

PROBLEM OF SME DEFINITIONS¹

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We frequently have to deal with the situation of comparing the level of development of micro, small and medium enterprises (MSME), as well as their role in the national economies of different countries of the world. However, the correctness of such comparisons requires the same definition of these economic subjects, i.e. definitions of "what is a micro, small and medium enterprise". But in practice, the authors of various studies on the level of development of the MSME seem to forget about checking the correctness of certain comparisons for the respective countries. And the situation with the MSME definitions is very different in various countries and frequently changes. It should also be noted that, unlike the concepts of small and medium-sized businesses, the concept of a micro-enterprise was proposed relatively recently, in 1976 by Nobel laureate Muhammad Yunus, the founder of the microcredit system in Bangladesh. Subsequently, in different countries, micro-enterprises have started to emerge from the group of small enterprises. At the same time, the definition of a micro-enterprise is not the same everywhere. For example, in the leading economy of the world - the United States, the concept of a micro-enterprise was recognized by the Governmental Agency for Small Business only in 1991. Today, in the US, a micro-enterprise is considered a business with the number of employees (including the owner itself) not more than 5. The share of such enterprises in 2011 was 92% of all US businesses², and the number of jobs was 26 million. Entrepreneurship is classified as a small business in the United States based on Size Standards, which are based on the number or annual income for various business sectors³.

In China, micro-enterprise criteria vary across 16 sectors of the economy. For example, in a heavy industry, a micro-enterprise is an enterprise with a number of employees less than 20 or an annual turnover of less than 3 million Yuan (about 0.5 million USD). In agriculture, only annual turnover of less than 0.5 million Yuan is a criterion. In the hotel and restaurant business, a micro-enterprise is an enterprise with less than 10

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² Bigger Than You Think. The Economic Impact of Micro business in the United States.

³ Table of Small Business Size Standards. Small Business Agency.<https://www.sba.gov/sites/default/files/2018-07/NAICS%202017%20Table%20of%20Size%20Standards.pdf>

employees or an annual turnover of 1 million Yuan (approximately 150,000 USD⁴). The definitions of small and medium-sized enterprises also vary by sector. Thus, a small enterprise in heavy industry is an enterprise with a number of employees from 20 to 300 or an annual turnover of 3 to 20 million Yuan. In the hotel and restaurant business, a small enterprise is considered an enterprise with the number of employees from 10 to 100 and annual turnover of 1 to 20 million Yuan. In India, according to the Micro, Small and Medium Enterprises Development Act, 2006, enterprises are divided into two classes: 1) Production and 2) Service. The criteria for assigning an enterprise to a particular group are presented in the table below:

Manufacturing sector	
Enterprise	Investment in equipment and machinery
Micro	Do not exceed 25 lakh rupees (\leq 25000 USD)
Small	More than 25 lakh rupees, but do not exceed 5 crore rupees
Medium	More than 5 crore rupees, but do not exceed 10 crore rupees
Service sector	
Enterprise	Investment in equipment and machinery
Micro	Do not exceed 10 lakh rupees
Small	More than 10 lakh rupees, but do not exceed 2 crore rupees
Medium	More than 2 crore rupees, but do not exceed 5 crore rupees

In the Philippines, the MSME definition system is used, as shown in the table below:

Enterprise category	Assets, million	Number of staff
Micro	\leq 3	\leq 9
Small	3-15	10-99
Medium	15-100	100-199

⁴ China Issues Classification Standards for SMEs, <https://www.china-briefing.com/news/china-issues-classification-standards-for-smes/>

In Turkey, the assignment of a business entity to one or another category of MSME is based on the criteria given in the table below⁵:

Enterprise category	Staff headcount	Annual income	or	Book value of assets
Micro	< 10	≤ 1million turkish liras		
Small	< 50	≤ 8 million turkish liras		
Medium-sized	< 250	≤ 40 million turkish liras		

EU recommendations on the definitions of SMEs were introduced in 2003 ⁶:

Enterprise category	Staff headcount	Turnover	or	Balance sheet total
Micro	< 10	≤ € 2 m		≤ € 2 m
Small	< 50	≤ € 10 m		≤ € 10 m
Medium-sized	< 250	≤ € 50 m		≤ € 43 m

In the post-Soviet space over the 27 years of independence of the countries belonging to this Union, the definitions of micro, small and medium enterprises have changed several times. Moreover, at the beginning of this period, namely, until the mid-2000s, the concept of a micro enterprise was not used in the CIS countries. In Russia, definitions of business entities have also repeatedly changed. The current criteria are presented in the following table:

Category of SME	Revenue without VAT per year	Average number of employees
Micro-enterprise	120 million rubles	no more than 15 people
Small enterprise	800 million rubles	no more than 100 people
Medium enterprise	2 billion rubles	no more than 250 people

Classification of small and medium enterprises in line with the Ukrainian legislation (Article 55 of the Commercial Code) is presented in the table:

⁵https://www.kosgeb.gov.tr/Content/Upload/Dosya/Mevzuat/KOB%C4%B0'lerin_Tanimi_Yonetmelik.pdf

⁶<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:n26026>

	Micro enterprise	Small enterprise	Medium enterprise	Large enterprise
Number of employees, person	≤ 10	≤ 50	> 50 < 250	≥ 250
Annual turnover, million Euros	≤ 2	≤ 10	> 10 < 50	≥ 50

Criteria for large, medium and small business used in Azerbaijan⁷

Category of entrepreneurial subjects by size	Average number of employees	Annual income
Small enterprise	Up to 25 employees	Up to AZN 200,000
Medium enterprise	From 25 to 125 employees	From AZN 200,000 to AZN 1250000
Large enterprise	125 employees and more	AZN 1,250,000 and more

The new amendment of SME definition in Georgia⁸ demonstrates a compromise achieved - keeps country's particularities and makes it more comparable to European standards:

Employment		Turnover	
Tax Code	NIA	Tax Code	GNIA
Micro	Self-employed	≤ 30 000 GEL	
Small	≤ 20 employees	≤ 100 000 GEL	≤ 500 000 GEL
Medium	≤ 100 employees	≤ 1 500 000 GEL	

The table below provides a comparison of definitions of the European Union and countries of the Eastern Partnership:

⁷Resolution of the Cabinet of Ministers No.215 on Approval of the Criteria for Large, Medium and Small Enterprises dated June 5, 2015 - <http://www.e-qanun.az/framework/30115>

⁸Law of Georgia No 519 of 19 June 2012 on the Georgian National Investment Agency, Tax Code of Georgia, Geostat.ge

		EU	Armeni a	Azer- baijan	Georgia	Moldov a	Ukrain e
Micro	Number of employees	< 10	< 10	≤ 10	Self- emplo- yed	< 10	≤ 10
	Annual Turn over, million €	2	0.181	≤ 0.103	≤ 0.010	<0.153	≤ 2
Small	Number of employees	≥ 10 ≤ 49	≥ 10 ≤ 49	≤ 50	≤ 20	≥ 10 ≤ 49	≤ 50
	Annual Turn over, million €	10	0.905	≤ 1.548	≤ 0.033	<1.279	≤ 10
Mediu m	Number of employees	≥ 50 ≤ 249	≥ 50 ≤ 249	> 50 ≤ 250	≤ 100	≥ 50 ≤ 249	> 50 < 250
	Annual Turn over, million €	50	2.715	≤ 15.488	≤ 0.492	<2.558	> 10 < 50

As the table shows, there is a significant difference in the definitions of SMEs. Eliminating these differences is an important task of governments of the Eastern Partnership countries . This will allow many interested institutions (governmental and non-governmental) to “speak the same language”, make correct comparisons, form the correct statistical reporting, draw reasonable conclusions about the applicability of various support programs, etc.

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