Chapter 4
Capital Budgeting, Infrastructure, and Capital Investment in the Republic of Uzbekistan

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ABSTRACT
This chapter offers a macro-level review of the capital budgeting process and practices, capital investment projects, and capital funding in the post-Soviet Republic of Uzbekistan. The chapter discusses some of the major challenges related to capital investment and capital budgeting that Uzbekistan faced after the collapse of the Soviet Union, how the country has overcome some of these challenges in 27 years of independence, and what issues remain unresolved. The chapter additionally describes the most sizeable and impactful recent capital investment projects and the role government played in their financing. Finally, the chapter provides a comparison between capital budgeting practices in Uzbekistan, some post-Soviet republics, and the United States.

INTRODUCTION
Budgeting is a vital part of government financial management. To handle money responsibly, public entities need to have a financial plan that documents how revenues will be generated and how they will be spent. The budget is this financial plan. Proper budgeting practices and financial control are equally important for both operating expenses, such as wages and salaries, utilities, and other current expenditures, and for capital expenditures, such as investment in infrastructure, buildings, and other major structures. Some argue that capital projects have to go through even more scrutiny and control, and, therefore, an even stricter budget process, as capital projects are long lasting, non-recurring, and expensive (Mikesell, 2013).

DOI: 10.4018/978-1-5225-7329-6.ch004
The following book chapter presents a macro-level descriptive analysis of the capital budgeting process and capital investment in one of the former Soviet countries, the Republic of Uzbekistan. The chapter discusses major challenges in the capital investment and capital budgeting that the country faced after the collapse of the Soviet system, how it has overcome these challenges, and the changes that have been made. The chapter addresses the trends in capital investments and explains what drives these trends, reviews the sources of capital funding, discusses which regions benefit from capital investments more and why, and what capital projects are more likely to receive funding from the government sources. It reviews budgeting practices and procedures and discusses the role of main budget players among other important issues. The discussion begins with a general background information on administrative, demographic, and economic structure of the Republic and a little history that can help explain a current state of affairs in Uzbekistan.

BACKGROUND

Uzbekistan is a double land-locked country in Central Asia bordering Kazakhstan, Tajikistan, Kirgizstan, Turkmenistan, and Afghanistan. The Republic, geographically slightly larger than California, is home to about thirty million residents, most of whom are ethnical Uzbeks (83.8 percent of total population in 2017, compared to 72.8 percent in 1991, according to the The State Committee of the Republic of Uzbekistan on Statistics. This is the most highly populated country in Central Asia. The major religion is Islam (Sunnis). Administratively, Uzbekistan includes twelve regions and the autonomous Republic of Karakalpakistan. The capital city is Tashkent. The same president, Islam Karimov, led the country from 1989 until his death in 2016. Current president, Shavkat Mirziyoev was previously a prime minister of Uzbekistan (from 2003-2016) and succeeded president Karimov after his death.

The borders of today’s Uzbekistan have historically been situated in a highly developed region lying in the midst of a Silk road, which ascertained trade benefits. The region has been generously endowed with natural resources, such as copper, gold, natural gas, and others. The hot and dry climate has favored growth of cotton, fruits, and vegetables. Prosperity of the region for millennia attracted powerful conquerors from Alexander the Great, to Genghis Khan, and Tamerlane. During the nineteenth century, Central Asia was invaded by Russian empire and after the Revolution of 1917, it became one of fifteen Soviet republics. Abundance of natural resources and seventy years of Soviet presence have undoubtedly affected the path of economic growth in the Republic, impacted the nature of capital budgeting practices, and created a stock of capital assets that Uzbekistan owes to this day.

After the collapse of the Soviet Union, Uzbekistan, like other post-Soviet countries, was left owning a number of sizeable production enterprises, all controlled by the government, and many of them too big for a small republic. All Soviet republics housed large specialized companies, agricultural enterprises, plants, and factories that, by design, were highly dependent on the branches located elsewhere in the USSR. Cotton is one of the leading productions in Uzbekistan economy. The International Cotton Advisory Committee reports that despite taking the 82nd place in the world by its GDP, Uzbekistan is the 6th largest producer and the 3rd largest exporter of cotton in the world, despite the fact that cotton production decreased from about 1.6 million tons in 1990 to only about 1 million ton in 2010 (International Cotton Advisory Committee, 2011). In Soviet times, cotton was processed into threads, fabrics, oil, gunpowder, and other end products in Ukraine, Russia, and other Soviet republics. The aircraft building factory evacuated to Tashkent -the capital of Uzbekistan, during World War II was one of the largest
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