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## ECONOMIC LOSSES OF UKRAINIAN TERRITORIAL COMMUNITIES AS A RESULT OF THE WAR

**ABSTRACT:** The ongoing full-scale war in Ukraine has generated unprecedented economic losses for territorial communities, which constitute the foundation of local self-government. This article provides an integrated assessment of these multi-dimensional impacts, drawing on official statistics, international reports, and academic research. The analysis covers six key domains of losses: infrastructure and housing, agriculture, micro, small and medium-sized enterprises (MSMEs), local public finances, social and public services, and demographic-institutional capacity. Findings indicate that direct physical damage to infrastructure exceeded 170 billion USD by late 2024, with residential housing, transport, and energy facilities sustaining the heaviest destruction. The agricultural sector, particularly in frontline and occupied regions, has faced production declines of 30 to 37 percent due to mined fields, lost machinery, and reduced exports. MSMEs experienced mass closures in 2022, yet demonstrated resilience through relocation, diversification, and gradual recovery. These effects are mutually reinforcing: infrastructure destruction triggers displacement, shrinking local demand and weakening fiscal capacity. At the same time, communities have shown adaptive capacity supported by decentralization reforms, volunteer networks, and donor programs. The article concludes that sustainable recovery requires integrated strategies that simultaneously address physical reconstruction, business revitalization, fiscal stability, and institutional strengthening. The resilience of territorial communities is identified as a decisive factor for Ukraine's long-term post-war recovery and European integration.

**Keywords:** Ukraine; territorial communities; war damage; local economy; infrastructure; local budgets; MSMEs; public services; displacement; resilience

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## INTRODUCTION

Russia's full-scale invasion in 2022 has created an extreme and multi-faceted crisis for Ukraine's territorial communities. These newly empowered local governments, products of a recent decentralization reform, have been forced to operate under unprecedented stress. Dozens of municipalities came under direct occupation or active fighting, and many more have been within range of missile strikes, resulting in the widespread destruction of housing, critical infrastructure, educational and medical facilities.

The toll on the national economy has been immense, with Ukraine's GDP contracting by around 29% in 2022. This collapse, though slightly less severe than initially feared, reflects the massive dislocation of production, trade, and investment caused by the invasion. The World Bank estimates that the cost of Ukraine's reconstruction and recovery over the coming years will be on the order of \$400–500 billion<sup>1</sup>. At the community level, the war's impacts are even more starkly evident. Territorial communities have suffered multi-dimensional losses that span: (1) material and infrastructural losses, (2) human and demographic losses, (3) financial and budgetary losses, (4) social and public service losses, and (5) institutional losses. Each of these aspects represents a critical facet of local development that has been severely undermined by the war. The destruction of physical capital goes hand-in-hand with the erosion of human capital and fiscal capacity, creating a vicious cycle that threatens local socio-economic stability.

There is an emerging consensus that local resilience has been crucial in helping Ukraine withstand the initial shocks of war. Strong community response, bolstered in part by the pre-war decentralization reforms, has played a positive role in emergency management and adaptation. However, systematic knowledge of the extent and nature of territorial communities' wartime losses remains limited. Understanding these losses in a comprehensive way is a prerequisite for crafting effective recovery policies. Therefore, this article aims to synthesize available evidence on the economic losses of Ukraine's territorial communities as a result of the war and to analyze how these losses interrelate across different domains. By focusing on the local level, we highlight the challenges faced by self-governing communities which aggregate into the national crisis. The analysis also draws attention to regional disparities – some communities have been decimated by combat or occupation, while others in relatively safer areas have faced influxes of displaced people and new strains on services<sup>2</sup>. Capturing this full picture is essential for policymakers and international partners to support an inclusive recovery that leaves no community behind.

In what follows, we outline the research objectives and problems guiding this study, then describe the methods and sources used. The core of the paper is devoted to examining the various categories of economic loss affecting territorial communities, with data-driven examples. We then discuss the interdependencies between these categories and the implications for

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<sup>1</sup> UNDP, *War in Ukraine: UNDP's Response*, 2024

<sup>2</sup> UNDP, *Assessment of the Impact of War on Micro, Small, and Medium Enterprises in Ukraine*, Kyiv: United Nations Development Programme, 2024

community resilience. The paper concludes with a summary of findings and considerations for policy and further research.

### **Research objectives**

This study's primary objective is to provide a national-level synthesis of the economic losses incurred by Ukrainian territorial communities due to the war, grounded in local-level experiences and data.

#### **Specific research objectives:**

1. Identify and categorize the main types of economic losses affecting territorial communities (e.g. infrastructure, agriculture, business, public finance, services, and demographic losses).
2. Quantify the scale of these losses using available assessments and reports, and illustrate their manifestations with examples from various regions of Ukraine.
3. Analyze the interrelationships between different loss domains – for instance, how destruction of infrastructure exacerbates business losses, or how population displacement impacts local budgets and services.
4. Assess the extent of regional disparities and unique challenges faced by territorial communities (frontline vs. rear communities, urban vs. rural, etc.) in order to understand the uneven geography of impacts.
5. Examine the resilience and coping mechanisms demonstrated by local communities and governments in the face of these losses, and identify factors that have enabled some territorial communities to mitigate or recover faster (drawing on emerging evidence of local resilience).
6. Propose considerations for policy – including immediate recovery needs and longer-term strategies – to address the identified losses and strengthen the economic resilience of territorial communities in the post-war period.

### **Research problems**

The ongoing war has generated a profound and multi-dimensional crisis for Ukraine's territorial communities. The main research problem lies in the need to systematically identify and analyze the scope and structure of their economic losses. This requires an integrated approach to assess physical destruction, agricultural disruption, business collapse, fiscal shocks, and the weakening of public services and institutions. Only by establishing a comprehensive understanding of these interlinked challenges can effective recovery strategies and evidence-based policy measures be developed.

#### **Detailed research problems**

Despite numerous efforts to document wartime damages, several unresolved issues remain in the study of territorial communities. First, there is a lack of unified methodology for assessing the scale of physical destruction and its impact on local economies. Second, agricultural losses and threats to food security are not fully quantified at the community level, particularly

regarding contaminated soils and destroyed assets. Third, micro, small, and medium-sized enterprises continue to face disruptions in markets and supply chains, with limited research on their adaptive capacity. Fourth, fiscal shocks caused by revenue shortfalls and policy changes undermine local budget stability, yet their long-term implications are insufficiently studied. Finally, demographic shifts and institutional disruptions have eroded governance capacity in many territorial communities, but systematic knowledge of these losses is scarce. A comprehensive research agenda must address these gaps to inform both national recovery plans and international assistance strategies.

## **RESEARCH HYPOTHESES**

### **Main hypothesis**

The war has critically transformed Ukraine's territorial communities, exposing systemic vulnerabilities but simultaneously opening opportunities for resilience-building, structural reform, and deeper integration into European governance and economic frameworks.

### **Specific hypotheses**

1. The destruction of infrastructure and housing has severely reduced local productive capacity, thereby limiting the ability of territorial communities to generate economic growth and provide services.
2. The collapse of micro, small, and medium-sized enterprises has undermined employment and local revenue bases, increasing community dependence on state transfers and international aid.
3. Demographic shocks, including mass displacement and loss of human capital, have eroded the institutional capacity of local self-government, threatening long-term sustainability.
4. International financial assistance, donor programs, and European integration processes create new opportunities for territorial communities to recover on principles of resilience, innovation, and sustainable development.

## **RESEARCH METHODS**

The methodological foundation of the study is based on a comprehensive and interdisciplinary approach to assessing the economic losses of territorial communities. Given the complexity of wartime impacts, the research combines quantitative and qualitative methods, integrating economic-statistical, comparative, graphical, and content analysis techniques.

Quantitative analysis involved the use of statistical data from national and international sources (e.g., KSE damage assessments, World Bank and UNDP reports, Ministry of Economy data). These data supported the evaluation of infrastructure damages, fiscal shocks, and agricultural disruptions.

Comparative analysis enabled tracing differences across regions, particularly between frontline and rear communities, highlighting the uneven distribution of losses and recovery prospects.

Correlation methods were applied to examine the relationship between population displacement, budget revenues, and the delivery of local services. This allowed for identifying interdependencies between demographic shifts and economic resilience.

Structural-logical generalization was used to develop a conceptual framework for community-level recovery strategies, adapting international practices (such as those of the Global Facility for Disaster Reduction and Recovery) to the Ukrainian context.

## **ECONOMIC LOSSES IN TERRITORIAL COMMUNITIES**

### **Infrastructure and housing destruction**

The material destruction of infrastructure and housing is one of the most tangible and severe losses that Ukrainian communities have suffered. As of late 2024, the estimated direct damage to infrastructure nationwide exceeded \$170 billion. This staggering figure, reported by the KSE Institute, encompasses a broad range of assets vital to local economies and daily life. Residential housing has been hit particularly hard. Over 2.5 million homes (approximately 13% of Ukraine's total housing stock) have been damaged or destroyed during the invasion<sup>3</sup>. Entire neighborhoods in cities like Mariupol, Sievierodonetsk, and Bakhmut were reduced to rubble during intense fighting, while towns and villages across eastern and southern Ukraine saw thousands of private houses leveled by shelling. KSE data indicate about 236,000 residential buildings affected, including single-family homes and multi-story apartment blocks<sup>4</sup>. The loss of homes not only imposes massive reconstruction costs but also displaces families, undermines community cohesion, and deprives local budgets of property tax revenue.

The implications of infrastructure losses are far-reaching for territorial communities. In many cases, essential services cannot be fully restored until physical infrastructure is rebuilt. For instance, a town whose water treatment plant or electrical grid is destroyed will struggle to retain or re-attract residents and businesses if basic utilities are unavailable. Infrastructure damage also places severe strain on local finances: emergency repairs and debris removal consume scarce budgetary resources, and major rebuilding projects (roads, bridges, hospitals) are far beyond the fiscal capacity of any single community, forcing dependence on state funds and international aid. Moreover, some analysts have characterized the systematic destruction as deliberate "urbicide" and "ecocide" – attempts not just to win territory but to undermine the viability of communities by ruining urban centers and the environment<sup>5</sup>. The Kakhovka dam blast, for example, not only flooded towns but also drained an entire reservoir, wreaking ecological havoc and crippling the regional irrigation system. Landmine contamination is another insidious legacy of the destruction: mines and unexploded ordnance litter many liberated areas, rendering agricultural land and residential neighborhoods unsafe. Ukrainian authorities estimate that one-third of the country's territory (up to 174,000 km<sup>2</sup>) may require demining, much of it

<sup>3</sup> UNHCR, *Ukraine Emergency: Ukraine Emergency (US for UNHCR)*, 2025.

<sup>4</sup> KSE, *Report on Damages to Infrastructure from the Destruction Caused by Russia's Military Aggression Against Ukraine as of November 2024* (Kyiv: KSE, 2025).

<sup>5</sup> Palekha, Y., Malchykova, D., Antonenko, N., & Pylypenko, I., *Approaches to the territorial communities' typification of Ukraine as a result of the Russian military aggression*. „Ukrainian Geographical Journal”, 2023(4), 37.

prime agricultural and habitable land. This effectively turns physical destruction into an ongoing threat, as farming and reconstruction cannot safely proceed until explosives are cleared.

Social infrastructure has also faced widespread destruction. By late 2024, over 4,000 educational institutions had been damaged or destroyed, with estimated reconstruction costs of \$7.3 billion<sup>6</sup>. The healthcare system has sustained more than 1,500 facility damages, including at least 500 hospitals and clinics, with reconstruction needs exceeding \$4 billion. The World Health Organization has documented hundreds of deliberate attacks on medical facilities and ambulances, degrading community health outcomes. In addition, nearly 4,000 cultural sites and hundreds of religious buildings have been damaged, weakening the social fabric and identity of local communities.

Reconstruction of infrastructure will be a lengthy and expensive process. The World Bank’s latest assessment suggests Ukraine will need at least 10–15 years and hundreds of billions of dollars to rebuild fully<sup>7</sup>. For local communities, this translates into a protracted period of disrupted development. Simply clearing debris and making emergency repairs has become a near-permanent task for many city councils and local utility services. For local communities, this translates into a protracted period of disrupted development. Many city councils and local utility services are now permanently in “repair mode” – continuously patching roads, power lines, and buildings just to maintain minimal functionality. In summary, material losses in infrastructure and housing form the backbone of the war’s economic impact on territorial communities. As later sections will discuss, these physical losses intertwine with demographic and financial challenges: as infrastructure is destroyed, people leave; as people leave, local resources to fix infrastructure shrink. Territorial communities thus face the dual imperative of rebuilding what was lost while also protecting and sustaining what remains.

**Table 1** provides a snapshot of the estimated direct damages by sector as of late 2024, illustrating the breadth of destruction across different spheres of the economy.

Sector	Estimated Direct Damage (USD)
Housing (residential)	\$60 billion
Transport Infrastructure	\$38.5 billion
Energy Infrastructure	\$14.6 billion
Industry & Commerce	\$14.4 billion
Agriculture	\$10.3 billion
Education	\$7.3 billion
Healthcare	\$4.3 billion
Culture & Sports	\$4.0 billion

*Table 1: Selected war damage indicators by sector (cumulative as of Nov. 2024). Housing, transport, and energy have sustained the heaviest damages in monetary terms. These figures represent direct physical damage; actual economic losses (including lost outputs) are significantly higher. Sources: Kyiv School of Economics (KSE) war damage report and World Bank RDNA4<sup>8</sup>*

<sup>6</sup> KSE, Report on Damages to Infrastructure, 2025

<sup>7</sup> UNDP, War in Ukraine: UNDP’s Response, 2024

<sup>8</sup> KSE, Report on Damages to Infrastructure, 2025

## Agricultural sector disruptions

Agriculture is a cornerstone of Ukraine's economy and a lifeline for many rural communities. The war has dealt a brutal blow to the agricultural sector, with consequences for local livelihoods, national food security, and export earnings. Territorial communities in Ukraine's farming heartlands (such as parts of Kherson, Zaporizhzhia, Donetsk, Luhansk, Mykolaiv regions) have experienced large-scale disruptions to agricultural production. This stems from multiple factors: occupation of fertile areas by Russian forces, physical destruction of farm infrastructure, contamination of fields with mines and munitions, theft of grain and equipment, and the blockade of export routes.

According to a 2024 briefing by the European Parliamentary Research Service, by the end of 2023 Ukraine's agricultural sector had sustained about \$80 billion in combined damages and losses due to the war<sup>9</sup>. This composite figure reflects not only direct physical damage (to farm equipment, storage facilities, livestock, etc.) but also the immense lost income from reduced harvests and trade. On the physical side, KSE Institute estimates as of late 2024 indicate over \$10 billion in direct damage to agriculture<sup>10</sup>. More than 130,000 units of agricultural machinery (tractors, harvesters) have been destroyed or lost, a devastating toll on communities where modern equipment is vital for productivity. Additionally, about 4 million tons of grain storage capacity (silos, elevators) were ruined – notably, major grain elevators in frontline areas like Mariupol and Mykolaiv were damaged or inaccessible<sup>11</sup>. This loss of storage, combined with the mining of roads and rail lines, has severely hampered farmers' ability to store and transport crops.

Perhaps the most insidious impact is the loss of arable land usage. A spatial analysis focusing on five heavily affected provinces in eastern Ukraine found that about 18% of cropland was left unplanted in 2022 due to active hostilities and occupation<sup>12</sup>. Even where fields were planted, yields plummeted. The study noted that staple crops like wheat, sunflower, and rapeseed suffered production losses on the order of 36–37% in 2022 compared to pre-war outputs<sup>13</sup>. This aligns with national statistics showing grain harvests were down significantly; for example, Ukraine's grain production in the 2022/23 season dropped by roughly 30% year-on-year<sup>14</sup>. The fall in production is attributed to both reduced sown area (farmers could not safely plant on mined or frontline lands) and lower yields (lack of fertilizers, fuel, labor, and the weather impacts of disrupted irrigation and farming schedules).

<sup>9</sup> Antonio Albaladejo Román, *Ukrainian Agriculture: From Russian Invasion to EU Integration*, EPRS Briefing (European Parliamentary Research Service, April 2024), PE 760.432

<sup>10</sup> KSE, Report on Damages to Infrastructure, 2025

<sup>11</sup> KSE, Report on Damages to Infrastructure, 2025

<sup>12</sup> Bin Chen, Ying Tu, Jiafu An, Shengbiao Wu, Chen Lin, and Peng Gong, "Quantification of Losses in Agriculture Production in Eastern Ukraine Due to the Russia-Ukraine War," *Communications Earth & Environment* 5, no. 336 (2024)

<sup>13</sup> Chen et al., "Quantification of Losses in Agriculture Production," 2024

<sup>14</sup> Kussul, N., Drozd, S., Yailymova, H., et al. (2023). *Assessing damage to agricultural fields from military actions in Ukraine*. *Int. J. Appl. Earth Obs. Geoinf.*, 125, 103562

The war has also severed agricultural supply chains. Before the invasion, about 90% of Ukraine's agricultural exports (particularly grains and sunflower oil) moved via Black Sea ports<sup>15</sup>. With Russia's blockade and attacks on port infrastructure, communities dependent on farming have struggled to get their products to market, leading to local surpluses that depress prices for farmers. While initiatives like the Black Sea Grain Initiative and EU "Solidarity Lanes" have provided partial relief, the volatility has hurt rural incomes. Many small farmers sold harvests at a loss or could not sell at all during certain periods of 2022–2023, compounding economic distress in villages. In occupied areas, there are reports of Russian authorities and affiliated companies expropriating crops – effectively looting grain – which represents a direct loss to Ukrainian farmers<sup>16</sup>. In 2022 and 2023, millions of tons of grain are believed to have been taken from occupied territories or harvested by Russia on Ukrainian land without compensation, adding to the financial loss for those communities<sup>17</sup>.

Beyond crops, livestock farming and fisheries have also been impacted. Poultry farms in eastern Ukraine, once a major source of food and jobs, saw facilities destroyed (e.g. large chicken farms in Donetsk region were hit, resulting in the culling or loss of millions of birds). Dairy and meat producers faced supply shortages and evacuation of herds. The destruction of the Kakhovka dam in June 2023 (widely attributed to Russian actions) had a catastrophic effect on the irrigation of over 500,000 hectares of farmland in Kherson and Zaporizhzhia and also decimated freshwater fisheries in the Dnipro delta – a loss with long-term ecological and economic consequences for local communities.

For rural territorial communities, the agricultural disruptions translate into lost livelihoods for farmers and farm workers, reduced household incomes, and a diminished tax base for local budgets (since land taxes and single tax from farmers are key local revenue sources). In many villages, agriculture is the primary economic activity – when the farming season is disrupted or output destroyed, the entire local economy contracts. Shops see fewer customers, transportation services are idle, and food processing enterprises (like local mills or dairies) lack inputs and shut down. The war has effectively nullified years of progress in developing small farming businesses; for instance, many farmers had invested in new equipment and technologies in the 2010s, only to see them blown up or rendered useless now. The heavy contamination of land with unexploded ordnance and mines is a particular concern: Ukraine's government estimates that one-third of the country's territory may require demining, much of that being prime agricultural land in the east and south. Some communities report that even after liberation from occupation, they cannot resume farming because fields are unsafe – this not only prolongs economic losses but also risks life and limb for returnees attempting to farm. Demining and

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<sup>15</sup> European Council, *How the Russian Invasion of Ukraine Has Further Aggravated the Global Food Crisis*, 2025.

<sup>16</sup> European Council, *How the Russian Invasion of Ukraine Has Further Aggravated the Global Food Crisis*, 2025.

<sup>17</sup> Project Expedite Justice (PEJ), *Assessment of Agricultural Land Loss in Ukraine Due to Russia's Occupation and Evaluation of Production on Occupied Territories*, Kyiv: Project Expedite Justice, 2025.

land restoration, projected to cost over \$30 billion, thus become prerequisites for agricultural recovery in many areas<sup>18</sup>.

At the same time, signs of resilience have emerged among Ukraine's agricultural communities. Where security conditions permit, farmers have adapted by shifting planting to safer areas, using alternative transport (like trucking grain to European borders), and seeking new markets. In western and central Ukraine, many displaced agricultural workers have been absorbed into farming activities there, helping boost production in relatively peaceful regions. The government and international donors have initiated support programs (grants for small farmers to buy seeds and fuel, for example) to prevent the complete collapse of rural economies. Nevertheless, the overall picture is one of significant loss: Ukraine's share in global food exports has been curtailed, local grain storage and processing businesses have lost capital, and uncertainty looms over upcoming planting seasons depending on how the conflict evolves. Territorial communities whose identities and revenues are tied to agriculture must navigate these challenges with far fewer resources than before the war.

### **Impact on local businesses and MSMEs**

Micro, small, and medium-sized enterprises (MSMEs) form the backbone of local economies in Ukraine, accounting for the vast majority of businesses and a large share of employment. The war's eruption was a shock of historic proportions to this sector: in February - March 2022, normal commerce and industry ground to a halt in much of the country<sup>19</sup>. Air raids, curfews, supply disruptions, and the exodus of people forced many businesses to close temporarily or even permanently. A nationwide assessment by UNDP found that about 64% of MSMEs had to suspend or shut down operations at the start of the full-scale invasion<sup>20</sup>. Rural small businesses, such as family-owned bakeries or machinery workshops, also stalled as materials became unavailable and workers were mobilized or displaced.

However, the same assessment highlights an important trend: the remarkable resilience and adaptability of Ukrainian MSMEs. Over time, many entrepreneurs found ways to resume activities, at least partially. By late 2023, nearly 91% of MSMEs that had suspended work were able to restart to some degree<sup>21</sup>. This could mean relocating to a safer region, pivoting to new products (some shifted to producing goods for the military or humanitarian needs), or downsizing operations to a manageable level. Within six months of suspension, 84% of businesses on average had partially renewed operations, reflecting a quick recovery in calmer regions after the initial shock<sup>22</sup>. For example, small IT firms and freelance professionals continued work from western Ukraine or abroad; retail shops reopened once supply lines were adjusted; and some enterprises from the east relocated their factories to central/western Ukraine with government assistance.

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<sup>18</sup> European Council, *How the Russian Invasion of Ukraine Has Further Aggravated the Global Food Crisis*, 2025.

<sup>19</sup> UNDP, *Assessment of the Impact of War on Micro, Small, and Medium Enterprises in Ukraine* (Kyiv: UNDP, 2024).

<sup>20</sup> UNDP, *Assessment of the Impact of War on MSMEs*, 2024.

<sup>21</sup> UNDP, *Assessment of the Impact of War on MSMEs*, 2024.

<sup>22</sup> UNDP, *Assessment of the Impact of War on MSMEs*, 2024.

Employment has inevitably been impacted. MSMEs normally provide about 74% of jobs in Ukraine. During the initial invasion phase, unemployment spiked as businesses closed; millions of workers either joined the armed forces, left the country, or were idled. By the end of 2022, the national unemployment rate was estimated to have more than doubled from pre-war levels, with some war-torn regions seeing unemployment well above 30%<sup>23</sup>. With many MSMEs restarting operations in 2023, labor demand has partially recovered. Companies have shown determination to retain staff where possible – surveys note that most MSMEs, having downsized early on, do not intend further layoffs and in fact view retaining their workforce as essential for eventual recovery. Additionally, businesses have been integrating internally displaced persons into their workforce in host communities, providing jobs to some of those who fled from the east<sup>24</sup>. Nonetheless, underemployment is common and wages have been constrained by lower revenues. Many people are effectively working fewer hours or for reduced pay.

Another challenge for local businesses has been financial liquidity and investment. War risk has made banks more cautious, and borrowing costs have risen with inflation and interest rate hikes. Many entrepreneurs have had to exhaust personal savings to keep afloat. The government and donors launched grant schemes (such as the EU and UNDP-supported micro-grants for new businesses) and subsidized credit programs, which have reached a fraction of those in need. Roughly 25% of MSMEs report receiving some form of state or international assistance – which, for about half of those beneficiaries, was crucial for survival<sup>25</sup>. This assistance included things like small cash grants, loans under the “5-7-9%” interest program, or relocation support. However, the majority of businesses have not yet benefited from aid and still face cashflow problems.

In communities, the closure of small businesses has cascading effects. It means lost services for residents (e.g. if the only pharmacy or bakery in a village closed, people must travel or do without). It also means fewer vendors for local governments to contract with, and reduced vibrancy in the local economy. Anecdotally, many small shops and cafés that shuttered in 2022 never reopened, especially in places that continue to face periodic missile strikes. On the other hand, there are inspiring examples of local entrepreneurship adapting: tailors started making military uniforms, tech startups pivoted to drone technology for defense, and volunteers turned their small workshops into hubs producing trench candles and generators for frontline needs. These shifts demonstrate a form of resilience where businesses repurpose themselves to remain relevant and solvent during war.

Overall, the MSME sector’s experience in wartime Ukraine can be described as one of severe contraction followed by partial recovery. The war initially wiped out a huge portion of local business activity, but a significant share has bounced back, if at a smaller scale. The economic losses to communities are measured not just in money but in the diminished presence of local enterprises that give towns and cities their economic life. The fact that most MSMEs expect to

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<sup>23</sup> UNDP, *Assessment of the Impact of War on MSMEs*, 2024.

<sup>24</sup> UNDP, *Assessment of the Impact of War on MSMEs*, 2024.

<sup>25</sup> UNDP, *Assessment of the Impact of War on MSMEs*, 2024.

survive and are even optimistic about fully recovering post-war is a positive sign<sup>26</sup>. Many entrepreneurs cite hopes for rebuilding and even expanding once peace and stability return. For that optimism to be realized, communities will require sustained support – ensuring access to electricity and capital, security from attacks, and assistance in reaching markets. In the reconstruction phase, MSMEs are poised to be key actors in job creation and economic revival, but only if they can withstand the current onslaught and lean period.

### **Local budgets**

The war has profoundly upset the financial equilibrium of local governments in Ukraine. Territorial communities rely on a mix of locally generated revenues (taxes, fees) and intergovernmental transfers to fund their budgets. The sudden contraction of economic activity in 2022, combined with emergency fiscal policy changes, resulted in a drastic drop in locally raised revenues, pushing many territorial communities into fiscal distress.

A primary source of own revenue for Ukrainian municipalities is the personal income tax (PIT), supplemented by business, land, and property taxes as well as excise duties. With the outbreak of the full-scale war, business closures, job losses, and mass displacement of residents led to a sharp contraction of these revenues. Communities in frontline and occupied areas lost almost all fiscal capacity, while even safer regions experienced significant shortfalls in tax collection.

An additional shock was caused by a central government decision to reallocate the PIT paid by military personnel from local budgets to the state budget starting in 2022. This change aimed to prevent uneven fiscal windfalls for certain host communities and to channel resources toward national defense. However, it simultaneously deprived many municipalities of what had become their last relatively stable source of income. Scholars and practitioners have described the withdrawal of the military PIT as a major fiscal shock that exacerbated budget deficits and reduced local fiscal autonomy<sup>27 28</sup>. The measure was formalized in late 2023, which suggests that territorial communities are unlikely to regain this revenue stream in the near future.

The combined effect of economic contraction and the military PIT reallocation has been an acute erosion of local fiscal autonomy. Local own-source revenues in many communities fell well below pre-war levels. Some territorial communities in frontline or occupied areas collected only a fraction (20–50%) of what they did in the equivalent period before the invasion. In aggregate, Ukraine's local budget revenues dropped significantly year-on-year from 2021 to 2022, though with great regional variation. Western regions that became major hosts for internally displaced persons (IDPs) sometimes managed to maintain or even modestly increase their revenue collection<sup>29</sup> (boosted by economic activity from the influx of people and businesses). In

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<sup>26</sup> UNDP, *Assessment of the Impact of War on MSMEs*, 2024.

<sup>27</sup> VoxUkraine. *Analysis of the withdrawal of military PIT and its impact on local budgets*. Policy Note, 2023-2024

<sup>28</sup> Rabinovych, M., Brik, T., Piddubnyi, I., Darkovych, A., Savisko, M., Hatsko, V., & Tytiuk, S. *Fiscal resilience of communities and the consequences of the withdrawal of military PIT*. VoxUkraine Policy Paper, 2024

<sup>29</sup> International Organization for Migration (2024). *Ukraine Internal Displacement Report: General Population Survey Round 16*. Displacement Tracking Matrix, IOM

contrast, eastern and southern regions saw precipitous declines. For example, preliminary data show that by 2024, own-source revenues in Lviv or Zakarpattia oblasts were slightly above their 2021 (pre-war) levels in real terms, whereas in Donetsk and Luhansk they were down by well over 80% (given the extensive loss of tax base).

As shown in Figure 1, the war’s fiscal impact on local budgets has been highly uneven across regions. Western and central oblasts (blue bars) largely avoided major revenue collapses and in some cases experienced revenue growth by 2024 (inflation-adjusted), partly due to relocated enterprises and populations. In stark contrast, oblasts that were partly occupied or saw heavy fighting (orange bars) suffered severe revenue contractions. Donetska and Luhanska in particular endured catastrophic budget losses, effectively losing the bulk of their pre-war fiscal capacity.

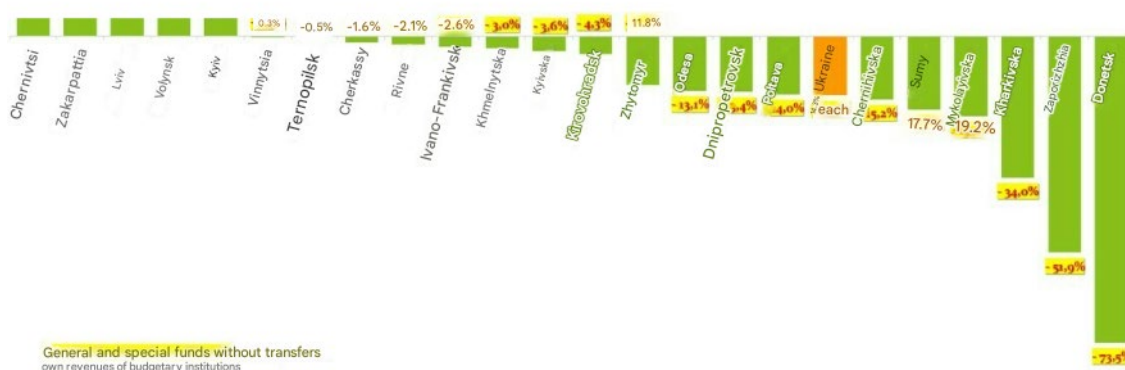


Figure 1: Change in local budget own-source revenues in 2024 compared to 2021, by oblast (inflation-adjusted). Regions highlighted in orange experienced substantial occupation or active combat. Many western regions managed to hold revenues near or above pre-war levels, buoyed by economic relocation and higher nominal wages, while frontline eastern regions saw drastic declines. (Data source: Ministry of Finance of Ukraine, analysis by VoxUkraine and author<sup>30 31</sup>.)

To prevent the complete financial collapse of local services, the national government stepped in with additional intergovernmental transfers and emergency support. Throughout 2022–2023, the central budget provided special stabilization grants and increased subventions to local governments to ensure they could at least pay for essential expenditures (such as salaries of public sector workers and utilities for critical facilities).<sup>32</sup> Funds were channeled via instruments like the Fund for Liquidation of the Consequences of Armed Aggression and other reserve funds. These measures averted mass insolvency of territorial communities – no local government was allowed to go bankrupt – but effectively increased dependence on the central government and donors, rolling back some of the fiscal decentralization gains of the 2014–2021 period. Scholars and fiscal experts have voiced concern that the war is undermining the financial autonomy achieved by decentralization. As one analysis noted, the situation “significantly limits the financial autonomy of local budgets, makes medium-term planning impossible, and increases

<sup>30</sup> VoxUkraine (2023). Analysis of the Withdrawal of Military PIT and its Impact on Local Budgets  
<sup>31</sup> Ministry of Economy of Ukraine (2023). Macro-economic Report – 2022 Summary  
<sup>32</sup> Ljutyj, I., & Miedviedkova, N. (2023). *The modern paradigm of the financial policy of the state and the features of its implementation under the war on the territory of Ukraine*. Finance of Ukraine, 2023(6), 61–74

communities' dependence on state transfers and donor assistance<sup>33</sup>". In practical terms, many territorial communities have had to radically re-prioritize their spending: development projects (new infrastructure, economic programs, etc.) were put on indefinite hold, while budgets were refocused on basic needs, emergency repairs, civil defense (like fortifications), and supporting IDPs. Operating expenditures were cut where possible, but certain costs – heating schools, hospital salaries – could not be avoided. Capital expenditures by local budgets in 2022 dropped to a tiny fraction of pre-war amounts due both to funding constraints and the impracticality of long-term projects during active conflict.

One indicator of local fiscal stress is the number of months in 2022–23 during which a community's revenue matched or exceeded its revenue in the same month of 2021 (pre-war). In many territorial communities, there were zero months of such parity – revenues never caught up to the previous year's level at any point, reflecting a persistent gap. Only a minority of communities, generally those far from combat and with larger, more diversified economies, managed to approach normal revenue performance by late 2022 or 2023. Even those were not "thriving" so much as surviving at a baseline, often thanks to hosting displaced businesses or people. For smaller or frontline territorial communities, the war essentially shattered their fiscal capacity. In occupied municipalities, local administrations in exile had no revenue or expenditures at all for long periods, creating a backlog of needs to be addressed upon liberation.

The central government's role has thus become far more pronounced in local finance. Transfers now make up a much higher share of local budgets overall. Regular education and healthcare subventions from the state have continued (ensuring teacher and doctor salaries are paid). Additional targeted grants were provided for communities hosting large numbers of IDPs, to help with housing and social support. International donor funds are often routed through central ministries or regional state administrations, who then coordinate projects in communities – sometimes sidelining local governments in decision-making. In the most extreme cases, where military administrations took over governance in frontline and recently liberated areas, elected local councils have had minimal say in budgeting during the martial law period<sup>34 35</sup>. While this is a necessary wartime expedient to ensure security and rapid response, it may have long-term implications for local democratic governance and accountability.

### **Interdependencies and community resilience**

The categories of loss outlined above are closely interdependent. Infrastructure destruction often drives out-migration, reducing local demand and tax bases, which undermines public services and weakens governance. Host communities, in turn, face sudden IDP inflows that strain utilities and housing; without adequate support this may escalate into social tension or

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<sup>33</sup> Koliada, T., & Alohina, O. (2023). *Financial Capacity of Communities in Wartime*. *Public Management*, 2023(3), 89

<sup>34</sup> Kulyk, A. (2022). *Resilience of Territorial Communities as a Factor of National Security*. *Public Management*, 2022(4), 112

<sup>35</sup> Pavlovych-Seneta, Y., & Lepish, N. (2023). *Martial Law and Local Self-Government: Transformation of Powers*. *Public Administration and Law Review*, 2023(4), 45-46

secondary displacement. Conversely, timely repairs and humanitarian assistance can stabilize services, integrate newcomers, and stimulate recovery.

The economy–demography nexus is particularly evident. Factory closures or utility outages force workers to leave, causing secondary shutdowns of shops and schools. Safer regions that received IDPs and relocated firms (e.g. IT or light industry in central Ukraine) often registered increased demand and, in some cases, stronger local revenues.

A regional typology emerges:

1. Occupied or devastated areas – economic standstill, requiring near-total rebuilding.
2. Front-line towns – limited activity, surviving on aid and emergency governance.
3. Rear areas hosting IDPs – demographic growth with added economic potential, but high pressure on infrastructure.
4. Relatively unaffected areas – spared direct destruction yet facing indirect shocks (inflation, mobilization).

Resilience factors include larger population size, a diversified economic base, stronger fiscal capacity, and high social capital. Active civil society, volunteer networks, and city-to-city partnerships facilitated quicker aid delivery. Decentralization reforms empowered local leaders to act as first responders, and inter-municipal cooperation (e.g. twinning of communities, sharing resources) strengthened local capacity<sup>36</sup>. External inputs supported recovery. Macro-level stabilization policies, such as simplified SME taxation and inflation control, also underpinned local resilience. Yet resilience has limits: volunteer burnout, funding gaps, and continued attacks risk eroding even strong systems.

Overall, recovery requires integrated planning. Rebuilding infrastructure must be combined with business incentives, population return policies, and restoration of local government capacity. The effectiveness of resilience factors observed during wartime offers lessons for designing recovery programs that address interdependent losses simultaneously.

## **SUMMARY**

The study demonstrated that Ukraine’s territorial communities have incurred complex and multi-layered economic losses as a direct consequence of the full-scale war. The most tangible impacts have occurred in infrastructure and housing, where estimated damages exceeded 170 billion USD, with millions of homes destroyed and critical utilities severely disrupted. Agriculture, the backbone of many rural communities, has experienced large-scale devastation, including mined fields, loss of equipment and storage facilities, and a sharp decline in yields. The MSME sector, representing the core of local employment, initially collapsed but displayed resilience by partially resuming operations through relocation and adaptation. Local budgets suffered both from reduced tax revenues, which led to a sharp decrease in fiscal autonomy and increased dependence on state transfers.

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<sup>36</sup> Brik, T., & Murtazashvili, J. (2022). Decentralization and resilience in Ukraine. Carnegie Endowment for International Peace

These categories of loss are not isolated. Destruction of infrastructure drives migration and reduces the tax base; agricultural decline undermines rural incomes and fiscal stability; weakened local institutions struggle to provide services. The article also highlights regional disparities: frontline and occupied communities face near-total economic collapse, while safer western regions absorb displaced populations and businesses, gaining relative stability but also facing new strains on infrastructure.

Overall, the findings confirm the main hypothesis: the war has simultaneously exposed systemic vulnerabilities of territorial communities and revealed opportunities for resilience-building. Effective recovery must therefore be comprehensive, linking infrastructure rebuilding with economic revitalization, fiscal resilience, and institutional strengthening. The resilience of territorial communities will remain central to Ukraine's capacity for sustainable post-war development and integration into the European framework.

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