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The Choice of Options for The Use of Funds - A Promising Direction to Improve the Financing of Investment Activities in Oil and Gas Enterprises of Uzbekistan

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Abstract

For improving the financing of investment activities in oil and gas companies of the country by choosing the form of attracting funds, proposals and recommendations are given in this article.

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Introduction

The results of our research and analysis illustrate that one of the reasons for the above-mentioned situation with the implementation of investment activities in oil and gas companies of the country is the mechanism of financing such activities. Indeed, in spite of the fact that oil and gas companies spend a lot of money on investment activities, as noted above, the main reason for the instability of investment in fixed assets and the fact that they increase the payback period is the main reason for the increase in investment. Of course, there are many reasons for this situation, which has arisen as a result of investment activities in oil and gas companies of our country. However, a thorough review of all of them is not part of our mission.

That is why we are trying to look at the problem here only from the point of view of improving the financing of investment activities. In the process of conducting our research, frankly speaking that the mechanism of financing investment activities in oil and gas companies of our country is sufficiently developed, even when studied in several areas, including the forms of raising funds. This is becoming clear, in particular, from the point of view of financing investment activities in oil and gas companies through the choice of modern forms (options) of raising funds. Therefore, at a time when the main directions of improving the financing of investment activities in the oil and gas enterprises of the country are being selected, in our opinion, first of all, this area is widely recognized and has shown its superiority in international practice. This is because international practice suggests that there are currently various forms or options for financing investment activities, each of which has its own impact on the effectiveness of such activities.

In this regard, initially, it should be noted that in the most general way, in a modern market economy, the financing of investment activities is becoming increasingly important for business entities' own funds, equity and debt. In such a situation, characterized by the diversity of funding sources, it is important to choose the forms (options) of attracting funds to finance investment activities in terms of increasing efficiency.

Main part

It is also essential to find a real answer to the question of whether it is necessary to increase the role of own funds by issuing securities for these purposes, or whether it is appropriate to attract borrowed funds. As a rule, many enterprises engaged in investment activities do not have enough funds to finance investments. However, despite this, for some reason, it is impossible to express such an opinion in relation to the oil and gas companies of the republic.

This is because the results of our scientific research have fully confirmed this. But here, in our opinion, one more thing should not be overlooked: the fact that the investment activity in the oil and gas enterprises of the republic during 2011-2020, when the research work was carried out, is almost entirely financed by these enterprises at their own expense, is explained by the small volume of such activities, that is, investment activity is carried out at these enterprises only to the extent (volume) that allows them to finance their own funds. In our opinion, this is not enough.

However, in all healthy cases, its external sources are widely used to finance investment activities in a market economy. Unfortunately, the same cannot be said about the oil and gas companies of our country. It is advisable to include some clarifications in the use of external sources in the financing of investment activities, either separately or with certain investors, ie investment institutions and other financial institutions, in relation to certain issues. In particular, according to the generally accepted rules of modern market economy, the amount of investment for an investor to carry out investment activities depends primarily on the conditions under which capital is invested in the market. In general, it requires a percentage of the funds created from its own funds, which it can receive when investing these funds in other activities, and this is considered a healthy state.

It is known that each form of financing of investment activity depends on the return on capital of the enterprise, ie the payback period of the investment and its indicators of financial stability, including the level of efficiency of investment and investment activities. Therefore, in international operations, where market relations are developed and structured as a pamphlet, it is recommended to use a combination of the above-mentioned sources to finance investment activities.

Moreover, it is worth noting that the experience of several developed countries (including the United States, Great Britain, Germany, France, Sweden, Japan and others in the field of financing investment activities) has been studied and summarized. The results of studies conducted on the basis of experimental studies suggest that there may be several variants of such combinations. In our opinion, the use of them, taking into account the specifics of the Uzbek economy, in particular, its oil and gas enterprises, can allow our country to improve the financing of investment activities in these enterprises in accordance with modern requirements.

Therefore, in our opinion, from the point of view of improving the financing of investment activities in the oil and gas enterprises of the republic, it is expedient to use the following combination of sources:

1. The first combined option of financing investment activities in oil and gas enterprises of the Republic, clearly (co-financing from own funds and credit financing); First of all, it should be noted that when we use the term "credit financing", as in international practice, we mean the financing or financing of investment activities by attracting credit resources of commercial banks. Also, due to the importance of this issue here and in the future, the issues of "increasing the efficiency of the use of own funds (equity) and the rational use of borrowed funds" were used separately and in particular from the practical materials of oil and gas companies of the republic.

Such an offer is not being pushed forward by us in vain. The main reason is that the results of our research are in the oil and gas industry of the country show that the use of its resources in the above combination (co-financing from own funds and credit financing), which is included in international practice in the financing of investment activities, is expedient and its advantages are almost never used. This was known exactly the situation in the case of Uzbekneftegaz or separately in the case of other oil and gas companies (Uzneftegaz, Uztransgaz and Uzneft products).

According to the relevant rules of the market economy, when choosing the option of financing investment activities (investments) in oil and gas enterprises of the country in such a combination, it is, first of all, determined by the return on investment above the rate of borrowing. Therefore, the financing of investment activities in oil and gas companies of the country at their own expense and at the expense of credit financing in order to make an appropriate and suitable decision in order to determine the rate of implementation, at least, it is necessary to take into account the following:

a) in terms of short-term and long-term solvency (liquidity and the share of own funds in liabilities), it is preferable to finance investment activities from their own funds. It is obvious that only in this regard, in recent years, in the financing of investment activities in the oil and gas enterprises of the republic, in our opinion, the own funds of these enterprises are given too much priority;

b) credit financing is preferable in terms of economic efficiency (return per unit of own funds). Unfortunately, this aspect of the issue is neglected when financing investment activities in oil and gas companies of the country.

It is known from the last cases mentioned above that at a time when the oil and gas companies of the country are making appropriate decisions on the financing of investment activities, first of all, what is important for them over a period of time: a) short-term and long-term solvency, or b) the efficiency of economic activity? so they must have a clear answer. However, in most cases, it is natural that both of the above should be important at the same time. So, it is clear that in this case it is necessary to use the above combination of financing of investment activities, ie the option of financing from own funds and credit financing.

2. The second combined option of financing of investment activity in the oil and gas enterprises of the Republic, clearly, financing at the expense of own funds and institutional financing (purchase of a block of shares, establishment of an enterprise with foreign capital, conclusion of a joint venture agreement, etc.);

It is known that our analysis has shown that this option, which gives a unique modern character to the improvement of financing of investment activities in oil and gas enterprises of the republic and consists of a separate combination of sources of financing, is not used enough. In our opinion, insufficient attention is paid to the issues of institutional financing in terms of improving the financing of investment activities in oil and gas enterprises of the country, with a view to improving the efficiency of investment activities (this is natural, because the results of our research have shown that the efficiency of investment activities in the oil and gas industry of the country in 2011-2020 is unstable and relatively low).

However, due to the increase in the volume of own funds, institutional financing of investment activities is preferred in terms of financial stability in a healthy market economy. In terms of efficiency in this direction, however, the situation is generally not the same. From a methodological point of view, in institutional financing, both the image and the denominator of the indicator, which is expressed in terms of the ratio of profit to equity, have an increasing character. So it is natural that everything here depends on the specific situation.

3. The third combined option of financing of investment activity in the oil and gas enterprises of the Republic, that's institutional financing of investment activity and credit financing;

Unfortunately, in terms of improving the financing of investment activities in oil and gas companies of the country, the expediency of using such a combination of sources of funding and its potential is not sufficiently used. In this regard, first of all, it should be noted that the form of institutional financing of investment activities is radically different from its form of credit financing. According to the rules of a market economy, a loan or credit financing is undoubtedly an obligation and the borrower must repay it regardless of any external risks. In contrast, in the institutional form of financing investment activities, the investor reciprocates (distributes) the external risk depending on whether it participates in the profits together with the recipient.

Undoubtedly, in such a situation, institutional financing of investment activities will have its advantages in terms of financial stability. But in terms of efficiency, the situation may not be the same here. This is explained, firstly, by the increase in the volume of own funds in the institutional financing of investment activities and, secondly, by the decrease in return on invested (invested) capital. Therefore, in our opinion, if the oil and gas companies of the country pay enough attention to these aspects of the issue and the relevant work is organized accordingly, it will undoubtedly make a worthy contribution to improving the financing of investment activities here.

4. The fourth combined option of financing investment activities in oil and gas enterprises of the Republic, that is, institutional financing of investment activities within the enterprise andseparation of investment activity (investments) into a separate balance sheet;

Institutional financing of investment activities here means, initially, the acquisition of a block of shares, and the separation of investment activities (investments) into a separate balance sheet, the establishment of an enterprise with foreign capital, joint activities, consortia, etc. Researches show that it is more efficient or profitable to allocate (transfer) to a separate balance sheet and place funds at 100.0% than to carry out investment activities in the framework of oil and gas enterprises. After all, in this case, at least, the risk of bankruptcy of oil and gas companies in the country will be significantly reduced. When an institutional investor emerges here, the situation becomes less clear and it becomes dependent on its share in the charter capital of a foreign-invested oil and gas company. Therefore, in our opinion, one of the ways to improve the financing of investment activities in oil and gas enterprises of the country should be recognized as institutional financing of investment activities within the enterprises in this area and the separation of investment activities (investments). It should also be used in practice.

5. The fifth combined option of financing of investment activity in the oil and gas enterprises of the Republic, ie short-term and long-term credit financing of investment activity;

In practice, our country, unfortunately, despite the fact that there is such a way to attract funds to finance investment activities, and it has shown its viability, such an opportunity is not used enough in the oil and gas companies of the country. In particular, during the period 2011-2020 in the oil and gas enterprises of the republic, in particular, this has become permanent, in our opinion, cannot be positively assessed. Indeed, over the past 10 years, the level of use of short-term and long-term credit financing in the implementation of investment activities in fixed assets in oil and gas enterprises of the country, as noted earlier, was only 3.0-4.0%. In addition, this source has not been used continuously in Uzneftegaz for the last 10 years. A similar situation was observed in some years at Uztransgaz and “Uzneft Mahsulotlari” companies. However, advanced foreign experience shows that long-term credit financing of investment activities can lead to a deterioration of the overall (long-term) solvency (share of own funds in liabilities) of oil and gas companies of the country.

Short-term solvency (liquidity) does not change. In general, the practice of countries with well-developed market economies shows that short-term credit financing should be used in enterprises in this sector when the indicator of short-term solvency (liquidity, financial maneuverability) is clearly excessive and investment activities do not lead to additional financial costs. In most cases, as in any other enterprise, the advantage of long-term credit financing in oil and gas enterprises of the country is, first of all, low interest rates on loans. But, it needs be noted that the use of short-term lending to finance long-term investments is a less specific method. Because, in theory, the terms of repayment (repayment) of borrowed credit resources and the payback period of investments should coincide in terms of time. This, in turn, is explained by the fact that the net financial flows from investments appear as a source of loan repayment (repayment).

In all countries that have been in transition for more than 30 years, including Uzbekistan, financial market uncertainties exacerbate the problem of "long" money. As a result, in most cases, investments and, accordingly, investment activities are financed by short-term loans. At the same time, there is refinancing at the end of the loan agreement. This, in turn, extends the contract with the bank for the next short period or in the form of repayment (canceling) of a previous loan by attracting credit resources from another lender.

6. The sixth option of a combination of financing of investment activities in the oil and gas enterprises of the Republic, that is financing from the accumulated profit (own fund) and the issue of shares;

There are several advantages of financing investment activities through the issuance of shares in oil and gas companies of the country, the most important of which are: a) the fact that it does not require interest payments and b) it does not worsen the financial stability of businesses here determined.

There are also disadvantages to this option, which include: a) an increase in the authorized capital and b) a decrease in the expected return on equity. At the same time, it should not be overlooked that the issuance of shares here could lead to a partial loss of control over the oil and gas companies of our country.

It is necessary to note that in the second case, the financing of investment activities in oil and gas companies requires the abandonment of the previous volume of current activities. Because in this case, the balance sheet currency will not change. This, in turn, indicates the emergence of alternative (variable) costs. Thus, it is obvious that the financing of investment activities in the oil and gas companies of the country from the funds of their own funds will inevitably lead to a decrease in the expected profit per unit of own funds. This is primarily due to the fact that this is not due to an increase in authorized capital, but due to a decrease in current financial results. In this regard, it is worth noting that the financing of investment activities from the funds of their own funds worsens the liquidity of oil and gas companies in the country. This means that part of the funds is redistributed from working capital to fixed capital without changing the structure of liabilities.

In any of the above forms (variants) of raising funds to improve the financing of investment activities in the oil and gas enterprises of the Republic, all members of the structure of paid capital have their own value, ie unprofitability. And in a market economy, it cannot be denied by the owner of the funds for the right to use them. In most cases, the value of the investment for the investor is the choice price or the alternative value of their use in the capital market.

From this point of view, it is vital to correctly determine the real value of the funds invested in the oil and gas companies of the country, ie the real value of capital. At the same time, due to the complex structure of capital, which consists of various sources of long-term funds, it is not easy to solve this problem in the oil and gas industry of our country. However, according to the generally accepted rules of a market economy: no matter how much you earn on alternatives with equal risk, it only makes sense to invest in oil and gas companies if the options are more profitable. Therefore, it is clear that the value of capital here should consist of the profits needed to satisfy the owners of capital. The net present value of capital, in this case, is the sum of a certain amount of money. Investors agree to leave this amount to the borrower. The borrower, in accordance with the principles of a market economy, must repay the amount deposited and ensure the same return.

It is known that, as in other business entities, the attraction of capital for investment purposes in the oil and gas companies of our country should be carried out not from one source, but from several sources. In this regard, the value of capital should be formed under the influence of the need to ensure a moderate level of profitability. That is why the weighted average cost of capital (WACC) is defined as a certain level of return that can be invested in oil and gas companies. It provides income for all categories of investors. In turn, their income should not be less than the income from the placement of funds in other alternative investments under such risky conditions. Thus, from the above we can calculate with this formula which for determining the average weighted capital for investment purposes in oil and gas companies of the country can be as follows:

$$K^{ўмк} = \sum K_i \bullet D_n \qquad (1)$$

Here: $K^{ўмк}$ *– the weighted average cost of capital invested in oil and gas enterprises;*

K^i - *the share of capital (investment resource) received from source "i" in oil and gas enterprises;*

D^n - *return required by oil and gas companies on capital (investment resource) from source "i" (rate of return).*

At the sae time, it should be noted that in determining the value of capital in the oil and gas companies of the country, it is important to compare marginal revenues with marginal costs. The marginal value of capital is a measure of the ratio of changes in the total amount of return on investment required to meet the needs of investors, taking into account new investments, to the amount of capital required for investment. In our opinion, in determining the value of borrowed funds to be used as a source of financing for investment activities in oil and gas enterprises of the country, first of all, if the enterprise does not have borrowed funds, but wants to make new investments, it is it should be noted that the value of borrowed funds to be borrowed for the purposes is equal to the effective interest rate on newly attracted loans, taking into account the practice of calculating taxes.

In this case, the value of capital received through preference shares in oil and gas companies of the country can be determined as follows:

$$K^q = D^{ia} : B^{ia} \ (2)$$

Here: K^q *– the value of capital received through preferential shares in oil and gas enterprises;*

D^{ia} *– annual dividend per preferred share in oil and gas enterprises;*

B^{ia} *– the price of one preferred share issued in oil and gas enterprises.*

In turn, the price of an ordinary share for an investor can be determined by the discounted amount of future dividends:

$$B^a = D^t : (1+ d)\ t \ (3)$$

Here : B^a – *share price in oil and gas companies;*

t – for oil and gas companies serial number of the period (time) for which the dividend is calculated;

D^t *–dividend at the end of the period "t";*

d – return on equity desired by the investor.

It should be noted that if the future dividend flow in the oil and gas companies of the country is known, the discount rate when the current value of future dividends is equal to the current value of shares will be equal to the level of return on equity required by the investor. It is advisable to reach. In oil and gas companies, as in all other cases, it is very difficult to determine the exact future dividends. Therefore, without complicating the situation here, in our opinion, it is necessary to use in practice the creation of several special models to determine the level of profitability required in the oil and gas enterprises of our country. For example, the dividend growth model used in practice or the net profitability model are examples of such models. Depending on the level of data available, one or another model can be used in oil and gas companies. With this in mind, in order to reduce errors for these purposes, we think it is advisable to use several of the above models at the same time. It is well known that the constant growth rate of cash flows (S) in each period of time characterizes the model of dividend growth, as followed:

$$d = (D^1 : B^a) + S \qquad (4)$$

(This question has been deliberately overlooked here, as the meaning of the symbols in this formula has been given in previous formulas).

The following two criteria, which are known in practice, form the basis for the use of this model: a) the share price of oil and gas companies in the market; b) the amount of dividends paid by oil and gas companies for the previous year. This means that dividend growth rates remain the only measure. In the distribution of all remaining profits of oil and gas companies after taxes, the income that shareholders can receive in the form of dividends is the cornerstone of the net profitability model. It can be defined as follows:

$$D^{сф} = S^{сф} : B^a \qquad (5)$$

Here:

$D^{сф}$ *– net profitability of the oil and gas company;*

$S^{сф}$ *– net profit per share of an oil and gas company;*

B^a *– the market price of a share of an oil and gas enterprise.*

At the same time, it should be noted that in these processes, it is important to determine the value of existing capital of oil and gas companies. This is because once the level of profitability required by an investor has been determined, it is necessary to assess the level of profitability that the oil and gas company can achieve in order to satisfy them and ensure their profitability. But here, in our opinion, the problem is that when the oil and gas company is looking at the problem of the value of its capital, these two different views are uniquely intertwined and necessary for the oil and gas company. The level of profitability can be taken as the level of profitability required by the investor, ie one of the owners of the capital of the oil and gas company. This level of profitability depends on the level of profitability of competing investment options and the ratio of the risks of the oil and gas company to its own projects and the introduction of alternative commodities in the stock market.

In our opinion, the above-mentioned processes cannot be considered complete without determining the value of newly attracted capital in the oil and gas enterprises of the republic. Therefore, if an oil and gas company does not have enough capital and is forced to attract capital from external sources through the issuance of its own securities, then, of course, it is necessary to act as follows: then it may occur that, according to it, the draft of the emissions must provide for a level of return which is higher than the level of return on existing capital. Accordingly, the requirements of new investors can only be determined if all the proceeds from the investment are used to pay for the investment.

In this case, we consider it appropriate to use the following formula to determine the value of new equity raised through the sale of ordinary shares of the oil and gas company of our country:

$$D^{\partial} = D^{\kappa} : (1 - F^{x}), \qquad (6)$$

Here : *D^{∂} - the required level of return on the new share capital of the oil and gas company;*

D^{κ} - Expected return on equity of the oil and gas company by the investor (on previous issues);

F^{x} - the cost of the new issue of shares of the oil and gas company, the percentage of the stock market price.

In practice, however, there are cases where not all of an oil and gas company's profits are used to pay dividends at once, some of which are retained or not distributed, and which can then be reinvested. In fact, in practice, this is often the case. In the future, increasing the amount of dividends is considered to be the main goal in conducting such operations. However, they also have an impact on the level of return required on new capital. With this in mind, we consider the following formula for determining the value of capital in oil and gas companies for this option of raising funds:

$$D^{\partial} = \left[\ D^{1} : B\,(1 - F^{x})\ \right] + S, \qquad (7)$$

(We do not consider it appropriate to dwell on the meaning of the conditional letters in this formula, as they have been stated in previous places.)

It is clear from our above considerations that once the value of the individual elements of the capital of an oil and gas enterprise has been determined in the above order, it is necessary to find the average weighted value of the total capital to be invested in those enterprises. Moreover, in general, according to the theory of financial management, the capital to be invested should be formed in such a way that the growth of capital should not change the rational structure of the enterprise, which was previously formed. (own equity, debt capital and optimal ratio between other sources of funding). In our opinion, the same should apply to oil and gas companies. However, it should be noted that the calculation of the weighted average cost of capital is a very difficult task. After all, it must be determined on the basis of the market and accounting value of each element of capital. Typically, the theory of investment analysis clearly demonstrates the appropriateness of using market valuation here, no doubt. We think that the way which oil and gas companies should approach this issue.

Thus, the above-mentioned cases and the above proposals and recommendations developed as a result of our analysis and research indicate that there are certain resources to improve the financing of investment activities in oil and gas companies of the country by choosing the form of funding.

Conclusions

In short, we hope that the use of them in the above options and procedures will help to bring the financing of investment activities in oil and gas companies of our country to a new level. It can also prevent the economic efficiency of investments here, including fixed capital investments, from declining in the last 10 years (2011-2020) and reduce the payback period of investments.

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The all information in the article is based on the author's independent research.

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