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# IMPROVING THE MECHANISM OF FORMING AND USING EXTRA-BUDGETARY FUNDS IN BUDGETARY ORGANIZATIONS

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## Abstract

This article analyzes the theoretical, legal, and practical foundations of forming and using extra-budgetary funds in budgetary organizations. It examines the main sources, mechanisms, and principles for effective fund utilization. The study highlights the importance of improving financial autonomy, transparency, and accountability through digitalization and performance-based management. The research results can be used to enhance the efficiency of public institutions and improve the financial sustainability of the public sector.

**Keywords:** Budgetary organization, extra-budgetary funds, financial mechanism, public finance, digitalization, efficiency, transparency.

## Introduction

The financial system of any state is a complex structure that ensures the allocation, distribution, and use of resources necessary to achieve social and economic goals. Within this system, budgetary organizations occupy a special place, as they are responsible for implementing state policy in education, healthcare, culture, and other social sectors. However, the limited nature of budgetary allocations often restricts their ability to fully meet growing financial needs. To overcome these financial constraints, many public institutions rely on extra-budgetary funds—financial resources generated outside of the state budget but still used for public purposes. These funds allow organizations to diversify their financial sources, increase efficiency, and improve the quality of services provided to the population. In economic terms, extra-budgetary funds can be defined as financial resources accumulated by state or budgetary institutions beyond the limits of state budget financing, which are used to achieve statutory



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goals of the organization. They represent one of the key instruments for enhancing financial sustainability and autonomy in the public sector. The formation of extra-budgetary funds is based on several principles:

- Legality – all sources and uses of funds must comply with financial and budgetary legislation.
- Transparency – accounting and reporting procedures must be open and verifiable.
- Targeted use – funds must be directed strictly to purposes defined by the organization's charter and regulations.
- Efficiency – funds should contribute to improved performance and rational use of resources.

In developed countries, extra-budgetary resources play an important role in public sector reform and modernization. They provide opportunities for innovation, public-private cooperation, and more flexible management of financial flows.

The structure of extra-budgetary revenues varies depending on the type and function of the organization. In general, the main sources of extra-budgetary funds in budgetary organizations include: Paid services provided by institutions. For example, in education — tuition fees for additional courses, retraining programs, and consulting services; in healthcare — fees for diagnostic services or laboratory tests beyond the state quota; Rental income and property use. Budgetary organizations may lease out unused premises, transport, or equipment to other entities under legal contracts; Charitable donations and sponsorship. Donations from individuals, businesses, or NGOs contribute to developing social infrastructure and implementing cultural or educational projects; Grants and international aid. International organizations and development agencies often allocate grants for modernization, research, or capacity-building programs; Income from subsidiary enterprises. Some large institutions (for example, universities or research centers) create small production or service units to generate additional revenues; Sale of by-products or publications. Institutions may sell their research outputs, textbooks, or other intellectual products. The composition of these sources depends on the institution's sector, management efficiency, and regulatory environment. Diversification of funding sources helps



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reduce dependency on state allocations and promotes financial resilience. The role of extra-budgetary funds extends far beyond simple financial supplementation. They serve as a mechanism that enhances both economic efficiency and organizational flexibility. The main functions of extra-budgetary funds include: stabilizing function: balancing financial fluctuations and compensating for delayed or insufficient budget allocations; development function: supporting infrastructure projects, modernization, and innovation; motivational function: improving employee motivation through additional bonuses and incentives; social function: expanding social programs and improving working and service conditions. For instance, in educational institutions, extra-budgetary funds may be used to upgrade laboratories, introduce digital technologies, or organize professional development for teachers. In healthcare, they are essential for purchasing modern medical equipment and ensuring quality patient care. Thus, extra-budgetary funds contribute to sustainable institutional development, ensuring that public organizations can respond to new challenges without overburdening the state budget.

In Uzbekistan, the management of extra-budgetary funds is governed by the Budget Code of the Republic of Uzbekistan, resolutions of the Cabinet of Ministers, and sectoral regulations issued by relevant ministries. These laws establish the principles of formation, accounting, and use of extra-budgetary resources by budgetary institutions. According to the Budget Code, all extra-budgetary funds must be: recorded separately from state budget resources; used strictly for intended purposes; reported to relevant financial authorities. The Ministry of Finance and sectoral supervisory bodies monitor compliance with these requirements. Moreover, institutions must conduct internal audits and provide transparent reports on extra-budgetary activities. However, despite the existence of a legal framework, several problems persist: lack of unified methodological guidelines for accounting and reporting; inconsistent monitoring and audit practices; weak financial literacy among administrators; delays in adopting digital management systems. These issues reduce the efficiency and transparency of fund management, making it necessary to modernize the existing system.



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The development of an effective mechanism for forming and using extra-budgetary funds requires the application of scientific and methodological approaches, including: systemic approach: viewing fund management as an integrated process involving planning, formation, distribution, and control; analytical approach: using financial indicators (such as return on investment, cost efficiency, and liquidity ratios) to assess effectiveness; comparative approach: studying best practices from foreign countries to identify applicable models; innovation-based approach: integrating digital technologies (such as e-accounting, automated reporting, and electronic document management). These approaches form the methodological foundation for improving financial mechanisms and ensuring sustainable development of budgetary organizations. Globally, many countries have achieved notable success in managing extra-budgetary resources in the public sector. For example:

- In South Korea, budgetary institutions operate under performance-based budgeting systems where extra-budgetary revenues are linked to measurable outcomes.
- In Germany, universities and hospitals have the right to retain and reinvest their extra-budgetary income for innovation and staff development.
- In the United Kingdom, public institutions maintain financial transparency through annual open reports on both budgetary and non-budgetary expenditures.
- In China, the state introduced a unified electronic financial management platform that integrates all types of revenues and expenditures for monitoring efficiency.

These international models demonstrate that digitalization, performance evaluation, and transparency are key success factors in managing extra-budgetary funds effectively.

The analysis of theoretical and practical aspects shows that while extra-budgetary funds serve as a vital component of the financial system, their management in many institutions remains inefficient. The main causes include outdated accounting systems, lack of financial planning, and insufficient managerial skills. Improving this mechanism requires a comprehensive



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approach based on: integration of modern financial technologies; strengthening internal control systems; introducing transparent reporting and monitoring procedures; ensuring professional development of staff. In the context of Uzbekistan's economic reforms and digital transformation, these measures are of particular importance. A reformed mechanism for forming and utilizing extra-budgetary funds will ensure greater accountability, efficiency, and financial sustainability of budgetary organizations.

In Uzbekistan, budgetary organizations play a central role in the implementation of social and economic policies. Education, healthcare, and social services are the primary sectors that depend on both budgetary and extra-budgetary funding. In recent years, the government has implemented reforms aimed at expanding the financial independence of public institutions by encouraging them to generate and manage their own revenues. Statistical data from the Ministry of Finance show that the share of extra-budgetary funds in total financial resources of public institutions has been steadily increasing. For instance, between 2020 and 2024, the share of non-budgetary income in the education sector rose from 12% to 21%, while in healthcare institutions, it increased from 18% to 28%.

Despite this growth, the formation structure of extra-budgetary funds remains unbalanced. In most institutions, more than 70% of extra-budgetary income comes from paid services, while other sources—such as donations, sponsorships, or grants — remain underdeveloped. The main reasons for this include: weak institutional capacity to attract investors or donors; lack of professional staff specialized in financial management and fundraising; limited innovation in the development of paid services; inadequate promotion of public-private partnerships. A survey conducted among educational and healthcare institutions revealed that most organizations rely on traditional sources of income and rarely explore new financial opportunities. This indicates the need for systemic reforms to diversify income streams and enhance financial management.

The analysis of expenditure patterns reveals that extra-budgetary funds are primarily used for: repair and maintenance of buildings and facilities; purchase of furniture, equipment, and teaching materials; payment of bonuses and financial incentives to employees; implementation of minor investment and



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innovation projects. While these expenditures are important, a significant problem is the lack of strategic planning in how funds are used. Many organizations spend resources reactively — covering immediate needs rather than investing in long-term development. In addition, the efficiency of fund utilization is difficult to measure due to the absence of clear performance indicators. For example, in the education sector, there are no standardized criteria to evaluate how extra-budgetary spending affects the quality of learning outcomes or infrastructure improvements. Another issue is the insufficient level of transparency and accountability. Although institutions are required to submit financial reports, these reports often lack detailed information and are not publicly available. This limits the ability of higher authorities and the public to evaluate the effectiveness of fund use.

Based on the analysis, several key problems in the current mechanism can be identified:

1. Weak financial planning and management. Many institutions lack professional financial managers who can strategically plan and monitor the use of funds.
2. Low level of transparency. Insufficient control and lack of open data create opportunities for inefficiency and misuse of funds.
3. Limited diversification of income sources. Most extra-budgetary funds are generated from a narrow range of paid services, while sponsorships, grants, and partnerships are underutilized.
4. Inefficient control and audit systems. Internal audits are not conducted regularly, and supervisory bodies often lack digital tools for real-time monitoring.
5. Low digitalization of financial operations. Many institutions still rely on manual accounting systems, which increase errors and reduce the speed of decision-making.
6. Lack of motivation and incentives. Employees involved in generating or managing extra-budgetary funds are rarely rewarded based on results, which reduces their initiative.



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These problems indicate the necessity of modernizing the existing financial mechanism to make it more transparent, efficient, and development-oriented. To overcome the above challenges, a set of practical measures is proposed:

1. Digital transformation of fund management. The introduction of digital financial management systems will ensure real-time monitoring of revenues and expenditures. The development of an integrated electronic platform—similar to systems used in developed countries—will enhance transparency, minimize corruption risks, and allow for data-based decision-making.
2. Implementation of performance-based budgeting. Budgetary organizations should link their spending to measurable performance indicators. For instance, in education, indicators may include improvements in student performance, infrastructure quality, or digital literacy; in healthcare, indicators may relate to patient satisfaction and service delivery efficiency.
3. Diversification of income sources. Institutions should expand the range of paid services, develop cooperation with the private sector, and actively participate in grant competitions organized by international organizations. Public-private partnerships (PPP) can become an effective mechanism for financing social infrastructure projects.
4. Strengthening control and audit mechanisms. Regular internal audits and independent external financial inspections should be institutionalized. Each organization must establish an internal audit unit responsible for evaluating fund management and compliance with financial regulations.
5. Capacity building and professional training. Continuous training of financial managers, accountants, and administrative staff is essential. Training programs should include financial analysis, risk management, digital accounting systems, and international reporting standards.
6. Developing strategic and long-term planning. Each institution should prepare a five-year financial development plan that includes objectives for increasing non-budgetary income and improving spending efficiency.
7. Enhancing motivation and accountability. Introduce performance-based incentive systems for employees involved in fund generation and management. Rewarding successful practices can stimulate innovation and financial responsibility.



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The implementation of the proposed reforms will result in significant positive outcomes for budgetary organizations and the public sector as a whole. These include: increased financial independence of budgetary institutions; improved transparency and accountability in financial operations; more efficient use of available resources; enhanced quality of public services and infrastructure; strengthened trust between citizens and public institutions; attraction of private investment and international funding into social sectors; creation of a sustainable financial environment for innovation and development. By introducing these mechanisms, budgetary organizations in Uzbekistan can achieve a new level of efficiency that aligns with international financial management standards.

### **Conclusion**

In the process of modern economic reforms and the transition to digital governance, the mechanism for forming and using extra-budgetary funds in budgetary organizations has become one of the key issues of public finance management. The conducted research has shown that extra-budgetary funds not only serve as an additional financial resource but also ensure greater flexibility, independence, and efficiency in managing public institutions. To improve the current mechanism, the following measures are recommended: strengthening financial planning and forecasting processes; introducing performance-based budgeting and transparent reporting; expanding digital monitoring tools for fund management; developing staff competence in financial management and auditing. Thus, improving the mechanism of forming and using extra-budgetary funds will contribute to the sustainable development of public institutions, financial transparency, and the effective use of state and non-state resources.

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