Local budgets in Uzbekistan: Recipe for local development

“Measures to Reduce the Level of Subventions to Local Budgets: Interagency Interaction” - that is the name of the analytical report developed with support from a UNDP project on budget system reform in Uzbekistan.

A subvention is a fund allocated from the central budgets to a local budget.

In the case of Uzbekistan, local budgets are responsible for expenditures in key social sectors including pre-university education, public health and social protection.

However, there are insufficient budget revenues in certain economically-disadvantaged provinces. How do they fill the gap between the State budget and local budgets?

The budget dilemma

Currently, the social sectors in eight out of 14 provinces, with a total population of 16 million people, depend on the allocation of subventions from the State Budget. However, when the level of subventions is high it jeopardizes budget sustainability in the long run.

Therefore, there is conflict between ensuring fiscal sustainability and providing funding evenly in the social sectors.

Solving such a dilemma requires implementation of non-standard approaches to fiscal decentralization, which differ from the proposed approaches used until now. Most previous approaches either focused on solving only one problem or were based on insufficient analysis.

While doing research for the analytical report, its authors visited all regions of Uzbekistan and collected a huge amount of information and statistical data. The research develops two key recommendations.

1. Increasing tax revenues

The first recommendation is the creation of required conditions for sustainable income generation.

The report discusses the causes of local budget needs for subventions. It provides an expert evaluation on the future dynamics of these causes considering the need to maintain the current fiscal and social policy.

The following trends have been revealed:

- Local budget expenditures have practically achieved the limits of expenditures optimization
- The insufficient growth of local budget revenues increases their dependence on transfers from the State budget
It was recommended that regional guidelines on strategies to increase tax revenues be developed, in addition to mechanisms for their implementation in each province.

The strategies would aim to create favourable conditions for business activities and the optimization of the tax base through:

- The development of physical and market infrastructure
- The promotion of energy efficiency and economic decentralization
- The flexible development of rural areas

The main difference from the existing policies on mobilizing revenues is the mechanisms of sharing costs and benefits among stakeholders. This will provide strong incentives for the implementation of these strategies.

The implementation of these strategies could result in a significant increase of tax revenues, essentially due to the more efficient use of resources, which annual cost is estimated at $1.2 billion. This sum would be sufficient for the full computerization and for providing internet access to 10,000 educational organizations, or for equipping all 3,500 primary and secondary medical organizations with up-to-date diagnostic equipment.

The successful implementation of these strategies requires the joint efforts of local authorities and government agencies, through the establishment of a relevant institutional framework for effective interaction with ministries and other agencies.

2. Better fund allocation

The second recommendation is the distribution of funds for social benefits strictly in accordance with the income levels of vulnerable groups.

The issue concerns the distribution of subventions between regions, particularly those allocated to cover:

- The labour costs of public education
- The social benefits provided to low-income families with children

Taking into account that the per-capita funding mechanism for public education is already in place, the corresponding allocations of subventions are planned relatively evenly across the provinces.

However, an analysis of expenditures regarding social benefits to low-income families has identified a situation where different regions with the same poverty level have planned different amounts of expenditures and subventions.

In order to eliminate these disparities, the report suggests the participation of mahalla (local community) associations at regional and state levels in order to plan and allocate funds for social benefits.

The authors argue that more complete and realistic insights regarding poverty levels would help promote a more transparent and targeted use of funds.
They express hope that the implementation of these recommendations will provide a stable and reliable funding base for human welfare and development in Uzbekistan.