

Article

Diversification of Social Protection Financing Sources: An International Comparative Analysis and Policy Implications for Uzbekistan

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Abstract: This article examines the diversification of social protection financing sources and its implications for the financial sustainability of social protection systems, with particular emphasis on Uzbekistan. The study analyzes the roles of general government revenues, social security contributions, earmarked revenues, private financing, and supplementary external sources. Using comparative, structural, institutional, and document-based analysis, the research identifies differences in financing arrangements and explores relevant international practices. The article also outlines policy directions for broadening Uzbekistan's social protection financing base while preserving fiscal sustainability and institutional coherence.

Keywords: social protection, financing diversification, social security contributions, public revenues, fiscal sustainability, Uzbekistan.

1. Introduction

Social protection plays a crucial role in reducing poverty, protecting household income, and strengthening resilience to economic and social shocks. According to the World Bank's State of Social Protection Report 2025, social protection and labour programmes in low- and middle-income countries have expanded to reach 4.7 billion people. Nevertheless, around 2 billion people remain uncovered or inadequately covered, and three out of four people in low-income countries still receive no social protection [1].

The sustainability of these systems increasingly depends on how they are financed. OECD data show that social security contributions financed about 43% of public social spending in 2023, down from 47% in 1995, while the importance of general government revenues has increased [2]. This trend demonstrates the growing importance of combining different financing sources rather than relying heavily on a single revenue channel.

For Uzbekistan, diversification of social protection financing is particularly relevant as the country seeks to strengthen coverage and long-term financial sustainability. The research materials also identify diversification of social protection financing sources as a distinct research direction. Therefore, this study examines international financing practices and identifies approaches that may contribute to developing a more diversified and sustainable social protection financing system in Uzbekistan.

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The relevance of the study is determined by the continuing gap between growing social protection needs and available financial resources. The persistence of a 2-billion-person coverage and adequacy gap in low- and middle-income countries highlights the need for more resilient financing mechanisms. Diversifying financing through public revenues, social security contributions, employer participation, earmarked revenues, and supplementary sources can reduce excessive dependence on individual financing channels and strengthen the long-term sustainability of social protection systems.

International research increasingly treats social protection financing as a question of revenue structure, fiscal space and institutional sustainability rather than simply the volume of social expenditure. Sustainable social policy is seen as requiring a broader combination of domestic resources, including taxation, social contributions and other public revenues [3], while fiscal space can be widened through higher contributory revenues and tax collection, reallocation of public expenditure, use of reserves, borrowing and external transfers [4]. More recent work quantifies the financing gap for universal social protection and the strategies available for closing it [5].

In Uzbekistan, domestic studies have concentrated on the targeting of assistance to socially vulnerable groups [6], the socio-economic mechanism of social protection and the methodology for assessing its effectiveness [7], [8], priority directions for its development [9], international models of health insurance [10], and the stages through which national social policy has been formed and implemented [11]. Although this literature provides a substantial foundation for understanding social protection institutions, the diversification of financing sources as an integrated financial strategy remains comparatively underexplored. This article addresses that gap by examining how a more balanced combination of budget revenues, social contributions, earmarked resources, employer participation and supplementary financing channels could contribute to the long-term sustainability of social protection in Uzbekistan.

2. Materials and Methods

This study uses a qualitative and comparative research approach to examine the diversification of social protection financing sources. The main methods include comparative analysis, structural analysis, institutional analysis, and document review. International practices are compared to identify differences in the use of budget revenues, social contributions, employer participation, and other financing sources.

The study relies on secondary data and official documents from the World Bank [1], International Labour Organization, OECD [2], and relevant institutions of Uzbekistan. International experience is then compared with Uzbekistan's current financing framework to identify practical directions for broadening and strengthening the social protection financing base.

3. Results and Discussion

The findings indicate that the diversification of social protection financing should be considered in conjunction with the fiscal capacity required to sustain social commitments. Uzbekistan provides a relevant case because social expenditure already represents a substantial component of public spending. According to the Accounts Chamber, State Budget expenditure reached UZS 383.9 trillion in 2025, of which UZS 180.4 trillion, or 47%, was directed to social expenditure. Education accounted for UZS 84.2 trillion and healthcare for UZS 43.3 trillion. In addition, transfers from the State Budget to state target funds reached UZS 57.9 trillion, demonstrating the continuing importance of general budget resources in financing social obligations [12].

A similar fiscal orientation can be observed in other economies in the region [13]–[15], although differences in national budget classifications mean that the figures should be interpreted as indicators of fiscal commitment to the social sphere, rather than as perfectly harmonized measures of social protection expenditure.

Table 1. Social-Sector Budget Commitments in Selected Countries, 2025 [13]–[15]

Country	Social-sector expenditure, 2025	Share of total budget expenditure
Uzbekistan	UZS 180.4 trillion (<i>USD 15.0 billion</i>)	47.0%
Tajikistan	TJS 23.9 billion (<i>USD 2.56 billion</i>)	46.3%
Azerbaijan	AZN 15.3 billion (<i>USD 9.0 billion</i>)	39.5%
Kazakhstan	KZT 9.6 trillion (<i>USD 18.84 billion</i>)	37.2%

Uzbekistan allocated 47% of State Budget expenditure to the social sphere in 2025, compared with 46.3% in Tajikistan [14], 39.5% in Azerbaijan [15], and 37.2% in Kazakhstan [13]. These figures show that social commitments absorb a substantial share of public resources across the selected countries and underline the importance of maintaining sustainable financing mechanisms.

In Uzbekistan, the poverty rate declined from 8.9% in 2024 to 5.8% in 2025, and around 302 thousand families moved out of poverty [16]. However, approximately 2.2 million people remained below the poverty line, indicating that demand for social protection remains significant. Average monthly per capita income reached UZS 2.6 million, with labour income accounting for 72.6% of total household income, while pensions represented 11.8% and social assistance 1.6% .

These results suggest that Uzbekistan should not rely solely on increasing budget allocations or existing contribution rates. A more sustainable approach would combine general budget revenues, contributory mechanisms, and supplementary financing sources according to the type of social programme. Such a mixed financing architecture could reduce dependence on a narrow revenue base while preserving the redistributive role of the State Budget and maintaining protection for vulnerable groups.

Changes in household income structure provide an additional perspective on the sustainability of social protection financing in Uzbekistan. In 2025, average monthly per capita income reached UZS 2.6 million, while the share of labour income increased to 72.6%, compared with 67.7% in 2024 . At the same time, the shares of pensions, agricultural income, and social assistance declined slightly. These changes indicate that household welfare is becoming increasingly linked to earned income, while social transfers continue to play an important supporting role for vulnerable groups. The dynamics are illustrated in Figure 1.

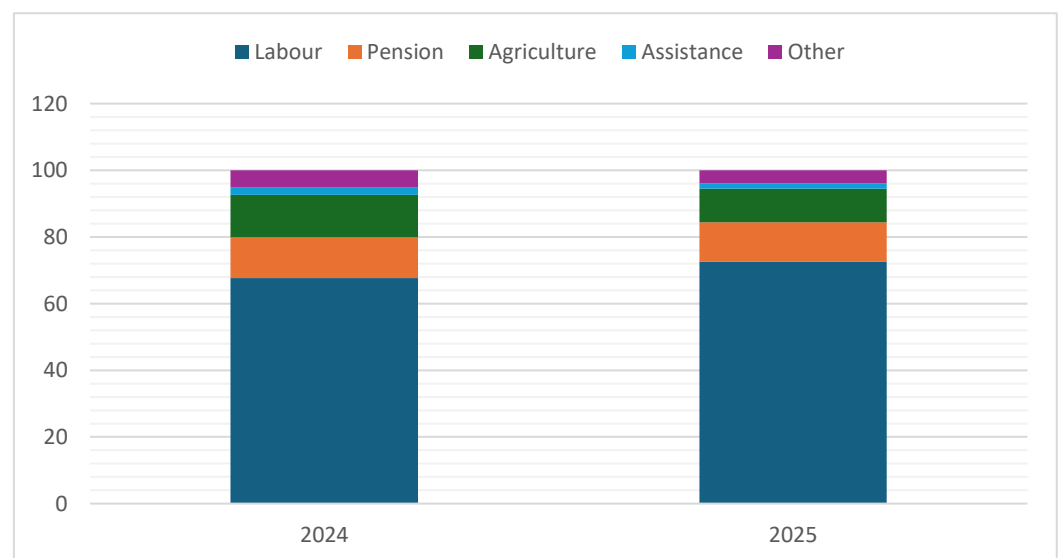
**Figure 1. Structure of Household Income in Uzbekistan, 2024–2025 [16]**

Figure 1 demonstrates a clear change in the composition of household income in Uzbekistan between 2024 and 2025. The share of labour income increased from 67.7% to

72.6%, while the contribution of agricultural income declined from 12.7% to 10.1% and social assistance from 2.2% to 1.6%. The share of old-age pensions remained relatively stable, decreasing slightly from 12.2% to 11.8%. These changes suggest a growing role of employment-generated income in household welfare, while pensions and social assistance continue to provide an important income-support function for population groups with limited labour-market participation.

From the perspective of social protection financing, this structural shift is significant. A higher reliance on labour income can broaden the potential contribution base and reduce dependence on direct transfers for economically active households. Nevertheless, the persistence of pension and social-assistance income confirms that budget-financed and contributory mechanisms need to operate together. This supports the article's argument that Uzbekistan should develop a mixed financing architecture rather than rely predominantly on a single revenue source.

Policy Implications for Uzbekistan

The results indicate that Uzbekistan should pursue diversification by broadening the financing base rather than simply increasing existing tax or contribution rates. The current structure already combines substantial State Budget financing with social contributions, while the household-income data show that labour income is becoming more important without eliminating the need for pensions and social assistance. OECD evidence similarly shows that social protection systems typically combine social security contributions with general revenues, and that the relative weight of these sources differs according to the type of benefit and national institutional arrangements.

A practical implication is that redistributive programmes - including poverty reduction and support for vulnerable households - should continue to rely mainly on general public revenues, while employment-related risks can be supported more strongly through contributory mechanisms. This functional separation would allow financing sources to correspond more closely to the purpose of individual programmes. At the same time, supplementary or earmarked revenues may be considered for selected programmes where their use is transparent and institutionally justified. The ILO emphasizes that long-term social protection commitments should primarily be financed through stable domestic sources, especially progressive taxation and social security contributions.

Another priority is to expand the contributory base through formal employment and wider participation in social insurance. This is particularly important because greater dependence on labour income can create a stronger basis for contributory financing, but workers outside formal employment may remain excluded. The World Bank reports that around 2 billion people in low- and middle-income countries remain uncovered or inadequately covered, demonstrating that contributory systems alone cannot guarantee universal protection where labour-market informality remains significant.

International Approaches to Diversifying Social Protection Financing

International experience shows that diversification does not mean replacing public financing with private resources. Instead, mature social protection systems normally combine general taxation, social security contributions, earmarked revenues, and supplementary financing mechanisms, with the financing source determined partly by the function of each programme. The OECD reports that "social protection expenditure accounts for approximately 23% of GDP across OECD and EU countries, while roughly half of public social spending is financed through social security contributions. At the same time, labour-based financing is facing increasing pressure from population ageing, non-standard employment, and changes in the labour share".

The distinction between contributory and tax-financed programmes is particularly important. Employment-related programmes such as earnings-related pensions and unemployment insurance are commonly financed through employer and employee contributions, whereas poverty alleviation, minimum-income support, and other

redistributive programmes are more frequently financed from general taxation. This division enables governments to preserve solidarity for vulnerable populations while linking some benefits more directly to participation in formal employment. However, the sustainability of contribution-based financing depends strongly on labour-market formalization. In the EU, for example, self-employed workers account for around 14% of employment but only 4% of social security contributions, illustrating the financing challenges created by non-standard forms of employment .

Table 2. Main Approaches to Diversifying Social Protection Financing [2]

Financing source	Main function	Key advantage	Main limitation	Relevance for Uzbekistan
General tax revenues	Social assistance, minimum-income guarantees, support for vulnerable groups	Broad revenue base and strong redistributive capacity	Competes with other public expenditure priorities	Should remain the core source for non-contributory assistance
Social security contributions	Pensions, unemployment and employment-related social insurance	Links contributions with insured social risks	Limited where informal employment is high	Can expand gradually alongside formal employment
Earmarked revenues	Financing designated social programmes	Provides predictable resources for specific programmes	May reduce budget flexibility	Could be considered selectively for clearly defined programmes
Employer participation	Employment-related insurance and occupational protection	Shares financing responsibility beyond the State Budget	May increase formal labour costs if poorly designed	Suitable for employment-linked social risks
External/development financing	System modernization, crisis response, temporary programme expansion	Provides additional resources and technical support	Not reliable as a permanent financing source	Best used for reforms, digitalization and temporary support

Table 2 demonstrates that no single financing source is sufficient for all social protection functions. General taxation is particularly appropriate for redistributive programmes because entitlement is based on social need rather than prior contributions, while contributory financing is more suitable for employment-related insurance. Earmarked revenues can provide additional stability but require careful institutional design to avoid excessive fiscal fragmentation . International assistance can also complement domestic financing, particularly during crises or system reforms, but the ILO stresses that sustainable social protection systems should be based primarily on domestic resource mobilization .

The scale of the financing challenge further supports diversification. The ILO estimates that achieving universal social protection floors in low- and middle-income countries would require additional financing equivalent to 3.3% of GDP annually. The burden is substantially greater in low-income countries, where the estimated financing gap reaches 52.3% of GDP, demonstrating that domestic fiscal capacity fundamentally determines the feasibility of social protection expansion . Meanwhile, the World Bank's 2025 assessment identifies optimizing social protection financing as one of the principal

areas for closing coverage and adequacy gaps, alongside improving coverage, benefit adequacy, and shock responsiveness .

For Uzbekistan, these international practices suggest that diversification should be functional rather than mechanical. The State Budget should remain responsible for poverty reduction and assistance to groups unable to contribute, while employment-related programmes can increasingly draw on contributory financing as formal employment expands. Earmarked or supplementary sources may then complement these two pillars in clearly defined areas. Such an arrangement would make financing more resilient without weakening the redistributive responsibility of the state.

Policy Implications for Uzbekistan

The findings suggest that Uzbekistan should pursue a gradual diversification of social protection financing, while preserving the central role of the State Budget in financing redistributive programmes. Poverty reduction, minimum-income support and assistance to vulnerable households should continue to rely primarily on general revenues because eligibility for these programmes is determined by social need rather than previous contributions. At the same time, employment-related programmes, including pensions and social insurance, can rely more strongly on contributory mechanisms as formal employment and the contribution base expand. This functional separation is consistent with international practice, where general revenues and social security contributions perform complementary rather than competing roles.

A second priority is to strengthen the financing base through formal employment and broader participation in contributory schemes rather than simply increasing existing contribution rates. Uzbekistan's growing share of labour income creates favourable conditions for expanding contributory financing, but workers outside formal employment must continue to be protected through tax-financed mechanisms. International evidence shows that excessive reliance on employment-based contributions can create coverage gaps where informality and non-standard employment remain significant.

Finally, earmarked revenues and external development financing may be used selectively as supplementary instruments. Earmarked resources can support clearly defined programmes, while development-partner financing is more appropriate for temporary reforms, digitalization and institutional modernization than for permanent benefit commitments. The long-term objective should therefore be a mixed financing architecture combining budget revenues, contributory resources and carefully designed supplementary sources, supported by transparent governance and clear allocation of financing responsibilities.

4. Conclusion

This study demonstrates that diversification of social protection financing is increasingly important for maintaining fiscal sustainability while preserving adequate social coverage. International experience shows that no single financing source is sufficient for all social protection functions. Sustainable systems generally combine general taxation, social security contributions, earmarked revenues and supplementary mechanisms, with the relative importance of each source determined by institutional arrangements, labour-market conditions and the purpose of individual programmes.

For Uzbekistan, the substantial fiscal commitment to the social sphere and the continuing need to protect vulnerable groups support a gradual transition toward a more diversified financing structure. The State Budget should remain the main source for redistributive programmes, while contributory mechanisms can be strengthened for employment-related risks and supplementary financing introduced where institutionally justified. Such an approach would reduce excessive dependence on individual financing channels, strengthen financial resilience and support the long-term sustainability of Uzbekistan's social protection system without weakening the redistributive responsibility of the state.

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