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REDISTRIBUTION OF SOCIAL RESOURCES IN THE MODERN ERA: NEW CHALLENGES FOR THE STATE FINANCE SYSTEM

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ABSTRACT

Relevance. The digital transformation of public finances and social transfers is becoming particularly important in the context of rapid technological change and growing public demand for transparency, efficiency, and accessibility of public services. Given that the introduction of digital tools allows for the optimization of budget resource management, improves the efficiency of social support, and promotes the sustainable development of social systems, it is necessary to take these processes into account in order to modernize public administration and ensure social justice.

Aim. The aim of this study is to determine the impact of social transfers on the efficiency of public finances in the context of digital transformation and to develop recommendations for their optimization.

Methods. The study used methods of literary source synthesis, statistical data analysis, systematization, and generalization to study the impact of social transfers on the effectiveness of public finances in the context of digital transformation, which revealed uneven social spending in EU countries and the importance of digitalization for improving the effectiveness of social policy.

Results. The analysis showed that social transfers significantly increase the financial capacity of local communities, but the level of social spending varies significantly between EU countries, and the introduction of digital technologies improves the transparency and management of social benefits.

Conclusions. Based on the analysis, it was determined that in order to improve the effectiveness of social policy, it is necessary to combine social transfers with the development of digital infrastructure and the introduction of innovative management practices.

Keywords: *Social Transfers, Public Finance, Digitalization, Digital Technologies, Innovative Digital Solutions, Social Benefit Management, Social Policy Effectiveness, Transformations, Budget, Financial Analysis, Fiscal Policy.*

1. INTRODUCTION

Digital transformation is becoming increasingly important in the field of public finance, especially in the context of social transfers, which are a key instrument of state social policy. Growing pressure on budget systems, exacerbated by external challenges such as geopolitical instability and economic uncertainty, emphasizes the need to find new mechanisms to improve the efficiency of

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resource allocation for social protection. Modern digital technologies, including artificial intelligence, blockchain, and big data, open prospects for optimizing the planning, administration, and control of social transfers, contributing to increased transparency, accuracy, and efficiency of financial decisions [1, 2, 3]. At the same time, there are several systemic problems, including the lack of a sustainable institutional framework for innovation in the social sector, structural inertia of budget expenditures, and insufficient adaptability of transfer policy to new social challenges [4, 5, 6]. These challenges are particularly acute in the context of growing social inequality and the need to ensure inclusiveness and social justice in the digital economy. Since the digitalization of public finance can dramatically change the role of the state in providing social protection, it is important to focus on the development and implementation of mechanisms that combine innovative digital solutions with the priorities of sustainable development and effective management of budgetary resources.

The aim of this research article is to substantiate the impact of social transfers on the efficiency of public finances in the context of digital transformation, taking into account the structural features of budget planning, institutional models of social protection and the level of digitalization of public administration, as well as to develop practical recommendations for optimizing transfer policy to ensure social inclusion, adaptability and fiscal sustainability.

The research was guided by the following questions:

- How does the structure of social transfers in EU countries reflect the priorities of fiscal and social policy under conditions of digital transformation?;
- What is the relationship between the level of e-government development (EGDI), governance efficiency (GEI), and the targeting of social transfers?;
- To what extent does digitalization enhance the efficiency and inclusiveness of social finance systems?

Based on these questions, the following hypotheses were formulated:

H1: Higher levels of digital maturity (EGDI) are associated with improved efficiency of governance (GEI) and more effective redistribution through social transfers.

H2: EU countries with more balanced structures of social transfers demonstrate greater resilience to external shocks and higher levels of social inclusion.

H3: The integration of digital platforms into transfer systems reduces administrative costs and strengthens fiscal sustainability in the long run.

2. LITERATURE REVIEW

In the context of studying the impact of digital transformation on the efficiency of public finances through social transfer mechanisms, there is a growing interest in this issue in modern scientific literature. In particular, Schüring [7] considers social transfers as a multidimensional tool that simultaneously performs the functions of preventing poverty, mitigating the effects of social risks and enhancing social justice, and digital tools, in his opinion, can significantly optimize the mechanisms for their provision. Given that Desyatnyuk et al. [8] consider digital transformation as a fundamental factor in ensuring international financial security in the context of sustainable development, where digital technologies act as a catalyst for the effectiveness of public financial policy; scholars such as Melnychuk et al. [9], Moreira et al. [2], Omar et al. [3], Sharova et al. [10] emphasize that the digitalization of financial processes in the social sphere creates preconditions for increasing the accuracy, efficiency and transparency of budget decisions affecting vulnerable groups of the population. Another paper by Desyatnyuk et al. [11] emphasizes strategic mechanisms for protecting national interests in the globalized financial environment, emphasizing the role of innovative digital tools in guaranteeing state sovereignty. At the local level, Gavkalova et al. [1] identify the main problems of organizational support for local budget management, where digitalization is seen as a prerequisite for the transparency and efficiency of financial processes in territorial communities. In turn, Kuybida et al. [12] analyze the legal aspects of the formation of social investment projects, emphasizing the importance of digital platforms for ensuring the targeting of social spending and enhancing public-private partnerships in the social sector. Instead, the study by Zhuk et al. [13] draws attention to systemic transformations in the field of public financial management under the influence of digital technologies. In their opinion, the formation of a digital financial management infrastructure creates new opportunities for strategic forecasting, control and accountability.

The issue of inclusiveness and social justice in the digital economy is of particular importance in

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Krysovatyy et al. [14], who interpret the concept of an inclusive economy as a tool for harmonizing financial policy with the strategic objectives of sustainable development. At the same time, Krysovatyy et al. [15] study the impact of digital innovations on financial and state security, emphasizing the need to develop balanced governance mechanisms that can respond to the risks of the digital age. For example, Kyriazi et al. [4] analyzes the structural inertia of social financing, which manifests itself in the concentration of budget expenditures in traditional areas (pensions, family assistance), which reduces the ability to adapt to new social challenges. Scholars such as Lopushniak et al. [5], Rustamova et al. [6], Van Vliet et al. [16] draw attention to the lack of a sustainable institutional framework for targeted financing of innovative areas of social security, including research and development in the field of social protection, which hinders the modernization of transfer policy. Instead, McLean [17] considers social transfers as a form of targeted assistance that not only fulfills a humanitarian function but also has a clearly defined purpose, calculation mechanism, and linkage to the basic needs of the population. At the same time, their size and frequency may vary depending on the socio-economic context. Bierbaum and Schmitt [18], Lind [19], Peláez et al. [20] emphasize that the effectiveness of transfer policy is determined by its adaptability to political, economic, and technological conditions, as well as the ability of the state to redistribute financial resources in the face of crisis challenges. In turn, Androniceanu et al. [21] argues that digitalization contributes to expanding public access to information on public finances, procurement, and local spending, which ultimately increases civil society oversight. Achilova [22] emphasizes the role of modern digital solutions such as artificial intelligence (AI), blockchain, and big data analytics in improving the efficiency of budget planning and monitoring of social benefits. Similar conclusions were reached by González-Gallardo et al. [23], emphasizing the importance of using AI technologies for social data analytics to identify needs and predict the social burden on the state budget, which in the future will facilitate the strategic management of social transfers. However, Sabato et al. [24] emphasizes the transformation of the role of the state in the digital society, where not only traditional budgetary instruments are of key importance, but also digital ecosystems that ensure effective interaction between government agencies and citizens.

In this context, Millard [25] proposes the concept of "5.0" technologies, which envisages synergy between digital tools and human cognitive capabilities in the field of transfer management, ensuring adaptability and ease of use. Instead, Davidescu et al. [26] considers the implementation of digital solutions in transfer policy through the prism of resource allocation efficiency, justifying the need for analytical support for decision-making by the state with the help of modern ICT. Szelenyi and Manchin [27] argue that digital platforms can minimize bureaucratic barriers and reduce transaction costs associated with the administration of social programs, while increasing public trust in public institutions. On the other hand, Apostoaie and Ursache [28] analyze the impact of digital transformation on economic freedom, pointing out that digitalization of the financial sector contributes to transparency and accountability of budget expenditures in the social sphere. They also emphasize that digital tools are an important factor in improving the effectiveness of social policy in a dynamic socioeconomic environment. In addition, Peláez et al. [20] consider digital public finance management to optimize the activities of civil servants, providing remote access to financial procedures and improving the quality of public services.

3. METHODS

The methodology of the study was based on the use of a comprehensive set of methods that provided a systematic analysis of social transfers in the context of digital transformation and their impact on the efficiency of public finances. The following methods were used in the research process:

- synthesis of literature sources was used to form the theoretical basis of the study, define key concepts and analyze international experience in the field of social transfers and digitalization;
- analysis of statistical data was used to empirically study the structure of social expenditures in the EU countries, as well as to assess the relationship between the level of development of e-government, management efficiency and macroeconomic indicators;
- the method of systematization was used to organize information on different types of transfers, their functions and role in public finance;
- the method of generalization was used to formulate conclusions and recommendations based on a comprehensive analysis of the data obtained and allowing to outline the prospects for

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improving transfer policy in the context of digital transformation.

The study design combined a mixed-methods approach, integrating quantitative analysis of statistical indicators with qualitative synthesis of the literature. The research protocol consisted of three stages: (1) theoretical framework building, which involved the identification of key concepts, review of international practices, and clarification of institutional features of transfer policies; (2) empirical assessment of social expenditures in the EU, applying descriptive statistics and cross-country comparisons to reveal structural asymmetries and fiscal priorities; and (3) correlation analysis of the relationship between digitalization indices (EGDI), governance efficiency (GEI), and macroeconomic growth (GDP), which provided the basis for assessing the systemic role of digital transformation in optimizing social transfers. This protocol ensured consistency, replicability, and alignment with the objectives of the study.

To ensure state-of-the-art validity, the analysis was based not only on classical approaches to fiscal federalism but also on up-to-date research published in 2021–2024 [23, 24, 26]. These studies reflect the most recent debates on digital governance, social justice, and fiscal sustainability in the European Union, and thus provide a relevant scientific basis for the interpretation of our empirical results.

4. RESULTS AND DISCUSSION

In today's environment of growing uncertainty caused by both external (military aggression, geopolitical turbulence) and internal factors (instability of the revenue base, migration processes, deterioration of the investment climate), intergovernmental transfers play a key compensatory and stabilizing function in the system of public administration of territorial communities. Their availability ensures the equalization of fiscal potential between different levels of the budget system and creates the necessary preconditions for the implementation of the basic powers of the In particular, the basic subsidy guarantees a minimum amount of financial resources for the functioning of governing bodies and social infrastructure, while subventions aimed at financing state-defined powers (educational, medical, infrastructure, etc.) are instrumental for implementing the policy of social justice and regional balance. Of particular relevance are additional subsidies for equalization of fiscal capacity, which are directed to communities with low tax revenues, allowing them to reduce financial asymmetries and ensure a basic quality of life regardless of their geographical location. However, it is important to emphasize the problems of unpredictability, inconsistency of transfers with the real needs of communities, and the lack of an incentive component in the transfer policy. In particular, the current model of transfer distribution often does not take into account the level of efficiency of local management decisions, which demotivates communities to increase their own revenue base. Under conditions of uncertainty, transfers should perform both fiscal and anti-crisis functions, in particular, through mechanisms of targeted support for underdeveloped areas, stabilization grants, financing of recovery programs, etc.

To substantiate the impact of social transfers on the efficiency of public finances in the context of the widespread digital transformation of the European Union (EU), it is advisable to pay attention to the practices of social spending, transfer policy priorities, and the specifics of institutional models. In this context, it is particularly important to analyze the structure of social transfers as an indicator of the orientation of financial policy towards inclusion, adaptability, and efficiency. Therefore, it is important to analyze how EU countries allocate social protection expenditures in the context of its components: from pensions to programs to prevent social exclusion. Such an analysis is necessary to compare the effectiveness of social policy and identify priorities in budget planning (Figure 1).

Currently, the average level of social protection expenditures is 17% of GDP, with the highest values recorded in Finland (25.7%), France (23.4%), and Italy (21.1%). The main item of expenditure is old-age pensions (9.5% on average), with peak values in Finland (14.9%), Italy (13.6%), and France (13.1%). It should also be noted that research and housing are the least funded areas. This is due to both the structural inertia of social policy, which is focused mainly on supporting traditional categories [4], and the lack of targeted programmatic funding for innovative areas of social security that do not have a sustainable institutional basis [5].

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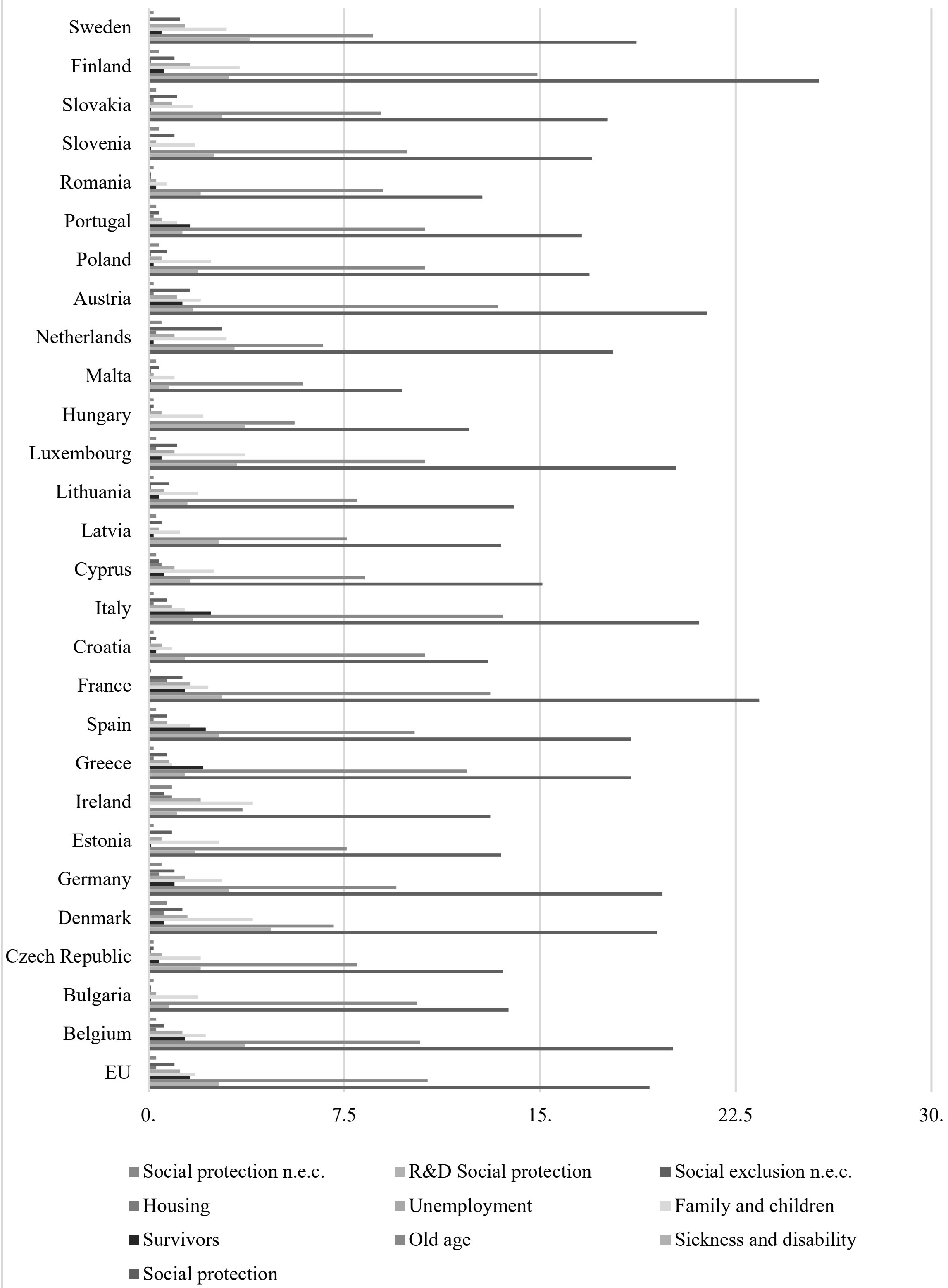

Figure 1: Level of social transfers in GDP of EU countries by main areas of social protection
Source: Eurostat [29]

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In general, the structure of social protection indicates that most countries are focused on traditional areas (pensions, family support), with underfunding of innovative areas (R&D). Given the growing problem of social exclusion, the growing impact of digital inequality, and the need for adaptive forms of social response, there is a need to transform the social finance system to make it more flexible, inclusive, and effective [20]. Therefore, it is recommended to reorient part of the funding towards inclusion, innovations in social policy, and measures to prevent exclusion through the introduction of algorithmic models of needs assessment, expansion of electronic platforms for assistance, and development of partnership networks between the public and non-governmental sectors.

In this context, the use of descriptive statistics (Table 1) allows us to identify the range of variation and the most typical values in each subcategory, which forms the empirical basis for making more informed management decisions in the field of social budgeting.

Table 1: Descriptive statistics of social transfers in EU countries by functional categories

Results										
Descriptive Statistics										
	Social protection	Sickness and disability	Old age	Survivors	Family and children	Unemployment	Housing	Social exclusion n.e.c.	R&D Social protection	Social protection n.e.c.
Valid	28	28	28	28	28	28	28	28	28	28
Missing	0	0	0	0	0	0	0	0	0	0
Mean	17.011	2.361	9.482	0.725	2.146	0.875	0.229	0.811	0.000	0.314
Std. Deviation	3.765	1.012	2.589	0.727	0.933	0.482	0.219	0.554	0.000	0.169
Minimum	9.700	0.800	3.600	0.000	0.700	0.200	0.000	0.100	0.000	0.100
Maximum	25.700	4.700	14.900	2.400	4.000	2.000	0.900	2.800	0.000	0.900

Source: compiled by the author

The average value of total social protection expenditures is 17%, with a range from 9.7% (Malta) to 25.7% (Finland). The largest average share is for elderly care (9.48%) with the highest level of variability (σ = 2.59). The smallest amounts of funding are observed in the areas of housing (M = 0.23%) and research (0%). The results obtained indicate the existence of structural asymmetry in the implementation of social policies in the EU. In this regard, it is advisable to adjust budget priorities in accordance with demographic dynamics and current social challenges, as well as to increase support for integration programs for vulnerable groups [7]. Instead, according to Moreira et al. [2], the experience of Southern European countries has shown the key role of prompt implementation of social policy measures, through employment subsidies, support for the self-employed, and the expansion of unemployment and social care programs. However, the scale of these measures was severely limited by the fiscal capacity of the states, which is critical in the context of the long-term impact of previous anti-crisis austerity policies. Given the need to identify the systemic relationship between indicators of digital governance, public administration efficiency and macroeconomic dynamics, a corresponding visualization has been built (Figure 2); which will allow identifying possible relationships between the level of digitalization of the public sector, the quality of the institutional environment and the rate of economic growth, which are key to the formation of sustainable development strategies.

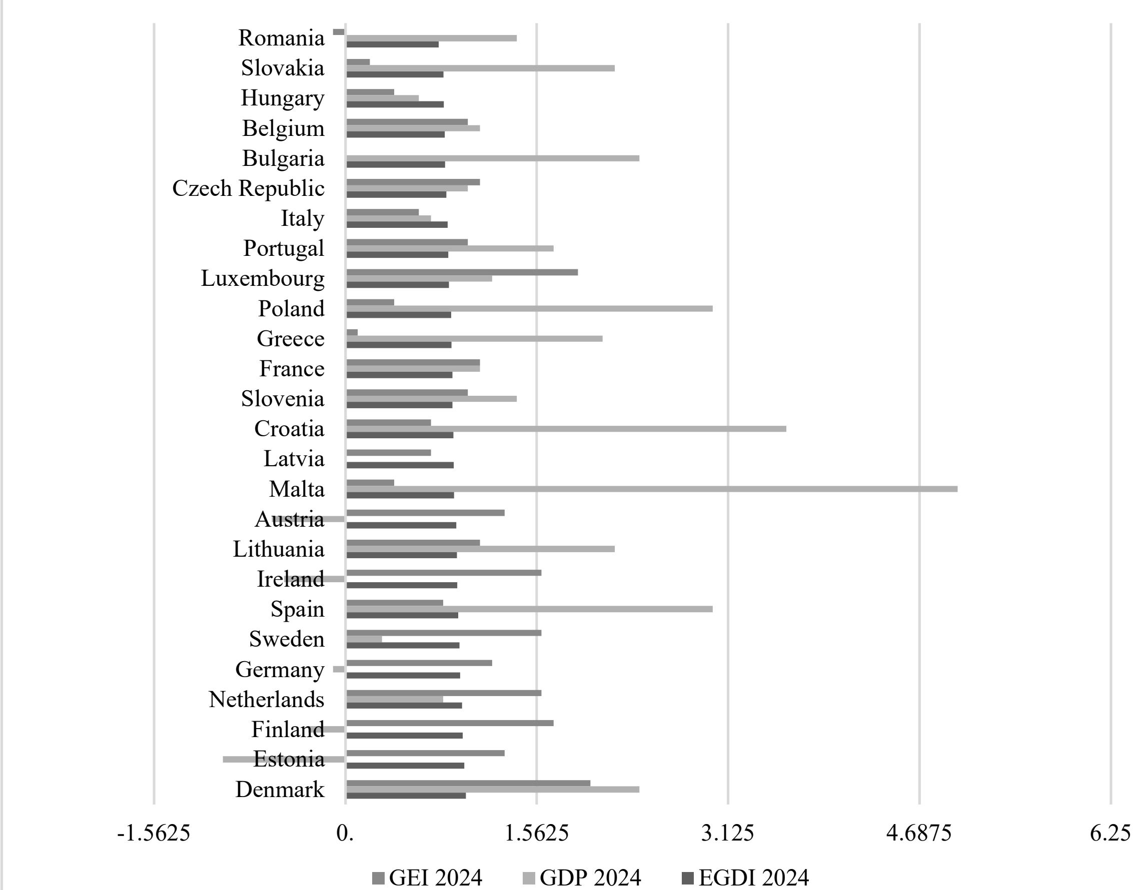

Figure 2: Indicators of the level of digitalization of public finances and efficiency of governance in EU countries
Source: European Commission [30], United Nations [31], World Bank [32]

The maximum values of the eGovernment Development Index (EGDI) were recorded in Denmark (0.985), Estonia (0.973) and Finland (0.958). These countries also demonstrate high scores on the Government Effectiveness Index (GEI) and positive gross domestic product dynamics (e.g., in Denmark, GEI = 2, GDP = 2.4%). On the other hand, Bulgaria and Romania, which have lower EGDI scores, also have lower government effectiveness. Given the cross-country differences in the relationship between the level of e-government development (EGDI), the effectiveness of government institutions (GEI) and economic growth (GDP), in the context of their impact on the scale and targeting of social transfers; it should be emphasized that countries with higher indicators of digital maturity and governance efficiency, such as Denmark, Estonia and Finland, demonstrate dynamic economic growth, as well as the ability to implement more targeted and effective social redistribution programs. High EGDI and GEI can be considered a prerequisite for optimizing the processes of identifying recipients' needs, personalizing assistance, reducing administrative costs, and reducing the level of abuse. According to González-Gallardo et al. [23], effective digitalization of social protection should be combined with a rational structure of transfer policy, in particular in the area of overcoming child and general poverty, which involves a balanced use of universal and targeted payments in accordance with the specifics of each country. Schüring [7] comes to similar conclusions, but with an emphasis on the need to optimize the behavior of social assistance recipients, which will involve a personalized, needs-based approach. Thus, the digital transformation of public administration is not a goal in itself but serves as a tool to improve the efficiency of the social protection system. The correlation between EGDI, GEI and GDP growth rates indicates that states that invest in digital infrastructure and institutional modernization create favorable conditions for social justice through more efficient management of transfer mechanisms; and, as a result, economic returns and public trust in social protection policies increase. In this context, it should be noted that the development of digital social

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innovations, in particular through civic participation tools and the latest technologies, is transforming traditional models of the welfare state, while at the same time actualizing the need to ensure digital inclusion and strengthen cybersecurity as components of democratic governance [33].

The use of descriptive statistics on key indicators of digital development, governance effectiveness and economic growth in the EU countries allows us to obtain a generalized description of their distribution, variability and mutual coherence (Table 2).

Table 2: Descriptive statistics on indicators of digitalization of public finance and governance efficiency in the EU countries

Descriptive Statistics			
Descriptive Statistics			
	EGDI 2024	GDP 2024	GEI 2024
Valid	41	26	26
Missing	0	15	15
Mean	0.852	1.388	0.950
Std. Deviation	0.089	1.391	0.589
Minimum	0.630	-1.000	-0.100
Maximum	0.985	5.000	2.000

Source: compiled by the author

The average EGDI value is 0.852 (σ = 0.089), the average GDP growth rate is 1.39% (σ = 1.39), and the GEI is 0.95 (σ = 0.59). The lowest variability is observed in the EGDI index, which indicates the growing unification of digital policy within the EU. The GEI, on the other hand, is characterized by significant heterogeneity, which indicates differences in the institutional capacity of countries. According to Sabato et al. (2022), in the context of the triple challenge – digital, environmental, and post-pandemic – the EU's social governance tools need to be urgently strengthened, through the introduction of a procedure for identifying social imbalances as an indicator of policy coherence with the principles of competitive sustainability. In view of this, Davidescu et al. [26] argues for the need to move away from a narrow focus on GDP as the only criterion for the success of cohesion policies, emphasizing the importance of a comprehensive approach that considers the dynamics of social progress, income inequality, and the long-term impact of investment policy. Thus, this situation requires harmonization of digital transformation with enhanced public administration efficiency as a condition for sustainable development.

The projected values of GDP dynamics shown in Figure 3 allow us to assess the potential for economic sustainability of EU member states, which in turn creates the basis for developing long-term financial and investment strategies in the social and digital spheres.

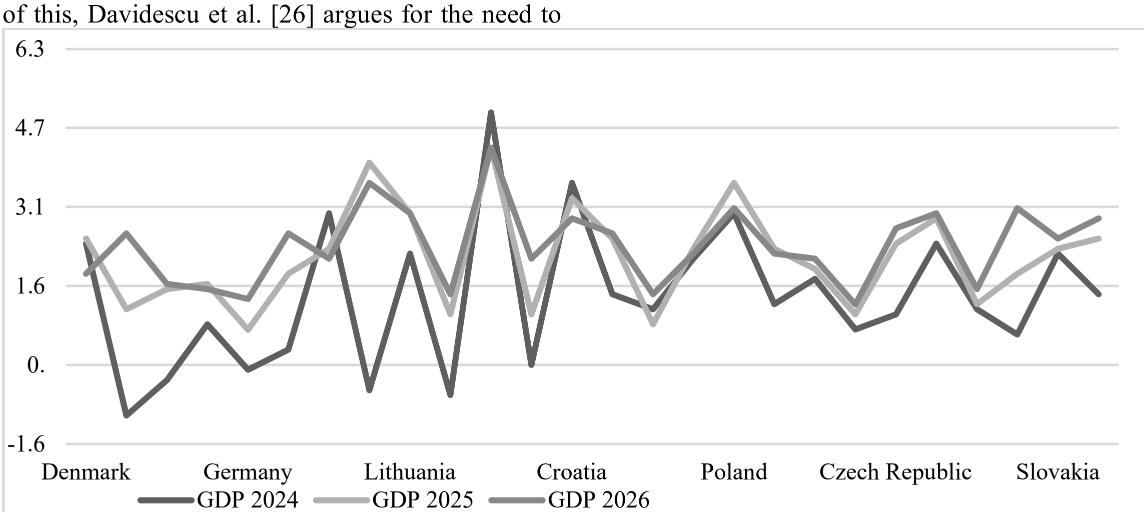

Figure 3: Projected GDP dynamics of the EU countries as a prerequisite for the formation of a sustainable system of public finance and social transfers
Source: European Commission [30]

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In 2024, the highest economic growth rates are expected in Malta (5%), Ireland (4%), Poland and Croatia (3%). Most countries are characterized by positive dynamics for the period up to 2026 - in particular, in Estonia from -1% in 2023 to 2.6% in 2026, in Hungary from 0.6% to 3.1%. These dynamics create a favorable environment for expanding funding for strategic areas of public policy. As Szelenyi and Manchin [27] show in their analysis of socio-economic reforms in countries with experience of state socialism, the effectiveness of social policy largely depended on the government's ability to redistribute market resources through a coherent strategy of socio-economic development, provided that financial resources were available because of targeted actions by government institutions. Instead, Apostoaie and Ursache [28] emphasize the importance of horizontal redistribution of wealth, which is realized through effective mechanisms of social dialogue, as well as close coordination of government actions with social insurance and transfer systems, which are key to ensuring equity and sustainable development. In this regard, it is advisable to consider forecasting macroeconomic indicators when making budget decisions, especially in the areas of digital transformation and social protection.

5. DISCUSSION

Previous studies on EU social transfers have mostly emphasized either the fiscal sustainability aspect [2, 24] or the compensatory role of transfers in times of crisis [7, 28]. However, they often lacked a systematic link between digital governance indicators and the efficiency of redistribution mechanisms. Our study differs in motivation, as it integrates digital transformation (EGDI) into the evaluation of transfer efficiency and combines it with governance quality (GEI) and macroeconomic outcomes (GDP). The findings demonstrate that countries with higher digital maturity (e.g., Denmark, Estonia, Finland) not only ensure fiscal stability but also achieve more targeted and inclusive transfer distribution, which has not been sufficiently highlighted in prior research.

Our findings are consistent with these prior insights yet extend them in several ways. By combining indicators of digital maturity (EGDI), governance efficiency (GEI), and economic performance (GDP), the study provides a more integrated perspective on the effectiveness of social transfers. This multi-dimensional approach reveals that countries with advanced digital infrastructures, such as Denmark, Estonia, and Finland, not only maintain fiscal sustainability but also achieve a more inclusive redistribution of resources. Such evidence underscores the strategic role of digital transformation as a structural enabler of equity, a factor that has so far remained underexplored in literature.

At the same time, the results suggest a more nuanced interpretation. While high EGDI scores correlate with effective transfer mechanisms, they do not automatically eliminate inequalities, as structural socio-economic differences persist across EU member states. This observation partly confirms earlier critiques that digital innovation alone cannot substitute for comprehensive welfare reforms [34]. Moreover, the correlation analysis used in this study, while offering a valuable overview, cannot capture causal relationships or intra-country disparities.

Similar studies exist, though they are fragmented in scope. For example, González-Gallardo et al. [23] confirmed that digitalization improves poverty alleviation programs, while Davidescu et al. [26] highlighted the limitations of GDP-centric evaluations in cohesion policy. Our results resonate with these findings, showing that digital maturity enhances targeting and efficiency of transfers, but we extend the discussion by empirically connecting EGDI, GEI, and GDP growth. At the same time, our work has certain limitations: (1) the analysis is based on aggregated country-level indicators, which may obscure intra-country disparities; (2) data availability restricted the inclusion of several EU member states; and (3) the study primarily focuses on the EU context, limiting generalizability to other regions. These aspects should be addressed in further research.

Therefore, a critical reflection on the study's limitations is necessary. First, the analysis relies on aggregated macro-level indicators, which may mask variations within national contexts. Second, data availability restricted the sample to a limited number of EU countries, potentially affecting the robustness of cross-country comparisons. Third, the focus on the EU framework limits the generalizability of findings to other regions with different governance and welfare architectures. These limitations indicate that while the presented results provide novel insights, they should be interpreted with caution and complemented by future micro-level or longitudinal studies.

6. CONCLUSIONS

Despite the identified positive trends, several research problems remain unresolved. First, there is a lack of harmonization between digital governance tools and traditional models of fiscal redistribution, which leads to inefficiencies and delays in policy implementation. Second, structural inertia in social expenditure prioritization (overemphasis on pensions and underfunding of R&D or housing) limits adaptive capacity. Third, significant cross-country heterogeneity in governance efficiency indicates open issues of institutional reform and coordination within the EU. Future research should address the long-term effects of digital inequality on access to transfers, the role of algorithmic models in preventing social exclusion, and the risks of cybersecurity breaches in digitalized welfare systems.

The study showed that social transfers in the context of digital transformation are acquiring new functional characteristics, going beyond the traditional compensatory role and becoming a tool for achieving budget balance, institutional adaptability, and social inclusion. In the context of growing uncertainty, transfer policy should consider not only the need to equalize the budgetary capacity of communities, but also the requirements for increasing the efficiency of public finance, through the introduction of digital solutions, algorithmic models for forecasting needs, and transparent mechanisms for allocating funds.

The author proposes conceptual approaches to modernizing the transfer system by reorienting it to stimulate managerial efficiency, support social innovation, and develop partnership formats of interaction between the public and non-governmental sectors. Particular attention is paid to the need to revise budget priorities, considering structural asymmetries in the financing of social protection, as well as to activate digital platforms for access to social services that can reduce the risks of social exclusion.

Future research should explore micro-level data to capture household-specific effects of digitalized transfers, as well as conduct longitudinal analyses of how digital platforms reshape social inclusion over time. Another promising avenue is to investigate the risks of algorithmic bias and digital exclusion, which may undermine the equity goals of transfer systems. Comparative studies beyond the EU – especially in developing economies undergoing rapid digitalization – would enrich understanding of the global applicability of our findings.

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