



## MODIFICATIONS AND THEIR ANALYSIS OF LOCAL BUDGETS IN PROVIDING FINANCIAL INDEPENDENCE

Khayriddinov Azamat Botirovich<sup>1</sup>, Boboeva Surayyo Khamroevna<sup>2</sup>

<sup>1</sup> Associate Professor of "Finance",

Karshi Engineering Economics Institute, Uzbekistan,

<sup>2</sup> 2nd year student of master degree,

Karshi Engineering Economics Institute, Uzbekistan

<https://doi.org/10.5281/zenodo.5903375>

### ANNOTATSIYA

*This article provides a detailed study of the measures taken in the country to ensure the financial independence of local budgets, including the positive changes, as well as errors and omissions, and provides relevant analytical conclusions.*

### MAQOLA TARIXI

Qabul qilindi: 14-Yanvar 2022

Ma'qullandi: 19- Yanvar 2022

Chop etildi: 24- Yanvar 2022

### KALIT SO'ZLAR

*local budget, financial sustainability, current sustainability perspectives, medium-term sustainability perspectives, long-term sustainability perspectives, "Initiative Budget" experience and etc.*

The economic power of any state is characterized by the fact that that state has a financially stable budget. In the 30 years since independence, a comprehensive and deep economic policy has been pursued, based on which a stable financial system, more precisely, a number of positive and noteworthy steps are being taken to effectively organize the local budget, which is its basis, and to make them financially independent.

As known, one of the most crucial components of the budget system is the local budget. They play an important role in

the implementation of economic and social functions of the state, the distribution of public funds and the development of social infrastructure. The system of local budgets allows for a full account of local needs and their proper coordination with the measures implemented by the state in a centralized manner, and thus the growth rate of the economy and culture to mobilize local resources, as well, to organize work on planned spending.

It should be noted that each local government body has a clear financial base at its disposal to carry out its activities. The



main financial base for the activities of local governments is formed by local budgets, clearly local budget revenues create the same base. Revenues of local budgets are a form of monetary relations associated with the formation of a centralized monetary fund for the implementation of strategically important tasks before local governments. Local budgets also play an essential role in delivering national income to the population as a product of multi-level redistribution. This is due to the fact that the local budgets to some extent finance the costs of local industries, utilities, landscaping, services that ensure the normal functioning of the general population, and a number of other areas.

Ensuring the independence of local budgets is one of the most pressing issues today. The theoretical and practical foundations of perfect local budget management have been studied by many scholars. In particular, the scientific work of a group of Russian economists A.M.Alexandrov, M.V.Romanovsky, V.Panskov, V.Knyazev and others elaborates on these aspects. The concept of financial sustainability of local budgets was first proposed by academician G.B.Polyak. According to him, the level of sustainability of regional budgets is determined by the amount of funds needed to cover the minimum budget expenditures. In particular, in foreign countries, the number of special funds at the disposal of local authorities and their share in the local financial system is much higher, they have autonomous independence, are not strictly controlled by the central government, it is also characterized by a permanent or temporary structure for certain socio-economic purposes.

As mentioned above, one of the most pressing problems of the country's budget system today is to increase the financial stability of local budgets, ensure their independence, maintain their balance, optimize expenditures and increase the revenue base. Therefore, in recent years, efforts have been made to reduce the amount of allocations from the upper budget to the lower budgets, clearly local budgets. In addition, all regions of the country have been completely excluded from subsidies, but they are still receiving targeted subsidies.

Currently, the Ministry of Finance, together with the regional authorities, is expanding the revenue base of local budgets on the basis of regional programs for 2017-2021, reducing the amount of subsidies through the organization of new production, and such measures are being taken to modernize the home-based, trading system and market infrastructure, as well as low-capacity production facilities. The main goal is to increase the financial stability of the regions and socio-economic development of the region.

Local budgets are the corresponding funds of the state, regional, district and city budgets. The question of when local budgets will be financially stable can be answered as follows. When their independence is ensured and they are able to fully cover their social and economic expenses through their own revenues based on the potential of the regions, the budget will balance without receiving subsidies, grants and budget loans from higher budgets. There are three types of financial stability of local budgets over time:

1) current stability (within the current fiscal year);



2) medium-term sustainability (two to five years);

3) in the form of long-term stability.

The current financial stability is characterized by the fact that the budget balance is maintained in the current fiscal year, there are no cash disruptions, and the right financial decisions are made in the face of changing economic conditions. In medium-term financial stability, regions will have certain opportunities for self-government creditworthiness and investment capabilities. The existence of a socio-economic development strategy of the region that affects the budget situation and the reduction of the movement of negative factors is a long-term factor in the financial stability of the local budget.

In short, maintaining the financial security of local budgets in the current state of monetary funds and risks in the context of sustainable development means the financial stability of local budgets. In this

context, the financial stability of local budgets is a prerequisite for budget independence, balance of revenues and expenditures, the ability of local governments to mobilize financial resources to the budget without the help of a high budget, as well as the fulfillment of all financial obligations. The financial stability of regional budgets is the most important characteristic of the financial condition of these budgets. In financial theory and practical financial activity, financial stability is always equated with the concepts of balance, stability and equilibrium. The concept of financial sustainability of local budgets is considered as a financial condition that characterizes the ability of local governments to perform their functions and responsibilities and provide financial resources that are important for the social support of the population in the region.

**Table 1**  
**Forecasts of revenues and expenditures of the budget of the**  
**Republic of Karakalpakstan, regional and local budgets**  
**of Tashkent for 2021 and 2022 (billion soums)**

Name of regions	<u>Revenues*</u>	<u>Expenditures**</u>	<u>Revenues*</u>	<u>Expenditures**</u>
	<u>2021</u>	<u>2021</u>	<u>2022</u>	<u>2022</u>



<b>The Republic of Karakalpakstan</b>	1 614,20	2 915,60	2 356,20	3 874,20
<b>Andijan</b>	2 352,20	3 228,80	3 059,40	4 741,60
<b>Buxkhara</b>	1 935,40	2 375,40	2 904,00	3 346,30
<b>Jizzakh</b>	1 212,90	1 702,90	1 727,20	2 551,80
<b>Kashkadarya</b>	2 570,30	4 147,60	3 483,00	5 534,30
<b>Navoiy</b>	1 535,80	1 535,80	2 186,30	2 186,30
<b>Namangan</b>	1 970,60	3 254,50	2 903,20	4 608,00
<b>Samarkand</b>	2 657,00	3 759,70	3 955,80	4 963,80
<b>Surkhandarya</b>	1 754,70	3 048,30	2 466,90	4 453,90
<b>Sirdarya</b>	745,7	1 279,90	1 104,50	1 777,70
<b>Tashkent region</b>	3 009,80	3 009,80	4 378,90	4 378,90
<b>Fergana</b>	2 904,90	3 815,00	4 242,50	5 619,90
<b>Khorazm</b>	1 442,70	2 075,60	2 220,60	3 067,20
<b>Tashkent</b>	4 068,60	4 068,60	6 044,70	6 044,70
<b>Total</b>	<b>29 774,70</b>	<b>40 217,60</b>	<b>43 033,20</b>	<b>57 148,70</b>

If we look at the table, the total revenue for 2021 is projected at almost 30 billion (29.7 billion) soums. The law on the state budget of the Republic of Uzbekistan for 2022 forecasts 43 billion soums for 2022. The city of Tashkent, Tashkent region and Fergana region are expected to increase their local budget revenues more than other regions, and their expenditures are expected to increase this year. Expenditures are projected to vary by 17 billion in the past and this year. The reason is that the spread of the COVID-19 pandemic is still going on. Therefore, it means that every local government should take measures in its provinces and districts. In this regard, it is positive that the process of sharply reducing the dependence of local budgets on the center is deepening, socio-economic development programs of the regions are provided with guaranteed sources of funding, increasing the responsibility of local governments in forming local budgets and effective use of funds, of course.

Significant changes have taken place in the past 2021, making it possible to control the efficient and transparent distribution of funds. For example:

- The full use of the allocated funds has been posted on the public procurement portal ([dxarid.uzex.uz/xarid.uz](https://dxarid.uzex.uz/xarid.uz)). This will help to identify not only cases of corruption, but also conflicts of interest, dubious agreements by the public, bringing them to the public's attention, as well as excessive and unnecessary costs and the above confusing situations.

- The second change was the "Initiative Budget" experience. It is aimed at providing citizens with the opportunity to address the existing difficult issues in the areas where they live, based on the initiative of citizens (<https://openbudget.uz/boards>). There will be no big or small changes, the repair of the road, the kindergarten, the school in the neighborhood, the renovation of the wire, the transformer, the wiring for the Internet



- tonight our compatriots are participating in the initiative with these problems.

2020 has been a year of lagging behind economic growth for countries around the world. This is because recovery in many countries is still difficult after the global economic crisis caused by the spread of the COVID-19 pandemic. For example, the GDP of Kazakhstan in January-June 2021 increased by only 2.2% compared to the same period last year, GDP in Russia increased by 4.6%, while GDP in Kyrgyzstan decreased by 1.7%. In the first six months of this year, the country's GDP amounted to 318.5 trillion soums. After the crisis of last year's pandemic, the social life of our country is gradually recovering and returning to sustainable growth. However, during the reporting period, along with the achievements, there are a number of problems and shortcomings. In fact, the problem is not so big or small. Especially when the fate of the people and the interests of the people are behind them.

In this regard, we can make a number of suggestions for solving the problem:

*First of all*, it is necessary to allocate inter-budget transfers and budget loans, to set their interest rates correctly and fairly. A budget loan is a sum of money allocated from the upper budget to the lower budget or from the republican budget to a resident legal entity or a foreign state on the condition of repayment. Budget transfers are non-refundable funds allocated from the budget to a legal entity or individual directly or through an authorized body. It would be expedient to amend the Budget Code in these areas.

*Secondly*, it is necessary to fully and timely implement the instructions given by the President during his visit to the regions, to finance areas that are economic training

points for the regions. In this regard, the Ministry of Finance is required to provide special control over the allocation of subsidies established by law and their delivery.

In order to decentralize public administration and increase the responsibility and authority of local authorities for the comprehensive development of the regions, it is necessary to:

- clear distribution of management functions between the territorial divisions, institutions of the ministries of economy in the regions of the country and local governments;

- the powers of the regional Councils of People's Deputies to control the activities of khokimiyats and khokims should be strictly defined;

- revision of inter-budgetary relations to strengthen the local budgets of local governments in economically disadvantaged areas;

- forcible withdrawal of funds from local governments, forcing them to sponsor, voluntarily transfer money, as well as it is necessary to adopt legislation prohibiting their interference in personnel policy;

- wide involvement of representatives of political parties in the region, the Farmers' Council and non-governmental non-profit organizations in the development of various programs for the development of the regional economy on the ground;

- defining and strengthening the independence of the development and implementation of local socio-economic development programs, establishing effective cooperation of khokimiyats with private entrepreneurship and business entities and self-government, non-





governmental and non-profit organizations and the development of regulations in these areas.

At the same time, the most vital thing is that the powers should be given to the level of the budget, so that it can fully exercise its powers and benefit the most from these results. It is important to have clear information about the structure of the regional economy and financial flows in the decision on decentralization of budgets, an analysis of how the decision on decentralization affects the public interest and the needs of the local population.

In other words, there should be clear analytical data on regional and central revenue cuts, bottom-up and downstream financial flows, their efficiency and effectiveness, and how their changes will affect efficiency and effectiveness. Such data clearly show how much each region is able to meet its needs and ensure its own development. Only after such an analysis will it be possible to decide whether or not to provide financial assistance to each region. While independent local governments, on the one hand, seek to increase their revenue base within their mandate, they will not be able to go beyond a certain limit in the accumulation of funds in an open economy.

At the same time, they are forced to use funds as wisely as possible, as they cannot back down on high budgets and become more accountable to taxpayers. They seek to identify local needs and make full use of all available infrastructure

resources. In general, decentralization of local budgets can be introduced only if there is sufficient decentralized decision-making power, if the most pressing local needs are identified, and if there is an opportunity to increase the efficiency of the use of budget funds. Decentralization of the budget is primarily due to the implementation of the principle of budget independence.

The principle of independence of the budgets of the budget system is set out in Article 13 of the Budget Code of the Republic of Uzbekistan. The key factor in ensuring the independence of the budgets of the budget system is the allocation of revenues (primarily tax revenues) to the expenditures of each level of the budget. In world practice, there are several types of attachment of taxable income. For example, local governments are attached to tax revenues from all of their territories. A portion of these revenues will be transferred to the higher levels of the budget system. These funds will be used to cover government expenditures. The disadvantages of this approach are that it reduces the ability to transfer revenue between regions and reduces financial stability across the country. In addition, the willingness of local governments to finance public spending is declining

In short, the organization of the system of efficient use of local budgets, the improvement of the revenue base - one of the important tasks of ensuring the independence of local budgets.

### **FOYDALANILGAN ADABIYOTLAR:**

1. Law "On the State Budget of the Republic of Uzbekistan for 2022" dated December 15, 2021
2. Law "On the State Budget of the Republic of Uzbekistan for 2021" dated December 1, 2020.
3. Budget Code of the Republic of Uzbekistan. // Collection of Legislation of the Republic of Uzbekistan, 2013, № 52-I; 2014, №36, Article 13.



4. Decree of the President of the Republic of Uzbekistan №-5075 of June 7, 2017 "On measures to expand the powers of local authorities in the formation of local budgets". // Collection of Legislation of the Republic of Uzbekistan, 2017, № 24, Article 488.
5. Resolution of the President of the Republic of Uzbekistan №-3042 of June 7, 2017 "On expanding the budgetary powers of local government and increasing the responsibility of local budget revenues in the formation of local budget revenues." // Collection of Legislation of the Republic of Uzbekistan, 2017, № 24, Article 491.
6. Kilicheva F.B., Rakhmatova M.G. The role of inter-budgetary transfers and taxes in the development of regions and ensuring the financial independence of local budgets, the scientific electronic journal "Economy and Innovative Technologies". № 6, November-December, 2017
7. Wallis J., Oates W. Decentralization in the Public Sector: An Empirical Study of State and Local Government // Fiscal Federalism: Quantitative Studies / Ed. by H. Rosen. Chicago: University of Chicago Press, 1988. p 13-15.
8. Bahl R. Urban Public Finance in Developing Countries / R. Bahl, J. Linn. Washington World bank.1992
9. King D. N. Local Government Economics in Theory and Practice. L.: Routledge, 1992.
10. <https://uzreport.news/>