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DEVELOPMENT OF FINANCIAL REHABILITATION OF ENTERPRISES

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Abstract:

An article is devoted to theoretical and practical aspects of financial rehabilitation of enterprises. Different approaches of economists to the essence and meaning of the concept of "financial rehabilitation of the enterprise" are analyzed. In the form of a graphic interpretation, the main tasks included in the financial rehabilitation of the enterprise, as well as the algorithm of methods for its implementation, are presented. A number of problems that may arise in the process of financial rehabilitation of enterprises are identified and substantiated. Among them, the most important is the cost of this process, as well as the lack of effective methods and specialists for diagnosing the financial state of the enterprise.

Keywords: *enterprise, financial rehabilitation, forms, methods, implementation algorithm.*

INTRODUCTION

Statement of the problem: Financial, economic and political instability in the country is often the cause of unstable activity of domestic enterprises. Especially dangerous in today's conditions is the influence of a political factor – military operations on the territory of Ukraine. Today, a large number of enterprises are characterized by unbalanced activity, its suspension or termination in general. If appropriate forms and methods of financial rehabilitation of enterprises are not applied in a timely manner, the final result of their activity may be bankruptcy and liquidation. Accordingly, the problem of financial rehabilitation of domestic enterprises and maintenance of economic stability of the country in general is extremely urgent in today's conditionsAnalysis of recent research and publications. Many scientific studies and publications by both domestic and foreign scientists and economists, including: I. N. Karpun, V. P. Martynenko, O. E. Kuzmin, V. O. Neghaichuk, are devoted to the issue of financial rehabilitation of business entities. The works of most of them are of a theoretical nature and are mostly devoted to the study of the essence, factors and subjects of the financial recovery of enterprises.In our opinion, it is more expedient to study issues related to the forms and methods of financial rehabilitation of enterprises, which have much greater practical value.The purpose and tasks of the research. The purpose of the article is to study the essence and features of the financial improvement of the enterprise and to build an algorithm for choosing methods for its implementation.Presentation of the main material. As shown by the data of domestic researchers, in recent years the trends of Ukrainian enterprises have significantly worsened. Such trends are characterized by unsatisfactory values of basic financial indicators such as profitability, liquidity, solvency, financial stability, etc. The main reason for these trends is the inability of business entities to respond to macroeconomic and microeconomic factors in a timely manner and take them into account in the process of activity. One of the ways to correct such a situation is to introduce adequate forms and methods of financial rehabilitation into the activities of enterprises.Among domestic scientists, it is customary to consider the financial recovery of an enterprise from two points of view. In the first case, the financial recovery of the enterprise is considered from the standpoint of anti-crisis management, which involves the implementation of a number of measures to overcome the crisis situation. In the second case, financial improvement is considered from the point of view of financial management, as a set of crisis prevention measures. As a rule, the consequences of financial improvement are overcoming the crisis situation and further development of the enterprise or its liquidation.

LITERATURE REVIEW:

Peculiarities of financial re the scientific works of modern scientists Nesterova O.S., Pichugin A.V., Romanova A.V., Marushkina N.E. and others According to A.V. Romanova, N production structure of the enterprise to the requirements of an effective market, provided that the profitability of the activities carried out by the enterprise. N.P. Makarkina2 , on the other hand, said preventing insolvency and preventing the initiation of bankruptcy proceedings. According to S.Yu.Suchkova crisis in the enterprise, i.e., obligations arising from trade, credit and other monetary operations. M.A. Tsrimov4 noted that despite the visual clarity and prospects of the financial recovery process, currently

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financial recovery mechanisms are ineffective, prevention initiatives, as well as in the framework of bankruptcy decisions. In studying the role of complex economic analysis as a means of financial rehabilitation of the enterprise, the authors attach great importance to assessing the level of development of the relevant conceptual apparatus and, above all, categories such as financia Financial recovery is a relatively new and controversial concept for economics that emerged at the same time as the formation of market relations. The strategic mechanism of financial recovery is a system of measures aimed at maintaining financial balance achieved in the long run. Economic growth provided by the main parameters of its strategy. Approach to financial recovery is to prevent crises using flexib innovative renewal of the organization.

ANALYSIS AND RESULTS:

Allocation of resources for financial rehabilitation of enterprises is carried out at the expense of certain sources: should be considered as a source of resources, and for a state support fund, not only budget funds, but also funds from private investors should be considered. Financial rehabilitation requires the use of comprehensive measures to increase the solvency financial stability and efficiency of enterprises and development of financial rehabilitation strategies, appropriate programs and plans based on the chosen methods. An assessment of clear criteria is required to s recovery. The basis for their selection is the stage of the financial crisis in which the enterprise is located. This is the stage of financial instability, the latent stage of bankruptcyAmong scientists, it is clearly defined that financial recovery can be carried out by methods of rehabilitation; reorganization and restructuring. Having analyzed the scientific works of domestic and foreign scientists devoted to the financial recovery of economic entities, we singled out a number of tasks inherent in it, which are shown in Figure 1.

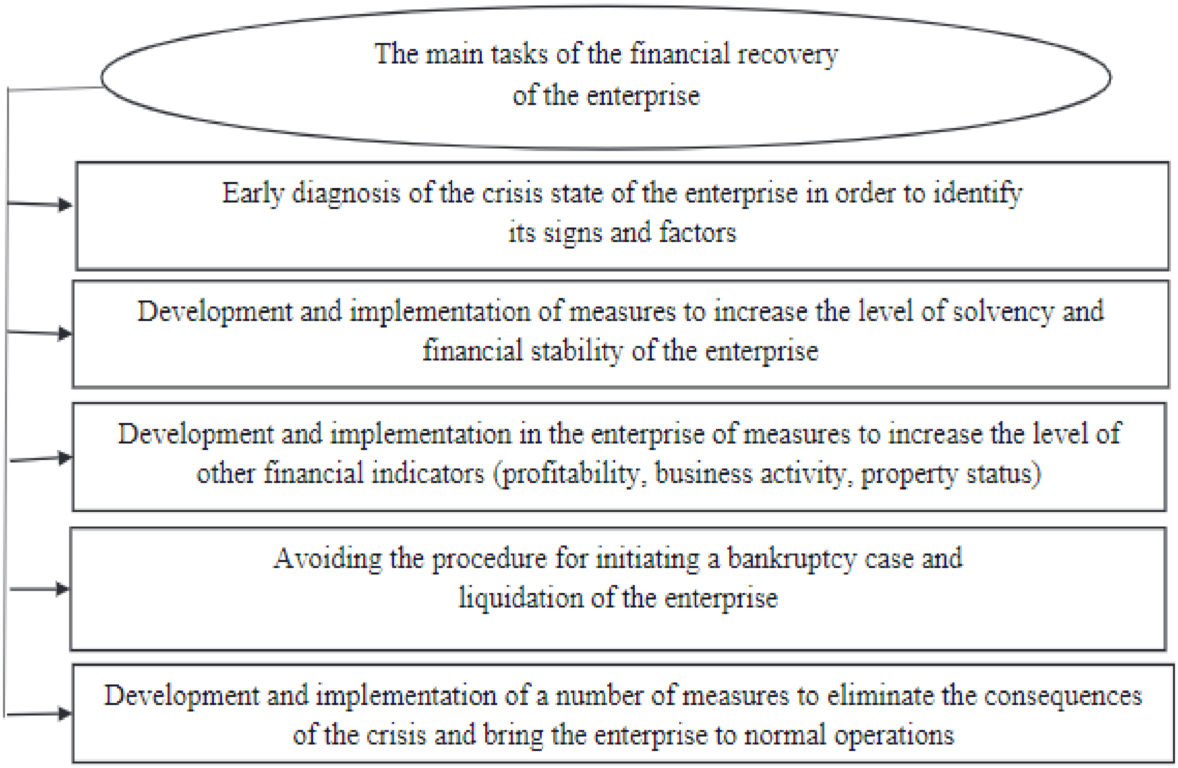

Fig. 1. The task of financial rehabilitation of the enterprise

Since the financial flows of all entities in the country's economic turnover are interconnected and interdependent, it can be argued that equilibrium. Volume optimization and a constant balance of cash flows are achieved through the effective operation of the financial management system of the commercial organization. Result, the solvency of enterprises is ensured. Financial flows occurs, it leads to temporary and sometimes permanent failures and gaps, the solvency of the business entity deteriorates, and then financial rehabilitation is required it. Many of the factors that lead to a crisis indicate the need to use management methods to financially improve an enterprise, as balanced and effective management decisions can significantly mitigate the negative effects of crisis events. And practice of crisis management of

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enterprises is the imperfection of methods of assessing the feasibility of financial recovery, as they are primarily focused on the current financial condition of the enterprise and do not take into account its capabilities. Financial restructuring in emerging market economies is not only limited to building a sound financial system that effectively controls the use of capital. The economic and financial structure of state-owned enterprises (SOEs), including their privatization, is also of crucial importance. For the transformation to a market economy to enhance efficiency, it must change the organization and deployment of productive resources—including paring down large SOEs from their often vast scale and scope and liquidating chronic loss-making enterprises. In the void created by the breakdown of bureaucratic administration, strengthening financial control can be an important means of achieving this economic restructuring. Enforcing existing debts can be used to force inefficient SOEs to shed physical assets, while providing new financing to support enterprise sell-offs and leasing can facilitate the transfer of productive assets into the nascent private sector. However, the financial structure of new private firms, which shapes the incentives faced by their owners, creditors, and managers, should reflect their preferences rather than those of a central authority.Because of both the discipline imposed by a sound financial system in a market economy and the need to provide finance for economic restructuring, an overhaul of the financial systems in emerging market economies is of pressing importance. This overhaul includes not only an upgrading of the physical and human capital of banks and other financial institutions, but also a fundamental shift from finance as the passive record-keeping mechanism under central planning to finance as the primary instrument of control over the use of capital.

The legacy of bad loans from the era of central planning and the early period of transition to a market economy, however, severely hampers the overhaul of both state banks and SOEs in some emerging market economies. These doubtful loans were made mostly to SOEs by state banks; in some cases, they constitute substantial proportions of both state bank assets and enterprise liabilities. State banks are also hindered by the sectoral and geographical concentration of their loans that resulted from their typical origins as either regional offices of monobanks or as specialized financing agencies for particular industries.

This paper examines alternative approaches to building sound financial structures in some emerging market economies. The foremost task is to resolve the bad loan problem and to recapitalize insolvent state banks. By restoring an incentive for banks to price accurately the risks of new lending, the resolution of bad loans would be an important first step in strengthening financial control. However, this endeavor is only part of the task at hand; the remainder is to provide financing that facilitates the economic restructuring of SOEs. A comprehensive strategy may combine discipline derived from enforcing existing loans to SOEs with adequate funding for new forms of ownership, including financing for enterprise sell-offs and leasing.

Origins of the Bad Loan Problem

Although loan defaults did not occur under central planning, the origins of the current bad loan problem in some emerging market economies can be traced to the old system. Under the monobank structure, a single bank performed both commercial and central banking functions. In commercial banking, a monobank typically played a passive role, providing book-entry credit to SOEs for all investment projects approved under the central plan and disbursing cash for payment of wages. An attempt was usually made to maintain a strict separation between cash and credit money: the former was used for wages and household consumption and the latter for interenterprise transactions. Since credit money could not be spent without the planners' approval, and credit could be created automatically with the planners' approval, the lending decisions of the monobank were not guided by the opportunity cost of funds or by the ability to repay. The concept of bad debt was therefore irrelevant. Because the enterprise sector as a whole was typically solvent—being the main source of revenue for the government—the creditworthiness of individual SOEs was not of primary concern to planners.In many of the centrally planned economies, the initial reform efforts scaled back central planning and granted more autonomy to SOEs. At the same time, more banks were created. In some countries, such as Poland, the monobank's omercial banking functions were devolved onto newly created commercial banks, whereas in others, such as Russia, many new banks were established. However, bank operations adapted slowly to the greater degree of decentralization.

Without both the constraints imposed by central planning and effective financial control, SOEs stepped up their borrowing. Sharply negative real interest rates in some countries further stimulated this effort. Moreover, where high real interest rates prevailed, the adverse selection may have impeded the efficient allocation of credit. Since banks had not begun to discriminate between borrowers' creditworthiness, high interest rates may have discouraged borrowing by solvent enterprises whose managers and workers

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expected to have a stake in the firm, whereas those SOEs whose debt far exceeded their assets may have been undeterred, never expecting to have to service the new lending (see Dooley and Isard, 1992). Restrictive credit policies, compounded by shortcomings in credit and payment systems, may also have contributed to the overall deterioration of the enterprise sector in some countries (Calvo and Coricelli, 1992 and 1993).The large shocks to which SOEs in Central and Eastern Europe were subjected in the early 1990s were another source of the bad loan problem. First, price and trade liberalization worked to undermine the profitability of the enterprise sector: SOEs that had produced goods subject to shortages, purchasing inputs at controlled prices and selling their output under conditions of excess demand, suddenly hit the demand constraint. Many enterprises faced a large contraction in demand and were unable to adapt to altered market conditions (Blanchard and others, 1991; and Borensztein, Demekas, and Ostry, 1993).Second, the breakdown of trade among the countries of the former Council for Mutual Economic Assistance (CMEA) and among the states of the former Soviet Union exacerbated the plight of the enterprise sector (Rodrick, 1992).

This breakdown was intensified by deep distrust among some of these countries and because the previous pattern of trade had been to some extent artificially promoted in the interest of maintaining fraternal relations among the socialist countries (Wolf, 1990). The shocks affecting the enterprises, together with the banking system’s failure to discriminate according to creditworthiness, contributed to substantial further accumulations of bad debt after some reform programs had begun.The pattern of lending in the initial period of reform illustrates three aspects of the lack of financial control. First, many SOEs were confronted with permanent changes in their economic setting—in their input prices and in markets for their outputs—that would not permit them to survive in their present form; nevertheless, these SOEs continued to receive bank credit that enabled them to perpetuate chronic loss-making activities.[5] Second, reflecting the breakdown of central control of SOEs, some enterprise managers may have used their access to credit to buy industrial peace by granting higher wages (Coricelli and Lane, 1993) or to further their own interests, expecting that the debts would be serviced by someone else.[6] Third, the explosive growth in interenterprise arrears after initiation of reform programs may also point to the lack of financial control, although some growth in this form of credit may have reflected normal business practices (Clifton and Khan, 1993; and Ickes and Ryterman, 1993).Why did banks not exercise a greater degree of financial control after the initiation of reforms? First, they had no clear-cut incentive to maximize profits, since they remained under state ownership. Even where their profits were shared with employees, uncertainty about how long this arrangement would last may have given them a very short-term perspective. Second, those banks that were themselves insolvent had no incentive to withhold credit from unworthy borrowers. Under these circumstances, lending to enable insolvent debtors to service their obligations could be rational, since it enabled the troubled banks to report the loans as performing, and thereby postpone the day of reckoning (Mitchell, 1993). Third, the quality of information on outstanding debts was very poor, because few facts were available on which to assess the long-term viability of SOEs or even the quality of their receivables from other enterprises. Finally, the strength of insider networks and customary relationships may have perpetuated lending patterns established in the era of central planning.The bad loans in emerging market economies are a serious problem because they distort the incentives of both creditors and debtors. Banks whose bad loans are so large that they are insolvent do not make efficient lending decisions, since at the margin no incentive exists to price accurately the risks of new loans. Under these circumstances, a serious moral hazard problem could arise, as managers of state-owned banks would see little benefit from prudent lending relative to a high-risk gamble that could keep them in business. Moreover, as long as banks are saddled with such a large proportion of nonperforming assets that they have negative net worth, they cannot be privatized. Bad loans also pose a similar moral hazard problem for insolvent SOEs, destroying the incentive for maximizing enterprise profits and significantly impeding their privatization (Levine and Scott, 1993).

CONCLUSION

The success and effectiveness of government support is largely determined by the rationality of its financial support. Support for crisis-hit enterprises and limited budgetary resources, the formation of a financial mechanism for state support of financial rehabilitation, the specific composition of its elements and ways of their interaction. Thus, the main drawback of the use of indicators of diagnostic purposes, in our opinion, is their low data content, because the results of the analysis of these indicators do not provide the initial data necessary for financial recovery. Increase the effectiveness of financial recovery, we propose to: supplement the guidelines for the preparation of a financial recovery plan with additional sections, including an assessment

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of financial risks and a forecast of the financial condition of the organization. Recommendations may, on the one hand, limit the possibility of introducing a financial recovery procedure, on the other hand, ensure that all participants in the bankruptcy institution take a responsible approach to decision process efficiency.

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