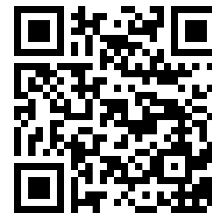


## Issues of Implementing the Program-Based Budgeting System for Effective Management of State Budget Funds in Uzbekistan



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**ABSTRACT:** The implementation of the Program-Based Budgeting (PBB) system in Uzbekistan aims to enhance the efficiency and transparency of state budget expenditures. This article discusses the key concepts and stages of PBB implementation, such as planning, execution, monitoring, and evaluation. It highlights the role of PBB in ensuring targeted expenditure of state funds, increasing transparency, and strengthening accountability. Proposals for improving strategic planning, public involvement, and transparency of the budget process in Uzbekistan are presented.

**KEYWORDS:** Program-Based Budgeting (PBB), state budget funds, transparency, accountability, strategic planning, public participation.

### INTRODUCTION

One of the primary priorities for any state is the effective and targeted allocation of public funds. The management of state budget expenditures is one of the essential tools for achieving socio-economic development. In the context of global practice, the budgeting process, which is an integral part of a state's economic policy, necessitates specific mechanisms to achieve efficiency. One such mechanism is the Program Budgeting System (PBS). PBS is recognized as a systematic and comprehensive approach that aims to direct public funds toward specific goals and ensure their effective outcomes. The Program Budgeting System (PBS) has several key objectives, with one of the most important being the enhancement of the effectiveness of state budget expenditures. To achieve this objective, public funds are allocated to specific goals within each sector, and their results are continually monitored and evaluated. This continuous oversight ensures that the allocated funds achieve their intended outcomes, thus optimizing the use of resources. Moreover, PBS plays a crucial role in ensuring the transparency of public funds. Transparency is vital as it strengthens public trust in state expenditures and fosters a culture of accountability. When citizens can see how public funds are being spent and the results of these expenditures, their confidence in government processes increases. This transparency also helps to prevent corruption and misuse of funds, as every expenditure is scrutinized and justified. Each type of expenditure under PBS is implemented in a targeted and results-oriented manner. This approach allows for the rational and efficient use of public funds, ensuring that resources are not wasted on ineffective programs or initiatives. By focusing on results, the PBS ensures that every dollar spent contributes to the achievement of specific, measurable outcomes. Accountability is another critical aspect of the PBS process. Ensuring accountability means that every entity involved in the budgeting and spending process is responsible for the efficient use of resources and the achievement of set goals. This accountability framework creates a robust foundation for the effective management of public funds, which in turn supports the broader objective of socio-economic development.

The implementation of PBS also facilitates better planning and decision-making within government bodies. By having a clear understanding of goals and the resources needed to achieve them, policymakers can make more informed decisions. This strategic planning helps in aligning budget allocations with national priorities and developmental goals, thereby ensuring that public funds are used in the most impactful way. Furthermore, PBS promotes a culture of performance and results within public administration. By continuously monitoring and evaluating the outcomes of budget expenditures, government agencies are encouraged to strive for higher efficiency and effectiveness. This performance-oriented culture leads to continuous improvement in public services and contributes to the overall development and well-being of society. In conclusion, the Program Budgeting System is a comprehensive and systematic approach to managing public funds. It enhances the effectiveness of state budget expenditures, ensures transparency and accountability, promotes rational and efficient use of resources, and supports strategic planning and decision-making. By implementing PBS, governments can build a strong foundation for effective public fund management and achieve their socio-economic development goals.

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## METHODS

International experience demonstrates that several countries have successfully implemented the Program Budgeting System (PBS), significantly improving the effectiveness and efficiency of government expenditures. In their article “Performance Budgeting in Korea: Overview and Assessment,” Park, Nowook, and Joung-Jin Jang provide a comprehensive analysis of Korea's Performance Budgeting (PB) system, highlighting both its strengths and weaknesses. The authors indicate that the Korean PB system was introduced in the mid-2000s and has since been systematically integrated into the budget process, undergoing continuous improvements to enhance its efficiency. They emphasize three main components of the system: monitoring, evaluation, and in-depth assessment. These components are essential for tracking the effectiveness of budget programs and ensuring that they achieve their intended goals. The OECD survey results affirm that the Korean PB system incorporates all necessary elements for assessing efficiency and making informed budget allocation decisions. Furthermore, the article discusses the practical outcomes of the PB system, the reforms in public administration, and the resources required for ongoing system enhancements. The authors underline that the system's ability to integrate performance data into the budget process has been crucial for its success, offering a model for other countries to follow. [1]. Similarly, the article “Performance Budgeting in Context: An Analysis of Italian Central Administrations,” authored by Andrea Bonomi Savignon, Lorenzo Costumato, and Benedetta Marchese, examines the implementation of performance budgeting within Italian central administrations. The authors argue that financial constraints and the necessity for clear governmental direction have prompted significant changes in various aspects of public administration. These changes have been primarily executed through strategic planning and the application of performance indicators in budgetary decisions. The study highlights that in many ministries, strategic planning and budgeting processes are not fully synchronized. This misalignment often results in inefficiencies and suboptimal resource utilization. The authors propose several recommendations to address these issues, such as setting clear and measurable objectives, improving the efficiency of financial resources, and ensuring the full integration of strategic planning with budgeting processes. By implementing these recommendations, the Italian central administrations can enhance the overall performance and accountability of public spending. [2]. These studies illustrate the potential benefits of adopting performance budgeting systems in different national contexts. In Korea, the continuous refinement and integration of performance data into the budgeting process have been pivotal in improving public sector efficiency. The Korean experience demonstrates that regular monitoring, thorough evaluation, and deep assessments are essential for the successful implementation of PBS. This ensures that budgetary allocations are not only aligned with strategic goals but also subjected to rigorous scrutiny to validate their effectiveness. In Italy, the emphasis has been on overcoming the challenges posed by financial austerity and the need for precise governmental direction. The Italian experience underscores the importance of aligning strategic planning with budgeting processes to ensure coherent and effective public administration. The use of performance indicators in budgetary decisions has been identified as a critical factor in achieving more efficient and accountable use of public resources. Both cases highlight the importance of a systematic approach to budgeting that incorporates performance metrics and strategic objectives. They also stress the need for ongoing evaluation and adaptation to address emerging challenges and enhance the efficiency and transparency of public expenditures. By learning from these international experiences, other countries can develop and refine their own PBS, tailoring it to their specific administrative and socio-economic contexts to achieve similar improvements in public sector performance.

## RESULTS

The importance of implementing Program-Based Budgeting (PBB) in Uzbekistan for effective and targeted allocation of state funds can be explained by several factors. Firstly, this system helps increase transparency in planning and managing the state budget, which in turn ensures the lawful expenditure of public funds and the proper direction of financial resources. Secondly, through PBB, the effectiveness of government spending is monitored, and indicators for achieving socio-economic goals are identified. This ensures the purposeful use of government spending and helps improve the standard of living of the population. To implement these approaches, ensure fiscal stability, and effectively manage state obligations, the President of the Republic of Uzbekistan, through Decree No. PF-158 dated September 11, 2023, on the "Uzbekistan – 2030" strategy, set the task of implementing a "Result-Oriented Budgeting" system. Additionally, to introduce performance indicators for assessing budget fund efficiency, the Cabinet of Ministers of the Republic of Uzbekistan, by its Resolution No. 4 dated January 4, 2024, approved the regulations on the development, monitoring, and evaluation of the effectiveness of budget programs in the system of program budgeting in Uzbekistan. Key concepts outlined in the regulations include:

*Program-Based Budgeting (PBB)* – This is a system for planning, executing, controlling, and reporting budget expenditures based on budget programs. This system ensures that expenditures are results-oriented and accountable. Through PBB, budget funds are used effectively and purposefully to achieve set goals. For example, within the framework of a program to provide clean drinking water to the population, PBB is implemented as follows:

- ✓ The total project budget is 100 billion soums.
- ✓ 50 billion soums are allocated for laying new water pipelines.

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- ✓ 30 billion soums are allocated for building water treatment facilities.
- ✓ 20 billion soums are allocated for updating the water distribution system to the population.
- ✓ The implementation of each activity is regularly monitored and reported. For instance, monthly reports on the work carried out are compiled, and the current status of the project is assessed based on these reports.

*Budget Program* – This is a set of sub-programs and/or activities funded from the budgets within the budget system aimed at achieving specific tasks and goals outlined in strategic development documents. Budget programs identify the types of activities financed by the state and their outcomes. For example, a program to provide clean drinking water to the population may include:

- ✓ Goal: Providing the population with clean drinking water.
- ✓ Sub-programs: Updating the water supply system in rural areas, building water treatment facilities in urban areas.
- ✓ Funding sources: State budget, international grants, and additional sources.
- ✓ Duration: 2024-2027.

*Sub-program* – This is a structural part of a budget program comprising a set of interrelated activities aimed at achieving a specific result. Through sub-programs, parts of large projects are implemented. For instance, sub-programs in the clean drinking water supply program could include: Updating the water supply system in rural areas:

- ✓ Laying new water pipelines.
- ✓ Repairing existing water pipelines.
- ✓ Improving irrigation systems. Building water treatment facilities in urban areas:
- ✓ Constructing new water treatment facilities.
- ✓ Modernizing old water treatment facilities.

*Activity* – This is a component of a budget program or sub-program that involves specific measures to address a particular problem or provide a service. Through activities, budget funds are used for specific purposes. For example, activities within the clean drinking water supply program include: Laying new water pipelines:

- ✓ Laying 500 km of new water pipelines in rural areas.
- ✓ Laying 500 km of new water pipelines in urban areas. Repairing existing water pipelines:
- ✓ Repairing 100 km of old water pipelines in rural areas.
- ✓ Repairing 100 km of old water pipelines in urban areas. Constructing and modernizing water treatment facilities:
- ✓ Constructing 25 new water treatment facilities in rural areas.
- ✓ Constructing 25 new water treatment facilities in urban areas.
- ✓ Modernizing 15 old water treatment facilities in rural areas.
- ✓ Modernizing 15 old water treatment facilities in urban areas.

*Target Indicators* – These are the final indicators defining the outcomes directly linked to the goals set in budget programs. Target indicators are crucial for assessing the efficiency of budget programs, ensuring transparency and effectiveness in state finance, and controlling the purposeful and result-oriented expenditure of budget funds. For example, in the clean drinking water supply program, target indicators might include:

- ✓ By 2025, 95% of the population will have access to clean drinking water.
- ✓ The number of water-related diseases will decrease by 50%.
- ✓ The rate of water loss from pipelines will drop by 10%.

*Direct Outcome Indicators* – These are quantitative indicators describing the volume of work performed, services provided, and goods purchased for each activity. They show how budget funds are used and the volume of activities carried out. For example, direct outcome indicators in the clean drinking water supply program might include:

- ✓ Laying 500 km of new water pipelines in rural areas.
- ✓ Laying 500 km of new water pipelines in urban areas.
- ✓ Repairing 100 km of old water pipelines in rural areas.
- ✓ Repairing 100 km of old water pipelines in urban areas.
- ✓ Constructing 25 new water treatment facilities in rural areas.
- ✓ Constructing 25 new water treatment facilities in urban areas.
- ✓ Modernizing 15 old water treatment facilities in rural areas.
- ✓ Modernizing 15 old water treatment facilities in urban areas.

*Final Outcome Indicators* – These indicators describe the main goal achieved and reflect qualitative and quantitative changes in the activities of fund allocating agencies. Final outcome indicators are used to evaluate the effectiveness of programs. For example, in the clean drinking water supply program, final outcome indicators might include:

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- ✓ Availability of clean drinking water in all settlements.
- ✓ A significant reduction in the number of water supply-related problems.
- ✓ A significant reduction in the number of water-related diseases.

In evaluating the efficiency of state-funded projects and programs, target indicators in budget programs must align with the following principles to ensure the effectiveness of budget programs, transparency in state finance, and control over the purposeful and result-oriented expenditure of budget funds:

*Efficiency.* Indicators should reflect the degree of achievement of the main goals of the budget program. For instance, the percentage of the population using clean drinking water reaching 95%.

*Understandability.* Indicators should be clear to both specialists and end-users of services, including individual consumers, thus avoiding complex indicators. Indicators should be simple and understandable, and easily grasped by users. For example, the total length of new water pipelines laid.

*Objectivity.* Indicators should accurately reflect the achieved results and be measurable, not abstract. Indicators should be based on precise data, not abstract or subjective. For instance, the number of new water treatment facilities built.

*Economic Efficiency.* Reporting data should be obtained at minimal cost, relying as much as possible on existing data collection systems. Indicators should be calculated cheaply and quickly and based on existing data systems. For instance, reporting data should be easily obtainable from existing systems.

*Comparability.* Indicators should be chosen to allow continuous data collection and comparison with similar tasks achieved in other periods or international practice. Indicators should be comparable with those of other periods or international standards. For example, water supply indicators in Uzbekistan can be compared with those in neighboring countries.

*Openness.* The development of indicators should involve active participation of citizens and the public. Public opinions and suggestions should be considered. For example, public discussions on projects should be held, and their results taken into account.

*Evaluation Capability.* There should be a possibility to evaluate (calculate) the target indicators. Indicators should be easily evaluated and accurately measured. For example, the number of facilities built or the length of water pipelines laid.

Budget programs should be developed based on medium-term sector development programs (concepts and strategies). During the program development process, a working group consisting of strategic planning, sector specialists, and economic and financial staff is formed, and the head or deputy head of the fund-allocating agency manages this group's activities. Compliance with key principles in developing budget programs is essential. Programs should align with the country's socio-economic development priorities and the competencies and responsibilities of fund-allocating agencies. They should focus on services provided to legal and physical persons, and their names should reflect the services provided. Programs should have clear and feasible goals and objectives, and target indicators should include actual performance, expected performance in the current period, and medium-term forecasts. Additionally, necessary resources for achieving goals should be precisely calculated, potential risks identified, and risk management measures outlined.

### DISCUSSION

For effective and transparent management of budget programs, it is essential to clearly define all stages of their implementation. From the development of a budget program to its execution, monitoring, reporting, and evaluation, these processes must be carried out systematically and rigorously. Each stage encompasses specific and clear tasks, which help to enhance the efficiency of programs and ensure the achievement of their set goals. The development, execution, reporting, and evaluation of a budget program are carried out according to the following scheme. Responsibilities and tasks at each stage are clearly defined, ensuring their coordination and effective collaboration. This scheme enables the targeted and result-oriented expenditure of the state budget, as well as its transparency:

#### I. Development, approval, and amendment of the budget program

1st stage: Primary budget fund allocators Entities: Based on the decisions of the President of the Republic of Uzbekistan and the Cabinet of Ministers, as well as state programs and sustainable development goals, the preliminary list of budget programs for the medium term is submitted to the Ministry of Economy and Finance. Activities: Preparing the preliminary list of programs based on state programs and sustainable development goals and submitting it to the Ministry of Economy and Finance. Deadlines: By May 1 each year Example: Ministries, agencies, and organizations develop development programs in their respective fields. For instance, the Ministry of Water Resources prepares the "Provision of Clean Drinking Water to the Population" program and submits it to the Ministry of Economy and Finance.

2nd stage: Ministry of Economy and Finance Entities: Ministry of Economy and Finance of the Republic of Uzbekistan Activities: Following the approval of the fiscal strategy, it sends the limited amounts of budget expenditures for the coming year to the fund-allocating agencies. Deadlines: Within 5 working days Example: After the fiscal strategy is approved, the Ministry of

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Economy and Finance informs the Ministry of Water Resources about the allocated funds for the "Provision of Clean Drinking Water to the Population" program.

3rd stage: Fund-allocating agencies Entities: Fund-allocating agencies Activities: Developing budget program projects for the medium term and submitting them to the Ministry of Economy and Finance. Deadlines: By August 1 each year Example: The Ministry of Water Resources plans projects to be implemented over the next three years and submits them to the Ministry of Economy and Finance. For example, projects for laying new water pipelines and repairing old ones.

4th stage: Ministry of Economy and Finance Entities: Ministry of Economy and Finance Activities: Reviewing and discussing budget program projects with fund-allocating agencies. Deadlines: By August 25 each year Example: The Ministry of Economy and Finance discusses the draft "Provision of Clean Drinking Water to the Population" program with the Ministry of Water Resources, clarifying the funding volumes and deadlines for the projects.

5th stage: Fund-allocating agencies Entities: Fund-allocating agencies Activities: Reviewing the budget programs according to the budget parameters after the adoption of the Law on the State Budget of the Republic of Uzbekistan and submitting them for registration to the Ministry of Economy and Finance. Deadlines: Within 5 working days Example: After the adoption of the State Budget Law, the Ministry of Water Resources reviews the programs and submits them to the Ministry of Economy and Finance for registration.

6th stage: Ministry of Economy and Finance Entities: Ministry of Economy and Finance Activities: Registering the budget programs and sending them to the fund-allocating agencies. Deadlines: Within 5 working days Example: The Ministry of Economy and Finance registers the "Provision of Clean Drinking Water to the Population" program and sends it to the Ministry of Water Resources.

7th stage: Fund-allocating agencies Entities: Fund-allocating agencies Activities: Making necessary amendments to the budget programs when changes are made to the Law on the State Budget of the Republic of Uzbekistan or when reallocating funds during the fiscal year, and submitting them for registration to the Ministry of Economy and Finance. Deadlines: Within 5 working days Example: If additional funds are allocated or changes are made during the year, the Ministry of Water Resources amends the programs accordingly and submits them to the Ministry of Economy and Finance for registration.

8th stage: Ministry of Economy and Finance Entities: Ministry of Economy and Finance Activities: Reviewing the amended budget programs of the fund-allocating agencies and registering them or returning them for revision. Deadlines: Within 5 working days Example: The Ministry of Economy and Finance reviews the amended programs of the Ministry of Water Resources and registers them or returns them for revision.

II. Execution and monitoring of the budget program 9th stage: Fund-allocating agencies Entities: Fund-allocating agencies Activities: Forming quarterly and annual execution reports for the budget programs. Deadlines: By the 10th day of the month following the end of each quarter, and by January 20 each year Example: The Ministry of Water Resources prepares quarterly execution reports for the "Provision of Clean Drinking Water to the Population" program and submits them to the Ministry of Economy and Finance by the 10th day of the following month. Also, an annual report is prepared and submitted by January 20 each year.

III. Preparation and submission of execution reports for the budget program 10th stage: Relevant structural division of the fund-allocating agency Entities: Relevant structural division of the fund-allocating agency Activities: After summarizing the quarterly and annual execution reports for the budget programs, submitting them for evaluation to the internal audit service. Deadlines: Within 5 working days Example: The relevant division of the Ministry of Water Resources summarizes the quarterly and annual reports and submits them to the internal audit service. After receiving the audit conclusion, the report is sent to the Ministry of Economy and Finance.

11th stage: Fund-allocating agencies Entities: Fund-allocating agencies Activities:

-Submitting quarterly execution reports for the budget programs to the Ministry of Economy and Finance.

-Submitting annual execution reports for the budget programs with internal audit evaluations to the Ministry of Economy and Finance. Deadlines: By the 20th day of the month following the end of the reporting quarter, and by February 20 each year Example: The Ministry of Water Resources submits the summarized quarterly and annual reports to the Ministry of Economy and Finance. Also, by February 20 each year, the annual report is submitted to the internal audit service.

IV. Evaluation of the budget program execution 12th stage: Internal audit service of the fund-allocating agency Entities: Internal audit service of the fund-allocating agency Activities:

-Evaluating the quarterly execution of the budget programs of the fund-allocating agencies.

-Evaluating the annual execution of the budget programs of the fund-allocating agencies. Deadlines: By the 20th day of the month following the end of the reporting quarter, and by February 15 each year Example: The internal audit service of the Ministry of Water Resources evaluates the quarterly and annual execution reports and documents the results accordingly.

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V. Ensuring the transparency of the budget program 13th stage: Ministry of Economy and Finance Entities: Ministry of Economy and Finance Activities: Publishing the approved budget programs on the "Open Budget" portal. Deadlines: Within 10 working days  
Example: After approving the "Provision of Clean Drinking Water to the Population" program, the Ministry of Economy and Finance publishes it on the "Open Budget" portal for public access.

14th stage: Fund-allocating agencies Entities: Fund-allocating agencies Activities: Publishing quarterly and annual execution reports of the budget programs with internal audit evaluations on official websites for public access. Deadlines: By the 30th day of the month following the end of the reporting quarter, and by February 20 each year  
Example: The Ministry of Water Resources publishes the quarterly and annual execution reports with internal audit evaluations on its official website for public access.

According to this scheme, the processes of ensuring the execution, monitoring, reporting, and evaluation of budget programs based on target indicators are systematically carried out. At the same time, active participation of the public is ensured. The importance of implementing Program-Based Budgeting (PBB) in Uzbekistan for the effective and targeted allocation of state funds is significant. This system enhances transparency in planning and managing the state budget, prevents the unlawful expenditure of public funds, and ensures the correct direction of financial resources. As a result, the effectiveness of government expenditures is monitored, and indicators for achieving socio-economic goals are identified.

### PROPOSALS

To effectively and systematically implement PBB in Uzbekistan, it is necessary to clearly define the processes of strategic planning, development of budget programs, their execution, monitoring, reporting, and evaluation. Tasks and responsibilities at each stage should be clearly defined, ensuring their coordination and effective collaboration. Ensuring active public participation and transparency of government expenditures is crucial in the PBB process. Public awareness should be raised by publishing approved budget programs and their execution reports on the "Open Budget" portal, taking into account public opinions. This will strengthen public trust in the government and ensure the effective expenditure of budget funds.

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