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 the 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.I. [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 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. Bakhtiar 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).

| Indexes | 2016 | 2017 | 2018 | 2019 | 2020 | Change 2020/2016, % |
|---------|------|------|------|------|------|---------------------|
| 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 | 5,995.5 | 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)

DOI: 10.55643/fcaptp.2.43.2022.3680
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].

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).
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, +,** -

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

| Indicators                        | 2016      | 2017      | 2018      | 2019      | 2020      | Change in % 2020/2016, +,** |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------------------------|
| 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                      |

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.

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 on management of 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).
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.

REFERENCES / ЛІТЕРАТУРА

1. But, T.V., Netudyhata, K.L. (2020). Analysis of the financial sustainability of enterprises in modern conditions. Efektyvna ekonomika, 3. https://doi.org/10.32702/2307-2105-2020.3.156.

2. Vivchar, O. (2015). The specificity of management by the system of business financial and economic security in the economic processes turbulence conditions. Galician economic bulletin, 49(2), 144-150.

3. Frolov, S., Chobotar, O. (2014). Essence of financial security and its place in international business. Ekonomika ta derzhava, 9, 6-9.

4. Ignatsevich, S. (2018). Financial and economic support of land protection measures in the system of environmental risks insurance. Agrosvit, 10, 49–53.
5. Davydova, I. (2019). Financial support for the development of the economy. Agrosvit, 6, 81–88. https://doi.org/10.32702/2306-6792.2019.6.81.

6. Fartushnyak, O.V., Tsybulko, D.I. (2015). Financial and economic support of technical re-equipping of industrial enterprises. Scientific Bulletin of Kherson State University. Series «Economic Sciences», 1, 101–110.

7. Nitsenko, V. (2013). Financial and credit mechanism of financing of agricultural holdings. Naukovi visnyk Chernivetskeho natsionalnoho universytetu. Seriia: Ekonomika, 669-671, 135-143.

8. European Commission and European Investment Bank (2016). Financial instruments working with social entrepreneurship. https://www.fr-compass.eu/sites/default/files/publications/Factsheet_Financial_instruments_working_with_social_entrepreneurship.pdf.

9. Bakhtriai, S., Breunig, R., Magnani, L., Zhang, J. (2020). Financial Constraints and Small and Medium Enterprises: A Review. Economic Record, 96(315), 506-523. https://doi.org/10.1111/1475-4932.12560.

10. Wang, J., Yang, J., Iverson, B., Kluender, R. (2020). Bankruptcy and the COVID-19 Crisis. Working Paper. https://bsw.kbs.edu/item/bankruptcy-and-the-covid-19-crisis.

11. Simak, S., Davydiuk, Yu., Burdeina, N., Budiaieie, M., Taran, O., Ingram, K. (2020). Comprehensive assessment of the economic consequences of the covid-19 pandemic. Naukovi Visnyk Natsionalnoho Hirnychoho Universytetu, 6, 168-173. https://doi.org/10.33271/nvngu/20206/168.

12. Yatsenko, O., Nitsenko, V., Mardani, A., Tananaiko, T. (2018). The impact of global risks on the world trade and economic environment. Financial and credit activity: problems of theory and practice, 4(27), 435-444. https://doi.org/10.18371/fcaptp.v4i27.154279.

13. Yatsenko, O., Nitsenko, V., Mardani, A., Streimikiene, D., Tananaiko, T. (2019). Global Risks of Trade and Economic Cooperation of Ukraine with Countries of the Northern American Region. Montenegrin Journal of Economics, 15(3), 217-225. https://doi.org/10.14254/1800-5845/2019.15-3.16.

14. Kuznietsova, M. (2021). Activity of business entities 2020. Kyiv: State Statistics Service of Ukraine.
фінансові результати господарювання

**JEL Класифікація:** G31, G32