



THE ROLE OF INSTITUTIONAL INVESTORS, THE PRIVATE SECTOR, AND INNOVATIVE FINANCIAL INSTRUMENTS IN SOCIAL PROTECTION FINANCING

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ABSTRACT	KEY WORDS
This study examines the role of institutional investors, private-sector resources, and innovative financial instruments in strengthening the financial sustainability of social protection systems, with particular attention to the diversification of financing sources and the mobilization of long-term capital. The research analyzes the theoretical foundations and institutional mechanisms of social protection financing by considering the interaction of public budgets, social insurance contributions, institutional investors, private companies, and market-based financial instruments, while selected global indicators are used to assess existing financing and coverage gaps. The findings demonstrate that social impact bonds, blended finance, social and sustainability bonds, impact investment funds, public–private partnerships, and insurance-based mechanisms can complement traditional public financing by distributing financial risks, attracting additional private capital, and linking financial resources with measurable social outcomes. The study proposes an integrated institutional–financial approach based on resource mobilization, targeted allocation, risk sharing, impact assessment, monitoring, and reinvestment, which can contribute to broader social protection coverage, more efficient use of financial resources, and greater long-term resilience of social protection systems.	Social protection financing, institutional investors, private sector, innovative financial instruments, social insurance, impact investment, social impact bonds, blended finance, sustainability bonds, social bonds, public–private partnerships, financial sustainability, risk sharing, social impact assessment.

Introduction

The transformation of social protection systems under conditions of economic uncertainty, demographic change, labor-market instability, and growing social risks has increased the need to develop sustainable and diversified mechanisms for financing social protection. According to the International Labour Organization (ILO), in 2023 only 52.4% of the world’s population was effectively covered by at least one social protection benefit, while 3.8 billion people remained without any form of social protection coverage; at the same time, countries allocated an average of 12.9% of GDP to

social protection excluding healthcare, demonstrating the substantial scale of financial resources required to maintain and expand protection systems[1]. Although public budgets traditionally constitute the principal source of funding for social assistance, social insurance, and other protection programs, the growing scale of social needs requires the involvement of additional financial resources that can complement public financing without weakening the principles of accessibility and social equity. In this context, the interaction between the public sector, institutional investors, private businesses, and financial markets is becoming an increasingly important element of modern social protection financing.

The World Bank further reports that although social protection coverage in low- and middle-income countries expanded to 4.7 billion people over the past decade, approximately 2 billion people remain inadequately covered, which indicates that conventional public financing alone may be insufficient to eliminate existing protection gaps[2]. Institutional investors, including pension funds, insurance companies, investment funds, and other long-term financial institutions, possess significant financial resources that can potentially be directed toward socially oriented investments when appropriate regulatory and risk-management mechanisms are established. Their participation can contribute not only to the mobilization of additional capital but also to the development of long-term investment instruments capable of supporting employment, healthcare, education, housing, and other areas that influence the financial sustainability of households. At the same time, the involvement of institutional investors in social protection financing requires a clear distinction between commercially motivated investment decisions and socially oriented financing mechanisms, since the preservation of financial stability and the protection of beneficiaries' interests must remain fundamental considerations.

The private sector also plays an increasingly significant role in expanding the financial capacity of social protection systems because enterprises can participate through corporate social responsibility programs, employer-based insurance arrangements, social partnerships, impact investment, and other forms of socially oriented financing. In the OECD area, social protection expenditure accounted for approximately 23% of GDP, while social security contributions financed 43% of social spending in 2023, and private social expenditure remained comparatively limited, averaging 2.3% of GDP in the European Union in 2021, thereby highlighting the potential importance of broader participation by employers, institutional investors and private financial institutions in developing diversified financing mechanisms[3,4]. These indicators suggest that strengthening the financial sustainability of social protection requires not only increasing public expenditure, but also creating institutional conditions for mobilizing long-term private capital and developing innovative financing instruments that can complement traditional fiscal and social-insurance mechanisms. Such participation creates opportunities to combine private financial resources with public policy objectives, particularly when governments establish transparent incentives, risk-sharing mechanisms, and institutional frameworks that encourage businesses to invest in projects generating measurable social outcomes. Consequently, the private sector should not be considered merely as a supplementary source of funding, but rather as an institutional partner capable of contributing financial resources, managerial expertise, technological solutions, and innovative approaches to the provision of social protection.

The development of innovative financial instruments further expands the possibilities for mobilizing resources for socially significant purposes, as social impact bonds, blended finance mechanisms, thematic investment funds, sustainability-linked instruments, and other market-based solutions can connect financial returns with measurable social results. Unlike traditional budgetary financing, such

instruments may create mechanisms through which different categories of investors share financial risks while directing capital toward projects that address specific social problems and generate measurable improvements in the welfare of target groups. However, the effectiveness of these instruments depends on the quality of institutional regulation, the reliability of social-impact assessment, the transparency of financial flows, and the existence of appropriate mechanisms for monitoring both financial and social outcomes.

Against this background, the study of the role of institutional investors, the private sector, and innovative financial instruments in social protection financing is particularly relevant for countries seeking to increase the sustainability and effectiveness of their social protection systems. The integration of these financing sources can contribute to reducing excessive dependence on direct budgetary expenditures, broadening the resource base of social programs, and establishing a more diversified financial architecture oriented toward long-term social outcomes. Therefore, this study focuses on the institutional and financial mechanisms through which non-governmental capital can be mobilized for social protection, examines the potential contribution of innovative financial instruments to this process, and identifies approaches for strengthening cooperation between the state, institutional investors, and the private sector in order to improve the financial sustainability and social effectiveness of protection systems.

THE RELEVANCE OF THE RESEARCH SUBJECT

The relevance of diversifying social protection financing is reinforced by the persistent need to expand financial resources for vulnerable population groups, particularly children and low-income households, whose access to social benefits remains uneven across countries. According to UNICEF, in 2024 its programmes reached more than 170 million children across 102 million households through cash transfers, while 91 countries reported improvements in social-sector budgets and UNICEF leveraged international and private-sector financing for children in 85 countries, compared with 71 countries in 2023[5]. At the same time, UNICEF data indicate that 1.4 billion children aged 0–15 worldwide lacked access to any form of social protection in 2023[6], while in low-income countries fewer than one in ten children received child benefits, demonstrating the continuing scale of the financing and coverage challenge. These circumstances indicate that increasing the volume and efficiency of public expenditure should be accompanied by mechanisms capable of mobilizing additional resources from private and institutional sources, particularly where fiscal capacity is constrained. The involvement of private financial resources is therefore increasingly relevant to the development of social protection systems because it can complement public financing while supporting longer-term and more diversified approaches to social investment.

The importance of innovative financing mechanisms is also reflected in the experience of international development institutions, which increasingly emphasize the integration of public and private financial flows in achieving social and sustainable-development objectives. The UNDP-supported Integrated National Financing Framework approach is designed to mobilize and align public and private finance with national development priorities, while its work in Uzbekistan specifically envisages innovative and blended financing instruments, including green and gender bonds, risk insurance and sukuk, alongside traditional public resources[7]. In Uzbekistan, the UNDP assessment estimated the annual financing gap for the Sustainable Development Goals at approximately US\$6 billion, which demonstrates the scale of the broader challenge of mobilizing additional financial resources for

development-related priorities, including social sectors[8]. Moreover, Uzbekistan became the second country globally to issue a sovereign SDG bond in 2021, illustrating the practical emergence of innovative market-based financing instruments within the country's financial architecture[9]. Therefore, the development of institutional mechanisms that connect public resources with private capital, impact-oriented investment and innovative financial instruments represents an important direction for strengthening the long-term financial sustainability and effectiveness of social protection systems.

THE PROBLEM OF THE RESEARCH

The central problem of the research is that social protection financing in many countries remains predominantly dependent on public budget resources, which limits the capacity of governments to respond flexibly to increasing social risks, demographic pressures, economic shocks, and the changing structure of household vulnerabilities. A related problem is the insufficient integration of institutional investors, private-sector entities, insurance organizations, pension funds, and investment funds into the financing of socially oriented programs, despite the substantial long-term financial resources accumulated by these institutions. Another important issue concerns the limited application of innovative financial instruments, including social impact bonds, blended finance, sustainability-linked instruments, social investment funds, and other mechanisms that can connect private capital with measurable social outcomes. The absence of sufficiently developed institutional and regulatory frameworks for assessing social risks, distributing financial risks, protecting investors, and measuring the social effectiveness of such instruments further restricts their practical application. In addition, insufficient coordination between government institutions, financial organizations, businesses, and social-service providers can result in fragmented financing, duplication of expenditures, and inefficient allocation of available resources among target population groups. A further problem is the difficulty of ensuring a balance between financial sustainability and social accessibility, because commercially oriented investors require an adequate risk-return relationship, whereas social protection programs are primarily designed to serve vulnerable groups whose financial capacity is limited. Therefore, the research problem is ultimately associated with the need to develop an integrated institutional-financial framework that can mobilize public and private resources, increase the participation of institutional investors and the private sector, introduce innovative financial instruments, and simultaneously ensure transparency, financial efficiency, targeted support, and measurable social outcomes.

THE PURPOSE OF THE RESEARCH

The purpose of the research is to develop scientifically grounded approaches for improving the financing of social protection through the effective integration of institutional investors, private-sector resources, and innovative financial instruments into existing public financing mechanisms. The study aims to identify the institutional, financial, and regulatory conditions necessary for mobilizing long-term private capital toward socially significant programs while maintaining financial sustainability, transparency, and protection of beneficiaries' interests. Particular attention is devoted to assessing the potential of institutional investors, private enterprises, impact-oriented investments, blended finance, social bonds, and other innovative instruments to diversify the resource base of social protection and improve the efficiency of financial resource allocation. The research also seeks to develop practical recommendations for strengthening public-private cooperation and establishing mechanisms for

measuring the financial and social effectiveness of investments directed toward social protection. Ultimately, the study aims to formulate an integrated financing approach that combines financial sustainability with targeted social support and contributes to the long-term development of an inclusive and resilient social protection system.

THE SCIENTIFIC ESSENCE OF THE RESEARCH

The scientific essence of the research is determined by the systematic examination of social protection financing as an integrated institutional and financial process in which public resources are complemented by the capital and organizational capacities of institutional investors, private-sector entities, and innovative financial mechanisms. The study proceeds from the premise that the financial sustainability of social protection cannot be assessed solely through the volume of government expenditure, because the quality of resource mobilization, allocation efficiency, risk distribution, and measurable social outcomes are equally important components of the financing process. In this regard, particular scientific attention is devoted to identifying the economic relationships through which pension funds, insurance companies, investment funds, commercial enterprises, and other institutional participants can contribute to socially oriented financing while maintaining appropriate financial and regulatory safeguards. The research further examines the economic potential of blended finance, social and sustainability-linked bonds, impact investment, and other innovative instruments as mechanisms capable of connecting long-term private capital with clearly defined social objectives and measurable results. A key scientific aspect of the study is the development of an analytical approach that simultaneously considers the financial return, social effect, risk level, institutional responsibility, and sustainability of resources directed toward social protection programs. On this basis, the research seeks to substantiate the principles and mechanisms of interaction between the state, institutional investors, and the private sector, thereby establishing a conceptual foundation for diversifying social protection financing and improving the efficiency of financial resource utilization.

The academic literature on social protection financing increasingly emphasizes the need to move beyond conventional public-budget approaches by incorporating private capital, institutional investors, and innovative financial instruments into the financing architecture of social protection systems. Bolton (2017), in the study *Innovative Financing Methods for Social Protection*, examines alternative financing mechanisms and emphasizes that innovative approaches can broaden the resource base available for social protection, while the participation of private companies and institutional investors depends substantially on the development of appropriate financial products, institutional capacity, and mechanisms for managing investment risks[10]. The study is particularly relevant because it demonstrates that innovative financing should not be considered merely as an additional source of funds, but rather as a mechanism for establishing new relationships between public institutions, private-sector participants, and financial markets.

Ortiz, Cummins, and Karunanethy (2015), in their research *Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries*, investigate alternative approaches to expanding fiscal space for social investments and demonstrate that governments can employ a broader combination of financing measures rather than relying exclusively on existing budgetary resources[11]. Their approach is important for the present research because it highlights the relationship between fiscal capacity, social investment, revenue mobilization, and the participation of the private sector in financing development objectives. At the same time, the authors' focus on expanding fiscal space

primarily from the perspective of public financial capacity leaves additional scope for examining how institutional investors and innovative capital-market instruments can systematically complement government resources. Panagopoulos (2022), in the study develops an important connection between sustainable financial instruments, social-impact investment, ESG-oriented policies, capital markets, and investor protection[12]. The study draws attention to the fact that the mobilization of institutional investment resources for socially oriented objectives requires not only suitable financial instruments but also an appropriate regulatory environment capable of protecting investors and maintaining market confidence. This perspective is particularly significant for social protection financing because the effectiveness of social-impact-oriented financial instruments depends on the simultaneous consideration of financial return, social outcomes, ESG principles, transparency, and investor protection.

Denisova, Rukina, and Samoylova (2017), in their study *Financial Instruments of the Socially Responsible Economy*, examine the financial mechanisms of a socially responsible economy and emphasize the interrelationship between social insurance, social assistance, private business, and diversified sources of social financing[13]. Inderst (2021), in *Financing Development: Private Capital Mobilization and Institutional Investors*, focuses on the capacity of institutional investors and private capital to mobilize additional financial resources, emphasizing that appropriate financial products and institutional mechanisms are essential for directing private investment toward development and socially significant objectives[14]. Davis (1996), examining the role of institutional investors in the evolution of financial structures and market behavior, demonstrates that the growing importance of institutional investment can influence financial intermediation, investment decisions, and the development of financial markets, although agency and governance problems may arise in fund management[15]. Liubkina, Murovana, Magomedova, and Siskos (2019), in their research on financial instruments for stimulating innovative enterprise activity, highlight the importance of venture financing and institutional investors in supporting private-sector innovation[16], which is relevant to social protection because innovative private investment can generate employment, income opportunities, and socially valuable services.

Karimov A. I. (2020) investigates the experience of mobilizing households' temporarily free monetary resources for the development of the securities market, demonstrating the potential role of individual savings in expanding investment resources and strengthening the financial market, which is relevant to the diversification of financing sources for socially oriented objectives[17,18]. Kudbidinova M. I. (2024), in her study on the system of statistical indicators reflecting social protection and the formation of its information base, emphasizes the importance of reliable statistical information for assessing the coverage and effectiveness of social protection measures, particularly when expanding social insurance programs for vulnerable groups[19]. Taken together, these studies indicate that the development of financial markets and the improvement of information systems can create important institutional conditions for strengthening the financial sustainability and targeting of social protection, although the mechanisms connecting household savings, capital-market instruments, and social protection financing require further systematic investigation. Therefore, the present research extends these approaches by considering institutional investors, private-sector resources, and innovative financial instruments as interconnected components of an integrated financing mechanism capable of mobilizing additional capital while improving the efficiency and sustainability of social protection.

A comparison of these studies shows that existing research generally recognizes three interconnected dimensions of the problem: the expansion of fiscal space, the development of innovative financing mechanisms, and the mobilization of private and institutional capital for socially significant objectives. However, these dimensions are frequently examined separately, while the institutional interaction between governments, institutional investors, private companies, financial intermediaries, and beneficiaries remains insufficiently integrated into a unified social protection financing framework. In particular, the literature provides significant theoretical foundations for understanding innovative financing and impact investment, but comparatively less attention is given to how different financing instruments can be combined within a continuous financial cycle involving resource mobilization, targeted allocation, risk sharing, impact measurement, and reinvestment. Therefore, the present research develops this direction further by proposing an integrated institutional–financial approach in which institutional investors, private-sector resources, and innovative financial instruments operate as complementary components of a sustainable social protection financing system.

RESEARCH METHODS

The research methodology is based on a systematic combination of theoretical, comparative, statistical, and analytical methods aimed at examining the role of institutional investors, private-sector resources, and innovative financial instruments in financing social protection. The theoretical method is applied to systematize scientific approaches to social protection financing and to clarify the economic content, functions, and interrelationships of public financing, social insurance, institutional investment, private capital, and innovative financial mechanisms. The comparative method is used to identify differences and common characteristics among various financing models, including social impact bonds, blended finance, social and sustainability bonds, impact investment funds, public–private partnerships, and insurance-based mechanisms. Statistical analysis is employed to assess selected global indicators of social protection coverage, expenditure, financing gaps, institutional investment assets, private social expenditure, and impact-investing assets, thereby providing an empirical basis for evaluating the potential of alternative financing sources. The analytical and synthesis methods are used to examine the institutional relationships among governments, financial intermediaries, investors, private companies, service providers, and beneficiaries, while the obtained results are integrated into a theoretical institutional–financial model of social protection financing. Based on the results of these methods, a conceptual approach is developed that evaluates financing mechanisms according to their capacity to mobilize long-term capital, distribute financial risks, ensure targeted resource allocation, generate measurable social outcomes, and strengthen the long-term financial sustainability of the social protection system.

ANALYSIS AND RESULTS

The analysis of social protection financing demonstrates that the sustainability of modern protection systems increasingly depends on the ability to combine traditional public resources with long-term capital from institutional investors, private-sector entities, and innovative financial instruments. The conventional model, in which social protection is financed mainly through government revenues and mandatory social contributions, remains fundamental, but its capacity to respond to expanding social risks is constrained by demographic changes, labor-market transformations, and fiscal pressures.

Institutional investors represent financial institutions that accumulate and professionally manage substantial pools of capital on behalf of individuals, households, organizations, or other beneficiaries, with pension funds, insurance companies, investment funds, and sovereign or public reserve funds being among the principal categories. Their potential contribution to social protection financing arises from the long-term nature of their liabilities and investment horizons, which enables them to participate in financing projects related to employment, healthcare, housing, education, social infrastructure, and other areas generating long-term social benefits. However, the involvement of institutional investors should be based on clearly defined investment mandates, adequate risk assessment, liquidity requirements, fiduciary responsibilities, and mechanisms for evaluating social impact, because socially oriented objectives cannot eliminate the fundamental requirement to preserve the financial sustainability of invested assets. In this context, institutional investment should be understood not simply as a transfer of private funds into social programs, but as a structured mechanism through which long-term capital is allocated to economically and socially productive activities that can generate both financial and measurable social returns. OECD data showing US\$69.8 trillion in retirement-related assets at the end of 2024 illustrate the considerable financial scale of institutional capital available in developed pension markets. Therefore, the scientific and practical significance of institutional investors lies in creating appropriate channels through which a portion of their capital can support socially significant activities without compromising investment principles, beneficiary interests, or financial stability.

Innovative financial instruments can be defined as financing mechanisms that introduce new combinations of public and private capital, risk-sharing arrangements, investment incentives, or outcome-based payments in order to address financing needs that cannot be efficiently covered through conventional budgetary mechanisms alone. These instruments may include social impact bonds, sustainability-linked bonds, blended finance structures, social investment funds, impact investment vehicles, and other mechanisms in which the allocation of capital is connected with predefined social or development objectives. Their distinctive feature is that financial resources are not merely collected and distributed, but are structured around specific outcomes, risk-sharing principles, performance indicators, and accountability mechanisms, which potentially increases the efficiency and transparency of social financing. The growing scale of impact investing provides evidence of this transformation, as the Global Impact Investing Network estimated the global impact-investing market at US\$1.571 trillion in 2024, managed by more than 3,900 organizations, with the market expanding at an estimated 21% compound annual growth rate since 2019. Nevertheless, innovative instruments require reliable systems for measuring social outcomes, because financial performance can be assessed through standardized indicators while social impact often varies by population group, geographical area, and type of intervention. Consequently, their effective application requires a combination of regulatory certainty, transparent reporting, independent impact assessment, investor protection, and clearly established responsibility among the state, private investors, and implementing organizations.

Table 1. Theoretical classification of social protection financing sources

Financing source	Economic content	Main function	financial	Potential contribution to social protection	Main limitation
State budget	Centralized allocation of public revenues	Redistribution of social guarantees	and	Universal and targeted support	Fiscal constraints
Social insurance contributions	Mandatory payments by employees and/or employers	Formation of insurance-based funds	of	Sustainable financing of social risks	Dependence on formal employment
Institutional investors	Professional management of long-term capital	Investment and capital accumulation		Long-term financing of socially relevant projects	Risk-return and fiduciary requirements
Private sector	Corporate and employer-based financial resources	Investment, responsibility and partnerships	social and	Employment, services and social infrastructure	Uneven participation and incentives
Innovative instruments	Market-based and hybrid financing mechanisms	Risk sharing and capital mobilization	and	Diversification and outcome-oriented financing	Regulatory and measurement complexity

Table 1 demonstrates that social protection financing is based on a diversified system in which traditional public mechanisms are complemented by insurance contributions, institutional investors, private-sector resources, and innovative financial instruments. The state budget remains the fundamental source because its redistributive function enables governments to provide universal and targeted social support, although fiscal constraints may limit the sustainability and scale of such interventions. Social insurance contributions create a relatively stable financial base for covering social risks by accumulating mandatory payments from employees and employers, but their effectiveness is closely associated with the level of formal employment and the stability of labor-market participation. Institutional investors, including pension funds, insurance companies, and investment funds, can mobilize long-term capital for socially relevant projects and infrastructure, while their participation requires appropriate risk-return conditions, fiduciary standards, and effective investment governance. The private sector contributes through corporate resources, employer-based programs, investment activities, and public-private partnerships, thereby supporting employment, social services, and infrastructure development, although its involvement may remain uneven when appropriate economic incentives and institutional conditions are absent. Innovative financial instruments, including hybrid and market-based mechanisms, expand the financing capacity of the social protection system by combining different sources of capital, sharing risks, and linking financial resources with measurable social outcomes, but their wider application requires sophisticated regulation, transparent reporting, and reliable systems for measuring social impact.

Table 2. Theoretical model of institutional–financial interaction in social protection financing

Stage	Main participants	Financial mechanism	Expected result	Evaluation indicator
1. Resource formation	State, employers, households, institutional investors	Taxes, contributions, investment capital, private funds	Expansion of available financial resources	Volume and diversification of financing
2. Capital mobilization	Banks, pension funds, insurers, investment funds, private companies	Bonds, funds, blended finance, impact investment	Attraction of additional long-term capital	Amount of mobilized private capital
3. Targeted allocation	Government agencies, financial institutions, social organizations	Targeted transfers, social projects, investment financing	Support for priority vulnerable groups	Coverage and targeting rate
4. Risk distribution	State, investors, financial intermediaries	Guarantees, co-financing, insurance, risk-sharing arrangements	Reduction of concentration of financial risks	Risk-adjusted financing cost
5. Social impact generation	Beneficiaries, employers, service providers	Employment, education, healthcare, housing and social services	Improvement in household welfare	Employment, income and access indicators
6. Monitoring and evaluation	Regulators, investors, government, independent evaluators	Financial and social-impact reporting	Transparency and accountability	Social return and financial efficiency
7.Reinvestment and scaling	Investors, state and private sector	Reinvestment of returns and expansion of successful programs	Long-term sustainability	Reinvestment rate and program continuity

Table 2 presents a theoretical model in which social protection financing is viewed as a continuous institutional–financial process that integrates resource formation, capital mobilization, targeted allocation, risk distribution, social impact generation, monitoring, and reinvestment. The first stage focuses on the formation of financial resources by combining state revenues, social contributions, household resources, and institutional investment capital, which creates a broader and more diversified financial base for social protection programs. The second stage involves the mobilization of additional long-term capital through bonds, investment funds, blended finance, and impact investment mechanisms, thereby increasing the capacity of the social protection system beyond the limits of conventional budgetary financing. The third stage emphasizes targeted allocation, whereby government agencies, financial institutions, and social organizations direct available resources toward priority vulnerable groups, with coverage and targeting rates serving as important indicators of allocation effectiveness. The fourth stage introduces risk distribution mechanisms, including guarantees, co-financing, insurance, and other risk-sharing arrangements, which reduce the concentration of financial risks among individual participants and contribute to more sustainable

financing conditions. The fifth stage links financial resources with measurable social outcomes by directing financing toward employment, education, healthcare, housing, and other social services, while changes in household income, employment, welfare, and access to essential services provide evidence of the achieved social impact. The sixth stage establishes continuous monitoring and evaluation through financial reporting, social-impact assessment, regulatory supervision, and independent evaluation, allowing stakeholders to compare financial efficiency with social returns and strengthen transparency and accountability. The final stage involves reinvesting financial returns and expanding successful programs, which transforms social protection financing from a one-time expenditure mechanism into a continuous financing cycle capable of generating long-term sustainability, increasing program coverage, and strengthening the overall resilience of the social protection system.

Table 3. Selected global indicators relevant to social protection financing

Indicator	Value	Year
Global population covered by at least one social protection benefit	52.4%	2023
Global population without effective social protection coverage	47.6%	2023
Average social protection expenditure excluding healthcare	12.9% of GDP	2023
Additional annual financing required by low- and middle-income countries for a basic social protection floor	US\$1.4 trillion	2024 estimate
OECD retirement-related assets	US\$69.8 trillion	End-2024
Assets managed by OECD pension providers	US\$63.1 trillion	End-2024
Private social expenditure in 22 EU countries	2.3% of GDP	2021
Public social expenditure in 22 EU countries	24.5% of GDP	2021
Global impact-investing assets under management	US\$1.571 trillion	2024
Organizations managing impact-investing assets	3,907	2024

Source: compiled by the author based on ILO, OECD and GIIN data.

Table 3 demonstrates that the contemporary global social protection system continues to face a substantial financing and coverage gap, which increases the importance of diversifying financial resources and strengthening institutional participation. In 2023, only 52.4% of the global population was effectively covered by at least one social protection benefit, meaning that 47.6% of the world's population remained without effective coverage and therefore faced greater exposure to economic and social risks. The average level of social protection expenditure excluding healthcare amounted to 12.9% of GDP in 2023, which indicates the significant fiscal resources required to maintain existing protection mechanisms while simultaneously expanding their coverage. The estimated additional annual financing requirement of US\$1.4 trillion for low- and middle-income countries to establish a basic social protection floor further demonstrates that traditional public financing alone may be insufficient to close the global protection gap.

At the same time, the US\$69.8 trillion in retirement-related assets held within OECD economies at the end of 2024 indicates the considerable volume of long-term capital that can potentially be directed

toward socially relevant investments under appropriate regulatory and risk-management conditions. Of this amount, US\$63.1 trillion was managed by OECD pension providers, highlighting the particularly important role of institutional investors in mobilizing stable, long-term financial resources that can complement conventional social protection financing. The comparison between private social expenditure of 2.3% of GDP and public social expenditure of 24.5% of GDP in 22 EU countries in 2021 shows that private financing remains considerably smaller than public financing, although its complementary role can become increasingly important in addressing specific social needs and supporting innovative service delivery. The development of impact investing further expands this financing potential, as global impact-investing assets under management reached US\$1.571 trillion in 2024, demonstrating the growing integration of financial investment with measurable social and environmental objectives. The participation of 3,907 organizations managing impact-investing assets in the same year also indicates that impact-oriented finance is developing into a broad institutional market rather than remaining a limited niche mechanism.

Consequently, the indicators presented in Table 3 support the need for an integrated financing model in which public budgets remain the core source of social protection while institutional investors, private capital, and innovative financial instruments are systematically mobilized to increase coverage, diversify risks, and strengthen the long-term financial sustainability of social protection systems.

Table 4. The Role of institutional investors, the private sector, and innovative financial instruments in social protection financing

Financing component	Main participants/instruments	Financial contribution	Social protection function	Expected economic effect	Key condition for effectiveness
Institutional investors	Pension funds, insurance companies, investment funds, sovereign wealth funds	Mobilization of long-term capital	Financing social infrastructure, employment, healthcare, housing and other socially significant projects	Diversification of financing sources and development of long-term investment	Appropriate investment regulation, risk management and fiduciary standards
Private sector	Employers, corporations, banks, financial institutions, business associations	Corporate resources, employer contributions, private investment and co-financing	Expansion of employment, social insurance, employee benefits and socially oriented services	Reduction of pressure on public finances and strengthening of private-sector participation	Tax incentives, public-private partnerships and transparent institutional rules
Social impact bonds	Government, private investors, service providers, independent evaluators	Private capital linked to predefined social outcomes	Financing programs aimed at reducing unemployment, poverty and social exclusion	Payment linked to achieved social results and transfer of part of implementation risk	Reliable impact indicators and independent evaluation
Blended finance	Government, development institutions, institutional investors, private investors	Combination of public, concessional and private capital	Financing projects with high social value and relatively high investment risk	Mobilization of additional private capital through risk sharing	Clear allocation of risks, guarantees and transparent governance
Social and sustainability bonds	Governments, banks, corporations, institutional investors	Debt financing directed toward defined social or sustainable projects	Financing healthcare, education, affordable housing, employment and social infrastructure	Expansion of capital-market-based social financing	Transparent use-of-proceeds reporting and impact assessment

Impact investment funds	Investment funds, institutional investors, private investors	Capital invested with both financial and measurable social objectives	Support enterprises and projects generating positive social outcomes	for and social	Combination of financial return and social impact	Standardized impact measurement and investor accountability
Public-private partnership mechanisms	Government institutions, private companies, financial organizations	Joint financing and risk sharing	Development and provision of infrastructure services	and social and	More efficient use of public and private resources	Long-term contracts, transparent procurement and risk allocation
Insurance-based mechanisms	Insurance companies, employers, households, government	Premium-based financing and risk pooling	Protection against income loss, disability, unemployment and other social risks		Reduction of financial vulnerability of households	Broad coverage, affordability and actuarial sustainability

Source: Compiled by the author based on the conceptual synthesis of international approaches to social protection financing.

Table 4 demonstrates that the diversification of social protection financing requires the coordinated participation of institutional investors, private-sector entities, public institutions, and innovative financial mechanisms that can complement traditional budgetary resources. Institutional investors, including pension funds, insurance companies, investment funds, and sovereign wealth funds, can mobilize substantial long-term capital for socially significant projects, while effective regulation, risk management, and fiduciary standards are necessary to ensure responsible investment. The private sector contributes through corporate resources, employer contributions, private investment, and co-financing, which can expand employment opportunities, employee benefits, social insurance coverage, and socially oriented services while reducing excessive pressure on public finances. Social impact bonds establish a results-oriented financing mechanism in which private capital is linked to predefined social outcomes, allowing governments to transfer part of the implementation risk to investors while requiring reliable indicators and independent evaluation to verify achieved results. Blended finance combines public, concessional, institutional, and private capital to make socially valuable projects with relatively high investment risks more attractive to private investors, provided that risk-sharing arrangements, guarantees, and governance mechanisms are clearly defined. Social and sustainability bonds provide an additional capital-market channel through which governments, banks, corporations, and institutional investors can finance healthcare, education, affordable housing, employment, and other socially significant projects, although transparent use-of-proceeds reporting and impact assessment are essential for maintaining investor confidence. Impact investment funds further strengthen the connection between financial returns and measurable social outcomes by directing capital toward enterprises and projects that generate positive social effects, which requires standardized impact measurement and clear investor accountability. Overall, the table indicates that an effective social protection financing architecture should combine long-term institutional capital, private-sector resources, outcome-oriented instruments, public-private partnerships, and insurance mechanisms within a transparent regulatory framework, thereby improving resource mobilization, distributing financial risks, expanding social coverage, and strengthening the long-term sustainability of social protection systems.

The analysis demonstrates that sustainable social protection financing requires a diversified institutional–financial architecture in which public budgets remain the fundamental source while institutional investors, private-sector resources, insurance mechanisms, and innovative financial instruments provide complementary long-term financing opportunities. The theoretical model developed in the study indicates that effective financing should be organized as a continuous cycle encompassing resource formation, capital mobilization, targeted allocation, risk distribution, generation of measurable social outcomes, monitoring, evaluation, and reinvestment, which enables financial resources to be transformed into sustainable improvements in household welfare. The examined global indicators further reveal that significant gaps in social protection coverage and financing persist worldwide, while the substantial volume of institutional investment assets and the rapid development of impact-oriented finance demonstrate the potential for mobilizing additional private capital toward socially relevant objectives. The comparative analysis of financing mechanisms confirms that social impact bonds, blended finance, social and sustainability bonds, impact investment funds, public–private partnerships, and insurance-based mechanisms can strengthen the efficiency and resilience of social protection financing when supported by transparent regulation, appropriate risk allocation, reliable impact measurement, and effective institutional governance. Therefore, the results substantiate the need to move from a predominantly expenditure-oriented approach toward an integrated financing model that combines public responsibility with private capital mobilization and innovative financial solutions, thereby improving the targeting, financial sustainability, risk resilience, and measurable social effectiveness of social protection systems.

CONCLUSIONS AND PROPOSALS

The study concludes that the sustainability of social protection financing depends not only on the volume of public expenditure, but also on the ability to diversify financial resources through institutional investors, private-sector participation, insurance mechanisms, and innovative financial instruments. The analysis demonstrates that excessive dependence on state budget resources may increase fiscal pressure, particularly when demographic, economic, and labor-market risks intensify, whereas a diversified financing structure can distribute financial risks among multiple participants. Institutional investors should therefore be incorporated into social protection financing through carefully regulated investment mechanisms that preserve their fiduciary responsibilities while directing a reasonable share of long-term capital toward socially significant projects. In this context, pension funds, insurance companies, and investment funds can become important sources of long-term financing for healthcare, affordable housing, employment, and social infrastructure.

The private sector should be recognized as an important complementary participant in the social protection financing system because corporations and employers possess financial, organizational, technological, and human resources that can support social objectives. Public–private partnership mechanisms can be expanded to finance and provide social infrastructure and services, while employer-based contributions and corporate social investment can strengthen protection against employment-related and household-level financial risks. To stimulate broader private-sector participation, governments should develop transparent institutional rules, targeted tax incentives, and predictable partnership mechanisms that reduce uncertainty for businesses and investors. Such an approach would allow private resources to complement rather than replace public responsibility for ensuring basic social protection.

Innovative financial instruments should be further developed because they can connect financial resources with measurable social outcomes and create additional channels for mobilizing private capital. Social impact bonds, blended finance, social and sustainability bonds, impact investment funds, and insurance-based mechanisms can be adapted to national conditions when appropriate risk-sharing arrangements, transparent governance, and reliable impact measurement systems are established. Particular attention should be given to blended finance mechanisms, through which limited public or concessional resources can be used to reduce investment risks and attract substantially larger volumes of private capital to socially important projects. At the same time, the introduction of innovative instruments should be accompanied by clear standards for disclosure, investor protection, social-impact assessment, and accountability in order to prevent inefficient allocation of financial resources.

The research also establishes that the effectiveness of social protection financing should be assessed not only through the amount of funds allocated, but also through the measurable social and economic outcomes generated by these resources. Therefore, an integrated monitoring and evaluation framework should be introduced in which indicators such as coverage of vulnerable groups, employment growth, household income, access to essential services, financial efficiency, social return, and continuity of programs are systematically evaluated. Independent evaluation institutions and digital monitoring systems can improve transparency by linking financial flows with specific social outcomes and identifying inefficient or duplicated expenditures. The proposed approach would strengthen evidence-based decision-making and create conditions for the continuous improvement of social protection financing mechanisms.

Based on the obtained results, it is proposed to establish an integrated institutional–financial model that combines public financing, social insurance, institutional investment, private capital, innovative instruments, and systematic monitoring within a unified framework. The model should operate through a continuous financing cycle in which resource mobilization is followed by targeted allocation, risk distribution, delivery of social services, measurement of social impact, and reinvestment of successful financial and social results. Such an architecture would enable governments to preserve their responsibility for universal social protection while creating additional opportunities for long-term private investment and more efficient use of financial resources. Ultimately, the implementation of these proposals can contribute to broader social protection coverage, stronger financial sustainability, improved allocation efficiency, and greater resilience of households and institutions to economic and social risks.

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