


**PROBLEMS OF FINANCING THE SOCIAL SPHERE FROM THE STATE BUDGET OF UZBEKISTAN**

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Article Info	ABSTRACT
<p><b>Article history:</b>                      Received Jul 10, 2024                      Revised Jul 20, 2024                      Accepted Jul 22, 2024</p> <p><b>Keywords:</b>                      Quality of life                      Social sphere                      Social and cultural activities                      Budget financing                      Local budget                      Consolidated budget                      Education                      Healthcare                      Housing and communal services                      Physical culture and sports                      Social security</p>	<p>The social sphere occupies an important place in the economic system of the country. For the rapid development of the social sphere, it is necessary to stimulate the priority allocation of funds to this sphere. Budget funds are the main source of funding for socio-cultural activities. Budget spending on the social sphere serves as a financial guarantee for the use of social services by citizens of the country at the required level. The purpose of this article is to develop a scientific proposal and practical recommendations for improving the mechanism for financing the social sphere from the budget through the correct distribution of powers between local budgets.</p> <p style="text-align: right;">This is an open-access article under the <a href="https://creativecommons.org/licenses/by/4.0/">CC-BY 4.0</a> license.</p> 

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DOI : <https://doi.org/10.61796/ijaifd.v1i5.266>

**INTRODUCTION**

Social sphere - a set of national economic sectors serving the population and development of the main production, including education, culture, health care, physical education and sports, social security, housing and communal services, household services for the population, which support the all-round development of the individual and provide free time.

In the current conditions, the social sector is an important factor in the development of productive forces, occupying an important place in the country's national economy complex. Uzbekistan is a socially oriented country, priority development of social spending and support of human potential is given primary importance to social and household infrastructure.

Changes are expected in the wording of Article 1 of the Basic Law of the country, which has been unchanged since 1992. According to the proposed text of the project, it is determined that Uzbekistan is a sovereign republic, a legal, social, secular, democratic state. In the congratulation of the President of the Republic of Uzbekistan, Sh. Mirziyoev,

dedicated to the 29th anniversary of the adoption of the Constitution of Uzbekistan on December 7, 2021, "At the same time, we still have a lot to do in terms of fully implementing the norms of our Constitution, ensuring the priority of law and justice in society, human rights and interests, and its dignity more effectively. we have a good idea of what we have to do" [1], they emphasized about the important requirements of the legal state.

In this congratulation, "... now Uzbekistan is boldly moving towards building a social state and a just society. Therefore, the time has come to enshrine the principle that "New Uzbekistan is a social state" as a constitutional rule...", "A social state provides housing for the needy and the minimum amount of consumer goods necessary for living. It requires a decent wage, employment, safe working conditions, and reduction of poverty of a person and his family " [1].

Thus, the Constitution of Uzbekistan guarantees the list of public social services provided to the citizens of the country at the expense of the state. Forming a socially oriented economy will create standard living conditions for people and satisfy their spiritual needs, which will lead to an increase in the quality of life of the population; including stopping the growth of unemployment, providing pensions to disabled persons, ensuring the creation of an effective system of social protection of the population by providing the citizens of the country with equal access to a certain list of state services, regardless of their place of residence.

In the field of public finance, public expenditures are of primary importance. The economic content of state expenses is fully covered in the works of L. Koss, who defined this concept as expenses made by authorized bodies to meet the needs of the state. Authors of neoconservative theory, for example, study social spending as a system of unprofitable spending with a charitable nature. Expediency of state budget expenditures requires a rationale. In this situation, it is necessary to study various theories and views, among which "Veblen effect" and "Pareto optimum" are widely used.

According to T. Veblen, one of the founders of the direction of institutionalism, "institutions are the result of the processes that happened in the past, they are adapted to the past conditions and, therefore, they may not fully agree with the requirements of the present era" [2]. The author of the theory of "idle classes" claims that the financial classes have a certain interest in the development of financial institutions, when they look after the interests of the "idle classes". "Veblen effect" shows the subjective nature of the bureaucratic zone, which is caused by the functioning of institutions or, above all, the pecuniary interests of the upper strata of the population.

The concept of "Pareto optimum" allows to make a decision to maximize profit, respectively, utility, where the theoretical proof of the optimal combination of consumption is based on personal assessment of one's well-being; through the well-being of individual people, social well-being, the incommensurability of the well-being of individual people is determined. Changes that benefit one person may harm another. In this situation, if the winner compensates the loss suffered by the loser, he is said to accept this change and an increase in total welfare can be added. According to the Pareto optimum, an objective assessment of the effectiveness of public expenditures is required in the process of reaching an agreement between the state and taxpayers.

In the works of modern economists, budget expenditures are studied as "funds provided for financing the tasks of state authorities and local self-government bodies in the budget at the appropriate level.

## **METHODS**

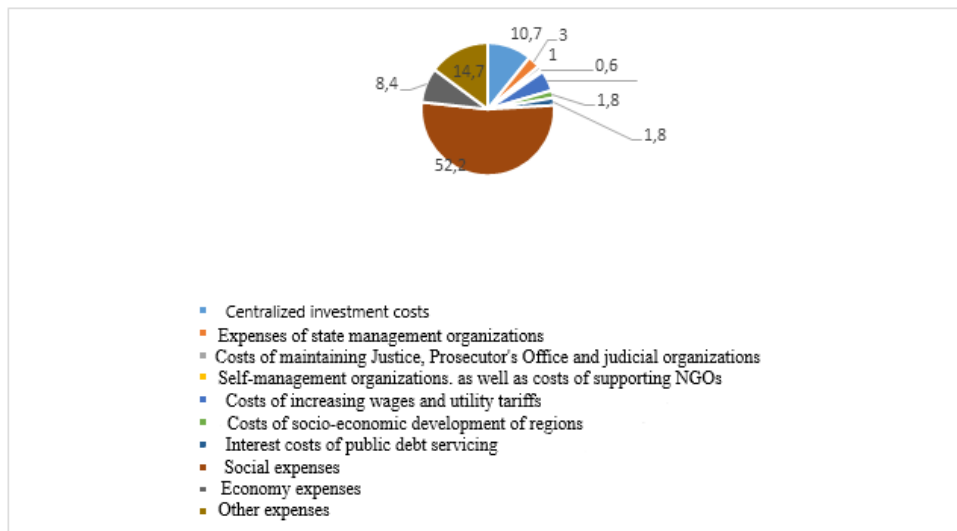
The methodological basis of the research is the basic rules and principles of dialectics. In the study of the processes of financial support of the social sphere by the state, they were approached from the quantitative and qualitative point of view, that is, the method of collecting, processing and analyzing information about the sources of financing of the social sphere was relied on. Logical analysis, synthesis, generalization, induction and deduction, systematic approach to economic events and processes were used to draw conclusions from the data.

## **RESULT AND DISCUSSION**

The socio-cultural sphere occupies a priority place in the complex of the national economy. The ability of the regions to develop human capital and solve a whole set of social problems depends, first of all, on the financial capabilities of the authorities of the region. For the priority development of the social sphere, it is necessary to ensure the priority income of funds to this sphere. Financial resources for the maintenance and development of social infrastructure are allocated from several sources: from the budget, extra-budgetary funds, enterprise and population funds, that is, budgets of all levels and state extra-budgetary social funds.

The main purpose of social spending is to increase the material and cultural living standards of the country's population. The social expenditures of the state include expenditures on education, social policy, health care, physical education and sports, culture and art, mass media. However, the development of human capital is affected by a wide range of expenses, first of all, it can be expenses for the maintenance and development of housing and communal economy, and expenses made through state extra-budgetary social funds. In spite of the lack of public financial resources, social spending is reduced to a lesser extent than spending on industry, agriculture and other "production" needs. Because state spending on social and cultural activities is a financial guarantee of citizens' access to the necessary level of social services, which is established by the basic law of the country.

Thus, the allocation of budget funds to the social sector is consistent with the state policy aimed at forming a socially oriented economy. Budget funds are the main source of financing the social and cultural sphere. More than 52% of the expenses of the budget system of the Republic of Uzbekistan are directed to the development of the social sphere of the country.

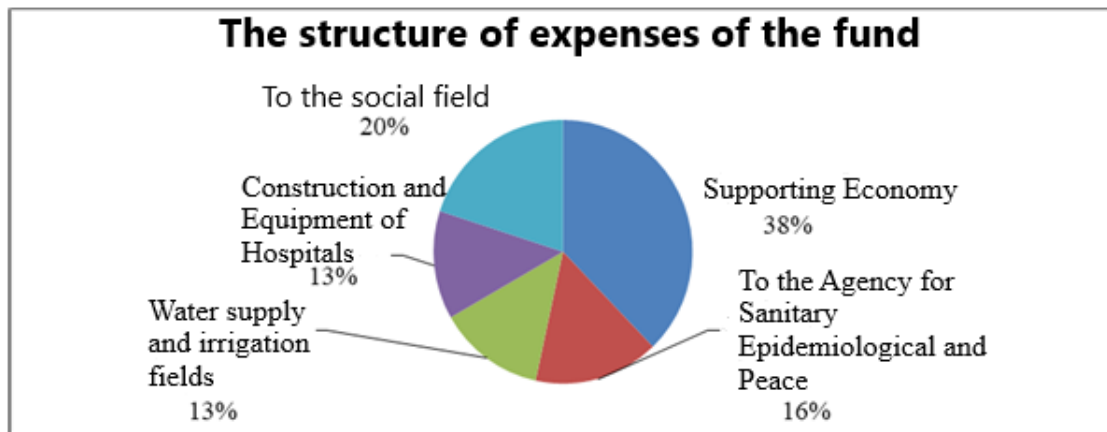


**Figure 1.** The composition of state budget expenditures in 2021, in % [3]

Among the expenditures of the state budget, expenditures on the social sphere and social support of the population remain significant. Taking into account the persistence of risks associated with the coronavirus pandemic, in 2021 funds of 3 trillion sums were allocated to the measures to fight against the coronavirus and the purchase of vaccines. In 2021, taking into account measures to stabilize the macroeconomic situation and continue structural structural reforms, economic growth was 5.4%. In 2021, the inflation rate was 11%.

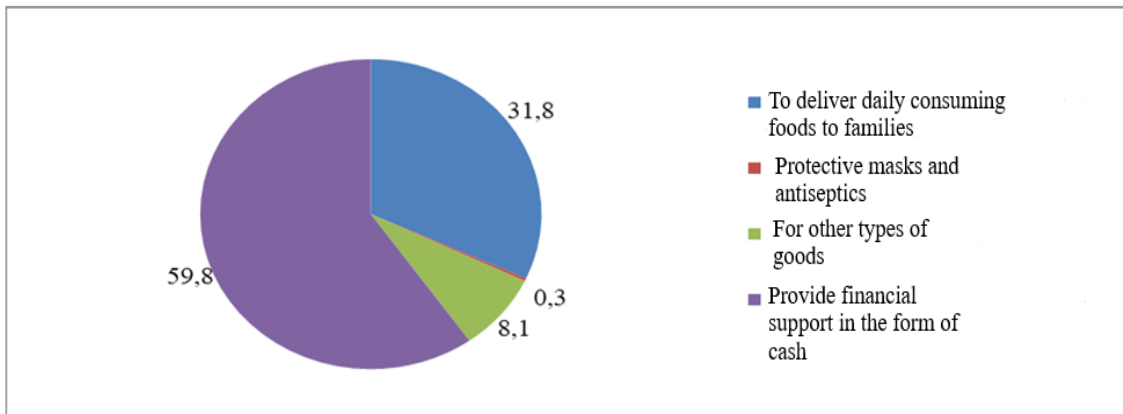
The crisis of the Covid-19 pandemic has exacerbated social protection problems in all countries. Support of socially vulnerable categories in measures to support the population has become an urgent issue of budget expenditures. Social protection expenses amounted to 10,244.7 billion sums. In 2021, the growth of coverage of families with social benefits continued. The number of low-income families receiving social benefits has doubled compared to the beginning of 2020. For the first time, it was planned to allocate 50 billion soums to provide housing for orphans [3].

In the period until June 17, 2020, a total of 7.44 trillion Soum funds have arrived will be allocated at the expense of the Anti-Crisis Fund established in our country under the conditions of the coronavirus pandemic. Including 7.32 trillion. preferential loans of international financial institutions and 123.5 billion sums was formed at the expense of the state budget. Consolidated budget expenditures in 2022 are forecasted to be 277.2 trillion sums or 33% of GDP. This was reported in the conclusion of the Chamber of Accounts on the draft law on the state budget for 2022 and the budget [4].



**Figure 2.** The composition of the total costs of the anti-crisis fund (as of 17.06.2020, in percentage)[5]

In the context of the "Covid-19" pandemic, the national movement "Generosity and Support" was launched in our country. By June 16, 2020, a total of 194 billion will be transferred to the fund. 625 mln. more than sums of donations were received. Within the framework of the "Generosity and Support" national movement, lists were created to support needy families, and 300,383 families in need of social assistance received about 119 billion. assistance of soms was given (Fig. 3).



**Figure 3.** The composition of expenses for supporting families in need within the framework of the "Generosity and Support" national movement (as of 16.06.2020, in percent)[5]

It was reported that in the next year, the expenses of the state budget will be 177.7 trillion sums (excluding transfers to state special funds), the expenses of state special funds will be 58 trillion sums, and the expenses of the Reconstruction and Development Fund will be 14.8 trillion sums (excluding transfers to state special funds).

Analyzing the information presented in the draft law, a total of 3 trillion from the state budget for 104 state HEIs. It is planned to allocate 640.9 billion soums, of which 2 trillion 378 billion sums (65%) are allocated to the Ministry of Higher and Secondary Special Education for 51, and almost 1 trillion 263 billion sums (35%) for the remaining 53 is reflected in the funds allocated to 16 sectoral ministries and agencies.

**Table 1.** Forecast of the consolidated budget for 2022 and goals for 2023-2024, trillion soums (data from the budget)[4]

Indicators	2022	2023	2024
Consolidated budget expenditures	277,2	300,0	337,8
As a percentage of GDP	33,0	30,8	30,0
State budget expenditures	177,7	194,0	221,7
Expenditures of state budget trust funds	58,0	61,7	67,0
Expenses of extra-budgetary funds of budgetary organizations	14,6	15,6	16,3
Spending of the funds of the Recovery and Development Fund	14,8	15,1	18,0
Expenditure on government programs at the expense of external debt	12,0	13,6	14,9

101.1 billion soums from the 158.8 billion soums allocated to the Ministry of Pre-School Education during the analysis of the cost estimates registered by the Accounts Chamber in 2021 and the critical review of the possibilities of optimizing the over-planned funds. was accepted due to the fact that it was not used. In the draft law, a total of 166.8 billion soums is planned for the Ministry of Pre-School Education to establish 5132 preparatory groups and 4768 rooms in the 2021-2022 academic year.

"In 2022, it is stated in the budget document that the salary indexation of employees working in budget institutions (7%) will be lower than the expected inflation rate (9.0%), property tax rates from individuals will be increased by 10%, electricity by 33%," it is said in the conclusion of the Chamber of Accounts.

Also, in the state budget, it is planned to allocate more than 1 trillion 849 billion soums of subsidy funds for 2022 to finance programs for providing housing to the population. Within the framework of the new procedure, resources for mortgage loans will be allocated at the expense of funds attracted from international financial organizations. According to the conclusion, according to the conclusions of the experts of the Asian Development Bank (issued in July 2018), 145,000 houses should be built per year for the next 25 years to provide the population with housing.

Based on the above, the Accounts Chamber analyzed the subsidy funds, and in the 2022 budget draft, 2.1 trillion was allocated to finance programs for providing housing to the population. it was recommended to allocate (additional 250.3 billion soums) subsidies.

- a. about 1 trillion 524 billion soums to cover part of the initial contribution and interest payments on mortgage loans for the purchase of apartments for 25,676 citizens in 2022;
- b. 53.6 billion soums to cover a part of interest payments on loans allocated to 2,900 citizens individually for housing construction;
- c. 357.9 billion soums to 17,808 citizens for interest payments of subsidies paid in 2020 and 2021;
- d. 164.5 billion soums to cover part of the interest payments on mortgage loans allocated to 7352 military personnel.

The state budget draft for 2022 envisages the allocation of 23.2 billion soums or 2.8% of GDP for centralized capital investments. According to the information provided



in the budget, it is planned to implement the following within the framework of investment expenses at the expense of the state budget funds:

Funding of the tasks specified in the decrees and decisions of the President and visits to the regions. More than 47 trillion 576 billion sums are provided in the 2022 state budget draft for the implementation of programs and measures for the socio-economic development of the republic based on the President's orders. In particular, it is planned to implement the following state programs from the state budget in 2022:

1. More than 5 trillion 412 billion sums for the development programs of the continuous education system in the training of highly qualified personnel at the level of today's requirements in the field of education;
2. 563.6 billion sums for science development programs;
3. More than 4 trillion 205 billion sums for state programs to improve the quality of medical services to the population in the field of health care;
4. 418.5 billion sums for financing state programs in the field of culture;
5. 588.7 billion sums for state programs for the development of physical education and mass sports;
6. A total of 2 trillion 889 billion sums for the costs of ensuring entrepreneurship and population employment;
7. A total of 2 trillion for state programs and activities in the field of agriculture. 327 billion sums, of which: 50 billion sums to cover the costs of fighting against pests and to ensure the preservation of crops in emergency situations;
8. 120.2 billion sums for subsidies for cocoon crops grown at home by individuals;
9. 736.0 billion sums to cover costs related to the introduction of drip irrigation technology in 63 raw cotton growers and vineyards;
10. 1 trillion 200 billion sums for the implementation of the programs adopted for geological research expenses;
11. 1 trillion 100 billion sums for the expenses of the "prosperous village" and "prosperous neighborhood" programs;
12. 800 billion sums for the cost of the population census in Uzbekistan in 2022;
13. More than 1 trillion 152 billion sums for compensation costs incurred as a result of keeping tariffs for the population at low prices for heat supply enterprises;
14. It is planned to allocate 100 billion sums for disposal costs to local automobile manufacturers.

In the conclusion of the Chamber of Accounts, the annual average exchange rate of 1 US dollar for 2022 is forecasted at 11321 sums. When the Accounts Chamber analyzed the volume and address list of financing investment projects at the expense of the state debt in the draft law, it was found that the projects provided for in the draft Investment Program for 2022 were not coordinated with the indicators of the state budget.

In particular, although the draft law envisages the financing of 85.0 million dollars (962.2 billion sums) for 3 projects of the Ministry of Public Education, in reality these projects are promising in the Investment Program. Owned by "Uzsuvtaminot" JSC of the Ministry of Housing, Communal Services 720.5 billion sums (63.6 million dollars) of financing within 11 projects is planned in excess, 253 for the financing of the project "Reconstruction of the centralized heat supply system in the cities of Andijan, Chirchik, Bukhara, Samarkand and Tashkent" and 253, Funds of 9 billion sums (22.4 million dollars) are not provided at all. Funds of 561.5 billion sums (49.6 million dollars) for a total of 12 projects planned to be financed by the Ministry of Health in 2022 are not provided for in the bill.

Similarly, 51.7 million dollars (585.2 billion sums) for the projects of the Ministry of Water Economy, 19.5 million dollars (220.7 billion sums) for the Ministry of Innovative Development, 9 million dollars for the Ministry of Economic Development and Poverty Reduction 6 mln. dollars (108.7 billion sums), according to the Ministry of Investments and Foreign Trade, there are differences of 4.5 million dollars (50.9 billion sums).

According to the information, in the consolidated budget project, the total income of the State trust funds in 2022 (excluding transfers) is forecasted at 31.7 trillion sums, and the expenses at 58.5 trillion sums. In order to develop the projects of the budgets of the state trust funds without allowing a deficit, they were developed taking into account the expected remaining funds of the state trust funds at the beginning of 2022 in the amount of 6.1 trillion sums. It is planned to allocate 25.4 trillion sums of targeted transfers from the state budget to the state funds for the full implementation of the state functions assigned to them.

However, the mere increase of social costs does not mean an increase in the efficiency of their use. The main criterion of the effectiveness of spending funds in the social sector is the increase in the quality of life of the country's population, which can be measured by the average life expectancy of the population, the incidence rate of major diseases, the number of social and household infrastructure objects, the real income of the population and a number of other indicators.

According to statistical data, the quality of life of the citizens of Uzbekistan is improving in accordance with the increasing state spending on human development. In the project "Concept of socio-economic complex development of the Republic of Uzbekistan until 2030", it is predicted to increase the rating of the country's human development index from 105th place (according to the 2018 report) to 40th place. In the report of the United Nations Development Program published in December 2019, Uzbekistan ranked 108th in this index. To achieve this goal, the average life expectancy in Uzbekistan should be increased by at least 3.5 years (from 71.6 to 75 years) and the gross national income per capita should also increase by at least 4 times [6].

A large number of published ratings and comparisons are non-controversial and conditional in nature, but they show that the state of the republic is not very good in terms of important social criteria [7].

If in the USSR in 1990 the replacement ratio (the ratio of pensions to wages) was 46%, compared to the recommended international norm of 40%, today it has dropped to one [8].

In this regard, for the priority development of the social sphere, it is necessary to ensure the priority flow of funds to this sphere. Based on the level of balance of these budgets, the main burden of financing the social sphere will depend on the creation of a favorable environment for the all-round development of the population of the regions. However, one of the main problems of Uzbekistan at the current stage is the proportional development of local budgets of regions according to the level of socio-economic development [9].

If a large part of Uzbekistan's local budgets is subsidized, problems arise in financing important items of budget expenditures [10]. Education occupies a large share of social and cultural activities in the expenditures of the budget of Uzbekistan, and its share in the structure of social sphere expenditures is 35%. In this case, local budgets bear the main burden of financing this large-scale expenditure item [11].



In addition, in recent years, there has been a considerable increase in the weight of expenditures made at the expense of local budgets, that is, a part of the state tasks are being gradually transferred to local authorities, and local budgets today remain the main source of financing social and cultural activities. Therefore, the main factor for increasing the efficiency of the use of state resources in the social sphere is, first of all, the optimal demarcation of powers between the levels of management in this sphere.

However, giving regional and especially local authorities additional powers to finance social expenses without providing them with the necessary sources of income will lead to a deterioration of the state of regional budgets and a lack of funds to ensure other investment goals. As a result, the region will be forced to direct all funds to finance growing social obligations. This leads to insufficient financing of the production sector, as a result of which the situation of economically underdeveloped regions worsens, and it does not allow regional governments to take measures to increase their income.

This issue can be solved only by providing the regional authorities with sufficient sources of income to finance the obligations assigned to them.

## CONCLUSION

Improving the financing of the social sector from the budget requires several key steps: strengthening the accountability of regional authorities in managing funds for socio-cultural activities, clearly delineating expenditure responsibilities across different levels of government to ensure efficient fund allocation, providing regional authorities with sufficient revenue through decentralization and additional tax revenues to local budgets, and achieving balanced regional and local budgets. Addressing these issues will enhance the efficiency of social sector financing, ultimately improving the quality of life for the population and supporting the main goals of the state's socio-economic policy.

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