

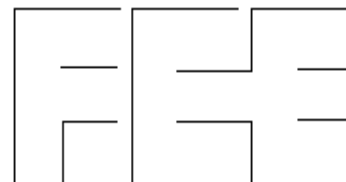
Date
25 June 2003

Le Président

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Dear Mr. Summa,

Re: European Commission Green Paper 'Entrepreneurship in Europe'

FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on the European Commission Green Paper 'Entrepreneurship in Europe'. The Green Paper was discussed in detail, in a number of meetings, by FEE's SME/SMP Working Party. FEE welcomes the Green Paper as an important contribution to promoting entrepreneurship in the European Union and the accession countries now soon to enter the EU.

Below we provide you first with some general comments, followed by responses to the specific questions raised in the paper.

General

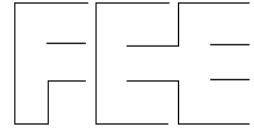
We recognise the urgent need for giving priority to entrepreneurship in the EU agenda. Entrepreneurship promotion is one of the key elements to reach the ambitious goal set up by Lisbon strategy. EU is to become in 2010 "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". Entrepreneurship is a driver not only for economic growth, competitiveness and job creation, but also for social cohesion.

We would like to emphasise that a major issue for the EU is to identify the key factors for building a climate in which entrepreneurial initiative and business activities can thrive.

We agree that EU competitive advantage can be strengthened by removing the barriers to entrepreneurship. We believe that one of the main causes for an inferior development of entrepreneurship in Europe in comparison to the US is the lack of entrepreneurial culture, linked to fear of failure stigma. Administrative and tax burdens, restrictions to the access to finance, inflexibility of the labour market and high costs of top-level training also represent major obstacles to the growth of SMEs.

FEE is of the opinion that professionally qualified accountants are critical in this process as they play a key role in assisting SMEs to start up, grow and/or expand. Accountants are often the business advisor and first spokesman for SMEs, especially for the smaller SMEs. They not only have a role in advising, acting as a sounding, but also in education and training of owners and management of SMEs and in helping them to overcome the problems they experience in growth (including transfers, business succession, mergers, acquisitions, family owned to public, etc).

FEE looks forward to seeing the development of the Green Paper into an action plan or programme.



Responses to the Questions Raised

1 What should be the key objectives for an agenda for entrepreneurship in the European Union and how should these relate to other political ambitions? How can we build a model for entrepreneurship in an enlarged Europe?

The first step towards an improvement of entrepreneurship at EU level is the creation of a European entrepreneurial culture in all EU Member States. Entrepreneurship is above all a mindset. FEE therefore supports fostering education to promote an entrepreneurial culture and reduce the fear of failure stigma.

The agenda for entrepreneurship in the European Union should be set bearing in mind the different and specific characteristics of Small and Medium Enterprises, compared to larger enterprises as well as the differences between countries. Differences will increase even more with the enlargement. Therefore, EU policies should not be general, but rather targeted considering several factors, including market, sector, size, and motivation of the owners of SMEs. A “one size fits all approach” will not work, EC policy and strategy needs to recognise the diversity of SMEs in and between countries.

We believe that the main objectives of the EU agenda should be reducing administrative and tax burdens, in particular compliance costs, facilitating access to finance and to high- level training, increasing the number of economic incentives and raising the awareness of their existence. Growth may not be the ultimate aim of all SMEs, and would depend on personal and business goals.

2 How can we improve the availability of finance (tax measures, public-private partnerships, stronger balance sheets, guarantees) and what alternatives to bank loans should be promoted (business angel finance, leasing, factoring and micro-loans from non-bank lenders)? How can entrepreneurs be supported in obtaining external finance?

The access to finance especially to long term can be improved by promoting a change in the lending criteria used by banks and other lending institutions. Lending to SMEs is considered to be more risky and rates are therefore higher than those applied to larger enterprises. A close relationship between the lender and the client should be developed. This would have the effect of reducing the element of 'risk' for the lender and as well as the cost of capital for small enterprises. FEE has been closely involved in earlier initiatives of the EC in this area.

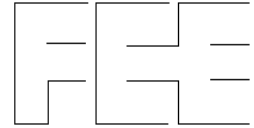
We expect that the code of conduct between European banking organisations and SME organisations as currently under development can contribute to improving the lending climate.

Loan guarantees also represent a burden for SMEs. FEE sees the reduction of both capital and administrative requirements to obtain guarantees for entrepreneurs as an important factor.

The main alternative to bank loans might be represented by an increase in the development of risk capital markets, which are now under- developed in the EU. In addition to that, other informal forms of investments should be promoted, like family, friends, or Business Angels.

We also believe incentives and micro-loans programmes at EU level should be expanded. Raising awareness of the existence of such alternative sources of finance is crucial, as many small enterprises do not even know they might have access to them. In our opinion professionally qualified accountants will be of significant help in such an information and advisory role.

3 Which factors most hinder growth ((lack of) mutual recognition and EU rules or their (non-) implementation at national level, national tax provisions or the situation on the labour markets)? What actions are best suited to supporting growth and internationalisation (trade missions, market analyses, clustering and networking, information and consultancy services)?



We believe that a major factor that hinders the growth of EU economy is the lack of flexibility in the labour market. Not only labour costs are high, but entry and exit barriers are excessive. We therefore suggest a harmonization of national rules across Member States, increasing the flexibility of labour markets and cross-border labour provision.

Red tape is also causing a burden for SMEs, which want to start up or grow. We therefore encourage a significant reduction in administrative burdens.

Another obstacle to growth is represented by tax. It has been widely acknowledged that tax obstacles hamper the efficiency of the Internal Market. FEE supports the efforts of the EC towards harmonization¹ and fosters measures specifically tailored for SMEs.

In order to support growth and internationalisation, we encourage the creation of clusters of enterprises belonging to the same sector. Most small enterprises do not always have the appropriate skills and knowledge to expand internationally, or are not aware of the opportunities for internationalisation available in their country. Acting in clusters would create synergies between a group of enterprises which want to invest in similar kinds of products/ or services, enabling them to have more easily access to information, to be better represented in business organizations and to share risks and costs.

4 To ensure high quality businesses, what training and support should be offered for a business start-up (basic training - compulsory or voluntary, incubators, mentoring) and business development (networks, courses, mentoring, distance learning, e.g. e-learning)? Should there be services tailored to the needs of specific groups (women, ethnic minorities, unemployed or socially disadvantaged people) or businesses (knowledge-based activities)? Should the quality of delivery of support services be improved (using ICTs, professional standards)?

Being aware that formal training might be too expensive for small enterprises, FEE encourages informal training: it is cheaper, it can be more easily integrated into business everyday activities, and can be focused on each individuals' specific work role needs. Training for business development should be provided by business incubators and networks by means of courses provided either at the enterprise offices or by e-mail.

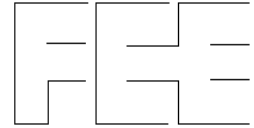
Services should not be targeted to specific groups (e.g. ethnic minority and female business owners). The same information should be provided for all, but with clear recognition of the different needs of these groups.

The quality of delivery of support services can be improved using Information Communications Technology (ICT), which provides an increasing opportunity for innovative training. Entrepreneurs, by their nature, are more likely to try something new and so using ICT may be an appropriate medium to be stimulated for these groups.

5 Are the obstacles and incentives for business development and growth in the European Union similar for entrepreneurs in the Candidate Countries, and does the forthcoming enlargement call for specific measures in the Candidate Countries?

Candidate countries can be broadly characterised as having less social and political stability than EU Member States. The influence of sustained economic growth in enhancing these characteristics cannot be overstated. In turn, sustained economic growth can only be achieved with a stable and certain environment for the private sector. Much progress is still required on domestic reforms to put in place a stable macroeconomic climate and a market economy. The goal of EU membership has reinforced

¹ Among which are: The Communication 'Towards an Internal market without obstacles- A strategy for providing companies with a consolidated tax base for their EU-wide activities' COM (2001) 582, the Study 'Company Taxation in the Internal Market' SEC 1681 23 October 2001, and March 2003 Workshop 'The application of IAS in 2005 and the implications for the introduction of a consolidated tax base for companies' EU-wide activities'.



reforms undertaken in Candidate Countries. Over the past few years' assistance has been focussed on the need to build or reinforce institutions. This means adapting and strengthening the democratic bodies and public institutions that implement and enforce the legislation of the EU (the "acquis"). It is difficult to overstate the effect such fundamental and relatively rapid change on businesses in the candidate countries.

The ultimate goal of supporting private sector development is the creation of a vibrant private sector exchanging goods and investing freely across borders in a region that is integrated closely with the larger European and global economy. The clear prospect of future integration into European and global structures would help to mobilise political resources for change, raise investor interest in the region and build confidence in the future stability of the business environment.

The EU must facilitate the creation of a stable, transparent and non-discriminatory environment for private enterprises to take the risk of investing and producing in the Candidate Countries. In fact, it will be the willingness of private entrepreneurs to take these risks that will transform the opportunities created by increased integration in the global economy into higher growth and employment generation.

Seizing the opportunities presented by an opening of trade, both within the region and with the broader international community, will be possible only if domestic and foreign entrepreneurs increase their investment dramatically. A sizeable and sustained increase in private investment will in turn require a significant improvement in the overall investment framework, including: adequate protection of property rights; fair and non-discriminatory taxation; market-based competition; sound corporate governance; and transparent, effectively enforced administrative practices.

Progress toward the establishment of these prerequisites has been made at different speeds in the Candidate Countries.

Measures to encourage Entrepreneurship in the candidate countries are a necessary step towards building market-based competition. The following are our recommendations for specific measures in Candidate Countries:

a) Monitoring progress in the drive towards an Entrepreneurial Economy

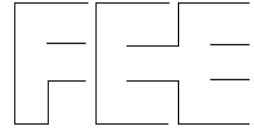
Only two candidate countries (Hungary and Slovakia) are covered in the 2002 Global Entrepreneurship Monitor (GEM). GEM is a unique effort to describe and analyse entrepreneurial processes within a wide range of nations. To better understand the success of measures to encourage Entrepreneurship adequate international comparisons need to be in place. We recommend that the EU should support the creation of Faculties of Entrepreneurship and the creation of National Teams within the Candidate Countries to contribute to GEM.

In making this recommendation we are aware of the excellent Report on Candidate Countries' Measures to Promote Entrepreneurship and Competitiveness, (SEC(2001)2054) known as CC BEST. We note that "over the coming years the Commission will continue and develop further work in these fields"

We would also encourage the wide dissemination of information on Candidate Countries progress. The European Bank for Reconstruction and Development (the Office of the Chief Economist) and the World Bank (ECA Region and WBI) have undertaken The Business Environment and Enterprise Performance Survey (BEEPS). Information on the 1999 BEEPS is available on the World Bank website. However, the 2002 survey is not yet publicly available.

b) Giving an effective voice to Business Representatives

Preliminary research suggests that there appears to be a multiplicity of business representative bodies in Candidate Countries making difficult for the EU and national governments to deal with. We recommend the EU seeks to encourage the formation of cohesive representative bodies at national level and these national bodies are integrated with the representative organisations at EU level. In this



endeavour it is encouraging that many of the Candidate Countries accountancy bodies are new members of FEE.

c) Disseminating information via the Internet

The Internet is the most effective method of distributing information, but adoption of ICT and e-commerce in Candidate Countries appears to lag behind member states. Measures to improve on-line access are required. Lack of awareness is a major obstacle to SMEs taking up e-commerce. DG Enterprise has developed the eEurope 2005 programme (The European e-business support network for SMEs) seeking to provide e-business services and seeking to exchange experience and to share information material. The first Workshop focussed on setting targets for e-business policies, including providing the latest statistical picture on the diffusion and use of ICT and e-business and undertaking an analysis of the most important barriers facing SMEs.

We recommend that the EU encourages Candidate Countries to become fully integrated into this programme as soon as is practical.

d) Improving Access to Finance and Investment Readiness

To quote from the CC BEST Report mentioned above " The area of major concern for SMEs in the Candidate Countries is clearly access to finance. No Candidate Country presents a satisfactory situation in this field". Access to finance, financial advice and how to write business plans are all problems. For new and under-developed SMEs the possibility of obtaining credits from commercial banks are limited as the SMEs lack credit histories or adequate collateral. Cash- flow based financing is underdeveloped.

The major economic restructuring mentioned above is an integral component of increasing SMEs access to finance. We can only recommend that the EU commissions further work to address the issues raised in the CC BEST report, in particular:

- Identifying the key factors for effective guarantee schemes
- Encouraging a realistic method of risk appraisal
- Encouraging seed capital particularly within the context of public/ private partnerships
- Identifying the potential for alternative financial sources such as business angels networks and micro-credit schemes

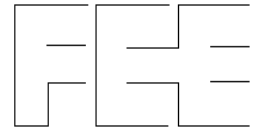
The role of the accountancy profession in many EU countries is to facilitate measures to improve access to finance. In addressing these issues we recommend that measures to improve access to finance fully involve the accountancy profession in Candidate Countries.

6 What can EU Member States do to make the balance between risk and reward more favourable to promoting entrepreneurship (reducing the negative effects of bankruptcy, making more social benefits available for entrepreneurs, reducing the tax burden either in terms of administration or rates)?

It is widely reported that fear of failure and bankruptcy is a barrier to many potential entrepreneurs setting up in business. FEE believes it is necessary to change the cultural attitude to business failure. It is also suggested that failure can provide important insights into sustainability of enterprises in our economy. In this respect FEE is currently preparing a study on causes and effects of SME business failure.

Insolvency laws could be reviewed to reduce the barriers for entrepreneurs starting a new business. Those who have failed through no fault of their own should be provided a second chance. Companies in financial difficulty should be able to have recourse to business rescue procedures.

Many businesses can avoid insolvency by adopting rescue procedures if appropriate advice and support is provided in time. Professionally qualified accountants are critical to this process and their expertise



should be recognized. Businesses can be made aware of certain warning signs and steps should be taken as soon as possible to address the problems and their underlying causes.

It is worth considering that some businesses do not fail with serious financial debt and most small firm closures are not the result of business failure. In some cases the reasons for closing a small business are to allow the owner-manager to retire, to move on to another job or to sell the business.

Tax also constitutes an obstacle for the start-up of entrepreneurship, as tax costs are usually too high and tax formalities are too complex for small entrepreneurs. We envisage the reduction of tax burden only in terms of administration. The reduction of rates is already in process in many Member States, and is linked to a widening of the tax base.

7 How might more prospective entrepreneurs be encouraged to consider taking over rather than starting a new firm (buyers and sellers databases or marketplaces, special training for family-owned businesses, management or employee buy-outs)?

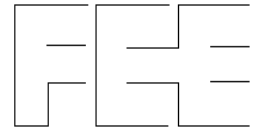
EC research has revealed that successful transfer of businesses is more important than start-ups in terms of employment and other economic measures. FEE believes this should be reflected in member states' policy initiatives. We believe that the EC should address the many issues concerning business transfers.

We recognise that entrepreneurship can be a learning experience and that many people, because they have developed their general business skills, are more successful in their second start-up than their first. It must, however, be considered that the cost of any support provision for start-ups has to be set against the very short life expectancy of most new small businesses.

Handing over the running of a business can be extremely complex and stressful for the owner, and reluctance to let go of the reins can often mean that the transfer of know-how and skills is rushed. FEE believes that owner-managers need to start considering succession planning from an early stage and begin thinking about an 'exit strategy'. FEE has issued various publications in this area, notably "How to Prepare the Successful Sale of an Established Family Business" (April 2002), "Business Valuation: A Guide for Small and Medium Sized Enterprises" (July 2001) and "Keeping it in the Family – SME Family Business Succession" (March 2000). It can take several years to develop an effective plan. Businesses that address succession late will not have sufficient time to make the necessary plans. This may result in the owner-manager not profiting fully from the success of the business.

It is difficult to implement a successful plan if the business is overly dependent on the owners' managerial and knowledge input. Good communication is essential. We believe a move to a professional management structure with an emphasis on knowledge transfer should be encouraged by the EC. This process can lead to a natural internal or family successor in a systematic manner, lessening the emotional impact for the owner when the time comes to leave the business.

There are a number of tax, legislative and administrative issues, such as high inheritance tax, which act as barriers to people thinking both about transferring ownership and their potential successors. In 1997 FEE published a study "Survey on the Fiscal Treatment of the Transfer of Small and Medium-Sized Enterprises (SMEs)" (Updated in 2000). Qualified accountants can have a key role in succession planning. They have an established relationship with their clients and can provide objective and expert advice on a range of different succession situations, specifically relating to businesses individual circumstances. FEE believes that the EC should be more proactive in promoting the provision of expert advice services, which are currently available for business owners and their potential successors.



8 How can spin-offs be made more attractive (management buy-outs, showcasing, specialised advice, tax or other provisions for employees and their employers whilst starting a business)?

FEE recognises the importance of spin-offs through management buy-outs (MBOs), buy-ins (MBIs), and sales to independent buyers. Professionally qualified accountants' advice can be critical to this process and their expertise should be recognized. We believe that one of the most effective ways to encourage spin-offs is reducing tax burden for employers and employees during the start-up phase.

9 How can education support the development of the awareness and skills necessary for developing an entrepreneurial mindset and skills (entrepreneurship training as part of a school's curriculum, getting entrepreneurs into the classroom, apprenticeships for students to work with experienced entrepreneurs, more entrepreneurial training in universities, more MBA programmes, matching entrepreneurial training with public research programmes)?

We believe that personal skills relevant to entrepreneurship should be taught from an early stage in technical schools and developed in MBA universities. Exchange programs for students are important to give students experience with other countries. We foster more harmonization at EU level in the field of education in order to build European entrepreneurial mindset and skills. Universities should view the possibility of double qualification and/or European degrees. It is important that universities recognise the need for an international orientation in their education programs.

Virtual enterprises programmes should be considered to be extended in all Member States. Apprenticeships and stages (training schemes) should, to the extent feasible, be compulsory for MBA students of all Member States, as they enable them to learn on the job with experienced entrepreneurs. Entrepreneurial training should be matched with public research programmes. Masters should be less expensive and could be financed by EU funds, in order to make them more accessible.

10 What could business organisations, the media and public authorities do to promote entrepreneurship (role models, media campaigns, open door days of firms, award schemes for entrepreneurs) and at what level (European, national, regional or local)?

FEE believes that entrepreneurship should be promoted at European level by media campaigns, award schemes for entrepreneurs and open door days of enterprises, in addition to education business centres. Expert advice could also play a role in this respect.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin
President