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## **Project Financing Practices and Risk Management Challenges in Commercial Banks: Evidence from Uzbekistan**

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### **ABSTRACT**

The expansion of investment activity in Uzbekistan has significantly increased the role of commercial banks in financing large-scale investment projects. In this context, project financing is becoming an important instrument for mobilizing long-term financial resources. However, the practical implementation of project financing in commercial banks is associated with a wide range of risks that require effective management mechanisms. This study aims to analyze project financing practices in Uzbek commercial banks and to identify key risk management challenges that limit the efficiency of project-based lending. The research emphasizes the need to adapt international project finance principles to national banking and institutional conditions.

**Keywords:** project financing; commercial banks; investment projects; risk management; Uzbekistan; cash flow-based lending.

### **Introduction**

In recent years, Uzbekistan has implemented a series of economic reforms aimed at stimulating investment activity and supporting large-scale development projects. Commercial banks play a central role in financing these projects, particularly in sectors such as energy, manufacturing, infrastructure, and agriculture. As a result, the demand for long-term investment financing has increased, creating favorable conditions for the development of project financing mechanisms.

Unlike traditional lending, project financing is based on the future cash flows generated by the investment project. This approach allows banks to finance economically viable projects but also exposes them to project-specific risks related to construction, operation, market conditions, and institutional factors. Therefore, the effectiveness of project financing in Uzbekistan largely depends on the ability of commercial banks to identify, assess, and manage these risks.

### **Main Content**

The analysis of project financing practices in Uzbek commercial banks indicates that investment lending is still predominantly based on traditional credit assessment methods, with a strong emphasis on collateral and sponsor guarantees. Although banks increasingly participate in financing investment projects, the application of cash flow-based risk assessment remains limited

and uneven across the banking sector.

One of the key challenges is credit risk, which arises from uncertainties related to project cash flows and debt servicing capacity. In many cases, banks rely on conservative revenue forecasts and additional guarantees to mitigate this risk, which reduces the flexibility of project financing structures. Construction risk is another significant challenge, as project delays and cost overruns directly affect project timelines and financial performance. While insurance and contractual arrangements are used, their effectiveness depends on the quality of project monitoring.

Operational and market risks also play an important role, particularly for projects exposed to fluctuations in demand, prices, and exchange rates. The limited use of hedging instruments and scenario-based analysis increases banks' vulnerability to adverse market conditions. In addition, institutional and regulatory risks—such as changes in tariffs, taxation, and legal frameworks—remain a critical factor influencing project feasibility in Uzbekistan.

Despite these challenges, recent developments suggest a gradual improvement in project financing practices. Some commercial banks have begun to incorporate elements of cash flow modeling, sensitivity analysis, and reserve mechanisms into their investment lending processes. However, these practices are not yet standardized and are applied mainly to large or strategically important projects.

### **Conclusion**

The findings of the study indicate that the effectiveness of project financing in Uzbekistan is constrained by insufficiently developed risk management mechanisms and the continued dominance of collateral-based lending approaches. To enhance the efficiency of project financing, commercial banks should strengthen cash flow-based risk assessment, standardize project risk evaluation methodologies, and integrate project-specific risk management into overall bank risk governance frameworks.

The results of this research may be useful for commercial banks, regulators, and policymakers seeking to improve investment financing practices and to support sustainable economic development through effective project financing mechanisms.

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