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ENSURING EFFECTIVE FINANCIAL CONTROL IN THE PUBLIC PROCUREMENT SYSTEM

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Abstract

Public procurement refers to the process through which state bodies, organizations, enterprises, and budgetary institutions acquire goods, works, and services, based on established requirements, in order to fulfil their functional tasks, provide essential services to the population, and implement various socio-economic programs. Public procurement occupies a critical place in the effective management of public finances and serves as one of the principal instruments to ensure the purposeful, efficient, and rational utilization of budgetary funds and financial resources of state enterprises.

Through the public procurement process, budgetary organizations and state-owned enterprises legally satisfy their needs in a transparent, competitive environment, thus enabling the savings of funds and achieving their targeted allocation. At the same time, the effective organization of procurement makes it possible to reduce excessive expenses, minimize corruption risks, and optimize resource allocation. The intensification of competition incentivizes suppliers to offer high-quality products and services at the most favorable prices, thereby enhancing material savings for the state.

The main objective of organizing public procurement effectively is to ensure the optimal price and quality in acquiring goods, works, and services required by public customers namely, budgetary organizations, recipients of funds from the budget and extrabudgetary funds, as well as corporate customers whose statutory capital includes 50 percent or more of state participation using funds allocated from the state budget, extrabudgetary funds, or the assets of such entities.



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At the heart of the ongoing reforms in public finance management lies the establishment of more effective utilization of the state budget, the prevention of factors contributing to budget deficits, the strengthening of adherence to budgetary discipline in the use of funds, and the enhancement of the role of the public budget in the country's socio-economic development through the formation of an efficient public procurement system.

It is impossible to achieve the rational use of budgetary resources without establishing an effective procurement system. A significant portion of budgetary funds is directed toward satisfying the approved needs of budgetary organizations and recipients through the procurement of goods, works, and services.

The state budget is the main source of funding for implementing budgetary policies, carrying out planned programs, and achieving developmental objectives in various sectors of the economy. Consequently, public procurement represents an expression of state financial policy aimed at creating conditions for financial stability. The primary purpose of state procurement is to ensure the effective and rational utilization of budgetary funds.

Furthermore, the central task of state financial control is to guarantee the timely and full discharge of obligations under the state budget and to ensure economical use of budgetary resources.

Public procurement constitutes a significant share of the expenditures of state bodies (organizations and institutions) aimed at implementing state functions. It is one of the key factors shaping a conducive environment for the stable development of the national economy and the inflow of investments. Public procurement is also an essential mechanism for the efficient allocation of investment potential and the creation of favorable conditions for the development of strategically important sectors, as well as for conducting scientific research and integrating research outcomes into production processes. For these reasons, challenges associated with organizing public procurement remain constantly relevant, and in all countries, there is an ongoing process of adopting comprehensive and continuous measures to improve the procurement system.



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As specified in the Uzbekistan-2030 Strategy, priority objectives include reducing violations of public procurement legislation by twofold, ensuring full-scale public oversight to prevent cases of misappropriation of funds during direct contract procurement, and averting situations where the prices of goods and services exceed market values.

Recently, during a meeting of the National Anti-Corruption Council, the President of the Republic of Uzbekistan, Sh. Mirziyoyev, noted that conflicts of interest, the purchase of overpriced goods, and the provision of services predominantly occur in public procurement.

Indeed, despite a series of reforms implemented in this area, a number of issues still persist in the practice of public procurement by state customers today, including:

- The artificial inflation of prices for goods and services during procurement processes;
- The widespread existence of regulatory provisions enabling direct contracts without reliance on competitive procedures;
- The occurrence of corruption and collusive practices among procurement participants;
- The lack of disclosure of the terms and content of contracts on the special information portal prior to signing, even though they are eventually published;
- The imperfect and non-transparent mechanism for including business entities in the Single Register of Sole Suppliers, which grants them the right to engage in direct contracts;
- The insufficient application of public oversight mechanisms in the procurement system;
- The inconvenient regulation of dispute resolution mechanisms arising during the execution of contracts;
- The prevalence of formalistic approaches in control activities conducted over procurement processes, among others.

In our view, the key areas for addressing these issues and ensuring effective financial control in public procurement are as follows:

1. Reducing the volume of direct contracts concluded by state customers by at least twofold. Prior to the conclusion of such contracts, it is advisable to mandate



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their publication on the special public procurement information portal for at least one working day to enable public discussion. Introducing such forms of public oversight will help prevent the artificial inflation of prices, corrupt practices, and collusion among participants.

2. Establishing clear criteria for including suppliers of technically complex and unique goods in the Single Register of Sole Suppliers, requiring the conclusion of opinions from the Committee for the Development of Competition and Protection of Consumer Rights, the Agency for Technical Regulation of Uzbekistan, and the State Unitary Enterprise "Center for Comprehensive Examination of Projects and Import Contracts." This approach will mitigate risks of illegal appropriation of funds through collusive agreements, promote equality, impartiality, and fair competition among participants. Furthermore, applications for inclusion in the register and accompanying documents should be publicly disclosed on the procurement portal, subject to mandatory public review, and provide mechanisms for feedback by civil society representatives. The results of the review, including the grounds for approval or rejection, should also be publicly announced to ensure transparency.

3. To ensure effective financial control in the public procurement system, it is essential to automate all processes within the system comprehensively. This includes leveraging modern IT tools and artificial intelligence to minimize human factors, implementing automated data analysis systems to detect violations, and developing mobile applications to enhance accessibility. Furthermore, it is necessary for government bodies responsible for exercising oversight in public procurement to regularly disclose, on the special procurement information portal, information about identified violations, errors, and deficiencies, in strict compliance with legislation on personal data protection. Such practices will contribute significantly to strengthening financial control in the system.

4. It is advisable to grant operators of the electronic public procurement system the authority to facilitate pre-litigation dispute resolution between state customers and procurement procedure participants during contract execution. This approach will benefit both parties to the contract by simplifying dispute resolution procedures and saving time and resources.



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5. It is of critical importance to further strengthen the legislative framework of public procurement, harmonize it with international standards, introduce stricter liability measures for violations, and develop and enforce rigorous rules and standards in the field of financial control. Ultimately, this will ensure that violations are identified in a timely manner, prevent damage to the state budget, eliminate misappropriation of funds, conflicts of interest, and other forms of corruption.

6. It is also necessary to expand public oversight at all stages of the procurement process by actively engaging citizens and the mass media. To this end, the system must increase transparency and accountability and provide broad access to procurement-related information for the public and media outlets. This form of control will not only verify the proper use of funds but also make it possible to assess the quality of goods and services delivered under public contracts.

7. Drawing on international experience, it is advisable to develop an electronic platform displaying up-to-date average market prices for procured goods and services. Such a system should ensure that the prices of goods and services acquired through public procurement do not exceed the average market price by more than 20 percent. Violations of this requirement should entail statutory liability and the imposition of penalties.

In conclusion, ensuring effective financial control in the public procurement system requires a comprehensive approach that encompasses the complete digitization of procurement processes, the enhancement of the legislative framework, the fight against corruption, the development of transparency mechanisms, and the establishment of robust public oversight. This, in turn, will contribute to the efficient utilization of budgetary funds, the reduction of financial losses and violations, the improvement of control mechanisms, and the strengthening of public and business trust in the public procurement system.

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