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## THE INFLUENCE OF ECONOMIC SPACE ON THE ENTREPRENEURIAL ACTIVITY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE RUSSIAN FEDERATION

**Abstract:** The article examines the impact of economic space on the entrepreneurial activity of small and medium-sized enterprises in the Russian Federation. The aim of the study is to analyze the current situation of small and medium-sized businesses in Russia, the impact of sanctions on their entrepreneurial activity, and the measures taken by the state to support entrepreneurs.

**Keywords:** economic space, small and medium-sized enterprises, sanctions, entrepreneurial activity, state territory.

Economic space has a significant impact on the entrepreneurial activity of small and medium-sized enterprises. The relationship between the properties of economic space and the performance of small and medium-sized enterprises is important for improving the efficiency of entrepreneurial activity and regional development. At present, the vast economic space of the Russian Federation is under active pressure from sanctions. During this difficult period, special measures have been developed to support entrepreneurs. A well-developed small and medium-sized enterprise (hereinafter referred to as SME) sector is considered an important condition for a high level of the country's economy. The role of SMEs in ensuring economic security lies in the fact that enterprises have a significant impact on the development of the country's socio-economic system, thereby ensuring the stability of the national economy.

The innovative development of small and medium-sized enterprises plays a crucial role in accelerating market reforms and contributes to the socio-economic progress of modern society. An increase in the number of small and medium-sized enterprises leads to growth in economic indicators and an improvement in the quality of life of the population, creating new jobs and reducing social tension. In addition, it contributes to ensuring the economic security of the state.

Within the state territory, the state is the highest authority in relation to all persons and organizations, which is ensured by a system of state bodies (legislative, representative, executive, and judicial). According to Article 67 of the Constitution of the Russian Federation, the territory of the Russian Federation includes the territories of its constituent entities, internal waters and territorial sea, and the airspace above them. The state territory includes: land and waters (internal and territorial) within the state borders; the airspace above the land and waters (the troposphere, stratosphere, ionosphere, and a significant part of the space above); and the subsoil beneath them.

*Economic space (ES)* is the state territory within which the system of human life is created, used, and reproduced, and where people carry out activities to satisfy their needs. In a broad sense, economic space encompasses the territory of land, internal and territorial waters that are necessary to maintain and improve the conditions of the population. In a narrow sense, it is the economically developed territory of a country where activities related to the production, distribution, exchange, and consumption of goods and services are carried out.



A *single economic space* is an association of the economies of several isolated territories that interact and are synchronized with each other thanks to a single institutional environment. Within this space, unified socio-economic processes are carried out, and joint activities are aimed at achieving effective and sustainable development of national economies. Thus, an ideal condition for a common economic space is created.

A *common economic space* is an association of territories of different countries, implemented through an intergovernmental agreement that regulates the process of social (intergovernmental) division of labor by removing customs restrictions and creating a single market for participating countries, thereby ensuring a single competitive environment.

The main characteristics of an economic space are considered to be:

- ☐ Dynamism - the ability to change over time, qualitatively
- ☐ Properties of space as an element of the economic system: finiteness, openness, interaction with the external environment;
- ☐ Structural properties - heterogeneity, the existence of a hierarchy of spaces, layers, and levels of space.

In Russia, the unity of economic space and the free movement of goods and services are guaranteed (Part 1 of Article 8 of the Constitution of the Russian Federation), taxes that violate its unified economic space are not allowed (Clause 4 of Article 3 of the Tax Code of the Russian Federation), and the legal foundations of a single market are established (Article 71 of the Constitution of the Russian Federation).

On the one hand, the economic space covers all areas within the country, where freely move factors of production, so that effectively used in the business sector. The unity and coherence of the economic space is both physical and institutional in nature, implying the dynamic distribution of entrepreneurial activity across the country

On the other hand, the economic space demonstrates significant heterogeneity, with centers of economic activity (a modern example being agglomerations), semi-peripheral and peripheral territories with low levels of economic development.

The most important components of a single economic space are national markets, labor and capital, which also subject to Transitional processes integration and disintegration.

Coordination of the actions of the central and regional authorities of the Russian Federation should be aimed, first and foremost, at preserving the general principles of market functioning throughout the territory, controlling tax and credit policy, centralization the economic mechanism for natural resource use, etc.

The unity of financial policy is a necessary condition for the unity of the economic space in the Russian Federation, guaranteed by the Constitution of the Russian Federation, and the free movement of financial resources (Article 75).

Federal financial legislation applies equally to each of the subjects of the Federation. Outside the jurisdiction of the Russian Federation and joint jurisdiction, each of the subjects of the Federation exercises its own legal regulation of financial relations and independent financial activities, approves the budget, sets taxes, etc.

*SMEs (small and medium-sized enterprises)* are businesses with no more than 250 employees and annual revenue not exceeding 1 billion rubles. If an enterprise falls into the SME category and is included in the relevant register, it can receive benefits and the right to participate in small and medium-sized business support programs. Russian Federation Law No. 88-FZ of July 14, 1995, "On State Support for Small Businesses in the Russian Federation," states that small and medium-sized businesses are commercial organizations that belong to one (or several) legal entities.



In a market economy, the sustainable development of small and medium-sized enterprises is characterized by their ability to adapt to a constantly changing competitive environment.

The following advantages of small and medium-sized businesses are highlighted:

- o Comparatively small amount of initial capital and working capital;
- o Flexibility, mobility, quick response to changes in the market environment;
- o Efficiency in management and reduction of overhead costs, etc.;
- o Accessibility for all citizens due to the small amount of start-up capital required.

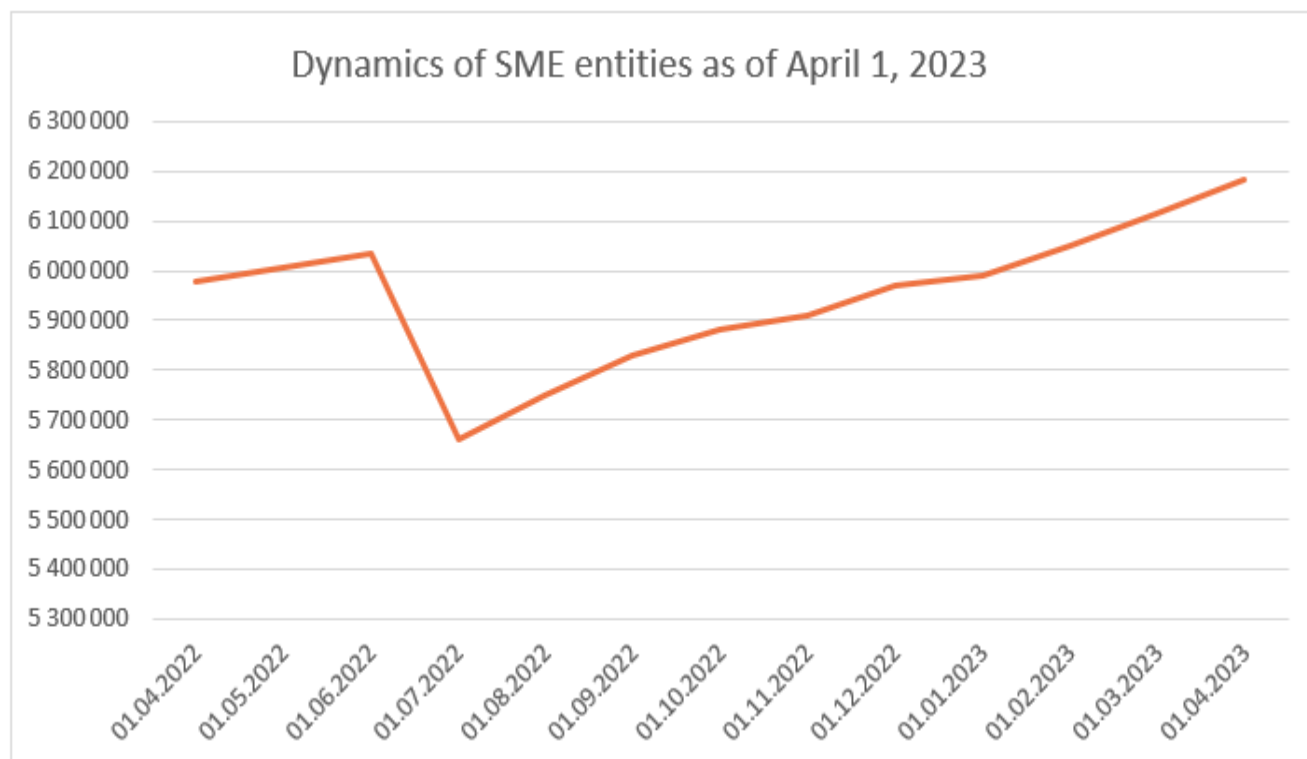


Fig. 1.

Let's look at the number of SMEs and their dynamics:

Against the backdrop of increased sanctions pressure, the number of SMEs increased by 500,000 between August 2022 and March 2023. According to Anton Beloglazov, director of the Center for Strategic Research's evidence-based economics department, the increase in the number of SMEs may be due to seasonal factors.

Entrepreneurial activity is significantly higher in central regions than in peripheral areas. Small and medium-sized businesses follow the general trends in the development of the economic space, and their overall level of development will be higher due to the concentration of productive forces in a particular city.

Half of small businesses (SBs) are concentrated in two federal districts (Central and Volga). Let's compare the figures for 2021 with those for 2023.

Let's look at how many SMEs were registered in 2023:



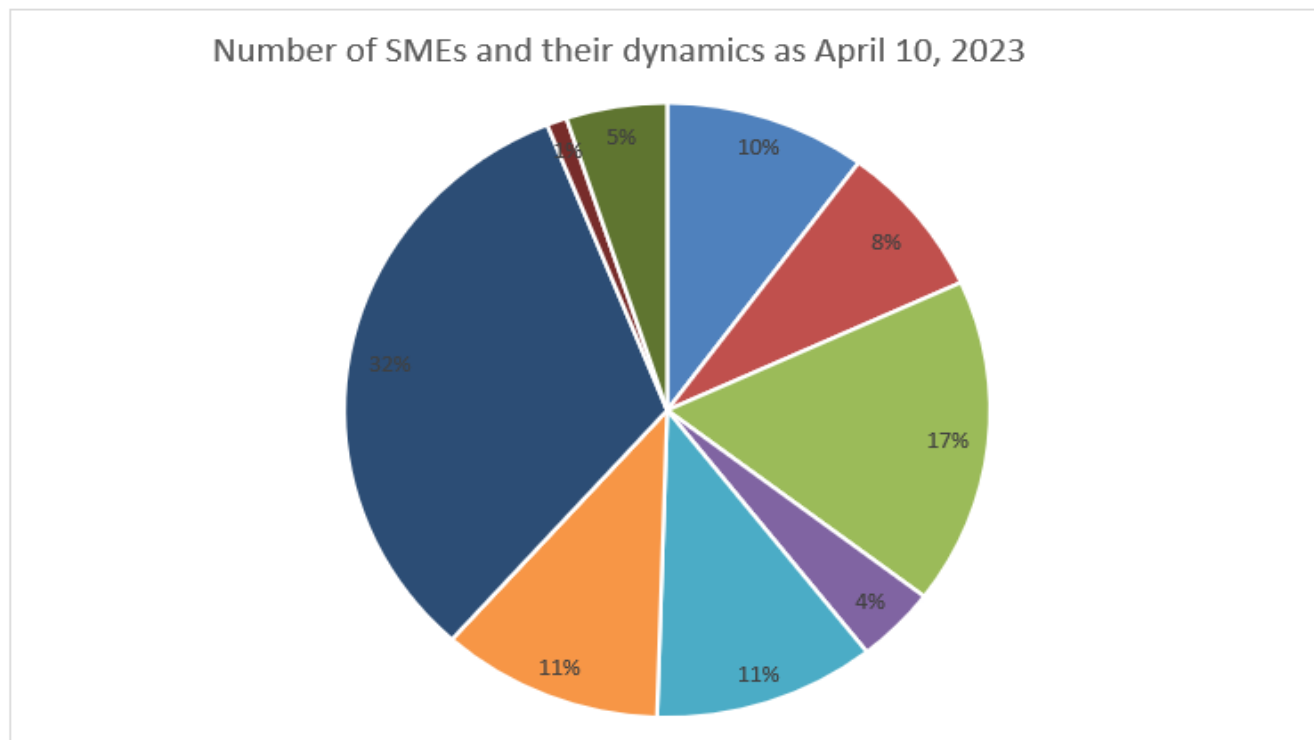


Fig. 2. Number of SMEs in 2023

In 2023, most entities were concentrated in the same federal districts as in 2021, but with a slight difference of 1%.

Despite the active sanctions policy towards Russia, the trend of creating new enterprises and organizing new jobs continues in the Russian Federation, which has a positive impact on the country's economy as a whole.

SMEs ensure the socio-economic development of the country. Economically developed countries have already come to the conclusion that small and medium-sized businesses are an integral part of the economy, participating in the development of society and ensuring the growth of production efficiency. In the Russian Federation, there is also an understanding that SMEs are a link in the economic structure without which it is impossible to ensure a sufficient level of economic security in the long term. Nevertheless, the share of SMEs in GDP in leading Western countries and in Russia differs significantly. In the Russian economy, the share of small businesses cannot be called high when comparing our country with developed Western countries in terms of this indicator.

Compared to large enterprises and monopolies, small and medium-sized enterprises (SMEs) have undeniable advantages. Small businesses are mobile and able to adapt to consumer preferences and change in response to environmental conditions. In turn, medium-sized businesses create jobs, promote healthy competition in the economy and, like small businesses, influence changes in the structure of gross domestic product, including regional aspects, as well as economic growth rates.

The sanctions have caused a number of problems, many of which are still relevant today, including:

Lack of working capital;

- The fall in the ruble exchange rate (currency instability);
- Decline in demand for goods;
- Difficulties with the supply of raw materials and components;
- Decrease in production volumes;
- Inaccessibility of equipment for new equipment modern technologies due to the impact of

sanctions.



The current situation provides an opportunity to restore the industrial potential of the Russian economy and increase competitiveness in domestic and foreign markets. Despite the rather difficult situation for SMEs under sanctions, their positive impact should also be noted:

- ✓ import substitution;
- ✓ expansion of the market for goods and services of enterprises in the domestic market;
- ✓ increasing competitiveness;
- ✓ diversification of entrepreneurship;
- ✓ the possibility of obtaining new government contracts;
- ✓ increased exports.

Below are the dynamics as of April 10, 2023, "Ratio of the number of employees to SMEs":

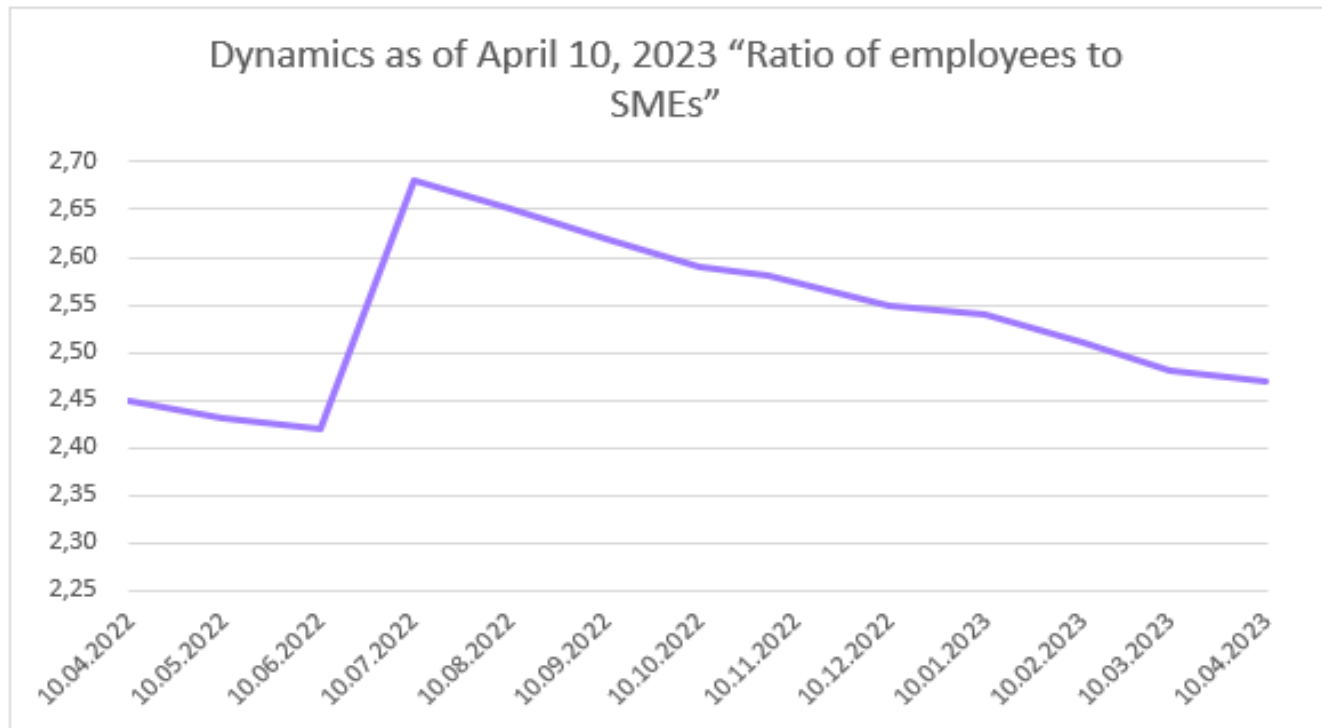


Fig. 3. Dynamics of the ratio of the number of employees to SMEs

With the start of sanctions against Russia, the dynamics began to deteriorate from July 10, 2022. According to experts, those working in the small business sector could re-register as self-employed. Let us consider how the number of individuals and individual entrepreneurs who have registered their status and apply the special tax regime "Tax on Professional Income" as of December 31, 2022, is distributed among the constituent entities of the Russian Federation.

Federal District ranks first in terms of the number of registered self-employed persons (1,567,261 people). The Volga Federal District ranks second, with 697,123 people.

It can be assumed that the number of self-employed people will continue to grow. The reasons for this may be as follows:

- Some citizens believe that self-employment can be a kind of entrepreneurial strategy that allows them to earn income in conditions of economic instability.
- Others choose self-employment as a means of survival if they are unable to find a job or pass numerous interviews. However, in this case, self-employment has limited potential for developing the country's human capital and does not contribute to the sustainability of economic development.



### *Support measures for SMEs*

Borrowers who are SMEs in certain industries have the right to apply to their lender for a credit holiday until December 31, 2023, for loan agreements concluded before March 1, 2022. These agreements provide for the suspension of obligations under the agreement for a period determined by the borrower. If the borrower is a sole proprietor, they may request a reduction in payments during the grace period instead of a suspension of obligations.

The specifics of granting state or municipal preferences in 2022-2023 to support SMEs have been established. Thus, the preference is granted without prior consent of the antimonopoly authority. However, in further, it must be notified (except in certain cases) within the established time frame. The maximum interest rates on a number of preferential loans for SMEs have been changed.

The Bank of Russia and the Government of the Russian Federation have developed anti-crisis programs for preferential lending. In 2022-2024, high-tech, innovative SMEs can obtain preferential loans from JSC "SME Bank".

Various centers have also been set up to support entrepreneurs, where they can receive free services and advice on business matters. Russia has a number of support measures in place, many of which can be used by families with children if one or both parents are entrepreneurs, in the form of various grants, subsidies, and preferential loans.

Under the current circumstances, small and medium-sized businesses have found themselves in a difficult situation, as they were the least protected from external influences. Government support measures are stabilizing the situation and minimizing the negative impact of sanctions, which is helping the Russian economy adapt to the current realities. The state has created conditions for the successful launch of businesses. The SME sector is still underdeveloped, but it continues to grow. Only through constant monitoring and high-quality state support is it possible to achieve the effective development of small and medium-sized businesses, which will ultimately improve the economic situation both within the country and on the world stage.

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