**Foreign Direct Investment and SME Development: Some Policy Issues for Transition and Developing Countries**

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**Abstract**

SMEs play an important potential role in economic development, as well as contributing to poverty alleviation, although the nature and extent of this contribution varies between countries, reflecting differences in economic, social and institutional conditions and ultimately the competitiveness of the SME sector. In this context, many transition and developing countries face a need to promote and strengthen the long term development of the SME sector, often in a situation of considerable resource scarcity.

This review paper considers the potential role of FDI in contributing to the long-term competitive development and internationalisation of SMEs in transition and developing countries, focusing on the types of policy required to encourage and facilitate this process.

Developing policies to encourage and facilitate SME development in transition and developing countries through FDI linkages requires co-ordinated actions on a number of fronts, involving partners that include: policy makers in developed countries; policy makers in transition and developing countries; donors and international organisations; FDI enterprises; and SMEs and their owners in transition and developing countries. In this context, the paper concludes by presenting policy suggestions relevant to these different groups.