**TWINNING PROJECT**

**Support to Development Process in the State Statistics Service of Ukraine with the Objective to Enhance its Capacity and Production**

**Ukraine**



**MISSION REPORT**

**on**

**Component 9 Statistical Business Register**

**Activity 9.3 Practical approaches to construct enterprise groups**

Mission carried out by Sarmite Prole, Central Statistical Bureau of Latvia

28-31 October, 2014

Version: Draft

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***IPA 2009***

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**List of Abbreviations**

EU European Union

SSSU State Statistics Service of Ukraine

CSB Central Statistical Bureau of Latvia

SBR Statistical Business Register

The views and observations stated in this report are those of the experts and do not necessarily correspond to the views of the EU, CSB, SSSU or Statistics Denmark.

# 1 - Executive summary

The objective of the Twinning project is to develop the Ukraine’s national system of official statistics in order to apply European standards and Acquis in the area of statistics. The purpose of component 9 „Statistical Business register” is to create and identify enterprise groups as well as to organize their surveying to lay the foundation for implementing the European methodology of enterprise group statistics. The goal of activity 9.3 “Practical approaches to construct enterprise groups” is to provide practical approaches to construct the population of enterprises that are in the group.

The mission is aimed at providing information about the currently available information on related/controlled legal units; provide practical approaches to construct the population of enterprises that are in the group, and assess activities that have been carried out before. It also aims at discussing further steps of implementation of the identification system of financial and control links between legal entities into the Ukrainian SBR.

The mission had the following objectives:

* To provide information about the currently available information on related/controlled legal units in the Ukrainian SBR;
* To provide comparison of the results obtained from different sources;
* To discuss the steps that have been taken to establish control links between legal entities during the construction process of the population of entities that are in the group with the Ukrainian SBR;
* To provide practical approaches to construct the population of enterprises that are in the group;
* To make an assessment of different possible ways to identify enterprise group units according to the information available in the SSSU;
* To study the specific case of enterprise groups;
* To discuss information characterizing financial links that are used during the construction process of the population of enterprises which are in the group;
* To discuss examples of enterprise groups obtained in the process of approbation of various information sources;
* To assess activities that have been carried out before, and to discuss further steps of implementing the identification system of the financial and control links between legal entities into the Ukrainian SBR.

# 2 - General comments

Within the framework of the mission the main emphasis was put on the practical approaches to construct enterprise groups, and discussion on examples of enterprise groups obtained in the process of approbation of various sources of information. A brief overview of the methodology for creation of enterprise groups was also provided.

The statistical concept of enterprise groups was discussed. The main attention was paid to relations between enterprises and the enterprise group they belong to.

For the construction of an enterprise group and determination of its structure, the necessity of information on links of control between legal units was considered. Currently the available information in the Ukrainian SBR on the statistical unit “enterprise” is the same as for the statistical unit “legal unit”. The “top-down” method and the “bottom-up” method for delineation of enterprise groups were also discussed.

During the mission the SSSU was presented, and the existing opportunities to identify enterprise groups and establishing relations between legal units were outlined. Considering that the enterprise groups are designed for economic analysis, the population frame for the construction of relations between legal units is based on information from statistical surveys. The SSSU analysed various available statistical sources, and identified those providing information, which reflected the financial and/or control links between units. Legal units the owners of which are non-residents or having affiliates outside Ukraine were chosen. The full scope was selected in three stages:

1. For legal units controlled by foreign companies, information from statistical surveys is used,
2. For enterprises which have affiliates outside Ukraine, information from the SBS survey and the financial investment survey is used,
3. For selected population taken from the SBR information on owners for creation control links.

The activity concentrated on the statistical concept of enterprise groups and on the identification of control links. During the mission the available data were analysed and data files with enterprise groups structure were prepared. The results of practical examples were examined, and a scheme for one complex enterprise group was prepared. All results are recorded. During the mission it was decided that for the selected scope of enterprises where owners are non-residents, or which have affiliates abroad an algorithm on the creation of enterprise groups by the SSSU will be prepared. The objective of this activity is to define legal and/or financial links between legal units, and analyse their structure (direct and indirect control) with the aim of reconstructing the economic structure of these groups to make them compatible with the statistical definition of enterprise groups.

Outcome of this work could be presented and analysed during the next mission.

**3 - Assessment and results**

During the previous mission it was highlighted that the SSSU has an excellent quality business register of legal units. It can serve as a solid basis for the construction of statistical units at the level of enterprise groups. The SSSU experts presented the available sources of information on the founders and their shares in the statute capital, declared when setting up the entities, as well as the available information about enterprises under control of foreign enterprise branches and representative offices of foreign companies. Before the mission the SSSU had prepared data files for analysis from statistical surveys on joint-stock companies. After the inventory of the available information on related enterprises it was decided that the SSSU will provide analysis of all commercial companies the owners of which are non-residents or which have affiliates outside Ukraine. The analysis will include additional analysis of the methodological documents and development of an algorithm for the calculation of enterprise groups. The results contribute to the development of the methodology for the implementation of enterprise groups in Ukraine.

**4 - Conclusions and recommendations**

The goal to set up a register for identification of enterprise groups within the SBR appears to be achievable by the implementation of a system of identification of the financial and control links between the legal units.

Proposed recommendations:

**1st recommendation**

Within this activity it was the second visit for the expert from Latvia. The mission focused on practical approaches on the identification of enterprise groups and creation of control and/or financial links between the legal units. Further steps for the implementation of the identification system for the financial and control between legal entities into Ukrainian SBR were discussed. The proposal for the next mission is to present the results of the prepared steps for the implementation of the identification system of the financial and control links between the legal entities controlled by foreign companies or having affiliates outside the country.

The result of these works could be presented and analysed during the next mission.

**2nd recommendation**

Enterprise groups are identified through the links of control between their legal units. The concept of control is the basic concept to be used for the delineation of an enterprise group. A legal unit ensures control over a corporation by owning more than half of the voting shares or otherwise controlling more than half of the shareholders’ voting power.

The control may be exercised in different ways. The acquisition of absolute majority (50%+1) of shareholdings with voting rights is the main instrument used to take control over the legal unit, and in the absence of other information it is generally used as the proxy control.

An effective minority control means having effective control of the unit without holding the majority of voting stock.

A direct control or indirect control is the relationship between legal units such that either one legal unit is controlled by exactly one other legal unit, or it is not controlled by any other legal unit.

In fact, deriving control links from the ownership structure between legal units defines an operational hierarchical structure of the enterprise group with one legal unit at the top (group head) which is not controlled by any other legal unit and which controls all other legal units in the hierarchy. Therefore it is necessary to record also minority intermediate shareholdings into the business register, in case there is an indirect control where the links can only be derived from the complete ownership structure. The group head can either be resident in the country that compiles the business register, if the group is domestically controlled, or abroad. If the group head is a resident legal unit, it must be recorded in the national business register as a single legal unit, which may possibly form an enterprise in combination with other legal. Operational rules for identifying control links:

1. A legal unit directly owns more than 50 % of the voting rights of another legal unit (direct control);
2. A legal unit indirectly owns more than 50 % of the voting rights of another legal unit, through subsidiaries (indirect control);
3. Existence of the special legislation decree or regulation, which empowers the government to determine corporate policy or to appoint directors of the legal unit;
4. A legal unit fully consolidates the accounts of another legal unit, according to the criteria of the 7th Directive, and no other legal unit consolidates the same legal unit (control by virtue of full consolidation);
5. Administrative sources, collecting declarations in application of specific laws for market regulation, provide the information that a legal unit controls one or a set of legal units, even though it owns less or 50 % of its voting rights (effective minority control), and no other legal unit own more.

During this activity it is necessary to apply methodological rules for establishing control links between legal entities.

The result of these works could be discussed during the next mission.

**3rd recommendation**

Information on control links between the legal units is needed in order to define an enterprise group for the whole population, delineate enterprises correctly, and profile large and complex units. For better understanding of how to obtain and process information on the enterprise group it was suggested to pay attention to the following aspects:

* Number of enterprise groups in the national economy;
* Number of multinational groups with a resident as the head of group;
* Number of enterprise groups controlled abroad;
* Average of size group;
* Gross value added produced by enterprises controlled from abroad;
* Main sectors of the economy that are controlled mainly from abroad and by which country;
* Geography control etc.

The result of these works could be discussed during the next mission.

**Annex 1: Terms of Reference**

for a short-term mission to the State Statistics Service of Ukraine

October 27–30, 2014

Working meetings between EU and SSSU experts within the framework of the Twinning Project “Support to Development Process in the State Statistics Service of Ukraine with the Objective to Enhance its Capacity and Production”, Component 9. Statistical Business Register, Activity 9.3. Practical approaches to construct enterprise groups

**Component 9: Statistical Business Register, Activity 9.3. Practical approaches to construct enterprise groups**

**Expert:**

**Ms Sarmite Prole**

**Date: 28-30/10/2014**

**Working language: Russian**

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| --- | --- | --- |
|  | Morning | Afternoon |
| Monday27/10/2014 |  | 18:35 Arrival to Kyiv (Boryspil airport)Transfer from the airport arranged with Vitaliy (+380934171888) (price: €25) You can pay on your way home, €50 roundtripReservation at the Private hotel service apartmentsAddress: 2, Kropivnickogo Str., 14, Code 10k |
| Tuesday28/10/2014 | 10:00 Arrival to the SSSUAddress: 3 Shota Rustaveli Str., Press centreAt the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department10:00-13:00Assessment of current situation, discussion of mission program and tasks.Practical approaches to construct the population of enterprises that are in the group.Discussion of the steps that have been taken to establish control links between legal entities during the construction of the population of entities that are in the group with the statistical business register.Questions and Answers | 14:30 -17:00To be continued |
| Wednesday29/10/2014 | 10:00 Arrival to the SSSUAddress: 3 Shota Rustaveli Str., Press centreAt the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department10:00-13:00Discussion on information characterizing financial links, used during the construction of population of enterprises which are in the group:- according to foreign direct investment statistics;- financial reports;- annual structural survey.Questions and Answers  | 14:30 -17:00To be continued |
| Thursday30/10/2014 | 10:00 Arrival to the SSSUAddress: 3 Shota Rustaveli Str., Press centreAt the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department10:00-13:00Discussion of examples of enterprise groups obtained during the approbation of various sources of information; comparison of the results obtained from different sources.Questions and Answers  | 14:30 -17:00To be continued |
| Friday31/10/2014 | 10:00 Arrival to the SSSUAddress: 3 Shota Rustaveli Str., Press centreAt the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department10:00-13:00Assessment of activities that have been carried out before and discuss further steps to implement the identification system of the financial and control links between legal entities into statistical business register.Discussion, Conclusions and Recommendations | 14:30 -17:00To be continued20:10 Departure from Kyiv (Boryspil airport)Transfer to the airport arranged with Vitaliy (+380933203140) |

**Participants:**

Ms Sarmite Prole, Central Statistical Bureau of Latvia

Ms Anna Rozumna, Deputy Director, Department for Statistical Methodology,

Ms Alla Varnidis, Deputy Director, Department for Statistical Methodology, Director at the Department for Statistical Classifications

Mr Anton Tovchenko, Head of Division of mathematic processing methods and analysis of statistical data

Ms Natalia Kuzmina, Head of division of statistical register, Regional statistics

Ms Olga Ponomarenko, Chief Specialist – Economist, Division of EDRPOU and Statistical Units Registers

# Annex 2. Persons met

**SSSU:**

Ms Anna Rozumna, Deputy Director, Department for Statistical Methodology,

Ms Alla Varnidis, Deputy Director, Department for Statistical Methodology, Director at the Department for Statistical Classifications

Mr Anton Tovchenko, Head of Division of mathematic processing methods and analysis of statistical data

Ms Natalia Kuzmina, Head of division of statistical register, Regional statistics

Ms Olga Ponomarenko, Chief Specialist – Economist, Division of EDRPOU and Statistical Units Registers

**RTA Team:**

Irina Bernstein , RTA

Olga Burbelo, RTA assistant

# Annex 3. List of documents drafted during the mission

1. The statistical concept of the enterprise group (!UG.ppt)
2. Structure of the enterprise group.pdf
3. Група\_підпр\_1.xls
4. Група\_підпр\_2.xls
5. Група\_підпр\_3.xls
6. Група\_підпр\_4.xls
7. Група\_підпр\_5.xls (with additional information on legal units exclusion (red colour) and inclusion (yellow colour) in enterprise group)