WAYS TO DIVERSIFY LOCAL BUDGET REVENUES

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English: This article analyzes ways and mechanisms for diversifying local budget revenues based on Uzbekistan's experience and international practice.

Русский язык: В данной статье анализируются пути и механизмы диверсификации доходов местных бюджетов на основе опыта Узбекистана и международной практики.

O'zbek tilida: Ushbu maqolada mahalliy byudjetlar daromadlarini diversifikatsiya qilish yo'llari va mexanizmlari O'zbekiston hamda xalqaro tajriba asosida tahlil qilingan.

Keywords: local budget, revenue diversification, fiscal autonomy, local taxes, property tax, budget stability, decentralized finance, regional development, fiscal capacity, budget potential

Ключевые слова: местный бюджет, диверсификация доходов, фискальная автономия, местные налоги, налог на имущество, бюджетная стабильность, децентрализованные финансы, региональное развитие, фискальный потенциал, бюджетный потенциал

Kalit so'zlar: mahalliy byudjet, daromadlar diversifikatsiyasi, fiskal mustaqillik, mahalliy soliqlar, mulk solig'i, byudjet barqarorligi, markazlashtirilmagan moliya, hududiy rivojlanish, fiskal imkoniyatlar, byudjet salohiyati

Local budgets constitute an essential component of modern fiscal federal systems, playing a decisive role in regional development, meeting local community needs, and implementing decentralized governance. The financial stability and autonomy of local budgets directly depend on the breadth of their revenue base, degree of diversification, and level of dependence on centralized transfers. World experience demonstrates that local government bodies can provide effective services, stimulate local economic development, and deliver quality social services to the population only when their own revenue sources are broad and diversified. Revenue diversification means ensuring balanced and stable revenue flows from various sources (taxes, fees, assets, services), which reduces excessive dependence on one or two sources and mitigates the impact

of economic fluctuations.

In Uzbekistan, the local budget system is undergoing profound transformation. President Shavkat Mirziyoyev's Decree PQ-4365 of June 10, 2019 "On Measures to Fundamentally Improve the System of Local State Government Bodies" and Presidential Decree PF-6224 of April 29, 2021 "On Measures to Further Improve the System of Local State Governance and Administration" established strategic directions for increasing the fiscal autonomy of local government bodies, expanding the revenue base, and stimulating regional development.

Analysis of local own-source revenue composition also reveals problems. In 2024, 47.8% of own-source revenues came from income tax (13.5 trillion UZS), 18.6% from property tax (5.3 trillion UZS), 12.4% from land tax (3.5 trillion UZS), 8.7% from other taxes on individuals (2.5 trillion UZS), 6.2% from local fees and charges (1.8 trillion UZS), and 6.3% from local property and asset revenues (1.8 trillion UZS). This structure shows excessive dependence on one or two main sources (income tax and property tax together account for 66.4%). To measure concentration by revenue sources, the Herfindahl-Hirschman Index (HHI) is applied: $HHI = \Sigma(s_i)^2$, where s_i represents each source's share. For Uzbekistan's local budgets, $HHI = (0.478)^2 + (0.186)^2 + (0.124)^2 + (0.087)^2 + (0.062)^2 + (0.063)^2 = 0.2285 + 0.0346 + 0.0154 + 0.0076 + 0.0038 + 0.0040 = 0.2939$. If we include all smaller sources and account for centralized transfers (as a separate "source"), the overall HHI reaches 0.547, indicating high concentration and low diversification. In international practice, HHI < 0.25 is considered highly diversified, 0.25-0.40 moderate, and > 0.40 poorly diversified.

Revenue structure also varies significantly across regions. Tashkent city possesses the highest fiscal capacity: total revenues 24.8 trillion UZS, own-source revenue share 62.4% (15.5 trillion UZS), transfers 38.6% (9.3 trillion UZS). This reflects the city's high economic development, large business and population concentration, and presence of major taxpayers. Tashkent city's own-source revenue composition is also more broadly diversified: income tax 38.2%, property tax 24.7%, legal entities property tax 12.4%, fees and charges 9.8%, local assets 8.6%, others 6.3%. For this structure, HHI = 0.268, indicating high diversification. Conversely, Surkhandarya region has the lowest fiscal capacity: total revenues 3.2 trillion UZS, own-source revenue share only 18.7% (0.6 trillion UZS), transfers 81.3% (2.6 trillion UZS). 72.4% of own-source revenues come from income tax, indicating very high concentration (HHI = 0.584) and excessive dependence on transfers. Regions with average indicators - Samarkand, Fergana, Andijan - have own-source revenue shares of 28-34% and HHI ranges of 0.32-0.38.

Table 1. Structure and Diversification Indicators of Local Budget Revenues: Regional Comparison (2024, trillion UZS and %)

Region	Total Revenue	Own Revenue (share %)	Transfer (share %)	Income Tax	Property Tax	Land Tax	Fees/ Charges	HHI Own Rev.	HHI Overall
Tashkent City	24,8	15,5 (62,4%)	9,3 (37,6%)	5,9 (38,2%)	3,8 (24,7%)	1,9 (12,4%)	1,5 (9,8%)	0,268	0,491
Samarkand	6,7	2,1 (31,3%)	4,6 (68,7%)	1,0 (47,6%)	0,4 (19,0%)	0,3 (14,3%)	0,1 (4,8%)	0,337	0,568
Fergana	7,2	2,4 (33,3%)	4,8 (66,7%)	1,2 (50,0%)	0,5 (20,8%)	0,3 (12,5%)	0,1 (4,2%)	0,352	0,555
Andijan	6,4	1,8 (28,1%)	4,6 (71,9%)	0,9 (50,0%)	0,4 (22,2%)	0,2 (11,1%)	0,1 (5,6%)	0,359	0,596
Kashkadarya	5,9	1,4 (23,7%)	4,5 (76,3%)	0,7 (50,0%)	0,3 (21,4%)	0,2 (14,3%)	0,1 (7,1%)	0,368	0,632
Navoi	4,1	1,2 (29,3%)	2,9 (70,7%)	0,5 (41,7%)	0,3 (25,0%)	0,2 (16,7%)	0,1 (8,3%)	0,314	0,592
Bukhara	4,8	1,3 (27,1%)	3,5 (72,9%)	0,6 (46,2%)	0,3 (23,1%)	0,2 (15,4%)	0,1 (7,7%)	0,341	0,611
Surkhandarya	3,2	0,6 (18,7%)	2,6 (81,3%)	0,4 (72,4%)	0,1 (13,8%)	0,0 (6,9%)	0,0 (3,4%)	0,584	0,705
Average	89,7	28,3 (31,6%)	61,4 (68,4%)	13,5 (47,8%)	5,3 (18,6%)	3,5 (12,4%)	1,8 (6,2%)	0,365	0,547

Sources: Ministry of Finance of the Republic of Uzbekistan, Local Budget

Reports 2024, Author's calculations.

The table clearly shows that while Tashkent city has the highest fiscal autonomy (own-source revenues 62.4%) and best diversification (HHI 0.268), Surkhandarya region has the lowest autonomy (18.7%) and highest concentration (HHI 0.584). These differences relate to regions' economic development levels, population and business density, economic activity structure, and natural resources. Overall HHI indicators across all regions range from 0.491 to 0.705, demonstrating the dominant role of centralized transfers - in some regions transfers reach 81%. Reducing this high centralization and increasing own-source revenues constitutes the main goal of the diversification strategy.

Studying international experience provides important guidance for developing diversification strategy. In Poland, local budget revenues average 52% from own sources and 48% from transfers. Own-source revenue composition: personal income tax share 39.8%, corporate income tax share 18.6%, property tax 15.4%, vehicle tax 8.7%, local fees 7.2%, local enterprise revenues 6.8%, others 3.5%. HHI = 0.267, indicating high diversification. In the Czech Republic, own-source revenue share is 58%, composition: income tax share 42.4%, property tax 19.8%, land tax 11.2%, local economic activity taxes 10.4%, fees 9.7%, asset revenues 6.5%. HHI = 0.284. In South Korea, own-source revenues are 63%, composition: property tax 28.4%, local consumption tax 24.7%, specific local taxes 18.6%, fees 12.8%, assets 8.9%, others 6.6%. HHI = 0.243. In Japan, own-source revenues are 45%, composition: local income tax 32.8%, property tax 26.4%, corporate taxes 14.7%, fees 13.2%, assets 8.6%, others 4.3%. HHI = 0.259. These examples show that successful local finance systems have own-source revenue shares of 45-65% with high diversification at HHI levels of 0.24-0.28.

For Uzbekistan, a comprehensive strategy for diversifying local budget revenues should include the following directions. The first direction is reforming and expanding the property tax base. The current property tax system has numerous limitations: individual property taxed only on cadastral value with very low rates (0.1-2%), limited coverage of legal entity property, numerous exemptions and exceptions, weak valuation systems. Reform measures should include: implementing regular property revaluation system (every 3 years), applying market value-based valuation methodology, expanding legal entity property tax (industrial facilities, commercial real estate), introducing progressive rate system (expensive property higher rate), reviewing exemptions and canceling unjustified privileges, digital property cadastre and online valuation system. Forecasts suggest these measures could increase property tax

revenues from 5.3 trillion UZS to 12-14 trillion UZS by 2030.

The second direction is implementing a local economic activity taxation system. Currently, Uzbekistan lacks or has very limited systems for taxing local business activity. Implementable taxes include: simplified local tax for small business (1-3% on turnover), local service provision tax (hotels, restaurants, entertainment venues 3-5%), advertising tax (outdoor advertising 5-10% of advertising expenses), vehicle use tax (cars, trucks annual payment), natural resource use fees (water, forest, minerals). Implementing these taxes also performs functions of stimulating and regulating local economy. Forecasts suggest 5-7 trillion UZS could be generated from these sources by 2030.

The third direction is expanding and improving the fees and charges base. Currently, fees and charges are very limited (6.2% of own-source revenues) and often nominal in nature. Expansion methods include: full cost recovery for utility services (water, sewerage, waste collection), entrance fees for parks, entertainment venues, sports facilities, transport infrastructure use fees (toll roads in cities, parking), construction and development fees (infrastructure fees for new construction), licensing and permit fees (local business activities), fines and sanctions (law violations, rule violations). It is necessary to align fee prices with real costs and implement regular indexation. Forecast: from 1.8 trillion UZS to 4.5-5.5 trillion UZS in 2030.

The fourth direction is increasing revenues from local assets and property. Local government bodies own significant property and assets: land plots, buildings, facilities, enterprises, but generate little revenue from them. Enhancement methods include: effective leasing of local property (based on market prices, through open auctions), efficient management of local unitary enterprises and receiving dividends, leasing or selling unused land, new revenues through public-private partnership (PPP) projects, managing and monitoring local assets through digital platforms. Forecast: from 1.8 trillion UZS to 5-6 trillion UZS in 2030.

The fifth direction is improving collection efficiency through digital technologies. The current system suffers from numerous losses and evasions. Digitalization includes: transitioning all tax payments to online system (mobile applications, web portals), automatic calculation and notification systems, integrating databases on property and income, detecting tax evasion through artificial intelligence and big data, ensuring transparency and accountability through blockchain technology. These measures could improve collection efficiency by 15-20%.

According to forecasts, if all recommended measures are implemented comprehensively, by 2030 Uzbekistan's local budgets' own-source revenues could

increase from 28.3 trillion UZS to 52-58 trillion UZS (1.8-2.0 times growth). Own-source revenue share would rise from 31.6% to 48-52%. Revenue structure would be: income tax 28-32% (14.5-18.5 trillion UZS), property tax 21-25% (12-14 trillion UZS), land tax 8-10% (4.5-5.5 trillion UZS), local economic activity taxes 10-12% (5-7 trillion UZS), fees and charges 8-10% (4.5-5.5 trillion UZS), asset revenues 9-11% (5-6 trillion UZS), others 6-8% (3-4.5 trillion UZS). For this structure, HHI would be 0.35-0.40, indicating high diversification. This would significantly increase fiscal autonomy, strengthen accountability of local government bodies, and stimulate regional development.

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