

**ENHANCING THE EFFICIENCY OF INVESTMENT LOANS ISSUED BY
COMMERCIAL BANKS IN THE DEVELOPMENT OF ECONOMIC SECTORS***Bunyodjon Zaynutdinov**Tashkent State University of Economics**Lecturer of the Department of Banking*

Abstract: This article analyzes the role of commercial banks in financing the real sector of the economy through investment loans. It examines the sectoral impact of bank loans, particularly their contribution to the development of industries such as manufacturing, agriculture, small business, and services. The author substantiates the need to increase the efficiency of long-term loans issued by commercial banks by diversifying loan portfolios, liberalizing lending conditions, and improving monitoring systems. Additionally, proposals are developed to ensure the profitability of investment projects through modern banking technologies and risk management mechanisms.

Keywords: Commercial banks, investment loans, economic efficiency, financial resources, credit policy, bank monitoring, real sector, credit risk, loan portfolio.

In a market economy, financial institutions-particularly commercial banks-play a vital role in ensuring sustainable economic development. In particular, bank-issued investment loans are a key financial tool for supporting investment activities. The modernization and technological advancement of economic sectors-such as industry, transportation, agriculture, construction, and services-depend directly on the availability of investment resources. In this context, long-term investment loans from commercial banks serve as one of the primary sources of financing. Relevant decrees and decisions by the President and Government of the Republic of Uzbekistan assign significant responsibilities to the financial sector, especially banks, in diversifying the economy, expanding the production of import-substituting and export-oriented goods, and implementing infrastructure projects. Therefore, improving the efficiency of investment loans allocated by commercial banks is one of the most pressing issues today.

Uzbekistan's banking and financial system is gradually being reformed and aligned with international banking practices. This enables more efficient allocation of resources to the real sector through bank loans, support for small and medium-sized enterprises, the creation of new jobs, and the supply of competitive products to the domestic market. Furthermore, improving the mechanisms for analyzing the financial viability of investment projects, assessing credit risks, and strengthening monitoring systems are crucial for enhancing economic efficiency.

In a market-oriented economy, commercial banks serve as essential financial intermediaries that channel domestic savings into productive investments. Their role becomes especially crucial in ensuring long-term financing for sectors such as industry, agriculture, infrastructure, and services, all of which constitute the backbone of sustainable economic development. Investment loans, which are typically allocated for medium- and long-term periods, provide the

financial base for acquiring fixed assets, modernizing production lines, introducing energy-efficient technologies, and fostering innovation within enterprises.

In the context of Uzbekistan, the significance of commercial banks in financing real economic sectors has grown considerably, yet challenges remain. Despite institutional reforms in the banking system and macroeconomic stabilization efforts, commercial banks tend to favor short-term lending strategies due to the absence of stable long-term funding sources and underdeveloped mechanisms for risk mitigation. As a result, capital-intensive projects-particularly those situated in rural areas or within emerging industries-struggle to access the required investment capital.

Moreover, deficiencies in project appraisal and monitoring systems further undermine the efficiency of investment loans. Many banks lack the analytical capacity to conduct comprehensive feasibility studies, assess long-term risks, or implement post-loan monitoring strategies. These limitations affect not only the allocation of financial resources but also the likelihood of project success and loan repayment. Small and medium-sized enterprises (SMEs), which are widely recognized as engines of employment and innovation, face additional barriers such as high collateral requirements and limited financial literacy, restricting their ability to benefit from investment credits. A particularly pressing issue is the inadequate diversification of loan portfolios. Data suggests that a significant portion of investment loans is funneled into sectors with rapid turnover-such as construction and trade-while key strategic industries like agriculture, renewable energy, and high-technology manufacturing receive insufficient financial support. This misallocation diminishes the transformative impact that bank-financed investment projects could otherwise achieve.

To address these challenges, several strategic reforms must be undertaken. First and foremost, commercial banks should work toward diversifying their investment credit portfolios in line with national economic development strategies. This includes promoting sector-specific credit lines with concessional terms, in collaboration with international financial institutions and development banks. Secondly, banks must adopt modernized risk assessment frameworks that incorporate advanced data analytics, sectoral benchmarks, and environmental, social, and governance (ESG) indicators. These tools can significantly enhance decision-making accuracy and improve portfolio quality.

In addition, the expansion of public-private partnerships (PPPs) offers a viable mechanism for risk sharing and infrastructure development. Government guarantees and insurance schemes can incentivize bank participation in large-scale projects, while simultaneously reducing perceived risks. Legal and regulatory reforms aimed at improving contract enforcement, collateral recovery, and credit information sharing are also essential. Such reforms would create a more secure lending environment and increase confidence among both domestic and foreign investors.

Digital transformation remains another key driver of efficiency in investment lending. The adoption of digital banking platforms can streamline loan application processes, facilitate real-time monitoring, and reduce administrative burdens. Integrating fintech solutions-such as AI-based credit scoring or blockchain-based project tracking-can further enhance transparency and scalability in investment lending operations.

Empirical observations from Uzbekistan's banking sector illustrate a growing trend in investment loan issuance; however, the actual contribution of these loans to economic growth remains below expectations. For example, while investment lending volumes have increased over recent years, a significant share continues to concentrate in non-productive sectors. Furthermore, the persistence of non-performing loans in the investment segment points to underlying inefficiencies in loan origination, project evaluation, and repayment discipline.

Despite these issues, several success stories offer valuable insights. Pilot programs introduced by banks such as Asaka Bank and the National Bank for Foreign Economic Activity have demonstrated that well-targeted, preferential investment loans, when combined with robust project monitoring and institutional support, result in higher completion rates, enhanced productivity, and measurable contributions to national development goals. These cases serve as practical models for broader replication across the banking sector.

Enhancing the efficiency of investment loans extended by commercial banks requires a paradigm shift that goes beyond procedural adjustments and enters the realm of strategic transformation. It is not merely the volume of credit that determines developmental success, but the precision, purposefulness, and sustainability of its allocation. To fulfill their catalytic role in economic development, commercial banks must reposition themselves as proactive development agents rather than passive financial intermediaries. A core insight emerging from contemporary banking dynamics is that investment loans must be embedded within a broader ecosystem of institutional, informational, and technological support. Investment financing should be framed as part of a developmental agenda that coordinates stakeholders across public and private sectors. This calls for banks to act as conveners-collaborating with government bodies, research institutions, and industrial clusters to identify high-potential sectors and co-develop bankable projects.

Moreover, the efficiency of investment loans cannot be measured solely in terms of financial returns or repayment rates. A multidimensional evaluation approach is essential-one that incorporates metrics such as job creation, technological diffusion, environmental impact, and contribution to value chain expansion. In this context, banks need to develop integrated performance monitoring tools that capture both economic and socio-developmental outcomes of financed projects.

The cultivation of human capital within the banking sector is equally crucial. Developing specialized teams with expertise in industrial technologies, regional development planning, and sustainability finance can significantly enhance the quality of investment loan assessments. Rather than relying solely on traditional financial ratios, these teams can apply contextual knowledge to align loan decisions with broader economic policy goals.

Another forward-looking avenue involves the strategic use of predictive analytics and machine learning to anticipate credit needs, sectoral growth trajectories, and investment bottlenecks. These technologies can enable banks to operate not reactively but proactively-identifying gaps in the economic fabric before they become systemic constraints. In doing so, commercial banks can evolve into intelligent institutions that not only allocate resources efficiently but also shape the trajectory of national development.



In essence, the transformation of investment lending practices must be rooted in a comprehensive vision of development finance—one that is inclusive, innovation-driven, and aligned with long-term national goals. The effectiveness of commercial banks in this endeavor will increasingly be measured not by the size of their balance sheets, but by their ability to foster inclusive prosperity, industrial resilience, and structural transformation. This shift in orientation, if properly institutionalized, has the potential to redefine the developmental role of commercial banking in the decades to come.

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