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The Essence of Local Budgets and Their Importance in the Socio-Economic Development of Regions

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Abstract: This article extensively highlights the economic essence of local budgets, their sources of formation, expenditure structure, and their role in socio-economic development. Initially, various economic and legal definitions of local budgets are analyzed, clarifying their primary functions and characteristic features. The revenues of local budgets are studied separately as own revenues, assigned revenues, regulatory revenues, and financial transfers. Expenditures are classified based on a two-tier budget system. Additionally, the article substantiates the relevance of regional budget autonomy and mechanisms for their formation and management. The impact of local budgets on social spheres, the economy, infrastructure, and employment is illustrated with examples. This article provides a comprehensive analysis of the economic nature of local budgets, the principles of their formation, and their direct and indirect impact on the socio-economic development of regions. Local budgets are an integral part of the state financial system, and their correct and effective organization plays a decisive role in a number of important factors, such as the development of infrastructure in the regions, improving the living standards of the population, supporting social sphere facilities, and stimulating entrepreneurship. The article covers the sources of formation of local budgets, inter-budgetary relations and tax-based distribution mechanisms, as well as modern approaches to their management on a scientific and theoretical basis. In particular, special attention is paid to the reforms being carried out to ensure the financial independence of regions and districts, ways to increase budget revenues, as well as urgent issues of ensuring cost efficiency, using the example of the Republic of Uzbekistan.

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1. Introduction

Effective management of an economy based on market relations significantly depends on the rational use of financial resources. In particular, central and local budgets within the public finance system operate harmoniously as essential tools to ensure sustainable economic development. Therefore, local budgets are seen not only as integral components of financial management but also as strategic foundations for the socio-economic development of regions. Within the framework of ongoing fiscal reforms, important issues include improving the budget system, strengthening the financial autonomy of local governments, enhancing transparency, and ensuring efficiency in the budgetary process. From this perspective, scientifically studying the nature, revenue

sources, and expenditure structures of local budgets, identifying existing issues, and developing practical recommendations possess significant scholarly importance[1].

The economic progress of any country is directly linked to how effectively its financial system, particularly the central element—the budget system—is established. Enhancing financial relations between components of the budget system ensures efficient redistribution of state funds, execution of economic and social state functions, and development of production, market, and social infrastructure[2].

The economic reforms currently underway in our country necessitate further enhancement of the budget system and budgetary processes, financing medium and long-term state and regional programs, and improving transparency in budgetary processes[3].

The budget system is shaped by the comprehensive socio-economic, legal, and other characteristics of a particular country. The budget system comprises various levels of budgets and budget recipients, principles of budget formation, and relationships arising during the budgetary process among these budgets and between budgets and budget recipients. Often, the budget system is simply described as "the aggregate of existing budgets in a country." More precisely, the budget system includes budgets at all levels, state targeted fund budgets, extra-budgetary funds of budget institutions, principles of budget formation, and interactions arising throughout the budgetary process[4].

2. Materials and Methods

The state budget of the Republic of Uzbekistan serves as a centralized financial resource to support state functions and responsibilities and consists of:

- a. The Republican Budget of the Republic of Uzbekistan;
- b. Local budgets of the Republic of Karakalpakstan, regions, and the city of Tashkent[5].

When researching issues related to enhancing the autonomy of local budgets within the structure of the state budget, it is essential first to clarify the essence of local budgets and form a common understanding. It must be noted that economic literature still interprets local budgets differently:

- a. "Local budgets represent collections of financial resources formed and utilized to address local issues[6]".
- b. "Local budgets are accumulations of financial resources directed by local self-governing bodies to solve socio-economic tasks in the regions."
- c. "Local budgets are financial reserves supporting local self-governance bodies, allocated to economic sectors and financing enterprises, organizations, and institutions under local authority."
- d. "Local budgets constitute financial funds directed by local authorities to fulfill expenditure obligations within their competences."
- e. "Local budgets are integral parts of the state budget specific to regions, districts, and cities, including sources of revenue, receipts, and planned expenditures for the fiscal year."
- f. "Local budgets serve as financial sources for local governance activities."
- g. "Local budgets determine the primary direction for delivering production results to the population."
- h. "Local budgets consist of the state budget of the Republic of Karakalpakstan, regional budgets, and lower-level (city, district) budgets within regional budgets[7]".
- i. "Local budgets are the primary financial bases for local authorities. The rights provided by legislation allow local governments to create, consider, approve, and execute their budgets, manage enterprises under their control, and generate revenue from them."

According to the National Encyclopedia of Uzbekistan, local budgets are defined as "a component of the state budget consisting of funds accumulated within the respective province, district, and city." Additionally, there are specific legal definitions for local

budgets[8]. For instance, the law "On Budget System" of the Republic of Uzbekistan, effective until 2013, describes a local budget as "a part of the state budget constituting a fund of monetary resources of respective provinces, districts, and cities, specifying sources of income and their amounts, as well as expenditures directed toward particular objectives throughout the fiscal year."

From the above descriptions, it is evident that significant work has been done in economic literature to define the essence of local budgets, leading to numerous definitions. A comparative analysis of these definitions highlights several critical characteristics of local budgets. Firstly, they primarily focus on satisfying the socio-economic needs of specific provinces, districts, and cities.

Secondly, local budgets serve as the financial foundation for local government bodies, requiring clear identification of income sources and the amounts received. Thirdly, local budgets finance enterprises, organizations, and institutions under local government authority, explicitly indicating expenditure directions for specific purposes[9].

It should be noted that these characteristics must simultaneously be present to reveal the true essence and nature of local budgets effectively.

Local budgets are instrumental in financing essential tasks such as ensuring socio-economic development of regions, improving existing infrastructure, protecting social welfare, and promoting urban development. Funds from local budgets are allocated to education, healthcare, social welfare, culture, and municipal services. Key functions of local budgets include funding activities of local governmental and administrative bodies, distributing financial resources to local economic sectors, financing and controlling the operations of enterprises, organizations, and institutions subordinate to local budgets[10].

Today, regional financial institutions are becoming essential tools for implementing socio-economic policy. Local budgets facilitate the development of local production, improve employment rates, attract investment for long-term regional economic development, and satisfy essential social needs of the population[11].

Based on the above, a local budget can be defined as a legally approved, standardized fund comprising income and expenditures formulated to meet the requirements of a specific administrative territory (province, district, city). Local budgets fund social, economic, and other expenses not covered by the national budget within the administrative regions. Local budgets play a crucial role in targeted funding for budgetary institutions and recipients at the closest budgetary level[12].

Currently, Uzbekistan has 214 local budgets of various levels, serving as primary financial funds contributing significantly to the socio-economic development of their respective administrative regions Figure 1.

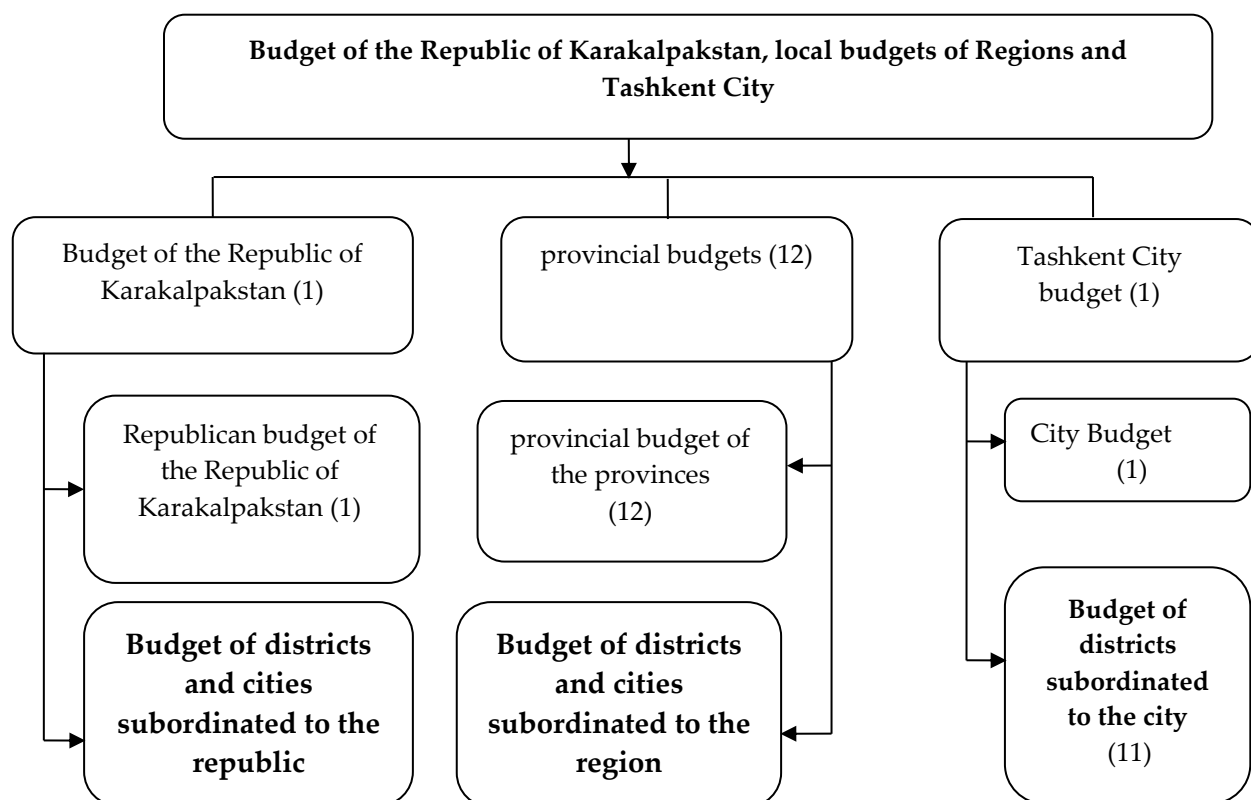


Figure 1. Structural composition of local budgets.

The effective implementation of the functions and duties assigned to local government bodies is directly related to the extent to which they are provided with financial resources. Efficient and prudent management of local budgets makes it possible to ensure social protection of the population, support the activities of local producers and expand their operations, promote production and entrepreneurship, increase employment, improve social, industrial, and market infrastructure, beautify and develop local areas, equip public service institutions with modern material and technical facilities, and develop the local economy[13].

Through local budgets, a portion of the Gross Regional Product (GRP) is allocated to meet the general socio-economic needs of the region. The activities of local production and service entities are regulated and managed through local budgets[14].

Local budgets play an important role in financing and supporting the activities of local government bodies. Therefore, the formation and management of local budget funds are of primary importance for the residents of the region. While the main objective of public finance at the national level is to fund strategically important programs, the funds of local budgets are aimed at covering the current expenses of a particular territory[15].

3. Results and Discussion

The stability of local budgets directly depends on the structural composition and amount of their revenues and expenditures. The sufficiency of local budget revenues relative to expenditures determines their level of independence.

Attached revenues consist of those income sources derived from certain nationwide taxes that, according to the law, should be transferred to the republican budget, but are fully allocated to the local budget to ensure its financial stability. Regulated revenues, on the other hand, are portions of major high-capacity taxes and other mandatory payments, which are supposed to be collected into the republican budget but are retained in local

budgets based on normative allocations in order to maintain a balance between revenues and expenditures of local budgets.

Financial transfers are revenues transferred from higher-level budgets to lower-level ones to ensure budgetary balance. The composition of financial transfers can be categorized into social transfers and regulatory transfers.

The structural composition of local budget expenditures also has its own classification and characteristics. In economic literature and legal-regulatory documents, a general approach exists regarding the structure of local budget expenditures. However, in practice, they are structured to align with the administrative-territorial organization of each region, comprising 14 major local budgets and 214 subordinate local budgets. Based on this, in our opinion, local budget expenditures consist of expenditures from the 14 major local budgets (including the 12 regional budgets, the city budget of Tashkent, and the republican budget of the Republic of Karakalpakstan) and from the subordinate (lower-level) budgets.

The financial capacity of regions determines the sustainability of local budgets. "The financial capacity of a region depends on its resource potential, natural conditions, socio-economic development, economic structure and specialization, and the balance of interregional relations. Nevertheless, all regions must have equal and independent rights in forming and utilizing financial resources."

The socio-economic development of regions is ensured through the financial resources of local budgets. Local budgets play an indispensable role in the timely and effective financing and implementation of national and regional programs. Based on this, the importance of local budgets in the socio-economic development of regions is manifested in the following aspects:

- a. Being the primary financial source for the functioning of local governance bodies;
- b. Financing of social sector expenditures within the relevant administrative territory;
- c. Supporting the growth and development of economic sectors in the regions, including industry, production, entrepreneurship, and service provision;
- d. Improving and enabling the development of infrastructure;
- e. Creating a financial foundation for beautification, greening, and construction activities in the regions;
- f. Serving to provide material support for vulnerable and low-income segments of the population;
- g. Acting as a key tool for delivering the final results of production to the population.

4. Conclusion

In conclusion, local budgets are formed at each regional, district, and city level in accordance with the country's administrative-territorial division. As a structural part of the state budget, the local budget serves as a financial source for ensuring the socio-economic development of the regions. The degree of independence of local budgets is of critical importance for the timely and quality delivery of state-guaranteed socio-economic services in the regions, and for the effective implementation of state and regional programs. Therefore, in the next section of our dissertation, we find it appropriate to explore the independence of local budgets, the system of indicators reflecting this independence, and the factors influencing it.

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