# Proposals for reforming the SME definition in Belarus

**Alexander Knuth, Irina Tochitskaya**

German Economic Team Belarus

Berlin/Minsk, November 2016

# Contents

A. SME definition in Belarus: Status quo

B. What are the problems with the current SME definition?

C. SME definition in EU

D. Proposals for a new SME definition in Belarus

E. Summary

# A. SME definition in Belarus: Status quo

| Enterprise category | Classification criterion: Average annual staff headcount |
|---|---|
| Micro enterprise | 1 – 15 |
| Small enterprise | 16 – 100 |
| Medium enterprise | 101 – 250 |
| Big enterprise | > 250 |

*LAW OF THE REPUBLIC OF BELARUS, July 1, 2010 № 148-W,*
*On State Support for small and medium-sized enterprises.*

# B. What are the major problems with the current SME definition in Belarus?

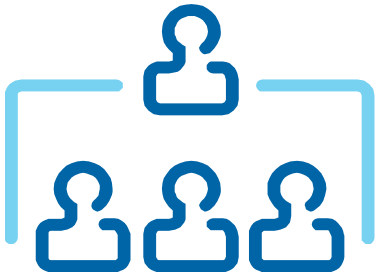
The current SME definition

- … does not allow for benchmarking the SME sector development of Belarus with that of other countries,
- … creates artefacts and illogical results,
  Example: BELARUSIAN POTASH COMPANY JSC
  (EUR 1.7 bn turnover in 2015)
  is regarded as an SME
- … provides unreliable information to the government/policy makers.

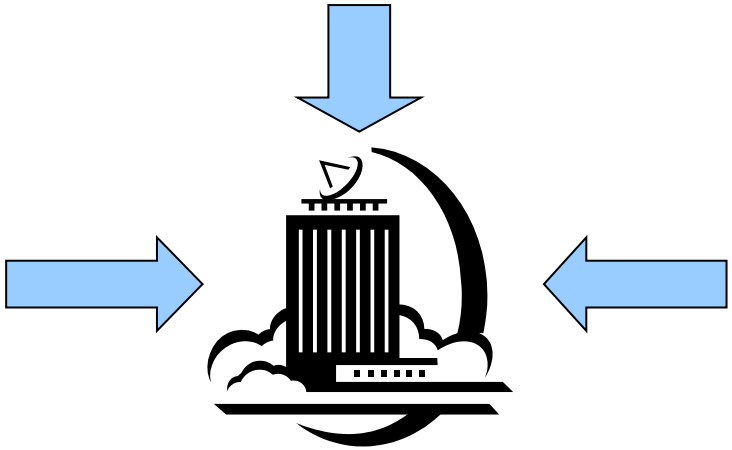
Furthermore: Authorities and public bodies use their own SME definitions -> an eclectic patchwork of regulations occurs
(Tax Code: Criteria for Simplified Taxation, Development Bank of Belarus: Criteria for SME loans, …)

# C. SME definition in the EU

**Factors to take into account for defining SME**



Staff headcount ratio



+ / -

Balance sheet

Annual turnover

# C. 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: annual work unit (AWU) | Annual turnover | or | Annual balance sheet total |
|---|---|---|---|---|
| Medium-sized | < 250 | ≤ EUR 50 million | or | ≤ EUR 43 million |
| Small | < 50 | ≤ EUR 10 million | or | ≤ EUR 10 million |
| Micro | < 10 | ≤ EUR 2 million | or | ≤ EUR 2 million |

*Source: User Guide to the SME definition. EU, 2015.*

# C. 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 |

# C. 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.

# C. 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.

# C. SME definition in the EU (cont)

- An enterprise is ‘any entity engaged in an economic activity, irrespective of its legal form’.

- Linked enterprises:
  (more than 50% of shares/voting rights are hold by another enterprise)
  Staff headcount/turnover/balance sheet total
  of all linked enterprises of one group must be summarised when determining its eligibility for SME status.
  In case a relationship of this kind occurs through the ownership of one or more individuals (acting jointly), the enterprises involved are considered as linked if they operate on the same or adjacent markets

- Affiliated enterprises
  (more than 25% but less than 50% of shares/voting rights are hold by another enterprise)
  The parent enterprise must add a proportion of its affiliate’s staff headcount and financial data to its own when determining its eligibility for SME status.

# D. Proposals for a new SME definition in Belarus

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 threshold) | Annual turnover | *or* | Annual balance sheet total |
|---|---|---|---|---|
| Micro | < 10 | ≤ BYR 4 m | *or* | ≤ BYR 4 m |
| Small | 10 - 49 | ≤ BYR 20 m | *or* | ≤ BYR 20 m |
| Medium-size | 50 - 249 | ≤ BYR 100 m | *or* | ≤ BYR 86 m |

# D. Proposals for a new SME definition in Belarus (cont.)

Explanation for thresholds:

- The GDP per capita of Belarus is approx. half as much as the EU average, but close to some of the European member states
    - GDP per capita EU average (PPP) 2016: 39,212 $
    - GDP per capita Belarus (PPP) 2016: 17,496 $
    - GDP per capita Bulgaria (PPP) 2016: 20,116 $
    - GDP per capita Romania (PPP) 2016: 22,319 $

*Source: IMF World Economic Outlook Database*

- -> The thresholds should be the same as in the EU definition
- Exchange rate BYR/EUR is currently approx. 2
- Adjustments of thresholds every 3 or 5 years

# D. Proposals for a new SME definition in Belarus (cont.)

- An enterprise is ‘any entity engaged in an economic activity, irrespective of its legal form’.

- Linked enterprises:
  (more than 50% of shares/voting rights are hold by another enterprise)
  Staff headcount/turnover/balance sheet total
  of all linked enterprises of one group must be summarised when determining its eligibility for SME status.
  In case a relationship of this kind occurs through the ownership of one or more individuals (acting jointly), the enterprises involved are considered as linked if they operate on the same or adjacent markets

- State-owned enterprises and state-owned affiliated enterprises
  (more than 25% are hold by state bodies)
  are not seen as SME but instead seen as a component of the state-owned group of enterprises

# E. Summary

The proposed new SME definition has the following features:

- Enables benchmarking the SME sector development of Belarus with EU member states
- Enables SME policy impact analysis and evaluation
- Supports SME policy formulation in line with international best practice
- Facilitates sophisticated statistics on the SME sector
- Enables access to European support programmes
- Easy to implement, since it is based on current practice in Belarus (e.g. practice of Development Bank)

# Contact

**Dr. Alexander Knuth**

knuth@berlin-economics.com

German Economic Team Belarus

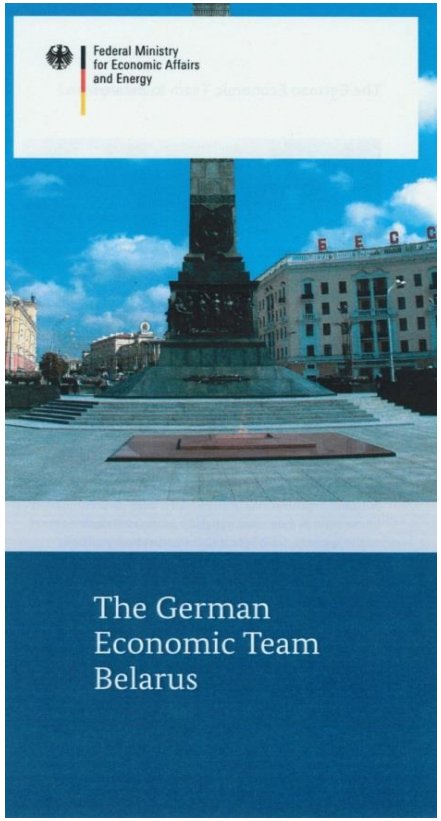
c/o BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

E-mail: info@get-belarus.de




Berlin Economics