



Enterprise Europe

an ACCA Central & Eastern Europe members' survey on SME issues



INTRODUCTION

ACCA (the Association of Chartered Certified Accountants) is a leading adviser to small businesses in Europe, with more than 25,000 members in the UK and elsewhere working directly for Small and Medium-sized Enterprises (SMEs) or advising small business clients. ACCA has provided expert reports and commissioned research on issues such as: female and graduate entrepreneurship, succession planning, valuing intellectual property, access to finance, a variety of SME tax issues, financial reporting for SMEs and audit.

ACCA also contributes to European Union (EU) SME policy development through its Brussels office via the ACCA Head of EU Parliamentary Affairs and through its membership of UEAPME (Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises). ACCA's Head of Small Business, Professor Robin Jarvis, is the Chairman of FIN-USE, the forum of financial services experts created by the European Commission (EC) to provide input from a user and SME perspective on the practical application of the EU Financial Services Action Plan.

ACCA is strongly represented throughout the Central and Eastern Europe (CEE) region. Staffed offices in Moscow, Kiev, Warsaw, Prague and Bucharest support some 17,000 students and 3,500 members across every country in the region. ACCA members work in SMEs, the Big Four accounting firms, multinational corporations and in the financial services, corporate, manufacturing and shared services sectors. In all these roles, ACCA members play a significant role in the economic and business development of countries in the CEE region.

COMMENTARY

As a demonstration of its commitment to the CEE region, ACCA undertook a quantitative and qualitative survey of its members in late 2006. This comprised in-depth focus groups with leading members in Poland, Hungary, the Czech and Slovak republics and Romania, allied to an e-mail survey of all ACCA members across the region. Both the focus groups and the e-mail survey covered a wide range of business issues arising from the experiences of the ten new EU Member States following accession in May 2004.

Valuable lessons can be drawn from this research for Bulgaria and Romania, which joined the EU in January 2007. The responses to the ten SME-related questions included in the survey, and the findings from the focus groups are summarised in this pamphlet.

ACCESS TO EU FUNDING

Q1: The first SME-relevant survey question related to the issue of funding and revealed that more than two-thirds (68.6%) of those questioned believed that businesses in their countries had found the task of obtaining grants from the EU either 'quite difficult' or 'very difficult'. While the question had not been aimed solely at SMEs, it emerged from the ACCA member focus groups that they believed strongly that SMEs were the most adversely affected.

There was a real concern that only large firms, with the resources to employ specialist advisers to guide them through the process, were in a position to benefit from the EC's technical assistance, regional and development funding. In the focus groups, ACCA members gave examples of SMEs giving up in frustration at what they saw as an excessively bureaucratic grants application process, though this was often attributed to local implementation rather than the EC's rules.

ACCA recommends that the EC re-examines the grants application process, with the aim of making it shorter and less complex for SMEs.

REGULATION AND ACCESS TO GROWTH FINANCE

Q2: Despite the problems identified in **Q1** about access to grants, more than half of survey respondents (omitting the 'don't knows') believed that being in the EU since 2004 had enabled SMEs easier access to finance and micro-credit. ACCA believes this is an encouraging sign for the SMEs of Romania and Bulgaria as they enter life in the EU zone.

Q3: In terms of regulation, a slim majority of survey respondents (51.2%) believed that businesses in their countries had found dealing with EU directives generally either 'quite difficult' or 'very difficult'. Almost a third believed the process had been relatively straightforward, which gave them cause for reasonable optimism.

ACCA focus groups suggested that the real problem was at the national rather than EU level. Members expressed the hope that the EC would encourage and provide the necessary legislative framework to improve the performance of national governments and regulators, or indeed that EU laws would take primacy over outdated national laws, practices and regulations.

This was particularly acute in the field of tax regulations, where many focus group members said their national tax systems were too complicated and burdensome, with the level of payroll taxes a particular problem. **Qs 4** and **5** show that a large majority of survey respondents agreed. Flat tax and low tax regimes were also regarded by the focus groups as essential to economic success – and respondents to **Qs 6** and **7** showed the wider ACCA membership concurred. CEE countries that have adopted such systems should be able to retain them, and not come under pressure to harmonise tax rates upwards.

In the focus groups, it also became clear that ACCA members had concerns over the lack of qualified state auditors and commercially-aware tax officials in their countries, and they suggested that the EC should require the introduction of training programmes for national government tax officials in return for grants from Brussels. This would be an important

development that would benefit SMEs in particular, as they are disproportionately affected by non-business-friendly tax regulations.

Q8: Separately, in the area of accounting regulation, focus group members were largely supportive of the advent of International Financial Reporting Standards (IFRS) in Europe in 2005, believing it to have brought more meaning to accounts, which were previously tax-driven and of limited use for investors. But the biggest problem, they said, had been its lack of suitability for SMEs. Survey respondents to **Q8** agreed – which means that the International Accounting Standards Board's recent publication of a standard for SMEs is timely, even though it may not have completely addressed the problem of over-complexity.

SUMMARY

Overall, as is shown by the responses to **Qs 9** and **10**, ACCA members believe that while SMEs in the accession countries have gained from EU membership, they have not enjoyed the same degree of benefit as larger businesses. It is important that the EC and national governments take steps to ensure this imbalance is rectified.

SECTION 3 – THE SURVEY QUESTIONS:

1. How easy/difficult have businesses in your country found obtaining grants and finances from the EU? Please explain your answer, giving details of any personal experiences you may have, issues or problems and your views/experiences of using consultants/third parties to assist with the application process.

	Results by %	Response Total
Very easy	0%	0
Quite easy	14.2%	19
Quite difficult	51.4%	69
Very difficult	17.2%	23
Don't know	17.2%	23
Total Respondents		134

2. To what extent would you agree that the EU has enabled easier access to finance for SMEs and microcredit for very small enterprises? Please explain how this has changed in your country.

	Results by %	Response Total
To a great extent	5.1%	7
Somewhat	29.7%	40
Hardly at all	25.3%	34
Not at all	3.6%	5
Don't know	36.3%	49
Total Respondents		135

3. In your opinion, how have businesses in your country found dealing with EU directives and other requirements? Please explain your answer.

	Results by %	Response Total
Very easy	0.6%	1
Quite easy	30.7%	42
Quite difficult	44.7%	61
Very difficult	6.5%	9
Don't know	17.5%	24
Total Respondents		137

4. What is your opinion of your country's tax system?

	Results by %	Response Total
Too complicated	80.9%	140
Straightforward/Reasonable	19.1%	33
Don't know/No opinion	0%	0
Total Respondents		173

5. In your opinion, are the level of payroll taxes reasonable or do they have a negative effect on business development? Please give as much detail as possible.

	Results by %	Response Total
Reasonable	23.0%	39
Will have a negative effect	75.0%	127
Don't know	2.0%	4
Total Respondents		170

6. In your opinion, have moves to a flatter tax system made a difference to inward/ domestic investment in your country?

	Results by %	Response Total
Yes	80.2%	138
No	8.2%	14
Not sure/Don't know	11.6%	20
Total Respondents		172

7. Should the Commission pursue tax harmonisation, or should each country be allowed to pursue low corporate tax rates (e.g. as in Ireland where tax is 12.5%) and attract increased inward investment? Please give as much detail as possible.

	Results by %	Response Total
Tax harmonisation	27.6%	48
Low corporate tax rates	61.0%	106
Other	7.4%	13
Don't know/Not sure	4.0%	7
Total Respondents		174

8. Following the introduction of IFRS standards in your country, have any of the following been problematic?

	Yes	Partially	No	Response Total
Increased volatility of company results	6% (11)	44% (76)	50% (86)	173
Lack of local language standards	18% (31)	41% (71)	41% (72)	174
Change from tax-based local GAAP	30% (52)	34% (58)	36% (63)	173
Lack of suitability for SMEs	32% (55)	40% (69)	28% (48)	172

9. Do you believe that much of the economic development in your country has been inward investment or local business growth since joining the EU?

	Results by %	Response Total
Inward investment	27.1%	36
Local business growth	11.2%	15
Both	52.1%	69
Don't know/Not sure	9.6%	13
Total Respondents		133

10. In your opinion, has this economic development been at SME or bigger business level?

	Results by %	Response Total
SME level	21.1%	28
Bigger business level	60.9%	81
Don't know/Not sure	18.0%	24
Total Respondents		133

