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Republic of Uzbekistan

Public Expenditure and Financial Accountability Assessment 2012

Public Financial Management Performance Report

December 2012

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CURRENCY

Currency Unit = Uzbekistan Soum (UZS)
US\$ 1 = 1984.

GOVERNMENT FISCAL YEAR

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Abbreviations and Acronyms

ADB	Asian Development Bank
AGA	Autonomous Government Agency
ASBO	Automated Accounting and Reporting System of Budgetary Organizations
BO	Budgetary Organization
BSL	Budget Systems Law – Law of the Republic of Uzbekistan “On the Budgetary System”
CBU	Central Bank of Uzbekistan
CIFA	Country Integrated Fiduciary Assessment
CG	Central Government
COA	Chamber of Accounts
COFOG	Classification of the Functions of Government
COM	Cabinet of Ministers
CPAR	Country Procurement Assessment Report
CRU	Control and Revision Unit
EBF	Extra Budgetary Fund
FRD	Fund of Reconstruction and Development of the Republic of Uzbekistan
FY	Financial Year
GDP	Gross Domestic Product
GFMS	Government Financial Management Information System
GFS	Government Finance Statistics - IMF
GOU	Government of Uzbekistan
IFI	International Financial Institution
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
JSC/E	Joint Stock Company/Enterprises
LG	Local Government
LM	Line Ministry
MDA	Ministries, Departments and Agencies
MDB	Multi-lateral Development Bank
MFERIT	Ministry of Foreign Economic Relations Investment and Trade
MIS	Management Information System
MOE	Ministry of Economy
MOF	Ministry of Finance
MIS	Management Information System
MOH	Ministry of Health
MTBF	Medium Term Budget Framework
NGO	Non-Governmental Organization
Oblast	Region (Province)
OECD	Organization of Economic Cooperation and Development
Oliy Majlis	Lower House of Parliament
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management

PFM-PR	Public Financial Management Performance Report
PIP	Public Investment Program
Rayon	District
SAI	Supreme Audit Institution
SCC	State Customs Committee
SE	State Enterprise
SME	Small and Medium Sized Entities
SN	Sub-National
SOE	State-owned Enterprise
STC	State Tax Committee
STF	State Targeted Funds
TIN	Tax Identification Number
TSA	Treasury Single Account
UN	United Nations
UNDP	United Nations Development Program
WB	World Bank
VAT	Value Added Tax

TABLE OF CONTENTS

Summary Assessment	vi
A. Integrated Assessment of PFM Performance	vi
B. Assessment of the Impact of PFM Weaknesses	x
C. Prospects for Reform Planning and Implementation	xi
1. Introduction	1
A. Objectives of the PFM-PR	1
B. Process of Preparing the PEFA	1
C. Methodology	2
D. Scope of the Assessment	3
2. Country Background Information	5
A. Description of the Country Economic Situation	5
B. Overall Government Reform Program	6
C. Rationale for PFM Reforms	7
D. Budgetary Outcomes	7
E. Conclusion	11
F. Legal and Institutional Framework for PFM	11
3. Assessment of the PFM Systems, Processes and Institutions	14
A. Budget Credibility	13
B. Transparency and Comprehensiveness	18
C. Policy-based Budgeting	25
D. Predictability and Control in Budget Execution	26
E. Accounting, Recording and Reporting	42
F. External Scrutiny and Audit	47
G. Donor Practices	52
4. Government Reform Process	55
A. Recent and on-Going reform Measures	55
B. Institutional Factors Supporting Reform Planning and Implementation	56

List of Tables

Table 2.1: Public Finance Statistics	5
Table 2.2: Consolidated Budget and Fiscal Position in Uzbekistan from 2009 to 2011	8
Table 2.3: Analysis of Revenue	8
Table 2.4: Public Expenditures as a Percentage of Total	9
Table 2.5: Actual Government Expenditure by Function	10
Table 2.6: Percentage of Government Expenditure by Function	10
Table 3.1: Expenditure Deviation	15
Table 3.2: Variances in functional composition of expenditures, including general services	15
Table 3.3: Deviation of State Budget revenue collection compared to the original budget revenue forecast	16
Table 3.4: Stock of Arrears as a % of State Budget Primary Expenditure	17
Table 3.5: EBF Revenue & Expenditure (million Soum)	19
Table 3.6: Public Access to Procurement Information During 2011	39
Table 3.7: Appeals Review Institution and Meeting of the Criteria	39

List of Boxes

Box 3.1: Availability of Information on Resources Received by Service Delivery Units..... 41

List of Diagram

Diagram 1.1: Structure of the General Government in Uzbekistan 3

List of Annexes

Annex 1: Summary and Explanation of Indicator Scores 533
Annex 2: Links Between The Six Dimensions Of An Open And Orderly PFM System And The Three Levels Of Budgetary Outcomes 58
Annex 3: List of key Counterparts 61
Annex 4: Comments of Ministry of Finance of Uzbekistan and Response 63

Overview of the Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget		Score
PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	A
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	A
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C+
PI-10	Public access to key fiscal information	D
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	A
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	B
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money and controls in procurement	D
PI-20	Effectiveness of internal controls for non-salary expenditure	B+
PI-21	Effectiveness of internal audit	D+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	A
PI-24	Quality and timeliness of in-year budget reports	B+
PI-25	Quality and timeliness of annual financial statements	D+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	C+
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	n/a
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+
D-3	Proportion of aid that is managed by use of national procedures	D

Summary Assessment

a. This report provides an assessment of the status of the public financial management (PFM) systems and processes of the Republic of Uzbekistan. The Report follows the Public Expenditure and Financial Accountability (PEFA) methodology and, as the first PEFA carried out in Uzbekistan, provides a baseline for future PEFA reports. The PEFA is a follow up to the Country Integrated Fiduciary Assessment (CIFA) that was completed in 2011, but no attempt has been made to monitor progress since not all PFM systems were covered by the CIFA.

b. Based on PEFA training materials, the Assessment Team conducted a two day training workshop for Government of Uzbekistan officials assigned to the PEFA exercise, to prepare them for participation in the assessment. This report was circulated for peer review in December 2012, and has benefited from comments from Government of Uzbekistan officials, development partners, peer reviewers, and by the PEFA Secretariat in Washington DC. This includes comments received from the Government and the team's response to the comments.

A. INTEGRATED ASSESSMENT OF PFM PERFORMANCE

Credibility of the budget

c. Indicators PI-1 to PI-4 reflect the extent to which the budget is realistic and implemented as intended. The budget has become a key vehicle for implementing government aggregate fiscal policy, and the approved budget is serving as a reliable guide to aggregate expenditure and revenue policy. Deviation of state budget's primary expenditures from the approved budget was not significant during the period of 2008-2010¹ excluding 2008. Since 2008 was an outlier due to global crises, limited size of the changes suggests that the approved budget fully reflects government's policy intentions. While the need for policy changes can occur at any time during the fiscal year, limited changes during the year suggest the budget process is being used as the planning and policy development process not only at the aggregate level but also at the level of spending composition. Expenditure arrears are minimal and those that do exist are well monitored by the government.

Comprehensiveness and transparency

d. This group of indicators (PI-5 to PI-10) reflects the extent to which instruments such as the budget and accounts of Government reflect the totality of public finances. It examines the extent to which any Government makes available information, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate potential fiduciary risks due to the non-availability or fragmentation of information about public finances, reduced scope for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible. Good scores point to low fiduciary risks.

e. In Uzbekistan, extra-budgetary funds have been significantly integrated with the Treasury system and budget, but not completely or codified in statute. All are fully reported on, though still represent a significant part of the budget, in particular the Fund for Reconstruction and Development (FRD). Local government financial operations are fully included in the budget. Transfers to municipalities and other units of local government are formula driven and internally transparent (in particular, to superior

¹ Data for 2011 was not available by the time of compiling the report

authorities) in law and in practice. Local Governments set their own budgets which are readily available for scrutiny.

f. The budget classification system is fully harmonized with the Chart of Accounts, and meets the UN COFOG standards. Also, the budget classification system does not support program classification and, as a result any program reporting that is undertaken requires extensive manual tabulation and compilation. Reporting on the budget is carried out at the level of economic, administrative and functional classification, according to GFS standards, and the budget documentation is relatively comprehensive, though lacks an explanation of the fiscal impact of policy changes. There is limited dissemination of information to the public at large, reflected by a D score for fiscal information provided to the public.

Policy-based budgeting

g. Indicators PI-11 and 12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritization and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to 'stopping and starting' of projects and lack of complementarity between different categories of expenditure.

h. The budget calendar provides sufficient time for budget preparation and deliberation by the Cabinet of Ministers (COM) and Oliy Majlis (Parliament), although ministerial expenditure ceilings are not explicitly provided. Sector strategies are not developed as part of the budget process but rather elaborated in those sectors with donor involvement. The three year horizon for the budget reflects centrally managed planning rather than any linkage between investment and recurrent budgets. Comprehensive fiscal forecasts, if developed, are not disclosed. External debt is closely monitored, and at 8% of GDP (reflecting strong fiscal discipline) it is not of sufficient size to warrant concern.

Predictability and control in budget execution

i. Indicators PI-13 to PI-21 reflect the extent to which the budget is implemented in an orderly and predictable manner and the arrangements for the control and stewardship in the use of public funds.

j. Taxes imposed at the border are collected by the State Customs Committee and other taxes are administered by the State Tax Committee. Customs' operations are effective in the transferring of funds to the Treasury Single Account, though the legal framework is disaggregated and access to information for businesses is lacking.

k. Tax administration uses modern software, which allows for audit selection based on defined risk assessment criteria. Information on tax liabilities and tax education are good, though customs information is poor. Tax arrears are relatively low, and a high proportion of existing arrears result from long drawn out bankruptcy proceedings. Nevertheless, overall tax administration is providing an effective vehicle for collecting revenue for funding public expenditure.

l. With the establishment of the Treasury function, a Treasury Single Account (TSA) system has been developed. The TSA is a system of domestic currency bank accounts controlled by the Treasury and applies to all expenditures (including extra-budgetary funds, apart from the significant funds held under the FRD) on the basis of the same coverage as commitment and payment controls, with the exception of accounts held for the military and internal affairs, FRD, and those funded by foreign grants and loans using both domestic and foreign currency bank accounts.

m. Information on individual budget organization transactions is reliable and predictable under the management information system (MIS) which provides a common information pool across MOF and Treasury. Information includes budget organizations' expenditure commitments on contracts, planned spending and actual payments. Spending ministries/budgetary organizations prepare their cost estimates (broken down into economic classification) and an annual cash flow utilization forecast, for their approved budgets, divided into monthly allocations. The cost estimates are submitted to the MOF who are responsible for registering in the expenditure control system as ceilings (or permits) for expenditure commitment, managed by the Treasury.

n. Budget organizations are gradually being granted on-line access to budget information pertaining to their unit; major state budget institutions have already been incorporated and local level institutions will be incorporated later.

o. Detailed cash flow forecasts are prepared by the Treasury (using a module of the Treasury software) based on revenue forecasts provided by the tax and customs authorities and budgetary forecasts prepared by the MOF and Treasury. Reports are prepared on a daily and monthly basis for internal use of the MOF. Quarterly reports have a broader distribution to the COM and the Oliy Majlis.

p. MOF maintains an internally developed database for monitoring external debt which addresses debt service, stock, operations and projections. Minor reconciliation differences do occur which are addressed on a timely basis. Until 2010 the Government's explicit criteria and for total debt was that new borrowing should not exceed debt service. In 2010 in a response to the global financial crisis this criteria was relaxed and investment decisions are now approved by COM on a case by case basis, based on their strategic importance to the economy.

q. The treasury system provides tight centralised control of the activities of budgetary organizations. There is an adequate degree of integration and reconciliation between personnel and payroll data although the assessment noted some deficiencies in the audit trail, and evidence of managerial review. All budgetary organizations are subject to a payroll audit every two years by the Control and Revision Unit (CRU) as part of checks on the targeted use of budgetary resources. While somewhat fragmented there is a well established and comprehensive set of financial control rules and procedures covering all aspects of the budgetary cycle, and these seem to be well understood by staff in line ministries and budget institutions. The country has yet to develop a modern system of internal audit. CRU conducts inspections which focus on detecting violations, make recommendations for corrective actions and, levying penalties against budget organizations. None of their present activities focus on systemic issues or other activities which clearly adhere to international definitions of the role of internal audit.

Accounting, recording and reporting

r. Indicators PI-22 to PI-25 indicate the extent to which there are adequate records and information produced, maintained and disseminated to meet decision-making control, management and reporting requirements.

s. Adequate records and information are produced, maintained and disseminated to meet basic decision-making control, management and reporting purposes. The MOF prepares aggregated monthly and quarterly budget execution reports. The quarterly reports are submitted to the COM and Parliament on a timely basis. With the introduction of the Treasury system expenditures are covered both at the payments and commitment stage, and provide effective support to front-line service delivery units.

t. The annual budget execution report is produced by the MOF and submitted to the COM by April 1 of the following year, and ready for audit. Annual audited financial report is then submitted to Oily Majlis by May 15 of the following year. Financial information is presented in a consistent and very detailed way, however reports do not contain the disclosures of accounting policies and other information (for example on contingent liabilities and full disclosures of financial assets and liabilities) required by international accounting standards.

External scrutiny and audit

u. Indicators PI-26 to PI-28 address the arrangements for the scrutiny of public finances and follow up by the executive arm of government.

v. The Chamber of Accounts (COA) is the highest financial control body, and is the equivalent of a Supreme Audit Institution (SAI). By international standards COA has a modest staff (27) although this is augmented by the involvement of staff from the executive to support their inspection work. The approach relies on desk studies to identify unusual or suspicious activity with field visits focused on areas of concern within budget organizations. COA staff argued that this targeted approach results in full coverage of the budget. However the approach is not in accordance with international auditing standards. Uzbekistan's current control/inspection framework places reliance on the extensive external financial control activities undertaken by CRU; a division of the MOF. The absence of a set of financial statements in accordance with internationally recognized accountings standards limits the work the COA can do however the audit of the annual budget execution report is completed and submitted to the Oliy Majlis on a timely basis. There is an effective process of handling audit findings, recommendations and follow up.

w. Parliament reviews budget proposals prepared by the government. These include the macro-economic framework and the budget parameters; the government's proposed spending priorities and the estimates of expenditures and revenues, but not a medium term fiscal framework or medium term priorities.

x. In accordance with the budget law the COA audits the execution of the State Budget within 35 days of receipt from the Government. Other reports of audit activities of the COA are not routinely made available to parliament although these are provided if the conclusions are regarded as of sufficient importance; and the COA submits a summary report of its activities shortly after the financial year end. Both Houses of Parliament actively investigate COA-identified problems. These may be problems identified by the COA in their annual budget law review or in their report on audits from their annual audit plan. They may create special investigative working groups, consisting of members of Parliamentary standing committees, auditors from the Chamber of Accounts and outside experts, who then visit selected oblasts and rayons where the auditor has found significant problems and made specific recommendations. There is follow up on all such visits to ensure that the auditor recommendations are implemented. The committees' analyses of the annual budget execution report for the year appear to be thorough.

Donor Practices

y. Indicators D1 – D3 show how well donors integrate their support into the Government's budget process so that it reflects all available resources in a timely manner, as well as the extent donors use Government systems to manage their support. Poor scores indicate potential weakness in the Donor – Government dialogue and processes that reflect perceived fiduciary risk by donors.

z. There is no budget support in the Uzbekistan loan portfolio. In recent years the government has introduced stringent reporting requirements for aid with the result that all aid to the government is now captured in the Government database. However, given the small percentage of the budget accounted for by aid, the Government has not, as yet, required aid to be scheduled according to the Government budget calendar. Donor reliance on government systems is minimal.

B. ASSESSMENT OF THE IMPACT OF PFM WEAKNESSES

Aggregate fiscal discipline

aa. The Uzbekistan government exerts strong oversight on expenditure by budget units, particularly through the operation of the Single Treasury Account, resulting in strong aggregate fiscal discipline. Budget execution surpluses reflect the healthy state of the Uzbekistan economy and a cautious approach to revenue estimation. The inability of budget units to take out loans and strong control on arrears (under 0.4 percent of the budget), reflects these strong controls.

bb. Although the maintenance of fiscal discipline is regarded as essential, the overall monitoring of the fiscal position is hindered by the lack of explicit long term government strategic policies at sectoral and national level, and the lack of data available on the budget. While the systems for monitoring external debt are strong, the Government has relaxed the criteria for taking on new debt and there are currently no explicit limits for total debt and guarantees.

cc. With the introduction of the treasury system substantial progress has been achieved in integrating EBF operations fully into the budget and treasury systems. However, problems remain with the predictability and reporting of donor funds.

Strategic allocation of resources

dd. The top down elements of strategic planning are strong, whilst the bottom-up influence on the strategic allocation of resources extremely weak. As such, the control exerted by the centre on planning is almost total. The opportunity for budget units (ministries and below e.g. schools) to influence the planning and budget process is minimal within the technical realm. It is possible, however, that political considerations are taken into account at a local level. Budget credibility is strong in meeting the expenditure priorities as envisaged by the budget. All expenditures and revenue are included in the Budget and extra-budgetary funds are strictly controlled by the MOF. Reliable monthly, quarterly and annual budget execution reports are prepared in a timely manner.

ee. Availability of information on the proposed budget to the public provides little transparency (although there have been recent improvements) and scrutiny of the proposed budget by Parliament and its Committees is undermined by its lack of ability to vote on appropriations. Resources are allocated along central planning lines, with incremental increases resulting from inflation, demographic changes, investment decisions etc. Strategic plans are largely absent, though adherence to yearly decrees and resolutions from the centre is strong.

ff. The legislature's review covers fiscal policies and strategic allocation of resources for one year; however budget documents lack a medium term fiscal framework.

Operational efficiency

gg. The PFM reform program has achieved much in the area of budgetary controls (in particular with respect to the Single Treasury Account). However, much remains to be done to increase the operational efficiency of Uzbekistan public spending through improvements in the PFM system, particularly the bottom up elements of planning. Further work is needed to develop a medium term approach to budgeting which includes costed sectoral strategies and clear strategic priorities that can be used in decision making. The Government is gradually introducing computerized accounting systems in ministries, department and agencies (MDAs) which will improve the comprehensiveness of information for monitoring and decision making purposes, as well as improving their ability to assess the effective use of resources. A coherent and comprehensive internal control framework needs to be established that goes beyond simply ensuring the legality of transactions. At the same time an effective internal audit function needs to be established throughout the Government. Uzbekistan has made some improvements in procurement practice however the country lacks a codified procurement law which is the starting point for improving procurement practices and open competition. The country also lacks an independent oversight body that can improve the availability of basic procurement data, and provide an institutional focus for improving the country's public procurement practices.

hh. International Public Sector Accounting Standards (IPSAS) compatible accounting standards and a simplified presentation of information need to be introduced to make the GFS 2001 compliant information more intelligible. The working methods of the COA need to keep pace with these accounting and reporting developments and training needs to be provided in modern audit approaches to risk and performance. Financial audit and legislative scrutiny of performance are not possible in the absence of complete set of financial statements, and any adequate review of effectiveness by the COA.

C. PROSPECTS FOR REFORM PLANNING AND IMPLEMENTATION

ii. The Government initiated a Public Financial Management (PFM) reform in 2000 and has undertaken comprehensive fiscal reforms since then. The Parliament approved the Budget System Law (BSL) in December 2000, providing a legal basis for budget management. The law sets out the process of preparation of annual budgets by the national and sub national governments. It also lays down the parliamentary authority for setting public debt limits and provisions for giving state guarantees. The Government's current PFM reform is anchored in the 2007-18 Strategic PFM Plan developed within the framework of the ADB-financed Public Financial Management Reform Project. The Strategic Plan includes a strategy for the implementation of accrual-based accounting, adopting more international standards for accounting, the acquisition of a new Government Financial Management Information System (GFMIS) and greater transparency in financial reporting. It is worth noting that the current PFM Strategy does not address key accountability functions of internal and external audit that could be developed in order to build on the momentum achieved from implementing the Treasury system.

jj. Overall, reforms across the PFM system have proceeded gradually and progressively. The government has made good progress in implementing a GFS 2001-compliant classification and coding system, creation of a dedicated Treasury unit within the Ministry of Finance, the establishment of a TSA, consolidation of extra-budgetary funds and extra-budgetary special accounts of budget entities into the TSA, and the implementation of interim financial management information systems in advance of the implementation of a full Government Financial Management Information System (GFMIS). The Tax Code has also been updated and consolidated though customs legislation still awaits similar consolidation. The next stage of the reform process is to start the gradual development of a set of accounting standards based on IPSAS.

kk. In the area of procurement the Government recently established an electronic procurement system to ensure that all public procurements from USD 300 to USD 100,000 are carried out exclusively by auctions through the Commodities Exchange, and established a unit within CRU charged with ex-post reviews of public procurements which are suspected of prior arrangements, and other fraudulent and corrupt practices. A new law of public procurement is being developed to address deficiencies in the current fragmented legal framework. Reforms related to transparency of information have not progressed as yet, though government websites are publishing an increasing amount of information, as witnessed by the website of the tax Committee and the recent publication of summary budget execution data on the MOF website.

ll. The government's development partners have not been particularly co-ordinated. With the development of the Government's PFM Strategy this has begun to change and there is now some momentum for donors active in PFM to coordinate their efforts and present a unified approach to PFM reforms in the country, although this has not translated into abiding by the planned pace of reforms which are several years behind schedule.

Access to Information

mm. Whilst the Government Team participated fully in the PEFA assessment process it should be noted that assessment team's access to information in Uzbekistan was restricted due to the government's security concerns, particularly in the Budget Department of the MOF. Much information gathered was not available in the public domain. As a result, information provided was often delivered in hard copy to the assessment team, the accuracy of which could not be verified by triangulating the information on MOF reporting systems².

² For example in validating the reports provided in support of PI 1,2,3,4,5, 7 and 8.

1. Introduction

A. OBJECTIVES OF THE PFM-PR

1.1 The overall objective of the PEFA is to provide the Government of Uzbekistan (GOU) with an internationally-recognized and comprehensive evaluation of the performance of the PFM systems in order to identify the systems' strengths and weaknesses. This Report will help the authorities to obtain a snapshot of the PFM system performance that would serve as a basis on which to prepare measures to strengthen the PFM system performance.

1.2 The Government initiated a Public Financial Management (PFM) reform in 2000 and has undertaken comprehensive fiscal reforms since then. The Parliament approved the Budget System Law (BSL) in December 2000, providing a legal basis for budget management. The law sets out the process of preparation of annual budgets by the national and sub national governments. It also lays down the parliamentary authority for setting public debt limits and provisions for giving state guarantees. The Government has adopted a long-term strategic approach to advancing the PFM reform in Uzbekistan. A PFM Strategy covering the period 2007-2018, which has been adopted by the Ministry of Finance, identifies three main pillars: (i) policy and priority based allocation of resources; (ii) efficiency in delivery of services; and (iii) fiscal discipline. The strategy outlines an action plan for the next 12 years which will (i) establish a fully functioning centralized treasury system; (ii) adopt and implement a modern, unified budget and accounting system; and (iii) introduce a medium-term budget framework (MTBF) and program budgeting. As envisaged by the strategy, the focus of the reform over the medium term (3–5 years) will be mainly on improving the efficiency, effectiveness, transparency, and accountability of the budget execution process. Over the long term (10–12 years) the reform will gradually move its focus to improving the results of the budget. Year 2018 is currently planned date for completing the phasing-in of international public sector accounting standards (IPSAS), but is subject to revision depending on the reform progress.

1.3 The PEFA assessment provides the Government with a tool to assess the extent to which the strategic PFM plan has been implemented at the mid-point of its implementation, and provide a benchmark for fine-tuning the strategy, and provide a basis for determining capacity building initiatives needed to improve the key performance benchmarks. The high level PEFA indicators would be used to provide a benchmark for indicating how far the public financial management reform initiatives have progressed, and point to where additional efforts for reform may be most beneficial, thus placing emphasis on country-led reforms.

B. PROCESS OF PREPARING THE PEFA

1.4 This is the first PEFA report for Uzbekistan. It is based on PEFA in-country diagnostic work undertaken in March and May 2012. This was preceded by a scoping mission that was undertaken in February 2012 during which the PEFA Framework was discussed with counterparts and other stakeholders, information on the approach and methodology to be used was provided, and agreement reached on the timing of the PEFA assessment, and the composition and role of the government counterpart team. A World Bank Team³ worked with government counterparts in undertaking the PEFA.

³ The WB Team consisted of John Ogallo (Sr. Financial Management Specialist and Team Leader), Mediha Agar (Sr. Economist), Andrew Mackie (PFM Consultant), Nagaraju Duthaluri (Lead Procurement Specialist), Galina Alagardova (Financial Management Specialist), Paul Harnett (Public Sector Expert), Fasliddin Rakhimov (Procurement Specialist), Sevara Abdusamatova (Procurement Assistant) and Jakongir Kakharov (Local Consultant).

Other development partners, such as ADB and UNDP provided support, but were not directly involved in the assessment. The ADB, for example, shared the PFM Strategy prepared as part of the ADB-funded PFM Reform Project, while the UNDP share the support they are providing towards the development of the Budget Code. UNDP also provided peer reviewer for the PEFA report.

1.5 The assessment was managed by the GOU under the leadership of Mr. M. Mirzaev, Deputy Minister of the MOF. The PEFA assessment in Uzbekistan involved the following steps:

- (i) A two day training course on the PEFA methodology (March 2012)
- (ii) A main mission reviewing the methodology with government counterparts and data gathering to support the assessment (March 2012)
- (iii) A second mission to complete evidence gathering and prepare a draft report shared with the GOU (May 2012)
- (iv) A final mission to discuss the draft report with government counterparts (August 2012)
- (v) A final draft PFM PMR for review, including by PEFA Secretariat (December 2012).

1.6 The assessment has been under the strong leadership of Ministry of Finance as the key counterpart. Other ministries and public institutions, in particular, Ministries of Health, Education, Economy, Foreign and Economic Relations and Trade (MFERT), Fund for Reconstruction and Development (FRD), Chamber of Accounts (the country's SAI), Oliy Majlis (Lower House of Parliament), the Senate (Upper House of Parliament), shared relevant data, information and provided inputs during the preparation. A complete list of government counterparts is attached in Annex III.

C. METHODOLOGY

1.7 The PEFA methodology is set out in the Public Finance Management Performance Measurement Framework (available, also in Russian, at www.pefa.org). It is based on 28 indicators covering a country's PFM system, and 3 indicators addressing the interaction of donors with a country's budget process and PFM system. PEFA assessments provide cross-country comparable indications of the effectiveness of PFM systems, and of their improvements over time. They do not provide, however, for an analysis of the causes of existing weaknesses. It should be emphasised that PEFA is an essentially backward-looking process, based on evidence about actual public sector financial management from 2008 to 2010. Recent developments that occurred in 2011-12 are not taken into account when rating the PIs. However, such developments are part of the narrative that describes the on-going reforms.

1.8 Each indicator is scored on a scale from A to D. The bases for these ratings are the minimum requirements set out in the methodology. Many indicators include two or more dimensions, which are "added up" using PEFA-specific methods M1 or M2. For method M1 the weakest link is decisive, i.e. the overall rating is based on the dimension with the lowest score. For M2 an average of the sub-ratings is used to arrive at the score for the overall indicator (see the PEFA Framework, "Scoring Methodology").

1.9 The assessment is based on an analysis of evidence gathered by the World Bank Team, which was triangulated with government officials who took a keen and diligent view of all aspects of the assessment process; including critical evaluations of the Team's preliminary findings. The process was supported by an initial two day training workshop for key government officials, many of whom participated in the assessment process. The PEFA has benefited from other studies conducted earlier, including the 2003 World Bank Country Procurement Assessment Report (CPAR), the 2004 Country Financial Accountability Assessment (CFAA), the Public Expenditure Review in 2005, a 2008 Assessment of the Primary Health Care Reform - Transparency, Accountability and Efficiency and the

Country Integrated Fiduciary Assessment (CIFA) that was conducted in 2010 that included sixteen downstream PEFA Performance Indicators.

1.10 The PEFA report was subject to peer review by staff drawn from the Bank, IMF and UNDP. The quality review of the report was undertaken by the PEFA Secretariat. The Government counterparts also reviewed the draft report and provided, through the MOF, usefully comments, some of which were incorporated in the final report.

D. SCOPE OF THE ASSESSMENT

1.11 The Uzbekistan PEFA assessment focuses primarily on the national level of the country's PFM system. At the national level, it seeks to cover the entire PFM system, including: cross-cutting and overall issues, the revenue side, the budget cycle from planning through execution to control and auditing; and the interaction of development partners with the PFM system.

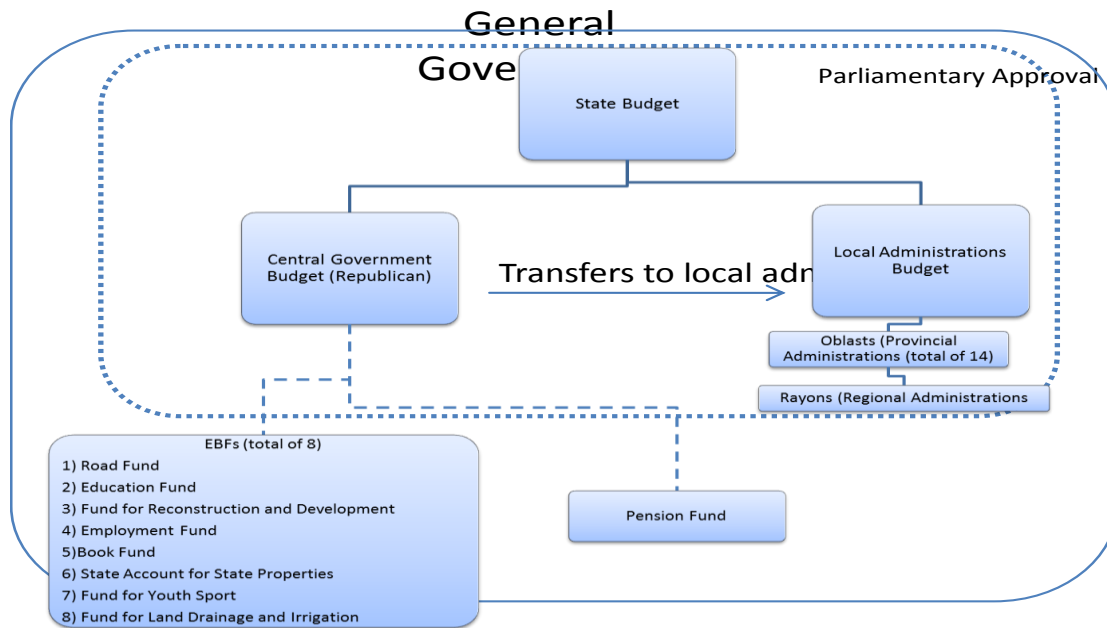
1.12 Uzbekistan moved to a new budget classification system with its 2011 State Budget based on the internationally accepted budget definitions. This is consistent with GFS2001 budget classification. The State Budget of Uzbekistan consists of central government budget or republican budget and local administrations budget. Central Government budget consists of key policy institutions and ministries. Local administrations budgets are made of consolidation of 14 oblasts at the provincial level. The Parliament approves the state budget at the second level of functional classification.

1.13 The scope of PEFA focused primarily on the state budget (as per PEFA guidelines) under the general government as pictured in the Diagram 1. This was problematic in Uzbekistan to the extent that expenditure allocations are not appropriated by parliament, rather the budget balance as a percentage of GDP, rendering the budget system ill-defined at the level of parliament.

1.14 With the focus on central government, EBFs, pension fund and SOEs that are part of the public sector are not substantially covered in this study. The study, however, indirectly covers these institutions - through net subsidies and transfers between the central government budget and these institutions. Additionally, a few of the indicators are designed to look into how the central level interacts with SOEs. The interaction of development partners and donors practices (indicators D1, D2, and D3) were included in this study.

1.15 Diagram 1.1 below shows the structure of the General Government in Uzbekistan.

Diagram 1.1: Structure of the General Government in Uzbekistan



1.16 The Uzbekistan Government has eight extra-budgetary funds; (the Republican Road Fund, Extra budgetary Fund for Reconstruction Overhaul Repairs and Equipment of Health and Education Facilities, Fund for Reconstruction and Development of the Republic of Uzbekistan, State Employment Fund, Republican Targeted Book Fund, Fund for Child’s Sport and the Fund for Land Reclamation and Irrigation). Additionally, a public pension fund operates as a separate subsector as per GFS 2001 Manual. Besides that, the state extra budgetary Pension Fund functions as a separate sub-sector following GFS Guidelines 20014.

⁴ IMF GFS 2001 manual, paragraph 2.43.

2. Country Background Information

A. DESCRIPTION OF THE COUNTRY ECONOMIC SITUATION

2.1 Uzbekistan is a lower middle-income, resource rich, doubly-landlocked country, strategically located in the heart of Central Asia. Its population of about 29.3 million (2011), about half of whom live in urban areas, account for about forty percent of Central Asia's total. It is the world's sixth largest cotton producer, and fourth largest raw cotton exporter. Other important commodities include natural gas, gold, copper and uranium.

2.2 Poverty rate, as measured by a national food-based norm of 2,100 kilo-calories per person per day, has declined from 27.5 percent of the population in 2001 to 16.0 percent in 2011.⁵ The decline in poverty in recent years is due to rapid economic growth, government investments, and increased remittances from abroad.

Table 2.1: Public Finance Statistics

	2008	2009	2010	2011
Population, Million	27.3	27.8	28.6	29.3
Real GDP growth rates	9.0	8.1	8.5	8.3
Fiscal Balances (incl. FRD). % of GDP				
Revenues	43.8	37.3	38.6	38.7
Expenditures	33.1	34.6	33.6	33.4
Consolidated fiscal balance	10.7	2.8	4.9	5.4
Balance of Payments, % of GDP				
Current Account	8.7	2.2	6.2	5.8
Exports, G&S	43.5	35.6	31.2	36.2
Imports, G&S	40.8	35.6	28.3	31.9
CPI inflation rate, average, % change	7.4	7.8	7.2	7.6 ⁶
External debt-to-GDP ratio, %	14.3	15.3	15.2	18.8

Source: Uzbek authorities, World Bank staff.

2.3 Uzbekistan is moving carefully from a planned economy to a functioning market economy. It has enjoyed robust GDP growth since the mid-2000s—averaging 8 percent annually according to official data. Its economy weathered the 2008-09 global financial crisis relatively well. Three factors explain these positive outcomes: first, favourable terms of trade, in particular continued high world market prices for the country's key commodities—copper, gold, natural gas and, since 2010 cotton; second, the government's macro-economic management, including its end-2008 stimulus equivalent to 4 percent of GDP, financed partly by the FRD—a sovereign wealth fund established in 2006 to collect windfall gains from commodity-based revenues; and third, the country's limited exposure to world financial markets, which largely shielded it from contagion effects. Underpinning these outcomes is a PFM system strong on controls which maintains a strong fiscal position.

⁵ The main data on poverty in Uzbekistan derives from Household Budget Survey.

⁶ The 2012 IMF Article 4 mission stated ““After peaking at 13.8 percent in November 2011, annual inflation, based on alternative CPI measurement by Fund staff, has declined to 10.7 percent in October 2012. The inflation rate reflects increases in administrative prices of fuel, utilities, and bread, which rightly aim at achieving cost recovery, as well as currency depreciation and demand pressures stemming from pension and wage increases. (By the authorities' methodology, annual inflation hovered at around 7 percent during this period.)

2.4 The 2011 consolidated fiscal surplus widened to 5.4 percent of GDP from 4.9 percent in 2010 despite the fact that growth remained unchanged. The impact of lower tax collections, reflecting cuts in corporate and personal income taxes and the reduction of the unified rate for small businesses, as well as 20 percent higher wage and salary expenditures were more than offset by increased revenues – from higher international commodity prices, VAT collections, and social security contributions – and lower than planned public investment. The authorities intend to maintain their prudent fiscal policies over the medium term, including accumulating FRD resources.

2.5 Uzbekistan has enjoyed large current account surpluses since 2004, owing to continued high prices for its commodity exports, remittances, and the authorities' export promotion efforts. These surpluses, together with foreign exchange restrictions and net savings as a result of the government's tight fiscal policy, enabled the central bank to accelerate the accumulation of reserves, which had increased to \$19.8 billion by 2011. Meanwhile, the authorities' zero net borrowing policy improved the country's debt indicators. External debt, 70 percent of which is public or publicly guaranteed, declined from 64 percent of GDP in 2001 to 19 percent of GDP in 2011, by which date the debt service to exports ratio had fallen to 3.6 percent.

2.6 Uzbekistan has persistent inflationary pressures despite price controls. Salary and benefit increases for civil servants in excess of 20 percent in 2011 and 30 percent in 2010, fiscal stimuli in 2009-11 and administrative price increases in bread of roughly 25 percent, energy by 30 percent have contributed to high inflation. The official annual consumer price index of 7.5 percent in December 2011 shows an increase of 0.3 percentage points compared to December 2010 inflation rate. The alternative CPI rate determined by the IMF is often thought of as a more reliable estimate of the real inflation rate (see footnote 5 above).

B. OVERALL GOVERNMENT REFORM PROGRAM

2.7 The Government's current PFM reform is anchored in the 2007-18 Strategic PFM Plan developed within the framework of the Public Financial Management Reform Program. The Government initiated a Public Financial Management (PFM) reform in 2000 and has undertaken comprehensive fiscal reforms since then. The Parliament approved the Budget System Law (BSL) in December 2000, providing a legal basis for budget management. The law sets out the process of preparation of annual budgets by the national and sub national governments. It also lays down the parliamentary authority for setting public debt limits and provisions for giving state guarantees. The Treasury Law was passed in 2004, authorizing the creation of a Treasury. The main tasks provided for by the law include (i) control and management of the state budget cash resources, (ii) legislation of contracts of budget organizations, (iii) accounting of all government transactions, (iv) servicing of public debt, and (v) execution of national government guarantees. The Treasury Law also authorized the creation of the Treasury Single Account to hold all government cash resources.

2.8 The Government has adopted a long-term strategic approach to advancing the PFM reform in Uzbekistan. In May 2007, the Ministry of Finance (MoF) designed the Public Finance Management (PFM) Reform strategy for 2007–2018 developed within the framework of the ADB-financed Public Financial Management Reform Project. The strategy outlines an action plan for the next 12 years which will (i) establish a fully functioning centralized treasury system; (ii) adopt and implement a modern, unified budget and accounting system; and (iii) introduce a medium-term budget framework (MTBF) and program budgeting. As envisaged by the strategy, the focus of the reform over the medium term (3–5 years) will be mainly on improving the efficiency, effectiveness, transparency, and accountability of the budget execution process. Over the long term (10–12 years) the reform will gradually move its focus to improving the results of the budget. Year 2018 is currently planned date for completing the phasing-in of international public sector accounting standards (IPSAS), but is subject to revision depending on the

reform progress, which, to date, is several years behind schedule. It is worth noting that the current PFM Strategy does not address key accountability functions of internal and external audit that could be developed in order to build on the momentum achieved from implementing the Treasury system.

2.9 Overall, reforms across the PFM system have proceeded gradually and progressively. Execution of the PFM Reform Strategy is well behind several deadlines, and progress in PFM reform has been uneven, with much more progress on budget execution than on budget preparation issues. The government has made good progress in implementing a GFS-compliant classification and coding system, creation of a dedicated Treasury unit within the Ministry of Finance, the establishment of a treasury single account (TSA), consolidation of extra-budgetary funds and extra-budgetary special accounts of budget entities into the TSA, and the implementation of interim financial management information systems in advance of the implementation of a full Government Financial Management Information System (GFMIS). The Tax Code has also been updated and consolidated though customs legislation still awaits similar consolidation. The next stage of the reform process is to start the gradual development of a set of accounting standards based on International Public Sector Accounting Standards (IPSAS).

2.10 In the area of procurement the Government recently established an electronic procurement system to ensure that all public procurements from 300 USD to 100,000 USD are carried out exclusively by auctions through the Commodities Exchange, and established a unit within CRU charged with ex-post reviews of public procurements which are suspected of prior arrangements, and other fraudulent and corrupt practices. A new law of public procurement is being developed to address deficiencies in the current fragmented legal framework. Reforms related to transparency of information have not progressed as yet, though government websites are publishing an increasing amount of information, as witnessed by the website of the tax Committee and the recent publication of summary budget execution data on the MOF website.

2.11 With regard to the government's development partners, their coordination has not been particularly effective. With the development of the Government's strategy this has begun to change and there is now some momentum for donors active in PFM to coordinate their efforts and present a unified approach to PFM reforms in the country.

C. RATIONALE FOR PFM REFORMS

2.12 The authorities' declared economic strategy is to make a gradual transition from a command to a market economy. Economic management is still relatively centralized and government-dominated; and governance remains characterized by low transparency, and limited voice and participation of citizens. The stated objectives of the government's PFM Reform Strategy are: (a) allocate resources in accordance with government priorities and policies, (b) deliver services efficiently in terms of the use of resource and (c) maintain aggregate fiscal discipline. The intermediate focus of the reforms are on modernising key PFM processes (specifically the establishment of the treasury system, improvements in the budget and accounting system and introduction of an MTBF and program budgeting. The limited disclosure of basic economic and social information, and questions regarding the reliability of some data, remain impediments to the strengthening of accountability of the authorities. There is little encouragement of public participation in policy-making debate, and the civil society plays limited constructive role in contributing to the effective monitoring and evaluation of implementation and results of state programs. However, the government has indicated that it is working to enhance information disclosure, including improved public access to official information and data.

D. BUDGETARY OUTCOMES

2.13 Table 2.2 presents the consolidated budget and fiscal position in Uzbekistan from 2009 to 2011.

Table 2.2: Consolidated Budget and Fiscal Position in Uzbekistan from 2009 to 2011

in mil. Som	2009	2010	2011
I PUBLIC REVENUES	10,840,226.4	13,596,725.3	17,061,392.4
1. Current revenues			
1.1. Tax revenues	10,316,750.9	12,833,228.2	15,823,377.6
Personal income, company profit and capital increment tax	3,023,011.0	3,786,455.2	4,858,986.8
Property tax	550,620.2	755,696.1	1,008,736.3
Taxes on goods and services	6,315,103.3	7,768,055.0	9,326,129.1
Tax on International Trade and transactions	428,016.5	523,021.9	629,525.4
Other tax revenue	495,307.5	746,840.6	1,211,712.7
Sales of non-financial assets	28,168.0	16,656.6	26,302.1
Total as % of GDP	22.1%	22.0%	21.9%
II PUBLIC EXPENDITURES	10,763,890.6	13,386,906.7	16,725,901.4
1. Current expenditures			
Expenditure for employees (payroll)	4,666,421.9	6,302,002.1	8,037,295.2
Purchase of goods and services	1,267,338.1	1,459,771.2	1,779,180.6
Acquisition of non-financial assets	1,047,316.4	1,148,082.5	1,451,196.7
Interest	37,709.2	30,344.7	36,960.0
Subsidies	177,195.6	106,634.4	140,841.1
Grants	7,600.0	12,659.4	38,033.0
Social benefits	1,007,523.5	1,416,501.7	1,576,734.3
Other Payments	2,367,091.6	2,720,879.8	3,310,412.8
Financial Assets and Liabilities	185,694.3	190,030.9	355,247.8
Total as % of GDP	22.0%	21.7%	21.5%
III Consolidated Balance (I - II)	76,335.8	209,818.6	335,491.0
As % of GDP	0.2%	0.3%	0.4%

Source: Ministry of Finance

Trends in Revenue and Expenditure

2.14 Table 2.3 presents an analysis of revenue.

Table 2.3: Analysis of Revenue

As % of Total	2008	2009	2010	2011
PUBLIC REVENUES	100.0	100.0	100.0	100.0
1. Current revenues				
1.1. Tax revenues	95.17%	94.38%	92.74%	95.17%
Personal income, company profit and capital	27.89%	27.85%	28.48%	27.89%
Property tax	5.08%	5.56%	5.91%	5.08%
Taxes on Goods and Services	58.26%	57.13%	54.66%	58.26%
Tax on International Trade and Transactions	3.95%	3.85%	3.69%	3.95%
Sales of non-Financial Assets	4.57%	5.49%	7.10%	4.57%

Source: Ministry of Finance

2.15 The salient features of Table 2.3 are:

- Tax revenues represent some 95% per cent of total revenue. Within tax revenues there have been no significant changes in proportions raised by any type of tax. The significant tax revenues are, in order of size:
 - Taxes on goods and services represent over half of revenues
 - Personal Income, company profit and capital represents about 28% of income
 - Property Tax typically raises 5-6% of revenue
 - Sales of non-financial assets has varied according to privatization proceeds
 - Customs revenues on international trade has raised below 5% of revenue
- Non tax revenues range between 4 and 8 per cent of total revenues

2.16 Table 2.4 presents expenditure by economic category.

The salient features of Table 2.4 are:

- Current expenditures represent on average around 67% per cent of total expenditure, and are very stable despite increases in salaries over the review period. Within current expenditure, expenditure on social assistance and insurance consumes some 10 per cent of total spending reaching 10.58 per cent in 2010.
- Expenditure on employees increased over time peaking in 2011 at 48.05 per cent of the total while purchases of goods and services have decreased from 11.77 per cent of the total in 2009 to 10.64 per cent in 2011.
- Subsidies have decreased significantly from 1.65 per cent in 2009 to 0.84 per cent in 2011.
- Interest payments have also decreased over time and reached 0.22 per cent of the total in 2011 from a peak of 1.65 per cent of the total in 2009.

Table 2.4: Public Expenditures as a Percentage of Total

As % of Total	2009	2010	2011
PUBLIC EXPENDITURES	100.00%	100.00%	100.00%
1. Current expenditures			
Expenditure for employees	43.35%	47.08%	48.05%
Purchase of goods and services	11.77%	10.90%	10.64%
Acquisition of non-financial assets	9.73%	8.58%	8.68%
Interest payment	0.35%	0.23%	0.22%
Subsidies	1.65%	0.80%	0.84%
<i>Grants</i>	0.07%	0.09%	0.23%
Social benefits	9.36%	10.58%	9.43%
Other Payments	21.99%	20.32%	19.79%
Financial Assets and Liabilities	1.73%	1.42%	2.12%

Source: Ministry of Finance

2.17 Table 2.5 presents actual government expenditure by function.

Table 2.5: Actual Government Expenditure by Function

Function/Sectors	2009 (actual)	2010 (actual)	2011 (actual)
Education	3 332 743.1	4 464 069.7	5 582 877.8
Health	1 259 788.8	1 716 452.5	2 226 671.7
Culture, Sports and Mass Media	122 201.2	154 510.1	185 277.0
Science	61 001.5	81 344.9	108 819.1
Social Security	44 964.9	58 200.4	72 150.7
Social Benefits to Families inc. those with Children	1 037 691.7	1 312 469.5	1 378 361.7
Funds and Grants to develop NPOs, NGOs and civil Society Institutions	4 000.0	4 500.0	5 000.0
Economic affairs	1 261 173.7	1 513 529.3	1 931 614.5
Financing of Centralized Investments	839 868.9	860 022.1	1 096 104.7
General Public Service	269 832.0	375 923.4	480 487.6
Transfers to Local Government	83 329.5	114 201.4	149 121.4
Contingencies	39 722.8	52 141.1	39 037.9
Other Expenditures	2 370 021.3	2 630 639.5	3 319 686.3

Source: Ministry of Finance.

2.18 Table 2.6 presents percentage of Government expenditure by Function.

Table 2.6: Percentage of Government Expenditure by Function

As % of Total Expenditure	2009	2010	2011
Education	30.96%	33.35%	33.68%
Health Care	11.70%	12.82%	13.43%
Culture, Sports and Mass Media	1.14%	1.15%	1.12%
Science	0.57%	0.61%	0.66%
Social Security	0.42%	0.43%	0.44%
Social Benefits to Families inc. those with Children	9.64%	9.80%	8.32%
Funds and Grants to develop NGOs and civil Society Institutions	0.04%	0.03%	0.03%
Economic affairs	11.72%	11.31%	11.65%
Financing of Centralized Investments	7.80%	6.42%	6.61%
General Public Service	2.51%	2.81%	2.90%
Transfers to Local Government	0.77%	0.85%	0.90%
Contingencies	0.37%	0.39%	0.24%
Other Expenditures	22.02%	19.65%	20.03%

Source: Ministry of Finance.

2.19 The salient features of Tables 2.6 are:

- Education and Health spending are the dominant functions by a significant amount and increasing, as per the government's policy in recent years.

- Spending on local government and science has also seen a percentage rise.
- Spending on economic affairs has remained fairly stable at just over 11%.
- Social benefits and centralized investments have seen decreases in percentage of total spending.

E. CONCLUSION

2.20 The strong performance of the economy of Uzbekistan up to the present is reflected in these budgetary outcomes. The world economic downturn has been met with increased public expenditures, with growth therefore protected. In 2011 the consolidated fiscal surplus widened to 5.4 percent of GDP from 4.9 percent in 2010. The impact of lower tax collections, reflecting cuts in corporate and personal income taxes and the reduction of the unified rate for small businesses, as well as 20 percent higher wage and salary expenditures were more than offset by increased revenues – from higher international commodity prices, increased VAT collection, and social security contributions – and lower than planned public investment. The authorities intend to maintain these fiscal policies over the medium term, including accumulating Fund for Reconstruction and Development resources.

F. LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

2.21 Uzbekistan has a Presidential political system, with a highly centralized government and public administration system. The President and the Cabinet of Ministers wield significant influence and executive powers, mainly through numerous decrees and resolutions, with an undeveloped bicameral parliament that plays only limited role of checking and scrutinizing the policies and actions of the executive. Public accountability therefore remains weak and voice and participation in economic and social policy dialogue is limited. Governance and transparency remain major challenges, with limited availability of key economic, financial, and social data, that significantly hampers the relevance, timeliness, and value of economic analysis and policy advice—both macro and sector-specific. Economic management is still relatively centralized and government-dominated, a situation that favours PFM reforms that strengthen centralized management and against those that strengthen decentralized management.

2.22 The Uzbekistan Constitution includes the following issues related to PFM:

- Section 2, People's Governance, Chapter 7, Clause 29 of the Constitution declares a right of everyone to “seek, receive and disseminate any information, except for information aimed against existing constitutional system and other restrictions set by law
- Section 2, People's Governance, Chapter 7, Clause 30: “State bodies, public associations, and executive persons of the Republic of Uzbekistan must create possibilities for citizens to be acquainted with documents, decisions, and other materials related to citizens' rights and interests.
- Section 5, Organization of the State Administration, Chapter 18, Oliy Majlis of the Republic of Uzbekistan, Clause 78 “The authorities of the Legislative Chamber and Senate of Oliy Majlis of Uzbekistan include among other 21 authorities:
 - 8) Acceptance of the State Budget of Uzbekistan upon presentation of the Cabinet of Ministers of Uzbekistan and control over its execution;
 - 9) Enforcement of taxes and other obligatory payments;
 - 17) Review of the report of the Chamber of Accounts of the Republic of Uzbekistan”
- Section 5, Organization of the State Administration, Chapter 21, Local Government Foundations, Clause 100:

“Local administration bodies responsibilities include the... elaboration of local budgets and their execution, local taxation, charges, creation of extra budgetary funds.”

2.23 In addition to the Constitution, the relevant legal framework for PFM in Uzbekistan is covered by the following laws:

- a) 1997 Law on Guarantees and Freedom of Access to Information
- b) 2002 Law on Principles and Guarantees of Freedom of Information
- c) The Law of the Republic of Uzbekistan "On Budget System." (BSL)

2.24 Article 39 of the Budget System Law stipulates monthly and quarterly reports on budget execution to be submitted within five days after the end of the period and this is strictly complied with.

2.25 Guidelines for fiscal reporting by budget organizations in Uzbekistan (reg.#2270 of Sept. 27, 2011) budget organizations must present their reports (monthly, quarterly, annual) respectively to MOF and territorial financial units by stipulated dates (monthly reports – on the 5th day of month, quarterly reports – on 10th day of months that following after reporting months, and annual reports – on 25th of January).

2.26 A new budget code is under preparation at present, and is intended to supplant the Budget Systems Law (BSL) and myriad of Treasury Guidelines, though it is unclear when this will be finalized or approved. The Public Finance Management Reform Strategy 2007-18 envisaged that BSL amendments, including new appropriation system, would be approved by Oliy Majlis in 2008. The new law is expected to:

- a) Define the scope of the budget and disclosure requirements in conformity with the IMF’s Code of Good Practice on Fiscal Transparency
- b) Define new budget preparation procedures in conformity with the IMF’s Code of Good Practice on Fiscal Transparency
- c) Define a parliamentary appropriation process covering submission, deliberation and approval
- d) Update elements of existing laws to account for recent reforms in the Treasury system

2.27 The PFM reform agenda is led by the Minister of Finance with support from development partners. Responsibility for PFM reforms is shared between two Deputy Ministers of Finance, with the Deputy Minister/Head of Treasury leading modernization of Treasury operations, including development and implementation of GFMIS, while reforms in budget preparation and execution handled by the Deputy Minister of Finance responsible for budget management, accounting and reporting. There has been significant support for PFM reforms from the IMF, UNDP and ADB, with the latter being active between 2007- 2012.

- a) The Law of the Republic of Uzbekistan "On Treasury Execution of the Budget."
- b) Tax code (January 2008).

2.28 This consolidated numerous legislative acts, simplified the tax system, and increased its stability and transparency for taxpayers. Major positive innovations of the Tax Code include:

- Simplified tax administration for taxpayers. The Code is mostly a directly applicable law, i.e., it regulates the taxation system without many other by-laws.
- Guarantees of the taxation system stability. It establishes that there has to be certain minimum time lag before new tax rules come into effect after they are adopted.

- Guarantees of taxation system fairness. The Code provides that no individual tax privileges could be granted.
- Certain work on further polishing the new Tax Code is being implemented presently via incorporating and enacting the amendments.

3. Assessment of the PFM Systems, Processes and Institutions

A. BUDGET CREDIBILITY

PI-1: Aggregate expenditure out-turn compared to original approved budget

	Minimum Requirements (scoring Method M1)
PI-1. Aggregate Expenditure Out-Turn Compared to Original Approved budget	Score A (i) A

3.1 The budget deviation is a good measure of the overall performance of the PFM system at a high level.⁷ The credibility of the budget matters to citizens, investors, and of course to all those who will implement the budget and deliver the public services.

3.2 The bi-cameral Parliament approves state budget in Uzbekistan. The State Budget is the consolidation of Republican (Central Government Budget) and Local Administrations budget. The central government budget consists of 197 ministries and institutions as well as budgetary transfers to oblasts and Autonomous Republic of Karakalpakstan. Consolidating eight EBFs and Pension Fund with the state budget, together with EBFs of budget organizations and ministerial funds generates the general government definition for Uzbekistan. (See diagram 1.1)

3.3 The Parliament discusses and approves the consolidated state budget as a whole, however the resolution states only the budget balance as a percent of GDP. During the last three years (2008-2010) the approved budget deficit was 1 percent of GDP as it is reflected in the resolutions of the Legislative Chamber of the Oliy Majlis and resolutions of the Senate. The budget is submitted to the Parliament at the second level of the functional classification and the Oliy Majlis, lower house of the Parliament, holds discussions of the state budget before approval at the second level of functional classifications both for the central and local government. However, it approves consolidated state budget revenues, expenditures, and overall deficit/surplus numbers.⁸

3.4 In Uzbekistan, deviation of state budget's primary expenditures from the approved budget was not significant in 2008-2010 period excluding 2008. Deviation of aggregate non-interest state government expenditures from original budgets approved by the parliament was 10.1, 1.4 and 2.4 percents for 2008, 2009 and 2010, respectively. Table 3.1 shows the main expenditure items in the central government budget by economic classification compared to the original budget.

⁷ The budget deviation is calculated as the difference between the original budget and actual expenditures and revenues. Expenditure is calculated excluding debt service charges and externally financed project expenditures.

⁸ The consolidated amount of the state budget is calculated by deducting budgetary transfers to the local administrations both from the central government budget expenditures and local administrations revenues in order to eliminate double counting.

Table 3.1: Expenditure Deviation

(Million Sum)	2008			2009			2010		
Functional Classification	budget	actual	Dev. (%)	budget	actual	Dev. (%)	budget	actual	Dev. (%)
Education	2,355,022	2,469,100.2	4.8	3,562,917	3,332,743	6.5	4,635,065.9	4,464,069.7	3.7
Health Care	861,359	934,071.0	8.4	1,290,049	1,259,789	2.3	1,704,132.2	1,716,452.5	0.7
Culture and Sport	97,812	101,449.7	3.7	127,336	122,201	4.0	159,913.3	154,510.1	3.4
Science	34,529	34,810.8	0.8	64,318	61,001	5.2	83,570.8	81,344.9	2.7
Social Protection	34,532	35,279.5	2.2	47,057	44,965	4.4	59,281.1	58,200.4	1.8
Subsidies for Families with Children and Low Income Families	585,281	635,901.5	8.6	1,043,704	1,037,692	0.6	1,431,895.2	1,312,469.5	8.3
Subsidy for Pension Fund	65,000	194,500.0	199.2						
Grant to NGOs	3,000	3,000.0	0.0	4,000	4,000	0.0	4,500.0	4,500.0	0.0
Economy	933,303	940,683.3	0.8	1,305,745	1,261,174	3.4	1,573,250.1	1,513,529.3	3.8
Investment	595,000	617,535.6	3.8	820,000	839,869	2.4	825,000.0	860,022.1	4.2
General Public Services	186,637	205,800.3	10.3	271,906	269,832	0.8	351,999.7	375,923.4	6.8
Local Self Governing Units (Makhalla)	56,730	60,581.4	6.8	85,035	83,329	2.0	118,508.2	114,201.4	3.6
Other Expenditures	1,565,061	1,892,390.3	20.9	2,219,077	2,369,863	6.8	2,682,113.5	2,649,197.5	1.2
allocated expenditure	7,373,266	8,125,104	10.2	10,841,142	10,686,459	1.4	13,629,230.0	13,304,420.9	2.4
contingency	31,500	28,682	8.9	34,175	39,723	16.2	54,175.0	52,141.1	3.8
total expenditure	7,404,766	8,153,786	10.1	10,875,317	10,726,181	1.4	13,683,405.0	13,356,562.0	2.4

Source: Ministry of Finance

3.5 Increase in other expenditures (defense, security and public order), subsidies to Pension Fund and health and education expenditures are main reasons for the 10.1 percent deviation in 2008.

PI-2: Composition of expenditure out-turn compared to original approved budget

	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score A (i) A (ii) A

3.6 Budget credibility can be undermined by significant variation between the composition of spending in the approved budget and actual composition of spending. This can be a sign of government policies being undermined, either through weak budget planning, ad hoc budget execution rules, irregular cash management practices, or frequent or large in-year budget amendments. The variation in composition of the expenditures as opposed to budget is a concern where the weighted average of expenditure items (administrative or functional) exceeds the aggregate spending variation, suggesting a re-allocation across priorities.

3.7 In Uzbekistan, compositional variation of the State budget non-interest expenditures was less than 10 percent in all the years.⁹ As Table 3.2 reflects, the overall expenditure composition variance based on the old Uzbek State Budget functional classification was 7.2, 4.2, and 2.6 percent during 2008, 2009 and 2010, respectively.^{10,11} These figures reflect that there has not been a major policy changes between the budget preparation and budget implementation. The higher deviation in 2008 is mainly coming from increased social assistance to pensioners, low income families and other expenditures which in majority cover defense, security and public order expenditures. Similarly, spending from the contingency reserve as a share of approved budget has been very minimal with less than 0.4 percent throughout the period.

3.8 The legislative framework that limits reallocation of the appropriations during the year contributes significantly to this strong performance on the compositional budget. Any budget reallocation more than 10 percent of the original appropriation requires parliamentary approval. Below that threshold it is under the authority of the Cabinet of Minister. This type of strong control over the budget reallocation, without much discretionary power of the execution, enables limited deviations from the budget in terms of the composition of the realization.

Table 3.2: Variances in functional composition of expenditures, including general services

year	total exp. deviation	for PI-1 composition variance 1/	for PI-2 (i)	for PI-2 (ii) contingency share
2008	10.1%		7.2%	0.39%
2009	1.4%		4.2%	0.37%
2010	2.4%		2.6%	0.38%

Source: MOF, staff calculation

⁹ The formula for calculating the variance is available in the www.pefa.org as a downloadable excel worksheet.

¹⁰ The data for this calculation is presented in Table 3.1

¹¹ Uzbekistan moved into GFS2001 consistent budget classification with the 2011 budget. For details of the existing classification, please refer to the PI-5.

3.9 The contingency reserves accounts less than half percent of the total state budget during the period in Uzbekistan. Share of spending from the contingency was 0.39, 0.37, 0.38 percent, respectively of the original budget in 2008, 2009, and 2010. The Ministry of Finance has the control of the contingency reserves and uses it based on the demands during the implementation of the budget.

PI-3: Aggregate revenue outturn compared to original approved budget.

	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue outturn compared to original approved budget.	Score A

3.10 In many countries, overoptimistic or cautious revenue forecasts or weak revenue collection systems could undermine budget credibility and therefore necessitates budget revisions during the implementation. One of the key assumptions for the revenue projections is the growth and international commodity prices. The optimistic or cautious assumptions in these indicators could lead into major deviations in the central budget revenue outturns.

3.11 The revenue forecast in Uzbekistan is undertaken by the Ministry of Finance based on the macro projections provided by the Central Bank, Ministry of Economy and Ministry of Foreign Economic Relations, Investment and Trade. While providing the growth and international commodity price forecasts, the scenarios of the Institute for Macroeconomic Developments are also taken into account. Both growth and commodity price are calculated based on the pessimistic scenario. This provides a conservative revenue projection for the state budget. It should be noted that windfall revenues due to higher growth or higher international commodity price cannot be converted into spending. The Presidential Resolution requires transfer of the windfall revenues to the Fund for Reconstruction and Development. (Please see the PI-7 for a detailed discussion of the FRD).

3.12 The State budget in Uzbekistan generated higher revenues than originally envisaged by the budget during the period of 2008-2010. Actual domestic revenues were 123, 104, and 103.7 percent of the budgeted domestic revenue during 2008-2010 (Table 3.3).

Table 3.3: Deviation of State Budget revenue collection compared to the original budget revenue forecast

(million sums)	Budget Revenues (I)	Actual (II)	II/I
2008*	7,108,257.4	8,760,762.0	123.2%
2009	10,421,382.5	10,840,226.4	104.0%
2010	13,116,396.9	13,596,725.3	103.7%

Source: Ministry of Finance

3.13 2008 shows the highest deviation in the revenue collection with around 24% compared to the original budget. This is the result of three main factors. The first one is conservative macro-projections as a general rule of the Government– real GDP growth rate of 9% compared to 8%. As it is explained by the Ministry of Economy, the growth projections and mainly commodity prices are projected based on the pessimistic scenario. Therefore, revenue collection most of the time comes higher than the budget forecasts. The second factor was introducing windfall tax on additional profit for cement, and ingredient of polyurethane and increasing the resource tax on water and land by 20 percentage points and reducing

the tax exemptions in 2007. The last factor is widening the tax base by reducing the corporate tax rate for the SMEs to 10 percent from 13 percent.

PI-4: Stock and monitoring of expenditure payment arrears

(i) Stock of expenditure arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock.

(ii) Availability of data for monitoring the stock of expenditure payment arrears.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Score A i. A ii. A

3.14 There is a central system for monitoring accounts payable or overdue invoices in the current Uzbekistan PFM system. The Ministry of Finance is responsible for monitoring and managing accounts payable, and accounts receivables as well as related arrears. The system as part of the overall budget monitoring system provides up-to-date information on the arrears on a daily basis. This enables the Government to monitor arrears based on aging profiles.

3.15 The current legal framework surrounding arrears is very detailed and clear. The Law provides formal definition of arrears in the Uzbek PFM system for personnel (payroll) system and other current expenditures (utilities). In case of salary payments, the Government is obliged to make the payments within the first five days of the following months for the month that public personnel worked. Therefore, it is reported as arrears on the sixth day of the following month for personnel payments. For the goods and services including the utility bills they are monitored under accounts payables once the bills are received or contract is signed. Payment for services and goods become arrears in 90 days after the due date.

3.16 The monitoring of the arrears is being done on a daily basis. The budget monitoring system can monitor the stock of the data based on the local definition of arrears in Uzbekistan.

3.17 As the table below shows data for the stock of arrears are negligible in Uzbekistan. In all three years, the stock of arrear was less than 0.002 percent of the total state budget actual primary expenditures.

Table 3.4: Stock of Arrears as a % of State Budget Primary Expenditure

(million sums)	State Budget Primary Expenditures (I)	Stock of arrears (II)	Share (II/I)
2008	8,153,785.7	24.8	0.0003%
2009	10,726,181.3	164.3	0.0015%
2010	13,356,562.0	96.9	0.0007%

Source: Ministry of Finance.

B. TRANSPARENCY AND COMPREHENSIVENESS

PI-5: Classification of the budget

(i) The classification system used for formulation, execution and reporting of the central government’s budget.

	Minimum Requirements (scoring Method M1)
PI-5. Classification of the budget	Score A The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards

3.18 Uzbekistan adopted a new budget classification system in 2010 complying with the Government Financial Statistics (GFS) 2001 Manual international standards. State Budget Preparation, discussion, approval, implementation, reporting, auditing and control follows the budget classification approved by the MOF order #65 of August 20, 2010¹². Therefore, both 2011 central and local administrations budgets and expenditures are available either in an economic, functional, or administrative breakdown.

3.19 The budget classification is based on i) sources of funds and budget levels (1-6 digit), ii) functional (7-13), iii) organizational (14-16), iv) economic (17-23) and v) territorial (24-26) breakdown.

3.20 The source of funds and level of budget identifies the revenue sources (budget, pension fund, employment fund, FRD, or other EBFs etc,) and makes a distinction between the republican budget and the local administrations’ budget.

3.21 The budget classification system is fully harmonized with the Chart of Accounts. The budget classification system meets the UN COFOG standards. The budget classification system, on the other hand, does not support program classification and, as a result, program reporting requires extensive manual tabulation and compilation. However, the PEFA indicator PI 5 does not require program classification as an integral part of the budget classification system and, therefore, its absence in Uzbekistan does not affect the indicator rating.

PI-6: Comprehensiveness of information included in budget documentation.

3.22 The documentation sent to the legislature each year under a covering letter from the Ministry of Finance is prescribed under the Budget System Law. At present it does not include the expenditure projections for the medium term but only for the forthcoming year, although such estimates are available in the Ministry of Finance and could easily be added as and when required.

¹² The State Budget refers to consolidation of central (Republican) budget and Local Government Budgets.

Element	Budget Documentation
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes
3. Deficit financing, describing anticipated composition.	Yes
4. Debt stock, including details at least for the beginning of the current year.	No
5. Financial Assets, including details at least for the beginning of the current year.	Yes
6. Prior year's budget outturn, presented in the same format as the budget proposal.	Yes
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	Yes

	Minimum Requirements (scoring Method M1)
PI-6. Comprehensiveness of information included in budget documentation.	Score A (i) Recent documentation fulfils all of the 9 information benchmarks, with the exception of detailing debt stock.

PI-7: Extent of unreported government operations

(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e., not included in fiscal reports.

Table 3.5: EBF Revenue & Expenditure¹³

EBF	2010 Expenditure	2010 Revenue
School Education Fund	284 134.5	321 639.6
Pension Fund	5 006 915.3	5 264 214.9
Employment Fund	37 113.3	37 994.5
Road Fund	668 016.7	846 638.7
Special Account for the State Property	22 254.3	23 028.6
Children's Sports Fund	85 576.7	93 046.0
Land Reclamation Fund	146 158.5	149 840.1
Book Fund	45 405.7	42 267.5
Total EBF	6295575.0	6778669.9
Total Pension Fund as % of total EBF	79.53	77.65
Total General Government	13 596 725.3	13 386 906.7
EBF as % of Gen Gov.	46.3	50.6

Score: A.

¹³ The largest EBF, the Fund for Reconstruction and Development is not reflected in this table. Accurate information regarding 2010 revenue and expenditure was requested on numerous occasions but never received, though by law reports are prepared using this information.

3.23 The Uzbekistan Government has reduced the number of Extra Budgetary Funds from 18 to 8 (plus the Pension Fund) since 2009. These include: Road Fund, Health and Education Infrastructure Fund, Fund for Reconstruction and Development, Employment Fund, Book Fund, State Account for State Properties, Fund for Youth and Sport, and the Fund for Land Reclamation and Irrigation. All these funds are subject to the Budget Systems Law in its entirety, and therefore produce annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports including all revenues and expenditures.

3.24 Other smaller unreported funds exist for budget organizations and under ministries e.g., an individual school's own fund

(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.

3.25 The Aid Coordination Department of the Ministry of Finance has consolidated 100 per cent of aid flows (apart from negligible NGO to NGO flows) since 2008. Its website, www.devoid.uz, details all aid flows. Data is assembled from aid organization reports to the Ministry of Finance. Every implementing agency is required to report to the MOF on a monthly basis, though exceptions are made for UN organizations and Turkish Aid, which report quarterly. Aid flows are consolidated into an annual Development Co-operation Report of the MOF, which is also available online. Information includes all income and expenditure data as well as disbursement schedules where available.

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score A (i). The level of unreported extra-budgetary expenditure is insignificant. Score A (ii). Complete income/expenditure information for 100% of donor-funded projects is included in fiscal reports Score A

PI-8: Transparency of Inter-Governmental Fiscal Relations

(i) Transparent and rules based systems in the horizontal allocation among SN governments (ATUs) of unconditional and conditional transfers from central government (both budgeted and actual allocations).

3.26 By law, Central Government authorized transfers account for almost 100% of the budget of regions (12 provinces as well as Tashkent City and the Autonomous Republic of Karakalpakstan), and 100% of districts under the regional governments of which there are 199, though a proportion of this is routed through regional governments. The rental of property, and water taxes as well as some excise taxes may be kept by local authorities since 2007. Balanced budgets (zero deficit) are required by the BSL.

3.27 The MOF Department of Territorial Units drafts the budget for the regions, using a transparent formula to determine how much funding is required by each region based on an incremental formula maintaining service delivery by taking into account inflation and demographic changes etc. Investment funding is determined in consultation with MOE (PIP)

3.28 Regions receive these transfers by two accounting methods determined by Presidential Resolution: the 6 better off regions receive all the transfer as a result of resources arising from taxes attributed to their region e.g. VAT, income tax. The remaining 8 receive a proportion as a result of taxes

attributed to their region and the balance by way of subvention. The taxes attributed to the region are paid directly from local tax offices to local treasuries under the supervision of the MOF.

3.29 Subventions/transfers are divided into 2 types:

- Social allowance payments (for pensions and delivered through the local budget).
- Wages/payroll and a single social payment for public education.

3.30 These transfers are made in accordance with the Constitution which guarantees free education, as well as a pension.

3.31 The Single Treasury Account ensures that full control over LG budgets can be carried out on a daily basis. There is currently a policy to reduce subventions/transfers, reflecting the economic growth of the country and therefore regions. Targets are set by MOF for such reductions dovetailing with the economic development plans of regions.

Score A

(ii) Timeliness of reliable information to Sub National (SN) governments on their allocations from central government for the coming year;

3.32 Formally, no ceilings are issued to local government (as per MDAs) in the April budget circular. They are expected to submit a budget request by July 1st which reflects the level of service delivery of the previous year (adjusted for inflation and demographics) unless explicit policy changes have been indicated. No formal notification of allocation is given until the final quarter of the year when the budget is voted on in parliament (October) and the Presidential Resolution is passed in December.

3.33 Changes to revenue and/or expenditure can be accommodated during the FY. Any revenue shortfalls can be covered by an interest free loan from MOF which is paid at the end of the year (this is usually only used by poorer regions which suffer from seasonal revenue inflows). Increases in expenditure (such as salary increases) are accommodated by extra resource transfers by CG. This adjustment may also be used for revenue surpluses.

Score C

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

3.34 Quarterly budget execution and revenue reports and Annual reports (always before 10 months after year end and usually within 2 months) are submitted by Regions to the MOF Department of Territorial Units. MOF monitors revenues on a monthly basis and expenditures on a quarterly basis. These detail expenditures ex-ante and ex-post and are presented in accordance with GFS (administrative, economic and functional) using the MIS. As verification, the MOF can monitor all LG spending on a daily basis as of 2012 with execution data captured in the Treasury system. Annual reports (deadline March 1st) are consolidated by the MOF into the Annual Report on Local Finance Execution which is first subject to the Chamber of Accounts evaluation and submitted to Parliament by May 15th each year.

Score A

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-	Score B+

Governmental Fiscal Relations	<p>(i). Score A The horizontal allocation of all transfers from central government is determined by transparent and rules based systems</p> <p>(ii) Score C Implicit ceilings are used by SN governments in setting their budgets, which are then confirmed in the final quarter of the year – too late for any adjustments to be made.</p> <p>(iii) Score A Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for all SN government expenditure within 2 months (usually) and consolidated into annual reports within 4.5 months of the end of the fiscal year.</p>
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PI-9: Oversight of aggregate fiscal risk from other public sector entities

(i). Extent of central government monitoring of AGA, SEs and JSC.

3.35 The GOU has shares in 8 banks (5 with over 50% shareholding, not including the 100% stake in the CBU) and about 795 holding companies (JSCs) accounting for over 3,000 commercial businesses or SOEs (as well as about 17,000 other organisations such as schools and hospitals etc.). Oversight of the banks is the responsibility of the Department of Financial Markets and Bonds in the MOF, while that of SOEs is the responsibility of the State Property Committee of the MOF.

3.36 Oversight is stringent. Each entity has a Government Representative on site, selected by a special commission under the COM.

3.37 The banks are required to report monthly to the MOF in detail (assets/liabilities, income statement, credit affiliated transactions etc.). Annual Audited accounts are also mandatory. Although there are no stress tests, banks are monitored regularly. This is supplemented by the CBU’s monitoring which covers the whole of the banking sector, and results in quarterly reports to government and annual reports to parliament.

3.38 All SOEs report twice a year to the State Property Committee in MOF, indicating revenues/expenditures, balance sheet and business plans. Reporting information is used in compiling a coefficient of bankruptcy (a requirement of the Ministry of Justice). Worsening indicators over a particular threshold result in letters to the management and the COM. 15-20% of SOEs received such letters in 2011. It should be noted that SOEs are not allowed to go bankrupt. Audited Financial Statements are issued annually.

3.39 The contracting of loans by SOEs is allowed over the 500 x minimum wage (currently about \$33.19 at the official exchange rate) if agreed by the regional State Property Committee. This results in a threshold of \$16,593. Loans over the minimum wage x 5,000 require agreement at national level. Apparently there were 110 such agreements (co-ordinating activities) at national level in 2011.

3.40 However, although oversight is stringent, there is no consolidated overview of risk produced.

Score C

(ii) Extent of central government monitoring of SN governments’ fiscal position.

3.41 SN governments cannot generate liabilities. By law their budgets must be balanced and result in zero fiscal deficits. They cannot enter into loan agreements.

Score A

	Minimum requirements (Scoring Method M1).
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PI-9. Oversight of aggregate fiscal risk from other public sector entities	Score C+ (i) Score C - All major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. (ii) Score A – By law, SN governments cannot generate fiscal liabilities for central government.
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PI-10: Public Access to key fiscal information

Public access to key fiscal information is assessed through the six criteria for the indicator as follows.

Element	Where and when
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	No
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	No
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	No
(v) Contract awards: Awards of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	No
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No. Aggregate resources of health and education are posted on Mayoral notice-boards at regional level (witnessed in Jizaakh) with breakdowns for each facility apparently available on request from the Mayor’s office though this was not witnessed by the team. Interviewed citizens were unaware of the availability of such breakdowns.

3.42 According to the OECD’s Anti-Corruption Report of 2012: “(A)... draft law “On openness of activities of state authorities and public institutions”, was prepared in 2011. This law intends to regulate obligations of public institutions to inform the public and mass media, establish procedures for such communication, sanctions for violating these obligations and provide for a possibility to appeal against actions of public institutions in cases of failure to provide the requested information.” It is therefore possible that this indicator could improve in any future PEFA, though precisely what information should be made available under this law does not appear to be specified in its draft.

3.43 Interestingly, during the course of the PEFA assignment, the GOU has now made available a summary budget execution report (only detailing aggregate figures, with some narrative) for Q1 on the MoF website, again boding well for the future.

	Minimum Requirements (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score D (i) the government makes available to the public none of the 6 listed types of information

C. POLICY-BASED BUDGETING

PI-11: Orderliness and participation in the annual budget process

(i) Existence of and adherence to a fixed budget calendar.

3.44 A clear budget calendar is proscribed as part of the BSL and provided as part of the budget communications sent by MOF to all budget entities on the 1st of May each year. Budget entities are expected to respond with budget requests by July 1st each year. This is always adhered to.

Score A

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).

3.45 Budget circulars do not include any ceilings. However, ceilings are rather implicit in that budget entities are expected to submit the previous year’s budget figures adjusted for any changes in inflation, demographics or policy on the recurrent side. As for investment, this would be ascertained according to the PIP which again budget entities would be implicitly aware of. Otherwise the circular does outline a timetable which is usually strictly adhered to but allows for little political involvement in the preparation of the budget, which has, on occasion, resulted in delays in approval of the budget.

Score D

(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).

3.46 The two houses of the legislature approve the budget each year. The Lower House (Oliy Majlis) approves around the end of October / beginning of November. The Upper House (Senate) approves about a month later. Senate approval dates for the last 3 years are: 2008: 30/11/07, 2009: 4/12/08, 2010: 4/12/09.

Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	<p>Score B</p> <p>(i). Score A: A clear annual budget calendar exists, is always adhered to and allows MDAs enough time to meaningfully complete their detailed estimates.</p> <p>(ii) Score D A budget circular with ceilings is not issued to MDAs</p> <p>(iii) Score A The legislature has, during the last three years, approved the budget before the start of the fiscal year.</p>

PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

(i) Preparation of multi -year fiscal forecasts and functional allocations.

3.47 Fiscal forecasts are not explicitly prepared as part of the budget process, but rather prepared internally in MoF without any transfer of information to budget stakeholders. There is no Medium Term Fiscal Framework, nor budget ceilings.

Score D

(ii) Scope and frequency of debt sustainability analysis

3.48 External debt is closely monitored by the MOF's Main Department of External Assets and Liabilities. Figures and tables are sent to the MOF and the COM, though no report appears to be made by those bodies. Domestic debt is monitored by the Securities Department of MOF. At present, the negligible domestic debt (approximately 0.2% of GDP) is held in the form of Treasury Bills which should all be bought back by the CBU during the course of 2012 according to a 2011 Presidential Resolution. No evidence of analysis is available.

3.49 Public external debt to GDP ratio has been at the level of around 8 percent over the last 3 years. Taken together with domestic debt, the total is under 10% which renders this dimension not applicable.

Score N/A

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

3.50 Sector strategies exist for sectors with donor assistance such as health and education. Costings of investment and recurrent expenditures have not been carried out comprehensively.

Score D

iv) Linkages between investment budgets and forward expenditure estimates

3.51 The annual budget circular requires all budget entities to present a table indicating the future recurrent costs of investment projects. Sector strategies do not underpin such investments.

Score D

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p>Score D</p> <p>(i). Score D Fiscal forecasts are not explicitly prepared as part of the budget process, but rather prepared internally in MoF without any transfer of information to budget stakeholders. There is no Medium Term Fiscal Framework, nor budget ceilings. (ii) N/A Total Debt has been about 8% of GDP over the past 3 years</p> <p>(iii) Score D Sector strategies have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure</p> <p>(iv). Score D Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared</p>

D. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

PI-13. Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

3.52 In January 2008 a new revised Tax Code was enacted, which consolidated numerous legislative acts introduced since the 1997 Tax Code. This, simplified the tax system, and increased its stability and transparency for taxpayers. Major positive innovations of the Tax Code include:

- Simplified tax administration for taxpayers. The Code is mostly now a directly applicable law regulating the taxation system without a plethora of sub-laws and regulations.
- A guarantee of stability, in that there has to be certain minimum time lag before new tax rules come into effect after they are adopted.

- Guarantees of taxation system fairness. The Code provides that no individual tax privileges can be granted.

3.53 A significant amount of tax revenue (54 percent in 2009 and 56 percent in 2010) is generated by low-distortion taxes such as retail sales/VAT, property, etc. Significant amounts of tax revenues (30% percent in 2009 and 29% percent in 2010) are generated from company and personal income taxes. The tax base is broad and exemptions are moderate, but not always time-bound, e.g., for promotion schemes.

3.54 In October 2009, the fiscal policy for 2010 was approved. This envisaged further reductions in tax burdens, including corporate income tax and single tax payment rates, and lower marginal rate for the personal income tax. Simplified income tax rate was reduced from 10 percent to 7 percent in 2010 and 2011. The personal income tax rates reduction resulted in 1.4 percentage point drop in the average rate (from 15.8 to 14.4 percent) in 2009 and a further 1.0 percentage point drop (to 13.4 percent) in 2010. The profit tax was reduced from 10 to 9 percent for 2010.

3.55 All domestic taxes, including VAT, excise, property, land, water use, and business taxes are collected by the State Tax Committee. All in all, taxes under the STC are clear and comprehensive.

3.56 Customs is administered separately. The State Customs Committee also operates under the 2008 Tax Code as well as a significant number of dedicated regulations and decrees. A new Customs Code has been in draft since 2010 and is currently being considered in Parliament. This code should aggregate and modernise the current customs legislation which is disaggregated and not always clear. The SCC collects duties, VAT and excise on imported goods. There are no duties on exports. Provisions are made for exemptions to duties and VAT under a multitude of circumstances including humanitarian assistance grant goods, and processing equipment. Individuals importing by air are allowed to import goods worth up to \$1000. The lack of a consolidated code for Customs results in a complicated set of regulations and decrees, which renders obligations unclear in many cases, to the extent that most traders use agents to negotiate the obligations under customs.

Score B

- (ii) Taxpayer access to information on tax liabilities and administrative procedures.

3.57 The State Tax Committee has 199 tax offices in all districts of Uzbekistan connected to HQ by dedicated fibre optic cables. All offices provide an information service. Laws, obligations, liabilities and administrative procedures are also freely available on the Tax Committee website in both Russian and Uzbek¹⁴. There is evidence of campaigns run on TV, Radio, billboards and annual taxpayer competitions, as well as schoolbooks. 18 internet based services are also provided to taxpayers covering their own arrears, liabilities, TIN, laws, obligations, methodology, again available in 2 languages.

3.58 The government has made strong efforts to simplify tax administration in order to make it even more transparent. A special inter-agency working group has monitored Tax Code implementation in 2008–09 and summarized recommendations on further improving tax administration through streamlining tax legislation. In December 2008, a law was adopted that introduced such amendments to the new Tax Code, effective January 2009. These amendments aim to bring tax legislation in line with other laws, as well as to resolve provisions that were subject to different interpretations. The work is done to eliminate discrepancies between Uzbek and Russian language texts of the Tax Code, and to develop a comprehensive commentary to the Tax Code to simplify tax compliance. A fiscal policy concept was carried out in 2010, including unification of tax privileges on corporate income tax,

¹⁴ <http://www.soliq.uz/ru/>

unification of single tax payment rates, and rates of the fixed tax for individual entrepreneurs. As a result, taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures under the responsibility of the STC.

3.59 Access to customs information and procedures is less available. The website¹⁵ is not as comprehensive and information at customs offices is also lacking, though relevant laws are available in printed media and on the website. Interviews with senior customs officials revealed that rates and exemptions were so complicated and difficult to access, that it was always best to use an agent for any imports.

Score B

(iii) Existence and functioning of a tax appeals mechanism.

3.60 A tax appeals mechanism exists under law. For both Tax and Customs Committees appeals are held initially at district level, then province (oblast) level. For the State Tax Committee, an expert committee meets once a month to hear appeals not resolved at lower levels. This committee is composed highly qualified specialists from the State taxation committee, Ministry of Finance and Ministry of Justice, as well as from other departments, economic entities and research institutes . At present 100% of appeals are resolved at this level. In the case that they are not resolved they would go to court. Customs appeals also would go to court after provincial hearings being unresolved. The State Customs Committee has no data on numbers of appeals and results.

3.61 Interestingly, it is possible to lodge an appeal online on the Tax Committee website for those who have registered an Electronic Digital Signature. For business entities, any disagreement with an assessment is taken to an Economic Court within 30 days.

Score B

	Minimum requirements (Scoring Method M2).
PI-13. Transparency of Taxpayer Obligations and Liabilities	<p>Score B</p> <p>(i). Score B; Legislation and procedures for most, taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved. Customs legislation is currently a weakness</p> <p>(ii). Score B: Taxpayers have web access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all taxes apart from customs duties</p> <p>(iii). Score C: A tax appeals system has been established and is functional, but it is in practice not independent of government. Data on cases heard and at what level is not available..</p>

PI-14. Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system.

3.62 All taxpayers are assigned a unique tax identification number (TIN) which is the basis for the state tax committee (STC) information management system, using outsourced specialist software provided by an independent state research and technology centre. The TIN is also used by Customs, business registration and other state bodies, such as for pensions. It has also been the case that a TIN is required for the opening of a bank account, the purchase of a new car and passport registration.

¹⁵ <http://www.customs.uz/ru/>

3.63 The State Tax Committee claims there are over 10.5 million individuals and at least 550,000 entities with a unique TIN. Surveys of potential taxpayers are carried out on an annual basis by the Individual Inspections Dept., with 5,229 caught working without documents in 2011.

3.64 The new Tax Code establishes a self-assessment system, e.g., physical persons (individual taxpayers) who are subject to tax withholding by an employer or withholding agent are not required to file tax returns. The tax administration provides taxpayer services and assistance at local offices and taxpayers can both download tax returns and other forms as well as review their tax account on the web with secure access. The STC has instituted electronic tax return filing and indicated that 10 percent of business taxpayers in 2008 filed electronically.

Score A

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

3.65 Penalties for non compliance with registration exist at 50 times the minimum wage (currently about \$33.20 a month at the official exchange rate) with a resultant penalty of \$1659. Repeat offenders are charged at 100 times the minimum wage. Business penalties vary with respect to the infraction including the seizure of goods and also multiples of the minimum-wage for employees and owners.

3.66 Over the last 3 years there have been 36,673 checks resulting in sanctions on entities (businesses etc.) incurring penalties of Sum 2 Trillion. Over the same period there were 13,609 violations by individuals.

3.67 It is worth noting that potential criminal irregularities in tax payments/declarations etc. can also be subject to the Chief Prosecutor’s Office.

Score B

(iii) Planning and monitoring of tax audit and fraud investigation programs.

3.68 In 2011 2.1 percent of business taxpayers were subject to field audits and approximately one third of business taxpayers are subjected to cameral (office) audits (including 100% of companies with a state share). The STC has introduced a limited audit case selection process based on risk analysis for “planned” audits which resulted in reduction of tax checks by 40 percent in 2010 compared to 2007. However, planned audits comprise approximately half of total audits. A rudimentary audit case selection based on risk analysis is currently done by regions in accordance with national guidelines. UNDP is providing assistance in developing an enhanced risk based audit case selection methodology.

3.69 A regular schedule for tax inspections of entities is published on the STC website though suspected fraud, complaints and inspector reports can incur spot checks.

Score C

	Minimum requirements (Scoring Method M2).
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	<p>Score B</p> <p>(i). Score A Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems e.g. car purchases, bank accounts, passport.</p> <p>(ii). Score B Penalties for all areas of non-compliance exist but are not always effective as evidenced by the number of violations</p> <p>(iii). Score C There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment</p>

	criteria, though this is currently under development.
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PI-15. Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).

3.70 At the beginning of 2012 the total of tax arrears represented 1.7% of total taxes collected in 2011. This figure represented an improvement from the beginning of 2011 (2.1%) which was attributed to the improved economic environment.

3.71 It is estimated that 1.4% (of the 1.7%) represents bad debts, in particular companies undergoing bankruptcy proceedings. These are unable to be written off at the moment as proceedings are ongoing and likely to take years under Uzbek law.

3.72 The collection of self assessed taxes in 2010 reached 93.5% and in 2011 it was 95.8%

Score A

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.

3.73 The State Tax Committee and State Customs Committee both transfer 100% of declared tax receipts to the Treasury within one working day – they are paid by taxpayers either directly to a Treasury account or a bank, never into an STC account. In the case of discovered evasion, the STC can keep 10% of the proceeds for their own fund to pay for bonuses and computers etc.

Score A

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

3.74 Both the State Tax and Customs Committees report monthly to the Treasury usually within 10 days of the end of the month. Reports include assessments, collections, arrears and transfers, enabling complete reconciliation of all items.

Score A

	Minimum requirements (Scoring methodology: M1)
PI-15. Effectiveness in collection of tax payments	Score A (i)Score A The total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections), the majority of which represent long/medium term bad debts. (ii) Score A All tax revenue is paid directly into accounts controlled by the Treasury daily (iii) Score A Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within 10 days of end of month

PI-16: Predictability in the availability of funds for commitment of expenditures

(i). Extent to which cash flows are forecast and monitored.

3.75 Cash flow reports are prepared based on government regulations that describe the content of budgeting cash flows and reporting of cash receipts and expenditures. Detailed cash flow forecasts are prepared by the Treasury (using a module of the Treasury software) based on revenue forecasts provided by the tax and customs authorities and budgetary forecasts prepared by the Budget Department and Treasury departments of MOF. EBFs follow the same regulations and provide regular reports on cash receipts and expenditures to MOF. These are then consolidated in the Budget Department of the MOF; who then update the annual forecasts on a monthly basis, based on actual cash inflows and outflows. Reports are prepared on a daily and monthly basis for internal use of the MOF. Quarterly reports have a broader distribution and are submitted to the COM and the Oliy Majlis.

Score A

(ii) Reliability and horizon of periodic in-year information to LMs on ceilings for expenditure commitment

3.76 The Treasury applies commitment and payment controls to commitments and payments from budgetary funds (with the exception of commitment controls for expenditures funded by foreign grants and loans) and extra-budgetary funds, including State Targeted Funds (STFs), ministerial funds and the development funds of budget organizations (with the exception of the FRD).

3.77 Information on individual budget organization transactions is reliable and predictable under the MIS which provides a common information pool across MOF and Treasury. Information includes budget organizations' expenditure commitments on contracts, planned spending and actual payments. Spending ministries/budgetary organizations prepare their cost estimates (broken down into economic classification¹⁶) and an annual cash flow utilization forecast, for their approved budgets, divided into monthly allocations. The cost estimates are submitted to the MOF who are responsible for registering in the expenditure control system as ceilings (or permits) for expenditure commitment, managed by the Treasury. As a result of the system provides budget organizations with sufficient information to make expenditure commitments at least six months in advance.

3.78 Budget organizations are gradually being on-line access to budget information pertaining to their unit; major state budget institutions have already been incorporated and local level institutions will be incorporated later.

Score A

(iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs.

3.79 The approved cost estimates are the basis for in-year spending control exercised by the Treasury. Changes to the budget organizations approved budget and cost estimates are initiated either by MOF or budgetary organizations; in the latter case requiring approval of the MOF; who make appropriate amendments to the cost estimates, which form the basis of budget execution. The Assessment team was informed that only a few adjustments are initiated by the MOF each year; and where these are made they are orderly and across the board for salary increases and other inflationary adjustments. This was confirmed in discussions with spending agencies. Despite requesting details of adjustments from the Treasury the Assessment Team was unable to obtain data on adjustments from the Treasury.

3.80 Score A

¹⁶ Four groups (1) Salaries, stipends etc, (2) Social taxes, (3) Capital expenditures and (4) Other expenditures (foodstuffs, medicines and drugs, utilities and others)

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	<p>Score A</p> <p>(i) Score A: Consolidated cash flow reports are prepared that describe the content of budgeting cash flows and reporting of cash receipts and expenditures are prepared on a monthly basis, based on actual cash inflows and outflows.</p> <p>(ii) Score A Budget organizations are able to plan and commit expenditure for at least six months in advance with the budgeted appropriations.</p> <p>(iii) Score A Significant in—year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.</p>

PI-17: Recording and management of cash balances, debt and guarantees

(i) Quality of debt data recording and reporting

3.81 The MOF Department for State Assets and Liabilities maintains an internally developed database for monitoring external debt which addresses debt service, stock, operations and projections. Balances are regularly reconciled with data from lender systems (e.g. WB Client Connection). Data is considered to be of a high standard, however minor reconciliation differences do occur which are addressed on a timely basis.¹⁷ The government holds negligible amounts of internal debt (less than 0.2% of GDP). Reports are produced on public external debt are provided to the MOE and Central Bank on a quarterly basis; and on request to the COM and Office of the President.

Score B

(ii) Extent of consolidation of the government’s cash balances

3.82 With the establishment of the Treasury function, a Treasury Single Account (TSA) system has been developed. The system was developed gradually from 2007 and by 2010 all budget and own-revenue accounts of budgetary organizations were closed and incorporated into the TSA. The TSA is a system of domestic currency bank accounts controlled by the Treasury and applies to all expenditures (including extra-budgetary funds) on the basis of the same coverage as commitment and payment controls, with the exception of accounts held for the military and internal affairs,¹⁸ FRD, and those funded by foreign grants and loans using both domestic and foreign currency bank accounts. It applies to non-tax revenues but not to tax revenues (which use zero-balance accounts controlled by the State Tax Committee) or to customs revenues (which use non-zero-balance accounts controlled by the Treasury).

3.83 The Treasury, through the above arrangements consolidates most cash balances (including extra-budgetary funds) on a daily basis.

Score B

(iii) Systems for contracting loans and issuance of guarantees.

¹⁷ The Assessment Team were able to view printouts from the database however were not able to view the system itself.

¹⁸ Military and internal affairs hold accounts in commercial bank and are monitored and incorporated into the consolidated cash report by the Treasury on a daily basis through simplified procedures.

3.84 Under the BSL the Oliy Majlis establish the external and internal debt limits when adopting the State Budget for ensuing fiscal year.¹⁹ MOF is authorized by the COM as the sole agency to approve new external and internal debt, and guarantees.

3.85 Until 2010 the Government’s explicit criteria and for total debt was that new borrowing should not exceed debt service. As part of the measures taken by the Government’s in light of the financial crisis this criteria was relaxed and investment decisions are taken on a case by case basis, based on their strategic importance to the economy. Investment decisions, including the financing thereof is based on clear and well established procedures involving all stakeholders (i.e. MOF, MOE, COM and LMs).

3.86 In the absence of limits for total debt and guarantees the score for this dimension is C.

	Minimum requirements (Scoring Method M2).
PI-17. Recording and management of cash balances, debt and guarantees.	<p>Score B</p> <p>3.87 (i). Score B. Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (over debt service, stock and operations) are produced on public external debt are provided to the MOE and Central Bank on a quarterly basis; and on an ad-hoc basis to the COM and Office of the President. (ii). Score B. The Treasury, through the TSA consolidates most cash balances (including extra-budgetary funds) on a daily basis, with the exception of accounts held for the military and internal affairs,²⁰ FRD, and those funded by foreign grants and loans using both domestic and foreign currency bank accounts.</p> <p>(iii). Score C. Central government’s contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but lack clear guidance on limits for total debt and guarantees.</p>

PI-18: Effectiveness of payroll controls

(i) Degree of integration and reconciliation between personnel and payroll data.

3.88 The list of civil service positions is approved by the Head of the Budget Organization and registered by the MoF. The personnel database (referred to as the staffing schedule), is approved by the line minister’s order. The document incorporates posts and level of remuneration calculated on the basis of a scale established for each particular position. The staff list is managed by the personnel management department, which is administratively responsible for incorporating changes. Wages in Government entities are calculated based on the tariffs (scale), i.e. remunerations are based on the defined coefficient for the position held and work experience.

3.89 In larger budget organizations the accounting department makes the calculations using Uzbek software accounting package (ASBO) based on the time sheets provided by the personnel department. Smaller budget organizations (e.g. schools) may not have a separate personnel department and personnel files are typically held by management. In the majority of organizations personnel records are kept in electronic format which is linked with accounting software. Such data as hiring, promotion, salary, etc. is entered into the HR module of the software and becomes available to the accounting department. Hard

¹⁹ Article 40

²⁰ Military and internal affairs hold accounts in commercial bank and are monitored and incorporated into the consolidated cash report by the Treasury on a daily basis through simplified procedures.

copies of orders for hiring, dismissals, promotions, etc. signed by the Head of the budget organization are also transferred to the accounting department for their records.

3.90 However, in some ministries where ASBO is not used (MOH), the data from personnel department (such as orders for hiring, dismissals, promotions, etc.) are transferred manually to the accounting department. Payroll is processed through the treasury system like other payments.

Score B

(ii) Timeliness of changes to personnel records and the payroll.

3.91 Appointments, promotions and new posts are controlled by administrative order and these are prepared within the HR section (or in smaller BOs by the head of the organization) and authorized by the responsible officer (Minister of the line Ministry/Head of the Budget Organization) before being submitted to the accounting department of each budgetary organization. These changes are processed promptly and given the monthly authorizations required for each payroll at local level should be effective.²¹ The strict controls established at the level of each organization where attendance is monitored by the use of daily time sheets are maintained by a specially authorized official. The time sheet is then approved by the head of the organization or unit and submitted to the accounting division at the end of the month for accrual of the monthly payroll. In some organizations, including the Treasury, attendance is monitored through the use of access cards. The use of the magnetic access cards is, however, not widespread.

Score A

(iii) Internal controls of changes to personnel records and the payroll.

3.92 Each month timesheets are prepared for staff reflecting attendance, holidays and sick leave and this is signed by a line manager and the head of the budget institution. This process should reduce the incidence of leavers being overlooked and ensure that changes to personnel records are conducted on a timely basis. This information is used for salary calculations and not submitted anywhere but is maintained locally and is subject to audit/checking. The requirement to maintain the detailed record of the individual amounts disbursed and a record of the person having signed to indicate receipt of the payment is an important control but it appears not to be reviewed on a regular basis. In some budget organizations the personnel database at the budget organizations are directly linked to payroll data held by the accounting department of the organization. HR sections and accounting departments are involved in the payroll process but they still are decentralized because it is done at the local level. There is no audit trail in the sense of payroll having exception reports of joiners and leavers and there is no effective review by management.

Score C

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

3.93 Payroll audit is a mandatory element of CRU inspections which, according to the CRU Internal Procedures for Performing Internal Inspections must be conducted once per two years at all budget organizations, local self-governments and institutions. During the review CRU inspectors verify the

²¹ The government's accounting software (ASBO) has a payroll module. LMs have been using it for several years and BOs are being phased in gradually.

correctness of salaries accrual, tax charges and payments. In addition, the CRU inspectors confirm that staff salaries are calculated on the basis of a scale established for each position.

Score B

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	<p>Score C+</p> <p>(i) Score B – Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month’s payroll data.</p> <p>(ii) Score A - Required changes to personnel records and payroll are updated monthly, generally in time for the following month’s payments. (iii) Score C- Controls exist however there are no exception reports of joiners and leavers or evidence of management reviews. (iv) Score – B Payroll audit is a mandatory element of CRU inspections which are conducted once per two years at all budget organizations, local self-governments and institutions. A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).</p>

PI-19. Competition, value of money and controls in procurement

(i) *Transparency, comprehensiveness and competition as defined in legal framework on procurement*

3.94 The Legal framework on Public Procurement is defined in complex series of Cabinet of Ministers Resolutions. These are fragmented and fail to provide a satisfactory legal framework following good international practices. However, all resolutions are available in public domain.

3.95 The Resolution # 456 dated 21 November 2000-for Procurement of Goods and Resolution # 302 Dated 3 July 2003 for Procurement of Works and number of other resolutions for different type of goods, works and services provide basic legal framework for public procurement. There is conflict between different resolutions e.g., the Resolution # 456 and 302 provide an exemption to follow IFIs procurement procedures in case of IFIs loans/credits/grants. Whereas Resolution # 1588 (Price verification by MFERIT) explicitly includes price verification after contract award in case of IFIs loans/credits/grants. Hence there is contradiction between (i) the local regulations, and also (ii) with the MDB Guidelines

3.96 The procurement plans are not available in public domain. It is mandatory to publish the bidding opportunities for estimated cost between US\$ 300 and US\$ 100,000 in www.xarid.uz and www.goszakupki.uz. As per data provided by the treasury, during January – May 2012, more than 114,300 contracts were concluded amounting UZS 98.1 billion.

3.97 A separate independent complaint handling mechanism is not available, but any complaint can be considered legally in the Higher Economic Court. Data on resolution of procurement complaints is not available in the public domain.

3.98 The assessment of legal framework with reference to the below elements are:

1. be organized hierarchically and precedence is clearly established;:	No
2. be freely and easily accessible to the public through appropriate means;	Yes

3. apply to all procurement undertaken using government funds	Yes
4. make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	Yes
5. provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No
6. provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	No

Source: The GOU website www.xarid.uz.

Score C

(ii) *Use of competitive procurement methods*

3.99 In Resolution # 456 and 302 for Procurement Goods, Works and Services, the open tender is the default method for an estimated cost more than US\$100,000. According to the Cabinet of Minister's Resolution No 456, Article 17, "closed", limited competitive bidding is allowed with prior approval from the Cabinet of Ministers. The team understands that limited tenders are allowed for military and defence needs only.

3.100 The data provided by Department of Treasury is given below:

Indicator	Total number of tenders	e-Tenders (<\$100,000eqv.)	Open tenders (>\$100,000)	Closed tenders	Single source procurement
Number of tenders	Not Available	114300	1,802	No information is available	Not Available
Amount (mln.UZS)	Not Available	98,100	1,901,141.2	No information is available	Not Available

3.101 The data provided by State Committee for Architecture and Construction for construction contracts indicated that around 1000 contracts for amount of around UZS 84,000 million were conducted in 2011. It also indicates that the Committee does closely monitor implementation of the concluded contracts. All these procurements are conducted through competitive bidding and are included into the amount of open tenders submitted by the Treasury.

3.102 No data was provided on closed/restricted tenders either by Treasury or State Committee for Architecture and Construction despite the team having several meetings with these departments. The Public Procurement Unit in Treasury does not maintain any data on procurement.

3.103 In view of lack of reliable data on procurement (particularly data about Direct Contracting/Single Source, restricted tenders etc.), following different methods of procurement, the default score of D has been allocated to this dimension.

3.104 With the establishment of a Public Procurement Unit in the Treasury in 2011 in future the Government will be able to produce and report more comprehensive and reliable data on different procurement methods.

(iii) Public access to complete, reliable, and timely procurement information

3.105 This dimension assesses public access to basic procurement information.

3.106 The e-Procurement for contracts amounting from USD300 up to USD100,000 was introduced in April, 2011, and publication of invitation for bids in the websites as indicated above significantly improved public access to the procurement opportunities. However the data on procurement following different methods of procurement (competitive, single source, restricted), procurement plans, complaints resolved, contract awards is not available in the public domain.

Table 3.6: Public Access to Procurement Information During 2011		
Basic procurement information	Currently accessible by the public	Current Status
Government procurement plan:	No	There is no such requirement as per existing resolutions dealing with public procurement and it is not available.
Tendering opportunities	Yes	The tenders more than \$100,000 are published in www.xarid.uz . For tenders less than \$100,000 are procured following e-procurement website www.xarid.uz .
Award of contracts	No	Award of contracts are not currently published in any government website. The work, however, is underway to have the contract award published in www.xarid.uz
Data on resolution of complaints	No	The data not available.

Score: D

(iv) Existence of an independent administrative system for the review of complaints.

3.107 The current arrangement for administrative review of bidders' complaints is detailed in Resolution # 302. Bidders can complain to the administrative ministries, State Committee of Architecture and Construction, and Economic Courts. However, the administrative arrangements do not substitute for independent complaint review mechanisms available in many countries. There is a call center with a telephone number in the Commodities Exchange for anyone to complain regarding any procurement. This call center is not exclusive to the bidders. As there is no data available on the number of complaints received and how these complaints were resolved, credibility of the complaint handling by these institutions could not be verified.

3.108 There is no independent procurement complaint review mechanism to review the bidders' complaint as per existing resolutions dealing with public procurement.

Table 3.7: Appeals Review Institution and Meeting of the Criteria

Criteria	Comments
Is Complaints review body is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government	No, Independent complaint review body does not exist. The procurement complains are considered as any other administrative complaint in the Highest Economic Court or in any common courts.
Complaints review institution is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Not applicable.
Complaints review institution does not charge fees that prohibit access by concerned parties	Not applicable

Complaints review institution follows processes for submission and resolution of complaints that are clearly defined and publicly available	Not applicable
Complaints review institution exercises the authority to suspend the procurement process	Not applicable
Complaints review institution issues decisions within the timeframe specified in the rules/regulations	Not applicable
Complaints review institution issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	Not applicable

Source: *Ministry of Finance*

PI-19	Explanation	Score – M2
Score D		
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	Score C The legal framework meets three out of six of the listed requirements	
(ii) Use of competitive procurement methods.	Score D: Reliable data is not available	
(iii) Public access to complete, reliable and timely procurement information.	D: The government lacks a system to generate substantial and reliable coverage of key procurement information.	
(iv) Existence of an independent administrative procurement complaints system.	Score D There is no independent procurement complaint review system.	

PI-20. Effectiveness of internal controls for non-salary expenditure

(i) *Effectiveness of expenditure commitment controls.*

3.109 Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved annual budget allocations. Treasury commitment controls operate at two levels, each of which incorporates IT controls (incorporated into the MIS) and review procedures conducted by Treasury staff. Firstly ex-ante controls are conducted to ensure that only contracts covered by expenditure costs estimates are registered in the Treasury system. Contracts are verified and prices checked by the Legal Commitments and Price Monitoring Department within Treasury. Secondly current controls check to ensure that valid payment orders and invoices are in line with registered contracts. Processes require budget organizations to bring documents (contracts, invoices and payment orders) to treasury branches for review and acceptance. These mandatory registration procedures strictly control the targeted use of budget funds, ensure the correct performance of contract obligations, prevents arrears, provides consistency of contracts with expenditure cost estimates and establishes strict control over accounts payable for all legally binding contracts.

Score A

(ii) *Comprehensiveness, relevance and understanding of other internal control rules/ procedures.*

3.110 While somewhat fragmented there is a well established and comprehensive set of financial control rules and procedures covering all aspects of the budgetary cycle which are well understood by staff in line ministries and budget institutions. The current approval processes (involving physical visits to

local treasury office to verify contract and payment documents) and centralized inspection functions (through CRU) are areas which could be addressed to improve the overall efficiency of the present internal control environment.

Score B

(iii) Degree of compliance with rules for processing and recording transactions.

3.111 All payments are made through the treasury system with organizations using the regional treasury offices and are supported by relevant documentation. As noted under dimension (i) above the treasury function operates full commitment and payment controls. In this highly centralized control system there is little, if any, scope for non-compliance with documented rules and procedures. The Control and Revision Unit considers that, in general controls work adequately and compliance with the rules is very high.

Score A

	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	Score B+ (i). Score A Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised). (ii). Score B Other internal rules and procedures incorporate a comprehensive set of controls, which are widely understood, but in some areas be excessive and lead to inefficiency of staff use and unnecessary delays. The current approval processes (involving physical visits to local treasury office to verify contract and payment documents) and centralized inspection functions (through CRU) are areas which could be addressed to improve the overall efficiency of the present internal control environment. (iii). Score A Compliance with rules is very high. In a highly centralized control system there is little, if any, scope for non-compliance with documented rules and procedures.

PI- 21. Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

3.112 A Unit of the Ministry of Finance: the Control and Revision Unit (CRU) focuses on monitoring the execution and targeted use of budget funds. Inspections focus on detecting violations, make recommendations for corrective actions and, where necessary, levying penalties against the entity. In FY 2011 CRU conducted 12,573 inspections, including 2,981 which were carried out by order of law enforcement agencies. CRU aims to cover all BOs over a two year period. The PEFA Team did not observe any CRU work focused on systemic issues or other activities which clearly adhere to international definitions of the role of internal audit²² (for example conducting evaluations of business processes, analysis/evaluation of the effectiveness of internal control frameworks in ministries and budget organizations).

3.113 Some internal audit -“like” functions have also been reported in MOF and other line ministries (Ministries of Health, Defense and Internal Affairs). For example the Treasury Operations Department conducts checks and ex-post reviews of transactions entered through the Treasury system.

²² The Institute of Internal Auditors defines *internal auditing* as “an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

Score D

(ii). Frequency and distribution of reports

3.114 The procedures for the distribution and management response to inspection reports issued by CRU are as follows:

- CRU issues the results of its inspection to the Deputy Minister in the line ministry, copies are sent to the head of the budget organization and, if relevant the Budget Department and Treasury within the MOF.
- Audited organizations have 30 days to respond. During that period they are expected to hold an internal meeting to discuss the results of the inspection and issue an instruction/order which addresses the issues raised in the report.
- The response to the findings will include the internal instruction/order and if appropriate a copy of a payment order as evidence of funds returned to the Budget.
- Later CRU staff visit the audited entity to ensure that the actions detailed in the inspection report have been carried out.
- In more serious cases, CRU reconciles outstanding cases with the Public Prosecutors Office bi-annually.

3.115 The above procedures are well established, reports adhere to a fixed schedule are distributed to the audited entity, and as appropriate other departments within the MOF. The reports however are not shared with the COA and, as a result a score of C has been allocated to this dimension.

Score C

(iii). Extent of management response to internal audit findings

3.116 As outlined in (ii) above the management response is strong. This reflects the mandatory nature of action by managers for remediating any problems identified in the inspection.

Score A

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	Score D+ (i). Score D There is little or no internal audit focused on systems monitoring. (ii). Score C CRU reports are issued regularly for most government entities and, as appropriate other departments within the MOF, but are not shared with the COA may not be submitted to the ministry of finance and the SAI. (iii). Score A Action by management on internal audit findings is prompt and comprehensive across central government agencies.

E. ACCOUNTING, RECORDING AND REPORTING

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

3.117 Bank reconciliations for all central government bank accounts are done on both an aggregate and detailed level and within the following time frames:

- The Treasury Single Account is reconciled daily at the end of each business day;
- The State Tax Authority bank accounts, held in commercial banks are reconciled once a month within a week of the end of the period;
- The remaining bank accounts are reconciled manually on the next business day with banks statements received from either the central bank or commercial banks.

Score A

(ii) Regularity of reconciliation and clearance of suspense accounts and advances.

3.118 Suspense accounts are reconciled at least quarterly and are cleared within one month from the end of the quarter by the respective central and regional Treasury units. Advances to staff are recorded as settlement accounts and monitored by the accountant of the budget organization to ensure repayment of the outstanding debt.

Score A

	Minimum requirements (Scoring Method M2).
PI-22. Timeliness and regularity of accounts reconciliation	<p>Score A</p> <p>(i) Score A. Bank reconciliation for all central government bank accounts takes place at least monthly at aggregate and detailed levels.</p> <p>(ii) Score A. Reconciliation and clearance of suspense accounts and advances take place at least quarterly by respective central and regional Treasury units.</p>

PI-23. Availability of information on resources received by service delivery units

(i) The PFM system effectively supports front-line service delivery units.

This includes services such as primary schools, primary health care and other facilities that are providing services at the community level. Tracking of information on all types of resources received in cash and in kind is done on a quarterly basis (see Box 3.1 below). This information is compiled into consolidated budget execution reports and is regarded as comprehensive.

Box 3.1: Availability of Information on Resources Received by Service Delivery Units

Primary schools. Around 10,000 primary schools (10,000) have the status of legal entities and operate as BOs. They are responsible for paying salaries, social deductions and utility bills, which are subject to regional Treasury controls, and MOF requirements for the production of budget execution reports and annual financial statements. Information about expenditures incurred is prepared, submitted through local governments and eventually consolidated by the Ministry of Public Education. Capital expenditures (new and reconstructed school buildings and gyms) are the subject of a centralized program which identifies priorities and manages the procurement and monitoring process. Schools are also able to fund equipment purchases through sponsorship which is channeled through extra-budgetary accounts held in the treasury. Requirements for other “in kind” resources to be delivered to these schools, e.g. text books and visual aids are determined from a roster of requests submitted annually by the schools. The books are procured centrally by the ministry and are well monitored through the submission of delivery certificates by contractors who deliver it on behalf of the ministry. Statistics about these resources are consolidated and kept centrally by the ministry and provided in their annual report.

Primary health care facilities. More than 3,100 such facilities are provided with budget allocations through the Ministry of Health (MOH). They incur expenditures that are subject to regular regional Treasury controls. Health facilities have recently migrated to a computerized accounting software system (ASBO) which was developed by the MOF; and is being phased in for all budget organizations. Information about expenditures incurred is therefore consolidated into the quarterly budget execution reports of the MOH. In kind resources delivered to

these facilities, e.g. the procurement and distribution of drugs and medical supplies are well monitored through the submission of acceptance certificates by the recipients for deliveries made by contractors (who also provide storage facilities) on behalf of the ministry. Statistics about these resources are kept in a database and consolidated and kept centrally by the ministry and provided in their annual report.

Source: Ministry of Public Education, Ministry of Health

Score A

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	(i) Score A: Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in-kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.

PI-24. Quality and timeliness of in-year budget reports.

(i) Scope of reports in terms of coverage and compatibility with budget estimates

3.119 For the quarterly reports the budget organizations prepare their own income and expenditure statements and balance sheets that contain additional accrual information. This includes cash revenues and accrued expenditures, payables, receivables and disbursement reports. The MOF prepare aggregated monthly and quarterly budget execution reports. The quarterly reports are submitted to the COM and Parliament. Both reports allow for comparison of the approved budget to actual numbers. With the introduction of the treasury system in-year expenditures are covered both at the payments and commitment stage.

Score A

(ii) Timeliness of the issue of reports

3.120 MOF Instruction on the Reports of Budget Organization²³ requires monthly and quarterly reports on budget execution to be submitted to central and territorial finance departments within 10 days of the end of the period and this is strictly complied with. This requirement applies to all budget organizations (including their own revenue and expenditures), other extra-budgetary funds and the State Tax Committee and State Customs Committee. Monthly reports are provided at a more aggregate level by groups of expenditures while quarterly reports provide a detailed breakdown. Quarterly execution reports are submitted to the COM and Parliament within forty days of the end of the period.

Score B

iii) Quality of information

3.121 The reliability of the in-year budget execution reports is supported by financial process controls. First, individual budget organization reports are submitted to MOF (at central and local level), which reconciles the reports with execution data captured in the Treasury system. Secondly, CRU staff

²³ No. 2270 7 October 2011

performs checks on the reliability of the BO’s accounting records as part of their inspection activities and expressed no significant concerns regarding the accuracy of underlying data.

Score A

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	<p>Score B+</p> <p>(i). Score A: Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.</p> <p>(ii). Score B: MOF instructions require monthly and quarterly reports on budget execution to be submitted to central and territorial finance departments within 10 days of the end of the period and this is strictly complied with. Reports are prepared quarterly and issued within 6 weeks of the end of period.</p> <p>(iii). Score A: There are no major concerns regarding data accuracy.</p>

PI-25. Quality and timeliness of annual financial statements

(i) Completeness of the Financial Statements.

3.122 The annual financial statements are presented in two volumes (for the state budget and local budget). The annual budget execution reports on all Budget Organizations (including their own revenue funds), all State Targeted Funds, and other Extra Budgetary Funds. The statements contains (1) a balance sheet, (2) revenue and detailed expenditure account (on a cash basis) broken down into functional, administrative and economic classification, (3) staff breakdown, (4) reports on budget organizations’ own revenues and expenditures, (5) fixed assets report and (6) accounts receivable and payables report, however there is no information provided on loans or debts. The information presented is not a consolidated set of financial statements; data is presented in a series of separate schedules and there are no inter-entity eliminations. The quality of underlying accounting information has improved as a result of the Treasury reforms and the development of MOF approved accounting software in many budget organizations. A review of accounting and financial reports did not highlight any concerns about possible data omission.

In the absence of a consolidated set of the financial statements the default score for the indicator is D.

Score D

(ii) Timeliness of submission of the Financial Statements.

3.123 According to the BSL²⁴ MOF submit the annual financial statements to the COM on April 1 and to the Chamber of Accounts for external audit and evaluation on April 5. The timetable set out in the Law is complied with in practice.

Score A

(iii). Accounting Standards Used.

3.124 The financial statements are prepared on an accruals basis using accounting policies which apply both to the private and public sector. Financial information is presented in a consistent and very detailed way. However, the statements presently do not contain the disclosures of accounting policies and other

²⁴ Article 39.

information (for example on contingent liabilities and full disclosures of financial assets and liabilities) that are typically required by internationally recognized accounting standards.

Score D

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	<p>Score D+</p> <p>(i). Score D. Annual financial statements are presented however the information presented is not a consolidated set of financial statements; data is presented in a series of separate schedules and there are no inter-entity eliminations. (ii). Score A. The statement is submitted for external audit by April 5 of the following fiscal year.</p> <p>(iii). Score D The statements do not contain the disclosures of accounting policies and other information (for example on contingent liabilities and full disclosures of financial assets and liabilities) that are typically required by internationally recognized accounting standards.</p>

F. EXTERNAL SCRUTINY AND AUDIT

PI-26. Scope, nature and follow-up of external audit

(i) Scope/nature of audit performed (incl. adherence to auditing standards)

3.125 The Chamber of Accounts (COA) was established in 2002 as the independent highest financial supervisory body. The decree that established the COA defines its tasks and powers. Included in the COAs mandatory activities are (1) audits of the revenue and expenditures of political parties, (2) the external audit of the annual budget execution report, (3) review and report on the draft budget and (4) an in-depth review of budget execution in at least two oblasts each fiscal year.

3.126 By international standards COA has a modest staff (20) although this is augmented by using staff from the executive to support their inspection work. The approach relies on desk studies to identify unusual or suspicious activity with field visits focused on areas of concern within budget organizations. COA staff has argued that this targeted approach results in full coverage of the budget, however the approach is not in accordance with international auditing standards and the assessment team were not shown any financial audit reports. It is important to note that the Country's current control/inspection framework places reliance on the extensive external financial control activities undertaken by the Control and Revision Unit; a division of the MOF. Such collaboration is a sensible approach in the Uzbek environment.

3.127 The absence of a set of financial statements prepared in accordance with internationally recognized accounting standards limits the scope of work the COA can do – its audit of the annual budget execution report is completed in 35 days from receipt of the financial report and focuses on reconciling supporting documents and forms to the consolidated report.

3.128 The COA follow their work program according to an approved program and the scope of work for targeted inspection work appears to be quite comprehensive. For example the work in Ferganda Rayon in 2011 reviewed the activities of the finance department, local STC and a number of budget organizations. The Team was shown evidence to suggest that the results of this inspection work revealed significant issues and COA held public hearing on the results, attended by members of the Oliy Majlis.

Score D

(ii) Timeliness of submission of audit reports to legislature.

3.129 The COM sends the consolidated government report on Execution of the State Budget to the COA by April 5 for the purposes of external audit and evaluation.²⁵ The COA submits to the Cabinet of Ministers its conclusions²⁶ on the report by no later than May 10th of that year. The COM is required to submit the consolidated government annual financial statements along with the relevant conclusion of the COA to the Oliy Majlis no later than May 15 of the following year, and this requirement is complied with.

Score A

(iii) Evidence of follow up on audit recommendations

3.130 At the conclusion of the audit, a report on the findings and recommendations is prepared. This report is discussed with the management of the immediate higher authority of the audited organization. Management would then consider the proposed recommendations and, together with the COA team, agree on the actions to be taken to ensure that future violations are minimized. Feedback on findings and recommendations are required within one month of the submission of a report by COA to the organization audited. Information is required on measures that will be implemented to eliminate weaknesses. The COA reviews the comments from the budget organization audited and, if necessary, a follow up inspection is arranged to confirm the adequacy of the measures adopted.

Score A

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	Score D+ (i). Score D Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues. (ii). Score A - Audit reports are submitted to the legislature within four months of the end of the period covered. The COM sends the consolidated government report on Execution of the State Budget to the COA by April 5 for the purposes of external audit and evaluation. The COA submits to the Cabinet of Ministers its conclusions on the report by no later than May 10th of that year. (iii). Score A There is clear evidence of effective and timely follow up.

PI-27. Legislative scrutiny of the annual budget law

(i) Scope of the legislature's scrutiny

3.131 For the budget proposal the two houses of the Oliy Majlis review extensive budget documents prepared by the government. These included the macro-economic framework and the budget parameters, the government's proposed spending priorities and the detailed estimates of expenditures and revenues for the Republican budget according to economic, functional and administrative classification. Specifically the draft budget law requires the draft budget documents to include:

²⁵ In accordance with Article 39 of the Budget System Law

²⁶ It includes information about key findings from their work performed as well as recommendations for the improvements of internal controls where deficiencies exist.

- Results of national socio-economic development for previous year and current year forecasts;
- State budget execution report for previous year (including COA report thereon) and current year forecast budget execution;
- Main macroeconomic indicators for the ensuing year as being used to formulate the Draft state budget for ensuing year;
- Draft main areas of national budget and tax policies for ensuing year (including report of the COA thereon);
- Comments on the major areas of budget and fiscal policies for the ensuing year;
- Information on the internal and external public debt position; and
- Draft state budget for the ensuing fiscal year (including report of the COA thereon).

3.132 The present law does not provide for a medium term fiscal framework or medium term priorities. A score of B has been allocated to this dimension.

Score B

(ii) Extent to which the legislature's procedures are well-established and respected

3.133 The budget is firstly considered in the Legislative Chamber by a number of committees in parallel; each one dealing with aspects of the budget that fall into their specific remit. These committees probe government officials and challenge assumptions and decisions regarding all aspects of the macro-fiscal plan, the forecast revenues and their sources as well as the planned expenditures. Expert groups, such as academics are involved to assist the committee members in their deliberations. Written comments are sent to the COM and responses together with adjustments are sent back to the Committees with 14 days. The Budget is then approved in a full session of the Legislative Chamber and sent to the Senate who follow similar procedures.

Score A

(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle.

3.134 Established internal review procedures exist for both Houses of Parliament and are respected. The BSL has set the deadline for the Oliy Majlis to receive the budget no later than October 15th and to report by November 15th. The report is then sent to the Senate, where it completes its review by December 15.

Score A

(iv) Rules for in year amendments to the budget without ex-ante approval by the legislature.

3.135 The rules governing the preparation of in-year changes to the budget are set out in BSL and are respected.²⁷ Reallocations between recipients in budget appropriations of up to 10 percent of the State Budget can be made with the approval of the COM, and greater than 10 percent requires approval of the Oliy Majlis. Reallocations between recipients in budget appropriations of up to 10 percent of the Republican Budget can be made with the approval of the MOF, while greater than 10 percent requires approval of the COM along with procedures adopted by the Oliy Majlis. Reallocations between

²⁷ Article 34 (#130/2007)

expenditure heads of up to fifteen percent can be made by budget organizations with the approval of the MOF.

Score A

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	<p>Score B+</p> <p>(i) Score B The legislature’s review covers fiscal policies and aggregates for the coming year as well as detailed estimates of estimates and revenue, but there is no provision for a medium term fiscal framework in the law.</p> <p>(ii) Score A The legislature’s procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialised review committees and negotiation procedures.</p> <p>(iii) Score A – The legislature has at least one month to review the budget proposals. The BSL has set the deadline for the Oliy Majlis to receive the budget no later than October 15th and to report by November 15th. The report is then sent to the Senate, where it completes its review by December 15.</p> <p>(iv) Score A – Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.</p>

PI-28. Legislative scrutiny of external audit report

(i) *Timeliness of examination of audit reports by the legislature*

3.136 The Cabinet of Ministers sends the annual report on the execution of the State Budget to the COA by April 5 for the purposes of external audit and evaluation.²⁸ The COA submits to the Cabinet of Ministers its conclusions²⁹ to the report by no later than May 10th of that year. The latter is required to submit to the Oliy Majlis the consolidated budget execution report along with the relevant conclusion of the COA no later than May 15th. This is approved by both legislative chambers of Parliament within 3 months of receipt of the Report.

Score A

(ii) *Extent of hearings on key findings undertaken by the legislature*

3.137 The Legislative Chamber of the Oliy Majlis reviews and approves these reports in three stages as follows:

- The Committee on Budget and Economic Reforms considers these reports after a lengthy discussion on areas of control weaknesses that had been identified in the report of the COA. These deliberations are conducted in consultation with representatives from ministries and agencies highlighted in the report.
- The reports are then discussed and considered by factions (groups of parties).
- It is then discussed and approved in a plenary session.

²⁸ In accordance with Article 39 of the Budget System Law,

²⁹ It includes information about key findings from their work performed as well as recommendations for the improvements of internal controls where deficiencies exist.

3.138 The parliamentary proceedings and the approval of the reports are covered by the mass media. However, copies of the actual consolidated government annual budget execution report along with the relevant conclusion of the COA are not publically available in either paper or electronic format.

3.139 Other audit activities (e.g. financial compliance reports) of the COA are routinely made available to the legislature and are discussed there if the conclusions are regarded as of sufficient importance, e.g. in 2011 the conclusions of the COA’s audit activities in the Fergana Rayon were extensively discussed in both Houses. Such activities are also summarized in the annual report of the CoA which is also presented to the legislature.

Score C

(iii) Issuance of recommended actions by the legislature and implementation by the executive.

3.140 Both Houses actively investigate COA-identified problems. These may be problems identified by the COA in their annual budget law review or in their report on audits from their annual audit plan. They may create special investigative committees, consisting of members of the committee, the auditors from the Chamber of Accounts and outside experts, who then visit selected oblasts and rayons where the auditor has found significant problems and made specific recommendations. There is follow up on all visits to ensure that the auditor recommendations are implemented. The committees’ analysis of the annual budget execution report for the year appears to be thorough.

Score B

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit reports	<p>Score C+</p> <p>(i) Score A - Scrutiny of audit reports is completed by the legislature within 3 months of from the receipt of the reports.</p> <p>(ii) Score C – The parliamentary proceedings and the approval of the reports are covered by the mass media. However, copies of the actual consolidated government annual budget execution report along with the relevant conclusion of the COA are not publically available in either paper or electronic format. Other audit activities (e.g., financial compliance reports) of the COA are routinely made available to the legislature. In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with minister of finance officials only.</p> <p>(iii) Score B – Actions are recommended to the executive, some of which are implemented according to existing evidence.</p>

G. DONOR PRACTICES

D-1. Predictability of Direct Budget Support

(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).

3.141 There is no direct budget support in the Uzbekistan loan portfolio as the country borrows only for specific investment projects.

Not applicable.

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

Score: Not applicable.

	Minimum requirements (Scoring methodology: M1)
D-1. Predictability of Direct Budget Support	Score Not applicable. (i) Score Not applicable. (ii) Score Not applicable.

D-2. Financial information provided by donors for budgeting and reporting on project and programme aid

(i) Completeness and timeliness of budget estimates by donors for project support.

3.142 The MOF Aid Co-ordination Department (formally “Aid coordination, recording and control of targeted utilization of department of the humanitarian aid and technical assistance assets of the Ministry of Finance”) receives budget estimates in a variety of formats and timings from donors. Donors that have been committing aid for a number of years (e.g. EC), typically carry out their disbursements according to plan, though the first year disbursements may not be decided in time for budget preparation. The largest 5 donors are presented are, in order: EC, China, Germany, Japan, Global Fund.

3.143 In general, donors provide disbursement schedules to government but not necessarily in a timely fashion. German aid may be agreed for 2 years but signed in May rather than in April. Japan usually offers a June commitment for 1 year. The EC commits for 2 or 3 years but not necessarily by April. The Chinese have no particular mechanism, and the GF has a variety of projects (rounds) which are agreed in various months. Although by law donors are required to submit an implementation plan and disbursement schedule within 2 weeks of project approval, this is not necessarily in time for the elaboration of the annual budget. The classification system used is not always GFS and therefore not compatible with the GOU’s classification. Of the largest 5, the EC and the Global Fund use GFS. GOU transforms the disbursement schedules into GFS format for their own purposes.

Score D

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

3.144 Most donors report to government on a quarterly basis with a 0-15 day delay. Classification is not according to the government’s budget except for the UN agencies and the EC. German aid is due to start GFS reporting in 2012. Japanese and Chinese aid is mostly in kind and provides no budget and price information.

3.145 All aid flows are reported to the government within 20 days of the end of the quarter, with some reporting monthly as well.

Score C

	Minimum requirements (Scoring methodology: M1)
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	Score D+ (i) Score D In general, donors provide disbursement schedules to government but not necessarily in a timely fashion or in GFS format (ii) Score C Most donors provide quarterly reports within 15 days of end-of-quarter on the all disbursements made. Only UN, EC and German aid is presented in GFS format

D-3. Proportion of aid that is managed by use of national procedures

(i) Overall proportion of aid funds to central government that are managed through national procedures.

3.146 The percentage of all donor funds to government that use the national procurement procedures: About 20% of aid is channeled through implementing agencies which then use national procurement procedures

3.147 The percentage of all donor funds to government that use the national payment/accounting procedures: No donor funds use national/payment accounting procedures apart from that channeled through implementing agencies.

3.148 The percentage of all donor funds to government that use the national audit procedures: No donor funds use national audit procedures apart from that channeled through implementing agencies. They use private sector external audit firms.

3.149 The percentage of all donor funds to government that use the national reporting procedures: No donors use national reporting procedures, apart from that channeled through implementing agencies. However, their own reporting procedures do use GFS on occasion (as per D2)

3.150 Although accurate figures are not available for each category above, the approximate figures indicate that the use of national procedures by donors is significantly below 50% (just over 20%)

	Minimum requirements (Scoring methodology: M1)
D-3. Proportion of aid that is managed by use of national procedures	Score D (i) About 20% of aid is channeled through implementing agencies which then use national procurement procedures

4. Government Reform Process

A. RECENT AND ON-GOING REFORM MEASURES

4.1 The Government's PFM reform is anchored in the 2007-18 Strategic PFM Plan developed within the framework of the Public Financial Management Reform Program. The Strategic Plan includes a strategy for the implementation of accrual-based accounting, adopting more international standards for accounting, the acquisition of a new Government Financial Management Information System and greater transparency in financial reporting.

4.2 The MOF has been implementing a Public Finance Management Reform Project (PFMRP) that supports restructuring the institutions of budget preparation and execution, including finance for equipment and software related to the establishment of the Treasury system. This project, as originally prepared with support from the World Bank, had two main development objectives: (1) to improve transparency and accountability of public finances; and (2) to strengthen institutional capacity to use public resources more effectively, efficiently and transparently, in line with Government priorities. The project is financed by the Asian Development Bank (ADB).

4.3 Overall, reforms across the PFM system have proceeded slowly, but progressively. The government has made good progress in implementing a GFS-compliant classification and coding system, creation of a dedicated Treasury unit within the Ministry of Finance, the establishment of a treasury single account (TSA), consolidation of extra-budgetary funds and extra-budgetary special accounts of budget entities into the TSA, and the implementation of interim financial management information systems in advance of the implementation of a full Government Financial Management Information System (GFMIS). The Tax Code has also been updated and consolidated though customs legislation still awaits similar consolidation.

4.4 A Treasury Single Account is now processing the majority of government spending. In addition, a GFS 2001-compliant chart of accounts has been implemented for all of the transactions of the government in both budgeting and reporting. This represents a major improvement in the quality and the comprehensiveness of the government's information processing and analytical capacities.

4.5 The government is moving effectively to consolidate its state entity for budget preparation, execution and reporting purposes. The consolidation within the Treasury's coverage of the many funds and accounts that have been outside the budget has considerably expanded the scope and transparency of the state's activities.

4.6 In the area of procurement a Government Commission on Public Procurement under the Cabinet of Ministers was established in 2011. Under their leadership the Government recently established an electronic procurement system to ensure that all public procurements from 300 USD to 100,000 USD are carried out exclusively by auctions through the Commodities Exchange. An internet portal has been established to post information related to tendering opportunities. As well as the existing monitoring role requiring budget organization to register contracts in the treasury system the Government established a unit within CRU charged with ex-post reviews of public procurements which are suspected of prior arrangements, and other fraudulent and corrupt practices. Finally the Commission is working to develop a new Law of Public Procurement which is aimed at addressing current deficiencies and consolidating the current fragmented legal framework. Reforms related to transparency of information have not progressed as yet, though government websites are publishing an increasing amount of information, as witnessed by the website of the tax

Committee and the recent publication of summary budget execution data on the MOF website.

B. INSTITUTIONAL FACTORS SUPPORTING REFORM PLANNING AND IMPLEMENTATION

4.7 The Ministry of Finance has been the main institution leading the reform effort, with the Treasury department taking the lead in Treasury modernization. The Ministry of Finance is also the lead agency implementing the Strategic PFM Plan although formal approval of the Cabinet of Ministers has not been obtained thus limiting the involvement of other key line ministries. Other agencies which have a strong interest in the PFM reform process include the Chamber of Accounts, the Parliamentary Committees of Budget and Economic Reforms as well as the General Prosecutor's Office and Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) on Procurement issues. It is worth noting that the current PFM Strategy does not address key accountability functions of internal and external audit that would supplement the gains from implementation of the Treasury system.

4.8 On the donor side, historically coordination had not been effective; perhaps due to lack of a formally approved PFM strategy, as a result support to PFM reforms in Uzbekistan had been fragmented. This is changing and there is now some effort by donors active in PFM to coordinate their efforts and present a unified approach to PFM reforms in the country. There was, for example, some involvement of other donors in the WB CIFA, such as the UNDP, IMF, and there are indications of strong interest in the PEFA among donors. However, the number of development partners interested in PFM in Uzbekistan is limited as some partners that have hitherto supported PFM reforms, such as EU-TACIS and ADB have either scaled back their support or in the process of doing so.

Annex 1: Summary and Explanation of Indicator Scores

	Score	Explanation
PI-1. Aggregate expenditure out-turn compared to original approved budget	A	In Uzbekistan, deviation of the state budget's primary expenditures from the approved budget was not significant in 2008-2010 period except for the 2008 fiscal stimulus
PI-2. Composition of expenditure out-turn compared to original approved budget	A	(i)A The overall expenditure composition variance based on the Uzbek State Budget functional classification was 5.7, 4.2, and 2.6 percent during 2008, 2009 and 2010, respectively, demonstrating little in-year policy changes or transfers (ii)A Spending from the contingency reserve as a share of approved budget has been very minimal with less than 0.4 percent throughout the period
PI-3. Aggregate revenue out-turn compared to original approved budget.	A	Actual domestic revenues were 123, 104, and 103.7 percent of the budgeted domestic revenue during 2008-2010. These reflect a conservative forecast regime and, in 2008, increased windfall, resource and corporation taxes
PI-4. Stock and monitoring of expenditure payment arrears.	A	(i)A In all three years, the stock of arrear was less than 0.002 percent of the total state budget actual primary expenditure. This reflects legal requirements of, and control over payments (ii)A Data is generated on a daily basis according to the local definition of arrears
PI-5. Classification of the budget	A	A new budget classification system was adopted in 2010 and uses GFS/COFOG standards at administrative, economic and sub-functional level. It is used for State Budget Preparation, discussion, approval, implementation, reporting, auditing and control
PI-6. Comprehensiveness of information included in budget documentation.	A	Annual budget documentation contains all required information except details of debt stock
PI-7. Extent of unreported government operations	A	(i) A All 8 EBFs are subject to the Budget Systems Law, and therefore produce annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports including all revenues and expenditures. (ii)A Complete income/expenditure information for 100% of donor-funded projects is included in fiscal reports
PI-8. Transparency of Inter-Governmental Fiscal Relations	B+	(i)A The MOF drafts the budget for the regions, using a transparent formula to determine how much funding is required by each region based on an incremental formula maintaining service delivery by taking into account inflation and demographic changes etc. (ii)C Regions do not receive budget allocation information in order to develop their budget. (iii)A Regional reporting to CG is highly detailed.
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C+	(i)C Oversight of AGAs/PEs is highly detailed, though fiscal risk is not consolidated into a report. (ii)A Regional Governments cannot generate fiscal liabilities.
PI-10. Public Access to key fiscal information	D	Key fiscal information is not available. Contract awards are not published.
PI-11. Orderliness and participation in the annual budget process	B	(i) A: A fixed budget calendar exists by law. (ii) D: There is no formal political involvement in the setting of ceilings as they do not exist. (iii) A: Budget approval by the legislature is always timely.

	Score	Explanation
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	(i) D: Multi-year fiscal forecasts are not used in formal budget planning. (ii) N/A: There is no consolidated DSA undertaken, partially as debt is under 8% of GDP (iii) D: Those sector strategies that exist have no comprehensive costings. (iv) D: Links between investments and future recurrent costs are not underpinned by sector strategies
PI-13. Transparency of Taxpayer Obligations and Liabilities	B	(i) B: Clarity and comprehensiveness of tax liabilities are good for the STC (given the new tax code), but lacking for SCC. (ii) B: The situation is similar for taxpayer access to information. (iii) C: A tax appeals system exists but requires updating to ensure fairness (in particular with regard to its independence
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	B	(i) A Taxpayers are registered in a complete database system linked to other databases including business licenses & bank accounts. (ii) B Penalties exist for non-compliance, but not set high enough to act as a deterrent in all cases. They are administered annually given as evidenced by penalties collected. (iii) C Audit plans exist but are not fully followed and have no clear risk assessment
PI-15. Effectiveness in collection of tax payments	A	(i) A The stock of tax arrears is 1.7% as of Jan 1 st 2012. (ii) A Transfers of revenue are made daily and (iii) A Reconciliation is made monthly within 10 days of month end by both tax and customs.
PI-16. Predictability in the availability of funds for commitment of expenditures	A	(i) A Cash flow forecasts are prepared for the fiscal year, and are updated monthly on the basis of cash inflows and outflows. (ii) A Budgetary organizations are able to plan and commit expenditure for at least six months in advance with the budgeted appropriations. (iii) A Significant in—year adjustments to budget allocations take place in-frequently and are done in a transparent and predictable way.
PI-17. Recording and management of cash balances, debt and guarantees.	B	(i) B Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. (ii) B The Treasury calculates most cash balances (including extra-budgetary funds on a daily basis). (iii) C Until 2010 the Government's explicit criteria and for total debt was that new borrowing should not exceed debt service. As part of the measures taken by the Government's in light of the financial crisis this criteria was relaxed and investment decisions are taken on a case by case basis, based on their strategic importance to the economy.
PI-18. Effectiveness of payroll controls	C+	(i) B Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. (ii) A Required changes to personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare. (iii) C Controls exist however there are no exception reports of

	Score	Explanation
		joiners and leavers or evidence of management reviews (iv)B Payroll audit covering all central government entities are conducted by the CRU once every two years as part of their review of the targeted use of budget funds.
PI-19. Competition, value of money and controls in procurement.	D	(i) C The Procurement resolutions are available in the public domain. This is applicable to all government entities; and competitive procurement is the default method. However, there are contradictions among the resolutions and, there is no comprehensive Public Procurement Law. (ii) D Reliable data on competitive procurement use is not available (iii) D The procurement plans, contract awards and data on complaints disposed is not available in the public domain, and this affects the public access to complete, reliable and timely procurement information. The data to review procurement by different methods including single source and restricted tender is not available, (iv) D There is no independent complaints review mechanism in place.
PI-20. Effectiveness of internal controls for non-salary expenditure	B+	(i) A: Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations. (ii)B Internal financial rules and procedures incorporate a comprehensive set of controls, which are widely understood, but in some areas be excessive and lead to inefficiency of staff use and unnecessary delays. (iii)A Compliance with these rules is very high and any misuse of simplified and emergency procedures is insignificant.
PI-21. Effectiveness of Internal Audit	D+	(i)D The current system of financial inspection does not follow international standards and there is little or no internal audit focused on systems monitoring; (ii)C Reports are issued regularly for most government entities, but are not be submitted to the COA. (iii) A: Action by management on internal audit findings is prompt and comprehensive across central government agencies.
PI-22. Timeliness and regularity of accounts reconciliation	A	(i) A: Bank reconciliations for all central government bank accounts are done on both an aggregate and detailed level on a regular basis. (ii) A: Suspense accounts are reconciled at least quarterly and are cleared within one month from the end of the quarter. Advances to staff are recorded as settlement accounts and regularly monitored to ensure repayment of the outstanding debt.
PI-23. Availability of information on resources received by service delivery units	A	The PFM system effectively supports front-line service delivery units. This includes services such as primary schools, primary health care and other facilities that are providing services at the community level. Tracking of information on all types of resources received in cash and in kind is done on a quarterly basis This information is compiled into consolidated budget execution reports and is regarded as comprehensive.
PI-24. Quality and Timeliness of in-year budget execution reports	B+	(i)A Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (ii)B Reports are prepared quarterly or more frequently and issued within 4 weeks of the end of period. (iii)A There are no major concerns regarding data accuracy

	Score	Explanation
PI-25. Quality and timeliness of annual financial statements.	D+	(i)D Annual financial statements are presented, however the information presented is not a consolidated set of financial statements; data is presented in a series of separate schedules and there are no inter-entity eliminations. Financial information is presented in a consistent and very detailed way. (ii) A: The statement is submitted for external audit within 6 months of the end of the fiscal year. (iii) D: The statements presently do not contain the disclosures of accounting policies and other information (for example on contingent liabilities and full disclosures of financial assets and liabilities) that are typically required by internationally recognized accounting standards.
PI-26. Scope, nature and follow-up of external audit.	D+	(i)D Audits cover central government entities represent less than 50% of total expenditures and do not follow international auditing standards. (ii) A: Audit reports are submitted to the legislature within four months of the end of the period covered. (iii) A: There is clear evidence of effective and timely follow up of the findings.
PI-27. Legislative scrutiny of the annual budget law.	B+	(i) B: The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of estimates and revenue; however does not provide for a medium term fiscal framework. (ii) A: The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialised review committees and negotiation procedures. (iii) A: The legislature has at least one month to review the budget proposals. (iv) A: Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
PI-28. Legislative scrutiny of external audit report	C+	(i) A Detailed and comprehensive scrutiny of the annual audited budget execution report is usually completed by the legislature within 3 months of from the receipt of the reports. (ii) C The parliamentary proceedings and the approval of the reports are covered by the mass media. However, copies of the actual consolidated government annual budget execution report along with the audit report are not publically available in either paper or electronic format. Other audit activities (e.g. financial compliance reports) of the COA are not routinely made available to the legislature; (iii) B Actions are recommended to the executive, some of which are implemented according to existing evidence
D-1. Predictability of Direct Budget Support	n/a	Uzbekistan does not receive budget support
D-2. Financial information provided by donors for budgeting and reporting on project and programme aid	D+	Donors do not typically provide budget estimates for disbursement of project aid in line with the GOU's budget calendar. This may happen in some cases where multi-annual aid is agreed. Donor reporting on disbursements is prompt but not necessarily according to GOU/GFS classification
D-3. Proportion of aid that is managed by use of national procedures	D	Donors rarely use national procedures, with the exception of the 20% (approx.) of aid channelled through ministries

Annex 2: Links Between the Six Dimensions Of An Open And Orderly PFM System And The Three Levels Of Budgetary Outcomes

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
A1 Budget credibility PI-1 – PI-4	<i>In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.</i>		
The budget is realistic and is implemented as intended	Aggregate fiscal discipline has been strong as it is reflected through strong compliance in the budget execution as well as keeping stock of arrears under control at less than 0.4 percent of the budget.	The budget credibility has been strong from meeting the expenditure priorities as envisaged by the budget.	Strong aggregate and compositional budget compliance ensures that shift across expenditure categories is limited and therefore promotes efficiency of service delivery.
A2 Comprehensiveness and transparency PI-5 – PI-10	<i>Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.</i>		
The budget and fiscal risk oversight are complete and fiscal and budget information is accessible to the budget	Oversight of the central budget and SOEs is strong. However, access to budget information is weak.	All expenditures and revenue are included in the Budget. The budgets of EBFs are strictly controlled by the MOF. Availability of information on the budget to the public and scrutiny of the budget by Parliament and its Committee provides little transparency.	The connection between sector strategies and budgets is limited and strong emphasis on economic classification
	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
A3 Policy-based budgeting PI-11-PI12	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
The budget is prepared with due regard to government policy	Long term government policies are not explicit, but rather developed year by year centrally	Resources are allocated along central planning lines, with incremental increases resulting from inflation, demographic changes, investment decisions etc. Strategic plans are largely absent, though adherence to yearly decrees and resolutions from the centre is strong.	The underdeveloped nature of bottom up planning inhibits optimum service delivery.

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
B1. Predictability and control in budget execution PI13-PI-21 The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds	<i>Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.</i>		
	<p>Tax and customs targets are routinely met with collections transferred efficiently to treasury</p> <p>Well maintained database for monitoring external debt.</p> <p>Currently no explicit limits for total debt and guarantees.</p>		<p>Non-transparent customs obligations can result in business inefficiencies, and increased opportunity for leakage.</p> <p>Commitment and payment controls applied to ensure targeted use of budget funds which effectively limit commitments to actual cash availability and approved budget allocations.</p> <p>Reliable cash flow forecasts monitored daily and updated on monthly basis.</p> <p>Fragmented set of procurement rules and procedures; no independent procurement agency or independent system for review of complaints.</p> <p>Well understood but fragmented set of financial control rules and procedures for payroll and other expenditures. Some approval processes are burdensome, requiring visits to local treasury offices. Development of e-payment module of treasury system will improve effectiveness and efficiency of the PFM system.</p> <p>Present PFM framework lacks internal audit function focused on systemic issues (e.g. evaluations of business processes, effectiveness of internal control frameworks in ministries and budget organizations).</p>
	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery

B2. Accounting, recording and reporting PI-22-PI-25 Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes	<i>Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.</i>		
	Reliable monthly, quarterly and annual budget execution reporting to monitor aggregate fiscal discipline.	Reliable monthly, quarterly and annual budget execution reporting to monitor strategic allocation of resources.	Information on individual BOs is reliable and predictable under MIS which provides common information pool across government. The PFM system is reliable and supports front line service delivery units – tracking of resources received in cash and in kind is done on a quarterly basis.
C1. Effective external scrutiny and audit PI-26-PI-28 Arrangements for scrutiny of public finances and follow up by executive are operating	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
	<i>Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.</i>		
	The legislature’s review covers fiscal policies and aggregates for the coming fiscal year.	The legislature’s review covers fiscal policies and strategic allocation of resources for one year although budget documents lack a medium term fiscal framework.	COA has small number of staff and financial to financial audit is not in accordance with international auditing standards. Legislature scrutiny of the budget execution report is reasonably comprehensive but other audit reports are not routinely provided to the Oliy Majlis, nor are reports routinely available to the public in paper or electronic format.

Annex 3: List of key Counterparts

NAME	POSITION	DEPARTMENT/AGENCY
Mr. M. Mirzaev	Deputy Minister	Ministry of Finance
Mrs. E. Ostrogojskaya	Head of Main Department for State Budget	Ministry of Finance
Mr. M. Olloerov	Deputy Head of Main Department, Head of Main Department for State Budget, and Chief Accountant of MOF	Ministry of Finance
Mr. D. Ubaydullaev	Head of Department of Methodology of Accounting of State Budget	Ministry of Finance
Mr. Sh. Usmonov	Deputy Head of Main Department for State Budget	Ministry of Finance
Mrs. N. Nurkuzieva	Head of Department for currency assets and liabilities	Ministry of Finance
Mr. M. Agzamov	Head of Main Control and Revision Department	Ministry of Finance
Mr. B. Ashrafkhanov	Deputy Minister and Head of Treasury	Ministry of Finance
Mr. R. Gulyamov	Executive Director, Uzbekistan Fund for Reconstruction and Development	FRD
Mr. Sh. Vafaev,	Deputy Executive Director, Uzbekistan Fund of Reconstruction and Development	FRD
Mr. O. Rustamov	Deputy Chairman, Tax Committee	Tax Committee
Mr. B. Raimov	Deputy Chairman, State Customs Committee	Customs Committee
Mr. Sh. Tulyaganov	Deputy Minister, Ministry for Foreign Economic Relations and Trade	MFERT
Mr. B. Khodjaev	Deputy Minister of Economy	Ministry of Economy
Mr. Sh. Ismailov	Head of the Main Macroeconomics and Forecasting Department	Ministry of Economy
Mr. K. Akmalov	Deputy Head, Chamber of Accounts	Chamber of Accounts
Mr. B. Iminov	Chairman, Committee on Budget and Economic Reforms, Oliy Majlis	Oliy Majlis (Lower House of Parliament)
Mr. A. Altiev	Chairman, Committee on Budget and Economic Reforms, Senate	Senate (Upper House of Parliament)
M. Khadjibekov	Deputy Minister on Financial and Economic issues	Ministry of Health
<u>Mr. U. Abruev</u>	<u>Deputy Minister of Public Education</u>	<u>Ministry of Public Education</u>
Mr. A. Yuldashev	Deputy Director, General	“UzStandard” Agency

NAME	POSITION	DEPARTMENT/AGENCY
Mr. Donald Nicholson II,	AmCham President, SEAF-SME Investment Fund	American Chamber of Commerce
Mr. Hugo Minderhoud,	AmCham BOD member, AKTE LLC	American Chamber of Commerce
Mr. Frederick Darby,	AmCham BOD member, Rio Tinto	American Chamber of Commerce
Ms. Tatyana Bystrushkina,	AmCham Executive Director	American Chamber of Commerce
<u>Mr. B. Zokirov</u>	<u>Head, State Committee on Architecture and Construction</u>	<u>State Committee on Architecture and Construction</u>
<u>Mr. A. Azizov</u>	<u>Head of Department, State Committee on Architecture and Construction</u>	<u>State Committee on Architecture and Construction</u>

Annex 4: Comments of the Ministry of Finance of the Republic of Uzbekistan

	INDICATOR	PRELIMINARY SCORE	PROPOSALS/OBJECTI ONS OF THE MINISTRY OF FINANCE OF UZBEKISTAN	RESPONSE TO THE MOF COMMENTS
PI-1	Aggregate expenditure out-turn compared to original approved budget	Score A The Parliament approves consolidated state budget balance as a percent of GDP only.	The Parliament approves the budget as a whole, the resolution states only %. (should be deleted)	<i>The text has been adjusted in the final draft to read: “The Parliament discusses and approves the consolidated state budget as a whole. However, the resolution states only the budget balance as a percent of GDP”.</i>
PI-2	Composition of expenditure outturn compared to original approved budget	Score A Having a limited contingency reserve is in par with the overall approach of limited discretion of the executive on the budget implementation in Uzbekistan.	Unclear text (should be deleted)	<i>Text has been deleted from the final draft.</i>
PI-3	Aggregate revenue outturn compared to original approved budget.	Score A		
PI-4	Stock and monitoring of expenditure payment arrears	Score A		
PI-5	Classification of the budget	Score A		
PI-6	Comprehensiveness of information included in budget documentation	Score A		
PI-7	Extent of unreported government operations	Score A		

PI-8	Transparency of Inter-Governmental Fiscal Relations (financial relations between the state administration bodies of different levels)	<p style="text-align: center;">Score B+</p> <p>Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made</p>	As the reliable information is consolidated from all SN governments, there is no sense for budget changes to be made	<i>The point is that a ceiling is not provided to SN governments within which they budget according to priorities. In effect the centre controls the budgeting of SN governments. If they were to make budget changes this could only be done with the permission of Central Government. Formally, the budget is provided to SN governments when approved.</i>
PI-9	Oversight of aggregate fiscal risk from other public sector entities	<p style="text-align: center;">Score C+.</p> <p>The contracting of loans by SOEs is allowed over the minimum wage x 500 (currently about \$337 at the official exchange rate) if agreed by the regional State Property</p>	It is necessary to recalculate the size (500*62920/1896=16593\$)	<i>Amended in text.</i>
PI-10	Public Access to key fiscal information	<p style="text-align: center;">Score D</p> <p>Aggregate resources of health and education are posted on Mayoral notice-boards at regional level (witnessed in Jizaakh) with breakdowns for each facility apparently available on request from the Mayor's office though this was not witnessed by the team. Interviewed citizens were unaware of the availability of such breakdowns. Interestingly, during the course of the PEFA</p>	In Jizzakh Khokimiyat (Mayor's Office) the working team was shown the basic indicators of health and education posted on notice-boards accessible by any visitor; each budgetary organization has notice-boards on delivered services and etc. It is also necessary to note that khokimiyats have the information centers possessing data bases on all facilities in their region. It is necessary to attach score "C" to this indicator	<i>The team could not confirm that citizens could access such information from khokimiyats. The team also consulted with managers of health facilities who indicated that such information was not readily available</i>

		<p>assignment, the GOU has now made available a summary budget execution report (only detailing aggregate figures, with some narrative) for Q1 on the MoF website, again boding well for the future</p>	<p>10 as the Governments year-by-year strives to provide access to the most important pieces of information.</p> <p>It is necessary to delete the words “again boding well for the future” in this paragraph</p>	
PI-11	Orderliness and participation in the annual budget process	<p style="text-align: center;">Score B</p> <p>As for investment, this would be ascertained according to the PIP which again budget entities would be implicitly aware of.</p> <p>A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.</p>	<p>PIP is formed based on the information from the lower level budgetary entities, khokimiyats and the like; as a result spending units have full information on the forthcoming investment program before the beginning of the fiscal year.</p> <p>This score is not appropriate for Uzbekistan as the budgetary circular is issued, and the Cabinet of Ministers thoroughly reviews the budget and in case of necessity introduces respective changes.</p>	<p><i>The Team agrees with this point but again it is only implicit. Ceilings are not provided to budget holders within which they can prioritize. Formal ceilings are only provided after approval and priorities have been set.</i></p>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p style="text-align: center;">Score D</p> <p>Figures and tables are sent to the MOF and the COM, though no report appears to be made by those bodies. No evidence of analysis is available.</p> <p>(ii) Score D No DSA has been undertaken in the last three years (ii) N/A Total Debt is under 10% of GDP</p>	<p>The MOF quarterly prepares and submits to the Cabinet of Ministers information on the external and internal debt of the Republic. As the state debt is insignificant, and borrowings are mainly aimed at the infrastructural development (not to cover SB deficit and etc.), there is no necessity to carry out special analysis. It should</p>	<p><i>Dimension (ii) is “Not Applicable”, which is better than no score (which means information was not available!). The Team will check with the PEFA Secretariat that the scoring methodology followed is appropriate for this</i></p>

			be written “ no score ” for sub-indicator (ii).	<i>indicator.</i>
PI-13	Transparency of Taxpayer Obligations and Liabilities	<p>Score B The tax base is broad and exemptions are moderate, but not time-bound, especially for promotion schemes.</p> <p>... taxes are collected by the State Tax Committee under the Ministry of Finance. The State Customs Committee (also under the Ministry of Finance)</p> <p>(i). Score B Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.</p> <p>(ii) Interviews with senior customs officials revealed that rates and exemptions were so complicated and difficult to access, that it was always best to use an agent for any imports.</p> <p>(ii). Score B Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited .</p> <p>(iii). Score C A tax appeals</p>	<p>Unclear paragraph, it should be deleted.</p> <p>STC and SCC are not under the MOF.</p> <p>Legislation and procedures for all major taxes are comprehensive and clear, and discretionary powers of the government entities involved are strictly limited. Score A.</p> <p>It is necessary to specify when it happened.</p> <p>The Score must be A, as Taxpayers have the unimpaired access to comprehensive information on tax liabilities and administrative procedures for all major taxes.</p> <p>Sub-indicator (iii) should be assessed as "A" as the Higher Economic Court operates in the Republic independently from the Government; its decisions are unbiased and prompt for execution</p>	<p><i>Amended in the text</i></p> <p><i>Amended, to reflect that they report directly to COM.</i></p> <p><i>True for STC but not for SCC which noted that it was necessary to employ an agent to import as it was very difficult to understand the legislation for many goods.</i></p> <p><i>Again not true for Customs. The website and information at borders is minimal, especially compared to STC.</i></p> <p><i>In practice decisions are made by a committee made of majority of government officials. The Higher Court exists but the Team was informed that in practice cases are resolved prior to going to the Higher Court.</i></p>

		system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective		
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	Score B+ Penalties for non compliance with registration exist at 50 times the minimum wage (currently about \$33.67 a month at the official exchange rate). There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria	It is necessary to recalculate the size (50*62920/1896=1659\$). Tax audit and fraud investigation cases are carried out, and the respective reporting is submitted in compliance with the comprehensive and properly documented audit schedule. ... score A	<i>Changed in draft report.</i> <i>Noted, however the team was given no evidence of clear risk assessment criteria being used – therefore a C is the appropriate score for Dimension (iii), which results in B+ for the indicator.</i>
PI-15	Effectiveness in collection of tax payments	Score A		
PI-16	Predictability in the availability of funds for commitment of expenditures	Score A		
PI-17	Recording and management of cash balances, debt and guarantees.	Score B (In the Report footnote 14 - translator) 13. The Assessment Team were able to view printouts from the database however were not able to view the system itself due to the security policies of the MOF. Central government's contracting of loans and issuance of	It is necessary to delete footnote 13. The Central Government receives loans and provides guarantees based on the transparent criteria. Borrowings and issue of guarantees are always subject to the approval.	<i>The footnote provides important clarifications on the availability of primary data provided for the assessment.</i> <i>In the absence of ceilings for overall debt the appropriate score for PI-17(iii) is C. The wording in the draft report reflects the standard wording in the Performance</i>

		<p>guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings</p>		<p><i>Measurement Framework. The text explicitly recognizes that “investment decisions, including the financing thereof is based on clear and well established procedures involving all stakeholders”.</i></p>
PI-18	Effectiveness of payroll controls	<p>Score C+ (i) Degree of integration and reconciliation between personnel and payroll data. However, in some ministries where ASBO is not used (MOH), the data from personnel department (such as orders for hiring, dismissals, promotions, etc.) are transferred manually to the accounting department. Payroll is processed through the treasury system like other payments and civil servants receive their salary 50% in cash at their local place of work and 50% in non-cash form through the banking system. The score for the dimension is B. (iii) Internal controls of changes to personnel records and the payroll. There is no effective audit trail in the sense of payroll having exception reports of joiners and leavers and there is no effective review by management. Dimension score is C. Payroll audit is a mandatory element of CRU inspections which, according to the</p>	<p>Budgetary organizations data bases on personnel and payroll are integrated with each other in view of ensuring data base consistency and monthly reconciliations of the data. Some organizations that have not installed ASBO yet have data bases in the Excel or 1C accounting programs or in the personnel records ledgers. It is necessary to delete this paragraph. There is timely control of changes introduced into accounting records on personnel and payroll. The Score must be “A”. Annually, while checking correctness of estimate</p>	<p><i>Some changes have been made to this paragraph which can be discussed prior to the Reports finalization.</i> <i>For PI-18 (iii) the Team verified the control environment in both health and education budget units. The main issue related to a lack of evidence of effective management review. That is the reason for a C score under this sub-dimension.</i> <i>For PI-18 (iv) the Team found no evidence of annual</i></p>

		<p>CRU' Internal Procedures for Performing Internal Inspections must be conducted once per two years at all budget organizations, local self-governments and institutions.</p> <p>The score for the dimension is B.</p>	<p>costs, the mandatory element is the check of the staff lists for compliance with the payroll. Sub-indicator's score is A.</p>	<p><i>payroll audits needed to score an A for this dimension.</i></p>
PI-19	Competition, value of money and controls in procurement	<p>Score D+ There is conflict between different resolutions.</p> <p>In view of lack of reliable data on procurement (particularly data about Direct Contracting/Single Source, restricted tenders etc.), following different methods of procurement, the default score of D has been allocated to this dimension.</p>	<p>As far as this mechanism was introduced only in 2011, we think it is not expedient to assess this indicator.</p>	<p><i>In the absence of reliable data the default score for this indicator (PI-19 (ii) is D. A clarifying note in the text recognizes that with the establishment of a public procurement unit in the Treasury in 2011, in future the Government will be able to produce and report more comprehensive and reliable data on the different procurement methods.</i></p>
PI-20	Effectiveness of internal controls for non-salary expenditure	<p>Score B+. (ii). Score B Other internal rules and procedures incorporate a comprehensive set of controls, which are widely understood, but in some areas it can be excessive and lead to inefficiency of staff use and unnecessary delays.</p>	<p>In this process of Treasury introduction all types of controls are considered excessive and unnecessary. The score must be A</p>	<p><i>During the assessment the Team noted some evidence of inefficiencies in the current approval processes (involving physical visits to local treasury offices to verify contract and payment documents). These are documented under PI-20 (ii). In the view of the Team a score of B is appropriate for this sub-indicator</i></p>
PI-21	Effectiveness of Internal Audit	<p>Score D+ Assessment Team did not observe any CRU work</p>	<p>In the country, CRU works as internal control and is focused just on systemic issues of adherence to</p>	<p><i>PI-21(i) – The team discussed the scoring of this indicator with CRU during the mission. The</i></p>

		<p>focused on systemic issues or other activities which clearly adhere to international definitions of the role of internal audit (for example conducting evaluations of business processes, analysis/evaluation of the effectiveness of internal control frameworks in ministries and budget organizations).</p> <p>The above procedures are well established, reports adhere to a fixed schedule are distributed to the audited entity, and as appropriate other departments within the MOF. The reports however are not shared with the COA and, as a result a score of C has been allocated to this dimension</p>	<p>budgetary discipline and rules.</p> <p>CRU reports are always sent for consideration to MOF Collegium.</p> <p>During COA inspection, the report on the entity undergoing such a check is mandatorily submitted to CRU.</p> <p>The score must be higher than the indicated one.</p>	<p><i>assessment notes that the units main focus in on monitoring budget execution and the targeted use of budget funds rather than reporting on significant systematic issues in relation to the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations; and safeguarding of assets. Score of D is appropriate for this sub-indicator.</i></p> <p><i>PI-21 (ii) – In order to score a B for this sub-indicator internal audit reports should be systematically distributed to the COA. In the absence of this step a C score is appropriate for this sub-indicator.</i></p>
PI-22	Timeliness and regularity of accounts reconciliation	Score A		
PI-23	Availability of information on resources received by service delivery units	<p>Score A</p> <p>Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in-kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.</p>	<p>Information is collected for the reports at least quarterly.</p>	<p><i>This is noted in the text to PI-23. The standard wording in the Performance Measurement Framework refers to “at least annually”.</i></p>
PI-24	Quality and Timeliness of in-year budget execution reports	<p>Score A</p> <p>There are no major concerns regarding data accuracy</p>	<p>This phrase should be deleted</p>	<p><i>The phrase is taken directly from the Performance Measurement Framework</i></p>

				<i>and follows the structure elsewhere in the document</i>
PI-25	Quality and timeliness of annual financial statements	Score D+ (iii) - Score D: Statements are not presented in a consistent format over time or accounting standards are not disclosed.	In Uzbekistan, IPSAS have not been introduced yet; however, this does not mean that reports do not have a consistent format; reports of all spending units are presented in a standard format based on the cash basis method of accounting	<i>Agreed – it should be noted that the wording comes directly from the Performance Measurement Framework. The text in the indicator recognizes that accounting policies are applied in a consistent manner.</i>
PI-26	Scope, nature and follow-up of external audit	Score D+ Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues	During the external audit of the execution of the State Budget, all central government entities including their revenues and expenditures, assets/liabilities, are also subject to the auditing. The score must be A	<i>PI-26 (i): The scoring of this indicator was extensively discussed with the COA during of the mission and the wording of the text carefully explained during the second mission (see in particular the second paragraph in PI-26 (i). D is the appropriate score for this sub-indicator</i>
PI-27	Legislative scrutiny of the annual budget law	Score B+		
PI-28	Legislative scrutiny of external audit report	Score C+ ii) Score C –place occasionally, cover only a few audited entities or may include with minister of finance officials only. (iii) Score B – Actions are recommended to the executive, some of which are implemented according to existing evidence	In-depth hearings on key findings of the auditors attended by all interested departments take place regularly/annually. At this, measures defined in the resolutions of the legislative bodies are binding for execution. The score must be A	<i>In the team’s discussions with the COA it was understood that in-depth hearings regarding audit reports take place but not all reports are made available to the legislature and it was unclear as to the process of deciding which reports were discussed in Parliament.</i>
D-1	Predictability of Direct	Score: Not applicable	As there is no direct budget	<i>No score is when there is a</i>

	Budget Support		support in the Uzbekistan credit portfolio – the country borrows only for special investment projects, this indicator HAS NO SCORE	<i>lack of information. “Not Applicable” is a better score to have.</i>
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	Score C+.		
D-3	Proportion of aid that is managed by use of national procedures	Score D.		
	Page iv. 1. Budget credibility	There is no indication that arrears generation is undermining fiscal discipline or composition of spending decisions, as the stock of arrears appears negligible	As the stock of arrears is negligible, there is no indication that arrears generation is undermining fiscal discipline or composition of spending decisions	<i>Reformulated along the lines proposed by MOF.</i>
	Page iv. 2. Comprehensiveness and transparency	though lacks an explanation of the fiscal impact of policy changes. There is limited dissemination of information to the public at large, reflected by a D score for fiscal information provided to the public.	Access to criteria mentioned in indicator 10 exists at the regional level. These phrases must be deleted or changed.	<i>As explained above.</i>
	Page v. 3. Policy-based budgeting	... although ministerial expenditure ceilings are not explicitly provided. Sector strategies are not developed as part of the budget process but rather elaborated in sectors with donor involvement. The three year horizon for the budget	These sentences must be reformulated.	<i>The Team finds no reason to reformulate.</i>

		<p>reflects central planning rather than any linkage between investment and recurrent budgets.</p> <p>Comprehensive fiscal forecasts are not developed.</p>		
	<p>Page v-vi.</p> <p>4. Predictability and control in budget</p>	<p>Customs’ operations are effective in the transferring of funds to the treasury, though the legal framework is disaggregated and access to information for businesses is lacking.</p> <p>Tax arrears are relatively low, and a high proportion of existing arrears result from long drawn out bankruptcy proceedings.</p> <p>... with the exception of accounts held for the military and internal affairs, FRD, and those funded by foreign grants and loans using both domestic and foreign currency bank accounts.</p> <p>Budget organizations are gradually being on-line access to budget information pertaining to their unit; major state budget institutions have already been incorporated and local level institutions will be incorporated later.</p> <p>Minor reconciliation differences do occur which are addressed on a timely</p>	<p>These sentences must be reformulated</p>	<p><i>The essence of the write up is in accordance with the assessment. The Team will discuss MOF’s proposed changes to the wording of this paragraph prior to the Report’s finalization.</i></p>

		basis.		
	Page vii. 5. Accounting, recording and reporting	Financial information is presented in a consistent and very detailed way, however the statements presently do not contain the disclosures of accounting policies and other information (for example on contingent liabilities and full disclosures of financial assets and liabilities) required by international accounting standards	Accounting policy in the country is based on the cash (accrual) method of accounting	<i>Noted – the narrative recognized that the basis of accounting is not disclosed in financial statements, in accordance with international accounting standards.</i>
	Page ix. 9. Strategic allocation of resources	The top down elements of strategic planning are strong, whilst the bottom-up elements are extremely weak. As such, the control exerted by the centre on planning is almost total. The opportunity for budget units (ministries and below e.g. schools) to influence the planning and budget process is minimal within the technical realm. It is possible, however, that political considerations are taken into account at a local level.	It should be deleted as the budget is prepared bottom-up.	<i>The Team found no evidence of a bottom up approach to strategic planning. In practice Budget unit managers operate within centrally determined ceilings and allocated resources.</i>
	Page xi. (iii) Prospects for report planning and implementation	Overall, reforms across the PFM system have proceeded slowly, but progressively.	On the whole, reforms in the PFM system are gradually but progressively advancing.	<i>The proposed wording has been adopted in the final draft.</i>

	<p>Page xii. 1. Access to Information</p>	<p>Whilst the Government Team participated fully in the PEFA assessment process it should be noted that assessment team’s access to information in Uzbekistan was restricted due to the government’s security concerns, particularly in the Budget Department of the MOF. Much information gathered was not available in the public domain. As a result, information provided was often delivered in hard copy to the assessment team, the accuracy of which could not be verified by triangulating the information on MOF computers.</p>	<p>It is necessary to delete....</p>	<p><i>The Team believes that it is important to clarify issues related to access to information during the Assessment process. We agree that it would be appropriate to agree the precise wording of the note prior to finalizing the report.</i></p>
	<p>Page 5. 5. 22: Country Background Information 2.1: Description of the Country Economic Situation</p>	<p>The decline in poverty in recent years is due to rapid economic growth, government investments, and increased remittances from abroad.</p>	<p>The words “... and increased remittances from abroad.” should be deleted.</p>	<p><i>Deleted.</i></p>
	<p>Page 5-6.</p>	<p>The 2011 consolidated fiscal surplus widened to 5.4 percent of GDP from 4.9 percent in 2010 despite the fact that growth remained unchanged. The impact of lower tax collections, reflecting cuts in corporate</p>	<p>Here is the positive balance of the consolidated budget.</p>	<p><i>Changed in final draft report.</i></p>

		and personal income taxes and the reduction of the unified rate for small businesses, as well as 20 percent higher wage and salary expenditures were more than offset but increased revenues – from higher international commodity prices, VAT collections, and social security contributions – and lower than planned public investment. The authorities intend to maintain their prudent fiscal policies over the medium term, including accumulating FRD resources.		
	Page 6-7.	In May 2007, the Ministry of Finance (MoF), on the request of President of Uzbekistan, designed the Public Finance Management (PFM) Reform strategy for 2007–2018. Overall, reforms across the PFM system have proceeded <u>slowly</u> , but progressively.	In May 2007, the Ministry of Finance (MOF) developed the Strategy of reformation of public finance management (PFM) for 2007-2018. Overall, reforms across the PFM system have proceeded <u>gradually</u> , but progressively.	<i>Agreed – wording changed in the revised draft</i>
	Page 9.	The assessment team was informed that the Government is presently working on drafting the Public Procurement Law (PPL). However, the team was noted provided with any draft of the PPL and, therefore, the information could not be verified	It is necessary to delete the last sentence as this project is drafted together with the UNDP	<i>Agreed - Sentence deleted.</i>
	Page 10.	Though largely shielded, the world economic crisis has	After the global financial and economic crisis, budget	<i>Agreed – changed in final</i>

		impacted on revenue performance with a significant drop in 20xx which has triggered a smaller reduction in expenditure that has led to the widening budget deficit. Salient points...	expenditures were not reduced in Uzbekistan.	<i>draft report.</i>
	Page 11.	The 2012 OECD Anti-Corruption report indicates that “currently access to information in Uzbekistan is regulated by the two laws that lack precision, overlap and do not provide for effective guarantees of access to information”.	This paragraph is not relevant here as the matter concerns the legislative and institutional structure of public finance management.	<i>Agreed - this has been removed from the draft document.</i>