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FINANCIAL AND ECONOMIC SUPPORT OF THE FUNCTIONING OF ENTERPRISES OF THE MATERIAL SPHERE OF PRODUCTION: A PRACTICAL DIMENSION

ABSTRACT

There are enterprises of different types of economic activity at the market, which should be classified into tangible and intangible enterprises. The first group includes enterprises in industry, agriculture, forestry and fisheries and construction. The second group consists of companies engaged in trade and providing various services to market participants. In general, 128.9 thousand enterprises operated at the market at the beginning of 2021. With a share of 35.5% of the total number of enterprises, they produced products worth UAH 3.9 trillion, which is almost a third of the market. We consider the financial support of the material sphere enterprise through the prism of planning the needs of production in financial resources directed to its resource provision. If the company lacks its own financial resources, it is forced to look for external sources to cover costs. An important role is played by the imbalance in revenue and expenditure growth, which amounted to -6.4%, the growth of receivables (in industry and construction). The reduction of enterprises' own cash by this amount is caused by a constant increase in energy tariffs, a decrease in the purchasing power of the population, an increase in tax pressure, and other factors. The management of enterprises compensates the shortage of financial resources by attracting bank loans and borrowings (long-term and short-term), issues of shares and bonds. Thus, long-term liabilities and collateral increased (+ 23.2%), especially due to an increase in bond issues (4.8 times). At the same time, the amount of funds raised from the placement of shares decreased significantly (almost 6 times) against the background of uncertainty and instability of the stock market. Even in the conditions of economic instability in 2020, enterprises make capital investments in tangible and intangible assets, although to a much lesser extent than in 2016 (almost a quarter less). The financial results of enterprises are the lowest in 2016-2020, especially in industry and construction, where there is a loss of 43.1%. The situation that arises requires a detailed in-depth study and the formation of appropriate recommendations for enterprises, depending on the type of economic activity.

Keywords: enterprises, financial and economic support, financial resources, capital investments, financial results of management

JEL Classification: G31, G32

INTRODUCTION

The company operates in a constant cycle of financial capital. The efficiency of the use of resource potential has a direct impact on the financial and economic condition of the enterprise. Therefore, there is a need to form an effective mechanism for financial and economic support for the smooth operation of the enterprise. Attracting financial resources (credit and investment) in order to replenish working capital, modernize existing production and logistics facilities, repair and upgrade the material and technical base, expand the existing product line, etc. is accompanied by appropriate financial risks, especially in times of crisis. This applies to all enterprises, regardless of ownership and organizational and legal form of operation. The unstable economic and political-legal field of activity of enterprises has a negative impact on the results of management, which reduces their financial stability and the possibility of further development.

LITERATURE REVIEW AND PROBLEM STATEMENT

The need of financial and economic support of the enterprise is brought to attention by many scientists and economists because the company is unable to hire workers, purchase material and technical resources, and so on in the absence of this support. Among domestic scientists, it is possible to highlight the achievements of But T.V. and Netudyhata K.L. [1], who draw attention to the financial stability of the enterprise in modern conditions, Vivchar O. [2] emphasizes the need to form a system of financial and economic security of business, Frolov S. and Chobotar O. [3] highlight the financial security of foreign economic activity enterprises, Ignatsevich S. [4] specifies financial and economic support in the system of environmental risk insurance, Davydova I. [5] focuses on the financial support of economic development from the standpoint of institutional approach, Fartushnyak OV and Tsybulko D.I. [6] drew attention to the aspect of financial and economic support of technical re-equipment of the enterprise, Nitsenko V. [7] details the functioning of the enterprise from the standpoint of financial and credit mechanism. Some studies (European Commission and European Investment Bank) [8] emphasize the need to use financial instruments for the development of social entrepreneurship. Bakhtiari S. et al [9] consider the impact of financial constraints on business performance. Wang J. et al [10] describe the problems of bankruptcy in crisis conditions. A similar study was conducted by Simak S. et al [11], where the main problems and defects of quarantine for the financial condition of enterprises were identified. Yatsenko O. et al [12, 13] study the impact of risks on the financial and economic security of enterprises. These and other scientific works have formed the necessary scientific and methodological foundation of the author's research.

The purpose of the study is to provide a comprehensive assessment of financial and economic support of enterprises in the material sphere in a crisis.

METHODOLOGY RESEARCH

A set of general and special methods of cognition: analysis and synthesis (comparison, absolute and relative values, analytical method, graphical, tabular), classification, dialectical, induction, deduction, observation, and generalization, was the methodological base of the study.

RESULTS

We consider the financial support of the material sphere enterprise through the prism of planning the needs of production in financial resources directed to its resource provision. That is, the organization of production has a direct relationship to the financial side of the enterprise.

The totality of all enterprises forms a market environment, which is divided into two major areas: the sphere of tangible production and the intangible one. The first group includes enterprises in the industry, agriculture, forestry and fisheries, and construction. All other companies in the second group are engaged in trade and provide various services to market participants.

In 2020, there were more than 373,000 enterprises in Ukraine, employing almost 6.4 million people (*Table 1*).

Table 1. Indicators of the development of enterprises in Ukraine						
Indexes	Years					Change 2020/2016, %
	2016	2017	2018	2019	2020	
Number of active enterprises, units	306,369	338,256	355,877	380,597	373,822	122.0
incl. manufacturing enterprises	107,886	119,609	124,519	129,787	128,891	119.5
Number of persons employed, thousand people	5,801.1	5,812.9	5,959.5	6,407.5	6,366.1	109.7
incl. manufacturing enterprises	3,038.2	3,002.4	2,963.3	2,924.3	2,830.2	93.2
Personnel costs, mln.UAH	434,790.1	569,937.3	727,110.1	901,245.3	990,589.2	227.8
incl. manufacturing enterprises	227,672.5	292,467.1	368,269.1	435,956.6	463,321.6	203.5
Turnover, mln.UAH	6,237,535.2	7,707,935.2	9,206,049.5	9,639,730.6	10,049,870.8	161.1
incl. manufacturing enterprises	2,879,047.0	3,493,553.9	4,076,193.5	4,157,131.7	4,486,233.8	155.8
Production volume, mln.UAH	3,884,617.6	4,872,748.1	5,626,457.3	6,301,412.2	6,508,169.6	167.5

(continued on next page)

Table 1. (continued)

Indexes	Years					Change 2020/2016, %
	2016	2017	2018	2019	2020	
incl. manufacturing enterprises	2,524,306.1	3,146,739.8	3,612,040.3	3,893,708.4	3,939,420.3	156.1
Financial result (balance) before taxation, mln.UAH	69,887.8	236,952.1	369,212.3	613,044.0	134,734.3	192.8
incl. manufacturing enterprises	74,107.0	153,270.0	232,050.6	276,769.4	57,893.1	78.1

Source: compiled and calculated on the basis of [14]

Moreover, the sphere of services and trade, i.e. those that do not participate in the production process, accounted for 65.5% (Figure 1). On average, one company employed 17 people in 2020, which is 2 people less than in 2016. However, at the same time, the expenses per employee increased by UAH 80.7 thousand per year, reaching UAH 155.6 thousand in 2020. Income and expenses of enterprises for 5 years grew almost evenly, by 61.1% and 67.5%, respectively, which did not significantly change the financial condition of enterprises [14].

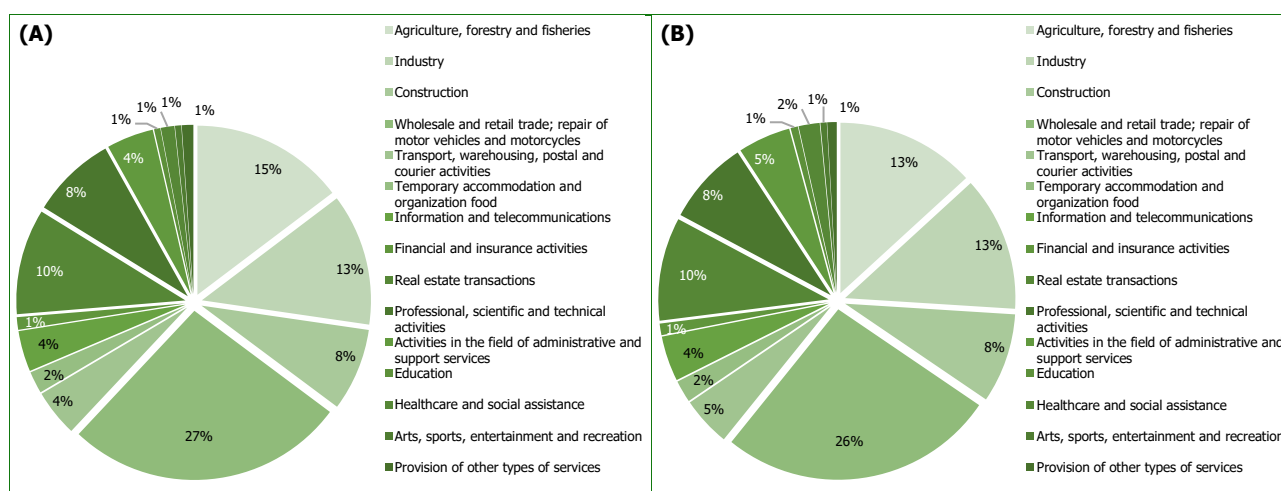


Figure 1. Structure of enterprises, depending on types of economic activity in Ukraine, %. (A) – 2016 year and (B) – 2020 year (Source: compiled and calculated on the basis of [14]).

Among the total number of enterprises in 2020, the amount of profit amounted to UAH 673.98 billion, losses - to UAH 539.25 billion. In general, the enterprises received a profit from management in the amount of almost UAH 135 billion. Despite the growth of the financial result before tax by 92.8%, the growth of profit was - 52.1% and losses - 44.5%. The disproportion between changes in profitability and loss ratios for 2019-2020 was a negative phenomenon. Thus, the first indicator decreased by 22.5%, and the second - on the contrary - increased by 2.1 times. The activity of such material spheres of production as industry and construction needs special revision. It was there that the loss of management was observed in 2016 (-17,002.5 million UAH) and 2020 (-24,337.5), with an increase of 43.1% (Figure 2).

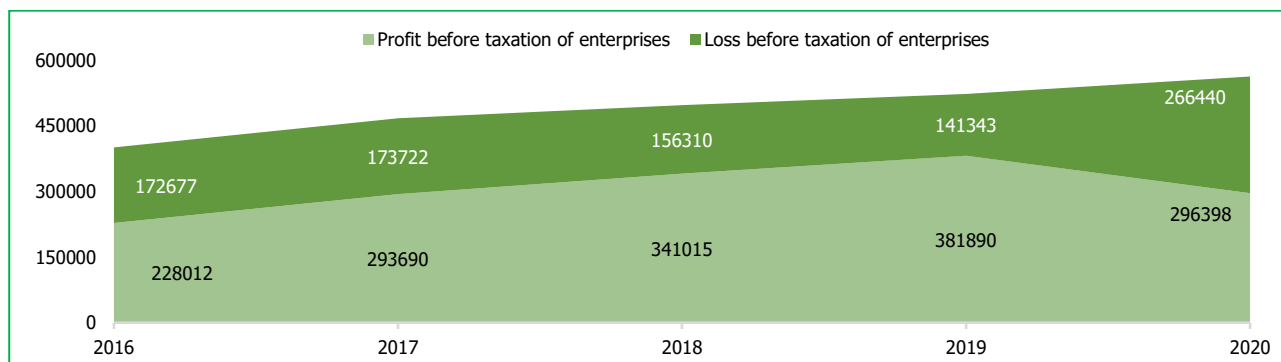


Figure 2. Profit and loss before taxation of the manufacturing enterprises, mln. UAH (Source: based on [14]).

In connection with this situation, it is important to study the financial support for the operation of enterprises in the manufacturing sector. Enterprise management uses the following possible set of financial instruments to ensure its own functioning and development: its own funds, bank loans and borrowings, issue of shares, and bonds (*Tables 2 and 3*).

Table 2. Sources of formation of financial resources of enterprises of the material sphere of production

Years	Equity capital	Long-term commitments and provision	Current liabilities and provision	including			
				short-term banking credits	current accounts payable	current provision	other current liabilities
2016	896,282.8	731,372.4	3,033,779.5	270,025.1	1,293,879.7	28,393.9	1,424,763.8
2017	985,764.9	752,883.5	2,705,847.2	292,192.5	1,461,943.9	49,155.8	886,260.7
2018	1,127,963.6	794,223.0	2,963,427.3	302,312.4	1,615,764.8	72,337.0	950,205.1
2019	1,445,736.2	753,805.5	3,011,480.8	240,513.9	1,638,471.8	81,858.5	1,024,595.0
2020	1,471,668.7	900,874.3	3,335,964.1	242,955.5	1,806,806.0	63,093.4	1,194,837.3
Change in % 2020/2016, +,-	+64.2	+23.2	+10.0	-10.0	+39.6	+122.2	-16.1

Source: compiled and calculated on the basis of [14]

These facts show interesting changes in the areas of external borrowing of financial capital for 2016-2020. Long-term liabilities and collateral increased (+ 23.2%), especially due to an increase in bond issues (4.8 times). At the same time, the number of funds raised from the placement of shares decreased significantly (almost 6 times) against the background of uncertainty and instability of the stock market. These trends indicate a lack of state support for doing business in Ukraine, and the simultaneous introduction of strict quarantine restrictions leads to an increase in the debt burden on enterprises.

Table 3. Volumes of the issue of shares and bonds of domestic loan by enterprises of the material sphere of production, mln. UAH

Indicators	Years					Change in % 2020/2016, +,-
	2016	2017	2018	2019	2020	
Volume of shares issued	209,361.94	324,844.24	22,263.97	63,539.38	32,982.8	-84.2
Number of share issues, pcs.	128	118	93	78	71	-44.5
The volume of corporate bonds issued	6,760.49	5,650.30	15,458.53	11,006.1	32,749.0	+384.4

An important aspect is the simultaneous growth of counterparties of enterprises whose receivables are growing, which narrows their financial capabilities. Thus, receivables of enterprises in the material sphere of production for 2016-2020 decreased by 12.8%. However, this was due to a decrease in receivables from agricultural, forestry, and fishery enterprises by more than a third (from UAH 1,092,111.3 million to UAH 329,628.1 million). At the same time, there was a 39% increase in industry and an 83.4% increase in construction. Thus, the general trend of declining receivables is not evidence of positive changes in some of its components.

Along with the focus of management on the operational activities of industrial enterprises, the investment strategy of development is also important. Thus, the high risk of investing in the crisis of 2019-2020 has led to a significant reduction in investment - by almost a quarter, as evidenced by Figure 3. In 2020 the lowest amount of investment (UAH 246 billion) was received in infrastructure development in 2018-2020. Despite these negative developments, in 2016-2020, the volume of investments increased by 36.9%. Regarding capital investments by the areas, the management of enterprises invested the lion's share of funds in tangible assets - more than 98% (in the land; in existing buildings and structures; in alteration of buildings; in machines and equipment); the remaining part - in intangible assets (in concessions, patents, licenses, trademarks, and similar rights; in purchased software).

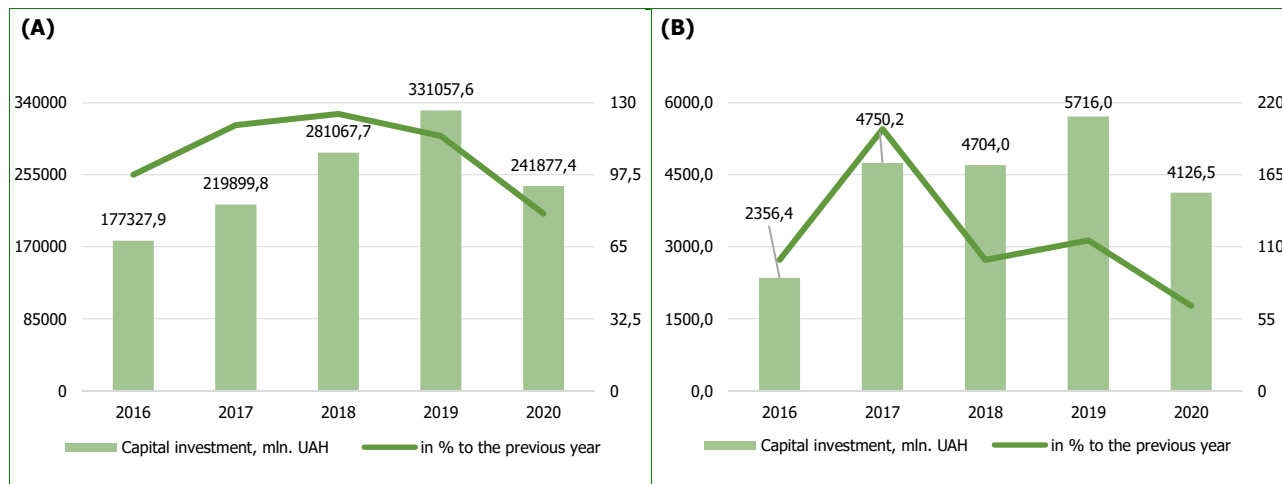


Figure 3. Capital investment of the manufacturing enterprises in Ukraine, mln. UAH. **(A)** – Capital investment into tangible assets **(B)** – Capital investment in intangible assets (Source: compiled and calculated on the basis of [14]).

Thus, despite the decrease in the efficiency of production enterprises in 2019-2020, the increase in debt, especially long-term debt, enterprises invest in the restoration, renewal, and modernization of existing, acquisition, and creation of new assets for production and non-production purposes.

CONCLUSIONS

Financial and economic support of enterprises in the material sphere of production (enterprises of industry, agriculture, forestry and fisheries, and construction) remains an important component of the stability of their functioning, fulfillment of commitments, and further development. That is why the management of enterprises devotes a lot of time to solving problems and developing possible options for development in operating and investment activities.

Thus, at the beginning of 2021, the number of manufacturing enterprises was almost 129 thousand, i.e. one-third of the total number of all enterprises. The formation of enterprise capital takes into account internal (equity) and external (bank loans and borrowings, issue of shares and bonds) sources of financing. Research has shown that companies have increased their equity by more than half, increased their long-term liabilities by a quarter, and short-term liabilities by 10%. The increase in receivables in the industry (+ 39%) and construction (+ 83.4%) with a decrease of one-third in agriculture, forestry, and fisheries was a negative phenomenon.

The high level of risk (due to the introduction of quarantine restrictions inside the country) of investment processes in 2019-2020 has led to a significant investment reduction of more than a quarter.

According to the results of management in 2020, enterprises received UAH 57,893.1 million in profit, which is the lowest figure for the last 5 years. A deeper analysis showed that such sectors as industry and construction suffered large losses (UAH -24,337.5 million), exceeding the 2016 figure by 43.1%.

The situation that arises requires a detailed in-depth study and the formation of appropriate recommendations for enterprises, depending on the type of economic activity.

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ФІНАНСОВО-ЕКОНОМІЧНЕ ЗАБЕЗПЕЧЕННЯ ФУНКЦІОНУВАННЯ ПІДПРИЄМСТВ МАТЕРІАЛЬНОЇ СФЕРИ ВИРОБНИЦТВА: ПРАКТИЧНИЙ ВИМІР

На ринку функціонують підприємства різних видів економічної діяльності, які доцільно класифікувати як підприємства матеріальної та нематеріальної сфери виробництва. До першої групи належать підприємства галузі промисловості, сільського господарства, лісоводства й рибництва та будівництва. Другу групу формують підприємства, що займаються торгівлею та надають різноманітні послуги суб'єктам ринку. В цілому, на ринку на початку 2021 р. функціонувало 128.9 тис підприємств. При питомій вазі 35,5 % від загальної сукупності підприємств ними вироблено продукції на суму 3,9 трлн грн, що становить майже третину на ринку. Фінансове забезпечення підприємства матеріальної сфери розглядається нами через призму планування потреб виробництва у фінансових ресурсах, що спрямовуються на його ресурсне забезпечення. Якщо власних фінансових ресурсів підприємству не вистачає, воно змушене шукати зовнішні джерела покриття витрат. Істотну роль відіграє дисбаланс зростання доходів та витрат, який становив -6,4 %, зростання дебіторської заборгованості (у підприємствах промисловості та будівництва). Зменшення власних наявних коштів підприємств на зазначену величину спричинено постійним підвищенням тарифів на енергоресурси, зниженням купівельної спроможності населення, посиленням податкового тиску та іншими чинниками. Забезпечення нестачі у фінансових ресурсах менеджмент підприємств здійснює за рахунок залучення банківських кредитів та позик (довгострокових і короткострокових), емісії акцій та облігацій. Так, довгострокові зобов'язання та забезпечення зросли (+23,2 %), особливо за рахунок збільшення обсягів випуску облігацій (у 4.8 разу). У той же час обсяги коштів, залучених від розміщення акцій, суттєво скоротилися на тлі невизначеності та нестабільності роботи біржового ринку майже в 6 разів. Навіть за умов економічної нестабільності 2020 р. підприємства здійснювали капітальні інвестиції в матеріальні та нематеріальні активи, хоча й у значно меншому обсязі, ніж у 2016 р. (майже на чверть). Фінансові результати функціонування підприємств є найнижчими за 2016-2020 рр., особливо в промисловості й будівництві, де спостерігається зростання збитковості господарювання на 43,1 %. Ситуація, що склалася, потребує детального поглибленого вивчення та формування відповідних рекомендацій для підприємств залежно від виду економічної діяльності.

Ключові слова: підприємства, фінансово-економічне забезпечення, фінансові ресурси, капітальні інвестиції,

фінансові результати господарювання

JEL Класифікація: G31, G32