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## **FINANCING OF CONSTRUCTION ENTERPRISES OF UKRAINE IN THE CONDITIONS OF CURRENT CHALLENGES**

The article examines the current state of financing and the peculiarities of the development of the domestic construction sector in wartime conditions. It was found that during global challenges, such as the corona virus epidemic and full-scale war in the country, the state of financing of construction enterprises worsened due to unprofitable operations, the growth of uncovered losses and, accordingly, the negative amount of equity capital. It has been established that construction and contracting organizations finance their activities mainly at the expense of borrowed funds, namely current liabilities and guarantees, and due to high interest rates and credit risks, they do not actively resort to bank lending today. The key determinants of the micro- and macroenvironment have been determined directly affect the structure of financial capital of construction enterprises. Summarized the main factors caused by the war, which negatively affect the activity of construction enterprises and the state of their financing. In particular, this is a change in logistics routes and an increase in energy costs; rising prices for construction materials; shortage of certain types of construction materials and construction products, a difficult situation with working capital and reserves that are quickly depleted; low market demand; forced shutdown of many construction sites for an indefinite period, etc. The main macroeconomic directions of promoting the development of the construction business and increasing its profitability have been determined, such as: a transparent program of post-war reconstruction of the country, active involvement of international partners in it; lowering the price of mortgage loans; stimulation of innovative technologies to reduce the cost of projects; solving problems with the logistics of supplying basic building materials; transparent government policy for developers and investors; stimulation of public-private partnerships for housing restoration, etc.

**Keywords:** construction enterprises, own funds, military aggression, loan funds, financial capital, financial resources.

## **ФІНАНСУВАННЯ БУДІВЕЛЬНИХ ПІДПРИЄМСТВ УКРАЇНИ В УМОВАХ СУЧАСНИХ ВИКЛИКІВ**

У статті досліджено особливості фінансування вітчизняних підприємств будівельного сектору. Визначено ключові детермінанти макро- та мікросередовища, що впливають на структуру фінансового капіталу будівельних підприємств і можуть сприяти підвищенню ефективності його використання. Розглянуто проблеми фінансування будівельного бізнесу під час повномасштабної війни в Україні та окреслено основні макроекономічні напрями сприяння його розвитку в умовах сучасних викликів.

**Ключові слова:** будівельні підприємства, власні кошти, воєнна агресія, позикові кошти, фінансовий капітал, фінансові ресурси.

**Statement of the problem in a general form and its connection with important scientific and practical tasks.** The effectiveness of the process of construction and timely commissioning of construction objects within the planned budget and in conditions of shortage of financial resources is based on competent organization and flexibility of construction financing, the achievement and support of which is a key condition for effective management of investment and construction activities and is manifested in the competent selection of sources financial resources and compliance with their rational ratio. The technical and economic features of construction production, characteristic of the construction industry, require significant efforts to find and attract the necessary sources of financing and affect the interests of each of the participants in the construction process: from contractors and developers to investors and creditors. Domestic construction companies faced a particularly acute problem of financing during the full-scale war in Ukraine. The war became a serious challenge for the economy of our country, in particular for the entire construction industry, having a negative impact on the scale of construction, the cost of construction works and the demand for construction products, etc. All this, in turn, could not but affect the financing problems of construction sector enterprises and their profitability.

**Analysis of the latest studies, in which the solution to the problem was initiated.** The problems of researching the financial support of the activities of enterprises and factors affecting the structure of their capital formation are largely covered in the works of domestic and foreign scientists, in particular, such as: Blakytka G.V.,

Sytnyk G.V., Vysochyn I.V. (*Blakyta etc.*, 2023), Golubka Y.V., Nesterova S.V., Mykhalchynets G.T. (*Golubka etc.*, 2019), Dropa Ya.B. (*Dropa*, 2016), Zhuravlova T.O. (*Zhuravlova*, 2020), Ivakhnenko I. (*Ivakhnenko*, 2021), Chobitok V., Matsyshyn M. (*Chobitok and Matsyshyn*, 2024), Bevan A., Danbolt J. (*Bevan & Danbolt*, 2002), Chen J. (*Chen*, 2004), Delcoure N. (*Delcoure*, 2007) and others. However, in our opinion, the specifics and determinants of influence on the formation and efficiency of the use of financial resources in the construction sector of the economy, especially in wartime, require further research.

**Whole articles.** The purpose of the article is to identify the peculiarities of financing the construction sector of the economy in Ukraine under the conditions of modern challenges.

**Presentation of the main material of the study with a full justification of the obtained scientific results.** Given the significant dependence on the volatility of real estate market indicators and its cyclicity, the construction industry has always been considered risky for investors and creditors: the boom in construction production and the inevitable subsequent recession turn into a crisis for the entire economy, exerting a destabilizing effect mainly on the financial system. In turn, the high risk of the construction industry leads to high reputational, asset and reporting requirements from potential investors and lenders and results in tight construction financing conditions, while requiring a precautionary approach to financing decisions.

Sources of financial resources that are attracted and used by construction enterprises for the implementation of construction projects can be divided according to the following criteria:

- 1) depending on the origin of the capital: instruments of internal, external classical and innovative financing;
- 2) depending on the legal status of persons who provide financial resources: those formed on the basis of own, borrowed and mixed capital.

Internal financing tools are formed in the process of production activity and reflect the ability of the construction company to self-finance. However, the volume of these resources is usually small, so for the implementation of large construction projects, it is necessary to attract additional external sources provided by third parties (investors and creditors).

Of special interest, in our opinion, is a group of innovative financing tools based on the hybrid nature of these sources, which provides for an intermediate balance position between net equity and classic debt financing, as well as the possibility of transforming debt into equity capital. Innovative financing includes instruments of mezzanine financing and structured financing.

Mezzanine financing is a hybrid of debt and equity financing, the instruments of which are: profit certificate, subordinated debt, silent participation, equity debt, convertible debt, option debt. Structured financing instruments include asset-backed securities, structured credit, takeover financing, and project financing.

It should be noted that in international practice, various forms of mezzanine and structured financing are widespread in the organization of construction of real estate due to long-term and contractual flexibility. In Ukraine, structured financing instruments are mainly used to finance construction.

We will analyze the specifics of the formation of financial capital of construction enterprises in Ukraine. The construction complex is one of the important spheres of the national economy, which makes it possible to bring the country out of crisis in times of economic crisis, thanks to the fact that the development of construction gives impetus to the development of many related industries.

Analysis of the sources of financial resources in construction showed that construction sector enterprises that build residential and non-residential buildings (according to KVED 41.20) finance their business mainly through loans and borrowed resources (Table 1).

The results of the study show that over the past five years, despite significant challenges (coronavirus epidemic and full-scale war), there has been a gradual increase in the amount of financial capital of Ukrainian construction companies, which is a positive trend. Thus, compared to 2019, the amount of financial capital increased by 24.2%. In the composition of the financial capital of construction companies, equity capital occupies a small share, much smaller than the normative value for industrial enterprises, and during the last five years, with the exception of 2021, it had a negative value, which is due to the presence of uncovered losses. Thus, construction and contracting organizations finance their activities mainly at the expense

of borrowed funds, namely current liabilities and guarantees, which made up 88.8% of the financial capital by the end of 2023.

Table 1  
Analysis of the state of provision of construction enterprises of Ukraine (according to KVED 41.20) with financial resources, billion UAH

Indicators	2019	2020	2021	2022	2023	Change for 2023-2019	
						abs.	relative, %
Total sources of financial resources	305,5	312,5	353,6	351,1	379,4	73,9	24,2
Own funds	-1,7	-2,7	3,9	-10,7	-2,9	-1,2	-70,6
including retained earnings (uncovered loss)	-34,2	-35,8	-31,8	-47,8	-40,5	-6,3	-18,4
Borrowed and borrowed funds	307,2	315,2	349,7	361,8	382,3	75,1	24,4
Long-term liabilities and security	52,7	45,2	43,8	49,5	45,2	-7,5	-14,2
Current liabilities and security, including	254,5	270,0	305,9	312,0	336,9	82,4	32,4
– short-term bank loans	18,5	4,8	6,7	6,2	6,3	-12,2	-65,9
– current accounts payable	75,3	83,8	90,4	90,5	96,9	21,6	28,7
– other current liabilities	158,6	178,9	205,7	212,2	231,0	72,4	45,6

\* Compiled by the author based on official statistics (State Statistics Service of Ukraine).

As the research showed, construction firms do not currently actively use such a source of capital attraction as bank loans (due to high interest rates and credit risks), but prefer financing through accounts payable for goods, works, and services. A significant share of other current liabilities as part of the total capital testifies to the importance of such a source of capital as advances from customers of construction products. For construction enterprises, such a source of

capital attraction is free, but at the same time contains risks of non-fulfillment of obligations due to unforeseen circumstances, which are characteristic of the activity of the construction industry and are expressed by fluctuations in prices for construction materials, currency and inflation risks, the risk of changes in the regulatory and legal regulation of the construction permit process activity

To form the optimal structure of financial capital, construction enterprises need to take into account the factors of the macro- and microenvironment that directly affect this structure and can contribute to increasing the efficiency of the use of financial capital at such enterprises. In particular, microeconomic factors include the stage of the construction enterprise's life cycle; the size of the company's capital and experience in the construction industry; production and financial risks; the level of profitability of the enterprise; asset structure; information asymmetry; opportunities for the growth of financial indicators of the construction company; financial mentality of owners and managers of the enterprise. Factors of the macro environment are defined as: experience in financing enterprises of the construction complex in different countries; comparison of financing sources of various construction enterprises among themselves; lending rates of banks; the attitude of creditors to the enterprise; availability of cheap sources of financing; the level of competition in the market of construction services. Military aggression by the Russian Federation had a strong impact on construction. As the experts note, "the construction industry has suffered significant destruction, it has partially lost its raw material base and production" (*Bilyk, 2023*). Due to the war, there was a significant increase in the cost of materials, a shortage of qualified personnel and limited access to financing. Operational activity in construction has become unprofitable on average across the country.

The results of the study showed that the main factors caused by the war, which negatively affect the activity of construction enterprises and the state of their financing, are: a change in logistics routes and an increase in energy costs; rising prices for construction materials; shortage of certain types of building materials and construction products (in particular, steel, sand, glass, asbestos, gypsum, clinker bricks, etc.); a difficult situation with working capital

and reserves that are quickly depleted; low market demand; forced stoppage of many construction sites for an indefinite period; high cost of gas; hundreds of thousands of tons of construction waste; part of the enterprises that produced materials and construction products was completely destroyed; electricity volume limits due to damage to the energy infrastructure; the need to import raw materials from abroad, which affects the cost of construction; the volumes of import/export of materials are limited due to logistics limitations (*Bilyk, 2023; Bench, 2023 etc.*). In our opinion, the main macroeconomic directions of promoting the development of the construction business and increasing its profitability should be: a transparent program of post-war reconstruction of the country, active involvement of international partners in it; active application of effective programs for compensation for destroyed/damaged property at the state and local levels, in particular through the eHome program; lowering the price of mortgage loans; stimulation of innovative technologies to reduce the cost of projects; solving problems with the logistics of supplying basic building materials; restoration of the activities of destroyed domestic enterprises that specialized in the production of construction materials; increasing investments in the construction of new production facilities that will manufacture previously imported types of building materials from the Russian Federation (in particular, glass, products made of cement, asbestos, gypsum, etc.); transparent government policy for developers and investors; stimulating public-private partnerships for housing restoration.

**Conclusions.** Therefore, the problem of choosing sources of financial resources and forming their ratio is an essential factor in making decisions about the strategic development of construction and contracting organizations. The dynamics of the ratio of equity and debt capital reflects the history of the construction company's financial success and is an indicator of its investment attractiveness and creditworthiness. However, the aggregate financial capital of construction enterprises in almost all regions of Ukraine has maintained a financially risky capital structure in recent years.

In connection with the full-scale military aggression, many acute problems have accumulated in the industry and the country as a whole, the solution of which will contribute not only to the recovery

and development of the activities of construction business entities, the improvement of their financing and the increase of their profitability, but also to the post-war recovery of other sectors of the economy of Ukraine.

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