IsDB

البنك الإسلامي للتنمية

Islamic Development Bank

IMPACT OF COVID-19 ON INVESTMENT AND INVESTMENT PROMOTION IN IsDB MEMBER COUNTRIES

IMPACT AND WAY FORWARD

AUGUST 2021

CONTENTS

This paper was developed jointly by the Islamic Development Bank (IsDB) and the World Association of Investment Promotion Agencies (WAIPA), based on the concept of the Islamic Development Bank on Investment Promotion Technical Assistance Program. The paper was authored by Mohammed Bukhari (Senior Investment Promotion & Regional Cooperation Specialist) and Md Golam Mortaza (Country Economist) in close consultation with Mohamed El-Saket (Country Economist), Kadir Basboga (Senior Regional Integration and Trade Promotion Specialist) and Mohammed Kamal (Senior Investment Promotion & Regional Cooperation Specialist) of the Islamic Development Bank.

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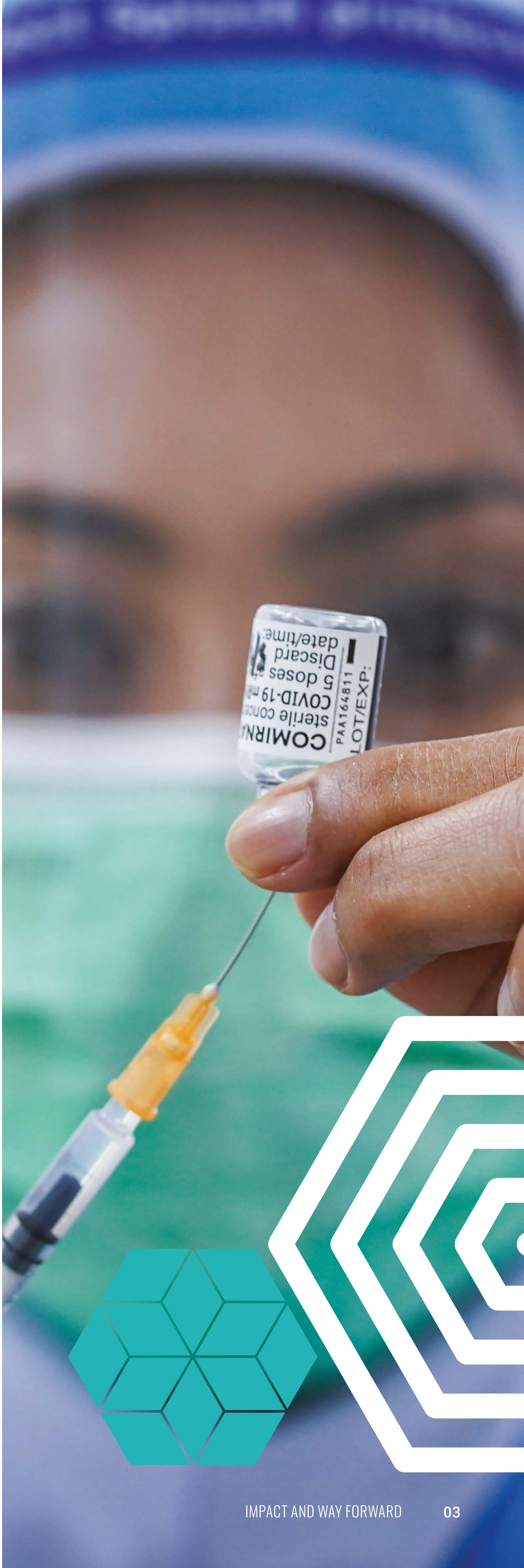
ABBREVIATIONS

CGF	COVID Guarantee Facility
ECA	Europe and Central Asia
EMDEs	Emerging Market and Developing Economies
ESALA	East and South Asia and Latin America
FDI	Foreign Direct Investment
GVCs	Global Value Chains
IPAs	Investment Promotion Agencies
IsDB	Islamic Development Bank
MCs	Member Countries
MNEs	Multinational Enterprises
PPE	Personal Protective Equipment
PPPs	Public-Private Partnerships
RCI	Regional Cooperation and Integration
RVC	Regional Value Chain
SAA	Sub-Saharan Africa
SMEs	Small and Medium-Sized Enterprises
SPRP	Strategic Preparedness and Response Package
TPSOIC	OIC Trade Preferential System



SECTION 1: BACKGROUND

1. The current COVID-19 pandemic has triggered unprecedented global health and economic crisis, posing dire challenges to government authorities. Besides its worrying effects on human life, the pandemic has caused the global economy to slow down significantly due to disruption in production, global supply chain, and trade. Accordingly, investment has also been cut, not only by the interruption in maintaining production and construction but also by sharply weaker growth prospects, rising financing costs, eroding confidence, and increased uncertainty (World Bank, 2020).

2. According to the latest OECD estimates (April 2021), global foreign direct investment (FDI) flows plummeted to US$ 846 billion, a 38% decrease compared to 2019, largely due to the ongoing pandemic-driven economic contraction.[1] The latest UNCTAD's FDI report confirms that global FDI flows fell drastically by 42% in 2020, with a large concentration in developed countries where they fell by 69%, risking sustainable recovery.[2] In April 2020, the OECD had expected FDI flows to fall by more than 30% in 2020 compared to 2019, under the most optimistic scenario, whereas its most pessimistic scenario predicted the drop could be deeper and last longer (OECD, 2020).[3] It was predicted that the outbreak of COVID-19 will slow down the capital expenditures of multinational enterprises (MNEs) and their foreign affiliates. Production sites that are now closed or that operate at lower than usual capacity will temporarily close new investments in physical assets and delay expansions (UNCTAD, 2020a).

3. In dealing with immediate COVID-19 challenges, countries are actively responding by upgrading the health care system, expanding emergency medical supplies, and extending food and cash supplies to the poor. To combat the negative economic effect of the crisis, governments across the world have taken wide-ranging measures such as fiscal stimulus packages, business cash-flow support, and relaxed tax measures. Extending these priority measures is driving countries to refocus their regular investment in physical and social infrastructures. In many cases, the implementation of major investment projects is at a halt, and future investments are projected to be uncertain.

4. Despite challenges, there are plenty of opportunities for reviving investment, especially in sectors focusing on emergency supplies and economic resilience. As the global supply chain has been reshaping, countries need to identify respective sectoral strengths and reorganize those for attracting FDI through improving business regulatory environment and infrastructures. There is also scope for reorientation of public spending choices through rationalization and reprioritization which are expected to create additional fiscal space for priority investment. With the right kind of support system in the form of access to additional credit flows and technology, the private sector, including small and medium-sized enterprises (SMEs), will be able to continue operations and further investment.

5. Active efforts, both at the domestic and international levels, are being made to revive the investment scenario. To attract FDI, opportunities need to be reaped by improving the business environment, upgrading infrastructures, especially transport and energy, promoting intra-OIC trade and investment, and adopting regional and global value chains. In stimulating domestic investment, public investment needs to be expanded by creating fiscal space and reprioritizing and rationalizing spending, and private investment requires renewed attention from policymakers. In particular, private investors need necessary credit flows in priority sectors, especially health, agriculture and SMEs, and accessing public sector initiatives, in the form of public-private partnerships (PPPs). Finally, investment in technology is required for smooth business operations in emergencies and efforts for economic resilience in reaping the benefits of technological transformation.

6. Against this backdrop, investment promotion agencies (IPAs) across countries are especially in a significantly challenging position in the near to medium term as they are at the forefront of investment and business attraction and supply chain management. Investment-related challenges will likely affect IPAs' core functions, activities and operations to extend contribution to their governments' economic recovery efforts.

7. However, these challenges are also creating new opportunities for IPAs to attract investment to their locations. The need for bolstering the provision of health services and the expansion of production lines to increase medical supplies require certain incentive schemes. In the short term, businesses are working hard to stabilize their operations, protect their workforce and retain customers. Businesses from all sides of the economy are also planning for the economic recovery period. In addition, due to the rising cost of wages in China, a strong reshuffling in global supply chains is taking shape as factories are steadily moving out of China.

8. Overall, IPAs need to be ready to react quickly and decisively to these opportunities. The health sector measures are already changing IPAs' mode of operations and the type of support needed by clients. Changes in economic dynamics may lead IPAs to reorient their lists of priority sectors. Accordingly, they need to be innovative, change their existing business models and, in some cases, reinvent themselves to continue adding value. IPAs need to observe countries' economic recovery and the changes in global FDI and government policies to redesign their strategies and policies.

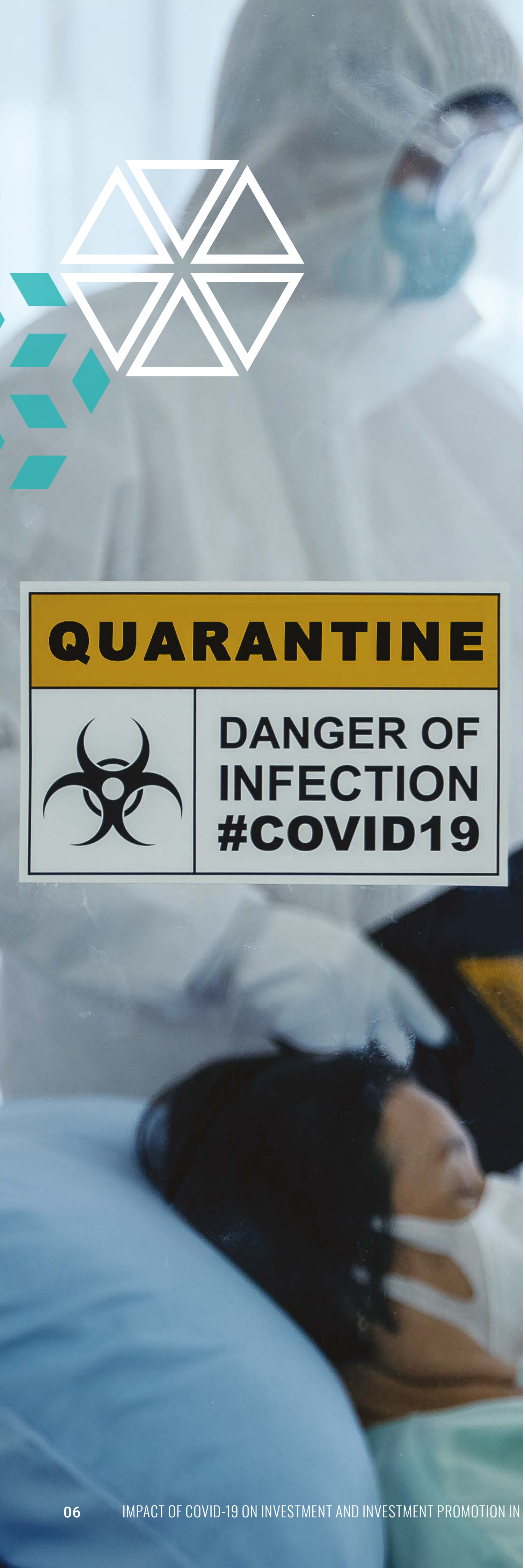
9. Like the rest of the world, IPAs in the member countries (MCs) of the Islamic Development Bank (IsDB) have similar challenges and opportunities. Besides the adverse health impact of the pandemic, MCs are experiencing an unprecedented economic slowdown caused by periodic lockdown and travel bans. As a result, current investments are either low or stagnating, and future investments are increasingly becoming uncertain. As MCs are introducing various economic stimulus packages to safeguard the economy from a slowdown, IPAs are trying to contribute to those efforts. However, IPAs are also working to redesign their strategies and policies to attract new investments.

10. This brief report aims to assess the impact of COVID-19 on foreign direct investment and domestic investment in IsDB MCs and evaluate the main challenges that they face. Particular attention is placed on the challenges faced by MC IPAs during this pressing time. Later, the report summarizes the contribution of governments to economic recovery efforts through various stimulus packages to keep investment active. Finally, it proposes policies and strategies to revive investment and provides the way forward to promote investment in general and IPAs in MCs in particular, especially the role of IPAs in the current crisis and the post-COVID-19 environment while identifying priority investment sectors, including information technology. The Regional Cooperation and Integration (RCI) Department, as the focal point for advancing IsDB investment promotion activities, has prepared this report to support the Bank's efforts to assist MC IPAs to deal with investment promotion challenges amid the COVID-19 crisis.

[1] hhttps://www.oecd.org/investment/FDI-in-Figures-April-2021.pdf

[2] https://unctad.org/system/files/official-document/diaeiainf2021d1_en.pdf

[3] http://www.oecd.org/coronavirus/policy-responses/investment-promotion-agencies-in-the-time-of-covid-19-50f79678/



SECTION 2:
GLOBAL OVERVIEW OF THE COVID-19 PANDEMIC AND ITS IMPACT

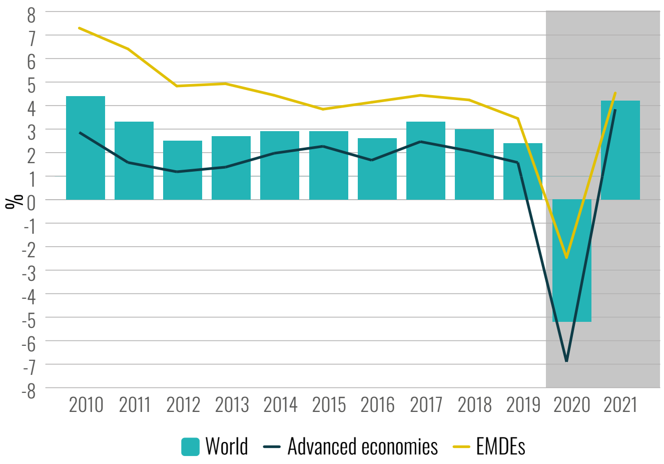
11. Originating in China in late December 2019, the COVID-19 virus rapidly spread to every part of the world and infected millions of people. The health and human toll kept growing, with hundreds of thousands of deaths and disrupted livelihoods. On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak as a global pandemic. Globally, as of 4 August 2021, there have been 199,466,211 confirmed cases of COVID-19, including 4,244,541 deaths, reported to WHO. As of 3 August 2021, a total of 3,946,458,313 vaccine does have been administered.

12. To limit the spread of the pandemic and ease the strain on health care systems, countries imposed various mitigation measures, such as lockdowns, business closures and travel restrictions. These measures have sharply curbed economic activity, leading to reduced consumption and investment, and restricted labor supply and production. Also, cross-border spillovers have disrupted commodity markets, global trade and supply chains, travel and tourism. As a result, the world economy has witnessed the largest economic shock in decades.

13. Broadly speaking, the COVID-19 pandemic has had two major effects on the economies: (i) disruptions in supply of goods and services due to value chain interruptions at both national and international levels; and (ii) shocks in demand for goods and services due to loss of income and rising uncertainties (SESRIC 2020). With reduced income and amid growing uncertainties, households and firms tend to spend less with the possibility of saving more, which lowers aggregate demand. As a result, firms and businesses have been increasingly exposed to revenue losses, reduced investments and production capacity, workers lay off, and, in extreme cases, default.

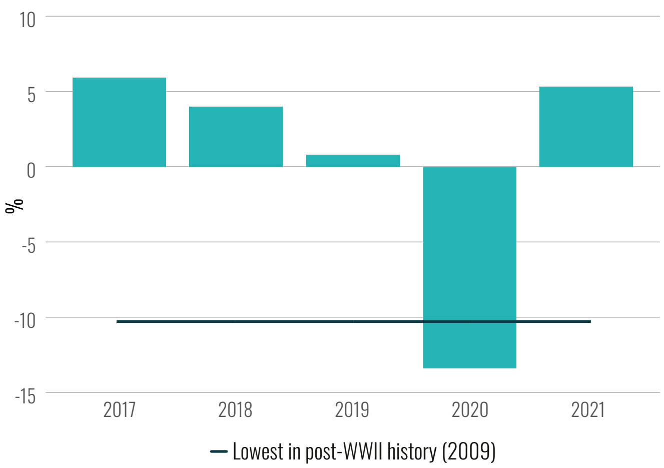
THE COVID-19 PANDEMIC RAPIDLY TRIGGERED A GLOBAL ECONOMIC SHOCK, LEADING TO A SHARP RECESSION IN MANY ECONOMIES, DESPITE PROACTIVE AND EXTRAORDINARY POLICY SUPPORT BY GOVERNMENTS.

FIGURE 1: Global GDP Growth



Source: Global Economic Prospects, World Bank, June 2020
Note: EMDEs = Emerging Markets and Developing Economies

FIGURE 2: Global Trade growth



Source: Global Economic Prospects, World Bank, June 2020

14. **Economic growth impact.** The COVID-19 pandemic rapidly triggered a global economic shock, leading to a sharp recession in many economies, despite proactive and extraordinary policy support by governments. The World Bank baseline forecast predicts a 5.2% contraction in global GDP in 2020 - the deepest global recession since World War II (Figure 1). It also expects a decline in per capita incomes in most emerging market and developing economies (EMDEs), pushing many millions back into poverty.

15. **Trade impact.** As trade is typically more volatile than output, it tends to fall particularly sharply during the crisis (Kose and Terrones, 2015). Trade was showing signs of deceleration even before the pandemic due to trade tensions between major economies. World merchandise trade registered a slight decline of -0.1% in volume terms in 2019. Now the World Bank (2020) expects global trade to drop further in 2020 than it did during the global financial crisis, partly owing to the disruptions that the pandemic has caused to international travel and global value chains (Figure 2). In particular, the sharp fall in activity in the first half of 2020 would contribute to a contraction in the global trade of about 13.4% in 2020. The new estimates of the World Trade Organization show that the volume of world merchandise trade fell by 5.3% in 2020 and is expected to rise by 8.0% in 2021 before slowing again by 4.0% in 2022.[4]

16. Trade was adversely affected through various channels. As the pandemic situation was unfolding, stringent border controls and production delays weighed on trade. Accordingly, the supply of critical inputs and final products was limited or delayed across industries (Baldwin and Tomiura 2020). The rise in air freight costs due to the collapse of air traffic put further strain on industries for timely delivery of imported intermediate and final products. In many cases, supplier delivery times lengthened considerably, and inventories were depleted. The tourism sector, which accounted for about 6.5% of global exports of goods and services, experienced a rapid fall due to travel restrictions and concerns about COVID-19. Finally, export prohibitions or restrictions imposed by many countries further resulted in lower supply and higher prices of needed commodities and thus reduced trade.

17. A gradual recovery in trade conditions is expected during the second half of the year, as the pandemic is weakening, and businesses are returning to normal. However, it will not be easy to get back to the pre-crisis level as it will take time to restore confidence, replace bankrupted firms, and establish virus-safe working and entertainment environments.

[4] https://www.wto.org/english/news_e/pres21_e/pr876_e.htm

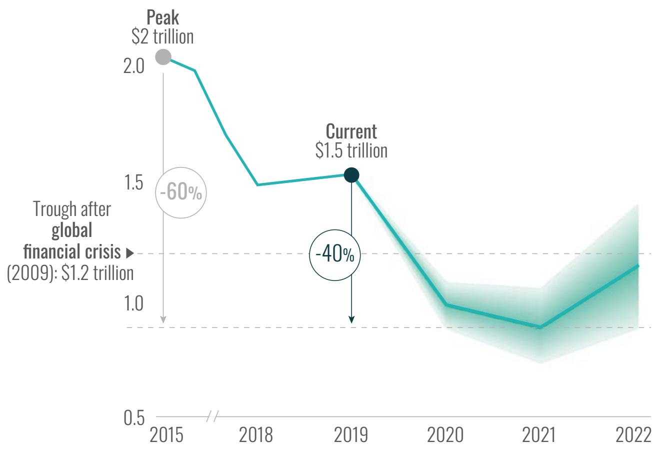
18. **Investment impact.** It is quite apparent that the pandemic is impacting the economy and businesses immediately and placing acute and long-term socio-economic impacts that may weaken long-term growth prospects. As a result, the plunge in investment may follow, especially due to growing uncertainty, the erosion of human capital from the masses of unemployed, and the potential for divisions of trade and supply linkages (World Bank 2020). As a cyclical and more trade-intensive category of expenditure, investment has declined worldwide as firms face disruptions in global value chains (GVCs), forgone revenue, and financing shortage. Also, from the demand side perspective, restrictions imposed by governments —coupled with elevated uncertainty and falling confidence— have also caused declines in consumption and investment.

19. According to the estimates of UNCTAD (2020c), the COVID-19 crisis will cause a dramatic drop in FDI in 2020 as an immediate adverse impact and in 2021 as a further deterioration (Figure 3). Global FDI flows were forecast to decrease by up to 40% in 2020, from their 2019 value of $1.54 trillion. This could bring FDI below $1 trillion for the first time since 2005. FDI was projected to decrease by a further 5% to 10% in 2021.

20. However, the latest UNCTAD report released in January 2021 confirms that global FDI fell by 42% in 2020 to an estimated $859 billion, from $1.5 trillion in 2019, with higher concentration in developed countries (-69%) compared to developing countries (-12%).[5]

21. The top 5,000 multinational enterprises (MNEs) worldwide, which account for most of global FDI, are being affected by disrupted supply chains, global demand shocks and lower sales and earnings. They now forecast about 40% decline in their earnings, and this trend is likely to continue (UNCTAD, 2020c). To minimize the impact of the pandemic on investment flows and local firms, countries across the world are trying to speed up investment approval procedures, promoting the extensive use of online tools and e-platforms, and offering incentive schemes for health-related R&D (UNCTAD, 2020b).

FIGURE 3: Global FDI inflows, 2015–2019 and 2020–2022 forecast (Trillions of Dollars)



Source: UNCTAD

GLOBAL FDI FLOWS WERE FORECAST TO DECREASE BY UP TO 40% IN 2020, FROM THEIR 2019 VALUE OF $1.54 TRILLION.

[5] https://unctad.org/system/files/official-document/diaeiainf2021d1_en.pdf

TO MINIMIZE THE IMPACT OF THE PANDEMIC ON INVESTMENT FLOWS AND LOCAL FIRMS, COUNTRIES ACROSS THE WORLD ARE TRYING TO SPEED UP INVESTMENT APPROVAL PROCEDURES.

SECTION 3:
IMPACT OF COVID-19 ON INVESTMENT AND IPAs IN MCs

22. Globally, as of 3 August 2021, there have been 198,778,175 confirmed cases of COVID-19, including 4,235,559 deaths, reported to WHO. As of 2 August 2021, a total of 3,886,112,928 vaccine doses have been administered. Among IsDB MCs, Turkey has the highest identified cases (5,770,833), followed by Iran (3,940,708), Indonesia (3,496,700), Iraq (1,648,727), Bangladesh (1,296,093), Malaysia (1,146,186), Pakistan (1,039,695) and Jordan (772,743). The continuous and rapid rise in COVID-19 cases and its impact is causing an unprecedented challenge for MCs for managing health, social and economic conditions.

23. To contain the spread of infections, the affected MCs have imposed strict public health and safety measures, including social distancing, lockdowns, curfews and border closures. These measures were effective in containing the spread and providing an opportunity for the healthcare system to focus on testing, tracing and curing the affected people. However, the healthcare system of many MCs is not well equipped to tackle such a massive scale of the pandemic. In addition, nationwide lockdowns and closures have serious socio-economic implications, especially for low and middle-income MCs with a high incidence of poverty, informal employment and low health and social security coverage.

BASED ON THE IMF WORLD ECONOMIC OUTLOOK DATABASE, UPDATED IN APRIL 2020, SESRIC (2020) PREDICTED OIC ECONOMIES TO CONTRACT BY

2.0%

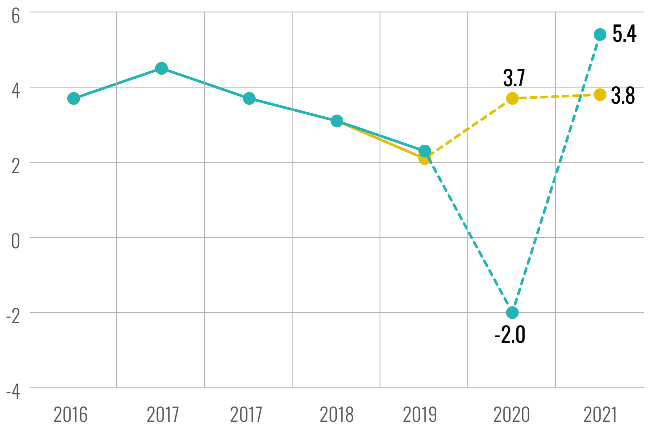
IN 2020 BUT THEN GROW BY

5.4%

IN 2021, AMID A LIKELY GLOBAL ECONOMIC RECOVERY.

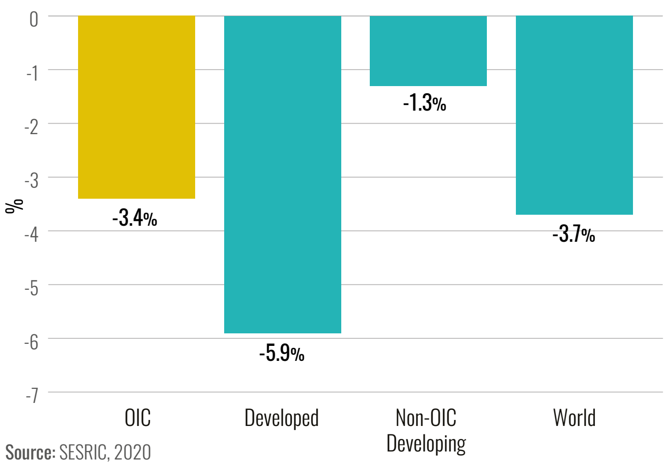
24. Based on the IMF World Economic Outlook database, updated in April 2020, SESRIC (2020) predicted OIC economies to contract by 2.0% in 2020 but then grow by 5.4% in 2021, amid a likely global economic recovery (Figure 4). Accordingly, the average per capita income level in the group of OIC countries is also expected to fall by 3.4% in 2020 (Figure 5). As the export structure of leading MCs is highly concentrated on resource and primary commodity-based products, a sharp fall in commodity prices will significantly affect trade flows. Based on the top 20 export sectors of OIC countries, which collectively account for 85% of all exports from the OIC group, SESRIC (2020) forecasts, under various scenarios, a drop in intra-OIC exports between 4.9% and 14.9%, and OIC exports to the world between 17.3% and 33.3% in 2020.

FIGURE 4: Growth projections in OIC Countries



Source: SESRIC, 2020

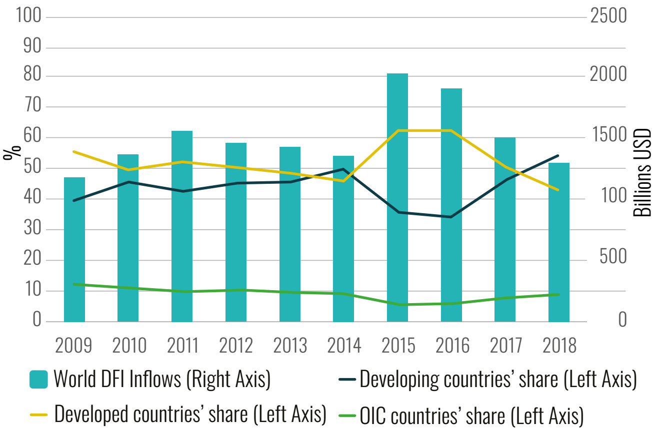
FIGURE 5: Expected percentage change in per capita income in 2020



Source: SESRIC, 2020

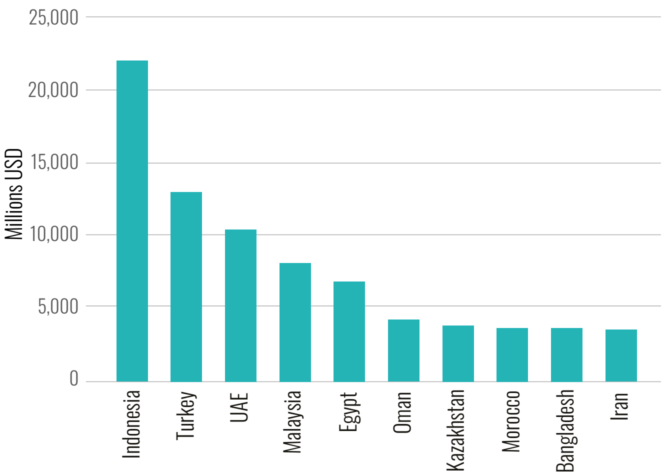
25. The pandemic is expected to create additional vulnerabilities in the economies. As a result of the sudden halt in capital flows, the increasing need for government expenditures and the diminishing revenue generation, most OIC economies would face significant deterioration in their current account balances. The expected sharp decline in remittances, on which many OIC countries rely, would create an additional burden on families of migrant workers in MCs. It is highly likely that many marginalized people in MCs will fall into poverty due to derailed economic conditions and a growing trend in unemployment.

FIGURE 6: Trends in FDI Inflows (2009-2018)



Source: COMEC from UNCTADSTAT

FIGURE 7: Top FDI recipients in IsDB MCs, 2018



Source: COMEC from UNCTADSTAT

A. IMPACT ON FOREIGN DIRECT INVESTMENT

26. The share of MCs in global FDI inflows was less than 10% in the past decade, generally not exceeding US$100 billion a year (Figure 6). The FDI trend in the last decade reflects the low and virtually stagnating share of MCs in global FDI compared to the rest of the world. The FDI inflows in MCs were concentrated in a handful of MCs, with almost 20% of MCs attracting about 80% of FDI in all MCs (Figure 7). These facts suggest that the steep decline in global FDI inflows would mostly impact MCs in MENA and Asia regions, the two regions attracting the majority of FDI inflows.

27. SESRIC (2020) projects that, in line with an estimated decline in global investment flows of 40% in 2020 and assuming the same scale of decline in OIC countries, FDI flows to OIC countries may fall below US$64 billion in 2020. This is a much steeper drop than the US$41 billion drops which OIC countries experienced in 2009 amid the global financial crisis.

AFRICA REGION

28. FDI flows to Africa had already declined by 10% to $45 billion in 2019 owing to the negative effects of weak global and regional GDP growth which affected FDI inflows to African countries with both diversified and natural resource-oriented investment profiles (UNCTAD, 2020c). Mirroring the global trend, the COVID-19 pandemic is expected to severely curtail FDI in Africa in 2020, with further downturn anticipated due to the extremely low oil prices, and the resource-oriented investment profile of the continent (UNCTAD, 2020c). FDI flows in Africa are expected to decline between 25% and 40%. However, the implementation of the African Continental Free Trade Area Agreement in 2020, including the conclusion of its investment protocol, will create some strength for the longer-term outlook for FDI in Africa. In addition, investment initiatives for Africa by major developed and emerging economies could help the recovery.

ARAB REGION

29. The pandemic crisis is expected to particularly worsen the fall in FDI inflows into the Arab region, more severely than in 2011 following the political unrest in the region. The region has already suffered from a decline in FDI flows from $88.5 billion in 2008 to $30 billion in 2018, and further to US$28 million (7% decline over 2018) in 2019, despite a notable increase in investment in the United Arab Emirates and Saudi Arabia. Currently, the region is confronting the dual economic shock of plunging oil prices and the pandemic, resulting in a likely economic contraction of 3%-4% (IMF, 2020a). Hence, FDI inflows could drop significantly in 2020. Major FDI recipient industries, such as oil and gas, tourism, aviation and financial services, are likely to be largely affected. Significant downward revisions in the projected earnings of major MNEs from the region are already evident, as many of them operate in the most severely affected industries. For example, MNEs from Saudi Arabia, Turkey and the United Arab Emirates have revised their earnings downward by 67%, 27% and 21%, respectively.

30. Despite bleak prospects for immediate investment, FDI is likely to recover in the medium term amid signs of growing investment before the current crisis, recently announced large stimulus package and persistent investor confidence reflected in the announcement of major investment projects (UNCTAD, 2020c). An improved investment environment in some countries, such as Saudi Arabia and the United Arab Emirates, could also mitigate the downward impact on investment in the medium term.

ASIA REGION

31. In 2019, FDI flows into developing Asia declined by 5%, to $474 billion, though the region remained a dominant FDI destination, hosting more than 30% of global FDI flows (UNCTAD, 2020c). FDI inflows to the region in 2020 were expected to fall by between 30% and 45% as a result of the COVID-19 pandemic, the consequent lockdown measures, supply chain disruptions and economic slowdown (UNCTAD, 2020c). All subregions would see a decline in investment across a wide range of industries, primarily in manufacturing and services. The number of announced greenfield investment projects in the first quarter of 2020 dropped by 37% and the number of M&As fell by 35% in April 2020.

32. In particular, South-East Asia is experiencing a significant economic slowdown, including a major disruption of production and supply chains in many industries. Toyota and Nissan (Japan) have suspended production at plants in Indonesia. In the apparel industry, supply chain disruption of raw materials from China has also directly affected apparel producers in Asia. In South Asia, FDI is also expected to contract sharply mainly due to continued logistical constraints. The digital economy in South Asia will likely see continued momentum in FDI, while real estate and property development will face significant pressures from slowing demand and financing constraints.

B. IMPACT ON DOMESTIC INVESTMENT (PUBLIC AND PRIVATE SECTORS)

33. Besides difficulties in attracting FDIs, IsDB MCs are expected to face challenges in rejuvenating domestic investment. Both private and public sectors are likely to face difficulties in coping with challenges regarding COVID-19. While the private sector suffers from halted business operations, the public sector is reinventing itself with new development challenges, mostly related to emergency health services and social safety nets.

34. **Private investment.** MCs' economies were initially affected by local and international travel restrictions, which later transmitted into a halt in production and services. Both domestic disruptions in production and services shattered supply chains and disrupted economic and business activities, which also triggered uncertainties about the reopening of business activities. Uncertainties also exist due to lingering pandemics. Firms would be hampered by a chronic lack of demand, a growing shortage of inputs, and the need for virus safety precautions for employees.

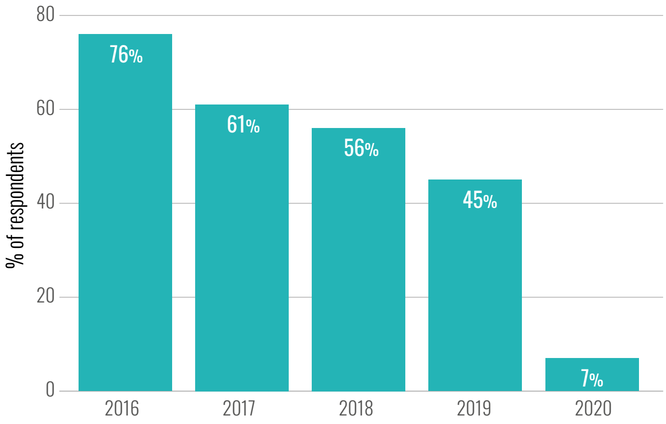
35. In many MCs, export-oriented industries suffer from weak foreign demand, input shortage and travel restrictions. Due to the halt in business operations, domestic market-oriented firms, especially SMEs, assume revenue losses and fund crises, reducing the current investment and shrinking further investment capacities. As a result of revenue losses by firms, and consequent workers lay off, firms and households tend to spend less, resulting in lowered aggregate demand.[6] Private businesses involved in international trade and tourism are assuming a double dip due to weak domestic and international business activities.

36. **Public investment.** Amid extreme uncertainty and lockdown measures, public investment would come to a halt, and major development outcomes would worsen noticeably. In fact, the implementation of many public sector projects in MCs has stopped due to travel restrictions and health-related precautions. Future investment plans are affected by the renewed priority given to health emergencies and social safety nets to tackle the impact of COVID-19, as well as by significant revenue losses owing to troubling economic and business operations.

37. Many MCs have also announced fiscal stimulus to revitalize the economy and strategic business sectors, which will further shrink the ability of MCs to spend for other priority investment sectors such as infrastructure and human capital development. During the period of the pandemic and in the near term, it is highly likely that the focus of the public investment would be on the health sector, social safety nets and sectors covered by fiscal stimulus. Many MCs face considerable constraints in operationalizing effective stimulus packages due to revenue losses and declining reserves (SESRIC, 2020). Together with significant revenue losses, debt servicing becomes particularly challenging for many MC governments, with a higher likelihood of financial insolvencies and further economic failures.

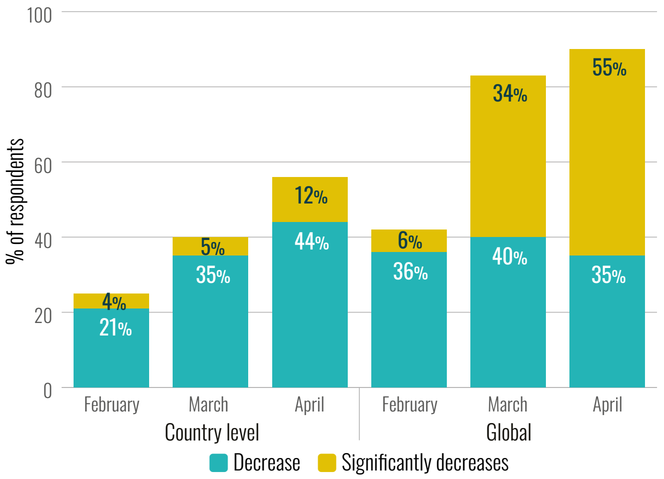
[6] SESRIC (2020) forecasts, based on ILO methodology, that, due to COVID-19 effect, the total number of unemployed persons in MCs would increase from its previously estimated level of 47.7 million to a range of 53.3 million – 55 million in 2020.

FIGURE 8: IPAs expecting an increase in FDI flows, 2016–2020 (% of respondents)



Source: UNCTAD IPA Surveys (2016-2020)
Note: Percentages reflect survey result of each year

FIGURE 9: IPAs expecting a decrease in country-level and global FDI flows, 2020 (% of respondents)



Source: UNCTAD IPA Surveys (2020)

C. IMPACT ON IPAs

38. **IPA expectations in UNCTAD (2020c) survey**. As evident in UNCTAD's IPA survey, as the pandemic prolongs and extends across countries, IPAs' expectations for the attraction of new FDI projects have generally been drastically subsiding (Figure 8). However, IPAs' perceptions of the impact of the pandemic on investment prospects vary across countries. For example, heavily affected countries, such as Italy, are reporting an expected 40% drop in investment, whereas countries that are less hard-hit by the pandemic are expecting no significant change in investment. IPA expectations in 2020 were progressively subdued between February and April 2020, the UNCTAD survey period (Figure 9).

COVID-19 HAS DRASTICALLY IMPACTED ALL KINDS OF INVESTMENT AND TRADE GLOBALLY AND LOCALLY, EXACERBATING THE CHALLENGES FACING IPAs.

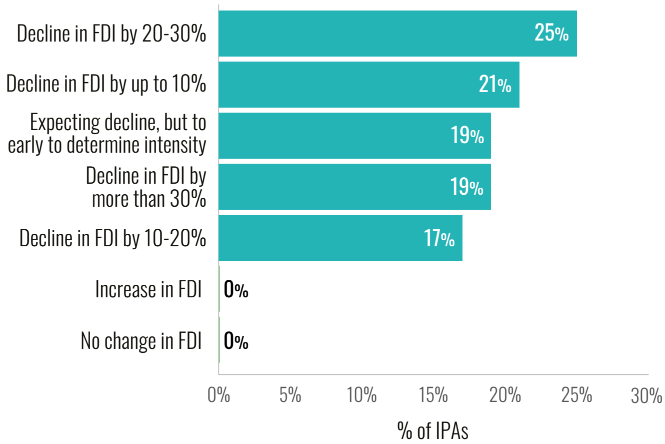
39. **IPA responses in WAIPA[7] (2020) survey.** The results of the WAIPA survey confirm IPAs' expectations of the decline in FDI with no expectations of increase (Figure 10). IPAs consider hotels and restaurants (84% of respondents) as the most severely hit by the crisis, followed by other travel and tourism-related services (65%), manufacturing of vehicles and other transport equipment (38%), construction (38%), and real estate and business services (38%) (Figure 11).[8] The current pandemic has fueled many uncertainties among businesses and investors. As reported by IPAs, the biggest concerns of domestic businesses are disruptions of supply chains (53%), liquidity (39%), demand decrease (34%), and clarity of new regulations enacted to contain and mitigate the crisis (11%).

40. As explained in the previous sections, the COVID-19 has drastically impacted all kinds of investment and trade globally and locally, exacerbating the challenges facing IPAs. In particular, disruptions caused by COVID-19 have also profoundly impacted IPAs' current activities and will likely affect future activities too.

41. **Focusing on COVID-19-related emergencies.** In many cases, IPAs are shifting their focus from routine investment promotion and facilitation towards managing the COVID-19 crisis, notifying investors of government emergency and economic relief measures, providing crisis support services, and contributing to national COVID-19 business response efforts (UNCTAD, 2020c). All these are done while agencies struggled to keep their offices open, moved operations online and asked staff to work from home.

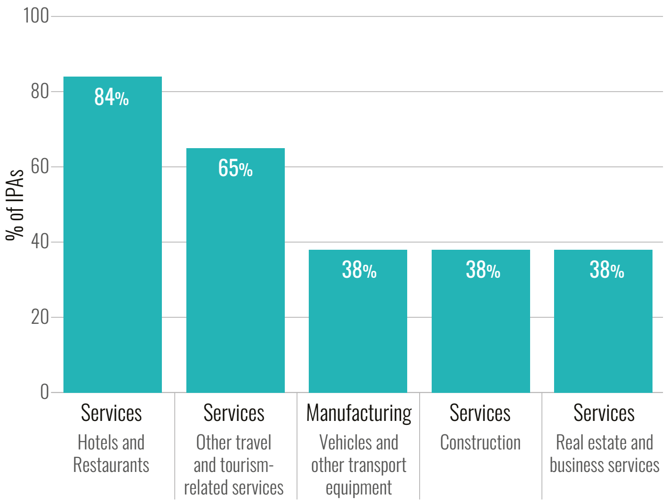
42. Due to the close relationship with their respective governments and profound knowledge of local businesses and markets, IPAs are playing an important role in alleviating the impact of COVID-19 on their local economy by providing support to businesses. According to WAIPA's (2020) survey results, 87% of IPAs are providing support to their clients during the pandemic. UNCTAD (2020d) also found that 64% of agencies had a rapid online response to the COVID-19 pandemic, as 40% of IPAs websites provided some or comprehensive COVID-19-related information and 24% had only a notification whether the IPA was still operating or not.

FIGURE 10: Expected impact of COVID-19 on FDI inflow as reported by IPAs



Source: WAIPA (2020)

FIGURE 11: Top 5 most vulnerable sectors during the COVID-19 crisis as reported by IPAs



Source: WAIPA (2020)

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7 WAIPA: World Association of Investment Promotion Agencies.

8 These results are consistent with the findings of the World Bank (2020b) on COVID-19 and responses of IPAs. IPAs reported that the services most affected by the pandemic are hotels and restaurants (88%), other travel and tourism services (56%) and wholesale and retail trade (41%), while automobiles, other motor vehicles, and transport equipment (34%), followed by textiles (29%) are the most affected manufacturing segments. On the other hand, IPAs estimate that the least affected segments are information technology and telecommunications equipment, computer and software services, telecommunications, media and entertainment, pharmaceuticals, biotechnology, medical devices, and health services.

43. **Redefining existing activities.** Some IPAs are struggling to redefine how their daily activities can be conducted virtually and have difficulties in establishing a dynamic online presence. Working remotely is a challenge for IPAs operating in regions where the culture of teleworking has not yet been well established and many do not have the technological capacity to work efficiently from home, especially in some developing countries. WAIPA's (2020) survey results indicate that 98% of IPAs are in some way impacted by the pandemic, as 75% of IPA respondents marked the impact as either high or very high. As a result, the bulk of agencies have been forced to postpone events (89%), cancel all overseas business travel (83%) and assign their employees to work from home (68%).

44. **Expanding focus despite insufficient resources.** As the impact of COVID-19 has been constantly evolving, IPAs have expanded their focus on investment facilitation and aftercare by considering new policy environments and understanding the evolving needs of investors. For both, IPAs need significant resources to ensure reliable and up-to-date information. In some countries, IPAs are part of national COVID-19 business response efforts; however, these are being done without providing additional resources to IPAs.

45. **Identifying new investment sectors.** UNCTAD (2020c) confirms that the impact of the pandemic is apparent in the industries characterized as relatively more promising for FDI promotion. However, during this pandemic, IPAs across the world expect to attract investment projects in the sectors of information and communication, food and beverage, agriculture and pharmaceuticals. Though pharmaceuticals have not traditionally ranked high for investment prospects, many IPAs now see it as a potential area for investment.

46. **Facing lower investors' interests.** IPAs are seeing a significant decrease in new investor enquiries and lead generation due to the crisis, but also to a scaling down of their outreach activities, as the resources of foreign embassies and overseas IPA networks have been reallocated towards emergency priorities (UNCTAD, 2020d).

ACCORDING TO WAIPA'S (2020) SURVEY RESULTS,

87%

OF INVESTMENT PROMOTION AGENCIES (IPAs) ARE PROVIDING SUPPORT TO THEIR CLIENTS DURING THE PANDEMIC.

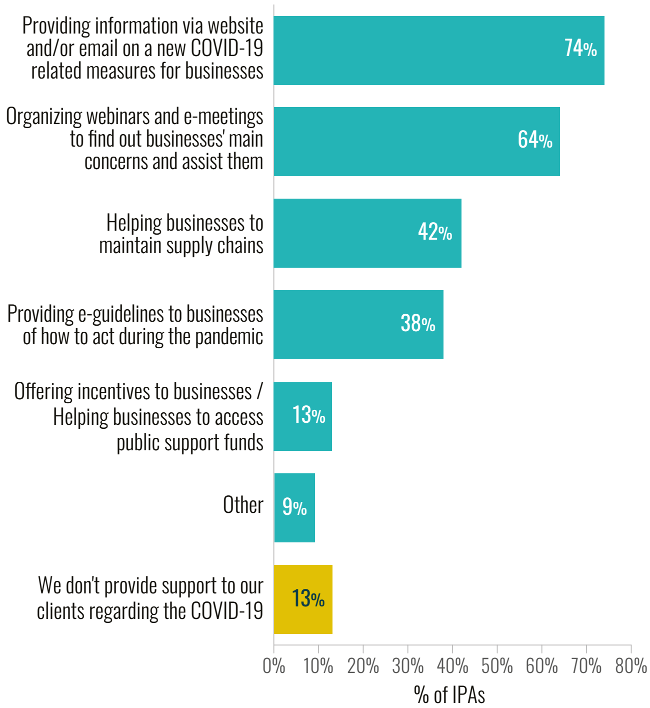
47. **Extending online client support.** IPAs are struggling to provide support to clients during office closure, serving mainly through e-platform. WAIPA (2020) shows that the most common performed activity is a provision of information via the website and/or email on new COVID-19 related measures (74%), through creating dedicated COVID-19 information platforms on their websites (Figure 12). Furthermore, 64% of IPAs are organizing webinars and e-meetings to support their clients and find out their main needs and concerns, 42% are helping businesses to maintain their supply chains, 38% are providing e-guidelines of how to act during the pandemic, and 11% are either directly offering incentives to the most affected clients or helping them to access public support funds.

48. **Extending support to respective authorities.** In the face of emergency national challenges, IPAs are called upon to support efforts to reallocate resources towards new priority target sectors. IPAs are also extending immense help 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. WAIPA's (2020) survey indicates that 87% of IPAs are supporting their respective governments on COVID-19-related emergencies (Figure 13).

49. **Preparing for tackling the post-COVID-19 period.** IPAs responding to the World Bank survey (2020b) reported to be informing on impact and measures related to COVID-19, gathering information on investor issues and solving these issues. In the post-outbreak period, IPAs indicated to be assisting investors on restructuring their projects or returning to operations, diversifying and repurposing activities. Solving individual investor issues and advocating for reform will remain important during the post-pandemic period.

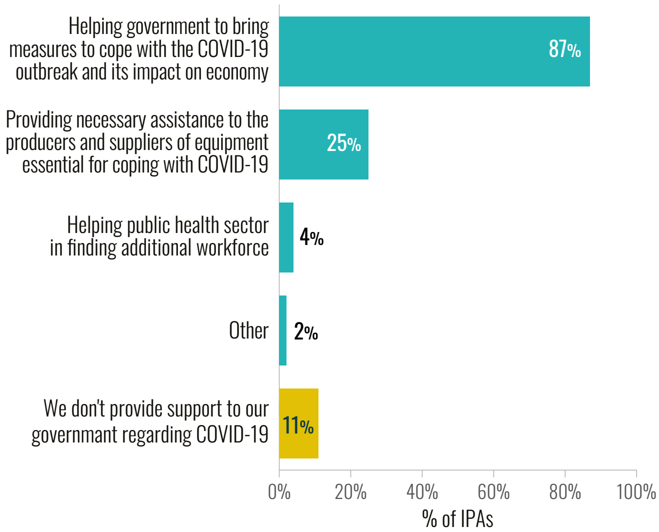
50. Large regional differences in IPA responses. Large regional differences in IPAs responses are evident. As UNCTAD (2020c) found, in general, the European IPAs offered comprehensive pandemic-related content and services online, while in the developing world, most IPA websites still did not refer to the pandemic or only notified clients of office closures during government lockdowns. In Africa and low-income countries, many IPAs are lagging in their response, in part due to lack of resources and experience, but also in some cases because their countries are among the last affected. The current efforts and best practices of IPAs worldwide, with a special focus on IsDB MCs, in responding to the emergency can be found in Box A1 in the appendix.

FIGURE 12: Support offered by IPAs to their clients during the COVID-19 outbreak

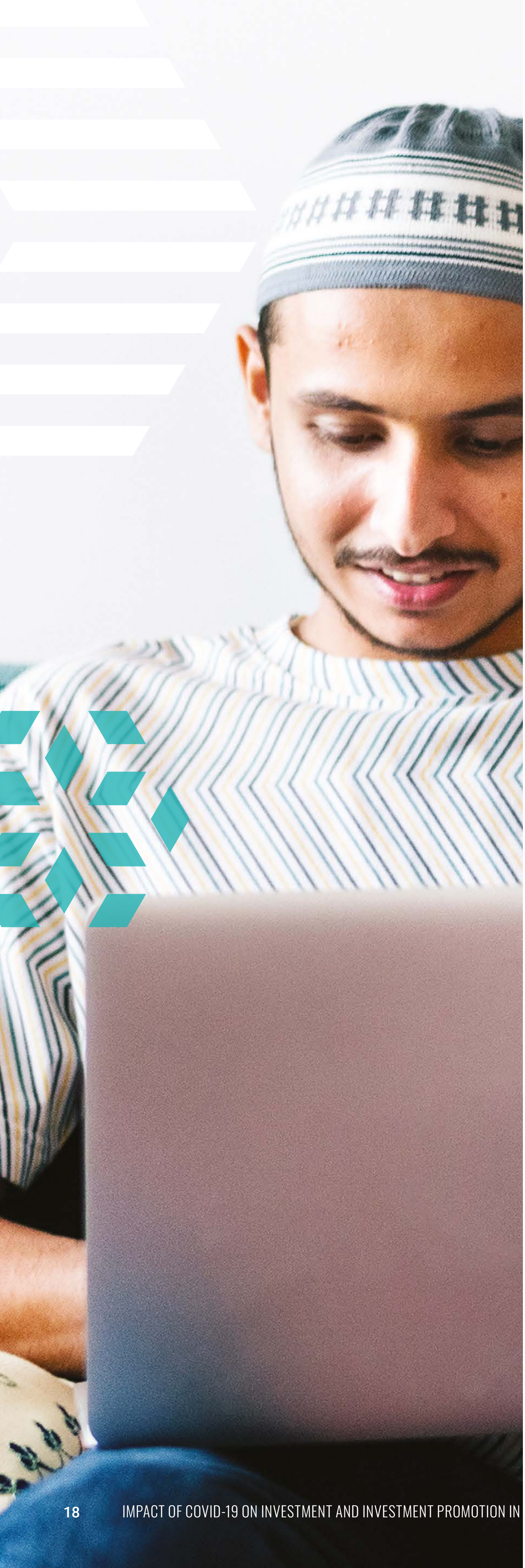


Source: WAIPA (2020)

FIGURE 13: Support offered by IPAs to their governments during the COVID-19 outbreak



Source: WAIPA (2020)



SECTION 4: NATIONAL AND GLOBAL RESPONSES TO REVIVE INVESTMENT

51. **Spending on public health and safety measures.** Policy responses in IsDB MCs have been focused on: (i) ensuring access of the affected population to diagnostics and treatment; (ii) reinforcing the capacities of healthcare systems; (iii) finding alternative ways and means to improve surveillance and care; and (iv) accelerating the development of diagnostics and therapeutics. While some MCs have received supplies from the WHO, others have started to produce test kits locally. Many MCs also reached out to development partners to secure necessary financial resources to improve their emergency health responses. These resources are expected to enable these countries to implement investment programs and measures to limit the spread of COVID-19 through enhanced detection, surveillance, and laboratory systems, as well as strengthen essential health care delivery and intensive care.

52. **Incentivizing health sector investment.** Several economies have recently adopted policy measures to boost investment in health industries that are crucial to containing the spread of the virus by providing incentives and expenditures to increase research and development (R&D) efforts and to encourage manufacturers to expand or shift production lines to medical equipment and personal protective equipment (PPE).

53. **Reinforcing businesses through economic stimulus policies.** Depending on economic structures, financial capacities, and institutional strengthening, MCs have implemented a set of economic policies to reduce direct (e.g., lost income and output) and indirect (e.g., reduction in economic confidence of households) losses caused by the pandemic and minimize the time for the recovery of economic activities. Fiscal policies, in general, included a fiscal stimulus package to support the vulnerable segments of the population and strategically important sectors and businesses. As an immediate step, they are primarily targeted at enhancing the capacities of national health sectors to ensure the availability of medical supplies and expand the healthcare coverage. Tax incentives for affected businesses, deferred loan payments and subsidized credits are among the major policy measures implemented to support businesses, particularly SMEs. Targeted monetary policies are implemented to provide cheap and more money to the businesses by cutting policy interest rates and injecting more liquidity.

54. **Supporting agriculture for higher productivity.** Many MCs have provided support to farmers to enhance agricultural productivity and ensure the marketing of agricultural commodities. Furthermore, initiatives are being implemented to boost agricultural productivity by providing subsidized inputs, such as fuel and fertilizer, and easing access to production inputs, such as seeds and credits.

55. **Extended spending on social protection programs.** Emergency social protection programs of MCs included scaling up emergency basic food assistance, granting direct cash transfer to the most disadvantaged and vulnerable population, and extending old-age insurance coverage to get through the pandemic.

56. **Accelerated use of digital technology.** The closure or disruption of regular government and non-government services has accelerated the use of online tools and e-platforms that enable the continuity of essential services. Also, many MCs have utilized various digital platforms and online tools to ramp up awareness and risk reduction via online activities, helplines and targeted messaging on social media and television. Several MCs are providing free internet and spending on higher internet speed during the lockdown period to ensure expanded use of the internet, especially for continuing online-based education.

57. **Policies to facilitate investment at the national level.** As identified in UNCTAD (2020c), several non-IsDB MCs have taken steps to alleviate the administrative burden and bureaucratic obstacles for firms to speed up production processes and delivery of goods during the pandemic. Measures include, among others, the acceleration of approvals for investments in labor-intensive and infrastructure projects, faster approvals for health care and medical equipment businesses, and the reduction of investment application fees.

58. **Investment policies at the international level.** At the multilateral level, the G20, the G7, Asia Pacific Economic Cooperation and the Inter-Governmental Authority on Development issued declarations in support of international investment and value chains. On 14 May 2020, the trade and investment ministers of the G20 and guest countries issued a statement endorsing the "G20 Actions to Support World Trade and Investment in Response to COVID-19", a list of collective actions to support the multilateral trading system, build resilience in global supply chains and strengthen international investment. In general, these statements aim at minimizing the economic and social damage from the pandemic, restoring global growth, maintaining market stability and strengthening resilience.

SEVERAL MCs ARE PROVIDING FREE INTERNET AND SPENDING ON HIGHER INTERNET SPEED DURING THE LOCKDOWN PERIOD TO ENSURE EXPANDED USE OF THE INTERNET, ESPECIALLY FOR CONTINUING ONLINE-BASED EDUCATION.

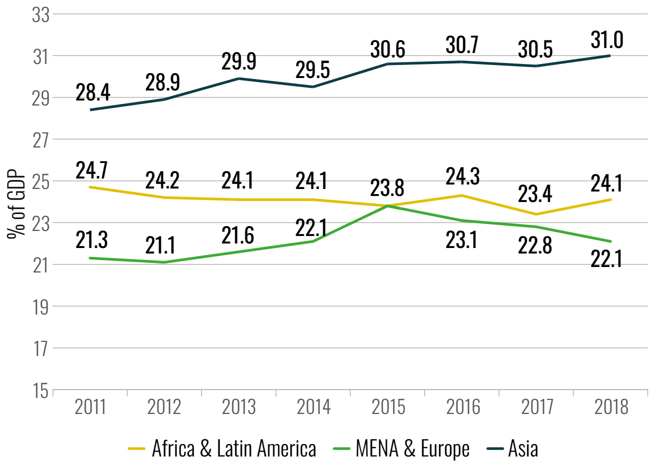
SECTION 5:
THE WAY FORWARD FOR POLICIES AND STRATEGIES TO ATTRACT FDI AND DOMESTIC INVESTMENT IN IsDB MCs

59. Major IsDB MCs had been struggling to revamp investment even before the pandemic starts. Though the level of investment in MCs already varies significantly across regions, investment remained stagnant before the pandemic (Figure 14). In terms of the gross fixed capital formation (% of GDP), the Asia region performed significantly well, compared to Africa and MENA regions. MCs in Africa and MENA regions need to increase their respective investment markedly to catch up with the level of Asia MCs.

A. ATTRACTING FDI AMID THE PANDEMIC

60. There is a general consensus that the impact of the COVID-19 pandemic on FDI inflows is happening through two broad channels: (i) "delaying" effect for investments, which will hopefully fade out in the next couple of years as the global demand picks up gradually to the pre-pandemic levels; and (ii) "diversion" effect for investments, which will drive the future investment trends at the global level (UNCTAD, 2020c). Therefore, policies and strategies to revive FDI need to keep these into consideration.

FIGURE 14: Gross fixed capital formation in IsDB MCs (% of GDP), 2011-2018



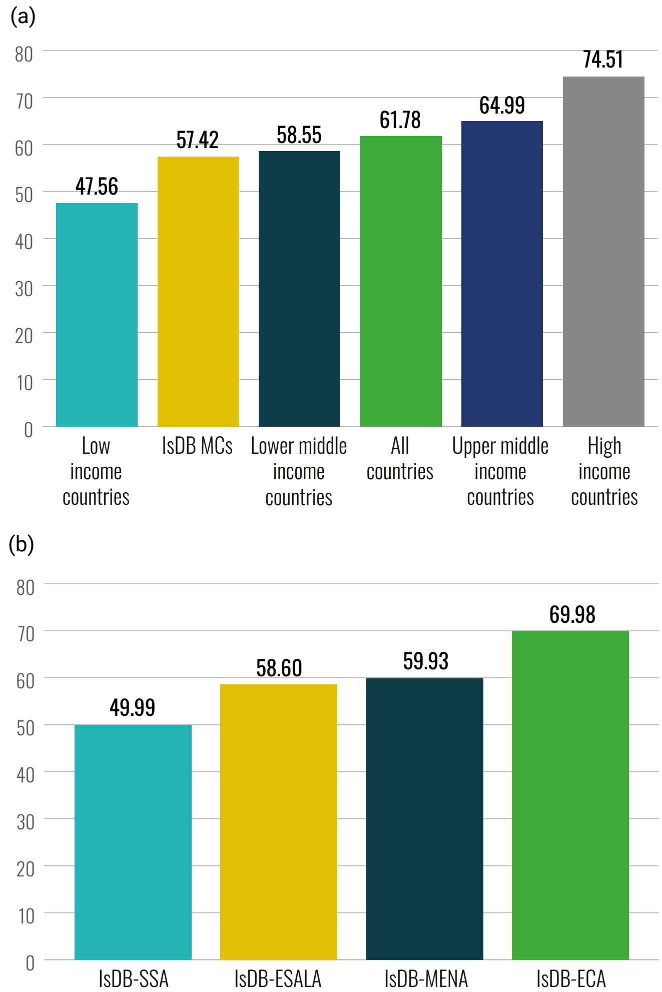
Source: OIC Stat, SESRIC

61. **Improving the business environment.** MCs need to make reforms to create a more conducive business environment that entrepreneurs and SMEs look for further investment, especially in terms of the number of required procedures to start a business and problems in accessing electricity and other infrastructures. Doing business in MCs is relatively more difficult when compared with other categories of countries (Figure 15, a). In terms of the Doing Business 2020 score (average), MCs only performed well compared to low-income countries and remained weak performers compared to lower-middle-income and upper-middle-income countries.

62. At the regional level, the performances of MCs' sub-regions differ remarkably (Figure 15, b). Sub-Saharan Africa (SAA) had the lowest average (49.99) and Europe and Central Asia (ECA) had the highest average (69.98) in 2020. East and South Asia and Latin America (ESALA) (58.6) and MENA (59.93) regions are performing roughly similar, but better than SSA. This shows that doing business in the SSA is relatively more difficult than in the other regions. Having said that, all three regions, i.e., SSA, ESALA and MENA, need to improve their respective rankings in various ease of doing business indicators in order to remain relevant in attracting FDI.

ALL THREE REGIONS, I.E., SSA, ESALA AND MENA, NEED TO IMPROVE THEIR RESPECTIVE RANKINGS IN VARIOUS EASE OF DOING BUSINESS INDICATORS IN ORDER TO REMAIN RELEVANT IN ATTRACTING FDI.

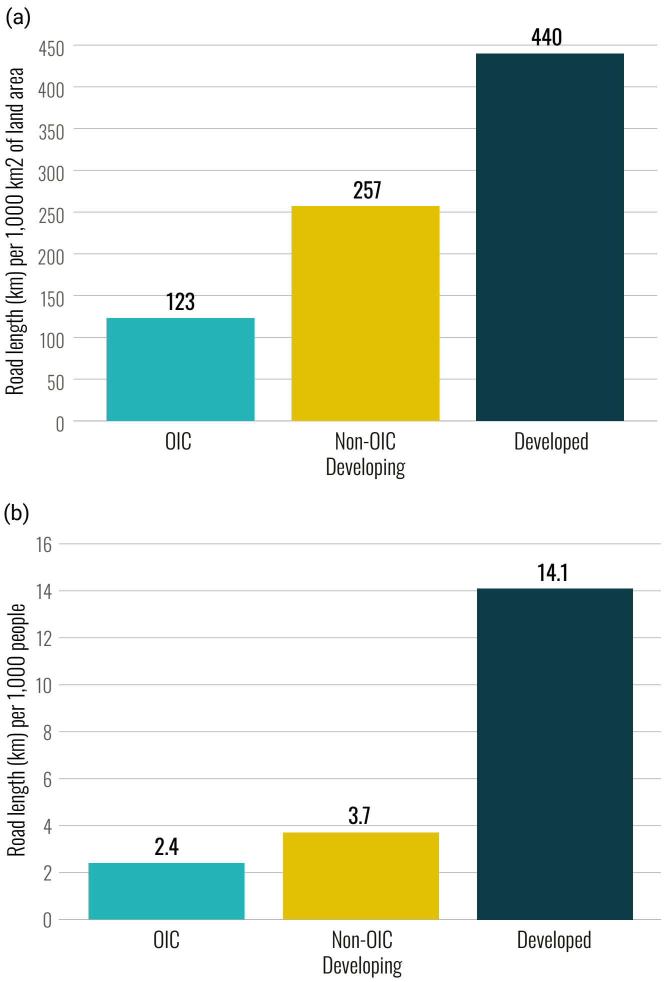
FIGURE 15: Ease of doing business 2020 score (average)



Source: *Doing Business 2020*, World Bank
Note: SSA = Sub-Saharan Africa; ESALA = East and South Asia and Latin America; MENA = Middle East and North Africa; and ECA = Europe and Central Asia

63. **Upgrading transport infrastructures.** IsDB MCs need to develop adequate transport infrastructures and multimodal transport corridors and networks in order to reduce costs of trade, improve services and enhance export and investment competitiveness. According to SESRIC estimates (2018), the length of road network per capita in MCs stands at 2.4 and is modest compared to developing and developed non-MCs (Figure 16, b). When standardization is based on the land area, the average road network in IsDB MCs was 123 km per 1000 km2 land area, which was almost half that of developing non-MCs and less than one-third of that of the developed economies (Figure 16, a). In addition to road transport improvements, similar efforts from MCs are warranted to expand rail and sea networks for improving their respective competitiveness.

FIGURE 16: Road network density, 2011



Source: SESRIC (2018)

IsDB MCs NEED TO DEVELOP ADEQUATE TRANSPORT INFRASTRUCTURES AND MULTIMODAL TRANSPORT CORRIDORS AND NETWORKS IN ORDER TO REDUCE COSTS OF TRADE, IMPROVE SERVICES AND ENHANCE EXPORT AND INVESTMENT COMPETITIVENESS.

64. **Promoting intra-OIC trade and investment.** Despite little progress, intra-OIC trade remains low at 19.9% in total trade of OIC countries in 2017, reaching US$ 319 billion. Further efforts are to be made to keep the trend rising through bilateral and multilateral trade and investment agreements such as operationalizing the OIC Trade Preferential System (TPS-OIC), partnerships among the OIC countries, and promote diversification and competitiveness of their tradable products taking into account their mutual needs and benefits from trade (SESRIC 2018).

65. **Adopting regional and global value chains.** Taking advantage of their geographical proximity, high levels of heterogeneity and divergence in terms of socio-economic development, IsDB MCs in Africa, MENA and ECA regions should develop a regional value chain (RVC) by identifying regional complementary and substitute industries and addressing major constraints to develop those industries. Developing a collaborative RVC will generate new comparative advantages, accelerate strategic diversification of products and services and create new economic dynamics among MCs. Similarly, MCs should take the advantage of changing global production patterns and trade by adopting global value chains (GVCs) as new industrial transformation policies. Successful participation in GVCs needs a better understanding by MC policymakers of global firms and linkages within GVCs as well as production capacities that would allow MCs to attain higher levels of productivity and profitability in the participating sectors.

B. REVIVING DOMESTIC INVESTMENT

PRIVATE INVESTMENT

66. **Extending necessary credit flow, preferably at a low cost.** Credit crunch during the pandemic is a major constraint for private companies to keep their business operations active. Firms are also under tremendous pressure to repay dues to financial institutions. Monetary policy needs to focus on extending necessary credit flows to major strategic sectors driving the economy, preferably at low or subsidized costs while managing inflation expectations, and/or allowing firms to delay repayment.

67. **Supporting SMEs and agriculture, in particular.** MCs need to expand support to SMEs and agriculture to save a large number of jobs, ensure basic food security and make the supply chain remain active. Pressing support can be extended to SMEs by helping them in their due repayment and providing further subsidized credit after the lockdown period. Also, reinventing SMEs temporarily into agriculture and health sectors and industries dealing with necessities may create a new window of opportunities for them. Rapid investment in agriculture mechanization, storage facilities and inputs will promote higher agriculture productivity. Reinvesting in rural infrastructures, such as roads and farmer markets, will make the agricultural supply chain efficient, generate temporary jobs in rural areas and make the rural economy vibrant.

68. **Promoting private investors in public sector initiatives.** Amid prevailing capacity and resource constraints, further encouraging private investors in public sector initiatives, such as delivering necessary infrastructure and services, may ensure better services and higher private investment. A well-designed guideline for private sector participation in public initiatives across various sectors, including agriculture and health, will offer better services, encourage increased competition and create broader opportunities for further economic growth.

PUBLIC INVESTMENT

69. **Basic public investment choice.** IMF (2020b) proposed the following two seemingly opposing responses of public investment: (i) creating fiscal space through cuts in public investment, either canceling or postponing projects, which must be judiciously designed to avoid an excessively negative impact on the economy, employment, and future costs; and (ii) recourse of public investment for fiscal stimulus which needs to ensure that projects are well planned, selected and implemented to produce their expected benefits. Countries, based on their respective fiscal position, need to create a basic decision matrix for project selection or cancellation in order to choose the optimum level of projects. In this regard, the stages of project approval and implementation, cost-benefit analysis of projects, cost of project cancellation and economic and employment implications of projects can be considered as basic criteria.

REINVESTING IN RURAL INFRASTRUCTURES, SUCH AS ROADS AND FARMER MARKETS, WILL MAKE THE AGRICULTURAL SUPPLY CHAIN EFFICIENT, GENERATE TEMPORARY JOBS IN RURAL AREAS AND MAKE THE RURAL ECONOMY VIBRANT.

70. **Reprioritizing capital spending.** As most MCs are either low-income or middle-income countries, adjustments to their capital spending programs are greatly needed. For economic recovery programs, developing and maintaining a pipeline of projects that are technically well-defined and likely to contribute sufficiently to growth and social cohesion are required through a rigorous appraisal and selection process (IMF, 2020b). Maintenance and capital repairs projects, which are often relatively cheap and standardized, and have a higher job implication, are by nature flexible and can be easily expanded. Countries with high debt and fewer resources can rely on facilitating PPP projects which will be even more relevant in the aftermath of COVID-19.

71. **Accessing concessional external finance.** As countries are struggling due to constrained financial resources, IsDB MCs need to drive for accessing concessional external financing which is made available by various global multilateral and bilateral financial institutions. Countries may also design better projects in terms of output and outcome and ensure improved governance by accessing concessional resources from development partners.

72. **Rationalizing current expenditures.** Several MCs may need to rationalize their current expenditures significantly by cutting down discretionary spending, such as physical training, various kinds of repairing and purchasing and utilizing online facilities.

C. EXPLOITING DIGITAL TRANSFORMATION IN INVESTMENT

73. **Using technology for business operations and support.** Due to lockdown, the organizational operations of agencies, including IPAs, and businesses are greatly affected. However, investors must harness the full potential of new technologies to improve their efficiency for arranging meetings (through e-meeting), organizing seminars or conferences (through webinars), and facilitating businesses (through chatbots).

74. **Utilizing technology for emergencies and economic resilience.** Technology, automation and innovation are increasingly setting the stage for future business and production processes. During a time of social distancing, effective use of technology is probably the strongest instrument to ensure economic agents follow the business as usual. Investors may generate and sensitize the ideas of using technology for massive data accumulation, analysis and reserve for extending reliable safety net programs and subsidies, solving the problem of inequity in value addition or profit margin in the agriculture sector, and providing telehealth (e.g., training, medical education and administrative meetings), telemedicine (e.g., tele-diagnosis), and e-medical record system.

SECTION 6: THE WAY FORWARD FOR IPAs IN IsDB MCs

75. It is quite evident that COVID-19 has adversely affected investment and its future flows and thus disrupted the work of IPAs. The new changes are compelling IPAs to adjust their everyday activities, rethink organizational functioning, and upgrade their strategies for both the COVID-19 period and the post-pandemic period. While IPAs are required to step up their efforts to support government-led programs to tackle the adverse effects of COVID-19, they are also being equipped to find out potential investment areas in post-pandemic situations and design incentives packages for attracting those investments.

A. ROLE OF IPAs DURING THE PANDEMIC CRISIS

76. **Strengthening resilient businesses.** The "delaying" effect for investment is expected to be temporary, disappearing gradually with the pick-up in global demand, at least to the pre-pandemic levels. During that intermittent time, IPAs can focus more on strengthening the still-functioning (or, surviving) businesses/value chain linkages as they have already proven to be resilient (and sometimes even indispensable) to a certain extent.

77. **Adopting strategic readjustment.** As the pandemic has disrupted the work of IPAs, it is essential for them to use this time for a strategic readjustment for preparing themselves to be able to handle this sort of crisis as well as necessary arrangements for the post COVID-19 period. IPAs need to take measures within their organizations to protect their employees from the virus, including extending facilities like working from home, replacing physical meetings with e-meetings, and arranging capacity development programs to enhance their HR forces, etc.

78. **Providing comprehensive information.** In supporting their existing clients, IPAs should provide comprehensive information via email and/or website on the new COVID-19-related measures enacted by their respective governments. Also, IPAs can provide e-guidelines to businesses on public health measures that they should follow while continuing business as usual.

79. **Strengthening the health system.** As IsDB MCs have been relentlessly working to suppress the spread of COVID-19, they direly need more health workers, modern medical equipment, improved infrastructures, and a decentralized health system, not just to tackle the current pandemic, but also to be prepared for future waves of the pandemic. Vast and rapid investment in the health sector is needed for that preparation and IPAs can lead the efforts of strengthening respective country's health system. In addition, IPAs should provide necessary assistance to the producers and suppliers of medical equipment essentials and help the health sector service providers to recruit additional workforce. In fact, improving health infrastructures, providing skilled health workers and medical equipment and increasing spending will help address the pandemic efficiently, create jobs and partly offset the economic loss incurred by other sectors.

80. **Extending support to government activities.** IPAs need to act swiftly and proactively to the wishes of their respective governments for their efforts in alleviating the overall impact of COVID-19 on their economies by working closely with government counterparts, especially in delivering messages of pandemic-related policy measures to existing investors.

81. **Retaining investment by intensifying aftercare and providing policy advice.** The pandemic has created manifold economic, logistical and operational difficulties for companies, especially those owned by foreign investors. During the pandemic, aftercare and policy advocacy plays 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 need to focus on investment facilitation and aftercare measures, including investment retention, as important and immediately effective means to help foreign investors throughout the crisis and improve the investment climate. In addition, policy advocacy can complement aftercare by identifying the main obstacles investors are facing and advocating for their removal.

82. **Assisting businesses.** During the pandemic, businesses need proactive support from the governments in various forms. IPAs can assist businesses in understanding and applying new policy measures offered by the respective governments in mitigating the adverse effect of COVID-19. Also, IPAs can help businesses in accessing public support funds, and in maintaining supply chains. In this regard, IPAs are advised to systematically contact clients and gather information regarding the issues they are facing, and work with the government to adequately address those issues.

THE NEW CHANGES ARE COMPELLING IPAs TO ADJUST THEIR EVERYDAY ACTIVITIES, RETHINK ORGANIZATIONAL FUNCTIONING, AND UPGRADE THEIR STRATEGIES FOR BOTH THE COVID-19 PERIOD AND THE POST-PANDEMIC PERIOD.

83. **Supporting SMEs.** IPAs can extend support to SMEs during the pandemic to save millions of financially vulnerable enterprises and lower-paid jobs. More pressing support can be extended to SMEs by helping them in repaying amounts due to banks and providing further subsidized credit for business expansion in the aftermath of the lockdown period. Also, providing a framework to SMEs to reinvent themselves temporarily as part of the support system for agriculture and health sectors may create a new window of opportunities for them. Assisting SMEs is also required as part of preparing for the post-pandemic period. For example, if many SMEs fail during or after the pandemic, multinational enterprises will have a limited pool of local suppliers and partners. This will have an impact on the attractiveness of IPAs' preferred locations.

84. **Supporting agriculture.** For raising agriculture productivity, ensuring basic food security, and making agriculture supply chain active, IPAs' support is needed to invest in agriculture mechanization, address the lack of agriculture infrastructures such as adequate storage facilities, rural roads and farmers markets.

85. **Scoping opportunities for PPP and alternative financing mechanisms.** In a time when capacities of government agencies and resources are constrained, IPAs can proactively promote innovative ideas including PPPs and alternative financing mechanisms, including Sukuk/bond issuance for expansion in necessary infrastructure and services. PPP can be effectively applied to all emergency sectors including health, SMEs and agriculture.

86. **Facilitating post-pandemic trade and investment opportunities.** In line with global undertakings in supply chain changes, IPAs in IsDB MCs should proactively gather that information, systematically analyze the country's comparative advantages and design policy package to attract and facilitate trade and investment opportunities that may be realized in the aftermath of the pandemic.

87. **Applying technology for investment promotion.** IPAs responsible for attracting investment to their locations, especially those in advanced countries, are using digital technologies as new ways to operate and generate results in a challenging environment, particularly for investment promotion. The digital transformation or strengthening of existing digital investment promotion practices by upgrading the website, embracing digital marketing and data analytics, and ensuring e-registration of businesses, are badly needed. Digital approaches can increase the effectiveness of an IPA's full range of activities, from identifying potential investors, engaging with decision-makers and providing value through service delivery. Digital transformation requires changing internal processes and even the culture of the organization as part of an overall strategy. Also, with possible locational change in production bases and supply chains, 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, and IPAs need to be aware of this while promoting investments in their respective locations.

88. **Focusing on job creation.** Despite challenges in creating jobs during the pandemic, IPAs need to make strategies for certain sectors, such as health, online services and emergency supplies where opportunities for job creation is still possible.

DIGITAL APPROACHES CAN INCREASE THE EFFECTIVENESS OF AN IPA's FULL RANGE OF ACTIVITIES, FROM IDENTIFYING POTENTIAL INVESTORS, ENGAGING WITH DECISION-MAKERS AND PROVIDING VALUE THROUGH SERVICE DELIVERY.

B. ROLE OF IPAs IN THE POST-PANDEMIC PERIOD

89. **Considering global supply chain changes and redesigning strategies.** The forecast on the decline in global FDI flow will cause serious competition among potential locations, requiring extra efforts from IPAs to secure FDI-related projects. In addition, IPAs also need to consider the long-term consequences of disrupted GVCs, which may break down the existing supply chain and create opportunities within that trajectory. A 'new normal path of operating' supply chains is predicted for companies through reevaluating resilience and risk (Sneader and Singhal, 2020). Accordingly, the regionalization or localization of manufacturing production and supply chains could emerge based on development in advanced technology. Considering these potential 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 optimize their performance (WAIPA, 2020).

90. **Reviewing value propositions**. IPAs need to review their value propositions and specify target sectors for investment, especially for the post-pandemic period. Certain sectors may become more strategic not only because the pandemic has reinforced some trends, including digitalization, but also because it has surfaced countries' weaknesses and the need to be more prepared for similar crises in the future (UNCTAD, 2020d). Similarly, some sectors may become the key in the post-pandemic period such as e-commerce and digital health, and there would be the need for strengthened cross-border cooperation in sectors including health, the environment and research and development. In line with this, IPAs' strategies may also need to develop and be aligned with broader efforts to promote international cooperation in these sectors.

91. **Initiating global efforts and collaboration.** Some common global concerns and uncertainties, including post-pandemic global investment climate, increased protectionism, restrictive investment measures by countries and intensified competition for FDI are being intensified, raising concerns among IPAs. Going forward, despite rising competition as predicted, IPAs need to stress the importance of collaboration among international communities, especially for targeted goals under global priorities, principles, and agendas including SDGs. In particular, IPAs need to initiate a global exchange of best practices and experiences through bringing international communities and organizations such as UNCTAD, and WAIPA, to facilitate information exchanges on best practices, cooperation, dialogue and partnerships for investment facilitation and promotion.

THE REGIONALIZATION OR LOCALIZATION OF MANUFACTURING PRODUCTION AND SUPPLY CHAINS COULD EMERGE BASED ON DEVELOPMENT IN ADVANCED TECHNOLOGY.

SECTION 7:
IsDB RESPONSE TO THE COVID-19 PANDEMIC AND RECOMMENDATIONS TO OPERATIONALIZE THE RESTORE TRACK

IsDB RESPONSE TO THE PANDEMIC

92. To support its MCs in the fight against the pandemic and addressing the negative effects on the economies, IsDB Group (IsDBG) has committed a US$ 2.3 billion funding package to be extended to its MCs under its Strategic Preparedness and Response Package (SPRP). The SPRP adopts a holistic 3-R approach focusing on three tracks: Respond, Restore and Restart. It envisages providing emergency assistance to support health systems and the economy as well as more medium-to-long term support to rehabilitate livelihoods, build resilience and kick-start economic growth. In specific, the program under the Restore track focuses on medium terms actions to overcome the pandemic's effects on health and economy with a focus on strengthening response preparedness, trade finance, SMEs operations and continued provision of social services in MCs. In addition, the program under the Restart track focuses on long-term actions to build preparedness for the future through support for the revival of industries, by catalyzing public and private investment.

93. Because of the COVID-19-related difficulties, financial intermediaries in MCs face tremendous train in making the liquidity available to the private sector struggling to continue their operations. SMEs are in particular the hardest hit by the crisis due to loss of income and lack of liquidity. In addition, international trade has been seriously disrupted, leading to more stringent requirements in trade financing. Finally, MCs experienced a significant loss in foreign currency earnings due to the halt in export and significant drop in oil prices, putting additional pressures on authorities and the private sector to import essential commodities.

94. Against this backdrop, the Restore track attempts to support MCs' efforts to stimulate the private sector and essential trade finance by delivering short to medium-term lines of finance in coordination with the government's private sector stimulus packages. In this regard, a COVID Guarantee Facility (CGF) was introduced to mobilize external resources and scale up the total financing capacity of IsDBG in order to deliver the SPRP under the Restore track. This Facility will allow MCs' governments to access cheaper short- and medium-term financing for the benefit of the private sector.

RECOMMENDATIONS FOR IsDBG

95. A set of recommendations in the form of potential interventions is proposed below for consideration by the Bank in designing the next round of COVID-19 responses under Restore and Restart tracks. These recommendations aim to support rejuvenating FDI and domestic investments as well as help IPAs respond decisively to MCs' needs.

96. **Helping MCs to attract FDI.** Enhancing the business regulatory environment through policy reform, institutional strengthening and hard infrastructure upgradation will be crucial to attract **FDI (IsDB** and **ITFC).** Providing technical and financial support to expedite trade facilitation measures among MCs will contribute to promoting trade and investment. MCs often struggle to choose priority sectors based on their revealed comparative advantage for connecting with global and regional value chains. Helping MCs to identify those priority sectors would help them pick the right sectors and industries to focus on and make them available for attracting FDI.

97. **Promoting regional cooperation and integration (RCI) strategies.** The unprecedented disruption in the global trade system caused by the COVID-19-related restrictions of movement reinforces shifting the focus to regional supply chains (Holden, 2020). This is becoming even more relevant when significant trade and investment diversion is happening across the world, especially in the manufacturing sector. Operationalizing and achieving the intended outcomes of IsDB's RCI strategy (IsDB, 2019) through advocacy, financial assistance and capacity building will generate new comparative advantages, accelerate strategic diversification of industries and create new economic dynamics among IsDB MCs **(IsDB)**.[9]

98. **Catalyzing public investment.** The COVID-19 compelled MCs governments to face a new reality of low revenue generation with higher public spending **(IsDB and ITFC**). While low economic activities and trade led to a shortage in revenue generation targets, governments need to spend more for emergency public health and food, announce stimulus package, including social safety nets, and rejuvenate public sector entities. Trade finance is also a timely requirement for MCs to import necessary and emergency health and food supplies. At the same time, strategies and actions for investment and infrastructure development in the economic recovery period are at the top card of the respective governments. IsDB needs to actively seek co-financing opportunities with other development partners to leverage better and higher investment opportunities to mark its strong foothold in MCs.

99. **Strengthening private investment.** All kinds of private investors have been adversely affected by the COVID-19-related incidents and need support in the form of liquidity financing, technology adoption and access to markets **(IsDB, ICD, ICIEC** and **ITFC).** Large businesses require financing support and information on and facilitation to business opportunities in MCs. SMEs working both in emergency critical sectors and other priority sectors are struggling due to the lack of access to finance. Liquidity support for SMEs by refinancing commercial banks of MCs can help them to ensure their business continuity during the crisis and afterward. IsDB public sector financing may be designed in such a way as to create an appropriate environment for private sector participation in the form of PPP.

100. **Promoting technology adoption through digitalization.** There is a growing need for online interactions in businesses and services, not just due to ongoing movement restrictions, but also for making supplies of goods and services efficient by taking advantage of digital services **(IsDB and ICD)**. MCs need support to further digitalize health emergencies, education services, including remote learning, and business services, including e-commerce. IsDBG may proactively engage in upgrading digital infrastructure gaps in MCs.

101. **Supporting investment promotion agencies.** MCs need help to retain and attract foreign investors during the crisis and onwards for ensuring business continuity and new business opportunities **(IsDB)**. IPAs of major MCs are not equipped enough to adjust themselves to renewed realities due to inadequate information on new opportunities and weak use of technology. IsDBG can provide IPAs of MCs with information on new opportunities in emergencies and economic recoveries and extend support to IPAs in developing their institutional strengthening, especially in developing human skills and the use of technology.

102. **Exploring reverse linkage opportunities.** It is probably high time to explore reverse linkage at a higher level, from the current approach of linking public and private sector players to interact with each other for capacity development and business opportunities to the elevated approach of promoting large-scale investment in priority sectors among MCs through investor-to-investor interaction **(IsDB)**. In a best-case scenario, IsDB may help IPAs of respective MCs to interact with investors of other MCs that have better experiences in similar investment and technological superiority.

[9] In this regard, it would be crucial to focus simultaneously on all four IsDB RCI strategic pillars: (i) Pillar 1: Enhancing cross-border connectivity; (ii) Pillar 2: Improving investment climate and competitiveness to promote export-oriented and cross-border investment; (iii) Pillar 3: Mainstreaming trade and Islamic finance to promote cross-border development; and (iv) Facilitating cooperation to provide regional public goods.

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ANNEX

BOX A1: PANDEMIC-RESPONSE EFFORTS AND BEST PRACTICES BY IPAs, SELECTED EXAMPLES

Trade and Invest, Germany. It has developed a special pandemic website which provides regular updates on matters including financial support for businesses, supply chains and economic developments. It also closely follows German industry-specific developments, highlighting information on sectors where the pandemic has generated increased demand, such as digital solutions in education, logistics and health. A series of webinars have been held on the latest pandemic-related regulatory changes and the novel fast-track program for medical apps. [https://www.gtai.de/gtai-en/invest]

The Japan External Trade Organization (JETRO), Japan. It is responsible for both outward and inward investment promotion. Throughout the pandemic, it has focused on providing up-to-date information on Japan's policy measures and market environment. In order to understand the needs of investors, the agency established an "Invest in Japan" hotline and conducted an emergency survey to better gauge the impact of the pandemic on foreign-affiliated companies, publishing the results online. To prepare the economy for accelerated digitalization, JETRO has launched the Digital Transformation Partnership Program, which fosters open innovation between Japanese and foreign companies. [https://www.jetro.go.jp]

The Ministry of Investment, Saudi Arabia. It has established a COVID-19 Response Centre. Its website also hosts a "Business Continuity" section that aims to support investors during the pandemic. It includes information about initiatives and services introduced by the Government to support businesses as well as a guidebook and a list of investors' frequently asked questions. [https://www.misa.gov.sa/en/]

Invest UAE, United Arab Emirates: The online portal "Stimulating the Business Environment to Address COVID-19 Virus Effects", developed by the Ministry of Economy, encompasses a wide range of relevant information for the investor community, including the latest pandemic related developments, best practices for doing business in the crisis, and analysis and reports on the impact of the pandemic on investment. The Ministry is also conducting a survey of the impact on private sector activities of precautionary measures linked to the crisis. [https://www.economy.gov.ae/english/Pages/default.aspx]

Investment Office, Presidency of the Republic of Turkey. It provides COVID-19 updates and economic policy response to COVID-19 from the Government. It also gives the detail of the Economic Stability Shield Program, and additional measures in the stimulus package for manufacturing, trade, finance and banking sectors. [https://www.invest.gov.tr/en/Pages/covid19-updates-support.aspx]

Kazakh Invest, Kazakhstan. It opened an emergency assistance section in its website where updates on measures and news related to COVID-19 are provided. Service support for investors as well as consultation on investment activities are provided 24/7 by the IPA through a dedicated telephone number and online consultation request form. [www.invest.gov.kz]

Invest India, India. It created a comprehensive Business Immunity Platform that offers a range of services, including 24/7 helplines, market research reports and daily updates on COVID-19 related developments, including at the state level. This also delivers businesses and investors real-time updates on India's active response to COVID-19, shares the latest information on various government initiatives, delivers webinars, provides progress dashboards, and answers and resolves queries through emails or WhatsApp. [https://www.investindia.gov.in/]

Economic Development Board, Mauritius. It provides comprehensive and updated pandemic-related information about measures taken by the government to support businesses and facilitate investment, including the wage support scheme, and contact information for import permits and clearances. The site also offers online application forms for government support to enterprises affected by the pandemic and features the Business Support Plan of the Government. [https://www.edbmauritius.org]

Sources: WAIPA (2020) and UNCTAD (2020c, 2020d)

DESPITE CHALLENGES, THERE ARE PLENTY OF OPPORTUNITIES FOR REVIVING INVESTMENT, ESPECIALLY IN SECTORS FOCUSING ON EMERGENCY SUPPLIES AND ECONOMIC RESILIENCE.

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