

# EFAA Memorandum for Elections to the European Parliament 2019

## SMPs Supporting SMEs for Europe



## About EFAA

The European Federation of Accountants and Auditors for SMEs (“EFAA”) is an umbrella organisation for 13 national accounting, auditing and tax advisor organisations that collectively have more than 250,000 individual members. These individual members are mainly small and medium-sized practitioners (“SMPs”), including a significant number of sole practitioners, that provide a range of professional services (e.g., audit and assurance, accounting, bookkeeping, tax and business advice) primarily to small and medium-sized entities (“SMEs”) within the European Union and Europe as a whole. Formed in 1994 EFAA is a member of [SMEunited](#) and a founding member of the [European Financial Reporting Advisory Group \(EFRAG\)](#).

Most of the accounting and auditing rules and standards are formulated at EU or international level and are often heavily influenced by large accounting firms and companies and, consequently, are oriented more towards their needs. That is why EFAA, the big voice for small business, strives to redress this imbalance, help create a level playing field, and better represent SMEs' and SMPs' interests by thought leadership and providing its members, regulators and other stakeholders with an in-depth knowledge and perspective of SMEs. We are the collective voice of SMPs across Europe, SMPs supporting SMEs for the benefit of Europe and Europeans.

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## Executive Summary

Small and Medium-sized Enterprises (SMEs) are crucial to the future economic and social prosperity and stability of Europe. Due to their inherent characteristics and their structure they are relying heavily on the advice from their trusted advisors. Small and Medium-sized accounting Practices (SMPs) play this vital role in supporting SMEs through the provision of a range of high-quality professional services. One of the many key functions of SMPs and their organisations for SMEs is to watch over and help support a political and economic environment in which SMEs can develop well and thereby contribute to the European economy and society.

This Memorandum sets out what EFAA believes should be the top 7 priorities for SMEs in the coming few years and explains the role of both SMPs and EFAA in supporting SMEs and what EFAA specifically request to be done by the EU. These priorities are:

1. Promote Entrepreneurialism
2. Enhance the Digital Transformation of SMEs
3. Facilitate SME Access to Finance to Innovate and Grow
4. Promote Contribution of SMEs to a More Sustainable Economy
5. Support Internationalisation of SMEs
6. Fully Implement the Single Market
7. Shape Europe for SMEs and Shape SMEs for Europe

We encourage Members of the European Parliament (MEPs), policy makers and regulators to apply these priorities in the coming European Elections and beyond to judge the relevance of positions, programs and projects. This will help ensure Europe to have a strong and sustainable SME sector for the benefit of Europe and Europeans.

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## I. Why this Memorandum?

Small and Medium-sized Enterprises (SMEs) are crucial to the future economic and social prosperity and stability of Europe and Europeans. Due to their inherent characteristics and their structure they are relying heavily on the advice from their trusted advisors. Small and Medium-sized accounting Practices (SMPs) play this vital role in supporting SMEs through the provision of a range of high-quality professional services. One of the many key functions of small and Medium-sized Practices (SMPs) and their organisations is to watch over and help support a political and economic environment in which SMEs can develop well and thereby contribute to the European economy and society.

In this section, we explain the importance of SMEs to the European economy and society, how the EU benefits SMEs, the primary challenges facing SMEs, and the role of SMPs in supporting SMEs. In so doing demonstrate why we believe MEPs and others will benefit from the insights of EFAA and SMPs. In section II. “Priorities for Europe’s SMEs” we set out and explain the 7 top priorities for SMEs which SMPs have greatest expertise on and are prepared to play an instrumental role in helping to pursue.

### **About SMEs - Why they are Important for Europe’s Society and Economy**

While individually SMEs are small, they are large in number and large in their collective economic, environmental and social importance. SMEs are the backbone of the European economy, woven into the fabric of European society, a catalyst for innovation and sustainable change, and crucial for providing services and products for EU citizens, locally and internationally.

*“While individually SMEs are small, they are large in number and large in their collective economic, environmental and social importance”*

The [2017/2018 annual report on European SMEs](#) reveals that SMEs make up 99.8% of all companies in Europe, the vast majority (93%) having less than 10 employees. In most, if not all, European member states they account for the majority of private sector Gross Domestic Product (GDP). And SME employment from 2013 to 2016 grew almost 50% faster than in the whole economy.

### **What Does the EU do to Help SMEs?**

The SMEUnited survey [‘The Future of Europe’](#) demonstrates that European SMEs perceive the EU to have an added value for the overall economy and believe it is able to have a positive impact on their enterprises. Financial assistance and support to innovate, develop the enterprise and go international are highlighted as some of the most important contributions of the EU to their business. SMEs believe the EU enhances political, and economic stability, boosts cross border trade and reduce exchange rate risks. However, there are also concerns that not enough has been done to support SMEs.

## What are SMEs' Main Challenges?

The [2017/2018 annual report on European SMEs](#) showed that SME recovery continued. Nevertheless, economic uncertainty casts a shadow and likely will continue to do so or even increase as broader social, political, and security concerns prevail in the shape of Brexit, risk of trade disputes, and rising populism. SMEs are very concerned about the significant challenges developing from the post Brexit scenario.

[Our analysis](#) of the European results from recent IFAC global surveys of some 100,000 SME clients of SMPs reveals that SMEs face many challenges. The primary challenges are economic uncertainty, rising costs, competition, and difficulties accessing finance. These challenges have only marginally eased in the past few years. These findings broadly echo those of the SMEunited survey '[The Future of Europe 2017](#)'. Other challenges cited in these surveys include keeping up with new technology, compliance with regulation, attracting and retaining staff and the impact of globalisation.

### Top Challenges Facing European SMEs

- Economic uncertainty
- Rising costs
- Competition
- Difficulties accessing finance
- Keeping up with new technology
- Compliance with regulation
- Attracting and retaining staff
- Globalisation

## About SMPs – Why they are Important for SMEs?

There is [compelling evidence](#) that SMPs are the most important and trusted business advisors of SMEs and personal advisors of SME owner-managers. The [World Bank](#) is promoting this advisory role. This advice spans the technical through to the strategic, from that which lies at the core of their education, training and experience, such as compliance with accounting regulation, through to that garnered from experience with multiple SME clients, such as industry knowledge and market positioning.

SMPs help SMEs gain access to finance, give advice on how to efficiently comply with regulation, and provide valued business advice enabling them to grow their businesses sustainably and safe from cyber-attack. SMPs can play a key role in helping SMEs tackle the challenges mentioned above: SMPs can advise SMEs on access to finance, on internationalising, on cyber security and on managing costs.

### **SMPs provide a range of professional services to SMEs**

- **Audit and assurance** – these services help SMEs improve the quality of their internal and published financial and non-financial information (NFI), in turn fostering trust and confidence in this information by investors, owner-managers, lenders and other stakeholders, as well as serve as a check on accounting systems and records, provide useful advice to management, and improve internal control.
- **Accounting** – these services help SMEs accurately and efficiently record their financial, and sometimes non-financial transactions, so they can effectively plan, control and manage their business, as well as help them summarize, analyse and report this information to investors and lenders, oversight agencies, regulators and tax authorities.
- **Tax advice** – these services range from helping SMEs compile their tax returns and pay their taxes in a timely and efficient manner through to helping them plan so that they pay what is legal and fair.
- **Advisory services** – can help SMEs in various ways from gaining insights from their financial and non-financial information to better plan, control and direct their business, gaining access to finance and efficiently comply with regulation through to growing their businesses internationally, sustainably and safe from cyber-attack.

SMEs have unique characteristics that set them apart from larger businesses. An important characteristic is that most of their business relations are based on intimate and highly personal cooperation and mutual trust. Hence, SMPs need to provide services tailored to the individual needs of SMEs, their stakeholders and the users of their financial and NFI. SMPs, who are SMEs themselves and are equipped with expertise and insights gained from multiple SME clients, are best placed to do this.

SMPs, as professional accountants, are required to comply with high standards of integrity and competence embodied in strict ethical codes and educational requirements. In the provision of professional services to their clients SMPs are required to apply professional standards. This helps ensure SMPs provide consistently high-quality services.

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## II. Priorities for Europe's SMEs

European politicians and regulators have increasingly recognized the important role of SMEs in the European economy and society and how SMEs have different characteristics compared to large entities. However, approaches to reflect these differences, like the “Think Small First” principle and the pledges made in the Small Business Act (SBA), have not yet been satisfactorily realised for SMEs in Europe. EFAA is suggesting and wants to see action to rectify this.

While action is needed to truly implement the “Think Small First” principle EFAA appreciates and strongly supports the various initiatives of the EU Commission aimed at better protecting the particular interests of SMEs, such as the proposal to amend Directive (EU) 2017/1132 regarding cross-border conversions, mergers and divisions and the proposal to amend the same Directive regarding the use of digital tools and processes in company law.

EFAA strongly supports SMEUnited's [Memorandum for the European elections 2019 'Strengthening Crafts and SMEs for the future of the European Union'](#) which sets out 10 priorities for crafts and SMEs. In this section we set out the 7 priorities which SMPs have greatest expertise on and stand to play an instrumental role in helping to pursue. These priorities, and the role SMPs and EFAA as the European Federation of Accountants and Auditors for SMEs will play in achieving them, are set out below.

## 1. Promote Entrepreneurism

While much of the SME policy competency lies with the Member States, EFAA suggests and would like to see a holistic European policy for SMEs that spans all policy aspects, promotes entrepreneurship, and considers carefully the impact of proposed new rules on SMEs. This policy should address all SMEs, including micro entities, while taking account of their diversity and their different places and roles in the economy.

### SMPs contribute by

- freeing up time for entrepreneurs to focus on their business by providing a range of professional services including advice on how SMEs can efficiently comply with regulation from accounting and assurance through to human resources, ESG, bankruptcy and taxation
- advising SMEs on how to be financially successful and stable through sound financial management and avert financial difficulties or even bankruptcy
- advising SMEs on how to be more strategic, innovative and sustainable through the use of [integrated thinking and reporting](#)

### EFAA is assisting by

- providing input to the fitness checks on public company reporting and audit to help ensure the framework for reporting and audit and assurance is fit for purpose for SMEs
- advocating for adequate SME reporting and audit and assurance with a focus on scalability, conciseness, strategic relevance and future orientation
- contributing to the [Early Warning Europe project](#) designed to help SMEs avert insolvency

### EFAA specifically requests

- an effective European SME policy built around a strengthened Small Business Act and, based on a strong evidence base, in line with the Better Regulation Rules and the “Think Small First” principle
- a continuation of the REFIT exercise to ensure that legislation is fit for purpose



## 2. Enhance the Digital Transformation of SMEs

Seizing the opportunities offered by digitalisation requires a radical change of mindset for SMEs: (1)room for them to develop new products, services and business models; (2)ability to attract and retain digital talent; (3)access to expertise on and finance for digitalisation; and (4)a supportive framework that enables them to compete on a level playing field with big business in the pursuit of the right technology, access to and retention of talent to grow and prosper.

### **SMPs contribute by**

- providing SMEs with access to expertise and products in the shape of strategic advice on digital development and operational guidance and support
- advising and supporting SMEs in intelligently automating their business and accounting processes
- providing advice and assurance on cyber security

### **EFAA is assisting by**

- supporting, through knowledge sharing, thought leadership and tools, the digital transformation of SMPs
- supporting and promoting the role and capacity of SMPs to provide advisory and assurance services to SMEs on cyber security

### **EFAA specifically requests**

- any new or revised legal provisions are sufficiently flexible, neutral and future-proof for digital front-runners while ensuring fairness, transparency and a level-playing field for enterprises of all sizes
- equal access to high-quality data for SMEs, to EU investments in cyber security, and to participation in EU initiatives for the development of Artificial Intelligence
- a facilitating environment for SMEs that ensures the right level of skills development and access to digital talent, financial support, capacity building, appropriate infrastructure and standardization
- supporting the establishment of a Digital Knowledge Centre to allow SMEs and their organisations to access accurate information, exchange of best practices and gain knowhow on support programs

### 3. Facilitate SME Access to Finance to Innovate and Grow

Many SMEs continue to rely on traditional finance like bank lending. However, SMEs increasingly need other forms of finance to enable them to fund projects deemed too risky by banks. Venture capital, equity and bond markets need to become more attractive for SMEs and SMEs need to become more attractive for investors.

#### SMPs contribute by

- strengthening the financial literacy of SMEs and advising them on how best to finance their business, including the type and source of finance
- assisting them in obtaining finance on optimal terms and conditions
- providing assurance or related services on financial and non-financial information reporting of SMEs to satisfy the information needs of potential lenders or investors

#### EFAA is assisting by

- promoting, through knowledge sharing and thought leadership, the role of SMPs in raising the financial literacy of SMEs and advising them on sound financial management including access to finance
- advocating for reporting standards and frameworks that produce the information lenders need to make credit decisions and assurance services meet the needs of lenders

#### EFAA specifically requests

- banking regulation which encourages lending to SMEs and supports non-commercial banking structures
- supporting alternative forms of finance like lending platforms and crowd-investment to finance innovative and investment projects
- fostering productive investments with new European programs and fiscal rules supporting investments rather than consumption

## 4. Promote Contribution of SMEs to a More Sustainable Economy

Given their huge social and environmental footprint it is vital that European policy and regulation provide the right framework for SMEs to contribute towards a more sustainable and circular economy. Some SMEs are pioneers of sustainability but many, if not most, have the desire, and unrealized potential, to be more sustainable.

### SMPs contribute by

- advising SMEs on how to implement sustainable business practices
- helping SMEs communicate and report their sustainability performance using ESG or sustainability reporting and assurance

### EFAA is assisting by

- promoting, through knowledge sharing, thought leadership and guidance, sustainable business practices by SMPs
- encouraging SMPs to play a role in helping SMEs implement sustainable business practices and communicating and reporting their sustainability performance using ESG or sustainability reporting and assurance

### EFAA specifically requests

- the removal of any barriers impeding SMEs' access to the circular economy
- the introduction of specific measures and instruments at EU level to foster eco-innovation in SMEs
- the introduction of measured and proportionate requirements for SMEs to report on their contribution to a sustainable and circular economy

## 5. Support Internationalisation of SMEs

International trade agreements, including with the UK post Brexit, need to take better account of the specific characteristics of SMEs. The EU should help SMEs fully leverage international market opportunities keeping in mind that SMEs are especially affected by the complexity of regulatory and market changes. For instance, SMEs are acutely concerned about the potentially significant changes to regulation and trade resulting from Brexit. Accordingly, the EU needs to help SMEs adapt post Brexit.

### SMPs contribute by

- advising, with help from their international networks, SMEs on how to internationalise from buying and selling goods and services overseas through to managing foreign exchange risk and setting up overseas operations

### EFAA is assisting by

- promoting, through knowledge sharing, thought leadership, and guidance, the role and capacity of SMPs in providing expert advice to SMEs' internationalisation

### EFAA specifically requests

- improving the framework conditions for internationally active SMEs through an SME chapter in trade agreements and affordable investment protection and trade defense measures
- building the capacity of SME and SMP organisations to improve their support for the internationalisation of SMEs
- help SMEs adapt to post Brexit conditions

## 6. Fully Implement the Single Market

There is evidence that SMEs increasingly question whether the Single Market delivers benefits that outweigh the costs. Existing rules are not sufficiently implemented and enforced while harmonised rules are especially stringent so as to protect consumers and environment, thereby isolating Europe from the global marketplace. Gold-plating at national level creates unnecessary burdens for SMEs and causes regulatory divergence between Member States, which amount to entry barriers for SMEs.

### **SMPs contribute by**

- providing a range of professional services including helping SMEs comply with regulation in general and, more specifically, to compile their tax returns and pay their fair share of taxes in a timely and efficient manner

### **EFAA is assisting by**

- advocating for professional regulation that promotes a fair balance of quality of service, consumer choice and fair competition as well as tax rules, especially VAT, that are simple and fair for SMEs and harmonised across EU members states

### **EFAA specifically requests**

- a timely, correct and full implementation and enforcement of EU legislation and decisions in all the Member States
- tackling gold-plating at national level to avoid additional burdens and barriers for SMEs
- reducing the barriers, like different tax systems and intellectual property standards, within the Single Market that hinder the growth of SMEs
- the creation of a tax regime which ensures that all economic operators pay their fair share of taxes

## 7. Shape Europe for SMEs and Shape SMEs for Europe

Applying the “Think Small First” principle and securing smart regulation demands a thorough understanding of SMEs’ capacity to comply with the envisaged rules and therefore, specific attention during the impact assessment. EU policy should respect the subsidiarity principle and be based on real added value for SMEs and Europe as a whole.

### SMPs contribute by

- providing a range of professional services to their SME clients giving them deep insights into strengths, weaknesses, opportunities and threats faced by SMEs as well as how they are impacted by regulation and standards

### EFAA is assisting by

- advocating for regulation that conform to [IFAC's principles of good regulation](#), including a proportionate and balanced approach, and specifically for an SME reporting and assurance framework that provides high quality, strategic information with robust assurance while striking an appropriate balance between the burdens on SMEs and the benefits to the public interest
- advocating for scalable reporting and assurance standards and, if this is not feasible, provisions for SMEs and SMPs which are different from that of large companies and firms
- providing data to support policy development and impact assessments

### EFAA specifically requests

- a planning of public consultations and data collection in cooperation with SME and SMP organisations to give them the opportunity to discuss with, and garner input from, SMEs and SMPs on the ground
- using European funds to strengthen the capacity of SME and SMP organisations to participate in shaping the European Union for their members
- public consultations place greater prominence on the relevance to, and predicted impact on, SMEs and be accompanied by short and easy to understand explanatory fact sheets, in EU languages, for SMEs
- greater weight be given in public consultations to input from representative SME and SMP organisations



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