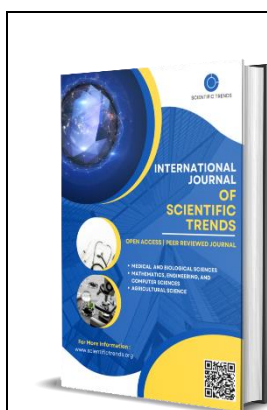


Analysis of Budget Expenditure Efficiency

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Abstract

This article is devoted to the investigation on the efficiency of the use of state budget funds. The Ministry of Digital Technologies of the Republic of Uzbekistan has been selected as an object, the opinions of scholars-economists have been studied within the topic. In reliance upon the research results, the author has developed relevant conclusions and proposals.

Keywords: budget, funds, expenditures, revenue, efficiency, financing.

Introduction

Currently the issue of determining the efficiency of funding of budget organizations and the results of the use of funds is very urgent and serves to prevent an ineffective increase in budget expenditures. If the funds are spent inefficiently, it can definitely make a negative impact on the budget surplus, causing many economic losses and resulting in a reverse deficit. Therefore, it is essential to properly analyze each expenditure and determine the ratio of revenues and expenses.

Literature Review

Studies demonstrate that there are various definitions of the efficiency of the use of budget funds. In particular, Zavyalov (2008) states that efficiency in the classical sense is the ratio of the result to the expenditures (material, time, labor).

According to Vershilo (2012), efficiency of the use of budget funds is achieved either by using the least amount of funds or by using a certain amount of the budget.

Chepurov (2020) believes that the principle of efficient use of budget funds in the field of public procurement can be implemented only through a combination of procurement standardization and justification.

In the opinion of Korres and Kokkinou (2014), the efficiency of the use of budget funds is assessed by the index of observed and expected indicators and includes comparison of the actual indicator with the optimal indicator located at the appropriate framework.

From the point of view of Krokhina (2018), the legislator tried to clarify the concept of the efficiency of the use of budget funds, but there are many questions related to the problem of evaluating the efficiency of the use of budget funds, because this principle is very significant at the budget stage.

In our opinion, we believe that the complete and generalized definition of the efficiency of the use of budget funds is given in the financial control standard № 104 (2009) on “Performing an audit of the efficiency of the use of public funds”. This standard provides the following definition: “The efficiency of the use of public funds is characterized by the ratio between the results of the use of public funds and the expenditures made on achieving them, which includes determining the economy, efficiency and effectiveness of the use of public funds. Economy represents the best ratio between resources and the results of their use, productivity describes the rational use of resources, and efficiency shows the degree to which goals are achieved or tasks are solved”.

The efficiency of the use of the state budget funds should be based on certain criteria. However, currently there are no criteria that can be used to make a conclusion about the efficient use of the state budget funds.

However, scholars are doing research on the development of certain criteria for determining the efficiency of the use of funds. In particular, Robinson (2018) suggested using criteria such as relevance, duplication, efficiency and effectiveness in determining cost effectiveness in his research paper.

Duganov (2007) suggests the use of indicators of social efficiency, structural efficiency and economic efficiency in assessing efficiency of budget expenditures.

Two basic models describing the efficiency of budget expenditures are distinguished in international practice:

1. “economy — efficiency — effectiveness” or “3Ec” model¹ as these three notions begin with the same letter;
2. “resources – direct outcome–final outcome” (or “input” - “output” -“outcome”) or model «IOO»⁴ (Boyne, 2002).

Analysis and Results

The Resolution of the President of the Republic of Uzbekistan №PR-128 dated February 14, 2022 “On further raising efficiency of the state budget expenditures of the Republic of Uzbekistan and improving the activities of public financial control bodies”¹ implies establishing of the State Financial Control Inspectorate on the basis of the State Financial Control Department of the Ministry of Finance of the Republic of Uzbekistan. From September 1, 2022 it is scheduled that the activities conducted by the employees of the internal audit services of the ministries and agencies will be implemented on the basis of the national standards of internal audit and the manual for conducting internal audit activities. The Decree №PR-76 of the President of the Republic of Uzbekistan dated May 24, 2023 “On measures to effectively organize state management in the field of digital technologies within the framework of administrative reforms” is of particular importance in the development and financing of the Ministry of Digital Technologies of the Republic of Uzbekistan, which is the object of the study.

¹Resolution of the President of the Republic of Uzbekistan №PR-128 dated February 14, 2022 “On further raising efficiency of the state budget expenditures of the Republic of Uzbekistan and improving the activities of public financial control bodies”.

Table 1 Analysis of implementation of state budget expenditures of the Republic of Uzbekistan in 2018-2022², billion UZS

Indicators	2018	2019	2020	2021	2022
TOTAL (Expenditures)	79 736,1	118 008,7	143 921,0	188 257,1	236 578,5
Social expenditures	42 883,3	63 542,4	74 229,0	92 013,6	117 722,4
Economic expenditures	8 461,8	18 485,2	16 064,6	21 169,7	33 859,0
Financing of investment expenses	5 396,4	7 048,5	18 885,0	29 900,1	27 695,9
Expenses on maintaining public administration, justice, prosecution and judicial bodies	3 052,7	5 315	7 798,2	9 329	12 786,6
Maintenance costs of self-governing bodies	613,3	701,1	816,6	1 037,1	965,4
Reserve funds of the budgets of the Cabinet of Ministers of the Republic of Uzbekistan, the Republic of Karakalpakstan, regions, cities and districts	604,1	985,4	1 506,2	1 401,8	
Expenses on state support of NGOs and other institutions of civil society	17,8	37,8	47,5	95,6	103,5
Expenses on service and repayment of public debt		1 089,2	1 638,1	2 238,2	3 528,5
Other expenditures	18 706,6	20 804,1	22 935,9	31 072,1	38 008,8
TOTAL (Revenues)	79 099,1	112165,4	132938,0	164 799	202043
Surplus (+) or deficit (-)	-637	-5 843,3	-10 983	-23 458,1	-34 535,5

Table 1 presents the analysis of the performance of the state budget expenditures of the Republic of Uzbekistan in 2018-2022. It should be noted that state budget expenditures demonstrate an upward trend. Since 2005 the Republic of Uzbekistan has been in a state of surplus, but after 2018, we can see that expenditures will sharply exceed income and a deficit will emerge. Below there is the analysis of the indicators and we will try to explain the reasons for the increase of expenditures. First of all, the total expenditures accounted for 79736.1 billion UZS in 2018, 118008.7 billion UZS in 2019, 143921.0 billion UZS in 2020, 188257.1 billion UZS in 2021, 236578.5 billion UZS in 2022 and the negative deficit constituted -637 billion UZS, -5843.3 billion UZS, -10983 billion UZS, -23458.1 billion UZS and -34535.5 billion UZS respectively.

At the same time social expenses amounted to 42 883.3 billion UZS in 2018, 63 542.4 billion UZS in 2019, 74 229.0 billion UZS in 2020, 92 013.6 billion UZS in 2021, 117 722.4 billion UZS in 2022, i.e. social spending has nearly tripled from 2018 to 2022, which indicates a strong focus on social welfare and development.

A growing deficit means that the government is spending more than it is earning. This deficit can have various consequences for the country's economy, including inflation and increased debt. A significant increase in social spending indicates an effort to improve social services, which can be evaluated as a positive step in supporting the population.

The Oliy Majlis of the Republic of Uzbekistan considered in the Legislative Chamber the report on the implementation of the State budget of the Republic of Uzbekistan and the budgets of public

²Developed by the author using the budget parameters of the Ministry of Economy and Finance for 2018-2022. Execution of expenditures for 2015-2022 <https://openbudget.uz/outcomesView/>.

targeted funds in 2022 and the first quarter of 2023. The Minister of Economy and Finance Sh. Kudbiev made a report, which stated that state budget expenditures were primarily directed to the development of the social sector, timely implementation of salaries and equivalent payments of budget organizations and recipients of funds from the budget, social support of the population, as well as housing provision programs.

In particular, in 2022 2371.4 billion UZS or almost 2 times more budget subsidies than in 2021 were allocated to support non-state preschool educational organizations. As a result, at the end of last year the number of non-governmental pre-school educational organizations constituted 22.8 thousand, and the number of children covered by them increased by 746 thousand or by 22 percent compared to 2021. Moreover, the amount of funds allocated from the state budget for medications and medical supplies per capita attached to primary medical and sanitary institutions increased by an average of 3 times, and in 2022 the amount of funds allocated 578.1 billion UZS were allocated, which is 368.9 billion UZS more than in 2021. In 2022 a total amount of of 6.4 trillion UZS was allocated from the state budget for ecology and environmental protection measures³.

In 2022 if the actual expenditures are analyzed by quarters, the determination of cost effectiveness is better (Table 2).

Table 2
Analysis of the implementation of the state budget expenditures of the Republic of Uzbekistan in 2022 by quarters⁴, billion UZS

Indicators		quarter 1	quarter 2	quarter 3	quarter 4	Annual
EXPENDITURE (EXCLUDING TARGETED FUNDS) - TOTAL		42 943,3	60 085,3	59 399,0	74 264,5	236 692,0
1.	Social expenditures	23 469,9	30 566,5	29 236,3	34 419,2	117 691,9
2.	Economic expenditures	5 198,3	8 292,9	7 816,9	12 782,7	34 090,9
3.	Financing of investment expenses	2 040,4	6 877,7	8 314,5	10 574,3	27 807,0
4.	Expenses on maintaining public administration, justice, prosecution and judicial bodies	2 291,1	2 733,1	3 080,7	3 363,8	11 468,6
5.	Maintenance costs of self-governing bodies	248,4	269,5	304,4	295,3	1 117,6
6.	Reserve funds of the budgets of the Cabinet of Ministers of the Republic of Uzbekistan, the Republic of Karakalpakstan, regions, cities and districts	270,3	238,5	204,7	251,9	965,4
7.	Expenses on state support of NGOs and other institutions of civil society	316,8	561,2	451,1	481,8	1 811,0
8.	Expenses on service and repayment of public debt	1,4	51,9	28,4	21,8	103,5
9.	Other expenditures	421,0	1 078,7	621,9	1 406,9	3 528,5
10.	Social expenditures	8 685,7	9 415,2	9 340,0	10 666,7	38 107,5

³https://uza.uz/ru/posts/davlat-byudzheting-izhrosi-qoniqarlimi_493135. 21.06.2023.

⁴<https://openbudget.uz/outcomesView/>. 26.06.2023.

The analysis of the execution of the state budget expenditures of the Republic of Uzbekistan in 2022 by quarters illustrates that in terms of the share, the expenditures mainly corresponded to the fourth quarter. For example, the analysis of social expenditures shows that 29.25 percent of social spending has been made in the fourth quarter, while 19.94 percent was spent in the first quarter. This trend has been maintained for other expenses as well. In 2022, 31.38 percent of total expenditures has been spent in the fourth quarter. It can be seen that the financing of expenses is not uniform across quarters. This results in the increase in debtor and creditor indebtedness.

Uneven distribution of state budget expenses by quarters can have several consequences for the country's fiscal management:

- a large concentration of spending in the fourth quarter could strain the government's cash flow and financial resources. This can result in difficulties in making timely payments to suppliers, contractors and service providers, which can affect the efficiency of public services and infrastructure projects;
- an uneven spending order can result in both debtor and creditor indebtedness. Late payments to creditors such as suppliers and contractors can damage relationships and cause fines or increased costs. On the other hand, the government can accumulate debt from borrowing to cover expenses that may have long-term financial consequences.
- a more balanced distribution of expenses throughout the year is recommended for better budget planning and management. This allows for more predictable cash flows and reduces the risk of unexpected financial difficulties;
- when a significant portion of spending is concentrated in the fourth quarter, there may be pressure to make urgent spending decisions that can affect the effectiveness and quality of projects and programs. In this case proper planning and execution can fail.

The following measures can be considered to solve these problems:

- work out more accurate and comprehensive budget forecasts to ensure that expenses are evenly distributed throughout the year in line with revenue projections and economic trends;
- strengthen financial management practices to ensure that funds are available as needed and payments are made on time, and to avoid the accumulation of debts;
- encourage long-term planning and project implementation to reduce last-minute costs in the fourth quarter;
- implement cost efficiency measures to ensure effective use of funds and completion of projects on time and within budget.

Balancing spending across quarters can contribute to improving fiscal stability, ultimately benefiting the national economy and public services.

The "Roadmap" on providing stability of the State Budget of the Republic of Uzbekistan and raising efficiency of expenses the state budget of the Republic of Uzbekistan has been approved by the Resolution of the President of the Republic of Uzbekistan №471 dated December 30, 2022 "On measures to ensure the implementation of the law of the Republic of Uzbekistan".

In order to improve effectiveness and efficiency of budget expenditures, the "Roadmap" determines development of a draft of statutory acts on the procedure for developing, monitoring and evaluating the budget programs of budget funds distributors in the process of introducing the budgeting system. The implementation of these statutory acts will raise the efficiency of budget expenditures.

Budget planning and execution are essential aspects of fiscal management, and constant monitoring and evaluation are necessary to ensure that allocated funds are optimally spent for the benefit of the country and its citizens. In addition, revenue collection and economic performance play a crucial role in financing these budgets, so economic stability and growth are important. The Law of the Republic of Uzbekistan № 813 dated December 30, 2022 “On the State Budget of the Republic of Uzbekistan for 2023” specifies the limited amounts of budget funds allocated from the republican budget of the Republic of Uzbekistan for 2023 to the distributors of first-level budget funds (Table 3).

Table 3

Limited amounts of budget funds allocated from the republican budget of the Republic of Uzbekistan to first-level budget fund distributors for 2023⁵

		million UZS
№	Indicators	amount
Funds allocated from the republican budget, total		203 737 281,2
	<i>including:</i>	
	Current expenses	129 725 742,1
	<i>including:</i>	
	Expenses on the development programs	25 676 093,0
	Capital placements for the design, construction (reconstruction) and equipment of facilities	8 982 332,4
	Transfers to the public targeted funds	27 401 986,0
	Regulatory transfers allocated from the republican budget of the Republic of Uzbekistan to the budget of the Republic of Karakalpakstan, local budgets of regions and districts	24 280 823,7
	Funds to be redistributed	13 346 396,9
27.	Ministry of Digital Technologies of the Republic of Uzbekistan (former Ministry of Information Technologies and Communications Development of the Republic of Uzbekistan)	183 654,4
	<i>Including:</i>	
	Current expenses	183 654,4
	<i>including:</i>	
	Expenses on the development programs	4 900,0
	Expenses to cover part of the costs of young people to obtain international IT certifications	3 900,0
	Costs of refunding a part of the price of subscription to printed publications through the “Obuna” single electronic platform (Cashback)	1 000,0

As it is obvious from data of Table 3, the total amount of budget funds allocated from the budget of the Republic of Uzbekistan to the distributors of the first-level budget funds for 2023 constituted 203 737 281.2 million UZS, out of which 129 725 742.1 million UZS is allocated for current expenses

⁵ Shortened form of annex 5 of the Law of the Republic of Uzbekistan №813 dated December 30, 2022.

It is planned to allocate 183 654.4 million soums from the budget for 2023 to the former Ministry of Information Technologies and Communications Development of the Republic of Uzbekistan, the current Ministry of Digital Technologies of the Republic of Uzbekistan, which is the object of our research. All these funds are intended to finance current expenses.

It should be noted that current expenses are required for the continuous operation of government agencies, including the Ministry of Digital Technologies. These expenses cover staff salaries, office maintenance, utilities and other current operating costs.

Efficient and transparent use of budget funds is essential for effective use of government resources to achieve the goals of the ministry and to support the development of digital technologies and communications in Uzbekistan. Proper financial management and accountability are the main aspects of responsible management in the allocation of budget funds.

Budget report forms are the main source of information on budget expenditures. Article 161 of the Budget Code of the Republic of Uzbekistan defines budget accounting and budget reporting as follows: “Budget accounting is a regulated system of collecting, registering and summarizing information about the state of assets and liabilities expressed in money, as well as operations that change these assets and liabilities, which are taken into account in the execution of budgets of the budget system. Budget report is a generalized system of information on the state of assets and liabilities, compiled according to the established forms based on the data of the budget accounting”.

The budget report includes the following types of reports:

- financial statements of budget organizations and recipients of budget funds;
- report on receipts of income to the state budget and budgets of public targeted funds;
- report on the state budget execution;
- report on the execution of the budgets of public targeted funds (Code, 2023).

The report on the state budget execution consists of the results of the execution of the state budget revenues and expenses for a certain period according to the budget classification.

The report on the implementation of the state budget includes the following report forms:

- balance of the state budget execution;
- a report on the implementation of state budget revenues;
- a report on the execution of state budget expenditures;
- a reference on receivables and payables of budgetary organizations;
- a report on the execution of the plan for branches, staff and employees of budgetary organizations financed from the state budget.

The data on the actual expenditure of budget costs is obtained from the cost estimate. Expenditures of budget organizations and recipients of budget funds at the expense of the State budget of the Republic of Uzbekistan are carried out within the limits of funds allocated from the budget and for the purposes specified in their cost estimates.

The cost estimate is developed and approved in compliance with the “REGULATION on the procedure for the preparation, approval and registration of cost estimates and staff tables of budget organizations and recipients of budget funds” approved by the order of the Minister of Finance of the Republic of Uzbekistan № 74 dated November 14, 2014.

In reliance upon the order № 5 of the Minister of Economy and Finance of the Republic of Uzbekistan dated March 28, 2023, this Regulation has been supplemented with “Amendments and

additions to the regulation on the procedure for drawing up, approving and registering budget organizations and recipients of budget funds and cost estimates and staff schedules”.

In accordance with the regulation specified above, budget organizations, recipients of budget funds, allocators of budget funds and centralized financial and accounting services connected to the “UzASBO” software package, develop and compile their cost estimates, income and expenditure estimates, temporary expenditure estimates, staff tables, aggregate expenditure estimates, aggregate income and expenditure estimates, summary temporary cost estimates and summary staffing tables in this software package.

Cost estimates, revenue and cost estimates, temporary cost estimates, staff tables, total cost estimates, aggregate income and cost estimates, total temporary cost estimates, and total staff tables formed and compiled in the software package are approved based on the requirements of this Regulation and each of them is assigned a unique “ID”. After that, they are registered in the software package by inserting the codes.

Expenditures of budget organizations and recipients of budget funds from the State budget of the Republic of Uzbekistan are implemented within the budget allocation and for the purposes specified in their cost estimates.

It provides for ensuring the efficiency of the use of budget funds and not spending more than the available amount. This means that the main emphasis in spending planning is not on the results of the budget organization’s activities, but on the targeted use of the spending item. In order to ensure the efficiency of costs, the accurate structure of the cost estimate and the report on the execution of the cost estimate play a crucially important role.

Conclusion

Taking into account consideration specified above we can make a conclusion that one of the ways to enhance the efficiency of the use of budget funds should be digitalization of the activities of ministries and agencies. The transition to the “Digital Government” system, a new stage of the “Electronic Government” system, which envisages the full digitalization of the activities of state agencies, will enhance efficiency of the use of budget funds. We believe that it is appropriate to encourage the implementation of projects that provide for the full digitization of the activities of state agencies.

In this regard, we propose the following:

50 percent of the funds saved due to the implementation of projects related to the introduction of digital technologies in the public authorities should be directed to the development of digital technologies in the activities of these public authorities in the next financial year;

introduction of a financial incentive mechanism for employees directly responsible for the project at the expense of the funds saved as a result of the implementation of projects on the digitization of production and service processes for organizations with a state share of 50 percent or more in the charter fund.

In order to ensure the efficiency of budget expenditures, we suggest that the Ministry of Economy and Finance develop the technique for the development of criteria for determining efficiency. It is appropriate for the ministries and agencies to determine the cost effectiveness based on this methodology, taking into account their characteristics.

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