

# Assessment of the Effectiveness of State Policy to Support Small and Medium Innovative Entrepreneurship in the Context of Foreign Economic Sanctions

Sergey Korobov<sup>a</sup>, Irina Usacheva<sup>b</sup>, Veronica Epinina<sup>c</sup> and Viktor Moseiko<sup>d</sup>

*Volgograd State University, Volgograd, Russia*

*cint@volsu.ru, zeppelin89@volsu.ru, epinavs@volsu.ru, vikmos59@volsu.ru*

**Keywords:** Foreign economic sanctions, Entrepreneurship, Support measures, Public authorities, Public policy, Russian Federation.

**Abstract:** The aim of the study is to carry out a socio-economic analysis based on the authors' survey of small and medium innovative entrepreneurship subjects on the state policy of supporting entrepreneurship in the conditions of foreign economic sanctions. Using the economic and statistical tool of online questionnaire, the authors identified: sectors of small and medium-sized enterprises that are most affected by the negative impact of the imposed foreign economic sanctions; the level of awareness of small and medium innovative entrepreneurship subjects about federal measures to support business; the most popular federal measures to support small and medium innovative entrepreneurship subjects and the level of business satisfaction with them; federal support measures, which are used by small and medium innovative entrepreneurship subjects to support their business. The greatest interest for the study is its result, which consists in the measures of business support, adopted by the federal government bodies, identified by the authors, which are the most effective, according to the subjects of small and medium innovative entrepreneurship, in the conditions of sanctions pressure. Such federal measures of business support are, first of all, financial: tax rate reduction, soft loans, zero rate on the simplified system of taxation, cost subsidies, grants, loan vacations, tax extensions. The least effective federal measures are institutional: moratorium on bankruptcy, limitation of criminal cases for tax crimes, ban on blocking the current account, cancellation of the increased penalty, fixation of cadastral value. Scientific novelty of the article consists in the formation of a decision-making support system for public authorities to develop necessary measures for the development of innovative businesses, which consists in prompt feedback from the business community through systematic online questionnaires.

## 1 INTRODUCTION

Currently, foreign and domestic researchers have studied the strategies and consequences of the adaptation of the business of countries in the context of «sanctions wars», such as North Korea (Hastings, 2022), Iran (Aflatoon, 2022; Hufbauer, 2020; Samadi, 2021), Angola (Lazanyuk, 2022), Russia (Bayramov, 2020; Bêlin, 2021; Dong, 2018; Vatansever, 2020).

The introduction of anti-Russian foreign economic sanctions has led to a number of studies aimed at assessing their impact on the Russian

economy. Thus, according to G.S. Sedrakyan's estimates, Western and U.S. sanctions against the Russian Federation led to a significant reduction in both exports from transition economies and Russian imports to transition economies (Sedrakyan, 2022). In their study T.T. Nguyen, M.H. Do found that the decrease in exports and imports as a result of foreign economic sanctions indicates that the sanctions are harmful to both the Russian Federation and the countries imposing the sanctions (for example, the counter-sanctions caused a 54.52% decrease in the value of agricultural imports and a 20.86% decrease in the value of non-agricultural imports) (Nguyen,

<sup>a</sup> <https://orcid.org/0000-0003-1899-4237>

<sup>b</sup> <https://orcid.org/0000-0002-5554-254X>

<sup>c</sup> <https://orcid.org/0000-0002-8771-3198>

<sup>d</sup> <https://orcid.org/0000-0001-5217-2363>

2021). According to the results of the quantitative assessment of the impact of economic sanctions against the Russian Federation on its welfare X. Du, Z. Wang came to the conclusion that foreign economic sanctions, which interrupted trade and interstate relations between the Russian Federation and all other economies except China, would reduce real income in the Russian Federation by 11.98%. Moreover, if only trade ties were severed, real income in the Russian Federation would decrease by 9.55% (Du, 2022).

At the same time, S.V. Gurash (Gurash, 2022), O.B. Ivanov, E.M. Buchwald (Ivanov, 2022), S.A. Korobov, V.O. Moseiko, S.I. Korobova (Korobov, 2022) note the success of the experience of public authorities' support for small and medium entrepreneurship in the following subjects of the Russian Federation:

1. Nizhny Novgorod region – allocation of 1 billion rubles to support entrepreneurship in order to stabilize the labor market.

2. The Republic of Tatarstan – allocation of 25.3 billion rubles for the implementation of 2.3 thousand applications of entrepreneurs in the framework of anti-crisis support.

3. Voronezh region – creating an information resource and a hotline to submit proposals on business support measures.

4. Udmurt Republic – provision of a loan at the rate of 7% per annum to entrepreneurs (the region's priority industries).

5. Chelyabinsk Region (and a number of other regions) – creation of a regional center of import substitution.

6. The Pskov Oblast – establishment of an operational headquarters for the socio-economic sustainability of the region.

7. Moscow Oblast – implementation of a set of measures to support enterprises engaged in 21 types of economic (entrepreneurial) activities.

From the above it follows that the implementation by the public authorities in relation to the subjects of small and medium-sized enterprises of priority measures of support is extremely important within the policy of counteraction to sanctions and their negative consequences, as well as for the purpose of creating conditions for further import substitution. This conclusion extends to the subjects of small and medium innovative entrepreneurship.

## 2 METHODOLOGY

The purpose of the present study is the analysis on the basis of the authors' application of the economic and statistical tool of the online questionnaire on the effectiveness of the state policy to support small and medium innovative entrepreneurship in the conditions of foreign economic sanctions.

The research is based on the task of determining the effectiveness of federal measures of public authorities' support of small and medium innovative entrepreneurship in the conditions of foreign economic sanctions.

The data for the study were collected on the basis of an online questionnaire survey of entrepreneurs, conducted by the authors in September 2023. To calculate the sample size for the descriptive study of qualitative characteristics, the formula 1 was applied:

$$n = \frac{t^2 \times P \times Q \times N}{\Delta^2 \times N + t^2 \times P \times Q} \quad (1)$$

where  $t^2$  – is the critical value of Student's criterion at the corresponding level of significance (the significance level of 0.03 is used, then at this level of significance  $t^2=1.03$ );

P – the proportion of cases in which the feature under study occurs;

Q – the share of cases in which the studied attribute does not occur (100-P);

N – volume of the general population (5,866,703 units);

$\Delta$  – maximum allowable error (3%).

According to formula 1, the sample was 150 units for the general population of 27,000 small and medium innovative enterprises in the Russian Federation. This sample shows a confidence probability of 97% and a confidence interval of  $\pm 3\%$ . That is, when conducting 100 studies with this sample in 97% of cases the answers according to the laws of statistics will be within  $\pm 3\%$  of the original. The presented sample is representative, because inclusion of each element of the general population took place with equal probability. Also, this sample is homogeneous, as the controlled parameter is evenly distributed, there are no voids or clumps.

As a result of the online questionnaire survey (questionnaire period September 1-30, 2023) 150 representatives of small and medium innovative entrepreneurship in all major sectors of the economy in all federal districts of Russia were surveyed. The respondents were business owners and top managers of the companies.

The economic-statistical tool of the online questionnaire was used to identify:

- sectors of the Russian economy/business areas that are most exposed to the negative impact of the imposed foreign economic sanctions;
- the level of awareness of small and medium innovative entrepreneurship subjects about federal measures of business support;
- the most popular federal measures to support small and medium innovative businesses and the level of business satisfaction with them;
- federal support measures that small and medium innovative entrepreneurship subjects plan to take advantage of.

### 3 RESULTS

Based on the results of the survey of small and medium innovative entrepreneurship the sectors of the Russian economy/business areas that suffer or may suffer the most from the imposed economic sanctions, restrictions and other circumstances are identified (see Figure 1).

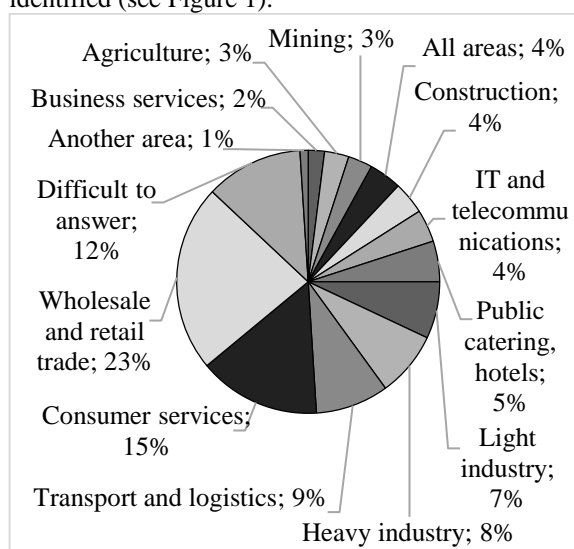


Figure 1: Sectors of the Russian economy/business that suffer or might suffer the most from imposed economic sanctions, restrictions and other circumstances.

Figure 1 shows that the sectors of the Russian economy most affected or likely to be affected by economic sanctions are wholesale and retail trade (23%), consumer services (15%), transport and logistics (9%), heavy industry (8%), and light industry (7%). The least affected by the imposition of economic sanctions, restrictions and other circumstances are the areas of mining, agriculture and business services.

According to the majority of surveyed entrepreneurs (67%), their companies at the moment need support from the state. The greatest request – from the organizations with up to 15 employees (77%).

The level of awareness of small and medium innovative entrepreneurship subjects about the measures of business support taken by public authorities in the conditions of sanctions pressure is shown in Figure 2.

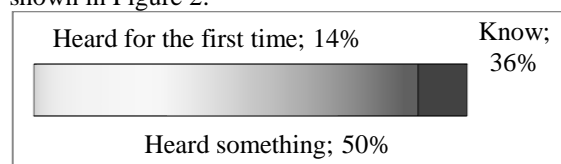


Figure 2: The level of awareness of small and medium innovative entrepreneurship subjects about the measures of business support taken by public authorities under the sanctions pressure.

As can be seen from the data of Figure 2, the majority of small and medium innovative enterprises (50%) have heard something about the measures to support business, taken by the public authorities under sanctions pressure. 36% of the respondents know about them, and 14% have heard about them for the first time.

Among those who know about support measures, a survey was conducted concerning federal measures of business support, which they know or have heard something about (see Figure 3).

As can be seen from the data in Figure 3, the following federal support measures are most commonly known or heard about: loan vacations (49%), soft loans (48%), tax extensions (41%) and deferral of loans and contributions (41%). The most popular answers to the open-ended question were: soft loans (20%) and financial support (13%).

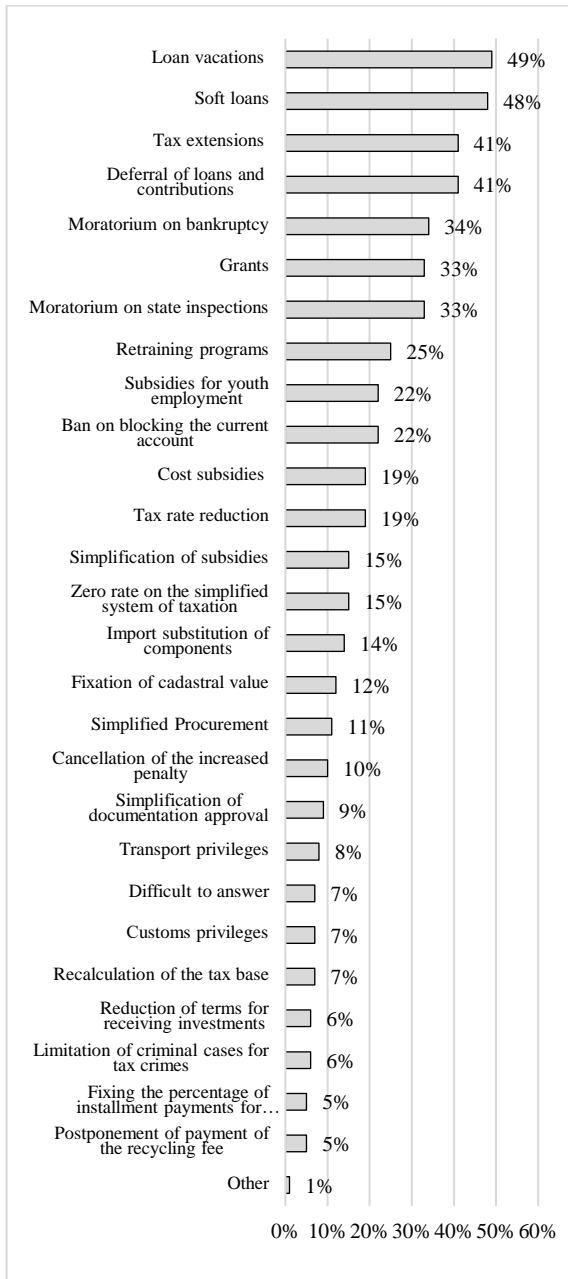


Figure 3: Awareness level of small and medium innovative entrepreneurship subjects about federal measures of business support.

Figure 4 shows the results of the survey concerning the support measures taken by the RF Government, which have already been used by the respondents.

As can be seen from the data of Figure 4, the most popular federal support measures already used by small and medium innovative enterprises are: soft loans (38%), loan vacations (17%), cost subsidies

(16%), tax extensions (15%), tax rate reduction (14%), deferral of loans and contributions (14%) and grants (12%). 4% of respondents used such measures of support as: simplification of subsidies, simplified procurement, recalculation of the tax base. 3% – subsidies for youth employment, fixation of cadastral value, zero rate on the simplified system of taxation. And only 1% of respondents applied such measures as reduction of terms for receiving investments, limitation of criminal cases for tax crimes, customs privileges, transport privileges, a ban on blocking the current account, postponement of payment of the recycling fee.

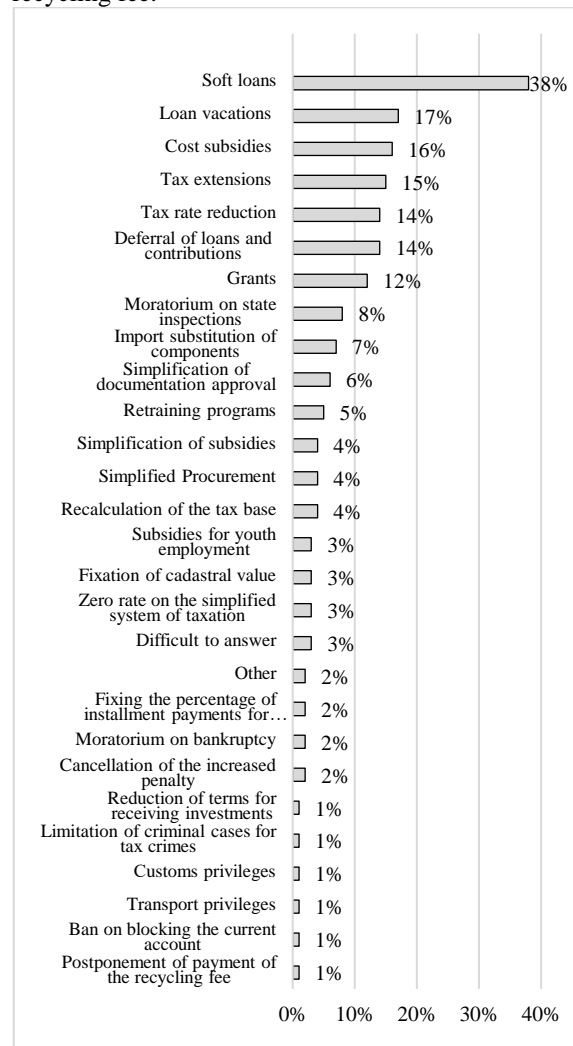


Figure 4: Measures of business support adopted by the Government of the Russian Federation, which were used by small and medium innovative entrepreneurship subjects.

The level of satisfaction with federal support measures that small and medium innovative entrepreneurship subjects have already used was

rated on a 5-point scale, where 5 means «fully satisfied» and 1 means «absolutely unsatisfied». The results of the survey are presented in Figure 5.

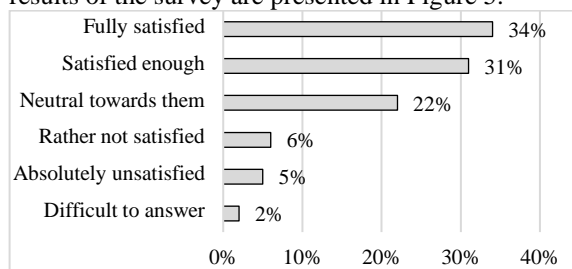


Figure 5: The level of satisfaction with federal measures of business support, which small and medium innovative entrepreneurship subjects have already used.

As can be seen from the data of Figure 5, the majority of small and medium innovative enterprises (65%) are satisfied with the support measures of the Russian Government, 22% – treat them neutrally and 11% – are not satisfied. The average score of satisfaction with support measures is 3.9 points. At the same time, 10% of small and medium innovative enterprises were refused federal measures, among those surveyed who noted the absence of federal support measures, 12% of those surveyed were refused soft loans, 24% – grants and 18% – deferrals on loans and contributions.

Figure 6 presents the results of the survey concerning the support measures adopted by the RF Government, which the respondents plan to use.

As can be seen from the data of Figure 6, small and medium innovative entrepreneurs most often plan to use the following federal measures to support business: soft loans (29%), grants (24%), tax extensions (22%), tax rate reduction (19%), cost subsidies (19%), zero rate on the simplified system of taxation (17%), retraining programs (15%), deferral of loans and contributions (14%).

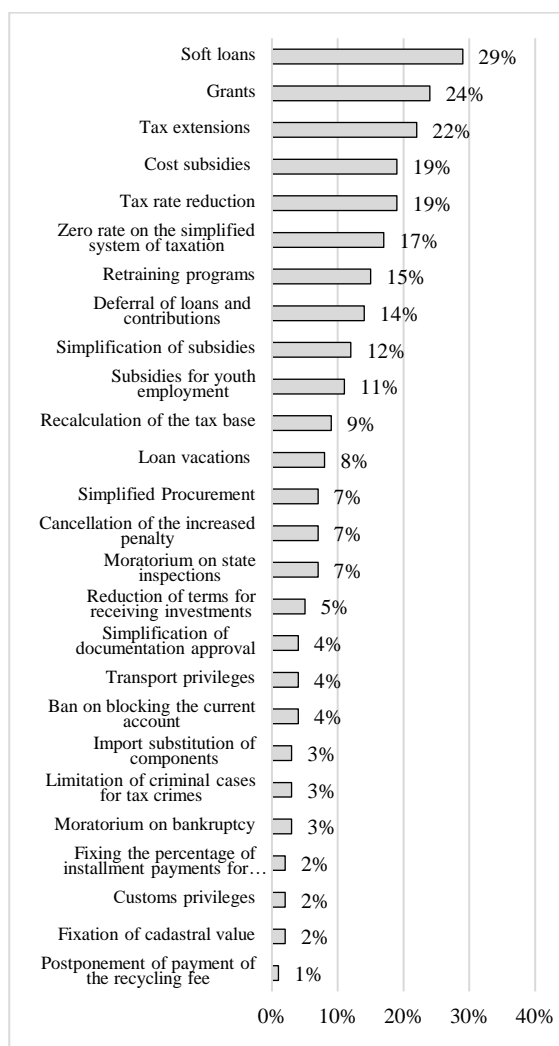


Figure 6: Federal measures of support, which the subjects of small and medium innovative entrepreneurship plan to use.

Respondents' attitudes toward the federal measures taken are shown in Figure 7.

As can be seen from the data of Figure 7, the majority of respondents (60%) have a positive attitude to the state policy to support small and medium innovative businesses under sanctions pressure, 20% – neutral and 3% – negative.

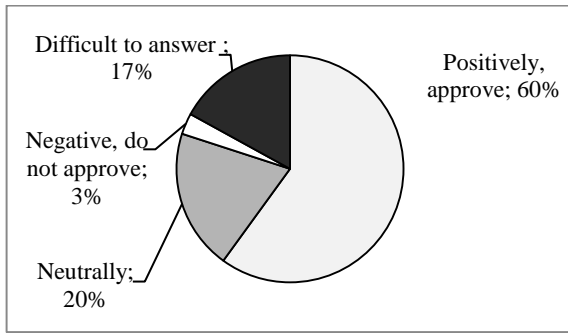


Figure 7: Respondents' attitudes toward the federal measures taken

Federal measures to support small and medium innovative businesses, which, according to the respondents, are the most effective in the conditions of sanctions pressure, are shown in Figure 8.

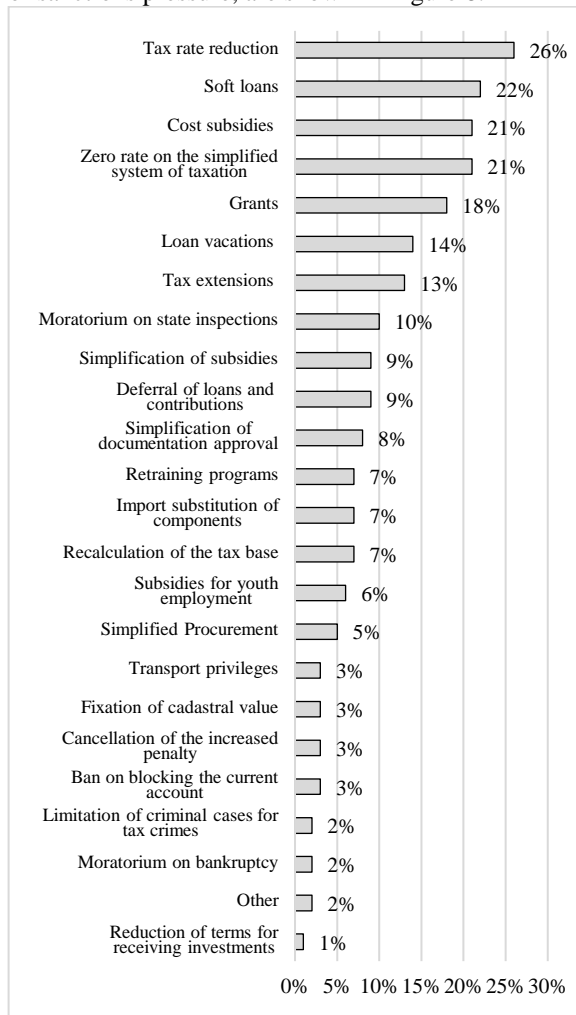


Figure 8: Federal measures to support small and medium innovative business, the most effective in the conditions of sanctions pressure.

As can be seen from Figure 8, according to respondents, the most effective federal measures to support business are the following: tax rate reduction (26%), soft loans (22%), cost subsidies (21%), zero rate on the simplified system of taxation (21%), grants (18%), loan vacations (14%), tax extensions (13%), moratorium on state inspections (10%). The least effective: transport privileges, fixation of cadastral value, cancellation of the increased penalty, ban on blocking the current account, limitation of criminal cases for tax crimes, moratorium on bankruptcy, reduction of terms for receiving investments.

## 4 DISCUSSION

For public authorities it is quite a difficult task to make decisions about distribution of available resources on measures of the state regulation and support of small and medium innovative entrepreneurship. These resources can be conditionally divided by the following classification: material (financial), human, technical (capital), institutional (legislative), information and organizational. The limitedness of resources assumes such their distribution on measures of management of support to the small- and medium-scale innovative entrepreneurship that their realization provided the maximum social and economic effect.

There is an active discussion in the scientific literature on the priority of resource allocation according to the measures of state support in the conditions of economic sanctions. Thus, the scientists A. Aflatooni, K. Ghaderi, K. Mansouri (Aflatooni, 2022) believe that attention should be paid primarily to the development of human resources. Researchers M. Běлін, J. Hanousek (Běлін, 2021) determine the importance of organizational and information resources. According to the Russian scientist S.V. Gurash (Gurash, 2022) it is the institutional resource that can greatly influence the development of Russia's economy under sanctions. Whereas scientists T.T. Nguyen, M.H. Do (Nguyen, 2021), A. Vatansever (Vatansever, 2020) suggest strengthening the material and capital resources of small and medium entrepreneurship.

In addition to the importance of focusing on the most important resources to support entrepreneurship, there is also a discussion on how to determine these resources. To calculate this effect in the scientific literature, scientists V. Bayramov, N. Rustamli, G. Abbas (Bayramov, 2020, M. Běлін, J. Hanousek (Běлін, 2021), A. Vatansever

(Vatansever, 2020) mainly propose to use predictive methods based on the current official sectoral statistics on small and medium innovative entrepreneurship. But, according to the scientists S.A. Korobov, V.O. Moseiko, S.I. Korobova (Korobov, 2022), T.T. Nguyen, M.H. Do (Nguyen, 2021) statistical methods have both positive and negative advantages. The positive advantages include the use of reliable information, and it can be analyzed in the dynamics by quarters and years to increase the reliability of forecast calculations. The disadvantages of using statistics are its low timeliness, as the data could have been collected in a completely different socio-economic environment. In the current conditions of introduction of foreign economic sanctions, the use of previously collected statistics can lead to incorrect forecasts on the socio-economic effects of decision-making in the formation of the state policy to support small and medium innovative entrepreneurship.

The authors propose the methodology of online-questionnaire for efficiency of decision-making which allows to receive feedback from subjects of small and medium innovative entrepreneurship on optimal allocation of available resources on measures of public administration in the shortest terms. The given methodology can be a basis of the system of support of decision-making by public authorities in the sphere of support and regulation of small and medium innovative business with observance of the necessary level of trust information and trust interval.

## 5 CONCLUSIONS

Innovative entrepreneurship, according to the legislation in force in Russia, is defined as economic activity mainly related to the use of intellectual property objects in the sale of goods, works or services. According to the state policy in the conditions of foreign economic sanctions, the largest measures of state support were given to IT-industry companies. However, it would not be quite right to refer directly to innovative business by small and medium-sized enterprises in the IT industry, since not all of them use intellectual property objects in their activities. Our analysis showed that industries related to production were less affected by the economic sanctions, as opposed to wholesale and retail trade (41%) and public services (27%). The least impact of the imposed economic sanctions was felt by the mining sector, which, due to its large financial assets, was able to level out the threats, primarily through the redistribution of minerals to new markets.

Innovative entrepreneurship in conditions of foreign economic sanctions should get a new impetus for development due to the departure of Western companies from the Russian market, but only with effective state policy to support innovation. Our study shows that more than half of the surveyed entrepreneurs need support from the state, primarily it concerns small organizations with up to 15 employees (microbusiness). This is especially relevant, since the start-up innovative entrepreneurs belong, first of all, to microbusiness. At the same time, analysis of the survey results showed that 14% of respondents heard for the first time about the measures to support small and medium innovative entrepreneurship taken by the authorities under the sanctions pressure, thus, the information resource of the state policy also needs to be strengthened.

Small and medium innovative business awaits from the state decisive steps on direct state support, which is proved by our online questionnaire. The majority of respondents (60%) have a positive attitude to the measures taken by the authorities to support small and medium innovative entrepreneurship under the sanctions pressure, but only 65% of respondents are satisfied with the current federal measures to support entrepreneurship.

At the moment, the most popular federal measures of support, which are already used by subjects of small and medium innovative entrepreneurship, are financial: soft loans (38%), loan vacations (17%), cost subsidies (16%), deferral of loans and contributions (15%). But besides financial resources, the subject of small and medium innovative entrepreneurship needs support of human (training programs), institutional (simplification of entrepreneurial activity, introduced standards), organizational (search for new niches of goods sale), technical (subsidies for equipment purchase) and other resources. Only if there is a multifunctional system of state support focused on assistance to innovative business, it is possible to achieve growth of domestic innovative goods produced under conditions of foreign economic sanctions.

## ACKNOWLEDGEMENTS

The study was supported by a grant from the Russian Science Foundation №23-28-01145, <https://rscf.ru/project/23-28-01145/>.

## REFERENCES

- Aflatooni, A., Ghaderi, K., Mansouri, K., 2022. Sanctions against Iran, political connections and speed of adjustment. *Emerging Markets Review*, 51(B):100889.
- Bayramov, V., Rustamli, N., Abbas, G., 2020. Collateral damage: The Western sanctions on Russia and the evaluation of implications for Russia's post-communist neighbourhood. *International Economics*, 162:92-109.
- Bělin, M., Hanousek, J., 2021. Which sanctions matter? analysis of the EU/Russian sanctions of 2014. *Journal of Comparative Economics*, 49(1):244-257.
- Dong, Y., Li, C., 2018. Economic sanction games among the US, the EU and Russia: Payoffs and potential effects. *Economic Modelling*, 73:117-128.
- Du, X., Wang, Z., 2022. Multinationals, global value chains, and the welfare impacts of economic sanctions. *Economics Letters*, 220:110870.
- Gurash, S.V., 2022. An institutional model for supporting Russian entrepreneurship under sanctions. *Economics: yesterday, today, tomorrow*, 12(5A):39-45.
- Hastings, J.V., 2022. North Korean trade network adaptation strategies under sanctions: Implications for denuclearization. *Asia and the Global Economy*, 2(1):100031.
- Hufbauer, G.C., Jung, E., 2020. What's new in economic sanctions? *European Economic Review*, 130:103572.
- Ivanov, O.B., Buchwald, E.M., 2022. Sanctions and countermeasures in the Russian economy (regional aspect). *Stage: economic theory, analysis, practice*, 4:7-27.
- Korobov, S.A., Moseiko, V.O., Korobova, S.I., 2022. State development of entrepreneurship in the Volgograd region in the context of external sanctions: a resource-oriented approach. *Journal of Volgograd State University. Economics*, 24(2):111-122.
- Lazanyuk, I.V., Mambu, D.D., 2022. Angola's economy under sanctions: problems and solutions. *R-ECONOMY*, 8(3):208-218.
- Nguyen, T.T., Do, M.H., 2021. Impact of economic sanctions and counter-sanctions on the Russian Federation's trade. *Economic Analysis and Policy*, 71:267-278.
- Samadi, A.H., Owjimehr, S., Nezhad Halafi, Z., 2021. The cross-impact between financial markets, Covid-19 pandemic, and economic sanctions: The case of Iran. *Journal of Policy Modeling*, 43(1):34-55.
- Sedrakyan, G.S., 2022. Ukraine war-induced sanctions against Russia: Consequences on transition economies. *Journal of Policy Modeling*, 44(5):863-885.
- Vatansever, A., 2020. Put over a barrel? «Smart» sanctions, petroleum and statecraft in Russia. *Energy Research&Social Science*, 69:101607.