

## INSTITUTIONAL FUNCTIONS OF REGULATING SOCIO-ECONOMIC DISPARITIES IN REGIONAL DEVELOPMENT

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**Abstract:** This article provides a scientific analysis of the regulatory functions addressing economic and social disparities that arise in the process of regional development. The study identifies differences in economic potential, infrastructure, household incomes, and investment flows across regions and examines mechanisms aimed at reducing these disparities. The article highlights the regulatory tools that should be implemented in regional development on the basis of state policy, fiscal transfers, innovative approaches, and spatial economic models. The findings offer both scientific and practical recommendations that can be applied to ensure interregional equality, strengthen economic security, and achieve sustainable development.

**Key words:** Regional development, disparity, regulatory functions, economic security, fiscal policy, interregional inequality, spatial economics, sustainable development.

### Introduction

Regional development is one of the fundamental drivers of sustainable economic growth in any country. However, disparities in production capacity, infrastructure, employment, and access to social services across regions have a significant impact on both economic security and social stability. Therefore, reducing interregional imbalances should be viewed not only as an important task of economic policy but also as a priority in the implementation of state social policy.

In recent years, processes of globalization, internal and external migration flows, uneven distribution of investment, and the introduction of digital technologies have further intensified regional disparities. These changes demand a reassessment of traditional approaches to regional policy and the establishment of modern regulatory mechanisms.

From a theoretical perspective, regional disparities are explained through the center-periphery model, neoclassical approaches, and new economic geography theories. In practice, fiscal transfers, tax incentives, infrastructure projects, and innovation clusters are the primary regulatory tools employed. However, these measures often fail to produce the expected results in reducing disparities between regions.

In this context, the present article aims to analyze the causes of socio-economic disparities in regional development, to study the regulatory functions addressing these issues, and to examine mechanisms that may prove effective in overcoming them. The

research provides a scientific foundation for strengthening economic security and ensuring sustainable and inclusive development by reducing interregional inequalities.

Despite the necessity of using legal instruments to regulate social processes at the regional level, the number of normative-legal acts specifically dedicated to regional development is very limited. Issues of territorial development are currently addressed only through certain provisions of the Budget Code, the Tax Code, and the Land Code. However, for a long time there has been no comprehensive law directly regulating regional development. In our view, it is advisable to ensure broader participation in shaping and implementing state regional policy, to coordinate the activities of central and local executive authorities and self-governing bodies, and to involve civil society in the preparation and discussion of relevant policy decisions.

The need for a specialized entity to regulate public relations in the field of regional development emerged some time ago and has already been reflected in certain practices. In this regard, the adoption in 2020 of the resolution “On the introduction of a system for rating the socio-economic development of regions” marked a significant step. This resolution introduced a unified framework for the strategic planning and forecasting of regional development, enabling an integrated assessment of regional conditions and their relative positioning among other territories.

Another pressing issue in the legal regulation of regional development lies in the inconsistency of rights and responsibilities between local executive authorities and self-government institutions, especially at the regional level. Moreover, the existence of numerous delegated powers that deprive local self-governing bodies of real financial independence leads to frequent conflicts of authority. At present, decentralization reforms are underway to ensure a clearer distribution of powers between local executive bodies and self-government institutions. It should also be emphasized that Uzbekistan has already launched work on developing a medium-term strategy for the socio-economic development of its regions.

Overall, the systematic organization of state regulatory mechanisms for regional development is both necessary and timely. To achieve the objectives of state regulation in this field, it is essential to further improve the legal framework governing public relations in the “state-region” domain, to identify or create opportunities for aligning national and regional interests, and to design measures aimed at optimizing interregional relations. Ultimately, the subject of regulation must be the social relations arising within the sphere of regional development.

## LITERATURE REVIEW

In this article, the scholarly works of foreign researchers such as Acharya A. [1], Baykov A.A. [2], Fawcett L. [3], Haas E. [4], Hettne B. [5], Katzenstein P.J. [6], Kuznetsov

D.A. [7], Lagutina M. [8,9], Mikhaylenko E. [10], Mitrany D. [11], Söderbaum F. [12,13], Telo M. [14], among others, served as the methodological foundation.

### RESEARCH METHODOLOGY.

The study is based on modern economic literature, reviews, and analyses of reports prepared by international experts for global organizations. Statistical data are examined alongside the role, significance, prospects, and specific features of inclusive growth as identified in different countries in the context of forming national and regional innovation systems.

### ANALYSIS AND RESULTS.

Without undermining the motivation of regions for self-development, it is necessary to make effective use of state intervention instruments such as direct public investment, government procurement, subsidies for socio-economic development, regional development strategies, development agreements, and public-private partnerships to regulate disparities and promote regional socio-economic progress. In this regard, direct public investment serves as an essential tool with an immediate impact on the regional economy. The selection of regions (or more precisely, investment objects within regions) for allocation should precede the determination of investment objectives.

Thus, if the goal of improving social development indicators in a particular region is officially declared, short-term increases in GDP can be quickly achieved through the growth of production volumes driven by higher levels of consumption. On the other hand, expanding investment not only generates short-term economic activity but also contributes to sustainable employment and the growth of funds available for social transfers. Consequently, in order to restore economic growth rates, it is advisable for the state to prioritize the allocation of investment resources towards stimulating economic activity and meeting the needs of the real sector of the economy. This, in turn, helps to expand production volumes in the long run, thereby reducing regional economic disparities and eventually overcoming social inequalities.

Public procurement and government contracts are among the most effective instruments of direct state intervention in developing regional and local production. In cases where private enterprises lack motivation for modernization and financing of real production, government contracts and guaranteed sales under state orders can serve as powerful drivers for expanding the production of industrial and agricultural goods, upgrading production capacities, and introducing new technologies. As a result, revitalizing production becomes an instrument for solving social problems in different regions of Uzbekistan, improving welfare, and ensuring broader socio-economic benefits.

State orders also provide guaranteed markets, tax incentives, and credit benefits to private enterprises, thereby improving the investment climate of specific regions. This not

only strengthens local production but also attracts more investment to enterprises, generating a multiplier effect. The implementation of state orders and contracts is particularly effective because it stimulates the growth of enterprises that are strategically important for regional economies and certain sectors. By creating secure sales markets, such contracts contribute directly to regional economic development.

The significance of state procurement also lies in its ability to channel substantial natural resource flows into economic circulation, to support the development of settlements, agriculture, and regional transport infrastructure, as well as to regulate migration flows from densely populated regions. Furthermore, the construction of transportation networks and the establishment of large farms—financed through budgetary resources, investment, and credit—are supported by state contracts. At the regional level, public procurement must therefore evolve into a crucial instrument for directing and monitoring the use of investment resources, thereby contributing to a more balanced distribution of resources. Although Uzbekistan possesses significant potential in utilizing state orders, this capacity remains underutilized. In fact, such measures are vital for regional development, as infrastructure projects stimulate not only local growth but also interregional economic cooperation.

Moreover, the adoption of the Law of the Republic of Uzbekistan “On Public Procurement” in 2021 [15] established transparent relations in the use of public funds for the procurement of goods, works, and services. Its implementation has facilitated the rationalization of budgetary expenditures, enhanced efficiency and transparency of procurement processes, fostered competition in the public procurement sphere, prevented corruption, and promoted fair competition-based development. One of the key tools for direct state financing of essential regional infrastructure and investment projects is the provision of subsidies for socio-economic development.

Subsidies for socio-economic development represent a component of transfers from the State Budget of Uzbekistan. The conditions for providing such subsidies include reducing the actual budgetary costs relative to planned expenditures, ensuring the participation of the recipient in co-financing, and promoting competition among different budgets, thereby strengthening the role of local self-governing institutions in mobilizing funds. Furthermore, agreements on granting subsidies for investment projects can strengthen economic ties and cooperation among local self-governance bodies at the same level. Accordingly, the share of investment subsidies in the revenue structure of local budgets can be increased.

Subsidies for socio-economic development remain a critical mechanism for managing regional conditions, though their size often depends on subjective factors. According to the Budget Code of Uzbekistan, the allocation of subsidies for investment programs is carried out by the Cabinet of Ministers, based on regional development

strategies and actual and projected socio-economic indicators. These allocations consider factors such as capital levels, population density, unemployment rates, per capita incomes, and average monthly wages, thereby ensuring a more equitable distribution of resources in line with regional development needs.

It is evident that the criteria for providing subsidies remain vague, and in cases of inefficient use of subsidies, standardized mechanisms for repayment are absent. In the new economic environment, the above-mentioned instruments for stimulating regional development—particularly the formulation of socio-economic development strategies and the conclusion of agreements on regional development between local councils and the Cabinet of Ministers of the Republic of Uzbekistan—require further activation.

Regional socio-economic development strategies are adopted in accordance with legislative acts and are implemented through specific action plans. However, this regulatory tool has not become widespread due to limited understanding of its operational mechanism and advantages. The ineffectiveness of financing mechanisms for subsidized projects in promoting development and supporting lagging regions highlighted the need for contractual relations between state and local self-government bodies. In practice, funds have often been allocated not directly to stimulate regional development but rather to solve urgent social and infrastructural issues.

For instance, in an agreement with Namangan region, a joint project for the “Construction of socially significant facilities in the region” was envisaged, although it could also have been financed from other sources. The main barriers to concluding such agreements include:

- conflicts of interest among central executive authorities, regional administrations, and local councils in determining priority projects for financing;
- the declarative nature of strategies used as the basis for agreements, which lack detailed problem elaboration and prioritization mechanisms.

Overcoming these obstacles would accelerate the conclusion of agreements, enabling more targeted allocation of resources for solving development challenges. The formulation and adoption of socio-economic development strategies, coupled with the signing of development agreements, minimize the manifestation of adverse practices and transform such agreements into genuine instruments of organizational and financial support for regional development. Their advantage lies in precisely defining the parameters and conditions of financing, reducing risks of inefficient or misdirected use of funds, and ensuring targeted support for specific projects or entrepreneurial actors.

Overall, these tools have the potential to exert stronger impacts compared to other regulatory measures. The institutional advantages of introducing contractual relations at the “center–region” level lie in enhancing the accountability of parties in resource utilization



and in creating joint responsibility of central and local authorities for the outcomes of agreements. A new stage in regional development, particularly in addressing disparities, requires greater reliance on the benefits of public–private partnership (PPP) institutions. The effectiveness of regional policy measures largely depends on the quality of governance and cooperation among all stakeholders—local authorities, businesses, and civil society.

The relevance of this issue was reinforced by the adoption of the Law of the Republic of Uzbekistan “On Public–Private Partnership” in 2019 [16]. Under this law, state, economic, and self-government bodies must pool their resources and efforts to solve local development challenges. The law institutionalizes equality before the law, prohibits discriminatory measures and restrictions on participants, and mandates the alignment of state and private partner interests. It establishes cooperative behavioral norms for the implementation of rights and responsibilities, serving as a guarantee for activating the internal development potential of regions.

The new system of partnership relations between the state and businesses in addressing local problems allows limited resources to be consolidated, risks, responsibilities, and rewards to be shared among all participants, and long-term cooperation to be established in the creation and reconstruction of enterprises. The operation of existing facilities requires additional private investment resources. Without modern infrastructure support, it is impossible to attract new investment, ensure economic recovery, or stabilize economic growth at the local and regional levels.

PPP development is particularly important in areas such as communal facilities, local gas and heating networks, road management, water supply, drainage and reclamation systems, tourism and recreation infrastructure, wastewater treatment plants, and waste processing facilities. These are strategically and socially significant public assets that cannot be privatized but require new construction, reconstruction, and modernization. As PPPs expand, a significant share of investment resources should be provided directly through private investments.

The effectiveness of PPPs depends on their ability to harmonize long-term national priorities with local and regional projects. The tasks of local and regional development define the contractual forms of cooperation, ranging from PPPs, concessions, leases, and leasing agreements to contracts for the management of state and municipal property, as well as joint activity agreements. The entire system of contractual relations between private and public partners should guarantee the fulfillment of key social objectives, contributing to improved living conditions in cities, towns, and rural settlements—an essential priority of state regional policy.

Achieving the main priorities of regional development and enhancing regional development potential are only possible through the integrated application of both direct

and indirect state regulation mechanisms, supported by robust institutional–legal and institutional–organizational frameworks. Such an approach helps ensure stable reproductive ratios at the regional level and engages each territorial economic structure in building a unified, strong, and competitive national economic complex.

Identifying the functions of regulating regional disparities makes it possible to determine how to use these imbalances effectively – whether to reduce or eliminate them – and how to employ the available resources and instruments most efficiently. Regulation of disparities should not be understood as an attempt to equalize all regions across all indicators or to raise every region to the highest level. Instead, regulation can contribute to achieving different objectives at different stages: in the short term, equalization of indicators at average values, and in the long term, the realization of more ambitious development goals. With this in mind, efforts should focus on elevating socio-economic development indicators to higher standards. In other words, regulation of disparities will be effective if its parameters are defined in accordance with the operational mechanisms of each regulatory instrument.

Thus, regulation should be implemented with clearly defined objectives, rather than on a generalized basis. The overarching principles of cooperation between central and local executive authorities and self-government bodies must be reflected in the functions of regulating regional disparities. From this perspective, it is appropriate to outline the functions of disparity regulation and the means of their implementation (Table 1).

**Table 1**

**Transfer of functions to regulate imbalances in regional development**

No	Function	Function implementation
1.	Distribution	Distribution of activities and responsibilities between authorities and local self-government bodies
2.	Normative	Legal regulation of regulatory and legal instruments
3.	Distributor	Equal distribution of resources
4.	Nivelirlash	Reducing the peak value of the disparities
5.	Encouraging	Maintaining a balance between call regulation and power control to regulate imbalance
6.	Edit	Effectively correcting imbalances
7.	Sustainable development security	Access security for current and future generations

A separate function is carried out at the level of central government authorities, local self-government bodies, and large organizations, through their divisions in the sphere of regional development regulation. The normative-regulatory function is implemented in the

process of legal regulation of state bodies' activities, through mechanisms of direct involvement in managing disparities, and by standardizing all regulatory instruments required to address imbalances.

The redistributive function implies that, in the process of regulating regional disparities, resources should be allocated more evenly across regions. This involves investments (capital expenditures and foreign direct investment), as well as relocation and settlement programs that require relatively fewer human resources. The effectiveness of redistribution must be ensured by preserving the current balance in the withdrawal of resources through taxes and fees, project implementation expenditures, and foreign currency allocations.

In Uzbekistan, these functions are implemented to varying degrees. Currently, the ongoing stage of decentralization—addressing issues of dividing authority, property, and resources among regions, districts, and municipalities—has made redistribution functions particularly relevant. Normative functions are most widely implemented, since most instruments, measures, and institutions are supported by appropriate legal frameworks. Redistribution functions operate largely in accordance with market principles, while sustainable development and security functions are still implemented to a lesser extent, as the transition to environmentally friendly production and waste recycling occurs only gradually.

The equalization function is carried out at a lower level, mainly to mitigate acute negative values in social indicators, while recent transfers of greater powers and resources to communities reduce the need for direct state intervention. This has allowed communities to design their own policies for improving development indicators and has consequently reduced their dependence on additional resources from the state budget.

## CONCLUSION AND RECOMMENDATIONS

Regarding the regulatory function, it should be emphasized that its implementation in the free movement of resources and in the weak equalization of inequalities remains limited. Moreover, due to the underdeveloped state of management instruments, disparities are not yet fully harnessed as a driver of regional development, nor are they used to transform the socio-economic sphere of regions and the country as a whole.

The development of methods and functions for regulating regional development disparities will help to form an integrated framework for addressing socio-economic inequalities and will allow for the creation of an effective mechanism for managing regional imbalances.

In conclusion, the established principles, methods, and functions of strategic regulation of regional development disparities provide the basis for further development of a comprehensive system for regulating socio-economic inequalities across the regions of



Uzbekistan. Studying existing approaches to regulating disparities and shaping a scientifically grounded methodological framework for strategic regulation of regional development disparities is both necessary and appropriate.

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