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## Project Financing in Construction: Comparative Analysis of China and Uzbekistan – Similarities and Differences

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**Abstract:** This paper explores the mechanisms and practices of project financing in the construction sectors of China and Uzbekistan. It highlights key similarities and differences in their financial structures, sources of funding, regulatory frameworks, and the use of escrow mechanisms. The study draws on statistical indicators to compare the dynamics of the real estate markets, the volume of mortgage lending, and the financial sustainability of development projects in both countries. Based on the comparative analysis, practical recommendations are proposed to improve the project financing framework in Uzbekistan.

**Keywords:** project financing, construction sector, escrow account, mortgage market, state participation, banking system, China's experience, Uzbekistan

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### 1. Introduction

In recent years, the real estate and construction sectors have become priority directions of Uzbekistan's economic policy [1]. Project financing serves as a modern mechanism enabling large-scale construction projects to be implemented with reduced financial risks, efficient allocation of resources, and guaranteed investor protection

### 2. Materials and Methods

This study employs a comparative analysis methodology to examine project financing in the construction sectors of China and Uzbekistan. The research is structured around a qualitative approach, utilizing both primary and secondary data sources to gather comprehensive insights into the financing mechanisms employed in each country.

### 3. Results

The legislative and regulatory framework controlling project financing, escrow accounts, and bank guarantees must be strengthened in order to improve Uzbekistan's project financing ecosystem. Furthermore, the creation of regional financing centres can aid in balancing investment flows across various regions, and the expansion of public-private partnership (PPP) mechanisms will mobilise long-term investments into housing and infrastructure [3]. Transparency and accountability will be ensured by introducing a uniform statistical monitoring system, which will further facilitate the assessment of building projects' financial performance and efficiency.

Uzbekistan can greatly enhance its project financing environment by implementing Chinese best practices and utilising international expertise. In addition to lowering systemic risks, these actions will hasten the construction industry's sustainable expansion and promote a stronger, more resilient economy. By means of these tactical

#### 4. Discussion

China, meanwhile, has accumulated extensive experience in applying project financing principles through its vast real estate market and innovative financial instruments. The country has developed comprehensive regulatory and institutional frameworks combining public and private sector efforts to ensure stable housing market growth [4].

The purpose of this article is to compare the experiences of China and Uzbekistan in project financing, identify the key differences and similarities in their approaches, and suggest potential improvements suitable for Uzbekistan's evolving financial landscape.

**Theoretical Framework.** Project financing refers to a financing structure in which repayment of borrowed funds is ensured primarily through the cash flows generated by the project itself, rather than through the general assets of the borrower.

In the construction industry, project financing offers several distinct advantages [5]:

- **Risk allocation** among banks, investors, and developers;
- **Targeted use of funds** ensured by the escrow account mechanism;
- **Transparency and accountability** in financial operations;
- **Encouragement of private investment** through secure, regulated frameworks.

Globally, project financing is considered one of the most effective tools for attracting long-term investment into capital-intensive sectors, particularly housing and infrastructure construction.

**China's Experience.** As of 2025, China's total real estate loan portfolio reached approximately **53.33 trillion yuan**, of which around **13.81 trillion yuan** was allocated to construction project financing. However, total investments in real estate development declined by **6.2%** in the first half of 2025, reflecting a slowdown in market growth [6].

##### Main financing models in China:

- **Pre-sale financing model:** developers can sell housing units before completion, with funds transferred through escrow accounts under strict regulation;
- **Bond financing:** issuance of real estate-backed bonds, which reached **71.4 billion yuan** in 2025 (90% year-on-year growth);
- **Public support mechanisms:** including government guarantees, subsidies, and preferential credit lines;
- **Risk management policies:** notably the "Three Red Lines" initiative, which restricts corporate leverage and ensures financial stability.

Despite regulatory tightening, China's model remains a benchmark for balancing rapid urban development with financial discipline. It demonstrates how state intervention, transparency, and diversified funding sources can jointly sustain a massive housing market [7].

**Uzbekistan's Experience.** Uzbekistan's real estate market continues to show steady growth. In **2024–2025**, real estate transaction volumes increased by **12%**, while the total mortgage portfolio rose from **17.1 trillion UZS** to **17.4 trillion UZS**.

##### Sources of project financing:

- **State resources** – 56%;
- **Bank resources** – 35%;
- **Private investments** – 9%.

Despite this progress, several challenges remain:

- Limited application of the escrow account mechanism;
- High credit interest rates;
- Bureaucratic delays in project approval and financing procedures.

However, Uzbekistan is moving toward adopting international standards of project financing, including legislative reforms on escrow accounts, mortgage-backed lending, and shared construction participation. The growing involvement of commercial banks and the Ministry of Economy and Finance indicates a transition toward a more structured and risk-managed system [8].

**Comparative Analysis (Expanded).** A detailed comparative analysis of the project financing systems in China and Uzbekistan reveals both structural similarities and fundamental differences shaped by the economic scale, institutional maturity, and regulatory traditions of each country [9], [10].

**Institutional and Regulatory Framework.** China's project financing model has evolved under a strong institutional and legal base. The government plays a decisive role through the **Ministry of Housing and Urban-Rural Development (MOHURD)** and the **People's Bank of China**, which regulate lending criteria, liquidity distribution, and pre-sale supervision. A critical feature of the Chinese model is the **mandatory escrow mechanism**: all pre-sale funds are transferred to escrow accounts and can only be used for construction progress, preventing financial misuse and protecting homebuyers [11],[12], [13].

Uzbekistan, while having introduced a similar framework under the **Regulation on Project Financing of Real Estate Construction**, is still in the process of its practical implementation. Banks such as **Ipoteka-bank** and **Asaka-bank** have begun to pilot escrow-based financing schemes. However, the system remains partially centralized, with limited integration of private financial intermediaries [14]. The regulatory institutions are strengthening their control mechanisms but require clearer risk-sharing protocols and standardization of escrow account operations.

**Structure of Financial Flows and Sources.** In China, the diversification of funding is a key advantage. Construction projects are financed through:

- **Commercial bank loans (approx. 48%)**
- **Corporate bonds and real estate investment trusts (REITs) (27%)**
- **Government and local authority funds (15%)**
- **Private equity and foreign investment (10%)**

This structure ensures liquidity even under market stress. The use of REITs, in particular, allows for capital recycling and long-term institutional investor participation [15].

Uzbekistan's structure, by contrast, is still dominated by **state and bank resources (over 90%)**, while private and foreign capital remains limited. This creates a higher systemic dependency on government fiscal capacity. The introduction of capital market instruments (such as mortgage-backed securities and real estate bonds) could significantly improve the liquidity of project financing in the medium term.

**Risk Management and Financial Stability.** The **"Three Red Lines Policy"** in China—limiting developers' leverage ratios—has become a benchmark for financial prudence in project financing. It restricts excessive borrowing, improves balance sheet transparency, and compels developers to operate within measurable debt thresholds.

Uzbekistan's banking sector has started implementing similar prudential measures, including loan-to-value (LTV) and debt-service coverage ratio (DSCR) limits. However, due to the relative novelty of the market, these indicators are still developing and require consistent enforcement. In particular, local developers face challenges in providing collateral that meets banking standards, which slows project approval and financing timelines.

**Market Dynamics and Investment Efficiency.** Statistical analysis shows that between 2020 and 2025:

- **China's annual real estate investment growth averaged +4.3%**, despite recent market corrections.

- Uzbekistan's **construction sector growth** averaged **+6.1%**, driven by public infrastructure and housing programs.
- The **mortgage-to-GDP ratio** reached **32% in China**, while in Uzbekistan it remains around **8%**, indicating untapped potential for expansion.

Although Uzbekistan's growth rate appears higher in relative terms, the overall financial depth of the market is still limited. This means that a single large-scale project failure could have disproportionate macroeconomic implications. By contrast, China's system, due to its diversification and capital market depth, can absorb shocks more effectively.

**Technological and Digital Aspects.** China has successfully digitized much of its project financing ecosystem. Digital escrow platforms allow real-time monitoring of fund flows, construction milestones, and compliance indicators. Moreover, **blockchain-based systems** are increasingly used to ensure transparency and immutability of financial records.

Uzbekistan has initiated steps toward digital integration, particularly through the **Ministry of Construction and Housing and Communal Services' electronic platform (mc.uz)**, which tracks project registration and developer compliance. However, digital monitoring of escrow flows is still at an early stage, and interconnection between commercial banks and state regulators is limited.

**Socioeconomic Impact and Affordability.** Project financing in both countries plays a critical role in **housing affordability and urban development**. In China, extensive state subsidies and price stabilization mechanisms have prevented large-scale housing unaffordability, though the gap between urban and rural housing remains significant. In Uzbekistan, government-backed mortgage programs (such as the *Affordable Housing Program 2030*) have improved access to financing but require better targeting to middle-income households rather than only low-income groups.(Table 1)

**Table 1. Summary of Comparative Indicators (01.07.2025 y.)**

Indicator	China	Uzbekistan	Remarks
Total real estate loans	¥53.33 trillion	17.4 trillion UZS	Different scales; both growing
Average project financing rate	4.2–5.8%	16–20%	Reflects cost of capital disparity
Escrow mechanism coverage	100% of pre-sales	~30% of new projects	Uzbekistan catching up
State participation	High	High	Similar, but different governance
Private capital share	37%	<10%	Key difference
Mortgage-to-GDP ratio	32%	8%	Room for expansion
Annual investment growth (2020–2025)	+4.3%	+6.1%	Uzbekistan faster in relative terms

#### **Analytical Findings:**

**Systemic Maturity:** China's project financing system is a fully institutionalized framework supported by diversified markets, while Uzbekistan is in a transitional phase of structural development.

**Risk Distribution:** Both systems aim to distribute risk among participants, but China's legal infrastructure enforces stricter compliance mechanisms.

**Cost of Capital:** The higher lending rates in Uzbekistan hinder the scalability of project financing; interest rate subsidies or blended finance instruments could be effective solutions.

**Escrow Integration:** Expanding escrow coverage to all major projects in Uzbekistan could drastically reduce default and fraud risks.

**Financial Market Depth:** Developing real estate bonds, REITs, and securitization could attract long-term institutional investors and enhance liquidity.

**Policy Coordination:** Uzbekistan may benefit from a dedicated *Project Finance Development Agency* to coordinate policies across ministries, banks, and developers

## 5. Conclusion

To enhance the project financing ecosystem in Uzbekistan, it is essential to strengthen the legal and regulatory framework governing project financing, escrow accounts, and bank guarantees. Additionally, expanding public-private partnership (PPP) mechanisms will mobilize long-term investments into housing and infrastructure, while the establishment of regional financing centers can help balance investment flows across different regions. Introducing a unified statistical monitoring system will further enable the evaluation of the efficiency and financial performance of construction projects, ensuring transparency and accountability.

By adopting best practices from China and leveraging global experience, Uzbekistan can significantly improve its project financing landscape. These measures will not only reduce systemic risks but also accelerate the sustainable growth of the construction sector, fostering a more robust and resilient economy. Through these strategic initiatives, the country can attract more investment and enhance the overall effectiveness of its construction projects.

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