



# Strengthening FDI and SME linkages for productivity and innovation

Workshop on Promoting SME Development in the Suez Canal Economic Zone  
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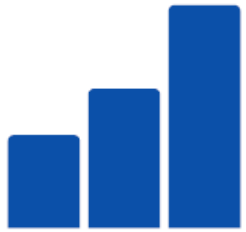




# FDI Qualities Initiative: OECD tools on sustainable investment

The **FDI Qualities Initiative** provides governments with the tools to encourage **sustainable investment**

## FDI Qualities Indicators



Measure impact and outcomes across countries and SDGs

## FDI Qualities Policy Toolkit



Identify the right policy mix and institutional setting

## FDI Qualities Network



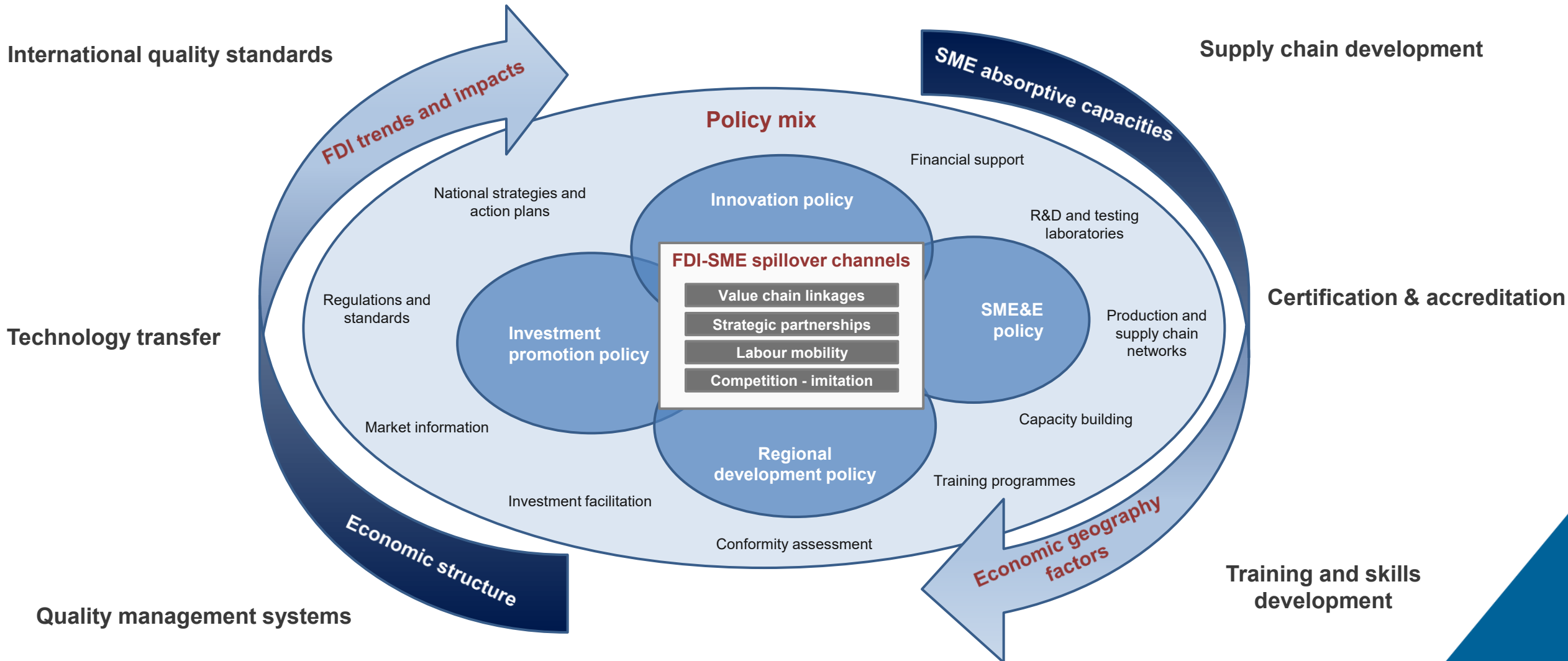
Engage with national and global stakeholders



Check out our website: [OECD FDI Qualities Initiative](https://www.oecd.org/qualities/)



# FDI and SME linkages that support productivity and technology transfer: a conceptual framework





# **MEASURING FDI-SME LINKAGES AND THEIR POTENTIAL FOR SME UPGRADING**



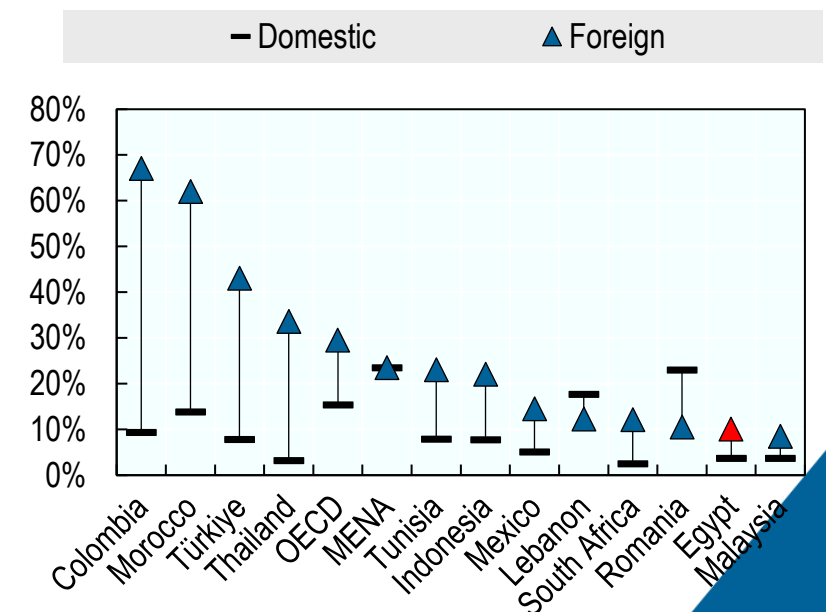
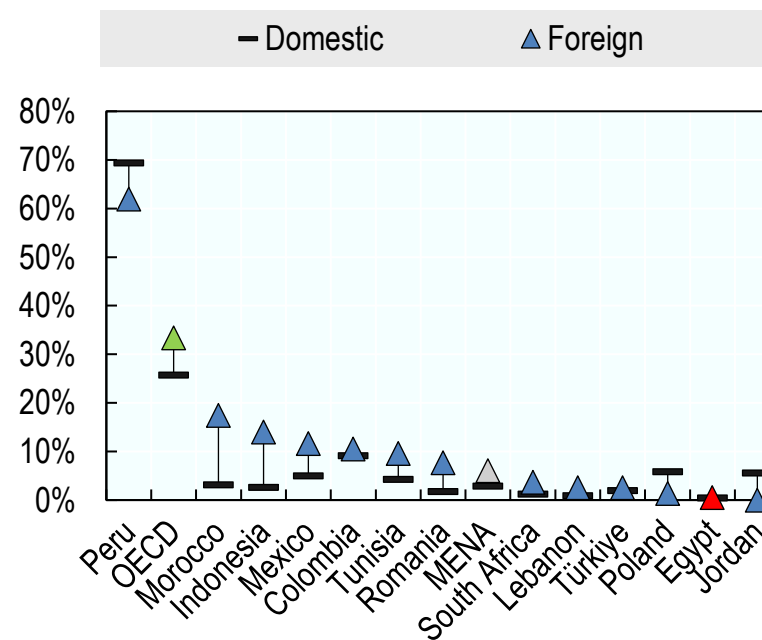
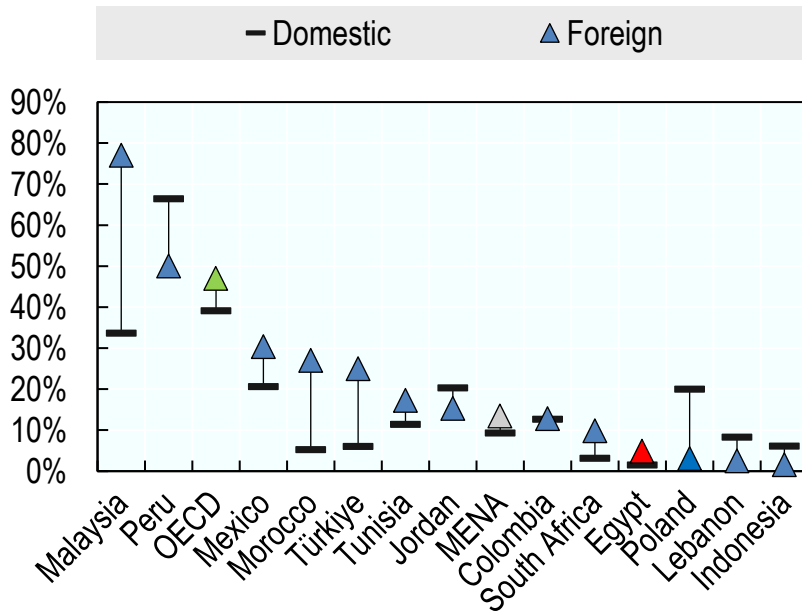
# Foreign multinationals tend to be more innovative and knowledge-intensive than domestic firms

- Foreign firms tend to be more active in innovation and technology adoption; in Egypt **innovation activity remains relatively limited across both foreign and domestic firms**, which may constrain wider knowledge diffusion.
- The **sectoral composition of FDI**, with a focus on more capital-intensive activities, may offer **fewer opportunities for spillovers** to domestic SMEs compared to more technology-intensive sectors.

A. % of firms that introduced a new product/service

B. % of firms that introduced a process innovation

C. % of firms using technology licensed from a foreign company

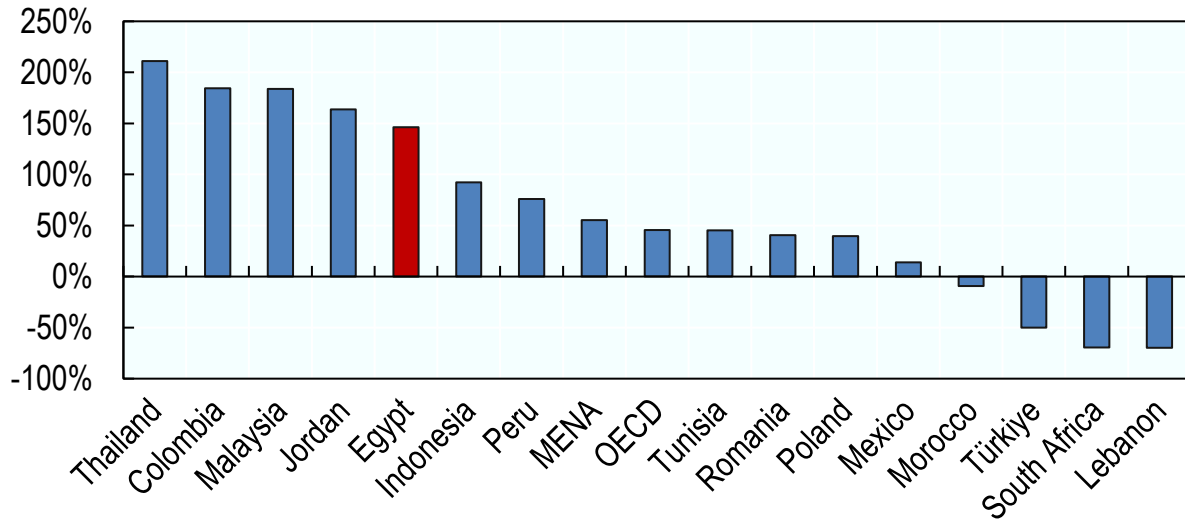




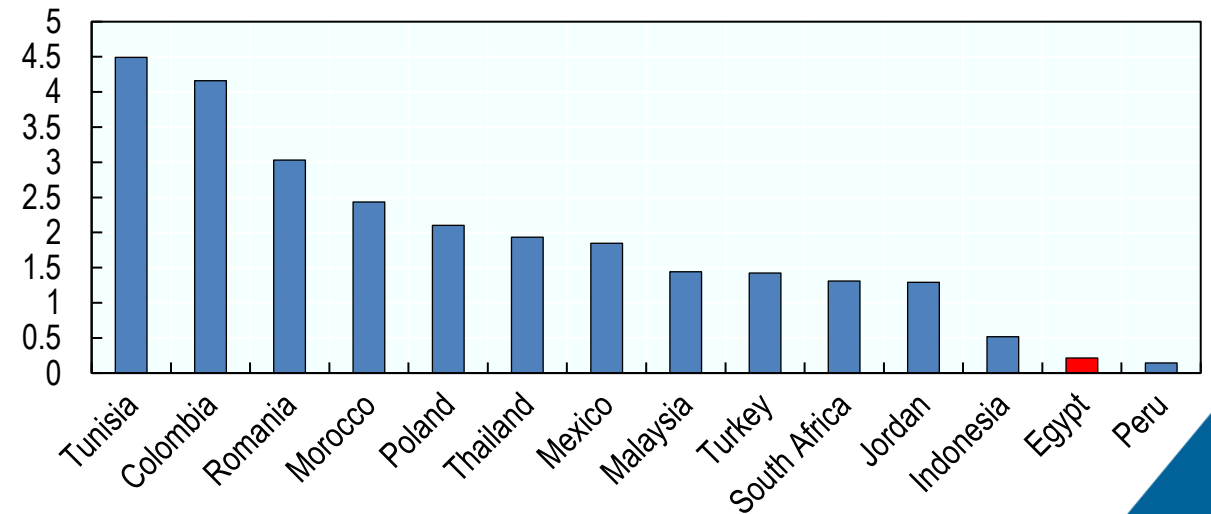
# Foreign multinationals are on average more productive than domestic firms, but not in all economies

- ❑ Foreign firms exhibit a **productivity advantage (around 1.5x in Egypt)**, reflecting stronger capabilities, although **differences with domestic firms may affect the extent of spillovers**.
- ❑ **Relatively low levels of R&D investment and limited FDI in innovation activities** suggest there may be scope to further translate firm-level productivity gains into broader economy-wide benefits.

A. Foreign firms are more productive if index > 0



B. FDI going to R&D activities (% of total), 2013-2023

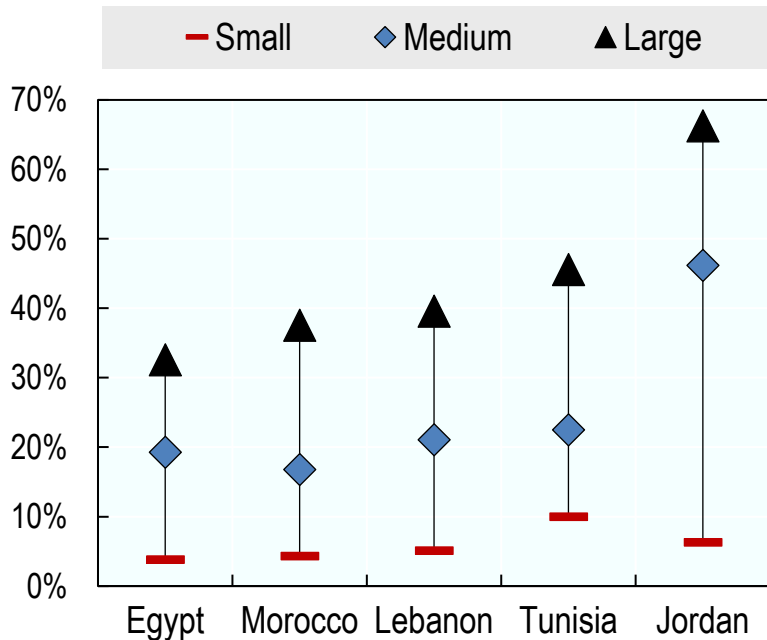




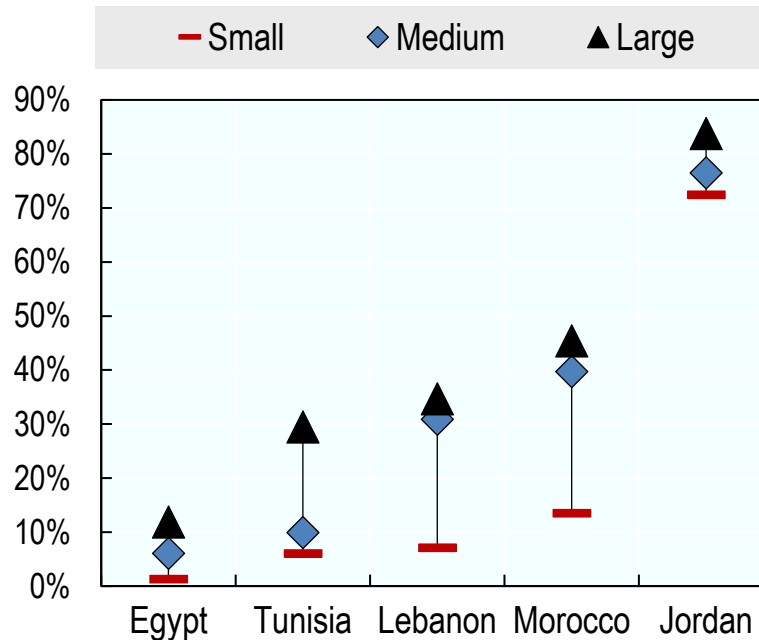
# SME absorptive capacities (or lack of) could be an obstacle to leveraging FDI's technology transfer potential

More SMEs are engaged in innovation in certain MENA economies, signalling greater **SME absorptive capacities**, and potentially explaining different approaches of MNEs in **value chain linkages**.

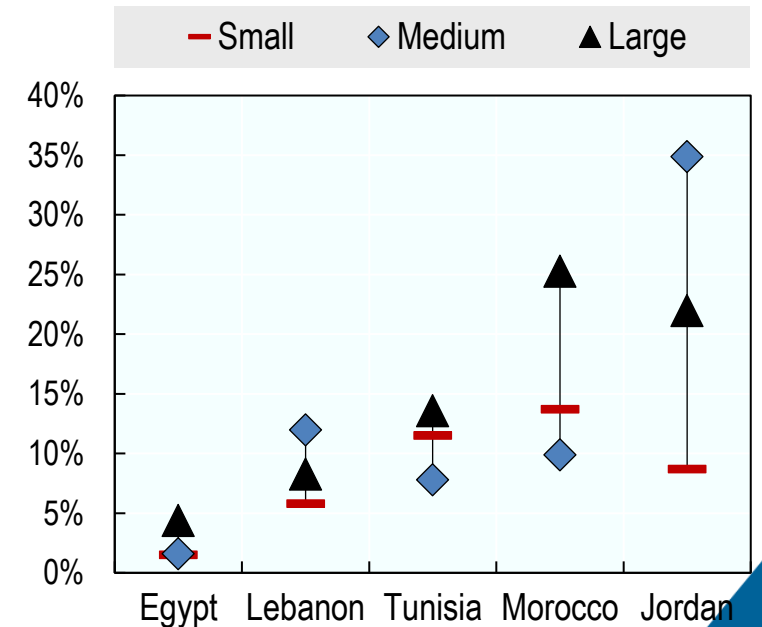
**A. SMEs with international quality certification (%)**



**B. SMEs using technology licensed by foreign companies (%)**



**C. SMEs introducing product innovations (%)**

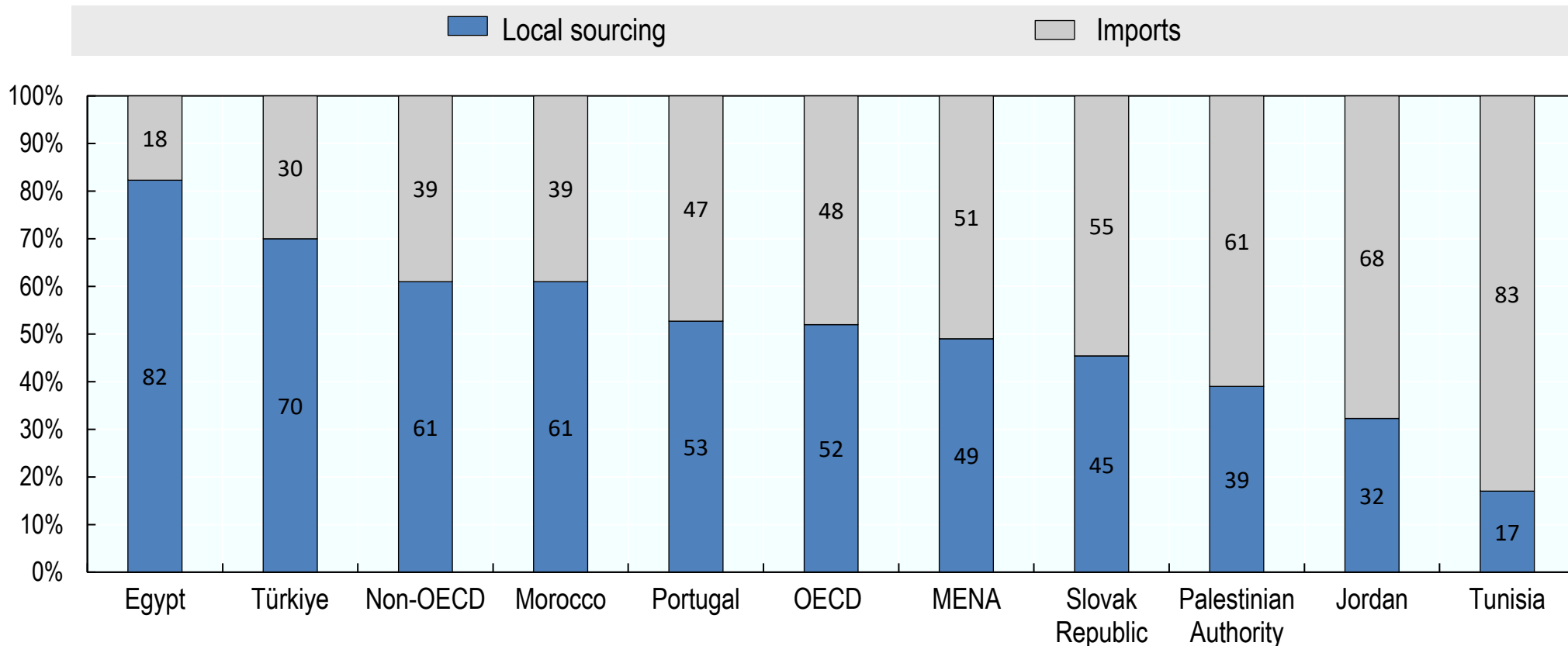




# Foreign multinationals' supplier linkages with domestic firms vary significantly across OECD & MENA countries

## Sourcing structure of foreign affiliates

% in total of foreign affiliates' sourcing of goods and services





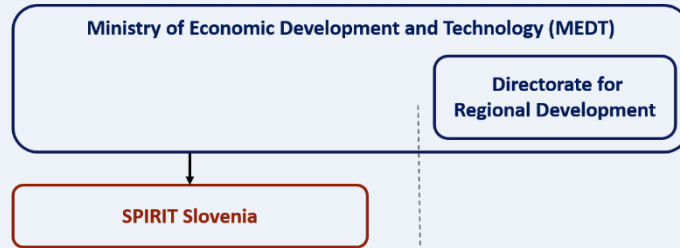
# THE ROLE OF PUBLIC POLICY IN STRENGTHENING FDI-SME ECOSYSTEMS



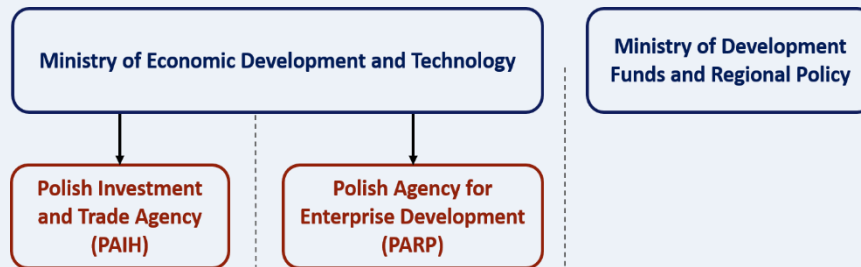
# Policy coordination is key to support FDI-SME ecosystems

## Examples of institutional settings

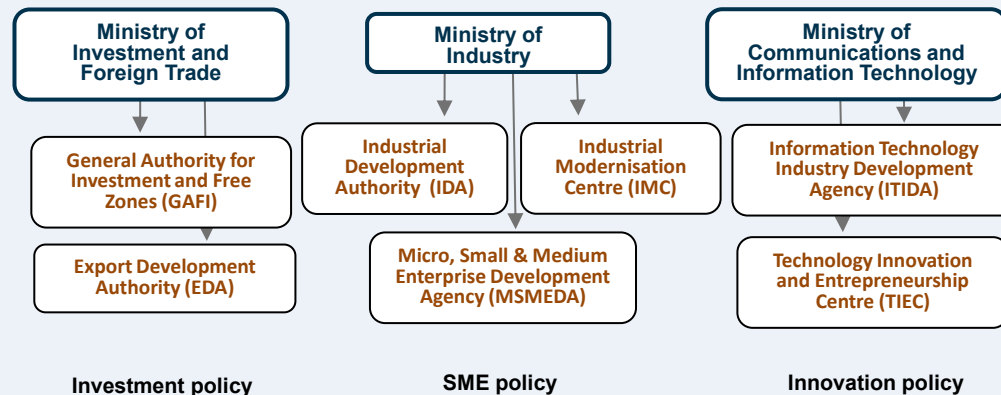
Slovenia



Poland



Egypt



❑ FDI-SME policies are implemented primarily by **specialised implementing agencies**.

❑ **IPAs and SME agencies** are most often tasked with promoting innovation, strengthening the entrepreneurial ecosystem, and supporting exports, including by facilitating certification services, conformity assessment, market information, and testing infrastructures.

❑ More institutions may induce more **complex governance systems** => higher risk of information asymmetry, transaction costs, trade-offs & inefficiency.

❑ **Policy coordination mechanisms** are important for the effective implementation of FDI-SME policies.



# National strategies can strengthen FDI-SME ecosystems and their potential for knowledge diffusion

- **Egypt's National FDI Strategy 2025-2030** offers an opportunity to embed linkage objectives – by targeting investors with strong local sourcing potential, aligning incentives with supplier development, and leveraging zones for matchmaking, upgrading programmes and cluster-based integration of SMEs into value chains.

## IDA Ireland's Strategy 2021-2024

Chapter on “Maximising FDI's impact on local businesses and communities”

Targeting sectors with higher potential for knowledge and technology spillovers

Actions to support FDI-SME partnerships (e.g. Review of Global Sourcing Initiative, Roadmap on Cluster Development)

## Czech Innovation Strategy 2019-2030

Chapter on **Attracting Smart Investment**

Focus on **R&D investments**, Industry 4.0, Artificial Intelligence and high technologies

Actions to help SMEs become more involved in international R&D collaborations



# Incentive design in zones matters to attract technology-intensive FDI with potential for linkages with local suppliers

- **Egypt's economic zones implement a combination of incentives** to strengthen local sourcing and enhance value added within zones – yet, their impact needs to be evaluated and accompanied by complementary measures.

## Elements of investment incentive design:

### A. Instrument features

**How does the benefit reduce taxation?**

**Instrument features** describe how an incentive provides tax relief. Incentive classified by four **instrument** types: reduced rates, tax exemptions, tax allowances and tax credits. Features also include rates, qualifying income and expenditure, and length of benefit

### B. Eligibility conditions

**Which investors & projects qualify?**

**Eligibility conditions** are criteria that investors or projects must meet to benefit from a tax incentive. They can include the sector, location and size of investment. Eligibility conditions can help describe if incentives are broadly or narrowly targeted

### C. Governance

**How is the incentive authorised & awarded?**

**Governance** includes information on the legal provision(s) that introduce and govern the tax incentive, as well as the information on the authorities involved in granting the incentive. In some cases, several provisions govern one tax incentive

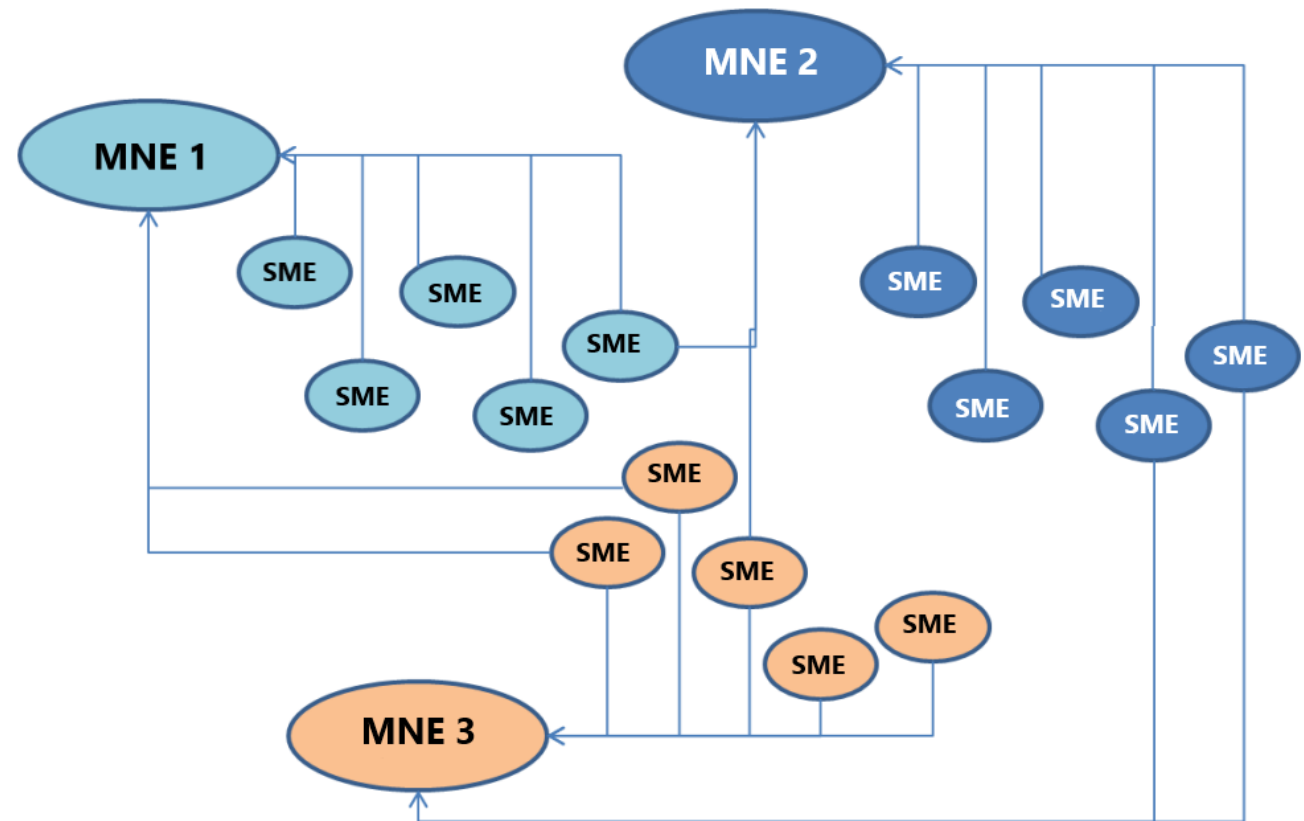


# MNE-SME matchmaking programmes should involve, IPAs, SME agencies, and economic zone authorities

A whole-of-government approach to **supply chain development**:

- ❑ **Connecting** MNEs with selected SME suppliers
- ❑ **Business consulting** and diagnostic assessment services to identify bottlenecks in collaboration and gaps in product quality
- ❑ **Training & capacity building** (certification, accreditation, conformity assessment) provided by MNEs and technical industry bodies to selected **SME suppliers in and around economic zones and industrial parks.**
- ❑ **Financial support** to upgrade SMEs' technological capabilities and product/service quality.

## Portugal's Supplier Clubs Programme "Clube de Fornecedores"



Source: OECD (2022), Strengthening FDI and SME Linkages in Portugal.

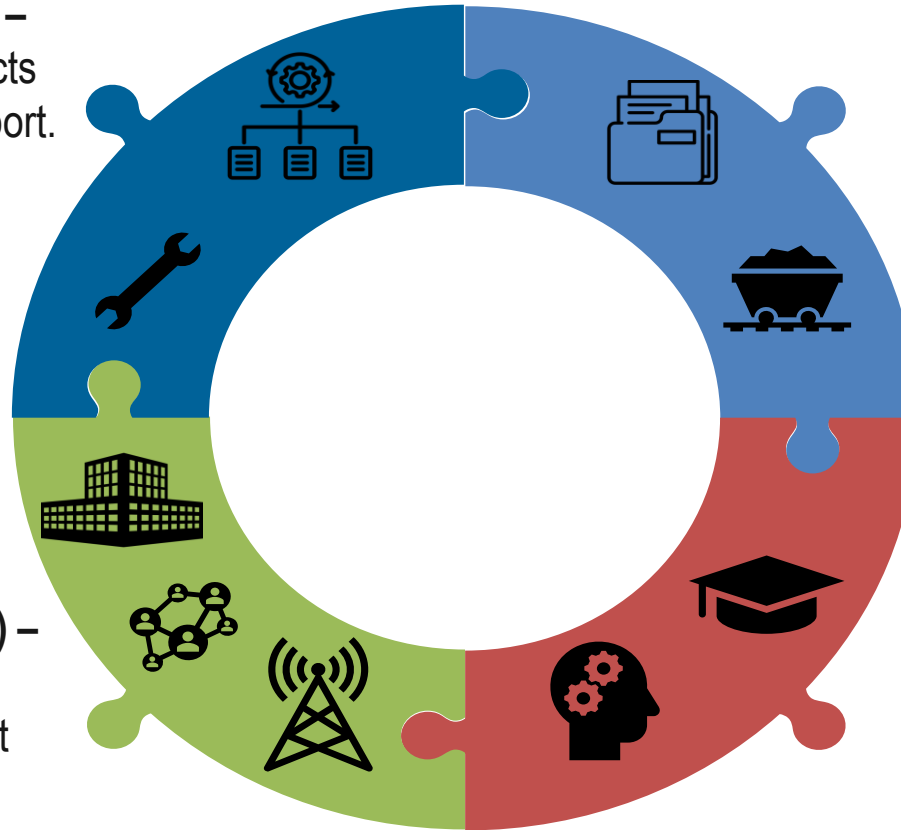


# Financial and technical support should be combined to improve SMEs' supplier capacities

**Expo Certification voucher (Lithuania) –**  
Access to certification services for products developed by SMEs and intended for export.

**National Linkages Programme (Jordan) –**  
Connects large manufacturers with SME suppliers and provides financial and technical support to improve input quality.

**Technology Interface Centres (Portugal) –**  
Promoting technology transfer through certification processes, testing and product quality improvement.



**Certify Tax Credit (Malta) –**  
Tax relief on costs incurred by the attainment of industry-recognised certifications, quality marks or licences.

**Tax incentives for local sourcing (Egypt, Algeria and Jordan) –**  
Corporate income tax reduction for large manufacturers that use locally sourced inputs.

**Innovation projects in SMEs (Sweden) –**  
Early-stage funding for piloting, testing and validating new or improved products.

**GAFI's Investor Services Centres**



**MSMEDA's online platform for MSMEs**



**HAFIZ platform for private sector and development partnerships**



**IMC's cluster development programmes**



# Diaspora investors could be mobilised to forge linkages with local businesses

## Portugal's Diaspora Investor Support Office

- ❑ The office operates within the Ministry of Foreign Affairs to support investments of Portuguese communities and companies located abroad.
- ❑ Investments can be granted with the Diaspora Investor Status and access financial incentives, with additional benefits for investments in less developed regions.

## Promoting diaspora investment in Lebanon

- ❑ SME Strategy aims to facilitate linkages between MNEs and SMEs as well as with the diaspora and promote success stories of Lebanese expatriates.
- ❑ Targeting of diaspora investors through foreign embassies and consulates.
- ❑ Sectoral promotional initiatives, e.g. Lebanese Diaspora Energy Initiative.



# Find out more



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Industry and entrepreneurship SMEs and entrepreneurship Fostering FDI-SME ecosystems to boost productivity and innovation

### Fostering FDI-SME ecosystems to boost productivity and innovation

The OECD in collaboration with the European Commission is conducting a multi-year project to offer tailored policy advice to countries and regions on how to develop linkages between foreign direct investment (FDI) and local small and medium-sized enterprises (SMEs), and how to strengthen FDI-SME ecosystems that can create more opportunities of productivity and innovation spillovers in heterogeneous contexts for local economic development and resilience.

**Understanding FDI-SME spillovers: A conceptual framework**

**FDI-SME diffusion channels**

- Institutional
- Strategic partnerships
- Labour mobility
- Competition/mimicry

**SMEs' policy**

- Innovation policy
- Regional development policy
- SMEs' policy

**FDI-SME spillovers**

- FDI flow
- FDI local embeddedness, inclusiveness and characteristics
- Governance mode in DVCs

**FDI-SME spillovers**

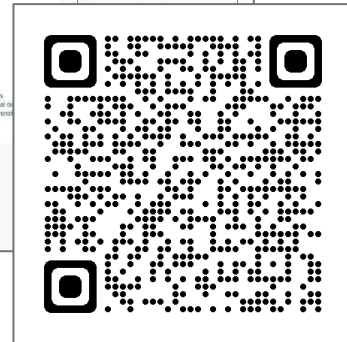
- Spillover
- Tech, knowledge and capital spillover
- Access to strategic resources
- Business environment

**FDI-SME spillovers**

- Claims
- Regional in
- Agglomeration

**Objectives**

The pilot phase (2019-22) of the FDI-SME project aimed to better understand how FDI can affect the productivity and innovation capacity of local SMEs, and how governments can increase the potential of FDI spillovers, the absorptive capacity of SMEs and the efficiency of diffusion channels between the two. The second phase (2022-24) will build on this pilot work to:





# THANK YOU

## Contacts

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