

Public Finances of The Republic of Uzbekistan: Formation, Problems and Development Over the Years of Independence

Zarina Khairiddinovna Srojiddinova

Candidate of Economic Sciences, Associate Professor, Honorary Professor of the Tashkent Financial Institute, National Consultant of the UNDP Project “Financing for Sustainable Development in Uzbekistan” and the Committee on Budget and Economic Reforms of the Legislative Chamber of the Oliy Majlis of the Republic of Uzbekistan
srojiddinova.zarina@gmail.com

Abstract: The article shows the structure of the public financial system of independent Uzbekistan, its development and transformation, the modes of the strategy for reforming public financial management in 2007 and 2020, the results achieved, problems and directions of development.

Keywords: Public finances, reform of the public finance system, problems of formation of public finances of Uzbekistan, state and local budgets, mahalla budget, tax system, fiscal policy, fiscal transparency, financial control, proactive budgeting, medium-term planning, strategic planning.

1. INTRODUCTION

With the formation of the independent Republic of Uzbekistan in 1991, the choice of the path for further development of which included a radical restructuring of the economy, a transition from a directive to a market economy, the state had a huge amount of work to do related to the development of its own model of reform and further development of all key spheres of the country’s life. The country faced important tasks related to finding the optimal solution for: the transformation of the state, the creation and development of the private sector of the economy, a new financial system, and the financial market; creating prerequisites and conditions for macroeconomic stabilization in the country through measures to curb the decline in production, the budgetary and financial-investment crisis, reducing inflation, stabilizing the money supply in circulation and introducing a national currency, forming a tax system, reducing budget expenditures on the real sector of the economy and increasing budgetary expenses for financing the social sphere, providing targeted support to the population - an important condition for ensuring social stability at the difficult stage of economic restructuring. Uzbekistan had to reduce the share of state ownership, limit state intervention in the economy, and make a transition from a closed to an open society, which predetermined the need for reform of the financial system in the country, including one of its key links - public finances, the modernization of which continues.

Uzbekistan is a complex unitary state (the Republic of Uzbekistan includes the sovereign Republic of Karakalpakstan, until 1991 Autonomous Soviet Socialist Republic of Karakalpakstan) with a centralized public finance management system and its main elements:

– State budget, which includes income and expenses of the republican budget, the budget of the Republic of Karakalpakstan and local budgets. Local budgets are formed by regions, cities and districts. The budget of the Republic of Karakalpakstan, regional budgets and the budget of the city of Tashkent are consolidated budgets, including the budgets of administrative territorial entities located on their territory and having the right to form their own budgets [1].

Reference. Until 1991, the State budget of Soviet Uzbekistan was part of the State Budget of the Union, where for each Union republic only the total amount of income and expenses was established. The republic carried out the consideration and approval of the State budget of Soviet Uzbekistan in expanded form, fixing the income and amounts of budget expenditures of the state budget of the Autonomous Karakalpak Republic and local budgets of regions, districts, cities, including the budgets of cities of district subordination, township and rural budgets independently;

– state credit in all forms of its manifestation: active - the creditor state, passive - the borrower state and conditional - the guarantor state; local authorities do not have the right to borrow funds, with the exception of receiving loans from the state budget to cover the cash gap arising in the process of budget execution on the following terms: when repaid within a year - interest-free, over a year - two percent;

– state insurance;

– state target (extra-budgetary*) funds;

Reference. Until 1991, there were no extra-budgetary funds, but an independent state social insurance budget of the Uzbek SSR was formed, the functions of which in 1993 were transferred to the extra-budgetary Social Insurance Fund, which in 1996 was transformed into the extra-budgetary Pension Fund. The first five extra-budgetary funds (the Employment Fund, the Mineral Resources Restoration Fund - for the development of its own mineral resource base, the Republican Road Fund, the Uzbek State Fund - for solving macroeconomic problems and the Social Insurance Fund) were formed in Uzbekistan in 1992. Since 1995, funds from extra-budgetary funds have been consolidated in the state budget while maintaining their targeted use, which has ensured the consolidation of all public funds under the control of the state fiscal authorities;

* from the beginning of the formation of a consolidated budget in Uzbekistan, state target extra-budgetary funds included in its composition are referred to as state target funds. Currently there are 24 of them.

– state and local unitary enterprises, the existence of which is due to the need to regulate certain areas of the economy and the provision of services [2].

The reform of public finances and their management in the Republic of Uzbekistan was due to the transition from a planned directive economy to a market economy, changes in the public administration system after the state declared independence. As part of government programs for the transition to a market economy, work began on preparing a wide range of measures that were based on the principles of the priority of economics over politics, assigning the role of the main reformer to the state, ensuring the rule of law, pursuing a strong social policy, and gradualism in the implementation of reforms. All this provided for the delimitation of spheres of influence in the management system, including public finance, limiting state intervention in the economy and its stabilization.

The first ten years in the development of independent Uzbekistan (1991–2001) were the most difficult for the country. During this period, the formation of a legal framework was carried out, a structural restructuring of the economy and monetary reform was carried out, a tax system was formed, sectoral state companies were created, as well as conditions for the development of small and medium-sized businesses, the structure of state budget expenditures changed, and measures were taken to reduce the state budget deficit. These events required balanced economic, social, fiscal and monetary policies, financial and personnel support from the state. One of the most important tasks in the field of public finance of that period was to achieve transparency and controllability of the movement of budget funds at all stages of the budget process. Weak preliminary control and the virtual absence of current control in the banking system of budget execution led to constant arrears in taxes, fees and mandatory payments to the budgets of the country's budget system, and as a result, untimely execution of budgetary expenses, diversion of Central Bank funds into interest-free loans to cover budget deficits, inappropriate and ineffective use of budget funds[3].

In this regard, in 2002, in order to intensify the reforms initiated in the field of public financial management, the government of the country initiated the development of the Public Financial Management Reform Project, and in 2007, the President of the Republic of Uzbekistan approved the Strategy “Public Financial Management Reforms”, the ultimate goal of which was improving control over the public financial management system, the implementation of which continues in Uzbekistan to the present day.

The reform included the following practical steps: allocation of resources in accordance with the priorities and policies of the Government of Uzbekistan; efficient provision of services in terms of resource use; maintaining fiscal discipline; modernization of key processes in the public financial management system by creating a modern centralized treasury system, introducing a modern budget and accounting system, including a new budget classification and a new chart of accounts, the introduction of a medium-term budget strategy and program budgeting [4].

As part of the Strategy for “Public Financial Management Reforms” in Uzbekistan, the following measures have been implemented from 2007 to the present [5]:

1) within the structure of the Ministry of Finance, a specialized financial body was created - the treasury, specialists were trained, a transition was made from the banking to the treasury system of budget execution, thus, among other things, problems associated with the lack of effective, efficient control over the movement of public funds and growth were resolved arrears to the budget;

2) a single treasury account has been introduced, an information system for managing public finances (ISMF) has been created and is functioning, thus creating the conditions for introducing operational control over the movement of public funds, the completeness and timeliness of the execution of revenues, and the targeted and timely implementation of budget expenditures in full. The accumulation of information and funds in a single treasury account made it possible to effectively manage public funds, in particular, to quickly regulate the budget deficit of the budget

system, avoiding cash gaps in the execution of budget revenues and expenses, to place temporarily free state funds into assets, ensuring the flow of additional revenues into the budget and etc.;

3) a new accounting and reporting system was introduced, replacing the existing fragmented system, in which some parts operated on a cash basis, some on the outdated accrual basis, as well as a new budget classification developed in accordance with the IMF Manual on Government Finance Statistics. These measures were aimed at improving financial reporting; improving asset and liability management, measuring their effectiveness; ensuring the sustainability of fiscal policy measures; increasing the degree of financial transparency; strengthening the foundations of the cost accounting system in the subjects of the public administration system and for the budget system of government bodies and their subjects;

4) work continues to increase the degree of financial transparency, introduce a medium-term budget strategy, program budgeting and improve the effectiveness of the use of budget funds.

In order to strengthen control over the state and movement of public funds, by Decree of the President in 2002, the Accounts Chamber was created in Uzbekistan - an independent and independent body in its assessments, to monitor and state supervision over the execution of the State budget of the Republic of Uzbekistan and extra-budgetary trust funds, the state and movement of assets and liabilities of the state, management and disposal of gold and foreign exchange reserves and external borrowings, accountable in its activities to the President and Oliy Majlis (parliament) of the Republic of Uzbekistan [6].

Currently in the field of public finances of Uzbekistan:

– in order to increase financial transparency, a consolidated (consolidated) budget is formed, combining the State budget, budgets of state trust funds (the list is approved by a decision of the Cabinet of Ministers of the Republic of Uzbekistan), as well as funds from the Fund for Reconstruction and Development of the Republic of Uzbekistan, excluding transfers between them, which from 2020 put into effect by the annual Law “On the State Budget of the Republic of Uzbekistan” (previously - by the annual Decree of the President “On macroeconomic indicators and parameters of the state budget”);

– in order to more fully account and reflect the budget of the public administration sector and achieve compliance with international standards, from 2020 a general fiscal balance is being formed, including the balance of the Consolidated Budget of the Republic of Uzbekistan and expenses for the implementation of state programs through external debt covered from the State budget;

– a maximum value of sovereign debt has been established (2019-2021 - 50% of GDP, 2022 - 60% of GDP) [1]. In order to achieve compliance with international standards, from 2020 the costs of repaying the public debt (principal debt) are not included in the state budget expenditures. Repayment of the principal amount of debt is reflected in the sources of financing the budget deficit;

– there are two-tier budget and one-tier tax systems. The country's budget system was unified, its structure was enlarged, the first level is represented by the Republican Budget of the Republic of Uzbekistan and the budgets of State Trust Funds, the second includes the Budget of the Republic of Karakalpakstan, local budgets of the regions and the capital of Uzbekistan, the city of Tashkent, which consolidates the budgets of districts and cities of the corresponding administrative- territorial subordination. Second-level budgets were enlarged, the budgets of auls, kishlaks and urban-type settlements were abolished, and financing the needs of these administrative-territorial entities was assigned to the budgets of the districts in which they are located. The budget system of the Republic of Uzbekistan, in addition to budgets, includes extra-budgetary funds of budgetary organizations [7].

With the introduction of a new edition of the Tax Code in 2020, the two-tier tax system, which included national and local taxes that formed the Republican budget of the Republic of Uzbekistan, the budget of the Republic of Karakalpakstan and local budgets, was replaced by a single-tier tax system with unified general taxes. The policy of reducing the tax burden on the economy continues, the distribution of income between the levels of budgets of the budget system is carried out centrally within the framework of the law “On the State Budget of the Republic of Uzbekistan”, the regulation of the revenue side of local budgets is carried out in accordance with the procedure established by the Budget Code of the Republic of Uzbekistan (Article 52) [8]. These measures were due to the need to ensure the sustainability and security of the budgets of the country's budget system, to solve problems that occurred during the functioning of the two-tier tax system related to the execution of the budget by income, the low efficiency of local taxes, tax control and regulation of local budget revenues, and during the pandemic they provided the opportunity promptly regulate and support the budgets of the country's budget system.

In 2020, to service and ensure the efficiency of public debt management at the Treasury without forming a legal entity, the Guarantee Fund was re-established [9], we note that in accordance with the law of the Republic of Uzbekistan “On the Budget System”, the Guarantee Fund functioned from 2000 until the introduction of the Budget

Code in 2014, which consolidated the main provisions of 50 legislative and by-laws, including the law “On the Budget System” [10];

Regulatory support is being developed and improved, laws and regulations have been developed and put into effect to ensure the effective promotion of reforms in the public finance system, they are based on: the Law of the Republic of Uzbekistan “On Local State Power” (1993, as amended in 2022) ; The Law of the Republic of Uzbekistan “On the Budget System” (2000) and the Law of the Republic of Uzbekistan “On the Treasury Execution of the State Budget” (2004), which lost force with the introduction of the Budget Code (2014), which combined the main provisions of these two laws; Tax Code of the Republic of Uzbekistan (enacted: 1998, 2008, new edition 2020); Law of the Republic of Uzbekistan “On Public Procurement” (2018); Law of the Republic of Uzbekistan “On Public-Private Partnership” (2019); Law of the Republic of Uzbekistan “On the State Budget” (2019, 2020, 2021, 2022); The draft law “On Public Debt” (2022) has been prepared and is currently being considered in the Parliament of the Republic of Uzbekistan. Thus, the legal basis for the functioning of state finances has been formed and continues to be improved and developed [11].

1st level of the Budget system: Republican budget of the Republic of Uzbekistan and budgets of the State Fund of the Republic of Uzbekistan

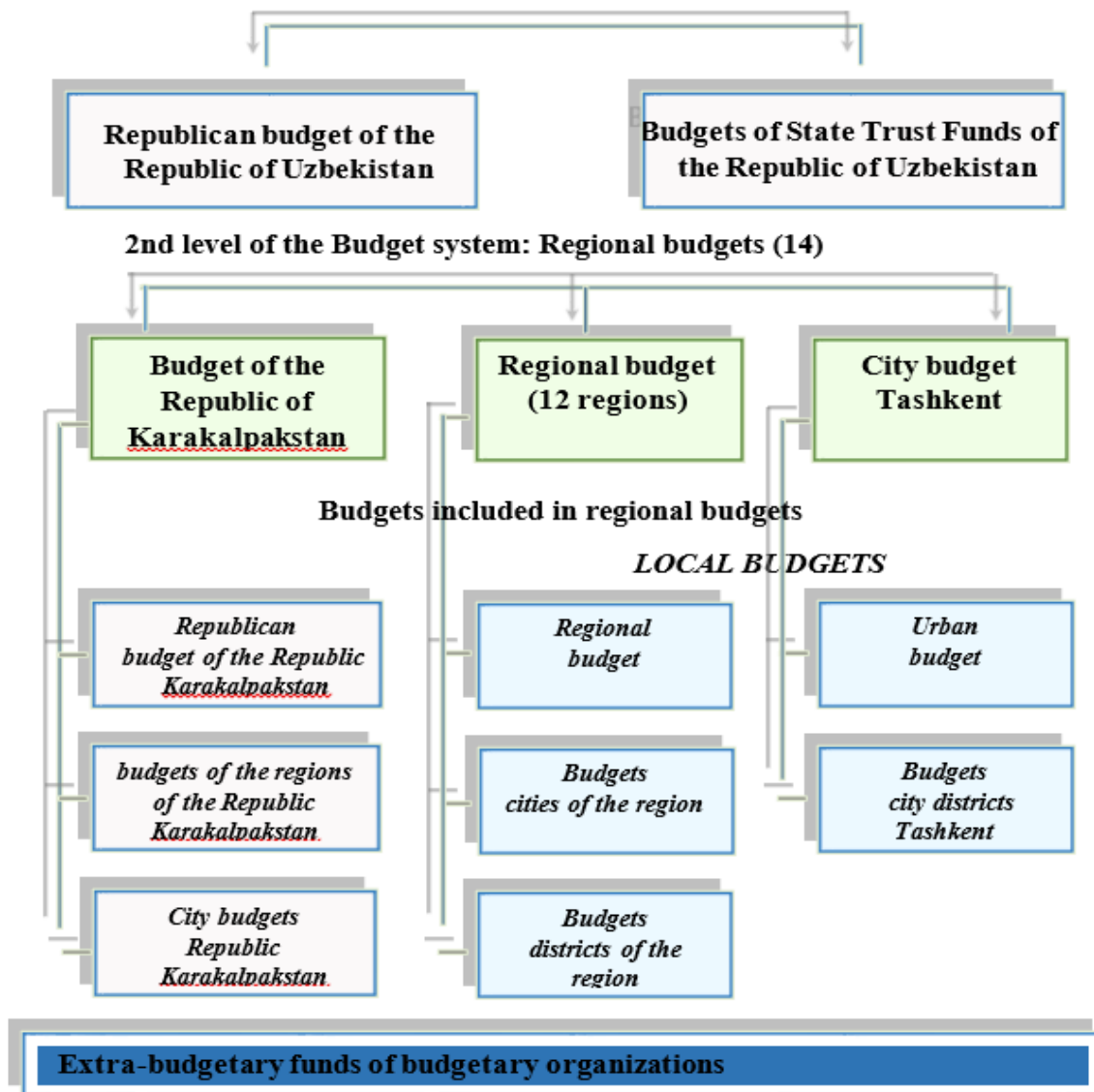


Fig.1. Budget system of Uzbekistan

Uzbekistan is the only Central Asian state in which in 2018 an assessment was made of the effectiveness of public financial management and their compliance with 7 performance criteria (budget sustainability; transparency of public finances; asset and liability management; fiscal strategy and budgeting based on economic policy; predictability and control of budget execution; accounting and reporting; external control and audit) according to the PEFA methodology. It is noteworthy that back in 2012, the World Bank conducted a diagnostic assessment of fiscal transparency (FTE), the quality of government finance statistics, and the reliability of public sector disclosures. In 2018, the IMF mission conducted a second assessment of fiscal transparency, following which international experts noted achievements in terms of the reliability (realism) of the budget, the availability of more than 58% of basic and auxiliary information, effective debt management and the budget preparation process. According to the results of the IMF assessment of fiscal transparency, the public financial management system in Uzbekistan meets basic and higher standards for 16 out of 36 principles; at the moment, work in this direction continues, as the President of the country has set the task of preparing Uzbekistan for participation in the Budget Openness Index (index budget openness reflects the timeliness and completeness of publicly available budget information and is calculated based on 95 quantitative questions). Openness of the budget will allow: to involve in the management of budgetary funds the citizens of the country - taxpayers on the one hand, and on the other - recipients of public services (free education for citizens, healthcare, social protection, etc.) financed from budget funds formed, basically, at the expense of taxes; increase the efficiency of control over budget funds with the participation of citizens; make great strides in the fight against corruption; increase the efficiency of budget functioning at all stages of the budget process [12].

Uzbekistan has done a lot of work to ensure openness of budget data and attract citizens to participate in the budget process [13]. Until 2018, information on the State budget in the Resolutions of the Cabinet of Ministers until 2005, and from 2006 to 2018 inclusive in the Presidential Resolutions “On the forecast of main macroeconomic indicators and parameters of the state budget of the Republic of Uzbekistan” for each financial year was published on the website of the National Legislation Database Republic of Uzbekistan” – lex . uz in extracts containing exclusively information on tax rates. In the context of the transition to an open society, the democratization of management decision-making, it is important to increase public awareness of the processes taking place in the fiscal sphere and main fiscal risks - by increasing financial transparency of the budget process at all its stages, which will increase interest and raise the level of involvement in the process of managing public funds of a wider range of participants, including the population. In order to ensure these measures, the Ministry of Finance is consistently increasing the amount of information on the budget that is subject to disclosure to the public, in particular, a procedure has been introduced for the quarterly posting on their official websites by managers of first-level budget funds, state trust funds and the Fund for Reconstruction and Development of the Republic of Uzbekistan of information on the distribution and expenditure of budget funds, and by the Council of Ministers of the Republic of Karakalpakstan, khokimiyats (executive office of the head of local administration) of regions and the city of Tashkent, districts and cities - information on purchased goods and services, facilities where construction, reconstruction and repair work is carried out at the expense of additional sources of funds from their budgets, as well as information on the financing of construction and repair work [14].

Since 2018, a Budget for citizens has been compiled and published annually, containing information about the draft State budget, the approved budget and the results of its implementation at the end of the financial year.

In 2019, the first Budget for citizens was prepared and published, containing information about the budget of the largest region of Uzbekistan - Tashkent, which has the largest budget in terms of income and expenses (3169.0 billion soums) among the 12 regions of the country, it accounts for more than a third volume of the State budget of the country: in 2019, State budget revenues amounted to 112,165 billion soums , expenses - 118,008.7 billion soums) [15].

In 2020, a draft Budget for citizens of the city of Tashkent (the largest city in the country - the capital) was published, and in 2022 - a budget for citizens with information on the Namangan region [16].

Table 1: Indicators of GDP, budgets, inflation and public debt of the Republic of Uzbekistan (2018, 2022) [16]

Years	2018		2022	
	trillion soums	in % of GDP	trillion soums	in % of GDP
GDP	290.6		840.0	
Consolidated Budget				
income	95.5	32.9	254.6	30.3
expenses	99.4	34.2	280.1	33.3

Deficiency (+,-)	- 3.9	1.3	- 25.5	3
The state budget				
income	62,229	21.41	200.0	23.8
expenses	62,170	21.39	214.8	25.6
Deficiency (+,-)	+ 0.59	+ 0.02	-14.8	1.8
Republican budget				
income	43.9	15.11	157.0	18.7
expenses	36.7	12.63	157.7	18.8
<i>transfers to the budgets of the Republic of Karakalpakstan and local budgets (+,-)</i>	-7.2	2.5	-14	1.7
Budget of the Republic of Karakalpakstan and local budgets				
income	18.3	6.3	43.0	5.1
expenses	25.5	8.8	57.1	6.8
<i>transfers from the republican budget (+,-)</i>	-7.2	2.5	-14	1.7
State trust funds				
income	27.8	9.6	31.4	3.7
expenses	28.2	9.7	32.3	3.8
Deficiency (+,-)	- 0.4	0.1	- 0.9	0.1
Reconstruction and Development Fund				
income	5.5	1.9	8.5	1.1
expenses	9.0	3.1	7.7	0.9
State shock duty				
	<i>billion \$ USA</i>	<i>in % of GDP</i>	<i>billion \$ USA</i>	<i>in % of GDP</i>
general	14.8	29.2	23.3	40.4
external	9.9		21.1	36.5
interior	4.8		2.2	3.9
Inflation rate, forecast				
	12.4-13.4%		9%	

The data in the table above shows that almost 2/3 of the consolidated budget of Uzbekistan (65%) falls on the State budget, which includes the republican budget of the Republic of Uzbekistan (46%), the budget of the Republic of Karakalpakstan and local budgets (19%). Government trust funds account for just over 29% of the consolidated budget [17]. In order to ensure the implementation of projects for the modernization and technical re-equipment of leading, especially basic sectors of the economy, achieving dynamic, sustainable and balanced socio-economic development of the country, as well as the implementation of effective structural and investment policies in Uzbekistan, in 2006, the The Reconstruction and Development Fund, the income and expenses of which are included in the consolidated budget of the country. Thus, the volume of the consolidated budget of Uzbekistan is about 1/3 of the country's GDP [18].

In the sphere of functioning of public finances of Uzbekistan, there are also problems associated with shortcomings in the organization of state financial control and its implementation. Thus, the organizational structure and status of state financial control bodies does not cover all aspects of the mobilization and use of public finances and assets; a huge part of the finances and assets transferred to the disposal of state economic entities (unitary enterprises and corporations) is outside the control zone of state financial control bodies, out of sight of the state and the public; The volume of financial errors, shortages, and additions identified in budgetary organizations is increasing; Until 2019, there was no public coverage of the results of the work of government bodies and structures, so - analytical materials of the Accounts Chamber were not published, ministries and departments did not report on the results of their activities, there was no information about the effectiveness of the work of the Central Bank in carrying out monetary

and foreign exchange policy, the state of assets and liabilities of the country, management of gold and foreign exchange reserves; State financial control bodies in their activities were more focused on solving operational tasks of a current nature assigned from above [19].

In order to increase the efficiency of the functioning of public finances in the field of state financial control, measures are being implemented aimed at increasing transparency and strengthening public control over the budget process, improving the mechanism of budget financing, accounting and reporting in budgetary institutions, increasing the responsibility of ministries and departments for strengthening budget discipline in their subordinates. institutions. A radical revision of the role of state financial control is being carried out in the direction of preventing and preventing violations of budget legislation. Modern information technologies and internationally recognized standards of financial control are being introduced in the country, in particular, internal audit services have been created at the republican and territorial levels, the State Financial Control Inspectorate is being formed in the Ministry of Finance with the Departments: 1. for working with internal audit services - to develop national standards internal audit, other methodological and regulatory acts; organizing work on continuous training and certification of employees of the Inspectorate and internal audit services; studying, analyzing, preparing and publishing reports on the activities of internal audit services; 2. to carry out control measurements at construction sites - to establish control over the compliance of control measurements and costs incurred with the volume of work actually performed at construction sites, carried out at the expense of the budgets of the budget system; 3. compliance control - to prevent abuse of official powers and other manifestations of corruption in the system of state financial control [20].

Since 2022, work has been underway in Uzbekistan to prepare the “Electronic Controller-Inspector” software package, which automates monitoring. The first stage of work has been completed; to analyze the risks of violation of budget legislation, based on the exchange of information with ministries and departments in real time, a financial control database is being formed. The second stage involves the completion of work and the launch of a thematic control module this year - monitoring the activities of an object of state financial control on certain issues for a certain period [21].

As noted above, since 2018, work has begun in Uzbekistan to involve citizens in the budget process and the implementation of budget policy in terms of expanding their powers in making decisions on the distribution of part of budget funds [PEMPAL, 2020]. To ensure the participation of citizens in the process of distributing budget funds and directing them to finance activities formed on the basis of public opinion, the “Open Budget” information portal was launched in 2019. In order to increase the interest and activity of citizens in the budget process, since 2021 the state has increased the share of funds to be distributed based on public opinion (Table 1).

Table 1. Sources of funding for activities implemented within the framework of initiative budgeting projects formed on the basis of public opinion

sources of financing	years	2019-2020	2021-2023
- additional sources of income for local budgets (districts, cities)		10% each	30% each
- approved expenses of local budgets (districts, cities)		-	5% each
- funds allocated to local budgets (districts, cities) for the repair of local internal roads		-	50% each

However, statistics on the activity of citizens in initiative budgeting indicate that the portal, as one of the tools for their involvement in the budget process, is currently used by citizens and is not fully in demand by them.

Reference. In Uzbekistan, as in Russia, “Open Budget” and the development of initiative budgeting are two related areas, all information about the functioning of which (budget statistics, budget for citizens, information about initiative budgeting and the initiative budget, etc.) is posted on a single portal <https://openbudget.uz/>.

Thus, according to the results of the recently completed campaign for receiving proposals from citizens on the distribution of budget funds within the framework of initiative budgeting, 69,700 proposals were registered from 216,312 citizens of the country, which is 0.9% of the population aged 15 years and older (as of March 2022 citizens aged 15 years and older make up 73.5% of the population of Uzbekistan or 25,231,799 people).

The reasons for this situation are that a significant part of the population lives in areas remote from the capital and

regional centers where there are systematic interruptions in the Internet; low level of computer literacy of the population; lack of basic budget literacy among the population; lack of awareness of the practice and procedure for citizen participation in the distribution of budget funds with their allocation to finance activities formed on the basis of public opinion; low motivation of local authorities in organizing a system of training citizens in the basics of financial and budget literacy locally, etc [22].

At the current stage of development of initiative budgeting in Uzbekistan, the participation of citizens in it is limited to online voting for the budget without discussing proposals to direct budget funds to solve problems that are important from the point of view of residents of the territory. Based on the analysis of the emerging Uzbek practice and foreign experience, including Russian experience in organizing initiative budgeting, we need [23]:

1. introduce into this process an element of discussion of citizens' proposals at the stage of forming a draft initiative budget before voting for it begins;
2. study the Russian experience of institutionalizing professional consulting for initiative budgeting and begin to create, similar to the Russian one, a Center of Competence for Initiative Budgeting with the placement of its divisions in the administrative-territorial entities of the country to provide advice and support for initiative budgeting locally.

The methodological basis for the Competence Center for Initiative Budgeting should be the Institute of Budget and Tax Research under the Ministry of Finance of the Republic of Uzbekistan, since it serves as the coordinator for the development of initiative budgeting in the country [24].

In order to intensify and expand the participation of citizens in the budget process, and in the future - in the formation of the country's budget and tax policies, increase the efficiency of budget expenditures and control over the use of budget funds, it seems necessary and advisable to involve the existing and functioning unique institution of civil society in Uzbekistan - the mahalla .

Mahalla - residential area; community; local government body in cities, towns, villages and villages of Uzbekistan, which is headed by an aksakal (chairman) elected by a gathering of citizens of Mahalla. This form of organization of self-government in Uzbekistan does not have its own financial resources; its activities are regulated by the law "On Bodies of Self-Government of Citizens". As part of the implementation of the Uzbek concept "From a strong state to a strong civil society," in addition to the basic law, more than a hundred legal documents determine the procedure for the participation of self-government bodies in various spheres of society. In the new edition of the law of the Republic of Uzbekistan "On bodies of self-government of citizens", despite the fact that they are not part of the system of government bodies, taking into account the importance of the institution of Mahalla representing the interests and acting as a link between the population and the state, the Mahalla within the relevant territory was given broader powers [25].

Reference. The Kengash (council) of the gathering of mahalla citizens is authorized to: provide assistance to the relevant government bodies in conducting mass political, spiritual, educational, cultural, sports and other events, as well as events for the organization, protection and use of protected natural areas, in monitoring sanitary and the environmental condition of the relevant territory, water supply sources, housing, educational institutions, compliance with fire safety requirements, veterinary, veterinary and sanitary rules and norms, trade rules and culture of service to citizens; interact with educational institutions on issues of educating the younger generation; represent the interests of citizens' gatherings in government bodies; exercise public control; make decisions by open vote; approve action plans aimed at ensuring the integrated development of the territory, landscaping, landscaping and improving sanitary conditions within the relevant territory; exercise public control over compliance with the rights and legitimate interests of business entities, the quality of provision of public services by public service organizations, compliance with the rules for the development and maintenance of courtyards and adjacent areas, as well as the effective use of acreage and land protection; coordinate the work of commissions in the main areas of activity of the citizens' gathering, in order to solve important problems - create other commissions. For the purpose of remuneration of mahalla chairmen and coordination of work with mahallas , the republican budget provides for corresponding expenses.

Mahalla, being a unique form of social self-organization of citizens, over the centuries has formed and preserved special principles of motivating the social and economic behavior of the population, respect for public values, ethics of relationships, guaranteeing the unconditional fulfillment of assumed obligations and responsibilities to society. The Uzbek Mahalla lives like a single family, people come to citizens' gatherings, share their opinions, proposals, talk about pressing problems and jointly determine ways to solve them. Based on this, we can conclude that it is the center for the gathering of citizens of the mahalla, headed by the elder, in tandem with the Center for Competence of Initiative Budgeting proposed to be created in Uzbekistan and its territorial divisions that can become the locomotive for the development of the budget process, intensify the participation of citizens in the distribution of local budget funds and

monitoring their spending [26].

The relevance of this recommendation is confirmed by the decision of the President of the Republic of Uzbekistan on the following issues:

- distribution of funds for mahalla infrastructure only through the initiative budget;
- expanding the powers of citizens in the distribution of local budget funds, so from this year citizens will distribute 30% of additional funds from all regional budgets (until now they took part in the distribution of part of the funds from the budgets of cities and districts);
- introducing the “ makhalla budget” system into Uzbek practice to independently solve the problems of the territory. As part of the experiment, from the beginning of this year: in each region, in one of the areas with low tax collection, the functions of collecting property and land taxes have been transferred to mahallas , with the collected funds credited to the mahalla budget; the practice is being introduced by the khokim , together with the chairman of the mahalla and assistant khokims , of a list of projects to be financed from the mahalla budget for approval district kengash (council) of people's deputies. At the end of the year, the practice, after generalization, will be introduced in all regions and cities of the country [27].

Based on the above, it follows that at the moment in the development of proactive budgeting, it is important to place emphasis on the training of professional consultants for initiative budgeting (the solution to this issue should be entrusted to the Institute of Budget and Tax Research under the Ministry of Finance of the Republic of Uzbekistan and the Competence Center for Initiative Budgeting, which is recommended for creation), who upon completion of the training, they will be able, on the basis of the territorial divisions of the Competence Center for Initiative Budgeting, to organize and launch systematic training in the basics of financial and budget literacy, conduct training seminars and webinars with extensive coverage of domestic and foreign practices of initiative/ participatory budgeting for deputies of district, city and regional councils , elders, local and makhalla administrations, as well as the population of all age groups, with the subsequent formation of initiative groups from among trained citizens to discuss the population’s proposals on the distribution of budget funds [28].

In teaching citizens, the basics of financial and budget literacy, it is important to involve the media by launching special cycles of educational programs aimed at different age groups of citizens, as well as to use advertising placed on LED screens located in public places, on social networks, etc. In institutions of the educational system at all levels, it is necessary to include in the curricula a special course to teach schoolchildren and students the basics of financial, budget and tax literacy.

For the successful functioning of territorial divisions, the Competence Center for Initiative Budgeting needs to provide in their structure online resource centers with a bank of information about the best foreign practices in organizing initiative/ participatory budgeting, accessible to use and convenient for finding the necessary materials and ensuring user interaction with the materials of the online resource center (comments , “likes”, organization of discussion, etc.).

These measures will allow:

- expand coverage and intensify the involvement of citizens in the budget process, prepare initiative groups of citizens to discuss budget issues with representatives of local authorities, public discussions, debates, and also organize the preparation of public reporting;

- strengthen the foundation and form the basis for the transition to the next stage of involving citizens in the budget process - to participatory budgeting, the expansion of which in turn will depend not only on reforms in the field of public finance, but also on reforms in related areas [Ganiev, Srozhiddinova , Anoshkina , 2020],

Without effective decentralization (both financial and administrative), the development of participatory budgeting cannot be meaningful. An analysis of the factors influencing participatory budgeting shows that with low financial autonomy, only consultation models can be acceptable, in which the participation of citizens is limited only to consultation (without participation in decision making). Many experts, relying on a narrow definition of participatory budgeting (a process open to any citizen who wishes to participate in it, which combines direct democracy with representative democracy, and which involves discussion rather than just consultation), implies redistribution of funds in favor of poor areas and self-regulation), do not recognize such models as participatory practice. To move towards more advanced models of participatory budgeting, based on the real participation of citizens in decision-making, financial and administrative decentralization, reform providing for the development of the institution of election of local authorities, the formation of incentives and mechanisms for their interaction with the population and accountability to it, and continued strengthening of bodies are necessary. self-government of citizens. Democratization of the process of appointing and dismissing heads of representative and executive power at the local level with the

transition to an elected system of territorial leaders will increase the interest of leaders in dialogue with citizens [29].

Let us dwell on one more problem that requires an urgent solution related to the organization of the initiative budgeting process. As we noted earlier, the Uzbek practice of initiative budgeting provides for online “direct participation” of citizens in the process of distributing part of budget funds with the submission of a proposal to direct them either to solve current and urgent problems of their territory, or they can support the initiative budget of citizens of other countries territories by voting on the “Open Budget” information portal. The winning project proposals are determined by counting the number of votes cast for each proposal; information on the financing of activities formed on the basis of public opinion is published on the Open Budget portal and the websites of the Khokimiyats (administrations) of districts and cities [30].

The problem is that citizens submit proposals and vote for projects that are important to them, their family members and are usually associated with their place of residence - mahallas , the variability in the number of families living in mahallas ranges from 500 to 1000 families or more , in exceptional cases, a mahalla can be formed with a population of less than 500, but not less than 100 families (in remote and mountainous areas, as well as military towns). Accordingly, mahallas with a large number of living families have a better chance of receiving a majority of votes when voting to receive funding for their proposals from budget funds than mahallas with fewer families. To create equal conditions for the participation of residents of mahallas with different numbers of families living in them, respectively the population, when voting for projects and receiving funding, it is necessary to introduce differentiation of mahallas into groups based on the number of families living in them (the first group numbering up to 500 families, the second from 501 to 1000 families and a third from 1001 or more families) and select proposals and vote in each group [31].

In continuation of the implementation of reform in the field of public financial management, Uzbekistan, among the UN member countries, approved the program “Transforming our world: the 2030 Agenda for Sustainable Development”, in accordance with which work on inclusion of national sustainable development goals (SDGs) in the parameters of the State budget, their integration into state programs and discussion during the preparation and consideration of the draft State Budget of the Republic of Uzbekistan, so already in 2019, about 72% of State budget expenditures were related to financing the SDGs.

The next important measure, identified by the 2007 PFM Reform Strategy as an important condition for maintaining macroeconomic and fiscal sustainability, was implemented in 2019 by approving the parameters of the Consolidated Budget of the Republic of Uzbekistan for 2019 and budget guidelines for 2020-2021, thus making the transition for medium-term budget planning, which acts as an intermediate stage between short-term and long-term budget planning.

Work on the transition to medium-term planning of state budget indicators began in 2004. The Treasury used a preliminary pilot SBS to help it determine the future implications of fiscal policies and the impact of new policies on spending baselines. This was initially planned to be a top-down project (medium-term financial strategy) involving the Ministry of Finance and the Ministry of Economy to ensure annual budget sustainability, better integration of capital and recurrent budgeting and the establishment of financial ceilings for annual budget proposals, and line ministries will include SBS in budget preparation based on pilot bottom-up programs. The basis for this work will be the results of a preliminary pilot project in the Ministry of Finance and selected line ministries, which aims to place greater emphasis on policy objectives, priorities and outcomes in budget proposals and reduce the emphasis on the use of cost norms. Program budgeting was not intended to be fully introduced until the full pilot had been successfully implemented and the new treasury system, including PFMIS (PFM Information System), was in place [32].

The transition to medium-term budget planning in improving budget preparation within the framework of Strategy 2007 included, among other things, the introduction into the budget preparation process of the stage of developing primary quantitative restrictions and the transition to program budgeting. So in 2005, as part of measures to improve budget planning and optimize budget expenditures, the transition of healthcare institutions (primary health care institutions) began , and since 2008, educational institutions (preschool institutions, schools, vocational schools and universities) to a new order planning and financing based on standard costs per service recipient (per capita financing).[33]

The global financial crisis of 2008 made adjustments to the timing of the implementation of the SBS in Uzbek practice, so the formation of the basis for the transition from the short-term to the medium-term budget began in 2012 with a budget request for the preparation of budget requests for three years, subsequently this order was enshrined in the Budget Code of the Republic of Uzbekistan.

Unforeseen circumstances during the implementation of the first medium-term budget 2019-2021. caused by the start in 2020 coronavirus pandemic and global crisis phenomena required amendments to the first introduced law on

the annual budget, to the maximum amounts of budgetary allocations of the republic approved by it, in connection with a large-scale increase in additional costs for healthcare, social assistance, investments, transfers and a reduction in revenue receipts, first of all taxes to the budget. The 2021 expansionary fiscal policy, ample reserves and high gold prices enabled the authorities to mitigate the socio-economic impact of the pandemic and maintain stability. Thanks to these measures, the second medium-term budget (State Budget of the Republic of Uzbekistan for 2022 and budget guidelines for 2023-2024) was adopted in December 2021[34].

The development process requires adjustments, changes, and improvements to achieve better end results - the development process of medium-term and strategic planning is no exception. Close attention and updating of this aspect is explained by the fact that the pace, level and indicators of the country's socio-economic development depend on the quality of building a strategic planning system. To promote and ensure the effectiveness of this process, it is important to study foreign experience in building (including legislation) systems and mechanisms for strategic planning as an important prerequisite for medium-term budget planning and program budgeting. In this regard, the actively developing Russian system of strategic planning is of great interest. Russia, faced with problems in the process of preparing and implementing a system of medium-term and strategic planning, in search of their solution, has accumulated a lot of experience, which will be useful in finding ways to solve problems in the process of introducing medium-term and strategic planning into Uzbek practice. In particular, in matters of: building the chain "forecasting – program-target planning – execution control"; formation of a system of state strategic planning vertically (for Uzbek practice: central level - regions, Republic of Kazakhstan, Tashkent - districts, cities) and horizontally (interdepartmental and intersectoral interaction); preparation of the law "On State Strategic Planning", which, as part of this process, will link the legal relations of all its participants into a single system; creation and improvement of subsystems of the strategic planning system - main (decision making, change management and strategic control) and auxiliary (information and analytical, organizational and personnel, methodological, strategic planning management)[35].

2. CONCLUSION

The study allows us to conclude that during the development of independent Uzbekistan, changes in basic economic laws, the transition to market relations marked the beginning of fundamental changes in the PFM system; within 30 years, the country has formed an organizational and legal basis for its functioning, created institutions, legal the basis of which is the Constitution of the Republic of Uzbekistan (1992), the Tax Code of the Republic of Uzbekistan (1997, 2007, 2019), the Budget Code of the Republic of Uzbekistan (2013), the law "On the State Budget of the Republic of Uzbekistan" (2019, annual), the law "On the Accounts Chamber of the Republic of Uzbekistan" (UP 2002, 2019), other laws and regulations [36].

The reform of the public finance system in Uzbekistan continues, directions and measures for its further development, improvement of the structure and qualitative transformations are outlined in the second "Strategy for improving the public finance management system of the Republic of Uzbekistan for 2020-2024", approved in 2020. Within the framework of the main directions of its development, the implementation of the following measures is planned:

- development of a strategic approach to fiscal policy and the transition to efficiency and effectiveness, in particular in the direction of improving the budget process, developing a medium-term budget methodology, increasing budget effectiveness and the efficiency of public investments. Currently, the system of "Accountability-oriented Budgeting" is being implemented using program budgeting at the initial stage, for which the Ministry of Finance, with the participation of international experts, is forming target indicators for the expenditures of the budgets of ministries and departments of the country and is beginning to implement a target planning system;
- increasing the institutional capacity and responsibility of participants in the budget process for ensuring the reliability of macro-fiscal forecasts, based on further improvement of the legislative framework in the field of PFM, strengthening the functions of macro-fiscal analysis, restructuring the Ministry of Economy and Finance, improving the quality of the services provided by the tax service, improving the public procurement system;
- expanding budgetary powers, increasing accountability and strengthening the responsibility of budget managers and local government bodies;
- implementation of a system for assessing fiscal risks, maintaining records of financial assets and liabilities and their effective management;
- strengthening financial discipline based on the unification of budget accounting standards, improving the internal control and audit system, strengthening parliamentary and public control over the budget process;

– ensuring openness, completeness and compliance of budget information with international standards.

For the successful implementation of the second stage of public financial management reform in Uzbekistan, the main directions and measures of which are outlined in the second Strategy “Public Financial Management Reform” (2020), it is important to take into account the experience of implementing the first Strategy (2007), which, despite all its ambition, was not fully implemented at least for a number of reasons related primarily to the establishment of the sequence and the directions and activities provided for in it, as well as the creation of an appropriate training and capacity-building system. In this regard, special attention must be paid to measures to: develop and form a mechanism for implementing the directions for development of the PFM system provided for in the Strategy; determining and building the sequence and interconnectedness of development directions; assessing the powers of the participants in the process and their expansion; timely training and human resource capacity building; timely formation of the appropriate legislative framework and active use of international experience.

It appears that the administrative reform launched in Uzbekistan in 2022, aimed at building an effective management system, with clear regulation of the activities of executive authorities, as a result of which the Ministry of Finance, after restructuring, expanded and was transformed into the Ministry of Economy and Finance, the structure of which included, including including tax, customs committees and the cadastral agency should create the preconditions and promote the promotion of public financial management reform in Uzbekistan.

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