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## THE IMPACT OF THE TRANSFORMATIONAL DEVELOPMENT OF THE BANKING SYSTEM ON PROJECT FINANCING

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**BOBIR SULTONMURODOV**

*Doctor of Philosophy (Ph.D.) in Economics, Head of the Green finance*

*Department JSCB "Uzpromstroybank"*

**Abstract:** The article discusses a number of issues related to the reform of the banking system of the Republic of Uzbekistan, financing and implementation of investment projects. Measures aimed at strengthening partnerships with foreign banks and international financial institutions, attracting long-term borrowed funds, improving business efficiency, commercialization and ensuring customer orientation of banks with a state share have been identified.

**Keywords:** reformation, investment project, attracted funds, international financial institution, foreign bank, customer orientation.

### INTRODUCTION

Over the past five years, special attention has been paid to improving the activities of commercial banks with state shares. The reason was that most state-owned banks have ceased to develop and strengthen their positions in international markets, which is vital for achieving the country's investment goals. At the same time, an analysis of the current situation in the banking sector shows the presence of a number of systemic problems that impede the development of the banking sector in accordance with economic transformations and the needs of society, such as a high share of state presence in the banking sector, insufficient quality of management and risk management in banks with state participation, low level of financial intermediation in the economy<sup>1</sup>.

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<sup>1</sup>Decree of the President of the Republic of Uzbekistan, dated May 12, 2020. No. UP-5992 "On the strategy for reforming the banking system of the Republic of Uzbekistan"



As is known, investment lending and project financing are associated with a high risk of loss of financial resources. In this regard, bank lending often acts as an additional source to existing financial resources. Thus, it should be noted that the analysis of sources of financing for an investment project can significantly affect its cost, feasibility and efficiency, therefore one should take a balanced approach to assessing various mechanisms for financing investment activities<sup>2</sup>.

Today, state-owned banks have sufficient capital, which allows them to enter the international market and cooperate with foreign banks and international financial institutions. But along with positive aspects, there are also negative ones, which directly prevent banks from providing their potential clients with the necessary financial resources.

## **LITERATURE REVIEW**

As part of the strategy for reforming the banking system, the main directions have been identified, one of which is increasing the efficiency of the banking system by creating equal competitive conditions in the financial market, lending exclusively on a market basis, reducing the dependence of banks on government resources, modernizing banking services, creating an effective infrastructure and automating the activities of banks, as well as the gradual abolition of non-core functions of banks (Decree of the President of the Republic of Uzbekistan 2020).

The quality of the loan portfolio depends on maintaining a moderate increase in the volume of financing of investment projects. Financing investment projects involves a systematic approach, including the main forms of financing, criteria and indicators for assessing the effectiveness of investment projects, assessing the investment attractiveness of the investment object, identifying factors influencing investments, and forming priority areas of investment (Natocheeva 2013).

As we remember, the bulk of banking assets are loans, so the lending function plays a critical role in the risk management of any bank. The goal of lending is simple: create value for the bank. The first danger that awaits the organization issuing the loan is the likelihood of the borrower not repaying the loan on time and, as a result, the destruction of value. Prudent and prudent management of credit risk is a way to create value in the lending function (Joseph Sinkey Jr. 2021).

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<sup>2</sup>Z.V. Chebotareva, "Sources of financing investment projects", Eurasian Union of Scientists (ESU) No. 3 (48), 2018



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## RESEARCH METHODOLOGY

Logical-structural analysis of theoretical and empirical data presented in the public domain was used as a research method. Also, analysis and synthesis allow, on the one hand, to highlight individual areas of development of investment project financing, and, on the other hand, factors influencing the development of investment project financing. As a result of the study, a number of problems related to the financing of investment projects and the development of project financing in commercial banks were identified.

## ANALYSIS AND RESULTS

Today, the development of financing investment projects is increasingly becoming relevant, since the country's investment policy is aimed at attracting foreign investment, developing all sectors of the economy, employing the population by creating new jobs, entering the international market by creating a competitive product, etc. Results research needs to be linked to reforming the banking system of the Republic of Uzbekistan. In the course of consistent reform of the financial sector, a number of measures were implemented, as a result of which the necessary legal conditions were created for conducting a progressive banking business and strengthening the competitive environment in the sector<sup>3</sup>.

The banking sector of the Republic of Uzbekistan is a springboard for the development of payment systems and infrastructure. The banking sector has a two-tier system. International agencies define the financial sector of Uzbekistan as “stable”. As of January 1, 2023, this industry is represented by 43 second-tier banks with a total of 720 branches.

As of January 1, 2023, the total assets of commercial banks in Uzbekistan increased by 21% over the year. However, banking penetration remains low, creating great potential for development. Domestic private debt increased and amounted to 35.8% of GDP.

The republic is implementing a number of reforms that will ensure further opening of the financial sector to foreign investors. In the context of reforms in Uzbekistan, investors are beginning to show interest in the banking sector; there are some cases confirming this trend.

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<sup>3</sup>Decree of the President of the Republic of Uzbekistan, dated May 12, 2020. No. UP-5992 “On the strategy for reforming the banking system of the Republic of Uzbekistan



The largest banks of Uzbekistan as of January 1, 2023				
billion soums	Assets	% of the entire industry	Deposit	% of the entire industry
<b>With state participation (11 banks)</b>				
National Bank	119,918	22%	38,157	18%
Uzpromstroybank	64,264	12%	14,884	7%
Agrobank	53,068	10%	12,550	6%
Asakabank	51,180	9%	14,431	7%
Mortgage bank	44,187	8%	16,432	8%
Others	102,519	18%	39,080	18%
	435,136	78%	135,534	63%
<b>Private (34 banks)</b>				
Capital Bank	28,907	5%	24,225	11%
Hamkor	16,721	3%	6,902	3%
Ipak Yuli Bank	12,973	2%	6,588	3%
Orient Finance Bank	11,283	2%	6,893	3%
Others	51,727	9%	36,595	17%
	121,611	22%	81,203	37%
<b>Total</b>	<b>556,747</b>	<b>100%</b>	<b>216,738</b>	<b>100%</b>

Figure 1. Banks of the Republic of Uzbekistan with state share<sup>4</sup>

Uzbekistan has strict banking regulations. The Central Bank supervises second-tier banks, introducing higher requirements than is customary in international practice. Thus, in 2020, the tier 1 regulatory capital adequacy standard in the banking sector was 20.4% and gradually decreased to 14.6% as of May 1, 2023. The state’s share, despite the gradual decrease, remains significant: 78% of banking assets are state participation in one form or another.

<sup>4</sup>Compiled by the author based on the results of the research

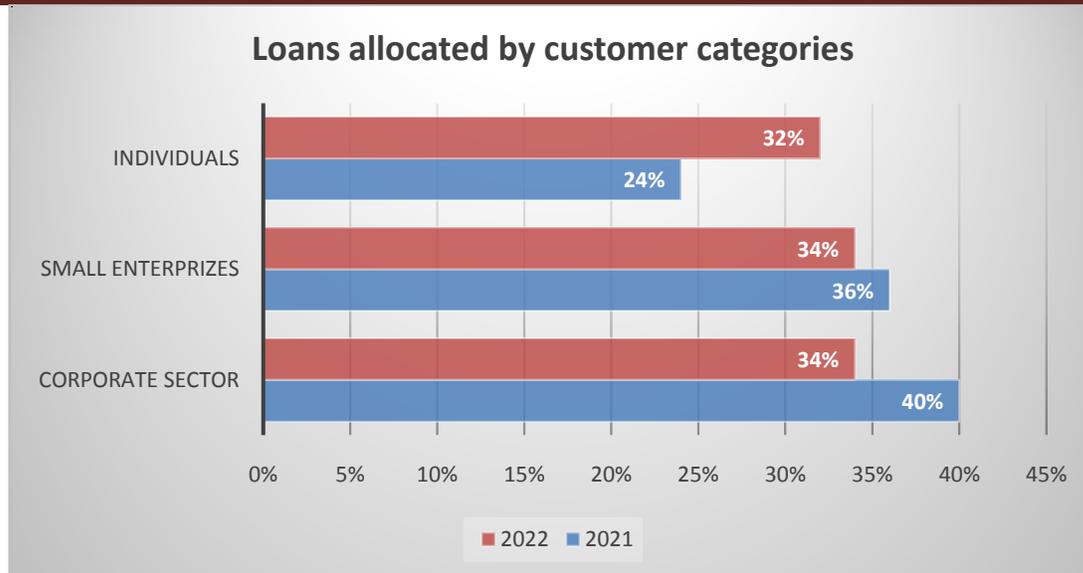


Figure 2. Loans allocated by customer category<sup>5</sup>

From the analysis of the figure, there is potential for growth in the retail lending segment; the ratio of personal credit debt to GDP is lower in comparison with comparable countries. The sector increased its share of allocated loans from 24 to 32%. The share of the corporate sector decreased from 40 to 34%. This is due to the fact that large enterprises in Uzbekistan are facing growing financial difficulties and difficult access to new financing due to high interest rates and a lack of collateral.

The research method is a comparative analysis of statistical data. Comparative analysis of the obtained data is one of the most popular and fundamental methods of analysis, which involves identifying certain characteristics of the object of study and comparing it according to these parameters with other objects or with itself, but, for example, in different periods of time <sup>6</sup>.

<sup>5</sup>Compiled by the author based on the results of the research

<sup>6</sup>V. Ismagilov, "How to organize access to statistics for employees - in the context of business growth" // Academy of Analytics - 2022



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## CONCLUSION

According to Forbes , only 5% of the population has deposits in banks. The share of retail loans is gradually growing. It is expected that the growth rate of the banking sector will on average outpace the growth rate of the economy, since the demand for consumer, mortgage and other types of loans and financial instruments has not yet been satisfied.

To effectively organize the financing process and solve a number of characteristic problems, it is necessary to build and implement an optimal organizational investment system. It is also necessary to ensure positive margins, and banks will be required to reconsider their interest rates.

In order to further develop project financing and strengthen the bank's position in international markets, it is necessary:

- introduce best practices in financing investment projects;
- conduct a qualitative assessment of financial, environmental and social risks at all stages of project implementation;
- systematically monitor the implementation of business plan/feasibility study indicators;
- develop new banking products and services on favorable terms for clients;
- receive technical support from foreign partners;
- conduct an assessment of environmental and social risks before the start of project financing;
- use various licensed software to evaluate investment projects;
- introduction of a system for evaluating banking products and services in order to improve their quality;

Based on the above, it should be noted that the transformational development of the banking system has a positive effect on improving the mechanism for financing investment projects, which is an important factor and foundation for the sustainable development of the bank.



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