

# Ways of Improving the Effectiveness of Bank Control in Projects Financed by State Budget Funds

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## Abstract

The effective use of state investment resources plays an important role in ensuring sustainable economic growth and improving the quality of life of the population. In the context of the expanding scope of government programs in Uzbekistan, the need to strengthen control over the targeted use of budget funds is increasing. The banking sector, as a financial intermediary and payment operator, performs an important function in the system of financial control over state-funded projects. The article examines the main risks associated with the misuse of budget funds, analyzes the role of banks in preventing violations, and puts forward proposals for improving the effectiveness of bank control, including the digitalization of monitoring, the strengthening of a risk-based approach, and the improvement of regulatory frameworks.

**Key words:** State Investments, Bank Control, Targeted Use of Funds, Risk-Based Monitoring, Control Over Public Procurement, Digitalization.

## Introduction

Investment is one of the main driving forces of economic growth, a source of technological progress, and an instrument of structural change in the economy. In this process, public investment is of particular importance, as it is directed toward financing infrastructure and social projects, the transport and logistics network, as well as the energy and digitalization sectors. Its regulation is set out in the Budget Code of the Republic of Uzbekistan [1], which defines the principles of financial discipline, planning, and control over the execution of public expenditures.

Since 2021, the Law “On Public Procurement” No. ZRU-684 [2] has been in force, aimed at increasing the transparency of tender procedures. In addition, the Digital Uzbekistan – 2030 Strategy [3] provides for the digitalization of public financial management. Nevertheless, according to the PEFA-2024 assessment, problems remain in the areas of budget execution and subsequent control [4].

The large scale of state projects, the complexity of their financing, and the involvement of numerous participants create risks of misuse of funds, including unjustified increases in estimated costs, the preparation of fraudulent documents, and the engagement of unscrupulous contractors [5]. This reduces the efficiency of capital investments and increases the burden on the budget. Under these conditions, banks that carry out payments and monitor cost estimate documentation play an important role in ensuring financial discipline [6]. Their participation forms an additional control mechanism and highlights the banking sector as an important element of the financial security system of public expenditures [7].

## Literature Review

The public finance system and the economic essence of the budget have long been studied by economists. For example, Western scholars and founders of classical economic theory, including W. Petty [8], A. Smith, and D. Ricardo, analyzed the role and functions of the tax system in the formation of state budget revenues. They supported minimal state intervention in the economy and believed that its main functions should be limited to defense and the resolution of social issues. In their view, market relations develop on the basis of the law of supply and demand, which ensures economic equilibrium [9].

The problems of state regulation of the economy, including issues of stabilization through budget policy, were examined in detail in the works of J. M. Keynes [10].

The works of Eastern scholars, such as Ibn Khaldun and Al-Farabi, also reflected the essence of public expenditures and their significance.

According to Professors T. S. Malikov and N. Kh. Khaydarov, budget revenues represent a part of the centralized financial resources necessary for the state to perform its functions and express the economic (financial) relations that arise in the process of forming monetary funds placed at the disposal of public authorities at various levels [11].

## Research Methods

The methodological foundation of this study is based on a comprehensive approach aimed at analyzing the challenges of bank control in projects financed from the state budget of Uzbekistan [12].

The study employed the method of legal and regulatory analysis to examine the current legislation and the regulatory requirements governing the use of public investment funds, as well as the role of banks in the execution of payments under state-funded projects [13].

In addition, the method of comparative analysis was used to assess national control practices against international approaches, particularly the recommendations of PEFA, the European Bank for Reconstruction and Development (EBRD), and the Asian Development Bank (ADB). This made it possible to evaluate the maturity of the existing control system and to identify key directions for its further improvement [14].

## Results

The analysis demonstrated that the implementation of state investment programs in the Republic of Uzbekistan is characterized by a high degree of exposure to financial irregularities, since these projects involve substantial budgetary resources and a complex execution mechanism regulated by public authorities [15].

One of the principal findings of the study is that banks participating in the financial supervision of state-funded projects are capable of effectively mitigating the risks of misuse of budget resources by monitoring the purpose of payments, verifying the legality of supporting documentation, and assessing the financial stability of contractors [16].

The most common violations associated with public investment projects in Uzbekistan include the unjustified inflation of estimated costs for works and materials, the falsification of construction and procurement results, as well as the use of affiliated supply chains for the diversion of budget funds [17]. These risks are further intensified by the shortage of highly qualified contractors in the regions and by disparities in the managerial capacity of public contracting authorities. In this context, banks occupy a particularly important position, as they are able to assess the legitimacy of financial flows through the use of AML/KYC procedures (anti-money laundering and know-your-customer controls), counterparty reputation analysis, and comparisons between estimated project costs and prevailing market prices.

The study further confirms that bank control constitutes an additional safeguard for public investment by introducing a mechanism of preliminary financial oversight. Banks are able to block payments or refuse to process them in cases where the submitted documentation does not comply with the requirements of public procurement legislation. This significantly reduces the likelihood of fraudulent schemes being implemented at the early stages of project execution and helps prevent financial losses to the state.

The use of international approaches is of particular importance in improving the effectiveness of control. In projects implemented with the support of organizations such as the Asian Development Bank and the European Bank for Reconstruction and Development, risk-based supervision mechanisms are applied, which include mandatory contractor verification and ensuring the transparency of financial flows [6–8]. Such measures have already been tested in the practical activities of banks in Uzbekistan and have confirmed their high effectiveness.

In order to summarize the findings obtained, the main risks and the banking instruments used to mitigate them are presented in the following table.

**Table 1.** Banks' Risk Categories and Control Mechanisms.

<b>Risk</b>	<b>Description</b>	<b>Role of the Bank</b>
Unjustified price inflation	Use of cost estimates that do not correspond to market prices	Comparison with benchmark (market) prices
Payment for unperformed work	Falsified KS-2 / KS-3 completion certificates	Execution of payment only after confirmation of stage completion (post-payment)
Affiliated suppliers	Transfers of funds to related parties	KYC/KYB and AML checks
Unscrupulous contractors	Low-quality work	Counterparty due diligence procedures

*Source:* Compiled by the author based on the collected materials.

The data presented in Table 1 show that banks perform a system-forming and central function in the mechanism for managing risks in public investment projects. The identified risk categories—unjustified price inflation, payments for unperformed work, affiliated suppliers, and the low-quality performance of contractors—reflect the main vulnerabilities in the financing of budget-funded projects.

The effectiveness of bank control in this process is ensured through the application of preventive control instruments. These include comparing estimated project costs with market indicators, making payments only after the completion of documented project stages has been confirmed (post-payment practice), as well as conducting KYC/KYB and AML checks. In addition, the application of the due diligence mechanism aimed at assessing the integrity and financial stability of counterparties is of considerable importance.

Thus, bank control in the field of public investment serves not only as a technical instrument for monitoring transactions, but also as an institutional risk management mechanism. It helps ensure the transparency and targeted use of budget funds.

**Table 2.** Financing of selected ministries, agencies, and other state bodies in 2024–2025 (forecast), trillion UZS.

No	State authority	2024 Year forecast	2025 Year Forecast	Difference, %	Difference, %
	<b>Total funds allocated from the Republican budget</b>	255 441 619,2	<b>281 377</b> <b>646,9</b>	25 936 027,70	10,2
1.	<b>Ministry of Economy and Finance</b>	92 117 036,20	<b>95 919</b> <b>550,50</b>	3 802 514,30	4,1
2.	<b>Ministry of Preschool and School Education</b>	46 647 414,50	<b>59 464</b> <b>225,60</b>	12 816 811,10	27,5
3.	<b>National Agency for Social Protection</b>	20 274 660,80	<b>21 139</b> <b>386,10</b>	864 725,30	4,3
4.	<b>Ministry of Water Resources</b>	10 440 149,00	<b>10 409</b> <b>661,10</b>	-30 487,90	-0,3
5.	<b>Ministry of Transport</b>	6 185 909,40	<b>6 713</b> <b>711,70</b>	527 802,30	8,5
6.	<b>Ministry of Higher Education, Science and Innovation</b>	6 130 330,00	<b>6 279</b> <b>956,20</b>	149 626,20	2,4
7.	<b>Ministry of Health</b>	4 612 994,70	<b>5 093</b> <b>695,70</b>	480 701,00	10,4
8.	<b>Prosecutor General's Office</b>	2 112 243,30	<b>2 732</b> <b>452,70</b>	620 209,40	29,4

*Source: Draft State Budget for 2025*

According to the forecast of the State Budget for 2025, the total volume of allocations is expected to increase from 255.4 trillion UZS to 281.4 trillion UZS, representing a growth of 10.2%. The largest increases are projected for the Ministry of Preschool and School Education (27.5%), the Prosecutor General's Office (29.4%), and the Ministry of Health (10.4%), which clearly reflects the social orientation of state policy. Moderate growth is also recorded for the Ministry of Economy and Finance, the Social Protection Agency, and the Ministry of Transport, while the budget of the Ministry of Water Resources is expected to decline slightly (-0.3%). Overall, the budget expenditure forecast for 2025 reflects the socially oriented nature of state policy. The development of the education system, the improvement of healthcare efficiency, and the strengthening of law and order are identified as the main priority areas. These trends are

consistent with the strategic objectives of ensuring sustainable economic growth and improving the quality of life of the population.

The implementation of large-scale state investment programs in the Republic of Uzbekistan requires a multi-level control system capable of ensuring the transparent and efficient use of allocated funds. Traditionally, the treasury system has served as the main instrument of public financial control. However, in recent years, bank control has increasingly acquired importance as an additional layer of financial security. As intermediaries in the movement of public funds, banks not only carry out technical payment functions, but also verify each transaction from legal, financial, and compliance perspectives, thereby significantly reducing the likelihood of the misuse of budget resources [18].

One of the main areas of bank control in the process of budget fund allocation is the supervision of payment operations conducted by ministries and agencies within the framework of state programs. In accordance with the provisions of the Budget Code of the Republic of Uzbekistan, public payments are made through accounts opened with authorized banks. This enables banks to determine the purpose of payments, compare them with approved cost estimates, and prevent the misdirection of funds.

If a bank identifies discrepancies between payment documents and budget limit data, it is obliged to notify the relevant treasury authorities. In this way, a mechanism of preliminary financial filtering is formed, ensuring the protection of public funds even at the pre-control stage. An important role in the control system is also played by compliance control and the monitoring of counterparties. Banks examine recipient organizations of budget funds in terms of their financial stability, reputational risks, tax discipline, and the possible degree of affiliation with the contracting authority. According to data from the Central Bank of the Republic of Uzbekistan, in 2024 more than 15% of cases involving the suspension of budget payments were linked precisely to the detection of suspicious relationships between contractors and organizations responsible for distributing funds. Such practice serves not only to prevent financial violations, but also to increase the level of accountability of state contract executors.

Special attention is being paid to digital control instruments. Within the framework of the “Digital Uzbekistan – 2030” strategy, banks have been integrated with the Unified Budget Execution Information System (E-IFMIS), which makes it possible to automatically align payment purposes with the approved budget parameters. As a result, each transaction is entered into a unified database with a unique digital identifier and linked to a specific program and source of financing. In this way, a system of “full transparency” (*skvoznaya prozrachnost*) is being formed, meaning that the movement of every sum allocated from the budget can be tracked from the moment of allocation to the final recipient.

International experience also confirms the effectiveness of this approach. According to a report by the International Monetary Fund (IMF, 2025), the transition to digital cooperation between banks and public financial management authorities reduced errors and irregularities in budget operations by more than 20%. A World Bank study (2023) likewise emphasizes that the integration of banking platforms with treasury systems is one of the key factors ensuring the sustainability of public finances. The Asian Development Bank (ADB, 2024), in turn, notes that in Central Asian countries, the digital transformation of banking oversight has become a factor in

reducing corruption risks in public programs.

It should be emphasized that banking supervision does not replace treasury or departmental oversight; rather, it complements them by creating a second layer of security within the system for protecting public finances. While the Ministry of Finance and the Treasury are responsible for planning and allocating funds, banks ensure the accuracy and reliability of transactions and prevent illegal operations. Thus, cooperation between the state and banks forms a synergistic supervision model in which each participant in the system is responsible for a specific stage of the budget process.

The practical implementation of these mechanisms in Uzbekistan is already yielding positive results. According to Fitch Ratings (2025), the operating environment of the banking sector is being strengthened due to increased transparency and the reliability of compliance control procedures. This, in turn, contributes to greater trust in public financial institutions.

Thus, the development of digital and risk-based banking supervision mechanisms is becoming an important direction for improving the quality of public investment management and enhancing the efficient allocation of budget funds.

## Discussion

An analysis of the current conditions for the implementation of public investment projects in the Republic of Uzbekistan shows that banks today act not only as financial intermediaries ensuring the movement of budget funds, but also as important participants in the public oversight system. While treasury control is primarily focused on the formal verification of payments, banks carry out preliminary monitoring, which makes it possible to identify signs of misuse of funds before the resources are actually spent. This approach significantly increases the effectiveness of control compared with traditional systems based on the detection of violations after they have already occurred.

The area in which bank control is of greatest importance is infrastructure projects. Such projects are particularly exposed to risks such as unjustified inflation of estimated costs, affiliated contracting arrangements, and the falsification of completed work stages. For this reason, banks act as a financial risk filter: through KYC/KYB procedures, financial stability assessments, and comparisons of estimated costs with market prices, they reduce the likelihood of unscrupulous contractors participating in such projects.

The risk-oriented supervision system being developed by the Central Bank serves as the foundation of modern bank control. This system focuses on high-risk projects, including those with complex payment chains and financially unstable contractors. This approach is fully consistent with the recommendations of the EBRD, ADB, and the Basel principles [ADB, 2024; IMF, 2025]. An example of the institutional organization of control is the activity of JSC "Uzbekistan Mortgage Refinancing Company." This organization was established in 2019 on the basis of Presidential Decree No. PF-5715 and has an authorized capital of UZS 100 billion. It provides transparent refinancing of mortgage loans through the placement of secured bonds and strengthens financial discipline through market mechanisms.

The digitalization of bank control is one of the key directions of its further development. Within the framework of the Digital Uzbekistan – 2030 Strategy, banking systems have been integrated

with the E-IFMIS platform, which makes it possible to automatically record all transactions and monitor them in real time. Modern IT solutions enable the detection of anomalies such as sharp changes in financing volumes, repeated payments to a single counterparty, and artificially inflated prices, which is consistent with the transparency standards of PEFA and the OECD (2024).

Another important factor is data openness and public oversight. Open data on budget expenditures reduces corruption risks, increases reputational risks for entities involved in violations, and strengthens trust in financial institutions. As noted by Fitch Ratings (2025), greater transparency in budget operations enhances confidence in the banking sector and reduces systemic risks [Fitch, 2025].

In conclusion, the effectiveness of bank control is ensured through the integration of regulatory frameworks, banking intermediary operations, digital technologies, and mechanisms of public participation. This creates a stable and reliable system of financial control aimed at protecting public investments.

The results of the study confirm that the development of bank control is one of the most important directions for improving the system of public investment management in the Republic of Uzbekistan. The involvement of banks in monitoring budget operations makes it possible to establish a multi-level financial control system. Within this system, banks participate not only as intermediaries in the movement of funds, but also as active actors ensuring their targeted and proper use. Such a model creates a more transparent and accountable financial environment in which every stage of the budget process is monitored through modern digital and analytical tools.

The introduction of a risk-based approach, the application of compliance control procedures, the development of digital platforms, and the integration of banking systems with state databases make it possible to move from a purely formal level of control to a preventive control system. This approach enables financial violations to be identified and eliminated before they occur, which is especially important in the implementation of large-scale infrastructure and social projects. These measures increase the efficiency of the state budget and strengthen confidence in the banking sector, consolidating its role as a reliable partner of the state.

International experience (IMF, World Bank, ADB) demonstrates that sustainable models of public financial management are formed precisely in such systems, where banking institutions are naturally integrated into the framework of control and accountability. In this regard, Uzbekistan is demonstrating positive dynamics: the regulatory and legal framework is being strengthened, the transparency of operations is increasing, and digital technologies and mechanisms of public oversight are being actively introduced. All this creates the necessary conditions for the transition from a vertical model of control to an integrated financial security system, in which banks, the treasury, public authorities, and society cooperate on the basis of common standards and digital interconnectivity.

## Conclusion

In conclusion, the further improvement of the effectiveness of bank control in public investment projects should be based on the alignment of three key components:

1. Institutional coordination — a clear system of powers and cooperation between public authorities and banks;
2. Digital integration — the creation of opportunities for real-time data exchange and analysis;
3. Governance transparency — ensuring openness, accountability, and public oversight.

It is precisely the combination of these factors that will ensure the achievement of the state's strategic objectives: the rational use of budget funds, the strengthening of financial discipline, and the sustainable development of the national economy.

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