



(RESEARCH ARTICLE)



Improving financing of investment projects in the real sector of the economy

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Abstract

This article explores ways to enhance financing of investment projects in the real sector through capital market development, interest rate subsidies, special conditions for strategic projects, improved consulting and infrastructure support, balanced use of debt and equity, reduced dollarization of bank portfolios, and diversification of credit products.

Keywords: Investment; Real sector; Capital market; Project financing; Commercial banks; Credit; Equity; Debt; Long-term loans; Innovation

1. Introduction

At the global level, extensive scientific research is devoted to improving mechanisms for financing investment projects in the real sector of the economy through a combination of sources such as investors' own funds, borrowed resources, debt instruments, credit facilities, and centralized funds, including state budget allocations. Nevertheless, a number of fundamental challenges remain unresolved. These include the lack of sufficient infrastructure to support financing and implementation, the limited participation of project initiators through equity contributions, the relatively low share of investment loans in the portfolios of commercial banks, the weak investment activity of financial institutions, and the insufficient development of diverse investment credit products tailored to the needs of real-sector enterprises. These gaps underline the necessity of conducting targeted research to identify, systematize, and address the problems associated with financing investment projects in the real sector of Uzbekistan, and to formulate scientifically grounded proposals and practical recommendations to improve existing mechanisms. The urgency of this task defines the relevance of the dissertation topic.

In Uzbekistan, investment projects are predominantly financed within the framework of state investment programs, provided that projects are well-prepared, accompanied by design and estimate documentation, and have clearly defined sources of funding. To strengthen the quality of such initiatives, the Center for Comprehensive Expertise of Projects and Import Contracts has been established to evaluate the technical, financial, and economic feasibility of proposed investments. Key financing sources include the state budget, the Fund for Reconstruction and Development, loans from international financial institutions, and enterprises' own funds. In addition, foreign direct investments are channeled into special economic and industrial zones, while large-scale industrial projects in priority sectors are actively supported. National strategic goals envisage ensuring by 2030 an average annual growth of approximately 7 percent in fixed capital investments and the implementation of more than 500 technological and infrastructure projects of strategic importance, with a cumulative value of around 150 billion USD [1]. Achieving these ambitious objectives necessitates the improvement of financing mechanisms for investment projects in the real sector, including the diversification of funding sources, strengthening the role of commercial banks, and enhancing institutional capacity to support investment-driven development.

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2. Literature review

In his scholarly works, Henry A. Davis, Professor at the Darden School of Business, University of Virginia (USA), emphasizes that the financing of large-scale industrial projects should primarily be based on the principles of project financing, whereby the expenditures associated with the project (investments, loans) are repaid from the revenues generated by the project itself [2]. While this approach ensures a direct linkage between project cash flows and debt servicing, it has inherent limitations. Specifically, large industrial projects often require extended gestation periods before profitability is achieved. Consequently, exclusive reliance on project financing can constrain the implementation of high-risk or socially significant projects, as well as those that may lack short-term commercial viability.

According to E. Canton, economist at the European Commission specializing in research and innovation, resource allocation inefficiencies and challenges in mobilizing financial resources for investment projects aimed at production and export undermine investor confidence and reduce the attractiveness of foreign direct investment for project financing. To mitigate these constraints, Canton advocates for strengthening the role of banks in project financing and expanding the bond and securities markets as alternative financing channels [3]. This observation is highly relevant, as it identifies structural weaknesses in financial mechanisms that directly affect industrial and export development, while simultaneously proposing feasible solutions.

Similarly, Vivek Rao, an expert at the Asian Development Bank, substantiates the advantages of financing investment projects in the real sector through public-private partnerships (PPP). In particular, the participation of multiple funding sources and the equitable distribution of risks among project stakeholders enhance both the efficiency and sustainability of project financing [4]. Nevertheless, Rao also highlights that in the absence of a stable legal and institutional framework, PPP-based projects are vulnerable to conflicts of interest and misallocation of risks, often resulting in failure.

In his dissertation, Russian economist I. Feofanov systematized the sources of financing for real investment projects into four categories: investors' own funds, attracted funds, borrowed funds, and foreign investments [5]. Complementing this classification, L. I. Yuzvovich, in her doctoral dissertation, conducted a detailed comparative analysis of equity and debt financing. She argues that while exclusive reliance on equity capital provides maximum financial stability, it restricts growth potential and limits the ability of enterprises to expand during favorable market conditions. Conversely, debt financing enhances development opportunities and boosts the financial return on equity but significantly increases financial risks, including the likelihood of insolvency [6].

Further contributions to this debate are found in the dissertation of J. Razzakov, who investigated the mechanism of syndicated lending as a means of financing large-scale investment projects. He argues that syndicated loans represent an effective form of collective financing, characterized by the participation of multiple creditors who share both the required loan amount and the associated risks [7]. This mechanism not only facilitates the mobilization of substantial financial resources but also enhances risk management within the investment financing system.

3. Research methodology

In this scientific article, several research methods widely used in practice were used to study the financing of investment projects in the real sector of the economy. In particular, the analytical-synthetic method. International and national studies were analyzed and based on them, the problems of financing investment projects in the real sector were synthesized. General conclusions were formed based on scientific sources.

4. Result and Discussion

Enhancing the attraction of investments into the real sector requires, above all, a systematic improvement of the investment climate and the consolidation of its long-term attractiveness. Key priorities in this process include the reduction of excessive bureaucratic procedures, combating corruption, strengthening the rule of law and judicial independence, ensuring the reliable protection of property and investor rights, and establishing a stable and predictable legislative environment. Parallel to institutional reforms, significant resources must be directed toward the modernization of infrastructure, including transport, energy, and digital communications, which form the backbone of sustainable industrial and investment development. Another critical dimension concerns human capital: the training of highly qualified personnel capable of operating advanced technologies and meeting international standards is a prerequisite for competitiveness. Equally important is the support of local enterprises, which necessitates targeted financial, technological, and educational assistance to enhance their resilience and competitiveness.

The attractiveness of a national investment climate also depends on external engagement. Active promotional campaigns, participation in international exhibitions and forums, and the development of public-private partnerships (PPPs) serve as effective tools for strengthening the country's global investment profile. Expanding PPP mechanisms, especially for infrastructure projects, as well as creating favorable conditions for production in special economic zones, can further increase capital inflows and foster industrial diversification.

International experience provides valuable lessons. Singapore successfully attracted high-technology industries by combining institutional reforms, infrastructure development, and human capital investment. South Korea achieved sustained economic growth through strong state involvement, export orientation, and the cultivation of external markets. China, meanwhile, demonstrated the transformative impact of special economic zones, infrastructure expansion, and a favorable investment environment on foreign direct investment (FDI) attraction. Uzbekistan, by adapting and contextualizing these experiences, can formulate an effective strategy for mobilizing both foreign and domestic investment resources.

Nevertheless, problems associated with financing investment projects in the real sector remain systemic and have a direct impact on economic growth and social development. Addressing these challenges requires a comprehensive policy framework and the implementation of targeted measures:

- It is necessary to develop the capital market, activate IPOs, bond issuance and venture financing, and alternative financing mechanisms;
- It is advisable to establish project evaluation agencies and independent institutions that assess risk and economic efficiency;
- It is necessary to reform the legislation, strengthen mechanisms for protecting property rights and protecting businesses through the courts;
- It is necessary to create conditions for subsidizing interest rates in the banking system and providing special financing for projects of social and strategic importance;
- It is necessary to develop technical support and consulting services, assist small and medium-sized businesses in drawing up business plans and evaluating projects;

When implementing investment-driven projects in the real sector of the economy, it is advisable to provide them with the necessary infrastructure and financial support from budget funds;

When financing investment projects, it is necessary to ensure that project initiators contribute at least 30 percent of the total project cost with their own funds, paying special attention to their economic efficiency, added value, and the potential for creating new jobs;

In order to ensure the stability of the bank's profitability, it is necessary to increase the share of investment credit investments from internal sources, strengthen the bank's investment activity aimed at organizing the production of competitive products based on the modernization of production, technical and technological renewal, and the introduction of innovative technologies;

It is necessary to avoid significantly increasing the dollarization of the loan portfolio by providing the main part of loans in the national currency. A sharply high dollarization of the bank's loan portfolio can lead to a number of serious risks and problems. This is because, although loans are provided in dollars, but borrowers' income is in soums, during devaluation they will have difficulty repaying the loan. This will lead to a deterioration of the bank's loan portfolio, an increase in the share of problem loans, and a decrease in real income. An increase in the dollarization level indicates a lack of confidence in the national currency - the soum. This reduces the demand for the national currency, causes sharp fluctuations in the foreign exchange market, and threatens economic stability. Along with the activation of domestic savings, the downward trend in the dollarization of loans will continue. As a result, the ratio of foreign currency loans to GDP is expected to decline from 20 percent in 2020 to 16 percent in 2025 (Figure 1).

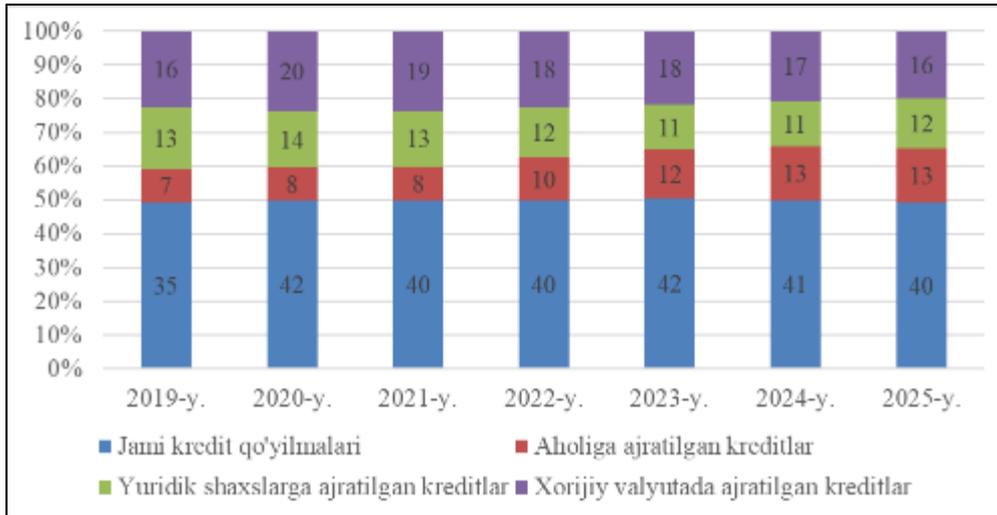


Figure 1 Ratio of allocated loans to GDP (in percentage terms) [8]

Commercial banks are often forced to raise foreign currency from external sources to provide loans in foreign currency (US dollars). This increases external financial dependence, leads to an increase in international debts and makes the banking system more vulnerable to external influences. International experience shows that when the share of foreign currency loans in the long-term loans (loans for 5 years or more) in the bank's loan portfolio is up to 15 percent, there is no reason to worry about the quality of the loan portfolio. However, if this indicator exceeds 15 percent, it is necessary to take precautionary measures to properly manage this process. From April 1, 2024 to April 1, 2025, the volume of long-term loans issued by commercial banks increased by 1.15 times, while loans issued in national currency increased by 1.21 times, while loans issued in foreign currency increased by 1.07 times. During the analyzed period, the share of loans issued in foreign currency in the total long-term loans issued by commercial banks decreased by 3.1 percentage points and amounted to an average of 42 percent (Figure 2). At the same time, the share of loans issued for a period of 5 years and more in the total long-term loans amounted to an average of 18-20 percent.

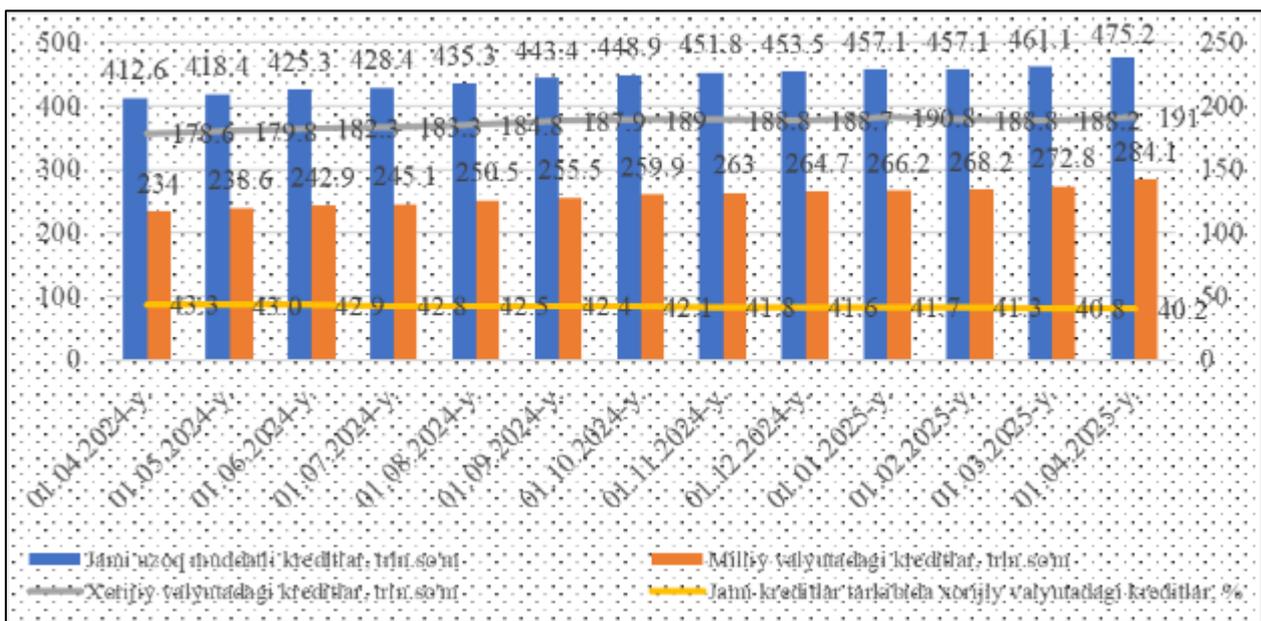


Figure 2 Share of loans in foreign currency in total long-term loans of commercial banks [9]

High dollarization of the loan portfolio increases currency risks for banks and the economy, threatens financial stability and creates difficulties for borrowers. Therefore, it is important to maintain this level at a normal level by encouraging loans in the national currency. In this regard, in order not to significantly increase the dollarization of the bank loan portfolio, it is advisable not to exceed 15 percent of loans in foreign currency for financing investment projects in the

structure of loans for a period of five years or more. This will serve to gradually reduce the level of dependence on external factors and prevent deterioration in loan quality by implementing the main part of lending in the national currency.

10. Banks should introduce various credit products to effectively finance their projects in the real sector. Because the financial needs of each business are different. Some need short-term working capital, while others need long-term investment loans. Various credit products allow them to offer appropriate solutions. Specific types of credit products create the opportunity for targeted financing, such as venture loans for innovative projects, mortgage loans for construction, and “green” loans for energy efficiency. This ensures the effective targeting of investment loans. The provision of special credit products by commercial banks will implement investment projects of enterprises, expand production, and create new jobs. Most importantly, it will create flexible financing opportunities and accelerate the creation of added value in the real sector of the economy, such as industry, agriculture, and construction. This will support economic growth.

special loan products and financing mechanisms offered by banks to finance investment projects in foreign countries . These products are aimed at companies operating or planning to operate abroad, providing them with the necessary financial support. For example, in Denmark, Germany, South Korea, and the USA, various loan products have been introduced to finance investment projects (Table 1).

Table 1 Credit products introduced to finance investment projects in developed countries [1 0]

Credit product	Direction, purpose and duration of use
Export Financing	It finances the process of delivering products to overseas buyers for exporting companies. The aim is to financially support entry into foreign markets. This loan product is provided to companies engaged in export.
Investment Loans for Overseas Projects	It is allocated for the purchase of assets in a foreign country, opening a new enterprise, or implementing a project. The general term is medium and long-term (3-10 years or more). Useful areas : construction , energy , industry , technologies and others .
Syndicated loans (Syndicated Loans)	several banks to jointly finance a large investment project . The profits are shared among several banks. The loans are widely used in foreign infrastructure or industrial projects.
Trade finance – Trade finance products	Credits abroad project or contract based on necessary goods , equipment and services for This is separated . products export-import , cooperation projects for very convenient .
Leasing and factoring (Cross-border leasing & factoring)	Leasing through foreign projects for equipment and techniques is taken , factoring with account - invoices based on financed .
Development Finance Institution (DFI) loans	Banks also raise funds for large projects in foreign countries through international financial organizations, providing loans: IFC (World Bank) Bank Group) – Financing the Private Sector; EBRD – European Bank for Reconstruction and Development ; ADB – Asian Development Bank

Uzbek banks, such as the National Bank of Uzbekistan, Asakabank, and Ipotekabank, can also in some cases provide foreign currency loans to companies participating in international projects, exporters, and joint ventures for investment projects abroad, but this is often done on the basis of external credit lines or state guarantees. However, the level of implementation of credit products for financing investment projects in national currency is not up to the mark. The results of the study show that over the past five years, the growth rates of GDP have been higher than the growth rates of credit investments by commercial banks. This situation indicates that production, service provision, and investment activity in the economy are growing less dependent on bank loans, and, on the contrary, the economy is growing at the expense of domestic resources, foreign investments, or budget funds. In Uzbekistan, the share of bank credit investments in GDP is on average 40 percent. However, “in Georgia, Armenia and the Russian Federation, the share of bank credit investments in GDP ranges from 50 to 75 percent” [1 1] . In our opinion, in order to ensure the stability of bank profitability, increasing the share of investment credit investments by 1.5 times compared to 2024 due to internal sources in 2025 will allow strengthening the investment activity of the bank, aimed at organizing the production of competitive products based on the modernization of production, technical and technological renewal, and the introduction of innovative technologies.

The introduction of various loan products for investment projects by Uzbek banks, on the one hand, offers flexible financial solutions for businesses, allows for effective management of capital flows and the choice of a loan repayment schedule, and helps reduce risks. This ensures the financial stability of the project. On the other hand, the variety of loan products diversifies the bank's loan portfolio, spreads risks across different segments, and expands sources of income. Based on the above, it is advisable to further expand the possibilities of using investment loans in national currency to replenish working capital, purchase fixed assets and expand business, and finance projects related to energy-saving and renewable energy devices by introducing loan products such as "Express-Aylanma", "Express-Kredit", "Madadkor" and "Yashil Energiya". This allows the bank's long-term loan investments to finance investment projects related to industry (manufacturing, processing, mechanical engineering, chemistry, etc.), agriculture (farming, animal husbandry, horticulture, etc.), construction, transport and logistics, energy (electricity, oil and gas, etc.) and infrastructure serving production (railways, ports, energy networks) and to achieve sustainable and inclusive economic growth by supporting the real sector.

At the same time, the introduction of various credit products by banks is a necessary strategic measure for effective financing of the real sector, ensuring economic growth, and ensuring the stable and safe conduct of bank activities.

5. Conclusion and Recommendations

International experience shows that when the share of foreign currency loans in a bank's long-term loan portfolio (loans with a maturity of 5 years or more) is up to 15 percent, there is no reason to worry about the quality of the loan portfolio. However, if this indicator exceeds 15 percent, precautionary measures are required to properly manage this process.

The introduction of various loan products for investment projects by Uzbek banks, on the one hand, offers flexible financial solutions for businesses, allows for effective management of capital flows and the choice of a loan repayment schedule, helps reduce risks. This ensures the financial stability of the project. On the other hand, the variety of loan products diversifies the bank's loan portfolio, spreads risks across different segments, and expands sources of income.

The following recommendations are of great importance in improving the financing of investment projects in the real sector of the economy: it is permissible to further expand the possibilities of using investment loans in the national currency to replenish working capital, purchase fixed assets and expand business, and finance projects related to energy-saving and renewable energy devices by introducing credit products such as "Express-Aylanma", "Express-Kredit", "Madadkor" and "Yashil Energiya"; in order not to significantly increase the dollarization of the bank's loan portfolio, it is advisable not to exceed 15 percent of the share of loans in foreign currency for financing investment projects in the structure of loans issued for a period of five years or more.

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