



World Association of  
Investment Promotion  
Agencies

# THE IMPACT OF COVID-19 FROM THE PERSPECTIVE OF IPAS



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## 1. Introduction

### Context

This paper was prepared by the World Association of Investment Promotion Agencies (WAIPA) from survey data collected in the first week of April and benefited from peer review.<sup>1</sup> As such it gives a glimpse of the initial action taken by investment promotion agencies (IPAs) towards the COVID-19 pandemic. The aim of this survey was to understand the impact and initial challenges IPAs face due to this crisis and to examine actions by IPAs to mitigate and alleviate these shocks. By highlighting some of these measures, this paper aims to help IPAs to compare their own actions to those of their peers but also to serve as food for thought for IPAs to expand or align their services accordingly, and to provide recommendations based on the experience of WAIPA and its partners.

### Methodology

This report uses information obtained from the WAIPA's concise survey on COVID-19 and IPAs. The online survey was distributed to 174 IPAs from March 31 until April 8. The survey consisted of 15 questions encompassing topics regarding the impact of COVID-19 on IPAs and foreign direct investment (FDI). In total 53 responses were obtained out of which 83 percent are national IPAs and 17 percent are regional IPAs.

## 2. COVID-19 impact on economy and FDI

The COVID-19 pandemic is a challenge for the world economy. Strict policy measures introduced by governments worldwide to suppress the further spreading of the virus also mean an unprecedented disruption of the global economy and investment flows. According to the OECD Interim Economic Assessment published in March, growth prospects remain highly uncertain due to the COVID-19 outbreak. The annual global GDP growth is projected to drop to 2.4 percent in 2020 comparing to an already weak 2.9 percent in 2019 (OECD, 2020). This means that the entire world economy could go into recession, as global annual growth below 2.5 percent is often taken as the recessionary threshold for the world economy (UNCTAD, 2020a). World trade is expected to fall by between 13% and 32% in 2020 as the COVID-19 pandemic disrupts normal economic activity and life around the world (WTO, 2020). Moreover, the WTO underlines that in case businesses and consumers regard this as a temporary, one-time shock, the chance for a stronger rebound is higher. A prolonged or recurring uncertainty will likely lead to more cautious businesses and consumers.

In a recently published analysis, UNCTAD revised their projections on the potential impact of the COVID-19 pandemic on FDI and global supply chains. The update predicts a downward pressure on global FDI estimated to be -30% to -40% leading up to 2021, considerably more than their initial prediction of -5% to 15% from early March (UNCTAD, 2020b). Moreover, the downward revisions of 2020 earnings of the top 5000 multinational enterprises (MNEs) with significant share of global FDI is estimated to be -30% on average (UNCTAD, 2020b). Overall, the most affected industries are energy, basic materials, airlines, automotive, and hotels and restaurants (hospitality). Given the current uncertain times, announcements

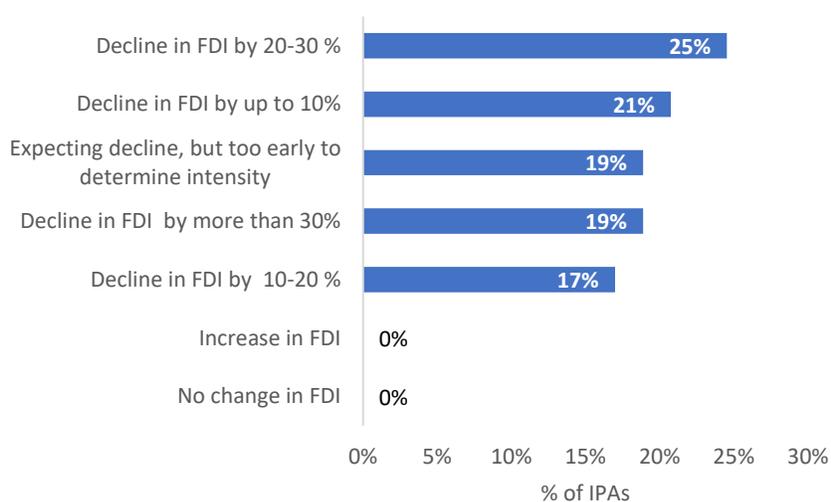
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<sup>1</sup> The authors are grateful to Armando Heilbron, Emily Sims, Karl Pfeffer, and Paul Wessendorp for their helpful peer reviews.

of new greenfield projects are likely to be delayed and new M&A announcements on course estimated to drop by -70% globally in Q1 of 2020 (UNCTAD, 2020b).

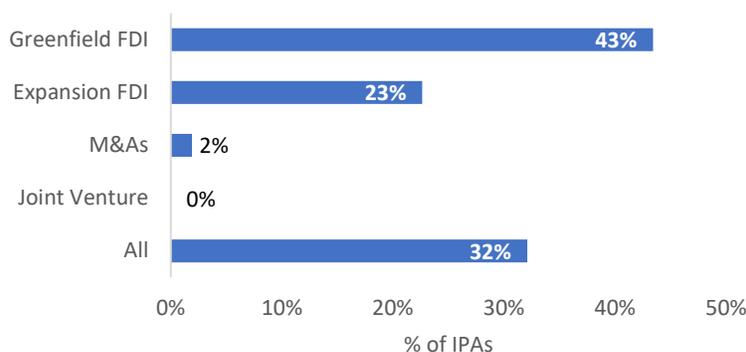
In WAIPA’s survey, IPAs were asked whether they experienced withdrawal of investors due to the COVID-19 outbreak. Results indicate that 62 percent did not experience withdrawal of investors, while 38 percent did experience it. However, their feedback on the long-term impact of COVID-19 on FDI, while somewhat less severe, overlaps in general with the current predictions of UNCTAD. All respondents expect a decline in FDI, where 25 percent expects a decline in a range of 20-30 percent, 21 percent expect a moderate decline of merely up to 10 percent, 19 percent expect decline without reference to its intensity, 19 percent expect a decline by more than 30 percent, and 17 percent expect a decline in a range of 10-20 percent.

**FIGURE 1: Expected impact of COVID-19 on FDI inflow as reported by IPAs, n=53**



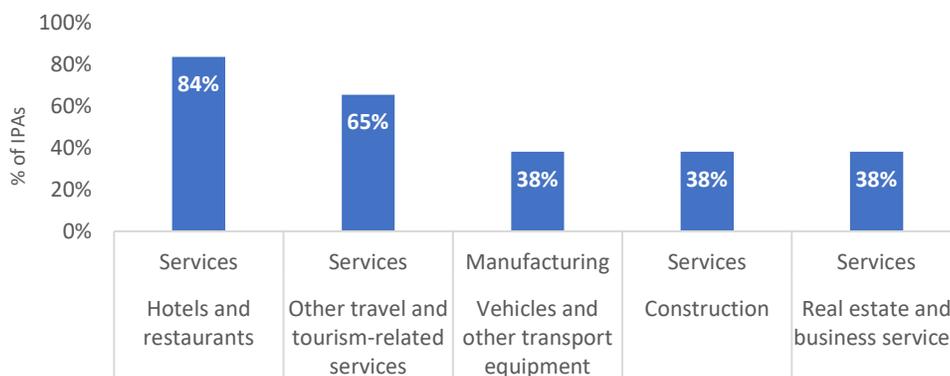
Looking closer into what forms of FDI might experience the highest impact due to the current situation, 43 percent of IPAs expect that greenfield investment will be impacted the most, while 32 percent anticipate all forms to be impacted accordingly.

**FIGURE 2: Expected impact of COVID-19 on different forms of FDI as reported by IPAs, n=53**



Looking specifically which sectors respondents consider most vulnerable in the crisis, hotels and restaurants (84 percent) together with other travel and tourism related services (65 percent) are the most affected. Other highly affected sectors as reported by IPAs are manufacturing of vehicles and other transport equipment (38 percent), construction (38 percent), and real estate and business services (38 percent). These results accord with the United Nations' World Tourism Organization (UNWTO) estimates that international tourist arrivals could decline by 20% to 30% in 2020. This translates into a loss of 300 to 450 US\$ billion in international tourism receipts (exports) – almost one third of the US\$ 1.5 trillion generated globally in the worst-case scenario (UNWTO, 2020).

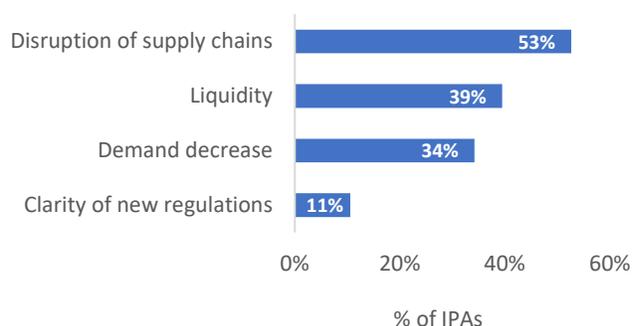
**FIGURE 3: Top 5 most vulnerable sectors during the COVID-19 crisis as reported by IPAs, n=53**



Furthermore, results in the figure 3 are consistent with the findings from the World Bank’s rapid survey on COVID-19 and responses of IPAs.<sup>2</sup> IPAs reported that the services most affected by the pandemic are hotels and restaurants (88 percent), other travel and tourism services (56 percent) and wholesale and retail trade (41 percent), while automobiles, other motor vehicles, and transport equipment (34 percent), followed by textiles (29 percent), are the most affected manufacturing segments (WBG, 2020). On the other hand, IPAs anticipate the least affected segments to include information technology and telecommunications equipment, computer and software services, telecommunications, media and entertainment, pharmaceuticals, biotechnology, medical devices, and health services (WBG, 2020).

The current pandemic stipulates a wide range of uncertainty among businesses and investors. As reported by IPAs, the biggest concerns of existing businesses in their countries are disruptions of supply chains (53 percent), liquidity (39 percent), demand decrease (34 percent), and clarity of new regulations brought to contain and mitigate the crisis (11 percent).

**FIGURE 4: Biggest concerns of businesses as reported by IPAs, n= 38**



<sup>2</sup> The World Bank Group (WBG) undertook a rapid survey of IPAs to better understand the impact of COVID-19 on business at large and on specific sectors and segments and obtain information on the key measures IPAs are taking to increase the resilience of investors. It was held online with the link sent to 162 leading national IPAs in the WBG’s database during April 1-10, 2020. Forty-one national agencies from all income levels responded. See full report here: [https://waipa.org/waipa-content/uploads/WBG\\_IPA\\_Response\\_to\\_COVID-19.pdf](https://waipa.org/waipa-content/uploads/WBG_IPA_Response_to_COVID-19.pdf)

### 3. COVID-19 impact on IPAs and their responses

Inevitably, disruptions caused by COVID-19 will also profoundly impact IPAs' current and future activities. The survey results indicate that 98 percent of IPAs are in some way impacted by the virus outbreak, where 75 percent of respondents marked the impact as either high or very high. This impact is forcing IPAs to adjust their everyday activities, rethink organization functioning, and upgrade their strategies. As a result, the bulk of agencies have been forced to postpone events (89 percent), cancel all overseas business travel (83 percent) and assign their employees to work from home (68 percent).

Due to the close relationship with their respective governments and profound knowledge of local businesses and markets, IPAs can play an important role in alleviating the impact of COVID-19 on their local economy by providing support to the existing businesses. According to the survey results, 87 percent of IPAs are providing support to their clients during the virus outbreak. The below figure 5 shows that the most common performed activity is provision of information via website and/or email on a new COVID-19 related measures (74 percent). For this purpose, some agencies, e.g. ABA-Invest in Austria, Invest in India, Switzerland Global & Enterprise, etc., have created dedicate COVID-19 information platforms on their websites. Furthermore, 64 percent of IPAs are organizing webinars and e-meetings to support their clients and find out their main needs and concerns, 42 percent of IPAs are helping businesses to maintain their supply chains, 38 percent are providing e-guidelines of how to act during the pandemic, and 11 percent of IPAs are either directly offering incentives to the most affected clients or helping them to access public support funds.

**FIGURE 5: Support offered by IPAs to their clients during the COVID-19 outbreak, n=53**



Other activities that are mentioned by IPAs include establishment of hotlines so that business can call in as well, website chat boxes, emergency teams that will specifically work on COVID-19 related issues, and running surveys among their clients to identify main bottlenecks they are facing with.

In addition to the above results, a recent UNCTAD's study of 174 national IPA websites found that 64 percent of agencies had rapid online response to the COVID-19 pandemic, where 40 percent of IPA websites provided some or comprehensive COVID-19 related information and 24 percent had only a notification that IPA still operates or not (UNCTAD, 2020c).

### ***BOX 1: Examples of IPAs responses to COVID-19***

#### **Information portal by ABA-Invest in Austria**

ABA-Invest in Austria has developed “COVID-19- Support for your company” web page offering an overview of the most relevant information about COVID-19, related changes, and upcoming developments. Furthermore, their government created a Corona chatbot named “Mona”. The task of Mona is to quickly and easily deliver the most important information regarding the COVID-19 crisis and economy on the Austrian central eGovernment portal for companies, i.e. Business Service Portal (Unternehmensserviceportal - USP).

Source: [www.investinaustria.at](http://www.investinaustria.at)

#### **Invest India Business Immunity Platform**

Invest India created “Business Immunity Platform” with aim to bring facilitation to the investor doorstep. This comprehensive platform offers businesses and investors real-time updates on India’s active response to COVID-19, shares the latest information on various government initiative, market research reports, delivers webinars, progress dashboards, and answers and resolves queries through emails or WhatsApp.

Source: [www.investindia.gov.in](http://www.investindia.gov.in)

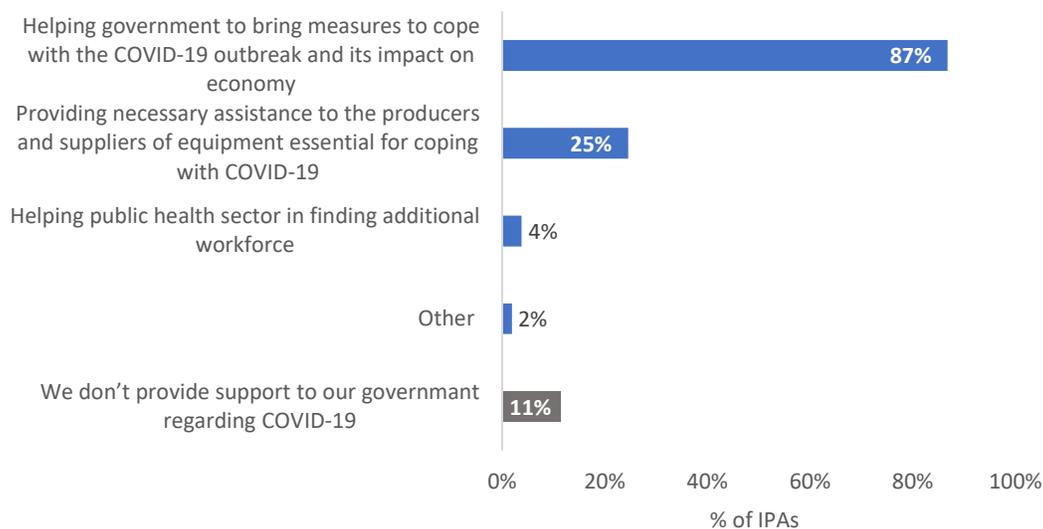
#### **Information portal by Switzerland Global Enterprise (S-GE)**

Switzerland Global Enterprise (S-GE) has developed a special web page “COVID-19: How to keep your international business going”. This web page offers comprehensive information about the effects of COVID-19 on supply chain, movements of goods, digital commerce etc., overview of the most frequent asked questions, news from the markets; and provides an overview of tools and resources offered to businesses.

Source: [www.s-ge.com](http://www.s-ge.com)

IPAs can be of immense help not only to their clients but also to their respective governments. As they are in close contact with local businesses, they can systematically identify all issues that they are facing and assist governments to introduce measures that will tackle those issues. The survey indicates that 87 percent of IPAs are supporting their respective governments in this matter. Furthermore, 25 percent are providing necessary assistance to the producers and supplier of equipment essential for coping with COVID-19. This includes essential medical equipment, i.e. face masks, disinfection products, medical devices, etc. A small proportion of IPAs also support their public health sector in finding additional workforce (4 percent).

**FIGURE 6: Support offered by IPAs to their governments during the COVID-19 outbreak, n= 53**



The World Bank's rapid IPA survey complements these findings (WBG, 2020). IPAs said to be informing on impact and measures related to COVID-19 (63 and 66 percent), gathering information on investor issues (63 percent) and solving these issues (59 percent). In the post outbreak period, IPAs indicated to be assisting investors on restructuring their projects or returning to operations, diversifying and repurposing activities (51, 49 and 46 percent, respectively). Solving individual investor issues and advocating for reform will remain important (41 and 39 percent, respectively) according to the respondents.

#### 4. Policy recommendations

In the short term, IPAs need to act swiftly and proactively to alleviate the overall impact of COVID-19 on their economies by working closely with their respective governments in supporting the existing investors. At the same time, it is essential for IPAs to use this time for a strategic readjustment to prepare for the post COVID-19 period.

##### Short-term recommended actions

The first and most important step for all countries worldwide is to suppress the spread of COVID-19 and ensure the so-called "flattening the curve". In this way, health systems of countries would be able to adequately respond to the pandemic and prevent more casualties. IPAs can help during this process by:

- Taking measures within their organizations to protect their employees from the virus. This includes working from home when possible, replacing live meeting with e-meetings, etc.
- Providing necessary assistance to the producers and suppliers of medical equipment essential for coping with COVID-19.
- Helping the health sector to recruit additional workforce.

Furthermore, during the pandemic, the short-term objective of most companies is to reduce costs of operation and sure up liquidity. Therefore, IPAs should not focus on attraction per se, but rather aftercare and policy advocacy to improve the investment climate (WBG, 2020). Aftercare has always been important

role of IPAs; its main goal is to ensure project implementation and future re-investments by providing post-investment services. Policy advocacy can complement aftercare by identifying the main obstacles investors are facing and advocating for their removal, while preserving the positive sustainable development contributions of FDI. Furthermore, policy advocacy is the IPA service most valued by investors (Heilbron and Aranda-Larrey, 2020; World Bank, forthcoming). During the pandemic, aftercare and policy advocacy play a critical role in minimizing the impact of the COVID-19 and ensuring retention of existing investors, which in the long-term can result in their expansion and re-investments. IPAs can do the following to support their existing clients:

- Provide comprehensive information via email and/or website on a new COVID-19 related measures enacted by their governments.
- Provide e-guidelines to businesses on public health measures to take during the pandemic.
- Assist businesses in understanding and applying new measures.
- Assist businesses in accessing public support funds.
- Assist businesses in maintaining supply chains.
- Harness the potential of new technologies to improve their efficiency, e.g. e-meeting, webinars, chatbots, etc.
- Systematically contact clients and gather information regarding the issues they are facing; and work with government to adequately address those issues.
- Advocate for more tailored incentives as needed.

#### Medium and long-term recommended actions

Expected upcoming decline in FDI means that competition among locations will increase and extra efforts will need to be taken to secure projects. In addition to the immediate risk of decline in FDI and downsizing, IPAs also need to consider long-term consequences of disrupted GVCs. McKinsey predicts a “new normal, a different way of operating” for companies, reevaluating resilience and risk (Sneader and Singhal, 2020). Companies, especially in the manufacturing sector, will likely rethink their location footprints and seek to regionalize or localize their production and supply chains to mitigate risk. Hence, reshoring and nearshoring might become a major practice in the years to come. Subsequently, digital technology, AI, eCommerce and cybersecurity will likely gain in importance, especially in the realm of services. Due to these shifts, IPAs must rethink their promotion strategies focusing on all four core roles, i.e. investment generation, image building, aftercare, and policy advocacy, and further include technology to remain competitive and to optimize their performance. Therefore, in the medium/long-term IPAs should focus on the following activities:

- Rethinking investment promotion strategy and channels to be used for promotion.
- Rethinking the organizational structure of the agency and its budget allocation.
- Re-prioritization of target sectors.
- Harvesting innovation/startups.
- Strengthening connections with the local eco-system, local SMEs, and existing investors.
- Implementing cost-efficient targeted image-building campaigns.
- Digital transformation or strengthening of existing digital investment promotion practices, e.g. upgrading website, embracing digital marketing and data analytics, e-registration of businesses, etc.

## 5. Conclusion

Survey results of WAIPA and other institutions, i.e. UNCTAD and World Bank, presented in this paper, clearly indicate that COVID-19 has significantly disrupted investment and influence the work of IPAs. This impact is forcing IPAs to adjust their everyday activities, rethink organizational functioning, and upgrade their strategies. Looking ahead, the outbreak of COVID-19 will inevitably leave a profound impact on our world and may trigger shifts in regards to political and economic power. Given the major disruption and vulnerability of the GVCs, reshoring and nearshoring might become a major practice in the years to come. All in all, this will likely motivate IPAs to create a closer connection to their local eco-system, local SMEs, and existing investors.

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