

## INSTITUTIONAL AND ECONOMIC MECHANISMS FOR INCREASING THE EFFICIENCY OF PUBLIC FINANCE MANAGEMENT: THE CASE OF UZBEKISTAN

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### Abstract

Public finance management (PFM) plays a central role in ensuring effective governance, economic stability, and long-term development. For transitional economies such as Uzbekistan, enhancing the efficiency of PFM is essential for achieving macroeconomic balance, accelerating socioeconomic progress, and aligning with global standards. This paper examines the institutional and economic mechanisms Uzbekistan has implemented to strengthen its public finance system. By reviewing reforms, strategic frameworks, institutional structures, and economic policies, the study highlights the evolution of Uzbekistan's PFM post-2016, identifies remaining challenges, and suggests directions for future improvements.

### Introduction

Public finance management encompasses the rules, institutions, and procedures that govern how governments collect, allocate, and use public funds. A strong PFM system ensures that resources are used efficiently, spending aligns with revenues, and public accountability is maintained. In countries undergoing economic transition, such as Uzbekistan, continuous PFM reforms are critical for modernizing state institutions, improving investment efficiency, and supporting sustained economic growth.

Since gaining independence in 1991, Uzbekistan has undertaken several economic reforms aimed at liberalizing markets, strengthening fiscal policies, and modernizing public administration. After 2016, these efforts intensified, with particular focus on reforming public finance management. Efficient PFM has been recognized as a cornerstone for macroeconomic stability and long-term socioeconomic development, prompting the government to introduce comprehensive strategies and institutional changes.

### Theoretical Background

#### Principles and Scope of Public Finance Management

Public finance management involves planning, directing, and controlling government revenues and expenditures to achieve economic and social objectives.

Core components include budgeting, tax administration, expenditure oversight, debt management, financial reporting, and internal and external auditing.

The main principles of effective PFM are:

- **Fiscal discipline:** Ensuring government spending does not exceed available resources.
- **Strategic allocation of resources:** Prioritizing sectors and programs that contribute to sustainable development.
- **Efficient execution:** Using public funds effectively and on time.
- **Transparency and accountability:** Making financial information accessible and subject to scrutiny by oversight bodies and the public.

In Uzbekistan, PFM is understood as managing revenues, expenditures, and public debt in a way that ensures macroeconomic stability, equitable resource distribution, and efficient allocation among key socioeconomic sectors.

## **Historical and Institutional Context in Uzbekistan**

### **Evolution of Public Finance Management Since Independence**

After gaining independence in 1991, Uzbekistan inherited a highly centralized, Soviet-style public finance system. This system was characterized by strict control mechanisms, limited transparency, and weak accountability. Early reforms were gradual, focusing on modernizing tax legislation, introducing medium-term planning, and adopting a new budget code.

During the first decade of reforms, institutional capacity remained limited. Revenue collection and expenditure control were often inefficient, and strategic planning was minimal. However, the pace of reform accelerated after 2016, as the government implemented broad economic reforms to liberalize markets, strengthen fiscal governance, promote private sector growth, and modernize public institutions.

### **Strategic Framework for 2025–2030**

In April 2025, Uzbekistan adopted the **Strategy for Enhancing Public Finance Management System (2025–2030, Resolution No. 210)**. Developed with support from the IMF, World Bank, Asian Development Bank, UNDP, and UNICEF, the strategy seeks to modernize the country's PFM system using international best practices.

Key priorities include:

- Strengthening budgetary discipline.
- Implementing medium-term budget planning.
- Enhancing public expenditure efficiency.
- Improving fiscal reporting and transparency.

- Strengthening public investment management.

These reforms aim to align Uzbekistan's PFM system with global standards, improve governance, and provide a stable foundation for sustainable economic growth.

#### **Strategic Framework for PFM Reform (2025–2030)**

In April 2025, Uzbekistan formally adopted the **Strategy for Enhancing the Public Finance Management System for the period 2025–2030** (Resolution No. 210), signaling a comprehensive approach to reform. This strategy was developed in collaboration with major international financial institutions, including the International Monetary Fund (IMF), World Bank, Asian Development Bank, UNDP, UNICEF, and others, to leverage global best practices.

The strategy outlines key priorities:

- Strengthening budgetary discipline.
- Improving medium-term budget planning.
- Enhancing public expenditure efficiency.
- Improving fiscal reporting and transparency.
- Enhancing public investment management.

These structural priorities lay the foundation for systemic transformation by integrating international standards and modern PFM tools into national practice.

### **Institutional Mechanisms for Efficient Public Finance Management**

#### **Legal and Regulatory Framework**

A sound legal and regulatory framework is essential for effective PFM. Uzbekistan's legal basis comprises:

- **Budget Code** regulating budgetary processes.
- Tax and fiscal legislation governing revenue collection and compliance.
- Regulations for treasury systems and public procurement.
- Laws governing public debt and financial reporting.

Recent legal reforms have been directed at modernizing these frameworks to align with international public finance principles and improve predictability and consistency in fiscal operations.

#### **Institutional Architecture**

Several key institutions oversee and implement PFM in Uzbekistan:

- **Ministry of Economy and Finance:** responsible for budget formulation, fiscal policy analysis, revenue forecasting, and public debt strategy.
- **State Tax Committee:** oversees tax collection and enforcement.
- **Treasury System:** manages budget implementation and payment flows.

• **State Financial Control Bodies** (including internal and external audit institutions): monitor compliance with financial regulations and audit public expenditures.

A 2025 study highlights that although institutional frameworks for financial oversight have strengthened, challenges remain in technological integration, transparency, and institutional independence.

### **Fiscal Decentralization and Local Budget Management**

Uzbekistan has introduced mechanisms to enhance the financial autonomy of local governments. For example, policies transfer a significant share of personal income tax and property tax revenues to regional and city budgets—a move aimed at strengthening fiscal decentralization and promoting balanced regional socioeconomic development.

These reforms help local authorities better plan and execute budgets that reflect regional priorities, thus improving the overall performance and responsiveness of the public finance system.

### **Economic Mechanisms for Efficient Public Finance Management**

#### **Tax Policy and Revenue Mobilization**

Efficient tax administration and revenue mobilization are critical to PFM. Uzbekistan has reformed its tax regime, updating tax codes, and improving compliance mechanisms, including digital reporting and taxpayer services aimed at reducing evasion and broadening the revenue base. Though not universally applied, such reforms increase fiscal space and promote fairness.

#### **Budget Planning**

Transitioning from annual to **medium-term budget frameworks (MTBF)** has been a feature of Uzbekistan's recent reforms. MTBF systems allow for multi-year fiscal forecasting, better alignment of policy priorities with funding, and improved predictability of budget decisions—a best practice endorsed in international PFM standards.

#### **Public Investment Management**

PFM reforms increasingly emphasize improving the efficiency of public investment. Aligning investment projects with national development priorities, and subjecting them to rigorous economic justification and impact analysis, reduces wasteful spending and enhances economic returns.

#### **Performance-Based Budgeting**

Performance-based budgeting links resource allocation to measurable outcomes and targets. Recent research indicates growing interest in integrating performance indicators into Uzbekistan's PFM systems to improve accountability and measurement of public spending efficiency.

## **Transparency, Accountability, and Control Mechanisms**

### **Transparency and Public Participation**

Open and transparent PFM systems allow citizens, media, and civil society to monitor government finances. Uzbekistan has undertaken reforms to improve fiscal transparency, including digitization of tax and expenditure reporting, public access to budget data, and efforts to engage stakeholders in the budget process. These measures aim to align national practices with international standards like IMF fiscal transparency guidelines and Public Expenditure and Financial Accountability (PEFA) indicators.

### **Financial Control and Audit**

Internal and external audit structures are pivotal in ensuring accountability. Institutional mechanisms such as internal financial control units, State Financial Control Inspectorates, and independent audit bodies monitor compliance, detect irregularities, and recommend corrective measures. However, enhanced institutional independence and technological tools are needed to improve audit effectiveness.

### **Digital Governance and E-PFM**

The integration of digital technologies has substantially improved efficiency and transparency in many aspects of PFM, such as tax collection platforms, treasury systems, and electronic procurement. Further leveraging e-PFM tools can reduce human error, strengthen control, and enhance real-time financial oversight.

### **Managing Public Debt Within PFM Systems**

Public debt management is integral to PFM, especially for maintaining fiscal sustainability.

### **Debt Strategy and Risk Management**

Managing public debt efficiently requires a coherent strategy that balances financing needs, interest costs, repayment profiles, and macroeconomic risks. Uzbekistan has increasingly focused on debt sustainability analysis and the adoption of best practices in debt management to prevent undue fiscal pressure.

### **Treasury Practices and Market Instruments**

Modern debt management includes the use of treasury securities and market mechanisms to finance deficit needs, enhance liquidity, and develop domestic financial markets, aligning with international norms.

### **Comparative and International Perspectives**

Comparative analyses offer important lessons for Uzbekistan's PFM reform trajectory. International experience underscores key mechanisms such as:

- Fiscal rules (limits on deficits and debt).
- Results-oriented budgeting.

- Medium-term frameworks.
- Transparent and standardized reporting formats.

Empirical comparisons between countries like China and Georgia reveal that transparent budgeting, digital systems, and streamlined tax administration are common drivers of improved PFM performance.

International technical assistance and expert consultations (e.g., from the UNDP and Slovak experts) have supported Uzbekistan in integrating global best practices with local conditions, including aligning public budgets with sustainable development goals (SDGs) and green priorities.

### **Challenges and Policy Recommendations**

#### **Key Challenges**

Despite progress, several challenges remain:

- **Institutional capacity gaps:** Skills and technical capacity for advanced budget analysis and forecasting.
- **Transparency:** Continued efforts are needed to publish high-frequency data and strengthen institutional independence.
- **Decentralization imbalances:** Aligning local fiscal autonomy with national priorities without eroding fiscal discipline.
- **Performance monitoring:** Embedding performance budgeting across ministries remains uneven.

#### **Policy Recommendations**

To enhance PFM efficiency further, policymakers should:

1. **Strengthen legal frameworks** to integrate international norms and ensure predictable fiscal rules.
2. **Expand medium-term budget frameworks** across all spending agencies.
3. **Invest in digital PFM systems**, including e-budget platforms and real-time reporting.
4. **Advance fiscal transparency** by adopting broader disclosure practices aligned with PEFA and IMF guidelines.
5. **Enhance audit independence** and strengthen capacity building for financial oversight bodies.

#### **Conclusion**

Uzbekistan's journey toward efficient public finance management demonstrates significant institutional and economic transformation, with a clear strategic direction set for the period 2025–2030. Amid ongoing reforms,

strengthening fiscal discipline, enhancing transparency, and modernizing budget practices have been pivotal. While challenges remain, concerted efforts by the Government, supported by international cooperation, have positioned Uzbekistan to build a more resilient, transparent, and effective PFM system that supports long-term sustainable development.

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