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HROMADAS` FINANCES MANAGEMENT IN THE FACE OF CRISIS

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Abstract. This article examines the key features of public finance management within hromadas, analysing the current situation and identifying areas for improvement. To ensure the financial independence of hromadas, favourable investment conditions must be fostered, small and medium-sized enterprises must be supported in their development, job creation must be stimulated, and local residents' income levels must be enhanced. The present study is founded upon a combination of theoretical and methodological approaches. The abstract-logical method was employed for theoretical generalisation and conclusion formulation, enabling a thorough assessment of relevant professional literature. The decomposition method was employed to establish the study's framework, while analysis and synthesis methods enabled a comprehensive examination of public finance management in Ukrainian hromadas. Local finances play a crucial role in economic relations, particularly in the context of decentralisation, which allows hromadas to tailor the provision of goods and services to local needs. However, the management of public finances during wartime poses a unique set of challenges, necessitating a high degree of flexibility, adaptability, and innovation to ensure financial stability and respond effectively to pressing circumstances. Defence and social expenditures frequently extend beyond budgetary allocations, incorporating resources from public-private partnerships, volunteering, crowdfunding, and other alternative funding mechanisms. This complicates the accurate assessment of revenues and expenditures of hromada budgets. In situations of crisis, hromadas have the capacity to redistribute resources in order to mitigate the adverse effects of such situations. The study draws parallels between the financial responses of two distinct groups of regions, distinguishing between those in close proximity to the frontline and those that are more distant. An analysis of hromada expenditures on public order, security, and judiciary functions reveals different spending trends between these groups. The findings obtained underscore the role of hromadas as key actors in GDP redistribution, capable of mitigating crisis effects through strategic resource allocation and financial management. The present study explores the theoretical, methodological and practical aspects of hromada public finance management. It provides a comprehensive analysis of the current financial landscape, the allocation of budgetary funds, and the strategies necessary for maintaining fiscal resilience under martial law. The findings contribute to a more profound understanding of public finance management in crisis conditions, offering insights for policymakers and local government officials.

Keywords: anti-crisis management, decentralisation, local budgets, local self-government, hromada, budget, revenues, expenses.

JEL Classification: H72, H83, R11

1. Introduction

In the contemporary world, characterised by rapid change, the importance of local self-government and the development of hromadas as part of a country's democratic development is emphasised. The consolidation process in hromadas' formation is not contradictory to decentralisation. Rather, it is aimed at improving the socio-economic system and quality of living standards, which are considered to be of the utmost importance for any state policy.

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In order to ensure the effective utilisation of financial resources in local self-government hromadas and their territories, it is recommended that consolidation processes be implemented. The overarching objective of these processes is to establish distinct hromadas that are not only capable of meeting their obligations but also providing their residents with a satisfactory quality of life. The establishment of a viable hromada represents a phase in the process of decentralisation that engenders greater flexibility in management and enhances sustainability when confronted with any origins shock.

The financial decentralisation process has had a substantial impact on the autonomy of local budgets, thereby creating opportunities for regional development through projects that address local needs. Nevertheless, the sustainability of hromadas is contingent upon their economic viability. The Russian Federation's military invasion of Ukraine in February 2022 had a significant impact on the development of both hromadas and on the functioning of society as a whole.

Local hromadas were confronted with novel challenges and responsibilities. The development of strategies for adapting to new realities, in addition to the formulation of strategies for sustainable development and economic stability, has become a priority. The implementation of specific projects and initiatives has become a pivotal aspect of regional support and development.

Attracting external investment, developing entrepreneurship, supporting social programmes and initiatives have become key priorities for hromadas. Creating a favourable investment climate, fostering small and medium-sized enterprises (SMEs), stimulating job creation and increasing local residents' income are crucial for hromadas to achieve financial independence. To achieve this goal, efforts must be directed towards developing hromadas' economic potential, identifying new sources of income and optimising the utilisation of existing resources. This highlights the importance of public finance management within hromadas.

Local finance plays a key role in society. It is the foundation of the economic relations of administrative-territorial units and the primary tool for implementing policy. The decentralisation process is leading to a transformation of local finances, resulting in the formation of a specific hromada's finances. Their continued operation depends on effective financial management as a multifactor process subject to various external influences, particularly during periods of economic fluctuation. Any political or military event, social conflict or environmental disaster can have a drastic effect on a country's economic growth, setting it back or even leading to its downfall.

2. Methodology

This study is based on a comprehensive theoretical and methodological framework focused on the management of public finances within hromadas. A thorough review of the relevant literature was conducted to lay the groundwork for analysing financial decentralisation and its implications.

In order to achieve the research objectives, a range of scientific methods were applied. The abstract-logical method was employed for theoretical generalisation and the formulation of conclusions, enabling a systematic evaluation of professional literature. The decomposition method was utilised to disaggregate the study's objectives and goals into specific components, thereby facilitating a structured analysis. Furthermore, analysis and synthesis methods were employed to assess the state of public finance management in Ukrainian hromadas, thereby ensuring a balanced evaluation of financial trends and governance mechanisms.

The information base of this study incorporates official data from the National Bank of Ukraine and the Ministry of Economy, complemented by contemporary scientific research and publications. It is evident that these sources furnish reliable and contemporary insights into the financial sustainability of hromadas.

3. The Concept of Hromada and its Finances

In the context of crisis management, it is imperative for any management initiative to be initiated from its subject definition, and to be distinguished from other related parties. The fundamental concept of hromada finances is public finances, which play a pivotal role in the financial and economic systems of numerous countries. In Ukraine, the proportion of gross domestic product accounted for by public finances is more than 40%. These funds are of critical importance for the basic state functions, such as ensuring territorial integrity, law and order, healthcare, education, pension provision, social protection, infrastructure development and environmental protection. In the context of the Ukrainian economy's present developmental phase, the establishment of an effective public finance system has been identified as a priority [10, p. 60]. Recent studies and publications show that economists have not yet reached a consensus on the definition and components of public finance. Thus, Table 1 shows that some recent research takes different approaches to defining public finance.

The comprehensive approach to defining public finances is aimed at ensuring transparency and efficiency in utilising public resources, as well as stimulating the development of the country's economy. Public finances cover a wide range of relations involving public financial resources, with at least one party being a public financial resource fund. These funds originate from the budget or other public sources, such as fees, payments and deductions, and are used to satisfy public needs.

The concept of "hromada" can be defined in a number of ways. A range of comparisons can be drawn. According to the Constitution of Ukraine, a hromada is defined as the primary subject of local self-government. This right is granted to the residents of a village or a voluntary association of residents of several villages, a town and a city into a rural hromada, enabling them to independently resolve issues of local importance within the framework of the Constitution and laws of Ukraine (The Constitution of Ukraine, 2020). In addition, the Ukrainian legislation stipulates the following definition of a hromada: "a group of residents united by permanent residence within the boundaries of a village, town, or city, which are independent administrative-territorial units, or a voluntary association of residents of several villages, which have a single administrative centre" (The Law of Ukraine "On Local Self-Government in Ukraine", 2025). In the context of Western science, the concept of a hromada is understood as a primary social institution, concurrently serving as a societal centre, wherein the predominant socio-political relations are initiated (Lisman, 2017; Dumin, 2024). Ostrom (2010) identifies hromadas as a clearly defined group of individuals who, having determined the rules for using a resource in accordance with local conditions, create long-term institutional associations for monitoring resource use, resolving conflicts, and administering sanctions. Batanov emphasises that a hromada can be defined as the primary subject of local self-government. It consists of individuals who permanently reside in the relevant territory. They resolve issues of local importance directly or through municipal structures formed by them. They also have common communal property and own real estate in this territory. They pay communal taxes and are connected by individual-territorial ties of a systemic nature (Batanov, 2008). Yaroshenko (2021) provides a comprehensive systematisation of the functional and legal features of hromadas, as well as an overview of the approaches to defining hromadas. In contrast, Cannizzaro and Kamińska focus on investigating specific cases or approaches, and on systematising the approaches of different EU countries (Cannizzaro, 2025; Kamińska, 2025).

By summarising these findings, the list of hromada's characteristics can be created:

A shared territory of existence (territory term is not limited by any area limitations and can both, quite small or as large as the region or more);
– common interests in addressing daily life issues;
– social interaction involvement in terms of daily life interests' realisation;
– self-identification of each hromada member in both psychological and social dimensions;
– shared property involved in social processes maintaining;
– local taxes, fees or other types of payments as a source of hromada income.

The primary goal of hromadas is to ensure balanced economic and social development of the respective area, the efficient use of natural, labour, and financial resources, the development of human potential within the hromada, and the engagement of the hromada's capacity in local development. It is evident that the hromada constitutes an open social governance system, the establishment of which is intended to ensure the equitable treatment of material, mental and social values.

Hromadas are a vital part of modern economics. Their formation possesses a set of advantages:
– The consolidation of resources as well as labour, intellectual, and financial potential;
– shared ownership and management of critical hromada property;
– co-operation encouragement in the process of common interests' achievement.

In order to facilitate the effective functioning of hromadas in terms of providing citizens with quality services and increasing their standard of living, it is necessary to establish financial resources of a local nature. These financial resources represent the volume of financial resources formed, distributed and used to ensure its socioeconomic development. The financial administration of a hromada is characterised by a number of distinctive features:

The hromadas' finances form part of the system of economic relations associated with the distribution and redistribution of GDP;
– these relations are forming, allocating and utilising financial resources;
– the targeted purpose of such relations should be considered the local self-government bodies' provision of the financial resources necessary for fulfilling their functions and responsibilities.

Also, the hromadas` finances should be considered regarding the functions, tasks, and role of local authorities and self-government. It is important to highlight factors to be considered in this regard:

The state authorities and local self-government powers delimitation;
– the feasibility certain state powers granting to local self-government bodies justification and ensuring adequate financial support;
– outlining the composition and the volume of financial resources available to local self-government bodies;
– ensuring autonomy and efficiency in financial resources utilisation;
– local authorities state financial support guaranteeing (Kyrylenko, 2014).

According to the highlighted factors, it should be noted that hromadas' finances can be used to meet various social and governmental needs, helping to achieve sustainable growth through its main pillars (see Figure 1).

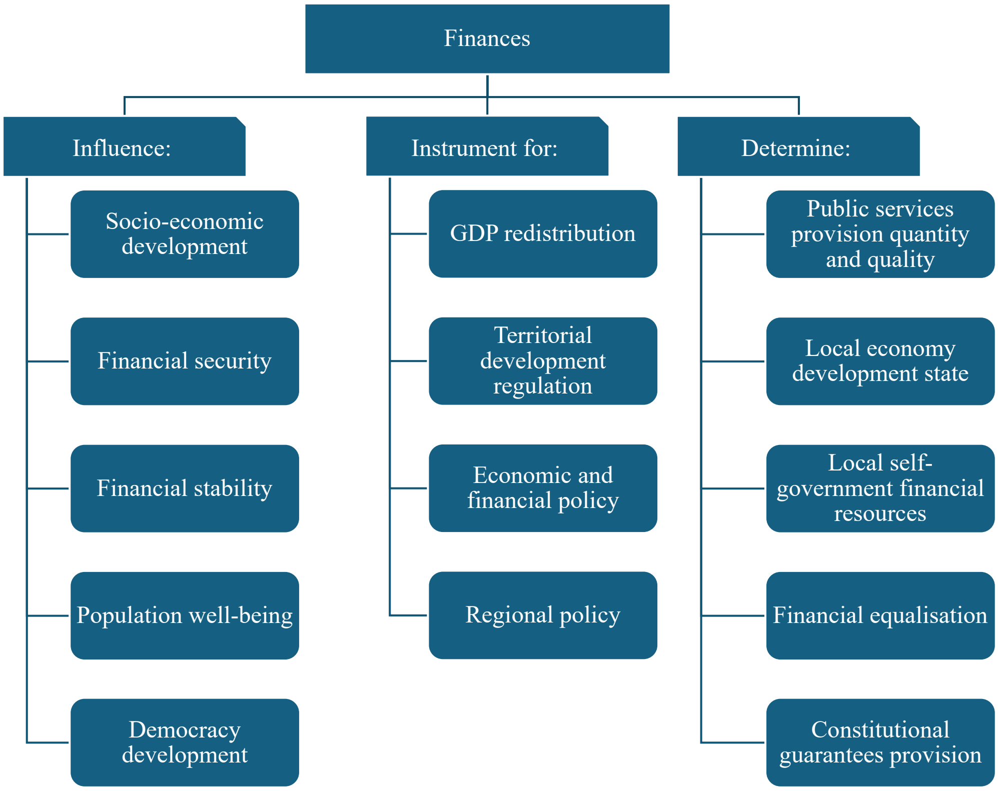

Figure 1. Key components of the socio-economic significance of hromada finances

Source: compiled by the authors (Kyrylenko, 2014)

As a fundamental sphere of social relations, local finance directly influences socio-economic growth. Since hromadas' finances form part of local finance, it can be assumed that the same methods can be used to manage both. Taking this into account, Table 2 presents a set of methods.

All methods can be used at both levels with minimal changes. Hromadas can take action to ensure sustainable and extensive growth while complying with current legislation.

4. Managing Financial Indicators: Case of Ukraine

Effective financial management of hromadas requires a comprehensive approach. In peacetime, the various methods highlighted above are important for ensuring the functioning of hromadas. However, in the event of a crisis, such as the armed aggression of the Russian Federation against Ukraine, these methods must be improved accordingly. Budgets form the basis of hromadas' finances. The introduction

Table 2
Methods of managing the finances of a hromada

Method	Method summary
Financial forecasting and budgeting	Justification of the planned budget indicators, which are mandatory and used to influence the level of socioeconomic development.
Local tax	A set of local taxes and fees that are collected to form a local budget or targeted fund, in accordance with local legislation.
Funding	Revenues and expenditures relating to changes in debt, deposits, securities and changes to the budget that can be used for existing purposes.
Financial control	Ensuring compliance with legal and financial discipline, preventing any violations in the process of local funds mobilisation, distribution and utilisation, and ensuring the timely and complete reflection of transactions. Providing users with information on assets and liabilities to fulfil local government duties.
Stimulation	Promoting socioeconomic development through defined incentives.

Source: compiled by the authors (Diachenko, 2018) of martial law in Ukraine has led to significant changes in revenues, complicating the process of financial forecasting and planning. The destruction of infrastructure, breakdown of economic ties, decrease in investment attractiveness, problems with fiscal discipline, changes in budget policy priorities, and general uncertainty have all affected tax revenues significantly. While the war has changed funding priorities to focus on defence capabilities, it is important to ensure the stable finances of hromadas by attracting sufficient financial resources.

Another important issue is the management of financial resources. In times of war, many cities, towns and villages, particularly in frontline territories, face constant challenges such as damaged infrastructure, the need to rebuild housing and social facilities, and providing humanitarian support to victims and internally displaced persons. It is becoming increasingly important to optimise costs and prioritise funding for critical areas such as the economy, education, healthcare, social protection and social security. Effective financial forecasting and planning helps avoid unnecessary expenditure and ensures vital projects are implemented.

The analysis should start in 2019 to allow observation of general trends in budget changes and hromadas' finances. Table 3 shows that 2022 saw a significant increase in both revenues and expenditures in the Ukrainian budget. The economy was mobilised in response to the full-scale Russian invasion, demonstrating a significant increase in efficiency.

With regard to the matter of hromadas, the situation is largely analogous, as illustrated in Table 4. The full-scale Russian invasion resulted in heightened levels of instability and economic losses, although actual tax revenues to local budgets in 2022 exceeded the planned amount by 3,484.3 million UAH. This outcome can be attributed to the augmentation of personal income tax (PIT) revenues, which can be ascribed to the modifications in military personnel costs. This finding serves to substantiate its status as a pivotal budget-forming source of income (Krysovatyi, 2024).

Considering personal income tax (PIT) as the main source of income and the basis for hromadas' budgets, consider the planned and actual incomes at both the local and state levels (see Table 5). The provided data confirms both the budget-forming role of the personal income tax and the need for its redistribution in favour of defence spending. These conclusions should be taken into account in the event of a crisis caused by war.

The question of how hromadas' financial resources are allocated in terms of army needs, as well as how

Table 3
State budget indicators of Ukraine (in million UAH)

Year	Revenues			Expenditures		
	Plan	Actual	Efficiency	Plan	Actual	Efficiency
2019	1026131,8	998278,9	97.29%	1112130,0	1072891,5	**96.47%**
2020	1095580,4	1076016,7	98.21%	1182010,4	1288016,7	**108.97%**
2021	1084034,3	1296852,9	119.63%	1320152,6	1490258,9	**112.89%**
2022	1323923,8	1787395,6	135.01%	1499469,9	2705423,3	**180.43%**
2023	1329260,1	2671998,0	201.01%	2580676,6	4014418,1	**155.56%**
2024	1768451,2	3122713,4	176.58%	3309047,6	4486682,7	135.59%

Source: compiled by the authors (State Budget of Ukraine (2008-2025))

Table 4
Local budget revenues indicators (in million UAH)

	2019	2020	2021	2022	2023	2024
Tax revenues	270546	285572	346713	393461	434541	441094.2
Non-tax revenues	26105	21463	27183	22041	36511	43603.7
Capital transactions Income	2928.8	3473	3462.2	2275.9	3621.8	4854.9
Public trust funds	601.9	649.3	571.3	342.2	351.7	618.2

Source: compiled by the authors (National Bank of Ukraine)

Table 5
PIT revenues comparison (in M UAH)

	2019		2020		2021		2022		2023		2024	
	Planed	Actual	Planed	Actual	Planed	Actual	Planed	Actual	Planed	Actual	Planed	Actual
State budget	106155.2	109954	111302.5	117281.2	137580	137555.2	149811.9	148427.2	180340.7	206944.7	300318.2	326094.9
Local budgets	163586.6	165504.4	155679.7	149616.2	205640.2	212230.2	259062.4	272245.3	288960.6	289398.2	227783.2	257530.8

Source: compiled by the authors (Public reports) defence spending is increased in local budgets, was raised publicly. Hromadas have the right to finance national security and defence using their own resources. This right is exercised by establishing territorial defence formations that take into account resources and human capabilities. In addition to armament, they have other needs to fulfil their functions, which can be provided for at the expense of local budgets. Thus, Art. 91 of the Budget Code of Ukraine allows for budget allocations to be approved for the implementation of territorial defence and mobilisation training measures of local importance (The Budget Code of Ukraine).

As for state and local budget expenditure, under-execution is typical of the examined period. This underperformance suggests the presence of systemic issues such as financing delays, inadequate coordination between different levels of government and inefficient budget management. The overall breakdown of expenditure can be found in Table 6. A drastic increase in defence expenditure can be observed, while the share of other sectors in the overall sum is decreasing in response to the full-scale Russian invasion. At the same time, the largest relative deviation between planned and actual expenditure is typical of economic activity and environmental protection, which has become even more significant in wartime conditions (Pysmennyi & Rudan, 2024).

In response to any crisis circumstances, such as wartime risks and conditions, hromadas can redistribute their resources to handle the possible consequences. Although each hromada is a separate entity with its own revenue and expenditure, redistribution can be a significant means of mitigating the effects of a crisis.

To compare the reaction of hromadas to wartime events and conditions, two regional groups were defined. The first group consists of Zakarpattia Oblast, Ivano-Frankivsk Oblast and Chernivtsi Oblast. This group is relatively far from the front line and has been less affected by air raids and UAV attacks. The second group comprises Sumy Oblast, Kharkiv Oblast and Odesa Oblast, which are either close to the front line or have been significantly affected by enemy attacks. Table 7 shows the cumulative hromadas' expenditure on public order, security and the judiciary. Any defence-related spending is included there. It can be seen that the first group of hromadas experienced an increase in 2022, which can be explained by the initial mobilisation of resources to withstand the invasion. In contrast, 2023 and 2024 show a decrease in this indicator, reflecting a relatively stable situation in the regions under discussion.

The second group is characterised by a contentious safety situation. It is evident that each successive period of expenditure denotes a substantial augmentation in defence expenditures by hromadas and local authorities. This type of expenditure is indicative of an ongoing trend, which is attributable to the unstable security situation and the associated threat of attack. It is evident from the highlighted factors that the hromada, in its capacity as a subject of GDP

Table 6
Expenditure distribution of the state budget of Ukraine

	2021	2022	2023	2024
State functions	13.87%	7.47%	7.38%	8.34%
Defence	8.56%	42.24%	52.25%	51.36%
Public order, security, judiciary	11.70%	16.39%	14.31%	15.44%
Economic activity	12.14%	3.53%	3.35%	3.64%
Environmental protection	0.55%	0.17%	0.13%	0.21%
Housing and utility management	0.01%	0.02%	0.21%	0.17%
Healthcare	11.44%	6.81%	4.47%	4.49%
Spiritual and physical growth	1.07%	0.41%	0.29%	0.36%
Education	4.28%	2.16%	1.51%	1.44%
Social protection and social security	22.77%	15.75%	11.69%	10.36%
Interbudgetary transfers	13.60%	5.06%	4.42%	4.19%

Source: compiled by the authors (State Budget of Ukraine, 2008-2025)

Table 7
Comparison of public order, security, judiciary expenditure through region groups

	Zakarpattia Oblast	Ivano-Frankivsk Oblast	Chernivtsi Oblast	Sumy Oblast	Kharkiv Oblast	Odesa Oblast
2021	6334400.00	10100000.00	6844493.00	3177375.00	2853200.00	514080.00
2022	125662043.53	13352200.00	12287656.96	6378101.00	675969891.00	158811743.00
2023	105790595.00	11336582.18	1633988.00	18679555.00	764748112.00	247633749.00
2024	65561500.00	13935649.00	9089066.00	23210476.00	891157321.00	117794688.00

Source: compiled by the authors (Local budgets) redistribution, has the potential to play a significant role in mitigating the effects of the crisis.

In order to enhance the efficacy of financial administration within hromadas, it is imperative to formulate a comprehensive development strategy grounded in the tenets of financial sustainability. The primary components of this strategy should encompass a budget strategy for hromadas and mechanisms for monitoring the implementation of budget plans, with particular emphasis on the establishment of an effective monitoring system. This involves developing specific monitoring principles and coordinating strategic goals with planned projects. It is also necessary to create economic potential, which includes the capability to meet the diverse needs of hromada residents using local and attracted resources. This requires effective management and the development of interactions between hromadas (Hrynchyshyn et al., 2023).

The formation of the hromada budget can be derived from a range of sources, with the primary responsibility of strategic management being the identification and allocation of all available resources. A variety of supplementary financial resources can be drawn upon to augment the budget of hromadas. Such resources may include international grants, public-private partnerships, and international financing, among others.

International programmes that facilitate project financing through co-financing with local government bodies can offer local authorities legal, personnel, organisational, technical, and most importantly, financial support tailored to specific needs. International grants are a form of targeted financial assistance that are provided on a free and non-refundable basis for the conduct of specific activities or events. A public-private partnership is defined as a form of interaction between business and government that can be used in the following areas: search, exploration of mineral deposits and their extraction; production, transportation and supply of natural gas; construction and operation of roads, railways, etc. The sale of land plots or rights to them is to be conducted on a competitive basis (Tokarenko & Matviienko, 2023).

Another important way to strengthen the financial sustainability of hromadas is to create a favourable investment environment. This may include marketing activities, the promotion of tourism potential and the attraction of foreign and domestic investors. Supporting the development of small and medium-sized enterprises, stimulating entrepreneurial activity and developing innovative projects can also provide hromadas with additional sources of financing.

Effective financial planning, control and auditing are key to hromadas managing their finances effectively. This contributes to the transparency and accountability of expenditure and allows financial risks to be identified and eliminated in a timely manner. Regular monitoring of the financial situation enables hromadas to adapt to changes and avoid potential problems.

Additionally, developing business and technical infrastructure, such as providing high-quality legal, audit and consulting services, and investing in roads, energy, transport and communication networks, creates conditions that support businesses and ensure sustainable economic growth. Increasing the efficiency of budget expenditure, optimising the distribution of funds, and improving inter-budgetary relations to ensure co-operation and coordination between different levels of government are also key factors. Broad public involvement in the budget process ensures transparency and enables citizens to participate actively in setting budget priorities, thereby contributing to hromada development.

Thus, improving the management of public finances through optimal methods contributes to the economic independence, development potential and financial stability of society, all of which are crucial for economic growth and improving the quality of life of citizens.

5. Conclusions

The finances of hromadas represent a complex system of financial relations covering different levels of administrative division, from the state to local hromadas. They also include interactions with households, natural and legal entities, international structures, and the financial market. These relationships play a key role in forming cash flows, local borrowing, and managing communal property, creating a foundation for the effective development of hromadas and emphasising their significance as financial entities. Recognising hromadas as key players in the financial system contributes to their financial growth and independence, and ensures the targeted and responsible use of resources. This improves the quality of life for the residents of these hromadas.

Structuring finances at the local level in this way meets modern challenges and ensures an adequate response to the needs of hromadas. This contributes to their sustainable development and integration into the broader economic processes of the country and the world. Local budgets should function as a coordinated mechanism to ensure alignment between expenditure and revenue. In Ukraine, it was found that subsidies were an effective method of filling local budgets for a long period. This made it possible to withdraw a fixed amount of funds from the higher-level budget to balance the lower-level budget in the event of expenditure exceeding revenue. The emphasis of budget policy has shifted today, as martial law significantly impacts the functioning of hromadas. The flexibility and resilience of hromadas often enables financial resources to be redirected to perform state functions at a micro level. Future research will examine the impact of fiscal decentralisation on economic development, focusing on economic growth rates, income inequality and social stability. Furthermore, the experiences of European countries in strengthening the institutional capacity of local self-governments with regard to local taxation must be analysed.

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