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## RESEARCH OF FINANCIAL INSTRUMENTS OF ENTERPRISE SUSTAINABLE DEVELOPMENT

### ДОСЛІДЖЕННЯ ФІНАНСОВИХ ІНСТРУМЕНТІВ СТАЛОГО РОЗВИТКУ ПІДПРИЄМСТВА

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*Бровкова О.Г. Дослідження фінансових інструментів сталого розвитку підприємства. Оглядова стаття.*  
Стаття присвячена фінансовим інструментам сталого розвитку підприємства, визначено сутність факторингу та форфейтингу, досліджено історію виникнення та розвитку цих інструментів. Виявлено особливості використання фінансових інструментів на українських підприємствах. Проаналізовано основні види фінансових документів таких як акція, облігація, депозитні сертифікати, вексель, що використовуються як форфейтингові інструменти. Розглянуто лізинг як фінансовий інструмент оновлення основного капіталу підприємства. Визначено ризики учасників форфейтингової угоди та основні напрями розвитку форфейтингу.  
*Ключові слова:* факторинг, форфейтинг, вексель, акція, облігація, депозитний сертифікат, фінансовий інжиниринг, лізинг

*Brovkova O.G. Research of financial instruments of enterprise sustainable development. Review article.*  
The article is devoted to financial instruments of sustainable development of the enterprise, the essence of factoring and forfeiting is determined. The history of the emergence and development of these instruments is explored. The features of using financial instruments at Ukrainian enterprises are revealed. The main types of financial documents such as a stock, a bond, deposit certificates, a bill, used as forfeiting instruments are analyzed. Leasing is considered as a financial tool for upgrading the company's fixed capital. The risks of the forfeiting agreement participants and the main directions of forfeiting development are determined.  
*Keywords:* convergence factoring, forfeiting, bill, stock, bond, deposit certificate, financial engineering, leasing

**S**ustainable development of the state economy implies economic growth of Ukrainian enterprises. Ukraine 2020 Sustainable Development Strategy defines Ukraine to become a strong economy and advanced innovation. It is assumed that gross domestic product per capita will be \$ 16.000. The vector of Ukraine's development should ensure sustainable development of enterprises [1].  
The development of competitive production on a global scale involves the availability of assets from enterprises. In the process of development of an enterprise it is necessary to apply different financial instruments of the enterprise's asset management.

#### Analysis of recent researches and publications

The theory and practice of asset management of the enterprise are considered in the works of domestic and foreign scientists such as Blank I.A., Brekham Yu., Erkhardt M., E.J. Dolan, Kovalyova V.A., Krasavina L.N., McKonel K.R., Samuelson P.

L.N. Krasavina considers financial instruments of development as regulation of international credit relations and external debts without attention to the development of enterprises themselves [5].

E. Dolan pays attention to the efficient functioning of the international financial market [3].

McKonel K.R. examines the problem at the macro level. More attention is paid to the banking system in the development of enterprises [4].

However, existing publications mainly address certain aspects of the problem. Further research of financial instruments of the enterprise development requires new theoretical and practical developments.

*The aim of the article is to study such financial instruments of sustainable development of the company as factoring, forfeiting.*

#### The main part

The forfeiting financial tool began to be used after the Second World War, when there was a need for long-term loans in the international market. Forfeiting on the Asian and Latin American markets has been particularly active as the barriers in international trade were destroyed.

The greatest development of forfeiting has received in countries with relatively poorly developed state lending of exports. Initially, fortification was carried out by commercial banks, but with the increase in the operations of "a-forfe", specialized institutions were also created [7].

Forfeiting is most effective for large enterprises that are in need of cash for long-term projects.

Forfeiting evolves in various financial centres, with annual growth of similar deals. However, it would be a mistake to link the increase in the number of transactions "a-forfe" with the growth of the number of such centres. This is due to the growing risks borne by the exporters, as well as the lack of adequate sources of funding in connection with the growth of risks.

Forfeiting has significant benefits, which makes it an attractive form of medium-term financing. The main advantage of this form is that forfeiter assumes all the risks associated with the operation. In addition, its attractiveness is growing due to the refusal in some countries of fixed interest rates, chronic shortages in many developing countries for the payment of imported goods, the growth of political risks and some other circumstances.

The work of forfeiting companies is to distinguish between any trades transactions of all risks and allows the exporter to focus on their business.

Importers in developing countries are ready to pay for goods with a deferred payment of serious money. As access to medium and long-term financing in such countries is limited, the importer leads to payment of contracts in accordance with the receipt of income from the project, in advance fixing the percentage during the use of the loan.

The essence of factoring in relation to exports is that the financial institution (factor) agrees to release the exporter from the financial burden of the export agreement, especially from the collection of proceeds from foreign buyers, so that he can concentrate on his core business. Compared to factoring, forfeiting has certain advantages. The first is usually used for mid-term financing (90-180 days), besides, it is provided in a relatively small number of currencies, and there is always a certain risk for the exporter (financial institutions usually only accept up to 80% of the debt and demand the preservation of the right of regress to the exporter in insolvency of the importer). The disadvantage of factoring is that the percentage on it is usually higher than with the forfeiting form of financing.

The seller, by providing a delay in payments, may require the buyer to issue a debt claim (bill). Under the bill, the seller obtains an indisputable right to receive payment on a bill at the time of the implementation of the obligation. Promissory note with a delayed payment is called a bill with a turnover. To reduce the risk, the seller may require third-party guarantees to implement obligations under the bill. The guarantee of a third person on a bill is called aval, and the bill is lent [2].

Bill – a kind of security. In its properties, a bill can be qualified as a special case of non-purchase bonds. The bill can be sold at any time to a third person (forfeiter) by writing it. A transfer note on a bill is called an endorsement. When people sell a bill, its owner transfers to the forfeiter the right to demand debt. Thus, by selling a bill, the supplier may receive money before the due date.

When people sell a bill, its owner does not pay the commission. The interest of forfeiter is in the discount, which is provided by the owner of the bill, from the nominal value. This discount is called a discount, its size is stipulated by the parties at the conclusion of the transaction and depends on current interest rates and risks.

Both methods of lending in their own way are unique and demanded by the economies of different countries.

The expediency of using one or another method is determined by the purpose pursued by the creditor (seller, exporter).

Factoring agreements are concluded by small and medium enterprises for efficient management of accounts receivable. Ukrainian enterprises have certain restrictions on obtaining a loan. For example, a high lending rate.

Table 1. Comparative characteristics of factoring and forfeiting

<b>Factoring</b>	<b>Forfeiting</b>
The object of the transaction – is mainly an invoice.	The object of the transaction – mainly a bill (simple or transferable).
Short-term lending (up to 180 days).	Medium-term lending (from 180 days to 10 years).
The loan amount is limited by the possibilities of the factor.	The amount of the loan may be quite high in the investigation of the possibility of siding.
Factor advances working capital of the creditor 70-90% of the amount of debt. The remaining 10-30% are credited to the creditor only after repayment of the loan by the buyer, net of commission and interest.	Forfeiter pays out the amount of debt completely less the discount.
The factor either reserves the right to recourse to the creditor or waives this right, but in this case, during the goods exporting, the political and currency risks are borne by the exporter.	Forfeiter pays out the amount of debt completely less the discount.
Ability to resell factoring asset is not provided.	It is foreseen the possibility of reselling forfeiting assets in the secondary market.
Third-party guarantee is not required.	A third-party guarantee or an aval are needed.

Source: compiled by the author on the materials [6]

Forfeiting uses corporations for the possibility of implementing long-term projects.

Factoring – acquisition of the right to collect debts, for the resale of goods and services with subsequent receipt of payments on them. In this case, that usually entails about short-term requirements. In other words, factoring is a type of mediation, in which the firm-intermediary (factoring company) for a fee receives from the enterprise the right to charge and credited to its account due to it from the buyers amount of money (the right to collect accounts receivable). At the same time, the intermediary lends to the client's working capital and assumes its credit and currency risks.

Under factoring we mean a financial transaction, during which the seller-vendor gives the right to receive cash from payment documents for the delivered products in favour of a bank or a factoring company that assumes credit risk for debt collection. For the execution of such an operation, the bank pays a commission from the seller-company, as a percentage of the payment amount. The commission depends on the solvency of the buyer and the terms of payment.

Factoring allows companies to refinance part of the receivables in a short period and to reduce the operating and financial cycle, to accelerate the turnover of the enterprise.

Using factoring increases the company's liquidity and reduces financial risks.

Commercial banks in the implementation of factoring transactions provide information, legal, insurance and other services to enterprises. It increases the bank's profit for providing these services.

In accordance with the International Factoring Convention, adopted in 1988 by the International Institute for the Unification of Private Law, an operation is considered factoring if it meets at least two of the following four characteristics: 1) availability of lending in the form of prepayment of debt claims; 2) accounting of the supplier, first of all accounting implementation; 3) the collection of his arrears; 4) supplier's insurance against credit risk. However, in a number of countries factoring also includes and accounting of invoices – an operation that would be only one, the fate of the first of these characteristics [7].

Financial institutions that provide factoring services are called factor firms. They are created by the largest banks (or banks themselves function as factor-firms), which ensures high reliability of factoring operations and minimal costs for customers. The extensive network of specialized branches for factoring services in different countries is created by large multinational corporations. At the international level, the "Factors Chain International" association operates, with 95% of factoring companies from 40 countries [6].

There are certain limitations for small businesses to use factoring operations. For example, companies with multiple debtors, construction companies with subcontractors can not use the services of a factoring company.

Forfeiting transaction transfers the buyer's arrears on a commodity loan to a financial debt in favour of the bank.

The forfeiting mechanism can be used in financial and export operations of enterprises.

The main negotiable instruments used as forfeiting instruments are bills. However, the object of forfeiting may be other types of securities.

Main types of financial documents:

A share is a security that gives the owner the right to a share of the profit of a private or public company in the form of dividends. Also, the shareholder may participate in the management of the company.

Shares can be two types – ordinary and privileged. The difference is that they set a fixed dividend size, but they can not vote.

Bond – is a security, which stipulates the owner's rights to a specified interest in the prescribed period from the issuer of the bond. They are private and public.

Deposit and savings certificates – certificates of cash deposit to the bank. They can be freely traded, and issuance of bearer certificates theoretically allows them to be used as settlement and payment means, that is, a substitute for money. The issuer can be only a bank, the term of circulation and the denomination of certificates depends mainly on the terms of the deposit. The status of the depositor depends on the type of certificate: deposit – only for legal entities, savings – for physical persons.

A bill – is a simple, unconditional obligation of the drawer to pay a specified amount of money to a specified person within a certain period of time. The bill specifies how many, who, when and where to pay. There are two types – corporate and private.

Derivative securities – are documents containing property rights to use financial assets. Main types: futures (obligation to buy or sell), options (right to buy or sell), swaps (right to exchange assets). Popularity on the stock market has the so-called "Financial Engineering" – the construction of new financial assets from already existing traditional.

Others – checks, bills of lading, warehouse certificates – non-market securities, because as a rule they are not bought or sold. They serve payments for goods or settlements for their storage and transportation.

Banks finance international leasing agreements. The term international leasing, as a rule, is long-term and it has inherent financial risks. This is especially true for the lessor. The Bank acts as one of the parties to the leasing agreement and assumes this risk. Making such a deal is more difficult than forfeiting. However, international leasing agreements are widely practiced.

Financial leasing can be attributed to direct investment. The lease agreement stipulates the term for which the lessor transfers the lessee's property for a period greater than the amortization period for a certain fee and under

certain conditions of ownership. After the expiry of the financial lease agreement, the property becomes ownership of the lessee.

Financial leasing is widely used as a financial tool for upgrading the company's core capital.

Financial leasing is a type of direct investment in which the lessor undertakes to acquire ownership of the property specified by the lessee from a particular seller to transfer that property to the lessee as a subject of lease for a fee, for a certain period and for the terms specified in the contract of financial leasing for temporary possession and use.

A classical scheme in which the leasing company concludes a lease agreement with the Client and acquires property from the Supplier in accordance with the Client's Statement. Financial leasing (leasing) in Ukraine remains an attractive and rapidly developing financial instrument. Currently, the lease is accompanied by a favourable tax regime, according to which the lessee can include the entire amount of lease payments into production costs and accrued accelerated depreciation on the subject of leasing.

Reverse leasing – is a kind of financial lease with the only difference that the leasing company buys the property already acquired by the client and passes it on lease.

As a result of this transaction, the lessee receives the necessary working capital and enjoys legal means of minimizing taxes in his enterprise. By paying the amount of the reverse lease agreement, the lessee regains ownership of this equipment.

The reverse leasing scheme allows the client to temporarily release the capital by selling the property and at the same time continuing to use it. In this case, the client receives the necessary working capital and the opportunity to minimize tax payments.

During the financial instruments' using risks there arise.

The main risk of an exporter is currency risk. The risk arises when the exchange rate changes in an unfavourable direction for the exporter.

Such risks take place not only during forfeiting operations. This can be avoided if the contract is to link the price with fluctuations in the exchange rate.

The bill of exchange can also be linked to fluctuations in the exchange rate.

In order to prevent risks in forfeiting contracts, it is possible to provide payments in different currencies.

The importer undertakes to pay the goods delivered to him after a certain time. In this case, the amount and currency are fixed, the interest on his debt is pre-calculated and included in the value of bills, and bills are issued in the national currency of the importer. Only if the national currency of the importer for some reason is unacceptable for the forfeiter and the importer has to settle in another currency, there is a currency risk that hedge with futures [8].

The exporter and importer must control the currency receipts and payments in each currency. To manage currency risks, it is advisable to draw up a plan for foreign exchange earnings and payments.

In any forfeiting agreement the guarantor undertakes to pay the bills on time, and also has the right to demand from the importer payment execution. Thus, he has contingent liabilities and conditional assets. If they are executed simultaneously, then the guarantor does not bear any risks. However, there is a probability that the importer will delay payment. And although the guarantor has the right to demand payment of interest on past due, there is a risk that the importer will be completely insolvent. If the importer does not implement its obligations, the guarantor has problems with liquidity.

An important direction of the forfeiting market development is the expansion of financing, which involves the calculation of the discount on the basis of a floating interest rate. This practice is explained by the growth of the volatility of interest rates and reflects the reluctance of many banks to enter into fixed rate agreements.

Forfeiting market is developing, but there are reasons that hinder its development in Ukraine:

- banks almost do not participate in the formation of this market;
- insufficient number of specialists;
- there is a risk of changing interest rates that holds down the activity of the forfeiting market participants.

When people buy assets, forfeiter makes an investment. Perhaps he does not want to keep his money in a similar form for a long time, but on the contrary, he wants to resell the investment to another person, also being built up by a forfeiter. On the basis of this further resale of debts there is a secondary forfeiting market.

The exporter is interested in not disclosing information on how to finance his transactions and does not want the buyer (or any third party) to know about his financial needs and the mechanism used to finance his transactions. Any sale of forfeiting paper involves the risk of spontaneous expansion of the circle of business relationships, which impedes control by the exporter. To avoid this, the latter seeks to establish certain restrictions in the contract that would interfere with the free circulation of forfeiting papers.

The advantages of the forfeiting secondary market are higher revenues for forfeiting securities and guarantee forfeiting securities (aval) provided by banks that reduce financial risks.

The development of the forfeiting market is aimed at combining buyers into syndicates and banks as lenders.

Note: in the process of systematization of factors, a logical generalization of the materials is already described in the article is carried out, and some correction of their formulation.

It should be noted that, in our opinion, all groups of factors and the development of infocommunication enterprises are interrelated and interdependent.

## Conclusions

Currently there is no forfeiting market in Ukraine, as there are large medium-term risks. The main factor in the constraining development of factoring is the existence of contradictions in the legislation regarding the licensing of factoring transactions. In addition, insufficient number of qualification specialists.

Factoring agreements are concluded by small and medium enterprises for efficient management of accounts receivable, increasing liquidity.

Forfeiting is most effective for large enterprises that are in need of cash for long-term projects.

Factoring and forfeiting are effective financial instruments for sustainable development of enterprises.

## Abstract

The process of globalization in the global economy requires management of the development of enterprises and creates appropriate conditions for the formation of their assets.

In the process of development of an enterprise it is necessary to apply different financial instruments of asset management of the enterprise.

Forfeiting arose after the Second World War. Several Zurich banks, with a wealth of experience in financing international trade, began to use this technique to finance the procurement of grain by Western European countries in the United States. In those years, the supply of products and competition between suppliers so increased that buyers demanded an increase in the terms of the loan, granted up to 180 days against the usual 90. In addition, there was a change in the structure of world trade in favor of expensive goods with a relatively long production. Thus, the role of credit in the development of international economic exchange has increased, and suppliers have been forced to seek new methods for financing their transactions.

Factoring transactions arose on the basis of a commercial loan, which is provided by sellers to buyers in the form of a delay in payment for goods sold. Changing the requirements for calculations in terms of accelerating the turnover of funds has caused the need for suppliers to look for ways to address the problem of receivables. Factoring is a relatively new effective system for improving liquidity and reducing financial risk in arranging payments.

When using financial instruments there are risks. In order to manage risks, the exporter can make a list of his forfeiting contracts in different currencies, depending on the timing of their completion, which will enable him to track his need for funds.

Factoring services are most effective for small and medium-sized enterprises that are experiencing financial difficulties due to late payment of debts to debtors and limited access to other sources of funding for them.

Forging is most effective for large enterprises that are in need of cash for long-term projects.

Despite all the attractiveness of investments in forfeiting paper, the volume of such operations and the number of forefees are still small. Forfeiting market has not developed. Many forefeurs, especially those trading in the primary market, believe that such a development could scare many exporters and their banks, as it would lead to the loss of control over securities issued on the market.

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