

Promoting FDI by SMEs

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Why it is important to promote international investment by SMEs?

- Smaller enterprises make up 90% of firms worldwide and are crucial to global trade.
- Access to international markets enables them to tap into new customer bases, gain exposure to diverse business practices and foster innovation through cross-cultural collaboration.
- But their investments abroad are declining, risking untapped development potential: the number of outward greenfield investment projects in 2022 was only *about a quarter of that in 2015*.
- SMEs can become a real game changer, especially when globally, there is increasing competition for a shrinking pool of large-scale projects and an accelerating trend towards regional economic integration.
- This calls for policy actions that better support them to invest and thrive in global markets.

Why is FDI by SMEs important for development

IN HOST ECONOMIES

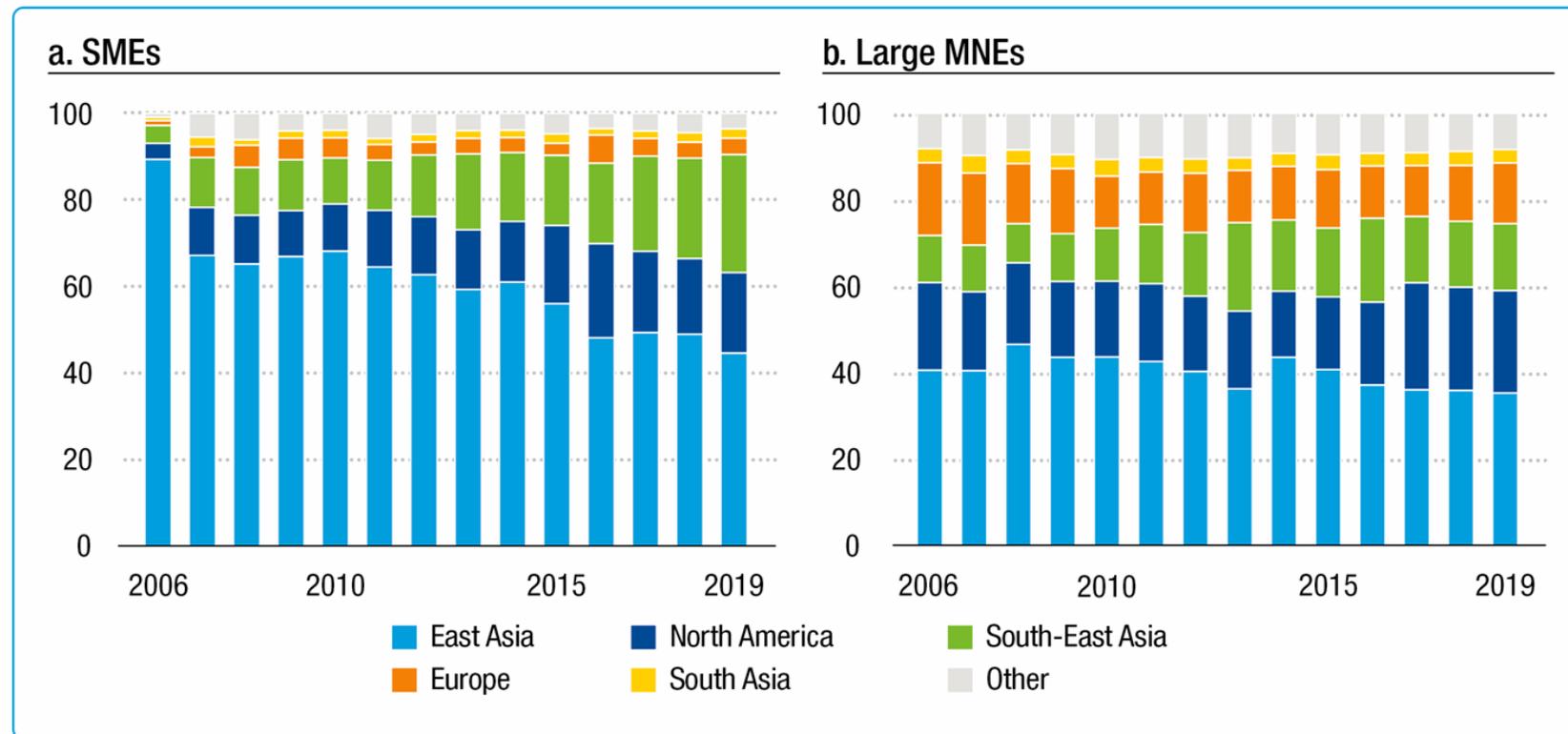
- SME investment can be most beneficial for development because it is *more agile*, relies more on *local suppliers and partners*, and is less likely to crowd out local firms.
- Often FDI by SMEs is in *neighbouring countries*, facilitating the integration of regional markets and the establishment of *regional value chains*;

IN HOME ECONOMIES:

- FDI helps SMEs *improve productivity* and technological innovation, strengthening their resilience to external shocks.
- This contributes to developing a *dynamic and competitive private sector*, and accelerates the *technological catch-up* of developing countries

FDI by SMEs facilitates regional integration and the establishment of Regional Value Chains

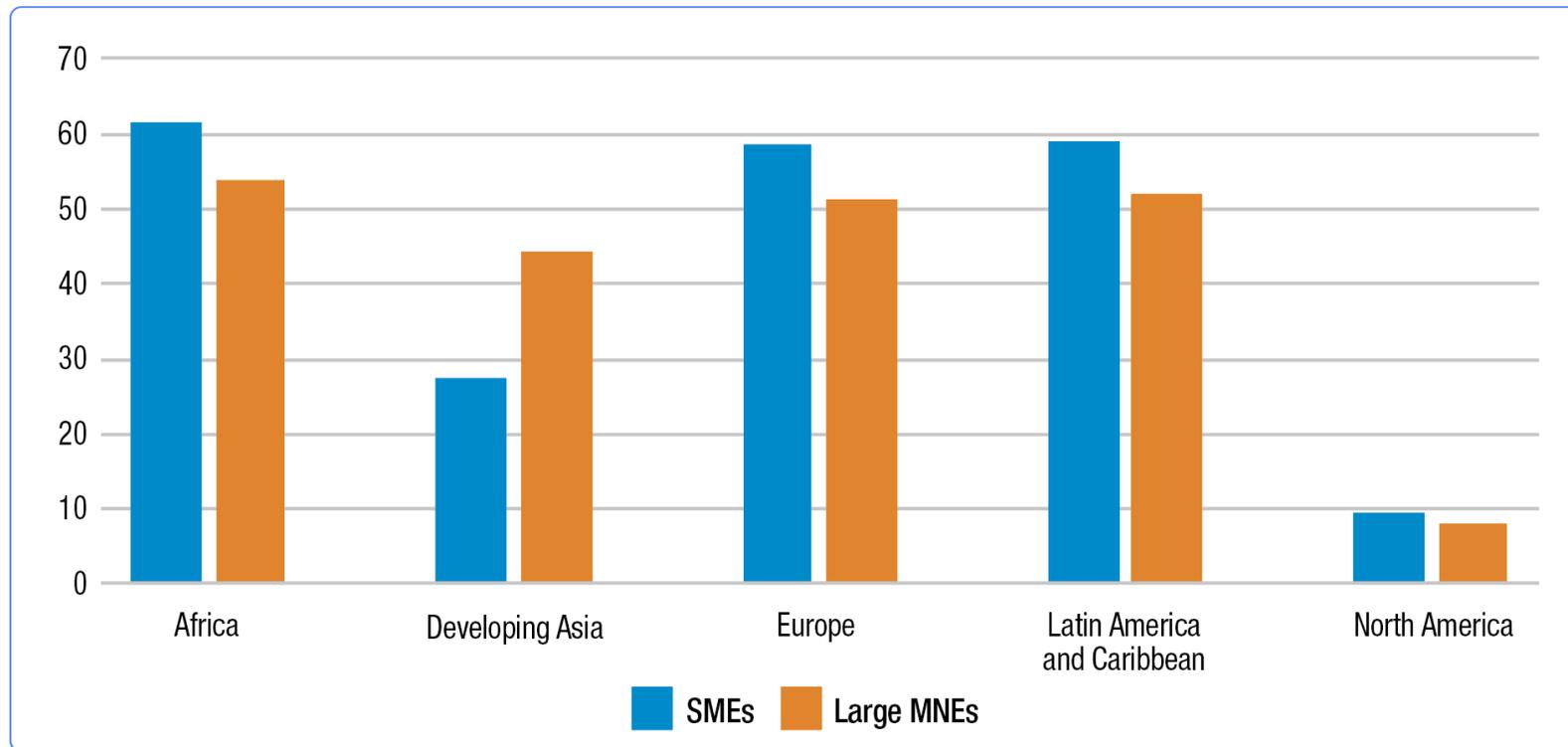
Share of FDI stock held by Korean multinational enterprises by region (Per cent)



Source: Park et al (2022).

FDI by SMEs facilitates regional integration and the establishment of Regional Value Chains

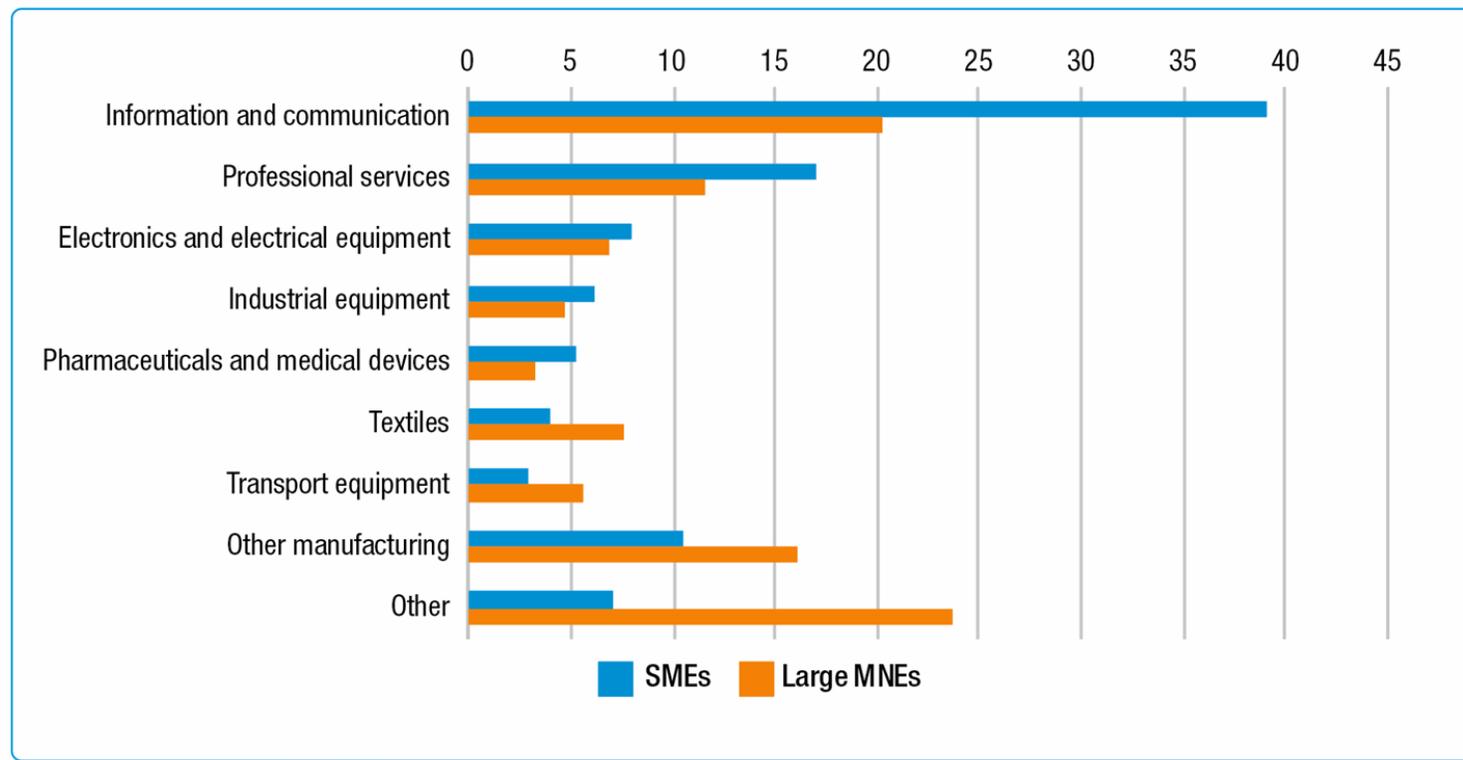
Regional projects by home economy region share by firm size (Per cent)



Source: UNCTAD based on of fDi Markets (www.fDimarkets.com), Financial Times Ltd.

SMEs foreign investment projects concentrate in knowledge-intensive industries (such as business services, software, and information technology services)

Top industries of multinational enterprises investing abroad, 2015-2022, by firm size (Per cent)



Source: UNCTAD based on fDi Markets (www.fdimarkets.com), Financial Times Ltd.

SME investors commonly grapple with financial and information constraints, and difficulties navigating complex regulations

Table 1. SME internationalization: challenges and facilitating factors.

Challenges	Facilitating factors
Access to finance	Networks and cultural ties
Skills and technology constraints	Innovation and capacity building
Information constraints	Digitalization and technology adoption
Regulatory burden and protectionism	Trade participation
International competition	

Source: UNCTAD.

Two-pronged approach to promote FDI by SMEs

1. Addressing main challenges to internationalization by SMEs:
 - *Access to capital.*
 - *Infrastructure development*, especially digitalization, productivity, and logistical and information barriers (case study Republic of Korea).
 - *Innovation and capacity-building* can help SMEs scale up and become competitive in the international markets (case study Türkiye).
 - *Cluster or hub creation, networking, and matchmaking.*
 - *Export promotion* to increase international exposure.
2. Addressing the common *investment policy bias* in home and host countries towards large MNEs.

Reducing the investment policy gap

FDI Inward Policies - priorities

Improve access for SMEs to:

- **Fiscal and financial incentives.**

Performance indicators (to access incentives) could be customized to SMEs features (innovation, integration with local cluster, service of niche demand.)

- **Investment facilitation.**

Simplify regulatory and administrative frameworks, while leveraging digitalization for better access to information.

Facilitate SMEs navigation of regulatory frameworks

- **Regulatory requirements:** provide information and transparency.

In the most stringent cases consider lifting these requirements (such as minimum capital investment, technology sharing and personnel entry) for smaller investors.

Reducing the investment policy gap

FDI Outward Policies and International Investment Agreements

Improve access for SMEs to:

- **Overseas investment support.**

Improve access to information about programmes, incentives and support available.
Combine fiscal and financial incentives with facilitation services.

Incorporate provisions targeted at addressing the needs of SMEs in:

- **International Investment Agreements:**

- preserve policy space, e.g. through exceptions and reservations to national treatment obligations for SME-related measure.
- incorporate investment facilitation provisions (transparency requirements for investment measures, focal point, right to comment..).

Other options:

- Complement IIA provisions by targeted support to SMEs (e.g MIGA's).
- Set up a joint investment promotion body to design, implement, and monitor progress on thematic work – issues related to SMEs.

Policy recommendations

- *Adjusting investment promotion and facilitation services* to address SMEs' needs and challenges, ensuring that the company size does not hinder access to financial incentives and facilitation mechanisms.
- *Facilitating SMEs' access to capital* through improved digital services and infrastructure.
- *Simplifying regulatory and administrative frameworks*, while leveraging digitalization for better access to information.
- *Establishing comprehensive support networks* and matchmaking programmes to help SMEs foster sustained partnerships.
- *Promoting SMEs' participation in trade* to enhance their international exposure and knowledge of foreign markets.

Thank you!

