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R95 **Russian Economy in 2019. Trends and outlooks. (Issue 41)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2020. – 596 pp.: illust.

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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 41th 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: global economic and political challenges and national responses, economic growth and economic crisis; 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.

By contrast to the previous publications the present issue includes also a short analysis of the first three months of 2020 from the perspective of the COVID-19 pandemic impact on the Russian economy development.

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Vera Barinova, Stepan Zemtsov, Yulia Tsareva

4.8. Small and medium-sized entrepreneurship in Russia and regions in 2019–2020[1]

Government funding of the respective activities of small and medium-sized enterprises (SME)[2] under the national project "Small and medium-sized entrepreneurship and support of entrepreneurial initiatives" increased in 2018-2020. However, in 2019, the number of SMEs subjects decreased by 118 thousand compared to 2018, and the number of people employed in the sector fell to 18.8 million, i.e. decreased by almost half a million people (the goal of the national project for 2024 is 25 million people). The share of the SME sector in GDP decreased to 20 percent in 2018 (the goal of the national project for 2024 is 32.5 percent). Generally, negative trends in the development of the sector, associated with an increase in the VAT rate, the introduction of online cash registers and almost zero growth in household incomes were observed in Russia in 2019. In 2020, near-zero economic growth and the coronavirus pandemic, which has already led to a significant drop in demand, especially in the restaurant business, tourism and entertainment, will negatively affect the development of the SME sector. A more significant reduction in performance of the sector's activity is expected compared to 2019. However, the conditions for the development of entrepreneurship and, accordingly, the indicated trends vary significantly across Russia's regions.

Consideration of these differences can contribute to a conduct a more well-balanced entrepreneurial policy. A large differentiation of Russian regions in geography, population density, level of economic development and digitalization affects the development of entrepreneurship. Regions vary according to the level of entrepreneurial activity, the number of firms and the density of their distribution, industry specialization, the size of firms and the number of relationships, different patterns of interaction with authorities, suppliers and partners, investors and consumers.[3]

Various territories of the world, practicing their own ways to develop entrepreneurship, became known as entrepreneurial ecosystems[4], featured by analogy with natural ecosystems by a certain environment and interconnections. Moreover, these regional differences can persist

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[2] *Maria Antonova, Vera Barinova, Vladimir Gromov, Stepan Zemtsov, Alexander Krasnoselskykh, Nikolay Milogolov, Aleksandra Potapova, Yulia Tsareva*. Development of small and medium-sized entrepreneurship in Russia in the context of national project implementation. M.: Publishing House "Delo" RANEPA, 2020.

[3] *Stepan Zemtsov, V. Baburin* Entrerpreneurial ecosystems in the regions of Russia//Regional research. 2019. № 2. P. 4–14.

[4] Entrepreneurial ecosystem is a system of interaction of firms, consumers, supplyers and other business agents shaped at a particular territory based on certain patterns (*Mooer J.F.* The death of competition: Leadership and strategy in the age of business ecosystem. NY: HarperCollins, 1996).

for decades, and conditions in one region can have a significant impact on other regions.[1] Some regions that pursued policies aimed at improving the business environment have reached a higher level of regional development.[2] Generally, more developed ecosystems of entrepreneurship are more resilient to crises.

4.8.1. The main development trends and barriers in Russia's SME sector in 2019–2020

The 2020 coronavirus pandemic negatively affects the economic situation worldwide, and tendencies observed of the onset of the global economic crisis. In Russia, the introduction of recommendations on quarantine compliance along with the Ruble depreciation caused a sharp decline in demand for offline services, resulted in reduction of revenues primarily for SMEs. At present, statistics on the number of firms does not yet reflect the negative consequences of the pandemic, but restaurants[3], fitness clubs, beauty salons, tourism industry enterprises[4], and event agencies[5], go massively bankrupt and close down.

Those businesses that failed to timely switch to the online provision of goods and services or their business model exclusively related to the provision of personal services, now face the risk of bankruptcy. According to surveys of the Chamber of Commerce and Industry (CCI)[6], every third enterprise in the SME sector may close by June. In fact, one can talk about zeroing the efforts of the authorities to develop small and medium-sized enterprises and improve the business climate in previous years, if emergency support measures left unchanged.

Russia was annually improving its position in the Doing Business ranking, rising from the 124th place in 2010 to 28th place in 2019[7], potentially indicating an improvement in formal conditions for doing business. However, the ranking does not fully account the conditions for SMEs activities, and calculations made only for Moscow and St. Petersburg, where doing business is apparently more lucrative due to concentration of solvent demand compared to most of regions.

In 2019, according to the all-Russia survey of small companies by Rosstat[8], there was a slight reduction of barriers hindering the development of SMEs, especially compared to the crisis year 2015 (*Fig. 47*). Among the restrictions on small business activities in the manufacturing

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[1] *Stepan Zemtsov, Yulia Tsareva.* Entrepreneurial activity in Russia's regions: how spatial and temporary effects determine development of small business//Journal of the New Economic Association. 2018. Т. 1. № 37. С. 145–165; *Fritsch M., Wyrwich M.* The long persistence of regional levels of entrepreneurship: Germany, 1925–2005 // Regional Studies. 2014. Vol. 48. No. 6. P. 955–973.

[2] *Stepan Zemtsov, Yuri Smelov.* Factors of regional development in Russia: geography, human capital or regions policy // Journal of the New Economic Association. 2018. No. 4 (40). pp. 84–108.

[3] *Anastasia Tatulova.* A few weeks left: how coronavirus kills small business in Russia //Forbes. March 23, 2020. URL: https://yandex.ru/turbo?text=https%3A%2F%2Fwww.forbes.ru%2Fkarera-i-svoy-biznes%2F395715-nam-ostalos-neskolko-nedel-kak-koronavirus-ubivaet-malyy-biznes-v-rossii.

[4] *Akhmedjanova R.* Recreation in the Era of Cotonavirus // Forbes. March 22, 2020. URL: https://www.forbes.ru/obshchestvo/395709-otdyh-epohi-koronavirusa-kakie-putevki-teper-predlagayut-rossiyanam.

[5] *Gaisina I., Melnikova K., Peshkova H.* We have simply collapsed: entertainment industry can lose up to RUB 20 billion due to the ban of mass events in Moscow // Forbes. March 12, 2020. URL: https://www.forbes.ru/karera-i-svoy-biznes/394785-my-prosto-ruhnuli-industriya-razvlecheniy-mozhet-poteryat-do-20-mlrd

[6] *Ageeva O.* CCI warned about the rusk of ruin of 3 million of businesses due to coronavirus //RBC. URL: https://www.rbc.ru/economics/21/03/2020/5e7490569a7947467949c77d 21,03,2020.

[7] Doing Business. URL: https://www.doingbusiness.org/.

[8] Main indicators of small business activity. URL: https://www.gks.ru/folder/14036.

industry, the most significant were insufficient financial resources and a high interest of banking loans (60 percent of respondents), insufficient demand in the domestic market (55 percent) and high taxation (56 percent). Therewith, the latter barrier was the second most significant restriction for the surveyed companies in connection with an increase in the VAT rate at the beginning of 2019 and the general introduction of online cash registers.

Far less respondents noted insufficient funds in 2019 compared to 71 percent in 2015. Indeed, according to the Central Bank[1], the rate on long-term loans granted to SMEs has been annually reduced from 17.8% in 2015 to 10.8 percent in 2019. Generally, this has been driven by a general reduction in rates; establishing a system of guarantees and introducing interest rate subsidizing programs for small businesses could play a certain positive role. Low demand remains in the domestic market due to a nearly zero growth in the consumer market (household incomes)

It is highly likely that increasing importance of such barriers as insufficient demand and the uncertainty of the economic situation will be observed at the beginning of 2020. Many enterprises will also experience a shortage of financial resources: actually, there is already a cash gap caused by a drastic decrease in demand while maintaining current employment, rental, loan and other payments. In 2019, lending to small businesses grew at a record pace compared to 2013, which could also negatively affect the economic situation in the SME sector in 2020[2].

In 2019, 9 percent of respondents did not report any restrictions hindering the development of their enterprises; there were 5% of them in a crisis period of 2015–2016, and this can be interpreted as an indicator of improvement for small business. The same goes for Rosstat positive dynamics in the index of small business confidence and RSBI business activity[3]. However, it is fair to assume that dynamics of main indicators of small and medium-sized entrepreneurship business development will be negative in 2020.

Administrative pressure on small businesses has somewhat decreased due to a reduction in the total number of business inspections[4] and a moratorium has been introduced on planned inspections of SMEs with an option to be extended in connection with the pandemic[5]. However, the tax control was equally strengthened resulted from introducing the online cash registers, combatting of the Federal Tax Service of Russia against shell companies and illegal business "fragmentation" aimed at avoiding taxation. At the same time, the number of shell companies fell in Russia to record low values[6] – 7.3 percent of the total number of legal entities (309 thousand).

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[1] Bank of Russia. URL: https://cbr.ru/statistics/pdko/sors/.

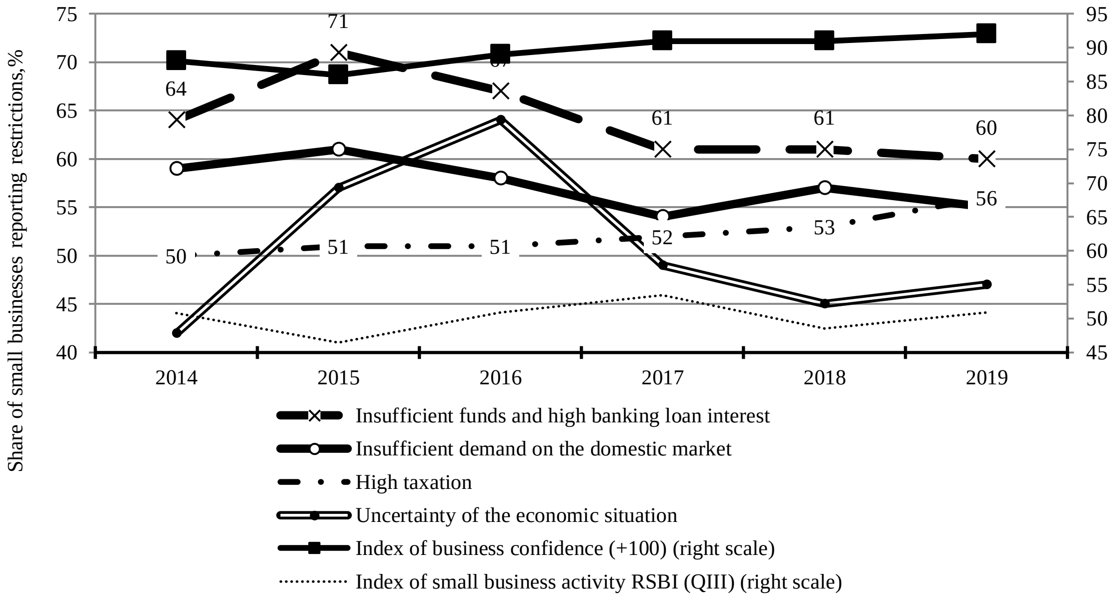
[2] Banks issued the record for 5 years amount of business loans. URL: https://www.vedomosti.ru/finance/articles/2020/02/26/823922-banki-rekordnuyu.

[3] Index OPORY RSBI. URL: https://opora.ru/projects/indeks-opory-rsbi/.

[4] *Antonova M.P., Barinova V.A., Gromov V.V., Zemtsov S.P., Krasnoselskikh A.N., Milogolov N.S., Potapova A.A., Tsareva Yu.V.* The development of small and medium-sized entrepreneurship in Russia in context of national project implementation. Moscow, Delo Publishing House RANEPA, 2020.

[5] Putin supported ban on scheduled inspections of small and medium businesses. URL: https://www.kommersant.ru/doc/4302091.

[6] URL: https://www.rbc.ru/economics/26/06/2018/5b30fcab9a7947e36cf7a7b3.



Note. Left scale: share of small manufacturing businesses reporting any specific restrictive factor in QIII, yearly, percent.

Fig. 47. Estimation of business environment in Russia

In addition, FTS of Russia every year deletes firms failing to provide reporting from the list of registered ones, and around 90% of all liquidated legal entities were closed by the decision of tax authorities. In 2020, a significant rise of bankruptcies and shutdowns is expected. Moreover, check on enterprises may even be toughened in order to avoid massive lay off[1].

Overall strengthening of control in 2018–2019 could result in a reduction in the number of SME subjects in 2019 by 118 thousand units. Meanwhile, the number of individual entrepreneurs was growing. This may be due to the intention of small businesses to reduce their costs by using tax incentives and transferring individual employees to IP status. In Russia, a considerable part of those employed that might relate to the SME sector, is in the shade. Therefore, in 2019, an experimental introduction of such a special tax regime as PIT, was conducted in Moscow, the Moscow Region, Republic Tatarstan, and the Kaluga Region; there are plans to spill over this regime to every region[2] from July 1, 2020. The number of registered self-employed reached only 330 thousand people in 2019[3]. In the meantime, employment in the informal sector is still growing from 14.3 million people in 2017 to 15.3 million in 2019 (21.3 percent of the total number of those employed)[4]. A number of employees in the SME sector decreased in 2019 compared to 2017–2018 by 0.5 million people (from 19.3 million to 18.8 million people), notably, due to reduction of a number of SME employees, which can be indicative of tax optimization. Modest growth in household incomes in 2019 as well as reduction in incomes early 2020 will result in further decrease of SME employment, largely

[1] Mikhail Mishustin warned against inadmissibility of job cuts in pretense of coronavirus situation. URL: https://www.kommersant.ru/doc/4298985.

[2] Ministry of Finance of Russia plans to spill over a special tax regime for self-employed across the whole country from July 1, 2020. URL: https://www.minfin.ru/ru/press-center/?id_4=36837-minfin_rossii_planiruet_s_1_iyulya_2020_goda_rasprostranit_spetsialnyi_nalogovyi_rezhim_dlya_samozanyatykh_na_vsyu_stranu.

[3] Over 330 thousand people registered status of self-employed in Russia. URL: https://tass.ru/ekonomika/7406941.

[4] Rosstat informed about growth of informal employment in Russia. URL: https://www.rbc.ru/economics/05/09/2019/5d6e74fb9a794709eeba4f8c.

associated with trade and services. The key SME sectors include wholesale and retail trade (60.4 percent of the total turnover), manufacturing (10.4 percent), construction (7.5 percent). The turnover structure of SME subjects over the last few years has not experienced major changes: the share of trade and refurbishment slightly reduced with manufacturing and internet services slightly growing. It is likely that in 2020 these trends will continue. Delivery services, various internet services, information technologies, distance education, telemedicine are developing.

The SME share in the GDP fell from 21.9 percent in 2017 to 20 percent in 2018. The turnover of SME sector has been generally growing in real terms since 2014, however, its significant reduction is expected in 2020. The turnover of medium-sized enterprises in 2017–2018 was lower than the level of 2015–2016. The ratio of the SME sector vs GDP grew from 2015 to 2017 (from 61 to 75 percent), but in 2018 there was a decrease to 72 percent, which most likely decreased in 2019 and will continue to decline in 2020. According to Rosstat, the number of small and medium-sized exporting enterprises grew by 3.4 times over 2018[1]. The share of SMEs in the non-resource sector also grew in 2018 amounting to 8.71 percent. However, the number of annually established startups decreases: 12.2 thousand startups were set up in 2018, being 4.6 thousand less than in 2017[2].

4.8.2. Geography and dynamics of SME subjects activity indicators

Spatial distribution of SME subjects

The geography of small and medium-sized enterprises in Russia has been developing over the last 30 years with stable institutional, sectoral and other regional specific features created during this period. The differences in the density of small businesses and involvement of the population in entrepreneurial activity are quite large. Actually, one can talk about different types of entrepreneurial ecosystems. It is important that changes in macroeconomic and other pstterns result in a different response of the SME sector in different regions. For example, the establishment of new enterprises under introduction of federal initiatives aimed to simplify business processes grows differentially in the regions depending on the quality of institutions, density of small firms, etc.[3].

Such major urban agglomerations as Moscow, St. Petersburg, Novosibirsk as well as port regions, i.e. Krasnodar krai and Kaliningrad regions, demonstrate the highest density of SME subjects per capita. The highest relative growth rate in the number of SME subjects was observed in 2019 in these particular regions or close to them, i.e. Moscow, Leningrad, Samara, Sverdlovsk Tyumen regions, Republic of Tatarstan, St. Petersburg, Krasnodar krai. Large consumer markets and, as a result, higher demand for SME products, higher need for a variety of goods, developed infrastructure (advanced transport network, enhanced logistics, access to facilities and equipment, a higher number of development institutions) are the strengths of major urban agglomerations. Moreover, population density positively correlates with the

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[1] EMISS. Number of small and medium-sized enterprises involved in export business. URL: https://fedstat.ru/indicator/54389.

[2] *Vera Barinova, Stepan Zemtsov, Vladimir Zinov, Vera Kidyaeva, Alexander Krasnoselskykh, Natalia Kurakova, Roza Semenova, Ivan Fedotov, S.Khalimova, Rustam Khafizov, Yulia Tsareva.* National report "Highly technological business in Russia's regions". 2020 / edited by Stepan Zemtsov. M.:RANEPA; AIRR, 2020.

[3] *Yakovlev E., Zhuravskaya E.* The unequal enforcement of liberalization: evidence from Russia's reform of business regulation // Journal of the European Economic Association. 2013. Vol. 11. No. 4. P. 808–838.

intensity of social ties, thus, allowing to share experience and get additional economic benefits, and negatively correlates with the fear of failure in starting a business.

Regions having an access to the sea and, accordingly, to trade routes, demonstrate a higher potential for the development of international trade, access to new foreign markets and the development of small and medium-sized business sector in tourism and transport.

A favorable investment climate resulted from political, legal, social and economic patterns, also stimulates business activity in the region. According to Agency for Strategic Initiatives rating, the best investment climate is in Kaluga, Tyumen, Voronezh, Ivanovo, Rostov regions, Krasnodar krai, Republic of Tatarstan, Moscow and St. Petersburg.

Republic of Crimea and the federal city Sevastopol demonstrate the density of entrepreneurial activity above average, explained by a great number of touristic businesses and guest houses present there. Last but not the least, the free trade zone rule is implemented in these regions[1], when enterprises pay a reduced profit tax of 2 percent, exempt from property tax for a long period of time after being registered, pay insurance premium at 7.6 percent rate instead of 30%.

In 2019, the number of SME subjects most critically reduced in Yaroslavl and Magadan regions, in the Republics of Chechnya, Komi, Mari El, Adygea, Altay and the city of Moscow. In our opinion, the decrease in the underdeveloped southern and northern regions is due to the departure of small firms in the shadow sector under the continuing decline in household incomes since 2014 and introduction of online cash registers. Evidently, the introduction of online cash registers could have a more detrimental effect on less developed and remote settlements. Less developed regions with the higher share of trade in the SME structure, suffered more after raising of the VAT rate. This reduction in Moscow and the Yaroslavl region could also be associated with the effect of the FIFA World Cup, when many enterprises closed immediately after the tournament ended.

The SME sector can suffer the most in regions with a developed entertainment sector and restaurant business. These types of businesses are traditionally concentrated in large agglomerations, especially in the regions, where large sporting events were envisaged and postponed indefinitely. Particular construction projects have been frozen, and the housing and apartments renovation market is unlikely to reach the level of 2019. The touristic sector and the relative small business in Krasnodar krai, Republic of Crimea, Kaliningrad Region, Republic of Tatarstan, St. Petersburg, Yaroslavl Region, will suffer significantly.

Quarantine measures imposed in foreign countries cause difficulties for small business in the bordering regions, i.e. Kaliningrad, Amur regions, Primorsky krai. This will result in reduction of a number of SME subjects. The shrinking rate will be lower in the less developed regions with a high share of agricultural business, i.e. Tambov, Lipetsk, Voronezh, Saratov regions, Altay krai. Foodstuffs are in demand under crisis and pandemic. The level of digitalization services is nevertheless higher in major agglomerations, there are more opportunities for distant work and, consequently, more opportunities to adapt to crisis, which is already the reality for many firms, transitioning to providing services in the online format, and distant employment.

[1] Federal law «On development of the Republic of Crimea and the federal city Sevastopol and free trade zone in the Republic of Crimea and the federal city Sevastopol" of November 29, 2014 № 377-FZ.

Geography and dynamics of employment in SME sector

The National project suggests an annual growth of employment in the SME sector by 900 thousand people in 2019–2024 (*Fig. 48*).Taking into consideration the reduction of labor force in Russia against stable dynamics of employment in the SME sector over the last years and reduction of employment in the sector in 2019 by half a million people, this scenario could be called optimistic[1]. Keeping the current value of the labor force in Russia at 76 million people, an increase in the number of employees by 20 percent (by 5–6 million people) over 5 years means an increase in the share of employees in SMEs from 24–26 to 32–34 percent. However, in times of crisis and according to business request to reduce their costs, the employment in the sector will most likely decline in 2020 more rapidly than in the economy as a whole. It is expected that control over budgetary organizations and large enterprises will be tougher.

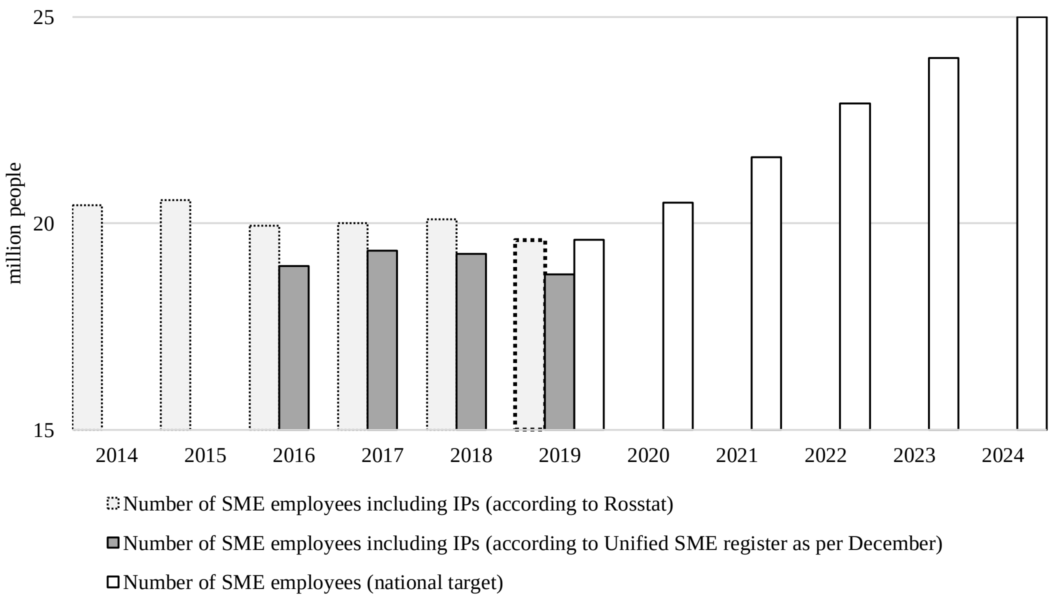

Fig. 48. Dynamics of employment in SME sector in Russia and national targets of SME employment declared for 2019–2024

Source: Rosstat; Unified SME register[2]; passport of the national project[3].

Employment in SME sector is highly concentrated, i.e. over 45.2 percent of those employed is centralized in major Russia's regions. For comparison, only 39 percent of total employment in Russia is concentrated in 10 major regions. The share of SME employees against the total number of employed in 2019 is the highest (over 30 percent) in large urban agglomerations with developed spheres of trade and services, i.e. St. Petersburg, Moscow, Novosibirsk, Sverdlovsk

[1] More modest rates conveyed in The "The development strategy of small and medium-sized entrepreneurship in Russia up to 2030"; actual target value of 2030 transferred to 2024. See: *Vera Barinova, Stepan Zemtsov, Vladimir Kotsyubinsky, Alexander Krasnoselskih, Yulia Tsareva.* Implementation of development strategy of small and medium-sized entrepreneurship in Russia//Russia economic development. 2018. Vol. 25. № 11. P. 36–45.

[2] Unified register of small and medium-sized entrepreneurship subjects. FTS. URL: https://rmsp.nalog.ru/index.html.

[3] Passport of the national project "Small and medium-sized entrepreneurship and support of individual entrepreneurial incentive". URL: http://government.ru/info/35563/.

regions and close to a major market of Moscow (Kostroma and Ryazan regions) and in port regions (Kaliningrad and Sakhalin regions). This indicator is the lowest, less than 4%, at Chukotka, Kabardino-Balkar Republic, Republic of Chechnya, Republic of Dagestan, Republic of Ingushetia, where the share of informal sector is higher, and small and medium-sized businesses registered less frequently and less commonly officially register their employees. Slight reduction in the concentration of SME employment can be expected in 2020 in major centers.

The number of SME employees increased in 2019 only in eight Russia's regions: Republic of Ingushetia, Chukotka and Nenets Autonomous Okrugs, Republic of Dagestan, Republic of Crimea, Republic of Tuva, Republic of Chechnya and Moscow region. Growth of employment in the regions of North Caucasus and Far North can be explained by low base effect, free trade zone in the Republic of Crimea and by favorable institutional conditions for opening firms in Moscow region. Most of all, employment declined in a number of large-urban northern regions (Murmansk, Arkhangelsk regions, the Komi Republic), as well as in the sparsely populated Non-Black Soil zone region (Yaroslavl, Novgorod and Pskov regions), which may partly be due to the introduction of online cash registers and the inability to use them in remote and rural settlements. In addition, the increase in costs associated with the VAT rate growth for businesses in these settlements could prove to be unbearable.

To secure the increase of the number of employees in the SME sector, many entrepreneurs should first thing come out of the shadows and the self-employed legalize. The *Table 34* shows the potential number of self-employed in each region. Nationwide, there are more than 8.5 million unregistered self-employed, provided that all employees of the informal sector could be referred to this work status with the exception of already registered individual entrepreneurs. Moreover, more than a third of potential self-employed are located in the 10 largest regions with the highest share falling for underdeveloped regions with unfavorable institutional conditions.

In 2020, despite the expansion of the experiment on introduction of business income tax for all regions, the share of employees in the informal sector should increase.

Table 34

Employment in informal sector in Russia's regions

Region	Employed in informal sector, percent to total number of employed population	Employed in informal sector, thousands of people	Employed in informal sector excluding individual entrepreneurs, thousands of people
1	2	3	4
Russian Federation	20.1	14193.9	8915.8
Leaders by number of employees in informal sector excluding IPs			
Republic of Dagestan	56.9	610.8	583
Krasnodar region	29.9	762.8	503.9
Rostov region	29.1	559.5	344.6
Republic of Bashkortostan	24.6	417.8	301.2
Republic of Chechnya	65	328	297
Stavropol region	30.9	374.1	270
Nizhny Novgorod region	18.4	299.4	232
Republic of Crimea	35.7	295.1	204.4
St. Petersburg	12.4	389.3	198.6
Republic of Tatarstan	17	324.4	184.5

Cont'd

1	2	3	4
Leaders by employment rate in the informal sector			
Republic of Ingushetia	50.2	88.5	71
Kabardino-Balkar Republic	44.9	160	140.7

Republic of North Ossetia - Alanya	37.8	107.7	94.2
Altay Republic	37.5	30.7	23.5
Sevastopol	33.1	59.3	39.2
Republic of Kalmykia	33	36.1	25.7
Ivanovo region	31.1	139.4	88.4
Penza region	30.8	183.4	118.9
Republic of Khakassia	30.2	70	38.9
Republic of Adygea	30.2	45.2	30.6

Source: own calculations based on Rosstat data.

Geography and dynamics of the SME non-resource exports

The volume of non-resource exports of the SME subjects in Russia accounted for nearly USD 14.1 billion or 7.2 percent of the aggregated non-resource exports in 2017[1]. In 2018, the volume of non-resource exports of the SME subjects increased by 45% compared to the previous year constituting USD 20.6 billion or 8.7 percent of the aggregated exports this year. The share of non-resource SME exports increased in the total SME exports volume: from 85 percent in 2017 to 87 percent in 2018. Only 2.6 percent of the total volume of the SME non-resource exports falls for individual entrepreneurs.

The increase of the SME exports share in the total volume of non-resource exports to 8.8 percent by 2019 and to 10 percent by 2024, foreseen under project, is feasible provided major enterprises reduce exports in the new environment. Amid falling consumer demand within the country, some successful small and medium-sized businesses will increase export deliveries benefiting from Ruble depreciation and, accordingly, a relative decrease in the cost of production in foreign markets. Therewith, small firms may be more adapted to changing environment due to the production and export of piece products and the ability to take into account the needs of specific consumers.

Additional measures aimed to support exports, can contribute to survival of the most competitive companies in the SME sector.

During 2018, the leaders in the absolute volume of non-resource SME exports were the largest agglomerations of Russia with concentration of processing enterprises (Moscow, St. Petersburg), agricultural and farming centers (Rostov region, Krasnodar Krai), forestry and wood processing centers (Irkutsk region, Krasnoyarsk krai) and centers of marine industries and marine farming (Sakhalin region, Primorsky Krai).

The share of the SME sector in the region’s non-resource exports accounts for more than 50% in economically underdeveloped regions specializing in agriculture (Republic of Tuva, Altai Krai, Republic of Adygea, Republic of Karachay-Cherkessia, Republic of Chechnya). In the remote regions there are no large non-resource companies due to the increased costs of transporting raw materials and finished products, therefore, the share of SME exporters is also high in the Yamalo-Nenets, Chukotka Autonomous Okrugs, Tomsk Region and Zabaykalsky krai (*Table 35*). Less than 2 percent of this share is concentrated in the regions with high volume of the non-resource metallurgic production (Vologda, Lipetsk, Kemerovo regions), and chemistry (Tula, Tyumen regions), associated with the activities of the respective largest enterprises in these regions.

[1] Russia FTS and FCS data were used. Note that it is impossible to receive quality regional statistics as the region, where the firm has been officially registered, is reflected in the customs declaration as exporting region rather than the region where this firm conducts their activity (around 20 percent of SMEs registered in Moscow and St. Petersburg in Russia).

Table 35

Leading regions according to absolute value of SME non-resource exports (legal entities and individual entrepreneurs) in 2018

Leading regions according to absolute volume of SME exports	Non-resource SME exports, USD, million	Regional share in the total volume of non-resource SME exports in Russia, percent to total	Growth in 2018 against 2017, %
Moscow	3 859.00	25.20	34.30
Rostov region	944,1	11,20	143,90
Irkutsk region	911.4	3.70	-15.70
St.Petersburg	821.4	5.40	34.80
Krasnoyarsk krai	671.1	4.50	36.40
Primorsky krai	668.1	3.90	21.30
Krasnodar krai	469.7	6.00	164.20
Moscow region	353.3	2.70	56.00
Sakhalin region	225.7	2.10	91.00

Source: own calculations based on FTS[1], FCS[2] data.

4.8.3. Recommendations for entrepreneurial policy in Russia

Modern measures to support entrepreneurial sector can be split into short term and long term.

Short-term measures introduced in many countries, including Russia[3], are designed to ease the negative effects of the pandemic. Among these measures, the following is suggested: deferrals of payments on taxes and social contributions, on leasing of facilities owned by the state, support of consumer demand by issuing subsidies to vulnerable groups of the population, deferral of payments on loans, introducing a moratorium on bankruptcy[4]. Measures of higher value are being developed in Russia for enterprises in the transport industry and tourism, however, it will be necessary to introduce subsequent particular measures for creative industries closely related to the entertainment sector.

Anti-crisis supportive measures are also being developed in certain regions having financial, administrative and other resources for their implementation. The city of Moscow was one of the first to start collecting proposals for supportive measures and provided small and medium-sized businesses with certain relaxation options[5]. Among these measures are: expanding soft loan programs and guarantee support for SME lending, deferral of payment of rent for SME subjects, renting the state or municipal property, moratorium on SME inspections, including on-site tax inspections (except for issues that pose risks to human life and health).

However, introduced and declared measures are evidently not sufficient to mitigate the negative crisis impact taking into consideration strong decline in demand. The option to introduce tax holidays up until quarterly deferral of tax payment[6] is under discussion.

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[1] Federal Tax Service. URL: http://nalog.ru.

[2] Federal Customs Service of the Russian Federation. URL: http://customs.ru/.

[3] Rescue of entrepreneurs: supportive measures introduced by governments of European countries, the USA and Russia amid crisis. URL: https://vc.ru/finance/114412-spasenie-predprinimateley-kakie-mery-pomoshchi-vvodyat-pravitelstva-stran-evropy-ssha-i-rossii-v-usloviyah-krizisa.

[4] Draft bill № 931192-7 “On amendments to particular legislative acts of the Russian Federation on prevention and control of emergencies”. URL: https://sozd.duma.gov.ru/bill/931192-7#bh_note.

[5] Moscow will strengthen SME support under economic instability/RIA Novosti. March 18, 2020 URL: https://ria.ru/20200318/1568799432.html.

[6] *Elena Bazanova, Svetlana Yastrebova, Anna Chervonnaya.* The Government prepare plan to support economy due to coronavirus//Vedomosti. March 15, 2020. URL: https://www.vedomosti.ru/economics/articles/2020/03/15/825250-plan-zaschiti.

Long term supportive measures should be focused on reducing the impact of potentially protracted crisis and adaptation to new environment (support of changes in the SME sector pattern towards increase of the internet-economy share, support of enterprises digital transformation, providing incentives to access foreign markets). Significant differences between regional entrepreneurial systems require, on the one hand, to make adjustments to the federal policy of entrepreneurship, while, on the other hand, allow to use strengths and weaknesses of the regions, their specialization and economic/geographic conditions for more effective long term development of the SME sector in Russia.

The support of "gazelles", product, fast – growing companies related to medium-sized businesses, often innovative, is relevant amid the changed environment for regions, leading in the development of entrepreneurship (Moscow, St. Petersburg, Republic of Tatarstan, Samara, Novosibirsk regions). Appropriate measures are needed to automate and digitalize production in order to increase the competitiveness and demand for products on the way to economic recovery. Moreover, special measures are needed to accelerate and nurture suppliers, to develop venture capital and increase funding for related grants aimed at research and development in cooperation with universities. "Gazelles" are interested in establishing channels for exporting products, which is relevant against Ruble depreciation and a decrease in domestic demand. It is worth to reconsider the role of universities in order to create points of growth in the anti-crisis period and incorporate them into the ecosystem as main agents of change and a generator of innovation and startups[1].

It is reasonable to strengthen cooperation with enterprises and their suppliers, intermediaries, financial institutions, NGOs, development institutions and public companies, international companies and information agencies, auditing and consultancy firms, for regions known for developed small and medium-sized productions (Kaluga, Vladimir, Yaroslavl, Ryazan, Lipetsk, Tomsk regions) aimed to establish and develop clusters. Such a mechanism as increase of support to those companies operating at technological parks, technopolises, accelerators, industrial parks, can be effective[2].

Measures to initiate mass entrepreneurship and to legalize informal employment are needed in the lagging regions with ecosystems of entrepreneurship being not so successful and negative dynamics of entrepreneurship development. This may include measures to reduce the tax burden (for example, the abolition of tax payments for self-employed in rural areas) and consulting support. For regions specializing in agriculture, measures for agricultural cooperation are important. For single-industry towns, measures aimed at direct support of mass entrepreneurship are also relevant (for example, grants for starting a business).

In remote regions having adverse business environment, the main focus should be on reducing costs. The state should promote (subsidize, if necessary) the introduction of new technologies, the expansion of renewable wind and solar energy. For remote regions of the Far East, such measures as export stimulation, improvement of customs procedures and infrastructure, and transport benefits, are important.

In many respects, the survival of small business in 2020 will depend on the timeliness and effectiveness of government support measures, however, its subsequent development is

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[1] *Vera Barinova, Stepan Zemtsov, Vladimir Zinov, Vera Kidyaeva, Alexander Krasnoselskykh, Natalia Kurakova., Roza Semenova, Ivan Fedotov, S.Khalimova, Rustam Khafizov, Yulia Tsareva.* National report "Highly technological business in Russia's regions". 2020 / edited by Stepan Zemtsov. M.:RANEPA; AIRR, 2020.

[2] *Maria Antonova, Vera Barinova, Vladimir Gromov, Stepan Zemtsov, Alexander Krasnoselskykh, Nikolay Milogolov, Aleksandra Potapova, Yulia Tsareva.* Development of small and medium-sized entrepreneurship in Russia in the context of national project implementation. M.: Publishing House "Delo" RANEPA, 2020.

impossible without a radical change in business policy, implying the above-described shift in sectoral and territorial emphasis. In the future, support for SMEs should move away from direct financial measures to create comfortable platform for the sustainable growth of small and medium-sized firms.

This includes institutional reforms, expansion of soft services, building-up incentives for interaction with other economic agents (large business, universities, etc.), stimulation of entrepreneurial incentive, especially in innovative sectors of the economy. A similar approach can be called ecosystemic.