World Bank Investor Confidence Survey:

Evidence from the Quarterly Global Multinational Enterprises Pulse Survey for the Second Quarter of 2021

WORLD BANK GROUP

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Key Findings

- **Overall, surveyed multinational enterprises (MNEs) in developing countries are approaching pre-pandemic output levels**, although major differences remain between firms at the sector and regional levels. The share of firms experiencing at least one adverse impact of the pandemic has fallen from 93 to 78 percent of respondents. The gap between small and medium enterprises (SMEs) and large firms that was observed over the previous two rounds of the MNE Pulse Surveys also appears to be reduced.

- **Inflation pressures are impacting MNE affiliates through rising input costs.** Price pressures witnessed in the first quarter (Q1) of 2021 have continued, with 47 percent of survey respondents experiencing rising input costs compared to before the pandemic. The drivers of rising input prices are supply chain disruptions and rapid increases in demand. The survey also indicates that larger firms are more adversely impacted from rising input costs than smaller firms. Additionally, liquidity seems to be slightly deteriorating, adversely affecting 64 percent of respondents in the second quarter (Q2), as compared to 48 percent in the previous quarter.

- **MNE affiliates in the manufacturing sector have been more adversely affected by the pandemic and continue to face a longer road to recovery;** a result driven in part by the fact that some services (e.g., information and communication services, finance and insurance, etc.) have done relatively well during the pandemic. The difference is particularly pronounced in terms of employment with 77 percent of surveyed manufacturing MNEs indicating they reduced their workforce during the pandemic compared to 37 percent of services MNE affiliates. Additionally, the share of manufacturing firms reporting adverse effects of the pandemic in Q2 2021 is greater than the share of service firms in all ten business categories measured.

- **MNEs' future investment plans have become slightly more optimistic, providing early signs of an improvement in the investment outlook – although the specter of uncertainty remains.** The share of surveyed MNEs expecting to increase investment over the next three years has reached a pandemic high (21 percent) – driven by changes or expected changes in regulations and policies for foreign investors as well as insourcing of production. At the same time, uncertainty remains the primary factor limiting the appetite of firms to invest. 86 percent of surveyed MNE affiliates planning to leave investment plans unchanged state uncertainty as the main reason– a level comparable with Q1 2021.

- **Looking ahead, the key skills sought by MNE affiliates across sectors and regions related to problem solving and task management.** More than two-thirds of firms expect this requirement to increase. Social skills are the second most sought after, cited by 45 percent of firms. This trend is observed across all sectors, size, and business models. It is slightly more pronounced among firms headquartered in Europe. Three-quarters of firms plan on increasing the proportion of their workforce with a tertiary education over the next three years. These findings suggest that firms may be looking for more qualified workers in order to improve overall skill levels.

- **During economic recovery, to rein in uncertainty and remain competitive in the global FDI market, policymakers should act now**. In the near term, policymakers should strengthen policies to foster investment, including improving the legal environment and easier approvals for foreign-owned businesses. In the longer term, shifts in global production may require policymakers to boost their countries' investment competitiveness. Therefore, governments should restore investor confidence by maintaining a stable and predictable investment policy environment and resisting protectionist policies.

Introduction

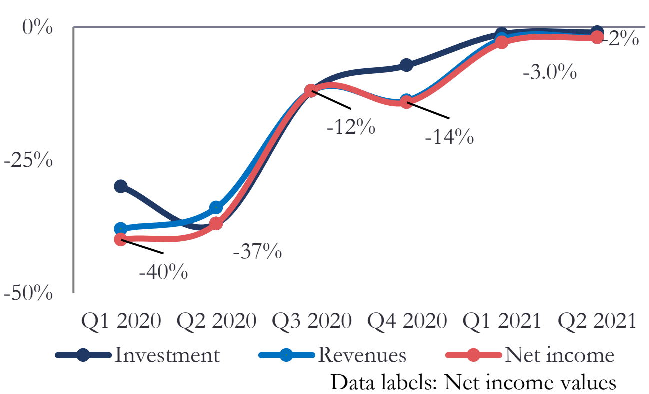
In the second year of the COVID-19 pandemic, the world continues to grapple with its health, social, and economic impacts. There are signs of recovery, but supply chains, workplaces, and daily life continue to be affected. As vaccines have begun to become available, there is hope of life returning to a "new normal", but work remains.

Since the onset of the crisis, the World Bank's Global Investment Climate Unit has been undertaking quarterly 'pulse' surveys of multinational enterprises (MNEs) operating in developing countries to assess the effects of the pandemic on the companies' operations and the outlook for foreign direct investment (FDI).[1] MNEs play a critical role in the global economy, and FDI is a key source of capital investment and employment in developing countries, making it an important factor in economic recovery prospects.

Looking back on the five previous rounds of the survey reveal the steady recovery that has been underway. The average effect of the pandemic on MNE revenues, among surveyed firms, has improved from as low as 40 percent below pre-pandemic levels in Q1 2020, to near break even in Q2 2021 (Error! Reference source not found.).[2]

Nonetheless, results from the most recent survey suggest there is large heterogeneity in outcomes and that firms face evolving pressures. There is an increasing divide in recovery along regional and sectoral lines as manufacturing industries and manufacturing-intensive regions lag services. Survey results also indicate that uncertainty around future demand is the main factor holding back additional investment and that workforce compositions are rapidly evolving to meet increased technological adoption. As economic conditions continue to improve, there are opportunities for policymakers in developing countries to support new investment that can capitalize on evolving workforce needs and trends in technology.

Figure 1: Average impact of the COVID-19 pandemic on MNE affiliates over 2020-21



ABOUT THE SURVEY

The survey was administrated online from 19 July to 13 August 2021. The resulting sample comprises 300 MNE affiliates (firms with full or partial foreign ownership) across 36 developing countries. The sample was evenly distributed across the six developing regions following the World Bank Group taxonomy, and across manufacturing and services sectors in each region.

Survey data suggest that MNE affiliates in the services sector are less adversely affected as compared to the manufacturing sector. This is driven by sample composition because FDI is higher in some services sub-sectors than others. The services sample is comprised mainly of financial services (22 percent), professional, scientific, and technical services (22 percent), and information and communication services (20 percent) – sectors less adversely affected during the pandemic. However, sub-sectors such as wholesale and retail trade (10 percent), and accommodation and food services (4 percent), were more severely affected, but comprise a small share of the services sample (Figure 19). The manufacturing sector is more evenly distributed among the sub-sectors.

[1] Full results from prior rounds of the survey are available at: https://www.worldbank.org/en/topic/investment-climate/brief/multinational-enterprises-global-pulse-survey

[2] Chart shows results of survey rounds with different sample sizes and methodologies. Values are percentage differences from 2019. For Q1 2020, n=104. For Q2 2020, n=78. For Q3 2020, n=305. For Q4 2020, n=329. For Q1 2021, n=300. For Q2 2021, n=300.

Firm Performance in the Second Quarter of 2021

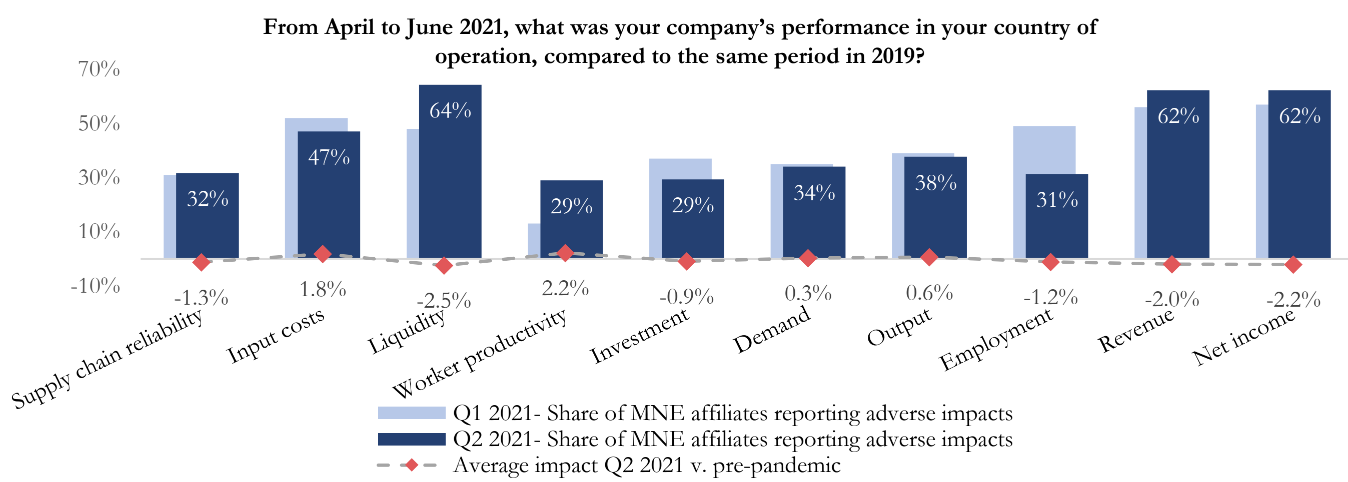
The average impact of COVID-19 on surveyed MNEs has diminished to within a few percentage points of pre-pandemic levels, but the vast majority of MNE affiliates in developing countries were still impacted by the pandemic in Q2 2021.[3] Seventy-eight percent of firms surveyed report at least one adverse impact of the pandemic in the survey period. This represents an improvement from Q1 2021 results, where 93 percent of firms experienced an adverse impact. The average magnitude of adverse effects has also stabilized around pre-pandemic levels over the past two survey rounds. The share of firms reporting adverse employment effects has dropped significantly since Q1 2021 as has the average impact, but liquidity constraints are becoming more prominent. Overall, the data from the Q2 2021 survey suggest a trend towards recovery for MNEs in developing countries but also increased competitive pressures as relief measures expire. MNE affiliates in the manufacturing sector have been more adversely affected by the pandemic and continue to face a longer road to recovery; a result driven in part by the fact that some services (e.g., information and communication services, finance and insurance, etc.) have done relatively well during the pandemic.

Demand and output recovery

Among surveyed firms, demand and output have returned to pre-pandemic levels, following three consecutive quarters of gradual improvements starting in Q3 2020 (**Figure 2**). This confirms the finding from the previous round of the Pulse survey that MNEs in developing countries were on their way to a steady recovery. Similar to the last quarter, about a third of respondents observed negative impacts on demand (compared to 46 percent in Q4 2020) and 38 percent report their output is still negatively affected (compared to 63 percent in Q4 2020).[4]

Survey data suggest that a recovery in output is closely linked with demand and employment. Of firms reporting their output was negatively impacted in Q2 2021, 82 percent also indicated adverse effects on demand and 68 percent indicated adverse effects on employment. This

Figure 2: Share of MNE affiliates reporting adverse impacts during Q1 and Q2 2021, and average impact during Q2 2021 (n=300)



[3] See Appendix B for additional information on the distribution of responses (histograms for impact categories).

[4] The MNE Pulse survey rounds are cross-sectional and do not follow the same firms from quarter to quarter. This change in the composition of respondents across rounds may affect results between quarters. Please see Appendix A for information on the sample composition and how it has changed between survey rounds.

indicates that lagging demand in some sectors is holding back a complete recovery.

Despite average demand and output returning to pre-pandemic levels, there have been regional differences. The results show that 50 to 68 percent of surveyed MNEs in East Asia and Pacific, South Asia, and Middle East and North Africa report adverse demand and output effects. The incidence of these adverse effects is relatively low (below 20 percent) in other regions. The difference in these impacts highlights the regional divide in economic recovery and an opportunity for increased policy action.

Supply chains and input costs

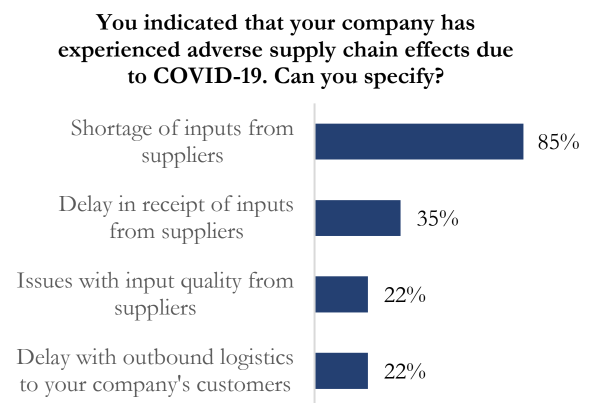
Supply chain reliability and input cost pressures continued to be a challenge for MNEs in developing economies in Q2 2021. Similar to Q1 2021, about a third (32 percent) of respondents experienced supply chain reliability issues in Q2. The average magnitude remains largely unchanged from Q1 2021 at one percent below pre-pandemic levels. Input shortages remain the primary reason of supply chain disruptions among the affected firms (**Figure 3**).

A large share of MNE affiliates continued to face rising input costs in Q2, similar to the previous quarter. Around half of respondents are still experiencing rising input costs after an increase of more than four-fold from Q4 2020 to Q1 2021. The average impact of input price shocks has decreased slightly from 3 percent in Q1 2021 to 2 percent in Q2. The main drivers of the observed rise in input prices are extensive supply chain disruptions (69 percent) and rapid increases in demand (66 percent). Global supply chains have experienced significant disruption, resulting from shipping capacity constraints as demand recovers to pre-pandemic levels.[5] The compounding effects of these impacts are best illustrated by significant increases in maritime transport costs. In some cases, these costs have risen more than fourfold compared to 2019.[6]

Surveyed manufacturing firms have been more severely impacted by the rise in input costs, and the shock has resulted in greater than normal inventory holding. About three in four (73 percent) manufacturing MNEs report facing rising input costs, compared to 21 percent of services firms. To protect against these price pressures, manufacturing firms held more inputs in inventory (51 percent) as compared to services firms (12 percent). In the short run, these higher inventory-to-sales ratios are likely to have a dampening effect on liquidity and income, which is observed in data as well.

The service sector is less dependent on inputs from suppliers and has therefore been less impacted by rising input costs and supply chain disruptions. The absence of these impacts has allowed revenues for surveyed firms in the service sector to stabilize around pre-pandemic levels much quicker than in the manufacturing sector.

Figure 3: Share of MNE affiliates reporting specific supply chain effects during Q2 2021 (n=60)



Worker productivity and employment

The share of surveyed MNEs reporting adverse employment effects compared to pre-pandemic levels dropped significantly from 49 percent in Q1 to 31 percent in Q2 2021. This was likely driven by the scaling up of production and return to production facilities and offices that began to take place in Q2. The magnitude of this impact (i.e., the average change in employment) also diminished, from negative 4 percent to negative 1 percent.

The significant gap between the share of large and small MNEs that report negative employment impacts in Q1 2021 closed greatly in Q2. In Q2, 32 percent of small firms surveyed indicated negative employment impacts compared with 57 percent in Q1 (**Figure 4**). Large firms showed a modest improvement (from 34 percent in Q1 to 31 percent in Q2). Survey data from successive rounds in

[5] COVID-19 Trade Watch September 2021.
[6] According to Bloomberg and the Drewry World Container Index, the spot rate for 40-foot shipping container from Shanghai to Rotterdam was $2,000 in 2019. In Q2 2021, it went up to $9,000.

2021 suggest that larger firms were more promptly able to rescale their workforce in response to recovering demand.[7] After an initial delay, smaller MNE affiliates now appear to be rescaling their workforce.

Despite improving employment signals, the share of MNE affiliates reporting negative impacts to worker productivity rose to 29 percent in Q2, compared with 13 percent in Q1. Surveyed MNEs that indicated the largest impacts to worker productivity were predominantly located in Asia (East Asia and Pacific, South Asia) and MENA. The lagging recovery in those regions is likely driven by the composition of firms located there. Manufacturing, which remains more affected than services, represents a larger share of the value added in Asia (about 24 percent) than in Europe (16 percent) or Latin America and the Caribbean (14 percent). Simultaneously, the rising incidence of COVID-19 cases in Q2 re-introduced restrictions on movement and production, thereby reducing worker productivity.

Liquidity and investment

Liquidity became a significant challenge for MNE affiliates in Q2 2021. Nearly two thirds of surveyed firms (64 percent) report adverse liquidity impact in Q2, an increase of 16 percentage points from Q1 (48 percent). The share of MNE affiliates reporting adverse impacts on liquidity had been relatively stable across prior rounds of the survey, so Q2 results highlight a potentially significant challenge as expansionary policies and relief programs begin to expire or scale down. Additionally, companies may have diminished their cash and asset reserves since the onset of the pandemic. Respondents may have also been influenced by a rise in the value of the US Dollar during the survey period.[8] The results show that this challenge affects all surveyed firms, regardless of their sector, size or business model, and correlates with lower investments levels. Among the 64 percent of respondents reporting lower liquidity, the average investment level remains 3 percent lower than pre-pandemic levels. MNE affiliates that are not experiencing liquidity constraints, report investment levels 3 percent higher relative to pre-pandemic levels.

Continuing the trend observed in previous survey rounds, the share of MNE affiliates reporting adverse impacts to investment continued to fall in Q2. Overall, 29 percent of respondents report adverse impacts to investment compared with 37 percent in Q1. The improvement is not, however, robust across all firms and liquidity is a key driver of investment outcomes.

Revenue and profits

After a slight improvement in Q1, the share of surveyed MNE affiliates reporting negative impacts to revenues and profits rose in Q2 to 62 percent (compared to 56 and 57 percent respectively in Q1). The average impact has stabilized around 2 percent below pre-pandemic levels and is robust across all sectors, regions, business models, and sizes. The finding that a higher share of firms have experienced adverse effects in these areas, while the average impacts remain stable, suggests heterogenous recoveries across firms.[9] It is possible that firms not experiencing adverse effects are seeing significant revenue and profit improvements and are therefore reducing the average magnitude of the impact.

Other factors could be driving revenue and profits to remain below pre-pandemic levels. While employment is recovering in response to rising demand, rising input costs, higher inventory holdings, and deferred investment into production could be moderating any real effect on revenues and profits.

Regional differences

In every region, the majority of surveyed companies report at least one adverse impact of COVID-19 from the ten business dimensions measured (**Figure 4**). Surveyed MNE affiliates in South Asia, East Asia, and Middle East and North Africa were more likely to report adverse effects across business dimensions. A sizable share of survey respondents in Europe and Central Asia, Sub-Saharan Africa and Latin America and the Caribbean are still adversely affected in terms of revenue and net income and report high input costs. Surprisingly, in these regions a smaller share of firms report adverse effects on investment, demand, and output. Future survey rounds will investigate the divergence across regions.

[7] Throughout the report, firms with more than 250 employees are categorized as large.
[8] From its lowest value in March 2021 to its peak in May 2021, the exchange rate of the USD against the EUR increased by 5 percent.
[9] See Appendix B for additional information on the distribution of responses (histograms for impact categories).

Figure 4: Share of MNE affiliates reporting adverse effects from the COVID-19 pandemic in Q2 2021 by sector, region, business model and size (n=300)

		Sector		Region						Business model		Company size	
	Total	Manufacturing	Services	East Asia and Pacific	South Asia	Middle East and North Africa	Sub-Saharan Africa	Europe and Central Asia	Latin America and the Caribbean	Export-oriented	Business-oriented	<250 emp.	>=250emp.
Supply chain reliability	32%	37%	26%	76%	50%	62%	2%	0%	0%	45%	27%	32%	31%
Input costs	47%	73%	21%	40%	48%	32%	56%	54%	52%	26%	41%	29%	62%
Liquidity	64%	73%	56%	66%	66%	78%	54%	68%	54%	60%	66%	62%	66%
Worker productivity	29%	32%	26%	66%	50%	50%	6%	0%	2%	40%	26%	32%	27%
Investment	29%	33%	26%	68%	50%	56%	2%	0%	0%	37%	27%	30%	29%
Demand	34%	39%	29%	68%	52%	58%	2%	10%	14%	40%	32%	36%	32%
Output	38%	45%	31%	68%	52%	62%	6%	18%	20%	44%	36%	40%	36%
Employment	31%	34%	29%	68%	54%	56%	4%	4%	2%	42%	28%	32%	31%
Revenues	62%	71%	54%	70%	64%	70%	50%	62%	58%	63%	62%	63%	62%
Net income	62%	69%	55%	70%	62%	72%	50%	62%	58%	64%	62%	63%	62%
Any business dimension (excl. input costs)	76%	84%	69%	89%	83%	86%	62%	72%	64%	81%	75%	79%	65%
Any business dimension	78%	85%	71%	93%	87%	88%	62%	74%	64%	84%	77%	80%	72%

Note: Darker shading reflects higher intensity. For example, 37 percent of manufacturing firms surveyed experienced adverse supply chain reliability in the second quarter of 2021, relative to pre-pandemic levels.

Changes to Investment Plans

MNEs' future investment plans have become slightly more optimistic, providing early signs of an improvement in the investment outlook – although the specter of uncertainty remains. The investment prospects of surveyed MNEs are improving amid a strong global economic recovery that is driven mainly by the rebound in demand in advanced economies. Survey data suggest that over the past four quarters (Q3 2020 through Q2 2021) MNEs' investment plans have stabilized. The share of MNEs expecting to increase investment over the next three years has reached a pandemic high. However, uncertainty about future economic conditions remains the key factor holding back further investment. Governments, however, have the opportunity to foster further investment through increased support by investment promotion agencies (IPAs), as well as policy and regulatory reforms that relax investment constraints and protect investors.

Changes to investment plans

Overall, 72 percent of respondents expected no change in their parent companies' level of investment in the host country over the next 1-3 years. This is down from 92 percent in Q1 and the trend is consistent across regions, business models, firm size, and sectors (**Figure 5**).[10] More importantly, the share of surveyed MNEs expecting to increase their investment in the next 1-3 years has increased to 21 percent from 8 percent in Q1. This represents a stabilization in investment outlook as firms begin implementing investment plans deferred because of the pandemic. The share of surveyed firms planning to decrease investment (6 percent) increased slightly from Q1. At the same time, the data suggest that only a small share of survey respondents are 'very certain' about their parent company's investment plans.

Regional differences in investment outlook have also become apparent, with 40 percent of surveyed MNE affiliates in South Asia expecting increases in their parent companies' investment plans. In other regions, only between 10 and 22 percent of surveyed MNEs expected investment to increase. There are two primary drivers that contribute to this trend. First, when compared to pre-pandemic levels, South Asia lags all other regions in terms of current investment level. This creates a situation where

Figure 5: Expected changes in investment in the host country (Q3 2020 n=305; Q4 2020 n=329; Q1 2021 n=300; Q2 2021 n=300)

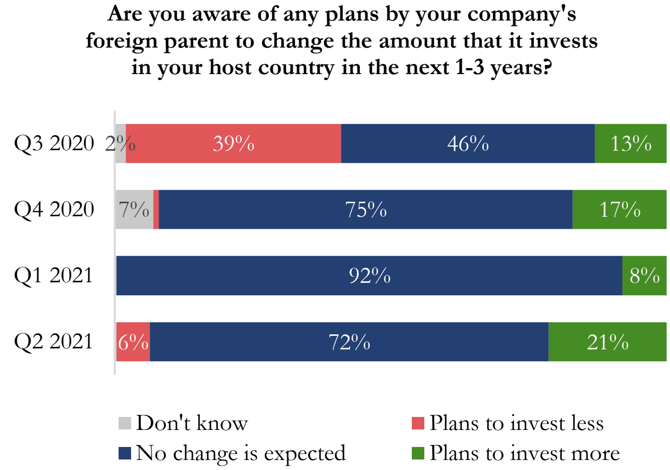
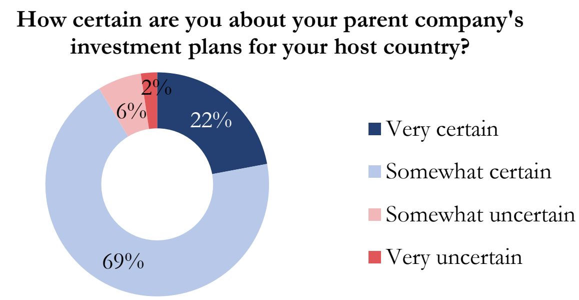


Figure 6: Level of certainty about parent company's investment plans for host country (n=300)



affiliates in the region may be willing to catch up to their previous investment levels as economies recover. Secondly, surveyed MNE affiliates in South Asia experienced the largest employment reductions at the onset of the pandemic (9 percent on average) and therefore have the most ambitious recruitment plans over the next 1 to 3 years (14 percent on average). The observed increases in investment are a sign of recovery in the region and an important development for a global recovery.

Consistent with prior survey rounds, only 22 percent of respondents were "very certain" about their company's investment plans (**Figure 6**). Uncertainty, even more so than the previous quarter, is reported as the primary reason for firms leaving investment plans unchanged. Among

[10] Throughout the report, business model refers to export oriented or business oriented (domestic market oriented).

surveyed firms that are not planning to change investment in the next 1-3 years, 86 percent of respondents cite uncertainty as the key factor in their decision not to expand investment (**Figure 7**). Expectations of limited demand growth (82 percent), as well as sufficient capacity to meet demand (74 percent), are also among the main reasons for unchanged investment plans. A significant share of MNEs have not yet reached pre-pandemic output levels (38 percent) and due to the high uncertainty in demand recovery, it is plausible that boardrooms will draw up new investment plans only after their affiliates attain pre-crisis productivity and capacity.

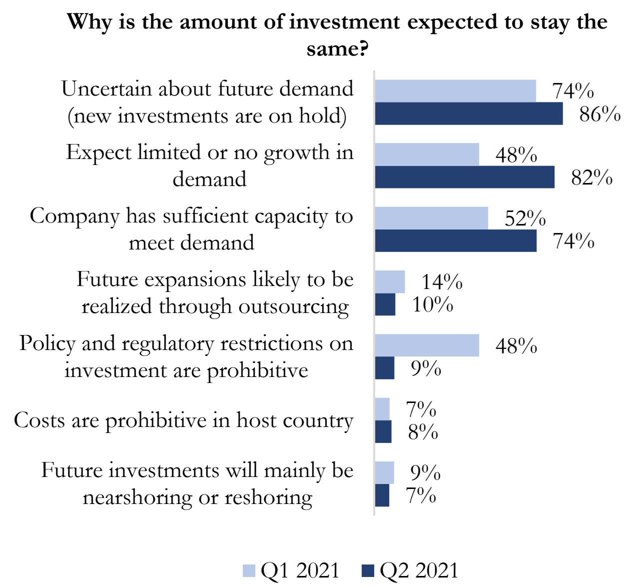
Among MNE affiliates that expect to increase their investment (n=60), the primary drivers are changes or expected changes in policies and regulations for foreign investors (73 percent) and insourcing of production (63 percent). This highlights the importance of the regulatory environment in attracting FDI during a period of recovery. To remain competitive in the global FDI market, policymakers should thus remain committed to fair market access for foreign firms, remove critical administrative barriers to investment, and improve the implementation and quality of investment laws.

Policies to encourage investment

In Q1, 48 percent of survey respondents cited policy and regulatory restrictions on investment as the primary reason for leaving investment plans unchanged, but this has dropped to just 9 percent in Q2. This may illustrate that the pro-investment and expansionary policies of the past year have been effective, and restrictiveness is no longer a major concern of MNEs. Governments play a central role in the investment decisions of MNEs and should maintain current expansionary policies (including business-supportive policies) until there is a complete recovery.

The policies that help businesses foster additional investment seem to be shifting from removing barriers to investment towards incentives and support from IPAs, at least in the eyes of investors. The share of respondents citing relaxation of investment constraints/ restrictions in their top three policies to drive additional investment fell

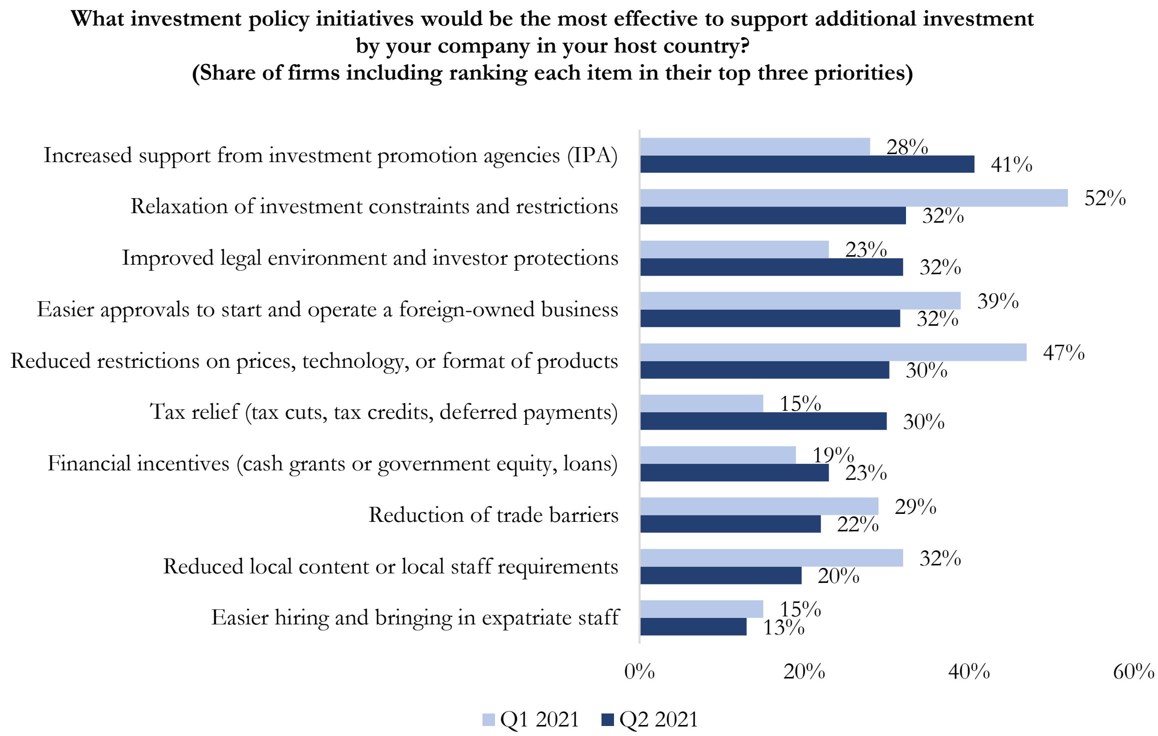
Figure 7: Main drivers for no change in investment plans (Q1 2021 n=275; Q2 2021 n=217)



from 52 percent in Q1 to 32 percent in Q2 (Error! Reference source not found.).

Survey data indicate what investors care about in terms of policy support. For example, Q2 data suggest that support from IPAs is now the most commonly sought-after policy support. More than 40 percent of respondents cite it as one of their top-three desired areas of support toward additional investment. Tax relief, including tax cuts, tax credits, and deferred payments, is also important among respondents and is considerably more desirable than the previous quarter (30 percent in Q2 as compared to 15 percent in Q1). Other key policies to foster investment include improving the legal environment (32 percent) and easier approvals for foreign-owned businesses (32 percent). Overall, the pandemic's adverse effects on MNEs and global production require policymakers to boost their countries' investment competitiveness. Moving forward, governments should restore investor confidence by maintaining a stable and predictable investment policy environment and resisting protectionist policies.

Figure 8: Policy initiatives mentioned by respondents as encouraging investment in their host country in Q1 and Q2 2021 (n=300)



Employment and Skills

Employment generation and upskilling of the workforce by MNE affiliates in developing countries play a critical role in their contribution to economic development. Since the onset of the pandemic, half of surveyed MNE respondents had to lay off employees, presenting a significant challenge for host economies. However, data from Q2 2021 indicate that most MNE affiliates expect their workforce to grow over the next three years – signaling a notable recovery. As MNE affiliates grow their workforce back to pre-pandemic levels, they seek more qualified workers who can thrive in new, technology driven work environments.

Changes in the workforce levels

Over the course of the pandemic, lockdowns, demand shocks, and operational disruptions forced a significant share (57 percent) of surveyed MNE affiliates to reduce their workforce. Q2 survey results indicate the average workforce reduction was about 5 percent but heterogenous across firms, sectors, regions, and company size. Manufacturing MNE affiliates were particularly hard hit with 77 percent indicating they laid off employees, as compared with 37 percent of services MNE affiliates. This is consistent with findings from previous survey rounds that the impact of the crisis has been more adverse – both in incidence and in magnitude -- among manufacturing MNE affiliates.

Surveyed MNE affiliates that retained their workforce during the crisis (43 percent) are now performing better compared to others. Overall, their workers were 5.4 percent more productive than before the pandemic, compared with 0.3 percent below for those that laid off workers (**Figure 9**). The decision to retain workers may not always be strategic: on average, firms that laid off workers experienced demand 6 percent lower than pre-pandemic levels, while those that retained workers report demand above pre-pandemic levels (3 percent higher). It is also possible that firms with higher management quality were able to weather the turbulence better and raise productivity. These results are mainly driven by financial, information, and professional services firms who have largely seen a robust recovery after a short-lived contraction during the pandemic.[11]

Interestingly, the companies with the most ambitious recruitment plans over the next three years are those that reduced the size of their workforce during the pandemic. While this suggests an improving outlook for recovery,

Figure 9: Average changes in output and worker productivity

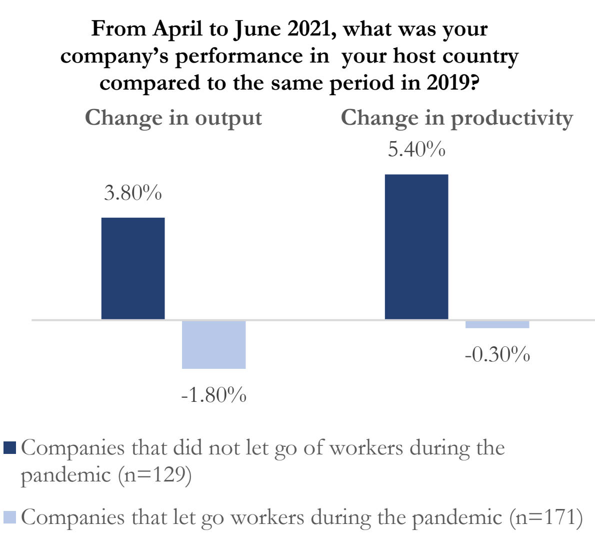
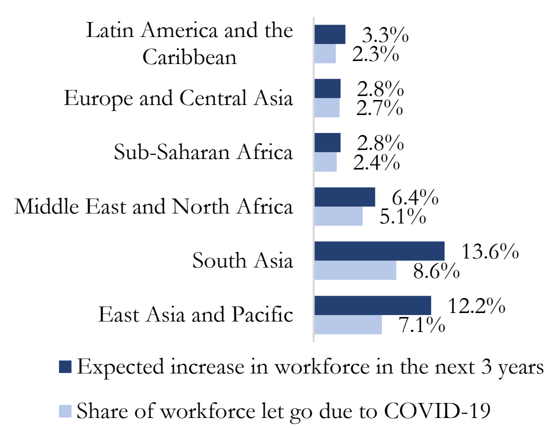


Figure 10: Share of workforce laid off during the pandemic and expected increase in workforce over the next 1-3 years (n=300)



Note: Due to base effects, current level of workforce cannot be determined by a simple calculation of the workforce previously let go and the expected increase in the workforce over the next 1-3 years.

[11] Of the 129 firms that retained their workforce, 73 percent were services firms, with finance and insurance (19 percent), professional, scientific and technical services (19 percent), and information and communication services (17 percent) making up the largest subsectors.

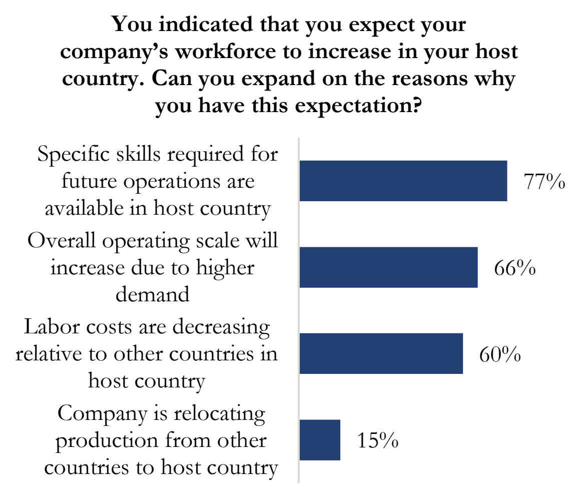
the prospects are not uniform across sectors. The average reduction was greater for surveyed manufacturing MNE affiliates and they have more modest recruitment plans over the next three years.

Overall, surveyed MNE affiliates anticipate significant recruitment plans over the next 1-3 years, with an expected 7 percent expansion of the workforce. Compared to the share of workers laid off (5 percent) surveyed MNE affiliates project an employment growth over the next three years of 2 percent above pre-pandemic levels.

MNE affiliates surveyed in SAR and EAP experienced the largest declines in employment levels during the pandemic (9 percent and 7 percent respectively), but survey data on recruitment plans signal an above average workforce expansion (12 percent increase, compared to 3 percent in ECA, LAC, and SSA) (**Figure 10**). If these plans materialize, the resulting workforce in MNE affiliates located in SAR and EAP is expected to be 4 percent above pre-pandemic levels. The workforce in other regions (MENA, SSA, ECA and LAC) is expected to expand only by 0 to 1 percent above pre-pandemic levels.

The primary driver for MNE affiliates planning to expand their workforce in the next 1-3 years is the demand for skills that will be required for future operations (77 percent) (**Figure 11**). Recovery in demand (66 percent) and decreasing relative labor costs (60 percent) are other important factors contributing to their expected

Figure 11: Main reasons for expectations of increases in workforce in 1-3 years (n=202)



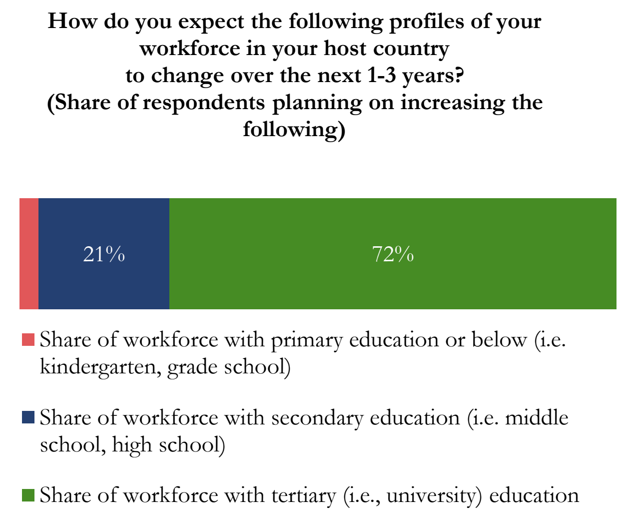
workforce expansion. There is little survey evidence that relocation of production from other host economies will drive workforce growth among MNE affiliates.

There are regional differences in MNE affiliates' hiring expectations. All respondents in SSA, ECA, and LAC indicated that they will use local talent for hiring needs. In EAP and MENA however, local hiring is less prevalant (52 and 72 percent respectively). Firms in these regions plan on utilizing a combination of strategies, including continuing education for employees (developing skills), outsourcing tasks, and relocating tasks to other counties. This indicates that the skills in demand by MNEs may not be readily available in these regions (EAP and MENA). Host country governments should turn their attention to skills development, both as a strategy to retain and increase employment within MNE affiliates, and as source of investment competitiveness.

Changes in workforce profile

Surveyed MNE affiliates are now looking for individuals with higher levels of education in order to utilize new technologies and adapt to an evolving business environment. Respondents indicate they will be increasingly looking for workers with tertiary eduation to meet their employment needs. A majority (72 percent) of MNE affiliates expect the share of workers with tertiary education to increase over the next 1-3 years, compared to only 3 percent for primary education or below (**Figure 12**).

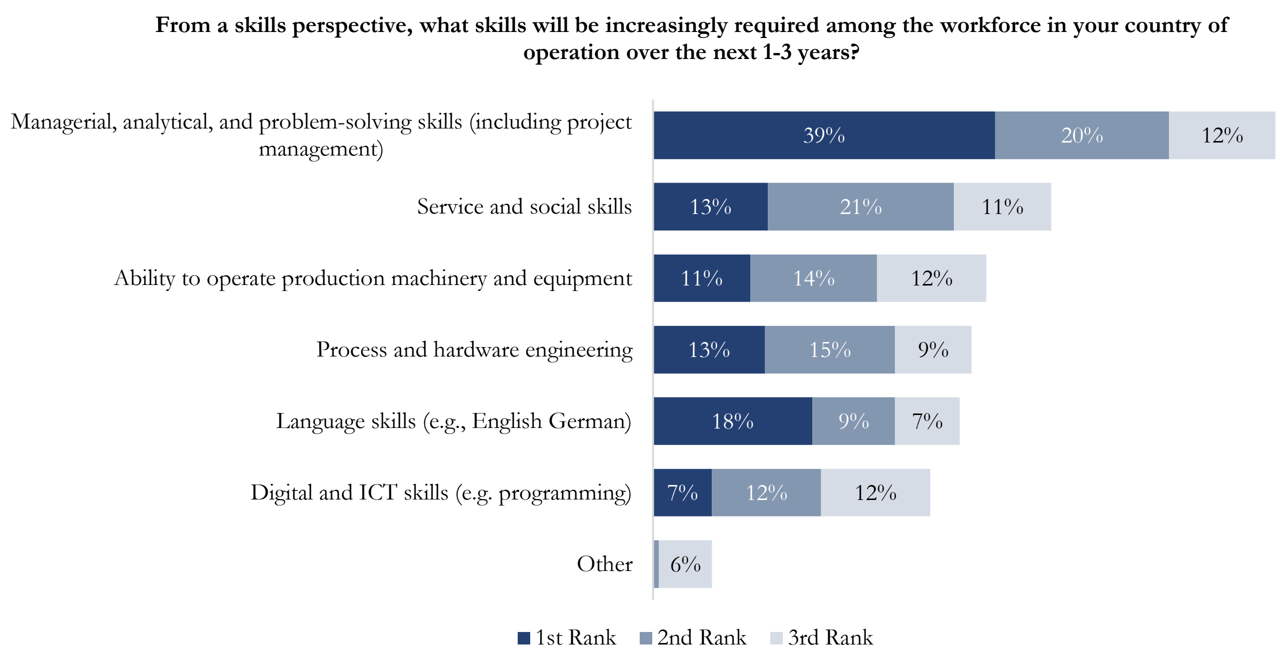
Figure 12: Expected changes in workforce profile (n=300)



Surveyed MNE affiliates in SAR, EAP, and MENA expect significant shifts in the educational composition of their workforce over the next three years. The share of workers with secondary and tertiary education is likely to expand (between 32 and 56 percent of firms in the three regions report this expectation). Simultaneously, the share of workers with primary education is likely to shrink (between 24 and 32 percent of surveyed firms in the three regions report this expectation). These are the largest regional changes in the education profile of the workforce and signals a shift in workforce composition of MNE affiliates.

Survey data also reflect a shift in MNE affiliates' skills demand in host economies. Seventy one percent of respondents report task management and problem-solving skills among the top three skills required of their workforce in the next 1 to 3 years (**Figure 13**). Indicating a shift away from task based roles, service and social skills are the second most sought after skill, cited by 45 percent of respondents. This trend is observed across all sectors, company sizes, and business models.

Figure 13: Main skills expected to be increasingly required among workforce in host country (n=300)



Note: Shares are based on frequency counts of ranked response options.

Appendix A: About the Survey

The data for this study comes from the Q2 2021 Pulse survey conducted between July 19 and August 13, 2021.The Pulse survey's goal is to monitor MNE performance along several supply and demand dimensions, gain information on business strategy adjustments, and assess policy responses. This survey round included new questions on MNE employment and skills requirements.

Survey Coverage

The survey involved interviewing senior executives in affiliate operations of MNEs in the following six regions: East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, the Middle East and North Africa, South Asia, and Sub-Saharan Africa. The 300 MNEs that responded to the survey represented the six regions (50 respondents from each region) and the manufacturing and service sectors (150 respondents from each sector).

Survey Content

Questions were organized into the following sections:

1. *General information on the company and interviewee*, including host and source country, position, number of employees, total asset, sector, and sub-sector.
2. *The effect of COVID-19 in the second quarter of 2021,* including the company's performance on various dimensions compared to the same period in 2020 and adverse impacts on aspects of the supply chain.
3. *Investment plans and policy initiatives*, including the parent company's investment plans, changes in the supply chain in terms of input sourcing, and policy initiatives that could encourage investment.
4. *The changes in employment and skills required by MNEs,* including the share of workforce that was let go, plans of recruitment, skills expected to be increasingly required, and strategies to fill skills needs.

Survey Administration

The World Bank Group commissioned EY Advisory (EY) and Euromoney PLC (Euromoney, as EY's subcontractor) to conduct the third Pulse survey. The survey was conducted online, in English.

Each online survey was approximately 20 minutes long. Respondents participated in and completed the survey anonymously to protect their privacy and encourage participation and candid responses. The survey data was delinked from individual responses.

The survey was launched on July 19, 2021 and the fieldwork was completed on August 13, 2021.

Data Collection and Data Summary

The survey data set contains 300 responses from MNE affiliates operating in 36 developing countries. Of the sample of 300 responses, 150 responses are from manufacturing and 150 are from services. Overall, the response rate for the survey was 17 percent (300 responses obtained from 1759 attempts). The response rate for manufacturing was 16 percent and for services was 18 percent. Within services, the highest sub-sectoral response rates were in finance and insurance (34 percent), information and communication services (23 percent), and professional services (23 percent). As a result, the services sample comprises a higher share of firms from these subsectors. Within manufacturing, the highest response rates were in coke and refined petroleum (67 percent), paper and paper products (57 percent), and food products (28 percent) subsectors. Firms from these subsectors comprise a higher share of the manufacturing sample.

The figures below present the distributions of respondents by region and country of operation (**Figure 14**), foreign parent company location (**Figure 15**), business size by number of employees (**Figure 16Error! Reference source not found.Error! Reference source not found.**) and total assets (**Figure 17Error! Reference source not found.**), the respondent's position (**Figure 18Error! Reference source not found.**) and the business sector/subsector (**Figure 19**), response rate by subsector (**Figure 20**).

Figure 14: Sample distribution by region and country of operation

Region/Host Country	Q4 2020		Q1 2021		Q2 2021	
	Count	Percent	Count	Percent	Count	Percent
East Asia & Pacific	**52**	**16%**	**50**	**17%**	**50**	**17%**
Cambodia	3	1%	2	1%	2	1%
China	21	6%	20	7%	20	7%
Indonesia	6	2%	6	2%	6	2%
Malaysia	8	2%	8	3%	8	3%
Philippines	6	2%	6	2%	6	2%
Thailand	2	1%	2	1%	2	1%
Vietnam	6	2%	6	2%	6	2%
Europe & Central Asia	**55**	**17%**	**50**	**17%**	**50**	**17%**
Bulgaria	9	3%	8	3%	8	3%
Georgia	10	3%	8	3%	8	3%
Russia	16	5%	16	5%	16	5%
Turkey	12	4%	10	3%	10	3%
Ukraine	8	2%	8	3%	8	3%
Latin America & the Caribbean	**57**	**17%**	**50**	**17%**	**50**	**17%**
Argentina	8	2%	8	3%	8	3%
Brazil	19	6%	14	5%	14	5%
Cuba	4	1%	4	1%	4	1%
Ecuador	4	1%	4	1%	4	1%
Jamaica	2	1%	2	1%	2	1%
Mexico	15	5%	14	5%	14	5%
Peru	5	1%	4	1%	4	1%
Middle East & North Africa	**52**	**16%**	**50**	**17%**	**50**	**17%**
Algeria	5	1%	4	1%	4	1%
Egypt	12	4%	12	4%	12	4%
Iran	10	3%	10	3%	10	3%
Jordan	10	3%	10	3%	10	3%
Lebanon	7	2%	6	2%	6	2%
Morocco	8	3%	8	3%	8	3%
South Asia	**56**	**17%**	**50**	**16%**	**50**	**16%**
Bangladesh	19	6%	16	5%	16	5%
India	21	7%	20	7%	20	7%
Maldives	4	1%	4	1%	4	1%
Pakistan	4	1%	4	1%	4	1%
Sri Lanka	8	2%	6	2%	6	2%
Sub-Saharan Africa	**56**	**17%**	**50**	**16%**	**50**	**16%**
Cameroon	1	0%	-	-	-	-
Cote d'Ivoire	1	0%	4	1%	4	1%
Kenya	4	1%	6	2%	6	2%
Namibia	6	2%	6	2%	6	2%
Nigeria	11	3%	10	3%	10	3%
South Africa	18	6%	14	5%	14	5%
Tanzania	11	3%	10	3%	10	3%
Total	**329**	**100%**	**300**	**100%**	**300**	**100%**

Note: *The survey followed a similar research design for the three rounds presented above. For prior rounds, the sample size was much lower, hence survey rounds prior to those presented above are not included.*

Figure 15: Sample distribution by location of foreign parent company

Region/Source Country	Q4 2020		Q1 2021		Q2 2021	
	Count	Percent	Count	Percent	Count	Percent
East Asia & Pacific	**41**	**12%**	**56**	**13%**	**30**	**10%**
Australia	4	1%	8	3%	3	1%
China	6	2%	10	3%	6	2%
Hong Kong SAR, China	3	1%	2	1%	-	-
Indonesia	1	0%	-	-	-	-
Japan	8	2%	3	1%	6	2%
Korea, Rep	4	1%	3	1%	2	1%
Malaysia	-	-	1	0%	4	1%
Philippines	-	-	-	-	1	0%
Singapore	10	3%	9	3%	6	2%
Taiwan, China	5	2%	3	1%	2	1%
Europe & Central Asia	**121**	**37%**	**119**	**40%**	**138**	**46%**
Austria	2	1%	3	1%	3	1%
Belgium	2	1%	5	2%	3	1%
Croatia	-	-	1	0%	-	-
Denmark	7	2%	8	3%	4	1%
Estonia	-	-	-	-	1	0%
Finland	2	1%	-	-	2	1%
France	17	5%	20	7%	31	10%
Germany	23	7%	20	7%	23	8%
Greece	1	0%	-	-	-	-
Ireland	4	1%	6	2%	3	1%
Italy	5	2%	6	2%	3	1%
Luxembourg	3	1%	-	-	1	0%
Netherlands	6	2%	7	2%	8	3%
Norway	1	0%	2	1%	2	1%
Poland	-	-	2	1%	-	-
Spain	2	1%	3	1%	3	1%
Sweden	6	2%	5	2%	5	2%
Switzerland	16	5%	11	4%	8	3%
Turkey	-	-	1	0%	-	-
United Kingdom	24	7%	19	6%	38	12%
Latin America & the Caribbean	**3**	**1%**	**-**	**-**	**1**	**0%**
Chile	1	0%	-	-	1	0%
Colombia	1	0%	-	-	-	-
Uruguay	1	0%	-	-	-	-
Middle East & North Africa	**10**	**3%**	**12**	**4%**	**10**	**3%**
Israel	1	0%	1	0%	-	-
Jordan	1	0%	1	0%	-	-
Kuwait	1	0%	-	-	1	0%
Lebanon	-	-	-	-	4	1%
Qatar	1	0%	2	1%	-	-
Saudi Arabia	1	0%	1	0%	-	-
Syrian Arab Republic	-	-	1	0%	-	-
Tunisia	1	0%	-	-	-	-
United Arab Emirates	1	0%	6	2%	5	2%
North America	**115**	**35%**	**98**	**33%**	**104**	**35%**
Bermuda	3	1%	-	-	-	-
Canada	3	1%	2	1%	3	1%
United States	109	33%	96	32%	101	34%
South Asia	**26**	**8%**	**18**	**6%**	**12**	**4%**
Bangladesh	1	0%	1	0%	1	0%
India	23	7%	15	5%	11	4%
Pakistan	2	1%	2	1%	-	-

Region/Source Country	Q4 2020		Q1 2021		Q2 2021	
	Count	Percent	Count	Percent	Count	Percent
Sub-Saharan Africa	**13%**	**4%**	**12**	**4%**	**5**	**2%**
Botswana	-	-	1	0%	-	-
Ghana	-	-	1	0%	-	-
Kenya	4	1%	2	1%	1	0%
Mauritius	2	1%	1	0%	-	-
Namibia	-	-	-	-	2	1%
Nigeria	2	1%	2	1%	2	1%
South Africa	3	1%	1	0%	-	-
Tanzania	1	0%	-	-	-	-
Uganda	-	-	1	0%	-	-
Zambia	1	0%	1	0%	-	-
Total	**329**	**100%**	**300**	**100%**	**300**	**100%**

Note: *The survey followed a similar research design for the three rounds presented above.*

Figure 16: Sample distribution by size (number of employees)

Size	Count	Percent
Smaller (<250 employees)	136	55%
Larger (>=250 employees)	164	45%
Total	**300**	**100%**

Figure 17: Sample distribution by assets in host country

Assets	Count	Percent
Less than 2 million	51	18%
USD 2-5 million	85	28%
USD 5-10 million	49	16%
USD 10-50 million	68	23%
>USD 50 million	43	14%
Do not know	4	1%
Total	**300**	**100%**

Figure 18: Sample distribution by respondent's position

Respondent's position	Count	Percent
Country General Manager	97	32%
Country Finance Head	54	19%
Country Strategy Head	21	7%
Country Sales Manager	64	21%
Country Operations Manager	64	21%
Total	**300**	**100%**

Figure 19: Sample distribution by business sector and subsector (ISIC 4.0)

Business sector/subsector	Q4 2020		Q1 2021		Q2 2021	
	Count	Percent	Count	Percent	Count	Percent
Manufacturing	**160**	**49%**	**150**	**50%**	**150**	**50%**
Basic metals	2	1%	5	2%	2	1%
Beverages	7	2%	7	2%	10	3%
Chemicals and chemical products	14	4%	16	5%	10	3%
Coke and refined petroleum	-	-	2	1%	4	1%
Computer, electronic and optical products	11	3%	15	5%	11	4%
Electrical equipment	14	4%	20	7%	20	7%
Fabricated metal products, except machinery and equipment	2	1%	1	0%	1	0%
Food products	13	4%	11	4%	14	5%
Machinery and equipment not elsewhere classified	27	8%	19	6%	8	3%
Motor vehicles, trailers, and semi-trailers	22	7%	8	3%	17	6%
Non-metallic mineral products	2	1%	-	-	1	0%
Other manufacturing	13	4%	17	6%	19	6%
Other transport equipment	1	0%	2	1%	3	1%
Paper and paper products	1	0%	2	1%	4	1%
Pharmaceuticals	18	5%	11	4%	14	5%
Recorded media	-	-	1	0%	-	-
Rubber and plastics products	1	0%	5	2%	3	1%
Tobacco	4	1%	1	0%	4	1%
Textiles and wearing apparel	8	2%	6	2%	2	1%
Wood products	-	-	1	0%	-	-
Services	**169**	**51%**	**150**	**50%**	**150**	**50%**
Accommodation and food services	5	2%	5	2%	5	2%
Administrative and support services	12	4%	6	2%	4	1%
Education	-	-	1	0%	1	0%
Electricity and gas supply	6	2%	7	2%	5	2%
Financial services (including insurance)	28	9%	19	6%	32	11%
Health and social services	14	4%	17	6%	6	2%
Information and communication	34	10%	38	13%	31	10%
Other services	2	1%	4	1%	2	1%
Professional, scientific and technical activities	27	8%	17	6%	33	11%
Real estate	-	-	1	0%	1	0%
Transportation and storage	27	8%	26	9%	15	5%
Water and waste services	2	1%	1	0%	1	0%
Wholesale and retail trade	12	4%	8	3%	14	5%
Total	**329**	**100%**	**300**	**100%**	**300**	**100%**

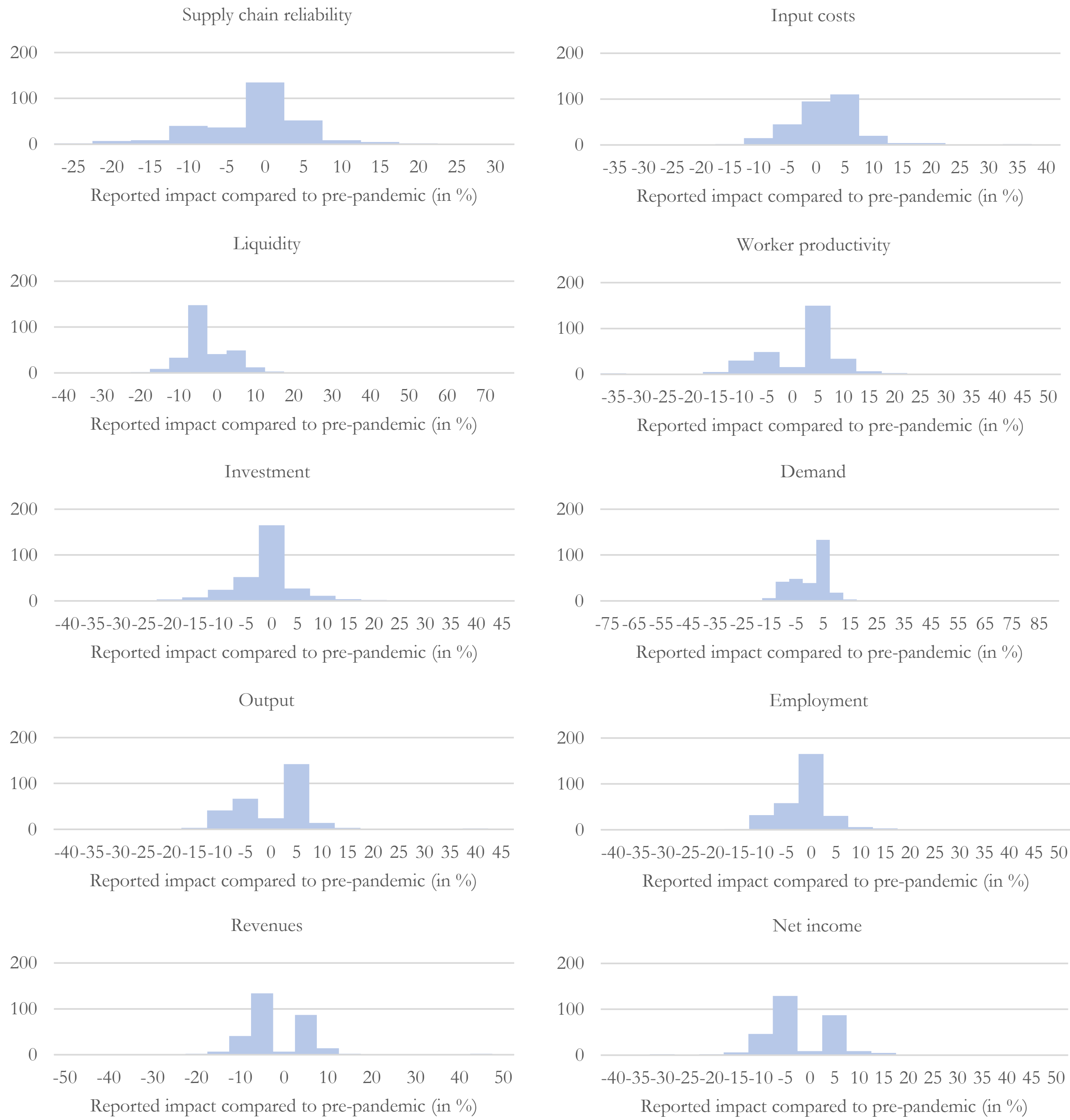
Figure 20: Response rate by sub-sector

Business sector/sub-sector	Targeted		Achieved		
	Count	Percentage	Count	Percentage	Response Rate
Manufacturing	**945**	**54%**	**150**	**50%**	**16%**
Basic metals	18	2%	2	1%	11%
Beverages	54	6%	10	7%	19%
Chemicals	91	10%	10	7%	11%
Coke and refined petroleum	6	1%	4	3%	67%
Computer, electronic, and optical products	64	7%	11	7%	17%
Electrical equipment	113	12%	20	13%	18%
Fabricated metal products	14	1%	1	1%	7%
Food products	50	5%	14	9%	28%
Furniture	3	0%	0	0%	0%
Leather and related products	4	0%	0	0%	0%
Machinery and equipment	97	10%	8	5%	8%
Motor vehicles and trailers	106	11%	17	11%	16%
Non-metallic minerals products	9	1%	1	1%	11%
Other manufacturing	86	9%	19	13%	22%
Other transport equipment	30	3%	3	2%	10%
Paper and paper products	7	1%	4	3%	57%
Pharmaceuticals	86	9%	14	9%	16%
Recorded media	3	0%	0	0%	0%
Rubber and plastics	29	3%	3	2%	10%
Textiles	11	1%	2	1%	18%
Tobacco	32	3%	4	3%	13%
Wearing apparel	24	3%	3	2%	13%
Wood products	8	1%	0	0%	0%
Services	**846**	**46%**	**150**	**50%**	**18%**
Accommodation and food service	32	4%	5	3%	16%
Administrative and support services	43	5%	4	3%	9%
Arts and recreation	11	1%	0	0%	0%
Education	13	2%	1	1%	8%
Electricity and gas supply	41	5%	5	3%	12%
Finance and insurance	93	11%	32	21%	34%
Health and social services	42	5%	6	4%	14%
Information and communication services	134	16%	31	21%	23%
Other services	59	7%	2	1%	3%
Professional, scientific and technical services	142	17%	33	22%	23%
Real estate	21	2%	1	1%	5%
Transportation and storage	108	13%	15	10%	14%
Water and waste services	15	2%	1	1%	7%
Wholesale and retail trade	92	11%	14	9%	15%
Total	**1759**	**100%**	**300**	**100%**	**17%**

Appendix B: Additional Figures

Figure 21: Sample distribution (n=300)

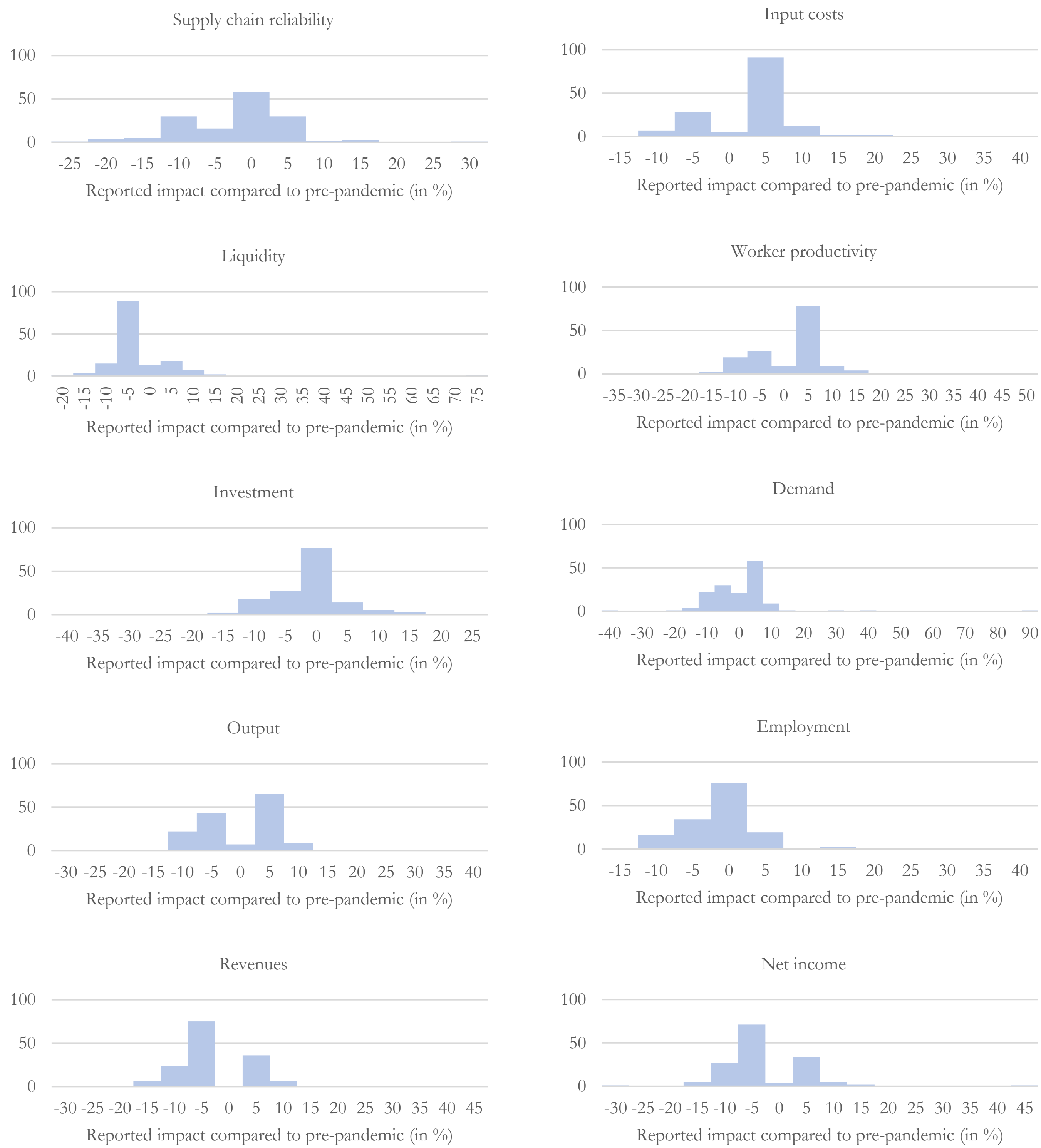
From April to June 2021, what was your company's performance in your country of operation, compared to the same period in 2019?



***Note:** Above histograms were computed based on frequency. Respondents were asked to indicate how the above ten dimensions changed compared to pre-pandemic levels, -100% to +100%, in increments of 5% to the closest decimal point. For instance, a respondent with a +9.9% change was asked to select the 10% increment, while one with a +5.1% change was asked to select the 5% increment.*

Figure 22: Sample distribution among manufacturing firms (n=150)

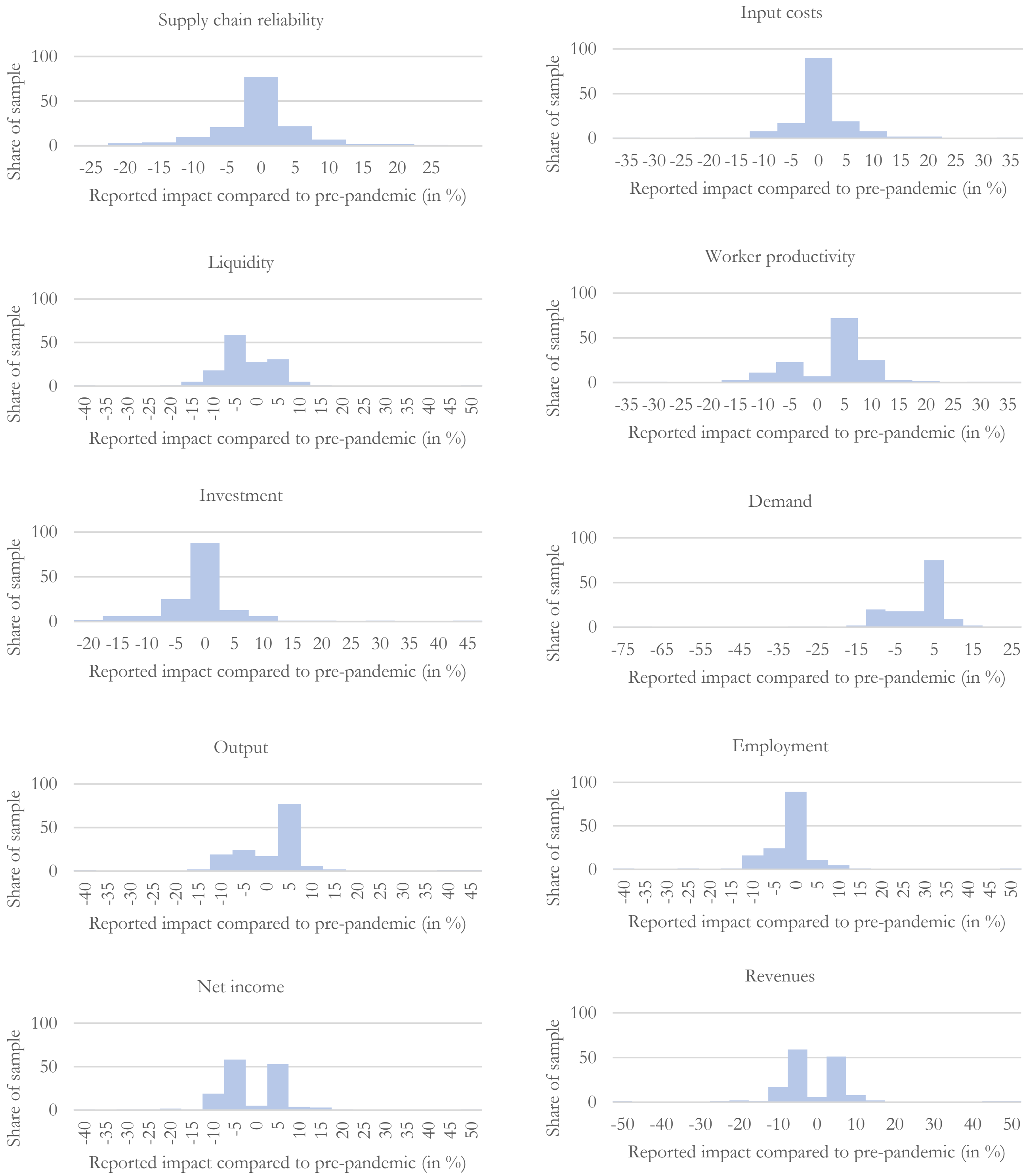
From April to June 2021, what was your company's performance in your country of operation, compared to the same period in 2019?



***Note:** Above histograms were computed based on frequency. Respondents were asked to indicate how the above ten dimensions changed compared to pre-pandemic levels, -100% to +100%, in increments of 5% to the closest decimal point. For instance, a respondent with a +9.9% change was asked to select the 10% increment, while one with a +5.1% change was asked to select the 5% increment.*

Figure 23: Sample distribution among services firms (n=150)

From April to June 2021, what was your company's performance in your country of operation, compared to the same period in 2019?



Note: *Above histograms were computed based on frequency. Respondents were asked to indicate how the above ten dimensions changed compared to pre-pandemic levels, -100% to +100%, in increments of 5% to the closest decimal point. For instance, a respondent with a +9.9% change was asked to select the 10% increment, while one with a +5.1% change was asked to select the 5% increment.*

Table of Figures

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