

Utilising Public Finance to Foster Sustainable Growth in Local Communities

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ABSTRACT:

Due to fiscal decentralisation in Ukraine, local finances have become a more significant component of public finances, gaining a greater degree of autonomy and potential to be used to ensure the resilience and sustainable development of territories. At the same time, in the context of the war, communities faced the need to reorient their budgets towards the public order and social sectors, while spending on environmental protection and development incentives was significantly reduced. Sustainable development strategies were also suspended. The article aims to highlight current trends and the state of public finance as a tool for ensuring the sustainable development of territorial communities. Methods. The article used statistical analysis methods to assess the dynamics and structure of public finances in Ukraine in 2018–2024 and the case study method to review the strategies for sustainable development of territorial communities and sources of their financing. The results demonstrate increased state budget revenues in 2018–2024 and their share in public finances. Local budget revenues have fluctuated over this period, and their share has decreased. The amalgamation of territorial communities in 2020 contributed to financial consolidation, resulting in increased community budget revenues and their share in the structure of local budgets. The volume of community expenditures has also increased since 2018, and the possibilities for financing the socio-economic development of the territories have significantly expanded. The experience of local communities in Ukraine shows that local authorities have different priorities in their territorial development activities: some communities focus on economic growth, entrepreneurship, and investment, while others focus on social services, public order and security, and social protection. The concentration of financial resources in municipalities has expanded the possibilities for implementing local programmes and projects, including sustainable development projects. At the same time, there is a differentiation in the funding sources for sustainable development strategies, and community budgets and government transfers remain key to their implementation. The practical value of the study lies in highlighting trends, the state of public finances in Ukraine at the state and local levels, the state of development of sustainable community development strategies, and sources of funding.

Keywords: public finance, financial potential of territorial communities, local budget expenditures on social protection, fiscal policy, financial control.

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1. Introduction

Fiscal decentralisation in Ukraine has contributed to the growth of local budgets of territorial communities. The increase in the financial resources of the territories has enabled local governments to provide funding for priority areas of local development. Digitalisation, inter-municipal cooperation, and the expansion of local authorities' powers to manage and allocate available financial resources have also become important factors in communities' financial capacity. As a result, local finances have become a more significant component of public finances, gaining a greater degree of autonomy and the potential to be used to ensure the resilience and sustainable development of territories. In particular, the budgets of territorial communities have become one of the primary sources of financing for developing territories.

At the same time, during the war, communities faced the need to reorient their budgets to the public order and social sectors, while spending on environmental protection and development incentives was significantly reduced. Sustainable development strategies were also suspended, especially in 2022, when communities and local executive authorities found themselves uncertain about further actions and the need to respond to the crisis.

Ukrainian legislation provides for financial support by the state for the powers granted to local governments. Funding is provided from sources of budget revenues, transfers from the state budget to local budgets, and the transfer of state property to local governments (Law of Ukraine "On Local Self-Government" of March 05, 2025, No. 280/97-VR). It is worth noting that transfers from the central government in the form of grants and subsidies are mainly used to finance the social sphere, which is managed by local authorities. Thus, today, the state has increased the amount of financial resources of communities with the simultaneous expansion of their powers, which are divided by law into their own (self-governing) and delegated ones. However, despite the continuing decentralization of power, the issues of financing own and delegated municipal powers have not been resolved. Experts justify the need for financial support for the exercise of their own powers at the expense of local budgets (local taxes and fees), and delegated powers at the expense of the state budget (All-Ukrainian Association of Amalgamated Territorial Communities, 2024). However, we consider this funding model ineffective, as it will lead to a shift in the financial burden of the state to the local level, and local taxes and fees will not be sufficient to fulfill a wide range of their own powers, including balanced sustainable socio-economic development of the territories.

Given the above, the problem of studying the state of public finances as a tool for ensuring the sustainable development of territorial communities is becoming more relevant.

The article aims to highlight current trends and the state of public finance as a tool for ensuring the sustainable development of territorial communities.

The main objects of research: 1) the dynamics of public finances (state, local budgets, community budgets) and their structure, which determines the financial potential of territorial communities; 2) strategies for sustainable development of territorial communities, sources of their financing and the state of actual implementation.

2. Literature review

Local public finances are considered public finances of the central level of government. The users of these are administrative-territorial units that use monetary resources to meet local needs and finance culture, education, social services, and transport. At the same time, local public finances are also considered a set of economic relations that form the basis for creating resources for their further use for local development (Kitchen *et al.* 2019; Rus 2020; Agasisti *et al.* 2020).

Garrett and Leatherman (2020) consider public finance as a tool for financing government activities at the federal, state, and local levels. The growing importance of public and local finances is associated with increased expenditures of governments of different countries, fiscal decentralisation and the vesting of local authorities with fiscal responsibilities and sources of revenue (Oulasvirta 1992; Garrett & Leatherman 2020; Rus 2020). Thus, fiscal decentralisation ensures a transition to a more transparent use of financial resources and the ability to own sources to fill the territorial budget (Turley & McNena 2016; Cournède *et al.* 2018).

The volume and structure of local public finances depend on a particular territorial unit's population size and business activity (Lóránt 2008; Slack 2017; Humphreys *et al.* 2018). The conceptual approaches of local governance and the organisation of the financial system at the local level also affect the use of local public finance (Kitchen *et al.* 2019). Furthermore, it is important to note that the state of municipal governance plays a pivotal role in determining the capacity of local authorities to foster entrepreneurial growth, attract investors and investments, and ultimately replenish local budgets (Desyatnyuk *et al.* 2024a; Desyatnyuk *et al.* 2024b; Krysovaty *et al.* 2024). Factors of public finance efficiency include the state of budget discipline and existing budgetary limits (Dafflon 2002; Bell *et al.* 2021).

The public finances of communities (municipalities, territories) are components of both state and local public finances and are linked to them by direct interbudgetary relations (Figure 1).

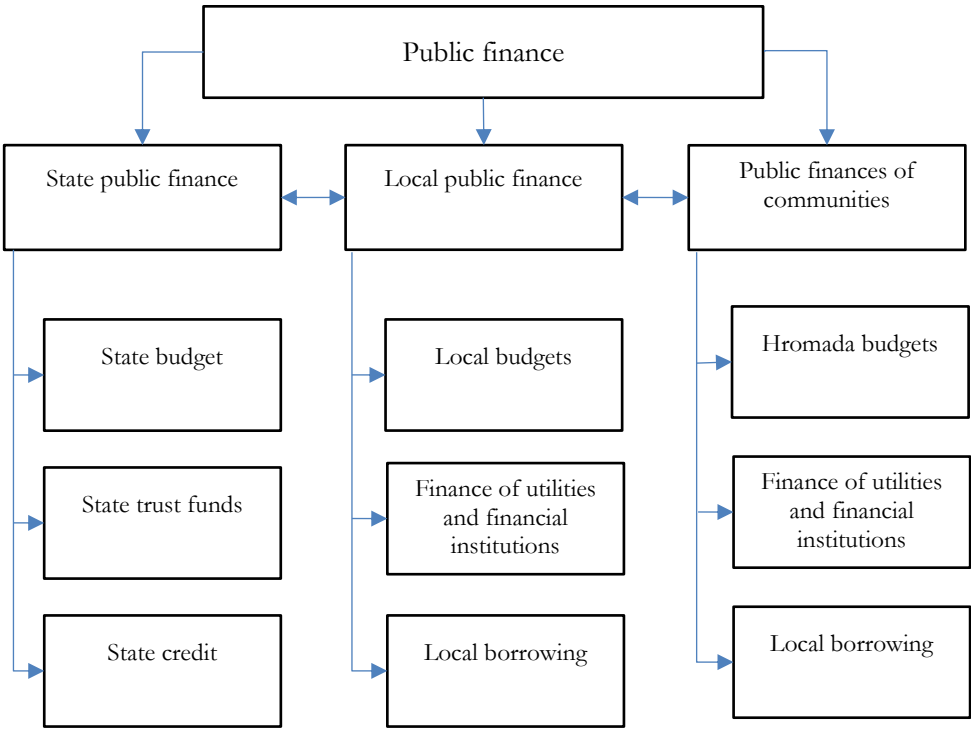


Figure 1: The system of public finance of territorial communities
Source: developed by the author

Local budgets consist of revenues generated from various sources of income and expenditures in various areas of local government activities. Local budgets of territorial communities are plans for the formation, distribution and use of financial resources by local governments (villages, towns, cities) through programmes, community development plans and existing legislation, which include revenues and expenditures. It should be noted that not only local budgets but also funds from inter-municipal cooperation, the finances of communal enterprises, financial institutions, local borrowings, and state budget funds are used to ensure the sustainable development of communities. Thus, territorial communities' public finances, as a component of the public finance system, are used as a tool for sustainable development.

3. Methodology

The article uses general and special scientific methods to study public finances to ensure the sustainable development of territorial communities in 2018–2024. Methods of statistical analysis of revenues and expenditures of the state, local budgets, and budgets of territorial communities are used to understand the existing structure of public finances in Ukraine and their dynamics according to the Open Budget (2024a) platform. The case study method is used to review the current practice of socio-economic, environmental,

and spatial development of communities according to the All-Ukrainian Association of Territorial Communities (2024a; 2024b; 2024c; 2024d; 2024e). The case study method was applied to analyse the existing sustainable development strategies in different communities in different regions of Ukraine and to understand the primary sources of their funding. In particular, a review of the sustainable development strategies of the Horodnia, Korop, Pryvilne, and Shumsk communities was conducted. The article highlights the differences in the implementation of sustainable development strategies of these communities and identifies the factors and structural barriers to equal access to financial resources, including economic (insufficient level of local taxes and fees, low level of investment attraction, uneven distribution of financial resources between communities), institutional (bureaucratic procedures for obtaining subventions and grants, insufficient level of capacity and skills of local government officials, presence/absence of local development agencies as institutions), and The structure, dynamics of revenues and expenditures of the Korop territorial community in 2018–2024 are examined in detail to understand the actual state of public finances as a source of financing for the development of the territory.

The study's main limitation is the impossibility of a comprehensive analysis of sustainable community development strategies, given that strategic planning takes place in individual communities in different regions of Ukraine.

4. Results

Prior to the fiscal decentralisation reform in Ukraine, budget financing was highly centralised, and the financial resources available to communities were insufficient to address their current problems and ensure sustainable development. The three-tiered budget system and indirect intergovernmental fiscal relations led to significant problems in financing local development.

After fiscal decentralisation, a two-tier budget system was introduced, and independent, autonomous local budgets were created. Local governments have been empowered to determine the areas of use of community budgets and to approve budgets independently.

During 2018–2024, the volume of state budget revenues in Ukraine increased from UAH 928.11 billion to UAH 2,672 billion, and their share in the structure of public finances increased from 55.77% to 79.8%. The volume of local budgets fluctuated during this period, amounting to UAH 735.94 billion in 2018 and UAH 676.42 billion in 2019, and their share decreased from 44.23% to 20.2% (Figure 2).

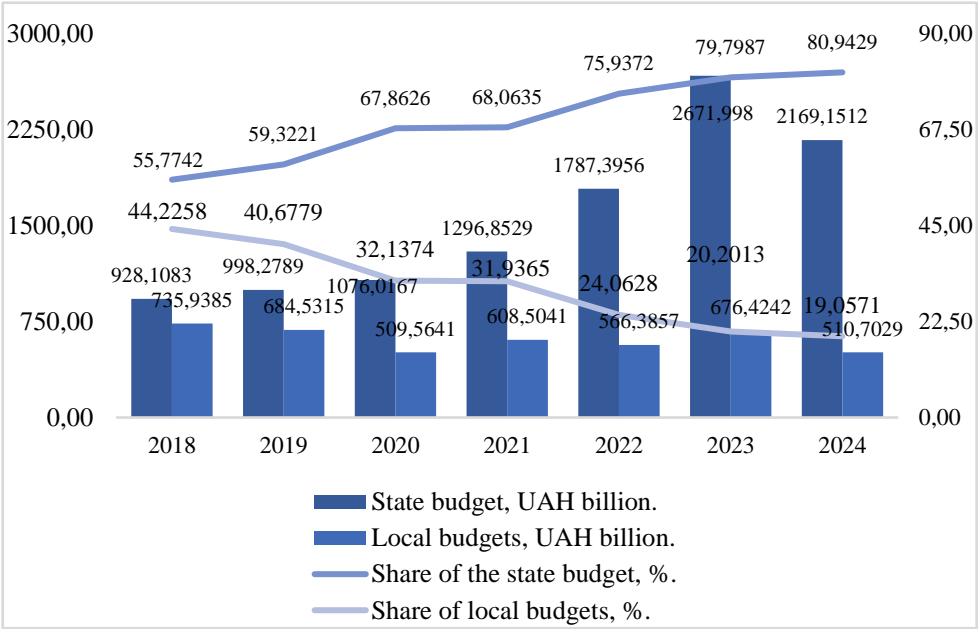


Figure 2. Dynamics of the state and local budgets of Ukraine in 2018-2024, billion UAH/%
Source: calculated by the author according to Open Budget 2024b

The amalgamation of territorial communities in 2022 contributed to financial consolidation, resulting in increased community budget revenues and their share in the structure of local budgets (Figure 3). In 2018, the volume of the territories' financial resources amounted to UAH 46.2 billion (6.28% share), UAH 396.36 billion (65.14% share) in 2021, UAH 401.4 billion (70.87% share) in 2022, and UAH 475.6 billion (70.31%) in 2023.

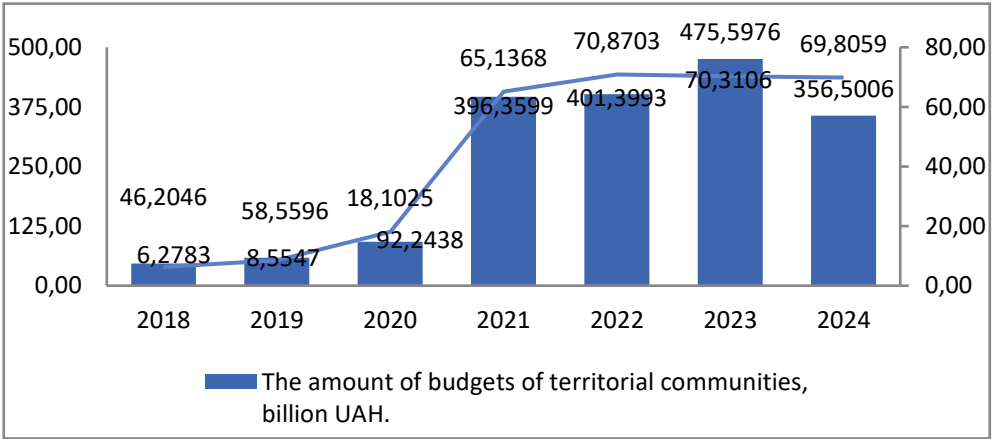


Figure 3. Dynamics of revenues of local budgets of territorial communities and their share in the volume of local budgets of Ukraine in 2018-2024, billion UAH/%
Source: calculated by the author according to Open Budget 2024a

The volume of community expenditures has also increased since 2018, and the possibilities for financing the socio-economic development of the territories have expanded significantly. At the same time, communities generally managed to cover expenditures with revenues (Figure 4).

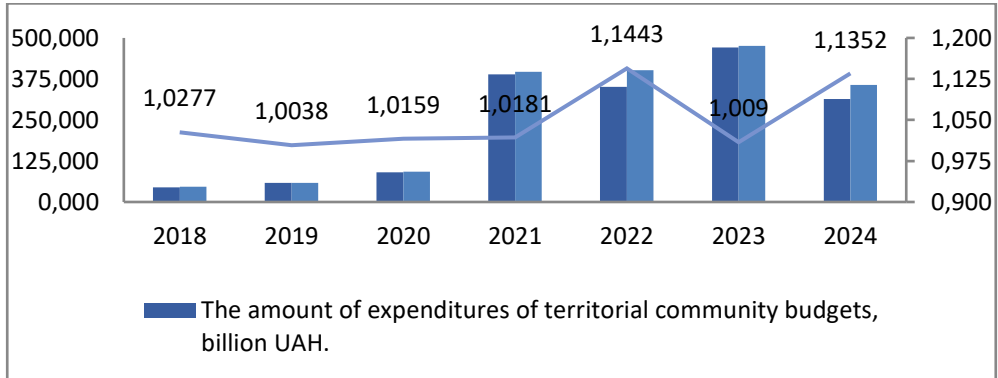


Figure 4. Dynamics of revenues of local budgets of territorial communities and their share in the volume of local budgets of Ukraine in 2018-2024, billion UAH/%

Source: calculated by the author according to Open Budget 2024b

Due to fiscal decentralisation, tax revenues in the structure of local budgets increased in 2018-2024, the volume and share of transfers from the central government gradually decreased, and communities became more financially capable of addressing local issues (Figure 5). Weaknesses in the public finances of the territories include a small share of non-tax revenues, income from capital transactions, and trust funds.

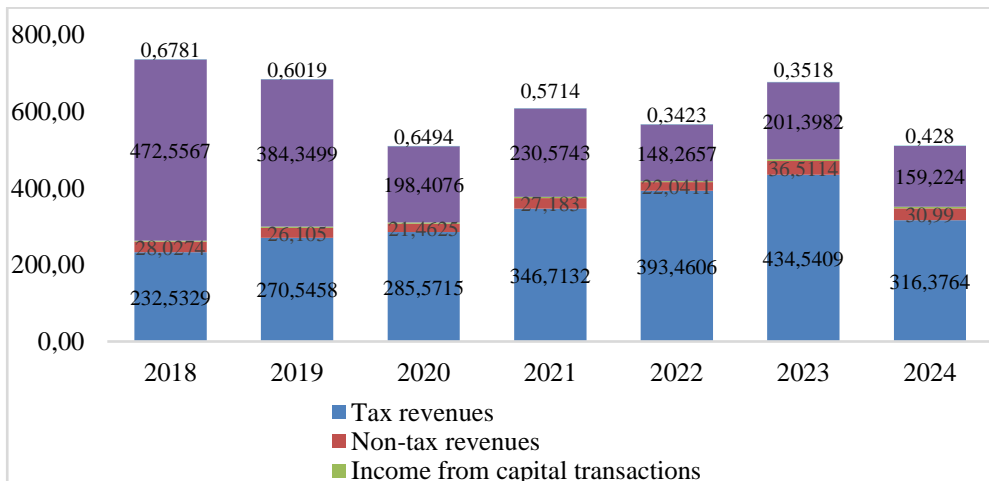


Figure 5. The structure of local budgets of Ukraine in 2018-2024, billion UAH

Source: calculated by the author according to Open Budget (2024a)

According to the analysis of the state of local budgets of communities and the assessment of their financial and fiscal capacity, the central budget-forming tax is PIT, the collection and distribution of which does not require excessive efforts and measures from local authorities. Additional sources of revenue include local taxes and fees, administrative fees, internal taxes and goods and services, own revenues of budgetary institutions, and transfers from the central government.

In 2018–2023, the most significant increased in community expenditures was for general government functions (UAH 74.195 billion), financing of economic activities of territories (UAH 56.142 billion), housing and communal services (UAH 51.427 billion), and education (UAH 171.571 billion). Spending on the environment increased by only UAH 637 million in 2018-2023, compared to UAH 1.376 billion before the war, while during the war, it decreased to UAH 369 million in 2022, UAH 797 million in 2023, and UAH 222 million in 2024 (Table 1).

Table 1: Dynamics of local budget expenditures of territorial communities by functional classification in Ukraine in 2018-2024, billion UAH

Features	2018	2019	2020	2021	2022	2023	2024	Deviations , 2023-2018
National functions	12,60 9	14,70 3	17,69 6	54,55 8	51,55 4	86,80 4	55,70 6	74,195
Public order, security and the judiciary	0,169	0,259	0,449	1,466	8,468	13,26 6	9,329	13,097
Economic activity	4,562	6,241	8,993	53,90 6	28,25 8	60,70 4	25,59 4	56,142
Environmental protection	0,160	0,309	0,308	1,376	0,369	0,797	0,222	0,637
Housing and utilities	2,428	3,231	6,832	39,58 8	34,69 6	53,85 6	32,23 3	51,427
Healthcare	2,059	1,615	3,931	15,16 4	15,02 9	19,81 0	11,24 6	17,750
Spiritual and physical development	1,801	2,573	3,919	17,40 1	14,40 9	17,36 3	12,50 8	15,563
Education	20,24 1	28,04 1	46,08 4	191,0 72	180,8 55	191,8 13	145,7 37	171,571
Social protection and social security	0,931	1,365	2,589	14,77 7	17,13 9	26,92 2	21,47 8	25,991
The amount of expenditures of territorial community budgets, billion UAH.	44,96 1	58,33 7	90,80 2	389,3 08	350,7 78	471,3 34	314,0 53	426,374

Source: calculated by the author according to Open Budget 2024b

The war has significantly reoriented public finances toward defense and social welfare, reducing funding for long-term development projects. This change will lead to difficulties in the post-war economic recovery, given the problems of attracting investment resources. The future fiscal policy will be focused on covering the growing public debt at the expense of international financial assistance from the EU and foreign partner governments. Compensation for the investments in sustainable development of territories lost in 2022-2024 remains a problematic issue, exacerbated by the decline in population due to migration, loss of the budget revenue base, and decreased tax revenues. In 2023-2024, communities began to develop new sustainable development projects, the sources of funding for which are determined independently. In 2023, the government approved the Resolution “On Approval of Procedures for the Restoration and Development of Regions and Territorial Communities” of July 18, 2023, No. 731 (Verkhovna Rada of Ukraine, 2025). This document defines territorial communities as responsible for forecasting financial resource needs and sources of funding for the recovery and development plans of territorial communities. This indicates an increase in the level of financial burden on local budgets if the main sources of post-war recovery of the territories affected by military operations are mainly local financial resources. In this case, achieving the goals of sustainable development of the territories will also be complicated due to the increased scarcity of financial resources. Local authorities will need to search for and attract external funds, and therefore need to strengthen their own institutional capacity, skills and competencies, and establish cooperation with international organizations. The likelihood of compensating for lost investments in sustainable development is very low.

Throughout the war, local governments have managed to maintain resilience and the ability to withstand challenges. Fiscal decentralisation has strengthened communities' financial capacity and ability to adapt. Communities outside the combat zone have managed to maintain stable budget revenues to provide public services to the population. Local budget revenues contributed to communities' growth. Local governments are responsible for the efficient allocation of financial resources. Regional differences in the financial autonomy of territorial communities can be traced from the data in Table 2 on the dynamics of local budget revenues. The highest revenues are concentrated in Dnipro, Kyiv, Lviv, Odesa, and Kharkiv regions with growing dynamics of different types of revenues in 2018-2024. At the same time, the financial capacity of communities is much lower in Donetsk, Zhytomyr, Zakarpattia, Ivano-Frankivsk, Kirovohrad, Luhansk, Mykolaiv, Sumy, Kherson, and Chernihiv regions, despite the growth of budget revenues. Accordingly, the financial capacity of communities determines their ability to fulfill the tasks and measures for sustainable development of their territories. The situation is even worse in the areas of military operations or close to military operations.

Table 2: Dynamics of local budget revenues of territorial communities by regions of Ukraine in 2018-2024, UAH billion

Region	2018	2019	2020	2021	2022	2023	2024	Deviation (2024-2018)

Vinnitsia	1,97	2,27	7,41	15,63	17,65	20,23	21,92	19,9
Volyn	2,25	3,23	5,46	10,76	12,06	13,88	14,71	12,5
Dnipropetrovska	4,12	5,04	5,73	42,68	46,16	55,61	57,68	53,6
Donetsk	1,35	1,48	2,42	21,63	16,08	18,04	16,93	15,6
Zhytomyr	3,41	4,19	7,28	12,82	14,73	17,79	16,53	13,1
Transcarpathia	0,61	0,68	1,61	12,27	13,79	16,16	16,22	15,6
Zaporizhzhya	2,27	2,79	4,01	19,08	15,83	18,26	18,55	16,3
Ivano-Frankivsk	1,42	1,90	5,94	13,43	14,50	16,52	17,22	15,8
Kyiv	0,85	1,64	3,20	26,47	26,15	34,55	37,48	36,6
Kirovograd	0,82	1,28	1,44	10,23	10,40	12,28	13,01	12,2
Luhansk	0,75	0,95	1,26	7,85	4,79	4,40	4,15	3,4
Lviv	2,09	2,98	3,09	28,58	33,84	38,58	40,42	38,3
Mykolaiv	1,68	1,85	2,75	11,77	12,91	15,11	15,71	14,
Odesa	2,43	3,17	3,59	27,56	29,23	33,55	34,99	32,6
Poltava	2,59	3,03	4,06	17,57	18,68	21,69	22,34	19,8
Rivne	1,36	1,81	2,65	12,16	12,90	14,99	15,57	14,2
Sumy	1,78	1,97	6,17	10,83	11,13	12,82	13,65	11,9
Ternopil	2,27	2,75	5,22	10,56	10,30	12,02	12,47	10,2
Kharkiv	1,40	2,01	2,92	29,98	26,04	33,72	37,88	36,5
Kherson	1,49	1,59	2,31	10,16	6,50	8,06	9,17	7,7
Khmelnitsky	3,28	3,81	4,36	13,32	14,28	16,23	17,05	13,8
Cherkasy	1,36	2,54	2,94	12,62	13,48	16,83	16,76	15,4
Chernivtsi	1,82	2,50	2,46	8,11	8,96	10,68	11,41	9,6
Chernihiv	2,84	3,10	3,95	10,32	11,02	13,58	14,22	11,4
Total	2064,20	2077,56	2112,24	2417,36	2423,40	2498,60	2520,02	455,8

Source: calculated by the author according to Open Budget 2024a

The transfer of powers to form and allocate financial resources to the local level and address socio-economic and environmental issues has contributed to positive changes in communities.

The experience of territorial communities in Ukraine shows that local authorities are diverse in their territorial development activities: some communities focus on economic growth, entrepreneurship, and investment, while others focus on social services, public order and security, and social protection. The concentration of financial resources in municipalities has expanded the possibilities for implementing local programmes and projects, including sustainable development projects.

At the end of 2020 and until August 2021, the Zolochiv community of Kharkiv region modernised its municipal enterprise, the Land Cadastre Bureau, to improve the investment attractiveness of the territory, with a project funding of UAH 355.4 thousand, at the expense of DOBRE funds (UAH 248.4 thousand) and community funds (UAH 107 thousand) to ensure sustainable development of the territory through the purchase of surveying equipment, training of specialists, development of greenfield plots to attract investment, and improvement of the quality of land documents. To implement the project, the local government plans to prepare 10 greenfield plots annually for investors and prepare various documents for business entities. These services will help the municipal enterprise generate approximately UAH 700 thousand in revenue annually (All-Ukrainian Association of Territorial Communities 2024a).

Another example of spatial development is the establishment of the Local Development Agency in Kobleve Amalgamated Territorial Community (Mykolaiv region) in 2017 to ensure the area's sustainable development. The agency facilitates developing and implementing strategies, programmes, and development projects, supporting local self-government bodies in attracting funds for their implementation. As a result of the agency's work, eight jobs have been created, the community's Administrative Services Centre has been established and modernised, an eco-festival has been held, Ukraine's first agro-recreational cluster, "Koblevo Resort," has been developed, along with various other initiatives aimed at fostering the socio-economic development of the area (All-Ukrainian Association of Territorial Communities 2024a).

Other spatial community development initiatives in different regions of Ukraine include creating sustainable development strategies, launching condominium initiatives, increasing public participation in community development, and implementing local participatory budgeting programmes to support fiscal decentralisation in communities and address the problems of their residents. It is worth noting that local targeted programmes for the distribution of the participatory budget (Lyman and Pyriatyn communities) enable municipal residents to determine the use of funds, stimulating public participation (improving the quality of public transport, public space, repairing educational and medical facilities, and other needs) (All-Ukrainian Association of Territorial Communities 2024c; All-Ukrainian Association of Territorial Communities 2024d).

In order to develop small businesses, communities implement social projects to ensure access to services for people with special needs (social hairdressing salon in Krasyliv), create business and tourism support centres, organise investment forums to establish cooperation between local authorities and the private sector, finance the

restoration of local infrastructure, establish partnerships to address the problem of labour shortages, develop businesses to fill city budgets, and introduce programme and targeted

In 2021, communities began approving sustainable development strategies and defining their funding sources. For instance, the Sustainable Development Strategy of the Horodnia Amalgamated Territorial Community for 2019–2027, presented in 2019, identifies funding sources based on the main operational goals. This ensures alignment between planned goals, activities, and potential financial resources to be utilised for their achievement. Accordingly, the Horodnia Amalgamated Territorial Community identified key funding sources for sustainable development, including community budget revenues, regional budget contributions, external funding sources (loans, subsidies, grants, credits), and funds from state programmes of ministries, as well as regional and national institutions designed to implement local development projects (Horodnia Territorial Community 2024).

In 2018, the Shumsk territorial community approved the Sustainable Development Strategy for 2018–2025 developed by experts from the Local Democracy Development Foundation as part of the Decentralisation Offering Better Results and Efficiency (DOBRE) project. The document outlines key social, economic, environmental, administrative, spatial and functional goals, tasks and plans for implementation, and an operational management system based on coordinating stakeholders' efforts in fulfilling the tasks (Shumsk territorial community 2024).

In October 2021, the Korop Territorial Community (Chernihiv region) presented its Sustainable Development Strategy for 2021–2029, developed under the Decentralisation Offering Better Results and Efficiency (DOBRE) Programme with funding from the United States Agency for International Development (USAID). Local community representatives and leaders developed the strategy, while experts from the Local Democracy Development Foundation coordinated the work of the strategic team (Korop territorial community 2024), (Figure 6).

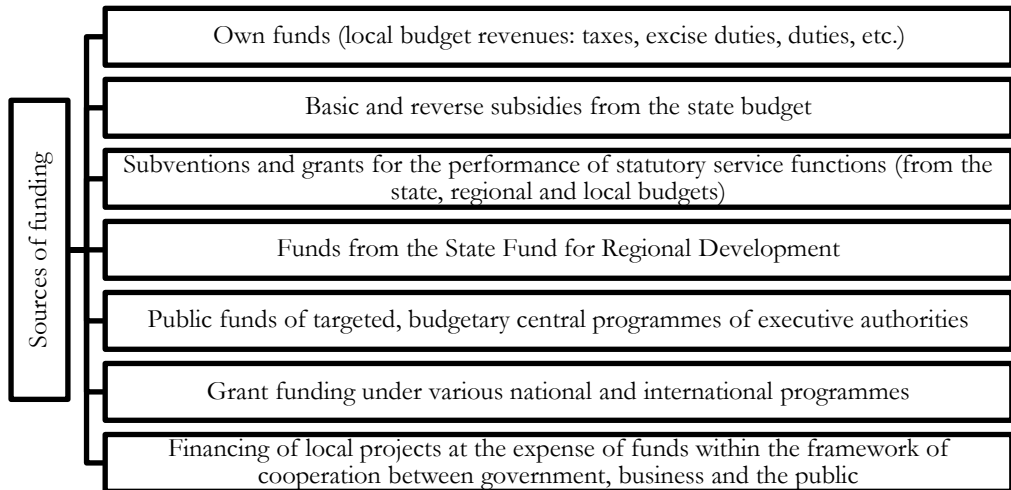


Figure 6. Sources of funding for sustainable development of territorial communities

Source: compiled by the author

Actual data on budget revenues of the Korop settlement territorial community indicate an increase in tax revenues by UAH 38.23 million during 2018-2023, non-tax revenues by UAH 22.2 million, and official transfers to the government by UAH 8.76 million (Table 3). At the same time, a detailed examination of the tax structure shows that income taxes, taxes on market value, local taxes and fees predominate (26% and 17%, respectively, of all revenues). Revenues from budgetary institutions also accounted for a significant share of community revenues (13% in 2023). Despite strengthening fiscal autonomy, the community is significantly dependent on the central budget, as the share of transfers from the government was 39% in 2023.

Table 3: Dynamics of revenues to the budget of the Korop settlement territorial community in 2018-2024, UAH million

Receipts	2018	2019	2020	2021	2022	2023	2024	Deviations , 2018-2023
Tax revenues	46,97	51,99	59,37	67,86	69,	85,2	58,01	38,23
Non-tax revenues	4,83	5,07	5,76	8,93	9,32	27,03	17,36	22,2
Income from capital transactions	-	,05	,11	,04	-	,31	-	,31
Official transfers	63,49	65,18	49,21	66,17	58,13	72,25	49,25	8,76

Trust funds	,03	,01	-	-	,01	,01	,01	-,02
Total revenues, UAH million.	115,32	122,31	114,44	143,	136,45	184,8	124,62	69,48

Source: calculated by the author according to Open Budget 2024b

The primary funding sources for the sustainable development programme of the Korop settlement territorial community were tax revenues (personal income tax, income tax, local taxes and fees) and transfers to the government. Therefore, the community currently has significant potential to attract resources for sustainable development from international organisations.

The dynamics of expenditures of the Korop settlement territorial community by functional classification indicates a reduction in administrative expenses by UAH 10.66 million, while funding for public order, security, and the judiciary increased by UAH 7.85 million, housing and communal services by UAH 6.73 million, healthcare by UAH 3.37 million, spiritual and physical development by UAH 7.44 million, and education by UAH 45.42 million (Table 4).

Table 4: Dynamics of expenditures of the Korop settlement territorial community by functional classification in 2018-2024, UAH million

Features	2018	2019	2020	2021	2022	2023	2024	Deviations, 2023-2018
National functions	34,48	30,67	23,52	18,57	18,52	23,82	17,48	-10,66
Public order, security and the judiciary	0,92	1,09	1,26	1,64	2,24	8,78	1,66	7,85
Economic activity	10,68	14,50	1,37	6,36	0,91	1,91	2,03	-8,77
Environmental protection	0,02	2,51	0,13	0,34	0,00	0,30	0,00	0,28
Housing and utilities	4,42	4,40	5,44	8,55	5,50	11,15	8,63	6,73
Healthcare			0,65	2,77	3,38	3,37	2,34	3,37
Spiritual and physical development	5,27	7,82	7,67	11,60	10,48	12,72	9,16	7,44
Education	52,68	56,49	60,53	79,32	84,12	98,10	71,82	45,42
Social protection and social security	7,78	8,93	9,81	12,60	13,46	18,51	13,04	10,73

Source: calculated by the author according to Open Budget 2024b

5. Discussion

An overall assessment of the state of public finance as a tool for sustainable development in Ukraine, including local and territorial community budgets, points to several important conclusions. Firstly, communities have significantly expanded their revenues, which are the primary funding sources for their sustainable development strategies. Secondly, the empowerment of local governments to allocate financial resources has provided opportunities to direct funds to the areas of highest priority for the community. As the experience of the Korop community shows, local authorities have reduced administrative costs and increased spending on social services. At the same time, funding for environmental protection measures has generally decreased during the war. Thirdly, the level of transparency and accountability in using financial resources in communities has increased. This means that public financial management is also improving. Strategic planning, including the development of sustainable development strategies, will have a favourable impact on the use of public finances to ensure the socio-economic and environmental growth of the territories. The experience of the Korop community also points to such a strength as the use of investment plans in strategic planning for sustainable development. The combination of different funding sources is also one of the strengths of using public finance to sustain Ukrainian communities (Table 5).

Table 5: Swot analysis of public finance as a tool for sustainable development of territorial communities in Ukraine

Strengths	Weaknesses
Increase in local budget revenues and strengthening of financial capacity Empowering local governments to allocate financial resources, finance socio-economic development programmes and sustainable development strategies Increasing transparency and accountability in public finance management Increasing the efficiency of using public funds of the community through strategic planning, development of investment plans combining different sources of financing for sustainable development	Poor quality of strategic planning for the use of various sources of financing for sustainable development Lack of information and reporting by local governments on the use of public finances, including community budgets, for sustainable development Lack of a comprehensive system for monitoring the achievement of sustainable development goals through public finance

Features	Threats
Raising funds from utilities and government agencies to finance sustainable development projects. Raising funds from international partners to implement sustainable development projects Developing strategic partnerships with the private sector to finance sustainable development projects Exchange of experience and practice of using public finance as a tool for sustainable development	Reduced capacity to finance environmental projects in times of war due to the growing need to finance the security and defence sector Reduced funding for sustainable development projects in times of war Insufficient organisational and institutional capacity of the community to use public finance as a tool for sustainable development Lack of sufficient competence of local officials in the effective use of public finances

Source: compiled by the author.

The strengths of public finance also include combining various funding sources for sustainable development. However, not all communities fully utilise the potential opportunities to attract diverse funds. For instance, the Shumsk Amalgamated Territorial Community identified the following sources of funding for sustainable development strategies: the community budget (own funds), the state budget, including infrastructure development subsidies, socio-economic development subsidies, the State Fund for Regional Development, and state development programmes; regional budgets, including regional budgets and regional development programmes; targeted domestic and foreign funds/grants; loans and credits, including those from the European Bank for Reconstruction and Development; and the budgets of other self-governing entities, as some activities are planned to be implemented jointly by the Shumsk Amalgamated Territorial Community and other public entities (including other ATCs), based on agreements for joint project and task implementation. Private funds (from residents and external investors) are also considered. In contrast, the Pryvile Community of Rivne region has not identified specific funding sources for sustainable development that align with its strategic goals (Pryvile Territorial Community 2024).

The main weaknesses of public finances include the lack of information and reporting by local governments on using public finances, including community budgets, for sustainable development. Moreover, communities have not established a comprehensive system for monitoring the achievement of sustainable development goals.

Among the possibilities of using public finance to ensure sustainable community development is the possibility of attracting funds from utilities and government agencies to finance sustainable development projects. One of the most promising community funding sources is attracting funds from international partners to implement sustainable development projects. In 2024, communities in different regions attracted the most financial resources from the European Union, foreign governments, international organizations, and donor agencies compared to 2022-2023. The total amount of these types of transfers amounted to UAH 1303.32 million in 2024 (UAH 144.39 million in 2023), and the largest amount was attracted by communities in Zhytomyr region (UAH 237.46 million), Kyiv region (UAH 313.93 million), Chernivtsi region (UAH 291.51 million), and Lviv region (UAH 137.64 million) (Open Budget, 2024a). The share of

revenues from the EU, foreign governments, and international organizations in the total revenues of local budgets of Ukrainian communities reached only 0.010% in 2024 (only 0.001% in 2023) (Open Budget, 2024a), indicating that the territories are not financially dependent on external funding. In total, over the period 2018–2024, communities in all regions of Ukraine attracted UAH 1581.62 million to local budgets (Open Budget, 2024a). In the future, attracting external financing will require local governments to take a more balanced approach and take into account all possible risks of receiving international assistance. At the same time, international assistance can be one of the most effective tools for financing sustainable development.

The main challenges for using public finance as a tool for ensuring sustainable development of territorial communities are the following: reduced capacity to finance environmental projects in times of war due to the growing need to finance the security and defence sector; reduced funding for sustainable development projects in times of war; insufficient organisational and institutional capacity of the community to use public finance as a tool for sustainable development; lack of sufficient competence of local officials in effect.

6. Conclusion

In Ukraine, there are trends towards an increase in state budget revenues in 2018–2024, as well as their share in the structure of public finances. Local budget revenues have fluctuated over this period, and their share has decreased. This indicates the existing dependence of communities on central government transfers. At the same time, there is a significant differentiation in the amount of transfers from the government in different regions, so some communities are less dependent on central funding and therefore more financially stable in ensuring sustainable development. At the same time, communities in some regions are heavily dependent on government funds (especially in areas near active hostilities or areas close to hostilities), making it difficult to fulfill the responsibilities for socio-economic development of such areas. To support the provision of public services to the residents of these affected communities, constant government intervention and subsidies are needed to provide basic social services to the population.

The amalgamation of territorial communities in 2020 contributed to financial consolidation, resulting in increased community budget revenues and their share in the structure of local budgets. The volume of community expenditures has also increased since 2018, and the possibilities for financing the socio-economic development of the territories have significantly expanded.

The experience of territorial communities in Ukraine shows that local authorities are diverse in their territorial development activities: some communities focus on economic growth, entrepreneurship, and investment, while others focus on social services, public order and security, and social protection. The concentration of financial resources in municipalities has expanded the possibilities for implementing local programmes and projects, including sustainable development projects. At the same time, there is differentiation in the funding sources for sustainable development strategies, and community budgets and government transfers remain key to their implementation.

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