

Oleh Nehoda*

Master's Degree

Hryhorii Skovoroda University in Pereiaslav

08401, 30 Sukhomlynskyi Str., Pereiaslav, Ukraine

<https://orcid.org/0009-0003-2722-6026>

Financial support of territorial communities under martial law: Challenges and prospects for the agricultural sector

Abstract. The aim of the article was to identify transformations of financial resources of territorial communities during martial law and determine the role of the agricultural sector in restoring the financial capacity. The methodology was based on the analysis of statistical indicators of local budget revenues of Ukraine in 2022-2024, structural and functional analysis of the role of the agricultural sector and forecast modelling of the restoration of the tax base in 2025-2030. The agricultural sector, which provides more than 30% of rural community budgets, suffered losses of about USD 59.8 billion. due to the destruction of infrastructure, mining of more than a quarter of land and a reduction in exports. The volume of international grant support from the World Bank, the Food and Agriculture Organization of the United Nations, the International Fund for Agricultural Development and the European Union increased from USD 385 million in 2022 to USD 650 million in 2024, which confirmed the importance of foreign aid. Forecast calculations showed that in 2025-2027, tax revenues from the agricultural sector will increase from UAH 54.9 billion to UAH 67.9 billion, while the annual needs for financing its restoration in 2025-2030 will remain at the level of USD 17-18 billion. with a reorientation to the modernisation of equipment and support for farmers. The combination of state, municipal, and international support mechanisms creates the basis for restoring the financial capacity of communities, and Ukraine's integration into the European market opens up new opportunities for strengthening the tax base. The practical significance of the study lies in the formulation of recommendations for the development of local agricultural funds, microcredit and preferential lending programmes. The results can be used by local governments, state institutions and international donors to develop strategies for the financial sustainability of territorial communities

Keywords: budget; revenues; grants; subventions; food security; forecast modelling

INTRODUCTION

The relevance of the study of the financial support of territorial communities under martial law is due to the sharp reduction in these

communities' revenues, which was a consequence of the decline in economic activity and restrictions on access to the resource base.

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*Corresponding author (o_negoda@ukr.net)



Significant losses of tax revenues, in particular from personal income tax and land payments, were accompanied by an increase in the dependence of local budgets on centralised transfers, which significantly weakened the financial autonomy. An additional challenge was the decline in the role of the agricultural sector, which traditionally was a key source of revenue for rural budgets, but suffered large-scale losses due to the destruction of infrastructure, mining of territories and reduction of production capacities. In such conditions, the search for effective mechanisms for restoring and diversifying financial resources that can ensure the sustainability of local budgets and create a basis for further economic reconstruction at the community level becomes particularly important.

In the study by L. Pronko *et al.* (2024), the authors showed that territorial communities during the martial law period underwent transformations in the direction of increasing dependence on inter-budgetary transfers and reducing the communities' tax sources. It was found that the key factor of financial instability was the reduction of income from labour and land use, which significantly reduced the financial autonomy of communities. In the work of O. Mohylnyi *et al.* (2022), the consequences of deregulation measures in the agricultural sector were analysed. Although the reduction of administrative burden and transaction costs had a positive effect on agricultural producers, these measures turned out to be insufficient in the context of large-scale destruction of logistics chains. The authors emphasised that it was the disruption of transport and warehouse infrastructure, as well as the decline in food security, that became key factors in the decline in economic activity of communities. E.S. De Dios *et al.* (2021), studying the experience of the Philippines during the martial law period, showed that long-term centralisation of financial flows leads to structural imbalances in investment processes. As a result, there was a gradual decline in the productivity of the regional economy, which limited the ability of local budgets to develop independently. This experience is relevant for Ukraine, as it demonstrates that without proper financial autonomy, communities become vulnerable to external shocks. M. Nehrey &

R. Finger (2024) focused on the initial consequences of the military invasion for the agricultural sector of Ukraine. The authors emphasised that the decline in yields and the sharp increase in production costs were primarily due to the mining of significant areas and the loss of access to basic infrastructure. This directly affected the reduction in tax revenues at the local level, as agricultural enterprises could not maintain the previous level of production activity.

In a global review by R. Leonhardt *et al.* (2022), it was found that a combination of grant programmes, feed-in tariffs, and preferential lending contributed to the formation of sustainable local energy systems and strengthened the financial capacity of communities. J.K.L. Chan *et al.* (2021) using the example of ecotourism practices in Malaysia showed that the active participation of the population in tourism management ensured the creation of additional sources of income and stimulated the rational use of natural resources. In the study by M. Rosales *et al.* (2023), it was proven that the institutionalisation of grassroots governance increased the level of resilience of communities to emergencies and reduced the time to restore basic management functions. These results confirmed the importance of various instruments and citizen involvement in the formation of a sustainable financial and social basis for development, which demonstrates the universality of institutional practices across sectors and countries. An important emphasis is also placed on the intangible aspects of development. M.O. Edwards-Fapohunda (2024) demonstrated that adult learning and education programmes are directly correlated with employment growth. Educational initiatives not only strengthen human capital, but also stimulate citizens' financial participation in local processes, which ultimately forms a more stable tax base. In turn, A.V. Machado *et al.* (2022), analysing the functioning of community-controlled water supply systems, proved that long-term sustainability depends on quality management and financial discipline, as well as active participation of the local population in decision-making. This emphasises that institutional capacity and the human factor are as important as financial resources.

However, the literature review revealed a number of gaps. Integrated quantitative models that would combine data on agricultural losses, the scale of mining and the transformation of fiscal policy in the dimension of territorial communities of Ukraine were not sufficiently developed. Attention remained limited to spatial differences in the impact of wartime destruction on the tax base and to assessing the effectiveness of new financial instruments, in particular agricultural funds and microcredit. The consequences of Ukraine's integration into the European Union (EU) for local budget revenues in the medium term were also not comprehensively investigated. In addition, there was a lack of analysis of the differentiation of financial capacity between rural, urban and industrial communities, which necessitates further research. The purpose of the study was to determine the features of the transformation of the financial capacity of territorial communities during the war period and outline the role of the agricultural sector in restoring the revenue base. To achieve this goal, the following tasks were set: to analyse the dynamics of local budget revenues in 2022-2024, taking into account the reduction of personal income tax and the growth of inter-budgetary transfers; to assess the importance of agricultural production for the formation of tax revenues and the scale of its losses as a result of military actions; to explore mechanisms for supporting communities and agricultural producers from the state and international organisations, with further identification of prospects for restoring the tax base through the introduction of innovative technologies and the development of financial instruments at the community level.

MATERIALS AND METHODS

The study was applied in nature and was conducted as an analytical-descriptive study with elements of forecast modelling, which was due to the need for a comprehensive assessment of the transformations of the financial capacity of territorial communities during the war. It was this approach that made it possible to combine descriptive assessments of current trends with the construction of forecast scenarios. The chronological framework of the study covered

the years 2022-2024, which provided the opportunity to trace changes in the structure of local budget revenues in the dynamics of martial law. To form forecasts for the restoration of the tax base, benchmarks for 2025-2030 were taken into account, which gave the study a strategic dimension and allowed assessing the prospects for financial sustainability in the medium term. Data collection was carried out by processing official statistical materials and reports using open state and international sources. For the analysis of budget indicators, data from the Portal "Decentralisation" (n.d.) were used, reflecting the dynamics of local budget revenues, the structure of tax revenues, and the volume of inter-budgetary transfers. The study of the impact of military actions on the agricultural sector was carried out based on official data from the Food and Agriculture Organization of the United Nations (FAO) (2023a; 2023b) and analytical reports from the KSE Institute (2023), which highlighted the scale of losses and key risks to production. Additional information was provided by materials from the European Commission (2022; 2023; 2024) and World Bank (n.d.), which contained estimates of recovery needs and the volume of financial assistance. To form a comprehensive picture, reports from the International Fund for Agricultural Development (IFAD) (2022) were also used, reflecting international approaches to supporting rural areas and long-term reconstruction scenarios.

The study used a statistical method that provided the opportunity to generalise and systematise data on the dynamics of local budget revenues in the period 2022-2024. It was used to analyse official indicators that reflected changes in revenues from the main tax and non-tax sources. The application of this method made it possible to identify patterns in the transformation of the revenue base of communities, assess trends in the ratio of own and external funds, and determine structural shifts in the financing of local budgets. The method of structural and functional analysis was used to study the role of the agricultural sector in ensuring the financial capacity of territorial communities. Revenues were distributed by key components related to agriculture, which made it possible to assess the share in the overall revenue structure. The use

of this method made it possible to determine the dependence of local budgets on agricultural production, trace the impact of war destruction on the functioning of economic units, and form an idea of the scale of financial losses in rural communities.

The comparative method was used to compare the instruments of financial support for the agricultural sector and territorial communities in Ukraine with the practices implemented by international organisations. This approach made it possible to identify common and distinctive features of these instruments and determine the directions of the adaptation to Ukrainian conditions, which created an analytical basis for recommendations on optimising financing mechanisms. In addition, a case method was used, which made it possible to analyse specific examples of territorial communities from different regions of Ukraine. Three communities were selected for the study – de-occupied (Izium, Kharkiv region), frontline (Orikhiv, Zaporizhzhia region) and rear (Tlumach, Ivano-Frankivsk region). The selection criteria were different security conditions for the functioning and use of different financial support instruments (budget funds, grants from international organisations, preferential financing).

Forecast modelling was used to identify possible scenarios for restoring the financial base of communities in the medium term, and it was based on the average annual rates of restoration of agricultural production, the expected growth in employment after the demining of agricultural land, and the expansion of the tax base through involvement in European Union support programmes, in particular the Ukraine Facility (European Commission, 2022), which provided long-term macro-financial assistance to Ukraine. Additionally, analytical materials by R. Neyter *et al.* (2024) were taken into account, which highlighted joint initiatives of the European Union and the Food and Agriculture Organization for the restoration of farms. The Common Agricultural Policy (European Commission, 2023) and the European Agricultural Fund for Rural Development (European Commission, 2024) approaches served as a reference for assessing future needs in financing the agricultural sector for 2025-2030, which

identified key areas of investment in land demining, modernisation of machinery, restoration of infrastructure, and support for small and medium-sized farmers. For the forecast revenues to local budgets from the agricultural sector, the horizon 2025-2027 was chosen, which was due to the availability of reliable short-term macroeconomic indicators and the possibility of the correlation with current data from the Ministry of Finance of Ukraine (n.d.) and Open Budget (n.d.). For the needs of financing the restoration of the agricultural sector, a wider period of 2025-2030 was used, since infrastructure projects, modernisation of equipment and support for farms are of a long-term nature. Thus, the distinction between time horizons was due to the different nature of the indicators: tax revenues could be forecast with a higher degree of accuracy in the short term, while investment needs required a longer perspective.

Methodologically, the forecast was carried out using trend analysis (time-series forecasting) based on data from 2020-2024. A multiple regression model was used, where the dependent variable was tax revenues to local budgets, and the independent variables were the area of demined land, the amount of state and international financial support, the employment index in agriculture, and agricultural product export indicators. For the needs of financing the restoration of the agricultural sector, a scenario-based approach was used, which took into account three scenarios: baseline (slow recovery), optimistic (accelerated attraction of investments and international assistance), and pessimistic (delay in the demining and modernisation processes). The interpretation of the results obtained was based on a combination of quantitative analysis with a qualitative assessment of institutional mechanisms. This approach allowed not only to systematise the impact of war destruction on the financial capacity of communities, but also to identify key structural dependencies between the state of the agricultural sector and the possibility of forming a sustainable tax base. In addition, based on the methods used, practical recommendations were formulated that are practical in nature and aimed at developing compensatory mechanisms for the financial stabilisation of territorial communities.

RESULTS AND DISCUSSION

Transformation of local budget revenues under martial law

The financial resources of territorial communities during the martial law period underwent significant transformations, which directly affected the dynamics of the revenues. Tax and non-tax revenues, which in the pre-war period formed the basis of the financial autonomy of local self-government, gradually lost stability. The effect of transferring the military levy and personal income tax (PIT) to a special fund of the state budget was especially noticeable, which led to the loss of a significant part of the communities' own resources and increased dependence on centralised redistribution of

financial flows (Ministry of Finance of Ukraine, 2024). A comparison of the main revenue items in 2022-2024 showed both structural shifts and multidirectional trends in the dynamics of key sources of budget funding. While local taxes demonstrated gradual growth, PIT during this period decreased, forming a negative trend for the financial base of communities. Instead, inter-budgetary transfers and other revenues, including administrative fees and fines, began to play a more significant role in supporting revenue. The summarised data on these changes are presented in Table 1, which reflects the dynamics of revenues of local budgets of Ukraine in 2022-2024 and makes it possible to trace structural changes in the sources.

Table 1. Dynamics of revenues of local budgets of Ukraine in 2022-2024 (general fund, billion UAH)

Year	Personal income tax	Local taxes	Transfers	Other revenues	Total
2022	300.5	126.4	150.2	42.1	619.2
2023	291.2	134.7	168.9	44.5	639.3
2024	259.3	142.5	187.9	61.4	651.1

Note: transfers – grants and subventions from the state budget; other revenues – administrative payments, fines, non-tax fees

Source: developed by the author based on data from the Ministry of Finance of Ukraine (n.d.), Open Budget (n.d.), Portal "Decentralisation" (n.d.)

The data in Table 1 showed that in 2022-2024 there was a steady reduction in the volume of personal income tax – from UAH 300.5 to 259.3 billion, which corresponded to a decrease of almost 14%. At the same time, local taxes increased by 12.7%, which confirmed the relative stability in the revenue structure. The most dynamic source was inter-budgetary transfers, which increased by UAH 37.7 billion and reflected the strengthening of the centralisation of the budget system. Other revenues also showed an increase of UAH 19.3 billion, but the share remained secondary. The overall results indicated a relative stability of the total volume of revenues, but with a significant change in the structure, which meant a decrease in the financial independence of territorial communities and an increase in the role of state mechanisms in ensuring the viability. A similar effect of centralisation of financial flows was described by B. Topić-Pavković (2024), emphasising that the concentration of resources without compensatory mechanisms makes local budgets

vulnerable to external and internal shocks. The structure of local budget revenues in 2024 confirmed the trend towards redistribution of financial flows in favour of centralised resources. Despite the significant role of traditional tax revenues, the share of grants and subventions increased significantly, which together provided more than a quarter of the general fund. This indicates the formation of a model in which the sustainability of local finances increasingly depended on the state budget. The generalised proportions between the main sources of income are shown in Figure 1, which makes it possible to outline the key trends in the transformation of the revenue base of territorial communities during the war period.

Data analysis showed that 40% of local budget revenues in 2024 were provided by personal income tax, which remained the key source of formation of the financial base of territorial communities. At the same time, the share of grants and subventions in total exceeded 28%, which indicated a significant

dependence on state budget resources. This result correlates with the conclusions of K. Kluza & K. Wójtowicz (2025), who, in the study, proved that inter-budgetary transfers, on the one hand, strengthen the financial stability of communities, and on the other hand, increase the dependence on central government decisions. Local taxes formed more than a fifth of revenues, confirming the importance for maintaining communities' own financial capabilities. Other sources, in particular excise taxes and non-tax payments, were of an auxiliary nature and did not create a tangible impact on ensuring financial autonomy. This revenue structure demonstrates the strengthening of centralisation tendencies and the gradual limitation of communities' opportunities to implement independent financial policy.

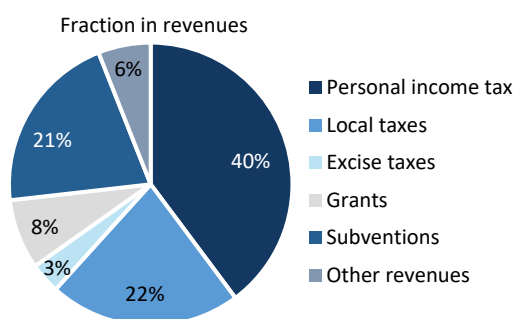


Figure 1. Structure of revenues of local budgets of Ukraine in 2024

Source: developed by the author based on Ministry of Finance of Ukraine (n.d.), Portal "Decentralisation" (n.d.)

An in-depth analysis showed a reduction in the share of personal income tax and local taxes in the general budget fund and an increase in the role of centralised financing. On the one hand, this guaranteed minimal stability during the period of military challenges, but on the other hand, it deprived communities of strategic development planning tools. A similar pattern was confirmed by G. Abuselidze (2021), pointing out that excessive centralisation in the processes of decentralisation reforms reduces the institutional capacity of local budgets and limits the autonomy. According to the Ministry of Finance of Ukraine (2024), in conditions of limited resources, most communities were forced to

direct budget funds mainly to social protection and ensuring protected expenditure items. The change in the tax burden led to the fact that the financial resources of local governments became more dependent on the decisions of central authorities and international donors (Open Budget, n.d.). In fact, a significant part of the independence in the formation of the revenue part of the budgets was lost, which led to an orientation towards a centralised system of resource distribution. As C.I. Ojiako & O.C. Raphael (2025) showed, limiting the financial independence of local governments hinders the implementation of strategic development programmes and increases dependence on external sources of support. This situation created additional risks in the event of a state budget deficit or a reduction in the volume of external support.

In the systemic dimension, the transformation of revenues confirms the decrease in the role of local tax revenues and the increase in the centralisation of financial flows. Such a trend is typical for crisis conditions, but it contradicted the principles of budget decentralisation, which provided for strengthening the financial independence of territorial communities. The situation that developed highlighted the need to find compensatory mechanisms and alternative sources of income that can ensure the sustainable development of communities. One of these areas was the agricultural sector, the potential of which lies in the ability to form a stable tax flow and support the financial autonomy of communities in the medium term.

The agricultural sector as the basis of the financial capacity of rural communities

During the war period, the agricultural sector remained one of the key factors in the formation of the revenue base of rural communities. Its importance for local budgets was manifested through revenues from personal income tax, land tax, rent for the use of agricultural land, as well as other related sources (Open Budget, n.d.). An analysis of the dynamics of tax revenues in the agricultural sector in 2022-2024 made it possible to outline the scale of the reduction in the contribution of agricultural production to the formation of community income and showed how the war events

affected the sustainability of local finances. Studying the share of the agricultural sector in the income structure made it possible to determine the level of dependence of budgets on the functioning of agricultural enterprises. The comparative analysis demonstrated a gradual reduction in the share of primary sources due

to a decrease in production capacities and loss of access to land resources in significant areas. As shown in Figure 2, this trend indicated a strategic risk to the financial capacity of territorial communities in the absence of compensatory mechanisms and alternative sources of filling local budgets.

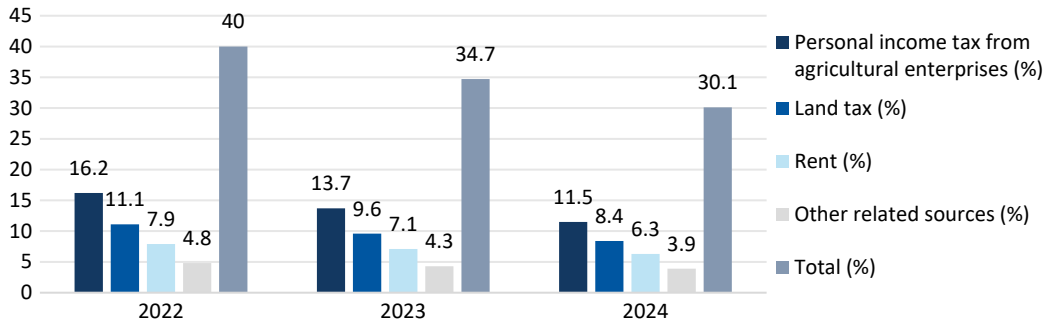


Figure 2. Share of the agricultural sector in the structure of local budget revenues of Ukraine in 2022-2024

Source: developed by the author based on FAO (2023b), A. Albaladejo Román (2024), Portal “Decentralisation” (n.d.)

Analysis of Figure 2 showed that in 2022-2024, there was a gradual reduction in the share of the agricultural sector in the structure of local budget revenues from 40.0% to 30.1%. The most significant decrease was observed at the expense of personal income tax from agricultural enterprises, which decreased by almost 5 percentage points. Land tax and rent also decreased: the share of land tax decreased from 11.1% in 2022 to 8.4% in 2024, and rent from 7.9% in 2022 to 6.3% in 2024. This directly reflected the loss of access to agricultural land and the decline in the activity of agricultural producers. Other sources remained relatively stable, but the share was insignificant for meeting the needs of local budgets. The overall dynamics confirmed the increasing dependence of territorial communities on external sources of financing and highlighted the need for income diversification in order to maintain the financial capacity. Similar conclusions were made by P.K. Ozili & P.T. Iorember (2024), who proved that long-term economic security is possible only with systematic investments in key industries, among which the agricultural sector plays a leading role in forming financial sustainability.

Direct financial losses of the agricultural sector are considered one of the key indicators of the impact of military actions on the economic base of territorial communities. These losses encompass both the destruction of production and logistics capacities, and limited access to land due to mining, as well as a decrease in export opportunities. The aggregate indicators for 2022-2024 made it possible to outline the scale of the problem and trace the trend towards its aggravation. The generalised results of these processes are shown in Figure 3, which reflects the structure and dynamics of direct financial losses of the agricultural sector in the period under study. Analysis of Figure 3 showed that in 2022-2024, the total direct losses of the agricultural sector increased from USD 41.7 to 59.8 billion, demonstrating a steady increase in the negative consequences of military operations. The largest losses fell on the category of destroyed infrastructure, which accounted for about half of the total losses. The destruction of warehouses, elevators, transport routes and logistics centres actually reduced the possibilities for storing and transporting products, which had a long-term effect on the economy of communities. An additional factor of destabilisation

was land mining, the scale of which grew every year: according to the KSE Institute (2023), as of 2023, about 30% of the territory of Ukraine was potentially contaminated with mines and explosive remnants of war, and in 2024 more than 5.2 million hectares of land remained unsuitable for agricultural use (FAO, 2023a). This made significant areas inaccessible for production and created risks for both economic activity and the safety of the rural population. At the same time, the reduction in exports remained an important factor that limited foreign exchange earnings

and weakened the resource base of the state and local budgets. Taken together, these processes formed a multidimensional challenge that included the destruction of the material and technical base, loss of access to land, and restrictions on access to foreign markets. Similarly, V. Pernechele *et al.* (2021) showed that systematic investment in the agricultural sector creates long-term multiplier effects for local budgets and strengthens food security, which confirms the importance of restoring agriculture as a strategic resource.

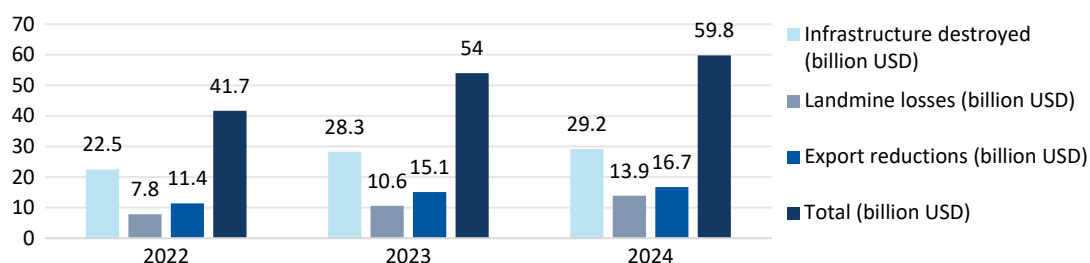


Figure 3. Direct financial losses of the agricultural sector of Ukraine in 2022-2024

Note: destroyed infrastructure refers to elevators, warehouses, transport facilities, logistics routes; losses from land mining include unreceived products and demining costs; reduced exports – reduced foreign exchange earnings from agricultural products exports

Source: developed by the author based on FAO (2023a), KSE Institute (2023), A. Albaladejo Román (2024)

A critical element of financial losses was also the reduction in the number of people employed in agriculture due to the mobilisation of the working-age population: in 2022-2023, the number of workers in the agricultural sector decreased by 12-15% on average across the country (Nehrey & Finger, 2024), and in some frontline regions, losses exceeded 25% (Neyter *et al.*, 2024). The reduction in the workforce in the production process caused a drop in productivity and led to a decrease in tax payments to local budgets. Thus, the financial capabilities of territorial communities were directly dependent on demographic changes imposed on wartime circumstances. The loss of labour potential, combined with increasing infrastructure damage and land loss, increased the burden on the system of inter-budgetary transfers and international aid. As K. Kumar *et al.* (2025) showed, it is tax incentives and regulatory interventions that can restore the productive base of the agricultural sector and thereby support tax

revenues at the local level. This confirmed that without external support, local governments would be unable to provide even a basic level of social and economic functions. Similar trends were described by K. Jansen *et al.* (2022), who emphasised that centralisation and the reduction of the role of local farms lead to the loss of economic subjectivity of rural areas, making these areas dependent on external resources.

The cumulative effect of infrastructure destruction, loss of access to land, reduced exports, and reduced labour resources determined strategic risks to the financial sustainability of rural communities. The accumulation of these factors led to the need to significantly expand the volume of state support and attract external financial resources, in particular through grant and loan programmes of international organisations. At the same time, long-term recovery could be ensured only by reviving agricultural production as a key basis of the tax base of local budgets. The identified trends confirmed

that the agricultural sector during the war period performed not only an economic, but also a system-forming function in shaping the financial stability of territorial communities. In this context, effective mechanisms for financing and attracting additional resources that can support the development of agriculture and the restoration of the revenue base of communities in the medium term became of paramount importance. A similar approach was demonstrated by M. Fetoui *et al.* (2021), who showed that the restoration of degraded lands is possible only through multi-level cooperation between state institutions, local communities and international organisations, which fully corresponds to Ukrainian realities.

The combination of direct and indirect losses to the agricultural sector during the war period significantly weakened the financial basis of territorial communities, making these communities more dependent on centralised transfers and foreign aid. The loss of infrastructure, land resources, labour potential, and export opportunities created a complex challenge for the economic stability of local governments. Under these conditions, the restoration of agricultural production is a key prerequisite for strengthening the tax base and ensuring the long-term financial sustainability of communities.

Mechanisms of financial support for territorial communities and agricultural producers

The financial stability of territorial communities during the martial law period was largely

determined by the volume of resources received in the form of inter-budgetary transfers. Grants and subventions performed a compensatory function, since the communities' own revenues, in particular revenues from personal income tax and economic activity, were significantly reduced. The growth in the role of transfers reflected the adaptation of state financial policy to crisis conditions and demonstrated the level of support for local budgets in ensuring the solvency and performing socially significant functions. A. Bayrakçeken (2024) confirmed this logic, emphasising that the key condition for economic security in crisis situations is the creation of flexible legal mechanisms capable of ensuring the adaptability of financial systems.

An analysis of the dynamics of grants and subventions in 2022-2024 showed a steady increase in centralised financing, which confirmed the formation of a model of high dependence of communities on state resources. As shown in Figure 4, there was both an increase in the absolute volume of transfers and a change in the structure. The share of subventions was of particular importance, as these subventions were directed at specific areas of expenditure, in particular education, healthcare and social protection, while grants performed a more universal function of balancing budgets. The relationship between these forms of support made it possible to assess how rigidly the conditions for the use of centralised funds were determined and what opportunities communities retained for communities' own financial manoeuvring.

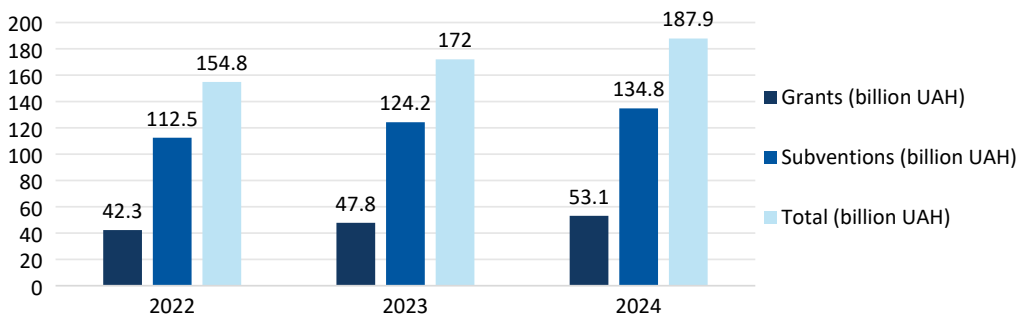


Figure 4. Dynamics of the volume of inter-budgetary transfers for territorial communities in 2022-2024

Note: grants – funds transferred to local budgets without specifying a specific target; subventions – inter-budgetary transfers from the state budget for specific purposes (education, healthcare, infrastructure)

Source: developed by the author based on the Ministry of Finance of Ukraine (n.d.), Portal “Decentralisation” (n.d.)

The data presented in Figure 4 showed a stable growth in the volume of inter-budgetary transfers in 2022-2024. If in 2022 territorial communities received UAH 154.8 billion, then in 2024 this figure increased to UAH 187.9 billion, which corresponded to an increase of almost 21%. The largest share in the structure of transfers was made up of subventions, which increased by UAH 22.3 billion over three years and confirmed the priority of targeted financing focused on the educational, medical and social spheres. Grants demonstrated slower growth rates, but retained a key role in balancing local budgets and ensuring the basic solvency. The overall dynamics of transfers confirmed the growth of centralised support as the main mechanism for compensating for losses of own revenues, which in conditions of martial law increased the dependence of communities on the state budget and narrowed the possibilities

for strategic planning at the local level. Similarly, R. Svartzman *et al.* (2021) proved that a multi-level model of coordination of financial flows in crisis conditions allows reducing systemic risks and compensating for losses of income at the local level.

In this context, grant and preferential financing acquires particular importance, as it acts as an additional tool for increasing the financial sustainability of communities. To specify these trends, it is advisable to consider examples of three territorial communities from different regions of Ukraine: deoccupied, frontline, and rear (Table 2). The cases presented make it possible to trace how the combination of budget resources, international grants, and preferential lending programmes ensures the restoration of agricultural infrastructure, support for production processes, and the formation of the tax base of local budgets.

Table 2. Examples of financial support for territorial communities in 2022-2024

Community type	Name of community (region)	Support tool	Funding amount	Direction of use	Expected effect
Deoccupied	Iziumska (Kharkiv)	State budget + FAO grant	USD 4.2 million	Restoration of the grain elevator and logistics	Restoration of export flows and increase in PIT revenues
Frontline	Orikhivska (Zaporizhzhia)	World Bank ARISE Programme	USD 1.8 million	Purchase of mobile dryers and seed stock	Sowing campaign ensured and jobs preserved
Rear	Tlumatska (Ivano-Frankivsk)	Local budget + programme "5-7-9"	UAH 25 million	Construction of a modern dryer and expansion of the elevator	12% increase in land-related budget revenues lease

Source: developed by the author based on FAO (2023a), World Bank (2023), D. Poursina *et al.* (2024), Cabinet of Ministers of Ukraine (2025), Delegation of the European Union to Ukraine (2025), Ministry of Finance of Ukraine (n.d.), Portal "Decentralisation" (n.d.)

In the case of the deoccupied Iziumska community in Kharkiv region, funding was provided through a combination of the state budget and the FAO grant programme, which ensured the restoration of basic production capacities (FAO, 2023a). In addition to the restoration of the elevator, part of the funds were directed to the purchase of equipment for grain quality control laboratories, which allowed for the restoration of export supplies through the Black Sea corridors. A study by D. Poursina *et al.* (2024) confirmed the significant economic effect of the grain initiative in supporting international trade. Additionally, FAO and EU grant resources were used

to train local farmers in risk management in the post-war period, which increased the human resources potential of the community (Delegation of the European Union to Ukraine, 2025). The cumulative effect was manifested in an increase in personal income tax revenues and the restoration of contracts with international traders.

The Orikhivska frontline community of Zaporizhzhia region received support under the World Bank's Ukraine Agriculture Recovery Inclusive Support Emergency (ARISE) programme, which provided funding for mobile grain dryers and seed stock restoration (World Bank, 2023). Thanks to this, the community was able to

conduct a full-fledged sowing campaign despite limited logistical capabilities and constant risks of hostilities. In addition, part of the funds were used to create a reserve seed stock for subsequent seasons, which increased resilience to possible future disruptions. The economic effect was manifested in the preservation of over 300 jobs and stabilisation of land lease revenues. In the Tlumatska rear community of Ivano-Frankivsk region, the use of the local budget in combination with the “5-7-9” programme made it possible not only to build a modern dryer and expand the elevator, but also to create a cooperative for small farmers. The affordable lending programme provided low interest rates, which stimulated additional investments in technical re-equipment (Cabinet of Ministers of Ukraine, 2025). As a result, the community received a 12% increase in land-related budget revenues lease and increased employment in the field of agricultural infrastructure services.

A critical additional factor of financial support was the activities of international organisations that provided a resource base for the restoration of the agricultural sector. In particular, the Ukraine Facility programme (European Commission, 2022) provided for the provision of long-term macro-financial assistance to

Ukraine, including resources to support agricultural production and the development of local infrastructure. The Common Agricultural Policy (European Commission, 2023) was aimed at supporting the competitiveness of agricultural producers through the modernisation of technologies, the development of innovations and ensuring food security. The European Agricultural Fund for Rural Development (European Commission, 2024) provided funding for rural rehabilitation projects, including land demining, infrastructure construction and modernisation, and support for small and medium-sized farms. FAO (2023a) implemented grant programmes focused on the direct rehabilitation of farms, the purchase of seeds, equipment, and the restoration of production capacities in the affected areas. Data for 2022-2024 showed a gradual increase in the volume of international assistance, reflecting the increased interest of partners in stabilising the agricultural sector of Ukraine. This trend had not only socio-economic but also fiscal significance, as support for agricultural production directly influenced the formation of local tax revenues and served as an important element in ensuring the financial sustainability of territorial communities, which is clearly reflected in Figure 5.

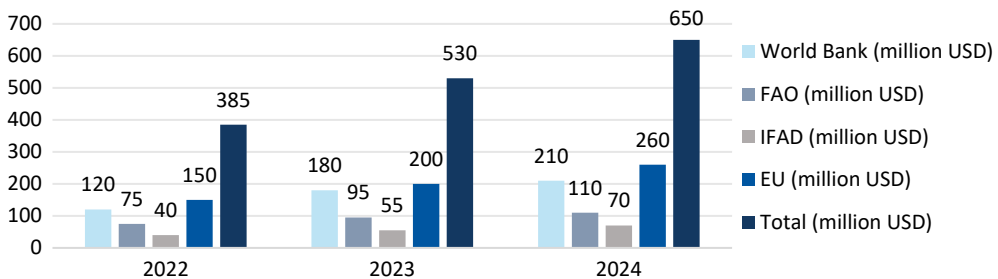


Figure 5. Volumes of grant support to the agricultural sector from international organisations in 2022-2024

Note: data reflect grant support in the form of financing programmes for the restoration, modernisation and support of agricultural production

Source: developed by the author based on International Fund for Agricultural Development (2022), FAO (2023b), World Bank (n.d.)

Analysis of Figure 5 showed a steady increase in the volume of international grant assistance to the agricultural sector of Ukraine in 2022-2024. The total amount of funding increased from USD 385 million in 2022 to

USD 650 million in 2024, which corresponded to an increase of 69%. The largest share of assistance was provided by the European Union, which accounted for about 40% of the total. Resources provided by the World Bank

remained significant, while FAO and IFAD focused on supporting small farms and implementing food programmes. This dynamics indicated the growing role of international donors in stabilising the agricultural sector, which directly formed the tax base and financial sustainability of territorial communities. According to the Fund for Entrepreneurship Development (n.d.), state programmes to stimulate small businesses played an important role in supporting the agricultural sector, in particular the affordable loan programme “5-7-9”. Expanding access of rural enterprises to cheap financial resources made it possible to maintain employment of the population, maintain production capacities and minimise the risk of complete loss of tax revenues. The combination of external and internal financing instruments created conditions for diversification of income sources and contributed to more sustainable development of communities even under military restrictions. A similar effect was described by S. Karim *et al.* (2022), showing that during the COVID-19 pandemic, adaptive mechanisms of the banking sector, in particular regulatory easing and targeted support programmes, made it possible to minimise the negative effect of the crisis on local economies.

At the same time, problems of efficiency of use of attracted resources persisted. Insufficient level of transparency and control mechanisms created risks of non-targeted spending of grant and subvention funds, in particular delays in the implementation of reconstruction programmes and cases of use of funds without clear reference to target indicators (KSE Institute, 2023; World Bank, n.d.). This reduced the effectiveness of financial support, as part of the funding did not provide the expected effect in restoring production capacities and developing local infrastructure. This problem correlates with the results of the study by A. Białek-Jaworska (2022), which found that the activation of municipal enterprises can reduce the debt burden and at the same time increase the efficiency of using financial resources at the local level. Therefore, the need to strengthen the institutional capacity of local governments for high-quality administration of external and internal financial flows became urgent, because

it was this factor that determined the trust of international partners and further readiness for cooperation.

In general, the financial capacity of territorial communities in wartime was formed thanks to a combination of multi-level support from the state and international organisations. The development of effective schemes of interaction between communities, government structures and donors became a key prerequisite for minimising the consequences of war destruction and created the basis for further reconstruction of the economy at the local level. This trend determined the prospects for long-term restoration of financial stability through the restoration and development of the agricultural sector.

Prospects for restoring the financial capacity of communities through agricultural development

The restoration of the agricultural sector after the end of the active phase of hostilities is a key factor in rebuilding the financial base of territorial communities. It is this sector that determines the level of tax revenues, which are the basis of the revenue part of local budgets in rural regions. Forecasting its development makes it possible to assess the potential volumes of resources that will be formed in the medium term and will ensure the financial capacity of communities. Revenues from personal income tax, land tax and rent are of particular importance, since these revenues reflect both the level of economic activity and access to land resources, which directly affect budget planning.

Forecast calculations of revenues make it possible to determine guidelines for strategic financial planning of territorial communities (Fig. 6). The expected gradual restoration of agricultural production after land clearance and modernisation of production facilities will contribute to employment growth, labour productivity, and land use costs (Neyter *et al.*, 2024). This will generate a stable increase in tax and rental payments, which in the future will ensure not only the fulfilment of current social and administrative obligations, but also create opportunities for investment in the development of social and production infrastructure (World Bank, n.d.). Thus, the restoration of the

agricultural sector becomes not only an economic but also a socio-strategic factor capable

of determining the trajectory of rural communities in the post-war period.

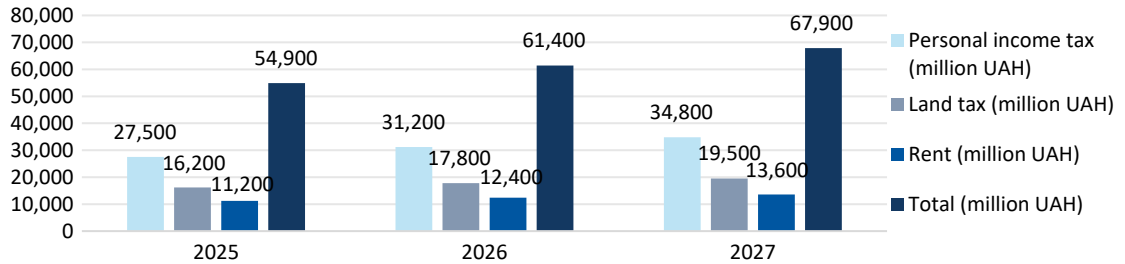


Figure 6. Forecast revenues to local budgets from the agricultural sector in 2025-2027

Note: land tax – mandatory payments for the use of land plots; rent – revenues for the use of agricultural land. Forecast data are calculated based on the average annual rates of recovery of agricultural production of 8-10%, the expected growth in employment in the sector after land clearance, as well as the expansion of the tax base through integration into support programmes of the European Commission and international donors

Source: developed by the author based on FAO (2023b), A. Albaladejo Román (2024), Ministry of Finance of Ukraine (n.d.)

Analysis of Figure 6 indicates a gradual recovery and growth of tax revenues from the agricultural sector in 2025-2027. The largest increase is expected due to the personal income tax, the volume of which increases from UAH 27.5 billion in 2025 to UAH 34.8 billion in 2027. This is due to the expansion of employment in agriculture and the gradual restoration of entrepreneurial activity in the liberated and restored territories. Land tax during this period shows an increase of UAH 3.3 billion, which is associated with the introduction into economic circulation of lands that were inaccessible due to mining or destruction of infrastructure. The rent for agricultural land also increases by UAH 2.4 billion, reflecting the increased interest of private and corporate investors in land use and the increase in rental costs. In total, local budget revenues from the agricultural sector increase from UAH 54.9 billion in 2025 to UAH 67.9 billion in 2027, confirming its key role as a budget-forming factor and the basis for the financial stability of territorial communities. Similarly, D.R. Hakim & S.R.S. Dewi (2021) showed that targeted tax revenues can strengthen the financial capacity of territories and ensure diversification of income sources.

Determining the needs for financing the restoration of the agricultural sector is the next important step in shaping post-war reconstruction strategies. The analysis of key areas showed

that the largest resources in the medium term will be required for land demining, modernisation of the technical base and restoration of damaged infrastructure, while supporting farms is seen as a long-term investment in the development of the local economy. Forecast data for 2025-2030 indicate a gradual reallocation of financial flows from priority measures aimed at eliminating the consequences of the war to investments in technological renewal, increasing productivity, and ensuring sustainable competitiveness of the agricultural sector (Fig. 7). This approach forms the basis for balanced development of local budgets and creates opportunities for long-term strengthening of the financial capacity of communities. Analysis of Figure 7 shows that in 2025-2030, the largest expenditures will be required for infrastructure restoration and land demining, but the share in overall needs will gradually decrease. At the initial stage, these areas are critically important for returning agricultural land to production and restoring logistics links. Financing for demining decreases from USD 5.5 billion in 2025 to USD 3.4 billion in 2030, which is explained by the completion of key stages of territory clearance and the gradual reduction in the scale of the problem. This correlates with the conclusions of K.Q. Yaqub (2024), who, analysing the experience of Iraq, proved that excessive dependence on a single source of income (in particular, oil revenues) creates fiscal

vulnerability, which echoes the Ukrainian situation, where the dominance of certain income items requires compensatory mechanisms. In contrast, spending on equipment modernisation shows the opposite dynamics – growing from USD 3.0 to USD 4.8 billion, reflecting a strategic shift in emphasis from eliminating war consequences to increasing production productivity. This conclusion is consistent with the results of the study by A. Ahmad *et al.* (2024), which showed that the introduction of innovative technologies and artificial intelligence in the agricultural sector provides increased productivity, reduced costs, and the formation of stable tax revenues. Digitalisation of processes in production and logistics, as A. Ahmad *et al.* prove, creates the basis for strengthening the financial capacity of communities, since the introduction of innovative technologies and artificial intelligence in the agricultural sector provides increased productivity, reduced costs, and the formation of stable tax revenues. Forecast data developed based on materials from KSE Institute (2023), R. Neyter *et al.* (2024) and World Bank (n.d.), confirmed a similar role of modernisation of agricultural machinery, which was determined as one of the key factors in restoring the financial base in the medium term. Support for farms during this period also gradually increased, which indicates the growing role of small and medium-sized agricultural producers

in restoring economic activity and ensuring sustainable development of the agricultural sector. The total annual financing needs according to forecasts for 2025-2030 remain stable and fluctuate at the level of USD 17-18 billion (Neyter *et al.*, 2024; World Bank, n.d.), which confirms the sustainability of financial obligations in the medium term and the need for long-term planning of relevant programmes. A similar pattern was noted by C. Challoumis (2024), who developed the concept of integrating the dynamics of the monetary cycle and economocracy, proving that the effectiveness of the financial system in crisis conditions depends on the ability to balance income and expenditure, taking into account cyclical fluctuations.

In the context of forming the financial stability of territorial communities after the end of the active phase of hostilities, an important task is not only to assess resource needs, but also to determine strategic guidelines for development. The predicted recommended solutions, summarised in Table 3, make it possible to outline the key areas of state, municipal and international support. These solutions reflect possible steps aimed at creating new financial instruments, restoring the tax base and stimulating agricultural development, which together form the basis for long-term strengthening of the financial capacity of local budgets and increasing the economic independence.

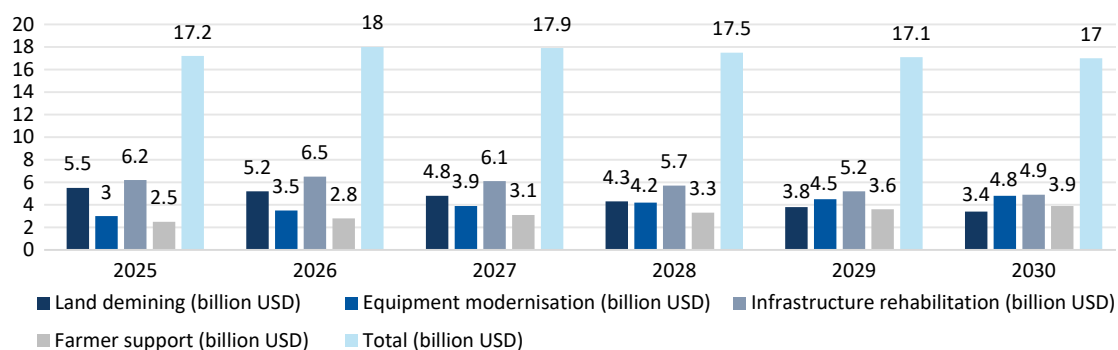


Figure 7. Financing needs for the restoration of the agricultural sector by areas in 2025-2030

Note: the forecast financing needs for the main areas of development of the agricultural sector are given: land demining – costs for clearing territories to return these territories to economic circulation; modernisation of equipment – investments in modern machinery and equipment; infrastructure restoration – reconstruction of warehouses, logistics facilities, irrigation systems; support for farmers – grants, loans, and subsidies for small and medium-sized producers

Source: developed by the author based on FAO (2023b), KSE Institute (2023), A. Albaladejo Román (2024)

Table 3. Predicted recommended solutions for restoring the financial capacity of territorial communities through agricultural development

Direction	The essence of the solution	Expected effect	Estimated implementation period
Integration into the European market	Participation in EU programmes – Ukraine Facility, CAP, EAFRD	Expansion of sales markets, increase in foreign exchange earnings, growth in local budget revenues	2025-2030
Technology modernisation	Introduction of modern agricultural technologies (precision farming, irrigation) and product storage systems (mobile dryers, elevators)	Reducing production costs, increasing competitiveness, increasing tax revenues	2025-2028
Development of microcredit	Creating affordable financing programmes for small farmers and personal farms	Diversification of production, preservation of jobs, stabilisation of the local economy	2025-2027
Creation of local agricultural funds	Pooling state, municipal, and donor resources to support farmers and restore land	Financing demining, supporting farmers, increasing the fiscal sustainability of communities	2025-2030

Note: local agricultural funds are special financial instruments created at the community level to support the agricultural sector and restore land resources; microcredit is a mechanism for providing small loans to small farmers and farms in order to maintain the activities

Source: developed by the author based on FAO (2023a), KSE Institute (2023), European Commission (2022; 2023; 2024)

The restoration of the tax base of territorial communities is possible thanks to Ukraine's integration into the European market and involvement in agricultural sector support programmes by the European Union, in particular the Ukraine Facility (European Commission, 2022), Common Agricultural Policy – CAP (European Commission, 2023) and European Agricultural Fund for Rural Development – EAFRD (European Commission, 2024). The implementation of these programmes involves the creation of new opportunities for export, the introduction of European production standards and an increase in the quality of products. It is assumed that this will not only ensure stable growth in farm incomes, but also expand the resource base of local budgets by increasing revenues from personal income tax, land payments and rent. In the medium term, such processes should contribute to the formation of a more predictable and diversified revenue part of local budgets. A similar conclusion was made by J. Zhang & Z. Shi (2025), who, based on the CGE model, proved that social capital and cultural interaction strengthen the economic base of rural areas and provide additional sources of income.

Modernisation of the agricultural sector through the introduction of modern technologies for production, storage, and processing of

products is considered one of the most promising areas of recovery. The use of innovative solutions allows reducing the cost of production and increasing the efficiency of resource use: according to estimates, the use of precision agriculture technologies reduces fuel and fertiliser costs by 15-20%, which corresponds to savings of over USD 1.2 billion per year on a national scale (KSE Institute, 2023). At the same time, the introduction of irrigation systems increases the yield of grain crops by an average of 25-30%, providing additional tax revenues for local budgets at the level of UAH 4-5 billion per year (FAO, 2023a). According to World Bank calculations (n.d.), reconstruction and modernisation of storage infrastructure reduces post-harvest losses from 15% to 7-8%, which is equivalent to saving about 2.5 million tonnes of grain annually. The development of processing enterprises can increase the added value of products by 35-40% and bring communities an additional UAH 6-7 billion in tax deductions each year (FAO, 2023a). Taken together, such measures not only stabilise the production process and ensure competitiveness in international markets, but also contribute to the growth of tax revenues to local budgets, strengthen the financial capacity of territorial communities and create an attractive investment environment for

the long-term development of rural areas. The prospects for restoring the financial capacity of territorial communities through the development of the agricultural sector confirm the need to combine state, municipal, and international support instruments. A similar approach was proposed by T. Mallawaarachchi & D.B. Rahut (2023), emphasising that inclusiveness and diversification of income are key conditions for sustainable development of rural areas in the post-crisis period. Implementation of comprehensive measures to demine territories, expand access to financial resources and modernise production creates a basis for long-term restoration of the revenue base of local budgets. Such a strategy provides not only financial stabilisation, but also forms the basis for analysing social and economic effects that will determine the further trajectory of development of local finances in the post-war period.

Thus, the results of forecast calculations and analysis of the main areas of financing showed that the restoration of the financial capacity of territorial communities directly depends on the pace of revival of the agricultural sector and the effectiveness of the implementation of mechanisms for its support. The combination of modernisation of production, attraction of investments, integration into European programmes and development of local financial instruments creates a comprehensive basis for stabilising local budgets and creating prerequisites for long-term economic growth.

CONCLUSIONS

The results of the study showed that in 2022-2024, the financial base of territorial communities in Ukraine underwent significant changes. Personal income tax decreased from UAH 300.5 billion in 2022 to UAH 259.3 billion in 2024 (-14%), while inter-budgetary transfers increased by 21%, reaching UAH 187.9 billion. In the revenue structure of 2024, personal income tax accounted for almost 40%, and the share of grants and subventions exceeded 28%, which indicated an increase in centralised trends and a decrease in the financial independence of communities. The agricultural sector remained the leading factor in generating income in rural areas, but its share decreased from 40.0%

in 2022 to 30.1% in 2024. The largest drop was observed in personal income tax from agricultural enterprises – from 16.2% to 11.5%. Direct losses of the industry in 2022-2024 amounted to USD 59.8 billion, of which about half was due to destroyed infrastructure. Additional negative factors were land mining and reduced exports, which increased fiscal risks for communities. At the same time, international support increased: grant funding increased from USD 385 million in 2022 to USD 650 million in 2024. Forecasts indicate that in 2025-2027 tax revenues from the agricultural sector will increase from UAH 54.9 billion to UAH 67.9 billion, while the needs for financing its recovery in 2025-2030 will remain at the level of USD 17-18 billion annually. The greatest resources will be required for the restoration of infrastructure and land demining, while costs for modernisation of equipment and support for farmers will gradually increase. At the same time, the long-term recovery strategy should be based on the implementation of the predicted recommended solutions, including integration into European markets, modernisation of agricultural technologies, development of microcredit and creation of local agricultural funds, which will ensure stability and diversification of sources of income of communities.

The limitations of the study are the dependence on official statistical data and reports of international organisations, which may not fully reflect the real scale of economic losses in communities, as well as the lack of unified methods for assessing the financial consequences of land mining and the destruction of agricultural infrastructure, which reduced the accuracy of long-term forecasts. Further research should be aimed at quantitatively assessing the socio-economic effects of restoring the agricultural sector, modelling regional disparities in community incomes, and analysing the effectiveness of Ukraine's integration into the financial and agricultural programmes of the European Union, which will allow for the formation of more comprehensive strategies for restoring and strengthening the financial sustainability of territorial communities.

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CONFLICT OF INTEREST

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Олег Негода

Магістр

Університет імені Григорія Сковороди в Переяславі

08401, вул. Сухомлинського, 30, м. Переяслав, Україна

<https://orcid.org/0009-0003-2722-6026>

Фінансове забезпечення територіальних громад в умовах воєнного стану: виклики та перспективи для аграрного сектора

Анотація. Метою статті було виявлення трансформацій фінансових ресурсів територіальних громад у період воєнного стану та визначення ролі аграрного сектору у відновленні їхньої фінансової спроможності. Методологія ґрунтувалася на аналізі статистичних показників доходів місцевих бюджетів України у 2022-2024 роках, структурно-функціональному аналізі ролі аграрного сектору та прогнозованому моделюванні відновлення податкової бази у 2025-2030 роках. Аграрний сектор, що забезпечує понад 30 % бюджетів сільських громад, зазнав втрат на суму близько 59,8 млрд дол. унаслідок руйнування інфраструктури, мінування понад чверті земель і скорочення експорту. Обсяги міжнародної грантової підтримки від Світового банку, Продовольчої та сільськогосподарської організації ООН, Міжнародного фонду сільськогосподарського розвитку та Європейського Союзу зросли з 385 млн дол. у 2022 році до 650 млн дол. у 2024 році, що підтвердило вагомість зовнішньої допомоги. Прогнозні розрахунки показали, що у 2025-2027 роках податкові надходження від аграрного сектору зростуть із 54,9 млрд грн до 67,9 млрд грн, тоді як щорічні потреби у фінансуванні його відновлення у 2025-2030 роках залишатимуться на рівні 17-18 млрд дол. з переорієнтацією на модернізацію техніки та підтримку фермерів. Поєднання державних, муніципальних та міжнародних механізмів підтримки створює основу для відновлення фінансової спроможності громад, а інтеграція України до європейського ринку відкриває нові можливості для зміцнення податкової бази. Практичне значення дослідження полягає у формуванні рекомендацій щодо розвитку локальних аграрних фондів, мікрокредитування та програм пільгового кредитування. Результати можуть бути використані органами місцевого самоврядування, державними установами та міжнародними донорами для розробки стратегій фінансової стійкості територіальних громад

Ключові слова: бюджет; доходи; гранти; субвенції; продовольча безпека; прогнозне моделювання