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R95 **Russian Economy in 2018. Trends and Outlooks. (Issue 40)** / [V. Mau at al; ed. Editors – Alexei Kudrin, doctor of sciences (economics), Alexander Radygin, doctor of sciences (economics), doctor of sciences Sergey Sinelnikov-Murylev, doctor of sciences (economics)]; Moscow: Gaidar Institute Publishers 2019. – 616 pp. – ISBN 978-5-93255-556-9

The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 40th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Government support of small and medium sized entrepreneurship in Russia¹

Support of the small and medium sized entrepreneurship (SME) sector is recognized to be one of Russia's economic policy priorities^{2,3}. It is customary to speak of that sector's low level of development compared with other countries. However, when comparable estimates are applied, the gap does not appear to be catastrophic. The relative share of SMEs in the value added produced by Russia's business sector amounts to about 44 percent, in the developed countries – OECD member states it amounts on average to 55 percent, in the USA – to 48 percent, and in Canada – to 30 percent. The problems faced by Russian SMEs, in qualitative terms, are as follows: the percentage of exporters and technological startups is low, and a greater part of that sector is unregulated; in 2018, the relative share of medium sized firms and the number of technological startups shrank even further.

The conditions for and specific features of the SME sector's development vary across Russia's regions, and this fact is completely overlooked by prevailing legislation. According to our estimations, entrepreneurial activity in the regions does not depend on government support, instead responding to macroeconomic and institutional changes. In 2018, in a majority of Russian regions, the number of SME subjects and their turnover declined in response to shrinking personal income, especially in the regions with a high relative share taken up by the shadow sector, while the same indices increased in those regions that hosted the FIFA World Cup events.

According to the results of business surveys, 91 percent of firms have never relied on government support instruments. Direct federal support measures may create wrong incentives for SMEs and obstacles to the elaboration of adequate policies in regions and municipalities. For example, tax exemptions and an access to government purchases encourage firms to artificially split up, while government support equalization for all the regions and cuts on subsidies do not create any stimuli for local authorities to engage in a more systemic interaction with small businesses. Direct support measures target only a negligible number of SME subjects (less than 3 percent).

The goals set by the SME Development Strategy and the Presidential Executive Order, in view of the current macroeconomic situation and institutional conditions, can be achieved only at the formal level. Previously, entrepreneurial policies were very often elaborated inconsistently, with no regard for the regional and other specificities of SMEs, and statistics were controversial. However, no qualitative development can be

¹ This section was written by V. Barinova, Gaidar Institute, RANEPa, RFTA; S. Zemtsov, Gaidar Institute, RANEPa, RFTA; Yu. Tsareva, RANEPa, RFTA.

² RF Government Directive No 1083-r dated June 2, 2016 'On Strategy of Small and Medium-sized Business Development in the Russian Federation for the Period until 2030' // Government of the Russian Federation. 2016. URL: <http://government.ru/docs/23354/>

³ Executive Order of the President of the Russian Federation No 204 dated May 7, 2018 'On National Goals and Strategic Objectives of the Russian Federation through to 2024'. 2018. URL: <http://www.kremlin.ru/acts/bank/43027>

possible in the SME sector without correct and statistically substantiated targets. From 2017 onwards, direct support measures (subsidies, loans, government purchases) have been prevailing. There could be an alternative approach, i.e. the creation in the regions of local development institutions for SMEs, a professional investor pool, a specialized private and non-profit infrastructure, and support of entrepreneurial networks (in cooperation with consultants and local authorities).

6.6.1. The main development trends in Russia’s SMB sector in 2017–2018

The main indicator of development in the SME sector is the role it plays in the national economy. According to official data released by *Rosstat* and the RF Ministry of Economic Development, the relative share of the SME sector in GDP increased from 21.6 percent in 2016 to 21.9 percent in 2017 (18.5 percent in 2012) (*Fig. 22*), while by the number of persons employed, it increased from 26.3 percent in 2017 to 26.5 percent in 2018.

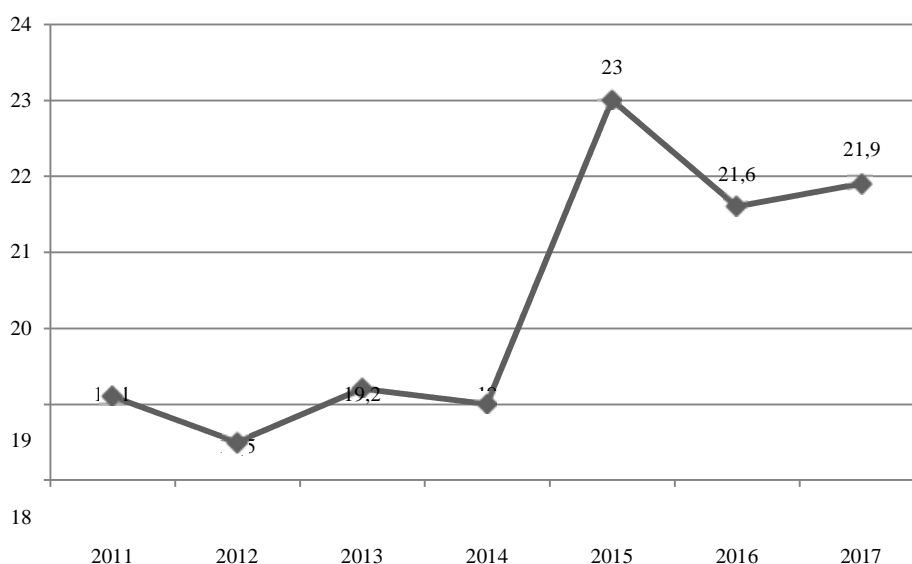


Fig. 22. The movement pattern of the GDP share of gross value added of SME subjects over the period 2011–2017, percent¹

Source: *Rosstat*; RF Ministry of Economic Development.

Table 29 shows the main characteristics of the SME sector and their movement patterns in 2018. The number of SMEs in 2017–2018 increased only slightly – by 2.4 percent, or by 138,700. The highest growth rates in the SME sector were observed in several big regions that hosted the FIFA World Cup events². This happened due to the increased number of firms operating in the services sector (trade, catering, lease of

¹ According to *Rosstat*, it is not correct to compare available data for 2015–2016 as a time series, because the criteria for attributing economic subjects to the category of SME were altered in 2016.

² For further details, see RBC at <https://pro.rbc.ru/news/5c21e5a49a7947148c93660f>

housing accommodations, entertainment). Overall across the 13 regions hosting those events, growth over the period from mid-2017 through mid-2018 was twice the regional average (3 percent), thus accounting for about 95 percent of the total number of new firms. In particular, the number of small and medium sized enterprises jumped as follows: in Moscow by 4.6 percent, in St. Petersburg by 3.6 percent, in Samara Oblast by 3.6 percent, in Leningrad Oblast by 5.6 percent, and in Moscow Oblast by 3.3 percent. During that period, the number of SMEs was shrinking at the fastest rates in several regions of the North Caucasian Federal Okrug (NCFO), most probably as a result of many small firms having shifted into the shadow sector. The decline in the Far Eastern Federal Okrug was 0.68 percent, and in the Arctic zone of the Russian Federation – 2.1 percent. In the northern regions, the negative factor could be the requirement to switch over to online cashier registers, which pushed firms to the unregulated business sector, because the businesses operating in remote settlements were unable to comply with the established rules, for financial and technological reasons, and also for lack of reliable Internet access.

Table 29

The main characteristics of the SME sector in 2016–2018

	Individual entrepreneurs	Micro companies	Small companies	Medium sized companies	SME subjects, total
Data as of November 10, 2017					
The number of SMEs, units	3,105,636	2,498,152	238,893	19,679	5,862,360
Average staffing number, thousands of persons	5,418.8	5,452.4	6,290.7	1,904.7	19,066.6
Average staffing number per enterprise, persons	1.7	2.2	26.3	96.8	3.3
Output of goods and services, billions of rubles	761	1,665	909	262	3,597
Productivity, millions of rubles per person	0.1	0.3	0.1	0.1	0.2
Structure of indices by enterprise size in 2017, percent					
Number of SMEs	52.98	42.61	4.08	0.34	100.00
Average staffing number	28.42	28.60	32.99	9.99	100.00
Output of goods and services	21.16	46.29	25.27	7.28	100.00
Data as of November 10, 2018					
Number of SMEs, units	3,316 472	2,441 283	224,741	18,595	6,001,091
Average staffing number, thousands of persons	5,771.3	5,885.1	5,820.9	1,787.2	19,264.4
Average staffing number per enterprise, persons	1.7	2.4	25.9	96.1	3.2
Output of goods and services, billions of rubles	1,105	2,369	895	271	4, 640
Productivity, millions of rubles per person	0.19	0.4	0.15	0.15	0.24
Structure of indices by enterprise size in 2018, percent					
Number of enterprises	55.3	40.7	3.7	0.3	100.00
Average staffing number	30.0	30.5	30.2	9.3	100.00
Output of goods and services	23.8	51.1	19.3	5.8	100.00

Source: Unified Register of Subjects of Small and Medium Sized Entrepreneurship. URL: <https://ofd.nalog.ru>.

Nationwide in 2018, the number of medium sized firms (those with the highest competitive capacity) declined by 5.5 percent, and their relative share in the SME sector shrank by nearly 12 percent. The number of legal entities operating in the SME sector declined over the course of 2018 by 72,000 units, while that of individual entrepreneurs (IEs) increased by 210,800. Some of them could emerge in connection with the FIFA World Cup events, thus moving away from the shadow sector (or from the self-employed category).

The number of persons employed in the sector increased only slightly from 19.07 million to 19.26 million, or approximately by 1 percent, this growth occurring in the main due to IEs and micro companies, while at the same time that index declined for small and medium sized businesses. Accordingly, the average number of employees per enterprise declined, while in the category of micro companies the same index soared by 9 percent.

Labor productivity increased, but perhaps this happened as a result of better data reporting in response to tougher control enforced by the Federal Tax Service (FTS), and not an increased output of goods and services in real terms.

In mid-2018, the national average entrepreneurial activity index (the ratio of the number of SMEs to staffing number) slightly increased relative to mid-2017 (by 1.4 percent). Its highest growth rates were observed in the regions situated near the cities that hosted the FIFA World Cup events: in Leningrad Oblast, the territories close to the city of St. Petersburg (7.57 percent); in the Republic of Mari El, the territories close to the cities of Kazan and Nizhny Novgorod (7.45 percent); in Samara Oblast (5.54 percent); and in the territories close to the city of Moscow. This phenomenon may be indicative of a notable proliferation of small businesses in the cities and regions surrounding the biggest agglomerations after the surge of economic activity in response to the FIFA World Cup.

In spite of expectations of economic growth, the turnover of small firms in H1 2018 increased only slightly relative to H1 2017 – by a mere 0.51 percent; in the North Caucasus Federal Okrug it dropped by 12.3 percent, and in the Arctic zone – by 0.04 percent. In the regions involved in the FIFA World Cup event, the turnover index increased somewhat higher than the national average – by 0.67 percent, but still remained below the CPI growth rate. The highest effects of the FIFA World Cup can be seen in the Republic of Tatarstan (growth by 31.3 percent), Moscow Oblast (19.7 percent), Leningrad Oblast (8.4 percent), Rostov Oblast (6.2 percent), Kaliningrad Oblast (6 percent), and the Republic of Mordovia (2.85 percent). The relative shares of companies in the total turnover of small enterprises across Russia providing designer services, comprehensive servicing of business premises, telephone call processing, waste disposal, land development, gambling, and B&B services all doubled. All these types of business activity have to do with hosting a football tournament.

According to data released by *Rosstat*, the number of small and medium sized exporting companies increased significantly – from 30,000 to 47,000, or by 57.4 percent¹. The relative share of exporters in the total number of small and medium sized enterprises jumped from 11.6 to 19.5 percent, but their relative share in the total number of SMEs increased less impressively – only from 1.1 to 1.8 percent; for reference: in Germany – 32 percent, in the USA – 21.2 percent, in Poland – 14.6 percent. The aforesaid positive movement pattern may be an upshot of the ongoing measures designed to promote the development of regional export centers, but it also may have

¹ The number of small and medium sized enterprises contributing to exports // *Rosstat*. 2018. URL: gks.ru/metod/pred-export.xlsx

been contributed to by the Russian ruble's weakening relative to foreign currencies and the domestic market shrinkage (due to plunging personal income). Another possible cause is the increased exports of services during the FIFA World Cup.

Overall in 2018, the structure of the SME sector demonstrated negative dynamics: the number of small and medium sized enterprises dropped, that of IEs increased, and the relative share of small and medium sized firms in the production of goods and services declined. These changes may have had to do with the desire of businesses to reduce their costs through splitting up and claiming tax exemptions¹, or their moving into the shadow sector.

According to a variety of estimations, the role of the shadow economy in Russia is quite prominent: over the course of last year, about 44.8 percent of the total number of persons employed in 2017 at least once were hired in violation of the Labor Code of the Russian Federation or were paid 'under the counter' ('in an envelope'), and 31.4 percent of them do this on a regular basis². According to *Rosstat*'s estimations (*Fig. 23*), the relative share of the unregulated economy increased significantly from 16.4 percent in 2010 to 19.8 percent in 2017, while the number of persons employed in the 'informal' sector jumped from 12.6 million in 2006 to 19.8 million in 2017. Meanwhile, the informal employment structure demonstrated an increase in the number of persons employed in the 'informal' sector only from 85.7 percent in 2006 to 93.4 percent in 2017.

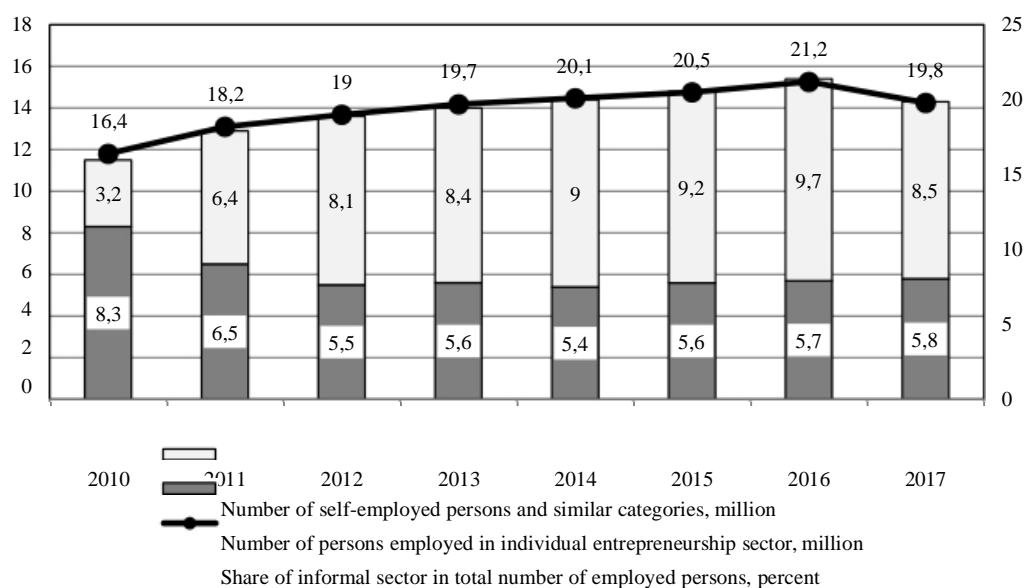


Fig. 23. The number and relative share of persons employed in the informal sector from 2010 through 2017

Source: Workforce, employment and unemployment in Russia. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139918584312

¹ The experiment aiming at legalization of self-employed individuals may also result in a reduced number of individual entrepreneurs, because the latter will be registered in the self-employed category.
² Research Center for Politico-Social Monitoring, RANEPA School of Public Policy.

The by-industry structure of the SME sector is similar to that observed in the OECD member states, where a significant share of SMEs is likewise taken up by trade and services. The lower number of SMEs operating in manufacturing industries in Russia can be in part explained by this country's specialization in the context of global trade. There is a deficit of industrial fast-growing firms¹; thus, for example, in the RBC's ranking of fast-growing companies for 2017, the majority of successful companies operated in the trade and services sector².

Russia differs from foreign countries in that the number of innovative startups here is small relative to the total population. For example, in December 2018, the RF Ministry of Education and Science's database included only 2,890 small innovative enterprises set up by higher educational establishments³. Over the course of 2017, just under 15,000 new firms with non-zero proceeds were established in the hi-tech sector of the economy⁴, which is 11 percent less than in 2016. The characteristic feature of technological startups is their high concentration in the cities of Moscow and St. Petersburg and in Moscow Oblast, where approximately 40 percent of their total number are situated. Meanwhile, the number of startups supported by the Foundation for Assistance to Small Innovative Enterprises (FASIE) (the START and UMNİK Programs) shrank, in 2017, by 43 percent from 3,439 to 1,967. As a result, the relative share of startups receiving the Foundation's support in the total number of hi-tech startups shrank from 23 to 13 percent. The volume of funding allocated by the Foundation to all its programs likewise declined, from RUB 6.5 billion to 5.2 billion. However, both the funding volume and the number of projects may increase in the framework of the National Technology Initiative (NTI) in connection with the National Project's implementation.

6.6.2. The system of government support of SMEs in Russia

It took more than a decade to build the existing system of government support measures targeting SMEs in Russia, but prior to 2015 its activity was mostly reduced to allocating subsidies and granting tax exemptions. A new comprehensive package of measures was adopted after the Russian Federation State Council's meeting in

¹ Zemtsov S. P., Maskaev A. F. Fast-growing firms in Russia: characteristics and growth factors // *Innovations*, 2018. No 6, P. 67–75.

² RBC // RBC Ranking: 50 Fastest-growing companies in Russia. 2018. URL: <https://www.rbc.ru/magazine/2018/12/5bf2eac39a7947ec0fd1785f>

³ Records and monitoring of small innovative enterprises in the science and education sphere // Register of notifications concerning the creation of economic societies and economic partnerships. 2018. URL: https://mip.extech.ru/docs/reestr_3_2018.pdf

⁴ Adamaytis S. A, Barinova V. A, Zemtsov S. P, Kidyayeva V. M, Kotsyubinsky V. A, Semenova R. I, Fedotov I. V., Tsareva Yu. V. National Report 'High-tech business in the Russian regions'. Issue 2. Moscow: RANEPА, AIRR, 2019. 108 p. (In Russian).

2015 addressing the issue of developing small and medium sized enterprises¹. However, the focus of attention, as before, was on various measures of financial support, which can be of little effect in view of the currently underdeveloped social control institutions (independent mass media, professional associations, non-profit organizations, etc.).

On the whole, the situation in the SME sector has remained basically unchanged over several recent years: its basic development indices demonstrate some fluctuations, but no fundamental changes. This could be an indirect indication of an inadequate performance of the government support system. The targets and directions formulated in the *Strategy of SME Development*, and later on in the National Project *SME and Support of Individual Entrepreneurial Initiative*, still retain their importance. The key targets set in the national project are as follows: to increase the number of persons employed in the SME sector, including individual entrepreneurs (IEs), from 19.2 million in 2018 to 25 million in 2024; to increase the input of small and medium sized entrepreneurship in GDP from 22.3 percent in 2018 to 32.5 percent in 2024; and to increase the contribution by SME subjects, including IEs, to total non-raw-materials exports from 8.6 percent in 2018 to 10 percent in 2024.

The results of surveys of small and medium sized firms in Russia point to many weaknesses in the system of government support of entrepreneurship². A study based on a representative sample of approximately 2000 firms, which reflected the structure of the SME sector in Russia, demonstrated that only a fraction of them had taken advantage of the government support programs targeting Russian businesses – 9 percent on average. The most popular answers to the question as to their reasons for not filing such an application were as follows: lack of access to information (92 percent), very small amount of funding to be received (51 percent), lack of trust in the government (45 percent), and excessively bulky reporting package that needs to be submitted in order to receive the support (34 percent). Meanwhile, the respondents generally estimate the effect of support to be quite low (2.2 points out of 5).

In 2017, different types of support were received by 166,000 SME subjects³, or 2.77 percent of their total number, although in the framework of the Strategy of SME Development it had been expected that by 2018, government support recipients would be not less than 5 percent of SMEs. Of these, 64 percent received support in the form of consulting – that is, the least effective form of assistance provided most often by way of educational seminars. Only 50 percent of the companies that received the support, whose data was entered into the FTS database, actually increased their turnover or staffing number by the year's end. The highest numbers of firms with improved performance

¹ RF Government Directive No 1083-r dated June 2, 2016 'On Strategy of Small and Medium-sized Business Development in the Russian Federation for the Period until 2030' // Government of the Russian Federation. 2016. URL: <http://government.ru/docs/23354/>

² The surveys were conducted by the RANEPА ISS's Sociological Research Center.

³ Report on the results of the study of the status and development of SMEs in the Russian Federation, the outcome of the implementation of measures of their support, and elaboration of estimate-based projections for their development. SME Corporation, Moscow, 2018.

indices were noted in Chukotka Autonomous Okrug, Tyumen Oblast, Ulyanovsk Oblast, Smolensk Oblast, Lipetsk Oblast, and Maritime (Primorsky) Krai.

The total volume of budget funding allocated to the implementation of the Subprogram *Development of Small and Medium Sized Entrepreneurship* of the RF Government Program *Economic Development and Innovative Economy* over the period from 2013 through 2020 amounted to RUB 123.5 billion, and it has invariably displayed a downward movement pattern (Fig. 24). In 2017–2018, up to 90 percent of support measures were earmarked for the SME support infrastructure¹ (the service-mode support model); in money terms, its volume is relatively small, because the bulk of planned infrastructure has already been built.

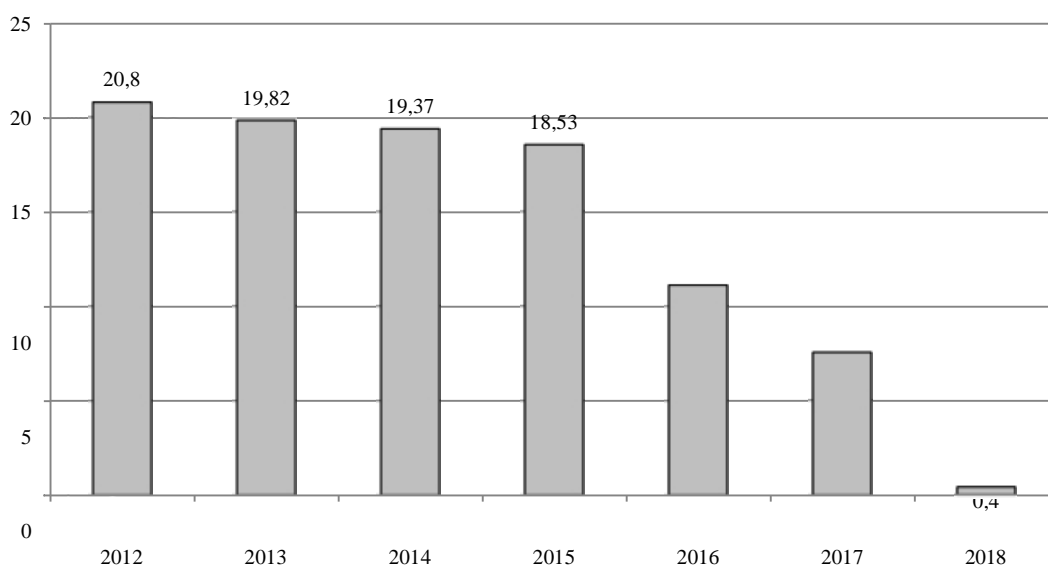


Fig. 24. The volume of federal budget subsidies earmarked for government support of SMEs in Russia, billions of rubles

Source: Government of the Russian Federation. On the allocation, in 2017, of subsidies earmarked for government support of small and medium sized entrepreneurship. 2017. URL: <http://government.ru/docs/26283/>

In 2015, SME Corporation began its activities, and in 2017, its capital amounted to RUB 92.8 billion². The certificate of the national project targeting SMEs envisages a significant increase in the volume of financing, including that allocated to SME Corporation by way of providing a backing for its guarantees to SMEs, in the amount of RUB 14.3 billion. In fact, we should say that direct forms of support (subsidies to firms, loans, guarantees, government purchases, etc.) have prevailed after 2017.

¹ Report on the use of federal budget funds for the government support of subjects of small and medium sized entrepreneurs and the assessment of efficiency of implementation of government support measures for small and medium sized entrepreneurship in the Russian Federation. RF Ministry of Economic Development, 2018.

² For further details, see the RBC website at <https://www.rbc.ru/economics/27/07/2018/5b59e72b9a79474e8742c043>

SME Corporation was initially set up as a systemic integrator of support measures granted to SMEs, but so far it has not been fully performing its functions of a single center. To be more particular, the policy programs within the system of support measures are dispersed between several ministries: the RF Ministry of Economic Development, the RF Ministry of Agriculture, and the RF Ministry of Industry and Trade. There is no single register of the support infrastructure entities, no single register of support recipients, and no monitoring of support instruments for all these government departments. It is not clear as to what economic effects have been produced by the SME support system, because these cannot be traced on the basis of the actual economic indices reported by that sector or the results of business surveys. We do not know in which regions the effects are highest. It should be admitted though, that SME Corporation has openly published rather detailed information concerning SME development.

On the whole, while the role of the RF Ministry of Economic Development, and consequently that of regional authorities, in shaping SME support policies has been declining, SME Corporation has been gaining in prominence while providing various forms of support¹ to SMEs, including hi-tech and innovative companies, and to organizations operating as part of the SME support infrastructure. Formally, the key targets set for SME Corporation have been met²: the volume of purchases is on the rise, and the same can be said of the nomenclature of purchased products. According to data released by SME Corporation, by 2018 its lending volume had surged above RUB 121 billion, and the interest rate on loans was 10.6 percent per annum for small firms and up to 9.6 percent for medium sized ones; at the same time, the *minimum loan* amount was reduced from RUB 50 million to RUB 3 million, and the number of business navigator users rose to 300,000. At the same time, there is a certain balance shift in favor of direct support measures (lending, guarantees on loans), away from indirect forms of support (consulting, tax incentives). In this connection it has become known that in some cases³, financial support may push down the performance indices of those firms that receive it.

The regional aspect of support of small and medium sized enterprises also appears to be insufficiently elaborated. The budgets of regions receive financing under the Subprogram *Development of Small and Medium Sized Entrepreneurship*⁴, calculated according to a formula that takes into account both the budget sustainability level and the number of SMEs in a given region. However, in spite of the frequent adjustments to

¹ Article 25.1 of Federal Law No 209-FZ dated July 24, 2007 (as amended on November 28, 2018) ‘On the Development of Small and Medium Sized Entrepreneurship in the Russian Federation’.

² Report on the results of the study of the status and development of SMEs in the Russian Federation, the outcome of the implementation of measures of their support, and elaboration of estimate-based projections for their development. SME Corporation, Moscow, 2018.

³ Storey D. Six steps to heaven: Evaluating the impact of public policies to support small businesses in developed economies // In: *The Blackwell Handbook of Entrepreneurship* / Ed. by Sexton D., Landström H. New York: Blackwell Publishers Ltd, 2017. pp. 176–193.

⁴ On the allocation, in 2017, of subsidies to government support of small and medium sized entrepreneurship. 2017. URL: <http://government.ru/docs/26283/>

that formula, the federal center, when elaborating its policy and support measures in respect of SMEs, still relies on the equalization principle, while foreign states apply a differentiating approach targeting the development of the strengths of each particular region (smart specialization). In Russia, in some cases it happens so that the less developed regions receive bigger amounts of funding to support their SMEs. These controversies do not conduce to the creation of effective incentives for regional authorities to develop the SME sector.

6.6.3. Comparable statistics for SMEs

The Strategy of SME Development until 2030 sets the target of doubling the input of the SME sector in GDP (from 20 to 40 percent)¹, and the employment input target for SMEs was to increase that index from 25 to 35 percent, thus bringing it to the same level as in the developed countries. In the Presidential Executive Order², it is set forth that the number of persons employed in the SME sector, including IEs and self-employed persons, should be increased from 19.1 to 25 million by 2024, and this, in fact, means that the deadline for meeting the SME employment input target has been moved from 2030 to 2024. The National Project *SME and Support of Individual Entrepreneurial Initiative* envisages that the input of the SME sector in GDP should be increased to 32.5 percent, and this roughly corresponds to the targets set by the Strategy of SME Development. According to data released by *Rosstat*, the input index in 2017 amounted to 21.9 percent of GDP.

One of the problems associated with strategic planning has to do with the impossibility to compare Russia's target indicator with those of other countries because of the differences between the criteria applied in attributing enterprises to the SME sector.

In foreign countries, the level of development of the SME sector is determined on the basis of indices reflecting the role of small and medium sized enterprises in the economy (GDP, turnover, exports) and in the social sphere (employment, new jobs, earnings). Meanwhile, on a global scale, there is no single definition and no unified criteria for indentifying an SME. Thus, in particular, only 46 of 132 countries attribute to the SME sector those enterprises that employ less than 250 people³. Only several countries rely on this single criterion (in addition, also proceeds, assets, and investments can be applied), and in many other countries different values of these indices are applied to different industries. The variability of criteria has to do with the objective institutional specificities of each country, differences in the structure of national economies, and

¹ RF Government Directive No 1083-r dated June 2, 2016 'On Strategy of Small and Medium-sized Business Development in the Russian Federation for the Period until 2030' // Government of the Russian Federation. 2016. URL: <http://government.ru/docs/23354>

² Executive Order of the President of the Russian Federation No 204 dated May 7, 2018 'On National Goals and Strategic Objectives of the *Russian Federation* through to 2024'. 2018.

³ Kushnir K. Micro, small, and medium enterprises around the world: how many are there, and what affects the count? // World Bank, 2010.

different government policy goals. The staffing number is calculated by different methods: thus, the employees having a second job or trainees can be taken into account or overlooked, etc. The same applies to affiliated organizations or various legal forms of an enterprise: self-employed, family business, partnership, association, firm, IE, NPO, and so on.

The main sources of statistical information on entrepreneurship development in different countries around the globe are the databases of the Organization for Economic Cooperation and Development (OECD)¹ and Eurostat², collected via the statistical data and metadata exchange (SDME) methodology.

According to their estimations, small and medium sized businesses in the OECD member states account for approximately 55 percent of GDP, approximately 59.1 percent of jobs, and more than 99.8 percent of all enterprises, and in the European Union member states the average relative share taken up by the SME sector is even higher: 57.5 percent of GDP, and 65 percent of all employed persons. For reference: according to OECD data, Russia's SME sector employs approximately 33 percent of all workers, while there is no data for its input in GDP.

The estimates of the development of small and medium sized enterprises in foreign countries are not applicable as Russia's targets. When comparing international data, the OECD relies on by-country enterprise samples. For Russia, the study samples are selected from the RUSLANA database, which relies on the information supplied by tax agencies. That database contains information only on 250,000 companies, while their total number in Russia is approximately 2.7 million³. The database overlooks individual entrepreneurs and most of micro companies, because these submit zero reporting, and also government organizations and the financial sector (banks). That is why the OECD and Eurostat apply the term business sector.

According to OECD data⁴, the business sector of SMEs in Russia employs 6.1 million persons, while the figure in the SME Register is 19.22 million. Evidently, only a small number of all such firms operating in Russia is entered in the OECD database for Russia.

A similar situation can be observed with regard to the structure of turnover and some other indices. OECD data indicate that in Russia, SMEs account for approximately 33 percent of all persons employed by companies. If we look at available Russian data, this figure may significantly vary depending on the denominator: thus, the share of persons employed by SMEs in the total number of employed persons recorded in H1 2018 is 26.5 percent, but if we take the average staffing number for the entire range of organizations, that index will amount to 38 percents.

¹ OECD. Entrepreneurship at a Glance 2017 2017. URL: https://www.oecd-ilibrary.org/employment/entrepreneurship-at-a-glance-2017_entrepreneur_aag-2017-en

² Eurostat: [website]. [2018]. URL: <http://ec.europa.eu/eurostat/data/database>

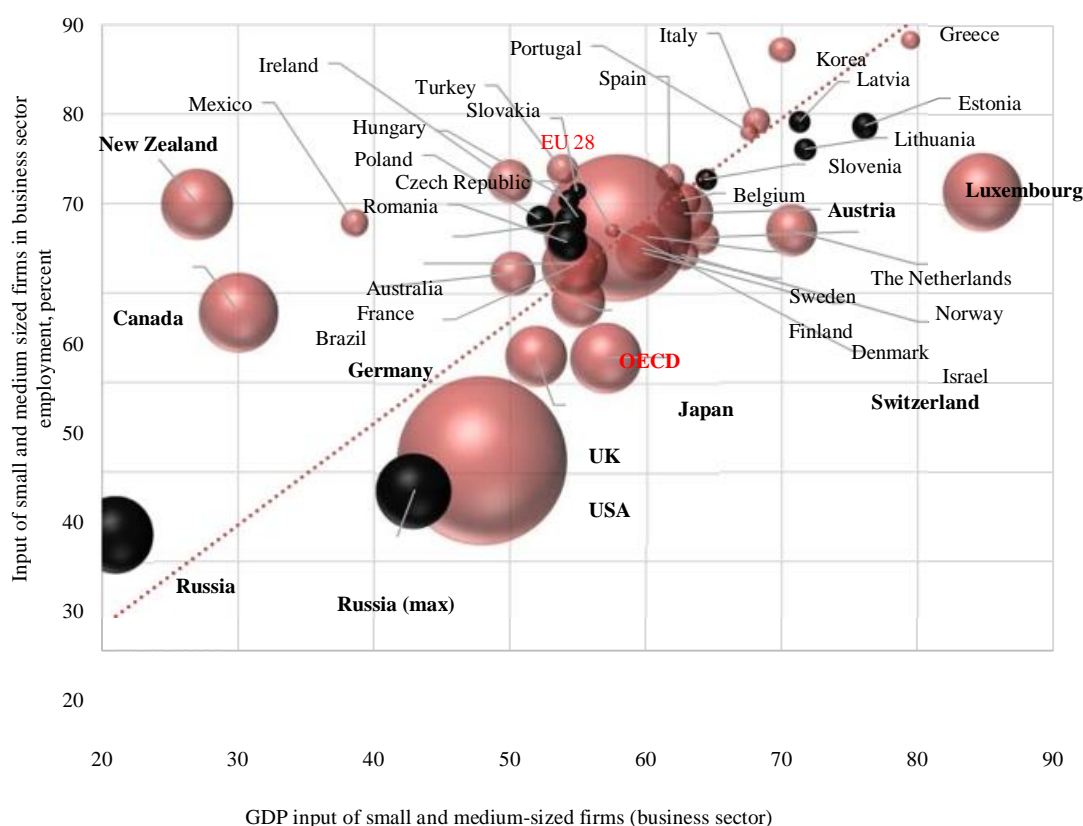
³ Unified Register of Subjects of Small and Medium Sized Entrepreneurship: [website]. [2018]. URL: <https://ofd.nalog.ru>

⁴ OECD. Entrepreneurship at a Glance 2017. URL: https://www.oecd-ilibrary.org/employment/entrepreneurship-at-a-glance-2017_entrepreneur_aag-2017-en

⁵ The number of individual entrepreneurs is added both to the numerator and denominator.

If we should follow the methodology applied by OECD experts, we will need to subtract from the GDP structure the inputs of the public and financial sectors¹, and then to divide the value added index of the SME sector by the remaining GDP value. In this case, according to our estimations, the input of SME in the value added produced by Russia’s business sector in 2017 will be approximately 44 percent; for reference: according to *Rosstat* data, its index for total GDP is 21.9 percent, or half that number.

When we compare the relative shares of SME indices across different countries (*Fig. 25*), it becomes evident that the inputs of SMEs in the employment index and GDP strongly depend on the structure and size of a national economy. By this criterion, Russia is closer not to the EU member states, but to the USA, Canada, or Japan, because it develops labor-intensive and capital-intensive sectors, relying on a high index of average company size.



Note. The size of sphere depends on the ratio of a country’s GDP volume to the total number of firms; the names of top ten countries by that index are in semi-bold; black spheres correspond to post-socialist countries; Russia (max) represents the maximum estimated values for the Russian Federation of the indices under consideration.

Fig. 25. The relative shares of GDP and employment inputs of the SME sector in different countries

Source: own calculations based on data released by the OECD, Eurostat and *Rosstat*.

¹ From Russia’s GDP, the value added of the financial and insurance sectors (4.3 percent) and the input of the public sector (46 percent) are subtracted. See Abramov A. E., Aksenov I. V., Radygin A. D., Chernova M.I. Modern approaches to measuring the state sector: methodology and empirics // *Economic Policy*. 2018. V. 13, No 1, p. 36–39.

A comparison of these indices demonstrates that the situation with regard to SME development in Russia is less catastrophic than it may appear at a first glance, when the differences in estimation methodologies are not taken into account; indeed, it simply has its own specificities produced by a wide range of factors. Therefore, in this case there is no necessity to bring the current indices to the level that is typical of the EU and the OECD member states.

Russia's problem is not that there are too few small and medium sized enterprises, but that the SME sector, by its qualitative characteristics, cannot match its counterparts existing in the developed countries: there are too few exporting and industrial companies, technological startups and innovative companies, and a greater number of enterprises operate outside of legal regulation, fully or in part.

The SME statistics in Russia are controversial and incomplete. An analysis based on available statistical data does not yield a distinct picture as to the level and the pace of development of Russia's SME sector. In addition to the annual reports released by *Rosstat*, monthly data have been published since 2016 by the Unified Register of Subjects of Small and Medium Sized Entrepreneurship operated by the RF Federal Tax Service.

Due to the differences in the data collection methods used by different government departments, as well as some complications in the operation of the recently created Unified Register, statistics vary with regard to the number of SMEs. Thus, for example, according to data in the Unified Register, as of September 2017, a total of 2.999 million individual entrepreneurs (IE) in the category of SME subjects were registered in Russia; according to the FTS¹, their number was 3.7 million; and according to *Rosstat* data – 2.561 million. *Rosstat* calculates the number of IEs by extrapolating sample data to the entire sector; the Unified Register records those IEs who have submitted at once their entire reporting package; and the FTS collects data in the framework of EGRIP (Unified State Register of Individual Entrepreneurs), which also contains data on those IEs that are in fact absolutely idle and do not submit any reports.

Calculations based on employment data may give rise to their duplication, if an IE also holds a job with another employer, including another SME. Such a situation frequently occurs with regard to legal entities, when an entrepreneur is registered as an IEs and at the same time owns an LLC, where he or she occupies a post of director or deputy director – that is, holds a job.

By their labor productivity index, Russia's small and medium sized firms, most probably, lag far behind their counterparts in the developed countries, but there are no available correct indices for a reliable estimation. If the turnover to staffing number ratio is to be applied (the same index as applied in the Strategy of SME Development), Russia will match the level of some developing countries (Brazil and Mexico)². But if we make a comparison between Russia's regions, the leaders will be the regions with the least

¹ RF Federal Tax Service's website [2018]. URL: <https://www.nalog.ru>

² OECD. Entrepreneurship at a Glance 2017 2017. URL: https://www.oecd-ilibrary.org/employment/entrepreneurship-at-a-glance-2017_entrepreneur_aag-2017-en

staffing number reported by SMEs and the highest share of the shadow sector: the Chechen Republic, the Republic of Dagestan, and the Republic of Ingushetia. In fact, the firms there report underestimated employment indices. So, this estimation system has some serious weaknesses.

So far, Russia has lacked an adequate entrepreneurship development indicator, especially at the regional level:

- the high number of firms in the SME category may be the result of splitting-up of bigger enterprises for the purpose of claiming tax exemptions and participating in government purchases;
- the employment index of SMEs strongly depends on the economic situation: it varies depending on the percentage of unrecorded and part-time employment, etc.;
- the GDP input of SMEs is an index that is not calculated in accordance with a single approved methodology, its value may differ depending on a specific calculation method and the use of data for the public, financial and shadow sectors;
- the index of business births (the number of new firms) may reflect the emergence of fly-by-night firms, it varies depending on data source.

The national project targets cannot be reliably calculated, either. Thus, in particular, there is no methodology for calculating the input of exporting SME subjects in the total volume of non-raw-materials exports.

6.6.4. Unpredictability of the policy of support of small and medium sized enterprises in Russia

The development of SME in Russia is practically not influenced by government support in its present form, although it is a well-known fact that any inconsistency in decision-making is fraught with negative effects. The dynamics and specificity of entrepreneurship development in the regions depend on the ongoing macroeconomic and institutional changes. Meanwhile, the current policy effectively overlooks the versatility of both the types of SMEs and regional conditions.

The unpredictability of government policy pushes SMEs into the shadow economy. The policy targeting SMEs often lacks in logic. A promise not to raise taxes¹ is followed by a raise of insurance contributions². The intention to simply calculate the total number of self-employed persons and to let them work on a legal basis without making worse their current situation gives way to the imposition of taxes and fines for a failure to pay them³. The low level of trust in established institutions across society results in growth

¹ Presidential Address to the Federal Assembly of December 4, 2014: ‘I propose to freeze the existing tax parameters as they are for the next four years, not revisit the matter again, not change them’.

² The new formula for calculating the insurance contributions to the RF Pension Fund was based not on the amount of profits, but on the amount of proceeds (without deducting costs). As a result, many IEs had to apply the highest tariff – RUB 138,600, and not RUB 32,500 as under the previous system. When the minimum wage is increased, so will jump the contributions to the social funds.

³ From January 1, 2019, professional income tax was introduced for self-employed persons.

of the informal sector¹. The relative shares of self-employed people and similar categories of citizens who do not consider themselves to be unemployed, but who are not officially registered as hired workers or IEs, are on the rise.

From a formal point of view, the self-employed people and similar categories of citizens operating in the informal sector can translate into an increasing number of people employed by SMEs. In 2017, their number was 8.5 million, which is above the employment growth rate for SMEs set as a target in the Presidential Executive Order (just under 6 million). However, the state so far has failed to create incentives for their legalization.

In 2017, a tax holiday was introduced for those self-employed persons who used no hired labor²: private tutors, nannies, housekeepers, caregivers. A zero rate was applied to the taxes and insurance contributions on their incomes received in 2017 and 2018, on condition that the FTS should be notified of the fact of self-employment. However, as of December 2018, only 2,880 self-employed persons (0.03 percent) had legalized their status, and some of them, who had been previously registered as an IE, simply changed their status.

The new draft law on the introduction, by way of experiment, of professional income tax in several pilot regions³ has been sharply criticized by experts: they argue that the absence of significant incentives to register a legal status coupled with the rising financial costs for entrepreneurs may translate into a situation where no accelerated legalization will actually take place. However, since early 2019, 30,000 Russians have registered as self-employed through the app *My Tax*⁴.

Government support has no influence on the development of SMEs in the regions. Our estimations⁵ demonstrate that entrepreneurial activity in Russia's regions does not depend on subsidies, tax exemptions, or the volume of government purchases. Quite often, support is repeatedly allocated to the same firms, which may be affiliated with local administrations. Several IEs⁶ participate in the purchases to the value of billions of rubles by big companies (for example, RZD OJSC). The access to government purchases and tax exemptions serves as an incentive for artificial splitting-up of firms, which has absolutely nothing to do with the SME sector's development. However, subsidies are

¹ Anokhin S., Schulze W. 'Entrepreneurship, innovation, and corruption.' *Journal of Business Venturing*, Vol. 24, No. 5, 2009, pp. 465–476.

² Self-employed persons are understood to be those RF citizens who provide services to individuals but are not registered as individual entrepreneurs, e.g., nannies, private tutors, drivers, designers, interpreters, photographers, repair and construction workers, etc.

³ Federal Law No 422-FZ dated November 27, 2018 'On launching the experiment of establishing a special tax regime *Professional Income Tax* in the city of Moscow, in Moscow Oblast and Kaluga Oblast, and in the Republic of Tatarstan' // *Consultant Plus*. 2018. URL: <http://www.consultant.ru/law/hotdocs/55771.html/>

⁴ For more details, see <https://www.kommersant.ru/doc/3889871>

⁵ Barinova V. A., Zemtsov S. P., Tsareva Y. V. Entrepreneurship and institutions: Does the relationship exist at the regional level in Russia? // *Voprosy ekonomiki*, 2018. No 6, p. 92-116. (In Russian).

⁶ RBC study: How IEs in Russia receive billions of rubles from the State // RBC. 2017. URL: https://www.rbc.ru/own_business/13/12/2017/5a1d68bb9a7947745d083338

important for underdeveloped municipalities, where they can help to create new jobs and to solve, to a certain extent, the existing social problems.

In our calculations, entrepreneurial activity was understood as the ratio of the number of small (including micro) enterprises in a given region to the number of its economically active population¹. In a sense, this is a proxy variable for the region's 'entrepreneurial capital' level, in contrast to registration or early phase of entrepreneurial activity, as the latter reflect only the fact of registration or business intentions².

To test the hypothesis of the influence of government on entrepreneurial activity, we developed an empirical model. The dependent variable is entrepreneurial activity in the regions. The control variables are the rate of unemployment, access to markets, and institutional conditions. The independent variables are the various government support estimates³: the volume of subsidies allocated in the federal budget to RF subjects for the support of SMEs, as the amount of support in rubles per SME; the total sum of tax exemptions granted to organizations, as the amount of exemptions in rubles per organization.

The effects on government support on the development of small businesses are controversial, because empirical studies often underestimate the selection effect, when known strong firms are supported⁴. Thus, in particular, the study by KPMG^{5,6}, while describing the high effect of support measures received by SMEs in Russia, offers no

¹ It reflects the degree of population involvement in the creation of new types of businesses, as well as in the management and development of the existing companies, and so it can be treated as the main indicator of SME development at the regional level. Although this indicator is influenced by another factor – the registration of fly-by-night companies, we believe that it is appropriate for achieving our study's goals. On the one hand, fly-by-night companies are entered on records only with regard to the by-region distribution of micro enterprises hiring a small number of staff, while the by-region distribution of small firms with a staffing number of more than 15 can be considered to be free from the effects of that phenomenon. On the other hand, the correlation coefficient for the number of micro enterprises that determine our dependent variable's distribution and that of small firms, on average over the period from 2008 through 2015, amounted to 0.95 (in 2015, it was 0.99). In other words, even if the sample takes into account fly-by-night companies, these register in those regions where the level of entrepreneurial activity is already high.

² National report 'Global Entrepreneurship Monitor'. Russia 2016/2017', Graduate School of Management, St. Petersburg State University, St. Petersburg, 2017.

³ Barinova V. A., Zemtsov S. P., Tsareva Y. V. Entrepreneurship and institutions: Does the relationship exist at the regional level in Russia? // *Voprosy ekonomiki*, 2018. No 6, p. 92–116. (In Russian).

⁴ Storey D. Six steps to heaven: Evaluating the impact of public policies to support small businesses in developed economies // In: *The Blackwell Handbook of Entrepreneurship* / Ed. by Sexton D., Landström H. New York: Blackwell Publishers Ltd, 2017. pp. 176–193

⁵ KPMG is an audit company on the global top four list. The name 'KPMG' stands for the first letters of the names of its founders – Piet Klijneveld, William Barclay Peat, James Marwick and Reinhard Goerdeler.

⁶ Performance assessment of the SME support program of the RF Ministry of Economic Development // SME federal portal. 2015. URL: http://smb.gov.ru/files/images/MSP-Executive+summary_final.pdf.

assessment of the said effect. As noted by Chepurenko¹, Russia also needs more complete records of the framework conditions of the SME sector's development, such as the quality of institutions, regional specificities, etc.

The regions differ significantly by the volume of received government support. Subsidies are allocated in accordance with the approved formula, which is geared to the size of SME sector and the results of support received over the previous period. The largest amount of support was provided to Voronezh Oblast (10.8 percent of the nationwide total), the Republic of Mordovia (7.9 percent), the city of St. Petersburg (4.3 percent), Omsk Oblast (3.97 percent), Nizhny Novgorod Oblast (3 percent), Murmansk Oblast (2.97 percent), Samara Oblast (2.95 percent), and the Republic of Tatarstan (2.85 percent). The correlation coefficient for the volume of subsidies and the number of SME subjects (sector size) is 0.5, but there is no correlation with the number of supported SMEs, and so it can be concluded that the support of enterprises strongly varies by region.

The average subsidy volume per SME amounts to RUB 3,300. In 2016, for some underdeveloped regions this index was above RUB 20,000: the Republic of Tyva, the Republic of Khakassia, Jewish Autonomous Oblast, Altay Krai, the Republic of Ingushetia, and the Karachay-Cherkess Republic. In these regions, the informal sector's share is significant. The minimum volume of support per SME was noted in the regions with a high sector size index. The subsidy volume per supported enterprise likewise varies significantly. In the regions with the maximum support volume it exceeds RUB 4 million: in the Karachay-Cherkess Republic, Kamchatka Krai, Nenets Autonomous Okrug, the Republic of Tyva, the Republic of Adygea, Altay Krai, the Jewish Autonomous Oblast, Magadan Oblast, Kostroma Oblast, and Voronezh Oblast. In the regions with difficult natural conditions this happens because of the elevated costs. In the regions with the lowest ratio, the support volume per enterprise amounts to several thousands of rubles: in Vologda Oblast, Ulyanovsk Oblast, Kaliningrad Oblast, Sverdlovsk Oblast, Kursk Oblast, Novosibirsk Oblast, Krasnodar Krai, and the Chechen Republic. Evidently, the support received in such amounts cannot produce any serious effect on the development of enterprises; more often it is spent on educational and consulting seminars.

The nationwide index of the relative share of SMEs that have received government support amounts to a modest 2.77 percent², and it is relatively stable. In the leader regions it is above 10 percent. The latter are, in the main, those regions that set the goal of mass-scale development and support of SMEs. The regions where support is granted to less than 1 percent of companies are major centers with a developed SME sector: the

¹ A.Yu. Chepurenko. What is entrepreneurship and what entrepreneurship policy does Russia need? (Marginal notes on works of modern foreign classics) // Journal of the New Economic Association, 2012. V. 14, No 2. P. 102–124.

² Report on the results of the study of the status and development of SMEs in the Russian Federation, the outcome of the implementation of measures of their support, and elaboration of estimate-based projections for their development. SME Corporation, Moscow, 2018.

city of Moscow, Moscow Oblast, and also the regions where the SME sector is dispersed among remote settlements: Orenburg Oblast, Magadan Oblast, the Republic of Kalmykia, Kamchatka Krai, Yamalo-Nenets Autonomous Okrug.

Regions also vary significantly by the effects of government support. One newly created or preserved job in the best-performing regions that have effectively created their own entrepreneurial ecosystems costs less than RUB 20,000: Altay Krai, Ulyanovsk Oblast, Leningrad Oblast, Novosibirsk Oblast, Kaluga Oblast, and Kaliningrad Oblast. The administrations of these regions strived to cover the SME sector by a broad network of microsubsidies. The ratio of newly created or preserved jobs to the total number of persons employed in the SME sector is also higher in these regions. But there are also some regions where one newly created or preserved job costs the State millions of rubles: the city of St. Petersburg (RUB 9 million), the Republic of Mordovia (RUB 8 million), Nenets Autonomous Okrug (RUB 6 million), the Karachay-Cherkess Republic (RUB 5.5 million), Novgorod Oblast (RUB 1.6 million), the Republic of Tyva (RUB 1.4 million), and Voronezh Oblast (RUB 1.4 million). Meanwhile, the effect of support on growth in the total number of SME staff is negligible.

Tax exemptions are generally equally granted to all regions, and target predominantly medium sized and big firms (for example, within special economic zones), that is, small firms do not see any advantages relative to particular regions, and so no effect was observed with regard to that factor, either.

The level of entrepreneurial activity is palpably higher in the regions harboring biggest agglomerations (*Fig. 26*) – the cities of Moscow and St. Petersburg, Novosibirsk Oblast, Sverdlovsk Oblast, Tyumen Oblast, Perm Krai; in those with favorable institutional conditions (the cities of Moscow and St. Petersburg, and Tyumen Oblast, which top the ASI's ranking¹); and in those with beneficial economic and geographical situation, i.e., proximity to major foreign markets and the Moscow agglomeration: Kaliningrad Oblast, Primorsky Krai, Yaroslavl Oblast, etc.² Agglomerations are characterized by a higher concentration and versatility of economic activity, and consequently a lower monopolization index; very often they have better formal institutions, and so the entry barriers there are lower, but competition is higher. Besides, they have a bigger consumer market, while a majority of SMEs operate in the trade sector³. Besides, a prominent role in the group of leaders is played by the southern regions with their high relative share of the tourism industry – for example, Krasnodar Krai, the Republic of Crimea.

¹ National Regional Investment Climate Ranking (Agency for Strategic Initiatives) for 2017 // ASI. 2017. URL: <http://asi.ru/investclimate/rating/>

² Zemtsov S. P., Baburin V. L. Assessing the Potential of Economic-Geographical Position for Russian Regions // *Ekonomika regiona*, 2016. V. 2, No 1, P. 117-138. (In Russian).

³ The majority of small and medium sized enterprises operate in the trade sector (28 percent of total employment in the SME sector), the sector of real estate deals, lease and services (19 percent), and in manufacturing industries (16 percent).

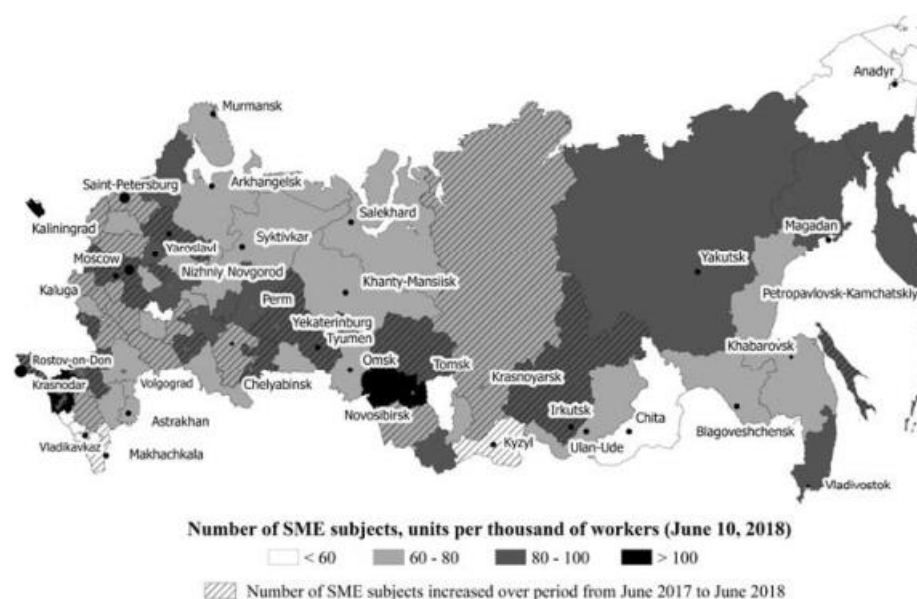


Fig. 26. The by-region differentiation of entrepreneurial activity in Russia

Source: Unified Register of SMEs.

The high investment risks associated with the social, financial and ecological situations in the regions, and high crime rates are the factors that suppress the growth of entrepreneurial activity¹. Accessibility of banking services, on the contrary, boosts its growth. A higher banking infrastructure density may be an indicator of low interest rates resulting from competition between banks, and so can be used as a proxy for estimating capital accessibility. Every year, small firms refer to insufficient access to financing as one of the most important factors that restrict their growth². Human capital improvements³ in a region, according to our estimations, should also have a positive effect on entrepreneurial activity growth, because in order to create a successful business, in most cases one should possess a certain set of knowledge and skills.

For the development of entrepreneurship in Russia's regions, the per capita gross regional product (GRP) and a region's market potential are very important, because these may be the indicators of demand for services rendered by entrepreneurs. The former is also an indirect indicator of quality of life and of effective demand. The latter is applied to estimate the proximity (accessibility) of major international and regional markets. The nearer a firm to consumers with a high purchasing power and a big goods

¹ Barinova V. A., Zemtsov S. P., Tsareva Y. V. Entrepreneurship and institutions: Does the relationship exist at the regional level in Russia? // *Voprosy ekonomiki*, 2018. No 6, p. 92–116. (In Russian).

² Main business activity indices of small enterprises (less micro companies) // *Rosstat*. 2018. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/reform/#

³ Barinova V. A., Zemtsov S. P., Tsareva Y. V. Entrepreneurship and institutions: Does the relationship exist at the regional level in Russia? // *Voprosy ekonomiki*, 2018. No 6, p. 92–116. (In Russian).

and services market, the higher its opportunities for selling its finished product and purchasing equipment, spare parts, raw materials, and other goods.

Thus, the development of entrepreneurship in Russia's regions is influenced by institutional and macroeconomic factors, and so any amendments to legislation or a plunge of personal income may actually offset all the positive trends created by government support.

Overall, the entrepreneurial activity level across Russia is characterized by a high changeability and territorial heterogeneity. However, some regions are capable of sustaining a high entrepreneurship development level over a long period of time¹.

In foreign countries it was found that a high level of entrepreneurial activity persisted in some regions for centuries². In those regions (Bavaria, North Rhine-Westphalia, and some others), entrepreneurship has developed very deep roots in the form of accumulated information, knowledge and business skills, interaction networks and an environment of trust. The average correlation coefficient for entrepreneurial activity in Russian regions between a year under consideration and the previous year is 0.97, and for that between a year under consideration and 15 years earlier – 0.51; so, on the whole, the regional structure of entrepreneurial activity displays a rather high degree of inertia.

We selected a group of regions that displayed high entrepreneurial activity indices over the period 1998–2014³: the cities of St. Petersburg and Moscow, Kaliningrad Oblast, Novosibirsk Oblast, Samara Oblast, Yaroslavl Oblast, Sverdlovsk Oblast, Belgorod Oblast, and Omsk Oblast. They maintained a combination of factors that favored the development of small and microenterprises throughout the entire period under consideration: a large consumer market, no monopolization of the economy, high diversification, and relatively beneficial institutional conditions. Most of these regions harbor big agglomerations.

The regions with long-standing entrepreneurial traditions may be viewed as future sites of intensive socioeconomic growth. In fact, these regions have developed sustainable entrepreneurial ecosystems.

The regions that displayed high indices only during certain periods, are geographically close to the regions of the first group (Leningrad Oblast, Tomsk Oblast, Altay Krai), and also to seashores (Krasnodar Krai, Primorsky Krai, Khabarovsk Krai, and Rostov Oblast). When identifying the entrepreneurship factors, special attention should be focused on those regions that were constantly upgrading their status by moving upwards in the ranking during both subperiods: Tyumen Oblast, Kirov Oblast, Ulyanovsk Oblast, Lipetsk Oblast, Pskov Oblast, and Khabarovsk Krai. It can be assumed that these are regions that relied on successful practices.

¹Zemtsov S. P., Tsareva Y. V. Entrepreneurial activity in the Russian regions: How spatial and temporal effects determine the development of small business // *Journal of the New Economic Association*. V. 37. No 1. 2018. P. 145–165.

²Fritsch M., Wyrwich M. The long persistence of regional levels of entrepreneurship: Germany, 1925–2005, // *Regional Studies*, 2014. T.48, No 6. C. 955–973).

³Zemtsov S. P., Tsareva Y. V. Entrepreneurial activity in the Russian regions: How spatial and temporal effects determine the development of small business // *Journal of the New Economic Association*. V. 37. No 1. 2018. P. 145–165

According to the results of econometric calculations, the entrepreneurial activity index in a region strongly depends on its level over the two previous years, and is also influenced by similar activity in the neighboring regions not farther than 300 km.

We identified *interregional entrepreneurial activity clusters* where the leader regions are concentrated (Novosibirsk Oblast and Tomsk Oblast), and also the outsider regions (the North Caucasus). In the former case, the high activity in these regions correlates with the high activity in the neighboring regions, in the latter – the situation is directly opposite. In foreign countries, this phenomenon is explained by the interregional knowledge spillover effect¹. If that is the case, the former can be explained by the intense interaction between two cities and cultural similarities, in particular the decades-long influence of Siberian higher educational establishments. The latter may have to do with the negative influence of institutional environment in the North Caucasus region.

The dependence of the level of entrepreneurial activity on its level over the previous periods, the stable existence, among the regions, of leaders and outsiders, and also of a great number of regions with fluctuating entrepreneurial activity movement patterns may all serve as a substantiation for territorially differentiated policies in the SME sector.

At present, although the government support of SMEs targets different groups of entrepreneurs (beginners, microenterprises, small, and medium sized enterprises), in actual practice it still has little regard for their sectoral and regional differences. The institutional differences between regions rather strongly influence the development of entrepreneurship, in spite of the nationwide successful implementation of the National Entrepreneurial Initiative and progress in the Doing Business ranking. These differences also influence the implementation of those legislative initiatives that are not geared to regional specificities. For example, in the study by E. Yakovlev and E. Zhuravskaya² it is demonstrated, on the basis of econometric calculations, that after ‘Gref’s reform’ launched in order to simplify the registration procedures and lower the administrative pressure, the index of business births in the early 2000s varied between the regions depending of the quality of their institutions. In some regions, the reforms gave rise to a growing number of small firms, and elsewhere they could conduce to the shadow sector’s expansion. In our opinion, local and regional authorities should view entrepreneurship development as their priority, but the existing fiscal system does not conduce to a systemic interaction with the SME sector. One can see a lack of understanding of SME specificities and the differences of their development conditions in different territories, including legislation unification, and provision of support regardless of business type and location. This results in a poor correlation between the support measures and the actual needs of businesses, the absence of distinctly understood priorities, and significant policy inconsistencies.

¹ Audretsch D., Lehmann E. Does the knowledge spillover theory of entrepreneurship hold for regions? // *Research Policy*. 2005. T. 34. No 8. C. 1191–1202

² Yakovlev E., Zhuravskaya E. The unequal enforcement of liberalization: Evidence from Russia’s reform of business regulation // *Journal of the European Economic Association*. 2013. T. 11. No . 4. C. 808–838.