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

***Abstract:** this study investigates how the properties of economic space shape the business landscape for small and medium-sized enterprises (SMEs) in Russia. The research aims to provide a comprehensive analysis of the current challenges facing Russian SMEs, with a particular focus on the impact of international sanctions and the efficacy of state-led support programs designed to stabilize the sector.*

***Keywords:** economic space, SMEs, sanctions, business activity, territorial development.*

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**ВЛИЯНИЕ ЭКОНОМИЧЕСКОГО ПРОСТРАНСТВА
НА ПРЕДПРИНИМАТЕЛЬСКУЮ АКТИВНОСТЬ МАЛЫХ
И СРЕДНИХ ПРЕДПРИЯТИЙ В РОССИЙСКОЙ ФЕДЕРАЦИИ**

***Аннотация:** в статье исследуется, как свойства экономического пространства формируют бизнес-ландшафт для малых и средних предприятий (МСБ) в России. Целью исследования является всесторонний анализ текущих проблем, с которыми сталкиваются российские малые и средние предприятия, с особым акцентом на влияние международных санкций и эффективность государственных программ поддержки, направленных на стабилизацию сектора.*

Ключевые слова: экономическое пространство, малый бизнес, средний бизнес, санкции, деловая активность, территориальное развитие.

The productivity of small and medium-sized businesses is intrinsically linked to the nature of the economic space in which they operate. Analyzing this relationship is vital for optimizing business performance and stimulating regional economic growth. Currently, the expansive Russian territory is navigating intense external pressures from sanctions. During this turbulent period, authorities have introduced special provisions to aid entrepreneurs. A thriving SME sector is a cornerstone of a resilient economy, as these enterprises play a pivotal role in shaping the nation's socio-economic trajectory and ensuring its overall stability.

In addition, the drive for innovation within the SME sector accelerates the pace of market evolution and contributes to broader societal progress. As the number of such enterprises grows, the economy benefits from improved indicators, while the population enjoys a better quality of life thanks to new employment opportunities and reduced social strain. This positive dynamic, in turn, fortifies the economic security of the entire nation.

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.

The Russian Federation guarantees the integrity of its economic space and the unimpeded movement of goods and services, as stipulated in Part 1 of Article 8 of its Constitution. This principle is reinforced by Clause 4 of Article 3 of the Tax Code, which prohibits taxes that disrupt this unified economic space, and by Article 71 of the Constitution, which establishes the legal foundations for a single market.

On one hand, the economic space encompasses the entire national territory, allowing for the free flow of production factors, thereby ensuring their efficient utilization within the business sector. The coherence and unity of this space have both physical and institutional dimensions, facilitating the dynamic distribution of entrepreneurial activity throughout the country.

On the other hand, this economic space is marked by considerable heterogeneity. It features distinct centers of economic activity-modern agglomerations being a prime example-alongside semi-peripheral and peripheral territories characterized by lower levels of economic development.

Key components of a unified economic space include national markets for labor and capital, which are themselves undergoing processes of integration and disintegration. Consequently, the coordination between federal and regional authorities must prioritize preserving the universal principles of market operation nationwide, alongside regulating tax and credit policies and centralizing the economic framework for natural resource management.

The unity of financial policy, as guaranteed by Article 75 of the Constitution, is a prerequisite for maintaining this unified economic space and ensuring the free movement of financial resources. Federal financial legislation applies uniformly across all constituent entities of the Federation. However, outside the exclusive purview of the federal government and areas of joint jurisdiction, each region exercises its own legal regulation of financial relations, conducts independent financial activities, approves its budget, and levies its own taxes.

Regarding the business landscape, small and medium-sized enterprises (SMEs) are defined as businesses employing no more than 250 people and generating annual revenues of up to 1 billion rubles. Inclusion in the official SME register grants these enterprises access to various benefits and participation in state support programs. As outlined in Federal Law No. 88-FZ of July 14, 1995, «On State Support for Small Businesses in the Russian Federation," SMEs are characterized as commercial organizations that may be affiliated with one or more 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:

- comparatively small amount of initial capital and working capital;
- flexibility, mobility, quick response to changes in the market environment;

- efficiency in management and reduction of overhead costs, etc.;
- accessibility for all citizens due to the small amount of start-up capital required.

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

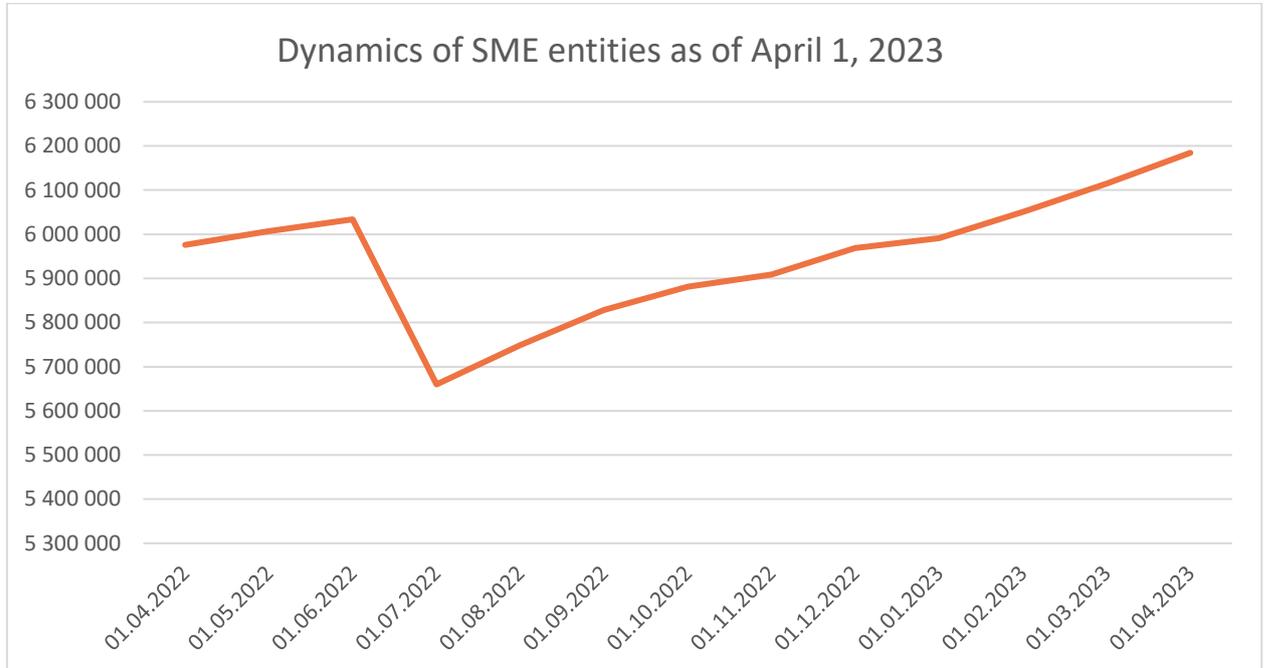


Fig. 1

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.

Number of SMEs and their dynamics as April 10, 2023

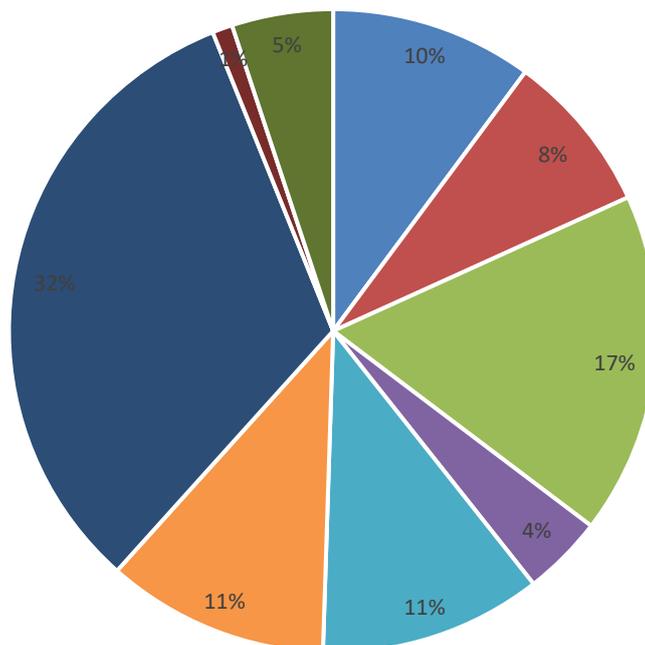


Fig. 2. Number of SMEs in 2023

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»:

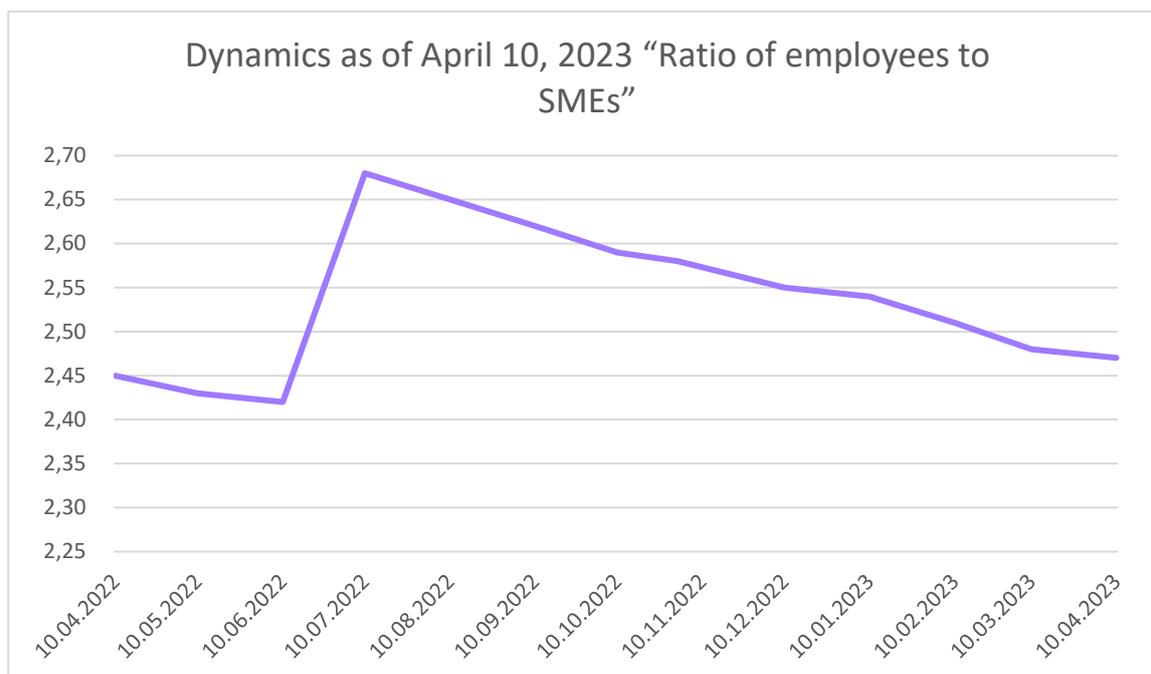


Fig. 3. Dynamics of the ratio of the number of employees to SMEs

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.

In response to recent economic pressures, a range of government measures have been implemented to stabilize the small and medium-sized enterprise (SME) sector. A temporary provision allows SMEs in certain sectors to suspend payments on loans issued before March 1, 2022, by requesting a «credit holiday» from their lender, valid until the end of 2023. While this generally entails a full suspension of obligations for a term set by the borrower, individual entrepreneurs may instead opt for a reduction in their periodic payments during this period.

Significant regulatory adjustments have also been made to streamline access to state support. For instance, during 2022–2023, state and municipal preferences for SMEs can be allocated without the need for prior authorization from the antimonopoly service, although post-factum notification is typically mandatory. Concurrently, lending conditions have been eased, with revised maximum interest rates on certain soft loan programs and the launch of anti-crisis initiatives by the Central Bank and the Government. A notable example is the availability of preferential financing from JSC «SME Bank» for high-tech and innovative enterprises between 2022 and 2024.

Beyond financial instruments, the state has expanded its institutional support network. Newly established entrepreneur support centers offer complimentary advisory services on a wide array of business issues. These measures are complemented by targeted programs for demographics such as families with children, who may be eligible for grants, subsidies, or preferential loans if they are engaged in entrepreneurial activities.

The underlying rationale for these extensive measures is the particular vulnerability of SMEs to external economic volatility. As the least protected segment of the economy, they bore the brunt of the initial shock from sanctions. Consequently, these government interventions are critical not only for stabilizing businesses but also for facilitating the broader adaptation of the Russian economy. By creating a more favorable environment for business initiation and growth, the state aims to nurture the still-developing SME sector. Continued oversight and effective support are imperative to unlock the full potential of small and medium-sized businesses, a development that is

key to improving both domestic economic performance and Russia's global economic competitiveness.

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