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"The Investment Policy Perspective on the Internationalisation of SMEs"

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I want to thank the Greek government for its hospitality and express my appreciation to the conference organisers for providing me the opportunity to address this important meeting on behalf of the OECD Investment Committee*. Co-operative, interdisciplinary work is often cited as an important aspect of the "OECD approach". Sometimes, indeed too often, that is where it ends. I hope that this conference is an opportunity where a fruitful exchange and co-operation between two different, but related policy communities really gets going.

My presentation will cover three points:

- The role played by FDI in the internationalisation of SMEs and the obstacles limiting this process;
- The implications for international investment policy and how OECD work on investment helps SMEs to thrive; and
- The way forward and the potential for future co-operation.

Let's begin by putting into perspective the role played by FDI in SME internationalisation. Trade links have traditionally been the main channel through which SMEs internationalise, and still are. However, trade links are not the only channel. Increasingly, SMEs are internationalising by establishing a subsidiary or branch, or through a lasting equity participation in SMEs of another country. It has to be noted though that these links through investments are more often than not, not formally classified as FDI. This is the case, for example, when SMEs agree on a non-equity joint venture or strategic alliance.

Data are patchy but show that overall FDI by, and in, SMEs remains small. According to the ENSR Enterprise Survey 2003, some 3% of European SMES have a subsidiary, branch or joint venture abroad. But there are some sectors where SME investments are more prevalent, especially manufacturing and service sectors where internationalisation requires a physical commercial presence, such as wholesale and retail trade. And the trend in SME internationalisation through investment and strategic alliances is clearly upwards.

* More information about the work of the Investment Committee can be found at www.oecd.orge/daf/investment

The reasons for this upward trend in SME investments are not substantially different from the factors that drive the internalisation of bigger companies: the search for access to resources - including know-how and technology - and new markets as well as the need to integrate into global supply chains. And the significance of these factors keeps growing as technological innovation and transparency enhancing and market opening measures reduce the costs of investing internationally and promise larger returns.

The same is - with qualifications - true of the barriers faced by SMEs investing abroad: Access to capital poses more problems to SMEs than it does for larger companies. Limited management resources are a bigger issue too, as is the often lower risk absorption capacity of SMEs. In other words: although SMEs face similar external barriers to internationalisation such as opaque, discriminatory or outright restrictive regulatory environments, the relative significance of these obstacles in terms of forgone investment opportunities is greater for SMEs than for larger businesses.

This implies that OECD efforts, led by the Investment Committee, to promote the transparent and non-discriminatory treatment of investment through observance of the OECD investment instruments, such as the *OECD Codes of Liberalisation* and the *Declaration on International Investment and Multinational Enterprises* are at least as important for SMEs as for traditional MNEs. It also implies that the focus of Investment Committee work on providing comprehensive policy guidance to governments in the other important areas having a bearing on the quality of their investment environments, such as the Policy Framework on Investment (PFI), are of direct and major benefit to SMEs.

Equally, SMEs stand to benefit most from a more level international playing field. Regarding responsible business conduct: the *OECD Guidelines for MNEs* are good policies for all companies, foreign and domestic alike. They explicitly acknowledge the handicaps faced by SMEs and task adherent countries to take this into consideration when promoting the *Guidelines* and encouraging their observance by companies operating in or from their territories. Recent joint EPOC-IC work on the environmental aspects of the Guidelines did exactly that by providing detailed information about tools and approaches available to companies, with particular references to businesses with less capacity that wish to implement the Guidelines and enhance their environmental performance. And *the OECD Risk Awareness Tool for MNEs in Weak Governance Zones* (RAT/WGZ), finalised earlier this year, directly aims to help companies, including SMEs, to invest responsibly in countries where governments are unwilling or unable to assume their responsibilities.

The Investment Committee's track record regarding horizontal work and co-operation with non-members, stakeholders and other policy communities within or outside the OECD is good: Work on the PFI and the RAT/WGZ to take recent examples involved at least half a dozen other OECD committees or working groups, and in some cases considerably more.

The Investment Committee is also interested in strengthening ties with the SME community. That is why I appreciate so much the invitation to this conference and the opportunity to comment on earlier versions of the Action Plan discussed today, and that's why I want to express the readiness of the Investment Committee to explore possibilities to contribute to its implementation.

Several topics in the 2007 work program of the Investment Committee lend themselves to a co-operative effort:

One project is on the changing FDI-landscape, including technological developments driving this change and the growing role of SMEs. The project is organised in two phases and will begin with a stocktaking examining emerging FDI trends in SMEs and FDI patterns by SMEs, covering their geographic and sectoral composition as well as forms of investment, before examining the implications for investment policies and for the effective application to and use by SMEs of the OECD investment instruments, including the PFI, the Guidelines and the Risk Awareness Tool for MNEs in Weak Governance Zones.

Another project regards the SME dimension in the PFI. The PFI, finalised in April 2006 and endorsed by the MCM a month later, represents the most comprehensive multilaterally-backed approach for improving investment conditions to date. It addresses 82 questions to governments in 10 policy areas to help them design and implement good policy practices for attracting and maximising the benefits of investment. Virtually all of the PFI chapters include references to SMEs, which explains why the PFI does not have a dedicated chapter on SMEs. Further elaboration on some of the aspects covered by the PFI is under preparation, and again the SME aspect seems a particularly promising topic.

Both topics, of course, should be undertaken in collaboration with the OECD bodies having SME expertise and I am encouraged that first contacts to secure such a co-operation have already taken place. Next steps could include a Secretariat scoping paper that could then be discussed by the Working Party of the IC and the Working Party on SMEs and Entrepreneurship early next year.