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FISCAL DECENTRALIZATION AND DIGITALIZATION AS MECHANISMS FOR ENSURING ECONOMIC AND SOCIAL RIGHTS AT THE LOCAL LEVEL IN UZBEKISTAN

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ABSTRACT

Economic and social rights depend not only on their legal recognition but also on the financial, institutional and informational capacity of local government. This article examines fiscal decentralization and digitalization as complementary mechanisms for strengthening such capacity in Uzbekistan. Using approved local-budget parameters for 2023–2026 and recent institutional reforms, the study identifies a trend toward greater local revenue capacity alongside continued fiscal equalization. It argues that fiscal decentralization can strengthen the resource base of local governments, while digitalization can improve transparency, accountability and data-driven decision-making. Their integration can therefore support more effective and equitable delivery of public services and strengthen social resilience. The article also identifies institutional, territorial and digital constraints that may limit these effects.

INTRODUCTION

The effective realization of economic and social rights depends on more than the formal recognition of such rights in national legislation and international instruments. It also requires institutions capable of mobilizing resources, allocating them efficiently and delivering accessible public services. At the local level, this relationship becomes particularly important because many services directly affecting living standards—including education, healthcare, social protection, local infrastructure, water supply and other municipal services—are implemented or coordinated through territorial institutions.

The International Covenant on Economic, Social and Cultural Rights establishes obligations for states to take appropriate measures, including through the allocation of available resources, to progressively realize economic, social and cultural rights. The UN Committee on Economic, Social and Cultural Rights has increasingly emphasized the relationship between fiscal policy, domestic resource mobilization and the realization of rights [1].

This perspective is particularly relevant for Uzbekistan, where public administration and territorial governance have undergone significant institutional reforms in recent years. The new edition of the Constitution, adopted in 2023, strengthened the constitutional framework for local representative institutions and local executive authorities, including their responsibilities concerning local budgets and territorial socioeconomic development [2].

At the same time, Uzbekistan has been gradually reforming its intergovernmental fiscal relations. Changes introduced from 2025 increased the share of selected tax and non-tax revenues retained at district and city levels, while subsequent budget legislation expanded mechanisms for sharing certain tax revenues with local budgets [3, 8, 9].

Digital transformation represents a second important dimension of this process. The Digital Government–2028 Strategy places emphasis on digital public services, open data, transparency and data-based public administration [4]. However, digitalization alone does not create greater local administrative capacity if local governments lack sufficient financial resources, institutional authority or interoperable data.

The central argument of this article is therefore that fiscal decentralization and digitalization should not be considered as separate reform tracks. Fiscal decentralization can provide local governments with greater resource capacity, while digitalization can strengthen the information and accountability infrastructure required to use those resources effectively. Their combination can contribute to more efficient, transparent and equitable realization of economic and social rights at the local level.

METHODOLOGY AND LIMITATIONS

The study applies a qualitative institutional and comparative approach, complemented by descriptive analysis of Uzbekistan's local public finance indicators. The empirical period covers 2023–2026, corresponding to a period of significant changes in the country's fiscal and public administration framework.

The quantitative analysis uses approved annual budget parameters contained in Uzbekistan's State Budget Laws for 2023, 2024, 2025 and 2026, particularly data on local-budget revenues, expenditures and regulating transfers [6–9]. These figures represent approved or planned annual budget parameters rather than audited actual budget execution. Accordingly, year-to-year changes are interpreted as changes in the scale and structure of planned local public finance and should not be treated as direct evidence of realized expenditure or service-delivery outcomes.

The analysis also examines the institutional changes introduced through Presidential Decree UP-223 of 20 December 2024 and subsequent annual budget legislation [3, 8, 9]. The article does not claim that these reforms alone caused the observed increase in local revenue parameters. Changes in economic activity, tax collection, inflation, the tax base, budget policy and other factors may also influence annual budget figures.

A further analytical distinction is made between fiscal capacity and fiscal autonomy. Higher local revenues do not necessarily mean full financial independence because intergovernmental transfers and equalization mechanisms remain important components of the system. The study therefore characterizes the emerging model as a form of managed fiscal decentralization.

The article does not apply econometric methods or establish causal relationships between fiscal decentralization, digitalization and rights outcomes. Its purpose is to identify institutional relationships and policy mechanisms. Future research could strengthen the empirical analysis through district-level panel data combining actual budget execution, public-service indicators, socioeconomic outcomes and digital-government performance.

1. ECONOMIC AND SOCIAL RIGHTS AND THE CAPACITY OF LOCAL GOVERNMENT

Economic and social rights are realized through a combination of legislation, institutions, financial resources and public services. The right to education, healthcare, social protection, adequate living conditions and access to essential services requires functioning public institutions capable of translating legal guarantees into concrete outcomes.

Local government is particularly important in this process because the quality and accessibility of public services can vary significantly across territories. OECD analysis of Uzbekistan has highlighted the importance of strengthening public-service delivery, improving coordination between levels of government and addressing territorial disparities [5].

From a rights-based perspective, this creates two related requirements. First, local governments must possess sufficient resources and responsibilities to address locally specific needs. Second, citizens must have adequate information and mechanisms to monitor how public resources are allocated and used.

Fiscal decentralization addresses primarily the first requirement, while digitalization can strengthen the

second. The two mechanisms therefore have complementary functions within a rights-oriented model of local governance.

2. FISCAL DECENTRALIZATION AS A MECHANISM OF RIGHTS REALIZATION

Fiscal decentralization refers broadly to the distribution of revenue-raising powers, expenditure responsibilities and financial decision-making authority across different levels of government. Its relevance to economic and social rights derives from the relationship between local resources and local service delivery.

When local governments retain a larger and more predictable share of revenues, they may have greater flexibility to respond to territorial priorities. This can improve the alignment between local expenditure and actual community needs. However, decentralization can also increase disparities if territories have substantially different tax bases.

For this reason, fiscal decentralization normally requires an appropriate combination of local revenue sources; clearly defined expenditure responsibilities; predictable intergovernmental transfers; fiscal equalization mechanisms; transparent budget procedures; and effective local accountability.

The objective is therefore not necessarily to maximize local financial independence. Rather, the objective is to create an appropriate balance between local responsibility, resource capacity and national standards of service provision.

3. THE 2023–2026 TRAJECTORY OF LOCAL PUBLIC FINANCE IN UZBEKISTAN

The development of local fiscal capacity can be illustrated through the approved parameters of Uzbekistan's local budgets.

Table 1. Approved local-budget parameters, 2023–2026

Indicator, UZS trillion	2023	2024	2025	2026
Local-budget revenues	54.946	58.060	65.794	75.982
Local-budget expenditures	79.227	74.897	84.256	95.632
Regulating transfers	24.281	16.837	18.462	19.650
Revenue growth, YoY	—	+5.7%	+13.3%	+15.5%
Expenditure growth, YoY	—	−5.5%	+12.5%	+13.5%
Transfer growth, YoY	—	−30.7%	+9.7%	+6.4%

Source: Author's calculations based on Annexes 6 and 7 of the State Budget Laws for 2023–2026 [6–9].

3.1. Revenue Assignment Reforms from 2025

A major institutional change was introduced by Presidential Decree UP-223 of 20 December 2024. From 2025, district and city budgets were assigned full revenues from several tax and non-tax sources, including turnover tax, legal-entity property tax, legal-entity land tax and revenues from the rental of state assets. At least 50% of personal income tax revenues was also assigned to district and city budgets under the established conditions [3].

From 2026, the fiscal framework was further expanded through revenue-sharing arrangements for value-added tax. Under the 2026 State Budget Law, 5% of VAT revenues is allocated to the local budget of Tashkent City and 20% to the budgets of other regions, subject to specified exclusions. The framework also maintains provisions for assigning at least 50% of personal income tax revenues to district and city budgets under specified conditions [9].

3.2. Territorial Differentiation and Fiscal Equalization

The aggregate figures conceal significant differences among regions. The 2025 approved parameters, for example, show substantial differences in local revenue capacity. Planned local revenues ranged from approximately UZS 1.740 trillion in Syrdarya Region to UZS 11.109 trillion in Tashkent City [8].

The expenditure and transfer structure also demonstrates the continued importance of fiscal equalization. In 2025, significant regulating transfers were planned for Karakalpakstan, Andijan, Namangan and Fergana, while much smaller amounts were allocated to relatively stronger revenue-generating territories such as Navoi and Tashkent City [8].

This differentiation has direct implications for social rights. If local revenue capacity were the only determinant of public-service financing, residents of economically weaker territories could face systematically lower service standards. Equalization transfers therefore perform an important rights-protection function by helping compensate for differences in territorial fiscal capacity.

Consequently, decentralization and equalization should not be viewed as mutually exclusive. An effective decentralized system requires both local fiscal responsibility and mechanisms that prevent territorial inequalities from translating into unequal access to essential public services.

3.3. Local Fiscal Capacity and Expenditure Responsibilities

Despite the expansion of local revenue parameters, expenditures continue to exceed local revenues in aggregate. In 2025, approved local revenues amounted to UZS 65.794 trillion compared with expenditures of UZS 84.256 trillion. In 2026, the corresponding figures were UZS 75.982 trillion and UZS 95.632 trillion [8, 9].

This demonstrates that local fiscal capacity remains embedded within a broader system of intergovernmental fiscal relations. The emerging model should therefore be understood as managed fiscal decentralization rather than complete decentralization.

Table 2. Selected changes in local revenue assignment

Fiscal instrument	Reform direction
Turnover tax	Full assignment to district/city budgets from 2025
Legal-entity property tax	Full assignment to district/city budgets from 2025
Legal-entity land tax	Full assignment to district/city budgets from 2025
State-asset rental revenues	Assignment to relevant district/city budgets from 2025
Personal income tax	At least 50% assigned to district/city budgets under specified conditions
VAT	Revenue-sharing mechanism expanded from 2026

Source: Presidential Decree UP-223 and State Budget Law for 2026 [3, 9].

4. DIGITALIZATION AND THE TRANSFORMATION OF LOCAL PUBLIC FINANCE

Fiscal decentralization creates additional decision-making space for local authorities, but this space requires reliable information and accountability. Digitalization can provide the infrastructure necessary to connect financial resources, administrative processes, public information and citizen participation.

Uzbekistan's Digital Government–2028 Strategy identifies transparency, open data, accessibility and data-driven public administration among the key directions of digital transformation [4].

At the local level, digitalization can contribute to fiscal governance through digital budget planning and monitoring; open publication of budget information; digital tracking of local expenditures; integration of tax, budget and socioeconomic data; electronic public services; citizen participation platforms; and data-based monitoring of service outcomes.

The significance of digitalization therefore goes beyond administrative efficiency. If citizens can access understandable information about local budgets, public spending and service performance, the informational asymmetry between authorities and citizens can be reduced.

At the same time, recent assessments of data governance in Uzbekistan indicate continuing challenges related to fragmented information systems, interoperability and digital skills [10]. These constraints are particularly important at the local level, where administrative capacity can vary significantly.

5. FROM DIGITAL TRANSPARENCY TO DATA-DRIVEN LOCAL GOVERNANCE

Digitalization should not be equated simply with the conversion of paper procedures into electronic formats. Its deeper governance value lies in the integration and use of data for decision-making.

For example, a local government could theoretically combine information on population and demographic trends; local revenue collection; expenditure patterns; poverty and social vulnerability; infrastructure conditions; public-service utilization; environmental risks; and citizen feedback.

Such integration would allow local authorities to move from input-oriented budgeting toward more evidence-based allocation of resources and eventually come to the principles of Results-Based-Budgeting.

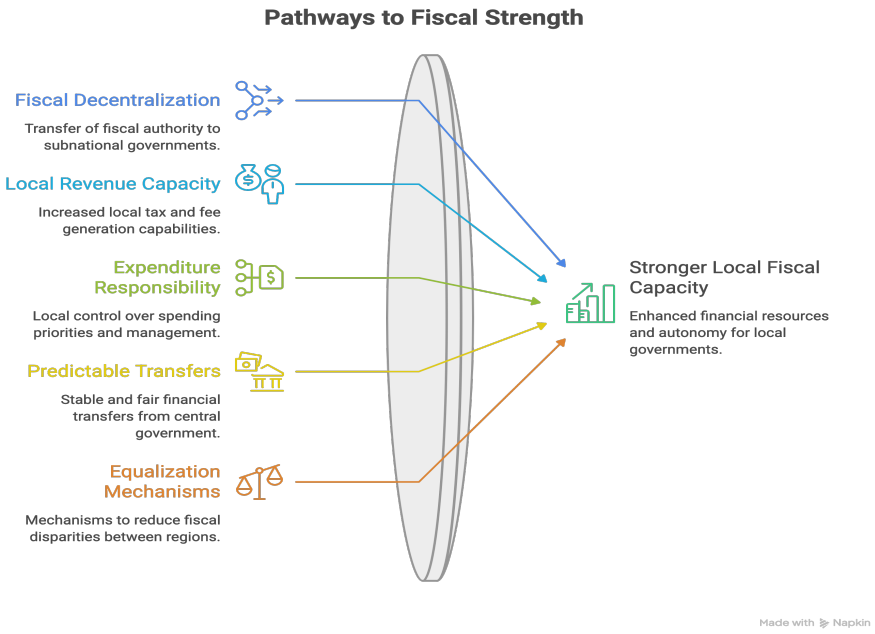
This is particularly relevant for economic and social rights. Rights-oriented budgeting requires policymakers to understand not only how much money is allocated but also who benefits from expenditure, whether vulnerable groups have access to services and whether territorial disparities are narrowing.

However, digital transparency does not automatically generate accountability. Information must be accessible, understandable and connected to institutional mechanisms through which citizens and representative bodies can question or influence decisions.

6. INTEGRATING FISCAL DECENTRALIZATION AND DIGITALIZATION

The interaction between fiscal decentralization and digitalization can be represented through the following conceptual model:

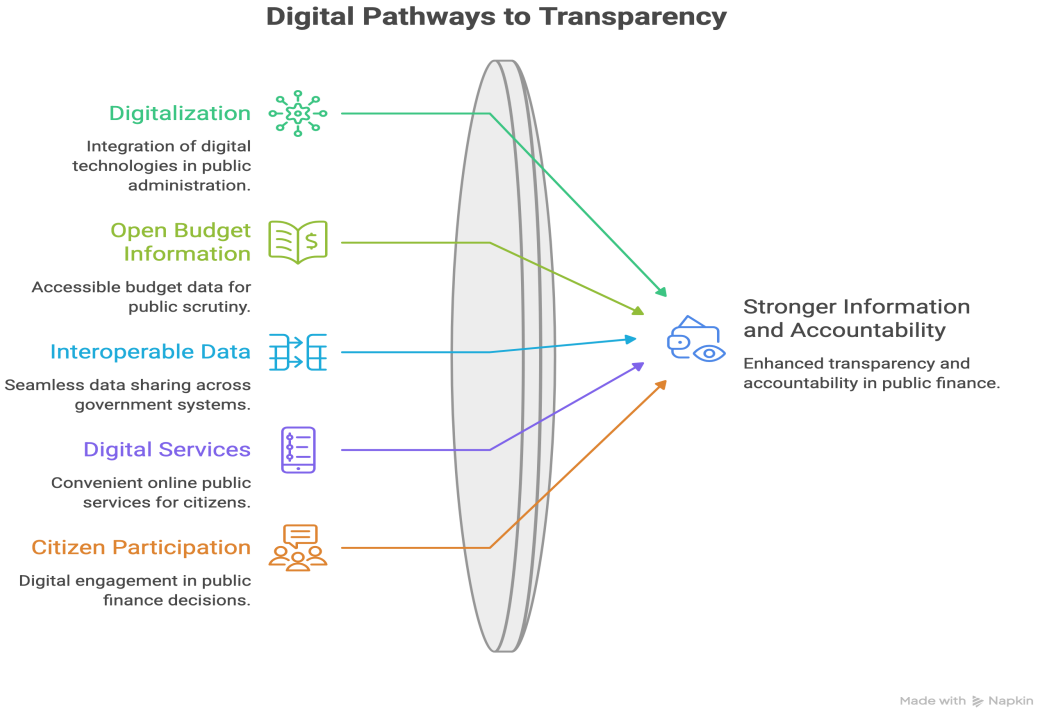
Image 1. Pathways to fiscal strength



Source: Author's design and modulation

For model on fiscal strength: Fiscal decentralization → greater local revenue capacity + expenditure responsibility + predictable transfers and equalization → stronger local fiscal capacity.

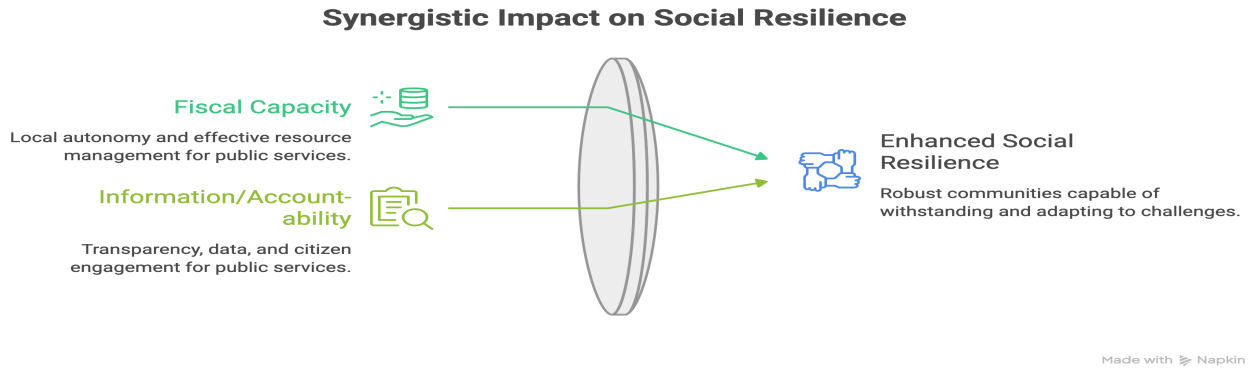
Image 2. Digital pathways to transparency



Source: Author's design and modulation

On Digitalization → open budget information + interoperable data + digital services + citizen participation → stronger information and accountability capacity.

Image 3. Synergetic impact on Social Resilience



Source: Author's design and modulation

Fiscal capacity + information/accountability capacity → more effective resource allocation → improved accessibility, efficiency and equity of public services → stronger realization of economic and social rights → greater social resilience.

Fiscal decentralization without effective transparency and accountability can increase local discretion without adequate monitoring. Conversely, digitalization without adequate fiscal capacity can create information-rich but resource-constrained local governments. Their integration therefore provides a more complete institutional framework.

7. FISCAL DECENTRALIZATION, PUBLIC SERVICES AND ECONOMIC AND SOCIAL RIGHTS

The connection between local public finance and rights can be understood through several dimensions. First, fiscal capacity affects the ability of local governments to finance public services. More predictable local revenues can improve medium-term planning and reduce uncertainty. Second, expenditure responsibility creates incentives for local authorities to respond to territorial needs. Third, digital transparency can strengthen public accountability. Fourth, equalization mechanisms remain necessary to ensure that decentralization does not produce unacceptable territorial disparities. Fifth, digital public services can reduce administrative barriers and improve accessibility.

These mechanisms collectively contribute to social resilience: the ability of communities and institutions to absorb socioeconomic shocks, respond to changing needs and maintain essential services.

8. KEY INSTITUTIONAL CHALLENGES

Several challenges remain: alignment between functions and resources; territorial fiscal inequality; variation in local administrative capacity; fragmented information systems; digital inequality; and the gap between transparency and meaningful accountability.

Assigning additional responsibilities without corresponding and predictable financial resources can weaken implementation capacity. Stronger revenue assignment must therefore be accompanied by transparent and predictable equalization mechanisms. Without interoperability, local authorities may continue to make decisions based on incomplete or disconnected information [10].

Publishing budget information is an important first step, but its rights-protective value depends on whether representative institutions, citizens and other stakeholders can use this information to influence decision-making and monitor implementation.

9. POLICY DIRECTIONS

First, the principle that functions should follow resources should guide further decentralization. New responsibilities assigned to local institutions should be accompanied by adequate and predictable funding.

Second, local revenue autonomy should develop together with fiscal equalization. Increasing local revenue retention should not weaken the ability of poorer territories to maintain acceptable public-service standards.

Third, local budgeting should progressively move from input-based allocation toward outcome-oriented budgeting. Financial allocations should increasingly be linked to measurable service and socioeconomic outcomes.

Fourth, fiscal, demographic and socioeconomic information should be integrated into interoperable local data systems. Fifth, increased local discretion should be accompanied by stronger transparency and accountability through digital budget platforms, public reporting and citizen participation.

Finally, the reform process should preserve institutional learning. Evidence generated through earlier decentralization and digital-government initiatives should be systematically documented and incorporated into subsequent national strategies. Institutional memory is particularly important during periods of rapid administrative reform because lessons from previous pilots, implementation failures and successful practices can otherwise be lost.

CONCLUSION

The analysis demonstrates that fiscal decentralization and digitalization can be understood as complementary mechanisms for strengthening the capacity of local government to contribute to the realization of economic and social rights in Uzbekistan.

The 2023–2026 approved budget parameters indicate a significant increase in the planned revenue capacity of local budgets, from UZS 54.946 trillion in 2023 to UZS 75.982 trillion in 2026. At the same time, the relative role of regulating transfers declined over the full period, although transfers remain an important element of the fiscal system. These developments coincide with major reforms in local revenue assignment introduced from 2025 and expanded through the 2026 budget framework.

The emerging model can more appropriately be characterized as managed fiscal decentralization: local governments receive greater revenue capacity and responsibilities while the central government continues to perform an important equalization and redistribution function.

Digitalization provides a complementary institutional dimension. It can improve transparency, data availability, public participation and administrative efficiency, but its effectiveness depends on interoperability, institutional capacity and meaningful accountability.

The central policy implication is therefore that fiscal decentralization and digitalization should be pursued as interconnected components of local governance reform. Greater local financial capacity should be matched by greater transparency, better data and stronger accountability.

For Uzbekistan, this integrated approach can help shift local governance from the administration of resources toward evidence-based management of territorial development and public-service outcomes. In this way, fiscal and digital reforms can contribute not only to administrative efficiency but also to the practical realization of economic and social rights and to stronger social resilience at the local level.

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