negotiations with foreign investors. Finally, and usually most important, such an organization could reach decisions relatively quickly and predictably because only one entity would be involved. Speed and predictability of decisions are thought to be important elements in a program designed to encourage foreign investment. The advantages of one-stop organizations are also believed to extend to other government activities during an investment's life, such as promoting the investment, providing services to investors, and monitoring investment projects.

Yet even the proponents of one-stop organizations recognize that they have certain disadvantages. For instance, they usually lack the industry expertise that an industry-specific agency could provide, as well as the functional expertise of a line ministry. The national oil company, for example, is likely to know the oil industry better than any one-stop investment authority.[1] Similarly, a country's department of revenue is the agency most likely to be conversant with the intricacies of corporate taxation. Nevertheless, for the management of most categories of foreign investment in a country, the advantages of these one-stop organizations seem to outweigh any disadvantages.

One-stop shops seldom perform as predicted, however, despite the labels governments attach to

these creations. Many of these organizations, although created with the goals mentioned above in mind, have been able neither to improve the quality of the foreign investment that enters a country, nor, in many cases, to speed up the decision and approval process to facilitate the inflow of a greater quantity of investment. This study concludes that the ineffectiveness of many one-stop shops results from the failure of government to exercise sufficient will to change decision processes. Structural changes that are made often apply to administrative processes alone; change in administrative processes without corresponding change in decision processes leads to failure on the part of government to achieve the desired results.

Of the various activities of one-stop shops, or other organizations designed to deal with foreign investors, the screening function generally receives the most attention. Screening may be used to decide which foreign investments should be allowed to enter the country; alternatively, for countries that offer incentives, screening may be used to decide which investment projects qualify for these incentives. A government may, of course, elect not to carry out screening. Instead, it can allow all (or no) foreign investors to enter, or it can grant incentives to all (or no) investors. The rationale for screening is to protect the country from investors who might pursue projects that would be injurious to the economy or from wasting incentives on projects that are not the most beneficial or the most needed.

To the governments of most developing countries, the case for screening seems so compelling that few governments are completely open to foreign investment: most have some mechanism to admit foreign investors selectively or to exercise some choice in allocating incentives. Countries vary widely, however, in the stringency of their entry regulations. Most have general laws or regulations that prohibit foreign investment in certain industries, such as the distributive trade, local transportation, and utilities. Others prohibit substantial foreign ownership of firms or industries that are critical to the nation's defense. Some countries have only general rules in place; others have an active policy of screening each investment (although the applicable criteria governing the decisions that are made may not be at all transparent).

The project-by-project approach to screening seems, on the surface, to be more appealing to a country, given that reliance on general laws might allow the entry of damaging investments. The strongest case for the project-by-project approach is made by countries with tariff and other protection against competition. Various studies have demonstrated that perhaps 30 to 40 percent of the projects proposed by foreigners would be harmful to the economy of such countries.[2] But even though these governments have relied on screening to reject harmful projects, the skimpy data that exist (largely from one study and considerable casual evidence) suggest that such screening has not been very effective. Indeed, in some cases, it seems that harmful projects have about the same chance of passing through the screen as beneficial ones.

Suggestions that screening authorities are ineffective might seem puzzling, given the resources spent to establish and improve such agencies. They have, after all, been the target of considerable foreign assistance in many countries. One of the goals of this study is to examine the internal workings of screening agencies to determine what they actually do and why they seem to fail so often in accomplishing the goals that have been assigned to them.

Laying aside the question of benefits or results, the screening process does, nevertheless, have real costs. As a practical matter, case-by-case screening often is not well performed and the process itself may discourage would-be investors. Smaller firms are particularly likely to be dissuaded by the investment in money and management time required to proceed through the uncertain screening process. Thus, screening may turn away a disproportionate number of investments that would be beneficial to a country's economy and consume the time of bureaucrats who might be more efficiently employed elsewhere.

Given the costs of screening, and its apparently poor results, the process has come under attack in reform programs. Those who support such attacks argue that screening not only fails to work well but is less necessary with liberal trade policies. There is evidence to show that more open trade regimes lead to fewer harmful foreign investment. Improving the mechanisms by which governments screen incoming investment thus may be less effective than reforming trade policy. Because trade reform may proceed slowly or not at all in some countries, improving the screening process may be an essential "second-best" policy. In some cases, we will argue that the use of rules of thumb for screening can accomplish a great deal, either in the transition period to liberalization or even over the longer term. We also suggest ways to improve the operations of screening organizations.

Of course, screening is not the only function of one-stop and other government organizations concerned with foreign investment.[3] With their new attitudes toward such investment, governments have sought to offer a collection of services to investors, under the assumption that a greater service orientation would ease the entry of foreign firms and encourage more investment. No previous study, so far as we know, has examined and compared the efforts of governments in the service delivery area. This study shows, however, that governments link the decisions they make about appropriate service organizations with their decisions about how to structure the screening activity. Policies to affect one activity generally have affected the other, largely because little attention has been paid to the separate requirements of the service function. We suggest ways to improve services throughout this report.

Finally, governments have, on occasion, been severely criticized for not adequately monitoring the activities of foreign investors in their countries. Criticism runs the gamut from that of academics, who bemoan the lack of useful data for research, to political opponents, who complain that governments grant incentives to investors who promise to deliver certain benefits but never check to see that the firms actually deliver what they promise. Again, there is a dearth of empirical work on what kinds of monitoring governments actually perform, and why. This report explores the activities of selected governments with respect to monitoring.

With trade liberalization becoming increasingly popular and new attitudes toward foreign investment taking hold across much of the world, the approaches governments use to attract, screen, service, and monitor foreign investment are undergoing change—and not always for the better. The goal of this monograph is to study the experiences of ten developing countries in different parts of the world and draw out useful lessons for countries that are rethinking the way they manage their relations with foreign investors.

Research Design

Data Collection

To determine the manner in which governments manage these activities and their effectiveness, we gathered data at first hand in the field. We conducted 120 structured interviews with four groups of officials and executives in the countries we studied. We interviewed senior officials in the principal investment organizations in each sample country; in most instances, these interviewees were the chief executive of the investment organization and executives from several of the major departments of the organization. We also interviewed a variety of government officials from outside the investment organization, including officials from line ministries and important government departments such as the ministries of finance and trade, the central bank, and so forth. Our third group of interviewees consisted of representatives of associations of foreign investors, such as chambers of commerce, and investment officials from the embassies of countries that were sources of foreign investment. Our final group of interviewees were business executives from firms that had recently invested in the countries we studied.

One note of some importance: our focus was on agencies that dealt with general foreign investment. We did not examine the workings of organizations that handled narrow subsets of investors. Consequently, we did not examine state-owned mineral companies, even though they might be charged, formally or informally, with responsibility for foreign investment in their sectors. Similarly, we did not interview in-depth administrators of export processing zones, even though in many cases they had almost complete responsibility for foreign investment in those zones.

Sample Selection

Because of the need for field investigations, we had to restrict the number of countries we investigated. We first used secondary data to examine the screening processes of thirty countries. We categorized these countries, based on the secondary data, by the institutional approach they used to screen investment, by the size of the country (in population or land area), by level of development (in per-capita income), and by region of the world (see table 1).

We then chose a sample of ten countries from the list of thirty. Our criteria for choosing the sample were a desire to study a minimum of two countries, preferably at least one large and one small or medium-sized, from each institutional approach; to represent each of the major developing regions (Africa, Asia, Latin America, and the Europe/Middle East region); and to generate a final sample that included countries at different

Table 1 Institutional Arrangements and Country Characteristics of Foreign Investment Screening Processes

Institutional Approach[a]	*Country*	*Population (millions)*	*Size*[b]	*Per-capita income (1986 US$)*
Single autonomous agency or ministry	Colombia	29.0	1,139	1,230
	Ecuador	10.0	284	1,160
	Singapore[c]	3.0	1	7,410
	Turkey[c]	51.5	781	1,110
	Zambia	7.0	753	300
Permanent inter-ministerial body	Bangladesh	103.0	144	160
	Ghana[c]	13.2	239	390
	Greece	10.0	132	3,680
	Indonesia	163.0	1,919	490
	Lesotho	1.6	30	370
	Mexico[c]	80.2	1,973	1,860
	Pakistan	99.2	804	350
	Philippines[c]	57.3	300	560
	Sri Lanka	16.0	66	400
	Thailand[c]	52.0	514	810
	Tunisia	7.3	164	1,140
Agency that reports to an interministerial committee	Egypt	49.7	1,001	760
	India	781.0	3,288	290
	Jamaica	2.4	11	840
	Kenya[c]	21.2	583	300
	Korea, Republic of[c]	41.5	98	2,370
	Malaysia	16.1	330	1,830
	Mauritius	1.0	2	1,200
	Zimbabwe	8.7	391	620
Diffuse approach	Bolivia	7.0	1,099	600
	Botswana	1.0	600	840
	Brazil[c]	138.0	8,512	1,810
	Costa Rica	3.0	51	1,480
	Dominican Republic[c]	7.0	49	700
	Nigeria	103.0	924	640

a. Several of the countries we included in the final sample actually used a different approach to screening than the approach we initially identified based on our analysis of secondary data sources.
b. In thousands of square kilometers.
c. Countries included in the final sample.

levels of economic development. Based on these criteria we selected the following countries for on-site research: Brazil, the Dominican Republic, Ghana, Kenya, Mexico, the Philippines, the Republic of Korea, Singapore, Thailand, and Turkey.

This group satisfies all the selection criteria. The sample varies in population from Brazil's 138 million to Singapore's 3 million and can be divided into large (Brazil and Mexico), medium-sized (Ghana, Kenya, Korea, the Philippines, Thailand, and Turkey) and small (the Dominican Republic and Singapore) countries. The sample includes countries at different stages of economic development as evidenced by the variation in per-capita income (from Singapore's $7,410 to Kenya's $300). Finally, the sample has representatives from each of the major developing regions of the world: four from Asia, three from Latin America, two from Africa, and one from the Europe/Middle East region.

Notes

1. As we point out later, when an industry is especially important to a country and special industry knowledge appears critical to negotiations, countries often use approaches other than the one-stop shop. See Dennis J. Encarnation and Louis T. Wells, Jr., "Sovereignty en garde: Negotiating with Foreign Investors," *International Organization* 39 (Winter 1985) pp. 47-78.

2. These studies include Dennis J. Encarnation and Louis T. Wells, Jr., "Evaluating Foreign Investment," *Investing in Development: New Roles for Private Capital?*, ed. Theodore H. Moran (Washington D.C.: Overseas Development Council, 1986) pp. 61-86; Sanjaya Lall and Paul Streeten, *Foreign Investment, Transnationals and Developing Countries* (Boulder, Colo.: Westview Press, 1977); and Grant L. Reuber, *Private Foreign* Investment in Development (Oxford: Clarendon Press, 1973).

3. Governments are increasingly concerned with foreign investment promotion activities. For the results of a separate study we conducted on investment promotion, see Louis T. Wells, Jr. and Alvin G. Wint, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment* (Washington, D.C.: Foreign Investment Advisory Service, World Bank, 1990).

2

Screening Foreign Investment

Governments that adopt a case-by-case approach to the screening of foreign investment must also decide what type of institution should manage this function. The choice of screening structure in large part determines whether the screening organization will accomplish the goals assigned to it.

The structure a country develops to manage foreign investment screening should permit the rejection of "bad" projects while minimizing the likelihood that "good" projects will be discouraged. The one-stop investment shops created by so many countries in recent years are designed with these objectives in mind. Countries expected these organizations to (1) improve the quality of incoming investment because centralizing the government's expertise in one organization allows better screening and negotiation; and (2) increase the quantity of incoming investment because investors are more willing to seek investment approval under this kind of structure, which is believed to simplify and shorten the screening process. Of course, centralized screening structures, as these one-stop shops usually purport to be, are not always the most appropriate way to organize screening. Nevertheless, research suggests that they offer certain advantages to many countries, especially those that are seeking to attract additional amounts of foreign investment.[1]

Despite these advantages, however, the results of a country's move to a one-stop shop are often disappointing. In spite of the effort to shorten the process, investors continue to complain about lengthy delays in obtaining approvals. The new, apparently reformed organization is still slow in its deliberations. (In fact, the new organization may hardly deliberate at all.) In many cases, the delays are inherent in the structure that has been created. Some organizations that are called one-stop shops are little more than post offices that collect applications from investors and channel them to the relevant decisionmaking entities. Such organizations may perform a useful administrative function; it is equally likely, however, that they might simply add one more step to the requirements faced by a would-be investor. In the parlance of investors, they become one-more-stop shops.

In many reform efforts a question that is periodically raised is why countries bother to screen foreign investment. There are several good reasons. Not every foreign investment project that is profitable to a private investor benefits the host country. In countries that have substantial restrictions on imports, for example, a foreign investor could profit by producing a product that host country residents could obtain more cheaply abroad. In such cases, it is particularly likely that economic analysis will show the investment to be harmful. Thus, countries with import restrictions might be expected to screen foreign investment carefully to ensure net benefits to the host economy from foreign investment projects.

In many cases, however, reformed investment organizations fail to improve the quality of incoming investments because, like their predecessor organizations, they do not use techniques that allow them to identify investment projects in which costs to the investor and costs to the host

economy are most likely to differ. As a result, they neither encourage more investment nor identify the most desirable investment projects.

Separation of Administration and Decisionmaking

Governments have found it difficult to change completely the manner in which foreign investment is screened. One of the barriers to effective reform is the many constituencies with different agendas that are involved in the foreign investment screening process. The contrary pressures of various interested groups often push governments toward easy solutions that seek to satisfy all parties. The attempt to reach an easy solution, however, frequently leads to the failure of many reform efforts to achieve their stated goals.

The desire to find a structure that satisfies all concerned parties has led governments to focus on changing the manner in which the screening process is *administered*, rather than the manner by which screening issues are actually *decided*. Reform frequently leads to the creation of separate structures to handle administrative activities and the decision component of screening. Table 2 shows the prevalence of different structures for administration and decisionmaking in the countries we studied. The differences, we found, occurred for predictable reasons.

Administrative functions vary somewhat from country to country. They might include guidance to investors and assistance in preparing applications for entry or incentives. They usually involve the submission of applications to the relevant decisionmakers so that a final analysis can be conducted and a decision made. In some cases, an administrative body also conducts a preliminary analysis of applications. Administrative activities may well include communicating to the investor the decision that has been made. But, although administrative activities vary, they do not include the final decisions of which foreign investors should be allowed entry or granted incentives.

Reform efforts almost always result in a single organization for the administrative function. These organizations normally have total control over administrative matters with respect to screening; they are seldom pressured to seek input from other units of government in performing this function.

In contrast to administrative functions, screening decisions are made under various kinds of structures. Understanding the alternatives helps one grasp how the screening process works. Structures for screening decisions take three principal forms.[2] One approach, albeit a rare one, locates decisionmaking centrally, in a single organization with little formal input from other units of government. A second approach is the use of a coordinating organization, either a board or a committee, that formally comprises representatives from various units of government. The third approach diffuses decisionmaking: units of government make independent decisions with respect to would-be investors. In our sample of ten countries, we encountered all these approaches to decisionmaking associated with one-stop organizations for administration.

Interested Parties in Administration and Decisionmaking

To understand why reform is usually limited to the administrative process, it is essential to look at the groups that have an interest in screening foreign investment. These groups are likely to include subunits or departments within governments, constituencies outside the government, and interests that are not formally organized but nevertheless exert influence.

It would be surprising if these disparate groups were all to exert influence on the screening function in exactly the same direction or with the same intensity. Some of these groups are likely to favor certain kinds of structures and processes; others might be expected to champion different arrangements. Some groups, for instance, may favor a structure that allows a single organization to conduct all components of screening; others may adamantly oppose such a structure. Similarly, some groups may be comfortable with a simplified screening process, whereas others will want a process with many checks and balances—even if this arrangement proves cumbersome for the foreign investor. By identifying and analyzing the interests of the groups that typically have a stake in screening, we can garner clues about the direction of the pressures they are likely to bring to bear.

The subunits of government most likely to seek to influence screening are those whose tasks are most affected by foreign investment and those with some involvement already in the approval process: central banks, immigration departments, and finance ministries. The central administration of the country also typically seeks to influence the screening function. Of the influence-seeking

Table 2 Institutional Approaches to Screening Foreign Investment

Country	Responsible Organization: Administration	Responsible Organization: Decisionmaking	Structural Form
Brazil	Central Bank, National Institute for Industrial Property (INPI), Special Secretariat of Informatics (SEI)	Concerned ministries	Both administration and decisionmaking decentralized (diffuse)
Dominican Republic	Investment Promotion Center (IPC)	Board of Industrial Investment (BII)	Administration centralized; decisionmaking coordinated by BII
Ghana	Ghana Investment Center (GIC)	GIC	Administration centralized; decisionmaking partly centralized but mostly coordinated by the center
Kenya	Investment Promotion Center (IPC)	Investment Facilitating Committee (IFC)	Administration centralized; decisionmaking decentralized (diffuse)
Korea, Republic of	Foreign Investment Policy Division (FIPD)	Concerned ministries	Administration centralized; decisionmaking decentralized (diffuse)
Mexico	Directorate General of Foreign Investment (DGIE)	DGIE/National Foreign Investment Commission (CNIE)	Administration centralized; decisionmaking mostly centralized, partly coordinated
Philippines	Board of Investment (BOI)	BOI	Administration centralized; decisionmaking coordinated by the board
Singapore	Economic Development Board (EDB)	EDB	Centralized administration and decisionmaking
Thailand	Office of the Board of Investment (OBOI)	OBOI/Board of Investment (BOI)	Administration centralized; decisionmaking partly centralized but mostly coordinated by the board
Turkey	Foreign Investment Department (FID)	FID/Council of Ministers	Administration centralized; decisionmaking mostly centralized, partly coordinated

groups outside the government but still within the host country, one of the most prominent is the private business sector. The most vocal external groups are foreign investors and their advocates.

Each of these groups or coalitions seeks different results from screening, and to that end they are likely to exert pressures in different directions. The units already responsible for conducting aspects of screening want to continue their involvement to protect their own self-interest, especially the survival of their organizations. Change is usually viewed as threatening. Consequently, these units prefer to survive in a form in which they continue to conduct the same or a similar function as they did before reforms were instituted.

Groups outside the government have their own agendas for screening. The domestic private sector seeks a mechanism that will provide technology, management, and capital for the economy. Some parts of the sector, however, also want screening to ensure that foreign investment will be limited to industries in which foreigners will not be competing with domestic entrepreneurs. Customers and suppliers are welcome; direct competitors are not. Foreign investors, on the other hand, have a different agenda. They support a screening process that reduces the time and effort they have to spend gaining entry to the country or incentives from the government, as well as one that increases the predictability of decisions.

To respond to these groups with conflicting interests, reformers often choose the path of least resistance: they change the organization that comes in direct contact with the investor (the *administrative* unit) to appease investor groups but leave intact the *decisionmaking* mechanism, to satisfy the various government subunits. The result has been the appearance of considerable reform, as far as the outside world is concerned, but little change in the already substantial influence of the government departments. The process becomes partly one stop, for administration, but it remains more than one stop for decisionmaking.

Influences on Administrative Structures. In recent reforms in developing countries, the administrative screening structure that emerges from reform is primarily the result of the influence of foreign investors, their allies, and groups within the government eager to attract investors. These groups all exert influence in the same direction, in support of an administrative structure that reduces the time and other resources foreign investors must expend to obtain the approvals they require. Because investors are almost certain to use fewer resources to navigate a screening process administered by one organization than to navigate a process administered by several organizations, their pressure has usually led to a centralized administrative function. (That is, the entire administration of the screening process is placed in one government unit.)

Countervailing influences from other interest groups that want to keep the administration of screening in the hands of multiple agencies have been weak. As a consequence, of the ten countries we studied, nine (all except Brazil) placed responsibility for administration of the screening process in a single organization.

In the past, these countries had not all used a single organization to administer screening. Kenya, for instance, prior to the creation of its Investment Promotion Center (IPC) in 1982, required investors to visit all of the line ministries concerned about the investment and submit applications to each. No organization acted as an intermediary between the foreign investor and the various interested government departments. The administrative and decisionmaking processes were identical: both were handled through a diffuse approach. As a result, it typically took investors more than a year to obtain the necessary approvals. The IPC was designed to serve as an intermediary and decrease the time needed to obtain approvals.

In general, the issue of how the screening process is administered is not particularly controversial. Because administrative structures and processes create little tension among the forces that place pressure on the screening function, we found convergence across countries in the manner in which they handled screening administration. In contrast, tensions among the various interested groups had much more effect on how governments made screening decisions.

Influence of Government Units on Decisionmaking Structures. The pressures placed on the screening function by subunits of the government focus on representation in the organization that is to make screening decisions. For many government departments interested in the outcome of screening decisions, the ideal situation would be a screening process in which they could make independent decisions on investment applications of interest to them. They could block projects they opposed

and approve projects that met their criteria. Short of that goal, subunits are likely to settle for representation in the organization that makes screening decisions.

If the pressures directed at the screening process came only from interested government subunits, it is likely that most countries would continue, as in the past, to use diffuse approaches to decisionmaking. These diffuse approaches allowed government subunits to make screening decisions independently. In the purest cases, this meant that each unit could decide whether to approve or veto a prospective investment, or to offer or withhold incentives under its control. Three countries in our sample (Ghana, Kenya, and Turkey) used the diffuse approach to screening for many years before reforming their decisionmaking process in the 1980s. One country, Korea, retained the diffuse approach for decisionmaking after reforming its administrative process. The Foreign Investment Policy Division (FIPD) of the Ministry of Finance administered the screening process centrally but this agency had no mandate to make screening decisions. It simply collected applications and then forwarded them to the ministries concerned with approving or disapproving the investments.

At the time of our study, most countries were no longer using diffuse approaches, but the continuing pressure from government departments was reflected in the number of countries that had a coordinated decisionmaking structure involving multiple government agencies. Many of the countries we studied offered historical accounts of this process of subunits seeking involvement in screening. During our study, discussions of this issue were actually occurring in the Philippines. In 1989 during senate hearings on the status of the Philippine Board of Investment (BOI), several government departments strongly "suggested" that they should be represented on the BOI[3]. It is this kind of pressure that makes centralization of decisionmaking difficult in many countries. Some form of coordination, rather than centralization, is the usual result of these conflicting pressures.

Of the ten countries we examined, seven (the Dominican Republic, Ghana, Kenya, Mexico, the Philippines, Thailand, and Turkey) had multiple agencies or departments of government formally involved in making screening decisions through a coordinating mechanism. In all seven countries at least certain kinds of investments had to be approved by an interministerial board or committee. These coordinating bodies were the Board of Industrial Investment (BII) in the Dominican Republic; the Ghana Investment Center (GIC); the Investment Facilitating Committee (IFC) in Kenya; interministerial committees in Mexico and Turkey; and interministerial boards of investment in Thailand and the Philippines.

Within those countries that adopted a coordinated approach, government subunits had quite different degrees of involvement in screening. At one extreme, Kenya had a decisionmaking process in which subunits retained significant involvement; at the other, Mexico and Turkey had processes in which subunits were involved only in decisionmaking about investments that might have a substantial impact on the country.

In fact, Kenya had not divorced itself completely from a diffuse approach to screening decisions, and vestiges of that approach were still apparent during our study. Screening was administered by the IPC, which conducted preliminary evaluations of applications through its projects unit and then submitted the applications to the IFC, an interministerial committee composed of the permanent secretaries, or their representatives, of about twelve ministries and other subunits of government. These representatives were allowed to give preliminary clearances on behalf of their departments, and they were expected to expedite the approval process. The committee acted as a coordinating body with respect to tentative decisions, but final decisions were made independently by the heads of each subunit and were handled by the diffuse approach.

In the other countries that had adopted coordinating mechanisms to screen foreign investments, government subunits had less independent power than in Kenya. In four of these countries (Ghana, Thailand, and Mexico and Turkey in particular), there were different decisionmaking processes depending on the kind of investment being considered. In these countries, investments were systematically divided into groups. Some investments were screened without formal input from subunits; for these investments, the process had become centralized. But other projects still required screening by organizations that had formal input from various government departments. Proposed investments were directed toward a particular decision process after they had been divided according to certain criteria (e.g., size of the project, whether incentives were requested, and the export intensity of production).[4]

Thus, in Ghana and Thailand some investments could be approved by the chief executive officer of

the Ghana Investment Center or by the staff of Thailand's Office of the Board of Investment. Most investments in these two countries, however, were approved in a coordinated manner by the full board of the Ghana Investment Center or the Board of Investment in Thailand, both of which were interministerial boards. In Ghana, all investments over $5 million, and in Thailand, all investments over $3 million, had to be approved by the respective interministerial boards. Other investments, depending on their particular characteristics, could also require approval by these boards.

Although Mexico and Turkey also had multiroute decisionmaking processes, in these two countries most investments could be approved without the input of government ministries. As a result, the decisionmaking processes for many investments were centralized. In Turkey, only investments over $50 million had to be forwarded by the Foreign Investment Directorate (FID) to the Turkish Council of Ministers for approval—that is, only these investments went through a coordinated decisionmaking process, with inputs from various government units. Similarly, in Mexico, only investments over $100 million, and others that were considered important to the nation based on certain criteria, required a coordinated approval by a committee of Mexican ministers of government.

One country in our sample fell into a third category—that is, it followed neither a diffuse nor a coordinated approach in any class of screening decisions. Singapore alone screened all investments using a centralized process and was the only country in which multiple government subunits were not formally involved in screening for at least some investments. In Singapore, administration of the screening function and the actual screening decisions, were centralized in a single institution, the Economic Development Board (EDB), which was an autonomous entity within the Ministry of Trade and Industry. In 1989, its board of directors included executives from the private sector and from various other organizations throughout Singapore. There was no formal provision in Singapore's foreign investment regulations, however, for the participation of representatives from various government departments. The EDB handled all aspects of the investment screening process. All investors interested in obtaining incentives from the government, regardless of the level of projected investment or any other criterion, submitted their applications to the EDB, which made decisions apparently without input from other departments. Thus, for both administration and decisionmaking, we concluded that Singapore's EDB was the only authentic one-stop investment organization in our sample.

The experiences of the countries in our sample suggest that, in the vast majority of cases, subunits of the government bureaucracy manage to retain formal involvement in screening decisions for a large fraction of foreign investments. The pressures from these subunits can be resisted only if there are strong countervailing influences from groups within or outside of the country. To resist the pressures of government departments seeking input into screening decisions, these countervailing pressures must emanate from, or be directed through, the country's central administration.

Influence of Central Administrations on Decisionmaking Structures. The pressure exerted by government subunits is clearly only one of the factors that determine the structure countries use to screen foreign investment. Two other important influences on that structure are the investment policy espoused by the country's central administration and the power available to the central administration to impose its policy on other units of government.

In countries with policies that seek to deter foreign investment or that are indifferent to the entry of foreign investors, central administrations will impose no pressure on the screening process. In these situations, the screening process will be captured by the interests of the various government subunits, and screening decisions are likely to be diffuse. (Screening decisions were made this way in Turkey, for instance, prior to 1980, because at that time the Turkish government had little or no interest in attracting foreign investors.)

In contrast, in countries with a policy of attracting foreign investment, central administrations are likely to exert a strong influence on screening, especially in countries that are interested in attracting foreign investors as one element of a broader economic liberalization policy. Attracting foreign investment is often important to the success of these broader efforts; consequently, the interests of foreign investors are protected and advanced by the country's central administration.

As noted earlier, investors collectively want a streamlined screening process that minimizes the resources they must expend to obtain approvals. In general, investors use fewer resources to obtain

screening approvals when the decisionmaking process is centralized. Indeed, our interviews with foreign investors suggested that the greater the centralization of the screening process, the quicker screening approvals will be obtained. Administrations interested in attracting foreign investment often seek to streamline the screening process by centralizing decisionmaking within a single, autonomous, and powerful organization.

Of course, the pressure for streamlining through centralization of decisionmaking runs counter to the pressures exerted on the screening process by government subunits eager for involvement. Of the three approaches to screening decisionmaking, the coordinated approach frequently seems to represent a compromise between the interests of subunits and the interests of central administrations.

Compromise may be avoided, and centralization may be the outcome for both administrative matters and decisionmaking, but this is rarely the case. Countries seem able to avoid compromise and actually centralize decisionmaking only in cases in which there is an overwhelming desire on the part of the central administration for investment policies that are clearly oriented to attracting investment. In addition, for centralization to occur, the central administration must be powerful enough to ensure that the policy it supports is effectively implemented. Only strong central administrations that can co-opt the participation of otherwise reluctant government subunits are likely to succeed in transferring authority over all or most screening decisions to one organization.

Singapore, and to a lesser extent, Turkey and Mexico, illustrate the relationship between centralized structures and the pressure on foreign investment screening from strong central administrations pursuing strategies to liberalize investment policies and welcome foreign investment. For at least twenty years, Singapore's development strategy has placed an extremely high premium on attracting foreign investment. Under the strong, decisive leadership of Prime Minister Lee Kuan Yew, foreign investment has not only been welcomed in Singapore but has been expected to play a leading role in the development of the economy. The prime minister is known to exercise substantial power over all levels of government in Singapore, and this environment makes it possible to centralize all screening responsibility in the powerful, autonomous EDB. No government subunits in Singapore challenge the EDB's authority, either overtly or by delaying screening decisions.

The cases of Mexico and Turkey also suggest that centralized structures for screening investment typically are created, and are likely to succeed, only in an environment of strong central administrations that have a clearly articulated program of welcoming foreign investment and liberalizing the economy. Prior to 1980 very few foreigners had invested in Turkey, and there was little interest in attracting such investment. Between 1954 and 1979 annual foreign capital inflows into the country totalled a meager $228 million. Between 1980 and 1988, however, a total of $2.9 billion of foreign investment entered Turkey following several significant changes in government policy. Until 1980, Turkey had pursued a strategy of development based on import substitution. When faced with severe economic problems in 1980, however, the Turkish government abruptly shifted to a more open, export-based development strategy. The country's central administration instituted a comprehensive economic liberalization and stabilization program. One of the primary components of this program was the adoption of open, flexible foreign investment policies.

In the broader context of the country's new economic liberalization program, the central administration established the Foreign Investment Directorate (FID) within the State Planning Organization of the Prime Ministry. The FID was given sweeping powers that in some instances usurped traditional roles and functions of other government departments. Prior to establishment of the FID, "authority for approval of a foreign investment application was scattered among various ministries of government, all sharing a suspicion (common in Turkey since Ottoman times) of foreign intervention through investment. The result was that investment applications were very slowly (if ever) approved, and potential investors were effectively discouraged in their attempts to deal with the bureaucracy."[5] By granting the FID virtually complete authority over screening, Turkey's central administration reduced the earlier screening roles of government subunits.

The establishment and subsequent success of the FID can be attributed not only to Turkey's interest in attracting foreign investors but also to the strength of its central administration. The administration's liberalization and stabilization program was developed by Turgut Ozal, the deputy prime minister with responsibility for economic policy and a former employee of the World Bank. In September 1980, a military coup occurred in Turkey, and Turgut Ozal was the only

high-ranking government official to retain a position in the new government. The military government endorsed his economic policies and vested him with absolute authority for economic policymaking. In 1983 when the military voluntarily gave up power and elections were held, Mr. Ozal, the economic "czar," was elected prime minister. That election, and his subsequent reelection in 1987, gave him a popular mandate to continue his liberalization of the Turkish economy.[6]

In the late 1980s, Mexico followed a route similar to that of Turkey several years before. In 1987, Carlos Salinas, then minister of programing and budgeting, initiated a broad liberalization program designed to improve the performance of the Mexican economy. In 1988 when Mr. Salinas was elected president of Mexico, he and his team continued the program by drafting new regulations to make Mexico more attractive to foreign investors and to streamline the process by which foreign investment was allowed entry. The announcement of this new strategy for development coincided with changes in the organization of Mexico's screening function. Under regulations promulgated in May 1989, the administration of the screening process and many (but not all) screening decisions were to be centralized in a new organization: the Directorate General of Foreign Investment (DGIE). Previously, all foreign investment applications (above a 25 percent foreign equity level) had to be approved by an interministerial committee, the National Foreign Investment Commission (CNIE).

As in the case of Turkey, Mexico's dramatic change to a policy of welcoming foreign investment led to a more centralized screening structure that did not have formal representation and input from other government departments. Moreover, in both countries, the election of the principal architect of economic policy to political leadership provided these individuals with a political mandate, which may have vested the office of the head of state with unusual power over other units of government with respect to matters of economic policy. At the time of our study the Mexican changes had recently been implemented. Consequently, it was not possible for us to determine whether the Mexican central administration had been able to garner as much power as the central administrations in Singapore and Turkey, nor whether its centralized screening organization was as effective as the organizations in those two countries.

Earlier we noted that it was relatively easy to reform the screening function so that a single organization had responsibility for administration. Yet, although streamlined administrative processes can speed up screening, such reform does not create a true one-stop shop with primary authority to deal with foreign investors unless centralized decisionmaking is also instituted. True one-stop shops are likely to be created, and will probably be successful, only if they represent one prong of a broader set of reforms that liberalize investment policies. Only then are central administrations likely to muster the will to oppose the interests of government subunits and insist on centralized decisionmaking. Whether a central administration enjoys sufficient power and authority to exercise its will is a separate but critical question. Regardless of its interest in attracting investment, only a central administration that is particularly strong within the bureaucratic system will be able to transfer screening decisionmaking from government subunits to a single, central organization.

Processes for Screening Foreign Investment

Tensions also exist between the various groups that have an interest in the *process*, as well as the *structure*, used to screen investments. Foreign investors and central administrations eager to attract them promote a screening process that is simple, quick, and transparent. In contrast, government subunits advocate a process that measures investments against criteria arising from the traditional roles of these bodies as protectors of particular aspects of the nation's interests. The result is support for lengthy, complex analysis using criteria that are not easily specified and that differ from unit to unit.

Most government departments would be delighted if their country's screening process followed their own analytical frameworks. Otherwise, they can usually unite only around resistance to any change in existing screening processes. This resistance to change we think explains why changes in screening *processes* have lagged behind changes in screening *structures* (especially for administration).

Nature of Screening

For approximately 25 years, tools have been available for analyzing the impact of a proposed foreign investment on an economy. Consultants and

international organizations have urged developing countries to use such tools, and advocates have offered courses and seminars on project evaluation for government officials. Foreign assistance organizations have provided computers to investment authorities to assist in evaluations. Despite these efforts, however, we found no investment authority in our sample of countries that routinely conducted economic cost-benefit analyses to determine which proposed investments should be allowed entry or provided with incentives.

This is not to say that investment authorities failed to conduct analyses. On the contrary, screening units often made various calculations along several dimensions to determine the viability of a proposed investment project—but all from the point of view of an investor rather than the host economy. Approaches included assessing the financial attractiveness of the project for an investor, using the usual techniques of financial analysis; checking the investor's market projections to ascertain the likelihood that a project would meet its sales forecasts, whether for export or for domestic markets; and assessing the extent to which the project was technically feasible and likely to work without engineering glitches. Screening units frequently conducted another kind of analysis as well—assessing the impact of a project on the existing domestic industry—but usually with less numerical work.

Let us consider first the case in which the principal issue is whether an investor will be admitted. To a greater or lesser extent, foreign investment screening in Ghana, Kenya, Korea, and the Philippines focused on this issue. When screening analyses were conducted for this purpose, all of the countries concentrated on criteria similar to those outlined above. Analyses differed somewhat in the Dominican Republic, Mexico, Singapore, and Turkey, where incentives rather than entry were almost always the issue. However, countries that evaluated projects primarily for entry behaved like the other countries when they were trying to decide whether to award incentives. Then, all of the countries focused less on project viability and more on such factors as the likelihood that the project would generate or save foreign exchange, create employment, or locate in an appropriate region of the country. Analysis concentrated on benefits, as defined in the rules governing allocation of incentives, and costs were ignored.

None of the countries made a serious effort to analyze whether incentives were needed to attract particular investors. This was true of those screening agencies that were principally concerned with the granting of incentives and of those concerned with entry. Thus, investments that met certain criteria (for example, creation of jobs, a given percentage of output exported, and location in a backward area) were recommended for incentives regardless of whether incentives were needed to attract the investment or to solicit more favorable terms from the investor.

Influence of Foreign Investors on Screening

Foreign investors usually influence a country's screening process indirectly. Most often such influence is manifested as pressure from the central administration for change when the government is shifting to development strategies that are more receptive to foreign investment. One frequent result of this pressure is the institution of screening processes that are more favorable to the entry of foreign investors. In such cases, sometimes even the appearance of analysis aimed at assessing economic benefits disappears.

Central Administrations with Changed Attitudes to Foreign Investment. Many of the countries in our sample had changed their attitudes toward foreign investment during the preceding decade. When change occurred, it was, in every case, toward increased receptivity to foreign investment. Governments with new attitudes thus attempted to modify the screening process to make it easier for foreign investors to enter the country and, in some cases, to receive incentives.

In particular, the Dominican Republic, Ghana, Kenya, Mexico, the Philippines, Thailand, and Turkey had at some point in recent years specifically articulated a warmer welcome for foreign investment in their countries. The initiative and early pronouncements of policy shifts came out of each country's central administration. In most instances, such as Turkey in 1980, the Dominican Republic and Kenya in 1982, Ghana in 1985, the Philippines in 1987, and Mexico in 1989, the more favorable attitudes toward foreign investors were codified in legislation sponsored by the central administrations of these countries.

The case of the Philippine Board of Investment (BOI) illustrates the influence of central administrations on the screening process. The BOI had an active program of screening investments for entry

and for incentives, which included financial, marketing, and technical analyses designed to assess the viability of proposed projects. The financial analyses were performed to ensure that the project had adequate financing, the technical analyses, to ensure that the project would actually work. The marketing analyses were supposed to ensure that market projections were realistic. Before 1987, the BOI conducted these analyses for all prospective investments, taking an average of 44 working days to process applications. In 1987, however, President Aquino promulgated the new Omnibus Investment Code that sought to make the Philippines a more attractive location for foreign investment. This code established incentives such as tax holidays for investors and the One-Stop Action Center to provide services for investors. Most important for our analysis, the code also required that the approval process be streamlined so that applications for incentives could be approved within 20 working days.

During the first year after the establishment of the new legislation the BOI found it difficult to meet the new deadlines, especially given the amount of data the appraisal staff had to analyze. To meet the legislated time frame, the BOI reduced the scope of its evaluation. At the same time it simplified the investment application forms and requested less information from investors, thereby limiting the kind of analysis it would conduct.

In the process, the BOI reduced its examination of the financial viability of projects. Instead of conducting in-depth financial analyses, the agency simply focused on the assets of the company proposing a particular investment. As long as a quick examination of the parent company's assets indicated that the assets were sufficient for the size of the proposed project, the project passed the new financial viability test. In the past, the BOI had also analyzed the technical processes used in all projects it reviewed. After the new time limits on applications were issued, however, this practice was changed, and technical processes were reviewed only in projects that were applying for "pioneer" status and for the incentives that came with that designation.[7]

Many in the central administration of the Philippine government desired even greater changes in the BOI screening process as did some politicians. In the summer of 1989, for instance, the senate in the Philippines discussed the desirability of the BOI adopting a promotion orientation. The proposal under debate involved a liberalization of the screening process for entry and a transfer of much of the function of granting incentives from the BOI to the customs and internal revenue departments (the incentives were largely customs duty exemptions and tax holidays). Screening of investment for entry would disappear; screening for incentives would be shifted out of the BOI. With the removal of both functions, and new programs to attract investors, the principal task of the BOI would become promotion instead of screening. Although the proposed shift was not made at that time, it indicated the pressures being felt to satisfy investors' desires.

The manner in which screening processes changed in the Philippines is similar to the way screening generally has changed elsewhere. The initiative for changes that occur rarely originates in the screening units themselves. Rather, such changes are usually the result of pressures on the screening unit from the central administration, in response to the desires of foreign investors or those representing them.

Influence of Foreign Governments. Governments of investors' home countries at times become involved in influencing the screening process in the proposed host country. We did not identify widespread attempts by foreign governments to influence screening, but in one country in our sample the influence of a foreign government had a significant impact. During the 1980s, Korea made changes in its foreign investment screening process that simplified it and made it somewhat easier for foreigners to invest in the country. Unlike most developing nations, however, where the changes that have taken place have been in response to broader policy changes by central administrations that want to attract more investment, in Korea these changes largely resulted from the influence of the U.S. government and allied agencies.[8] Especially during the last half of the 1980s, the U.S. government and U.S. interests sought to influence the manner in which Korea screened foreign investment. Various organizations, including the American Chamber of Commerce, joined with the U.S. Department of State to request that the Korean government adopt a more streamlined, liberal screening process.

These interests were apparently of critical importance in achieving some of the liberalization of screening that occurred in Korea in 1984, although other policy changes resulting from other influences were also underway. In that year the Korean government changed its investment approval system from one that used a positive list to a

system that used a negative list; that is, the government specified those sectors that were closed to foreign investors rather than those that were open. Such a shift almost always signals a more liberal process. At the same time, the government changed the screening process to allow certain categories of investment to qualify for automatic approval by the Ministry of Finance. In 1987 a further change was made: the central bank was authorized to automatically approve investments that fell into certain categories. In October 1988, in response to requests from the U.S. government, the Korean government opened more activities to foreign investment. Thereafter, foreign firms were permitted to establish trading companies, and several sectors, such as life insurance, cosmetics, and pharmaceuticals, were opened to foreign investors.

Screening continued to be the focus of formal negotiations between the U.S. Department of State and the Korean government. These negotiations culminated in an agreement on May 19, 1989, stipulating that, as of July 1, 1989, the Korean government would no longer impose performance requirements on foreign investors as a term or condition of investment. Further, this agreement stated that, effective January 1, 1991, foreign investors seeking to invest in the manufacturing sector with 50 percent or less foreign equity would have to notify only the Bank of Korea of their intent to invest; such applications did not require approval by any department of the Korean government.

The move from an approval system to a notification system for a rather wide range of foreign investment is a step few countries take lightly or accomplish easily. In the case of Korea, it was clear that this shift was largely a result of pressure imposed by the U.S. government and not of unilateral efforts by the Korean government to institute more liberal policies for foreign investors.

Although the Korean case was the only one in our sample in which the influence of foreign governments was clear, reports from other countries suggest that Korea is hardly unique. The U.S. government, for example, is said to have pushed for reform of the Indonesian review process in the early 1970s, after a proposal by Ford Motor Company was not approved following an especially long delay.

Influence of the Screening Unit

In the countries we studied, changes in screening processes were rarely proposed by the screening units themselves. Even substantial outside pressures, however, tended to result in changes that were incremental, minor, and much less dramatic than the changes in the country's desire to attract investment. Change in screening processes is slow because the government subunit most involved in managing screening is generally quite resistant to the influence of central administrations or foreign governments advocating change and reform of the screening process.

If governments spoke with one voice, the goals of screening units would be subsumed within the goals of the central administration, and there would be little tension between these two groups. Indeed, in several countries, we found remarkable consistency between the views articulated by the central administration and the goals, policies, practices, and form of organization of the foreign investment screening unit. Consistency was most likely in situations in which central administrations supported relatively extreme positions toward foreign investment. In pre-1980 Turkey, for instance, the central administration's unfavorable attitude toward foreign investment was consistent with the unfavorable reactions prospective investors encountered throughout the protracted screening process. Similarly, in Singapore for at least two decades there has been remarkable consistency between the very favorable attitudes toward foreign investment of the central administration and the attitudes, posture, and policies of the EDB, the unit responsible for screening.

A more common situation, however, is one in which attitudes within the government indicate ambivalence toward foreign investment. In many countries in which such ambivalence is present, screening units view their principal function as guarding the "gates of the country." They are much more likely to view their role as one of custodianship—protecting the national interest by keeping out undesirable projects—rather than as one of facilitating investment, evidenced by the extent to which they attract desirable projects. Such gatekeeping fits quite comfortably into governments whose processes traditionally included controlling, regulating, and operating as a custodian.

As the central administrations of governments view foreign investment more favorably, however, these screening units may have concerns about the survival of their organization, at least in any form resembling its traditional status. They fear that new attitudes toward foreign investment might result in a dramatically reduced role for

screening units. In trying to maintain their status, they resist change in their structure. Moreover, when screening units face pressure from other interests to change the way screening is conducted, they seek only minor, incidental, or incremental changes to existing processes. They resist changes that would require reexamination of policies or reconfiguration of structures.

To the extent that screening processes change more slowly than the attitudes of central administrations toward foreign investment, screening units face the possibility of becoming vestigial organizations, units of government that conduct a function that is becoming obsolete and unnecessary because of changes within the economy and the new attitudes of the central administration. The differing rates of change between the pronouncements and attitudes of central administrations and the policies of screening units are often emphasized by foreign investors and their allies. The U.S. embassy, reporting on the problems foreign investors faced in the Philippines, noted that "a dichotomy is apparent between government leaders' pronouncements on the need and desirability of foreign investment and the actual handling of applications and paperwork by lower level bureaucrats. Reports of delays and petty hassles encountered on the working level are heard frequently."[9] Egypt in the mid-1970s was notable for the gap between policy, as enunciated by the central administration and expressed in the foreign investment law, and practice, as carried out by its Authority for Foreign and Arab Investment.

The difficulty of moving from a screening to a promotion orientation is one example of the organizational inertia that is likely to affect any attempt to reform the screening function. As attitudes in a country and within the government become more receptive toward foreign investment, one of the most dramatic ways in which this change could manifest itself is in a shift in the principal function of the screening unit. This unit could change to one in which the primary responsibility is promoting investment rather than screening. But in spite of the desires of central administrations in this regard, few countries have actually made this change successfully. Organizational inertia is striking, as bureaucrats hesitate to change their procedures and, in particular, their attitudes. One successful exception to this general pattern is Canada. The screening-oriented Foreign Investment Review Agency (FIRA) became the promotion-oriented Investment Canada in 1985, after the election of Brian Mulroney who accelerated the liberalization of the Canadian economy with respect to investment and trade.

In most countries, however, attempts at such dramatic changes in the structure of screening organizations or in the screening function fail. Of the countries in our sample, the Dominican Republic and Singapore had organizations primarily devoted to promotion. Of those that did not, only Mexico, the Philippines, and Thailand transferred resources to the promotion function during the latter half of the 1980s. Nevertheless, none of these transfers had a significant impact on the core screening functions in these countries. Thailand devoted one division and some 20 percent of the organization's staff to promotion; the Philippines, in the adoption of a new investment code, created the Council for Investments to operate alongside the BOI in promoting investment. Mexico adopted new regulations in May 1989 and subsequently devoted one of four divisions in the new Directorate General of Foreign Investment (DGIE) to promotion. These organizations all continued to function primarily as screening agencies.

Possibilities for Reform

The greater the degree of economic liberalization that takes place in a country, the less the country's need to screen incoming investment. One of the benefits of a relatively deregulated economy, with low rates of protection, is that foreign investors' interests are likely to match the economic interests of the country. A smaller proportion of proposed projects is harmful to the economy. With liberalization, policymakers face a trade-off. At some point in the liberalization process, the harm done to the economy by admitting all investors, including the few harmful ones, is less than the advantages foregone from an obstructive screening function that repels attractive investors. This point probably comes earlier than is generally thought because the screening process itself is usually quite faulty and thus rejects few harmful projects. The obvious solution is to abolish screening during the process of economic liberalization. Yet, despite the trend toward trade liberalization, and the general failure of screening organizations to use economic criteria, few countries have done away with screening.

Screening persists, even when its logic has disappeared, for several reasons. First, organizations struggle to justify their continued existence.

Even when they seem to have little justification and diminished power, they often manage to hold onto instruments that make them important to other units of government and to foreign investors. In Thailand, for example, foreign investors did not require approval from the Board of Investment (BOI) as long as they did not seek the incentives the BOI had to offer. With liberalization, one might expect more and more investors to bypass the BOI process, but they apparently did not do so because the BOI retained certain powers that virtually required most investors to seek it out. With its authority over tariffs, the BOI could offer investors protection from import competition and acceptable tariffs on imported materials for products made for the local market. Further, the BOI controlled the duty exemption and drawback system (rebate of duties for imported materials used in the manufacture of exports), which was essential to exporting firms. BOI incentives thus were critical for many import-substituting firms and for most exporting firms. Until liberalization in Thailand progresses to the point that limits on protection are strict and the general tariff structure does not penalize industrial inputs, the BOI's ability to adjust tariffs will ensure its survival. Screening organizations elsewhere manage to prolong their hold on foreign investment in similar ways.

A second reason screening tends to persist is that these organizations often serve a political and symbolic function—as apparent safeguards against the rapacious foreigners—even in instances in which their ineffective processes ensure little or no influence on the quality of incoming investment. As long as some parties in the country still fear foreign direct investment, the political process demands a gatekeeper even though the gate may be open. This may be the most important reason many screening organizations survive. Thus, by 1990 Indonesia's Capital Investment Coordinating Board (BKPM) no longer had important incentives to grant, and would-be investors were almost never rejected; nevertheless, proposals for the abolition of BKPM were viewed as politically infeasible. The gatekeeper was essential, even though the gate was open.

Despite such obstacles, governments can take steps to improve the screening function, even though dramatic change may not be possible. The first and most important step is quite simple but is usually overlooked. Reformers must recognize that reform of the administrative process only is likely to accomplish little. Although foreign investors may welcome the resulting clear point of contact with the government, the contact has credibility only if investors believe they are dealing with an organization that has actual authority over investment matters. Real reform involves changes in the decisionmaking process, which can be undertaken only with a great deal of government will and a steadfast commitment to change. Without such a commitment to a centralized decisionmaking process, the promised advantages of the one-stop shop are not likely to materialize. Change in decisionmaking processes inevitably involves the surrender of autonomy by ministers and heads of government agencies, and that kind of shift does not come easily.

In numerous instances, governments that were unable to change the general decisionmaking process have spun off certain important investments to separate, "centralized" organizations. For example, most countries with significant oil production delegate all aspects of foreign investment in that sector to a state oil company. In doing so, they gain the advantages of centralization (quicker decisions, and so on) and concentrate their industry expertise on those negotiations with foreign investors that are of great importance to the country. Similarly, countries often reassign screening for investments in export-processing zones to the administrators of those zones. Export projects are likely to need very little, if any, examination. Moreover, they tend to move easily and often can be induced to do so by another more welcoming country. A simplified screening process and a welcoming investment authority are essential to keeping these projects. Thus, countries have been quick to centralize decisionmaking in this area.

If, in spite of economic liberalization, at least the appearance of screening must remain for the bulk of investments, governments would do well to develop rules of thumb to identify projects that can be excluded from screening. Such projects include those that are likely to be attractive to the economy and sensitive to the delays and uncertainties in a cumbersome screening process. Analysis can be concentrated where it is likely to have the highest payoff, and reduced where the potential for damage by foreign investors is slight.

Governments can encourage transparency of the screening process by various actions. One common step is to publish a list of industries that are simply closed to foreign investors. (Many countries have moved in this direction by shifting from the use of positive investment lists to the use

of negative lists.) Governments might also develop simple decision rules. For example, they could employ ratios that compare the use of subsidized inputs with overpriced inputs, or they might establish cutoff rates of effective protection below which no review of an investment project is required. Once these criteria are developed and made public, the screening process becomes more transparent and easily understood by government officials and foreign investors alike.

Notes

1. For a discussion of the relative advantages and disadvantages of different kinds of screening structures, see Dennis J. Encarnation and Louis T. Wells, Jr., "Sovereignty en garde: Negotiating with Foreign Investors," *International Organization* 39 (Winter 1985) pp. 47-78. See also Constantine Vaitsos, *Intercountry Income Distribution and Transnational Enterprises* (Oxford: Clarendon Press, 1974); Sanjaya Lall and Paul Streeten, *Foreign Investment, Transnationals and Developing Countries* (London: Macmillan, 1977); and United Nations Department of Economic and Social Affairs, *The Impact of Multinational Corporations on Development and International Relations* (New York, 1974).

2. See, for example, Encarnation and Wells, "Sovereignty en garde."

3. In 1989, the Philippine BOI had seven governors. Three of these positions were "captured" by the Department of Trade and Industry, leaving only four positions to be filled by other units of government.

4. Prior studies of the investment screening process have also identified countries that adopt different processes to screen different kinds of investment. See, for example, Francois Lombard, "Screening Foreign Direct Investment in LDCs: Empirical Findings of the Colombian Case," *Journal of International Business Studies* (Winter 1978); and by the same author, *The Foreign Investment Screening Process in LDCs: The Case of Colombia* (Boulder, Colo.: Westview, 1979); Richard D. Robinson, *National Control of Foreign Business Entry* (New York: Praeger, 1976); and Encarnation and Wells, "Sovereignty en garde."

5. See "U.S. Embassy Investment Climate Statement," U.S. Department of State, Ankara, Turkey, August 1988, p. 5.

6. See Z. Y. Hershleg, *The Contemporary Turkish Economy* (New York: Routledge, 1988).

7. Over the past few years other countries have also moved to simplify their investment application forms and require less information from investors. In 1985, for example, in response to complaints from foreign investors, Indonesia's Capital Investment Coordinating Board (BKPM) simplified its application forms and reduced its information requirements significantly: for the typical manufacturing project, the number of items required went from twenty-eight to nine. This reduction in the information requested from foreign investors also had another consequence. Although the BKPM did not routinely conduct economic cost-benefit analyses of the value of investment projects to the country, the information supplied by investors allowed such evaluations to be conducted. After the 1985 changes, cost-benefit calculations for foreign investments were no longer possible.

8. The activities of the U.S. government in lobbying for changes in foreign investment policy have been described by others. See, for example, Kwan S. Kim, "The Korean Case: Culturally Dominated Interactions," *Multinational Managers and Host Government Interactions*, ed. Lee Tavis (Notre Dame, Ind.: University of Notre Dame Press, 1988) p. 184.

9. See "Philippines Business Scene," U.S. Department of State, Manila, May 1989, p. 9.

3

Providing Foreign Investment Services

As governments place increasing emphasis on attracting foreign investment, providing services to prospective and existing foreign investors takes on new urgency. Governments believe effective services will create happy investors and that happy investors will bring more investment. In many instances, the responsibility for providing certain services has devolved on the agencies that are also responsible for screening foreign investment. In fact, in proposals for more centralized screening organizations, the provision of certain services is usually considered an important function.

Yet here also, in the matter of services, the centralization of responsibility for foreign investment is often not what it appears to be. The difference between rhetoric and reality that applies to the separation of administration and decisionmaking in screening also extends to the service function. Indeed, even the labeling is similar. Several countries have created a separate structure, parallel to the principal investment organization, to provide certain services for investors. On occasion, these new service structures have been called one-stop shops by the governments that create them. Although any organization that purports to handle a variety of matters related to foreign investment is regularly labeled as one-stop, there is, in practice, much variation in the actual powers of these organizations. Consequently, as with screening, one must go beyond the designations governments apply to their creations to determine whether these bodies are actually effective.

In our examination of the service function in the ten countries we studied we found that the most important determinant of the scope, type, and organization of the function was the extent to which these countries screened foreign investment and the manner in which screening was organized. In general, the structures and approaches used in the service function followed the scope and organization of the screening function. An understanding of how countries formed screening organizations was therefore quite useful in understanding why governments adopted certain service structures and why so often these structures performed far below expectations. We believe that the link is not inevitable but rather the result of inattention to the special requirements of a service function.

Kinds of Services

Providing information, advice, and assistance of a general nature is one kind of service countries may offer to prospective foreign investors. This activity includes, for example, providing investors with relevant data about costs or markets and arranging for them to visit the country. Assisting investors during these visits is another example of this kind of service. Because these services are provided before an investment project has been approved, we call them *pre-approval services.*

The second kind of service consists of efforts to assist investors after they have decided to invest in a country and after their applications for entry or incentives have been approved. This activity

continues beyond the screening process to include assistance to investors in implementing their projects by helping them obtain all necessary permits and approvals required to begin operations. (These permits and approvals are required in addition to those that are part of the screening process.) For instance, foreign investors may have to obtain permits from an import/export agency to import equipment and raw materials; they may also need to register with the central bank to ensure that eventually they will be able to repatriate their capital and profits, obtain work permits for expatriate staff, seek permission from a local government authority to buy or lease land, or even induce the local telephone company to install a phone or other communication equipment.

Because these permits are not generally designed to distinguish between desirable and undesirable foreign investors, we do not consider them to be a part of the screening function. Further, they seldom involve a complete evaluation of the project itself and usually are directed at all investors, not simply foreigners. Once permission to invest has been received, provided the activity conforms to certain reasonably well-defined criteria, these permits or licenses are usually granted automatically. The issue therefore is not whether these approvals will be granted but how quickly and at what cost to the foreign investor. Although such permits are not part of the screening process, the ability of the investor to obtain them quickly and at minimum cost plays a role in determining investors' views of the investment climate. Indeed, in Indonesia the difficulties investors face in obtaining these permits are considered by the BKPM to be the leading reason why actual investment is so much smaller than approved investment. In many countries in our sample, investment authorities expressed displeasure with the delays investors were forced to endure in obtaining these approvals. Consequently, simplifying and accelerating the process of obtaining permits, licenses, and so on are usually goals of reform efforts.

In practice, fine distinctions between the permission to invest and a variety of other ancillary approvals are of little interest to a foreign investor who is eager for speedy project implementation. Because quick approval of these and other permits and licenses remains so important to foreign investors, many investment agencies either seek permission from their government to grant these permits and approvals themselves, or seek to assist foreign investors to acquire them. In helping investors obtain these approvals, the agency is providing *post-approval services* to investors.

Pre-Approval Services

The most extensive pre-approval services tend to be offered in countries where the orientation of the principal investment organization is toward promotion rather than screening. In conducting these activities, promotion-oriented institutions usually operate from the premise that these services can give the agency some competitive advantage in its attempts to market the country as a destination for foreign investment.

Two promotion-oriented agencies in our sample, Singapore's Economic Development Board (EDB) and the Dominican Republic's Investment Promotion Center (IPC), as well as other agencies around the world—e.g., Costa Rica's CINDE and Ireland's Industrial Development Authority (IDA)—offer pre-approval services. All of these agencies actively court foreign investors. For example, foreign investors who visit Singapore or the Dominican Republic before they make a location decision are assisted by the EDB or the IPC. These agencies provide information on a variety of investment costs and on the incentives that might be available from the government. They often arrange meetings for prospective investors with private sector groups or with relevant government agencies. Some promotion-oriented agencies provide what they call airport-to-airport service, meeting prospective investors at the airport and arranging itineraries. The schedules include not only meetings with the private sector and the government but also tours of the living arrangements and leisure attractions the country offers to executives.[1]

In contrast, investment agencies that consider their principal role to be screening rather than promotion do not usually offer these pre-approval services, at least not to a significant extent. Investment agencies in the other eight countries in our sample all focused on screening more than they did on promotion. As noted in chapter 2, none of the investment agencies in these countries devoted more than 20 percent of their resources to promoting foreign investment. Nor did any of these agencies provide significant pre-approval services.

Post-Approval Services

In contrast to pre-approval services, post-approval services are related to the way the screen-

ing function is organized rather than to the degree that screening dominates the activities of the foreign investment agency. Screening units that provide post-approval services usually do so in response to the concerns of foreign investors. Prospective investors complain not only about the bureaucracy embedded in many screening processes but also about the difficulty of obtaining the permits and approvals they require after their investments have passed the screening test. To address these concerns, some screening units help investors acquire the necessary post-approval documents.

In some countries, there is little need for post-approval services. In open economies with liberal investment climates, prospective investors generally face fewer problems once they receive approval to invest or are granted incentives. For example, such economies have fewer import restrictions, no exchange controls, and usually a liberal policy of granting work permits for expatriates. In this kind of environment, there is less need for the services of an investment organization to expedite the granting of permits.

Where permits are numerous and potentially difficult to obtain, the ease with which investors obtain the permits they need to implement their investments is directly related to the power of the screening organization relative to other departments of government. Where screening organizations are powerful within the bureaucracy, approval from the screening organization triggers automatic approval from other government departments. In such situations foreign investors find it relatively easy to obtain the other approvals and permits they require after they have received permission to invest.

The structures countries choose to screen foreign investment usually provide hints about the nature of their investment climate, the power of the screening unit, and the likelihood of a separate structure dedicated to investor services. We found that post-approval services were offered most often in countries that used centralized or coordinated screening structures—that is, the countries that had made adjustments in response to the needs of foreign investors. But countries with these two kinds of structures handled post-approval services differently. Countries that had coordinated screening structures created separate entities to provide post-approval services to investors. Countries with centralized screening structures offered post-approval services through the centralized authority, along with its other tasks. Table 3 categorizes the service operations of the various sample countries by screening structure and service department and rates their performance.

Countries with Diffuse Structures

Countries with diffuse structures for making screening decisions provided very few services to prospective foreign investors. The lack of services was especially characteristic of countries that also did not administer screening through a single organization. In countries that allowed many units of government to participate in screening, usually there was no government unit that had responsibility for providing services to foreign investors. Brazil, for example, had no structure to provide post-approval or any other kind of service to foreign investors. Korea, however, did have a service organization, in the form of the Office of Representatives of Concerned Ministries for Foreign Investment. This office housed representatives from the customs department, the department of legal affairs, and the tax administration who provided advice to investors on issues related to the importation of material and equipment and the legal and tax implications of operating in Korea. Like other elements of the Korean investment administration discussed in chapter 2, however, the focus on services could be traced to the influence of the U.S. government on Korea's foreign investment policy.

Countries with Centralized Structures

In contrast to countries that used diffuse structures to make screening decisions, countries that made screening decisions through a centralized structure expected these organizations to provide a variety of services to foreign investors. Many of these structures offered both pre- and post-approval services.

Centralized organizations provided post-approval services whenever they considered these activities to be necessary, but they did not set up separate service structures. In none of the three countries in our sample that had centralized screening was there a separate structure for post-approval services. Investment organizations in Mexico, Singapore, and Turkey, in no way separated post-approval services from their portfolio of services, or from their other activities, nor did they emphasize this kind of service over others.

Table 3 Institutional Arrangements for Providing Post-Approval Services

Country	*Screening Structure*	*Service Department*	*Performance* [a]
Brazil	Diffuse	No separate department	—[b]
Dominican Republic	Coordinated	No separate department but several free zones obtain all required permits/approvals for their tenants	Good—for most free-zone companies
Ghana	Coordinated	No separate department	Fair
Kenya	Coordinated	Investment Facilitating Committee	Fair [c]
Korea, Republic of	Diffuse	Office of Representatives of Concerned Ministries for Foreign Investment	Poor [c]
Mexico	Centralized	No separate department	—[d]
Philippines	Coordinated	One-Stop Action Center	Fair [c]
Singapore	Centralized	No separate department	Superior
Thailand	Coordinated	Investor Service Center	Good—some approvals; fair—others
Turkey	Centralized	No separate department	Good

a. Performance assessment based on interviews with foreign investors, associations of investors, and embassy officials from capital-exporting countries.
b. No organization was expected to provide services to foreign investors.
c. Representatives sent to these service units had no authority to act on behalf of their departments.
d. Mexico first established a department to provide services for investors in 1989.

As indicated earlier, Singapore's EDB considered itself a service organization, but its emphasis clearly was on pre-approval services, as was Mexico's. Mexico had emphasized neither pre- nor post-approval services. In 1989, however, when the Salinas administration centralized screening for certain types of investment in Mexico, it also created the Committee to Promote Foreign Investment in Mexico to provide primarily pre-approval investment services. Similarly, in 1989 Turkey's Foreign Investment Directorate (FID) began to consider development of a promotion function that, among other things, would provide pre-approval services. At that time, Turkey had no particular emphasis (neither pre- nor post-approval) in its services.

Here lies the difference between services in countries that used diffuse structures and those that used centralized structures for making screening decisions. Neither kind of screening organization had separate structures for, or a separate emphasis on, providing post-approval services; nevertheless, their services differed dramatically. Countries with diffuse screening structures usually did not provide any services to investors. On the other hand, countries with centralized screening structures provided services to foreign investors whenever these services were important in attracting new investment or retaining existing projects.

In countries in which the responsibility for screening was centralized, other departments of government usually followed the lead of the screening organization on all foreign investment matters. In creating the organization, the country's central administration demonstrated fairly clearly the leadership role this institution was to play in foreign investment affairs. Strug-

gles for "turf" had been fought and largely settled in the creation of the centralized organization. Penalties, in the form of chastisement, or worse, from the central administration, were quickly forthcoming for recalcitrant government departments that did not follow the lead of the investment organization. With this kind of influence, the organization could provide effective services to investors by enlisting the cooperation of other parts of government that controlled licenses, permits, and so forth.

We also suggested in chapter 2 that central administrations centralize screening as one element of a much broader strategy of investment and even economic liberalization. One of the objectives of this strategy is the creation of an economic environment that is particularly conducive to foreign investment. The presence of a liberal investment environment and a powerful, centralized screening agency is most evident in Singapore and in Ireland, which we examined in an earlier study. In both countries, few ancillary permits and approvals were required after an investment project had been approved by the investment authority. The few that were needed tended to be automatically triggered by the investment permission granted by the EDB or the Irish Industrial Development Authority (IDA). Other government subunits in these countries expedited applications from foreign investors, following the investment authority's approval. Speedy approval seems in neither case to have been a matter of law but a result of the status and backing of the EDB and IDA.

Although permits following approval are generally few in countries eager to attract investment, one particular category often remains: permission to use certain facilities provided by the government. In the early 1970s, for instance, one of the problems the IDA noted was the difficulty investors faced in obtaining such government services as telephone connections. Centralized organizations consider it part of their role to provide post-approval services in such cases. The IDA, for example, responded by assigning one of its employees sole responsibility for working with the telephone company to expedite foreign investors' applications for telephone service. This example shows that the limited emphasis on post-approval services in centralized structures is not the result of reluctance to provide services but the result of a limited need for these services.

It is not surprising, therefore, that investors in both countries in our sample that had used centralized structures for some period prior to our study (Mexico had only recently moved to a centralized structure for some decisions) expressed relatively more satisfaction with the process of obtaining approvals and permits than did investors in countries with other kinds of screening and corresponding service structures. In Singapore and Turkey, because of the liberal trade and investment environment, investors required fewer approvals than investors in countries with a more restrictive business climate. In Singapore, for instance, foreign investors did not have to obtain central bank approval of an investment to guarantee eventual repatriation because the country had no foreign exchange controls. Similarly, in August 1989 the Turkish government climaxed a decade of foreign exchange liberalization by allowing all Turkish citizens to convert Turkish lire into foreign exchange. The need for one step in the investment process disappeared with this change as did the need for post-approval service with respect to that step. Similarly in both countries, customs caused few problems for investors, even though foreign investors typically encounter customs problems elsewhere. Several investors in Singapore with experience in a variety of developing and industrialized countries indicated to us that they considered the Singaporean customs facility to be operated more efficiently than any other customs facility in the world. Again, no post-approval service in this area was necessary.

When permits were required in these countries, the relative power of the EDB and the FID with respect to foreign investment ensured that screening approvals triggered the automatic approval of all other necessary permits and compliances. If those permits were not automatically triggered, these organizations had sufficient political clout to expedite their granting. The EDB, for instance, helped prospective investors obtain immigration clearance and find industrial space. By introducing investors to officials of the Jurong Town Corporation, a statutory body responsible for building industrial estates on government land, EDB indicated to this body that cooperation should be forthcoming. In Turkey, the FID granted some approvals itself and assisted investors to obtain others. One of the responsibilities assigned to the FID at its formation was the review and approval of work permits for expatriates. Once the FID had approved a work permit, a prospective investor could approach the immigration department, which gave automatic approval of a residence permit to investors whose work permits

had been so approved. The FID also helped investors gain customs approval for the importation of equipment. In both Singapore and Turkey investors received most of the approvals and permits they needed very soon after an application was received.

Countries with Coordinated Structures

Only countries that used coordinated screening structures seemed to place particular emphasis on post-approval services and on creating separate structures to provide them. Separate service structures existed in Kenya, the Philippines, and Thailand, all of which used coordinated structures to make screening decisions. These structures seemed to have been set up in response to the complaints of investors and their allies about the time it took to obtain a variety of permits and approvals after receiving approval from the principal screening unit(s) of government.

The reasons for the attention to service in these countries are apparent. The countries are following a middle road. Although liberalization policies have taken hold, they are not complete and many permits and licenses remain to be secured. At the same time, the investment authority is the result of a compromise between the country's eagerness to obtain foreign investment and the residual powers of ministries and agencies that have retained their influence. The agency that has been created does not have the influence to wield in favor of foreign investors that one finds in countries with centralized decisionmaking. The creation of yet another organization is often viewed as a way of solving lingering problems, short of continued liberalization or disenfranchisement of agencies and ministries.

Another One-Stop Shop—For Service. The labels one-stop shop or one-stop center that governments apply to these separate service structures tend to muddy further the notion of what one-stop means. Unlike the concept of a one-stop shop aimed at centralizing the approval to invest, these organizations are designed to help investors obtain approvals once they have received investment permission. In some countries, the promise inherent in the creation of these structures is that once investors have received screening approval, they can have all other applications for permits and approvals processed in one central service location. In other countries, the one-stop service shop guarantees investors that a single service organization will at least help them expedite the processing of their applications for required permits and approvals. In general, it appears these structures were so labeled to advise foreign investors that the problems they had hitherto faced in obtaining speedy processing of permits and approvals had now been solved. The use of the term one-stop shop is both a wish and a marketing technique designed to create a new image for a country in which the approval process historically has been slow and unwieldy.

The service structures in Kenya, the Philippines, and Thailand point to the usual origins of these kinds of organizations and also illustrate the problems that frequently hamper their effectiveness. In Kenya the structure set up to provide post-approval services for investors was closely tied to the process and structure used to screen investment. The Investment Promotion Center (IPC), an interministerial body composed of representatives of several units of government, coordinated screening decisions. As in other countries, however, the approval to invest was not closely tied to the process of obtaining all other required approvals. In 1987, recognizing that a slow and incomplete approval process hindered investors in their attempts to obtain permits and compliances in a timely fashion, the Kenyan government set up the Investment Facilitating Committee (IFC).

One of the responsibilities of the IFC, which is made up of representatives from various government departments, has been to implement a new one-stop approval process. Under this new process, all potential investors would fill out a comprehensive investment proposal form. The form would list all required licenses, registrations, and compliances, and the names of all relevant government subunits charged with issuing these licenses. This would be forwarded to the IFC, which was mandated to expedite the process of approving investments and to simplify and speed up the issuance of licenses and permits to investors after their investments had been approved.

A separate structure for providing post-approval services existed in the Philippines as well. The origin of this structure mirrors the origin of the service structure in Kenya. It was created in response to criticism by foreign investors that investors whose projects had been approved by the screening agency, the Board of Investment (BOI), still had to wait a long time to obtain the other approvals and permits they required. At least partly in response to investors' complaints,

President Aquino signed into law the Omnibus Investment Code in 1987. One of the features of the code was the creation of the One-Stop Action Center (OSAC).

The BOI's promotional material indicates that the Philippine government expected the new center to make it easier for investors to implement their projects:

> The days of investment red tape are over:
>
> Introducing the "One-Stop Action Center"
>
> Time was when you had to pass through a maze of government agencies and officials more interested in forms and procedures than in your investment. Today, there's a new climate for investments in the Philippines. At the core of it is the One-Stop Action Center—housing in one place all the agencies you will ever need to deal with in making your investment: Board of Investment, Central Bank, Securities and Exchange Commission, Immigration Commission, Department of Foreign Affairs, Department of Tourism, Department of Agriculture, and others ... They're ready to answer your questions, help solve your problems, identify investment opportunities for you, arrange meetings and visits, or just have a cup of coffee with you. The One-Stop Action Center. The only place the investor needs to know.[2]

The OSAC was housed within the BOI. In creating this new service structure, the Omnibus Investment Code stipulated that the various government departments that granted permits or approvals to particular categories of foreign investors were expected to send representatives of "appropriate rank" to staff it. The intent was to give these representatives the authority to expedite issuance of the permits and approvals an investor needed to obtain.

Another country in our sample with a formal structure for providing post-approval service activities was Thailand. The Investor Service Center (ISC) was created in 1981 and was similar to the Kenyan and Philippine structures in that it was designed exclusively to help investors obtain all of the permits and approvals needed to implement an approved investment. But unlike the Kenyan and Philippine structures, which incorporated representatives from various government departments, the ISC was staffed entirely with personnel from the Thai Office of the Board of Investment (OBOI). The ISC was divided into several departments: the One-Stop Service Center (OSSC), the immigration unit, the land unit, and the facilities unit. Some of these departments could issue approvals independently; others worked with the agencies responsible for issuing permits.

Effectiveness of Separate Service Structures. In general, separate service structures that countries have established have not lived up to the hopes and promises of governments and the heightened expectations of foreign investors. The promise of a central location where investors could have all approvals and permits speedily and effortlessly processed has rarely been fulfilled. Notwithstanding the advertising for the Philippine OSAC, investors in many of the countries that created these structures continue to "need to know" other government agencies.

The reasons for the dissatisfaction of governments, screening units, and investors with these one-stop service structures derive largely from the manner in which they are usually created. By creating a coordinated screening structure, these countries have sought to simplify the screening process for foreign investors. Yet unlike the countries that have centralized screening, countries that have attempted to solve investors' problems by creating an organization with input from many government units or with coordinating responsibility have transferred less authority over investment matters to the newly created organization. The conditions under which coordination of screening decisions takes place indicate an interest on the part of central administrations in these countries to respond to the needs of foreign investors. But their unwillingness or inability to grant a single institution significant authority over foreign investment limits the effectiveness of the services offered to investors. Although screening decisions may be quicker than in the past, securing post-approval licenses and permits often remains a problem.

Government departments that control licenses and permits generally have given up some of their authority in screening by agreeing to coordinate action with other subunits. Yet subunits are rarely quick to give up complete authority over foreign investment issues that have traditionally fallen within their purview. When they do give up some authority, they are usually eager to reassert their power at some point beyond the screening process by conducting their own lengthy analyses.

This reassertion of power is also sought by government departments in countries that have created centralized structures. Indeed, one might expect subunits in countries with centralized structures to be even more obstructive because they have lost more authority over foreign investment matters. The major difference, however, is that central administrations in countries that have adopted centralized structures have made an explicit decision to exclude other subunits from the decision process. As evidence of their support, central administrations seem willing to impose severe penalties on subunits that attempt to thwart improvements in the investment environment by delaying the granting of ancillary approvals and permits.

Foreign investors become particularly frustrated when the reality of investing in a country seems quite different from the expectations created by the rhetoric of change. The rhetoric almost always indicates that the screening decision triggers all other approvals, but the facts often prove to be otherwise. Thus, foreign investors in countries with coordinated screening structures are loud in their complaints: the well-intentioned investment agency that seeks to simplify the screening process is hindered by other government departments that are slow in granting additional permits and licenses.

Government departments may impede the effectiveness of the separate service structures in different ways. In countries with service structures that "house" representatives of different government subunits, the subunits rarely send representatives with the authority to act on behalf of their departments. As a result, the investment agency must constantly negotiate with the subunits to obtain the needed permits or to secure representatives who have sufficient authority. In countries with service structures that endeavor to use the staff of the investment agency to expedite permits and clearance processing, subunits exert their power by slowing the approval process or by not responding to requests to expedite. Generally, the service unit does not have the political clout to counter the obstructive behavior.

The service structures in the Philippines and Kenya illustrate these points. Both of these structures are composed of representatives from various government departments. Managers of foreign investment groups in these countries indicated that these service structures made it somewhat easier for foreign investors to obtain the approvals and permits they need, but in both cases, investors considered these structures only marginally successful. Many complained about the problems they faced in getting permits and clearances after their investments had been approved.

The service structure in the Philippines exemplifies the problems faced by units that depend on representatives from other government departments. Investors in the Philippines reported that the BOI approval process, which had recently been restructured and simplified, worked smoothly and quickly; it took a long time, however, to get approvals from other government departments. Observers of the movement to a separate service structure suggested that the OSAC had improved the process whereby investors obtained post-approval permits but that it had not been able to solve completely the problem of delays. Various government subunits were reluctant to give signature authority to the representatives they sent to the OSAC, despite the vague instruction in the investment code that only representatives of appropriate rank be included.

The Philippine BOI was quite aware of the problems caused by a weak service function staffed by junior representatives who could not act on behalf of their departments. To rectify the situation, the BOI engaged in negotiations with other government units. In negotiations with the central bank, for example, the BOI gained some concessions about the scope of responsibility to be given to the bank's representative. One outcome of these negotiations was that, beginning in 1988, the central bank representative in the OSAC could sign off on inward remittances of persons seeking resident visas based on their investments of at least $75,000 in the Philippines. With this new function, the BOI and the central bank agreed that no person of a rank lower than an assistant chief of section would be sent to the OSAC. Yet this concession had little impact on most foreign investors; those seeking registration of their capital for eventual repatriation still had to apply for registration at the central bank. The representative in the OSAC could merely respond to the questions posed by foreign investors.

The problems of the Philippine BOI are not unique but seem to be characteristic of such approaches. All of the investment agencies in our sample that had service units structured like the OSAC found it difficult to persuade government subunits to give signing authority to the representatives they sent to the service departments. Service units in countries we examined in a previous

study (for example, Malaysia's Central Unit) have faced similar problems.

The second kind of service structure seeks to use staff of the investment agency to expedite applications for permits, although the agency may have the right to issue some permits itself. The case of Thailand illustrates this kind of structure. Thailand's ISC comprised several units staffed with officials from the BOI who assisted investors in various ways. One of these units, the One-Stop Service Center (OSSC) could actually grant factory set-up and operating licenses. Nevertheless, investors usually needed other licenses to start an investment project. The immigration unit had authority to make some immigration decisions; for example, it could authorize temporary non-immigrant visas for investors who were conducting a feasibility study. The land and facilities units, on the other hand, had no authority to approve permits or clearances and could only function as advisors to foreign investors.

Investors and foreign investment organizations in Thailand generally considered some aspects of the BOI's service operations to be effective, especially the OSSC in granting factory permits and the immigration unit in handling work permits. The approvals investors in Thailand found most difficult to obtain were those from customs and the central bank. Both of these agencies were relatively powerful departments of government over which the BOI had no direct control and seemingly little influence.

In the end, we found little difference between the effectiveness of service structures that used representatives from different government units and the performance of those that relied on the executives of the investment agency to expedite applications for permits and approvals. The critical test of the effectiveness of a service organization is its relative power over other government units. This power is often reflected in the extent to which the agency can actually approve applications in house, whether these approvals are granted by the staff of the agency or by representatives of other government units that are housed in the agency. The BOI in Thailand had the authority to issue some permits in house using its own personnel; the BOI in the Philippines had acquired the same authority, albeit for a few minor permits only, using personnel from other agencies.

Possibilities for Improvements in Services

Data suggest that the concern many governments express about assisting foreign investors to implement their investments is correctly placed. Various surveys and interviews with investors indicate that an unwieldy bureaucracy is unquestionably a disincentive to investment.[3] It is clear, however, that simply setting up a separate service structure and assigning staff either from within the investment agency or from other government units will not inevitably lead to an effective service operation.

Indeed, we surmise that many governments place inappropriate emphasis on a structural solution to the problem of providing services to investors. Creating a structure and calling it a one-stop shop are likely to help only if the organization is staffed by personnel who have the requisite power to grant approvals or effectively speed up the processing of approvals. In fact, the net result of incomplete reform may be harmful. Structural changes that are advertised as solving the problems investors face are useful only so long as the new structures are actually in a position to solve these problems. If they are not, raising the expectations of investors and then not meeting those expectations may create even greater resentment than that existing prior to the changes. Under these circumstances, complaints from disenchanted investors probably help to turn away investment. In the sardonic parlance of the disenchanted investor, one-stop shops become one-more-stop shops, BOIs become boards of impediment; and so forth.

Governments interested in improving services must identify and pursue options that will endow the organization that is to provide these services with enough power to do its job. Even then, the governments of some countries will continue to experience difficulties with some aspects of investment service simply because of inadequate infrastructure of various kinds. (Investors, however, seem less annoyed about problems that have their roots in inadequate infrastructure than about delays caused by an unsympathetic bureaucracy.)

One potential improvement is for central administrations and investment organizations to work to have more ancillary approvals transferred to the screening organization, a shift that was occurring in the BOIs in Thailand and the Philippines at the time of our interviews. Where these transfers are slow in taking place, there should at least be serious attempts to gain commitments from other government units that the basic screening approval will trigger other approvals. In the coordinated screening structures in which these problems often seem to surface, gov-

ernment subunits must be reminded that the only chance they have to voice objections to an investment is during the screening process. No further attempt, intentional or otherwise, should be made to delay the process by conducting lengthy analyses subsequent to a screening approval. Only the central administration can exert the discipline required to ensure that services are provided, either directly or indirectly through its support of a powerful investment authority.

Governments should also consider carefully when and how they advertise their attempts to expedite approvals and provide services to investors. Advertising before true reform has occurred is likely to be counterproductive. In deciding the appropriate point at which investors should be informed of the introduction of a new service function, "better late than early" may be the appropriate rule. For an investor contemplating investment in a country, existing investors have much greater credibility than do agents of government. Thus, it is far better to have investors pleasantly surprised about the effectiveness of a country's service delivery operation, than to have them disappointed because their expectations were overly heightened by the government's marketing efforts.

In many cases, reform of the service function is a poor stepchild of reform of the management of foreign investment. A country's main efforts are often concentrated on the screening function, and services, both pre- and post-approval, are handled as a byproduct or as complaints emerge. Pre-approval service is often dealt with effectively if promotion becomes a real focus of relations with foreign investors. Post-approval service is usually the source of the serious problems.

We believe this situation is unfortunate but not inevitable. Not only does post-approval service help attract investment and serve as an important complement to the reform of the screening function; but it can also be an important source of learning for further reforms. Impediments to investment are likely to be understood, and subsequently reduced, only when government officials are deeply involved in trying to help investors overcome them.

Notes

1. For a more in-depth discussion of pre-approval services see Louis T. Wells, Jr. and Alvin G. Wint, Marketing a Country: Promotion as a Tool for Attracting Foreign Investment (Washington, D.C.: Foreign Investment Advisory Service, World Bank, 1990).

2. See The Omnibus Investment Code of 1987 (Manila: Department of Trade and Industry, Republic of the Philippines, July 1987).

3. See, for example, U.S. Embassy (Kingston) and the Jamaica National Investment Promotion Ltd., Incentives and Disincentives to Investment in Jamaica (Kingston, Jamaica: August 1985).

4

Monitoring Foreign Investment

Monitoring is, in some senses, a regular function of government. Every business entity, whether foreign or domestic, is likely to be subjected to certain forms of monitoring by government authorities. Specific departments of government with responsibility for various areas of business operations monitor the extent to which businesses, including foreign investors, comply with government regulations. Tax authorities, customs administrations, and foreign exchange control authorities are all likely to engage in monitoring activities, with each department focusing on its specialized function.

Some governments have gone farther, however, by seeking to monitor the operations and performance of foreign investors beyond what is required for the normal administration of business regulations. Governments monitor foreign investment with various goals in mind. One goal is to ensure that projects comply with the conditions investors agreed to when the projects were approved. More often, monitoring tries to determine whether investors have performed according to explicit or implicit commitments they made as a condition of being granted incentives.[1] In some countries, especially where incentives to foreign investors take the form of cash or near-cash grants, agreements on company performance are codified in the form of legal contracts. In other countries the conditions are in the form of implicit agreements between the government and the foreign investor. If the terms and conditions set forth in the initial agreement, whether formal or otherwise, are not adhered to by the foreign investor, governments could choose to intervene in the projects, or they might review their incentive program.

Investment agencies on occasion decide on their own to institute a formal monitoring program. But more commonly, it seems that serious formal monitoring efforts are the result of political opposition that clamors for information about the benefits supplied by incoming investment or the cost-effectiveness of the incentives being provided to foreign investors.

Patterns of Formal Monitoring

Half the countries in our sample had a formal monitoring function. We considered monitoring to be formal if investors were required to report their ongoing activities to the agency or agencies principally responsible for matters related to foreign investment. In some cases, reporting requirements were supplemented with actual inspections by government officials. The countries with formal monitoring programs (Ghana, the Philippines, Singapore, Thailand, and Turkey) all had departments within the investment agency that had been given responsibility for monitoring foreign investment.

Formal monitoring seems to be associated with centralization of at least some screening decisions. Thus, countries with centralized decision making seemed most often to have some kind of a monitoring function. This is perhaps surprising, as one might expect the pro-foreign investment attitude associated with centralization to lead to less concern with monitoring. In contrast, governments that had not transferred authority over invest-

ment matters from line ministries or departments to an investment agency did not engage in the monitoring activities we focused on in this study. In such cases, there was simply no agency to conduct this kind of monitoring; practically by our definition, formal monitoring was excluded. Thus, Brazil and Korea, for instance, with their diffuse structures for making screening decisions, did not engage in formal monitoring.

In countries that had not redirected screening away from line ministries, other aspects of the government's relations with investors such as the monitoring function also continued to be conducted in an ad hoc, uncoordinated manner by the line ministries. Some monitoring could exist under such regimes, but it would consist at most of actions by each agency of government. An agency might monitor the particular aspects of foreign investment operations that are of most direct concern to it, but no agency would monitor the whole to obtain any overall measure that compared costs and benefits.

Certain patterns hold among the extremes of centralized and diffuse decisionmaking. Monitoring was more frequent when coordination of screening was institutionalized in an interministerial board than when coordination was conducted through an interministerial committee. It seems that those countries that create an interministerial board have gone farther in redirecting the management of all relations between government and foreign investors to an investment agency than have countries that screen investment through interministerial committees.

Table 4 shows the monitoring activities of the countries in our sample, grouped by screening structure. Of the three countries that had centralized most screening decisions, two (Singapore and Turkey) had formal monitoring programs. Mexico was the exception. Mexico, however, did not create a centralized structure until 1989, the year of our interviews. Prior to that time, Mexico had a coordinated structure that operated through an interministerial committee. Thus, the establishment of formal monitoring might occur soon. Of the countries that coordinated screening decisions through an interministerial board, Ghana, the Philippines, and Thailand monitored formally. None of the countries that coordinated screening through an interministerial committee or that screened investment in a diffuse manner had formal monitoring.

In sum, formal monitoring took place in the countries in our sample that had gone farthest in centralizing the management of all foreign investment matters. One reason for this association may be that authority over all foreign investment matters brings a sense of responsibility to conduct such monitoring. Equally possible, however, is that more powerful authorities may be special targets for criticism; to forestall such criticism, agencies may feel compelled to ensure compliance on the part of investors and to be able to justify to others the actions they have taken. "Passing the buck" is particularly difficult when authority is centralized.

One might suspect that the extent to which a country engages in monitoring of foreign investment is influenced by its political system. Agencies in countries with strong and open political opposition might well face greater pressure to engage in monitoring activities to supply information about the benefits and costs associated with incoming foreign investors. If incentives are offered to investors in these countries, questioning from the opposition is likely to be especially probing. In contrast, one-party states are less likely to feel pressure to monitor the activities of foreign investors. Our sample is too small to test this hypothesis. Singapore, for example, is hardly a country in which political opposition could be a significant influence. In Ireland, however, political opposition does, indeed, appear to have played a major role in leading the IDA to institute an especially tight monitoring program.

Yet on occasion, political pressures seem to lead to the opposite results—that is, to monitoring that is intentionally weak. In such countries, goals for investors may be stated only for political purposes, and the government does not seriously intend that they be met. In these situations, monitoring would only expose the discrepancy between statement and intent. For example, the indigenization rules some countries impose on foreign investors may be largely for public consumption, with little expectation of their actually being complied with. As a result, the government may not be eager to collect data that would expose the facts.

The quality of the monitoring in which a government engages (or even of screening and services) is likely to vary with the level of sophistication of the government bureaucracy involved in these activities. Countries with poorly trained, poorly equipped bureaucracies probably could not institute comprehensive monitoring.

Table 4 Institutional Arrangements for Monitoring Foreign Investment

Country	*Screening structure*	*Monitoring activity*
Brazil	Diffuse	No formal activity
Dominican Republic	Coordinated (by interministerial board—BII)	No formal activity
Ghana	Coordinated (by interministerial board—GIC)	Monitors incentive awards
Kenya	Coordinated (by interministerial committee—IFC)	No formal activity
Korea, Republic of	Diffuse	No formal activity
Mexico	Centralized	No formal activity
Philippines	Coordinated (by interministerial board—BOI)	Monitors adherence to conditions on performance bonds
Singapore	Centralized (EDB)	Monitors incentive awards but couples monitoring with service contact
Thailand	Coordinated (by interministerial board—BOI)	Monitors adherence to conditions on promotion certificates
Turkey	Centralized (FID)	Monitors incentive awards

Our data indicate, however, that a weak monitoring system is not necessarily the result of a poorly equipped bureaucracy.

Monitoring Investment that Benefits from Incentives

The five countries in our sample that engaged in formal monitoring did so primarily to determine the degree to which foreign investors adhered to the conditions of incentive contracts. The Philippines, for instance, conducted a formal monitoring program to ensure that investors achieved the performance targets used by the government as the basis for granting incentives on particular projects. The monitoring activity was conducted by the legal department of the BOI. Investors who received incentives from the BOI had to sign performance agreements, which explicitly stated that the incentives granted to a particular investment project were contingent on the project achieving the level of market performance projected in the application for incentives. Turkey's FID used a similar approach in monitoring adherence to the conditions on its incentive certificates.

Formal monitoring systems tend to rely on written agreements between the government and the foreign investor. Usually, they also specify when and how investors are required to report to the government. In Thailand, for instance, within six months of the issuance of the promotion certificate by the BOI, each firm had to complete factory construction and the purchase of machinery; within 24 months all machinery had to be shipped; and within no more than 30 months, the company had to begin factory operations. Foreign

investors were required to inform the Project Control Division of the Office of the Board of Investment (OBOI) within 15 days of the start-up of factory operations and to report on the results of their operations every six months thereafter. The OBOI expected to receive financial statements and operating results from each project annually (no later than June 30). Officers of the Project Control Division also inspected individual factories once per year.

The monitoring departments in some countries were hampered in their effectiveness by resource constraints. For instance, with only two professionals working in the monitoring department of the Ghana Investment Center (GIC) in 1989, this department found it difficult to engage in active monitoring programs after implementation of a project. Investors neglected to send in status reports, and the department was unable to ensure investors' compliance over the long term with the terms and conditions of incentive agreements. The GIC found it much easier to monitor incentive agreements up to the point of implementation of the investment rather than later in the life of a project. Thus, the monitoring department was active in checking, for example, that equipment imported under the agreement corresponded with the equipment specified in the application on which the incentive agreement was based. (The department compared bills of lading for machinery being brought into the country with the machinery listed in the original application; it then instructed the customs department to issue duty exemptions for the imported machinery listed in the application.) Similar resource constraints were also in evidence elsewhere. In Thailand, for example, critics suggested that the data actually collected by the BOI fell far short of the information supposedly required of investors.

The monitoring activities of countries complement the process of screening for incentives. In the absence of a formal monitoring mechanism, investors have little incentive to make realistic projections of the exports the investment will produce, the number of jobs it will create, and so forth. The extent to which investment projects fail to meet the performance goals on which incentives are based is not well documented. Very few investment agencies, even those that grant incentives, provide information on this subject. One agency, Ireland's IDA, however, has conducted such analyses and has made the results available. These studies show the discrepancy between what investors predict they will achieve when requesting incentives and their actual performance.

The Case of the Industrial Development Authority of Ireland

Ireland's Industrial Development Authority (IDA) routinely provides significant and quite open up-front cash grants to foreign investors in Ireland. In monitoring and tracking foreign investment, IDA's planning department discovered that only 26 percent of the jobs promised by foreign investors ever actually materialized. As a consequence, in recent years the agency has become more aggressive in linking incentives to performance targets. Foreign firms that are given incentives are required to sign legal agreements. Moreover, the overseas parent companies of local subsidiaries are required to sign as guarantors. Built into these agreements is a year-by-year schedule of job creation designed to match the incentive payouts. If these jobs are never realized, or do not last for an agreed-upon time, the IDA is authorized by the agreements to revoke the incentives or, if they have already been paid out, collect damages from the company or its parent.

The political system in Ireland partly explains the IDA's aggressiveness in formally linking incentives to performance targets and monitoring adherence to these targets. Ireland is a democracy with vocal and open opposition to the party in power. During the years that Ireland has had a policy of granting significant incentives to foreign investors, the governing party has had to explain to the public, in response to demands by the political opposition, what benefits the country obtains from these investments after paying the cost of attracting them. These demands create special pressures to monitor closely those investors that receive incentives.[2]

Promotion, Screening, and Monitoring

It is paradoxical that Ireland, Singapore, and other countries that are such eager promoters of foreign investment are also the countries with the tightest monitoring programs. As noted earlier, where investment is particularly sought, one would think it might be trusted. Moreover, only rarely are the functions of screening and promotion conducted aggressively and well by the same organization. Similarly, promotion and monitor-

ing could also be viewed as unlikely bedfellows, as monitoring seems to have some of the "policeman-like" attributes of screening.

The potential conflict between promotion and monitoring is not lost on the agencies themselves. In fact, investment agencies are concerned that aggressive monitoring may be viewed negatively by foreign investors they are interested in attracting. A particular fear is that the unfavorable reactions of existing investors will reduce the effectiveness of investment promotion activities. In fact, some governments explained their lack of monitoring activities by indicating that they were so interested in attracting investment that they had no desire to police investors.

Resistance on the part of foreign investors to monitoring depends, it seems, on the performance being monitored and the use to which the results are put. In some cases, investors view monitoring as simply another layer of reporting requirements that have little purpose. In other cases, monitoring is viewed as a vehicle for generating arbitrary changes in government policy. In such cases, monitoring is, indeed, a deterrent to a government's efforts to promote itself as a site for foreign investment.

But investors do not always view monitoring simply as a hassle. In several of the countries in our sample and, we believe, in Ireland, investment agencies monitored foreign investment projects with a quite specific and visible purpose: to assess project performance in meeting goals, such as export targets and employment numbers, that were negotiated and agreed upon when the investors signed a performance bond, incentive certificate, or promotion certificate. The goals by which the project's performance was being judged were transparent and easily understood by foreign investors. Further, because they were usually specified quite clearly at the point of application for incentives, they did not represent a sudden change in government policy. The incentives that were offered in these circumstances were clearly a quid pro quo for engaging in certain activities that were particularly desired by the host government. Under these circumstances, monitoring seemed fair to investors and did not run counter to promotion efforts. On the other hand, monitoring associated with less transparent requirements that are unilaterally imposed on a project post-entry can be expected to be opposed by investors.[3]

Monitoring as an Approach to Providing Ongoing Service

One country in our sample that monitored investments did so with at least one additional objective in mind. The Singapore Economic Development Board (EDB) monitored investments to ensure that investors were meeting performance goals, but it also used monitoring to identify problems faced by investors and to anticipate when an investor might be considering a new project. The agency's rationale was that attention to investors' ongoing concerns and accurate predictions about the need for new facilities would help it attract more investment to Singapore in the form of increased reinvestment flows. The EDB assigned each investment project to a project officer, and the project became part of that officer's portfolio of clients. Project officers were then expected to supervise projects throughout the entire project cycle: from the point at which these projects were transferred to them from their counterpart field officers abroad, through the application process for incentives, through project implementation, and on through the monitoring phase of the cycle.

One of the investors we interviewed in Singapore described a recent visit from one of the EDB's "sales executives," as the agency likes to call its project officers. The salesperson informed the investor that he would be taking over the "account" because the previous salesperson was being relocated. He advised the investor that he had come to introduce himself, to obtain some background data on the company and its recent performance, and to pledge his assistance if the investor encountered any problems. Monitoring investments provided another excuse for project officers to meet with their "clients" and to find out about any problems they were having or any plans they had for future investment. In this way, the EDB associated the monitoring of investments with its function of providing client services.

Its sales role and its objective of identifying and resolving investor problems did not preclude the EDB from monitoring for the traditional reasons of control. The promotion certificates that investors signed specified the goals the project was expected to meet, and project officers monitored the extent to which these goals were actually achieved. If companies did not meet their goals, the EDB discontinued tax holidays or increased tax rates. The agency also, however, took into consideration the general macroeconomic environment. For example, companies periodically projected a

particular rate of expansion and received incentives on the basis of those plans. Companies that did not reach their expansion targets during the mid-1980s recession, for example, were allowed to continue their projects and receive the incentives they had been granted.

In a previous study, we examined other countries besides Singapore that maintained promotional and service relations with investors over the project cycle. Canada, for instance, institutionalized a program called the Corporate Liaison Program, which involved ongoing high-level communication between senior investment promotion officials and executives of corporations already operating in Canada. Singapore, however, was the only country in our sample, and the only one which we know of, that coupled a program of ongoing promotion and services with the monitoring of foreign investment.

The State of Monitoring

In general, examination of the monitoring function in all the countries in our sample indicated that, for most governments and investment agencies, monitoring is a function to which attention only recently has been paid. Most of the sample countries that monitored foreign investment began formal programs only recently. Even the monitoring process in Ireland was relatively new. In many other countries, monitoring was an underdeveloped function. Part of the explanation for the slow movement to monitoring is that many investment agencies have been late in developing information and control systems of any kind, whether for use in screening, service, or promotion activities.[4]

Other issues are involved as well. As noted earlier, some countries had not moved to the development of a comprehensive monitoring function because no single government organization had been given responsibility for managing the government's interactions with foreign investors. In such situations, the various line ministries of government assumed responsibility for monitoring the activities of all business organizations, foreign and domestic, but only in their specialized functional areas. They understandably felt no responsibility to engage in comprehensive monitoring of all foreign investment.

Effective, comprehensive monitoring of foreign investment requires that some organization be given responsibility for all foreign investor activities and that a well-developed control and reporting system be in place. Some governments are beginning to create centralized investment agencies that in turn are beginning to adopt comprehensive reporting systems. With these systems in place, the effective monitoring of foreign investment holds some promise for increasing the benefits a country receives from such projects. Effective monitoring seems especially essential if governments continue to provide investors with significant financial incentives.

Other lessons can also be discerned in the cases we examined. Most important, perhaps, is that a well-designed, and well-marketed monitoring program need not discourage foreign investment. Indeed, Ireland and Singapore have succeeded in creating an image of being particularly welcoming to foreign investors while at the same time conducting well-planned, aggressive monitoring. The key to their success appears to lie in the fact that they monitor against transparent criteria that have been agreed to by the investor and that remain unchanged after investment takes place.

One could argue that monitoring programs such as those in place in Singapore and Ireland bring these countries one step closer to a system in which monitoring replaces screening. Under this kind of system, admission to the country and the award of incentives would be based on a clear set of standards and aggressive monitoring. Any foreign firm would be free to invest as long as its activities did not violate certain clearly communicated conditions. No screening for entry would be necessary; instead, monitoring would be performed to ensure that these conditions were not violated. A similar system could be established for incentives. Any investor who exported a set quantity of goods or who employed a certain number of workers, for example, could benefit from specific "performance-based" incentives at any point in the life cycle of a project.[5]

Notes

1. In the Guisinger study on investment incentives, researchers noted that the expectation of performance along one or several dimensions was often coupled with "discretionary incentives." Our study reaffirms that conclusion in the context of the conditions under which governments tend to monitor foreign investment projects. See Stephen Guisinger, "Host Country Policies to Attract and Control Foreign Investment," in Investing in Development: New Roles for Private Capital?, ed. Theodore H. Moran (Washington, D.C.: Overseas Development Council, 1986).

2. Some of the motivation for more careful monitoring may have come from a controversial study on the cost-effectiveness of IDA grants to foreign investors. See the Telesis Consultancy Group, A Review of Industrial Policy in Ireland (Dublin: National Economic and Social Council, 1982).

3. It is important to distinguish the performance goals we describe here from performance requirements. Performance requirements are often viewed as requirements unilaterally imposed by the government after the entry of a foreign investor. Such requirements may include the sharing of ownership, local content rules, local training programs, and so forth. Performance goals, on the other hand, are usually established at the point at which an investor applies for incentives, not later in the life of an investment project as a condition for continued operation in the country. For a discussion of the distinction between goals and requirements, see Guisinger, "Host Country Policies to Attract and Control Foreign Investment," p. 168.

4. For a discussion of the deficiencies of information and control systems in the context of the promotion function of investment agencies, see Louis T. Wells, Jr. and Alvin G. Wint, Marketing a Country: Promotion as a Tool for Attracting Foreign Investment," (Washington, D.C.: Foreign Investment Advisory Service, World Bank, 1990).

5. We are indebted to Wayne Edisis and Martin Hartigan of the Foreign Investment Advisory Service for their ideas on the substitutability of monitoring for screening.

5

Conclusion

What Happened to the One-Stop Shop?

The foreign investment agencies of the countries we studied differed dramatically, even though most had at some point been labeled one-stop shops. The label is evidence of the efforts of these countries to please would-be investors and to follow the usual advice offered by consultants and international organizations: responsibility for foreign investment matters should be vested in a single organization. With one exception, however, none of the agencies actually made all decisions with respect to allowing foreign investment entry or granting incentives without the formal input of other units of government. Some provided a wide range of effective services to the investor, whereas others provided few or no services. Some monitored investors carefully to see that they fulfilled their contractual obligations, and one agency used its monitoring activities to promote further investment; others did little or no monitoring of any kind.

The benefits of the one-stop shop were most frequently undermined, we found, by the division of the screening function into two separate parts: administration and decisionmaking. This separation usually was not explicit, and it seems to have resulted from a complex process in which separation was not the product of conscious decisions. Allocating the administrative side of the screening function to one organization while leaving decisionmaking virtually intact indicates an implicit political compromise. Investors and outsiders gain their one-stop shop, at least on paper, but the political costs of removing authority from domestic agencies are avoided.

Most one-stop shops are the result of this political compromise. They handle the administrative aspects of screening foreign investment, whether for entry or for allocating incentives. These agencies issue the application forms that investors must complete to obtain permission to invest or to apply for incentives, and they generally conduct at least the initial analysis on the investor's proposal. With rare exceptions, what these so-called one-stop shops have in common, apart from the administrative task, is a lack of decisionmaking authority. Beyond this feature, however, the roles of the various agencies differ from country to country.

Decisionmaking is handled by a wide range of different approaches, and it is here that the substantive differences among the countries emerge. There are exceptional cases in which all decisionmaking can, indeed, be vested in the organization that handles the administrative aspects of screening. In those rare instances, the organization acts much as advisors and investors would wish when they advocate centralization of screening and other foreign investment matters.

In most countries, however, decisionmaking is vested outside the administrative unit. At the opposite extreme from centralized decisionmaking is the diffuse approach, in which various ministries and agencies act independently. In between the extremes are the efforts at coordination without centralization, which usually is attempted through a board or a committee.

How countries choose to organize the screening function also has an impact on whether, and how, they engage in other relations with foreign invest-

ors. For example, the farther a government has gone along the road toward placing responsibility for screening decisions in one organization, the more likely it is that the resulting institution will provide services to investors and monitor investment. More subtle differences across countries are also apparent.

The few countries that have centralized all or most screening decisions within one organization appear to provide the widest range of services to investors, including services before and after the screening decision has been made. An investor who submits an application for entry or incentives to such a centralized agency can expect the organization to which the application is submitted to make the screening decision. In addition, if ancillary approvals are required, the screening approval is likely to lead other government departments to provide these permits and licenses automatically. At a minimum, the centralized investment authority will provide substantial assistance in obtaining the required permits. These organizations are, of course, the true one-stop shops: they combine the authority to make decisions with the political clout necessary to get other government subunits to follow their lead.

Countries with a screening process that is coordinated among different government departments may also provide services for investors. These services are mostly efforts to help investors obtain permits and licenses that fall outside of the screening process. Because foreign investment agencies in countries with coordinated structures have less internal decisionmaking authority than agencies in countries with centralized structures, these agencies are also weaker and less able to influence other government subunits. Thus, investors in these countries tend to have more difficulty obtaining assorted permits and licenses after they receive permission to invest. In response to the complaints of investors, some of these countries have set up separate structures to provide these post-approval services: these centers are frequently called one-stop shops as well. Usually these service units are only marginally effective in expediting the process of obtaining permits and licenses.

Governments that adopt diffuse approaches to screening are likely to have the weakest investment organizations. In some cases, they have built a single organization to administer the screening process. But with decisionmaking so far removed, this organization remains weak and unlikely to provide significant services or engage in monitoring.

Effects of a Weak Foreign Investment Agency

Weak foreign investment agencies do not provide quick, predictable decisions, which are at least the ostensible goal of reform. They are associated with a lack of service and, perhaps surprisingly, with a lack of monitoring. The lack of service from governments with weak agencies may simply be the result of reduced interest on the part of those governments in attracting foreign investors. We and other researchers have found weak foreign investment agencies to be associated with decentralized authority. Thus, both the organization and poor services may stem from the same cause: little enthusiasm for foreign investment. The lack of services, however, could also result from the absence of a centralized decisionmaking process. Lack of authority may leave the foreign investment agency with so little influence that, despite its desire to help investors, it can offer only minimal post-approval services.

In practice, both explanations seem to hold simultaneously. Most countries that welcome foreign investors place more authority for investment matters in a single organization. This organization gains power as a result of its increased authority over issues relating to foreign investment. These links, however, cannot be taken for granted. Attempts to centralize foreign investment matters within an organization that is intrinsically weak vis-à-vis other units of government are not likely to lead to the results one typically associates with a centralized structure. Similarly, in countries with coordinated structures, the greater the power of the principal investment agency, the greater the likelihood that the benefits of centralization will be achieved.

Yet in general, the screening process does affect the power of the resulting agency. The greater the degree of centralization of authority to make screening decisions, the more likely it is that a powerful organization will be created. Diffuse structures are usually associated with weak agencies that have little effective involvement in any foreign investment matters. In addition, these countries usually have no organization that provides effective services to investors.

Creating Strong Agencies

The expectations of those who seek one-stop shops for foreign investment in host countries are frustrated when a weak agency is created. Such an agency does not lead to quick, predictable

decisionmaking, nor does it provide services to investors that can serve as a promotional tool. Further, it does not monitor existing investment for promotion, policy reform, or control.

Those who seek a strong foreign investment agency must recognize that an effective one-stop shop with responsibility over most foreign investment matters must combine decisionmaking authority with the administrative function. Given the political implications of centralized decisionmaking, such an agency is not created by a simple decree or a legislative act. There are usually strong interests in the country, and within the government itself, that attempt to ensure that many government units have a role in decisionmaking after reform, even if a single agency for foreign investment is created.

Given that a diffuse decisionmaking structure implies a weak agency, reform aimed at real change must tackle the decisionmaking structure explicitly. Although an analyst can design such a structure, its effective implementation requires a strong political will capable of overriding the interests of various ministries and other agencies. This means that effective implementation will occur only where strong central administrations stand firmly behind the centralization of foreign investment decisions.

In some cases, the strength of various government subunits, and ambivalence on the part of central administrations about the desirability of foreign investment, preclude an environment in which centralization of foreign investment matters is possible. Even when a central administration has decided to introduce the intermediate approach of a coordinated organization for screening decisions, it can invest the resulting organization with power. One method is to place the foreign investment agency under the office of the head of state, so that the agency's chief executive officer reports directly to the central administration rather than to a ministry.

Powerful investment organizations are important not only for providing quick approval of investment or incentives but also for providing significant post-approval services. The greater the power of the investment organization, the greater the likelihood that screening approval will ensure receipt of all other permits and licenses. In some cases, other government departments are able to gain inclusion in the screening process through a coordinated screening structure. Central administrations that are determined to further investment can neutralize any potential for obstruction by indicating that these departments must view their inclusion in the screening process as the opportunity to play a role in evaluation by examining the project from the perspective of their departments. The central administration must then make it clear, however, that approval of the project by this coordinated group will lead to automatic dispensation of other permits that each department is responsible for issuing.

When investors face difficulties in obtaining approvals and permits, governments sometimes create separate service units (which may also be labeled one-stop shops). This mechanism seldom resolves the country's service provision problems, however. These separate organizations are often composed of representatives of the government departments responsible for post-approval permits. But the departments, unless they have been convinced to do otherwise, often send only junior representatives who are not authorized to act on behalf of their agency. Even where investment codes or central administrations dictate that government departments send senior executives to the service department, this is likely to happen only if penalties are instituted for noncompliance. In countries with coordinated screening structures, more important motivation may be provided if the central administration insists that active participation in the screening structure is the only opportunity the departments will have to represent their own interests in the foreign investment process.

Central administrations cannot always gather the consensus and muster the power to create the kinds of general investment authorities they might wish to see implemented. As another study has pointed out, however, some of the advantages of a centralized foreign investment agency can be gained for important sectors by spinning off authority for particular kinds of investment to strong organizations.[1] Thus, decisions with respect to petroleum investments, for example, would be made largely or entirely by a state oil company acting as a centralized agency. Similarly, authority for investments in an export processing zone may be spun off to the agency responsible for that zone—even by a government that is unable or unwilling to concentrate authority for a wide range of foreign investments. Such spin-offs are most likely when the class of investments is particularly important to the country or particularly sensitive to delays or unpredictability in the screening process. For certain countries, petroleum and minerals are so important that they are

handled separately. Export manufacturing is particularly fickle, given the alternative sites available; thus, authority for this area is frequently centered in special export processing zones, and these specialized agencies appear to offer services to their particular investors.

What Kinds of Analyses do Investment Agencies Perform?

Regardless of the type of agency that a country has, few carry out the kinds of rational analysis that one would expect. In screening proposed foreign investments, investment agencies might be expected to conduct analyses that would allow them to identify projects that are likely to be harmful to their country's economy. Although the majority of projects proposed by foreign investors apparently add to national income, as we have noted, evidence exists to suggest that a significant minority of proposed projects would have a negative impact on host economies. In screening to decide whether to offer incentives to an investor, agencies are expected to identify investment projects that are likely to be particularly beneficial to the country and that would be unlikely to locate there in the absence of incentives. To aid in the analysis of all investment projects, economists have developed elaborate methodologies to evaluate the impact of an investment on a host economy. Manuals on the various techniques are widely available, and courses on the techniques are offered to government officials by international organizations and universities. The almost universal spread of the microcomputer makes the calculations less tedious than they were in the past. Nevertheless, in the countries we studied, we encountered no screening agency that routinely attempted to use economic cost-benefit analysis to determine whether projects should or should not be accepted.

Some screening organizations now or recently did collect from would-be investors all or most of the data required for conducting economic analyses. The Indonesian government, for instance, used to request all of the necessary information from investors—that is, until it simplified its application form in 1985. Even when data are gathered, however, governments apparently do not conduct the analyses.

This is not to say that agencies conduct no analysis. Quite commonly they attempt to assess the viability of a proposed project and its private profitability. They also attempt to check market forecasts and cost projections. Often, they seek to understand, and second-guess, the technical processes investors plan to use in producing particular products. If the proposed project appears to be insufficiently profitable for the investor, they request further information. Rather than determining whether a project is good for the country, the goal of many of these activities appears to be to ensure that an investor does not invest in a project that would be unprofitable and to ensure that financial institutions will be repaid for their loans.

In screening for entry, agencies also tend to focus on the impact of the proposed project on firms already investing in the country, whether they are foreign or locally owned. Projects that would lead to threats to firms that are already operating are viewed askance. In fact, some of the delays in decisions appear to be the result of agencies waiting for local firms to organize themselves to present their cases for rejecting the would-be investor. Some countries (one example is the Philippines) have institutionalized a process for obtaining feedback from local entrepreneurs. In the Philippines, applications to invest must be advertised. If a domestic investor objects to a particular project, the requirement that the investment project should be reviewed within a specific time period (usually 20 working days) no longer applies.

Why is economic analysis so widely ignored, and why do existing analyses emphasize the impact on firms that are already operating in the country? We can only speculate, but it may be that decisionmakers, to some extent, doubt the conclusions of economic analysis. The data for forecasts are viewed as unreliable; it is widely assumed that the analysis can be biased to yield the results desired by the analyst. Although technicians are increasingly available to carry out the analyses, decisionmakers who have a thorough understanding of the techniques are still quite rare. In addition, governments fear the impact of the analysis on the availability of new foreign investment. They are concerned that asking would-be investors for data for economic analyses is likely to frighten them away. Finally, political factors may simply make economic analysis seem unimportant. The political pressure from organized opposition by existing enterprises to a new investor, either before or after approval, may overwhelm the logic of analysis designed to measure the interests of the broader economy.

Screening to allocate incentives sometimes seems to fall into a different analytical category

than screening for entry. This kind of screening often has the appearance of being closer to economic analysis: in determining eligibility for incentives, agencies will often attempt to measure the effect of a proposed project on foreign exchange and employment, for example.

In fact, incentive legislation generally specifies incentives only for projects that create jobs, save foreign exchange, are located in underdeveloped regions, or provide other specific benefits. Yet the calculations that are made to determine whether projects meet these criteria are often incomplete. Agencies frequently examine the benefits but almost never attempt to measure the costs. Thus, a project that saves a given amount of foreign exchange would pass the test, even though the domestic resource cost of saving it might be huge. (This screening method does have some value: it should lead at least to the rejection of projects with negative value added.) Similarly, projects that employ large numbers of workers are considered acceptable although the resources they use might be more efficiently utilized elsewhere in the economy, even to generate more employment. When agencies conduct these analyses, they perform their calculations so as to assign projects to categories determined by the incentive structure, rather than to evaluate the project's overall impact on the economy.

Prospects for Reform

Screening Investment

When governments consider screening, they tend to focus first on the structure that is to conduct it. The more appropriate first step, however, is to consider carefully the kind of screening that actually needs to be performed and the prospects for its success. The fact that economic calculations are so rarely made in screening analyses, despite the efforts of international organizations, the wide availability of manuals and training programs, and the spread of the microcomputer, suggests that efforts to change the pattern are likely to fail.

Yet all may not be lost. The trend in developing countries toward more open trade policies and more market-oriented prices means that the need for screening may be declining. Research suggests that restrictions on imports are the most significant variable that allows private investors to benefit from an investment project that has a negative effect on the economy. More open borders, then, will reduce the number of projects that are uncompetitive by international standards. The need for entry screening declines with more liberal trade policies. With a pricing system that reflects opportunity costs, private interests will match economic interests as long as externalities are not overwhelming. Thus, projects that are profitable to the investor are likely to be profitable to the economy.

A major consequence of the trend toward more market-oriented policies, therefore, is that efforts to improve analysis during screening are likely to generate few results; in addition, economic analysis itself is increasingly unnecessary. A negative list of sectors in the economy in which foreign investment is not allowed may be a sufficient screen. This is especially true in an economy without significant price distortions and with appropriate levels of government regulation in areas such as environmental pollution, where there remains the potential for serious disjuncture between private and social costs.

Nevertheless, project-by-project screening will not disappear. Some countries will continue to screen foreign investments because their economies are not becoming more open. Others, although more open, will face a political climate that will not allow the complete dismantling of this form of screening. Still, these countries are likely to benefit from efforts to reduce the number of approvals and simplify the screening process. With the poor screening practices that are now prevalent, little will be lost by reducing its scope.

Screening for incentives is an exception to this pattern. The approach in most developing countries is to grant incentives when a proposed project meets certain economic criteria, a strategy of questionable value because the criteria almost always refer to benefits without considering costs. The underlying philosophy is another, more basic problem. The typical incentive structure is established to reward investors for doing good things; not to induce investors to do good things that they would not have done in the absence of incentives. We found no agency during our interviews that was addressing the issue of whether incentives were necessary in a particular case to induce a would-be investor to come to the country, to employ large numbers of local workers, to save foreign exchange, or to locate in backward areas.[2] In a substantial number of cases, agencies were rewarding investors with incentives for doing something the investors would have done anyway. Furthermore, recent research now points to the general ineffectiveness of incentives in chang-

ing investor behavior.[3] The prospects for reducing incentives seem great.

Structure of Screening and Service Organizations

Governments are often eager to identify *the* appropriate structure for screening investments, providing services for investors, or monitoring investment projects. Yet a wide range of approaches can be made to work—provided a government can muster the appropriate political strength and will. Indeed, structural solutions are never adequate alone. The "right" structural approach will fail without the political will to support it in changing the processes. And with political will, a less-than-ideal structure can be made to work.

The one-stop shop illustrates this point. When properly implemented, these organizations do all that is expected of them: they serve as efficient screening bodies, they provide a wide range of services that are of real assistance to foreign investors, and they effectively monitor investment. When these organizations are established without the will to implement accompanying change in the decisionmaking process, however, they inevitably produce disappointing results. An effective, efficient investment agency cannot be created by simple changes in organization or in laws. Such changes may facilitate the implementation of new policies, but they are never enough. Our findings suggest that the critical variable that determines whether an agency can screen investments efficiently and service investors well is not the specific kind of organization selected but the strength of that agency and the respect in which it is held by other government units.

Screening and Promotion

As governments move away from an emphasis on screening, an issue that invariably arises is what new function, if any, investment organizations should take on. One idea that many have advocated, and some governments have tried, is to shift the investment agency's overall focus and scope of activity from screening to promotion. This task has proved difficult to accomplish, in large part because organizations are resistant to change. There is no simple answer to the problem of moving a country from a screening orientation to a promotion orientation.

Some governments have tried to add the promotion function to the existing screening organization, but these very different functions resist coexistence. Other strategies are to divide the functions sharply within the same organization by creating separate departments, or to shift the focus of the entire organization. All such approaches must recognize, however, that screening and promotion are very different activities and must be handled in different ways. For one thing, they require different attitudes and different skills. New personnel and special training usually will be essential. Moreover, new budgeting and, in particular, new control systems will almost inevitably be required. Change will also demand that the agency's top management personnel be determined to modify the old culture and be proactive within the agency. Some governments, in response to the seemingly overwhelming problem of change, simply create a new organization to take on the new tasks and allow the old one to wither away.

The most appropriate solution is likely to depend on the characteristics and constraints of a particular country. One of the important issues is what kind of promotion organization is desired: should it be entirely within the government, or is it better to locate it partially or wholly outside? There are clearly advantages to different kinds of organizations.[4] Screening, however, generally requires a purely governmental function and organization. If promotion is to be something else, the conversion may be more easily accomplished if a new organization is created.

Monitoring Investment

Monitoring may play a minor role in liberalized, market-oriented countries, but governments that offer incentives may well need to monitor compliance with the performance obligations that accompany the incentives. A country could restrict monitoring to an assessment of the extent to which foreign investors comply with clear performance conditions that they agreed to when they requested the incentives. Or governments can use alternative approaches. They might monitor all investments, or they might engage in spot monitoring, imposing heavy penalties on projects that have not complied. Penalties should not be so great, however, that governments cannot reasonably impose them. Governments eager for foreign investment should not fear monitoring. As demonstrated in some of the countries we observed, carefully designed monitoring activities need not hurt a government's reputation as a friend of

foreign investment. In fact monitoring can be used to identify specific problems faced by investors. Its end results can thus be programs to assist firms directly or policy and bureaucratic reforms sought by the monitoring agency to reduce the problems.

In sum, reform of the management of foreign investment is not an easy task. Simple structural change usually accomplishes relatively little. Real reform requires a well thought-out program that takes into account bureaucratic behavior and political interests. In addition, real reform will not occur without the bolstering effect of strong political will. That will is not likely to be sufficiently clear unless the country's head of state is an active participant in the reform effort and continues to insist that reforms not be undercut. Only with such a program can the reality of reform be made to match the rhetoric of change.

Notes

1. See Dennis J. Encarnation and Louis T. Wells, Jr., "Sovereignty en garde: Negotiating with Foreign Investors," *International Organization* 39 (Winter 1985) pp. 47-78.

2. The study of the effectiveness of the Irish Industrial Development Authority's grants to foreign investors sought to provide information on this point. See the Telesis Consultancy Group, *A Review of Industrial Policy in Ireland* (Dublin: National Economic and Social Council, 1982).

3. For evidence on this point, see Stephen E. Guisinger and Associates, *Investment Incentives and Performance Requirements* (New York: Praeger, 1985); and Louis T. Wells, Jr., "Investment Incentives: An Unnecessary Debate," *The CTC Reporter* 22 (Autumn 1986) pp. 58-60.

4. See Louis T. Wells, Jr. and Alvin G. Wint, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment* (Washington: D.C.: Foreign Investment Advisory Service, World Bank, 1990).

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