

# Reviewing the Impact of the COVID-19 Pandemic on Foreign Direct Investment (FDI) and the Initial Responses of Investment Promotion Agencies (IPAs)

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# Outline

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1. Introduction
2. Impact of the COVID-19 pandemic on FDI
3. Review of initial responses of IPAs
4. Opportunities for further actions

# Introduction

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**Besides the dramatic health and social implications, the COVID-19 crisis has caused severe disruptions of the global economy. This briefing reviews the impact on FDI flows and the responses of IPAs and identifies opportunities for further actions**

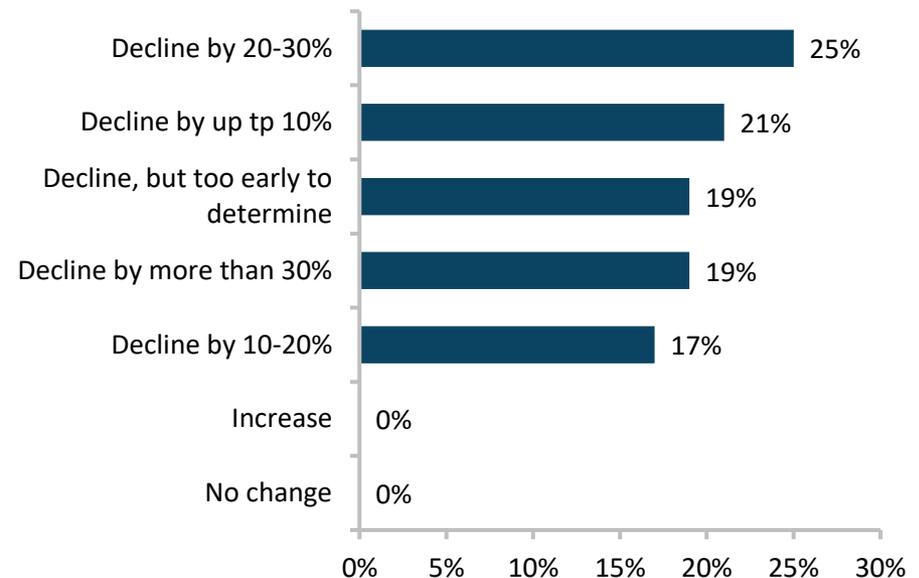
- The COVID-19 pandemic and the mitigation measures that governments are forced to take pose an unprecedented challenge to global value chains
- The closure of borders, production plants and construction sites is causing immediate delays in the preparation and implementation of investment projects
- As a result of the supply restrictions, the demand shock and general decline in investor confidence, global FDI is going to fall by more than 30% in 2020 according to UNCTAD and OECD projections
- The economic contraction, the projected drop in FDI and changes to wider government policies have a significant impact on the strategies, operations and activities of IPAs
- This policy briefing examines the COVID-19 related impact on FDI and challenges IPAs face due to this crisis, reviews initial actions taken by agencies and assesses options for further actions to prepare for expected changes in investment patterns

# Impact on FDI flows

**The pandemic and the mitigation measures imposed by governments are affecting all components of FDI – including greenfield investments**

- The FDI Report 2020 published at the beginning of May forecasts a 40% decline of greenfield FDI in 2020
- The results of a survey of IPAs carried out by the World Association of Investment Promotion Agencies (WAIPA) in April is in line with those forecasts
  - All respondents expect a decline in FDI – albeit to differing degrees
  - Close to 40% of the respondents already experienced a withdrawal of investors due to the COVID-19 outbreak

**Expected impact of COVID-19 on FDI inflows as reported by IPAs**



Source: WAIPA 2020

# Impact on FDI flows

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**The most optimistic scenario predicts that after a sharp drop in 2020, FDI flows could return to pre-crisis levels by the end of 2021**

- As the lifecycle of investment projects spans long periods of time, many projects will most likely only be delayed
- However, depending on the duration and severity of the pandemic and the recessionary impact, an increasing number of projects will be cancelled
- Overall, there will be considerably less FDI available globally in the near future and IPAs' project pipelines will shrink with a declining number of investment enquiries
- OECD projections show that even under the most optimistic scenario, FDI flows will drop by at least 30% in 2020 compared to 2019 before returning to pre-crisis levels by the end of 2021
- Under the pessimistic scenario, the drop in FDI flows could be deeper (more than 40%) and last longer (recovery beginning at the end of 2021)
- At the same time, evidence from past crises indicates that FDI can play an important role in recovery processes, in particular in developing economies

# Impact on FDI flows

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**The pandemic is likely to lead to or accelerate changes in investment patterns as companies review their operations as well as supply and value chains**

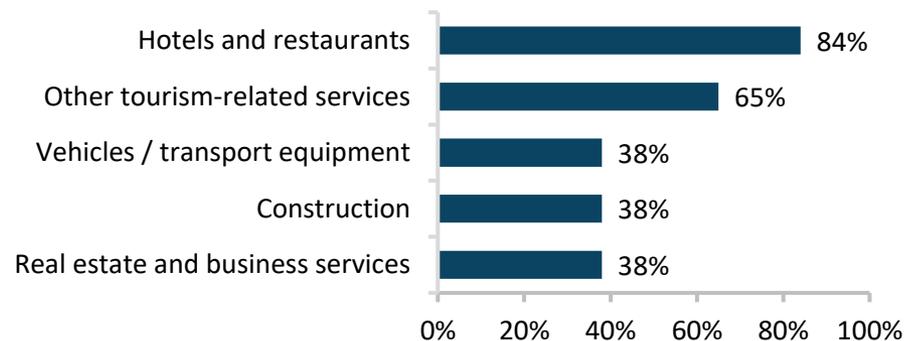
- Companies will re-evaluate where they source products and where each part of the value chain is located to increase resilience to future shocks
- In light of national security concerns, governments will place stronger emphasis on local value chains and reshoring
- It can be expected that companies will focus more on regional strategies and value chains reflecting the strategic importance of each region's market
- The direction and intensity of changes will depend on how companies balance risk-mitigation with cost-efficiency
- The pandemic could also accelerate further trends that were already apparent prior to the crisis, such as
  - Increasing automation of processes and deployment of digital and advanced manufacturing technologies
  - Reviewing supply chains in response to demands by consumers and governments for more sustainable and inclusive processes

# Impact on FDI flows

## The impact of the COVID-19 pandemic on FDI flows varies markedly across industries and countries

- The challenges faced by companies operating in the tourism, energy and hard-hit manufacturing industries – such as automotive and textiles – result in negative impacts for economies relying on those target groups
- On the other hand, knowledge- and tech-driven industries – such as healthcare, biotechnology, pharmaceuticals, e-commerce, cybersecurity and further industries focusing on digital integration – show robust growth and investment dynamics
- Furthermore, renewable energies and food and beverages seem to be more resilient
- Economies with an investment pattern showing a stronger focus on those industries tend to be less affected

**Top 5 vulnerable industries during the COVID-19 crisis as reported by IPAs**



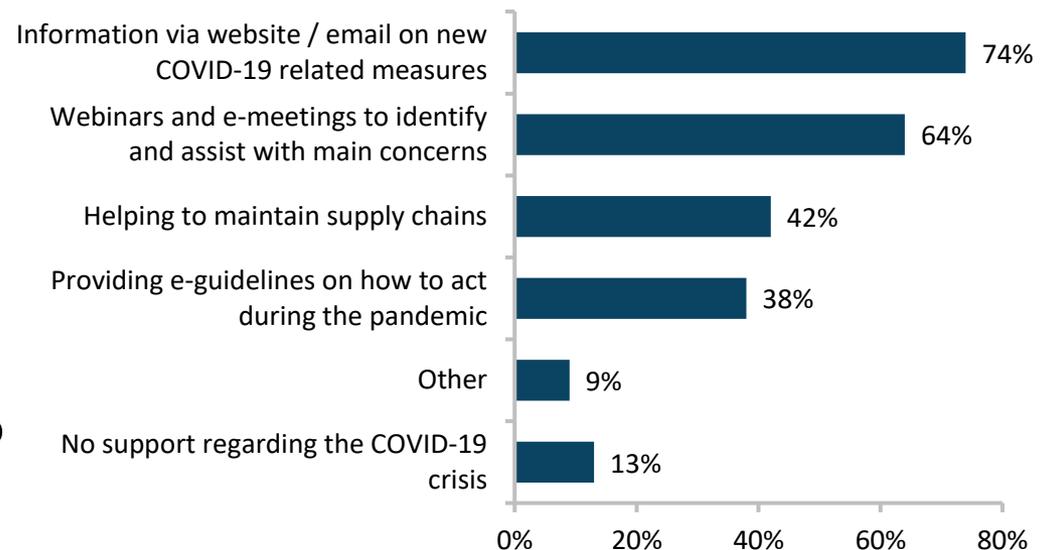
Source: WAIPA 2020

# Initial responses of IPAs

**The economic disruptions caused by the pandemic have forced IPAs to adjust their activities and shift the focus from investment promotion to aftercare**

- Engaging and maintaining close contact with existing investors are now the immediate priorities of IPAs, focusing on:
  - Informing them about government emergency and support measures
  - Securing supply chains and helping to retool operations
  - Providing crisis support services and helping investors to access public funds
  - Supporting their ongoing investments or operations
  - Feeding needs and challenges of investors into government planning processes
- At the same time, agencies had to turn to working remotely

**Support offered by IPAs to their clients during the COVID-19 outbreak**



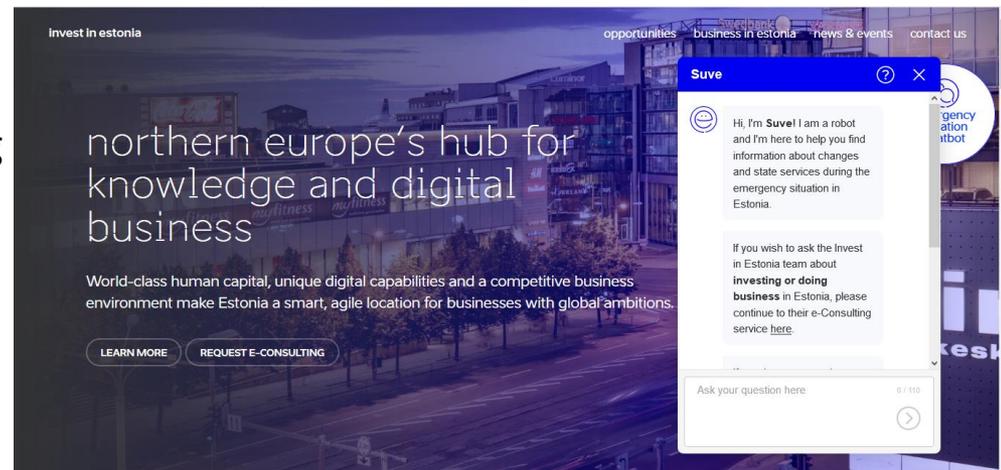
Source: WAIPA 2020

# Initial responses of IPAs

The majority of IPAs has created dedicated information platforms on their website and is engaging investors via social media. Some agencies also use advanced digital solutions – such as chat robots – to assist firms

- As shown in the survey results on the previous page, the most common response of IPAs is the provision of information on government support and applicable restrictions on the website or via email and social media
- More advanced information services include chat assistants and robots which are used by, amongst others, Invest in Estonia and Invest in Austria
  - In Estonia, the chat robot “Suve” was developed at a hackathon with private tech companies
  - Suve responds to queries regarding health and support measures, transport and supply chains
  - Questions regarding investing in Estonia are taken up by a dedicated e-Consulting service

Chat robot “Suve” used by Invest in Estonia



Source: Invest in Estonia

# Initial responses of IPAs

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**Furthermore, online surveys, webinars and e-meetings are used by many IPAs to find out more about investors' needs and provide assistance in maintaining or retooling operations and securing supply chains**

- Webinars and e-meetings are now commonly used by IPAs to reach out to investors and assist them in coping with challenges, e.g. finding new suppliers or sources of finance or solving export-related problems
- For instance, in Moldova, the following measures were taken in close collaboration between the Moldovan Investment Agency (MIA) and international partners:
  - Together with the American Chamber of Commerce, an online survey has been conducted to identify key needs and challenges of investors
  - With the support of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, webinars – e.g. on labour-related challenges of investors – have been organised and a communication campaign featuring success stories has been designed
  - GIZ investment promotion specialists have also assisted investors from the automotive supply industry in shifting their production lines towards personal protection equipment
- In addition, several IPAs have been relaying the needs of the private sector and feeding into government response measures and policies

# Opportunities for further actions

As shown, IPAs have quickly responded to changing needs and played an important role in maintaining investors' operations and securing jobs. This section looks at opportunities for further actions throughout the entire investment attraction cycle

- The COVID-19 crisis has brought aftercare to the top of the agenda of most IPAs forcing them to quickly develop and introduce tools and services to support existing investors
- Against this background, this section assesses how a structured aftercare approach can form the starting point for further reforms throughout the investment attraction cycle, addressing the stages...
  - Target group definition
  - Strategy and organisation
  - Investment promotion
  - Investment facilitation



# Opportunities for further actions

The COVID-19 pandemic has dramatically increased the importance of aftercare. A major opportunity for IPAs is now to develop a structured and proactive approach towards aftercare

- Naturally, aftercare was driven so far in many cases by a rather ad hoc and reactive approach
- Throughout and beyond the crisis, developing a structured and proactive aftercare approach constitutes a major opportunity for IPAs
- It does not only play an important role for maintaining operations and supply chains, but also allows IPAs to gain insights into investors' perceptions of investment potentials and further policy tools
- Regular engagements with investors can help IPAs understand how value chains will be reconfigured and how they should adjust their investment promotion strategies and activities

## Key steps for designing a structured aftercare programme

Understanding the investor landscape

Identify strategic partners

Clarify objectives

Segmentation and selection

Design aftercare services

Organisational integration

Assess and secure resources

Develop necessary tools

# Opportunities for further actions

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**The information gathered as part of a systematic aftercare can be used by IPAs as a starting point for reviewing their target groups and markets**

- It is always important for an IPA to regularly update its target group definition. Considering the changes in investment patterns caused or accelerated by the COVID-19 pandemic, it is of particular importance in this period of time
- The analysis of the impact on FDI flows has shown that not all industries are negatively affected. Some are more resilient. Others are even offering growth opportunities, e.g. digital solutions and life sciences
- In a number of countries, investment promotion specialists are starting to review their target groups and markets. For instance, ...
  - Practitioners in Armenia are exploring opportunities that align with the country's strengths in digital and Artificial Intelligence (AI) solutions
  - Practitioners in Moldova are assessing nearshoring potentials in the context of likely adjustments of regional value chains
- A realistic and strategic approach is important. The development impact should be taken into consideration. Emphasis should be placed on target groups that can contribute towards increasing the resilience of the economy in the long run

# Opportunities for further actions

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**The changes in the investment environment also require IPAs to rethink their strategies and to align their organisation to the revised tasks and target groups**

- As mentioned, within their strategic framework, IPAs need to update the target group focus and mix of tasks, e.g. placing more emphasis on systematic aftercare
- In addition, IPAs could revise their go-to-market strategy prioritising digital marketing through websites, social media and virtual lead generation
- IPAs could also consider using the time while staff is grounded due to travel restrictions to align their organisation to the updated strategy and to strengthen the skills of their team
  - For instance, structured aftercare operations need to be integrated into the existing organisation with clearly allocated responsibilities and adequate budgets
  - Industry- and technology-specific expertise required for the new target group focus could be built up
  - The processes that are most critical to success could be documented assessing the potential for digital solutions
  - Effective M&E systems and processes could be developed to assess the effectiveness or adjustments in the service and target group portfolio

# Opportunities for further actions

**The trend towards digital promotion will be accelerated and IPAs can use the time to prepare and test the necessary tools and instruments**

- The pandemic requires IPAs to reduce their dependence on trade shows. The trend towards digital promotion – without face-to-face interaction and physical travel – will most likely continue beyond the current crisis
- IPAs can start now to prepare / test the relevant tools (e.g. virtual events and lead generation solutions, social media, upgraded website)
- For instance, Invest in Austria is experimenting with virtual business breakfasts and open days
  - The livestream event “Austria – Open for New Businesses” focuses on the potential of the life sciences innovation and start-up eco-system
  - The virtual open day includes pre-scheduled 1:1 meetings with external and ABA experts
- It is important that IPAs align the new instruments to the updated target group definition

## Virtual Open Day “Austria – Open for New Businesses”



### Save The Date für ABA's Virtual Open Day am 28. Mai 2020: “Austria – Open for New Business”

Treffen Sie am 28. Mai 2020 virtuell ABA- und externe Expertinnen und Experten. Wir organisieren den „ABA's Virtual Open Day“, eine online Veranstaltung bei der wir Sie via Livestream und 1:1 Meetings über den Standort Österreich, als attraktive Business, Research, Life Sciences, Holding und Startup Location informieren.

Source: ABA Austria Invest

# Opportunities for further actions

**Finally, smart investment facilitation services offer promising opportunities for differentiation – also beyond the current crisis**

- Investment facilitation services often play a decisive role in securing projects
- As investors are facing difficulties in carrying out scoping missions and conducting due diligence on the ground, the COVID-19 crisis also highlights the importance of providing more investment facilitation services online
- This includes, amongst others, solutions for virtual site selection as well as extending online platforms for regulatory services – e.g. registration and licensing
  - Invest in Estonia has launched a specialised web environment for virtual business visits providing access to customised information and live technical support
  - The Berlin Business Location Center represents another example allowing users to explore investment opportunities in a 3-D model of the city

## Virtual business visits offered by Invest in Estonia



Source: Invest in Estonia

# About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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