



THE SOURCES OF FUNDING, PROCEDURE AND CHALLENGES OF INVESTMENT
ACTIVITY AT OIL AND GAS ENTERPRISES OF UZBEKISTAN

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ABSTRACT

The article considers issues related to the sources, procedures and problems of financing investment activities in oil and gas companies of the country in several areas and draws appropriate conclusions.

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I. Introduction

Improvement of financing of investment activities carried out within the framework of oil and gas enterprises of the Republic can not be achieved without analyzing the sources, procedures and problems of financing of this activity. On top of this, it is also impossible to say that the current state of investment activity of oil and gas enterprises and the trends inherent in it were either fully or severally fulfilled without clarifying these issues. Therefore, now it is worthwhile to analyze the composition and structural structure of the main capital sources of investment financing in the oil and gas enterprises of the Republic (Table 1).

According to the table data, the composition of the sources of financing of investments to the main capital in the oil and gas enterprises of our country consists of their own funds, foreign investments, borrowed funds and others (in particular, the funds of non-budgetary funds), which, unlike others, have their own characteristics. Its uniqueness can be noted, first of all, the sources of financing to the main capital of investments in the oil and gas enterprises of the Republic, in particular, in some of its years, funds of non-budgetary funds are also used. In particular, for these purposes, 40,7 billion sum in 2014 and 4 907.4 billion. the sum in 2018 was used as a source of funds from non-budgetary funds.

In our opinion, the usage of extra-budgetary funds as a source of financing of investment activities in the oil and gas enterprises of our country are determined, first of all, by the strategic importance of these enterprises in the economy of our country and, accordingly, in some years by the necessity of state participation in ensuring their pace of development.

Composition and structure of sources of financing of fixed capital investments in oil and gas enterprises of the Republic of Uzbekistan¹

/	Indicators	Years									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
·	The total volume of investments in fixed assets of JSC "Uzbekneftgaz" - totally. in billion soums	1738,8	1703,8	1923,4	2686,6	3903,4	3766,9	3508,1	5806,8	8093,7	8495,2
	Including										
	- <i>budgetfunds</i>	1567,8	1397,9	1923,4	1484,1	3790,8	3766,9	1546,5	899,3	6398,5	5704,8
	- <i>ownfunds</i>	91,0	35,6	0,0	1161,4	0,0	0,0	0,0	0,0	685,2	1307,4
	- <i>foreigninvestments</i>	34,2	270,3	0,0	0,4	0,0	0,0	1962,4	0,0	922,9	1247,1
	- <i>borrowedfunds</i>	45,8	0,0	0,0	40,7	0,0	0,0	0,0	4907,4	87,1	235,9
·	The total volume of investments in fixed assets of JSC "Uzbekneftgaz" - totally. in %	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
	Including										

¹It's created with Uzbekneftgaz reports for relevant years.

Although the use of foreign direct investments by the oil and gas enterprises of our country (without participation and guarantee of the Government of Uzbekistan) in financing investment activities has not been of a permanent (annual or year-round) nature for 2011-2020 years, they have been used 5 times as a source and their annual amount is 35.6 billion soums (2012 year) and reached 1 307, 4 billion soums (2020 year). However, the fact that they were not used at all as a source of funding for the years 2013 and 2015-2018 indicates the presence of large reserves in this place.

In our view, the use of borrowed funds in financing investment activities carried out within the framework of oil and gas enterprises of our country also has its own characteristics. In this regard, it should be noted that initially, in four years of the years under analysis (2013, 2015-2016 and 2018 years), they were not used at all as a source of financing. On top of this, the amount of borrowed funds used as a source is also different in different years. For example, for these purposes, 0,4 billion soums in 2014. Then, in 2017 year amounted to 1962.4 billion soums, that is, directly in comparison with it, 4 906 times. Also, during the last two years (in 2019 and 2020 years), the level of these funds as a source is perceptible.

In general, as long as the above Table 1 data are used as a source at the oil and gas enterprises of the Republic for some years (in 2012, 2019 and 2020), borrowing funds in the implementation of investment activities are more than 10.0%, and in some years (in 2017) up to about 56.0%, it can be based on the conclusion that in these Therefore, we believe that this aspect of the problem should be taken into account in improving the financing of investment activities of oil and gas enterprises in Uzbekistan.

Although the use of foreign direct investment by domestic oil and gas companies (without the participation and guarantee of the Government of Uzbekistan) in financing investment activities is not permanent (annual or annually) in 2011-2020, they were used as a source 5 times during this period. and their annual amount increased from 35.6 billion soums (2012) to 1,307.4 billion soums (2020). However, the fact that they were not used at all as a source of funding during 2013 and 2015-2018 indicates the existence of large reserves here.

In our opinion, the use of borrowed funds to finance investment activities carried out in the framework of oil and gas companies of the country also has its own characteristics. In this regard, it should be noted at the outset that in the four years under review (2013, 2015-2016 and 2018) they were not used at all as a source of funding. In addition, the amount of debt used as a source in different years also varies. For example, 0.4 billion soums were allocated for these purposes in 2014. soums, while in 2017 it amounted to 1962.4 bln. soums, which is 4,906 times (!!!) more than the level of the previous year. Also, the level of these funds as a source over the last two years (2019 and 2020) is also significant.

In general, the data in Table 1 above show that in some years (2012, 2019 and 2020) oil and gas enterprises of the country in the implementation of investment activities borrowed more than 10.0%, and in some years (2017) up to about 56.0%. As a result, it can be concluded that these sources are not sufficiently used as a source of financing investment activities in these enterprises. Therefore, we believe that this aspect of the problem should be taken into account in improving the financing of investment activities of oil and gas companies in Uzbekistan.

Analysis of the data in Table 1 also shows that the source of investment activity in oil and gas enterprises of the country for 2011-2020 (except for some years: for example, 2018) is their own funds. However, the total amount of these funds, which was directed as a source of financing investment activities in these enterprises, has had a tendency to instability over the years.

During this period, the annual change in these funds was "increase-decrease" or "decrease-increase", the level of which in some years reached 7.0 times (for example, the amount of these funds in 2016 amounted to 3766.9 billion soums, their amount in the next (2017) fell to 1546.5 billion soums or decreased by 2.4 times; or, conversely, in 2018 the amount of these funds amounted to 899.3 billion soums, while in 2019 the level reached 6398.5 billion soums. or decreased by 7.1 times compared to the previous year).

It should be noted that the above data are confirmed by the relative data reflected in the second part of Table 1, which reflects the structure of sources of financing investment activities in oil and gas companies of the country. According to them, in 8 of the 10 years, including 2011-2020, more than half of the financing of investment activities in oil and gas enterprises of the country (in some years even 100.0% of them) was carried out at the expense of own funds of these enterprises.

From the point of view of the composition and structure of sources of financing of investment activities in oil and gas enterprises of our country, we can draw a number of important conclusions, which, in our opinion, have different directions in terms of optimizing financing. One of our conclusions can be summed up as follows: despite the fact that in the eyes of many and on the surface it looks positive, the financing of investment activities in oil and gas companies in the analyzed years,

mainly at their own expense (in some years in full, clearly 100.0%)), in our opinion, is not a sufficient basis for a positive assessment. Because, it is generally accepted (market economy requires this and it does not require proof) that the use of one's own funds for any purpose, including financing investment activities, does not always yield its positive or high efficiency. The practice itself shows in several positions that in some cases, including investment activities, it is advisable to use borrowed funds instead of own funds. Moreover, even if we look at this problem from the point of view of the universally recognized diversification of sources of financing investment activities in oil and gas companies, the situation in our country can not always be positively assessed. Even from the point of view of the risk level of the situation, it is clear that there is no solution to the question of the appropriateness of the use of own funds in these enterprises. The above analysis and the conclusions drawn on the basis of them show that there is a need to improve the financing (process) of investment activities in oil and gas companies of the country. Nevertheless, in our opinion, it is expedient to clarify a few more issues here before drawing conclusions in the above order. One of such issues is to get acquainted with the situation in one of the specific enterprises of Uzbekneftegaz, which includes oil and gas companies of the country, for example, Uztransgaz.

It is a matter of analyzing the situation in the oil and gas enterprises of our country not only in general, but also in particular. The results of the relevant analysis in this regard are given in Table 2. The data show that in 2011-2020, budget funds, foreign investments, loans and other funds were not used at all in the financing of investment activities in Uztransgaz, and in all of the last 10 years, Uztransgaz was the sole source of financing investment activities.

This situation, in turn, once again confirms that our most general views on the sources of financing investment activities in oil and gas companies of the country are becoming more acute here.

So, we have managed to determine the situation with the sources of financing related to the implementation of investment activities in Uztransgaz, one of the enterprises of Uzbekneftegaz. Based on them, we found that the following conclusions in this regard are confirmed not only by the data of Uzbekneftegaz JSC, but also by the data of other member companies, including Uztransgaz:

- The fact that the financing of investment activities in oil and gas companies of the country for the last 10 years is carried out mainly at their own expense (even up to 100.0%), it is inappropriate to evaluate it only positively, that the use of one's own funds alone may not always yield a positive or high effect;

- The need to use borrowed funds in addition to their own funds to carry out investment activities, this problem can not be positively assessed in terms of diversification of sources of financing investment activities in oil and gas companies, in terms of the level of risk to the problem expediency of the view;

- Taking into account all of the above, the need to improve the process of financing investment activities in oil and gas companies of the country has been identified.

Table 2

**Composition and structure of sources of financing of fixed capital investments
in Uztransgaz of the Republic of Uzbekistan²**

/	Indicators	years									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Total volume of investments in fixed capital- total, billion soum	268,7	124,6	294,7	163,2	195,3	240,0	255,5	22,2	24,1	32,0
	Including:										
	- <i>budgetfunds</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	- <i>ownfunds</i>	268,7	124,6	294,7	163,2	195,3	240	255,5	22,2	24,1	32,0
	- <i>foreigninvestments</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	- <i>borrowedfunds</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	- <i>others (extra-budgetary funds)</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Total volume of investments in fixed capital- total, billion soum	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
	Including:										
	- <i>budgetfunds</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	- <i>ownfunds</i>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
	- <i>foreigninvestments</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	- <i>borrowedfunds</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	- <i>others (extra-budgetary funds)</i>	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0

²It's created with Uztransgaz's reports for relevant years.

- This, in turn, once again demonstrates the need to improve the financing of investment activities in oil and gas companies of our country. Nevertheless, in our opinion, it is expedient to pay attention to a few more cases when making the relevant final financial decisions. In this regard, we should: a) determine the overall economic efficiency of investments in fixed assets in oil and gas companies of the country by sector and industry, as well as their changes compared to the previous year; b) we intend to assess the dynamics of the recovery of fixed capital investment in oil and gas companies of the country by industry and industry.
- In our opinion, if these aspects are not taken into account, the decision to improve the financing of investment activities in oil and gas companies in the country and the beginning of the development of appropriate measures for its implementation may be premature. With this in mind, we will consider the mentioned aspects of the issue below in the highlighted sequence:
 - First of all, we will try to analyze the overall economic efficiency of investments in fixed assets in oil and gas companies of the country as a whole and by industry, as well as their changes compared to the previous year and formulate appropriate conclusions (Table 3). The two most important of these, in our view, may be:
 - Uzbekneftgaz is characterized by instability for the period 2011-2020, which is analyzed for the overall economic efficiency of investments in fixed assets. The positive level of this indicator during the analysis period fluctuated from 0.45 soums in 2001 (2019) to 1.34 soums (2013). However, in 2017 and 2018, the level of this indicator was negative, correspondingly -1.07 soums and -1.20 soums. As well as, the overall indicator changed from 2011 to 2020, compared to the previous year, has a negative sign in 5 out of 10 years, does not indicate that the situation in this area is noteworthy;

- Despite the fact that the general situation with the economic efficiency of investments in fixed assets in the oil and gas companies of our country is as we have noted above, the situation in its individual sectors differs, albeit slightly, from the general situation. In particular, the indicators of economic efficiency of investments in fixed assets in JSC "Uztransgaz" during this period were negative, and they are several times higher than the general average of oil and gas companies (several times higher).

Table 3

Total economic efficiency of investments in fixed assets in oil and gas enterprises of the Republic of Uzbekistan as a whole and by sectors and their changes compared to the previous year³

/	Indicators	Years									
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	General economic efficiency of Uzbekneftegaz⁴	1,03	1,06	1,34	1,22	0,60	0,52	-1,07	-1,20	0,45	0,79
	Including:										
	- In "Uzneftegaz mining" Joint-stock company	0,30	0,16	0,30	0,10	0,05	0,04	-0,76	-0,05	-	-
	- In "Uztransgaz" Joint-stock company	5,69	11,61	7,67	15,35	7,88	6,39	-4,02	12,79	8,57	9,04
	- In "Uzneftmahsulotlari" Joint-stock company	-2,04	-0,44	-3,39	3,52	8,56	3,94	-8,64	1,66	-	-
	"Uzneftegaz" Joint-stock company compared to the previous year total change, (+,-)	-	-0,03	0,14	-0,20	-0,05	-0,01	-0,80	0,71	1,65	0,34

³It's created with NHC "Uztransgaz" reports and JSC "Uztransgaz" reports for relevant years.

⁴In the paragraph 3 of the Resolution of the President of the Republic of Uzbekistan dated July 9, 2019 No PK-4388, according to improvement of the management system and formation of an effective organizational structure and the reduction and removal of redundant joints of JSC "Uzbekneftegaz", JSC "Uzburgerneftegaz", JSC "Uzneftegaz", JSC "Uzneftmahsulot", JSC "Uzneftegazmash", JSC were restructured in NHC. The national holding companies were transformed into joint stock companies, Uztransgaz JSC was excluded from its structure.

Thus, the general conclusion from the above is that the oil and gas companies of the country are characterized by instability for the economic efficiency of investment in fixed assets over the past 10 years, which is characterized by its relative low level. Moreover, both in general and in its individual sectors, investments have not been economically viable and detrimental in some years. Of course, there are many reasons for this situation. Unfortunately, it is not the task of our study to dwell on them in detail. That is why we do not focus on these aspects of the problem here. After all, it is a separate object of study. However, in spite of this, it is clear that one of the reasons for the current situation with the economic efficiency of investments in oil and gas companies in our country is related to their financing. Now, in order to clarify our approach, to ensure the depth of our research and the validity of our conclusions, we need to focus on another issue, namely, changes in the overall and sectoral return on investment in fixed assets in oil and gas companies. The data for this are given in Table 4, and based on the analysis of the data in it, it is possible to determine that for 2011-2020, the following are typical for changes in the overall and sectoral return on investment in fixed assets in oil and gas companies:

1. The trend in fixed capital recovery of Uzbekneftegaz JSC can be assessed as unstable in 2011-2020. During the same period, in 2011-2013, the coverage of fixed capital decreased from 0.053 to 0.037, and in 2013-2015, on the contrary, increased from 0.037 to 0.053. In the next 2015-2017, this figure fell again from 0.053 to 0.030. By 2018, its level had a negative outlook, reaching -8,295. Finally, in the last 2019 and 2020, the level of this indicator improved sharply, reaching 0.208 and 1,560, respectively. At the same time, the situation is almost the same with oil and gas companies

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Uzneftgaz, Uztransgaz and Uzneftmahsulotlari;

2. If we look at this issue from the point of view of capital recovery, then we can divide the period 2011-2020 into two specific periods:

Table 4

Dynamics of indicators of total and sectoral recovery of investments in fixed assets in oil and gas enterprises of the Republic of Uzbekistan⁵(soum)

Indicators	Years									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
According to "Uzbekneftgaz" NHC(JSC)⁶fixed capital coverage - total	0,053	0,042	0,037	0,042	0,053	0,049	0,030	-8,295	0,208	1,560
Including:										
- In "Uzneftgaz mining" Joint-stock company	0,111	0,157	0,122	0,157	0,180	0,126	0,084	-	-	-
- In "Uztransgaz" Joint-stock company	0,018	0,008	0,019	0,009	0,010	0,016	0,014	1,726	2,041	2,601
- In "Uzneftmahsulotlari" Joint-stock company	0,031	0,024	0,027	0,009	0,011	0,016	0,004	0,604	-	-
"According to "Uzbekneftgaz" NHC(JSC)total capital coverage - total	0,106	0,087	0,084	0,097	0,124	0,114	0,079	-	-	0,021
Including:										
- In "Uzneftgaz mining" Joint-stock company	0,150	0,230	0,189	0,310	0,424	0,369	0,271	-	-	-
- In "Uztransgaz" Joint-stock company	0,034	0,015	0,029	0,012	0,013	0,021	0,035	13,908	7,587	11,006
- In "Uzneftmahsulotlari" Joint-stock company	0,	0,	1,	0,	0,	0,	0,0	5,01	-	-
<i>company</i>	215	338	456	335	043	046	66	4		
According to "Uzbekneftgaz" NHC(JSC)debt capital coverage - total	0,104	0,081	0,068	0,073	0,093	0,085	0,047	-116,255	-87,029	0,002
Including:										
- In "Uzneftgaz mining" Joint-stock company	0,429	0,494	0,343	0,327	0,314	0,191	0,121	-92,061	-	-
- In "Uztransgaz" Joint-stock company	0,038	0,018	0,058	0,031	0,040	0,061	0,023	13,908	7,587	11,006
- In "Uzneftmahsulotlari" Joint-stock company	0,036	0,026	0,027	0,009	0,015	0,025	0,005	5,014	-	-

⁵It's created with Uzbekneftgaz' reports for relevant years.

⁶In the paragraph 3 of the Resolution of the President of the Republic of Uzbekistan dated July 9, 2019 No PK-4388, according to improvement of the management system and formation of an effective organizational structure and the reduction and removal of redundant joints of of JSC "Uzbekneftgaz", JSC "Uzburguneftegaz", JSC "Uzneftgaz", JSC "Uzneftmahsulot", JSC "Uzneftgazmash", JSC were reduced in NHC. The national holding companies were transformed into joint stock companies, Uztransgaz JSC was excluded from its structure

- a. 2011-2017 - this period is characterized by instability in the return on equity for oil and gas companies of the country, but the level of these indicators is much higher than the level of return on fixed assets in the same period, ie better than 0.079 (2017 year) fluctuated to 0.124 (2015);
- b. in the last 3 years, ie 2018-2020 - in the first two years of these years the level of the indicator deteriorated sharply and reached -79,665 and -3,728, respectively, and the situation improved only slightly in 2020, ie the level of this indicator was positive, 0.021 was equal to. It should be noted that the level of capital recovery of these enterprises was more than double for all years between 2011 and 2017 compared to the coverage of fixed capital. This trend has reversed completely in the last three years;

3. If we look at this issue from the point of view of debt capital coverage, then it should be noted that the level of this indicator is higher than the level of fixed capital coverage for all years under analysis,

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but slightly lower than the level of own capital coverage. In our opinion, the situation with the recovery of investments in fixed assets, equity and debt capital in the oil and gas companies of our country is not healthy. Thus, the data presented in Tables 3 and 4 and the conclusions drawn from them show that the country has great untapped potential for the use of production capacity of oil and gas companies, a large amount of money is spent on modernization and modernization of production, as well as a large number of foreign despite the fact that investments are being attracted, the cost of production is growing unreasonably due to shortcomings in the full use of production capacity, fixed assets, increasing labor efficiency in enterprises.

In short, in the framework of this article, we have considered in several areas the issues related to the sources, procedures and problems of financing investment activities in oil and gas companies of our country. In our opinion, the final conclusion can be expressed as follows: in the current pandemic, the sources of financing the investment activities of oil and gas companies, their composition and structure, as well as the order of financing do not fully meet modern requirements. Therefore, in order to increase the efficiency of investment activities in these enterprises and ensure a high level of investment recovery, their financing should be improved, taking into account the changes that have taken place in our country over the past 5-6 years and are expected to occur in the near future.

References:

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