

**EXTRA-BUDGETARY FUNDS IN BUDGETARY INSTITUTIONS: SOURCES OF
FORMATION AND RULES OF UTILIZATION**

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ABSTRACT: This article provides an in-depth analysis of off-budget funds in budgetary organizations, including their nature, sources of formation, legal framework, financial control mechanisms, and principles for effective utilization. It highlights the role of such funds in maintaining budgetary discipline, enhancing the financial independence of institutions, and ensuring the sustainable management of public finances. The article also addresses current legislative practices, existing challenges, and policy recommendations.

Keywords: off-budget funds, budgetary organization, financial control, financial independence, legislation, fund utilization.

Introduction.

In the context of deepening market relations, effective management of public finance, ensuring the financial sustainability of budgetary institutions, and strengthening their initiative have become some of the most pressing issues of today. In particular, reducing the burden on the state budget through the rational and efficient use of extra-budgetary funds and increasing the level of self-financing of social sector institutions are of significant importance.

Extra-budgetary funds serve as an additional financial source for budgetary institutions, playing a crucial role in enhancing their financial independence, enabling flexible use of resources, and improving operational efficiency. However, insufficient development of the legal and regulatory framework governing the formation, management, and use of these funds, as well as weaknesses in financial control mechanisms, in some cases leads to problems such as misuse of funds, lack of transparency, and inadequate accountability.

Therefore, an in-depth study of the extra-budgetary funds system in budgetary institutions, identification of existing problems, and development of proposals aimed at addressing them are of great scientific and practical significance. This article provides a detailed analysis of the formation of extra-budgetary funds, the procedures for their utilization, the legal foundations, and the mechanisms for their effective management.

Literature review.

The issue of extra-budgetary funds of budgetary institutions is one of the financial and economic topics that has received special attention in the practice of Uzbekistan and foreign countries. These funds are regarded as resources that are not financed from the state budget but play an important role in the activities of institutions. They often serve as an additional source of income for social sector institutions such as education, healthcare, and culture.

In the regulatory documents of the Ministry of Finance of the Republic of Uzbekistan, the sources of formation of extra-budgetary funds, as well as the procedures for their planning, accounting, and reporting, are clearly defined. In particular, the Law “On State Financial Control” (2021), the Regulation “On Budget Accounting,” as well as decrees and resolutions of the President of the Republic of Uzbekistan and the Cabinet of Ministers, specify the legal framework governing these funds.

In academic literature, including the works of economists A. Abdulkarimov, S. Yusupov, T. Khaydarov, and others, fundamental research has been conducted on the use of budgetary funds, financial discipline, and control mechanisms. Their studies emphasize the necessity of analyzing extra-budgetary funds and managing them based on principles of efficiency and accountability. Foreign experience in this area is also noteworthy. For example, in Russia, Germany, and the United States, the formation of extra-budgetary funds is achieved through practices such as operating on the basis of institutions’ own revenues, grants, and financing mechanisms based on public–private partnerships (PPP). This serves as an important tool for strengthening their financial independence.

In addition, reports by international financial institutions such as the World Bank, the IMF (International Monetary Fund), and UNDP (United Nations Development Programme) provide recommendations on ensuring transparency and monitoring systems for extra-budgetary funds.

Methods.

This research aims to examine the formation, management, and utilization procedures of extra-budgetary funds in budgetary institutions. The study was conducted based on the following methodological approaches: analytical method, comparative analysis, regulatory and legal analysis, descriptive approach, and the development of practical recommendations.

Analysis and results.

The comprehensive and integrated nature of public finance requires the establishment of a complete and reliable information base to ensure the efficiency and effectiveness of the use of budgetary funds. In organizing the accounting of financial assets in budgetary institutions, the following tasks are assigned to accounting:

1. To organize the accounting of financial assets of budgetary institutions in accordance with the requirements of current regulatory and legal documents;
2. To ensure the timely and accurate documentation of financial assets in primary and consolidated accounting documents and accounting registers;
3. To ensure the targeted use of budgetary and extra-budgetary funds in accordance with approved income and expenditure estimates;
4. To accurately, fully, and timely reflect the availability and movement of financial assets in accounting accounts;
5. To control the safekeeping of cash funds held in the institution’s cash desk, personal accounts, cash documents, and financial investments;
6. To identify exchange rate differences on foreign currency funds based on the exchange rates established by the Central Bank of the Republic of Uzbekistan and to timely record them in accounting registers;
7. To generate accounting information on the availability and movement of budgetary and extra-budgetary funds of budgetary institutions, and other related tasks.

When maintaining the accounting of cash funds, institutions take into account letters of credit, cash equivalents, foreign currency funds, and other monetary assets. Foreign currency funds and

related transactions are recorded in the national currency (Uzbek soum) by recalculating them at the exchange rate of the Central Bank of the Republic of Uzbekistan applicable on the date of the transaction (as indicated in relevant bank statements and other supporting documents).

In budgetary institutions, settlement transactions are carried out using non-cash payment methods. In this process, payment orders are primarily used. In payment orders, the payer is indicated as the Treasury or its territorial divisions. The name of the budgetary institution, its personal account number, and taxpayer identification number (TIN) are specified in separate lines of the payment order.

To carry out cash transactions in budgetary institutions, a cash service is organized. For cash transactions, separate cash books are maintained for funds in the national currency and for funds in foreign currency.

In the chart of accounts used for accounting financial assets, the following accounts are defined:

1. “Budget funds in accounts”;
2. “Extra-budgetary funds in accounts”;
3. “Cash”;
4. “Other cash funds”;
5. “Financial investments”.

In general, it can be stated that the accounting of financial assets in budgetary institutions is characterized by the following features:

- Cash funds of budgetary institutions are maintained in separately opened personal accounts through the Single Treasury Account;
- When settlements are carried out by budgetary institutions, legal and financial obligations are registered and paid by the treasury authorities;
- In non-cash settlement transactions conducted by budgetary institutions through treasury bodies, only the payment order form is used;
- Budgetary funds and extra-budgetary funds are accounted for separately;
- No cash balance limit is established for cash funds held in the cash desks of budgetary institutions, and other similar features.

From this perspective, the accounting of information on the revenues and expenditures of extra-budgetary funds of budgetary institutions within the structure of budget system resources is of particular importance.

By the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 506 dated August 24, 2020, “On Approval of the Strategy for Improving the Public Finance Management System of the Republic of Uzbekistan for 2020–2024,” the reflection of extra-budgetary funds of budgetary institutions within the consolidated budget was identified as one of the key directions in improving public finance management.

According to the Law of the Republic of Uzbekistan No. O’RQ–660 dated December 30, 2020, “On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Improvement of the Budget Process,” the extra-budgetary funds of budgetary institutions were included in the consolidated budget of the Republic of Uzbekistan.

In addition, by the Law of the Republic of Uzbekistan No. O’RQ–741 dated December 29, 2021, Article 461, Part Two of the Tax Code was supplemented with provisions applicable to:

- organizations of tax consultants;
- auditing organizations;
- non-profit organizations, including budgetary institutions.

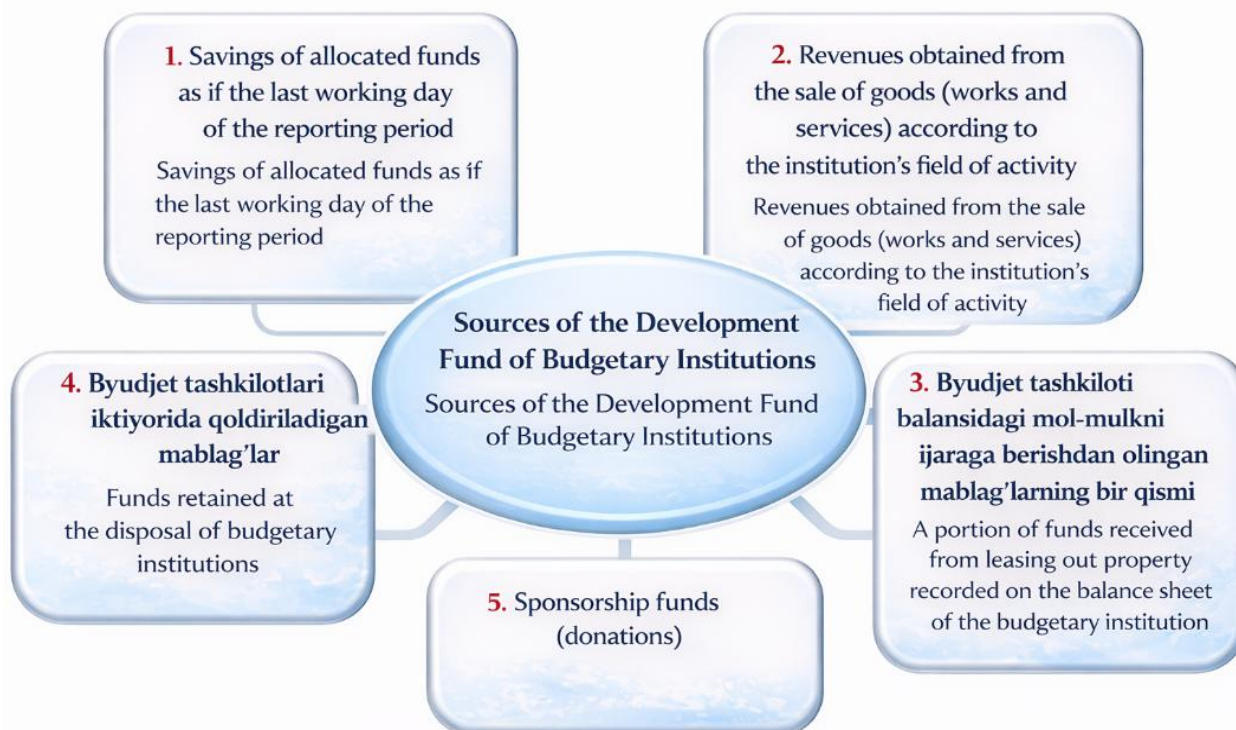
According to this law, starting from January 1, 2022, budgetary institutions are not considered payers of turnover tax; instead, they are defined as value-added tax (VAT) payers. This implies

that, with respect to extra-budgetary funds, budgetary institutions are required to calculate and pay general taxes, namely profit tax and value-added tax, in accordance with the procedures established by the Tax Code.

Furthermore, pursuant to the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 414 dated September 3, 1999, "On Improving the Procedure for Financing Budgetary Institutions," budgetary institutions generating additional income were exempt, from January 1, 2000 to January 1, 2024, from taxes collected to the state budget, contributions to the Republican Road Fund, and mandatory allocations to state targeted funds. The released funds were to be purposefully directed toward strengthening the material and technical base of institutions, as well as providing material incentives to their employees in accordance with the procedures established by law, which should be taken into account.

According to Article 44 of the Budget Code of the Republic of Uzbekistan, the extra-budgetary funds of budgetary institutions consist of the following components. The development of these funds ultimately serves to expand the autonomy of heads of budgetary institutions, increase their responsibility, and reduce the dependence of budgetary institutions on financing from the state budget:

- the Development Fund of a budgetary institution;
 - the Material Incentive and Development Fund of healthcare institutions;
 - extra-budgetary funds of ministries, state committees, and agencies;
 - extra-budgetary funds of budgetary institutions formed from collected fees and charges.
- (Budget Code, 2013)



Sources of the Development Fund of Budgetary Institutions

In the Budget Code of the Republic of Uzbekistan, the sources for forming the revenues of these funds and their expenditure directions are defined. The specific features of revenue formation and the procedures for their utilization are regulated on the basis of Decrees of the President of the Republic of Uzbekistan, resolutions of the Cabinet of Ministers of the Republic of Uzbekistan, decisions of relevant ministries, and approved regulations.

In particular, in accordance with Article 60 of the Budget Code of the Republic of Uzbekistan, as well as the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 414 dated September 3, 1999, “On Improving the Procedure for Financing Budgetary Institutions,” the funds of the Development Fund of Budgetary Institutions are formed from the sources presented in Figure 1.

According to the Regulation, the sources of the Development Fund of Budgetary Institutions are formed through the following system:

1. Savings of funds under the expenditure estimate as of the last working day of the reporting quarter, excluding funds allocated for financing capital investments. Directing savings achieved under the expenditure estimate to the development fund is important for attaining higher efficiency in the use of budgetary funds and creating conditions for the rational allocation of available resources.

2. Revenues obtained from the sale of goods (works and services) according to the specialization of activities. In this area, budgetary institutions are granted broad opportunities and privileges. In particular, the Law of the Republic of Uzbekistan No. O‘RQ–637 dated September 23, 2020, “On Education,” grants state educational institutions the right to provide paid educational services and other services, as well as to engage in entrepreneurial activities in accordance with the tasks defined in their charters. At the same time, it is emphasized that the provision of paid educational services must not hinder the core activities of state educational institutions. Similar provisions apply to budgetary institutions in healthcare, culture, water management, and other sectors, allowing them to generate income through the sale of goods, works, and services aligned with their specialization.

3. A portion of funds received from leasing property recorded on the balance sheet of a budgetary institution. According to the Decree of the President of the Republic of Uzbekistan No. PF–5630 dated January 14, 2019, “On Measures to Fundamentally Improve the System of State Asset Management, Regulation of Antimonopoly Activities, and Capital Market Development,” and subsequent amendments, revenues from leasing unused facilities by budgetary institutions are distributed as follows:

- 40 percent to the balance holder of state property;
- 25 percent to the relevant local budget revenues;
- 20 percent to the “Center for Organizing the Efficient Use of Idle Facilities” under the State Assets Management Agency;
- 15 percent to the relevant center.

The base rental rate for buildings and structures is calculated as follows:

$$T_s = E_s \times K_z \times (K_q + K_h + K_o),$$

where:

T_s – base rental rate per square meter per year;

E_s – minimum rate per square meter per year;

K_z – territorial zone coefficient;

K_q – coefficient based on the type of construction (stand-alone building, annex, upper floor, attic, loft, semi-basement, basement);

K_h – coefficient for the use of adjacent territory;

Ko – coefficient reflecting convenience for commercial use (location along main or secondary transport routes, etc.).

The minimum rental rates for buildings and structures are determined based on calculations submitted by the State Competition Committee of the Republic of Uzbekistan and agreed upon with the Ministry of Economy and Finance. These rates are approved by the Council of Ministers of the Republic of Karakalpakstan, regional administrations, and the Tashkent city administration and may not be lower than the established minimums. Calculations of minimum rental rates are prepared annually by November 1 and coordinated with relevant ministries before final approval by December 15.

4. Funds retained at the disposal of budgetary institutions in accordance with the established procedure. Funds obtained from the sale of inventory items that were previously in use but are no longer needed, released due to current or capital repairs, or intended for sale based on production activities aligned with the institution's specialization are accumulated in the personal treasury accounts of budgetary institutions under the Development Fund. According to Resolution No. 414, these funds are distributed as follows:

- 50 percent transferred to the relevant budget revenues;
- 50 percent retained in the personal treasury accounts of budgetary institutions under the Development Fund (or, for institutions not covered by treasury execution, in demand deposit accounts).

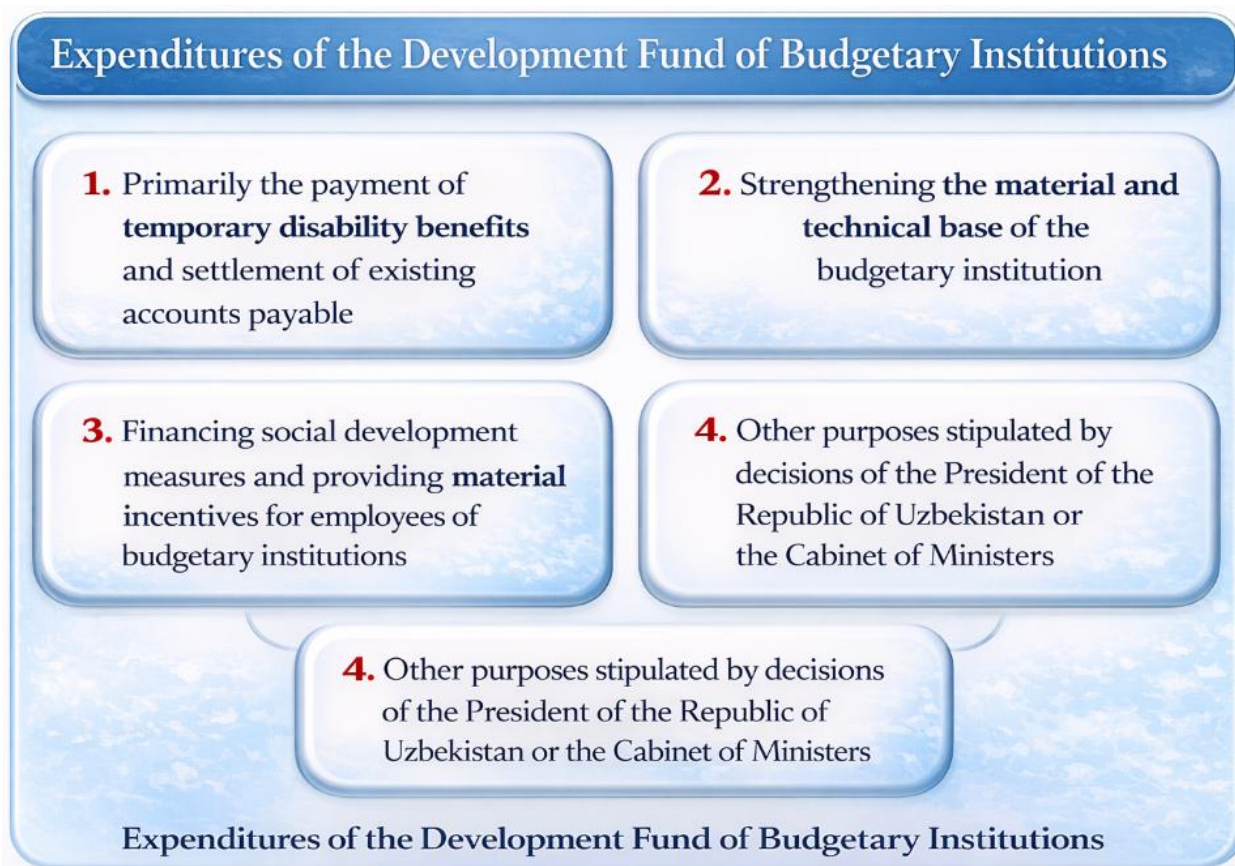
Funds retained at the disposal of budgetary institutions from the sale of inventory items are directed toward strengthening their material and technical base in accordance with their field of activity.

5. Sponsorship funds. All sponsorship funds provided to budgetary institutions by legal entities and individuals, unless otherwise specified by separate agreements with sponsors, are directed toward strengthening the material and technical base of the budgetary institution.

Extra-budgetary funds in budgetary institutions contribute to increasing employee performance efficiency, providing material incentives, developing the material and technical base, and creating conditions for staff retention. In turn, this contributes to reducing state budget expenditures.

Unless otherwise stipulated by legislation, expenditures of the Development Fund of Budgetary Institutions are directed exclusively toward the following purposes (Figure 2):

- primarily, the payment of temporary disability benefits and settlement of existing accounts payable;
- strengthening the material and technical base of the budgetary institution;
- financing social development measures and material incentives for employees of budgetary institutions;
- other purposes stipulated by decisions of the President of the Republic of Uzbekistan or the Cabinet of Ministers.



According to Resolution No. 3416 dated January 16, 2023, jointly adopted by the Ministry of Health of the Republic of Uzbekistan, the Ministry of Employment and Labor Relations of the Republic of Uzbekistan, and the Ministry of Finance of the Republic of Uzbekistan, “On Approval of the Regulation on the Fund for Material Incentives and Development of Medical Institutions,” the funds of the Material Incentives and Development Fund of medical institutions are formed from the following sources.

Conclusion.

The system of extra-budgetary funds in budgetary institutions serves as an important instrument for enhancing their financial independence, initiative, and operational efficiency. These funds are formed through various sources, including paid services, grants, sponsorships, contractual activities, and other legally permitted means. Proper management and targeted allocation of these funds play a crucial role in strengthening budgetary discipline, ensuring the rational distribution of financial resources, and preventing corruption.

Analytical findings indicate that, at present, insufficient control over extra-budgetary funds, incomplete digitalization of accounting and expenditure mechanisms, as well as the partial obsolescence of the regulatory and legal framework, are causing practical challenges. This, in turn, hinders the full implementation of the principles of transparency, efficiency, and accountability.

Therefore, the following proposals and recommendations may be put forward:

- To introduce a unified information system for the formation and utilization of extra-budgetary funds;

- To transition to a digitalized and automated system of accounting and reporting for these funds;
- To update the regulatory and legal framework in line with international standards;
- To strengthen continuous monitoring by financial control authorities;
- To expand the opportunities for extra-budgetary funds within the framework of public-private partnerships.

The implementation of these measures will contribute to ensuring the financial sustainability of budgetary institutions, reducing the burden on the state budget, and making a significant contribution to the development of the social sector.

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