QARSHI DAVLAT TEXNIKA UNIVERSITETI
QDTU

INNOVATSION IQTISODIYOT

Ilmiy-amaliy elektron jurnal

2026
№1

ИННОВАЦИОННАЯ ЭКОНОМИКА

Научно-практический электронный журнал

INNOVATIVE ECONOMY

Scientific and practical electronic journal

Indexlanadigan bazalar: Google Scholar Crossref OpenAIRE CYBERLENIKA

INNOVATSION IQTISODIYOT

ILMIY-AMALIY ELEKTRON JURNAL

1-jild
1-son
yanvar, 2026

January, 2026
Volume 1
Number 1

ИННОВАЦИОННАЯ ЭКОНОМИКА
Научно-практический электронный журнал

INNOVATIVE ECONOMY
Electronic scientific and practical journal

INNOVATSION IQTISODIYOT

ILMIY-AMALIY ELEKTRON JURNAL

ISSN: 3030-315X

ojs.kstu.uz

Muassis:

Qarshi davlat texnika universiteti

Jurnal har oyda bir marotaba elektron shaklda jurnalning rasmiy sayti orqali nashr etiladi.

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Научно-практический электронный журнал

ISSN: 3030-315X

ojs.kstu.uz

Учредитель:
Каршинский государственный технический университет

Журнал издается один раз в месяц **в** электронной форме и публикуется через официальный сайт журнала.

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Научно-практический электронный журнал «Инновационная экономика» включён в перечень национальных научных изданий на основании решения Президиума Высшей аттестационной комиссии при Министерстве высшего образования, науки и инноваций Республики Узбекистан от 5 апреля 2025 года № 369.

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Финансы, кредит и инвестиции

UDK: 336.71:336.64:330.322
https://doi.org/10.70769/3030-315X.II.1.1.2026.30

INSTITUTIONAL AND FINANCIAL MECHANISMS FOR IMPROVING THE EFFICIENCY OF PROJECT FINANCING OF INVESTMENT PROJECTS IN COMMERCIAL BANKS

Abdurazakova Nasiba Sultanovna

TIJORAT BANKLARIDA INVESTITSIYA LOYIHALARINI MOLIYALASHTIRISH SAMARADORLIGINI OSHIRISHNING INSTITUTSIONAL VA MOLIYAVIY MEXANIZMLARI

Abdurazakova Nasiba Sultanovna

ИНСТИТУЦИОНАЛЬНЫЕ И ФИНАНСОВЫЕ МЕХАНИЗМЫ ПОВЫШЕНИЯ ЭФФЕКТИВНОСТИ ПРОЕКТНОГО ФИНАНСИРОВАНИЯ ИНВЕСТИЦИОННЫХ ПРОЕКТОВ В КОММЕРЧЕСКИХ БАНКАХ

Абдуразакова Насиба Султановна

Received: January 12, 2026 Revised: January 16, 2026 Accepted: January 21, 2026 Published: February 1, 2026

Abstract: This article examines institutional and financial mechanisms for improving the efficiency of project financing of investment projects in commercial banks. The study is based on a theoretical analysis of project financing principles, including cash flow–based lending, risk allocation, and institutional conditions influencing the effectiveness of project-based financing. Particular attention is given to identifying institutional and methodological limitations that constrain the practical application of project financing in commercial banks. Based on the analysis, the article proposes an integrated institutional and financial mechanism aimed at enhancing the efficiency of project financing. The proposed mechanism emphasizes the strengthening of regulatory and legal frameworks, the establishment of specialized project finance units within commercial banks, the improvement of project-specific risk management practices, and the expansion of access to long-term funding sources. The findings of the study contribute to the development of project financing theory and provide practical recommendations for commercial banks and policymakers seeking to support investment-driven economic growth, particularly in transition economies.

Keywords: project financing, investment projects, commercial banks, cash flow–based lending, risk management, institutional mechanisms, Uzbekistan.

Annotatsiya: Ushbu maqolada tijorat banklarida investitsiya loyihalarini loyihaviy moliyalashtirish samaradorligini oshirishning institutsional va moliyaviy mexanizmlari ko'rib chiqiladi. Tadqiqot loyihalarni moliyalashtirish tamoyillarining nazariy tahliliga, jumladan, pul oqimiga asoslangan kreditlash, tavakkalchiliklarni taqsimlash va loyihaga asoslangan moliyalashtirish samaradorligiga ta'sir qiluvchi institutsional sharoitlarga asoslangan. Tijorat banklarida loyihalarni moliyalashtirishning amaliy qo'llanilishini cheklaydigan institutsional va metodologik cheklovlarni aniqlashga alohida e'tibor qaratilgan. Tahlil asosida maqolada loyihalarni moliyalashtirish samaradorligini oshirishga qaratilgan integratsiyalashgan institutsional va moliyaviy mexanizm taklif qilingan. Taklif etilayotgan mexanizm normativ-huquqiy bazani mustahkamlashga, tijorat banklari ichida ixtisoslashgan loyihalarni moliyalashtirish bo'linmalarini tashkil etishga, loyihaga xos tavakkalchiliklarni boshqarish amaliyotini takomillashtirishga va uzoq muddatli moliyalashtirish manbalariga kirishni kengaytirishga urg'u berilgan. Tadqiqot natijalari loyihalarni moliyalashtirish nazariyasini rivojlantirishga hissa qo'shadi va investitsiyalarga asoslangan iqtisodiy o'sishni, ayniqsa o'tish davri iqtisodiyotida qo'llab-quvvatlashga intilayotgan tijorat banklari va siyosatchilar uchun amaliy tavsiyalar beradi.

Kalit so'zlar: loyihalarni moliyalashtirish, investitsiya loyihalari, tijorat banklari, pul oqimiga asoslangan kreditlash, tavakkalchiliklarni boshqarish, institutsional mexanizmlar, O'zbekiston.

Аннотация: В данной статье рассматриваются институциональные и финансовые механизмы повышения эффективности проектного финансирования инвестиционных проектов в коммерческих банках. Исследование основано на теоретическом анализе принципов проектного финансирования, включая кредитование на основе денежных потоков, распределение рисков и институциональные условия, влияющие на эффективность проектного финансирования. Особое внимание уделяется выявлению институциональных и методологических ограничений, препятствующих практическому применению проектного финансирования в коммерческих банках. На основе анализа в статье предлагается интегрированный институциональный и финансовый механизм, направленный на повышение эффективности проектного финансирования. Предложенный механизм подчеркивает укрепление нормативно-правовой базы, создание специализированных подразделений проектного финансирования в коммерческих банках, совершенствование практики управления рисками, специфичными для каждого проекта, и расширение доступа к долгосрочным источникам финансирования. Результаты исследования способствуют развитию теории проектного финансирования и предоставляют практические рекомендации для коммерческих банков и политиков, стремящихся поддержать экономический рост, основанный на инвестициях, особенно в странах с переходной экономикой.

Ключевые слова: проектное финансирование, инвестиционные проекты, коммерческие банки, кредитование на основе денежных потоков, управление рисками, институциональные механизмы, Узбекистан.

INTRODUCTION

Project financing has become one of the most effective instruments for mobilizing long-term financial resources to support large-scale investment projects in both developed and emerging economies[1], [2], [7]. In the context of commercial banking, project financing enables the allocation of financial resources based on the expected cash flows of investment projects rather than on traditional collateral, thereby facilitating the implementation of capital-intensive and strategically important initiatives[3], [5]. As a result, improving the efficiency of project financing mechanisms has become a critical issue in modern banking systems.

From a theoretical perspective, the efficiency of project financing in commercial banks depends on the interaction of financial, institutional, and methodological factors. These include the structure of project cash flows, risk allocation among project participants, the regulatory environment, and the internal risk management systems of banks. While classical credit financing relies primarily on the borrower's balance sheet and collateral, project financing emphasizes project viability, financial sustainability, and long-term cash flow generation. This distinction requires commercial banks to adopt specialized institutional and financial mechanisms tailored to the specific characteristics of investment projects.

In recent ears, Uzbekistan has placed increasing emphasis on expanding investment activity and enhancing the role of the banking sector in financing investment projects[13], [14]. Commercial banks have become key intermediaries in channeling financial resources to priority sectors of the economy. However, despite the growing volume of investment lending, the practical application of project financing mechanisms remains constrained by institutional limitations, methodological gaps, and insufficient adaptation of international best practices to domestic banking conditions.

Existing research on project financing has extensively analyzed its theoretical foundations and practical applications in international contexts. Nevertheless, relatively limited attention has been given to the development of integrated institutional and financial mechanisms that enhance the efficiency of project financing within commercial banks operating in transition economies. In particular, the interaction between regulatory frameworks, bank-level risk management practices, and project cash flow–based financing models remains underexplored.

The relevance of this study is therefore обусловлено the need to bridge this gap by developing a comprehensive approach to improving the efficiency of project financing in commercial banks. The study emphasizes the importance of aligning institutional arrangements and financial mechanisms with the specific requirements of project-based lending and investment risk management.

The purpose of this article is to substantiate institutional and financial mechanisms aimed at improving the efficiency of project financing of investment projects in commercial banks. The study seeks to identify key limitations of existing practices and to propose a conceptual mechanism that can enhance the effectiveness of project financing and support sustainable investment-driven economic development.

LITERATURE REVIEW

The efficiency of project financing in commercial banks is grounded in a set of theoretical principles that distinguish project-based lending from traditional forms of bank credit. In financial theory, project financing is defined as a method of funding in which lenders rely primarily on the future cash flows generated by an investment project for debt repayment, with limited or no recourse to the sponsors' balance sheets [1], [2]. This approach allows banks to participate in financing large-scale and capital-intensive projects while allocating risks among project participants.

One of the core theoretical elements of project financing efficiency is the concept of cash flow–based lending. Unlike conventional lending, where repayment capacity is assessed based on the borrower's overall financial position, project financing evaluates the project's ability to generate stable and predictable cash flows over its lifecycle [3]. From a theoretical perspective, the accuracy of cash flow forecasting and the adequacy of financial structuring directly influence the efficiency and sustainability of project financing arrangements.

Risk allocation constitutes another fundamental component of the theoretical framework of project financing. According to project finance theory, risks should be allocated to the parties best able to manage and mitigate them, including sponsors, lenders, contractors, and government entities [4]. Efficient risk allocation reduces the overall risk profile of the project and enhances its bankability. Commercial banks, therefore, play a critical role in designing financial structures that balance risk and return while ensuring the financial viability of investment projects [5].

Institutional factors also significantly affect the efficiency of project financing in commercial banks. Institutional theory emphasizes that the effectiveness of financial mechanisms depends on the regulatory environment, legal protection of creditors' rights, and the stability of financial institutions [6]. Weak institutional frameworks increase transaction costs, elevate credit risks, and limit the application of sophisticated project financing instruments. Consequently, the institutional environment shapes the extent to which commercial banks can effectively implement project-based lending models.

From a methodological standpoint, the efficiency of project financing is closely linked to banks' internal risk management systems. Modern banking theory highlights the importance of integrating project risk assessment, financial modeling, and monitoring mechanisms into a unified risk management framework [7]. The absence of specialized project appraisal methodologies may lead to mispricing of risks and inefficient allocation of credit resources.

In addition, the theoretical literature emphasizes the role of long-term financing and maturity matching in project financing. Investment projects typically require long-term funding aligned with their operational cash flow cycles. Commercial banks must therefore balance liquidity management requirements with the provision of long-term credit, which necessitates the development of appropriate financial instruments and institutional arrangements [2], [8].

Overall, the theoretical framework of project financing efficiency demonstrates that effective project-based lending in commercial banks is determined by the interaction of financial, institutional, and methodological factors. Cash flow–based evaluation, optimal risk allocation, supportive institutional environments, and advanced risk management practices form the conceptual basis for improving the efficiency of project financing. This framework provides the foundation for identifying existing limitations and for developing institutional and financial mechanisms aimed at enhancing project financing practices in commercial banks.

Despite the theoretical advantages of project financing, its practical application in commercial banks is often constrained by a range of institutional and methodological limitations. These limitations reduce the effectiveness of project-based lending and hinder the ability of banks to fully utilize project financing as a tool for supporting long-term investment activity [1], [2].Existing regulatory frameworks in many banking systems are primarily designed for traditional lending and do not fully reflect the specific characteristics of project-based financing [6], [10].

One of the key institutional limitations is the underdeveloped regulatory and legal framework governing project financing activities. In many banking systems, existing regulations are primarily designed for traditional lending and do not fully reflect the specific features of project-based financing, such as limited recourse structures and complex risk-sharing arrangements [4]. Insufficient legal protection of creditors' rights and weak enforcement mechanisms increase uncertainty and elevate the risk profile of project financing transactions, discouraging commercial banks from wider adoption of such instruments [6].

The limited availability of long-term funding sources remains a significant constraint for the expansion of project financing in developing economies [7], [12].

Another significant limitation is related to the institutional capacity of commercial banks. Effective project financing requires specialized organizational units, skilled personnel, and advanced analytical capabilities. However, in practice, many banks lack dedicated project finance departments and rely on conventional credit assessment procedures when evaluating investment projects [5]. This methodological mismatch leads to inadequate assessment of project risks and cash flow sustainability, thereby reducing financing efficiency.

Methodological constraints also arise from the limited application of cash flow–based project appraisal techniques. Although project financing theory emphasizes the central role of projected cash flows in determining project viability, banks often place greater emphasis on collateral and sponsor guarantees [3]. This practice undermines the fundamental principles of project financing and restricts the development of non-recourse and limited-recourse lending structures.

Risk management practices constitute another area of methodological weakness. Project financing involves multiple types of risks, including construction risk, operational risk, market risk, and regulatory risk. However, banks frequently lack integrated risk management frameworks tailored specifically to project financing [7]. As a result, risks may be inadequately identified, priced, or monitored throughout the project lifecycle, leading to inefficiencies and increased credit risk exposure.

The limited availability of long-term funding sources also constrains the effectiveness of project financing in commercial banks. Investment projects typically require long-term financing aligned with their cash flow generation periods. However, banks operating in environments with shallow capital markets and limited access to long-term resources face difficulties in matching asset and liability maturities [2], [8]. This structural imbalance reduces banks' willingness to engage in long-term project financing.

In addition, institutional coordination between banks, government agencies, and project sponsors remains insufficient in many cases. Project financing often requires close cooperation among multiple stakeholders, including regulatory authorities and public sector entities. Weak coordination mechanisms and unclear allocation of responsibilities may delay project implementation and increase transaction costs, negatively affecting financing efficiency [1].

Weak coordination between banks, government institutions, and project sponsors increases transaction costs and reduces the efficiency of project financing arrangements [9], [14].

Overall, the analysis indicates that the efficiency of project financing in commercial banks is constrained by a combination of institutional weaknesses and methodological shortcomings. Addressing these limitations requires not only regulatory and institutional reforms but also the development of specialized methodologies and risk management practices tailored to the specific characteristics of project-based lending. These findings provide a basis for proposing institutional and financial mechanisms aimed at improving the efficiency of project financing in commercial banks.

RESULTS AND DISCUSSION

Improving the efficiency of project financing in commercial banks requires the development of an integrated institutional and financial mechanism that addresses existing methodological shortcomings and institutional constraints. Based on the theoretical framework and identified limitations, such a mechanism should combine regulatory support, bank-level organizational reforms, and advanced financial and risk management instruments [1], [2].

At the institutional level, the proposed mechanism emphasizes the establishment of a supportive regulatory and legal environment tailored to the specific characteristics of project financing. This includes the formal recognition of limited-recourse and non-recourse financing structures, strengthening creditor rights, and improving contract enforcement mechanisms [4], [6]. A clear and predictable institutional framework reduces legal uncertainty and transaction costs, thereby increasing banks' willingness to engage in project-based lending.

At the level of commercial banks, the mechanism предусматривает the creation of specialized project finance units responsible for the appraisal, structuring, and monitoring of investment projects. These units should apply standardized cash flow–based evaluation methodologies and financial models that reflect the project lifecycle and risk profile [3], [5]. The institutionalization of specialized project finance functions enhances analytical capacity and improves the quality of financing decisions.

A core element of the proposed mechanism is the integration of comprehensive risk management practices specifically designed for project financing. This involves the identification, allocation, and continuous monitoring of project risks across different stages, including construction, operation, and revenue generation [7]. Risk-sharing arrangements among project sponsors, lenders, and other stakeholders should be formalized through contractual mechanisms to ensure optimal risk distribution and financial sustainability.

The financial component of the proposed mechanism focuses on improving access to long-term funding sources and enhancing maturity matching between bank assets and liabilities. The use of syndicated loans, refinancing instruments, and cooperation with development finance institutions can expand the availability of long-term resources for project financing [2], [8]. Such financial arrangements reduce liquidity pressure on commercial banks and support the financing of capital-intensive investment projects.

The proposed mechanism aligns with international best practices in project financing and risk mitigation, as emphasized by international financial institutions [7], [8], [12].

In addition, the proposed mechanism highlights the importance of institutional coordination between commercial banks, government agencies, and project sponsors. Effective coordination facilitates information exchange, reduces administrative delays, and supports the alignment of project financing with national investment priorities [1]. Public–private partnership frameworks may also serve as an institutional platform for enhancing cooperation and sharing risks in project financing initiatives.

Overall, the proposed institutional and financial mechanism represents an integrated approach aimed at improving the efficiency of project financing in commercial banks. By combining regulatory reforms, organizational development within banks, advanced risk management practices, and diversified financial instruments, the mechanism provides a conceptual basis for enhancing the effectiveness of project-based lending. The implementation of this mechanism can strengthen the role of commercial banks in financing investment projects and contribute to sustainable economic development.

Cooperation with development finance institutions and the use of syndicated lending instruments can significantly expand access to long-term financing for investment projects [8], [12].

CONCLUSION

The study confirms that project financing is a strategically important instrument for supporting investment activity and mobilizing long-term financial resources in commercial banks. Unlike traditional lending, project financing relies on the financial viability and cash flow generation capacity of investment projects, which requires the application of specialized institutional and financial mechanisms. Therefore, improving the efficiency of project financing remains a critical task for commercial banks, particularly in economies undergoing structural transformation.

The theoretical analysis demonstrates that the efficiency of project financing is determined by the interaction of cash flow–based lending principles, optimal risk allocation, institutional conditions, and bank-level risk management practices. However, the analysis of existing practices reveals that the application of project financing in commercial banks is constrained by a number of institutional and methodological limitations. These include underdeveloped regulatory frameworks, insufficient institutional capacity within banks, limited use of cash flow–based project appraisal techniques, and weaknesses in project-specific risk management systems.

Based on the identified limitations, the article proposes an integrated institutional and financial mechanism aimed at improving the efficiency of project financing in commercial banks. The proposed mechanism emphasizes the importance of strengthening the regulatory and legal environment, establishing specialized project finance units within banks, enhancing risk management practices, and expanding access to long-term funding sources. In addition, the mechanism highlights the role of institutional coordination between commercial banks, government agencies, and project sponsors in reducing transaction costs and improving financing outcomes.

The practical relevance of the proposed mechanism is particularly significant in the context of Uzbekistan, where commercial banks play a key role in financing investment projects aligned with national development priorities. The implementation of the proposed institutional and financial mechanism can enhance the capacity of commercial banks to effectively finance investment projects, improve the quality of credit allocation, and reduce project-related financial risks.

The conclusions and recommendations presented in this article contribute to the development of project financing theory and practice and may serve as a methodological basis for further research in this field. Moreover, the proposed mechanism can be used by commercial banks and policymakers in designing measures aimed at improving the efficiency of project financing and supporting sustainable investment-driven economic growth.

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ILMIY-AMALIY ELEKTRON JURNAL

ISSN: 3030-315X