

## VI. Government Budgeting and Accounting

This chapter describes government budgeting and accounting arrangements. For the purposes of this report, government is defined as central and local government organizations – state-owned enterprises are covered elsewhere along with private sector organizations. The chapter is structured as follows:

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### 1. Introduction

In line with other reforms, Uzbekistan has taken a gradual approach to reforming public sector budgeting, accounting and reporting arrangements. These arrangements represent a continuation of pre-transition central planning systems and are based on the Soviet model of accounting that dictates prescriptive rules and requirements. The information provided meets the needs of central planning but does not provide the necessary information to support transparent, accountable or efficient government operations. The Government is continuing to improve fiscal management systems and processes – particularly since 1996. In addition, a public investment planning (PIP) framework and process has been successfully established. The PIP framework covers capital budgeting and planning for the public sector.

## 2. Legal Framework for Budgeting and Reporting

The provisions of the *Accounting Law* 1996 (Chapter II refers) apply equally to private sector and public sector accounting arrangements and practices.

With respect to budgeting, the present *Law of Budget Principles* dates back to 1988. A new law on *Organization of the Budget of the Republic of Uzbekistan* was drafted in 1995, with USAID assistance, but was never approved. In 1999, in place of this proposed law, the Cabinet of Ministers approved a resolution on *Improved Order of Budget Financing*. This resolution updated revenue classifications to international standards and adopted some of the more acceptable provisions that had been included within the proposed law.

## 3. Budgeting Roles and Responsibilities

The MOF, together with its subsidiary organizations at the local government level, prepares the Republican (national) budget as well as final accounts. The MOF is also responsible for implementing and monitoring budget plans. The Ministry of Macroeconomics and Statistics (MMS) has prime responsibility for macroeconomic forecasting. It also prepares the public investment plan (PIP), which is then integrated into the Republican budget.

## 4. Budget Composition

General government operations comprise the Republican budget, extra-budgetary funds, and local budgets. The major Republican extra-budgetary funds are the Social Insurance Fund, the Road Fund, the Employment Fund, the State Fund (privatization), and the Raw Materials Fund. The revenues of those funds are, respectively, social security contributions, road tax, employment tax, privatization revenues, and natural resource taxes. The 269 local governments have the right to create extra-budgetary funds.<sup>31</sup> Local budgets make up about 43 percent of the total state budget. Local budgets are funded by shared taxes between Republican and local budgets, subsidies from the Republican budget, and taxes and fees imposed and collected at the

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<sup>31</sup> The 269 local governments comprise 12 *oblasts*, the city of Tashkent, the autonomous Republic of Karakalpakstan, and 255 *rayons*.

local level. The revenue distribution between the Central Government and local governments is unclear and has varied over time.

## **5. The Budget Process**

The budget process is as follows:

- Around July-August, the MMS produces the macroeconomic forecast for the next fiscal year. The MOF prepares a fiscal forecast based on the macroeconomic forecast. Fiscal forecasting is carried out through cooperation of the Main Budget Department, the Tax Forecasting Division (revenues), the Division of Consolidated Budget Preparation (expenditures), and the Department of Macroeconomic Policy.
- The budget timetable is articulated in a Cabinet Resolution in late-August / early-September. The timetable indicates two key dates: the date for the submission of demands by spending ministries and committees to the MOF, and the date for the MOF to present the budget draft to the Cabinet.
- Around the same time of the Cabinet Resolution, the MOF circulates instructions on preparing draft budgets.
- Spending ministries draw together the demands of spending units, and submit these to the MOF by the date indicated in the Cabinet Resolution (usually mid-September).
- Sectoral departments in the MOF review the draft budgets of spending ministries. The sectoral departments prepare and present a summary to the Main Budget Department.
- The Public Investment Plan is prepared by the MMS and presented to the MOF.
- The MOF prepares the draft Republican Budget for submission to the Cabinet by the beginning of October.
- The Cabinet reviews and amends the draft Budget over a period of around a month. It makes a resolution on the Budget and the final draft is submitted to Parliament.
- Parliamentary committees study the draft and submit it for approval to the Parliamentary session.
- Parliament approves the Republican Budget at the end of December.

## 6. Public Investment Programming Process

Uzbekistan's Public Investment Programming (PIP), or capital budgeting, process was developed by the MMS with support from TeamWork International Consultants.<sup>32</sup> The first PIP was presented for the 1999–2001 period. The PIP includes a list of high priority projects that are designed to meet the Government's strategies and objectives. The PIP process is as follows:

- Around January to March, line ministries collate and screen new projects that have been submitted to them.
- During March to May, line ministries formulate new projects for the next PIP and sectoral ceilings are set for each ministry.
- In May, line ministries prioritize and select project proposals for submission to the MMS.
- In June to July, the MMS collates all project information in the PIP database for appraisal.
- In August, the MMS prioritizes projects in line with government objectives and other selection criteria.
- In September, the draft PIP is produced and presented to the Cabinet of Ministers.
- During September-October, the draft PIP is amended and the PIP for the next year's budget is submitted to the MOF.
- In December, the Cabinet of Ministers approves the PIP.

## 7. Accounting Bases and Asset Management

Uzbekistan uses sector-neutral accounting standards, that is, with few exceptions, accounting standards, regulations, and procedures apply equally to public sector organizations and to private sector organizations. Budget organizations account and report in accordance with the *Accounting Law 1996*, NASs, Accounting Instructions for Budget Organizations and state budget classifications.

Government accounting is primarily undertaken in the banking system. The Budget Department's Accounting Unit mainly deals with approved expenditure authorizations, summarizing reports presented to the MOF, and keeping reconciled financial records with the banking system. In this way, government accounting relies heavily on the

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<sup>32</sup> TA No. 2771-UZB: *Improving Aid Coordination and Management*, for \$600,000 approved on 18 March 1997.

reporting from the banking system, which is carried out in cash terms, and reflects the distribution of budgetary funds rather than actual spending. Detailed accounting of actual spending is made available to the MOF from ministries' reports on a quarterly basis. However, there is a time lag of up to eight weeks. Accounting is based on the budget classification and thus is oriented mostly to the recording data, but not to providing information for fiscal management.

A dual cash-accrual basis is used for budget preparation. The initial emphasis is on cash information – accrual information is prepared later. Budget monitoring is also on a cash-accrual basis. For enterprises that have been converted from fully to partly state-owned enterprises, only private sector accounting practices apply. Assets registers are maintained for public sector organizations as for private sector organizations. Information includes asset class, description, purchase date and cost, and location. Working papers support depreciation calculations.

## 8. Financial Reporting

The *Accounting Law 1996* and the *Resolution of the Cabinet of Ministers on Improved Order of Budget Financing 1999* governs the financial reporting of government organizations. Table 5 describes the external reports that government organizations must prepare.

Table 5: External Reports Prepared by State Organizations

Description / Details	Legal Requirement	Regularity	Required Timing
Form 1-OX. Monthly report on budget execution compared to the Estimates.	<i>Accounting Law 1996</i>  <i>Resolution of the Cabinet of Ministers on Improved Order of Budget Financing 1999</i>	Monthly	By the 5 <sup>th</sup> day following the end of the reporting month.
Form 2. Quarterly report on budget execution compared to the Estimates.		Quarterly	By the 10 <sup>th</sup> day following the end of the reporting quarter.
Form 2- RJ. Report on the inflow and utilization of development funds.		Quarterly	
Balance Form on the Implementation of the Estimates.		Quarterly	As specified by the Ministry of Finance.

As the financial reporting requirements for the private and public sectors are the same, the staged introduction of National Accounting Standards, based on International Accounting Standards, will improve public sector reporting.

## **9. Benchmarks, Ratios, and Covenants**

There are no standard performance ratios or covenants for project or enterprise performance. Each project is considered on an individual basis and social and financial covenants are applied as a benchmark usually acting on advice of the donor in the case of donor-funded projects.

## **10. Accounting Information Systems**

The accounting systems used by central and local government organizations are predominantly manual. Some state-owned enterprises have computerized financial information systems. There is no modern central information management information system – significant reliance is placed on information from banks and on spreadsheets for central collation of data.

Reviews were conducted on the Ministry of Finance's debt and cash management processes, with the assistance of the UNDP and the World Bank (1998-1999). Consequently, the UNCTAD system was implemented in 1999. The system has not been used operationally due to Ministry of Finance concerns over functionality.

## **11. Anti-Corruption Measures**

One would expect opportunities for corruption in the Republic of Uzbekistan given the:

- systems of administrative controls and licensing, particularly in the foreign exchange and trade regime
- lack of transparent norms and procedures in public contracting and procurement, and
- pursuit of an activist industrial policy supported by the discretionary award of tax and market concessions.

A recent study of governance, that included measures of corruption, ranked only 14 countries (of the 155 for this measure) as having a higher level of corruption than the Republic of Uzbekistan.<sup>33</sup>

There are, however, difficult methodological issues involved with the measurement of corruption. In Uzbekistan's case, the foreign exchange regime combined with the high level of regulation, are likely to skew these results. The Government's strategy for tackling corruption has three parts:<sup>34</sup> (i) further economic liberalization to reduce the opportunities for corruption; (ii) strengthening the legal and judicial system to ensure the rule of law and protection of individual rights; and (iii) moral and public education of the evils of corruption.

In the past two years, a number of measures have been taken to prevent unauthorized interference of the Government and controlling agencies into business activities. In particular, a helpline service has been established at the Cabinet of Ministers and in the regions. Businesspeople can report violations to the helpline.

ADB has supported in-country workshops on anti-corruption, procurement, and disbursement procedures to familiarize government officials with best practices in transparent and efficient project implementation. In addition, the recent ADB TA on public investment programming provided some initial assistance in establishing procurement and contracting procedures for construction. The UNDP is also providing support on anti-corruption initiatives.

The factors that the President outlined to address corruption are consistent with standard anti-corruption prescriptions. Indeed, the recent liberalization of the foreign exchange regime (1 July 2000) represents a partial step forward in this direction. ADB's recent initial assistance to develop transparent and contestable procurement procedures is also a positive measure. In respect of anti-corruption measures, the Government should consider building on the initial assistance from ADB by developing and adopting a national

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<sup>33</sup> Kaufmann, Daniel, Aart Kraay and Pablo Zoido-Lobaton. 1999. *Governance Matters*, Working Paper: The World Bank.

<sup>34</sup> Karimov, Islam (President of the Republic of Uzbekistan). 1998. *Uzbekistan on the Threshold of the Twenty-First Century*. St Martin's Press. p. 56.

procurement law and set of regulations that provide an institutional framework for competitive procurement and contracting.