

# 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.

## Why a project on fostering FDI-SME ecosystems?

**Achieving more resilient, sustainable and inclusive growth requires more productivity and innovation**, as well as greater diffusion across regions to bridge inequalities and divides. Two drivers of performance could be strengthened: SMEs that make the economic fabric of many places, and FDI that contributes to the knowledge base and capital stock of the host places.

**Boosting productivity and innovation requires fostering FDI-SME ecosystems.** International investment and domestic SMEs are interlinked. FDI can help SMEs increase productivity and innovation, through knowledge and technology spillovers. SMEs and their innovation capacities are an important determinant for FDI location.

**Strengthening FDI-SME linkages and spillovers** have become even more important in a **post COVID-19 recovery** phase, as firms –small and large- and places look for competitiveness and resilience within domestic and global value chains.

Governments at national and sub-national levels have a crucial role to play in **creating the business and policy conditions for stronger FDI-SME linkages and spillovers.** Public intervention can take place at the crossroad of investment promotion, innovation, SME and entrepreneurship, and regional development policies, and **coordination across the board is key.**

Effective policy intervention requires however a better understanding of how FDI can affect the productivity and innovation of local SMEs and which SMEs can attract quality FDI, as well as the conditions and policies that can enable greater spillovers and resilience.

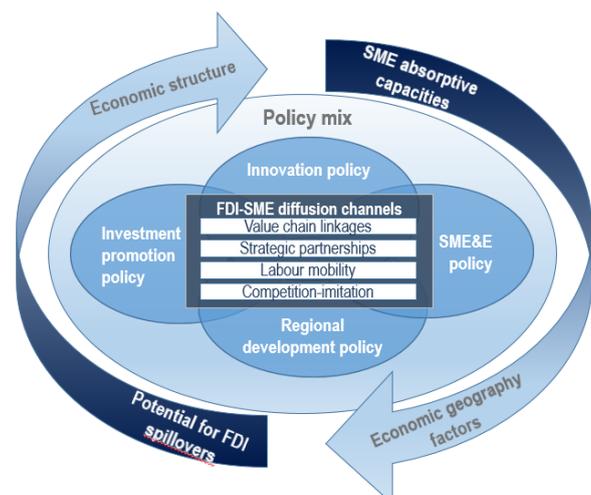
## Objectives

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:

- Increase capacity and evidence base to provide countries and regions with policy advice on how to build **stronger FDI-SME ecosystems** in a changing global trade and investment environment.
- Better **understand the diversity of FDI-SME ecosystems** across EU countries and regions, and how public policies can help them evolve to boost productivity and innovation in different contexts.
- Encourage **inter-governmental dialogue** with policymakers from EU, OECD and partner economies to foster mutual learning and ensure the work benefit all.

Understanding FDI-SME spillovers: A conceptual framework



## Outcomes

**Phase 1** of the FDI-SME project has helped:

- Design a **policy toolkit** for national and subnational governments to assess the potential of FDI-SME linkages, identify gaps in diffusion and find policy options to enable greater FDI-SME spillovers;
- Map the relevant **policies and institutions** in place across EU countries;
- Test the policy toolkit and diagnostic tools through two in-depth **country assessments** of [Portugal](#) and the **Slovak Republic**, with additional regional focus on Norte and Alentejo in Portugal, and Kosice and Banska Bystrica in the Slovak Republic; and
- Build capacity through **peer-learning**, inter-agency consultation and national, subnational and international stakeholder policy dialogue.

**Phase 2** will add to the pilot phase by:

- Conducting **two additional country assessments** featuring similar complementary analysis at the regional level. The **Czech Republic** and **Poland** are considered for Phase 2.
- Conducting **one cross-country assessment**, with analysis at supranational level, providing a cross-border perspective on FDI-SME ecosystems.
- Exploring how FDI-SME ecosystems could evolve in a context of reconfiguring global value chains, through **foresight exercises** and three industrial case studies.
- Updating and complementing the **EU mapping of FDI-SMEs policies and institutions** conducted during the pilot phase.
- Preparing an **analytical report** on the diversity of FDI-SME ecosystems and how public policies effectively help FDI-SME ecosystems to become more attractive and resilient, based on empirical work.

## Partnership

The FDI-SME project is conducted in cooperation and with the support of the European Commission (EC)'s Directorate General for Regional and Urban Policy (DG REGIO).

It is developed jointly by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) and the OECD Directorate for Financial and Enterprise Affairs (DAF) under the aegis of the OECD Committee on SMEs and Entrepreneurship (CSMEE) and the OECD Investment Committee (IC). The project also benefits from consultation of the OECD Regional Development Policy Committee (RDPC).

The FDI-SME project contributes a building block of the [OECD Data Lake on SMEs and Entrepreneurship](#) and the monitoring infrastructure of the CSMEE.

### Key milestones

#### PHASE 1

**January 2022:** Launch of the review *Strengthening FDI and SME linkages in Portugal*

**December 2022 (provisional):** Launch of the review *Strengthening FDI and SME linkages in the Slovak Republic*

**March 2023 (provisional):** Launch of the **Policy Toolkit** at an **international conference**.

#### PHASE 2

**Q1-4 2023:** **Series of three foresight workshops** on the reconfiguration of global value chains and their impact on FDI-SMEs ecosystems.

**Q1-4 2023:** **Czech Republic** review.

**Q2 2023-Q1 2024:** **Poland** review.

**Q2 2023-Q3 2024:** **New analytical report** on the diversity of FDI-SME ecosystems and policy conditions.

## CONTACT

If you are interested to learn more about the project or to get involved, please contact

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The **OECD Centre for Entrepreneurship, SMEs, Regions and Cities** supports member and non-member governments at the national, regional and local level with evidence, advice and peer-exchange on SME and Entrepreneurship Policy, Regional, Urban and Rural Policy, Local Labour Markets and Tourism.

The **OECD Directorate for Financial and Enterprise Affairs** assists policy makers to foster fair and efficient markets which deliver inclusive economic growth and, in turn, better lives. The OECD works to enhance the contribution of international investment to growth and sustainable development worldwide by advancing investment policy reform and international co-operation.

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