

ECONOMIC AND LEGAL PRINCIPLES FOR ENSURING THE FINANCIAL SUSTAINABILITY OF LOCAL SELF-GOVERNMENT BODIES IN UKRAINE: CHALLENGES AND PROSPECTS

Denys Moskal¹

Abstract. This article examines the economic and legal principles that ensure the financial sustainability of local self-government bodies in Ukraine, particularly in the context of decentralisation reforms and mounting budgetary challenges. Financial sustainability is defined as a multifaceted concept reflecting a municipality's capacity to generate stable revenues, balance expenditure, manage debt responsibly, and provide essential public services amid macroeconomic instability and limited resources. The study aims to analyse the theoretical and regulatory approaches to the financial sustainability of local self-government, identify the main issues in its legal and economic framework, and set out ways to strengthen institutional capacity. The legislative framework governing local finance, intergovernmental transfers and budget decentralisation is given particular attention, as is the role of administrative and financial mechanisms in fostering the development of territorial communities (hromadas). It is emphasised that constrained fiscal autonomy, excessive reliance on central government transfers, and circumscribed opportunities for municipal borrowing compromise the financial sustainability of local authorities. Concurrently, evidence from EU countries demonstrates that transparent budget rules, diversification of income sources, and prudent debt management considerably enhance municipal financial resilience. The research findings reveal that the current Ukrainian model demonstrates structural weaknesses, including an undeveloped local tax base, limited investment capacity, inconsistent legal regulation of municipal borrowing, and insufficient coherence between economic and legal instruments of financial management. The study shows that addressing these issues requires comprehensive reforms to expand the fiscal autonomy of hromadas, make intergovernmental transfers more predictable, strengthen budget discipline and reinforce the rule of law in financial decision-making. The practical significance of the research lies in establishing a methodological basis for creating a balanced system of economic instruments and legal provisions to ensure the financial stability of municipalities. The findings emphasise that the financial sustainability of local self-government bodies should be considered not only in economic terms, but also as a legal guarantee of effective self-governance and democratic development.

Keywords: financial sustainability, local self-government, decentralisation, municipal finance, economic and legal principles, budgetary policy.

JEL Classification: H72, K23, R51

1. Introduction

The financial sustainability of local self-government bodies is of paramount importance to the effectiveness of public administration and is one of the fundamental factors in the success of the decentralisation reform in Ukraine. The capacity of municipalities to perform their functions, ensure an adequate level of public services, and implement long-term hromada development strategies is defined by this concept. At the same time, the existing economic and legal conditions –

complicated by martial law, mounting budgetary risks and the need for national recovery – highlight the importance of academic research into economic and legal mechanisms designed to bolster the financial capacity of local self-government.

Despite the positive outcomes of financial decentralisation, the system of local finances remains vulnerable. Dependence on transfers from the state budget, insufficient revenue diversification, limited municipal borrowing and gaps in legal regulation

¹ Dragomanov Ukrainian State University, Ukraine
E-mail: moskal.denys@gmail.com
ORCID: <https://orcid.org/0009-0009-9397-1255>



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prevent communities (hromadas) from achieving an adequate level of financial autonomy. A new approach to analysing financial sustainability is required that integrates both legal and economic dimensions.

The article's scientific novelty lies in its comprehensive analysis of the economic and legal principles that ensure the financial sustainability of municipalities. This analysis examines financial indicators in conjunction with the legal mechanisms that regulate them. This study has both theoretical and practical significance, as its findings could be used to improve local finance legislation, develop effective resource management strategies and create tools to promote the financial autonomy of hromadas.

This article aims to clarify the economic and legal principles that underpin the financial stability of local self-government bodies, and to identify the main challenges and prospects in this area. The research objectives are to analyse the current state of financial sustainability of local self-government in Ukraine, examine the legal framework for its regulation, and propose measures to improve the domestic model.

The study is limited by the lack of complete statistical data due to martial law, as well as by the difficulty of comparing Ukrainian and foreign practices, which is influenced by differences in economic development and legal systems.

The article is structured as follows: the first part analyses the theoretical and legal foundations of the concept of "financial sustainability" of local self-government bodies; the second part examines the current state of, and main challenges to, ensuring the financial autonomy of hromadas in Ukraine; and the third part proposes ways to improve the economic and legal mechanisms for financial sustainability.

2. Methodology

The methodological basis of this study is an integrated approach that combines economic and legal analysis. The aim of this combination is to examine the problems of ensuring the financial sustainability of local self-government bodies. System analysis methods were employed, which assist in considering financial stability as an integrated characteristic that encompasses legal norms, institutional mechanisms, and economic indicators of activities of local self-government bodies.

The method of formal legal analysis was used to examine Ukraine's legislative acts governing the budget system, intergovernmental transfers and municipal borrowing. Content analysis of scientific literature and regulatory documents also enabled contemporary scientific approaches to understanding financial sustainability and the legal mechanisms for guaranteeing it to be identified. Economic methods, including statistical data analysis and financial modelling, were

used to evaluate local budget revenue, debt burdens and budget resource utilisation efficiency.

An institutional approach was also employed, enabling local self-government bodies to be considered as a complex system operating under the influence of legal norms and economic incentives. Methods of synthesis and generalisation were employed to formulate practical recommendations for improving the economic and legal mechanisms that strengthen the financial capacity of municipalities.

3. Results

The financial sustainability of local self-government bodies is defined as the capacity of hromadas to generate stable revenues independently, to attract additional financial resources, and to allocate budget funds efficiently to exercise their powers. In essence, a financially sustainable hromada is one that possesses a sufficient income base and reserves to provide the population with high-quality services, implement local development programs, and withstand the effects of crisis factors.

As V. Plakhotniuk rightly observes, ensuring the financial independence of the regions constitutes a crucial element in the economic development of the state. By establishing conditions that enable financing in excess of 50% of their expenditures, the state effectively reduces the burden on the national budget, particularly the annual allocation of transfers, and can allocate these funds towards economic development and capital investments (Plakhotniuk, 2023).

S. Sember elaborates on this view, emphasising that the financial capacity of a territorial community (hromada), based on sufficient financial resources, is arguably the most important factor in regional and hromada development. This capacity determines the independence of local self-government bodies, stimulates business activity, enables infrastructure development, supports municipal improvement initiatives and enhances the quality of life of the local population (Sember, Chubar & Mashiko, 2015).

Indicators such as own budget revenues per capita, the tax capacity index (the ratio of hromada tax revenues to the national average) and the proportion of own revenues in the budget structure are commonly used to assess the financial capacity of hromadas. Higher values of these indicators reflect greater financial autonomy and sustainability.

Local budgets form the basis of financial support for local self-government bodies (LSGBs) and are an integral part of the domestic budget system. The greater the number of local development tasks that a hromada can finance independently, the higher its level of financial autonomy and sustainability. The financial base of local self-government is derived from multiple sources, including:

1. *Tax revenues.* These comprise local taxes and fees, as well as shares of national taxes that are allocated to local budgets. According to budget legislation, hromadas receive revenue from property tax, the unified tax for entrepreneurs, retail trade excise tax, land tax and environmental fees. A significant source of revenue is also the portion of personal income tax (PIT) allocated to hromada budgets. Consequently, hromadas have a relatively stable income, supporting their financial security. For instance, the proportion of personal income tax (PIT) allocated to local authorities (typically 60% of revenues) has historically been a key source of funding for hromada budgets (Dibrova, 2022). Forming a stable revenue base through developing local businesses and expanding the tax base is essential for a region's financial stability. Local economic activity, including the number and capacity of enterprises and population employment, directly influences tax revenues and the financial capabilities of the hromada.

2. *Non-tax income.* These are additional sources of financing, including revenues from the lease of communal property, the sale of land and other assets, fees for administrative services, fines, dividends from communal enterprises, etc. Despite their comparatively diminished fiscal magnitude relative to tax revenues, the judicious utilisation of non-tax revenues can play a pivotal role in addressing local concerns. For instance, funds from the lease or disposal of property can be allocated to the development of housing and communal services, as well as to the modernisation of local infrastructure (educational institutions, roads, landscaping). As Bak (2021) demonstrate, non-tax revenues have the capacity to enhance the financial flexibility of hromadas by providing additional resources for priority needs.

3. *Intergovernmental transfers.* Subsidies and subventions from the state budget play a significant role in supporting the financial capacity of hromadas. Subventions are earmarked funds allocated for the implementation of state programmes at the local level (education, medicine, social protection, etc.), ensuring the provision of minimum service standards nationwide. Equalization subsidies are designed to provide financial support to hromadas experiencing greater fiscal vulnerability, by offsetting the discrepancy between their own revenue and the average fiscal capacity. The transfer system is a mechanism by which the state ensures a fundamental level of financial capacity is maintained across all territories, thereby reducing disparities. For instance, in 2023, the communities (hromadas) in Western Ukraine were predominantly reliant on educational and healthcare subventions. These transfers facilitated the financing of schools and hospitals, even in hromadas with a limited revenue base, thereby ensuring access to essential services for the population (Volkova, 2024).

It is evident that intergovernmental transfers function as a mechanism for providing financial assistance to hromadas that are deficient in their own resources. Moreover, these transfers serve to operationalise the constitutional principle of uniform service provision across all territorial jurisdictions.

4. *Borrowings and investments.* The enhancement of hromadas' financial capacity can be achieved through the mobilisation of extrabudgetary resources. In particular, local governments are empowered to raise funds through borrowing (internal and external loans, issuance of municipal bonds) for the implementation of investment projects. The primary concern is to adhere to budgetary legislation concerning authorised debt levels and the stipulated utilisation of borrowed funds to ensure long-term financial stability. Co-operation with the private sector and international donors also constitutes a crucial component. A public-private partnership (PPP) facilitates the attraction of private capital for infrastructure construction, housing modernisation, and communal services, as well as the introduction of innovative systems. Through Public-Private Partnership (PPP) mechanisms, hromadas gain access to funding beyond their own financial capacity and acquire technological and managerial expertise from the private sector (Zabashtanskyi, Sydor, 2023). Concurrently, involvement in international grant programmes (e.g., EU, UNDP, USAID) can facilitate access to funding for infrastructure reconstruction, energy efficiency projects, entrepreneurship development, and other local initiatives. Consequently, investment and external financial support have become a crucial factor in strengthening the financial resilience of hromadas, particularly in the context of limited domestic resources.

5. *Effective management of local finances.* Simply having revenue sources does not guarantee budget stability; competent management of financial resources is also required. Rational budget planning and transparent budget execution form the basis of a sustainable local financial system. Modern practices, such as programme-targeted budgeting, enable funds to be allocated to priority areas of hromada development in line with strategic objectives. Monitoring revenues and expenditure, evaluating the effectiveness of budget programmes and involving the public in budget control enhances accountability and public trust. Implementing electronic management systems increases transparency and optimises expenditure. Effective financial management enables risks such as insufficient funds and misuse to be identified in time, allowing measures to be adopted to mitigate them. These measures may include budget adjustments, the mobilisation of additional revenues or cost savings without compromising the provision of essential services (Vozniak, Kaplenko & Koval, 2022). Therefore,

the economic principles of the financial sustainability of local self-government encompass not only a sufficient and diversified revenue base, but also modern budget planning and control methods. Together, these ensure the stability and efficiency of hromada financial operations.

The legal foundation of the financial activities of local self-government is established by the Constitution of Ukraine, as by laws and subordinate regulations that define the powers of local self-government bodies in the budgetary and financial sphere and guarantee their material and financial independence. According to Article 142 of the Constitution, "The material and financial basis of local self-government consists of movable and immovable property, local budget revenues, other funds, land and natural resources owned by hromadas" (The Constitution of Ukraine, 1996). The state participates in the formation of local budget revenues, provides financial support to local self-government, and guarantees that local budget resources correspond to the powers of local self-government bodies established by law. This constitutional principle is further elaborated in the framework Law of Ukraine "On Local Self-Government in Ukraine" (The Law of Ukraine "On Local Self-Government in Ukraine", 1997). It enshrines the right of hromadas to independently approve and execute local budgets and to own, use and dispose of communal property. It also establishes the state's obligation to provide financial support for delegated powers. The law stipulates that the state must provide local self-government with the necessary financial resources. In particular, the transfer of state powers to local self-governing bodies (LSGBs) must be accompanied by the transfer of adequate financial resources for their implementation, or the right to receive such resources must be granted at the local level.

Analogous provisions are delineated in the Budget Code of Ukraine (The Budget Code of Ukraine, 2010), which stipulates the apportionment of revenues and expenditures between the state and local budgets, in addition to the protocol for intergovernmental transfers. Consequently, the legal principles of financial sustainability are contingent on the constitutionally enshrined principle of the independence of local budgets and the state's obligation to ensure their sufficiency.

In recent years, Ukraine has implemented a series of reforms with the objective of strengthening the material and financial foundations of local self-government. Within the framework of the decentralisation policy, amendments to budgetary and tax legislation have expanded the financial capacities of hromadas. It is important to note that in 2015, a novel model of intergovernmental fiscal relations was introduced: It is evident that a significant proportion of personal

income tax revenues are allocated to local budgets. Furthermore, an excise tax on retail trade is fully credited to local budgets until 2020. In addition to this, hromadas are entitled to establish local taxes and fees within the rates set by the Tax Code. They are also permitted to employ other instruments. These measures resulted in a substantial increase in local budget revenues and a reduction in their reliance on subsidies, at least in economically stronger territories. The reform of fiscal decentralisation is regarded as the key approach to ensuring the financial independence and sustainability of local budgets (Bacho, Potoki, Illar, 2020). The transfer of additional resources to the local level is an essential component of the process, as is the decentralisation of LSGB powers. This enables hromadas to address a substantial share of local issues independently, plan territorial development, and allocate funds according to their own priorities. The process of decentralisation has resulted in the establishment of a more effective system of local finance, which now serves as an instrument for stimulating regional development. It is the opinion of experts in the field that the financial independence of regions is directly linked to the extent of rights and resources conferred. The expansion of local authorities' competences, enshrined in legislation, combined with the creation of a stable budget revenue base, provides a stronger financial foundation for local self-government.

Concurrently, the legislative framework of decentralisation persists in its evolution. In an effort to eliminate discrepancies in functions and financial inconsistencies, there is a concerted effort to clarify the delineation of powers between executive authorities and local self-government. For instance, the establishment of a clear mechanism for providing LSGBs with funds when new responsibilities are delegated remains relevant at the legislative level. There have frequently been instances in which local governments have been entrusted with supplementary responsibilities, particularly within the domain of social services, without concomitant augmentation in financial resources. The incongruence between responsibilities and funding has been demonstrated to compromise the stability of local budgets, compelling authorities to either reduce other expenditures or to seek supplementary support from the state. Consequently, the legal framework should incorporate provisions to mitigate the risk of "unfunded mandates", wherein the allocated funds do not align with the scope of delegated responsibilities (Hrynychyshyn, 2019).

Ukraine, as a member of the international community, is guided by the principles of local self-government that are generally recognised, in particular those that are enshrined in the European Charter of Local Self-Government (Council of Europe, 1985).

Ratified by Ukraine in 1997, the Charter establishes that local authorities have the right to adequate financial resources, which they can manage freely in the exercise of their powers. The provisions of the Charter, which stipulate that community financial resources should correspond to the tasks assigned to them, are reflected in Ukrainian legislation and align with the norms of the Constitution of Ukraine.

European standards also emphasise the need to redistribute the share of national revenues to the local level, ensure the financial autonomy of local budgets, and protect them from excessive interference by state authorities. In the course of Ukraine's further European integration, it is expected to bring the legislation on local finance in full compliance with the principles of the Charter. This, in turn, is predicted to result in a strengthening of the financial independence of communities and an increase in their responsibility for local development. In consideration of the most effective European practices (including, but not limited to, effective models of budget equalisation, incentives for local economic development, and mechanisms for controlling the debt obligations of local authorities), the creation of a more sustainable and balanced system of local finance in Ukraine can be expected.

Therefore, the legal basis for the financial stability of local self-government in Ukraine comprises a set of norms at different levels, from the Constitution to by-laws, which specify the financial foundations and guarantees for community activities. Further improvement of these documents is necessary to strengthen guarantees of resource adequacy and align financial powers with the scope of obligations, and is a prerequisite for the effective development of local self-government.

Despite progress in reforming local finances, the practical implementation of hromada financial independence in Ukraine faces a range of challenges. Some of these challenges are systemic and evident in Ukraine even before the recent crises, while others have been exacerbated by economic turmoil and the ongoing war. The main obstacles to the financial sustainability of local governments include the following:

1. *Low own income of many hromadas.* Many hromadas in Ukraine, particularly those in rural or economically depressed regions, have a limited tax base. Due to underdeveloped local economies, revenues from key taxes (such as personal income tax, the unified tax and land fees) remain low. This prevents hromadas from accumulating sufficient funds to meet all their development needs. This low level of income directly undermines the financial capacity and autonomy of local authorities (Dibrova, 2022).

2. *Regional disparities and uneven development.* Decentralisation has revealed significant differences

in the financial capacity of hromadas. While some hromadas are financially self-sufficient and possess substantial budgets, many newly established communities have only a minimal revenue base. Disparities in regional development have increased: while some hromadas continue to expand their revenues, others are struggling to make ends meet. The budget equalisation formula does not always compensate for this disparity. Consequently, financial inequality arises, resulting in substantial differences in the level of public services and infrastructure across hromadas. This situation challenges the principles of equity and national cohesion. Furthermore, excessive dependence on subsidies by "weaker hromadas" can foster paternalistic attitudes and reduce incentives to enhance their own revenue-generating capacity (Vozniak, Kaplenko & Koval, 2022).

3. *Dependence of local budgets on state transfers.* Although the system of inter-budgetary relations is intended to support financially weak hromadas, overreliance on central funding remains a challenge. In some hromadas, transfers account for over half of budget revenues, while revenues from their own sources cover only protected expenditure (Dub & Medynska, 2022). This means that the financial sustainability of such hromadas depends heavily on the central government's decisions regarding the volume of subventions and subsidies. Any reduction or delay in these transfers immediately puts local finances at risk. Furthermore, transfers are often earmarked, leaving little flexibility to address local specifics. Therefore, a key objective is to gradually increase the proportion of hromada budgets funded by own-source revenues, thereby reducing dependence on transfers.

4. *Shortcomings in the implementation of the "finance follows authority" principle.* As mentioned previously, there are cases in practice where the powers vested in local authorities do not correspond to the financial resources provided. This funding gap for delegated powers is evident in areas such as education, healthcare and social protection, where local budgets must supplement these sectors with their own revenues as state subsidies are insufficient to meet real needs. This problem is exacerbated by rising prices and tariffs. Another aspect of the problem, as reported by representatives of local authorities, is the transfer of new tasks to local self-government bodies without adequate financial support. Furthermore, despite legislative provisions, local state administrations continue to interfere with self-government, particularly with regard to the use of hromada budget funds. This overlap and competition between state executive authorities and local self-government leads to the inefficient use of resources and diluted responsibility (Hrynychshyn, 2019). Therefore, the partial implementation of administrative law reform also weakens the financial stability of local authorities,

as funds may be allocated indefinitely if the body responsible for expenditure lacks full control over decisions.

5. *War consequences.* Full-scale military aggression poses an unprecedented challenge to local finances. Many hromadas have lost territory and assets, immediately depriving them of revenue sources such as taxes from enterprises and land fees. They have also suffered infrastructure destruction, which requires enormous funds for reconstruction. The mass migration of the population, both internally and externally, has led to a sharp decline in the number of taxpayers in frontline and occupied regions. At the same time, it has placed an additional burden on the budgets of relatively safe hromadas, which have seen hundreds of thousands of people move there. This has created a need for temporary accommodation, social assistance, education and medicine for internally displaced persons (Benovska, 2024). Against this backdrop of upheaval, forced fiscal centralisation was introduced: the government decided to withdraw personal income tax from the military's financial support, which had previously been credited to local budgets at the place of deployment. This measure was dictated by military necessity, given that the amount of "military personal income tax" had increased significantly and was urgently needed at the central level to finance the army.

However, for local budgets, such a decision resulted in the loss of one of the key sources of revenue growth. Consequently, the proportion of local budget revenues in the country's consolidated revenues experienced a precipitous decline, reaching approximately 15% in 2024, in comparison to the pre-war level of 23–25%. It is estimated by experts that the decline of this share is approximately 15%, which is a cause for concern. This decline is indicative of a system of multilevel finance that has become distorted, and of a disruption in the balance between the central government and hromadas, resulting from pressure exerted by military needs. Should the current trend of over-centralisation of resources persist for a considerable period, there is a risk of undermining both the credibility of local authorities and their capacity to perform their functions.

Consequently, the war exerted a dual impact on the financial sustainability of hromadas: firstly, it diminished their financial potential (through loss of the tax base and destruction of the economy); secondly, it increased their dependence on central government decisions (due to income redistribution and the growing role of transfers). In such circumstances, even relatively affluent communities find themselves compelled to revise their budgets and discontinue development projects in order to cover critical needs. In contrast, less financially secure hromadas are forced to operate on the edge of survival,

relying on support from the state or international partners.

6. *Inflation and macroeconomic risks.* High inflation and economic instability affect the real purchasing power of budgets. Even when the nominal revenues of local budgets increase, inflation "eats" a considerable proportion of this growth, resulting in stagnation or even a decline in the real financing opportunities available for development (Holynskyi & Nuriieva, 2023). For example, between 2023 and 2024, the growth in local budget revenues barely offset inflation. This indicated that the tax base was stagnating amid the crisis (Onyshchuk, 2024). Moreover, during economic downturns, demand for social expenditure (support for vulnerable groups and the unemployed, for example) rises, putting additional pressure on local finances. Therefore, economic volatility is a constant challenge: hromadas must maintain reserves and flexible budgets to adapt to shocks, such as sudden drops in revenue from specific industries.

The aforementioned challenges demonstrate that ensuring the financial sustainability of LSGBs is a multifaceted process influenced by both internal community efforts and external factors. It is evident that even the most effective local government is rendered powerless in the absence of adequate state support in critical situations or when adverse macroeconomic dynamics compromise the revenue base. Conversely, when endowed with suitable powers and resources, communities have the capacity to enhance their financial capabilities to a considerable degree, thereby mitigating some of these challenges.

4. Recommendations

In order to address the aforementioned challenges and ensure the long-term financial stability of local self-government bodies, a set of measures is required at both the state and local levels. The following areas represent promising areas for strengthening the financial sustainability of LSGBs:

1. *Increasing the own revenue base of hromadas.* A primary task is to expand the share of own (local) revenues in hromada budgets. The development of the local economy is imperative for the creation of conditions conducive to business, investment, employment opportunities, and the stimulation of entrepreneurship. Furthermore, the enhancement of tax administration is crucial for achieving these objectives. It is also essential to fully utilise the opportunities provided by legislation, including setting economically justified rates of local taxes, exercising effective control over their payment, and involving new objects in taxation. Simultaneously, it is imperative to streamline tax payment procedures and implement electronic services for taxpayers. These measures are

expected to enhance payment discipline and curtail administrative expenses. The enhancement of tax policy and administration at the local level represents a pivotal strategy for optimising the financial resources of hromadas. For instance, the introduction of a real estate tax at economically justified rates, the expansion of the single tax base by formalising small businesses, and the optimisation of land tax collection can provide hromadas with an additional revenue inflow. It is evident that an increase in the hromada's revenue will result in a reduction in its reliance on external factors and an enhancement in its financial stability.

2. *Optimisation of expenses and increasing the efficiency of budget expenditures.* Financial sustainability can be strengthened not only by increasing income, but also by spending the available funds wisely. The prospect involves introducing practices of "reasonable saving" and increasing the productivity of budget expenses. The focus is on conducting audits, identifying inefficient expenditure and eliminating unnecessary costs and duplication of functions, as well as transitioning to medium-term budget planning to allow better alignment of expenditure with development goals. It is advisable to implement modern financial management tools at the local level, such as a system for monitoring the performance of budget programmes, e-procurement to optimise spending and energy management in budgetary institutions to reduce utility costs. Every hryvnia saved is an additional resource that can be allocated to priority needs or set aside as a reserve for emergencies. Therefore, enhancing budgetary discipline and fostering a culture of financial planning will directly contribute to the sustainability of local finances.

3. *Improvement of the system of intergovernmental transfers.* In terms of public policy, it is important to continue working towards a fair and stimulating distribution of intergovernmental transfers. The equalisation formula should take into account current hromada tax capacity indicators and adjust imbalances to provide the minimum level of necessary services in each hromada without depriving financially successful hromadas of their motivation to develop. The prospect is a transition to a more flexible model of transfers that takes into account not only the past incomes of hromadas, but also their potential and needs. For example, there could be separate grant subventions for the development of depressed areas. Once the economic situation has stabilised, the state should also restore the gradual decentralisation of income by returning to hromadas those sources that were temporarily centralised during the war (e.g., military tax on personal income), or compensating them with alternative resources. A roadmap is needed to guide the return to fiscal symmetry between state and local budgets in the post-war period. As the military burden diminishes, the share of financial

resources retained at the local level should be restored to, and increased beyond, the pre-war level, in line with the expanded powers of hromadas. Consistent with the principles of decentralisation, such a redistribution of resources will enable local self-government to carry out its functions fully in the reconstruction of the country.

4. *Attracting investments and developing public-private partnerships.* Experience shows that domestic budgetary funds are often insufficient for large-scale development projects, such as the construction of new roads, the modernisation of water supply networks or the creation of industrial parks. Therefore, an effective approach is to actively attract extra-budgetary investments from both the private sector and international sources. Local self-government bodies should develop the institutional capacity to work with investors, creating a favourable business climate and proposing investment projects while ensuring transparent rules and investor protection. Public-private partnerships are an effective way of mobilising private sector capital to meet hromada needs. Within this framework, local authorities can collaborate with businesses to finance, build and operate infrastructure facilities, such as modern waste processing complexes, combined heat and power plants and transport terminals, etc. This reduces the financial burden on the budget while improving citizens' access to quality services. In addition, the involvement of a private partner provides managerial expertise and innovative technologies. To encourage PPPs at a local level, legislation should be improved (by simplifying procedural requirements and granting hromadas the power to provide guarantees to investors), and best practice in co-operation should be disseminated.

5. *Maximising the use of international financial assistance.* In the post-war period, Ukraine can count on significant support from international partners for reconstruction and development. Aid programmes that have already been launched (grants from the EU, the World Bank, USAID, the UN, etc.) focus not only on the central government, but also on hromadas. A way to strengthen the financial base of local self-government would be the direct participation of hromadas in international programmes. This requires them to play an active role in preparing high-quality project applications and co-financing projects, as well as implementing them transparently. International donors, for their part, are increasingly willing to invest in building sustainable local communities because strong local self-government is key to democratic development. Therefore, hromadas should set up specialist units or employ experts to manage grants and loans. The funds received can directly improve financial sustainability. Firstly, they allow the implementation of necessary projects without burdening the local budget. Secondly, they often

include a capacity-strengthening component (e.g., staff training and experience exchange), which boosts the efficiency of financial management in the long term.

6. Improvement of legal regulation and institutional support. At the state level, it is crucial to continue improving legislation by taking into account lessons learned in recent years. Firstly, mechanisms to prevent the delegation of power without the necessary resources should be codified, for example by amending the Budget Code or relevant laws to include a clear provision that new expenses must be accompanied by new revenues or transfers. Secondly, after the war, it will be crucial to amend the legislation replacing income sources temporarily transferred to the centre and to establish transitional periods to equalise the financial opportunities of affected hromadas. Thirdly, it would be wise to consider strengthening the constitutional guarantees of local government financial independence, for example through direct provisions setting out the minimum share of local budgets in the consolidated budget or requiring the central government to compensate hromadas for loss of income resulting from its decisions. Such regulations already exist in some European countries, disciplining the central government with regard to local finances. In addition to legislation, institutional support is important: the state can help weaker hromadas by providing training programmes and methodological assistance in financial planning, and by developing a treasury service system that enables even the smallest hromada to manage its budget effectively. The establishment of unified information systems will facilitate the timely identification of problem areas and enable a targeted response, either by allocating additional resources or by modifying existing policies.

It is generally accepted that a viable model of financially sustainable local self-government in Ukraine should combine a developed revenue base of hromadas, the effective use of funds, as well as a reliable mechanism of state support and equalisation. The integration of local democracy into European financial standards, the adoption of best governance practices, and the restoration of the balance between the centre and the periphery in the post-war period are all conducive to the establishment of a robust financial foundation for local democracy.

5. Conclusions

Ensuring the financial sustainability of local self-government bodies in Ukraine is a multifaceted task, the successful resolution of which depends on the sustainable development of territories and the well-being of hromada residents. The economic principles of financial sustainability are predicated on the establishment of a robust and balanced revenue base of

local budgets, capable of covering the costs of both own and delegated powers. Furthermore, the application of contemporary methods of financial management is instrumental in optimising the efficient use of resources. In turn, the legal framework provides the necessary guarantees and conditions. The Constitution and laws grant hromadas financial autonomy, define their income sources and oblige the state to support the financial capacity of local self-government. The decentralisation reforms implemented in Ukraine have produced tangible results: local budgets have gained greater authority and resources, and their role in public finance has grown. At the same time, the current challenges, particularly those related to the war and the economic crisis, have exposed vulnerabilities in the system: some hromadas remain financially weak; disparities in the distribution of funds across budget levels have increased; and the principles of decentralisation are being partially departed from in emergency situations.

To ensure the long-term financial sustainability of local self-government, action is required in two areas. The first is the internal development of hromadas, which involves increasing their economic capacity, managing finances effectively, actively attracting investments and new income sources, and rationalising expenditure. The second approach involves improving state policy and legislation by advancing fiscal decentralisation in the post-war period, introducing mechanisms to prevent the delegation of powers without funds and creating conditions for balanced hromada development. A stable system of local finances can only be built through a combination of economic instruments and legal guarantees.

Financially sustainable local governments are capable of fulfilling their mission of providing residents with quality services, developing infrastructure and responding to local challenges and crises without constant support from central government. This, in turn, strengthens public trust in the authorities, increases the efficiency with which public funds are utilised, and contributes to the democratic development of the state as a whole. In the context of post-war reconstruction, the role of financially capable hromadas will become increasingly important, since most recovery and growth projects will be implemented at the local level. Therefore, investing in the financial sustainability of local self-government is an investment in Ukraine's future: its economic strength, social cohesion and European future. Ukraine has already taken significant steps in this direction. The continuation of reforms, taking into account past mistakes and current challenges, will lay the groundwork for a new standard of local self-government: one that is financially self-sufficient, stable and capable of ensuring the sustainable development of every hromada.

The practical significance of the research findings lies in their potential application to improve legislation in the field of local finance, develop strategies to ensure the financial stability of hromadas, design educational programmes for officials and create tools to support municipal financial management.

Prospective areas for further research include an in-depth analysis of the impact of martial law on the financial sustainability of local self-government; the study of innovative sources of revenue for hromadas; and the examination of mechanisms for attracting private investment to municipal development.

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