

**CFRR** >>

Centre for Financial  
Reporting Reform



WORLD BANK GROUP



EU-REPARIS is funded  
by the European Union  
and is a part of WB EDIF.

# ACCOUNTANTS AS CATALYSTS FOR GROWTH (A4G) IN THE WESTERN BALKANS

## INITIAL ASSESSMENT OF SME'S FINANCIAL MANAGEMENT AND FINANCIAL GOVERNANCE

Version 1.0

**CFRR»**  
**Centre for Financial  
Reporting Reform**

---



This document was prepared by:

Centre for Financial Reporting Reform (CFRR)  
Governance Global Practice, The World Bank  
Praterstrasse 31  
1020 Vienna, Austria

Web: [www.worldbank.org/cfrr](http://www.worldbank.org/cfrr)

Email: [cfrr@worldbank.org](mailto:cfrr@worldbank.org)

Phone: +43-1-217-0700

© 2019 International Bank for Reconstruction and Development / The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

### **Rights and Permissions**

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

# CONTENTS

Preface and Acknowledgements .....	ii
Abbreviations and Acronyms.....	iii
<b>PART I: IMPROVING FINANCIAL MANAGEMENT OF SMES IN THE WESTERN BALKANS .....</b>	<b>1</b>
1. Executive Summary.....	1
2. Introduction and background .....	8
3. What are financial management and financial governance and why are they important to MSMEs? .....	10
4. What is the role of the accounting profession in supporting MSME financial management and governance? .....	16
5. Learnings from the preliminary assessments performed.....	18
<b>PART II: PRELIMINARY ASSESSMENTS PERFORMED .....</b>	<b>22</b>
6. Serbia .....	22
7. Albania .....	51
Annex: Assessment Methodology .....	73
A. Landscape and Baseline Report Work Plan .....	73
B. Key stakeholders and their contribution to the landscape assessment.....	75
C. SME Survey .....	77
D. SMP Survey .....	85
E. Bank Survey.....	90
F. Board and Management Self-Assessment for PAO Support to SME Sector.....	94
G. PAIB Meeting Guide and Questions.....	112
H. Interview Guide for A4G: Investors .....	116
I. Insolvency Practitioners Meeting Guide and Questions .....	119
References .....	122

# PREFACE AND ACKNOWLEDGEMENTS

This report was prepared by John Hodge and Patrick Kabuya (World Bank Senior Financial Management Specialists) with the support of Lejla Begtasevic Rudalija (Financial Management Consultant) under the in-country component of the EU-REPARIS program and is the first report prepared under the Accountants as Catalysts for Growth (A4G) initiative. EU-REPARIS has been designed to help and encourage the process of aligning legal frameworks in accounting and audit with the EU's Acquis Communautaire and encourages the accounting profession to offer enterprises, especially MSMEs, effective business support services and advice on accessing finance and complying with regulatory requirements.

A4G is an initiative of the World Bank's Center for Financial Reporting Reform (CFRR) aimed at supporting the development of the accounting profession to provide skills and technology to enable more effective financial management and financial governance to catalyze growth in the private sector.

The report presents the results of preliminary assessment conducted in June 2018 in Serbia and Albania involving in-country stakeholders from the Ministries of Economy and Finance, Chambers of Commerce, Development Agencies, Professional Accountancy Organizations, Micro, Small and Medium Sized Entities in different sectors, Private Audit Firms, Banking Associations, Insolvency Practitioners, and the European Bank for Reconstruction and Development (EBRD). The assessment team acknowledges the contributions made by all participating stakeholders.

The report benefited immensely from feedback provided by Dusko Vasiljevic (World Bank Senior Private Sector Specialist). The team also gratefully acknowledges Stephen Ndegwa (World Bank Country Manager for Serbia), Maryam Salim (World Bank Country manager for Albania), Adenike Sherifat Oyeyiola (World Bank Practice Manager, Governance Standards, Codes and Systems), Jarett Decker (Head, Centre for Financial Reporting Reform), Pascal Frerejacque (World Bank Senior Operations Officer), Aleksander Crnomarkovic (World Bank Senior Financial Management Specialist), Andrei Busuioc (World Bank Senior Financial Management Specialist) and Keler Gjika (World Bank Financial Sector Specialist) for their guidance and support throughout this task.

# ABBREVIATIONS AND ACRONYMS

<b>AAFEA</b>	Association of Accountants and Finance Experts
<b>ACCA</b>	Association of Chartered Certified Accountants
<b>ACA</b>	Association of Certified Accountants
<b>AIDA</b>	Albanian Investment Development Agency
<b>CA</b>	Chartered Accountant
<b>CEO</b>	Chief Executive Officer
<b>CFREP</b>	Project of Financial Reporting Improvement of Trade Associations
<b>CPA</b>	Certified Public Accountant
<b>CPD</b>	Continuous Professional Development
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IAESB</b>	International Accounting Education Standards Board
<b>IASB</b>	International Accounting Standards Board
<b>ICAEW</b>	Institute of Chartered Accountants of England and Wales
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IEKA</b>	Albanian Institute of Authorized Chartered Auditors
<b>IES</b>	International Education Standards
<b>IFAC</b>	International Federation of Accountants
<b>IFRS</b>	International Financial Reporting Standards
<b>IKM</b>	Institute of Certified Accountants
<b>INSTAT</b>	Albanian Institute of Statistics
<b>IPD</b>	Initial Professional Development
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>ISA</b>	International Standards on Auditing
<b>MoF</b>	Ministry of Finance
<b>MSME</b>	Micro, Small and Medium Sized Entities
<b>NAC</b>	National Accounting Council
<b>NAS</b>	National Accounting Standards
<b>NGO</b>	Non-Governmental Organizations
<b>PAO</b>	Public Accounting Organization
<b>PFM</b>	Public Finance Management
<b>PIE</b>	Public Interest Entity
<b>POB</b>	Public Oversight Board
<b>QA</b>	Quality Assurance
<b>ROSC</b>	Report on the Observance of Standards and Codes
<b>SDG</b>	Sustainable Development Goals

<b>SME</b>	Small and Medium-Sized Enterprise
<b>SMO</b>	Statement of Membership Obligations
<b>SMP</b>	Small and Medium-size Practices
<b>SOE</b>	State-Owned Enterprise

# PART I: IMPROVING FINANCIAL MANAGEMENT OF SMES IN THE WESTERN BALKANS

## 1. EXECUTIVE SUMMARY

**Good financial management and financial governance is not only an imperative for the largest companies; smaller privately-owned businesses dominate economies in the Western Balkans providing most of jobs and contributing most of the value added to the economy, and so it is essential that smaller businesses with high growth potential are not constrained by poor financial management practices.**

However, smaller firms are disadvantaged, compared with larger businesses, when it comes to accessing the skills and technology necessary to support good financial management and financial governance systems.

It is perilously easy to overlook wide-spread shortcomings in financial management and financial governance, especially in times of economic recovery and growth. Accelerating growth in business revenues does not necessarily equate to good financial management and financial governance; serious deficiencies can be obscured until the demand for cash increases, say when revenues decrease and/or working capital needs increase, which cannot be met, ultimately leading to the demise of the business.

**The World Bank's CFRR has developed a "landscape assessment approach" that aims to identify the state of financial management and financial governance practices of MSMEs in the Western Balkans and opportunities for improvement, building on the ROSCs performed in the region.**

The landscape assessment approach has been developed by the CFRR under the Accountants as Catalysts for Growth (A4G) initiative which aims to leverage the accounting profession to support improvements in the management of the financial health of MSMEs. This work compliments the Reports on Observance of Standards and Codes (ROSCs) that have been completed by looking at non-standard aspects of financial management.

**Preliminary landscape assessments have been performed in Serbia and Albania; however, this work has not yet been formally reported.**

These preliminary assessments have been performed to test the assessment approach before a broader roll-out under the future EU-REPARIS program work as well as identify the key financial management and financial governance practices of MSMEs that need improvement, based on stakeholder observation, and consider factors that may be giving rise to such practices and possible approaches to address them. Reports for Serbia and Albania will be



completed once the assessment is finalized which may include further work in both countries resulting from refinements to the assessment approach.

**Stakeholder observations obtained from preliminary assessment work were used to identify financial management deficiencies in MSMEs, possible causal factors, and approaches to improvement.**

Stakeholder input was obtained through surveys and interviews of the following types of organizations:

- MSMEs
- Small and Medium-sized accountancy Practitioners (SMPs)
- Professional Accounting Organizations (PAOs) and accounting associations
- Chambers of Commerce
- Banking Associations
- Development Agencies
- Insolvency Practitioners
- Banks
- Investors
- Ministries of Economy and Finance, and
- EBRD

The surveys and interview guides used are contained in Annex 1 of this report.

**Stakeholders identified some fundamental deficiencies in financial management and financial governance of MSMEs in Serbia and Albania that appear to be systemic and may constrain the MSME Sector's development overall.**

Some common issues arose in both preliminary assessments in Serbia and Albania, as observed by stakeholders, relating to the practices of MSMEs in financial management and financial governance, including:

- Poor record keeping
- Overleveraging
- Poor liquidity and cash management
- Poor tax compliance and planning
- Poor risk management
- Business and operating models not conducive to growth
- Business planning and decision making with insufficient financial analysis

- Lack of financial transparency and unreliable forecasts to potential capital providers
- Poor internal controls

**The key factors contributing to the existence of the above deficiencies identified by the preliminary assessments are summarized below; more detail on each of the matters raised is contained in the body of this report.**

- Limited access to modern accounting software/technology
- Bank lending practices
- Limited alternatives to debt
- Limited financial literacy of owner(s)
- Ineffective governance structures and practices
- Underqualified accountants and qualified accountants who have a skills gap
- Complex tax system with burdensome administrative requirements
- Low demand for financial statements
- Lack of enforcement of financial reporting requirements

**The principle elements of a proposed coordinated and strategic approach to enable improvements in the financial management and financial governance of MSMEs are summarized below.** It is important to note that these are not expressed as actionable recommendations; they are offered as key themes that should be discussed by the main stakeholders to coordinate and identify agreed actions with these themes and others.

One of the key constraints to improving financial management identified from preliminary assessments performed, is that the demand for financial management by MSMEs is low. Financial management and financial governance is not always seen as a driver of improved business performance, there is a tendency to solely focus on products and marketing to achieve business objectives. While these aspects are obviously important; too much focus on them can marginalize other functions that support business success, like financial management, which can constrain business growth.

Therefore, as these themes are considered, it is important to reflect on how they can be used to drive an increase in demand for better financial management and financial governance.

**A key issue identified at this initial stage of work is that approaches to address shortcomings in financial management and financial governance of MSMEs are constrained by market conditions and institutional capacity.**

**Table 1. Principle elements of a proposed coordinated and strategic approach**

<b>HUMAN CAPITAL</b>
<ul style="list-style-type: none"><li>• Making the professional accounting designation more attractive for talented individuals to join the accounting profession, especially once demand for financial management increases</li><li>• Improving the quality of professional development education both at entry in the profession and thereafter</li><li>• Increasing the reach of initiatives that transfer financial knowledge to entrepreneurs for improved financial literacy</li><li>• Reinforcing professional accountants as ethical leaders that provide value added services to business</li></ul>
<b>TECHNOLOGY</b>
<ul style="list-style-type: none"><li>• Helping MSMEs gain access to improved accounting and finance technology that can reduce transactional costs and provide a platform for increased demand for business analysis and financial management</li><li>• Removing barriers to effective usage of improved technology (e.g. full integration of accounting systems and banking systems, data storage and overly complex requirements like VAT etc.)</li></ul>
<b>REGULATION</b>
<ul style="list-style-type: none"><li>• Strengthening incentives for MSMEs to improve financial reporting and increase demand for good financial management practices</li><li>• Keeping audit thresholds as high as possible but considering alternative ways to add credibility to financial statements of MSMEs</li></ul>
<b>STRENGTHENING INSTITUTIONS</b>
<ul style="list-style-type: none"><li>• Strengthening the capacity of the PAOs to build a strong accounting profession to support MSMEs (and other institutions for non-professionals)</li></ul>
<b>THOUGHT LEADERSHIP</b>
<ul style="list-style-type: none"><li>• Researching how current financial management and financial governance practices constrain MSME Sector growth and the effectiveness of improving skills and technology to removing these constraints</li></ul>

The table below summarizes several key constraints, that relate to overall market conditions and institutional capacity, and will have a significant impact on efforts to improve MSMEs financial management and financial governance.

During the stakeholder interviews, it was often the case that discussion would eventually revert to these constraints in one form or another. For the purposes of this report, the constraints commented on in the interviews have been grouped as the challenges presented below.

**Table 2. Key Challenges and Implication for Future Development Activities**

<p><b>Overcoming low demand for financial management and financial governance by business owners</b></p>
<p>Financial Management and financial governance of MSMEs cannot improve unless owners and management understand their importance and is more prepared to allocate them business resources and use information in making business decisions.</p> <p>From interviews held, it was clear that MSME owners and managers are product focused and only see financial management as a compliance exercise-certainly not one that can support improved business performance and growth.</p> <p>Unquestionably, economic conditions and a focus on cost cutting is significant to this challenge. The accounting profession needs to work on raising awareness about why their services are not simply just costs and improve their product offering (e.g. through helping MSMEs to access better information technology). Financial literacy of the owner is also an important factor, because it takes knowledge to understand when it may be beneficial to seek the help of professionals.</p>
<p><b>Strengthening the PAOs to improve the image of the profession and awareness of services to the public, provide more relevant services to members to support improved relevance to MSMEs and play a stronger role in advocating for an improved MSME business environment.</b></p>
<p>Demand to join the profession by students and to purchase the services of professional accountants (especially in business advice) needs to increase to maintain a healthy profession that serves the economy.</p> <p>The PAOs need to be able to invest more in education platforms to ensure their members have the skills necessary to support business growth. This requires increases in membership dues which is dependent upon increased demand noted above.</p> <p>PAOs also could improve their strategic and management capabilities. It is important that they view the profession strategically and develop a strategic plan to improve the profession and make it more relevant to business growth.</p> <p>PAOs could design and implement thought leadership initiatives that support MSMEs. Examples of such initiatives could include (a) Partnering with other institutions to implement social entrepreneurship initiatives that can build the business and financial</p>

literacy of MSMEs and their owners, (b) hosting training for MSMEs across the country together with other institutions, (c) championing research to assess the impact of reforms on growth and sustainability of the MSMEs. Such initiatives may have the added benefit of building the accountancy profession's brand value and increase demand for their services by MSMEs.

PAOs should regulate professional behaviors of those who provide financial management services to MSMEs. This includes monitoring work done by their members and, where standards fall short, impose sanctions to ensure incentives for ethical and professional behavior are maintained.

#### **Getting institutions that have a role in the National MSME Development Plan to crowd-in and collaborate and coordinate more closely.**

It is important for the accounting profession to view itself as partner for Government in terms of supporting the development of the MSME Sector.

Government agencies could present the National MSME Development Strategy with the accounting profession and others and identify ways to work together to achieve strategic objectives and lend support to developmental activities.

#### **Developing a start-up eco-system that can bring technological solutions to MSMEs' financial management problems**

MSMEs can gain significantly from Software as a Service (SaaS) solutions, such as cloud-based accounting software, that can reduce the transaction costs of processing business data and assist in providing management with real time information to effectively manage their businesses and make informed decisions.

There is strong technical capability in the region in terms of software production; it could be helpful for an organization to play an intermediary role to try and aid market entry of software solutions.

Improving accounting technology may be an important way for the accounting profession to help build more demand for financial management by MSMEs, because having more analysis and insights about the performance of the business, provided at a lower cost, can better facilitate identification of areas for improvement.

#### **Improving the capacity of a diverse group of financial management employees and service providers, that are not professional accountants, to improve their practices**

The SME Sector is large, heterogenous and geographically spread; achieving good "reach" in development work is inherently difficult. And not all are served by professional accountants.

Improving the capacity of providers to this large diverse groups of MSMEs is not easy and using online channels for providing tools, training and guidance will be important.

#### Defining priorities for development activities

Being large and diverse also means that development activities for the MSME Sector need to be strategic. For example, to be relevant to overall development objectives for the MSME Sector it may be necessary to target activities in specific areas, for example:

- The start-up eco-system and investment readiness
- Succession of family owned businesses
- Banking segments
- Other potential equity investment projects

One important consideration is how to supplement work being performed by various institutions, for example Banks and Universities. Banks may have an important role to play in improving the financial management of their clients, since they are a significant source of financial capital to MSMEs. Also, University graduates may be well placed to intern at start-up ventures to provide low cost financial management support and gain valuable experience.

**Future work under the A4G initiative, including completing assessments in all Western Balkans countries, and developing activities to support improvements in MSME financial management and financial governance, will need to take account of the results of this preliminary assessment work.**

One key consideration is whether, given the status of the accounting profession in the Western Balkans, the providers of financial management services should be expanded to include non-professional accountants and firms offering business and financial advisory that are not associated with the accounting profession.

## 2. INTRODUCTION AND BACKGROUND

**Good financial management and financial governance is not only an imperative for the largest companies; smaller privately-owned businesses dominate economies in the Western Balkans providing most of jobs and contributing most of the value added to the economy and so it is essential that smaller businesses that have high growth potential, are not constrained by poor practices in how they manage their financial health.** However, smaller firms are disadvantaged, compared with larger businesses, when it comes to accessing the skills and technology necessary to support good financial management and financial governance systems.

It is perilously easy to overlook wide-spread shortcomings in financial management and financial governance, especially in times of economic recovery and growth. Accelerating growth in business revenues does not necessarily equate to good financial management and financial governance; serious deficiencies can be obscured until the demand for cash increases, such as when revenues decrease and/or working capital needs increase, which cannot be met, ultimately leading to the demise of the business.

**The A4G initiative aims to sustain improved MSME financial health management through targeted improvements to their business environment.** While there are many aspects of an MSME's environment that impact on its financial performance and the way it manages its finances, A4G is primarily focused on the access MSMEs have to adequate skills and technology to manage their finances.

**The objective of the landscape assessment, aimed to be performed in each of the Western Balkans countries under the initiative, is to identify key priorities in improving financial management and financial governance of MSMEs and assess related development needs.** The landscape assessment is designed to provide helpful insights to the stakeholders in-country and at the same time inform further project activities aimed to improve institutional capabilities. During the landscape assessment the following information is identified:

- The SME sector: Key statistics and key business issues
- Deficiencies in financial management and financial governance practices of MSMEs as observed by key stakeholders
- Factors that may be causing these deficiencies in practices (i.e. constraints to improved financial management and financial governance)
- The capacity of the accounting profession to be a key change-agent and lead improvements
- Headline priorities for change

## 2.1. THE OBJECTIVE OF THIS REPORT

**The objective of this report is to identify the key in implementing approaches, identified in preliminary assessments performed, to sustainably improve how MSMEs perform financial management and financial governance in the Western Balkans.** The findings from this work will be used to inform future work under the EU-REPARIS program, which will include a component on how the accounting profession can improve their support to MSMEs in financial management and financial governance.

Whereas individual landscape assessments identify poor practices and consider why these are occurring and ways to overcome them, this report is focused on what the challenges are in developing programmatic activities designed to address poor practices in financial management and financial governance of MSMEs. Preliminary assessments have been performed in Serbia and Albania to assist with this objective and consider whether the assessment approach used is fit-for-purpose for general roll-out.



### 3. WHAT ARE FINANCIAL MANAGEMENT AND FINANCIAL GOVERNANCE AND WHY ARE THEY IMPORTANT TO MSMES?

#### 3.1. FINANCIAL MANAGEMENT IS IMPORTANT

**Research has shown that SMEs can enhance their profitability, growth and survival by improving financial management especially working capital and cash flow management (Mazzarol, 2014).** As intuitive as it may be, that good financial management supports business success, owner/managers tend to get into trouble because they perform poor financial control and management practices and they need to be actively engaged in monitoring the business cashflows and performance (*Mazzarol, Reboud, Clark, 2015*).

**Measuring the quality of financial management and financial governance is interconnected with, but distinct from, measuring financial performance.** There are various ways to measure financial performance and financial position of an MSME, such as preparing financial statements under IFRS for MSMEs and using financial indicators such as ratios and adjusted profits. These measures may improve along with the quality of financial management and governance, but they are also determined by factors outside of the control of the MSME such as macroeconomic conditions (e.g. inflation, interest rates, unemployment etc.).

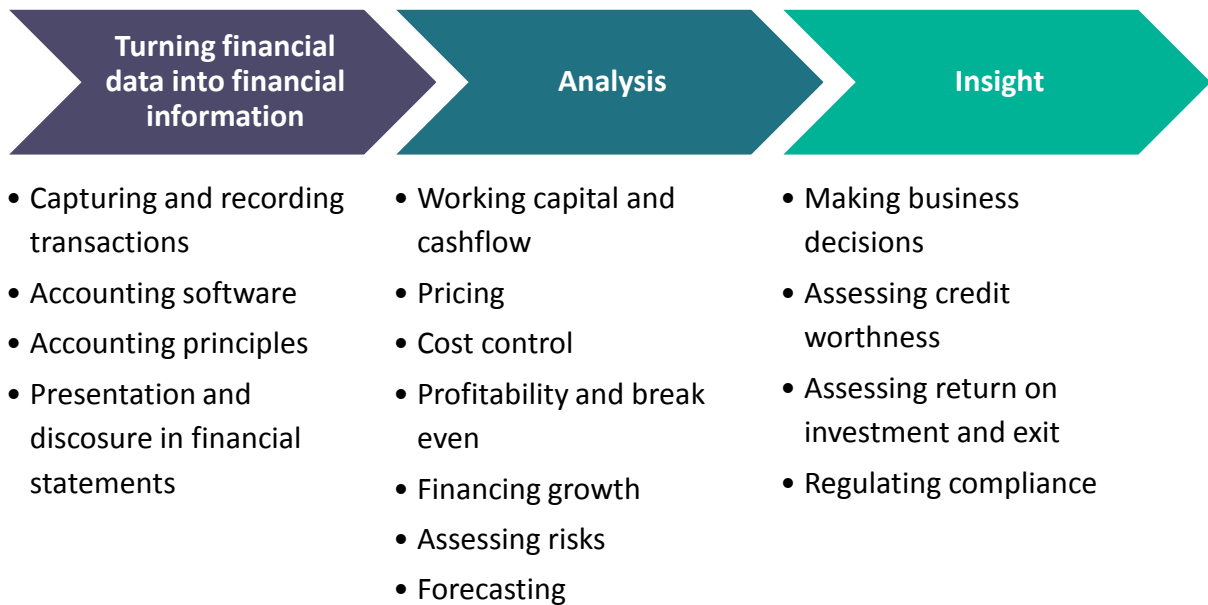
Measuring the quality of financial management and financial governance is more elusive because of these outside factors that influence the financial performance of an MSME. Anecdotal evidence would suggest that good financial management would have a clear impact on profitability, for example; well prepared financial statements can lower the cost of debt. Good financial management can also be reflected in terms of outcomes, for example; obtaining new financial capital to grow the business reflects a level of confidence that debt will be repaid, or equity investment will earn an adequate return, and ‘favorable’ level of working capital suggests a well-managed cash-cycle.

#### 3.2. FINANCIAL MANAGEMENT INVOLVES SYSTEMS AND PRACTICES

**For A4G, financial management refers to the systems and practices that MSMEs use to capture financial data and information and turn it into financial knowledge and insights for use in effective management of business finances and making business decisions, including by external stakeholders assessing the credit worthiness and ‘investibility’ of MSMEs.**

Financial management practiced by many small business owners in the formal sector, mostly entails making sure that; tax forms are completed, filed, and taxes are paid; the relationship with the bank manager is productive, and annual statutory financial statements are prepared and audited if necessary (at the lowest possible price). However, this is a narrow approach to managing the ‘life blood’ of the business-its financial resources.

**Figure 1. Financial data to financial insight**



**A4G references a set of core financial management analytical activities which anecdotal evidence suggest are necessary for MSMEs to develop financial management systems that support successful business growth strategies.** These core activities are:

- Capturing and recording transactions that impact the financial performance, financial position and cash flows of an MSME
- Managing working capital and cash flows
- Selecting growth assets and sourcing the best financial capital for investment
- Pricing, break-even and profitability analysis, forecasting
- Sound control of payments and expenses through budgeting and monitoring
- Managing financial risks (e.g. foreign currency risks arising from exports)
- Complying with regulatory requirements (e.g. financial reporting, tax and audit)

Although these activities are to varying degrees interrelated, they can individually act as a constraint to good financial management if not performed effectively.

### 3.3. GOOD GOVERNANCE IS NOT JUST IMPORTANT FOR LARGE BUSINESSES

**For A4G, financial governance, refers to the “...set of relationships between a firm’s management, its board, its shareholders and other stakeholders that provides the structure through which the objectives of the firm are set, and the means of attaining those objectives and monitoring performance are determined” (OECD, 2004).**

There is not a one-size-fits all approach to corporate governance of MSMEs. What is appropriate for large businesses may not work in the context of the smaller business, especially considering that a significant share of MSMEs in the Western Balkans are family businesses.

On one hand, because agency problems are less likely to occur, there is less need for formal corporate governance structures and practices in family firms to achieve good governance outcomes. On the other hand, as family firms develop beyond the family founder and involve more members of the family in various capacities, increased complexities mean that some governance measures may help. For example, family members that rely on employment income may be more inclined to reinvest profits into the business than, say, family members who are only receiving dividends (IFC, 2018).

**“...95 percent of family businesses do not survive the third generation of ownership. This is often the consequence of a lack of preparation of the subsequent generations to handle the demands of a growing business and a much larger family. Family businesses can improve their odds of survival by setting the right governance structures in place...” (IFC, 2018).** What constitutes the right governance structures and practices depends on specific circumstances. In addition to how the family operate as shareholders, another important area for family run MSMEs is the composition and operation of the board of directors.

Most family businesses establish boards of directors comprised of family members to comply with a legal requirement (i.e. “paper boards”). Often the same individuals are serving on both the board and the management team. However, as family businesses grow and become more complex, it is important to have the board play an active role to set strategy and review management performance and it is necessary to ensure board members have the right level of independence and expertise to do this effectively (IFC, 2018).

One “compromise solution” to the problem of trying to install more independence on the board of family run businesses is to establish advisory boards. Such boards can compensate for the short comings of the board of directors with industry expertise and experience in functional areas like finance, marketing and international markets, without diluting the family’s control over decision making (IFC, 2018).

Good governance is important to improving financial management because it entails oversight of management including performance and strategy. Poor management, insufficient cash to fund growth and inadequate control of costs are key reasons why many small businesses fail (IFC, 2018) and with some additional degree of effective oversight these kinds of issues can be mitigated.

### 3.4. THE CONTEXT WITHIN WHICH FINANCIAL MANAGEMENT AND FINANCIAL GOVERNANCE EXIST

**To identify strategies for improvement, it is necessary to focus on the contextual factors that ultimately determine how successful MSMEs are at financial management and financial governance.** Important factors influence the context within which businesses are performing financial management and financial governance. For the purposes of this assessment, these contextual factors can be divided into three components: the business environment, entity-level business and operating practices and systems and the financial capabilities of owners and their advisors.

**The business environment comprises the conditions under which all MSMEs conduct business and compete.**

According to a USAID survey, businesses in Serbia believe that inflation, exchange rate volatility and interest rate volatility are the most damaging macroeconomic factors to their competitiveness (USAID, 2016).

While managing business finances, MSMEs will need to navigate through the various regulations, such as taxation, financial reporting and audit requirements. The ability of MSMEs to comply with regulatory obligations as well as other finance related tasks will to a large extent depend upon the availability of adequate skills in the workforce as well as access to technology that can increase efficiency and effectiveness.

The availability of financial capital is another important part of the business environment for MSMEs in the Western Balkans, both in terms of the types of financial capital available and the terms and conditions attached to its receipt. In the Western Balkans, the principal source of financial capital for MSMEs is debt from banks.

**The prevailing business and operating systems and practices of MSMEs in the Western Balkans is an important contextual factor, especially in relation to systems that support internal controls.** An MSME's operating model would include all its systems and processes and the more significant of these for financial management and financial governance related to structures in place for governance (if any), internal controls (especially preparation of budgets and monitoring against actuals and cash adequacy monitoring), setting prices and the cost structure (e.g. fixed costs).

Research supports that good cash flow and working capital management improves profitability, growth and survival of MSMEs, however, poor financial controls and management practices often give rise to problems with financial management (Mazzarol, Clark, Reboud, 2015).

Key financial management issues that need to be addressed by the systems and processes include (Mazzarol, Clark, Reboud, 2015):

- Controlling cash flows
- Monitoring costs and working capital needs
- Seeking to find a pricing strategy that retains sales while ensuring profitability
- Accounting and reporting systems that are not only good for compliance (tax and financial reporting etc.) but also for measuring financial performance

Systems that support financial transparency are also very important, research has shown that in Serbia the quality of the statutory financial statements, as determined by audit reports, is the most important predictor for the cost of debt (Stanisic, Stefanovic and Radojevic, 2015).

**The financial acumen of MSME owner(s)/manager(s) is the last, but not least, of the contextual factors referred to in this work and is influenced by the degree of financial literacy and resulting attitude towards managing finances vis-à-vis other areas of the business.** The financial capacity of the owner(s)/manager(s) is important because they make the most significant business decisions and if they lack proper financial information (or are not aware of whether they have necessary information) they may make poor decisions.

MSME financial capacity can be considered as the composite of knowledge, skills, attitudes and behaviors of the owner/manager (World Bank, 2018).

### **3.5. ONE SIZE DOES NOT FIT ALL WHEN IT COMES TO FINANCIAL MANAGEMENT AND FINANCIAL GOVERNANCE IN THE MSME SECTOR**

**These core financial management analytical activities described above will be used to consider how MSMEs are performing in financial management for the landscape assessment work, but will need to be ‘flavored’ by the following considerations;**

- Different sectors have needs arising from sector-specific factors (i.e. cash flows cycles for farmers and retailers are very different)
- The size and scale of the MSME matters (e.g. ability to afford financial management, less regulatory requirements and more difficulty access finance)

- The life-cycle of an MSME influences financial management priorities (e.g. start-up phase business needing financial capital to reach potential)

**The smaller the enterprise, the less sophisticated its financial management systems, and the more important the financial literacy of the owner/ manager becomes.** It is not only size, there are many different factors that come into play such as industry specific matters and seasonality that are important to consider when seeking to identify improvements to MSME financial management.

**While landscape assessments completed will not aim to assess performance of individual MSMEs, the work is not attempting to target the whole MSME sector either**

The work does place some focus on ensuring companies that have a high potential for growth are able to access the financial management skills and technology necessary to support their growth.

Very small micro-sized business owners are not likely to see the benefit in investing substantially to improve their financial management, but some are more developmentally relevant-such as start-ups that are very small and with access to financial capital have the potential to grow significantly.

## 4. WHAT IS THE ROLE OF THE ACCOUNTING PROFESSION IN SUPPORTING MSME FINANCIAL MANAGEMENT AND GOVERNANCE?

### 4.1. PROFESSIONAL ACCOUNTANTS AS TRUSTED BUSINESS ADVISORS

Research demonstrates that in many developed economies professional accountants are the primary and trusted business advisors of MSMEs. The relationship is often formed based on compliance related activities, such as completing tax returns and preparing financial statements.

MSMEs that use professional accountants either employ them directly or contract them through professional services offered through small and medium-sized practices (SMPs). Practice models and technologies in developed economies have evolved significantly over the last 10 or so years and the profession continue to be important to the success of the MSME sector in these economies.

During the landscape assessment phase, one aim will be to identify the opportunities and constraints for the local accountancy professional accountancy organizations (PAOs) to replicate the success of their international brethren to support growth in MSMEs.

#### EXPLAINING PAOS, SMPS AND PAIBS

Most professional accountants who work in practice are employed by a Small and Medium-Sized Practice (SMP). Client portfolios of SMPs are often comprised solely of SMEs. The majority of the services provided are designed to enable MSMEs to meet regulatory requirements; however, increasingly SMPs are also providing business advisory services to MSMEs.

Professional Accounting Organizations (PAOs) admit professional accountants to their membership. When these PAOs are members of the International Federation of Accountants (IFAC) they have an obligation to act in the public interest, rather than in the interest of their members. They are important because they work to ensure that MSMEs can access qualified professionals performing the quality of work required to support their business growth.

Professional accountants are those that have met the membership requirements of PAOs. In addition to education and experience requirements, professional accountants agree to

## EXPLAINING PAOS, SMPS AND PAIBS

act ethically and provide their professional services with due care. Most professional accountants that serve SMEs work in SMPs, additionally once MSMEs have around 50 employees they typically bring a professional accountant on staff or contract to manage the accounting and finances. Those working directly in MSMEs are part of the cohort referred to by IFAC as Professional Accountants in Business (“PAIBs”).

**However, in circumstances where PAOs have low capacity, and prospects for significant improvement in the near term is remote, consideration will need to be given to other providers of financial management services to MSMEs.**

The benefit, from a development perspective, of working with the profession is that PAOs can achieve ‘reach’ to their professional members who are working directly with MSMEs, and program activities can benefit from this reach (i.e. through connection).

However, in circumstances where employees of MSMEs and business service providers that are performing financial management activities are not part of the accounting profession, being able to connect with them may be more of a challenge, but it is important that such a connection is made to achieve the most impact.



## 5. LEARNINGS FROM THE PRELIMINARY ASSESSMENTS PERFORMED

### 5.1. HOW PRELIMINARY ASSESSMENTS IDENTIFIED ISSUES

**Stakeholder observations obtained from preliminary assessment work were used to identify financial management deficiencies in MSMEs, possible causal factors, and approaches to improvement.**

Stakeholder input was obtained through surveys and interviews of the following types of organizations:

- MSMEs
- Small and Medium-sized accountancy Practitioners (SMPs)
- Professional Accounting Organizations (PAOs) and accounting associations
- Chambers of Commerce
- Banking Associations
- Development Agencies
- Insolvency Practitioners
- Banks
- Ministries of Economy and Finance, and
- EBRD

The surveys and interview guides used are contained in Annex 1 of this report.

While these preliminary assessments have involved a significant amount of stakeholder engagement, findings from the work will not be formally disseminated until under the extension of the EU-REPARIS program. This will allow more work to be performed across the Western Balkans to gain a broader perspective and to identify recommendations to address issues arising from the work performed that has been agreed with relevant stakeholders as actionable.

### 5.2. KEY CHALLENGES IN DEVELOPING MSME FINANCIAL MANAGEMENT AND FINANCIAL GOVERNANCE CAPABILITY AND THEIR IMPLICATION FOR FUTURE DEVELOPMENT WORK

**As can be seen in Part II of this report, the preliminary assessment has identified several deficiencies in financial management and financial governance practice. Opportunities to**

**address these deficiencies, while easy to identify and define, are extremely difficult to implement because of low capacity in the related institutions and the business environment.** To be successful in achieving gradual positive change, it will be necessary to focus on how to address deficiencies in practice and the factors that cause them through changes to the capacity of the institutions and improvements to the business environment.

During the stakeholder interviews, it was often the case that discussion would eventually revert to these constraints in one form or another. For the purposes of this report, the constraints commented on in the interviews have been grouped as the challenges presented below.

### **5.2.1. Overcoming low demand for financial management and financial governance by business owners**

Financial Management and financial governance of MSMEs cannot improve unless management understand their importance and are more prepared to allocate business resources to them and use financial information in making business decisions.

MSMEs in the Western Balkans will approach financial management differently with varying degrees of success; the basic difference that is of most importance for this assessment is whether they perform financial management as a compliance function that is simply a cost of doing business or whether they approach it as a core management function that can support achievement of business strategies.

The demand for business services that do not clearly improve the product/service offered is low in the Western Balkans. Owners/managers tend to have low demand for financial reporting and other financial management aspects which means that service providers are competing largely on price.

This low demand/low price environment is pervasive in terms of the skills held by those performing managing the finances of many MSMEs as well as the technologies that are being used. In some cases, SME owners are undertaking their own financial management without assistance of any technologies.

One aim of the landscape assessment phase is to identify how these important financial management activities are being performed, if at all, and whether improvements are needed in terms of the availability of cost-effective technology, skilled labor and relevant services.

### **5.2.2. Strengthening PAOs to improve the image of the profession and awareness of services to the public, provide more relevant services to members to support improved relevance to MSMEs and play a stronger role in advocating for an improved MSME business environment**

Demand to join the profession by students and to purchase the services of professional

accountants (especially in business advice) needs to increase to maintain a healthy profession that serves the economy.

The PAOs need to be able to invest more in education platforms to ensure their members have the skills necessary to support business growth. This requires increases in membership dues which is dependent upon increased demand noted above.

PAOs also could improve their strategic and management capabilities. It is important that they view the profession strategically and develop a strategic plan to improve the profession and make it more relevant to business growth.

### **5.2.3. Getting institutions that have a role in the National MSME Development Plan to crowd-in and collaborate and coordinate more closely.**

It is important for the accounting profession to view itself as partner for Government in terms of supporting the development of the MSME Sector.

Government agencies could present the National MSME Development Strategy with the accounting profession and others and identify ways to work together to achieve strategic objectives and lend support to developmental activities.

### **5.2.4. Developing a start-up eco-system that can bring technological solutions to MSMEs' financial management problems**

MSMEs can gain significantly from Software as a Service (SaaS) solutions, such as cloud-based accounting software, that can reduce the transaction costs of processing business data and assist in providing management with real time information to effectively manage their businesses and make informed decisions.

There is strong technical capability in the region in terms of software production, it could be helpful for an organization to play an intermediary role to try and aid market entry of software solutions.

### **5.2.5. Improving the capacity of a diverse group of financial management employees and service providers, that are not professional accountants, to improve their practices**

The MSME Sector is large, heterogenous and geographically spread achieving good “reach” in development work is inherently difficult and not all are served by professional accountants.

Improving the capacity of providers to this large diverse groups of MSMEs is not easy and using online channels for providing tools, training and guidance will be important.

### 5.2.6. Defining priorities for development activities

Being large and diverse also means that development activities for the MSME Sector need to be strategic. For example, to be relevant to overall development objectives for the MSME Sector it may be necessary to target activities in specific areas, for example:

- The start-up eco-system and investment readiness
- Succession of family owned businesses
- Banking segments
- Other potential equity investment projects

One important consideration is how to supplement work being performed by various institutions, for example Banks and Universities. Banks may have an important role to play in improving the financial management of their clients, since they are a significant source of financial capital to MSMEs. Also, University graduates may be well placed to intern at start-up ventures to provide low cost financial management support and gain valuable experience.

# PART II: PRELIMINARY ASSESSMENTS PERFORMED

## 6. SERBIA

### 6.1. SUMMARY OF FINDINGS

**The main aims of this preliminary assessment are:** a) to identify financial management and financial governance deficiencies and the main contributing factors, as perceived by stakeholders, b) to identify key elements of a possible coordinated and strategic approach to enable improvements in the financial management and financial governance of MSMEs, and c) raise awareness with Government about how the accounting profession can play an improved role in advising MSMEs, especially in terms of supporting sustained success from the planned actions contained within Government's SME Development Strategy 2015-2020.

**The preliminary assessment included surveying and interviewing key stakeholders, as well as reviewing key publications, with the aim of understanding MSME financial management and financial governance issues in Serbia.** It should be noted that this assessment is exploratory in nature and largely based on the views communicated by stakeholders. A more comprehensive study of financial management and financial governance of MSMEs in Serbia would have revealed further insights and further evidence to support conditions on which recommendations can be made.

**Stakeholder observations obtained from preliminary assessment work were used to identify financial management deficiencies in MSMEs, possible causal factors, and approaches to improvement.**

Stakeholder input was obtained through surveys and interviews of the following types of organizations:

- MSMEs (12 interviews, 78 survey responses)
- Small and Medium-sized accountancy Practitioners (8 interviews)
- Professional Accounting Organizations (2 Interviews)
- Serbian Chamber of Commerce (1 interview)
- Banking Association (1 interview)
- Serbian Development Agency (1 interview)
- Insolvency Practitioners (2 interviews)

- Investors (2 interviews)
- Banks (5 interviews), and
- Ministry of Economy (1 interview)

The surveys and interview guides used are contained in Annex 1 of this report.

**The key financial management and financial governance deficiencies of the MSME Sector identified by the assessment are summarized below; more detail on each of the matters raised is contained in the body of this report.**

- Poor record keeping
- Overleveraging
- Poor liquidity and cash management
- Poor tax compliance and planning
- Poor risk management
- Business and operating models not conducive to growth
- Business planning and decision making with insufficient financial analysis
- Lack of financial transparency and unreliable forecasts to potential capital providers
- Poor internal controls

**The key factors contributing to the existence of the above deficiencies identified by the assessment are summarized below, more detail on each of the matters raised is contained in the body of this report.**

- Limited access to modern accounting software/technology
- Bank lending practices
- Limited alternatives to debt
- Limited financial literacy of owner(s)
- Ineffective governance structures and practices
- Underqualified accountants and qualified accountants that have a skills gap
- Complex tax system with burdensome administrative requirements
- Low demand for financial statements
- Lack of enforcement of financial reporting requirements

**The principle elements of a proposed coordinated and strategic approach to enable improvements in the financial management and financial governance of MSMEs are summarized below.** It is important to note that these are not expressed as actionable

recommendations, they are offered as key themes that should be discussed by key organizations to coordinate and identify agreed actions with these themes and others:

- Human Capital
  - Making the professional accounting designation more attractive for talented individuals to join the accounting profession, especially as demand for financial management improves
  - Increasing the reach of initiatives that transfer financial knowledge to entrepreneurs for improved financial literacy
- Technology
  - Helping MSMEs gain access to improved accounting and finance technology that can reduce transactional costs and provide a platform for business analysis and insight thus helping to increase the demand for financial management solutions
  - Removing barriers to effective usage (e.g. full integration of accounting systems and banking systems, data storage and overly complex requirements like VAT etc.)
- Regulation
  - Strengthening incentives for MSMEs to improve financial reporting and increase demand for good financial management practices
  - Keeping audit thresholds as high as possible but consider alternative ways to add credibility to financial statements of MSMEs
- Strengthening Institutions
  - Strengthening the capacity of the PAOs to build a strong accounting profession to support SMEs (and other institutions for non-professionals)
- Thought Leadership
  - Researching how current financial management and financial governance practices constrain MSME Sector growth and the effectiveness of improving skills and technology to removing these constraints

## 6.2. INTRODUCTION

### 6.2.1. Objective

**The main aims of this preliminary assessment are a) to identify financial management and financial governance deficiencies and the main factors that contribute to these, as perceived by stakeholders, b) to identify the key elements of a possible coordinated and strategic approach to enable improvements in the financial management and financial**

**governance of SMEs, and c) raise awareness with Government about how the accounting profession can play an improved role in advising MSMEs.**

Although 'management' and 'governance' are different terms, for MSMEs they are almost interchangeable because, unlike larger businesses, MSMEs do not employ separate governance structures and the owners are often also the primary managers. Simply put, financial management and financial governance are concerned with looking after the MSME's financial health.

This work should complement actions under the Government's SME Development Strategy 2015-2020, since good MSME financial health is also important for MSMEs to capitalize on the opportunities stemming from the improved business environment (e.g. accessing finance and new markets).

**To meet its objective, this preliminary assessment is organized in four sections, including a focus on perceived financial management and financial governance gaps and how these may have arisen and the institutions that play a key role in supporting the MSME sector and closing these gaps.**

This first section provides background information to the assessment: objectives, approach, country and development context, and defines financial management and financial governance and the SME sector in Serbia. The second section focuses on institutions that play important roles in the development of the MSME sector in Serbia and is especially focused on the role of the accounting profession, while the third, examines how stakeholders currently perceive financial management and financial governance of MSMEs in Serbia. The fourth section proposes key elements of a coordinated and strategic approach to enabling improvements in how MSMEs practice their financial health in Serbia.

**The preliminary assessment is focused on MSMEs because they typically lack the financial management and accounting systems, that are available for larger entities to use, as well as the professional staff to manage these systems (Mazzarol, Reboud, Clark, 2015).** As has been concluded from academic research, "A small business is not a little big business" and large firms tend to achieve an "approximate equilibrium", which MSMEs seldom do, where net profit adjusted for depreciation and amortization is equal to cash flow (Welsh and White, 1981).

**Research has shown that SMEs can enhance their profitability, growth and survival by improving financial management especially working capital and cash flow management (Mazzarol, 2014).** As intuitive as it may be, that good financial management supports business success, owner/managers tend to get into trouble because they perform poor financial control and management practices and they need to be actively engaged in monitoring the business cashflows and performance (Mazzarol, Reboud, Clark, 2015).



One of the objectives of this assessment is to consider the availability of technology and skills, especially through the accounting profession, that may support an increased engagement of Serbian owner/manager(s) in assessing the performance of their business and making related business decisions.

**The Accounting Profession in Serbia has achieved international recognition and is well placed to play an increased role in supporting MSME financial management and financial governance, but significant reforms are needed to support such an increased role.**

Accountants (primarily SMPs) are usually the most popular source of external business advice and support for SMEs (Blackburn and Jarvis, 2010). In Serbia, the demand for non-traditional accounting services is low. Although the economy is experiencing growth, continued improvements in macro-economic conditions and a business-enabled environment together with increased capacity and awareness of the services that professional accountants can provide MSMEs are required before they can become trusted business advisors as they are, at scale, in many developed economies around the world.

### 6.2.2. The Assessment Approach

**This assessment relied heavily of participation and input from Serbian stakeholders and was performed in partnership with the Serbian PAOs and the Ministry of Economy**

The assessment relies on 'qualitative' inputs from the experiences of various stakeholders and focused on (a) understanding how MSMEs are approaching financial management and financial governance, (b) identifying gaps in practice, and (c) the role the accountancy profession and opportunities to further support MSMEs strengthen their financial management and governance. It involved reviewing the MSME related policy, strategic and analytics reports, and hosting interviews with different stakeholders in Belgrade and Zrenjanin.

**The MSME sector is a large and heterogeneous grouping of businesses, the assessment gave some bias to those MSMEs that could be identified as having growth potential and ambitions.**

To identify the sample of MSMEs to survey and interview various Serbian stakeholders were consulted. Many of these MSMEs, if not all, have been engaged with various development initiatives in Serbia and for this reason are likely to have more ambition and potential for growth than the MSME sector overall. Therefore, the sample may not be fully representative of the MSME sector. However, when discussing financial management and financial governance of MSMEs with those that have MSMEs as clients, it became clear that observations made were for the overall MSME sector.

**Surveys and interviews were used to conduct the assessment during the period June to December 2018.**

The data and information used for the assessment were gathered from surveys completed by stakeholders; participatory interviews with many diverse stakeholders in Serbia; and review of MSME related documents. The participatory approach involved engagement/interviews with stakeholders from the Ministry of Economy, Chamber of Commerce, PAOs, SMPs, MSMEs in different sectors, banks, the Banking Association of Serbia, Insolvency Practitioners and investors: mainly based in Belgrade and Zrenjanin.

**Almost all the surveyed MSMEs that responded are interested in growing their businesses and perhaps hiring additional personal.** 97% of the MSMEs that responded to the survey expressed interest in growing their business and hiring additional staff. 61% of the respondents stated that they have growing revenues. Over the period 2015-2017, the average annual revenue declared by the respondents grew from \$1.5m USD to \$3.4m USD which is relatively strong growth and not likely representative of MSMEs in Serbia overall. Over the same period, the average number of employees grew from 41 to 47, which implies that the SMEs, overall, were likely to be increasing their profitability.

### **6.2.3. Country Economic Context**

**Following years of recession and slow growth, the Serbian economy expanded by 1.8 percent on average over the previous three years (2015-2017), while a stronger growth of 3.5 percent was estimated for 2018.**

Over the previous three years, growth started to recover on the back of higher investment (average annual growth of 8.3 percent annually) and strong growth of exports (up 10.7 percent annually in real terms). Consumption recovered as well, but at a slower pace (at 1 percent annually in real terms). Growth of the industry and services sectors contributed most to the overall growth of the economy over the previous three years, while agriculture had a negative contribution to growth in 2015 and 2017. For 2018, growth was broad-based with all three major sectors growing faster than the prior year. As a result, the most recent estimate for growth in 2018 is at 3.5 percent, with the chance that the final estimate may be revised upwards. The medium-term growth projections depend crucially on deeper and timelier structural reforms and progress with EU accession.

**A strong economic performance continues in 2018.** After a drought and electricity disruptions moderated growth to 1.9% in 2017, growth was accelerating in 2018. Growth in Q1, 2018 was 4.6% year-over-year which has been supported by recovery of private consumption, investment and strong FDI (IMF, July 2018). The Economist Intelligence Unit forecasts annual average real GDP growth of 3.4% 2019-23.

## 6.2.4. MSME Sector Data

**The criteria for classification of micro, small and medium-sized enterprises are determined in accordance with Article 6 of the Law on Accounting:**

Enterprises are classified micro if they satisfy two out of three following criteria: 1) The average number of employees is lower than 10, 2) Operating income is lower than 700.000 Euros in dinar equivalent, 3) Average value of business assets is lower than 350.000 Euros in dinar equivalent.

Enterprises are classified small if they satisfy two out of three following criteria: 1) The average number of employees is higher than 10 but lower than 50, 2) Operating income is between 700.000 and 8.800.000 Euros in dinar equivalent, 3) Average value of business assets is in the range between 350.000 and 4.400.000 Euros in dinar equivalent.

Enterprises are classified medium-sized if they satisfy two out of three following criteria: 1) The average number of employees is higher than 50 but lower than 250, 2) Operating income is between 8.800.000 and 35.000.000 Euros in dinar equivalent, 3) Average value of business assets is in the range between 4.400.000 and 17.500.000 Euros in dinar equivalent.

**Based on data from the Statistical Office of the Republic of Serbia, it is evident the MSME sector is expanding.** The number of micro-sized businesses increased by 3.5% in 2017, small by 4.2% and medium-sized by 4.8%. Of the total of 357.755 companies in the Republic of Serbia in 2017, there were 87,012 micros (24,3 %), 10,583 small (3,0 %), 2,372 medium-sized (0,7 %), and 257,267 sole traders/entrepreneurs (71,9%), totaling 99,9% of active economic entities.

The number of employees hired by the MSME sector also increased in 2017. In the same period, the number of employees increased in micro enterprises by 2.5%, entrepreneurs/sole traders by 5.6%, in small by 4.8% and for medium-sized companies by 5.3%. Turnover, in euros, grew in micro enterprises by 10.9%, in entrepreneurs/sole traders by 5.7%, in small by 13.0% and in medium-sized companies by 7.9%.

**Table 3. MSMEs at a glance<sup>1</sup>**

Class size	Number of enterprises			Number of persons employed			Value added		
	Serbia		EU	Serbia		EU	Serbia	EU	
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	288,843	96.0%	93.0%	363,950	30.5%	29.8%	3,156	20.7%	20.9%

<sup>1</sup> 2017 SBA Factsheet Serbia, European Commission. Note the size classifications are based on numbers employed (Micro 0-9, Small 10-49, Medium 50-249 and large 250+).

Class size	Number of enterprises			Number of persons employed			Value added		
	Serbia		EU	Serbia		EU	Serbia		EU
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Small	9,543	3.2%	5.8%	190,354	16.0%	20.0%	2,557	15.3%	17.8%
Medium-sized	2,114	0.7%	0.9%	218,462	18.3%	16.7%	3,177	19.0%	18.2%
<b>SMEs</b>	<b>300,500</b>	<b>99.9%</b>	<b>99.8%</b>	<b>772,766</b>	<b>64.8%</b>	<b>66.6%</b>	<b>9,190</b>	<b>55.0%</b>	<b>56.8%</b>
Large	473	0.1%	0.2%	420,017	35.2%	33.4%	7,515	45.0%	43.2%
Total	300,973	100.0%	100.0%	1,192,783	100.0%	100.0%	16,705	100.0%	100.0%

**While a large percentage of MSMEs in Serbia can be similarly characterized by their size, MSMEs are essentially heterogeneous and not all of them have the potential to improve performance and grow or the desire. MSME owners often judge performance in financial terms. However, there are also owners that consider performance of their MSMEs in non-financial terms (e.g. allowing work-life balance) and their perspective on business advice and support may be in terms of sustaining these non-financial incentives.**

Not all MSMEs have the potential to improve their financial performance and hire additional staff. USAID in Serbia undertook work to identify what the base of “healthy and perspective” MSMEs is, based on data over the period 2005-2012. To be identified as “healthy and perspective”, the MSME “...needs to show the potential to operate profitably in a long-term, even in the post crisis period, while having its sales, customer base and employment increased”. Of the 54,991 micro companies analysed, 14,690 (27%) accomplished the above criteria for success, for the 17,411 small companies 5,580 (32%) meet requirements while for the 2,720 medium-sized companies 688 (25%) were “healthy and perspective”. This highlights a significant number of high-potential companies that need ongoing support and suggests that there may be many on the ‘margins’ that could be more resilient if they improve performance.

Financial management and governance practices for micro-sized business are relatively unsophisticated compared with larger businesses and good financial management is more dependent on the financial literacy of the owner manager (Mazzarol, Clark, Reboud, 2015).

**MSMEs responding to the survey identified 4 current key challenges on their path to growth and prosperity.** The two main challenges confronting the responding MSMEs are access to financial capital and access to adequate workforce skills. Other prominent challenges include

the burden of regulations on MSMEs, including related administrative red-tape, and the complying with tax rules.

**The informal economy, to which many MSMEs belong, remains a significant challenge for the Serbian economy.** 59% of Respondents to USAID’s business survey in 2015 identified that the grey economy has a negative impact on their business and the causes of the large informal economy are also represent the biggest problems that businesses face (i.e. quasi fiscal, wage taxes and contributions, value added tax and tax administration and administrative procedures). According to estimates of respondents to the 2015 business survey, 82% of peers pay all tax and social contributions whereas 18% pay some or none (USAID, 2016).

## 6.3. THE INSTITUTIONAL LANDSCAPE IN SERBIA

### 6.3.1. Introduction

**Many institutions in Serbia are focused on supporting MSMEs**

This preliminary assessment focused on the following areas of the institutional landscape:

- The accounting profession
- The Ministry of Economy
- The Chamber of Commerce
- The Serbian Development Agency
- The Serbian Banking System
- The Technology Industry
- Tertiary Education
- Tax Administration

### 6.3.2. Accounting Profession

**Most accountancy related services, especially bookkeeping and basic accounting services, are being performed in Serbia by individuals that are not professional accountants.**

There are more than 7000 businesses that are registered to provide accounting services (predominantly bookkeeping). Most of the accounting services these businesses provide are through accountants that are not professional accountants, and in many instances may not even have University education in accounting and finance subjects. Competition for these services appears to be predominantly based on price with quality not playing an important role overall. Therefore, the current operation of the accounting services market is not

conducive to improving quality of services or offering a broader range of value-adding services.

**Professional accountants have membership in a PAO that has become a member or associate of IFAC and are recognized globally trusted competent providers of professional accounting services.** Being a professional means having adequate education and experienced to perform accounting activities in an ethical way. Being part of the profession means being committed to continued learning and being subject to quality control.

**IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies.**

IFAC achieves this primarily through the development, adoption and implementation of international standards that address accounting education, ethics, auditing and public-sector accounting. For PAOs, being a member or associate of IFAC is something to aspire to and requires meeting a variety of obligations that aim to preserve the public's interest in a strong profession.

**In Serbia there are two PAOs and at least one other association of “accountants”.** SAAA is a member of IFAC and is the main body of professional accountants in Serbia. The Chamber of Authorized Auditors is currently an associate of IFAC and its membership is made up of those accountants that specialize in providing auditing and assurance services.

## SERBIAN PROFESSIONAL ACCOUNTING ORGANIZATIONS

### Serbian Association of Accountants and Auditors

- Established: 1955
- IFAC Membership: Member since 1997
- Members: 4,000 approx.
- Designations:
  - Accountant: Approx. 2,000
  - Certified Accountant: 1,900
  - Certified Public Accountant: 80
  - Internal Auditor: 80
- Sectors
  - Business Sector 48%
  - Public Accounting/Audit Practice 24%

## SERBIAN PROFESSIONAL ACCOUNTING ORGANIZATIONS

- Government 23%
- Financial Industry 5%
- Services:
  - Initial Professional Development: 3 designations
  - Continuing Professional Development (120 hrs membership requirement)

---

### Chamber of Authorized Auditors

- Established: 2006
- IFAC Membership: Associate since 2014
- Members: 420 individuals/ 66 firms
- Designations:
  - Certified Auditors: 300
  - Internal auditors: 120
- Sectors
  - Business Sector 48%
  - Public Accounting/Audit Practice 24%
  - Financial Industry 7%
- Services:
  - Initial Professional Development: 2 designations
  - Continuing Professional Development (120 hrs legally required)
  - Licensing and registration
  - Quality Assurance Reviews

**Because demand for professional advisory services is low, professional accountants focus their support to MSMEs by providing traditional compliance-based services like preparing financial statements and tax returns. It is important that, in time, their service offering is broadened to include business advisory services.**

Professional accountants are typically the most trusted business advisors to MSMEs around the globe, particularly in developed economies with mature accounting professions. The profession is a major foundation to the support environment for MSME business growth in these economies. This model of support will benefit Serbian MSMEs if it can be replicated.

Following a survey of SMPs conducted in Serbia in 2017, SMPS see the highest demand for advisory services in the following areas:

- Tax advisory and planning
- Corporate advisory (advice for financing, mergers, due diligence, valuations and legal matters)
- Management accounting (planning, performance and risk management).

**PAOs have yet to fully develop their systems for monitoring the ethical and professional behaviors of their members, it is important that such systems are developed to provide incentives for professional accountants to comply with their professional obligations.**

One of the key tenets of the accountancy profession is that if accountants are held to a high ethical standard the public will have more confidence and trust in the services they provide. It is one of the key aspects that differentiates the profession from non-professional accountants in addition to the quality of their work.

**PAOs can support improvements in MSME financial management through their functions to provide relevant products and services to their members, represent the profession through their collaboration with various Government agencies and other institutions that aim to support MSME growth and uphold the integrity of the profession by regulating the ethical behavior of members.**

The members of PAOs that work in MSME financial management are the qualified professional accountants that are employed by SMEs (PAIBs) or work in a firm (SMP) contracted by them.

PAOs often offer Initial Professional Development (IPD) as part of the accounting qualification and Continuous Professional Development for qualified professional accountants who need to keep updated and learn new skills. It is important, therefore, that these education platforms are of high quality.

Qualified professional accountants are important for Government to help implement legislative and regulatory objectives (e.g. Audit Law, Accounting Law etc.) as well as provide the necessary skills to MSMEs to help them grow. Therefore, it is important that the PAOs are a 'voice' for the profession when collaborating with Government agencies and other institutions involved in MSME development and when raise awareness of their services to the public.

**Based on information obtained from interviews and surveys and comparison to how the accounting profession operates in more developed economies; it is apparent that there are significant opportunities for SMPs and PAIBs in Serbia to provide more relevant support to MSMEs and help them to improve their financial management and grow. Although to**



**capitalize on the opportunity the profession will need to refine and implement a clear strategy.**

SMPs and PAIBs can help to improve financial management of MSMEs by providing them with more relevant services and skills that can help them to grow. This will necessitate a significant change in mindset of many Serbian businesses that currently consider professional qualified accountants as “compliance advisors” rather than “trusted business advisors”, the important difference between these is the perception of value the business is receiving.

Studies suggest that the more the accountant’s role is ‘transformed’- where the accounting function has been empowered to provide counsel and be a business partner-the more likely the business is to have superior performance (IFAC, 2016).

When it comes to accessing accounting resources, MSMEs face a dilemma: they often do not have enough in-house accounting staff necessary for financial management, probably because of the cost, but the cost of external accounting services is the largest obstacle when they need their services the most. Therefore, striking the right balance between in-house accounting staff and outsourcing is an important decision for owner/managers (Banham, 2014).

Research indicates that MSMEs increasingly demand broader services in addition to traditional accounting services (Banham 2014). It is important for SMPs to refine their service/practice models to a) identify how to provide a range of services that are relevant to business growth, building on the traditional accounting services provided, b) price their services based on the value they provided (i.e. rather than the input of hours spent), and c) utilize new technology to lower transactional costs, provide more insightful analysis of business performance and change the way professional accountants engage with owner/managers.

PAOs have an important role to play in supporting the provision in an increased range of services to MSMEs by the accounting profession. In addition to ensuring their education systems build the necessary professional skills to support MSMEs (i.e. especially new, more relevant services), it is also important for PAOs to regulate the professional behavior of accountants, through monitoring and enforcement of the code of ethics, to help positively ‘brand’ the profession. The branding of the profession, and its recognition by MSME owners, is critically important to differentiate professional accountants from underqualified accountants.

**A significant constraint, identified through discussion with PAOs in Serbia, is a significant lack of resources to provide more support to their membership who could provide more valuable services to MSMEs.** Unsurprisingly, SAAA’s available resources, in absolute terms, are significantly lower than what professional bodies in more developed economies enjoy from having more members each paying higher membership fees. This means that there is

less opportunity to make investments in the areas necessary to make more impact on the relevance of the profession to MSMEs. For example, improving the initial qualification, continuing professional development available, advocacy and representation to Government in key MSME financial management policy areas, quality assurance and thought leadership.

The CPD offering in Serbia is mainly covering the “core” traditional accounting functions; 42% of CPD courses relate to financial reporting and accounting, 34% of CPD courses relate to taxes and regulatory updates, 15% to professional ethics and other topics and 9% to auditing standards and updates.

A significant increase in demand by students to enter the accounting profession is contingent on an increase in demand for professional accountancy services in Serbia. Working out how to increase the demand for accounting services in Serbia is the critical first step, but improved demand can help increase resources to build a stronger, more relevant profession; because the premium charged (i.e. over non-professional accountants) ‘trickles’ through to higher accounting salaries and service fees and even higher PAO membership fees. Although Government can employ some policy measures and SAAA can take some steps to increase demand, a significant change in demand is dependent upon macro-economic factors outside of the control of the professional body.

### 6.3.3. Ministry of Economy

**The Ministry of Economy has published an SME Development Strategy & Action Plan 2015-2020 that contains 6 pillars and relates to this work through its goals of improving the ability of SMEs to access various sources of finance and improvement in the quality of the labour force.**

The SME Development & Action Plan is very ambitious, its strategic framework is closely related to the Principles within the EU’s Act on small-sized enterprises. USAID has provided support in the implementation of the plan.

**There are several action areas that are relevant to the scope of this report in that the higher the quality of financial management and financial governance of MSMEs the more likely that the benefits of reforms and initiatives will flow.**

It is important for this assessment to draw out the relevance of improved financial management and financial governance to the various initiatives within Government’s development strategy. These connections are summarized in the Table 4.

The success of the Government’s SME development strategy also depends on improved capacity of institutions that play support role within the SME eco-system, including some of those that are covered by this report.

**Table 4. Connecting financial management and financial governance of SMEs with Government’s SME Development Strategy**

SME Development Strategy 2015-2020	Connection
<p><b>Second chance and restructuring reforms in Bankruptcy legislation</b></p> <p>(Pillar 1: Improvement in the legal framework for the establishment, operation and closing of business entities-M1)</p>	<p>Professional accountants can help to support implementation of changes to improve bankruptcy and restructuring legislation, for example:</p> <ul style="list-style-type: none"> <li>• Good bookkeeping and accounting ensure that the financial position of enterprises can be established effectively and efficiently and should be a pre-requisite for accessing preventive measures.</li> <li>• Professional accountants can work with entrepreneurs and based on good business analysis be able to detect early warning signs on a timely basis.</li> <li>• The accounting profession can organise CPD training that can reach many practitioners to ensure new requirements are understood and that the accounting profession has the skills and knowledge to support.</li> </ul>
<p><b>SME participation in public procurement</b></p> <p>(Pillar 1: Improvement in the Effectiveness of the Implementation of Administrative Procedures- M5)</p>	<p>Being able to price products and services competitively is important for SMEs participating in public procurement, and this requires good financial analysis and control.</p> <p>Having a well-managed financial position can support an SME’s participation in public procurement, especially when it comes to obtaining performance bonds and coping with payment delays.</p> <p>Professional accountants can be valuable advisors to SMEs around public procurement. They can be trained at scale to understand the complexities of the public procurement process and support SMEs navigate their way through requirements.</p>
<p><b>Improving access to bank, non-bank and equity financing for credit worthy and ‘investment ready’ SMEs</b></p> <p>(Pillar 2: Various)</p>	<p>SMEs that can present transparent and reliable financial information that communicates their financial position, financial performance and cash flows will have a greater chance to secure credit and attract investment.</p>

SME Development Strategy 2015-2020	Connection
<b>Improvement of the quality of the workforce</b> (Pillar 3)	<p>For an SME to maintain ongoing good financial health, owners need to be able to access highly skilled advisors. Such advisors may be part of their financial staff, or those they purchase services from externally.</p> <p>Financially 'healthy' SMEs may be better able to compete for scarce human capital/talent in the market place and provide ongoing career development and lifelong learning.</p>

#### 6.3.4. Serbian Chamber of Commerce

**The Chamber of Commerce and Industry of Serbia is defined by the law as an association of companies and entrepreneurs.** With member companies grouped into industry, agriculture and services sectors, the Serbian Chamber of Commerce has a network of 16 regional chambers of commerce and industry. CCIS provides the following support to its members:

- Commence initiatives for passing or amending laws and bylaws
- Represent members in communication with the state and other authorities
- Organizes public debates on draft laws and bylaws
- Organizes professional meetings and roundtables
- Training to businesses in economic-system regulations and access to EU programs and funds
- Representation of members in the process of accession of Serbia to the EU

According to a business survey conducted in Serbia in 2015, 87% of businesses don't belong to any business association. 28% of those that do join such associations are with the Serbian Chamber of Commerce, which means it is the most popular business association in Serbia (USAID, 2016).

**CCIS has been developing support service for MSMEs aimed at bridging their capacity gap related to access to finance.**

Two important challenges have been observed: insufficient information and inadequate skills for producing quality application.

Information and advisory service on access to finance is a standardized service targeting namely start-ups and micro companies, but also available to other MSMEs.

Through its network of 17 regional offices throughout the country, CCIS has been informing potential entrepreneurs, micro and small companies on available funding for starting up a company and investing in its development, mainly through available debt instruments. This involves standard loans provided by commercial banks, but with special attention to the programs supported by various funds from local, national, EU and international programs, mostly through individual and portfolio guarantees, but not exclusively.

CCIS also provides tailored expert advice to the ones who want to apply for available funding. The standard package of support provided by chamber experts includes preparation and development of quality business plan needed for applying for loans from commercial banks. Furthermore, the service can include support in advanced finance, covering analysis and interpretation of financial statements, ratio analysis and credit risk analysis. Finally, company managers can benefit from advices on strategic management and development, including analysis, planning and implementation of key strategic planning documents.

The service is delivered by a CCIS team of 40 staff members who have gone through a special training set up in cooperation with private sector, including banks and other finance providers. Quality assurance is secured with standardized methodology of service provision and monitoring success of the service recipients.

### 6.3.5. Serbian Development Agency

**The Serbian Development Agency supports the development of companies, especially MSMEs and entrepreneurs, through various programs that provide both financial and non-financial support.**

Notable activities have included:

- Providing finance to companies
- Supporting the development of business incubators
- Establishing and maintaining business mentoring programs
- Providing education and training

### 6.3.6. Banking System

**At the end of June 2018 there were 28 registered banks in Serbia with total outstanding loans to companies of RSD 966b (8.1b Euro).** 20 banks operating in Serbia are foreign owned and the remaining 8 are domestically owned. The three largest banks, in order based on total assets, are; Banca Intesa, Unicredit Bank Srbija and Komercijalna Banka.

Banks operating in Serbia are regulated by the National Bank of Serbia. According to the NBS Banking Sector in Serbia- Second Quarter Report 2018, gross NPLs in the corporate sector

would amount to around 692m Euro (SME data is not available).

**The NBS has a financial education strategy in place for the period 2016-2020.** Feedback from several stakeholders was that SMEs are often taking on debt that they should not and at terms and conditions that are not ideal to them. Sometimes this was expressed in terms of practices of banks, and other times the concern was the lack of financial literacy of the owners.

Considering this, it is good to note that the NBS conducts some activities in financial education including a focus on entrepreneurs and small companies.

### 6.3.7. Entrepreneurial and start-up eco-system

**Serbia is well regarded when it comes to capability to develop technology solutions. It is important that these capabilities can be nurtured and developed to help improve investment through an effective start-up support eco-system.** The start-up eco-system in Serbia is nascent but shows good promise. Improvements in technologies that can be used by MSMEs and their professional accountants depend on the evolution of this eco-system and the realization that there is a market for such technology.

### 6.3.8. Tax administration

**According to the USAID, Tax Administration has made some important reforms but remains problematic (USAID, 2016).**

In 2015, Government reformed tax filing making it possible to file tax applications electronically, which was well received by the business community. However, 59% of businesses surveyed by USAID cite tax administration as having a negative impact on their business with only small improvements over recent years (USAID, 2016).

**The World Bank will support the reform of Serbian Tax Administration (STA) through Tax Administration Modernization Project (TAMP).**

The objective of TAMP is to improve effectiveness of tax collection and lower the compliance burden for tax payers. TAMP has 4 components aimed at addressing specific constraints for the STA operation. Component one - Legal environment will address the range of constraints in the overall legal and tax administration policy environment. Component two - STA Organization and Operations will aim to improve various functional areas such as taxpayer registration, risk management, voluntary compliance, audit, tax dispute resolution, and overall operational effectiveness. Component three - ICT System and Records Management Modernization will support the improvement and expansion of services provided by the ICT system and address the STA's significant records management challenges, including dealing with the large backlog of taxpayer paper records. Component four - Project Management and Change Management will finance the provision of cross-cutting support to activities in other

components of the project, including the establishment of a Project implementation unit, the carrying out of internal and external stakeholder communication, and the provision of change management support to implementation teams within the STA.

## 6.4. ASSESSMENT OF FINANCIAL MANAGEMENT AND GOVERNANCE PRACTICES IN SERBIAN MSMEs

**Stakeholders’ overall views are that MSME financial management and financial governance in Serbia as poor and they observed several financial management and governance deficiencies.**

The following financial management and governance practices were observed by stakeholders, especially during interviews. Many of the issues below were unprompted, although some observations may have been triggered through discussion on what was meant by financial management and financial governance for the purposes of the preliminary assessments.

Stakeholders that had MSMEs as clients (i.e. SMPs and Banks) were a primary source of many of the observations. Insolvency practitioners also were very clear about observations that lead to business failure (e.g. over indebted, poor liquidity and cash management, lack of control and poor business and operating models), which is unsurprising given the context within which they work with MSMEs.

**Table 5. Stakeholder observed deficiencies in MSME financial management and governance**

Deficiency	Description
<b>Poor record keeping</b>	<p>Many smaller MSMEs have poor recording keeping and management reporting systems in place. In many cases the owner or family member will perform bookkeeping in other cases MSMEs outsource to ‘bookkeepers’ who compete solely on price, rather than quality.</p> <p>Poor record keeping means that it is difficult to reliably determine the financial position, financial performance and cash flows of the SME on a regular basis. Without credible financial information it is difficult to keep a control on the financial health of the MSMEs (and have other interested external parties determine it).</p>
<b>Over indebted</b>	<p>There are not many options for MSMEs seeking financial capital outside of the banking system. There appear to be several observers who hold the view that banks take advantage of this.</p>

Deficiency	Description
	<p>Some stakeholders believe that banks are providing loans to MSMEs too freely and MSMEs are taking on the obligation to make repayments too lightly. Some MSMEs are, simply put, not managing their balance sheets. Stakeholders also question whether additional debt is being used productively citing cushioning of working capital considering poor cash management and even compensation for the owner (i.e. taking cash out of the business).</p> <p>Ironically, as observed by USAID, access to finance is “abysmal” with only 16% of businesses getting new credit in 2015. Average annual borrowing remains very low with average borrowings at Euro 23,000 for 2015 (USAID, 2016).</p> <p>Part of the reason for too much debt may relate to the lack of viable alternatives as well as a lack of knowledge about the process to obtain such finance and the impact on the business. Development loans/grants and bank debt are considered the main options for finance by MSMEs responding to the survey and their knowledge of alternative sources of finance is low.</p>
<b>Poor liquidity and cash management</b>	<p>It is imperative that MSMEs can pay their creditors and staff on time. This requires ongoing management of MSMEs’ cash balances, which stakeholders often cite as not performed very well in Serbia by MSMEs.</p> <p>There are number of challenges in Serbia that make cash management especially important, for example; making payments of VAT before receiving the VAT from payments from customers.</p>
<b>Taxation (direct and indirect)</b>	<p>Tax and related filings are not accurate.</p>
<b>Lack of financial control and performance monitoring</b>	<p>Not having a budget.</p> <p>Not comparing actual costs with budgeted/forecasted costs and following up on these differences.</p>
<b>Lack of risk management</b>	<p>While some SMEs have identified risks and attempt to mitigate these, many do not have robust processes to identify and manage business risks.</p> <p>For example, exporting MSMEs that are being paid in foreign currencies (around 9% according to USAID 2015 business survey) do not seem to</p>



Deficiency	Description
	seriously consider the risk of adverse currency movements that may reduce their margins. It is important that MSMEs understand their risks and manage them, so their businesses can be more resilient in the face of uncertainties.
<b>Poor business and operating models</b>	Many MSME owners do not approach running their businesses strategically and they do not see them as a model that generates value. Rather, MSME owners are often narrowly focused on production and service processes only and while these are important they can be looking at their businesses with a narrow lens.
<b>Unreliable revenue and profit forecasts</b>	MSME owners tend to be too optimistic about the performance of their businesses when it comes to forecasting revenues and cash flows and underlying assumptions tend to be unrealistic. Unfortunately, this means that these numbers are often discounted by those looking to assess the ability to service debt repayments.
<b>Lack of financial transparency</b>	MSMEs are generally considered to produce unreliable annual reports and financial statements. Research in Serbia has found that the quality of financial statements are a determinant in the cost of debt (Stanisic, Stefanovic and Radojevic 2015).  Of the MSMEs responding to the survey, 44% find the annual financial statements required by law unhelpful or only somewhat helpful, which may explain the perceived lack of quality since owners may be less concerned with the quality of the financial statements.
<b>Board of Directors fulfills a legal requirement only</b>	A commonly cited issue with the way MSMEs are managed in Serbia is that the owner is doing everything and there is no separation between ownership and management functions.

Stakeholders identified during interviews a range of factors that contribute to poor financial management and may constrain systematic improvement in MSME financial management.

Similarly to how the deficiencies above were identified, those stakeholders that work directly with MSMEs had more insight on the factors that contribute to poor financial management and financial governance. The following factors were observed by stakeholders:

**Table 6. Factors observed by stakeholders that contribute to poor financial management and financial governance**

Constraint	Comments
<p><b>Financial Literacy and business acumen of owner(s)</b></p>	<p>Owners are generally regarded as not adequately engaged in financial management and there is a tendency to invest little time in this area and outsource financial aspects to low-cost bookkeeping service providers. Financial management may not be sufficiently trained to take-on more holistic financial management.</p> <p>Financial management and governance is not only about reacting to current circumstances and conditions, it is also about looking forward and seizing opportunities, which owners are not doing.</p> <p>Owner often makes important decisions that impact the finances of the MSMEs with insufficient analysis or credible advice. The reasons provided for the tendency to not seek out advice were a) cultural, b) owners are not aware of who and where to seek financial business advice, c) poor experience with financial advisors in the past, and d) prohibitive cost.</p> <p>31% of the MSME owners responding to the survey identified that they were performing the general financial management activities in their businesses.</p> <p>MSME owners as sole source of financial management appears to be more prevalent in some of the more critical aspects of financial management (working capital management 42% of MSMEs; Liquidity/Cash management 45% of MSMEs; annual budget preparation 42% of MSMEs; performance to budget analysis 37% of MSMEs; and risk management 40%).</p> <p>Making informed decisions requires owner/managers to be more financially literate (Mazzarol, Clark, Reboud, 2015).</p>
<p><b>Underqualified “accountants”</b></p>	<p>A common observation of stakeholders was that accounting services have been ‘commoditized’ in Serbia. This stems from low demand from the MSME for financial information and analysis and, instead, a desire to comply with requirements as ‘cheaply’ as possible.</p> <p>55% of MSMEs responding to the survey identified that the general financial management work is performed by their staff. Of these staff only 50% are professionally qualified, 30% are University graduates and the remainder either have no qualifications or their qualifications are unknown.</p>

Constraint	Comments
	<p>Of note, while obtaining finance was identified as a pre-requisite for growth, the primary advisor for 18% of the MSMEs would be the owner, and for 40% of the MSMEs someone on staff would be the primary advisor (of whom only half are professionally qualified). 27% of the MSMEs would resort to their bank manager as their primary advisor, probably because this cost (i.e. built in to the cost of debt) is not as obvious to the MSMEs as paying someone.</p>
<p><b>Qualified accountants with skills gaps</b></p>	<p>Several stakeholders cited that the accounting profession has a bad reputation in Serbia. There is a sense that it has become less relevant in recent times and that it is managed more as a private concern rather than for the public interest- with a concern that the quality of education is not as good as it should be as a professional organization.</p> <p>According to the responses to the SME survey, where MSMEs are using SMPs, which is only in 3% of the time (i.e. SMP as the trusted primary advisor on general financial management), the primary services provided relate to meeting compliance obligations (i.e. financial reports, audit and maintain books of account).</p> <p>63% of respondents say that SMPs could do more than compliance services to support their business growth, which emphasizes the need for professional accountants to develop a broader skill-set. The main reasons cited for the 36% that don't believe SMPs can do more are a lack of need for non-traditional services and a perceived lack of skills.</p>
<p><b>Corporate Governance</b></p>	<p>Of the MSMEs responding to the survey, 65% had a board of directors that meet at least quarterly but the usefulness of the board in helping the business is mixed. 57% agreed that the board provides useful support, while 43% believed the board was not useful.</p> <p>Interestingly, only 19% of the MSMEs responding had boards that comprised at least one independent director.</p>
<p><b>Bank lending practices in Serbia</b></p>	<p>According to a USAID Business Survey in Serbia, businesses in 2015 are more negative about borrowing from banks. Those that needed financing but did not borrow cited the use of owners' equity, unsuitable bank products for needs and risk profile, and bank requirements taking too much time/cost. The survey further found that interest rates and fees are the biggest obstacles to increased lending. 84% of companies who need credit believe that interest rates and fees are inadequate for their needs (USAID, 2016).</p>

Constraint	Comments
	<p>Several stakeholders, particularly those working in insolvency, felt that banks tend to grant loans without performing enough analysis into credit worthiness.</p>
<p><b>Disproportionate regulation and burdensome administration requirements</b></p>	<p>59% of respondents of USAID’s business survey that administrative procedures in general have a negative impact on their businesses (USAID, 2016).</p> <p>The survey also identified that in 2015 only 6% of businesses spent less time dealing with regulatory matters and only 3% spent less money complying with regulatory requirements compared to 2014 (USAID, 2016). 97% of business surveyed are small or medium.</p> <p>Year-on-year results have been improving, which is important because the survey demonstrates that the firms that spend more time of regulatory issues are twice as likely to foresee decreases in employment and profits (USAID, 2016).</p> <p>One specific area raised by stakeholders is VAT. A new VAT form is required and apparently contains more than 170-line items.</p>
<p><b>The tax burden</b></p>	<p>According to the USAID, “the tax-related regulatory framework is among the least popular aspects of the business environment” and “in all five years of the survey, an overwhelming majority of businesses has reported that para-fiscal charges, wage taxes and contributions and VAT rates negatively impact their businesses” (USAID, 2016).</p>
<p><b>Outdated and expensive accounting software</b></p>	<p>A lot of customization required to work-around complexities of VAT requirements. Solutions are not created by accountants which creates more problems.</p> <p>79% of SME survey respondents identified that they, or their service provider, use accounting software. During interviews with MSMEs, a common concern was the high cost of maintenance when proprietary accounting software is used (which is common).</p> <p>When asked about more modern open source accounting software 58% of the MSMEs thought that the software would be useful and were interested in using, while 24% thought it would be useful but cost prohibitive. Only 2% of the SMEs thought such software would not be useful while the remaining 15% were unsure.</p>
<p><b>Enforcement of financial</b></p>	<p>A significant number of audits performed in Serbia are modified, meaning that the auditor has either denied issuing an opinion because</p>

Constraint	Comments
<b>reporting obligations</b>	<p>they were unable to complete their work or identified a problem in the financial statements.</p> <p>Without adequate enforcement, owner/managers have no incentives to engage professional accountants that can perform better quality financial reports.</p>
<b>Absence of alternative sources of financial capital</b>	<p>Of the MSMEs responding to the survey, 68% identified the need for additional financial capital to grow their businesses. However, these SMEs only see 2 main funding options: development grants/loans (option for 82% of the MSMEs, and bank loans (53% of the SMEs).</p> <p>According to the USAID business survey, in 2015 85% of respondents financed their firms mainly from their own funds rather than with bank debt (USAID, 2016). This demonstrates that the respondents to the survey for this assessment are not representative of the MSMEs overall.</p> <p>78% of the MSMEs identified their understanding of private equity/venture capital and crowdfunding as low-moderate- consistent with the availability of these sources of finance in the market.</p>

## 6.5. STRATEGIES FOR SUSTAINABLE CHANGE

**It is important to consider a long-term horizon when looking at approaches to improve financial management and financial governance of MSMEs because current incentives remain low as the business environment is developing. However, at some point in the future MSMEs will look to draw on the skills and technology necessary to help manage their financial health and it is important that these have been developed in Serbia.**

It is not the objective of this report to present a list of comprehensive recommendations that can implemented immediately to improve MSMEs management of their financial health. Instead, the approach is to identify some broad themes, based on the assessment, for various institutions to collaborate and coordinate their efforts and work to identify sustainable local solutions are found. In some instances, recommendations have been provided, largely in relation to the revision of legislation that is relevant to MSME accounting.

**The themes identified by this assessment, provided on the table below, are intended to be used as a basis for discussion between the relevant organizations and authorities, ideally led by or involving the accounting profession.**

**Table 7. Themes for discussions between the relevant organizations and authorities**

Theme	Comments
<b>1. Human Capital</b>	
<p><b>Make the professional accounting designation more attractive for talented individuals to join the accounting profession</b></p>	<p>For the MSME Sector to be able to improve financial management and financial governance it needs access to highly trained and experienced professionals and in adequate quantities.</p> <p>Being able to attract strong talent into the accounting profession is, therefore, important. Younger people are motivated by a range of different factors in choosing their career paths, including for example:</p> <ul style="list-style-type: none"> <li>• An internationally recognized qualification that can help them gain international experience (i.e. and bring this back to Serbia)</li> <li>• The prospect to work in almost all sectors of the economy</li> <li>• A pathway to executive management</li> <li>• Above average salaries at all stages of their career</li> <li>• Option to go into business and charge premium service fees</li> <li>• Develop a platform to become an entrepreneur</li> </ul> <p>The accounting profession in Serbia has the potential to offer all these factors.</p>
<p><b>Increasing the reach of initiatives to transfer financial knowledge for improved financial literacy</b></p>	<p>Improving the financial capabilities of the owner(s) that are involved in making business decisions is another important area for improving the management of MSME financial well-being.</p> <p>Owner/managers that lack financial literacy and business acumen don't always understand the variety of options to pursue- "they don't know what they don't know". There is a tendency for these owners to be narrowly focused on the product and/or service, which although important, can come at the cost of the broader running of the business.</p> <p>Although there are several excellent initiatives being offered in Serbia to improve the financial literacy of entrepreneurs, including training and mentoring, there is always an issue with 'reach' given the scale of the MSME sector.</p> <p>The accounting profession may be able to contribute to the improvements in financial literacy in a couple of ways. Firstly, professionals can help connect their clients to the various</p>

Theme	Comments
	<p>programs, and secondly, professional accountants can provide more mentoring to owners as “trusted business advisors”.</p>
<b>2. Technology</b>	
<p><b>Helping MSMEs gain access to improved accounting and finance technology that can reduce transactional costs and provide a platform for business analysis and insight</b></p> <p><b>Removing barriers to effective usage (e.g. full integration of accounting systems and banking systems, data storage and overly complex requirements like VAT etc.)</b></p>	<p>Serbia has potential in its technology sector to develop more ‘modern’ software solutions (e.g. SaaS cloud-based accounting software) that help business to meet their record keeping, tax and financial reporting obligations and provide an excellent platform for better engagement between owners and their advisors through access to better analytical capability.</p> <p>Efforts should be made to stimulate a market-based solution providing better technology for improved financial management.</p> <p>Since most transactions that are undertaken by SMEs are cash based, it is also important to eliminate barriers to partial ‘integration’ of bank and accounting systems to provide for more efficient data capture/validation for accounting purposes.</p>
<b>3. Regulation</b>	
<p><b>Strengthening incentives for MSMEs to improve financial reporting</b></p> <p><b>Keep audit thresholds as high as possible but consider alternative ways to add credibility to financial statements of SMEs</b></p>	<p>Being able to maintain good accounting records to reliably determine financial position and financial performance following international accounting standards is not only important for those that are the users of the financial statements, such control is indicative of good financial management.</p> <p>It is important that financial reporting requirements are enforced. There are a significant number of audit reports that are modified by external auditors and it may be useful for an authority to be charged with the responsibility for receiving and following up on such reports.</p> <p>Consideration could be given to alternatives to audit reports as a basis for adding credibility to financial statements of MSMEs (i.e. where an audit is not legally required). For example, the PAO may make it a requirement upon membership to issue a compilation report to accompany the financial statements whether they have been prepared as a contracted service. In</p>

Theme	Comments
	<p>addition to creating an incentive for improving the quality of the financial statements (notwithstanding their quality is the responsibility of the directors of the MSME and not the professional accountant), such a report may also provide more value to external users.</p>
<b>4. Strengthening Institutions</b>	
<p><b>Strengthening the capacity of the PAOs to build a strong profession to support MSMEs</b></p>	<p>For the accounting profession to build capacity to support the MSME Sector, strong management and leadership of the profession by the PAOs is important. Key priorities of the PAO should be</p> <ul style="list-style-type: none"> <li>• Improving branding of designations and raising awareness of the value that professional accountants bring</li> <li>• Improving the skills of professional accountants that are especially relevant to MSMEs business growth by providing high quality education (including CPD)</li> <li>• Representing the profession in advocating for an effective legal framework, especially in areas relevant to MSME financial matters, that supports MSME growth by imposing costs and burden on MSMEs where there is sufficient benefits.</li> </ul>
<b>5. Thought Leadership</b>	
<p><b>Research how current financial management and financial governance practices constrain MSME Sector growth and the effectiveness of improving skills and technology to removing these constraints</b></p>	<p>Universities in Serbia have already produced research that relates to financial management (e.g. the impact of the quality of financial reporting on the cost of debt) and opportunities for them to expand on this work and explore financial management and financial governance of SMEs in more depth should pursued.</p>



The following specific opportunity was identified:

#### OPPORTUNITY

**Consider legislative options to clarify what a professional/qualified accountant is and who can identify themselves as such and “recognize” professional accounting bodies**

Revise the Law on Accounting to recognize “Professional Accountants” as members of a PAO that has gained full membership or is an associate of IFAC. Provide that holding oneself out as a Professional Accountant in Serbia is reserved only for those providing accounting services in Serbia and holding qualifications/designations issued by such PAOs and make it illegal to hold out as such without the qualification/designation.

Impose a qualification/education threshold for individuals holding themselves out to be “Accountants”, such as a completed University degree in accounting and finance.

#### INTENDED OUTCOME

Orient the purchasers of accounting services to better understand their purchasing decision. They are not required to employ professional accountants or contract the services from a firm that is comprised of professional accountants, but they have a better signal on quality.

This may over the medium to long term increase the demand for the accounting qualification both by businesses and accounting service providers; which helps to increase the size and scale of the profession allowing it to invest into the necessary education and service platforms.

## 7. ALBANIA

### 7.1. SUMMARY OF FINDINGS

**The main aims of this preliminary assessment are:** a) to identify financial management and financial governance deficiencies and the main contributing factors, as perceived by stakeholders, b) to identify key elements of a possible coordinated and strategic approach to enable improvements in the financial management and financial governance of SMEs, and c) raise awareness with Government about how the accounting profession can play an improved role in advising SMEs, especially in terms of supporting sustained success from the planned actions contained within Government’s Business and Investment Development Strategy 2014-2020.

**The preliminary assessment included surveying and interviewing key stakeholders, as well as reviewing key publications, with the aim of understanding the perceptions held about SMEs’ financial management and financial governance in Albania.** It should be noted that this assessment is exploratory in nature and largely based on the views communicated by stakeholders. A more comprehensive study of financial management and financial governance of SMEs in Albania would have revealed further insights and further evidence to support conditions on which recommendations can be made.

**The main findings relating to financial management and governance practices in Albania from performing a preliminary assessment are summarized in the table below.**

**Table 8. Main findings relating to financial management and governance practices**

Financial management areas	MSME practices
Financial management services support to MSMEs	MSMEs generally only seek out financial management service providers to comply with a statutory requirement such as preparing financial statements and having an audit. Their demand for other types of financial management services, that may help support the growth of the business, is low or non-existent.
Book keeping and financial records	Book keeping is either performed inhouse or by external providers and most often by people who are not sufficiently qualified. MSMEs are generally viewed as having poor accounting records which negatively impacts on the quality of their financial reports. Additionally, data integrity is often compromised by overuse of excel worksheets which are easy to manipulate and susceptible to errors.

Financial management areas	MSME practices
Financial decisions by MSME owners	Generally, MSME owners are viewed as making important financial decisions using only their intuition without enough information or advice from qualified and trusted business advisors (e.g. members of the accountancy profession, consultants and financial advisors and bank staff). This practice appears to stem from; a lack of understanding about the role of the finance function and how well managed finances can help support the growth of the business and achievement of plans, negative past experiences with financial advisors, limited budget (i.e. cost of such advice) and not being aware of who and where to seek financial business advice.
Financial reporting	The quality and credibility of financial statements issued by MSMEs is generally viewed as poor. MSMEs often issue two sets of financial statements, one set for obtaining bank finance and the other for filing their tax return. Banks may have, in the past, encouraged a practice of preparing a separate set of financial statements by requesting from MSMEs financial statements that demonstrate that the MSME can meet repayment obligations. From January 2018, the government has now imposed some requirements on banks to help avoid this issue.
Lack of risk management	Most MSMEs do not identify their main business risks and, therefore, tend to not manage them. Any risk management measures tend to be ad-hoc and generally inadequate. The key risk for MSMEs is that they will run out of cash and can't afford to pay their debts as they fall due. Mitigating this risk requires skill and experience which may not be always available to MSMEs. Other important risks encountered by MSMEs may include exchange rate risks and risks associated with family business succession.
Technology	MSMEs generally use outdated and relatively expensive technology. There are several accounting packages being used by MSMEs, for example; SAP, Pastel, CaseWare, and ERC software systems. The packages are basic and in cases where they are customized are expensive due to license and on-going maintenance costs. MSMEs would benefit from access to cloud-based SaaS accounting software that may be less expensive to maintain and offer improved analysis and reporting functions.

### 7.1.1. Opportunities for improvement identified

The accountancy profession, government agencies and the chamber of commerce have an opportunity to incrementally design and implement initiatives to support MSMEs strengthen their financial management as described in the table below.

**Table 9. Opportunities for improvement**

Accountancy profession	
1	Design and implement thought leadership initiatives that support MSMEs. Examples of such initiatives could include (a) Partnering with other institutions to implement social entrepreneurship initiatives that can build the business and financial literacy of MSMEs and their owners, (b) hosting training for MSMEs across the country together with other institutions, (c) championing research to assess the impact of reforms on growth and sustainability of the MSMEs. Such initiatives may have the added benefit of building the accountancy profession’s brand value and increase demand for their services by MSMEs.
2	PAOs could design, develop and implement learning opportunities, guidelines and tools for use by their members to support MSMEs. Such initiatives could focus on different types of services that professional accountants can offer beyond traditional compliance oriented services like advisory and planning services, business model advice, and IT consulting. Professional accountants should aspire to become capable trusted business advisors and PAOs should have support mechanisms for them to do so.
3	The accounting profession could partner with other institutions like Government agencies involved in the MSME development agenda, Chambers of Commerce and the Banking Association to develop and offer tools required to improve MSME financial management and out-of-the-box training to empower and support MSMEs.
4	PAOs should review their professional accountancy qualifications to ensure they include MSME relevant competency development aligned with international standards provided through comprehensive education and professional experience.
5	PAOs should regulate professional behaviors of those who provide financial management services to MSMEs. This includes monitoring work done by their members and where standards fall short, imposing sanctions to ensure incentives for ethical and professional behavior are maintained.
Chamber of Commerce	
6	The Chamber of Commerce can play an enhanced role in serving as convener for the MSME agenda. Specifically, it could serve as the anchor institution representing the interests of MSME (e.g. issues relating to gaining access to credit through banks and simplifying tax obligations), and share information on available financing facilities issued

	by the Government or Development Agencies that also may include entrepreneurship training and mentorship opportunities.
<b>MSMEs to adopt and apply latest technology</b>	
7	Support the development of the start-up eco-system which can eventually provide market solutions (i.e. cloud-based accounting packages, and other technologies, for use by the MSMEs) to address improving technological support to MSME financial management. Such solutions can facilitate efficient and timely recording of transactions and improve reporting and analysis used to make better business decisions.
<b>Municipalities</b>	
7.9	While the Municipality in Vlore provides good support to MSMEs, there is opportunity to increase support to grow their businesses and create job opportunities which can also increase revenue for the municipality. Municipalities, for example, could secure and provide grants, and partner with other institutions like banks, regional chambers of commerce and the accountancy profession to (a) improve awareness of financial management services, (b) engage with MSMEs to identify their needs and implementing appropriate reforms to address their needs, (c) develop tools and learning materials that can help MSMEs to improve their financial management, and (d) host regular MSME financial management learning.

## 7.2. INTRODUCTION

### 7.2.1. Objective

**The main aims of this preliminary assessment are a) to identify financial management and financial governance deficiencies and the main factors that contribute to these, as perceived by stakeholders, b) to identify the key elements of a possible coordinated and strategic approach to enable improvements in the financial management and financial governance of SMEs, and c) raise awareness with Government about how the accounting profession can play an improved role in advising SMEs.**

Although ‘management’ and ‘governance’ are different terms, for SMEs they are almost interchangeable because, unlike larger businesses, SMEs do not employ separate governance structures and the owners are often also the primary managers. Simply put, financial management and financial governance are concerned with looking after the SME’s financial health.

This work should complement actions under the Government’s SME Development Strategy 2015-2020, since good SME financial health is also important for SMEs to capitalize on the

opportunities stemming from the improved business environment (e.g. accessing finance and new markets).

**To meet its objective, the report is organized in four sections, including a focus on perceived financial management and financial governance gaps and how these may have arisen and the institutions that play a key role in supporting the SME sector and closing these gaps.**

This first section provides background information to the assessment: objectives, approach, country and development context, and describes financial management and financial governance and the SME sector in Albania. The second section focuses on institutions that play important roles in the development of the SME sector in Albania and is especially focused on the role of the accounting profession, while the third, examines how stakeholders currently perceive financial management and financial governance of SMEs in Albania. The fourth section proposes key elements of a coordinated and strategic approach to enabling improvements in how SMEs practice their financial health in Albania.

**The Accounting Profession in Albania has achieved international recognition and is well placed to play an increased role in supporting SME financial management and financial governance, but significant reforms are needed to support such an increased role.**

Accountants (primarily SMPs) are usually the most popular source of external business advice and support for SMEs (Blackburn and Jarvis, 2010). In Albania, the demand for non-traditional accounting services is low. Although the economy is experiencing growth, continued improvements in macro-economic conditions and a business-enabled environment together with increased capacity and awareness of the services that professional accountants can provide SMEs are required before they can become trusted business advisors as they are, at scale, in many developed economies around the world.

While professional accountants are motivated to make a profit/good salary, the PAO primarily aims to serve the public's interest. This can be seen in practical terms by the work that IFAC undertakes internationally through its independent boards to establish professional standards (e.g. auditing, public sector accounting, accountancy education and ethics) that govern the behavior of professional accountants. Member bodies of IFAC have an obligation, to the extent possible under the legal framework, to adopt and implement such standards.

### **7.2.2. The Assessment Approach**

**This assessment relied heavily of participation and input from Albanian stakeholders and was performed in partnership with Albanian PAOs and the Ministry of Finance and Economy**

The assessment relies on 'qualitative' inputs from the experiences of various stakeholders and focused on (a) understanding how SMEs are approaching financial management and financial governance, (b) identifying gaps in practice, and (c) the role the accountancy

profession and opportunities to further support SMEs strengthen their financial management and governance. It involved reviewing the SME related policy, strategic and analytics reports, and hosting interviews with different stakeholders in Tirana and Vlore.

**The SME sector is a large and heterogeneous grouping of businesses, the assessment gave some bias to those SMEs that could be identified as having growth potential and ambitions.**

To identify the sample of SMEs to survey and interview various Albania stakeholders were consulted. Many of these SMEs, if not all, have been engaged with various development initiatives in Albania and for this reason are likely to have more ambition and potential for growth than the SME sector overall. However, when discussing financial management and financial governance of SMEs with those that have SMEs as clients, it became clear that observations made were for the overall SME sector.

**Surveys and interviews were used to conduct the assessment during the period June to December 2018.**

The data and information used for the assessment were gathered from participatory interviews with many diverse stakeholders in Albania, and by reviewing MSME related documents. The participatory approach involved engagement/interviews with stakeholders from the Ministry of Finance and Economy, the Chamber of Commerce, PAOs, SMPs, SMEs in different sectors, banks, the Banking Association of Albania, and Insolvency Practitioners: mainly based in Tirana and Vlore.

Surveys were conducted, however, aside from banks, the responses were very low and hence did not factor significantly in the preliminary assessment.

### **7.2.3. Country and Economic and Development Context**

**Albania's economic growth remains below its pre-crisis levels and the government that took office in 2013 is implementing reforms aimed at accelerating growth, creating jobs, restoring trust in the government and further progressing towards EU accession.**

In the early 2000s, Albania was one of the fastest-growing economies in Europe, enjoying annual real growth rates of 5% to 6%, primarily driven by soaring remittances from migrant workers abroad that fuelled economic growth. Since 2008, Albania's real GDP growth has slowed down significantly, triggered by the global financial crisis and the subsequent anemic euro area growth. The economic growth averaged less than 3 percent a year in real terms between 2009 and 2012, sinking to an average of 1.9 percent a year during 2013–2015. Albania has implemented a range of institutional and structural reforms that have moved it closer to EU membership (obtaining candidate status in June 2014) and an improved growth trajectory. GDP growth for 2018 is projected at 4%, supported by energy production and a strong tourism season. However, its projected to slow to around 3.5% by 2019–20 as the

output gap gradually closes. Sustaining inclusive growth requires a commitment to tackle structural challenges, including the business environment, energy security, and human capital. High vulnerability to external economic shocks, however, creates an unfavourable climate for investments and future development of the SME sector. (EIM, 2016)

**The National Strategy for Development and Integration (NSDI) 2015–2020 includes reforms aimed at improving country competitiveness.** The NSDI rests on four pillars: (a) ensuring fiscal and macroeconomic and financial stability, (b) enhancing competitiveness, (c) making public services transparent and accountable, and (d) promoting efficient use of natural resources. Improving governance and the rule of law constitute its foundation. The implementation of proposed areas of improvement in this report would contribute in improving competitiveness which would benefit MSMEs.

**The Business and Investment Development Strategy (BIDS) 2014-2020 sets out initiatives for identification and implementation of the national policies for the promotion of business investments.** The strategic initiatives are aligned and contribute to the achievement of the NSDI, specifically, improving the business climate and development of industrial SMEs. It outlines the road map for businesses to develop and improve their competitive skills, develop innovation of products and services, promote long-term sustainable growth in international markets, and create conditions for attracting foreign investment. The improvement of financial management practices in MSMEs would contribute to enhancing achievement of strategic objectives in BIDS.

**The results of this preliminary assessment are relevant to the achievement of the Albania Country Partnership Framework (CPF), 2015-2019.** The CPF focused on three areas (a) restoring macroeconomic balance, (b) creating conditions for accelerated private sector growth, and (c) strengthening public sector management and service delivery. This preliminary assessment contributes to identifying the reforms necessary to enhance the MSME business environment and their financial management capacity to support their growth and enhance their contribution to achieving Albania’s growth agenda.

#### **7.2.4. MSME Sector**

**The law on Small and Medium Enterprises defines MSMEs based on the number of employees and annual turnover or total balance sheet assets as presented in the table below.** However, the definition is not uniformly used in practice. The Albanian Institute on Statistics (INSTAT) categorizes MSMEs by the number of people employed rather than by employees; and the European Union uses a broader definition which include many enterprises not considered locally as MSMEs. Lack of a uniform definition negatively impacts on the ability to report and analyze data on specific categories of MSME and ability to design and implement policy actions that target specific MSME category.



**Table 10. Definition of MSMEs by the law on Small and Medium Enterprises<sup>2</sup>**

	Albanian law		INSTAT		European Union <sup>3</sup>	
	Turnover	No. of employees	Turnover	No. of employees	Turnover	No. of employees
Micro Enterprise	≤ Albanian Lek 10m (equivalent Euro 70,000) turnover and/ or balance sheet	< 10 employees	≤ Albanian Lek 10m (equivalent Euro 70,000) turnover and/ or balance sheet	Same number as legal definition but based on people employed and not employees <sup>4</sup>	≤ Euro 2 m turnover or balance sheet	< 10 employees
Small Enterprises	≤ Albanian Lek 50m (Euro 360,000) turnover and/ or balance sheet	< 50 employees	≤ Albanian Lek 50m (Euro 360,000) turnover and/ or balance sheet	Same number as legal definition but based on people employed and not employees	≤ Euro 10 million turnover or balance sheet	< 50 employees
Medium Enterprises	≤ Albanian 250m (Euro 1.8m) turnover and/ or balance sheet	< 250 employees	≤ Albanian 250m (Euro 1.8m) turnover and/ or balance sheet	Same number as legal definition but based on people employed and not employees	≤ Euro 50 million turnover and/ or ≤ Euro 43 million balance sheet	< 250 employees

<sup>2</sup> Source: Art 4 of the Law on Small and Medium Enterprises

<sup>3</sup> The category of micro, small and medium-sized enterprises (MSMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.

<sup>4</sup> Employed are people who work at the enterprise regardless of whether they are paid or not. Thus, employed includes employees, owners and unpaid family members.

**MSMEs in Albania are significant contributors to the economy.** They play an important role in terms of employment, turnover, and value add. According to INSTAT, 2017 Statistics on Small and Medium Enterprises, 99.8 % of active enterprises were MSMEs with the highest number is the trade sector 41.4 %, followed by services sector with 20.8 %. MSMEs employed 80.3% of the total number of employed people. In addition, MSMEs contributed 77.2 % and 68.3% of turnover and value add respectively.

**Table 11. Active enterprises by number of employed and contribution to turnover and value add<sup>5</sup>**

Enterprises size class	Enterprises		Employed		Turnover		Investments		Value Added	
	no.	%	no.	%	mln ALL	%	mln ALL	%	mln ALL	%
<b>SME (1-249 employed)</b>	<b>107,511</b>	<b>99.8</b>	<b>395,563</b>	<b>80.3</b>	<b>1,573,851</b>	<b>77.2</b>	<b>139,322</b>	<b>60.1</b>	<b>358,875</b>	<b>68.3</b>
Micro enterprises	101,595	94.4	192,817	39.1	415,729	20.4	31,868	13.8	105,530	20.1
Small enterprises	4,839	4.4	95,574	19.5	665,779	32.6	41,815	18.0	125,197	23.8
Medium enterprises	1,077	1.0	107,171	21.7	492,343	24.2	65,640	28.3	128,148	24.4
<b>Large enterprises (250+ employed)</b>	<b>166</b>	<b>0.2</b>	<b>97,350</b>	<b>19.7</b>	<b>463,497</b>	<b>22.8</b>	<b>92,390</b>	<b>39.9</b>	<b>166,768</b>	<b>31.7</b>
<b>Total</b>	<b>106,677</b>	<b>100</b>	<b>492,913</b>	<b>100</b>	<b>2,037,349</b>	<b>100</b>	<b>231,713</b>	<b>100</b>	<b>525,642</b>	<b>100</b>

**The number of registered MSMEs have been increasing over the years.** The increase provides evidence of increasing contribution by MSMEs to the economy.

**The informal sector represents an important part of the economy in Albania.** Informality in the economy (as high as 50%) makes tax administration a challenge. Informal businesses generally have lower productivity than formal businesses, which is both a drag on firms and a drag on the economy. Albania has adopted a large variety of regulations to monitor labour abuses, but their enforcement remains weak due to persistent informality in the work force.

<sup>5</sup> Source: INSTAT 2017 Statistics on Small and Medium Enterprises

According to the latest Business Environment and Enterprise Performance Survey (BEEPS V), competitor practices in the informal sector was the second biggest problem for Albanian firms. More than 40% of the firms surveyed reported competing against firms in the informal sector. This competition is highest among MSMEs — 41% of them reported competing against unregistered firms compared to 27.8% of large firms (EIB, 2016; page 9). In September 2015, the government started a campaign consisting of massive controls and the application of penalties against the informal market. The measures aimed at increasing registration of companies, greater declaration of workers, improving tax collection, and granting of fiscal amnesties. In addition, financial institutions are now required to disclose all available information about their clients (EIB report 2016). To allow businesses to better contribute to the economy it is important that the government continues to invest substantially in formalizing these MSMEs, through efforts that go beyond mere registration. (WB 2018).

**Table 12. Breakdown of registered enterprises by number of employed, 2013–2017<sup>6</sup>**

	No. employed	2017	2016	2015	2014	2013
Micro	1- 4	146,304	145,456	136,470	101,025	99,782
Small	5 - 9	8,023	7,631	8,172	5,387	5,235
Medium	10 - 49	6,297	5,902	5,994	4,647	4,660
<b>Total MSM</b>		<b>160,624</b>	<b>158,989</b>	<b>150,636</b>	<b>111,059</b>	<b>109,677</b>
Large	50+	1,828	1,690	1,652	1,478	1,406
<b>Total</b>		<b>162,452</b>	<b>160,679</b>	<b>152,288</b>	<b>112,537</b>	<b>111,083</b>

## 7.3. THE INSTITUTIONAL LANDSCAPE IN ALBANIA

### 7.3.1. Introduction

The following institutions are involved in supporting MSME in Albania and have been considered in this report.

- The accountancy profession
- Chamber of Commerce
- Banks and the Banking Association
- Development Partners

---

<sup>6</sup> Source: INSTAT, Business Register

### 7.3.2. The accountancy profession in Albania

There are four Professional Accountancy Organizations in Albania: IEKA; Association of Accountants and Finance Experts (AAFEA), Institute of Certified Accountants (IKM) and Association of Certified Accountants (ACA).

#### ALBANIAN PROFESSIONAL ACCOUNTANCY ORGANIZATIONS

##### Albanian Institute of Authorized Chartered Auditors – (IEKA)

- Full member of International Federation of Accountants (IFAC) since 2008
- This is for the Institute of Authorized Chartered Auditors of Albania (legally based body for audit professionals). IEKA-members also can act as CAs.
- IEKA represents 220 certified auditors, 57 audit firms and 142 sole practitioners.
- Membership fees are the main source of IEKA funding.

##### Institute of Certified Accountants (IKM)

- IKM was established over 20 years ago and has been an associate member of IFAC since 2012
- The organization has 2000 members (Certified Accountants and Candidates, active/non-active).
- The Members are independent practitioners (70%), public sector and business (30%).

#### ALBANIAN ACCOUNTING ASSOCIATIONS

##### Association of Accountants & Finance Experts (AAFEA)

- AAFEA was established over 20 years ago.
- They have around 5000 members (Certified Accountants and Candidates, active/non-active).
- It is the largest and oldest of the three bodies, supporting approximately 70 percent of the country's accountants.
- The Members work in public profession and SAI/tax/bank environment.

##### Association of Certified Accountants (ACA)

- ACA was established 10 years ago.
- The Association has 364 Approved Accountants and 191 candidates for Approved Accountants on its lists. 250 of them are active.
- Members are independent practitioners, private and public sector (including customs)

**The accountancy profession mainly supports MSMEs through the provision of compliance related services like tax computation, book keeping and financial reporting and audit.** Such services are mainly provided by small and medium-sized practices (SMPs) or accountants directly employed by MSMEs. Whilst there are many other services that the profession can offer to the MSME sector, there is low demand for these services by MSME owners. This is mainly due to (a) a lack of awareness that the accountancy profession can offer value-added services, (b) limited budgets of MSMEs, (c) Unqualified or underqualified people providing accounting services because MSMEs have a limited understanding of the accounting profession seeing it as a ‘commoditized’ service, and (d) poor quality of services especially due to low fees.

**MSMEs expressed concern that the graduates they hire not only lack relevant practical experience but also technical knowledge and skills that is relevant to improving financial management especially in financial reporting.** Some stakeholders observed that training programs for the accountancy qualification are not fit-for-purpose and that such programs require ongoing and effective monitoring to be more relevant. Some MSME owners indicated that graduates don’t always bring them obvious value. This sentiment could lower the value of the professional accounting brand which can impact on the demand for services from the profession.

**PAOs’ service offering to members that are working in the MSME sector is minimal** Based on the interviews with the profession and other stakeholders, it was noted that the PAOs offer (a) limited continuous professional development opportunities that can empower their members to provide valuable advice to MSMEs beyond the traditional low cost compliance services, (b) minimal provision of tools and guidance that may assist the profession to provide higher quality and more relevant services to MSMEs, and (c) limited advocacy to help solve the problems that have the most impact on MSME business growth.

**At present there are too many professional accountancy organizations in Albania relative to the size of its economy.** PAOs should carefully consider unification of the profession to consolidate limited resources for investment in professional education and to provide a single unified voice for the profession in front of Government as it weighs up policy choices that impact on the MSME sector.

**Concerns were raised about the quality of the services provided by the profession and the lack of appropriate monitoring and, where necessary, sanctioning by the PAOs.** MSME owners indicated that the quality of work done by many accountants was of low quality. Furthermore, accountants may be complicit in MSMEs not meeting compliance obligations because they simply obey the wishes of owners. The situation highlights the importance for PAOs to establish mechanisms to monitor the quality of work done and their professional behavior and where necessary they should impose effective sanctions to dissuade unprofessional practice and poor-quality work. This situation is only making it more difficult to address informality.

### 7.3.3. Chamber of Commerce

**A Union Chamber of Commerce with 12 local chambers across the country is charged with providing support to MSMEs.** It was noted that the chamber mainly focused on connecting entrepreneurs to the market, conducting surveys to determine issues faced by MSMEs and serving as key policy voice on important MSME matters. The chamber indicated that the key challenges faced by MSMEs relate to competition from informal businesses, regular changes in fiscal and business laws, and high interest rates. Interviewed members indicated that there is opportunity for the Chamber to offer more value-add services and representation.

**The Chamber offers training courses to MSMEs, although they are poorly attended.** These courses are mainly offered in Tirana and they are viewed as expensive. In addition, it was acknowledged that the sessions rarely address financial management requirements and developments.

### 7.3.4. Banks and Banking Association

**While 9 of the Banks who responded to the assessment survey indicated that good financial management is important, they all stated that the financial management practices of MSMEs in Albania is poor or requires improvement.** The respondents highlighted notable financial management gaps set out in the box below.

#### FINANCIAL MANAGEMENT GAPS – RESPONSES FROM BANK SURVEY

- Lack of co-operation between MSME owners and accountants to obtain a more realistic financial picture.
- Lack of professional skills among financial statement preparers.
- Poor management of working capital and cash flows. Owners use short-term financing for long-term investments, often because of limitations imposed by banks; thus, straining their liquidity.
- Poor quality financial statements due to (a) lack of disclosing debt from third parties, (b) failure to recognize and report all sales and payables to employees, and (c) recording 'other expenses' fictitiously.
- Owners do not make long-term/prospective plans and do not plan their business activities over the next 3-5 years.
- Deviations in the use of loan proceeds.
- Lack of full transparency in sharing financial information with banks and other institutions

## FINANCIAL MANAGEMENT GAPS – RESPONSES FROM BANK SURVEY

- Owners think they have control over their financial situation (despite having no financial background) even when their companies grow and become difficult to manage.

**Banks do not rely on the audited financial statements in their determination of MSME credit worthiness.** It is apparent that Banks do not fully trust MSMEs audited financial statements and apparently, they often request companies to prepare another set of financial statements that presents information that enables the company to qualify for the applied loan and increase bank lending. The practice has resulted in companies preparing two sets of financial statements: one for tax authority (statutory) and the other for Banks.

**The banking association hosts trainings for MSMEs.** The sessions focus on financial planning, business management, and due diligence of businesses. However, like the sessions hosted by the Chamber of Commerce, the attendance is poor.

**There are limited alternative options for MSMEs to secure funding outside of the banking system.** The main alternative would be in the form of Government grants, lending and investment schemes supported by bilateral donors. There is limited publicity of such funds, including the application process. Several observers hold the view that banks take advantage of this.

### 7.3.5. Development Partners

**The European Bank for Reconstruction and Development (EBRD) is supporting MSMEs through both business finance and advice through the Albania Consultant Network.** EBRD conducts business diagnostics on MSMEs to determine their needs and matches them with a consultant (local and international) who provides mentorship to the business. Guidance areas include business planning, financial systems, raising capital, marketing and information technology. EBRD and the MSME share the consulting costs. Over the life of this program until 2018, EBRD had supported 650 companies in the country to access business advisory. Where EBRD identify a 'bankable' MSME, they finance such projects either directly or indirectly. The support has contributed to the growth of MSMEs in the country.

## 7.4. ASSESSMENT OF FINANCIAL MANAGEMENT AND GOVERNANCE PRACTICES IN ALBANIAN MSMES

**MSMEs in Albania generally only seek financial management services to meet statutory requirements.** There is low or no demand for financial management services that are not

part of meeting statutory obligations like preparing annual financial statements and tax returns and conducting audits where required. Several MSMEs indicated that they engage service providers to help with challenges in complying with complex statutory requirements. These providers are mainly Small and Medium Sized Practices and in other instances by non-registered and unqualified service providers. Firms compete for the statutory compliance work based on cost which is driving service fees down very low. As a result, concerns were raised on the quality of services provided and the implications on computed and declared tax.

**Booking keeping (recording transactions, maintaining financial books, and preparing financial statements) is mainly done inhouse in most of the small MSMEs.** Often the owner or a family member maintains the financial records of the company. Where MSMEs can afford it, employees or external providers are hired to maintain the books. In most cases, the person performing book keeping is not a qualified professional accountant and has limited accounting and finance skills and knowledge and cannot offer the value-adding financial management advice and support that can help MSMEs manage their financial health better and make sound financial decisions that can lead to growth in their businesses.

**In larger MSMEs, an external service provider is usually engaged to provide the bookkeeping services at a minimal fee per month.** The fee paid to the service provider varies from Euro 50 – 300, depending on the size of the company, and is generally considered too low to support quality service delivery. Accounting services are sometimes delivered by people who are not qualified as professional accountants. This poor quality of service tends to be damaging to the reputation of service providers overall, including to professional accountants that are also performing low-cost, low-quality services.

**Generally, MSME owners are viewed as making important financial decisions using only their intuition without enough information or advice from qualified and trusted business advisors (e.g. members of the accountancy profession, consultants and financial advisors and bank staff).** This practice appears to stem from; a lack of understanding about the role of the finance function and how well-managed finances can help support the growth of the business and achievement of plans, negative past experiences with financial advisors, limited budget (i.e. cost of such advice) and not being aware of who and where to seek financial business advice.

Even in instances where there is an employee performing an accounting and finance role, owners tend to not seek their advice. Whereas in bigger MSMEs, some owners that have established trusting relationships with external accounting providers have learnt to reach out to such providers and accept their guidance and advice on financial matters. The practice is comparable in other countries as evidenced in the explanation in the box below. Business owners are often not familiar with the role of professional accountants and what value they offer, especially since their most demanded services have been ‘commoditized’ and it is important to ‘fix’ the accountancy profession’s brand that has been negatively impacted by offering poor-quality services.



## SMALL BUSINESS ACCOUNTING INSIGHTS SURVEY

**United Kingdom:** “Small Business Accounting Insights Survey,” conducted in October 2018<sup>7</sup>. Two-fifths of the small businesses surveyed don’t use an accountant at all; of those that do, the vast majority use them primarily for traditional compliance services like bookkeeping, tax and audit, and they don’t generally see themselves buying the types of “value-added” services (from IT and cybersecurity services to fraud and forensic accounting, business planning and strategic advice, and so on) that are what they really need to grow their businesses, and what accountants need to sell in order to avoid commoditization. There’s a perception problem at work, in that many of these small-business owners simply can’t imagine their accountant doing anything other than tax and accounting. The small business sees the advice as incidental cost to the compliance work — an extra. Less than 10 percent were interested in other offerings, like business valuations, HR/benefits services, IT services, CFO services, succession planning or fraud/forensic accounting services.

**Limited external financial advice can negatively impact on the performance and sustainability of the MSME.** MSMEs need to seek out support when making key business decisions like pricing of their products, effective management of their working capital, seeking funds to invest in business assets and grow the business, to name a few. During the preliminary assessment, it was apparent that MSME owners are often reluctant to seek external advice when they probably should, see the below box for one example.

## EXAMPLES OF THE VIVAL COMPANY

Vival is a family run fish business, established in 1991, that exports frog legs, fish and sea food (mainly to Italy and France), and is owned by 3 brothers and has 60 employees. There is increasing demand for its products. However, margins are relatively small which puts the pressure on to scale the business up to achieve good profits. Accordingly, the owners want to expand the business by increasing capacity in terms of machinery and employees (target 100).

Sourcing finance, on acceptable terms, to fund this growth has been a significant challenge for the owners yet they have not sourced external advice on how to fund growth and obtain good terms. While seeking external advice is no guarantee of success it does seem apparent that Vival’s credibility could have been improved with expert advice and support.

---

<sup>7</sup> <https://www.accountingtoday.com/small-business-accounting-insights>

**The quality of MSME financial reporting in Albania remain low.** MSMEs often issue two sets of financial statements, one set for obtaining bank finance and the other for filing their tax return. Banks may have, in the past, encouraged a practice of preparing a separate set of financial statements by requesting from MSMEs financial statements that demonstrate that the MSME can meet repayment obligations. From January 2018, the government has now imposed some requirements on banks to help avoid this issue.

**Many MSMEs maintain poor accounting records which negatively impact on their ability to prepare good quality financial reports.** Many MSMEs do not maintain comprehensive financial records which makes it difficult to readily and reliably determine the financial position, financial performance and cash making management of the balance sheet, profitability and cash flows significantly more difficult.

**Liquidity and cash management is poor.** Cash flow planning and management in MSMEs tends to be very basic and in some instances creditors and staff are not paid on time and owners take cash out of business without appropriate planning. This was noted, by some stakeholders, to be one of the main reasons for MSME failure. Also, owners often depend on short-term financing for long-term investments, thus straining their cash liquidity.

**Lack of risk management:** MSMEs often fail to identify and manage their most significant business risks. For example, exporting MSMEs that are being paid in foreign currencies do not seem to seriously consider the risk of adverse currency movements that may reduce their margins. It is important that MSMEs understand their key risks and manage them, so their businesses can be more resilient in the face of uncertainty.

**Many MSMEs do not take governance seriously and only aim to meet the minimum related legal requirements, rather than using independent external governance professionals to support business success.** Directors are registered mainly to fulfil legal requirements. In fact, most MSMEs do not have functioning Boards. While this permits the owner to make decisions autonomously and quickly, these decisions are made without other perspectives and insights which may ultimately hinder progress. There are several ways MSMEs can improve their governance, which could improve their ability to secure funding, improve management of business risks and ultimately improve the sustainability of the company. One example is hosting formal board meetings that include at least one independent board member.

**MSMEs in Albania use outdated and relatively expensive technology.** There are several accounting packages being used by MSMEs, for example; SAP, Pastel, CaseWare, and ERC software systems. The packages are mainly basic data-based systems (old technology), and in cases where they are customized, are expensive due to license and on-going maintenance costs. MSMEs would benefit from access to cloud-based SaaS accounting software that may be less expensive to maintain and offer improved analysis and reporting functions.

**Alpha web-based software is being rolled out to all MSMEs.** This software is linked to the tax office and can be connected to banks' systems and the customs office. However, only a limited number of MSMEs use the software. The systems, when fully operational, will ease the administrative burden of MSMEs and improve efficiency of tax declarations and collections.

**There are concerns about the integrity of financial data.** MSMEs often maintain important information in the accounting system but also in excel worksheets which are easy to manipulate and susceptible to errors. The integrity of MSME financial data is also impacted by regular changes in accountants without a proper hand over process to the new service provider.

## 7.5. STRATEGIES FOR SUSTAINABLE CHANGE

### 7.5.1. Accountancy profession

**The accountancy profession could design and implement thought leadership initiatives that support MSMEs.** Such initiatives may contribute to empowering business practices of MSMEs and enable them to grow and, at the same time, increase awareness in the accountancy profession and enhance its brand value. Examples of such initiatives include (a) Partnering with other institutions to implement social entrepreneurship initiatives that could improve the financial literacy of the MSME owners, see example from SAICA in the box below, (b) partnering with Government and other institutions on MSME reforms – simplifying reporting and statutory requirements, contributing evidence based information to inform MSME reforms and policies, developing guidance for tax reporting (c) hosting training courses for MSMEs across the country together with other institutions, (d) hosting MSME awards in financial reporting, an initiative that can inspire improvement in reporting for some MSMEs, (e) Championing research to assess the impact of reforms on growth and sustainability of MSMEs.

**PAOs could design, develop and implement training courses, guidelines and tools for use by their members to improve their support to MSMEs.** Such initiatives should focus on different types of value-adding services (e.g. advisory and planning services, business model advice and IT consulting) that professional accountants can offer beyond traditional compliance-based services. These opportunities should be promoted and offered across the country targeting all accountants, to enable them to become better MSME business advisors.

**It is important for SMPs to refine their service and practice models** to a) identify how to provide a range of services that are relevant to business growth, building on the traditional accounting services provided, b) price their services based on the value they provide rather than the hours spent delivering the service, and c) utilize new technology to lower

transactional costs, provide more insightful analysis of business performance and change the way professional accountants engage with owner/managers.

### SAICA ENTERPRISE DEVELOPMENT PROGRAM<sup>8</sup>

SAICA operates an impactful Enterprise Development program that runs annually from April to March. The mission of the programme is to develop sustainable MSMEs by providing a full suite of affordable financial support services. It is individually designed for identified MSMEs to address their business growth needs while focusing on the development of their business skills, leadership mastery, financial excellence and preparation for introduction as suppliers and future supplier development interventions. The program improves the survival rate of start-ups by helping them become financially viable

It includes three focus areas

- **Financial Excellence:** Finance coaching, finance boot camps and in-house MSME accounting services (back-office support that focuses on helping MSMEs put key disciplines like management accounts; budgeting; proper record keeping; SARS' compliance; payroll systems; and proper VAT and tax practices in place).
- **Business Skills Mastery:** Holistic business skills development with business analysis, business development plans, comprehensive business progressive reports, entrepreneur advisory board and other business growth interventions as per individual business needs. In this regard, the program involves collaboration with other organizations in supplying the MSMEs with (a) Free governance and legal training; (b) workshops, business events and seminars where mentors offer their business management expertise, knowledge and guidance to steer SMMEs towards stable growth and sustainability; and (c) access to free internet in the workplace.
- **Self-Mastery and Leadership:** Developing the leader of the MSME through personal development analysis, monitored personal development plans and self-mastery workshops.

The programme gives the unemployed accounting graduates a job that enables development in their accounting skills, while providing the hub's MSME clients with accounting back-office support. To date, the hub has groomed over 270 graduates with this initiative – 95% of which have been placed in employment when they leave the programme.

---

<sup>8</sup> Source: SAICA website, [www.saica.co.za/About/SAICAEnterpriseDevelopment/Programmes/EnterpriseDevelopmentProgramme](http://www.saica.co.za/About/SAICAEnterpriseDevelopment/Programmes/EnterpriseDevelopmentProgramme)

**PAOs should establish initiatives to promote the accountancy profession and educate the MSMEs on what they do and how they can provide value.** Such initiatives can improve the MSMEs owners understanding of the role of professional accountants, differentiating them from low-cost and unqualified service providers that only focus on areas like tax and bookkeeping services and may not be providing a quality service.

**PAOs should monitor quality of service and professional behaviors of professional accountants that provide financial management services to MSMEs.** PAOs should communicate to their membership how they plan to monitor and enforce members' ethical and professional obligations. It is important that measures are established that provide an incentive for professional accountants to comply with their requirements which will help to shape the profession as a reputable source of trusted professional advice. Monitoring the work done by their members and, where their standards of work and/or behavior fall short, imposing sanctions will ensure that incentives for ethical and professional behavior are maintained.

**The profession could partner with other institutions, like Government agencies involved in the MSME agenda, the Chamber of Commerce, Banking Association, and Microfinance institutions to develop and offer tools and training to empower and support MSMEs.** Such a partnership could involve providing relevant products and services aimed to strengthen MSMEs' financial management, Financial literacy and technology literacy. Such engagement can enable owners to change their mindset about how they can benefit from accountants and other institutions. Therefore, it is important that the PAOs are the 'unified front' for the profession when collaborating with Government agencies and other institutions involved in MSME development and when raising awareness of their services to the public.

#### EXAMPLES OF COLLABORATION SERVICES

- **Products and services:** electronic guides to prepare financial statements and complete tax returns;
- **Knowledge sharing:** Customized continuous professional development sessions for MSMEs (e.g. business management, cash flow management sessions, succession planning, risk management, Business restructuring; TV programs covering several MSME related issues; MSME open days at development hubs where MSME meet Financial Management experts; financial literacy day).
- **Other support services:** PAOs provide online query system for MSMEs, prepare and issue MSME frequently asked questions; MSME financial reporting awards.

**The Enhancing Quality Financial Reporting project in Albania (EQ-FINREP) has made good progress in supporting the alignment of professional accounting programs with international standards and accountancy qualifications should also ensure they are relevant to MSMEs and provide aspiring professional accountants with comprehensive practical training.** The PAOs should build on progress made and continue to review their qualification curriculum to ensure it incorporates relevant and comprehensive content focused on MSMEs and includes practical trainings that equip accounting students with the necessary skills and knowledge. In addition, the profession should strictly monitor compliance with practical training requirements.

### 7.5.2. Accounting software

**Support the development of the start-up eco-system which can eventually provide market solutions (i.e. cloud-based accounting packages, and other technologies, for use by the MSMEs) to address improving technological support to MSME financial management.** Such solutions can facilitate efficient and timely recording of transactions and improve reporting and analysis used to make better business decisions.

Similarly, MSMEs should look to adopt the latest technological developments that can benefit their businesses. This could include adopting latest technologies like artificial intelligence (AI), Big Data, 3D printing, crowd-sourcing, Blockchain and virtual reality (VR), and internet of things.

### 7.5.3. Chamber of Commerce

**The Chamber of Commerce can play an enhanced role in serving as convener for the MSME agenda.** Specifically, it could serve as the anchor institution representing the interests of MSME (e.g. issues relating to gaining access to credit through banks and simplifying tax obligations), and share information on available financing facilities issued by the Government or Development Agencies that also may include entrepreneurship training and mentorship opportunities.

#### CHAMBER SERVICE DAYS

##### MSME Expos

The Chamber of Commerce partners with the professional accountancy organization to host SME services days in different venues in the country. During the day, the MSMEs receive free basic advisory service and support from the chamber and representatives of the profession covering a range of topics like tax, access to finance, preparation of financial statements, financial analysis and payroll administration.

#### 7.5.4. Municipalities

**While the Municipality in Vlore provides good support to MSMEs, there is opportunity to increase support to grow their businesses and create job opportunities which can also increase revenue for the municipality.** Municipalities, for example, could secure and provide grants, and partner with other institutions like banks, regional chambers of commerce and the accountancy profession to (a) improve awareness of financial management services, (b) engage with MSMEs to identify their needs and implementing appropriate reforms to address their needs, (c) develop tools and learning materials that can help MSMEs to improve their financial management, and (d) host regular MSME financial management learning.

# ANNEX: ASSESSMENT METHODOLOGY

## A. LANDSCAPE AND BASELINE REPORT WORK PLAN

### 1. Pre-Fieldwork Mission

- Identify the stakeholders and research their activities and recent initiatives
- Confirm the in-country lead stakeholder (preferably the Ministry) for the work and prepare an initial communication to them about work proposed, objectives, milestones and timing.
- Prepare a communication to the PAO(s), where they are not the lead stakeholder, and inform them of the work including a request to do the PAO Assessment and obtain data on their membership.
- Obtain and review existing statistical data on SMEs to better understand the segment
- Obtain and review country-specific private sector development policy work, economic research reports, and other relevant information to identify the private sector development strategy and how SMEs fit into this (i.e. identify any strategically important SME segments).
- Review existing research and reports on the barriers and constraints to growth facing SMEs in Country (e.g. Access to Capital)
- Review research and reports on key issues facing stakeholders that transact with SMEs (e.g. Banks and NPLs)
- Identify any Government Initiatives (and other active programs) in-country and determine areas of mutual interest and how the accounting profession can support Government initiatives supporting SME sector growth.
- Prepare/Adjust template surveys & interview questions for the local scenario, covering:
  - Targeted SMEs
  - Professional Accountants working in targeted SMEs
  - SMPs
  - Students
  - Investors and financial service providers
- Prepare/adjust PAO (other association) assessment.
- Prepare a communication to all stakeholders that will participate in this phase of the work.



- Identify what professional qualifications and accounting technologies are present in market.
- Discuss project with accounting technology providers and international professional qualifications.

## **2. Planning Mission**

- Mission in-country to plan the fieldwork mission:
  - Meet with Ministry of Economy to discuss the work and the dissemination of it.
  - Discuss the draft survey and interview questions with the PAO
  - Identify with the MoE, the PAO and other key Stakeholders prospective targets for surveys and interviews

## **3. Finalize an interview and survey plan**

- Plan survey administration and sequencing
- Prepare an interview plan and start scheduling.

## **4. Undertake Surveys**

- Finalize surveys and send, making sure sufficient time to respond and sufficient time to use responses

## **5. Mission to undertake Interviews and perform PAO Assessment**

- Undertake the scheduled interviews
- Perform the PAO (other association) assessment

## **6. Prepare a report based on work performed**

- Analyze the results of work and draft the report
- Forward the report in draft to stakeholders for feedback
- Prepare a presentation for the final roundtable on the results of the work
- Identify the location and invite stakeholders to final roundtable
- Prepare and plan for the mission for final roundtable

## **7. Stakeholder Roundtable-Dissemination of landscape assessment findings**

- Present the work that was performed and identify constraints and deviations from planned approach
- Disseminate the results of the work contained in the report
- Obtain comments and observations from stakeholders and summarize key priorities/action points
- Finalize the report for e-publication
- Share the report with other internal and external stakeholders

## **B. KEY STAKEHOLDERS AND THEIR CONTRIBUTION TO THE LANDSCAPE ASSESSMENT**

### **Government: Relevant Ministry and Departments**

- Statistics on SMEs
- SME Sector Development Strategy
- Opinion about profession to promote SME inclusion in Government programs
- Identification of most important SME sector segments

### **Banks and the related association**

- Credit worthiness of SMEs and related financial management issues
- Their own service offering for supporting SME financial management needs
- Observed differences from the involvement of a professional accountant in success of credit application and better credit terms
- Perceived constraints to improved support by the accounting profession

### **Private Investors (PE/VC/Others) and related associations**

- SME investment readiness and financial management related constraints
- Opinion about difference the involvement of professional accountants makes/could make to the investment readiness of SMEs

### **SME Owners**

- Key business issues
- Source of general business advice
- Do they hire a professional accountant or SMP?
- How they meet their broader financial management needs: Technologies and labor/services
- Awareness of technologies available
- Observed benefits from the involvements of a professional accountant in their business
- Observed benefits from the use of accounting and financial management related technology in their business
- Perceived constraints to increase use of the services of a qualified accountant
- Perceived constraints to the use of improved technology
- Perceptions held about the accountancy profession

## **PAOs**

- Statistics on membership segments that service SMEs (overall numbers, geography, gender etc)
- Professional qualifications offered and relevance of these to support SMEs
- Business and accounting technologies available in market
- CPD and other tools available to members to support services to the SME sector
- Opportunities to professionalize accountants serving SMEs
- Membership pipeline
- Activities to raise awareness of professional accountants
- Quality control of professional services provided to SMEs

## **Professional Accountants and SMPs**

- SME Demand
- Extent to which they are providing non-core business and consultancy services
- Key elements of SMP practice models for servicing SME clients.
- Self-assessment on capacity to be effective trusted business advisors to SMEs
- Training

## **Leading accounting technology providers and/or NGOs/Agencies looking to improve digital access**

- Market access issues

## **Universities**

- How students are preparing to support financial management needs of SMEs

## **Chamber(s) of Commerce and Business Associations**

- Key business issues facing SMEs
- Membership demographics and statistics
- Current legislation affecting SMEs and their financial health
- Status of government and sub-national government SME development strategies

## **Insolvency Practitioners**

- Common themes in small business failure

## C. SME SURVEY

### C.1. SURVEY INTRODUCTION

The World Bank's Center for Financial Reporting Reform (CFRR) is conducting a survey of SME owner/managers in **[country]** to better understand their access to the professional support necessary to improve financial management, access additional finance (i.e. debt, equity, grants) and make better business decisions.

The CFRR is especially interested in learning about SMEs in **[Country]** with an interest to grow their businesses. The CFRR has worked with local stakeholders including **[e.g. Chamber/MOE]** to identify a sample of SMEs to survey.

All information shared as part of this survey is confidential.

The summary results of the survey may be published but no information attributable to individual SMEs that respond to the survey. There are no "correct" answers to survey questions. Your views and experiences are valuable to this survey.

The survey should take about 5-10 minutes to complete. We appreciate your participation in this survey. Kindly complete your response by **[Date]**.

#### C.1.1. Definitions

##### **What is financial management?**

For this survey, financial management means all the activities required to manage the finances of the business. This includes

- bookkeeping and basic accounting
- managing working capital and cash
- pricing and forecasting revenues
- controlling expenditure
- managing risks (e.g. foreign currency), and
- meeting compliance requirements (e.g. statutory financial statements, audits and tax returns).

The process of obtaining additional finances, whether through a bank loan or any other means, for the purposes of this survey is part of financial management.

### **What is an SMP?**

A small and medium-sized accounting practice (SMP) is a firm that provides professional accounting services to SMEs and is not a Big-4 firm (i.e. PwC, EY, KPMG and Deloitte) or a significant international network firm (including Grant Thornton, BDO, Crowe Horwath, RSM, Baker Tilly International and Nexia). Professional services provided by SMPs typically include bookkeeping, preparing financial statements, auditing financial statements, preparing tax returns, and may also include professional advisory services (e.g. corporate finance, management accounting, succession planning etc.). In **[Country]**, relevant examples are **[small auditing firms and consulting firms]**.

### **What is a Professional Accountant?**

Professional Accountants are educated and experienced accounting professionals that are members of a professional body that requires adherence to a code of ethics. This same body often also regulates the quality of Professional Accountant's work and their professionalism and may sanction them if they have not met their professional obligations. Professional accountants most often work in accounting firms (e.g. SMPs) or as business employees. In **[Country]**, Professional Accountants could be considered auditors and persons holding a professional accountancy qualification **[Describe qualifications and designations (e.g. xxx, xxx, ACCA)]**.

### **What is a Business Support Center?**

Business Support Centers (BSCs) provide a variety of services designed to support the success of SMEs. Such services are often free or charged on a cost recovery basis. BSCs are often funded by Government private sector development programs.

Consulting firms, in contrast, charge a market based fee and have a for-profit orientation.

### **Who should complete this survey?**

This survey should be completed by the owner(s) of the SME. Where the owner(s) are not involved in the business, the survey should be completed by key management personal.

## C.2. SURVEY

### C.2.1. Information on your business

a. What sector is your business in?

Answer: \_\_\_\_\_

b. Where is your business principally located?

Answer: \_\_\_\_\_

c. Are you interested to grow your business and perhaps hire additional staff?

Answer:  Yes  No

d. Are your revenues/sales currently growing?

Answer:  Yes  No

e. Please indicate your estimated annual business revenues for the following years

	December 2015	December 2016	December 2017
Revenue (Local Currency)			

Comments: \_\_\_\_\_

f. Please indicate the number of full or part-time employees your business hires (including owners)

	December 2015	December 2016	December 2017
Full time			
Part-time			

Comments: \_\_\_\_\_

g. Please identify the most significant constraints you face to grow your business

Answer: \_\_\_\_\_

### C.2.2. Survey Questions

1. Who is your **primary** trusted advisor for the overall financial management of your business? [Choose 1]

- An employee responsible for managing finances

- A professional from an SMP
- A professional from a Big-4 or another international network firm (i.e. PwC, EY, KPMG and Deloitte and e.g. RSM, Baker Tilly International, Grant Thornton, BDO, Crowe Horwath and Nexia)
- An employee or consultant from a Business Support Center
- An employee from the bank my business has an account with
- A consultant from a consulting firm
- A family member or friend
- No one (I do everything myself)

**2. Do you employ someone part-time or full-time to undertake financial management activities in your business?**

Answer:  Yes  No

---

**3. If you answered “No” to question 2, who supports you with the financial management of the business?**

Answer:

---

**4. If your answer to question 2 was “Yes”, what qualifications have this person attained?**  
[Choose the qualifications that apply]

- No formal qualification related to accounting and/or finance
- University bachelor’s degree (or equivalent) in accounting and/or finance
- Post graduate degree in accounting and/or finance
- They are a Professional Accountant holding a professional accounting qualification (i.e. ACCA, xxx, xxx, other)
- Don’t know

**5. Which services do you obtain from an SMP?** [Select all of the services obtained from an SMP]

- Bookkeeping and basic accounting
- Statutory Financial Statement preparation
- Statutory Audit
- Tax compliance and advisory

- Other professional advisory services (please briefly explain)

Comments: \_\_\_\_\_

- None (I don't obtain any services from an SMP)

**6. Who performs the following financial management activities?** [Indicate whether: In-house, SMP, done by owner(s), other, not done]

- Book keeping and basic accounting
- Preparation of annual statutory financial statements
- Tax returns and compliance
- Active management of current working capital and cash
- Forecasting cash flows and managing liquidity on a regular basis
- Preparation of annual budgets
- Analysis of actual monthly results to budgets/forecasts and related report preparation
- Following up on variations between actual and budget and reviewing unusual transactions
- Management of risks

Comments: \_\_\_\_\_

**7. How useful are the annual financial statements (i.e. those required by law) to your understanding of the business how it has performed, assessing its financial strength, and making business decisions?** [Select one of the following options]

Answer:  Not at all  Somewhat useful  Useful  Very useful  Don't know

**8. Will you need to obtain additional finance sometime in the future (excluding owners' contribution) to grow the business?** [select one answer]

Answer:  Yes  No  Unsure

**9. If you answered "Yes" to question 8: For what purpose will you need this additional finance?** [select up to 2 that most apply]

- Purchase assets (e.g. machinery, vehicles and other equipment)
- Cover additional costs arising from revenue growth (e.g. purchasing more supplies, hiring additional staff etc.)
- Refinance debt
- Pay taxes



- Acquire other businesses
- Other

Comments:

---

**10. If you answered “Yes” to question 8: Which options would you consider as good options to obtain the additional finance?** [select only those you would consider as funding options for your business]

- Those offered by a Bank (e.g. loans of any duration, overdrafts, credit cards)
- Those offered by a non-Bank financial institution (e.g. loans of any duration, leasing, receivables factoring)
- Private Equity/Venture Capital
- Crowdfunding
- A new business partner (i.e. introduce a new owner/manager)
- A loan from a family member or friend
- Government sponsored SME development programs (e.g. grants and/or loans)
- Unsure (i.e. need further advice)

**11. If you answered “Yes” to question 8: How well do you understand the options for additional finance from Private Equity/Venture Capital and Crowdfunding?** [Select the answer that applies to you]

Answer:  Low  Moderate  Good  Very good

---

**12. If you answered “Yes” to question 8: Who would be your principal advisor during the process of obtaining additional finance?** [Select those whose services you would most likely use to support you to access additional finance]

- Someone on staff (i.e. finance manager)
- An SMP
- A Big-4 or other international network firm
- A Business Support Center
- Staff of the bank at which my business has an account
- A consulting firms
- A family member/friend
- No one (you will do it yourself)

**13. How would you rate your demand for the following professional accounting and business services (i.e. you see these as helping meet your objectives and growing your business and are prepared to pay for them)?** [Indicate the level of demand for each service below, i.e. High, Medium, Low]

- Preparing and, where required, auditing statutory financial statements [H/M/L]
- Business strategy and plan formation support [H/M/L]
- Management accounting: financial information and analysis about your business to support decision making [H/M/L]
- Assistance with applying for and obtaining additional financial capital [H/M/L]
- Managing risks and internal control [H/M/L]
- Corporate governance [H/M/L]
- Human Resources/Employment Regulations [H/M/L]
- Information Technology [H/M/L]
- Other

Comments: \_\_\_\_\_

**14. Do you, or your accounting services provider, use accounting software (customized or off-the-shelf)?** [select one answer]

Answer:  Yes  No  Unsure \_\_\_\_\_

**15. How would you describe your attitude toward cutting-edge accounting and related business technologies?**

- I don't know (unfamiliar with such technology)
- Not useful
- Useful, but such technologies are not available here
- Useful, but cost is too high
- Useful and I am interested in using these

**16. Do you believe that SMPs and Professional Accountants can do more to help your business grow than only providing the traditional accounting services (e.g. bookkeeping, financial statement preparation, audit and tax)?** [select one answer]

Answer:  Yes  No  Unsure \_\_\_\_\_

**17. If you answered “No” or “Unsure” to Question 16; please indicate the main reason.**

[Select the answer that best reflects the main reason for your answer to Q 16]

- SMPs and Professional Accountants are too expensive
- SMPs and Professional Accountants do not have the skill set to help grow my business
- I can't identify any SMPs or Professional Accountants where my business operates
- I don't really understand what SMPs and Professional Accountants do other than traditional accounting services
- The traditional accounting services are all I need from SMPs and Professional Accountants- I can obtain other required services from other service providers
- Other

Comments:

---

**18. Does your business have a Board of Directors that meets at least quarterly?**

Answer:  Yes  No

---

**19. If yes to Q18, does the Board of Directors include at least one independent director (i.e. not family, nor staff)?**

Answer:  Yes  No

---

**20. If yes to Q18, does the Board of Directors provide you with helpful business guidance?**

Answer:  Yes  No

---

## D. SMP SURVEY

### D.1. SURVEY INTRODUCTION

The World Bank's Center for Financial Reporting Reform (CFRR) is conducting a survey of SMPs in **[country]** to better understand the support the provide to SME financial management.

The CFRR has worked with **[PAOs]** to identify an appropriate sample of SMPs to survey.

All information shared as part of this survey is confidential.

The summary results of the survey may be published but no information attributable to individual SMPs that respond to the survey. There are no "correct" answers to survey questions. Your views and experiences are valuable to this survey.

The survey should take about 5-10 minutes to complete. We appreciate your participation in this survey. Kindly complete your response by **[Date]**.

#### D.1.1. Definitions

##### **What is meant by SMP?**

A small and medium-sized accounting practice (SMP) is a firm that provides professional accounting services to SMEs and is not a Big-4 firm (i.e. PwC, EY, KPMG and Deloitte) or a significant international network firm (including Grant Thornton, BDO, Crowe Horwath, RSM, Baker Tilly International and Nexia).

##### **What is meant by SME?**

CFRR follows the definitions provided in the legal framework for determining an SME (e.g. thresholds for statutory financial reporting). However, CFRR is mainly focused on SMEs with the following characteristics:

- Desire and potential to grow the business, and/or
- Desire and potential to hire additional staff

##### **What is financial management?**

For this survey, financial management means all the activities required to manage the finances of the business. This includes

- bookkeeping and basic accounting

- managing working capital and cash
- pricing and forecasting revenues
- controlling expenditure
- managing risks (e.g. foreign currency), and
- meeting compliance requirements (e.g. statutory financial statements, audits and tax returns).

The process of obtaining additional finances, whether through a bank loan or any other means, for the purposes of this survey is part of financial management.

### **What is a Professional Accountant?**

Professional Accountants are educated and experienced accounting professionals that are members of a professional body that requires adherence to a code of ethics. This same body often also regulates the quality of Professional Accountant's work and their professionalism and may sanction them if they have not met their professional obligations. In **[Country]**, Professional Accountants could be considered auditors and persons holding a professional accountancy qualification **[Describe qualifications and designations (e.g. xxx, xxx, ACCA)]**.

### **What are traditional and non-traditional professional services provided by accountants?**

Professional services that accountants have traditionally provided include; bookkeeping and basic accounting, financial statement preparation, tax return preparation and audit services.

However, increasingly Professional Accountants are providing SMEs with non-traditional services, including:

- SME Corporate Advisory
  - Establish financial structures fit-for-purpose
  - Obtain the right financial capital
- Management Accounting
  - Business planning
  - Manage current and future cash flows
  - Manage risks and internal control
  - Provide analysis to support decision making
- Human Resources/Employment Regulations
- Business Development
  - Support strategy development

- Mentor the owner and support their improved financial literacy
- Restructuring/Insolvency/Liquidation
- Succession Planning/Business Transfers
- Information Technology
- Health and Safety/Environmental Legislation

**Who should complete this survey?**

This survey should be completed by the managing partner of the SMP.

## D.2. SURVEY

**1. Where is your SMP located and what locations do you serve?**

Answer: \_\_\_\_\_

**2. How many Professional Accountants do you employ?**

Answer: \_\_\_\_\_

**3. What range of traditional and non-traditional professional services do you provide SMEs?**

Service	Estimated % of overall revenues
Bookkeeping and basic accounting	
Financial statement preparation	
Tax return preparation and compliance	
Audit services	
SME Corporate Advisory <ul style="list-style-type: none"> <li>● Establish financial structures fit-for-purpose</li> <li>● Obtain the right financial capital</li> </ul>	
Management Accounting <ul style="list-style-type: none"> <li>● Business planning</li> <li>● Manage current and future cash flows</li> <li>● Manage risks and internal control</li> <li>● Provide analysis to support decision making</li> </ul>	
Business Development <ul style="list-style-type: none"> <li>● Support strategy development</li> </ul>	

Service	Estimated % of overall revenues
<ul style="list-style-type: none"> <li>Mentor the owner and support their improved financial literacy</li> </ul>	
Restructuring/Insolvency/Liquidation	
Succession Planning/Business Transfers	
Information Technology	
Health and Safety/Environmental Legislation	
Human Resources/Employment Regulations	

**4. What is your overall impression of SME financial management practices in [Country]?**

Answer:  Poor  Improving  Good  Excellent

**5. What are the key business issues that your SME clients are confronted by?**

Answer:

**6. How would you rate demand from SMEs for professional accounting services overall?**

Answer:  Low  Average  Strong

**7. How would you rate client demand for the following non-traditional professional services? [Rate demand between 1, low and 5, high]**

- Advising on entity formation, business registration and establishing the financial structure [1,2,3,4,5]
- Obtaining financial capital (support for loan applications) [1,2,3,4,5]
- Business planning [1,2,3,4,5]
- Manage current and future cash flows [1,2,3,4,5]
- Manage risks and internal control [1,2,3,4,5]
- Provide analysis to support decision making [1,2,3,4,5]
- Human Resources/Employment Regulations [1,2,3,4,5]
- Business Development [1,2,3,4,5]
- Support strategy development [1,2,3,4,5]
- Mentor the owner and support their improved financial literacy [1,2,3,4,5]
- Restructuring/Insolvency/Liquidation [1,2,3,4,5]
- Succession Planning/Business Transfers [1,2,3,4,5]
- Information Technology [1,2,3,4,5]

- Health and Safety/Environmental Legislation [1,2,3,4,5]

Comments: \_\_\_\_\_

**8. Can you identify from your client portfolio examples of SMEs that have a realistic chance to achieve good growth in the short-medium term and the owner(s) is/are capable and motivated to achieve this growth?**

Answer: \_\_\_\_\_

**9. How would assess your firm’s capacity to provide SMEs with non-traditional professional services**

Answer:  Low  Good  Strong

**10. Please indicate the qualifications of your practice staff**

Qualification	Number of professional staff
Unqualified	
High school	
University graduate in accounting or finance	
University post-graduate degree in accounting or finance	
Professional Accounting Qualification (e.g. ACCA)	

**11. What accounting software do you use to record financial transactions and prepare reports and returns for clients?**

Answer: \_\_\_\_\_

**12. Please identify the method for charging your clients for professional services provided:**

- Agree a fixed fee for distinct work
- Charge an hourly rate (full or discounted) for time incurred in client work
- Bundle services and charge a subscription (annual, bi-annual, monthly etc)
- Other

Comments: \_\_\_\_\_

**13. Please identify CPD training topics that you would find most useful to improve your support to your SME clients**

Answer: \_\_\_\_\_



## E. BANK SURVEY

### E.1. SURVEY INTRODUCTION

The World Bank's Center for Financial Reporting Reform (CFRR) is conducting a survey of Banks in **[country]**. The CFRR is seeking feedback to better understand the quality of financial management at SMEs overall and the impact of this on access to additional debt finance.

All information shared as part of this survey is confidential. The survey's summary results may be published but no information will be attributed to individual credit providers that respond to the survey (unless requested of CFRR). There are no "correct" answers to survey questions. Your views and experiences are valuable to this survey.

The survey is brief and should take no more than 5 minutes to complete. Please complete your response by **[Date]**.

#### E.1.1. Definitions:

##### **What do we mean by SME?**

CFRR follows the definitions provided in the legal framework for determining an SME (e.g. thresholds for statutory financial reporting). However, CFRR is mainly focused on SMEs with the following characteristics:

- Desire and potential to grow the business, and/or
- Desire and potential to hire additional staff

##### **What is financial management?**

For this survey, financial management means all the activities required to manage the finances of the business. This includes

- bookkeeping and basic accounting
- managing working capital and cash
- pricing and forecasting revenues
- controlling expenditure
- managing risks (e.g. foreign currency), and
- meeting compliance requirements (e.g. statutory financial statements, audits and tax returns).

The process of obtaining additional finances, whether through a bank loan or any other means, for the purposes of this survey is part of financial management.

### What is a Professional Accountant?

Professional Accountants are educated and experienced accounting professionals that are members of a professional body that requires adherence to a code of ethics. This same body often also regulates the quality of Professional Accountant's work and their professionalism and may sanction them if they have not met their professional obligations. Professional accountants most often work in accounting firms or as business employees. In **[Country]**, Professional Accountants could be considered auditors and persons holding a professional accountancy qualification **[Describe qualifications and designations (e.g. xxx, xxx, ACCA)]**.

### Who should complete this survey?

This survey should be completed by those involved in approving credit to SMEs.

## E.2. SURVEY

### E.2.1. Background information on the Bank

#### a. What financial services do you provide to SMEs?

Answer: \_\_\_\_\_

#### b. How would you describe your predominant type of SME lending? [Identify whether your lending to SMEs is mainly asset-based, cash flow or other]

- Asset-based lending
- Cash flow lending
- Other

Comments: \_\_\_\_\_

#### c. Does your Bank provide an advisory service (free or at fee) to clients to support the improvement of their financial management?

Answer:  Yes, free    Yes, at fee    No

Comments: \_\_\_\_\_

## E.2.2. Survey questions

1. **How important is good financial management of SMEs to obtaining a loan on good credit terms?**

- Not important
- Somewhat important
- Important
- Essential

2. **How important are the following specific items of financial information to your loan application assessment?** [Identify each financial information item below as either not useful, somewhat useful, useful, or very useful]

- tax returns/filings (e.g. income and indirect taxes like VAT etc.)
- Annual financial statements (i.e. legally required)
- Management accounts (e.g. monthly management accountants)
- Management budgets and forecasts
- Sales contracts

3. **From your observations working with SMEs, how would you rate their financial management overall?** [Indicate how you would rate financial management in the SME sector generally]

- Poor; SMEs need to significantly improve their financial management practices
- Some improvement needed
- Good
- Very good
- Unsure

4. **Please briefly summarize key gaps and constraints in SME financial management**

Answer:

---

5. **Do you believe your bank has the capacity to be the primary advisor in addressing these financial management gaps and constraints through its relationship with SME clients?**

Answer:  Yes  No

---

Comments:

---

6. **What incentives exist for SME owners, who are looking to for loan financing, to use the services of a professional accountant (can accountants influence success of loan applications, credit terms, etc.)?**

Answer: \_\_\_\_\_

7. **What professional services do you think could be especially helpful in improving SME financial management?**

Answer: \_\_\_\_\_

8. **How would you rate the current capacity of the accounting profession to support improved SME financial management (including supporting their access to finance)?**  
[Rate your perception of current capacity of the accounting profession using the following options]

- Low; the accounting profession needs significant development to improve support to SME financial management
- Improving
- Good
- Very good
- Unsure

## F. BOARD AND MANAGEMENT SELF-ASSESSMENT FOR PAO SUPPORT TO SME SECTOR

### F.1. INTRODUCTION

The purpose of this survey is to gain insights and identify further opportunities for how the accounting profession can provide improved services and support to SMEs.

The survey is organized into three parts. Firstly, the survey addresses the fundamental aspects of how a Professional Accounting Organization (PAO) organize themselves and plan to support their members that are employed or provide services to SMEs.

Secondly, the survey looks at the sustainability of the PAO and what its focus should be to grow membership revenues to invest in initiatives that are important for the improved support of the SME sector.

Lastly, the survey presents, to consider for local adoption, a range of SME oriented initiatives that are employed by PAOs around the world.

#### **Who Complete the survey?**

The survey is completed by the CEO and individual members of governance bodies (e.g. Council, Board of Directors and Committees).

#### **What will the information be used for?**

The results of the survey will be collated and presented to the PAO. The results of the survey are intended to provide information and insights for the PAO to use in improving the capacity of its members to serve the SME Sector.

### F.2. PAO FUNDAMENTALS FOR SME SECTOR SUPPORT

This section is focused on the current focus by the PAO, in key areas, on supporting members that provide professional services to SME clients.

#### F.2.1. Strategic Planning and Governance

##### 1. Does the PAO's current strategic plan include elements focused on supporting the SME sector?

Answer:	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Comments:	What are the current elements of the PAO's strategy that are focused on the SME sector?	

2. Is there membership demographic data available on PAIBs and SMPs that serve the SME sector?

Answer:	<input type="checkbox"/> Yes <input type="checkbox"/> No
Comments:	For the CEO, please provide demographic data (e.g. PAIBs in SMEs, number of SMPs, number of members in SMPs etc.)

3. Has the PAO's accounting qualification been assessed to understand its relevance to the needs of the SME sector?

Answer:	<input type="checkbox"/> Yes <input type="checkbox"/> No
Comments:	

4. Does the PAO actively promote its membership to the SME Sector and raise awareness of the services and skills they bring?

Answer:	<input type="checkbox"/> Yes <input type="checkbox"/> No
Comments:	How does the PAO actively promote its membership and raise awareness?

### F.2.2. Technology and Digital

5. Has the PAO identified accounting/financial management technology gaps in the local market compared with international norms and developed an approach to close these gaps over time?

Answer:	<input type="checkbox"/> Yes <input type="checkbox"/> No
Comments:	What accounting technology areas need development?

### F.2.3. Continuing Professional Development

6. Is a good range of SME relevant CPD courses provided by the PAO or endorsed providers readily available to members that serve SMEs?

Answer:	<input type="checkbox"/> Yes <input type="checkbox"/> No
Comments:	

7. Are CPD courses available to members that can help SMPs build more effective and efficient practice models for serving SMEs?

Answer:	<input type="checkbox"/> Yes <input type="checkbox"/> No
Comments:	

#### F.2.4. Quality Control

8. Are members that provide audit and non-audit services to SMEs subject to quality control to ensure they meet their professional obligations relating to technical standards and the code of ethics?

Answer:	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Comments:		

#### F.2.5. Member Services

9. Are members provided with a platform to obtain, in local language, current rules, standards and codes relevant to providing SMEs with professional accounting services?

Answer:	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Comments:		

#### F.2.6. Thought Leadership

10. Is the PAO following emerging trends and practices and publishing related materials related to the local profession and SME sector?

Answer:	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Comments:	What thought leadership initiatives has the PAO implemented relating to the SME sector?	

### F.3. SUSTAINABILITY AND GROWTH

This section is focused on the sustainability of the PAO in the context of its current membership numbers and revenues and the demands for investment on initiatives to improve the support services members provide the SME sector.

11. How important is the SME sector to the growth of the national accounting profession?

1	2	3	4	5	6	7	8	9	10
Not that important								Very Important	

12. How important are the following to the long-term sustainability and success of the PAO?

a. Increasing membership fees:

1	2	3	4	5	6	7	8	9	10
Not that important								Very Important	

**b. Increasing the number of members:**

1	2	3	4	5	6	7	8	9	10
Not that important							Very Important		

**13. What areas of strategic focus may support increased membership fees and numbers?**

**a. Providing improved education to aspiring members and a qualification that is regionally or internationally recognized:**

- Likelihood over the mid-term:

1	2	3	4	5	6	7	8	9	10
Not likely						Highly likely or occurring now			

- Impact (on membership numbers and revenues) if happens:

1	2	3	4	5	6	7	8	9	10
Very low					Very High				

**b. Market differentiation: Members can charge more in fees and command a higher salary compared with less qualified non-professional accountants:**

- Likelihood over the mid-term:

1	2	3	4	5	6	7	8	9	10
Not likely						Highly likely or occurring now			

- Impact (on membership numbers and revenues) if happens:

1	2	3	4	5	6	7	8	9	10
Very low					Very High				

**c. Members become an employer's preference for accounting roles:**

- Likelihood over the mid-term:

1	2	3	4	5	6	7	8	9	10
Not likely						Highly likely or occurring now			

- Impact (on membership numbers and revenues) if happens:

1	2	3	4	5	6	7	8	9	10
Very low					Very High				

**d. Improved range and quality of membership services provided by the PAO**

- Likelihood over the mid-term:

1	2	3	4	5	6	7	8	9	10
Not likely						Highly likely or occurring now			



- Impact (on membership numbers and revenues) if happens:

1	2	3	4	5	6	7	8	9	10
Very low					Very High				

**e. A stronger more unified voice to Government on policy matters affecting the accounting profession and SMEs**

- Likelihood over the mid-term:

1	2	3	4	5	6	7	8	9	10
Not likely					Highly likely or occurring now				

- Impact (on membership numbers and revenues) if happens:

1	2	3	4	5	6	7	8	9	10
Very low					Very High				

**f. More active self-regulation by the PAO of the quality of work performed by members for SMEs and their adherence to professional behaviors**

- Likelihood over the mid-term:

1	2	3	4	5	6	7	8	9	10
Not likely					Highly likely or occurring now				

- Impact (on membership numbers and revenues) if happens:

1	2	3	4	5	6	7	8	9	10
Very low					Very High				

**g. An extensive CPD offering that is very relevant to the SME sector and demanded by members:**

- Likelihood over the mid-term:

1	2	3	4	5	6	7	8	9	10
Not likely					Highly likely or occurring now				

- Impact (on membership numbers and revenues) if happens:

1	2	3	4	5	6	7	8	9	10
Very low					Very High				

## F.4. FUNCTIONAL CAPACITY

This section considers the PAO's current capacity in key functions and the investment required to make sustainable changes that can lead to increased membership revenues and support by the profession to SMEs.

### F.4.1. Governance

#### 14. Developing relevant strategic plans and monitoring performance against plan.

##### a. Investment required:

1	2	3	4	5	6	7	8	9	10
Minimal								Significant	

##### b. Relative importance:

1	2	3	4	5	6	7	8	9	10
Not important, focus on other functions					Very important, this function is key				

### F.4.2. Marketing the designation

#### 15. Raising the prominence of the profession with students, employers and client communities; including an understanding of the services provided by accountants and the professional brand that is represented by the qualification/designation.

##### a. Investment required:

1	2	3	4	5	6	7	8	9	10
Minimal								Significant	

##### b. Relative importance:

1	2	3	4	5	6	7	8	9	10
Not important, focus on other functions					Very important, this function is key				

### F.4.3. Education (Qualification and CPD)

#### 16. Developing an education program for initial and continuing professional development that fully meets the needs of the local market.

##### a. Investment required:

1	2	3	4	5	6	7	8	9	10
Minimal								Significant	

**b. Relative importance:**

1	2	3	4	5	6	7	8	9	10
Not important, focus on other functions					Very important, this function is key				

**F.4.4. Quality Assurance**

**17. Ensuring the proper incentive structure and guidance is in place to ensure members deliver quality services.**

**a. Investment required:**

1	2	3	4	5	6	7	8	9	10
Minimal								Significant	

**b. Relative importance:**

1	2	3	4	5	6	7	8	9	10
Not important, focus on other functions					Very important, this function is key				

**F.4.5. Member Services:**

**18. Providing additional value for the cost of membership. Making member services especially relevant to members providing services to SMEs.**

**a. Investment required:**

1	2	3	4	5	6	7	8	9	10
Minimal								Significant	

**b. Relative importance:**

1	2	3	4	5	6	7	8	9	10
Not important, focus on other functions					Very important, this function is key				

**F.4.6. Technical**

**19. Capacity to analyses key local and international accounting technical developments. Advise governments effectively on local legal framework requirements and provide input on technical matters to standard setters.**

**a. Investment required:**

1	2	3	4	5	6	7	8	9	10
Minimal								Significant	

**b. Relative importance:**

1	2	3	4	5	6	7	8	9	10
Not important, focus on other functions					Very important, this function is key				

**F.4.7. Human Resources**

**20. Capacity to attract talent into the PAO.**

**a. Investment required:**

1	2	3	4	5	6	7	8	9	10
Minimal								Significant	

**b. Relative importance:**

1	2	3	4	5	6	7	8	9	10
Not important, focus on other functions					Very important, this function is key				

**F.4.8. Initiatives & Activities Menu**

**21. How do you rate these SMP Practice Support activities that may support improved SME sector support?**

**a. Practice management training and guidance**

Training courses and guidance to public practice owner/managers of SMPs on practice models and processes for improving service delivery models. May help SMPs to be well organized and relevant to provide optimal SME services.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable					We can do this				

**b. Enhancing SME advisory services through better integration of technologies**

Training and community of practice for SMPs looking to integrate cutting-edge technologies into their service offerings to enhance the advisory services that provide SMEs and the insights available for management decision making.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**c. Professional Indemnity Insurance**

Insurance coverage for practicing accountants to insure themselves against claims from clients in relation to the services performed. Insurance cover is provided by an insurance firms. The PAO provides guidance on insurance requirements and how to mitigate costs. Potentially helpful in differentiating professional accountants from non-professionals.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**d. Guidance on handling clients' money and Fidelity Funds**

Establishing expectations of members that handle client monies. Requires establishing trust accounts to keep their money separate from the accounting practice. Fidelity Funds are established to compensate clients who have lost money through improper use of their money by professional accountants. Potentially helpful for SMEs to gain confidence in their relationship with SMPs.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**e. Practicing Logo/Branding the profession**

Establish a logo for use by public practitioners to associate themselves with the profession. May help SMEs recognize those accountants that are members of the profession.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**f. Practice Review**

Voluntary or mandatory quality control of SMPs to ensure that they have meet their obligations in terms of professional behaviors and standard of work. (Note: separate to audit quality control which is a requirement). Can assist with continuous improvement of the quality of work performed by SMPs for SMEs.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**g. Public Practice Toolkit**

Provision of resources that can be used in SMP service delivery to SMEs (e.g. example financial statements, engagement letters etc.). May be helpful for SMPs to perform their work to standard and efficiently.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	

#### **h. Public Practice Helpline**

Helpline available for SMPs to discuss and obtain advice on resolving practice issues, especially those with an ethical dimension. Can assist SMPs to perform their work to standard and efficiently and resolve ethical conflicts.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	

## **22. How do you rate these Professional Development and Networking activities that may support improved SME sector support?**

### **a. Special Interest Groups**

Communities of Practice that are run by members that share a specialized interest (e.g. running a public practice, company accountants etc.). Invite a speaker. Discuss. Socialize. Knowledge sharing between community members helping improve capacity. Also, may be more economically feasible as events are self-funded.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	

### **a. Conferences and Business Forums**

Business forums, bringing together various important stakeholders around various relevant and current business themes. May help connect the business community and raise awareness of what accountants can do.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	

**b. Webinars and self-paced online CPD**

Online content available through “live” and recorded Webinars or self-paced learning modules. Content relevant to SME services, technical and professional. Can enable better geographical reach for members to access CPD. Enables members the flexibility to learn when most convenient to them.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	

**c. Mentoring Program**

Inviting seasoned professionals to participate in a structured mentoring program. Match mentors and mentees (already qualified) and provide them with some basic tools to support success. Provides for increased professional capacity and transfer of knowledge to ensure ongoing improvement in services provided to SMEs.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	



#### d. Two-tier Qualification

In addition to the main professional qualification, introducing an Accounting Technician or similarly positioned qualification. Ensure SMPs and professional accountants employed by SMEs have the competencies to undertake more operational accounting control tasks like tax returns and account reconciliations etc.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

#### e. Specialist Qualifications

Targeted qualifications designed to supplement the core accounting qualification in a specialist area (e.g. SME Advisor). May help to ensure the membership developed the specialist skills needed to be highly relevant to the business issues confronting SMEs for which they seek advice and solutions for.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

### 23. How do you rate these Knowledge and Information Service activities that may support improved SME sector support?

#### b. Member Handbooks

Compilation of all relevant rules, codes, standards and interpretations relevant to the profession, in local language. Can help to ensure that SMPs have up-to-date understanding of requirements.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**a. Library**

Collection of business literature that members might find helpful in servicing their SME clients better. Provides access to information for members to improve their knowledge on relevant areas.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**b. Technical Updates**

Email subscription by members to regular updates concerning technical areas of accounting (e.g. the issuance of a new international standards, the impact of change in laws etc.). Helps SMPs stay aware of technical developments that are relevant for them or their SME clients.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**c. Journal/Magazine**

Publish a regular journal/magazine that provide members with relevant updates and information concerning the profession. Helps SMPs keep informed of trends and emerging issues.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**24. How do you rate these Leadership activities that may support improved SME sector support?**

**c. Developing and Releasing Thought Leadership**

Opinion on emerging issues and trends that are relevant to SMEs. Forming an opinion on important issues can position the profession as a leader and as an influential voice to government as an advocate of SMEs for a good environment in which they can grow and for SMPs as part of their support structure.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**a. Special Issues Task Forces**

Bringing people together to resolve specific issues facing the profession. For example, addressing gaps in accounting technology available in the local market vs internationally. Can help to develop a practical action plan to address important issues that may be constraining the ability of SMPs to provide improved support to SMEs.

- **N/A (already developing or doing)**

- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**25. How do you rate these Member Service activities that may support improved SME sector support?**

**a. Member Discount Program**

Negotiated discounts or waived subscriptions, utilizing the buying power of the membership group. Help keep SMP costs down assisting them to be more competitive in pricing their SME services.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**b. SME Client Discount Program**

Negotiated prices and rates for SME clients that are clients of SMPs. For example, a basis point reduction to achieve lower finance costs for SMEs using the services of a professional accountant. Improve the incentives of SMEs to work with SMPs.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**c. SMP Business Centre**

Make available meeting room and office capability (e.g. Wi-Fi, Printing etc.) of the PAO for SMPs to use. Support SMPs meeting their SME clients where this more convenient for the SME (i.e. less travel, better facilities etc.)

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**d. "Find an Accountant"**

Provide SMEs with a means to search for an accountant that may be close to them. Could also provide an additional promotional aspect whereby accountants agree to provide a specified number of hours free of charge to new clients. Help to encourage the connection between SMEs and SMPs.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable							We can do this		

**26. How do you rate these PAO activities that may support improved SME sector support?**

**a. Surveying and engaging members**

Survey or hold focus group discussions with members that service SMPs to obtain additional information about their needs and sensitivities.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	

**b. 26. Gathering data on members that provide services to SMEs**

Obtaining demographical data from members that serve SME (perhaps through an annual return process). This information can be used to inform PAO work in general.

- **N/A (already developing or doing)**
- **How much I like this idea:**

1	2	3	4	5	6	7	8	9	10
I don't like								I like a lot	

- **How actionable is this idea (are resources available to implement)?**

1	2	3	4	5	6	7	8	9	10
Not actionable								We can do this	

## G. PAIB MEETING GUIDE AND QUESTIONS

### G.1. INTRODUCTION

The World Bank's Center for Financial Reporting Reform (CFRR) is conducting a survey of Professional Accountants in Business (PAIBs) in **[country]** to better understand the support they provide to SME financial management.

The CFRR has worked with **[PAOs]** to identify an appropriate sample of PAIBs to interview.

All information shared as part of this interview is confidential.

The summary results of the interview may be published but not information attributable to individual PAIBs interviewed. There are no "correct" answers. Your views and experiences are valuable.

#### G.1.1. Definitions

##### **What is meant by SME?**

CFRR follows the definitions provided in the legal framework for determining an SME (e.g. thresholds for statutory financial reporting). However, CFRR is mainly focused on SMEs with the following characteristics:

- Desire and potential to grow the business, and/or
- Desire and potential to hire additional staff

##### **What is financial management?**

For this survey, financial management means all the activities required to manage the finances of the business. This includes

- bookkeeping and basic accounting
- managing working capital and cash
- pricing and forecasting revenues
- controlling expenditure
- managing risks (e.g. foreign currency), and
- meeting compliance requirements (e.g. statutory financial statements, audits and tax returns).

The process of obtaining additional finances, whether through a bank loan or any other means, for the purposes of this survey is part of financial management.

### **What is a Professional Accountant?**

Professional Accountants are educated and experienced accounting professionals that are members of a professional body that requires adherence to a code of ethics. This same body often also regulates the quality of Professional Accountant's work and their professionalism and may sanction them if they have not met their professional obligations. In **[Country]**, Professional Accountants could be considered auditors and persons holding a professional accountancy qualification **[Describe qualifications and designations (e.g. xxx, xxx, ACCA)]**.

### **What are traditional and non-traditional professional services provided by accountants?**

Professional services that accountants have traditionally provided include; bookkeeping and basic accounting, financial statement preparation, tax return preparation and audit services.

However, increasingly Professional Accountants are providing SMEs with non-traditional services, including:

- SME Corporate Advisory
  - Establish financial structures fit-for-purpose
  - Obtain the right financial capital
- Management Accounting
  - Business planning
  - Manage current and future cash flows
  - Manage risks and internal control
  - Provide analysis to support decision making
- Human Resources/Employment Regulations
- Business Development
  - Support strategy development
  - Mentor the owner and support their improved financial literacy
- Restructuring/Insolvency/Liquidation
- Succession Planning/Business Transfers
- Information Technology
- Health and Safety/Environmental Legislation



## G.2. INTERVIEW QUESTIONS

### G.2.1. Information about you and the company you work for

a. Where do you work, and what is the business?

Answer: \_\_\_\_\_

b. What are the approximate revenues and number of employees of this business?

Answer: \_\_\_\_\_

c. How many Professional Accountants do you work with?

Answer: \_\_\_\_\_

d. What is your highest accounting related qualification?

Answer: \_\_\_\_\_

e. How many years have you been working as an accountant?

Answer: \_\_\_\_\_

### G.2.2. Questions

1. What are the key business issues that the business you work for is confronted by?

Answer: \_\_\_\_\_

2. What is your overall impression of SME financial management practices in [Country]?

Answer:  Poor  Improving  Good  Excellent

3. Do you buy-in any professional services from SMPs in financial management areas? if so, which services and how is the fee determined?

Answer: \_\_\_\_\_

4. Which non-traditional accounting services may be of value to your business that you don't have the time or experience to perform yourself?

Answer: \_\_\_\_\_

5. What accounting software do you use to record financial transactions and prepare reports and returns for management?

Answer: \_\_\_\_\_

**6. Please identify CPD training topics that you would find most useful to improve your knowledge for your work**

Answer:

---

## H. INTERVIEW GUIDE FOR A4G: INVESTORS

### H.1. INTRODUCTION

The CFRR aims to better understand the quality of support SMEs are provided by Professional Accountants to improve their overall financial management and to be able access additional financial capital.

We are looking to understand how financial management practices can be improved in the SME sector through improved support by the accounting profession.

#### H.1.1. Definitions

##### **What is financial management?**

- Bookkeeping and basic accounting
- Managing current and forecast working capital and cash flows (liquidity risk)
- Asset management and financing
- Internal control, especially control of the payment cycle
- Managing risks (e.g. credit, market and FX)
- Pricing and profitability analysis
- Meeting regulatory requirements (e.g. tax, financial reporting, audit)

##### **What do we mean by SME?**

CFRR follows the definitions provided in the legal framework for determining an SME (e.g. thresholds for statutory financial reporting). However, CFRR is mainly focused on SMEs with the following characteristics:

- Desire and potential to grow the business, and/or
- Desire and potential to hire additional staff

### H.2. INTERVIEW DISCUSSION POINTS

#### **1. What type of investor are you? [Identify the description that best applies]**

- Venture capital/Private equity firm

- Investment fund manager
- Investment bank
- Angel or private investor
- Crowd funding platform
- Other

**2. How important is financial management to becoming ‘investment ready’?**

Answer: \_\_\_\_\_

**3. How important is the following financial information to you as you assess the investment?**

- Tax returns/filings (e.g. income and indirect taxes like VAT etc.)
- Annual financial statements (i.e. legally required)
- Management accounts (e.g. monthly management accountants)
- Management budgets and forecasts

**4. From your observations working with SMEs, how would you rate their financial management overall?**

Answer: \_\_\_\_\_

**5. How would you rate the following elements SME of financial management?**

- Quality of books, records and basic accounting
- Access to quality accounting software and technology
- Access to financial management skills for performing business analysis and supporting decision making
- Reliability of statutory financial statements
- Adequacy of internal controls over expenditure
- Cash and working capital management
- Assumptions used in plans/forecasts/budgets
- Managing risk

**6. What incentives are there for SME owners, who looking to raise equity finance, to use the services of a professional accountant (i.e. traditional and non-traditional services)? (e.g. can accountants somehow influence the valuation of the business?)**

Answer: \_\_\_\_\_

**7. What professional services do you think could be especially helpful in improving SME financial management?**

Answer: \_\_\_\_\_

**8. How would you rate the current capacity of the accounting profession to support SMEs with financial management?**

Answer: \_\_\_\_\_

# I. INSOLVENCY PRACTITIONERS MEETING GUIDE AND QUESTIONS

## I.1. INTRODUCTION

The World Bank’s Center for Financial Reporting Reform (CFRR) is conducting interviews with insolvency practitioners in **[country]** to better understand why SMEs fail and what financial management weaknesses, if any, can be identified.

All information shared as part of this Interview is confidential.

The summary results of the Interview may be published but not information attributable to individual SMEs discussed. There are no “correct” answers. Your views and experiences are valuable.

### I.1.1. Definitions

#### **What is meant by SME?**

CFRR follows the definitions provided in the legal framework for determining an SME (e.g. thresholds for statutory financial reporting). However, CFRR is mainly focused on SMEs with the following characteristics:

- Desire and potential to grow the business, and/or
- Desire and potential to hire additional staff

#### **What is financial management?**

For this survey, financial management means all the activities required to manage the finances of the business. This includes

- bookkeeping and basic accounting
- managing working capital and cash
- pricing and forecasting revenues
- controlling expenditure
- managing risks (e.g. foreign currency), and
- meeting compliance requirements (e.g. statutory financial statements, audits and tax returns).

The process of obtaining additional finances, whether through a bank loan or any other means, for the purposes of this survey is part of financial management.

### **What is a Professional Accountant?**

Professional Accountants are educated and experienced accounting professionals that are members of a professional body that requires adherence to a code of ethics. This same body often also regulates the quality of Professional Accountant's work and their professionalism and may sanction them if they have not met their professional obligations. In **[Country]**, Professional Accountants could be considered auditors and persons holding a professional accountancy qualification **[Describe qualifications and designations (e.g. xxx, xxx, ACCA)]**.

### **What are traditional and non-traditional professional services provided by accountants?**

Professional services that accountants have traditionally provided include; bookkeeping and basic accounting, financial statement preparation, tax return preparation and audit services.

However, increasingly Professional Accountants are providing SMEs with non-traditional services, including:

- SME Corporate Advisory
  - Establish financial structures fit-for-purpose
  - Obtain the right financial capital
- Management Accounting
  - Business planning
  - Manage current and future cash flows
  - Manage risks and internal control
  - Provide analysis to support decision making
- Human Resources/Employment Regulations
- Business Development
  - Support strategy development
  - Mentor the owner and support their improved financial literacy
- Restructuring/Insolvency/Liquidation
- Succession Planning/Business Transfers
- Information Technology
- Health and Safety/Environmental Legislation

## I.2. INTERVIEW QUESTIONS

### I.2.1. Information about you and the practice

a. In which locations do you work?

Answer: \_\_\_\_\_

b. Approximately how many SME bankruptcy/insolvency cases do you see annually (Also, any information overall)?

Answer: \_\_\_\_\_

c. Are you a professional accountant, how many Professional Accountants do you work with?

Answer: \_\_\_\_\_

d. How many years have you been working in insolvency?

Answer: \_\_\_\_\_

### I.2.2. Questions

1. What are the main reasons that SMEs fail in you experience?

Answer: \_\_\_\_\_

2. What is your overall impression of SME financial management practices in [Country]?

Answer:  Poor  Improving  Good  Excellent

3. Do you belief that professional accountants can play an increased role in improving the financial management of SMEs in [Country]?

Answer: \_\_\_\_\_

4. What is your experience of the accounting software environment in [Country]?

Answer: \_\_\_\_\_

5. What are the requirements to become an Insolvency Practitioner in Serbia

Answer: \_\_\_\_\_



## REFERENCES

European Bank for Reconstruction and Development (2016) "Grow your business, know how". Advice for small business

European Investment Bank (2016) "Albania: Assessment of financing needs of SMEs in the Western Balkans countries"

European Commission (2017) "2017 SBA Fact Sheet Serbia"

Heather Banham and Yunke He (2014) "Exploring the Relationship Between Accounting Professionals and Small and Medium Enterprises (SMEs)"

INSTAT Business Register, July 2, 2018 <http://www.instat.gov.al/media/4159/press-release-business-register-2017.pdf>

Miriam Bruhn, Dean Karlan, and Antoinette Schoar (2018) "Do Consulting Services Promote Small and Medium Enterprise Growth?" Finance and PSD Impact, The Lessons from DECFP Impact Evaluations Issue 49

Nemanja Stanistic, Nikola Stefanovic and Tijana Radojevic (2015) "Determinants of the cost of debt in the Republic of Serbia"

Republic of Serbia (2015) "SME Development Strategy & Action Plan 2015-2020"

Tim Mazzarol (2014) "Financial management in SMEs"

Tim Mazzarol, Sophie Reboud and Delwyn Clark (2015) "The financial management practices of small to medium enterprises"

World Bank Group (2018) Albania: MSME Finance for Growth Assessment

World Bank (2018) "Investigating the Financial Capabilities of SMEs, Lessons from a 24-Country Survey" Technical Note



