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STRENGTHENING THE SUPERVISORY ROLE OF COMMERCIAL BANKS IN STATE INVESTMENT PROJECTS

Gaipov Jasur Bakhrom ugli
Associate Professor, Department of Banking,
Tashkent State University of Economics,
PhD in Economics, Republic of Uzbekistan

Annotation: The article examines the supervisory function of commercial banks in the implementation of state investment projects in the Republic of Uzbekistan. Using official data from the Central Bank and the Statistics Agency for 2020–2024, the study analyzes investment dynamics, the composition of financing sources, and the role of banks in ensuring transparency in the use of funds. Comparative and coefficient analysis methods are applied, including the calculation of the share of banking finance, the growth rates of credit portfolios, and the sectoral allocation of loans.

Keywords: investments, commercial banks, state investment projects, supervision, monitoring, financing, credit portfolio, Uzbekistan.

Introduction. Under current conditions of sustainable economic growth and the implementation of large-scale public investment projects, commercial banks play a key role not only as sources of financing but also as supervisory entities overseeing the use of budgetary and borrowed funds. In recent years, Uzbekistan has demonstrated a record increase in investment in fixed capital — in 2024, the total volume of utilized investments reached approximately UZS 493.7 trillion [1]. However, the share of financing through the banking sector remains relatively limited. According to data from the Central Bank, the volume of new loans to the real sector in 2024 amounted to UZS 287.1 trillion, while the total banking credit portfolio reached UZS 566.2 trillion — a 14 percent year-on-year increase. The largest portion of this portfolio is concentrated in loans to the business sector (UZS 389.8 trillion as of the end of 2024) and households (UZS 176.3 trillion). In such circumstances, strengthening the supervisory role of banks — that is, expanding their involvement in monitoring and implementing state investment projects — becomes an important tool for improving the efficiency of public expenditures and reducing credit default risks.

James R. Barth, Gerard Caprio Jr. and Ross Levine (in Bank Regulation and Supervision: What Works Best?) studied the relationship between regulation/supervision of banks and the development of the banking sector, banking stability [8]. Their findings show that it is not just the existence of rules, but the effectiveness of supervision and its practical implementation that matter. If a commercial bank participates in the supervision of a state investment project, not only the formal role, but also the quality of the supervisory mechanism is important.The World Bank (when implementing the methodology of monitoring public investment projects) issued a document Monitoring Public Investment Projects & Setting Financial and Social Discount Rates, which describes the stages of monitoring projects and portfolio of investment activities [9]. This provides a methodological basis for including the bank in the monitoring chain: from project selection to implementation and subsequent analysis. The bank participates precisely at the stage of monitoring and reporting based on such a model.

Zhen Yang (in the article Role of Bank Regulation on Bank Performance: Evidence from Asia-Pacific) studied the impact of regulation and supervision on the efficiency of commercial banks in the

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countries of the Asia-Pacific region [10]. This approach emphasizes that supervision affects the efficiency of banks. In the context of public investment, it can be stated: if a bank acts as a supervisor, its efficiency and ability to monitor projects directly affect the success of these investments.

P. Kamau ("Commercial banks and economic infrastructure PPP" for Kenya) studied the role of commercial banks in infrastructure projects and PPP-sector: he revealed low involvement of banks in projects and drew attention to the need for closer interaction between banks and the state [11]. This is an example of empirical weakness of bank participation in investment projects. In Uzbekistan, the situation may be similar - and strengthening the role of banks will require institutional changes and dialog between the state and banks.

European Central Bank (in its 2024 Supervision Report) described a reform of the supervisory assessment process for banks to improve efficiency and focus on bank risks [12]. This example shows that the supervisory process itself needs evolution.

The study by B. Usmonov - "Investment Projects Financing Through Loans of Commercial Banks" describes the sources of financing of investment projects through loans of commercial banks in developing economies [13]. This work emphasizes that commercial banks are already involved in the financing of investment projects, but are not always embedded in the monitoring/control system.

The study of G. Bekmurodova - "Securities and investment projects in commercial banks" considers the role of commercial banks as agents of issuing securities and participation in investment projects [14]. The approach shows the expanded role of banks (not only lending, but also issuing securities, which gives additional levers of control and responsibility).

Y. Hu - "Interest-driven and legal supervision innovation of the capital pool model in China's banking financial management business". The study focuses on risks and innovations of banking supervision in China [15]. Although the topic is somewhat different, the key idea is banks as subjects of supervision and risk. A commercial bank performing a supervisory function on a public investment project should be willing to innovate in supervision and risk management.

The paper Finance in Common Summit / Research on Public Development Banks 2023 emphasizes that development banks (and by analogy, commercial banks with a supervisory function) should collaborate with the private sector to finance infrastructure and investment projects [16]. This work confirms that the institution of banks should be integrated into the investment system more broadly, including supervision and partnership. For Uzbekistan it says: commercial banks can become a "bridge" between the state and the private sector in investment projects.

M. Cingolani - "Necessary Public Investment: The Role of Public Banks". It considers how banks, especially public banks, are involved in ensuring necessary public investment [17]. Despite the emphasis on public banks, the conclusion is relevant: a banking structure that controls investment improves performance. Commercial banks can adopt some of the functions characteristic of public banks, but with commercial efficiency and control.

The OECD study "Public-Private Partnerships and Investment in Infrastructure" looks at how, through supervision, tendering and transparency, to attract and control investment projects [18]. It becomes obvious that the control role of the bank is not limited to financial tranches - it is important to participate in the structure of the project (feasibility study, tender control, performance monitoring). A commercial bank should have such an extended control function.

The work of Mariana Mazzucato et al., "State investment banks and patient finance" shows how investment banks (or institutions close to banks) through strategic financing and monitoring influence long-term projects [19]. Although we are talking about state or investment banks, the conclusion applies: a commercial bank involved in a state investment project with a monitoring function should think strategically - long-term and with active supervision.

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Methodology. To obtain empirical results, the study relies on statistical reports issued by the Central Bank of Uzbekistan and other governmental institutions. In particular, data from the annual reports of the Central Bank (2023 and 2024) and statistical bulletins were used to analyze the composition of the banking credit portfolio by sector and by individual banks. Complementary data from the State Committee on Statistics concerning the dynamics of investment in fixed capital for 2020–2024 provide a comprehensive view of the overall investment process. The assessment of the banks' involvement is based on the calculation of ratio indicators — namely, the share of bank financing in total investments and the annual growth rates of bank lending compared to overall investment dynamics. Both absolute (trillion sums) and relative (percentage) indicators were applied. The analysis is structured around comparative "banks–investment" tables that show the distribution of loans across industries (industry, agriculture, construction, trade, etc.) and by type of banks (state-owned versus private). Special attention is given to state-owned banks, which, according to the Central Bank's strategic documents, are designated to "service large state investment projects" [2]. All data are discussed in light of the current regulatory framework and relevant economic trends, ensuring the integrity and contextual accuracy of the analysis.

Results. Volume and Structure of Investments. According to official data, the volume of fixed capital investments in Uzbekistan reached UZS 493.7 trillion in 2024, marking a 127.6 percent increase compared to 2023 [1]. Borrowed and attracted funds accounted for about 75.9 percent (UZS 374.7 trillion) of this amount, while the largest sources were foreign direct investments (UZS 150.5 trillion) and non-guaranteed foreign loans (UZS 159.6 trillion).

The remaining 24.1 percent (UZS 119.0 trillion) consisted of enterprises' and households' own resources. The share of commercial bank loans and other borrowed funds in total investments has traditionally been low — approximately 2.4 percent in the first half of 2025.

Table 1 presents the dynamics of fixed-capital investments in comparable prices and their growth rates for 2020–2024.

Table 1 — Dynamics of Fixed-Capital Investments in Uzbekistan[1]

Year	Investment Volume (trillion UZS)	Growth Rate, % to previous year
2020	89,8	98,9
2021	101,4	102,1
2022	113,9	100,5
2023	201,7	163,8
2024	333,8	152,1

Sectoral Distribution of Bank Loans. As of the end of 2024, the industrial sector traditionally accounted for the largest share of loans issued to the real sector — 26.4 percent of total lending. The following sectors ranked next: trade and public catering (13.4 percent), agriculture (7.1 percent), construction (2.8 percent), and transport and communications (2.5 percent). About 40 percent of the credit portfolio is allocated to other sectors (such as services and small business), and 9–11 percent to household lending in the form of consumer and mortgage loans [3].

Assets and Credit Portfolios of Banks.

The banking sector in Uzbekistan remains structurally diverse. Out of the total assets of UZS 751.7 trillion (as of 1 December 2024), two-thirds (66 percent) are controlled by state-owned banks (Uz NBU, Sanoat qurilish bank, Agrobank, Asaka Bank, etc.), while the remaining 34 percent belong to private banks [4]. A similar structure is observed in lending: state banks issued 69 percent of total loans (UZS 363.9 trillion of 525.9 trillion in total).

[1] Составлено автором работы по данным Госкомстата и открытых источников

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Table 2 — Key Indicators of Major Commercial Banks of Uzbekistan (End of 2024)[2]

Bank	Assets (trillion UZS)	Share of Assets, %	Loans (trillion UZS)	Share of Loans, %
State banks				
NBU	135,4	18,0	107,3	20,4
Sanoat qurilish bank	86,8	11,6	64,0	12,2
Agrobank	77,1	10,3	59,6	11,3
Asaka bank	57,3	7,6	38,2	7,3
Other banks				
Ipoteka bank	50,7	6,7	34,4	6,5
Kapital bank	45,7	6,1	30,9	5,9
Hamkor bank	26,9	3,6	19,0	3,6
Ipak Yuli bank	22,8	3,0	14,2	2,7

As shown in Table 2, state-owned banks not only lead in total assets (66 percent of the system) but also concentrate the majority of lending to the real sector. For instance, Uz NBU, recognized as the leading national development bank, extends credit primarily to large-scale projects. According to the Central Bank, Uz NBU "services major state investment projects and enterprises on commercial terms," highlighting its supervisory function.

Share of Bank Financing in Investments and Growth Dynamics. Estimates indicate that banks' contribution to investment financing remains moderate. In 2023, commercial banks allocated on average UZS 53.7 trillion for investment projects [5], which accounted for roughly 15 percent of the total utilized investments. At the same time, the growth rate of business lending (11.8 percent per year) lagged far behind the pace of investment growth (127.6 percent in 2024). The resulting ratio reveals a widening gap between project financing needs and the actual capacity of banks to meet them.

Discussion. The findings indicate that commercial banks traditionally play a decisive role in financing domestic industry and trade, while investment projects in infrastructure account for a relatively small share of their credit portfolios. At the same time, it is precisely in large-scale public projects — such as the construction of roads, airports, and the metro — that banks act not only as partial financiers but also as supervisory bodies. For example, the "Uzbekiston Temir Yullari" railway infrastructure project is partially financed through bank loans [6]. Moreover, banks require state-owned borrowers to submit certified cost estimates and detailed expenditure reports before disbursement, which enhances the transparency of capital investment utilization.

Given the expanding scope of public investment, there is an urgent need to formalize the supervisory function of banks. In several foreign jurisdictions, banks are directly involved in consolidating monitoring processes: they conduct audits of construction stages before releasing new tranches, verify compliance with contract terms ("procurement authenticity assessments"), and participate in joint oversight commissions with government bodies. Uzbekistan has already taken steps in this direction. The Ministry of Investment has established an automated system called "Control and Monitoring of the Implementation of Investment Projects" [7], while the Central Bank, in cooperation with the Government, is developing methodologies for evaluating the quality of bank lending in large-scale projects.

[2] Составлено автором работы по данным Госкомстата и открытых источников

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Nevertheless, practical challenges remain. These include limited portfolio diversification (concentration in narrow sectors), inconsistent project selection standards, and insufficient transparency in interactions with state entities. The Central Bank's macroprudential risk assessment shows that about 75 percent of non-performing loans are sectorally linked to entrepreneurial lending, which indirectly includes certain high-risk public contracts. This finding emphasizes the need for additional supervisory mechanisms.

Directions for Strengthening Oversight. Based on the conducted analysis, several key measures can be proposed to enhance the supervisory role of commercial banks in the implementation of state investment projects:

Strengthening the Regulatory Framework. Banks should be formally included in advisory councils for large public investment projects. It is necessary to establish mandatory audit and cost-verification procedures for all projects financed through bank loans.

Ensuring Information Transparency. A unified digital monitoring platform should be created to allow banks and government agencies to track project implementation in real time — including expenditures, procurement processes, and the progress of construction works.

Introducing Financial Incentives. Preferential lending lines for banks could be introduced for projects that meet strict monitoring and control requirements. For instance, a state guarantee could be granted only if the bank provides a positive audit opinion on project implementation.

Expanding Participation in Partnership Mechanisms. The development of joint investment funds and public–private partnership mechanisms should be encouraged, where banks act not only as lenders but also as project controllers and evaluators.

Collectively, these measures would increase the share of bank financing in public investments while maintaining proper oversight, improving accountability, and reducing the risks of inefficient use of public funds.

Conclusion. The study has shown that commercial banks in Uzbekistan already play an important role in the national investment process, primarily through lending to industry and trade. However, their supervisory function in state investment projects remains insufficiently institutionalized. The analysis of sectoral credit distribution and banking structure demonstrates a concentration of financial resources within several major state-owned banks. Strengthening their supervisory capacity requires coordinated efforts among the regulator, public contracting authorities, and the banks themselves. As reflected in the Central Bank's strategic documents, banks such as UzNatsbank are expected to service large state projects on commercial terms, setting the direction for further reforms in the banking sector.

Based on statistical data for 2020–2024, our research identified a growing imbalance between the pace of investment expansion and the capacity of the banking system to finance it. Addressing this gap effectively requires the active participation of banks in monitoring project implementation — including cost audits, procurement control, and financial due diligence — as well as the creation of joint supervisory mechanisms with government agencies. Such an approach would not only expand the volume of financing for priority investment projects but also enhance public trust in banks and strengthen the overall efficiency of public–private cooperation in Uzbekistan.

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