

# Comments on the Review of the “Small Business Act for Europe”. A Hungarian viewpoint.

**László Borbás**

Óbuda University Keleti Károly Faculty of Business and Management  
Borbas.Laszlo@kgk.uni-obuda.hu

*Abstract: In this article we make comments on the EU Commissions Review on “Small Business Act for Europe” which was published in February 2011 and which is the official viewpoint of the EU concerning the progress made in the implementation of SBA on European and national levels. As we have already emphasized in previous articles, for historical reasons SMEs of the new Member States had to start from a backward position, among others that is why we need a differential and more sophisticated approach for the SME policy. From the point of view of the needs of Hungarian SMEs we comment on the Commission’s Review on “Small Business Act for Europe”.*

*Key words: competitiveness, SMEs, policy making, access to finance, Single Market*

## Introduction

In our previous articles we have analyzed the basic document: “Small Business Act for Europe”. (Borbás 2009, Borbás-Kadocsa 2010). Other authors examined different aspects of SME’s position.(Horváthová 2009, Maková 2008, Mikusová 2008, Mustafa-Michelberger 2005) In February 2011 the Commission launched its new document: Review on the “Small Business Act for Europe”. In the present paper we comment on the statements of the Commission from the viewpoint of the Hungarian SMEs.

## Commission’s position

Commission states that the “Small Business Act” for Europe (SBA), provides a comprehensive SME policy framework, promotes entrepreneurship and anchors the “Think Small First” principle in law and policy making to strengthen SMEs’ competitiveness.

In its review EU Commission presents an overview of progress made in the first two years of the SBA, and sets out new actions to respond to challenges resulting from the economic crisis.

In the Commission's view the implementation of Small Business Act is progressing steadily, but more needs to be done. EU's main focus was, and remains, structured around three areas: ensuring access to finance, taking full advantage of the Single Market and smart regulation.

Based on the first report on the Commission's and Member States' measures to implement the SBA which was published in December 2009, in which EU Commission assessed the results and determined how and to what extent the EU and Member States have implemented the SBA.

In its assessment in which progress made by the European Commission was focused the Commission declared that businesses with a turnover of less than €2 million may benefit from an optional cash accounting scheme which makes it possible for them to delay accounting for VAT until they receive payment from their customers. At the moment a vast majority of Hungarian enterprises are complaining about this kind of problem, but the Government is against this particular solution for mere budgetary reasons. According to the opinion of reliable experts, it would mean around 100 Billion HUF extra burden on the shoulders of the central government to introduce this solution. On the other hand it could ease the financial position of many of the SMEs in Hungary, mostly the most sensitive micro enterprises.

"The Directive to combat late payment adopted by the Council in January 2011 requires public authorities to pay within 30 days and sets an upper limit of 60 days for business to business payments, unless businesses expressly agree otherwise and if it is not grossly unfair to the creditor<sup>6</sup>. Member States are invited to implement the Directive without delay. In addition, the Commission has begun to use an SME test" in its impact assessments." The implementation of these rules would solve at least partly the problem of so called "chain owing". The vicious circle originated basically from the non-payment of government bodies. If they paid within 30 days, the situation could turn to much better. As far as non payment for business to business is concerned, government should make serious efforts and effective measures to force big multinational companies to refrain from forcing smaller ones to accept 90 or sometimes 180 days period for payments.

As far as the SMEs access to finance is concerned the EU Commission states that "To improve SMEs' access to finance, financial instruments within the Competitiveness and Innovation Framework Programme (CIP) continue to facilitate venture capital investments and provide guarantees for lending to SMEs. Microenterprises represent 90% of the over 100 000 SMEs that have benefited so far from the CIP financial instruments. A further 200 000 SMEs are expected to benefit by 2013. On average, each SME that is granted a guaranteed loan in the EU creates 1.2 jobs" Based on our survey, asking SMEs about the obstacles because of which they are not able to grow in an acceptable speed, we have to state that the

kind of financial instruments Commission proposes, most of the Hungarian enterprises said definite "no". Mostly micro entrepreneurs does not consider venture capital as a solution for their growth problems. Among others, that is why differential approach is needed from both EU and national sides to be able to find appropriate solutions. It is a positive sign that in this document EU Commission emphasizes several times the need for differential assessment of the companies by sizes.

According to the review entrepreneurship takes its place in the new innovation policy. In this area much has to be done, it is also true that Hungary made considerable efforts. E.g. the "European SME Week" which was continued and provided a pan-European platform with more than 1,500 events and 3 million participants was a success story in Hungary, too. We do not have enough experience concerning 'Erasmus for Young Entrepreneurs' programme, launched in 2009, but some progress can be recognized in fostering cross-border networking and business cooperation with experienced entrepreneurs. It is also a kind of success that out of the 250 successful female entrepreneurs who form the European Network of Female Entrepreneurship Ambassadors, Hungarian group is very active.

'The Commission has put entrepreneurs and SME.s at the heart of its innovation and research policy<sup>12</sup>. Its aim is to remove the remaining barriers to "bringing ideas to market" and promoting entrepreneurial mindsets among students and researchers.' In this area very few progress can be recognized among Hungarian stakeholders. The diverse interests should be taken in fewer hands. In lack of cooperation any efforts from the Commission side which intends to support internationally competitive clusters, bringing together large companies and SMEs, universities, research centres and communities of scientists and practitioners to exchange knowledge and ideas would remain mere dreams.

As it is well known, but refused by some of influential decision makers and researchers, Hungary's key competitive advantage is the outstanding quality of its soil and traditions of agriculture. Cohesion Policy programmes and the European Agricultural Fund for Rural Development(EAFRD) are both key means of turning the priorities of the SBA into practical action on the ground while ensuring complementarity between EU, national and regional support.

Further investment should encourage regions, to find specific niches in the innovation landscape, based on 'smart specialisation strategies'. The new, recently launched for public discussion, Hungarian Plan for the Improvement of the Countryside fits into these programmes and entirely adopts EU requirements.

EU Commission separately assess the developments in the Member States in the area of SBA implementation.

Progress in improving the business environment is considered to be slow, although all Member States have acknowledged the importance of a rapid implementation of the SBA, but the approach taken and the results achieved vary considerably between Member States.

While, among others, Hungary adopted national targets for reducing administrative burdens, we could not effectively reduce them. In case of SME Test we also failed, it did not become integral part of our national decision making approach.

In EU Commission's view, access to finance has improved but the challenge remains in the hands of the Member States. We are listed among the ones who have created a "credit ombudsman". and new support programmes for SMEs and have started to promote the European Code of Best Practices in order to facilitate SMEs' access to public procurement. Although not listed by names, we are also among the Member States who made good progress in making it cheaper and faster to start up a company. "The average time and cost to start up a private limited company in 2010 was 7 days (12 days in 2007) at a cost of € 399 (€ 485 in 2007)".

## **Need for further action**

EU Commission stated that "Much has been achieved since the adoption of the SBA. The Commission has been faithful to commitments and implemented most of the measures promised. Member States, on the other hand, present a patchier record. For the SBA to achieve its objective of an SME friendly economic policy, it is important to ensure that the actions to which the EU and Member States committed themselves at the time of its adoption are fully implemented. On this basis, the SBA Review proposes a set of new actions aiming to respond to the challenges resulting from the economic crisis, and further developing existing actions in line

with the Europe 2020 strategy, in the following areas:

- making smart regulation a reality for European SMEs,
- paying specific attention to SMEs' financing needs,
- taking a broad-based approach to enhancing market access for SMEs,
- helping SMEs to contribute to a resource-efficient economy, and
- promoting entrepreneurship, job creation and inclusive growth."

## **The Hungarian interest**

From the point of view of the Hungarian Small- and Medium Sized Enterprises which are the most important actions ? What government actions should be made and should be avoided ?

- Only a few of the Hungarian SMEs are able to compete on the EU markets and abroad. Differences, in accordance with EU proposal, between micro-, small and medium-sized enterprises need to be recognised and be taken into account. Enforcing competition is not our interest without any further consideration.
- Meeting the plans of the EU, specific measures such as reduced fees or simplified reporting obligations should be envisaged, because the option to implement these types of measures is left to the Member States.
- Avoidance of 'gold plating', i.e. exceeding the requirements of EU legislation when transposing Directives into national law is also essential, we have lots of best practices in this field.
- Simplification is considered to be a major objective. We should join to this effort. by simplifying the transparency reporting and audit requirements for smaller companies.
- Use of e-government solutions should also be supported.
- We should join to new regulatory provisions for financial institutions introduced either at EU level or by the Member States .
- We should join the Progress Microfinance Facility launched by the Commission
- Government has to combat against unfair commercial practices and contractual clauses
- Anti-competitive practices, cartels and abuse of dominant position are against not only of the interests of SMEs, but all of us. Strict measures should be implemented
- Best practices of other Member States should be thoroughly examined and adopted where they are appropriate.
- Promoting entrepreneurship and job creation are the most important initiatives we should join.

In the time of economic crises EU's proposals for the future development can be considered as basically adequate to the existing problems, although national interests should be taken into consideration. Founders of the EU do this, it is not a shame to follow them.

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