Proposals for reforming the SME definition in Ukraine

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Berlin/Kyiv, June 2011

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1. Defining SME: General issues

Why define SME?

- Policy formation: Stimulating SME development, as the SME sector is important for job creation and innovations. The following policy measures are used in the EU:
  - Provision of Business Training/Consulting/Coaching/Special infrastructure
  - Special regulation to lower administrative burden for businesses
  - Facilitation of access to finance
  - Subsidy schemes
- Policy impact assessment: Data for analysing the development of the SME sector

Problem: Ukraine currently uses several SME classifications, which are

  - Fragmentary and inconsistent
  - Differ from EU in terms of methodology and threshold levels

Recommendation: New SME definition, which is used uniformly in all relevant legislation and which is harmonised with the EU definition.

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2. SME definition in the EU M1

- SME is clearly defined primarily for policy purposes.

- Three different categories of SME are defined:
  - Micro enterprises
  - Small companies
  - Medium-size companies

- The SME definition was changed in 2003 and enables to
  - Promote micro enterprises, improve access to capital
  - Take into account different relationships between enterprises (most SMEs are autonomous; they are either completely independent or have one or more minority partnership (each less than 25%) with other enterprises).

Source: *The new SME definition: user guide and model declaration, EC*

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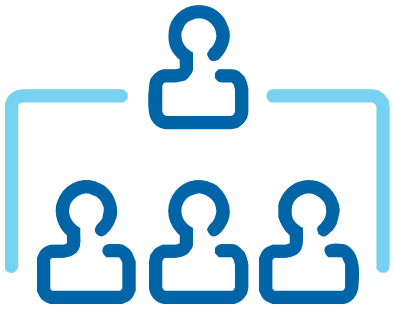
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M1 I think that slide is not necessary, no new information.

I would still live it...
MIC, 6/1/2011

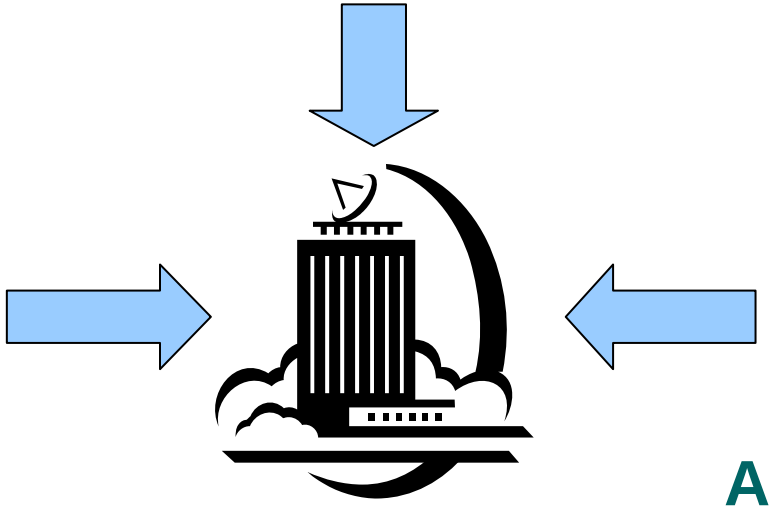
2. SME definition in the EU

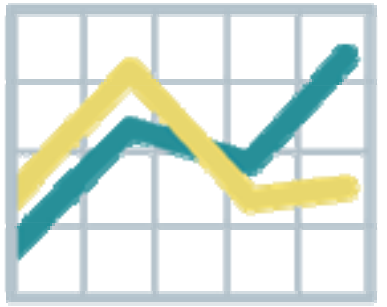
Factors to take into account for defining SME



Staff headcount ratio

+ / -





Annual turnover

Balance sheet

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2. SME definition in the EU (cont)

SME must meet 2 criteria:

Either: Headcount threshold and turnover threshold

OR: Headcount threshold and balance sheet total threshold

Enterprise category	Headcount (mandatory threshold)	Annual turnover	*or*	Annual balance sheet total
Micro	< 10	≤ EUR 2 m	*or*	≤ EUR 2 m
Small	< 50	≤ EUR 10 m	*or*	≤ EUR 10 m
Medium-size	< 250	≤ EUR 50 m	*or*	≤ EUR 43 m

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2. SME definition in the EU (cont)

Examples:

	Headcount: annual work unit	Annual turnover	Annual balance sheet total	Enterprise category
1	8	EUR 1.5 m	EUR 1.5 m	Micro
2	8	EUR 2.5 m	EUR 1.5 m	Micro (below BS threshold)
3	9	EUR 1.5 m	EUR 2.5 m	Micro (below turnover threshold)
4	15	EUR 1.5 m	EUR 1.3 m	Small

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2. SME definition in the EU (cont)

- Staff headcount includes full-time, part-time, seasonal staff:
  - Employees
  - Persons working for a company being subordinated to it and considered to be employees under national law;
  - Owner-managers;
  - Partners engaged in a regular activity in the enterprise and benefiting from financial advantages from the enterprise.
- Headcount does **not** include apprentices and students engaged in vocational training.
- Staff headcount is expressed in annual working units. Anyone working full-time within enterprise during the entire reference year counts as one unit. Part-time staff or seasonal workers who did not work for the full year are counted as a fraction of a unit.

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2. SME definition in the EU (cont)

- The choice between turnover and balance sheet threshold is provided to take into account sectoral peculiarities:
  - Enterprises in trade and distribution sector have by their nature higher turnover than manufacturing sector.

- Annual turnover is determined by calculating the income the company receives during the year from sales and services after any rebates have been paid out:
  - Turnover should not include VAT and other indirect taxes.

- Annual balance sheet total refers to the value of company's main assets.

- The SME status is self-identified by a company on a basis of simple solemn declaration, which contains the information on the criteria. Such declaration is aimed to decrease the administrative burden for cases when SME status is required (eligibility for some policy measures).

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3. SME definition in Ukraine: Status quo

- **SME Definition according to the Commercial Code of Ukraine**

Enterprise category	Headcount	Gross income from sales of products
Small	< 50	≤ UAH 70 m
Medium-size	< 250	≤ UAH 100 m
Large	>250	> UAH 100 m

EUR 1 = UAH 11.51 (as of April 19, 2011)

- **Definition according to the Tax Code of Ukraine**
  - Small companies with turnover up to UAH 3 m have tax privileges (zero EPT rate for 5 years).

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3. SME definition in Ukraine (cont)

- There is another type of defining small economic entities conducting entrepreneurs activity according to the **Simplified taxation system.**

	Annual turnover	Headcount	Monthly tax level/rate
Unified tax for physical person	≤ UAH 500 thous.	≤ 10	20 – 200 UAH
Unified tax for legal entities	≤ UAH 1 m	≤ 50	6% of turnover + VAT 10% of turnover including VAT
Fixed tax for physical person	≤ UAH 119 thous.	≤ 5	20-100 UAH

EUR 1 = UAH 11.51 (as of April 19, 2011)

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4. Proposals for a new SME definition in Ukraine

Company must meet 2 criteria in order to be named as a SME:

Either: Headcount threshold and turnover threshold

OR: Headcount threshold and balance sheet total threshold

Enterprise category	Headcount (mandatory criterion)	Annual turnover	*or*	Annual balance sheet total
Micro	< 10	≤ UAH 4 m	***or***	≤ UAH 4 m
Small	< 50	≤ UAH 20 m	***or***	≤ UAH 20 m
Medium-size	< 250	≤ UAH 100 m	***or***	≤ UAH 85 m

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4. Proposals for a new SME definition in Ukraine

- SME definition should be uniform in all legislative basis.
- Methodology of defining type of business by its size should be changed taking into account EU experience;
- The threshold levels are changed: micro, small, medium and large companies are clearly defined.

For estimating new threshold the following was taken into account:

- The difference in GDP per capita PPP in the EU and Ukraine
- The PPP exchange rate was taken into account while estimating thresholds in hryvnia equivalent
- Slight correction was made for inflation, even though we have not taken into account the full expected inflation over next five years

⇨ The thresholds for turnover and balance sheet should be stable for a certain period (proposal: fife years) in order to have a stable basis for policy implementation.
After five years, threshold level should be reviewed and adjusted.

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5. Summary

The proposed new SME definition has the following features:

- Enables benchmarking the SME sector development of Ukraine with EU member states
- Supports SME policy formulation in line with EU-policy and EU-law
- Facilitates sophisticated statistics on the SME sector
- Enables SME policy impact analysis and evaluation

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