

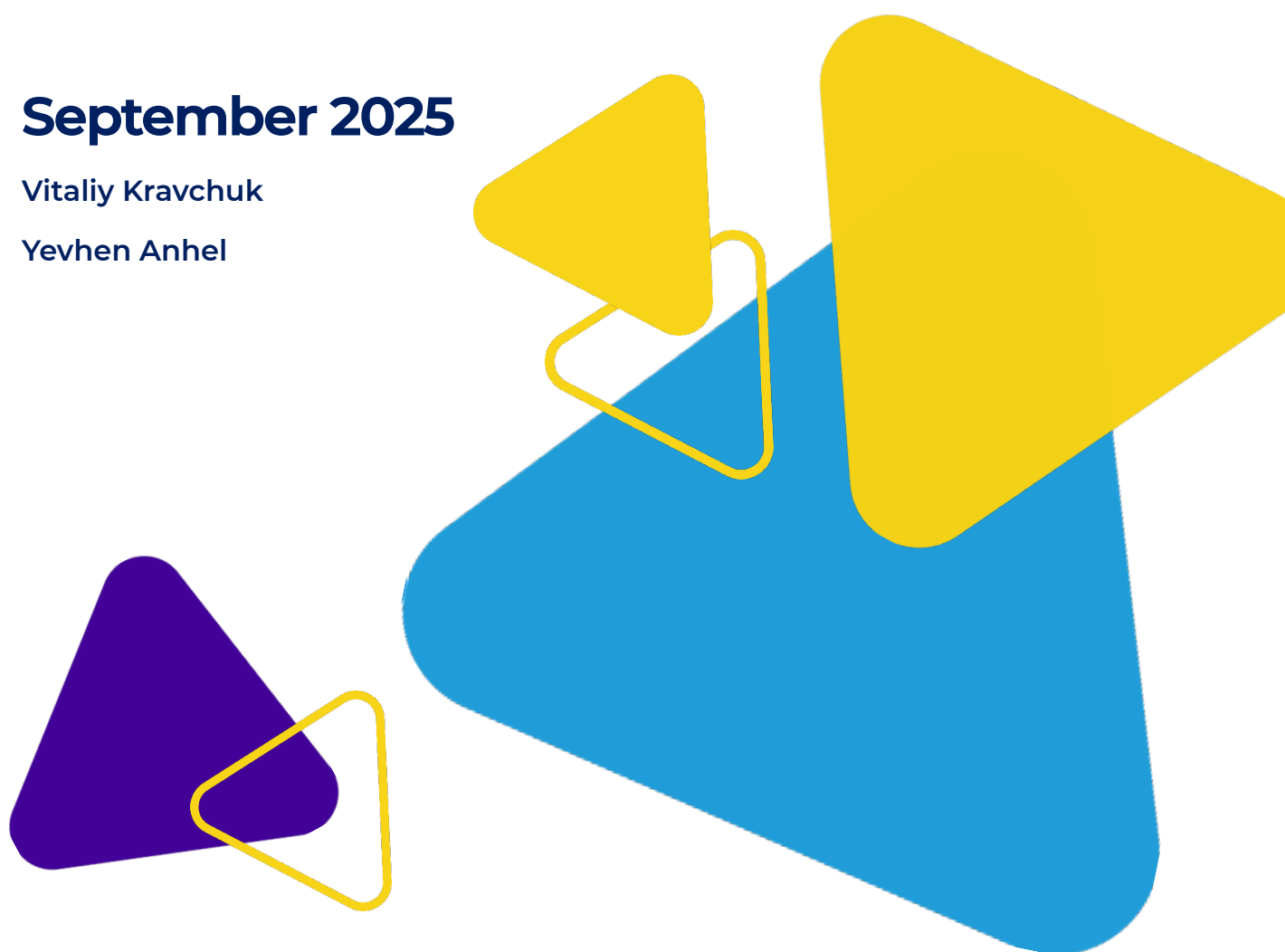
Analytical Report

Harmonization of SME Definition in Ukraine with the EU

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Vitaliy Kravchuk

Yevhen Anhel



Authors:

Vitaliy Kravchuk, Leading Research Fellow at IER

Yevhen Anhel, Senior Research Fellow at IER

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List of Abbreviations

GDP – Gross Domestic Product

IER – Institute for Economic Research and Policy Consulting

EIB – European Investment Bank

EIF – European Investment Fund

EU – European Union

EC – European Commission

SMEs – Small and Medium-sized Enterprises

NBU – National Bank of Ukraine

OECD – Organisation for Economic Co-operation and Development

PPP – Purchasing Power Parity

Introduction

Numerous studies¹ convincingly demonstrate that small and medium-sized enterprises (SMEs) play an important role in economic growth and economic resilience through their high share in value-added creation and employment. Moreover, more than 95%, and often over 99% of enterprises in most countries belong to the SME category. At the same time, SMEs face a number of market failures that constrain their development and, consequently, their contribution to economic growth. These failures particularly relate to access to finance, innovation implementation, new technologies, and attraction of qualified workforce.² To overcome these market failures and, accordingly, stimulate SME development in many countries, including the EU and Ukraine, support programs³ and regulatory simplifications for SMEs are in place.

However, it is important that such preferences for SMEs be targeted both due to limited budgetary resources and to ensure that support programs do not create new market distortions by providing support to enterprises that do not need such support. Therefore, the question arises of properly defining SMEs, which would allow identifying only those enterprises that face market failures due to their insufficient size. For countries on the integration path, such as Ukraine, there is also the question of harmonizing the SME definition with the definitions used in the EU.

Ukraine uses an SME definition that is partially based on the EU definition, but it is broader. We pointed out this shortcoming in previous works of the Institute for Economic Research and Policy Consulting (IER).⁴ As part of preparations for EU membership, the task of fully harmonizing the SME definition with EU rules is on the agenda. However, in the European Union, a significant portion of support is provided from the common EU budget, while in Ukraine, SME support is currently provided both from Ukrainian

¹ See, for example, the OECD study “SMES: key drivers of green and inclusive growth” https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/03/smes-key-drivers-of-green-and-inclusive-growth_53218d65/8a51fc0c-en.pdf

² See the Asian Development Bank study “SMEs in Developing Asia: New approaches to overcoming market failures” <https://www.adb.org/sites/default/files/publication/214476/adbi-smes-developing-asia.pdf>

³ Regarding the effectiveness of such programs, see, for example, the EBRD study on the effectiveness of supporting SME access to finance “Small Business and job creation: Evidence from EBRD regions” https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/office-of-the-chief-economist/impact-briefs/small-business-and-job-creation-evidence-from-the-ebrd-regions/Small-business-and-job-creation-Evidence-from-the-EBRD-regions.pdf

⁴ Particularly in the advisory paper “Official SME Statistics in Ukraine: Analysis and Proposals for Improvement” (Y. Anhel, O. Betliy, V. Kravchuk, 2017), http://www.ier.com.ua/ua/sme_development/Policy_papers_LEV/?pid=5749 and the analytical report “Medium-sized Business in Ukraine: Terra Incognita or Hidden Mittelstand” (Y. Anhel, V. Baskov, O. Kuziakiv, 2024), http://www.ier.com.ua/files/Projects/2023/TDF/_Medium_Business_Report_30.01.2024_UKR_.pdf.

taxpayers' funds and with donor support. At the same time, the purchasing power level of the euro in Ukraine and the EU, as well as enterprise productivity, differ significantly. Therefore, we analyze the possibility of applying an SME definition adapted to the needs of the Ukrainian economy for the period until Ukraine's accession to the EU.

The purpose of this study is to substantiate the optimal option for implementing the SME definition recommended by the European Commission in Ukrainian legislation, taking into account the specifics of the Ukrainian economy. In this work, we examine the SME definitions in Ukraine and the EU, the experience of new EU member states in implementing the harmonized SME definition recommended by the European Commission, study the impact of using an alternative enterprise size definition in Ukraine on the distribution of enterprises by size, and provide recommendations for harmonizing the definition.

Current SME Definitions and Their Application in Ukraine

Since 2012, Ukraine has had a definition of large, medium, small, and micro-enterprises contained in Article 55 of the Commercial Code. And although the Commercial Code ceased to be in force on August 28, 2025,⁵ the definition will remain in force going forward according to the provisions of a separate law; the definition is partially harmonized with EU rules. In particular, the same thresholds for the number of employees and sales volume as in the EU are applied here, but the asset threshold is not applied.

Table 1. Current SME Definition

Category	Sales (EUR mn)	Average number of employees
Micro-enterprises	≤ 2	≤ 10
Small enterprises	≤ 10	≤ 50
Medium enterprises	Entities that do not belong to other categories.	

⁵ After the Commercial Code ceased to be in force, an identical definition of enterprises by size is provided in Article 2 of Law 4196-IX "On the Specifics of Regulating the Activities of Legal Entities of Certain Organizational and Legal Forms during the Transitional Period and Associations of Legal Entities" dated January 9, 2025. Source: <https://zakon.rada.gov.ua/laws/show/4196-20%23Text#Text>.

Category	Sales (EUR mn)	Average number of employees
Large enterprises	> 50	> 250

Source: Authors' analysis of the current SME definition.

The current definition of small enterprises and micro-enterprises in Ukraine is close to the EU definition: the number of employees does not exceed 10 persons and sales up to EUR 2 mn for micro-enterprises, and the number of persons up to 50 employees and sales up to EUR 10 mn for small enterprises. As we have already written in our previous works on SMEs, the Ukrainian definition of medium-sized enterprises is significantly broader than in the EU, and the definition of large enterprises is significantly narrower⁶: in Ukraine, large enterprises are those with more than 250 employees **and** sales over EUR 50 mn, whereas in the EU, large enterprises are those with 250 employees **or** enterprises with sales **over** EUR 50 mn and assets over EUR 43 mn.

This definition is applied to state and regional support programs for small and medium-sized businesses. The largest of these is the preferential lending program "5-7-9".

For other purposes in Ukraine, different definitions are applied. In particular, the Law on Accounting and Financial Reporting establishes the volume of reporting submitted by a specific enterprise depending on its size. However, the size of the enterprise is defined differently. For example, for financial reporting purposes, enterprises that meet two of three criteria are recognized as large: number of employees over 250, sales over EUR 40 mn, assets over EUR 20 mn. This definition is broader than in the Commercial Code, and at the time of adoption in 2017, it was harmonized with the EU definition for financial reporting purposes.⁷

Another definition of the concept of large taxpayer is contained in the Tax Code (sales over UAH 500 mn or tax payments over UAH 12 mn for four consecutive quarters). In turn, Article 7 of the Law "On Protection of Economic Competition" allows cooperative

⁶ Official SME Statistics in Ukraine: Analysis and Proposals for Improvement http://www.ier.com.ua/ua/sme_development/Policy_papers_LEV/?pid=5749; Medium-sized Business in Ukraine: Terra Incognita or Hidden Mittelstand, http://www.ier.com.ua/files/Projects/2023/TDF/Medium_Business_Report_30.01.2024_UK_R_.pdf.

Although most recommendations in this work have already been implemented, this gap still persists.

⁷ Since January 1, 2024, increased thresholds have been applied in the EU: thresholds for financial reporting purposes have been raised by 25% in accordance with inflation in the EU for the period from 2013 to 2023.

procurement by small and medium-sized entrepreneurs, but they are defined as enterprises with assets or sales up to EUR 500 thous.

Finally, to compare SME statistics in Ukraine and the EU, it is necessary to use State Statistics Service data on the distribution of enterprise performance indicators by number of employees, since the EU does not collect statistics on which enterprises meet the SME definition, but only provides a distribution of enterprises by number of employees. As of August 2025, the latest data on enterprises by size in the EU is for 2023.

On the one hand, the use of different definitions for different purposes can be understood, but they also lead to potential confusion and different approaches to the same enterprise. A generalized comparison of current Ukrainian SME definitions used in various spheres (legislation, statistics, taxation, accounting) is provided in Appendix 3. **In this regard, it seems appropriate to harmonize the SME definition for state support purposes and for financial reporting, as some EU countries do.**

International Experience

Evolution of the SME Definition in the European Union

Until the mid-1990s, different definitions and criteria for SMEs existed in the EU across various sectors. Individual member states, as well as European financial institutions, particularly the European Investment Bank and the European Investment Fund, used their own SME definitions.

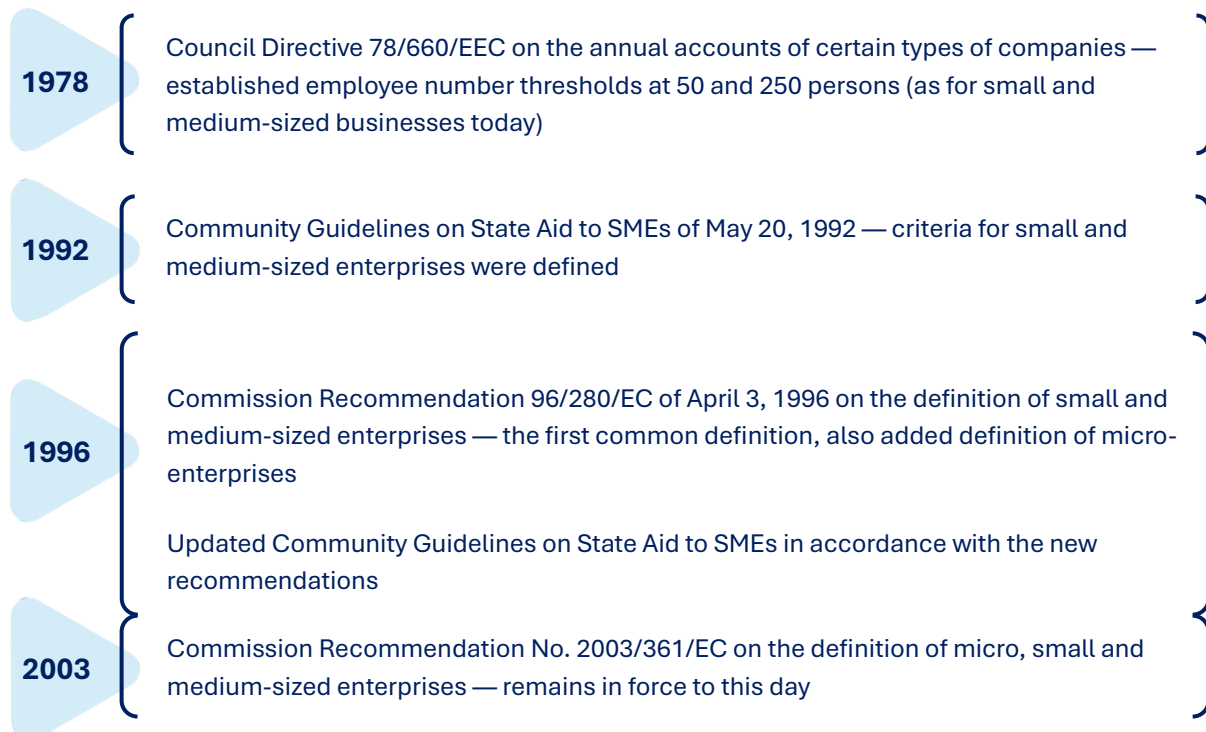
According to the European Commission's report on SME definitions, as of 1992, there were 11 "main" SME definitions operating at the level of the European Economic Community and its financial institutions alone. Most of them applied the criterion of number of employees — from no more than 150 employees for providing "minor aids" (which did not require EC approval) to 499 employees for statistical observation purposes or 500 employees for obtaining EIB loans and submitting consolidated reports. Additionally, criteria for turnover, asset value, and other criteria (for example, control by large enterprises, etc.) were also applied.⁸

The so-called Fourth Directive on the annual accounts of companies, adopted in 1978, contained one of the definitions closest to the modern SME definition among the 11 different variants that were applied in the EU at that time. It established the following criteria: no more than 250 employees (average number for the financial year) for medium-

⁸ Report from the Commission to the Council on the definitions of small and medium-sized enterprises (SMEs) used in the context of Community activities. SEC (92) 351 final, 29 April 1992, <https://aei.pitt.edu/4826/1/4826.pdf>.

sized and no more than 50 employees for small enterprises, as well as upper limits for turnover and asset value. An SME had to meet two of the three criteria.⁹

Figure 1: Key Stages of SME Definition Unification in the European Union



Source: Authors' diagram.

The issue of state aid and competition protection in the common market was one of the key issues in the EU, which stimulated work on unified definitions. As a result, a separate article on the SME definition was included in the Community guidelines on state aid to SMEs, adopted by the European Commission in July 1992.¹⁰

According to this document, SMEs included enterprises that had no more than 250 employees, annual turnover of no more than ECU 20 mn¹¹ or asset value of no more than ECU 10 mn. In addition, the independence criterion was considered: an enterprise could not be considered an SME if more than 25% was owned by one or more large enterprises,

⁹ Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies, *OJ L 222, 14.8.1978, pp. 11-31* <http://data.europa.eu/eli/dir/1978/660/oj>; Report on the definitions of the SMEs SEC (92) 351 final, 29 April 1992, p. 27, <https://aei.pitt.edu/4826/1/4826.pdf>.

¹⁰ Community guidelines on State aid for small and medium-sized enterprises (SMEs). Official Journal C 213, 19/08/1992 P. 0002-0008, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=oj:JOC_1992_213_R_0002_01.

¹¹ ECU (European Currency Unit) — a European accounting currency unit that functioned until the introduction of the euro in 1999.

except for public investment corporations, venture capital companies, and institutional investors, provided they did not exercise control over the enterprise. Small enterprises were also separately defined: no more than 50 employees, annual turnover of no more than ECU 5 mn or asset value of no more than ECU 2 mn. The independence criterion from large and medium-sized enterprises was applied (also no more than 25% ownership). This definition continued to be used in all subsequent documents related to state aid.¹²

Despite the multiplicity of definitions, some EU countries strictly adhered to the definition provided in the state aid guidelines.¹³ For the first time,¹⁴ a common SME definition at the EU level was proposed in 1996 in Commission Recommendation 96/280/EC.¹⁵ This document proposed four main criteria: number of employees, sales volume, asset value, and independence criterion.

Specifically, SMEs must:

- **have fewer than 250 employees;**
- **annual turnover of no more than ECU 40 mn or asset value of no more than ECU 27 mn;**
- **meet independence criteria: no more than 25% of capital or voting rights owned by one or more large enterprises, except for public investment corporations, venture capital companies, and institutional investors, provided they do not exercise control over the enterprise.**

To distinguish between small enterprises and medium-sized enterprises, the same criteria were applied, but with lower thresholds (fewer than 50 employees, no more than ECU 7 mn turnover or ECU 5 mn asset value). It was also indicated that, if necessary, micro-enterprises could be identified separately (having fewer than 10 employees). In addition, it was decided to adapt statistics by size groups: 0 employees, from 1 to 9 employees, from 10 to 49, from 50 to 249, from 250 to 499, from 500 and more

¹² For example, Communication to the Member States on the accelerated clearance of aid schemes for SMEs and of amendments of existing schemes. OJ C 213, 19.8.1992, pp. 10–12, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=oj:JOC_1992_213_R_0010_01.

¹³ See Recommendation 96/280/EC: Commission Recommendation of 3 April 1996 concerning the definition of small and medium-sized enterprises (Text with EEA relevance), OJ L 107, 30.4.1996, pp. 4–9 <http://data.europa.eu/eli/reco/1996/280/oj>.

Ukrainian translation https://zakon.rada.gov.ua/laws/show/994_a07#Text.

¹⁴ El Madani, A. (2018). SME Policy: Comparative Analysis of SME Definitions. International Journal of Academic Research in Business and Social Sciences, 8(8), 103–114, <https://pdfs.semanticscholar.org/628d/66d1d8b29e99786898bfb8f19d34fd19feec.pdf>.

¹⁵ See Recommendation 96/280/EC.

employees.¹⁶ In accordance with Recommendations 96/280/EC, the SME definition was also updated in the new version of the state aid guidelines in 1996.¹⁷

The 1996 Recommendations provided certain flexibility to member states and financial institutions (EIB and EIF): they could establish lower threshold values for their purposes. In addition, for "administrative simplification," only the employee number criterion could be used, **but such flexibility did not apply to state aid.**

The 1996 criteria formed the basis for the criteria currently in force from 2003. The European Commission settled on the threshold of 250 employees as the most justified upper limit for medium-sized business. According to the European Commission, almost all enterprises have fewer than 500 employees; however, enterprises with staff numbers around 500 persons have better access to human, financial, and technical resources, as well as management development at a level that does not correspond to the SME sector. In addition, at that time, the threshold value of 250 employees was already more frequently applied by European institutions. Turnover indicators were determined based on Eurostat statistical data on such enterprises.¹⁸

SME Definition in the EU Today

Today, the EU applies a harmonized definition of micro, small, and medium-sized enterprises based on **European Commission Recommendation No. 2003/361/EC** of May 6, 2003 (effective from January 1, 2005). According to this definition:

- micro-enterprises are enterprises with fewer than 10 employees, whose assets or sales do not exceed EUR 2 mn;
- small enterprises — up to 50 employees and assets or sales up to EUR 10 mn;
- medium-sized enterprises — are those SMEs that do not fall under the definition of small enterprises, have fewer than 250 employees and assets not exceeding EUR 43 mn or sales not exceeding EUR 50 mn;
- the remaining enterprises are large.

Another important element alongside the number of employees and financial thresholds is the ownership criterion (share of capital or voting rights). An enterprise can be "autonomous," "partner enterprise," or "linked enterprise." If an enterprise is

¹⁶ See Recommendation 96/280/EC.

¹⁷ Community guidelines on State aid for small and medium-sized enterprises. Official Journal C 213 , 23/07/1996 P. 0004–0009, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=oj:JOC_1996_213_R_0004_01.

¹⁸ See the preamble to Recommendation 96/280/EC.

autonomous, only its own indicators are used. If it has partner or linked enterprises, corresponding shares of their indicators or the entire volume of data are added to its data. At the same time, an enterprise can be considered autonomous if the owners belong to specified investors (venture funds, business angels with limited investment volume, universities, non-profit research centers, institutional investors, regional development funds, or small municipalities) and do not participate in management.¹⁹

The 2003 Recommendations allow member states, the EIB, and the EIF to establish lower threshold values, which demonstrates certain flexibility of the definition. In certain policy areas, for simplification purposes, the employee number criterion can be used, but again, except for state aid matters. The employee number criterion should also be used by the European Commission when preparing statistical data.

Although recommendations do not have mandatory legal force, they carry significant political weight, which in practice leads to unification of definitions. References to the Recommendations are included in EU legislative acts. For example, Regulation No. 651/2014, which defines permissible types of state aid in the EU, indicates that the SME definition for the purposes of this regulation should be based specifically on Recommendation 2003/361/EC.²⁰ The recommended definitions are included in Regulation No. 651/2014 in the form of a separate annex (Annex 1). As of 2021, the definition had been referenced in approximately 100 EU legislative acts.²¹

Within **Directive 2013/34/EU on annual financial statements, modified SME size criteria** are applied, which differ from the definition of Recommendation 2003/361/EC. In particular, financial criteria were modified to suit the needs of financial reporting. In addition, to fall into the corresponding size group, an enterprise must meet at least two of three criteria. The purpose of the criteria is to determine the scope of mandatory reporting, while protecting small businesses from excessive administrative burden and preventing large enterprises from using simplifications. The Directive allows member states to apply an increased threshold between small and medium-sized enterprises — financial criteria can be one and a half times higher (EUR 7.5 mn for asset value and EUR 15 mn for net income). However, the application of lower thresholds is not provided for.

¹⁹ Detailed explanations of the application of SME criteria in the official European Commission guide User guide to the SME definition <https://op.europa.eu/en/publication-detail/-/publication/756d9260-ee54-11ea-991b-01aa75ed71a1>

²⁰ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty Text with EEA relevance, *OJ L 187*, 26.6.2014, pp. 1-78 <http://data.europa.eu/eli/reg/2014/651/oj>

²¹ Evaluation of Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC), EU commission document SWD(2021)279 <https://data.consilium.europa.eu/doc/document/ST-12322-2021-INIT/en/pdf>

Table 2. Definition of Enterprise Size for Financial Reporting in the EU

Category	Balance sheet total (EUR)	Net turnover (EUR)	Average number of employees
Micro-enterprises	≤ 450 000	≤ 900 000	≤ 10
Small enterprises	≤ 5 000 000	≤ 10 000 000	≤ 50
Medium-sized enterprises	≤ 25 000 000	≤ 50 000 000	≤ 250
Large enterprises	> 25 000 000	> 50 000 000	> 250

Source: Directive 2013/34/EU.

It is worth considering that **work on clarifying SME threshold criteria in the EU is periodically repeated**. Even the 1996 recommendations provided for the possibility of making amendments every four years — adjusting thresholds for turnover and asset value to account for changes in economic conditions.²² The 2003 Recommendations did not establish regular review of threshold values, although they provided for a review of the application of criteria by the end of March 2006. However, in 2021, the European Commission conducted an assessment of the relevance of financial criteria in the SME definition, which resulted in a simplified definition that is well-suited for the vast majority of enterprises.²³ However, this assessment may already be outdated, as in 2023 the EC indicated that the 2021 review was based on 2018 statistical data and did not take into account the impact of the pandemic and the war in Ukraine on inflation²⁴

In October 2023, amendments were made to Directive 2013/34/EU on annual financial statements, specifically raising the threshold values of financial criteria. Article 3 of this Directive provides for a review of threshold values every five years.²⁵ The 2023 changes were justified by high inflation — from January 1, 2013 to March 31, 2023, inflation was

²² See Article 2 of Recommendation 96/280/EC.

²³ Commission staff working document executive summary of the evaluation of Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC), <https://data.consilium.europa.eu/doc/document/ST-12322-2021-ADD-1/en/pdf>.

²⁴ Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions. SME Relief Package, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52023DC0535#footnote90>.

²⁵ Consolidated text: Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (Text with EEA relevance)Text with EEA relevance, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02013L0034-20240528>.

24.3% for the eurozone and 27.2% for the entire EU.²⁶ At the same time, there is no information about a possible subsequent review of universal criteria under Recommendation 2003/361/EC.

Thus, the EU has a harmonized SME definition enshrined in Recommendation 2003/361/EC, which carries significant political weight and unifies approaches to state aid and other areas. For financial reporting, Directive 2013/34/EU establishes modified threshold values for financial criteria, combining transparency requirements with minimizing the administrative burden on small businesses. Periodic reviews of criteria occur, but changes to Recommendation 2003/361/EC have not yet been anticipated.

Experience of Countries That Joined the EU

European Commission Recommendation No. 2003/361/EC, which defines the size criteria for micro, small, and medium-sized enterprises, came into force on January 1, 2005 — already after the largest wave of EU enlargement. On May 1, 2004, 10 countries became EU members, including such neighbors of Ukraine as Poland, Slovakia, Hungary, as well as post-Soviet Estonia, Latvia, and Lithuania. Somewhat later, on January 1, 2007, Bulgaria and Romania also joined the EU. Thus, the European integration process of these countries occurred during a period when the old 1996 recommendations on SME definition were still in effect or when the new 2003 definition was only being clarified and tested in practice. This significantly distinguishes the experience of these countries from Ukraine's experience, as today at the EU level there is already a time-tested SME definition.

Available information does not provide a definitive answer as to whether the implementation of new definitions was difficult. However, the issue of harmonizing the SME definition was under close attention of the European Commission during accession preparations. Countries were preparing to receive assistance from European funds, so it was necessary to regulate the definition for state aid purposes.

Poland, like other countries in the 2004 enlargement wave, signed the EU membership treaty before the adoption of Recommendation No. 2003/361/EC. However, the European Commission's 2003 report on Poland's preparation for membership noted that the country should implement new recommendations on SME definition.²⁷ Reports from

²⁶ See paragraph 3 of the preamble to Regulation 2023/2775, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32023L2775>.

²⁷ Comprehensive monitoring report on Poland's preparations for membership, p.44, https://enlargement.ec.europa.eu/document/download/fe2e05b3-5c87-477b-aece-2adf2ea44222_en?filename=cmr_pl_final_en.pdf.

previous years indicate that Poland had already implemented the 1996 recommendations. On January 1, 2000, the Law on Economic Activity came into force, which contained the SME definition.²⁸ As of 2002, the SME definition was harmonized with the European Commission's recommendations.²⁹

Other countries that became EU members in May 2004 also received guidance from the European Commission on implementing the new SME definition.³⁰ However, unlike Poland, not all of them managed to implement the EC's previous recommendations. For example, the 2002 report indicated that **Hungary** needed to make some final changes for the definition to comply with EU requirements.³¹ In November 1999, Hungary adopted the Law on Small and Medium-sized Enterprises, which only partially harmonized the SME definition with European definitions. While the employee number criterion was identical, financial criteria were calculated differently.³²

On the eve of accession, **the Baltic countries** had limited progress in implementing the European SME definition. As of 2002, Estonia had not officially enshrined it in legislation but actually applied it in practice.³³ Latvia and Lithuania planned to implement the recommendations in state aid legislation.³⁴ Interestingly, Lithuania still had its own narrower SME definition at that time, according to which the sector included enterprises with up to 50 employees.³⁵

In **Romania**, the new SME definition was implemented in several steps. First, it became part of Law No. 346/2004 on stimulating the creation and development of small and medium-sized enterprises, which aimed, among other things, to harmonize the SME

²⁸2000 Regular Report on Poland's Progress Towards Accession, p.62, https://enlargement.ec.europa.eu/document/download/ade549ef-3078-4e2b-a477-dcffe2ee4c3e_en?filename=pl_en.pdf.

²⁹ 2002 Regular Report on Poland's Progress Towards Accession, <https://www.europarl.europa.eu/meetdocs/committees/empl/20021021/02-1408EN.pdf>.

³⁰ For example, Hungary in Comprehensive monitoring report on Hungary's preparations for membership, p.39, https://enlargement.ec.europa.eu/document/download/4b9e6121-09b9-4fcc-a957-ac8fb8fcbf6b_en?filename=cmr_hu_final_en.pdf.

³¹ 2002 Regular Report on Hungary's Progress Towards Accession, https://enlargement.ec.europa.eu/document/download/203edcc9-b5d9-40ec-8cbd-39fdd2e59959_en?filename=hu_en.pdf.

³² Ibid., Article 58.

³³ 2002 Regular Report on Estonia's Progress Towards Accession, p.63, https://enlargement.ec.europa.eu/document/download/fd0d57f0-648c-4f73-a086-2e9cf90ae90f_en?filename=es_en.pdf.

³⁴ See 2002 Regular Report on Latvia's Progress Towards Accession https://enlargement.ec.europa.eu/document/download/5a841f07-0d6a-46d8-b187-327d05cc6567_lt.

³⁵ 2022 Regular Report on Lithuania's Progress Towards Accession, p. 42, https://enlargement.ec.europa.eu/system/files/2016-12/lt_en.pdf.

definition.³⁶ However, the 2005 monitoring report found that Romania had not fully harmonized the definitions.³⁷ Publications from that time indicate that the law synchronized only the employee number criterion with EU norms.³⁸ As a result, in January 2006, the Romanian government introduced amendments that fully harmonized the SME definition with the 2003 Recommendations.³⁹

Croatia harmonized the SME definition when unified criteria had already been implemented and tested at the EU level. In 2006, the national SME definition was already somewhat aligned with the EU.⁴⁰ However, European Commission reports from 2008,⁴¹ 2010⁴² and 2011⁴³ indicated that the definition synchronization process had not yet been completed and required full implementation. Only the employee number criterion was harmonized.⁴⁴ However, in May 2012, the Croatian parliament approved amendments to legislation that harmonized the definition with Recommendation No. 2003/361/EC.⁴⁵ That is, the definition was harmonized before the country's accession to the EU on July 1, 2013.

In 2006 and 2009, the European Commission conducted an analysis of the implementation of Recommendation No. 2003/361/EC, and in 2012, 2018, and 2021 — an evaluation of the definition itself. The results show that **all EU countries have implemented a universal SME definition with only minor differences in some**

³⁶ 2004 Regular report on Romania's progress toward accession, p. 104-105, https://www.europarl.europa.eu/registre/docs_autres_institutions/commission_europeenne/sec/2004/1200/COM_SEC%282004%291200_EN.pdf.

³⁷ Romania 2005 Comprehensive Monitoring Report, p.59, https://enlargement.ec.europa.eu/document/download/55f8b573-3cf3-4fc1-a05a-12a0cb546b72_en?filename=sec1354_cmr_master_ro_college_en.pdf.

³⁸ Doina Fotache, Ana Grama (November 2006) Romanian SMEs Information Integration, https://www.researchgate.net/publication/228309476_Romanian_SMEs_Information_Integration.

³⁹ See the full text of Law No. 346 of July 14, 2004 (in Romanian) <https://legislatie.just.ro/Public/DetaliiDocument/53946>.

⁴⁰ Croatia 2006 Progress Report, p.46, https://enlargement.ec.europa.eu/document/download/94e24019-2558-4e30-bafa-f8b9de84e3b1_en?filename=hr_sec_1385_en.pdf.

⁴¹ Croatia 2008 Progress Report, p.48, https://enlargement.ec.europa.eu/document/download/d6dd9b62-dc1d-4157-a9b1-3cf1cad9bdd4_en?filename=croatia_progress_report_en.pdf.

⁴² Croatia 2010 Progress Report, p.44, https://enlargement.ec.europa.eu/document/download/83e5cb29-64c0-43d1-b84c-a8a385143615_en?filename=hr_rapport_2010_en.pdf&prefLang=uk.

⁴³ Croatia 2011 Progress Report, p.44, https://enlargement.ec.europa.eu/document/download/4a493601-0f1e-490b-b473-839a8f16c852_en?filename=hr_rapport_2011_en.pdf.

⁴⁴ SME Policy Index. Western Balkans and Turkey 2012, p.185, https://www.oecd.org/content/dam/oecd/en/publications/reports/2012/12/sme-policy-index-western-balkans-and-turkey-2012_g1g1e976/9789264178861-en.pdf.

⁴⁵ Law on Support for Small Business Development (in Croatian) <https://www.zakon.hr/z/527/zakon-o-poticanju-razvoja-malog-gospodarstva>

countries. For example, legislation in seven countries did not mention the ownership criterion.

It should be noted that **the practice of applying the recommended definition may differ from country to country.** According to European Commission data as of 2021, 17 EU countries (including Poland, Hungary, Slovakia, Estonia, and Lithuania) applied strictly the Recommendation's definition (together with rules on ownership shares of other enterprises, etc.). All countries apply the same employee number thresholds (according to the Recommendation), **but some used slightly lower financial thresholds to "better reflect their own business structure."** In particular, some member states refer to the value of financial criteria in Directive 2013/34/EU on financial reporting. For example, seven countries (Austria, Belgium, Croatia, Denmark, Ireland, Latvia, Slovenia), where micro-businesses constitute the largest part of the economy, applied the maximum values of financial indicators for micro-enterprises from this directive, because they are lower than the values in Recommendation No. 2003/361/EC (as we mentioned above, the Recommendations allow countries to apply lower financial thresholds).^{46,47}

Overall, **the practice of applying definitions in individual countries requires additional research.** For example, the previously mentioned Croatia included the recommended criteria in legislation back in 2012, but the European Commission's report indicates that in practice, financial criteria from the Croatian law on accounting were applied.⁴⁸

Available data indicate that discussions periodically occur regarding individual criteria or calculation principles. For example, in 2009, one of the countries proposed increasing the maximum number of employees for medium-sized enterprises to 500, which allegedly would have taken into account the average enterprise growth rate since the 1990s.⁴⁹ At the same time, other countries were against such an initiative or proposed implementing different criteria for different economic sectors. The 2021 evaluation demonstrated that stakeholders are generally satisfied with the definition, particularly the size of thresholds. However, for example, some small countries would like lower

⁴⁶ Commission staff working document on the implementation of Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, <https://ec.europa.eu/docsroom/documents/10033/attachments/1/translations>.

⁴⁷ It should be noted that after 2021, changes to the definition may have occurred in individual EU countries, but this issue requires additional study.

⁴⁸ Zakon o računovodstvu, <https://www.zakon.hr/z/118/zakon-o-racunovodstvu>.

⁴⁹ Commission staff working document on the implementation of Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, <https://ec.europa.eu/docsroom/documents/10033/attachments/1/translations>.

threshold values, because today almost all business falls into the SME sector in their countries.⁵⁰

For Ukraine, which is currently preparing for EU accession, the key conclusion from the experience of the 2004 and 2007 enlargement countries is that harmonizing national legislation with European Commission Recommendation No. 2003/361/EC on SME definition was one of the priority tasks of the preparatory stage. Unlike Poland, Hungary, the Baltic countries, or Romania, which implemented the new definition under conditions when it had just come into force and was still being tested, Ukraine is working with a definition that has already been tested and established in legal practice. Recommendation No. 2003/361/EC provides a certain level of flexibility; however, member states primarily focus on the unified definition, in some cases referring to the financial criteria of Directive 2013/34/EU on financial reporting.

New SME Definition According to the Draft Law

This year, the Ministry of Economy prepared a draft law proposing to harmonize the SME definition with the EU definition that we described above. This draft law was distributed for discussion among civil society organizations.⁵¹ Thus, according to this definition, as in the EU:

- micro-enterprises are enterprises with fewer than 10 employees, whose assets or sales do not exceed EUR 2 mn;
- small enterprises — up to 50 employees and assets or sales up to EUR 10 mn;
- medium-sized enterprises — are those SMEs that do not fall under the definition of micro and small enterprises, have fewer than 250 employees and assets not exceeding EUR 43 mn or sales not exceeding EUR 50 mn;
- the remaining enterprises are large.

⁵⁰ Commission staff working document evaluation of Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC), [https://ec.europa.eu/transparency/documents-register/detail?ref=SWD\(2021\)279&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=SWD(2021)279&lang=en).

⁵¹ Draft Law on Amendments to Certain Laws of Ukraine Regarding Harmonization of the Definition of Small and Medium-sized Enterprises with European Union Legislation was provided by the Ministry of Economy in official letter 3612-07/50473-07, <https://docs.google.com/document/d/e/2PACX-1vQdZdAna3pV92R1eyPRxu2iA-kHzVQG2XhhikFgHU46Y3-qLyaRaOWAIWX1-169PIsEuPe367RaCACH/pub>

Also, as in the EU, for enterprises belonging to enterprise groups, size is determined by the size of the group, and state-owned enterprises and most municipal enterprises are excluded from SMEs.

Methodology of Analysis

We calculated the distribution of enterprises by size as of 2024 according to the definition harmonized with EU rules proposed in the Ministry of Economy's draft law (new SME definition). Due to limitations of available data, we did not take into account the consolidation of enterprise groups and state or municipal ownership in our calculations. According to this definition, enterprise size for most enterprises will be determined by the number of employees. However, if the enterprise's assets and sales are simultaneously too large, then the enterprise size is determined by these financial indicators. In such cases, size is determined by the smaller indicator among the two financial criteria.

Calculations were performed based on enterprise financial reporting data for 2024, submitted by July 3, 2025,⁵² under two scenarios for applying the SME definition in the draft law.⁵³ Under one scenario, amounts defined in euros were converted to hryvnias at the average official euro exchange rate for 2024: 43.45 UAH/ EUR, as provided by current legislation (Table 3). Under the other, alternative scenario, we determined alternative thresholds for SMEs. For this purpose, amounts in euros in the draft law were converted to hryvnias at the weighted average purchasing power parity (PPP) exchange rate for the Eurozone for 2024. For this, data from the IMF's World Economic Outlook report for April 2025 were used,⁵⁴ and we obtained the PPP rate for 2024, namely 17.39 UAH/EUR⁵⁵ (Table 4).

⁵² Enterprise financial reporting for 2024 (submitted in the period from 2025-01-01 to 2025-07-03), State Statistics Service <https://data.gov.ua/dataset/6456ef0c-985c-4bb7-bf9d-16831161b416/resource/c58bf087-77b1-4355-9879-16d8cea35677/revision/453999/download>

⁵³ In this case, reports under NACE 84 and 85 (Public administration and education) were excluded from the calculation due to a large number of erroneous reports and erroneous NACE code fields. Also, budgetary organizations are not included in the State Statistics Service's SME statistics. In addition, data cleaning was performed for the largest enterprises by sales.

⁵⁴ WEO Data: April 2025 Edition, International Monetary Fund <https://www.imf.org/en/Publications/WEO/weo-database/2025/april>

⁵⁵ Based on the weighted average PPP rate of the euro to the international dollar of 1.49 euros per dollar and the PPP rate of the hryvnia at 11.6 UAH per dollar.

Table 3. SME Thresholds According to the New Definition, Financial Indicators at the Official Exchange Rate for 2024, UAH mn

	Number of employees	Sales, UAH mn	Assets, UAH mn
Micro	9	86.9	86.9
Small	49	434.5	434.5
Medium	249	2172.5	1868.4

Source: Authors' calculations based on NBU data and the draft law.

Table 4. SME Thresholds According to the New Definition, Financial Indicators at the PPP Exchange Rate for 2024

	Number of employees	Sales, UAH mn	Assets, UAH mn
Micro	9	34.8	34.8
Small	49	174.0	174.0
Medium	249	869.8	748.0

Source: Authors' calculations based on NBU data and the draft law.

Analysis of the Structure of Ukrainian Enterprises According to Different SME Classification Criteria

We compare the distribution of Ukrainian enterprises by size using several different approaches to defining enterprise size. We compare State Statistics Service data on the distribution of enterprises by size under the current definition in 2024 with our estimates of the distribution of enterprises by size under three scenarios.

1. Under the new definition, converted from euros to hryvnias at the official exchange rate (as defined by legislation — Table 3 above).
2. Under the new definition with alternative financial thresholds for SMEs, namely amounts in euros converted to hryvnias at the PPP rate, which accounts for the difference in the purchasing power of the euro in the Eurozone and in Ukraine (Table 4 above).
3. Distribution of enterprises by size based solely on the number of employees to illustrate the impact of using financial criteria for assets and sales on SME distribution.

In our opinion, applying criteria under scenario 2 could better reflect economic realities in Ukraine, as the average price level in the EU remains significantly higher than in Ukraine, and accordingly, the purchasing power of the euro exchanged for hryvnias in Ukraine is significantly higher than the euro spent in the Eurozone. Therefore, it can be

assumed that if SME thresholds defined in the EU are used without adaptation, Ukrainian enterprises that do not face typical SME challenges and do not need state support and business simplifications provided for SMEs will be entitled to such support. In this section, we examine the possible application of scenario 2, based on the assumption that applying SME thresholds defined at the PPP rate can significantly affect the statistics on the distribution of enterprises by size categories.

The calculations, detailed in Appendix 2, confirm the fundamental difference between the new SME definition (both under scenario 1 and scenario 2) and the current SME definition. However, they show a relatively small difference between the results under scenarios 1 and 2, and therefore a limited impact of applying alternative financial thresholds when using the new SME definition.

Since the consequence of using potentially incorrect enterprise size thresholds is that enterprises that are large in their economic essence are treated as SMEs, we focus further on which enterprises under different approaches to defining enterprise size are classified as large.

Under the current definition, there were only 558 large enterprises in Ukraine in 2024. As we wrote above, the current definition uses thresholds similar to the new definition, but only enterprises whose sales and number of employees both exceed the corresponding threshold values are considered large. Under the new definition, all enterprises with 250 or more employees are recognized as large. In our dataset, there are 2,475 such enterprises. Thus, the mandatory recognition of all enterprises with 250 or more employees as large increases the number of large enterprises more than fourfold compared to the current definition and excludes them from the SME category.

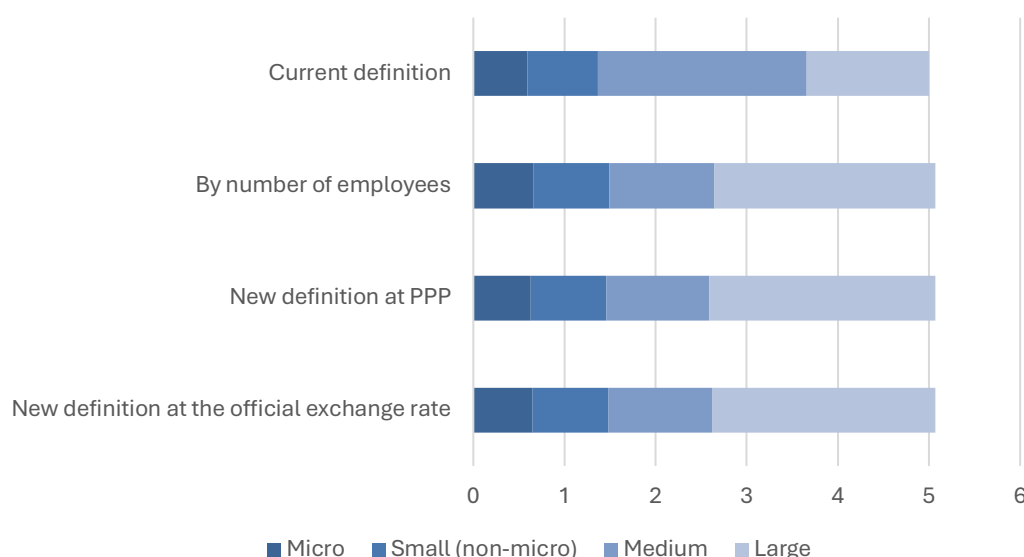
We wrote in detail about the significant difference in the number of large enterprises under the current definition and the employee number criterion (scenario 3 in this work) in our study on medium-sized business in Ukraine. At that time, according to our conclusions, official statistics based on the current definition somewhat distortedly reflected economic realities, as even large entities with 250 or more employees fell into the medium-sized business category. As a result, the number of large enterprises under the current definition turned out to be several times lower than under the employee number criterion.⁵⁶ Thus, **applying the updated methodology** (both scenario 1 and

⁵⁶ Anhel Y., Baskov V., Kuziakiv O. Medium-sized Business in Ukraine: Terra Incognita or Hidden Mittelstand. Kyiv, 2024, <http://www.ier.com.ua/files/Projects/2023/TDF/ Medium Business Report 30.01.2024 UKR .pdf>

scenario 2) **can in any case better reflect Ukraine's economy, as it eliminates the shortcomings of the current definition.**

Additionally, under the new definition, enterprises whose number of employees is less than 250 but whose assets and sales exceed the thresholds for medium-sized enterprises are also recognized as large. Under scenario 1 (actual SME thresholds), there are 300 such enterprises, and under scenario 2 (alternative SME thresholds calculated at the PPP rate), the number of enterprises recognized as large by financial criteria nearly doubles to 577.⁵⁷ However, the 2,475 large enterprises defined by the number of employees remain such under any financial SME thresholds. Overall, using alternative financial thresholds for defining SMEs increases the number of large enterprises under the new definition from 2,725 to 3,052.

Figure 2. Comparison of the Number of Employees in Enterprises by Size Depending on the Applied SME Definition (million of employees)



Source: Authors' calculations based on State Statistics Service data.

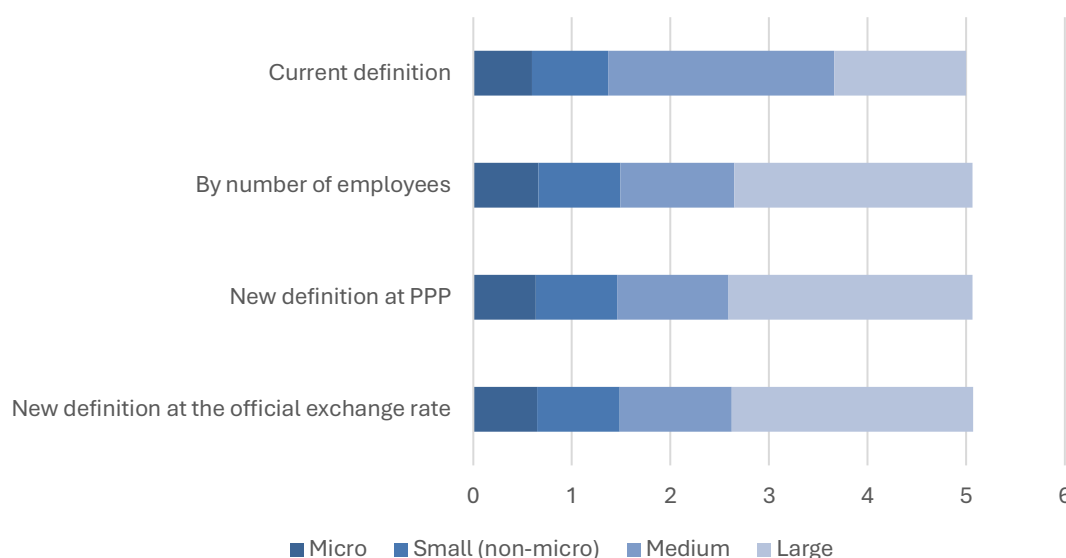
Large enterprises defined by financial criteria have the smallest number of employees among all large enterprises, and therefore the difference between scenarios 1-3 is small for the distribution of enterprise employees by enterprise size. The share of large enterprise employees in our dataset under the new definition is 48.3% under scenario 1,

⁵⁷ Under scenario 3 (using only the employee criterion), financial criteria are not used, and therefore there are no large enterprises by financial criteria.

48.9% under scenario 2, and 47.8% under scenario 3. For the current definition, this share is only 26.8%, which is almost half that of scenario 1.

In terms of sales volume, the difference in structure across scenarios 1-3 is more noticeable: under alternative SME thresholds at the PPP rate (scenario 2), the share of large enterprises in enterprise sales increases to 58.6% from 52.9% when using the official exchange rate (scenario 1), while under scenario 3 this share was 42.1%. This indicates that large enterprises defined by financial criteria form a fairly high share of economic activity despite their relatively small role in employment. Under the current definition, the share of large enterprises in sales is 37.3%.

Figure 3. Comparison of Enterprise Sales by Size Depending on the Applied SME Definition (UAH trln)



Source: Authors' calculations based on State Statistics Service data.

In the new SME definition, the employee number criterion is decisive. This solves the problem of the current SME definition, under which for many enterprises the sales criterion is decisive, which is harmonized with the EU definition and, accordingly, is high for Ukrainian realities due to the difference in the purchasing power of the euro in the EU and in Ukraine, as well as the lower productivity of Ukrainian enterprises. In the new definition, a relatively small number of Ukrainian enterprises are determined by sales and asset criteria, the volumes of which are defined at a level harmonized with the EU. For such enterprises, these thresholds are high due to differences in price levels and productivity between Ukraine and the EU. Their application has a relatively small impact on the structure of enterprises by size in terms of employment, but quite a high impact on the structure of enterprises by sales. Using alternative SME thresholds adjusted for the difference in price levels between Ukraine and the EU through the use of the PPP rate

(Table 4) would indeed allow better classification by size of a limited circle of enterprises whose size is determined by financial criteria of assets and sales rather than by the number of employees. However, for most enterprises, size will be determined by the number of employees, for which alternative indicators are not proposed.

Thus, our calculations show that when applying alternative financial SME thresholds defined by PPP instead of the actual ones in the new enterprise size definition, only approximately 277 enterprises cease to be SMEs and become large, and the number of large enterprises increases by 12%. These enterprises have quite a noticeable economic weight: the share of large enterprises in sales when using the PPP rate increases by 5.7 percentage points compared to using the official exchange rate. However, it seems unlikely that a significant portion of these 277 enterprises applied for state SME support while having billion or near-billion sales and assets. Moreover, amounts defined in euros in Ukrainian legislation are currently always converted to hryvnias at the official exchange rate.

Therefore, the use of alternative financial SME criteria defined under scenario 2 (Table 4) is unlikely to significantly affect the targeting of state SME support.

Conclusions

For Ukraine, which is currently preparing for EU accession, the key conclusion from the experience of countries that became EU members in 2004 and 2007 is that harmonizing national legislation with European Commission Recommendation No. 2003/361/EC on the SME definition was one of the priority tasks of the preparatory stage. Unlike Poland, Hungary, the Baltic countries, or Romania, which implemented the new definition under conditions when it had just come into force and was still being tested, Ukraine is working with a definition that has already been tested and established in legal practice. Recommendation No. 2003/361/EC provides a certain level of flexibility; however, member states primarily focus on the unified definition, in some cases referring to the financial criteria of Directive 2013/34/EU on financial reporting.

This conclusion is also confirmed by our calculations regarding the use of alternative financial thresholds for defining SMEs. They showed that the use of alternative thresholds for SMEs would affect a limited number of enterprises, most of which are unlikely to use state support.

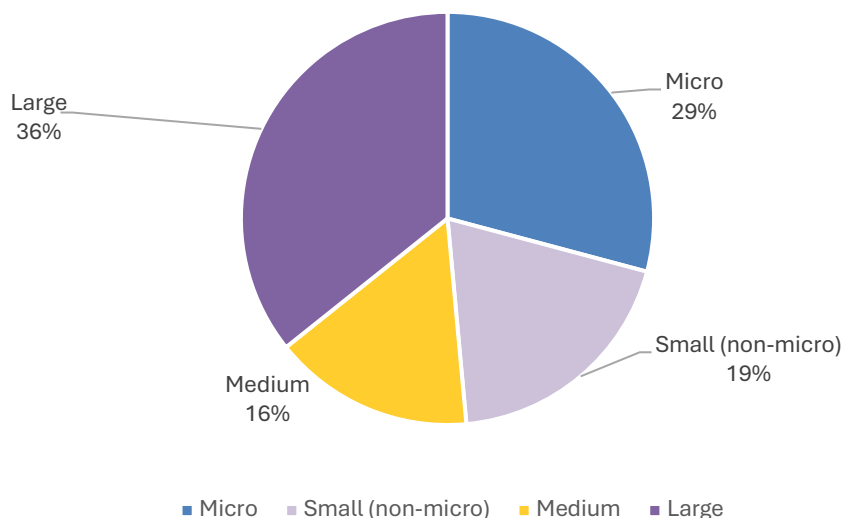
Therefore, at this stage, for the sake of simplifying legislation and ease of application, it seems appropriate to use the EU-harmonized SME definition rather than seeking alternative approaches.

Using more realistic financial SME thresholds before EU accession may be more relevant for determining the scope of financial reporting submitted by enterprises. However, this requires further research. Moreover, due to legislative changes in the EU, SME thresholds for financial reporting in Ukraine are already 20% lower than in the EU.

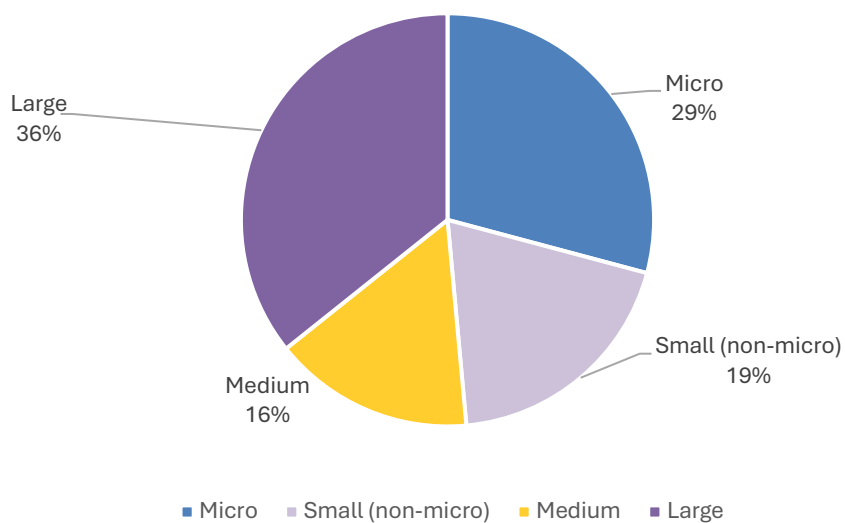
Appendix 1

Number of Enterprise Employees Depending on Enterprise Size in the EU and Ukraine (size by number of employees)

EU, 2023



Ukraine, 2024



Sources: Eurostat, authors' calculations based on State Statistics Service data.

Appendix 2

Detailed Calculation Results

New SME Definition with Alternative Asset and Sales Thresholds			
	Number of enterprises	Sales, UAH bn	Number of employees, thousands
Micro	351922	1605	650
Small (non-micro)	41664	2625	833
Medium	11248	3257	1140
Large	2725	8417	2446
New SME Definition with Actual Thresholds			
	Number of enterprises	Sales, UAH bn	Number of employees, thousands
Micro	348611	1236	632
Small (non-micro)	43606	2286	823
Medium	12264	3060	1135
Large	3052	9311	2476
SMEs Defined by Employee Number Criterion			
	Number of enterprises	Sales, UAH bn	Number of employees, thousands
Micro	353365	2319	657
Small (non-micro)	40701	2862	836
Medium	10992	4028	1154
Large	2475	6684	2419
SMEs According to Current Definition Based on State Statistics Service Data			
	Number of enterprises	Sales, UAH bn	Number of employees, thousands
Micro	231257	892	596
Small (non-micro)	38008	1899	773
Medium	13990	7074	2291
Large	558	5861	1341

Sources: Authors' calculations based on State Statistics Service data.

Appendix 3

SME Definitions in Ukrainian Legislation: Comparative Table

Source/Context	Category	Criteria	Features
Commercial Code of Ukraine (Art. 55)	Micro-enterprise	≤ 10 employees, ≤ EUR 2 mn sales	Asset threshold not applied
	Small business	≤ 50 employees, ≤ EUR 10 mn sales	
	Medium business	Enterprises not belonging to other categories	Definition broader than in the EU
	Large business	> 250 employees, > EUR 50 mn sales	Threshold significantly higher than in the EU
Law on Accounting and Financial Reporting	Micro-enterprise	Any two of three: ≤ EUR 700 thous. net income, ≤ EUR 350 thous. assets, ≤ 10 employees	
	Small enterprise	Any two of three: ≤ EUR 8 mn net income, ≤ EUR 4 mn assets, ≤ 50 employees	Definition corresponds to Directive 2013/34/EC but does not correspond to the updated definition
	Medium enterprise	Any two of three: ≤ EUR 40 mn net income, ≤ EUR 20 mn assets, ≤ 250 employees	
	Large enterprise	Any two of three: > EUR 40 mn net income, > EUR 20 mn assets, > 250 employees	
Tax Code of Ukraine	Large taxpayer	> UAH 500 mn sales or > UAH 12 mn taxes (over 4 quarters)	For fiscal administration

Law "On Protection of Economic Competition"	SMEs	≤ EUR 500 thous. sales or assets	For cooperative procurement purposes
State Statistics Service (statistics)	Micro	0-9 hired employees	Definition based only on number of hired employees, as in the EU
	Small	10-49 employees	
	Medium	50-249 employees	
	Large	≥ 250 employees	
Draft Law on Amendments to Certain Laws of Ukraine Regarding Harmonization of the Definition of Small and Medium-sized Enterprises with European Union Legislation (2025)	Micro	< 10 employees, ≤ EUR 2 mn sales or assets	Harmonized with Recommendation 2003/361/EC; linked enterprises considered, state-owned enterprises excluded
	Small	< 50 employees, ≤ EUR 10 mn sales or assets	
	Medium	< 250 employees, ≤ EUR 50 mn sales or ≤ EUR 43 mn assets	
	Large	Outside the above categories	

Sources: Authors' summaries based on Ukrainian legislation.



Institute for Economic Research
and Policy Consulting
Reytarska Str., 8/5-A, 01030 Kyiv
Tel. (+38044) 278-6342
E-mail: institute@ier.kyiv.ua
<http://www.ier.com.ua>