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INTRODUCTION

Relevance of the research. The issue of effective local economic development (LED) in the context of post-war reconstruction is becoming particularly acute and significant in the modern world. According to the World Bank, as of 2022, about 2 billion people live in countries that have suffered the devastating consequences of armed conflicts (World Bank, 2022b). These staggering figures vividly illustrate the scale of challenges faced by communities on the path to recovery and sustainable development.

Unfortunately, Ukraine has found itself at the epicenter of this global problem. The Russian military aggression has caused enormous damage to the economy and infrastructure of our state. According to estimates by the Kyiv School of Economics, as of March 2023, Ukraine’s direct losses from the destruction and damage of residential and non-residential buildings, roads, and other infrastructure facilities reached $143 billion (KES, 2024). At the same time, according to forecasts by the Center for Economic Strategy, at least $750 billion of investments will be needed over the next 10 years for the full recovery of Ukraine’s economy (CES, 2024: 12). In these extremely difficult conditions, it is effective LED that can become a powerful tool for rebuilding affected communities, creating new jobs, attracting investments, and improving people’s quality of life.

In this context, it is extremely valuable to study the experience of other countries that have successfully overcome the consequences of military conflicts. For example, after the end of the 1975-1990 civil war, Lebanon was able to achieve impressive rates of economic recovery precisely due to the decentralization of power and the expansion of the authority of municipalities in the field of LED. As a result, already in 2010, Lebanon’s GDP grew by a record 9.2% (Srour, 2022). In turn, Croatia, which suffered serious destruction during the war for independence in the 1990s, was able to effectively rebuild its economy, including through the active involvement of local communities in the processes of planning the development of territories. In particular, the share of LED in the structure of Croatia’s total investments increased from 11.7% in 2001 to 29.3% in 2019 (Đokić, 2023). These examples convincingly demonstrate that building capable communities and stimulating their economic activity is the key to successful post-war recovery of the state.

No less important is also the study of the experience of the People's Republic of China in the field of LED. Over the past decades, the PRC has been demonstrating consistently high rates of economic growth, which are largely due to the policy of promoting community development. Thus, the share of investments in fixed assets at the local level in China increased from 75.6% in 1990 to 93% in 2020 (National Bureau of Statistics of China, 2023). The Chinese government actively stimulates LED through fiscal decentralization, provision of tax incentives, development of industrial parks, and attraction of foreign direct investments into priority sectors for communities. For example, in 2021, the growth of investments in high-tech manufacturing at the local level in China amounted to 22.2% (National Bureau of Statistics of China, 2024). Undoubtedly, this rich arsenal of tools for stimulating LED requires careful study and adaptation to Ukrainian realities.

The intensification of cooperation between Ukraine and China in the field of LED opens up wide opportunities for the exchange of knowledge, experience, and best practices in building territorial communities. The recent signing of the Memorandum of Understanding between the Association of Ukrainian Cities and the Chinese Association of Sister Cities (2021) creates an institutional basis for deepening bilateral cooperation at the local level (Association of Ukrainian Cities, 2019). Chinese investments and technologies can play an important role in modernizing the infrastructure of Ukrainian communities, creating new points of economic growth, and improving the quality of municipal services. In turn, Ukraine, as a country actively implementing the decentralization reform, can share with Chinese partners its developments in the field of building capable local self-government and expanding the economic rights of territorial communities.

Thus, it should be emphasized that the study of the role of LED in the post-war reconstruction of Ukraine is an extremely relevant and timely scientific task. A systematic analysis of the theory and practice of stimulating LED in post-war conditions, the study of leading international experience, and the deepening of Ukrainian-Chinese cooperation in this area can become important factors in developing an effective strategy for the recovery and development of domestic communities. Therefore, the presented work is intended to make a significant contribution to the formation of a holistic vision of LED priorities in the context of Ukraine's post-war reconstruction and to propose scientifically substantiated mechanisms for their practical implementation, taking into account the best world experience, and in particular the Chinese one.

Review of the state of scientific development of the problem. The issue of local economic development (LED) in the context of post-war recovery has been attracting more and more attention from scholars in Ukraine and the world in recent years. Researchers seek to comprehend successful practices and develop effective recommendations for designing strategies for the reconstruction of affected territories. Summarizing the key trends in the literature, several main directions of scientific research can be identified.

First of all, researchers focus on the conceptual foundations and mechanisms for stimulating LED in the post-conflict period. A number of authors, including Collier (2018), Marais et al. (2020), Henson (2021), concentrate on developing theoretical models of post-war community reconstruction that integrate economic, social, and institutional factors. They emphasize the importance of an inclusive approach to LED, active involvement of local stakeholders, and development of human and social capital. At the same time, researchers note the critical role of effective multi-level governance, fiscal decentralization, and targeted state support for the successful implementation of LED strategies on the ground.

Another powerful area of study covers the analysis of leading international experience in rebuilding post-conflict territories through the lens of LED. In particular, it is fruitful to study the cases of the Balkan countries (Čučković & Bartlett, 2020), the Middle East (Sultan & Larsen, 2022), Africa (Heinemann-Grüder et al., 2020), which demonstrate various trajectories and tools for stimulating local development. Comparative studies make it possible to identify common patterns and specific success factors of LED in different institutional and socio-cultural contexts, and thus form a reliable basis for developing scientifically grounded recommendations.

In turn, in the Ukrainian and Chinese scientific discourses, there is an increased attention to understanding the national specifics of LED in the conditions of post-war recovery. Ukrainian scientists, in particular Zhalilo et al. (2022), Storonyanska et al. (2021), focus on the issues of reintegration and reconstruction of de-occupied territories, substantiate the priority directions of state regional policy, and model scenarios of post-war community development. While Chinese researchers, including Zhu (2019), Zeng (2022), pay more attention to studying the experience of rebuilding regions of the PRC affected by natural disasters, and focus on tools for stimulating entrepreneurship and innovation at the local level. Despite the difference in contexts, both national schools demonstrate a strong interest in finding effective LED models in emergency conditions and adapting them to local realities.

However, despite the significant scientific achievements, a number of aspects of the LED problem in the context of post-war reconstruction remain insufficiently covered. In particular, there is a lack of thorough comparative studies that would allow distinguishing universal and specific determinants of the success of LED policies in different post-conflict environments. The issues of optimal institutional design, financial and organizational mechanisms for implementing LED strategies, taking into account the challenges of wartime and post-war period, are insufficiently studied. More attention also needs to be paid to the topic of intensifying international cooperation in the field of local development, in particular regarding the deepening of Ukrainian-Chinese ties at the level of territorial communities. This necessitates further in-depth scientific development of the outlined issues, in particular in terms of studying new forms and tools of LED, substantiating the priorities of restoration of Ukrainian communities, taking into account the leading world experience.

The **aim of the research** is to provide a theoretical substantiation and develop practical recommendations for improving local economic development policy for the effective post-war reconstruction of territorial communities in Ukraine, taking into account leading international experience, particularly Chinese experience. To achieve this aim, the following **objectives** have been defined:

– to reveal the essence, principles, and models of local economic development in modern conditions;

– to analyze the economic and technological-economic impact of armed conflicts and wars on the development of territorial communities;

– to summarize the international experience of community reconstruction in the post-war period and the restoration of local economic development in the financial aspect;

– to substantiate the possibilities of using the Chinese experience of LED for the needs of economic recovery of Ukrainian communities and to develop a corresponding «roadmap» and scenario;

– to highlight useful conclusions from the LED experience in Ukrainian communities of post-war survival and response to critical threats for modern Chinese agrarian-industrial territories and provinces.

The **object of the research** is the process of local economic development of territorial communities in the conditions of post-war recovery.

The **subject of the research** is the applied aspects of improving LED policy to ensure effective post-war reconstruction of territorial communities in Ukraine based on Chinese experience.

The **elements of scientific novelty** of the obtained results are as follows:

– deepened the conceptual foundations of LED research in the context of post-war recovery, taking into account the destructive economic and technological-economic impacts of armed conflicts on community development;

– improved the methodological tools for assessing the financial aspects of the international experience of community reconstruction in the post-war period;

– the correlation between the types of administrative-territorial units (rural, settlement, city) and local tax and fee revenues has been improved, which clearly indicates that in the period 2021-2023 there is a trend indicating that the growth of local tax and fee revenues is correlated with the type of territorial communities: the lowest growth was recorded in urban communities and the highest in rural communities, respectively; the efficiency of accumulation of local taxes and fees is the highest in rural budgets and the lowest in urban budgets.

– developed scientific and practical approaches to adapting the leading Chinese experience of stimulating LED to the Ukrainian realities of post-war recovery;

– proposed innovative organizational and economic mechanisms for implementing LED policy to increase the viability of Ukrainian communities in the face of post-war challenges;

– further developed methodological approaches to highlighting the lessons of the Ukrainian experience of responding to critical threats of war for Chinese agrarian-industrial territories.

The methodological basis of the research is the fundamental provisions of economics, public administration science, sustainable development theory, as well as conceptual approaches to LED research. The work uses a complex of general scientific and special methods: analysis and synthesis, induction and deduction, comparison, systematization, generalization, economic-statistical and graphical analysis, SWOT analysis, scenario modeling, etc.

The practical significance of the research results lies in the fact that the main scientific provisions have been brought to the level of specific mechanisms, measures, and proposals for improving LED policy in the conditions of post-war recovery. The research results can be used by central and local authorities in developing strategies and programs for post-war reconstruction of territorial communities in Ukraine, as well as taken into account when deepening Ukrainian-Chinese cooperation at the local level.

The information base was composed of: laws of Ukraine, regulatory legal acts, analytical and statistical materials of central and local authorities; data from international organizations (World Bank, OECD, UN); scientific publications of Ukrainian and foreign scientists; Internet resources; results of the author’s own research.

Structure of the paper. The master’s thesis consists of an introduction, three chapters, conclusions, and a list of sources used. The total volume of the work is 93 pages, of which 84 pages are the main text.

CHAPTER 1. THEORETICAL FOUNDATIONS OF LOCAL ECONOMIC DEVELOPMENT

1.1. Essence, principles and models of local economic development

The concept of local economic development (LED) has gained particular relevance in the context of global trends of decentralization of power and the growing role of territorial communities in ensuring the well-being of the population. In the broadest sense, LED can be interpreted as a process in which local governments, private businesses, and non-governmental organizations work together to improve conditions for economic growth and job creation (Bobrovska, 2021). In other words, LED involves the mobilization and effective use of the endogenous potential of local territories – material, financial, human, and institutional resources – to stimulate economic activity and improve the quality of life of residents.

The fundamental basis of the LED concept is the understanding of the uniqueness of each territory, which is determined by the specifics of its geographical location, economic structure, socio-demographic characteristics of the population, cultural and historical heritage, etc. That is why there are no universal «recipes» for successful LED – effective local development strategies should be developed taking into account the local context, needs, and priorities of specific communities. As Vasylchenko et al. (2021) rightly point out, LED is «a set of measures based on understanding the competitive advantages, challenges, difficulties, and opportunities of the territory» (Vasylchenko, 2021).

At the same time, most researchers agree that the driver of LED is the initiative «from below» – the conscious desire of the residents and institutions of the community for change. Extermal (2022) argues that «LED is primarily about endogenous processes based on local resources, competencies, and creativity of local actors» (Extermal, 2022: 116). Indeed, without a proactive position of local stakeholders, their willingness to take responsibility for the future of communities, no policy of LED, even the most progressive one, will yield the desired result. At the same time, international experience shows that for the full realization of the endogenous potential of communities, the stimulating and supporting role of the state, which should create a favorable institutional environment for local initiatives, is also critically important (Borshchevsky and Vasyltsiv, 2022).

An analysis of theoretical developments allows us to identify several basic principles on which modern approaches to LED are based:

1) Inclusiveness and participation. LED involves the broad involvement of local stakeholders (authorities, businesses, educational institutions, public organizations, opinion leaders) in the processes of developing and implementing local strategies. It is important that different segments of the population are involved in decision-making, taking into account gender, age, and other diversity (Rigg & Mahajan, 2018). Communication and synergy of efforts of all subjects of the territorial community significantly increases the viability of LED projects.

2) Public-private partnership. The experience of successful LED practices shows that the most effective model is the cooperation of the community, government, and business on a partnership, mutually beneficial basis. Local governments improve infrastructure, provide organizational support, benefits for entrepreneurs, and create an attractive investment climate. Business, in turn, generates new jobs and tax revenues, introduces technological innovations, and participates in the development of the social sphere (Albekov et al., 2017). That is, public-private partnership becomes the key to synergy of resources and balanced consideration of the interests of different parties.

3) Strategic approach and orientation towards sustainable development. Successful communities view LED not as a set of individual projects, but as a holistic strategic process designed for the long term. LED strategies are developed based on a comprehensive analysis of the socio-economic state of the community, its competitive advantages and challenges, taking into account global trends and regional context. At the same time, LED priorities should harmoniously align with sustainable development goals, ensuring economic growth while preserving the

environment and social justice (UNDP, 2019).

4) Innovation and creativity. In conditions of limited traditional resources, it is the ability to produce and implement innovations that is a key factor in the success of LED. Leading communities actively work on the development of local innovation ecosystems, stimulating research activities, the spread of technological startups, and the formation of creative hubs (Kravtsiv et al., 2022). At the same time, the key to the success of LED is also social innovations – a creative approach to solving local problems, the introduction of the latest management and public practices.

5) Investment attractiveness and marketing of the territory. Communities that demonstrate a proactive position in attracting both domestic and foreign investments have better prospects for LED. Investments allow to increase economic potential, implement infrastructure projects, create new jobs (Dunning, 2022). At the same time, for the successful «sale» of the territory to investors, the formation of a positive image of the community through branding and active territorial marketing is critically important (De Noni et al., 2021).

Summarizing the world's leading experience, we can identify several basic LED models that differ in the emphasis of local economic strategies:

1) The endogenous development model is focused on the maximum mobilization and valorization of the community's internal resources, in particular through the development of local entrepreneurial initiative, local production systems, traditional crafts and trades. An example of this approach is the «Third Italy» – a cluster of small and medium-sized enterprises in the north of the country that ensure the prosperity of many municipalities (Modena et al., 2016).

2) The exogenously oriented model focuses on attracting external investments, creating favorable conditions for the arrival of large businesses in the community. This model involves active marketing of the territory, establishing partnerships with investors, lobbying the interests of the community at the regional and national levels. An illustrative example is the city of Detroit (USA), which successfully overcame the decline of the automotive industry by attracting

investments in the IT sector and renewable energy (Selfa et al., 2022).

3) The cluster model is based on the idea of forming a network of interconnected enterprises in related industries on the territory of the community, which strengthen each other's competitive advantages. Clustering allows to increase economies of scale, exchange knowledge and technologies, and share infrastructure (Desrochers, 2021). Successful examples of the implementation of the LED cluster model are demonstrated by the experience of Germany, in particular the automotive cluster in Baden-Württemberg (Götz, 2020).

4) The creativity-oriented model relies on the development of creative industries, attracting representatives of the creative class to form an attractive cultural and artistic environment of the community. This model actualizes the intangible factors of development, mobilizing the potential of cultural heritage, creativity, and innovation (Baranchenko et al., 2022). An illustrative case is the experience of Bilbao (Spain), which, thanks to the development of cultural infrastructure and creative spaces, was able to transform from a depressed industrial city into a creative hub of international level (Franklin, 2016).

5) The «smart» model is focused on the introduction of digital and innovative solutions to increase the efficiency of community resource management, improve the quality of municipal services, and stimulate local entrepreneurship in the IT sector. The formation of «smart» communities involves investments in digital infrastructure, e-government, support for technological startups (Chamoso et al., 2022). The smart cities movement is gaining momentum in developed countries, and cities like Singapore, Amsterdam, and Seoul serve as role models for implementing «smart» approaches (Calzada & Almirall, 2020).

Analyzing the five LED models described above – endogenous, exogenous, cluster, creative, and smart models – we observe both significant overlaps and substantial contradictions between them. The endogenous model with its focus on local resources and traditional industries seems to be the opposite of the exogenous model, which emphasizes the importance of external investments and transformational changes. However, this apparent contradiction could become a unique advantage for post-war Ukraine. Ukrainian communities, especially those affected by the war, could apply a hybrid approach where traditional local industries (such as agriculture and crafts) serve as the foundation for attracting targeted foreign investments. For example, a city with a strong agricultural heritage could attract food processing companies while preserving local farming practices, creating a synergistic link between endogenous and exogenous paths of development.

The cluster and creative models present another interesting dichotomy, especially relevant for Ukraine's reconstruction. While the cluster model emphasizes industrial efficiency and economies of scale, the creative model favors cultural capital and innovation. Ukraine's post-war reality opens up a unique opportunity to combine these approaches. Consider the potential for creating «reconstruction clusters» that combine traditional construction and engineering capabilities with creative approaches to urban planning and preservation of cultural heritage. Cities like Kharkiv or Mariupol could become pioneering examples where the urgent need for physical reconstruction catalyzes the emergence of innovative architectural and cultural hubs. This approach would not only rebuild infrastructure but also transform these cities into centers of the creative industry while preserving their industrial heritage.

The smart model, while promising, requires significant infrastructure investments, which may seem challenging in the post-war context. However, Ukraine's strong IT sector and highly educated workforce provide a unique advantage here. Instead of following the traditional smart city approach we see in affluent global cities like Singapore or Amsterdam, Ukraine could develop a more sustainable and adaptive version of the smart model. This could include creating decentralized digital networks for public governance, implementing blockchain transparency systems for reconstruction funds, and developing low-cost smart solutions for emergency response and community resilience. Smaller cities like Vinnytsia or Ivano-Frankivsk could become testing grounds for these innovations, demonstrating how war-affected regions can leapfrog straight to cutting-edge digital governance systems while rebuilding physical infrastructure. Moreover, such an approach could help prevent corruption and ensure more efficient allocation of resources during the reconstruction period, addressing historical challenges while building the future.

The LED models described above are often combined and complement each other in practice, forming comprehensive local development strategies. At the same time, a common feature of successful LED cases is the proactivity of local communities, their consistent efforts to unlock the endogenous potential of territories on an innovative basis. Table 1.1 below summarizes the key characteristics of the basic LED models.

Table 1.1.

Comparison of basic LED models

LED Model	**Development Driver**	**Focus of Local Strategies**	**Examples**
Endogenous	Internal community resources	Development of SMEs, local production systems	«Third Italy»
Exogenous	External investments	Territory promotion, partnerships with investors	Detroit (USA)
Cluster	Networks of interconnected firms	Development of clusters, value chains	Baden-Württemberg (Germany
Creative	Creative class, culture	Development of creative industries, cultural hubs	Bilbao (Spain)
«Smart»	Digital technologies, innovations	Implementation of «smart» solutions, e-government	Singapore

*Source: compiled by the author based on (Selfa, 2022; Desrochers, 2021; Götz, 2020).

Undoubtedly, the choice of the optimal LED model depends on the unique combination of resources, challenges, and opportunities of a particular community. Successful local development strategies should not be developed according to a single template, but «grown» taking into account local specifics. At the same time, generalization of the world’s best practices allows us to outline some universal principles and approaches that can serve as guidelines for communities seeking to dynamize their own economic development.

Firstly, the driver of successful LED strategies is always the initiative «from below» – the proactivity of the community itself, its residents and institutions in mobilizing local resources and competencies. As Sembello (2022: 47) notes, «the secret to the success of LED lies in the formation of a culture of local development, which involves the active participation of citizens in creating the future of their own territories.» Secondly, modern approaches to LED are based on the principles of partnership and synergy of key stakeholders – government, business, educational institutions, and civil society. It is the public-private dialogue that makes it possible to accumulate a critical mass of resources, align priorities, and distribute risks for the implementation of ambitious local development projects (Vasyltsiv et al., 2021).

Thirdly, successful communities in their LED strategies rely on endogenous potential – unique local assets that distinguish them from other territories and form competitive advantages. These can be both tangible resources (minerals, recreational areas, historical and cultural monuments) and intangible assets – human capital, institutional capacity, creativity, and innovation (Rodríguez-Pose, 2020). Therefore, the task of local strategies is to ensure the valorization of these unique resources through support for entrepreneurship, investment attraction, and promotion of the territory.

Fourthly, in the context of intensifying inter-territorial competition for resources and markets, territorial marketing and branding become an integral component of successful LED. The experience of leading communities shows that investments in creating an attractive image of the territory, its effective positioning and «selling» to target groups of stakeholders (tourists, investors, creative class) provide a significant return in the form of an inflow of capital, talent, and economic activity (Ključnikov et al., 2022). At the same time, it is important to ensure the correspondence of the real conditions and quality of life in the community to its declared brand.

As we can see, the modern understanding of LED is characterized by multidimensionality and complexity. It is not just a set of tools to stimulate business activity, but a holistic philosophy of local development, at the center of which is the partnership interaction of government, business, and the community to realize a common vision of the future of the territory. The driving force of LED is the social capital of the community, its ability to self-organize and innovate, the ability to unlock the unique potential of the territory and turn it into a source of well-being.

At the same time, LED is not an end in itself, but rather a means to achieve sustainable, inclusive community development and ensure a decent quality of life for all its residents. Therefore, the social and environmental components are inextricably interwoven into the logic of economic development of territories. Successful LED models and practices make it possible to combine the tasks of economic growth with the goals of social justice and environmental conservation (Portney, 2019). Therefore, the focus on sustainable development is one of the defining features of the modern LED paradigm.

To summarize, here are the key conclusions regarding the essence, principles, and models of LED:

Local economic development is a complex process of mobilization and effective use of the endogenous potential of territorial communities in order to stimulate economic activity, create new jobs, and improve the quality of life of residents. It involves the partnership interaction of local governments, businesses, and civil society based on a common vision of priorities and synergy of resources. The starting point of LED is the understanding of the uniqueness of each territory and the approach to developing local development strategies «grown» from the local context. Successful LED is based on the principles of smart specialization, innovation, sustainability, and inclusiveness.

1.2. Economic and technological-economic impact of armed conflicts and wars on the development of territorial communities

War always means destruction, disruption of established socio-economic ties, and the destruction of infrastructure and production facilities. Armed conflicts have a complex destructive impact on all spheres of society, but they hit local communities the hardest. After all, communities find themselves at the forefront of hostilities, suffering large-scale destruction, forced displacement of the population, and the rupture of value chains. Therefore, understanding the economic and technological-economic consequences of wars for the development of territorial communities is an extremely relevant scientific and practical task.

So how do the mechanisms of the impact of armed conflicts on community development occur? First of all, it should be noted that the negative effects of war on the socio-economic and technological progress of territorial communities are realized through several key transmission mechanisms.

First, hostilities are accompanied by the physical destruction and damage of production assets, infrastructure facilities, and housing stock, which paralyzes the activities of many sectors of the local economy (industry, agriculture, transport, construction, etc.). Moreover, the destruction of critical infrastructure (power grids, water supply, sewage, communications) makes it impossible for businesses and households to function even where direct hostilities do not occur.

To better understand the scale of this destruction, let's consider some real-world examples:

- According to UN estimates, the fighting in Donbas in 2014-2021 caused over $100 billion in physical damage to the region, including the destruction of 77% of production facilities.
- During the Balkan wars of 1991-1995, about 80% of industrial facilities and 45% of residential real estate were destroyed in Vukovar, Croatia, which suffered the most from the fighting.
- The Rwandan genocide in 1994 led to the death of nearly 1 million

people and the flight of another 2 million from the country, which effectively destroyed the social capital of local communities.

As we can see, local communities truly find themselves at the epicenter of the destructive effects of wars, suffering from their far-reaching consequences for years.

Second, war leads to a total «brain drain» from the affected communities, with the most creative and economically active part of human capital being irretrievably lost – youth, entrepreneurs, scientists. This undermines the quality of the local workforce and the personnel base for conducting innovative research and development.

In addition, the forced displacement of a significant mass of the population and the deterioration of well-being reduce aggregate consumer demand in communities, which deals a devastating blow to small and medium-sized businesses – the backbone of local economies. To this we should add the institutional influences – conflicts destroy trust in society, break established cooperative ties and networks (the so-called «social capital»). As a result, the effectiveness of local cooperation and collective action decreases.

If we look at this in more detail, it should be noted that the destructive impact of armed conflicts on the local economy has various forms of manifestation and covers almost all of its sectors. The most obvious is the physical destruction and damage of infrastructure, housing, industrial and agricultural assets as a result of hostilities.

According to World Bank estimates, a typical civil conflict leads to the loss of about 15% of the housing stock, 10% of the educational infrastructure and 6% of health care facilities. Of course, the scale of such losses can vary significantly depending on the intensity and duration of the military confrontation, but in any case, they are irreparable for the affected communities.

Here are a few more specific examples to illustrate the point:

- During the civil war in Sierra Leone (1991-2002), about 80% of power lines and more than half of roads were destroyed.
- Similar scales of infrastructure losses were observed during the military

conflicts in Syria, Yemen, and Eastern Ukraine.

The consequences of these destructions extend far beyond the period of active hostilities, complicating the restoration of normal living conditions of communities for many years.

Another channel of the negative impact of armed conflicts on local economies is a sharp reduction in investment and the outflow of capital from war-torn territories. It is clear that in conditions of hostilities and high uncertainty, most investors curtail their projects and withdraw assets to safer jurisdictions.

For example, according to economists' estimates, the civil war in Colombia led to an 85% drop in foreign direct investment in the affected departments during 1996-2002. Moreover, even after the end of active military confrontation, the return of capital occurs very slowly due to the persistence of high risks and the need to rebuild the destroyed infrastructure.

In addition, the war deals a devastating blow to entrepreneurial activity at the local level. Due to physical destruction, supply chain disruptions, and a drop in the purchasing power of the population, many small and medium-sized enterprises in communities are forced to cease their activities.

According to a study by the International Labor Organization, during the armed conflict in Donbas in 2014-2016, about 80% of SMEs in the war-torn areas experienced a halt or significant reduction in production. The resumption of local business activity after the end of hostilities is complicated by a lack of working capital, loss of skilled personnel, and a reduction in the capacity of local markets.

An extremely painful consequence of wars for territorial communities is also the destruction of human capital. Hostilities are accompanied by numerous civilian casualties and the forced displacement of a significant part of the population to safer regions.

For example, according to the UN, the conflict in Syria led to the death of over 400,000 people and the forced relocation of almost half of the country's pre-war population. Accordingly, communities lose their most valuable resource – skilled personnel, entrepreneurs, active youth, without whom economic recovery is practically impossible.

The impact of wars on the technological development of territorial communities deserves special attention. On the one hand, in conditions of acute shortage of resources and personnel, the war forces communities to abandon many innovative projects, «freeze» promising technological startups, and postpone the digitalization of municipal services.

For example, as a result of the annexation of Crimea and the beginning of hostilities in Donbas in 2014, Ukraine lost over 15% of IT companies from these regions. At the same time, some scientists also note some indirect positive effects of military conflicts on technological development.

Table 1.2.

The main impacts of armed conflicts on community development

Sphere of influence	**Main manifestations**	**Long-term consequences**
Infrastructure	Destruction of housing stock, industrial and agricultural assets, critical infrastructure facilities	Complication of restoration of normal living conditions, high cost of reconstruction
Investments	Sharp reduction in inflow and massive outflow of investments from conflict-affected territories	Slowing down of economic recovery due to lack of capital, persistence of high risks
Business activity	Suspension or reduction of activities of most SMEs due to destruction, supply chain disruption	Decrease in employment and incomes of the population, narrowing of the economic base of communities
Human capital	Death and forced displacement of a significant part of the population, including highly qualified personnel	Deficit of labor resources for reconstruction, decrease in entrepreneurial activity
Technological development	Curtailment of innovative projects, «brain drain», postponement of digitalization	Technological lag and decrease in the competitiveness of communities

*Source: compiled by the author based on [21; 4; 5; 7].

For example, Engelke and Simons (2018), using the example of armed conflicts in Africa, show that the need to ensure basic necessities of life in combat conditions stimulates the development of grassroots technological innovations in the field of energy, healthcare, and water supply. However, these few positive effects cannot compensate for the colossal technological losses of communities from the war.

So, summarizing the main economic and technological-economic impacts of armed conflicts on community development, we can identify several key aspects (see Table 1.2).

The above considerations allow us to draw several key conclusions about the impact of armed conflicts on the socio-economic and technological development of territorial communities:

1) War has a devastating and complex impact on all components of the life of territorial communities, causing the greatest losses to local economies. Large-scale destruction of residential, industrial and social infrastructure, a sharp reduction in investments, the curtailment of small and medium-sized businesses, the loss of human capital – all this threatens the very existence of many communities in conditions of hostilities. The long-term consequences of wars are deindustrialization and degradation of entire regions, deepening of disparities in socio-economic development, and marginalization of a significant part of the population. The key challenge for communities is to mobilize colossal financial and organizational resources not just to rebuild infrastructure, but for a holistic «reset» of the local development model on a new technological and institutional basis.

2) Wars also significantly slow down the technological progress of communities, since limited resources are directed primarily to the needs of survival, not innovation. Destruction of research infrastructure, «brain drain», curtailment of promising projects in the field of digitalization, robotics, biotechnologies throw the affected regions to the periphery of global technological progress. Although some local military-oriented innovations may appear under the pressure of circumstances, in general, communities have to make enormous efforts in the post-war period to

overcome technological gaps and increase competitiveness in the conditions of the Fourth Industrial Revolution. This will likely require a significant reorientation of local development strategies towards smart specialization, digitalization, building innovation ecosystems and attracting technological investments.

So, this analysis paints a sobering picture of the immense challenges faced by war-affected communities in their quest for economic and technological recovery. However, by understanding these mechanisms and learning from past experiences, we can begin to chart a path forward.

1.3. International experience of post-war community reconstruction and restoration of local economic development: the financial aspect

The issue of effective financial support for the reconstruction of territorial communities affected by armed conflicts is of paramount importance in the context of restoring their economic and social potential. After all, without sufficient and timely financial injections, it is hardly possible to hope for a quick overcoming of the devastating consequences of wars – the reconstruction of infrastructure, business support, reintegration of displaced persons, and the «restart» of local economies. World experience convincingly shows that the mobilization and rational use of financial resources is a key factor for the success of post-war recovery at the local level.

First of all, it should be noted that international practice has developed a fairly wide arsenal of tools for financing the post-war reconstruction of communities. They can be conditionally divided into several main groups:

1) Official international assistance from foreign governments, international organizations, and financial institutions. It can be provided both on a bilateral basis and within the framework of multilateral initiatives, for example, through special trust funds (multi-donor trust funds). This assistance usually includes concessional loans and grants for the implementation of priority projects for the restoration of infrastructure and support for vulnerable groups of the population. For example,

more than 30 donor countries and organizations took part in the post-war reconstruction of Iraq in 2003-2014, which together provided over $220 billion in assistance (Taft, 2020: 18). Similar large-scale programs were implemented in Afghanistan, Sri Lanka, and the Balkan countries.

2) Lending from international financial organizations – primarily the World Bank, IMF, EBRD, EIB, and regional development banks. These resources are directed primarily to support macrofinancial stability, structural restructuring of the economy, and financing the restoration of large infrastructure facilities. However, from the point of view of direct impact on local development, such assistance is not always optimal, because a significant part of the funds remains at the national level. Nevertheless, specialized projects of IFIs focused specifically on supporting communities play a significant role. For example, in Bosnia and Herzegovina during 1996-2000, the World Bank implemented a Community Reconstruction Project worth $42 million, which financed the repair of local roads, bridges, hospitals, and schools (World Bank, 2004).

3) Private investments, including foreign direct investments, diaspora funds, and local business investments. In conditions of acute budget deficit, attracting private capital often becomes the only opportunity to finance the restoration of industry, energy, and housing construction. The experience of many countries shows that the private sector can make a significant contribution to reconstruction if the proper regulatory and fiscal conditions are created. For example, in Mozambique, after the civil war of 1977-1992, large-scale privatization and attraction of investments in exploration and extraction of minerals became a central element of economic recovery (Cramer, 1998). Diasporas can also finance the revival of their native cities and villages.

4) Mechanisms of budgetary and fiscal decentralization, which provide for an increase in the revenue base of local budgets and a reduction in their dependence on the central government. In conditions of post-war uncertainty, expanding the financial autonomy of territorial communities allows for more flexible response to local priorities and prompt resolution of the most acute problems. Usually, such

decentralization includes the transfer of part of national taxes to the local level, the establishment of additional local fees, and an increase in transfers to local budgets. For example, in the first post-war years, the share of own revenues of municipalities reached 58% in Croatia and 34% in Serbia (Svianchevska, 2020).

5) Targeted state programs for the restoration and development of affected territories. Such programs are usually financed from the state budget and concentrate resources on solving the most acute problems – repair of infrastructure, housing, support for vulnerable groups, development of entrepreneurship, etc. Their peculiarity lies in a clear territorial focus and purposefulness of actions. A classic example is the «Return, Restoration and Reintegration» program in Rwanda, which provided $200 per family for house reconstruction, livestock purchase, and agricultural equipment (IOM, 2018: 18). Similar initiatives were implemented in Georgia, Azerbaijan, and the countries of the Western Balkans.

Thus, as we can see, the accumulation of sufficient financial resources for the post-war recovery of communities involves a combination of efforts of the international community, central government, private sector, and local governments themselves. At the same time, it is critically important to ensure coordination and complementarity of various sources and instruments of financing, avoiding fragmentation of assistance and misuse of funds.

Furthermore, international experts emphasize the need to adhere to a number of principles when financing post-war reconstruction, in particular:

- Inclusiveness and participation – involvement of all stakeholders (government, business, civil society) in determining financing priorities, allocation of funds, and monitoring their use. This allows taking into account the needs of different social groups, reducing social tension and conflict (United Nations, 2009).
- Transparency and accountability – ensuring maximum openness of information about sources of income, directions of use of funds, results of funded projects. Introduction of public reporting of aid recipients, creation of public supervisory boards, regular external audits are just some of the necessary anti-corruption safeguards (World Bank, 2019).

– Orientation towards sustainable development – combining the tasks of rapid restoration of basic infrastructure and services with the goals of structural transformation of the economy, reducing dependence on humanitarian aid, and developing human capital. It is extremely important to overcome the temptation to finance only «patching holes», but instead lay the foundations for the long-term viability of communities (OECD, 2018).

Another important lesson from international experience is the understanding that financial interventions give the maximum effect only in combination with other components of post-war recovery – ensuring security, strengthening institutions, reconciliation and social reintegration. Therefore, the architecture of financial assistance to affected communities should not be considered in isolation, but in combination with a wide range of political, institutional, and sociocultural aspects of local development.

Interesting examples of the use of financial instruments for post-war reconstruction at the local level are demonstrated by the experience of countries that have faced armed conflicts on their own territory. For example, in Croatia during 1995-2000, a special Program for the Revival and Development of Eastern Slavonia was in place, which combined state subsidies to municipalities for the restoration of social infrastructure, subsidies to businesses and farmers, credit guarantees and support for job creation. Its budget reached 1 billion euros, of which about 70% was provided by international donors, primarily the EU (Škuflić, 2021).

A similar targeted program – the «Reconstruction and Development Fund» – operated in Bosnia and Herzegovina during 1996-2002. Its key feature was the construction of an integrated fund management system, which consisted of a Donor Council, a Supervisory Committee with representatives of government, business and the public, and two banks-fund managers. This made it possible to ensure an unprecedented level of transparency and efficiency in the use of assistance (almost 90% of its volume was fully used). As of 2002, the Fund attracted about $2.8 billion in external injections and financed over 4,000 projects at the local level (Harland, 2004).

Ukraine also has its own interesting experience in financial support for the post-war reconstruction of communities. In particular, even during the ATO-JFO period, a number of targeted state programs were launched – «Restoration and Development of Peace», «State Fund for Regional Development», «Subvention for Socio-Economic Development of Certain Territories», etc.

In addition, international organizations made a significant contribution to the restoration of local infrastructure in Donbas and support for displaced persons: USAID, UNDP, UNICEF, WFP, FAO, IOM. Their total expenditures to support the communities of Luhansk and Donetsk oblasts in 2014-2021 reached $1.6 billion (Accounting Chamber, 2021). The relative diversification of sources and coordination of donor efforts made it possible to finance the most priority areas: restoration of critical infrastructure, housing stock, reconstruction of schools, hospitals, and improvement of the quality of municipal services.

At the same time, the full-scale Russian invasion has posed unprecedented challenges and tasks for Ukraine regarding the organizational and financial mechanisms of post-war reconstruction, their scaling to the entire territory of hostilities. According to preliminary estimates by the World Bank, Ukraine's total recovery needs will range from $600 billion to $1 trillion, depending on the duration of the conflict (World Bank, 2022a). At the same time, special attention and priority of financing will be given by international donors and authorities to the level of territorial communities as the closest to citizens and directly responsible for their well-being.

Based on this, it is critically important for Ukraine to strengthen the capacity of local governments in terms of planning, administration and monitoring of the use of financial assistance, to introduce innovative tools for co-financing reconstruction projects to strengthen the ability of communities to effectively use funds for the reconstruction of Ukraine. The following steps should be considered:

1. Introduction of mandatory medium-term budget planning at the level of territorial communities with a clear outline of priority recovery projects. This will make it possible to harmonize local development plans with national programs and

facilitate the attraction of funding from international institutions.

2. Expansion of the fiscal autonomy of local governments through an increase in tax revenues. In particular, the introduction of municipal bonds to finance large-scale infrastructure projects looks promising. In addition, it is advisable to consider the possibility of establishing a new local reconstruction fee tied to a specific tax base (for example, the area of commercial real estate) (Ventsel, 2022).

3. Intensification of cooperation of communities with international financial organizations and donors within the framework of targeted development programs. This involves strengthening the institutional capacity of municipalities to prepare high-quality investment proposals, conduct tenders, and introduce a transparent system for monitoring the use of funds with public participation.

4. Stimulating private investments in community recovery through the introduction of special economic zones, industrial parks, and the provision of tax and customs incentives. To attract diaspora resources, it is advisable to develop mechanisms for co-financing social infrastructure projects based on the crowdfunding model.

5. Creation of the State Recovery Fund as a financial «hub» for the accumulation of resources for the reconstruction of affected territories. The fund’s budget can be formed through targeted military bonds, donor support, and part of the export duty. The distribution of the fund’s resources should take place on a competitive basis among the communities that will present the most substantiated and innovative reconstruction projects.

The table below summarizes the main international instruments and sources of financial support for the post-war recovery of territorial communities (Table 1.3).

In conclusion, let’s formulate one key conclusion regarding the peculiarities of financial support for the reconstruction of communities in the light of international experience. No less important than the quantitative parameters of financial assistance is the construction of an effective system of its administration at the local level.

Table 1.3.

The main international instruments and sources of financing for the post-war reconstruction of communities

Source	**Instruments**	**Examples**
Official international assistance	Grants, concessional loans, trust funds	Multilateral Trust Fund for Iraq, EU community support program in Bosnia
International financial organizations	Systemic and investment loans, technical assistance	World Bank projects for the reconstruction of local infrastructure in the Balkans
Private investments	Foreign direct investment, diaspora funds, charitable contributions	Attracting FDI in the extractive industry of Mozambique, crowdfunding of the diaspora for the communities of Sri Lanka
Budget decentralization	Increase in tax revenues, interbudgetary transfers	Fiscal devolution in Croatia and Serbia, introduction of municipal bonds
State targeted programs	Subventions, subsidies, credit guarantees for communities and SMEs	Reconstruction Fund in Bosnia, Donbas revival programs in Ukraine

*Source: compiled by the author based on [1-4; 7-11].

International experience proves the need to adhere to a number of principles when using funds for the reconstruction of communities – inclusiveness of decision-making, coordination of donor efforts, transparency of resource allocation, monitoring and public control over the targeted direction of assistance. It is extremely important to avoid both excessive centralization of the management of recovery funds and fragmentation and misuse of assistance on the ground.

To this end, it is advisable for Ukraine to introduce a multi-level system of planning, distribution and reporting on the funds of international partners with the involvement of all interested parties – central and local authorities, donors, business and civil society. Financial interventions at the community level should be aligned with national reform priorities and sustainable development goals.

In summary, the process of post-war reconstruction is a complex, multifaceted endeavor that requires the coordinated efforts of a wide range of stakeholders. International experience shows that effective financial support is a critical component of this process, but it must be accompanied by sound governance, transparency, and a focus on sustainable, inclusive development.

Ukraine faces enormous challenges in this regard, but also has the opportunity to learn from the successes and failures of other countries that have undergone similar trials. By adopting best practices, building strong institutions, and fostering a spirit of cooperation and shared purpose, Ukrainian communities can not only recover from the devastation of war, but emerge stronger, more resilient, and better prepared for the future.

CHAPTER 2. ANALYSING LOCAL FINANCES IN CRISIS-HIT COUNTRIES (UKRAINE AND CHINA)

2.1 Ukraine case study: local fiscal sustainability in wartime

2022: The Russian invasion led to a significant economic downturn, with Ukraine's GDP falling by almost 30%. The war caused extensive damage to infrastructure, productive capacity, and human capital.

2023: Despite the ongoing conflict, Ukraine's economy showed unexpected resilience, with GDP growth estimated at 5.7%. The National Bank of Ukraine and the International Monetary Fund (IMF) forecast continued growth above 4% in the coming years, assuming the war winds down by the end of 20241.

2024: The economic recovery remains uncertain, with full pre-war GDP levels expected only by 2030. Reconstruction costs are estimated at USD 486 billion over the next decade1.

Local Finances. Budget Resilience: Local budgets have shown resilience, with some municipalities managing to return to pre-war revenue levels. Factors contributing to this resilience include lesser exposure to fighting, administrative efficiency, and higher voter turnout.

Revenue and Expenditure: Local governments have had to adjust budget priorities and allocations due to the war. Revenue generation and expenditure patterns have shifted, focusing on essential services and reconstruction efforts.

International Assistance: Financial support from the EU and IMF has been crucial, with conditionalities related to fiscal policy, governance, and anti-corruption reforms

In order to achieve the objectives of the study, it is necessary to analyse the state of local government finances in Ukraine.

The analysis of local budgets for the first nine months of 2024 is important for assessing the financial capacity of territorial communities in a dynamic budget process. It allows us to assess long-term trends in the formation of revenues and expenditures of local budgets, as well as the impact of legislative changes and economic factors on their stability. In January-September 2024, local budgets showed resilience but faced challenges that require a strategic response to ensure financial equilibrium.

The abolition of the military PIT continued to have a negative impact on the structure of local budget revenues. As a result, the share of local revenues in the consolidated budget decreased significantly (from 22.6% in 2017 to 15.8% in the first nine months of 2024). At the same time, revenues from other taxes, including the single tax, although continuing to grow steadily, were unable to compensate for these losses. Particular attention is drawn to the uneven distribution of revenues across regions, which points to the need to further adjust the mechanisms of horizontal equalisation of tax capacity.

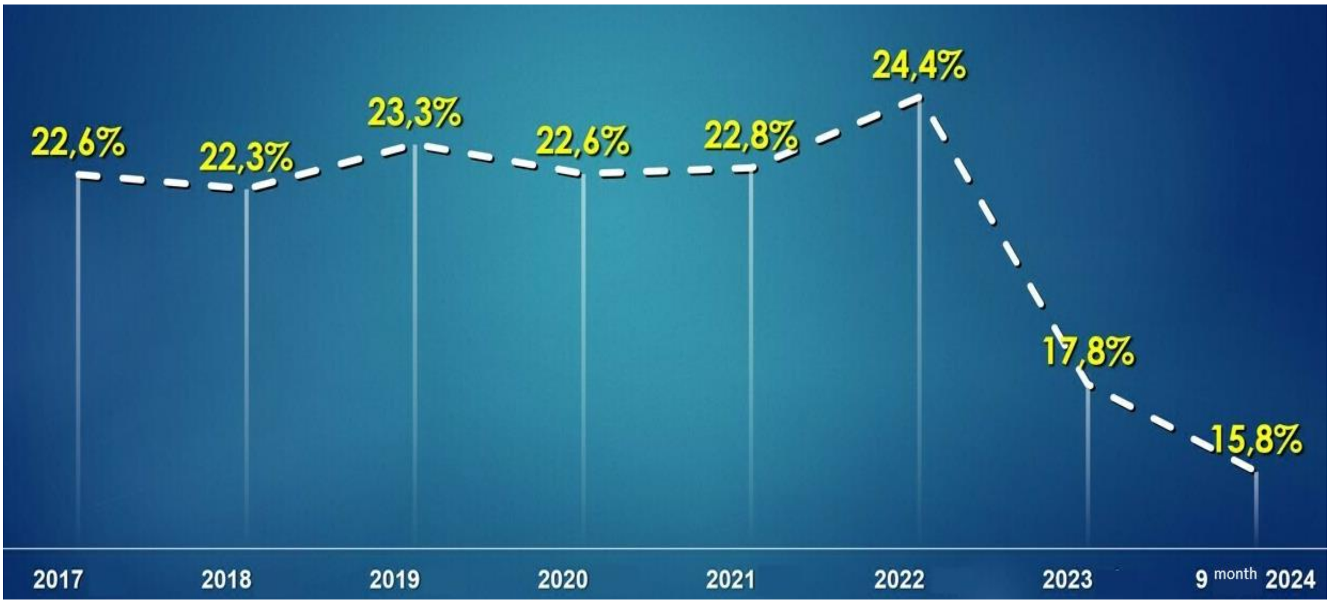

Figure 2.1. Share of local budgets in Ukraine's consolidated budget revenues (excluding transfers), 2017-2024

Source: https://decentralization.ua/en/news/18931

Figure 2.1 shows the dynamics of the share of local budgets in Ukraine's consolidated budget revenues (excluding transfers) since 2017. According to the data, the share fluctuates between 22.3 and 24.4 per cent in 2017-2021, showing relative stability with a slight increase in 2021 and a peak of 24.4 per cent in 2022.

This indicates a positive trend towards strengthening the financial autonomy of local budgets during this period.

However, after 2022 (the peak of 24.4%), the share of local budgets starts to decline rapidly, falling to 17.8% in 2023 and 15.8% in the first 9 months of 2024. This decline is the result of the removal of the military PIT from local budgets in October 2023, as well as a significant increase in state budget revenues from certain taxes (as mentioned above). This decision significantly reduced the revenues of local budgets, which was reflected in their share in the consolidated budget of Ukraine. This is the lowest level since the beginning of the decentralisation reform, but this is due to the growing state budget expenditure on security and defence, which has to be covered from its own sources.

Thus, the dynamics of the share of local budgets in consolidated budget revenues was significantly influenced by the military PIT. In 2022, it contributed to an increase in the share of local budgets, while in 2023 and 2024, the removal of this revenue led to a significant decrease in their share. This highlights the importance of the military PIT for fiscal sustainability during armed conflict.

Changes in the share of local budgets in consolidated budget revenues also have significant implications for the financial planning and implementation of local programmes and activities. In 2022-2023, despite the war, stable revenues allowed local authorities to support education, health and other key social sectors. However, the withdrawal of the military PIT in 2023 created significant financial difficulties, forcing local governments to review their budgets, cut spending and seek new sources of funding.

This decline is indicative of the significant impact of political and military factors that limit the financial autonomy of local budgets. These dynamics underline the need to develop measures to support financial decentralisation, as the graph clearly illustrates an important problem in the structure of budget revenues, in particular the tendency to reduce the role of local governments in the formation of budget resources, which requires the attention of state policy.

We would like to remind you that according to the objectives of the Budgetary Declaration for 2022-2024 "the state budget policy on local budgets and inter-budgetary relations in 2022-2024 will be implemented by ensuring the dynamics of revenues credited to local budgets, maintaining their level of revenues at least 20% of the consolidated budget of Ukraine and reducing the share of transfers in local budget revenues".

At the same time, according to the Strategy for the reform of the public finance management system for 2022-2025, approved by the Cabinet of Ministers of Ukraine on 29 December 2021, No. 1805-r, the share of local budget revenues (excluding transfers) in the consolidated budget of Ukraine for 2023 was declared to be 25%.

Looking at the monthly dynamics of revenues and expenditures of the state budget of Ukraine in 2024, a significant deficit is clearly visible. In the first nine months, public spending consistently exceeded revenues (of course, due to the growing needs of the defence sector), with an average monthly gap of UAH 80-110 bn. The largest deficit was recorded in July (UAH 110.7 bn), and the smallest in January (UAH 15.2 bn). According to the results of the three quarters, the total deficit of the state budget amounted to UAH -808.6 bn.

In contrast to the state budget, local budgets are stable, with revenues and expenditures mostly in balance. A small surplus of local budgets was recorded each month, and the overall result for the first nine months was UAH 75.5 bn. National taxes, transfers from the state budget, and local taxes and fees remain the main sources of revenue for local budgets.

Let us consider the own revenues of the state and local budgets (general fund without transfers).

The analytical material reflects the dynamics of the general fund revenues without transfers of the state and local budgets for the nine-month period 2018-2024. The revenues of the state budget have been growing steadily, reaching UAH 1,273.6 billion in 2024, which is 41.5% more than in 2023 (UAH 899.8 billion). This growth was driven by the following factors

The largest absolute increase was in personal income tax revenues (+UAH 105.5 bn or +84.3%). This was mainly due to the transfer of personal income tax from military personnel from local budgets to the Special Fund of the State Budget (+UA 80.8 bn or +309.7%).

The high growth was also due to an increase in VAT revenues on goods imported into the customs territory of Ukraine (+UAH 81.3 bn).

Another high absolute growth was achieved by income tax revenues of banking organisations, including branches of similar organisations located in Ukraine (+UAH 61.9 bn: from UAH 6.3 bn in January-September 2023 to UAH 68.3 bn in 9 months of 2024, +976.9%). The point is that solvent banks will receive a net profit of UAH 86.5 bn in 2023. This is almost four times more than in 2022 and 12% more than in 2021, before the full-scale invasion. The VRU decided to significantly increase corporate income tax (CIT) for banking institutions. Thus, Law of Ukraine No. 3474-IX of 21 November 2023 increased the basic CIT rate for banks from 18% to 50% based on the results of 2023, and set the rate for 2024 and subsequent years at 25%.

Revenues from VAT on goods (works, services) produced in Ukraine increased significantly (+UAH 59.2 bn or +23.9%).

Local taxes and charges are important elements of local budget revenues. Therefore, increasing the role of local taxes and fees in local budget revenues is one of the main tasks for increasing the capacity of local governments, financial independence and sustainability.

Revenues from local taxes and fees are characterised by a certain volatility, while playing a significant role in local budget revenues. In 2019-2023, local taxes and fees will increase by UAH 26.4 million, or 36 per cent (Table 2.1.). Over the same period, revenues from the general fund of local budgets, excluding intergovernmental transfers, increased by UAH 166.8 million or 61%. This means that general fund revenues grew faster than local taxes and fees.

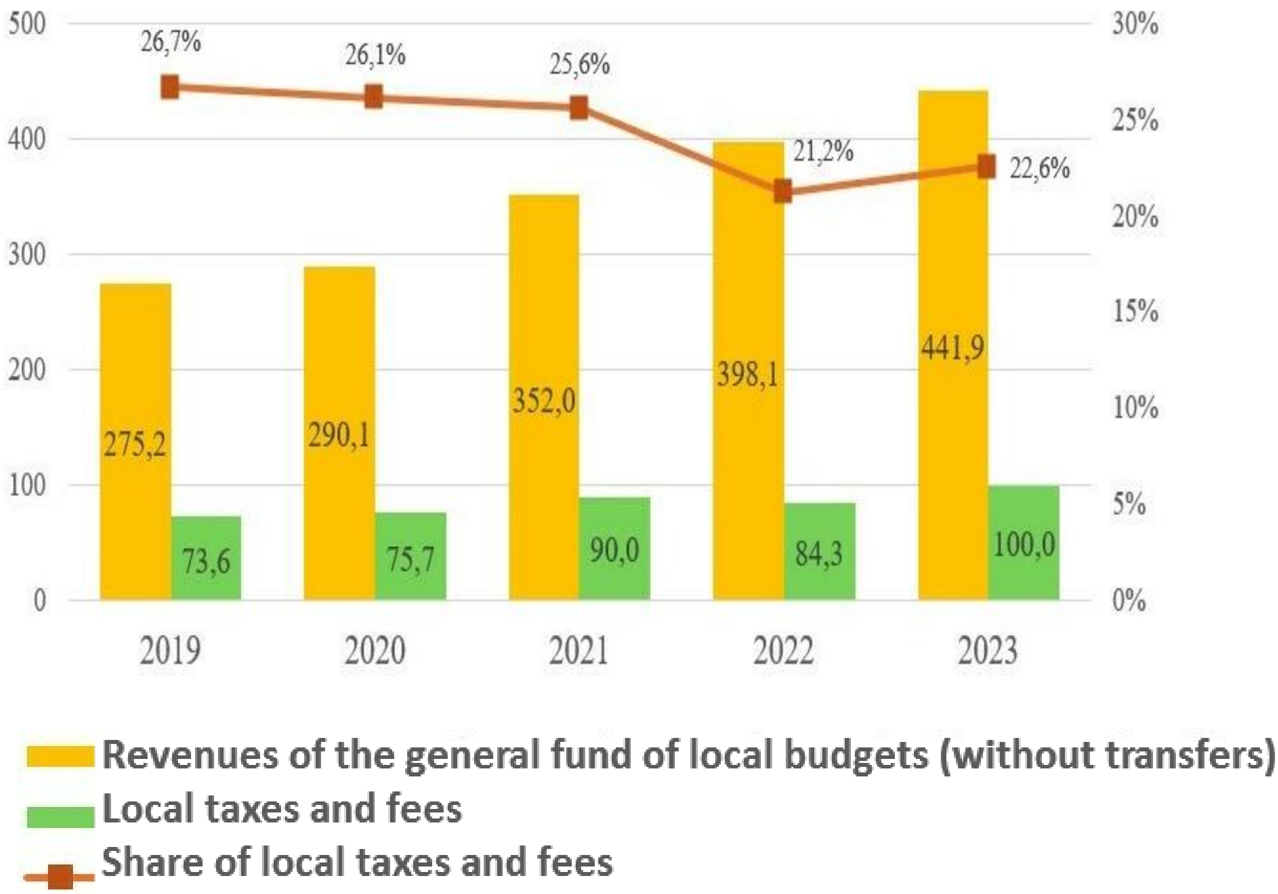

Figure 2.2. Dynamics of revenues of the general fund of local taxes and fees and the share of local taxes and fees in the general fund revenues (UAH thousand /%) during 2019-2023

Source: https://decentralization.ua/news/18948

At the same time, if the personal income tax on military personnel is excluded from local budget revenues in 2023, the growth rate of general fund revenues in 2023 compared to 2019 will be 32%, which is 4 percentage points lower than the growth rate of local taxes and fees[1]. We believe that the exclusion of military income tax from the comparative revenue base is also reasonable, as this payment in 2022 and 2023 does not represent economic activity and is not the result of the socio-economic development of communities.

Table 2.1

Revenues from local taxes and fees to local budgets in 2019-2023, UAH thousand

No	Indicators / reporting periods	**2019**	**2020**	**2021**	**2022**	**2023**
1	Payment for land, total	32 835,6	31 471,7	35 263,6	29 568,4	34 528,9
	including:					
	land tax	13 349,6	12 813,6	13 843,9	11 126,3	12 086,8
	Land rent	19 486,0	18 658,1	21 419,7	18 442,1	22 442,1
2	Tax on immovable property other than land	4 882,3	5 758,9	7 820,8	7 118,9	9 140,0
3	Transport tax	276,0	202,8	158,4	103,5	160,5
4	Single tax	35 270,2	38 031,0	46 282,4	47 226,1	55 805,4
5	Fee for car parking spaces	114,9	91,2	254,1	101,8	151,4
6	Tourist tax	196,2	130,6	244,0	186,4	222,6
7	Total local taxes and fees	73575,2	75686,2	90 023,3	84 305,1	100008,8
8	Revenues of the general fund of local budgets (without transfers)	**275169,8**	**290114,8**	**352013,5**	**398131,4**	**441 937,0**
9	Share of local taxes and fees in general fund revenues (line 7/line 8)	26,7%	26,1%	25,6%	21,2%	22,6%

Source: https://decentralization.ua/news/18948

In 2019-2023, the share of local taxes and fees in the revenues of the general fund of local budgets (excluding transfers) will average 24.4%, ranging from 21.2% in 2022 to 26.7% in 2019. Thus, the share of local taxes and fees in the revenues of the general fund of local budgets (excluding transfers) falls by 4.1 percentage points over the period, from 26.7% in 2019 to 22.6% in 2023.

Figure 2.3. Dynamics of local taxes and fees revenues to local budgets in 2019-2023 (UAH thousand)

Source: https://decentralization.ua/news/18948

It is worth paying attention to certain indicators of local tax and fee revenues in 2021-2023. First of all, 2021 was marked by the completion of the process of amalgamation of territorial communities, and the following periods were marked by Russia's military aggression, which had a significant impact on the functioning of territorial communities in general and on the revenues from local taxes and fees in particular.

For the analysis, the approaches chosen were those according to which territorial communities were grouped by type of settlement (rural, settlement, urban) and calculations were made for territorial communities grouped by population size.

The analysis is based on official statistics from the State Statistics Service on the population as of 01/01/2022, official reports from the State Treasury Service on the implementation of local budgets, and open data from the Ministry of Finance of Ukraine.

Analysis of local tax and fee revenues by type of administrative unit (village, town, city). The average amount of local tax and fee revenues per capita in 2023 was UAH 2,248.2 per capita, which is 24.5% more than in 2022 (UAH 1,806.2 per capita) and 13.7% more than in 2021 (UAH 1,978.1 per capita). Due to the outbreak of hostilities, local tax and fee revenues fall by 8.7% in 2022 (Table 2.2.). Later, given the low comparative base and the relative adaptation of economic agents to work during the war, revenues increased by 24.5% in 2023 compared to 2022.

The reporting and analysis data show that in 2022, compared to 2021, the largest decrease in revenues was recorded in urban municipalities - by 12.3%, while the smallest decrease in revenues was recorded in rural municipalities - by 6.8%.

For the period 2021-2023, there is a trend indicating that the growth of local tax and fee revenues correlates with the type of territorial community: the lowest growth was recorded in urban communities - 9.2%, in settlement communities - 14.1% and in rural communities - 15.5%.

In 2021, the average amount of local tax and fee revenues per capita was UAH 1,708.3 in urban municipalities, UAH 1,909.2 in settlements, and UAH 2,190.4 in rural municipalities (Fig. 2.4). That is, the largest amount of local tax and fee revenues per capita was received by rural municipalities, their figure is 14.7% higher than that of urban municipalities (2,190.4 / 1,909.2) and 28.2% higher than that of urban municipalities (2,190.4 / 1,708.3). At the end of 2023, this trend continued: the revenue of rural municipalities was the highest (2,530.6) and exceeded the same indicator in urban municipalities by 16.2% (2,530.6 / 2,177.9) and in urban municipalities - by 35.7% (2,530.6 / 1,864.6).

Table 2.2.

Average amount of local taxes and fees per capita in 2021-2023

Types of territorial communities	**Average amount of local taxes and fees per capita, UAH/person**			**Deviation, in per cent**		
	2021	2022	2023	2022/2021	2023/2022	2023/2021
A	1	2	3	4 = 2 / 1	5 = 3 / 2	6 = 3 / 1
Urban community groups	1 708,3	1 570,5	1 864,6	91,9%	118,7%	109,2%
Rural community groups	1 909,2	1 674,9	2 177,9	87,7%	130,0%	114,1%
Rural TSGs	2 190,4	2 041,2	2 530,6	93,2%	124,0%	115,5%
Average value for all Ukrainian CCs	**1 978,1**	**1 806,2**	**2 248,2**	**91,3%**	**124,5%**	**113,7%**

Source: https://decentralization.ua/news/18948

From the above data it can be concluded that the efficiency of collecting local taxes and fees is highest in rural budgets and lowest in urban budgets. It is likely that rural municipalities are more efficient in collecting local taxes and fees due to their weaker tax base compared to urban and settlement-based municipalities.

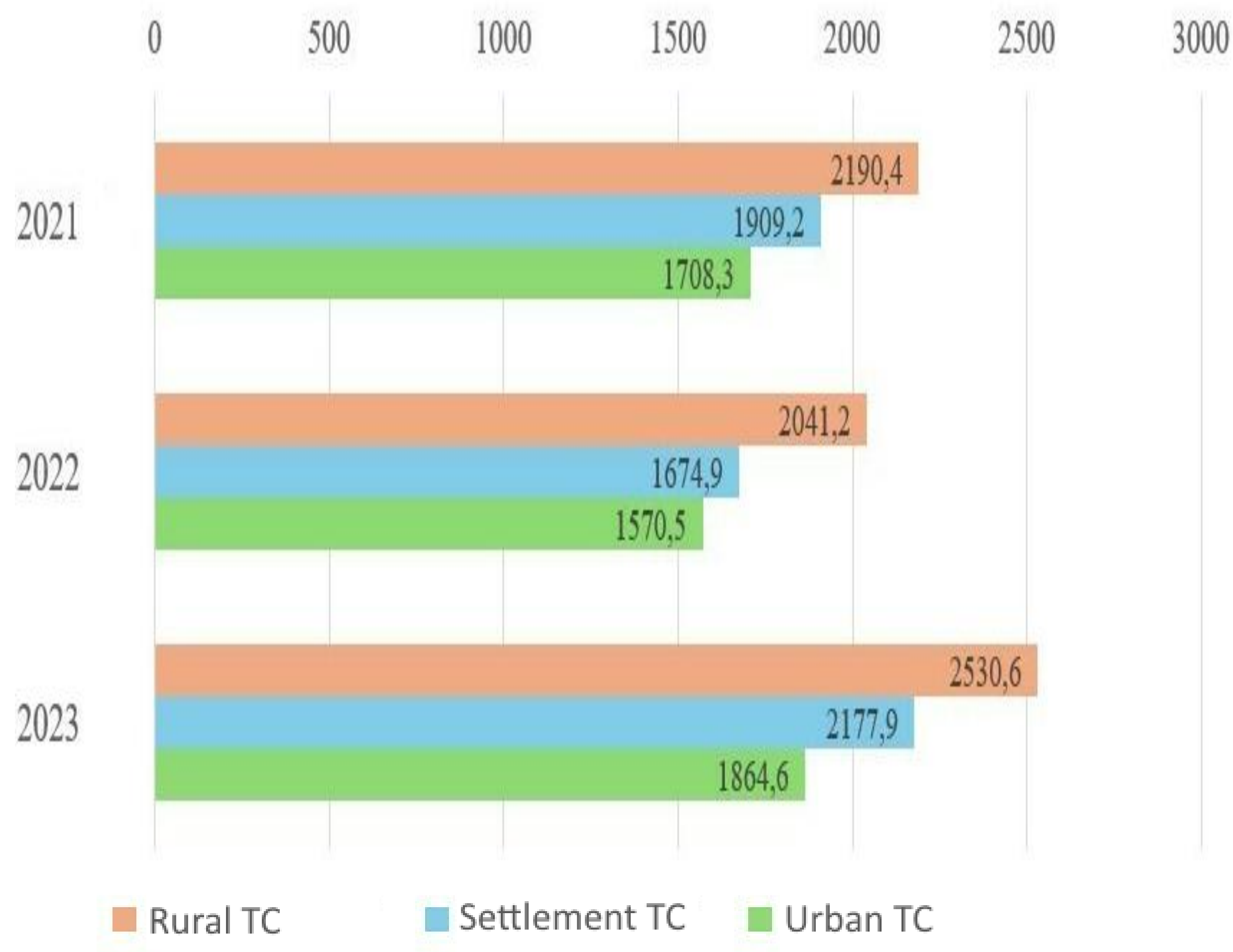

Figure 2.4. Average amount of taxes and fees per capita per year UAH/person

Source: https://decentralization.ua/news/18948

Correspondingly, it can be assumed that urban municipalities do not pay much attention to revenues from local taxes and fees, as the concentration of more powerful economic agents on their territory makes it possible to obtain a larger share of revenues from other payments, including personal income tax. In addition, the mobilisation of local taxes and charges requires certain administrative and organisational measures that are likely to be more efficient in areas with a small number of people and businesses.

Analysis of local tax and fee revenue according to the population of the territorial communities

In order to study the relationship between the revenues from local taxes and fees and the population of the municipalities, they were grouped according to the number of inhabitants. In general, it was proposed to distinguish 6 groups of local governments, namely those with a population of up to 5 thousand inhabitants, from 5 to 10 thousand inhabitants, from 10 to 20 thousand inhabitants, from 20 to 50 thousand inhabitants, from 50 to 100 thousand inhabitants and over 100 thousand inhabitants (Table 2.3.).

Table 2.3.

Distribution of territorial communities by population

Grouping criteria	**Amount of TG**	**Total population in the TG group, thousand people**	**Share of the total population**
Population up to 5 thousand people	184	728,4	2,0%
Population from 5 to 10 thousand people	444	3 202,2	8,9%
Population from 10 to 20 thousand people	407	5 838,1	16,2%
Population from 20 to 50 thousand people	305	9 098,7	25,2%
Population from 50 to 100 thousand people	58	3 896,0	10,8%
Population over 100 thousand people	40	13 362,1	37,0%
Total	**1 438**	**36 125,5**	**100%**

Source: https://decentralization.ua/news/18948

Based on the results of data generalisation and processing, it was found that among the identified groups in 2021-2023, the highest rate of local taxes and fees was recorded in territorial communities with a population of 20 to 50 thousand people (Table 2.4.):

UAH 2,147.1/1 person in 2021;

UAH 2,005.3/1 person in 2022;

UAH 2,559.2/1 person in 2023.

In addition, the group of municipalities with a population between 20 and 50 thousand had the lowest decrease in local tax and fee revenue in 2022 compared to 2021 - 6.6% (Table 2.4). The largest decrease in revenue was recorded in the group of municipalities with less than 5 000 inhabitants - 11.8%.

In total, over the period 2021-2023, the highest rate of local tax and fee revenues was also demonstrated by hromadas with a population of 20 to 50 thousand people - by +19.2%. The lowest revenue growth was achieved among communities with a population of more than 100 thousand people (+6.8%) and less than 5 thousand people (+7.2%). Identical growth rates in 2023 compared to 2021 were recorded in communities with a population of 10 to 20 thousand people and 50 to 100 thousand people - +12.8% (Table 2.4).

Based on the analysis, the following can be noted:

As a result of Russia's full-scale military aggression, local tax and fee revenues in 2022 decreased by UAH 5.7 billion or 6.4% (from UAH 90.0 billion to UAH 84.3 billion). In the following year, 2023, given the low comparative base and the relative adaptation of economic agents to work during the war, revenues will increase by UAH 15.7 billion or 18.6% compared to 2022, and by UAH 10.0 billion or 11.1% compared to 2021.

Table 2.4.

Average amount of local taxes and fees per capita depending on the population of territorial communities

Groups of territorial communities depending on population size	**Average amount of local taxes and fees per capita, UAH/person**			**Deviation, in per cent**		
	2021	2022	2023	2022/2021	2023/2022	2023/2021
A	1	2	3	4 = 2 / 1	5 = 3 / 2	6 = 3 / 1
Population up to 5 thousand people	1886,3	1664,6	2 21,8	88,2%	121,5%	107,2%
Population from 5 to 10 thousand people	1957,7	1780,7	2231,9	91,0%	125,3%	114,0%
Population from 10 to 20 thousand people	1940,9	1779,9	2189,3	91,7%	123,0%	112,8%
Population from 20 to 50 thousand people	2147,1	2005,3	2559,2	93,4%	127,6%	119,2%
Population from 50 to 100 thousand people	1885,3	1706,9	2127,2	90,5%	124,6%	112,8%
Population over 100 thousand people	1938,3	1756,2	2070,7	90,6%	117,9%	106,8%

Source: https://decentralization.ua/news/18948

The analysis shows that there are interdependencies between the types of administrative units (rural, urban, city) and local tax and fee revenues, namely, for the period 2021-2023 there is a trend indicating that the growth of local tax and fee revenues correlates with the type of territorial communities: the lowest growth was recorded for urban communities - 9.2%, for settlement communities - 14.1%, and for rural communities - 15.5%. This means that the efficiency of accumulation of local taxes and fees is highest in rural budgets and lowest in urban budgets.

The study of the relationship between local tax and fee revenues and the population of local government units indicates a multivector nature of local tax and fee revenues. At the same time, the highest level of local tax and fee revenues was recorded in municipalities with a population of 20 to 50 thousand.

The analysis shows that local taxes and fees play an important role in developing the financial independence and capacity of local governments. To this end, it is necessary to find mechanisms to increase the influence of local governments on the processes of broadening the tax base and mobilising financial resources for their budgets. In particular, by extending certain powers of local governments in the administration of local taxes and fees. However, this issue requires further study and elaboration, as an important step is to form (develop) a consensus position on new approaches and mechanisms for the administration of local taxes and fees that would satisfy all stakeholders in this process as much as possible.

2.2. From debt crisis to development: overcoming China's local finance crisis

China's local finance has been facing a severe crisis, exacerbated by the COVID-19 pandemic and the country's zero-COVID policy. The mounting debt levels and economic slowdown have put significant pressure on local governments, leading to a series of economic challenges and repercussions1.

Causes of the Crisis

1. **Zero-COVID Policy**: The stringent measures to control the pandemic led to economic disruptions, straining local finances.
2. **Real Estate Slump**: The collapse in property prices has significantly reduced revenue for local governments.

3. **Overinvestment**: Decades of prioritizing industrial production have resulted in overcapacity and huge debt burdens.

4. **Aging Population**: The rapidly aging population has increased the demand for social services, further straining local budgets.

Impact on Local Governments

- **Debt Levels**: Local government debt has reached as high as 94 trillion yuan.
- **Revenue Shortfalls**: Reduced revenue from property and other sectors has led to budget deficits.
- **Social Services**: The financial strain has affected the provision of public services, including healthcare and education.

Government Response

1. **Debt Restructuring**: The central government has initiated efforts to restructure local government debt.
2. **Fiscal Support**: Increased support for local governments to resolve debt risks.
3. **Economic Reforms**: Focus on addressing structural issues rather than providing broad fiscal stimulus.

Diagrams

To illustrate the crisis, here are some diagrams:

1. **Debt Levels Over Time**: A line graph showing the increase in local government debt from 2020 to 2024.
2. **Revenue vs. Expenditure**: A bar chart comparing local government revenue and expenditure over the past few years.
3. **Impact on Public Services**: A pie chart showing the allocation of local government spending on various public services.

China's fiscal budget

China is a country with a low to moderate government spending ratio. Total government expenditure amounted to around 33 percent of the GDP in 2022, while this amounted to nearly 39 percent in the United States. For other Western countries, such as the United Kingdom, Germany, or France, this surpassed 40 or even 50 percent. Among Asian countries, however, government spending ratios are considerably lower, and China is ranging in a medium position.

The largest single item in the Chinese government budget for many consecutive years has been education. In contrast, welfare spending is considerably lower than in Western countries. Spending on social security and employment only accounted for around 14 percent of the total budget in 2022.

In recent years, revenues were increasingly not on par with expenditures. While budget deficits have been widening since 2011, total government debt is mounting up and reached 77 percent in 2022, more than double from 34 percent in 2012. Compared to developed economies, this is still a moderate level.

However, the situation is aggravated by large amounts of debt held by state-owned companies, which have often taken up debt under the supervision of local governments. Total debt of the non-financial sector in China reached more than 300 percent in the first quarter of 2023. This is a comparatively high level and was only surpassed by a few highly indebted jurisdictions such as Japan and Hong Kong.

Current developments

As China's economic development is increasingly faltering and large amounts of debt have built up in the economy, the government budget will remain under pressure and revenues and expenditures will need to be rebalanced. The most difficult part will be the consolidation of local government finances and state-owned company debt. However, as most of the debt is from domestic lenders, the government has considerable leeway to manage the situation.

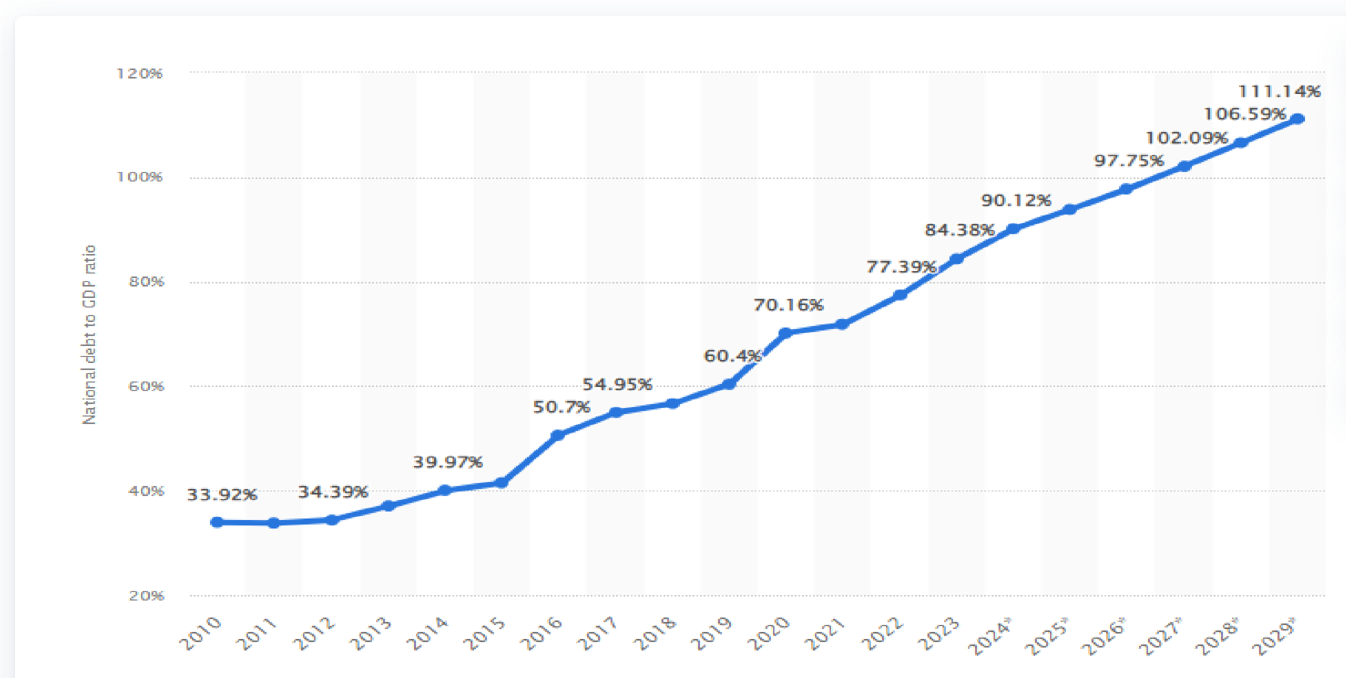

Figure 2.5. National debt in relation to gross domestic product (GDP) in China from 2010 to 2023 with forecasts until 2029

Source: Asian Development Bank (ADB) https://www.adb.org/what-we-do/topics/finance

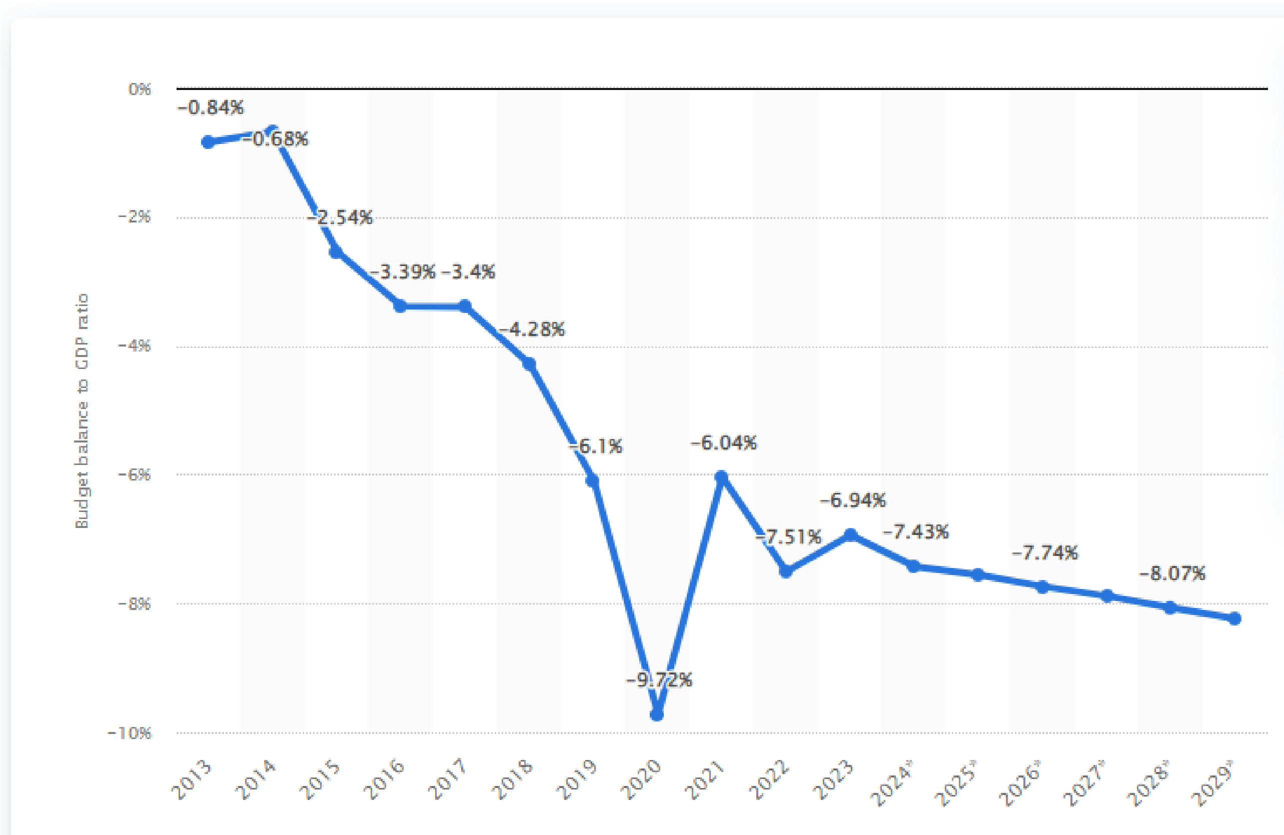

Figure 2.6. Budget balance in relation to gross domestic product (GDP) in China from 2013 to 2024 with forecasts until 2029

Source: Asian Development Bank (ADB) https://www.adb.org/what-we-do/topics/finance

The crisis in China's local finance is a complex issue with deep-rooted causes and significant impacts. Addressing this crisis will require comprehensive reforms and sustained efforts from both the central and local governments.

For a long time, China’s government budget grew by double digits year on year, but this situation has changed gradually over the last decade. Revenue growth has fallen below an average of five percent annually since 2019. At the same time, deficits increased and were estimated to range at around seven percent of the GDP in both 2022 and 2023.

Within the overall growth in local revenues, there are also some changes worth noting. For example, there is a significant trend towards a decline in government fund revenue in 2023 in a number of provinces, reflecting the weakness of the land transfer market in various locations affected by the downturn in the real estate sector, which may create challenges and pressure on local finances in 2024.

Figure 2.7. General public budget revenue of some provinces in the 1 November of 2023

Source: Asian Development Bank (ADB) https://www.adb.org/what-we-do/topics/finance

At the end of 2023, the Central Economic Work Conference proposed that active fiscal policy should be moderately strengthened and improved in quality and efficiency.

In 2023, China's major provinces achieved steady growth in fiscal revenue. Three provinces have released data for the full year of 2023. in 2023, general public budget revenue increased by 10.6% in Gansu, 9.2% in Inner Mongolia Autonomous Region and 8.3% in Hunan.

According to the incomplete statistics of the 21st Century Business Research Institute, in the first 11 months of 2023, among the 21 provinces that have released data, 20 provinces achieved positive growth in general public budget revenue, including Jilin, Qinghai, Sichuan, Xinjiang, Guizhou, Chongqing, Tianjin, Jiangsu, Hubei and Gansu, the revenue growth rate of 25. 9%, 22.9%, 17.6%, 16.6% and 15.7%, 14.3%, 12.3%, 11.6%, 11.4% and 10.7% respectively.

Among the major economic provinces, Guangdong has not yet released fiscal revenue data for the first 11 months of 2023, but its revenue for the first 10 months was 116.362 billion yuan, an increase of 5.25%, which is still ahead of other provinces in terms of volume.

In the first 11 months of 2023, Jiangsu's general public budget revenue completed 944.4 billion yuan, up 11.6%. Among them, tax revenue completed 753.7 billion yuan, up 18.9 per cent, and the proportion of tax revenue in the province was 79.8 per cent, and the revenue structure continued to be optimised. In the same period, Zhejiang's general public budget revenue of 836.3 billion yuan, an increase of 6.7%, of which tax revenue increased by 7.3%, tax revenue accounted for 82.3% of general public budget revenue.

In the first 11 months of 2023, Anhui's general public budget revenue was 363.9 billion yuan, up 8.5%; Hubei's general public budget revenue was 336.5 billion yuan, up 11.4%; and Shanxi's general public budget revenue was 315.1 billion yuan, down 1.4% year on year. Hunan has announced the fiscal and tax data for the whole year of 2023. In 2023, Hunan Province completed the local general public budget revenue of 336.03 billion yuan, with a growth rate of 8.3 percent.

From the situation of the four municipalities directly under the central government, in the first 11 months of 2023, Beijing's citywide general public budget revenue accumulated 581.9 billion yuan, an increase of 9.2 per cent; Shanghai's citywide general public budget revenue completed 786 billion yuan, an increase of 10. 6 per cent; Chongqing's citywide general public budget revenue reached 210 billion yuan, an increase of 14.3 per cent; Tianjin's citywide general public budget revenue reached 190.9 billion yuan, an increase of 12.3 per cent.

From the perspective of revenue structure, the tax revenue of major provinces grew significantly, especially the faster growth of VAT on the low base of the previous year, which was due to the implementation of large-scale tax rebates for tax allowances in the same period of the previous year, resulting in a lower base.

In the first 11 months of 2023, Shandong Province's general public budget revenue was 697.7 billion yuan, an increase of 5.3% over the same period last year. Of this, tax revenue was 486 billion yuan, an increase of 8.7 per cent. In the same period, Shandong's value-added tax (VAT) revenue was 184.8 billion yuan, up 43.2 per cent, while Hunan's VAT grew by 59.6 per cent in the same period, effectively driving local revenue growth.

The 21st Century Institute of Economics analysis, although most provincial fiscal revenue is growing, there are still some hidden problems and pressures. Sub-taxation, many provincial enterprise income tax, personal income tax decline, corporate profit repair is still to be improved, but also reflects the pressure of economic recovery is still there.

For example, Beijing 2023 the first 11 months of enterprise income tax completed 137.77 billion yuan, down 0.8%, the local finance bureau analysis, this is mainly due to some enterprises 2022 annual operating profit decline, remittance of enterprise income tax income to reduce the impact of the same period Beijing personal income tax completed 70. 73 billion yuan, a decline of 1.0%, the lower increase is mainly due to the implementation of the three years or less The lower increase was mainly due to the implementation of the policy of raising the standard of special additional deductions for infant care, children's education and support for the elderly, and the year-on-year increase in the scale of tax rebates for individual tax remittance.

The 21st Century Business Research Institute found that the main provinces in the financial expenditure reflects the characteristics of strong expenditure, especially to increase education, science and technology, social security and employment and other people's livelihood expenditure, in the field of transport and other infrastructure expenditure steadily decreased.

Of the major provinces and cities in the Yangtze River Delta, in the first 11 months of 2023, Jiangsu Province's general public budget expenditure completed 1,298.3 billion yuan, an increase of 1.9%, of which the growth of expenditure on agriculture, forestry and water, science and technology, and social security and employment was 13.8%, 9.0% and 7.1%, respectively; Zhejiang Province's general public budget expenditure completed 1,073 billion yuan, an increase of 2.4%, with the growth of education expenditure of 8.2%, science and technology expenditure growth of 7.4%; Shanghai City's general public budget expenditure completed 842.86 billion yuan, an increase of 2.4%. 998 billion yuan, an increase of 2.4%, with the growth of education expenditure of 8.2%, science and technology expenditure growth of 7.4%; Shanghai City's general public budget expenditure completed 842.86 billion yuan, an increase of 5.8% over the same period in 2022, energy conservation and environmental protection, science and technology, education, social security and employment and other key expenditures are given priority to protect.

Public budget spending in less economically developed regions will continue to grow. For example, in 2023, Gansu Province's general public budget expenditure will be 451.85 billion yuan, up 6.1%, of which 356.95 billion yuan will be spent on 11 categories of livelihood, such as education and social security, accounting for 79% of general public budget expenditure, of which 6.11 billion yuan will be spent on science and technology, up 28%, and 72.21 billion yuan will be spent on social security and employment, up 12.6%.

Land sales market still in the doldrums

In 2024, the 30th anniversary of the tax sharing reform, China is also planning a new round of financial and fiscal system reform to adapt to the new changes in economic and social development.

Since the reform of the tax-sharing system, the financial power and resources of local governments in China have been continuously accumulated, and land finance has emerged, which has also become the main support for the financial power of local governments.

Looking at the national situation, in the first 11 months of 2023, among the national land and property-related tax revenues, urban land use tax amounted to RMB202.8 billion, down 0.4% year on year, and land value added tax amounted to RMB497.9 billion, down 15.1% year on year. In the same period, national government fund budget revenue was 5,188.4 billion yuan, down 13.8% year on year, of which 4,817.9 billion yuan was local government fund budget revenue, down 14.4% year on year, of which 420.31 billion yuan was revenue from the transfer of state land use rights, down 17.9% year on year.

Government fund is the financial "second account", the local government's respective financial data released one after another, reflecting the local government land transfer revenue downward trend is obvious, but there are some regional "hot and cold" phenomenon. 21st Century Business Research Institute combed through the Shaanxi, Gansu, Chongqing, Liaoning, Heilongjiang and other provinces of the provincial government fund budget revenue fell significantly, but Inner Mongolia, Tianjin, Jilin and other provinces ushered in the growth of government fund revenue. Gansu, Chongqing, Liaoning, Heilongjiang and other provinces, the provincial government fund budget revenue fell significantly, but Inner Mongolia, Tianjin, Jilin and other provinces ushered in the growth of government fund revenue.

In the first 11 months of 2023, Shaanxi province's government fund budget revenue completed 151.97 billion yuan, down 6.5 per cent. Among them, the revenue from the transfer of state-owned land use rights completed 135.27 billion yuan. In the same period, Gansu Province's government fund revenue from the transfer of state-owned land use rights was 13.97 billion yuan, down 21.3 per cent.

Liaoning and Chongqing are also facing the same problem of declining government fund revenue.2023 From January to November, Liaoning Province's government fund budget revenue completed 39.43 billion yuan, down 7.8 per cent.2024 In the same period, Chongqing's citywide governmental fund budget revenue totalled 119.07 billion yuan, down 10 per cent.2025 Of this, revenue from the granting of state land use rights totalled 106.35 billion yuan, down 10.5 per cent.2026 Chongqing's governmental fund budget revenue fell by 10 per cent.

And affected by the property market downturn and other factors, in 2023, Heilongjiang province's governmental fund budget revenue is proposed to be adjusted from the beginning of the year budget of 17.44 billion yuan to 15.04 billion yuan, a year-on-year decline of about 1.7%, a net shortfall of 2.4 billion yuan from the beginning of the year budget.

However, there are some provinces that have achieved growth in government fund revenue by building financial resources and increasing asset revitalisation.

In the first 11 months of 2023, Inner Mongolia's total governmental fund budget revenue was 38.09 billion yuan, up by 4.03 billion yuan or 11.8% year on year, while the region's governmental fund budget expenditure increased by 46.4% year on year.

Tianjin even achieved rapid growth in government fund revenue.2023 In the first 11 months of the year, Tianjin's government fund revenue was 51.79 billion yuan, an increase of 44.4 per cent over the same period last year. In the same period, Jilin province's government fund budget revenue was 44.05 billion yuan, up 41 per cent year on year. Of this, revenue from the transfer of government land use rights was 37.1 billion yuan, up 45.1 per cent year on year.

Jilin is an important industrial and commercial grain production base in China. Affected by the economic downturn, Jilin's general public budget revenue decreased by 25.6% year on year in 2022, the lowest growth rate in the country.Coupled with a big decrease in land sale revenue, Jilin's governmental fund revenue decreased by 61% year on year in 2022. Therefore, the growth of government fund revenue in 2023 is due to the low base of the previous year.

According to the 21st Century Business Research Institute, the sharp decline in land sale revenue is an issue that needs to be focused on in the local government's account book in 2023, although some provinces have the growth of governmental fund revenue, which is mainly related to the low base of the impact of previous epidemics, and therefore a more rational view of current fiscal revenue and expenditure is needed. Ongoing revenue from land sales is still in decline, and locally available financial resources are decreasing. In 2024, the Ministry of Finance will further deepen fiscal reform and continue to improve the basic system of central and local fiscal rights, financial resources and authority.

Local Government Debt in China: Typical Characteristics, Deep Root Causes and Resolution Options

First, this thesis examines three characteristic facts of Chinese government debt. First, even including hidden debt, Chinese government debt as a percentage of GDP is not too high. Second, the structure of Chinese government debt is apparently inappropriate, with too high a share of high-cost, short-maturity local debt. Third, the distribution of local government debt in China is markedly heterogeneous, with relatively higher debt pressures in the central and western regions and in the northeast. Second, this paper analyses the deep-rooted problems behind the surge in local government debt in recent years.

First, the Chinese government's long-standing "city management" model has not been adjusted in a timely manner after the structural changes in the property market; second, in order to stabilise growth in the face of both internal and external negative shocks, the degree of local government involvement in various aspects of economic growth has increased significantly. Again, this paper proposes a systematic solution to address both the incremental and the stock of debt. In order to prevent the incremental debt of local governments from increasing rapidly again, the relevant policy recommendations include: first, according to the scope of benefits and the degree of externalities of public services, adjust the financial and administrative rights between central and local governments, and transfer some rights and expenditure responsibilities to the central government; second, introduce local government debt indicators into the local government performance evaluation mechanism, and establish a link between economic growth and local government debt; third, in the future, local government debt should be increased to a level consistent with local government performance. Third, future major national and regional infrastructure construction should be directly financed by issuing treasury bonds and general bonds of provincial governments, so as to reduce the revenue-cost mismatch and maturity mismatch in infrastructure financing; fourth, efforts should be made to promote the transformation of qualified urban investment and financing platforms into operational state-owned enterprises.

In order to eliminate the current stock of local government debt, relevant policy recommendations include: first, conduct a nationwide audit of local government debt and classify local government debt into three categories: First, conduct a nationwide audit of local government debt and classify local government debt into three categories: debt generated by the provision of regional public goods, operational debt, and other debt; second, for debt generated by the provision of regional public goods, high-cost and short-term projects should be replaced by the issuance of treasury bonds and provincial government bonds; third, for operational debt and other debt, the local government is responsible for resolving the debt; fourth, increase the economic growth rate to provide a guarantee; fifth, formulate a proactive response to the outbreak of a local debt crisis. Thirdly, local governments are responsible for resolving operational and other debts; fourthly, economic growth should be boosted to ensure that debts are resolved; and fifthly, a proactive plan should be formulated to deal with the outbreak of a local debt crisis.

After the outbreak of the global financial crisis in 2008, the Chinese government introduced the "4 trillion" fiscal stimulus package, and local governments carried out large-scale infrastructure investment by raising debt. Since then, the issue of local government debt has gradually attracted the attention of various sectors and has been regarded as one of the main sources of financial systemic risk in China (Zhang Ming, 2014; Ma Jiantang et al. 2016; Tao Ling and Zhu Ying, 2016; Wei Wei et al. 2018). The Chinese government conducted a nationwide government debt audit in 2013 and adopted the 'old vs. new' debt disposal method, and a new budget law was implemented in 2015, which stipulates that local governments can only raise debt by issuing bonds, known as 'closing the crooked door and opening the right door. '. But even so, from 2015 to the present, local government debt, especially hidden local government debt, is still growing rapidly.

At the beginning of 2023, China's debt problem, especially local government debt, has once again come to the fore. Currently, there are many debates on this issue in academic, financial and political circles. The opposing side argues that China's high debt problem is unsustainable and says that "debt is an opiate" (Zhao Jian, 20/23). The pro-side argues that the credit-driven economic growth model is not wrong, and that it is part of the long-standing strategy of Chinese local governments to 'run their cities', so there is no need to stop eating for fear of choking, and there is no risk of a large-scale debt crisis breaking out at present (Zhao Yanjing, 2023; Xu Gao, 2023a, 2023b). The phenomenon of high local government debt has always existed, so why have various parties paid so much attention to it recently? The author believes there are two main reasons.

One of the reasons for this is the marked deterioration in the fiscal position of local governments following the slowdown in economic growth and the impact of the New Crown epidemic in recent years. Local governments face a difficult trade-off between maintaining economic growth and avoiding an increase in explicit and implicit debt. In terms of fiscal revenues, on the one hand, the decline in local economic growth will inevitably reduce local government tax revenues; on the other hand, the continued regulatory policy targeting the real estate industry has led to a decline in the volume and price of the real estate market, which in turn has led to a significant decline in revenues from the local government fund (land premiums). On the fiscal expenditure side, there has been a significant increase in spending on epidemic prevention, livelihood support and infrastructure to stabilise the economy. Shrinking fiscal revenues and increasing fiscal expenditures have caused local governments to face enormous difficulties in balancing fiscal revenues and expenditures. Under such circumstances, in order to ensure financial operation and promote economic growth, local governments, in addition to the use of traditional means (such as central transfer payments, local special bonds, etc.), will inevitably be through the city investment and financing platforms, local state-owned enterprises to achieve financing, and the latter will naturally lead to the rapid increase of hidden debt of local governments.

The second reason is that in early 2023, the scale of China's domestic credit injection increased significantly, but a large amount of credit flowed into SOEs and local government financing platforms. However, a larger portion of the new credit flowed to various urban investment and financing platforms. These data have led the market to worry about whether we will return to the old path of local government infrastructure investment driven by massive credit after 2008. Indeed, the current controversy over local government debt revolves around whether the model of large-scale local government-led infrastructure development is sustainable, whether it still works, and whether it needs to be adjusted.

Facts characterising China's government debt at this stage: local debt is the top priority

The leverage ratio of China's real sector rises from 141.2% at end-2008 to 273.2% at end-2022, an increase of 132 percentage points. Among them, the leverage ratio of the housing sector rises from 17.9% at the end of 2008 to 61.9% at the end of 2022, an increase of 246%; the leverage ratio of the non-financial corporate sector rises from 95.2% at the end of 2008 to 160.9% at the end of 2022, an increase of 69%; and the leverage ratio of the government sector rises from 28.1% at the end of 2008 to 50.4% at the end of 2022, an increase of 79%. This is an increase of 79%. From the above data it is easy to see that among the three main sectors, i.e. residents, non-financial corporations and government, the government sector has the lowest leverage ratio and the increase between 2008 and 2022 is significantly lower than that of the non-financial corporations sector.

China's government debt includes both central and local government debt. At the end of 2022, the ratio of central government debt to GDP was 21.4% and the ratio of local government debt to GDP was 29.0%. Comparatively speaking, the data on central government debt are very transparent and accurate, but the data on local government debt are significantly underestimated. This underestimation is mainly due to the following three aspects: First, the debt of local urban investment and financing platforms is included in the debt of the non-financial corporate sector in the statistics, but it seems more reasonable to include it in the debt of the local government, as the former usually has various explicit or implicit guarantees from the local government; Second, in the process of implementing PPP (government-social capital cooperation) projects in recent years, local governments have participated in them through "explicit shares but real debt", which in fact created a new batch of implicit debt; and third, under the impact of the epidemic and the continued regulation of the real estate sector, local governments have had extraordinarily difficult financial revenue and expenditure, and have had to rely on municipal investment and financing platforms and local state-owned enterprises to raise funds, which may have created a new batch of implicit debt.

What is the true size of China's public debt? Current estimates vary widely across sectors and institutions. For example, according to China's official data (see Table 1), by the end of 2021, the central government's debt-to-GDP ratio will be 20 per cent, the local government's explicit debt-to-GDP ratio will be 27 per cent, and the interest-bearing debt of urban investment and financing platforms will be 46 per cent of GDP. This means that the broad local government debt-to-GDP ratio, which includes urban investment and financing platforms, will reach 73 per cent, while the broad Chinese government debt-to-GDP ratio will reach 93 per cent. As another example, according to the International Monetary Fund (hereinafter referred to as the IMF) (see Table 2), by the end of 2022, China's central government debt-to-GDP ratio will be 22 percent, the local government explicit debt-to-GDP ratio will be 29 percent, the interest-bearing debt of urban investment and financing platforms will be 47 percent of GDP, and the other additional debt of local governments will be 11 percent of GDP. This means that the broad local government debt-to-GDP ratio will reach 87%, while the broad Chinese government debt-to-GDP ratio will reach 110%.

Comparing China's official data and the IMF's data in 2021, it can be seen that the IMF's estimate of the broad-banded local government debt-to-GDP ratio is 8 percentage points higher than the official estimate, and the IMF's estimate of the broad-banded Chinese government debt-to-GDP ratio is also 8 percentage points higher than the official estimate, and the difference between the two is mainly due to the IMF's additional estimate of an amount of additional debt that should be borne by the local government.

The evolution of China's public debt to date is characterised by three main facts: First, even including hidden debt, the ratio of Chinese government debt to GDP is not too high and roughly in line with the average of major developed countries; Second, the structure of Chinese government debt is clearly irrational, with too high a proportion of high-cost, short-maturity local government debt, making it difficult for local government investment companies to service their own debt; Third, the distribution of Chinese local government debt is distinctly heterogeneous, with relatively higher government debt pressures in the central and western regions and the northeast, and relatively lower government debt pressures in the southeast. Third, the distribution of local government debt in China is markedly heterogeneous, with relatively higher government debt pressures in the central and western regions and the northeast, and relatively lower government debt pressures in the southeast.

The surge in local government debt in recent years reflects two deeper problems: first, the "urban management" model that local governments in China have long followed needs to be adjusted after the introduction of the "housing without speculation" policy, otherwise it will lead to a significant increase in local government debt; second, local government debt has been rising both internally and externally; and third, the distribution of local government debt is markedly heterogeneous. Second, in order to maintain high rates of economic growth in the face of negative internal and external shocks, local governments have become significantly more involved in all aspects of economic growth, which will also lead to a rise in local government debt.

In order to successfully prevent and eliminate local government debt, efforts must be made to curb the increase and eliminate the stock, with curbing the increase being fundamental. In terms of curbing the increase, first, it is necessary to ensure that local governments are able to achieve a rough balance between fiscal revenues and expenditures without incurring debt by adjusting the financial and administrative rights between the central government and local governments; Second, it is necessary to include indicators of local government debt in the performance evaluation mechanism of local governments, and carry out an assessment of the relationship between economic growth and local government debt; Third, the future construction of major infrastructure of national and regional scale should be financed through the issuance of treasury bonds and provincial government general bonds; Fourth, efforts should be made to promote the financing of eligible cities in the form of treasury bonds and provincial government general bonds.

CHAPTER 3. DIRECTIONS FOR IMPROVING POLICY OF LOCAL ECONOMIC DEVELOPMENT

3.1. Using Chinese experience in local economic development for the needs of economic recovery of Ukrainian communities and revitalization of LED in Ukraine

The experience of the People's Republic of China in stimulating local economic development has attracted increased interest in many developing countries. And this is not surprising, because over the past decades, China has demonstrated impressive rates of economic growth and urbanization, largely due to the policy of building capable territorial communities. Although the institutional and sociocultural context of Ukraine differs significantly from the Chinese one, a careful study and adaptation of certain elements of China's LED policy can become an important factor in accelerating the post-war recovery of our country.

First of all, it should be noted that the Chinese model of LED is based on three basic principles: 1) the leading role of the state in determining priorities and financing local development; 2) experimentation with different approaches and tools in separate «testing grounds» with subsequent scaling of successful practices; 3) pragmatism of economic policy, focus on achieving tangible results for the quality of life of citizens. Based on these principles, over the past 40 years, the central government of China has consistently delegated more and more powers to local authorities in the areas of fiscal, investment, and infrastructure policies.

As a result, provinces, cities and counties have gained wide opportunities to determine their own development trajectories, form an attractive business environment, and attract both domestic and foreign investments (Fedorenko, 2021). At the same time, the key component of the LED policy was the creation of special economic zones (SEZs) of various types – export-production, technology-implementation, free trade zones, etc. As of 2022, there were 2,543 state and local level SEZs in China, which accounted for over 60% of foreign direct investment inflows and about 40% of the country’s merchandise exports (Worldbank, 2020a). Such impressive results were achieved due to the provision of a number of preferences to investors in SEZs – tax and customs benefits, subsidies for infrastructure development, simplified permitting procedures.

An important guarantee of the success of this policy was the parallel large-scale investment by the central government in the development of quality infrastructure – roads and railways, airports, seaports, power grids, irrigation systems (Lu, 2021). This made it possible to «stitch together» the previously disconnected regions of the country, ensure energy and food security, and give impetus to interregional trade, tourism, and labor movement. Local governments, in turn, complemented these efforts by developing «soft» infrastructure – educational, medical, cultural, which increased the quality of human capital and the standard of living of citizens.

Another characteristic feature of the Chinese approach to LED is the emphasis on the development of urbanized territories as «locomotives» of growth of adjacent rural regions. By creating attractive conditions for the concentration of economic activity in cities through the development of industrial parks, technology parks and business incubators, the government simultaneously stimulated the «spillover» of resources generated there to the periphery. In particular, at the expense of transfers from city budgets, the social and road infrastructure of villages was actively developed, and the rural economy was diversified through the development of processing industries, tourism, and recreation (Zhalilo, 2020). This model of «diffusion» of urbanization processes made it possible to avoid an excessive gap in the quality of life between urban and rural areas, and reduce the scale of poverty.

Of course, China’s LED experience is not without certain contradictions. For example, it was not always possible to ensure a balance of economic growth and environmental protection, to avoid the formation of «pseudo-market» monopolistic structures under the patronage of local authorities. There were also cases of irrational use of land for industrial development, asymmetries in the distribution of the tax burden between regions (Lin, 2019). Despite this, even critics are forced to recognize the colossal positive impact that LED policy has had on China's socio-economic rise. From 1978-2021, GDP per capita in the country increased 28 times, over 800 million people overcame absolute poverty, and the share of the urban population increased from 17.8% to 64.7% (China Statistical Yearbook, 2022). High-tech clusters created from scratch in the Yangtze River Delta, Pearl River Delta, and around Beijing have become new points of inclusive growth and innovative development of entire provinces.

For Ukraine, which in the near future will face the challenges of post-war reconstruction, this unique experience of China is of great value. Despite the differences in the scale of economies, systems of public administration, mentality and legal traditions, many elements of the Chinese model of LED can be creatively comprehended and adapted to our realities. The key here is not blind copying of successful practices, but an understanding of the deep institutional logic and motives behind certain policies.

So, based on the above, let's list the key areas in which Ukraine could adopt useful practices of China in the field of LED for the purposes of post-war reconstruction during 2025-2026:

1. Expansion of the powers of local self-government bodies in the areas of budget and investment policies. An urgent task is to amend the Budget and Tax Codes of Ukraine in terms of increasing the own revenue base of local budgets, the right of local self-government bodies to establish and administer local taxes and fees. In parallel, it is worth expanding the powers of territorial communities regarding land management within settlements, permitting procedures in the field of construction, and attracting private investments in local infrastructure. This will significantly expand the opportunities for communities to implement LED projects adapted to local specifics.

2. Updating the legislation on special economic zones (*SEZ*). Given the scale of destruction and investment needs of reconstruction, it is advisable to significantly expand the use of the SEZ tool at the local level. In particular, it is necessary to: a) abandon sectoral restrictions on the creation of SEZs, instead determine their

specialization taking into account the competitive advantages of specific communities; b) expand the list of tax and customs preferences in SEZs, extend their validity periods; c) maximize deregulation and digitalization of permitting procedures in SEZs; d) encourage cooperation between SEZs of different regions and countries for integration into global value chains. The development of a network of 25-30 high-tech local SEZs in the affected territories can become a powerful driver of their reindustrialization.

3. Launch of large-scale infrastructure projects of national importance with a focus on connecting more developed and depressed regions. By analogy with the Chinese programs «Go West» and «Rise of the Center», Ukraine should initiate a long-term targeted program for the reintegration of affected regions into a single economic space. It should provide for the development of a network of quality roads and railways, port and airport infrastructure, energy and irrigation networks. This will allow «stitching» the country not only physically, but also mentally – through the intensification of interregional economic and social exchanges. The sources of financing for these projects can be funds from international financial institutions, private investors, and «infrastructure» bonds.

4. Stimulating the formation of inter-municipal cooperative ties in the format of «urban agglomerations – rural periphery». In the conditions of Ukraine, the problem of overcoming the gaps in the quality of life and economic opportunities between regional centers and the rest of the communities is extremely urgent. In this context, it is advisable to study the Chinese practice of suburbanization: the purposeful resettlement of citizens in the suburban zone with the parallel development of industrial, transport and logistics, and recreational facilities there. The transfer of a similar model to Ukrainian soil involves stimulating agglomeration processes around major cities through the development of suburban transport, services, construction of affordable housing with accompanying social infrastructure. This will unload regional centers, «stretch» the agglomeration effects to the surrounding territories, and expand employment in peripheral communities.

5. Introduction of new forms of financial and credit support for

entrepreneurship and local initiatives. The post-war recovery of LED requires the mobilization of not only centralized resources, but also the «dormant» assets of the communities themselves. It is about using the potential of household savings, attracting resources of credit unions, crowdfunding platforms to finance local development projects. As the Chinese experience shows, even communities with modest incomes can generate significant investment resources if they have access to simple and understandable tools for their accumulation and placement. The government should encourage the creation of municipal co-financing funds, fintech P2P-platforms for lending to local businesses, and the provision of guarantees for LED projects.

For the systematic implementation of the above measures, it is advisable to develop a step-by-step «roadmap» – a sequence of steps with defined time frames, responsible executors and expected results (Table 3.1).

The implementation of this ambitious plan will require significant organizational efforts and political will from both the central government and the communities themselves. Therefore, it is extremely important to ensure its public legitimacy through a broad information and awareness campaign, public consultations involving experts, representatives of local self-government, and business.

At the same time, it should be understood that the implementation of certain elements of the Chinese LED experience in Ukraine will have its own specifics and limitations. Unlike China with its powerful vertical of executive power, in our country, reforms will have to be carried out in conditions of a still imperfect system of inter-budgetary relations, institutional weakness of many communities, and a shortage of qualified managers on the ground. Therefore, in addition to the steps proposed above, further improvement of the administrative-territorial structure, strengthening the personnel potential of local self-government bodies, and combating corruption are extremely important.

Table 3.1.

«Roadmap» for adapting the Chinese LED experience for the reconstruction of Ukrainian communities

No.	Measure	Time frame	Responsible executors	Expected results
1	Amendments to the Budget and Tax Codes regarding the expansion of fiscal rights of communities	2025	Ministry of Finance, Ministry of Regional Development, relevant committees of the Verkhovna Rada	Increase in own revenues of local budgets by 25-30%
2	Adoption of a new version of the Law «On Special Economic Zones» taking into account the needs of reconstruction	2025	Ministry of Economy, Ministry of Regional Development, relevant committees of the Verkhovna Rada	Creation of a network of 25-30 local SEZs in the affected territories
3	Development and approval of the State Target Program for Reintegration and Connection of Regions for 2025-2032	2025	Ministry of Regional Development, Ministry of Infrastructure, Ministry of Finance, Ukravtodor, Ukrzaliznytsia	Commissioning of 2,000 km of roads, 1,500 km of railways, 5 airports
4	Adoption of the Law «On Urban Agglomerations» with the definition of the organizational and legal foundations of their creation and functioning	2026	Ministry of Regional Development, AUC, relevant committee of the Verkhovna Rada	Formation of 10-12 new agglomerations around regional centers
5	Development of pilot projects for the development of suburban territories on the basis of suburbanization with the participation of SRDF, IFIs, private investors	2025-2026	Ministry of Regional Development, Ministry of Infrastructure, regional development agencies	Implementation of 5-7 projects of suburban residential and industrial development
6	Adoption of laws on the development of the municipal securities market, crowdfunding, credit cooperation	2025	NBU, NSSMC, relevant committees of the Verkhovna Rada	Attraction of UAH 10-15 billion in LED projects through new instruments
7	Launch of an educational program for community managers on LED best practices with the support of NACS, U-LEAD, CPEC	2025-2026	Ministry of Regional Development, NACS, community associations	Advanced training of 1000+ community managers

*Source: developed by the author.

Another challenge for Ukraine is the relative limitedness of the domestic investment resource compared to China, whose economy generates colossal financial flows. Therefore, it is critically important for us to maximize the diversification of sources of financing for LED projects – from state targeted programs and SRDF to attracting loans from IFIs, corporate investments, and diaspora funds. The analysis shows that the volume of capital investments per community in Ukraine is 10-12 times lower than similar indicators in China. So, if in China the average county has an annual development budget of $150-200 million, in Ukraine the volume of SRDF per united territorial community is only $1.2-1.5 million. This requires a proactive position from the Government in attracting large-scale assistance from international partners – both in the form of grants and concessional loans. According to our estimates, the ratio of external and internal sources of financing for LED projects in Ukraine in 2025-2032 should be approximately 70% to 30%.

It is also extremely important to use the already available financial instruments more effectively, in particular the SRDF. Calculations show that the potential of the SRDF in financing LED projects is used at a maximum of 60-70%. A significant part of the fund's resources is directed to solving the current problems of communities, and not to development goals. For example, in the first half of 2022, only 32% of SRDF projects had a production and innovation focus. In the post-war period, the share of such projects should increase to at least 50-60% of the total budget of the fund. In addition, it is necessary to significantly increase the share of the investment component in the own revenues of local budgets. Now it does not exceed 10-12% on average in Ukraine, while in China it reaches 25-30%. The reserve for increasing investment expenditures is the optimization of the network of budgetary institutions (in particular, in the field of education), energy efficiency in the public sector, and the fight against the «shadowing» of local markets. Due to these measures, it is quite realistic to bring the share of capital investments in the structure of community expenditures to 20-25% in 2025-2026.

As for the use of such a promising tool as municipal bonds, according to our forecasts, in 2025-2030 the volume of this market in Ukraine may reach UAH 80-100 billion (in 2022 prices). For comparison, now it does not exceed UAH 5-7 billion per year]. The average size of a municipal bond issue for a regional center should be brought to UAH 1-1.5 billion, which will allow financing large-scale infrastructure projects. Of course, this will require amendments to the legislation in terms of simplifying emission procedures and providing certain tax preferences to investors in municipal bonds.

In the end, we note that the formation of an effective model for financing LED in Ukraine following the example of China is a complex but achievable task. Its implementation will require political will, clear interdepartmental coordination, and institutional development of communities. But the main thing is a change in the management philosophy, an orientation towards unlocking the endogenous potential of territories, and not expecting «manna from heaven» from the state or donors. With consistent work, by 2032 it is quite realistic to bring the volume of investments in LED projects to 5-7% of GDP, thereby providing a financial basis for the long-term sustainable development of communities.

And now let's systematize the above estimates in the form of a table (Table 3.2).

Table 3.2.

Comparison of individual indicators of LED financing in Ukraine and China

Indicator	**Ukraine**	**China**
Volumes of capital investments per community, $ million	1.2-1.5	150-200
Ratio of external and internal sources of financing for LED projects (forecast for 2025-2032)	70/30	30/70
Share of SRDF projects that have a production and innovation focus, %	32	70
Share of the investment component in the own revenues of local budgets, %	10-12	25-30
Projected volume of the municipal bond market in 2025-2030, $ billion	3-3.5	350-400

*Source: compiled by the author based on (Ministry of Regional Development (2020), Ministry of Regional Development (2021), Hanushchak (2020), Bondarchuk (2022)).

Summing up, let’s formulate three key conclusions regarding the prospects for using the Chinese LED experience for the reconstruction of Ukrainian communities:

1) The introduction of certain elements of the Chinese LED model (fiscal decentralization, expansion of community rights in the investment sphere, development of local free economic zones (SEZs), large-scale infrastructure projects, stimulation of inter-municipal cooperation) can become a powerful driver of post-war economic recovery in Ukraine. However, this will require both the political will of the national leadership and the strengthening of the institutional capacity of local self-government. The development of a holistic «roadmap» for incorporating the Chinese experience with clear timelines and responsible executors will allow synchronizing the necessary legislative changes, organizational transformations and resource provision within a single strategic vision.

2) The limitedness of domestic investment resources forces Ukraine to rely on diversifying the sources of financing for LED projects with the involvement of funds from international institutions, private investors, and local budgets. First of all, it is necessary to increase the efficiency of using the potential of the SRDF, bringing the share of innovative and production projects in its structure to 50-60%. In parallel, the use of the municipal borrowing instrument should be intensified: if the relevant legislative changes are made, the volume of this market may grow to UAH 80-100 billion by 2030. The reserves for increasing the investment potential of local budgets also lie in optimizing expenditures for maintaining the budget sector.

3.2. Useful conclusions from the LED experience in Ukrainian communities of on-war survival and response to critical threats for modern Chinese agrarian-industrial areas and provinces

The full-scale Russian invasion of Ukraine, which began on February 24, 2022, became an unprecedented challenge for the local self-government system of our state. In the conditions of destruction of critical infrastructure, forced displacement of millions of citizens, and rupture of established economic ties, it was the territorial communities that bore the main responsibility for the organization of civil protection, support of vital functions, and restoration of normal living conditions for people. Despite the extremely difficult security, economic, and social circumstances, most Ukrainian municipalities withstood and demonstrated impressive resilience, ingenuity, and effectiveness in countering Russian aggression.

Of course, this unique experience of Ukrainian local democracy, formed in the most difficult wartime conditions, needs careful reflection and generalization. In our opinion, it contains many useful lessons and conclusions that can be relevant not only for our country, but also for other states facing similar security challenges. In particular, many parallels can be drawn with the situation in modern China, which, despite the obvious differences in the socio-political system, is also forced to respond to threats to territorial integrity, economic and technological turbulence, and the aggravation of international competition.

In this context, the experience of Ukrainian communities can be especially instructive for the most vulnerable link in the territorial structure of the PRC – the agrarian-industrial areas in the central and western provinces. Unlike the highly developed coastal megacities, these territories are still characterized by a relatively low level of economic development, the predominance of traditional industries (agriculture, mining and heavy industry), and significant deterioration of infrastructure. At the same time, they serve as home to hundreds of millions of Chinese citizens and are a strategic reserve for the country's socio-economic rise under the «Go West» policy (Xiaojun, 2019).

Thus, Chinese agrarian-industrial regions are largely comparable to Ukrainian communities in the period before 2022 – both in terms of economic structure and the scale of social problems and infrastructure challenges. Therefore, in the event of a hypothetical emergence of crisis phenomena (for example, as a result of escalation of tensions around Taiwan or aggravation of trade wars with the United States), these territories of China may face similar threats that confronted Ukrainian communities with the outbreak of war. Accordingly, studying our anti-crisis experience of recent years can be useful for forming effective response strategies at the level of Chinese counties and townships.

Let's try to highlight a few of the most important lessons that Chinese communities can draw from the practice of LED functioning in Ukrainian communities during the war period:

1) Conclusion #1: The critical importance of proactive formation of local civil protection and crisis management systems. A key factor in the resilience of Ukrainian municipalities in wartime conditions was the high level of advance preparation for possible security challenges. Although before February 24, 2022, few could believe in the reality of a full-scale invasion, the leadership of most Ukrainian communities took care of forming material reserves, identifying critical infrastructure facilities, drawing up mobilization plans, and conducting exercises and training for local authorities. Action options in case of crisis scenarios were practiced within the framework of annual command and staff exercises with the participation of civil protection management bodies, enterprises, institutions, and organizations. Despite all its imperfections, this system of advance preparation allowed communities to orient themselves quite quickly after the start of hostilities and establish basic life support processes in the face of threats. In particular, it was possible to avoid a total collapse of electricity, water, and heat supply systems even in regions where the infrastructure suffered significant damage. This would not have happened if it were not for the creation of local material and food reserves, the introduction of emergency shutdown schedules, and the prompt interaction between authorities and utility companies. Similarly, thanks to previous training, it was possible to carry out mass evacuation of civilians in a fairly coordinated manner, provide temporary housing and humanitarian assistance to internally displaced persons. Although this required an unprecedented mobilization of organizational, financial, and human resources, local Ukrainian communities were able to cope with this super-task precisely due to their proactive stance and awareness of the likelihood of the worst-case scenarios. In our opinion, it is extremely important for Chinese municipalities in agrarian-industrial areas to adopt this approach. Despite the current

military-political stability, they should take care of comprehensive preparation for hypothetical crisis situations: conduct an inventory of protective structures, work out evacuation and life support plans for the population, form regional material reserves, and establish warning and information systems. As the Ukrainian experience shows, even a basic level of readiness can significantly mitigate the effects of destructive factors at the beginning of a crisis and gain precious time for mobilizing wider resources.

2) Conclusion #2: Decentralization of powers and resources to the level of territorial communities. The successes of Ukrainian municipalities in wartime conditions are a direct result of the decentralization reform that took place in our country during 2015-2020. The transfer of a significant part of power and financial resources to the basic level of local self-government made it possible to form viable territorial communities, which became the real «cells» of the country's socio-economic resilience in times of danger (Halhash, 2022). Due to expanded powers in the budget-financial and land spheres, communities were able to quickly redistribute funds to the priority needs of defense and civil protection without coordination with the central government. The decentralized decision-making system ensured the flexibility and adaptability of local initiatives, their maximum adaptation to the local context. In China, as is known, the vertical of power remains quite rigid and centralized. Although over the past decade, the CCP has somewhat expanded the powers of local governments at the basic level, there is still a high level of administrative and financial control by higher-level structures (Ran, 2017). In the event of crisis phenomena, this may limit the maneuver of agrarian-industrial communities in terms of the speed of decision-making and the concentration of resources on local goals. Therefore, we believe that Chinese communities should more actively defend their right to fiscal autonomy, greater independence in the budgetary process, and the redistribution of lands. This will increase their adaptability and allow them to act proactively during the aggravation of the security situation or economic instability.

3) Conclusion #3: Building horizontal ties and mutual assistance networks

between communities. An important factor in the resilience of the Ukrainian rear in 2022-2023 was the extensive partnership ties between territorial communities of different regions. Thanks to the establishment of direct contacts between city, town, and village councils, it was possible to promptly organize volunteer assistance to the most affected territories, provide temporary accommodation and employment for internally displaced persons, and establish an uninterrupted supply of essential goods to combat zones. The network model of organizing inter-municipal interaction proved to be much more effective than the bureaucratized vertical of state administrations and made it possible to mobilize regional resources for the protection of national interests to the maximum extent.

For its part, China is dominated by a centrally coordinated system of inter-territorial relations, where interaction between counties and townships occurs mainly «vertically» – through provincial structures and departments (Danylyak et al, 2022: 132). Although this ensures the unity of management approaches, it limits the initiative of the lower levels and does not allow them to directly attract additional resources (Wang, 2018). In our opinion, the agrarian-industrial communities of the PRC should more actively develop direct horizontal partnerships among themselves, especially within the same economic region. This will not only contribute to the equalization of disparities in the development of territories, but also lay the foundation for prompt mutual assistance in case of crisis situations without the need to turn to the center every time.

4) Conclusion #4: Development of alternative mechanisms for the provision of social services. The functioning of education, healthcare, and social protection systems in Ukrainian communities faced colossal challenges under martial law. Some social infrastructure facilities were destroyed as a result of shelling and bombing, many qualified personnel were forced to leave their homes or were mobilized into the army. At the same time, the war exacerbated the need of citizens for qualified medical and psychological assistance, support for vulnerable groups of the population. And it was the local authorities that had to quickly organize themselves and ensure the continuity of critical services even in the conditions of

the destruction of the usual mechanisms for their provision. In this context, alternative providers of public services played an extremely important role: volunteer associations, charitable foundations, national and international humanitarian missions.

Thanks to the establishment of effective cooperation between them and official structures, it was possible to quickly deploy a network of mobile medical and educational points, humanitarian aid centers, and psychosocial rehabilitation services for affected citizens. Local self-government bodies, in turn, took on the role of coordinators and a «single window» where all residents of the community in need could apply with further redirection to the appropriate service provider. In turn, in China, the state-centric model of social security historically dominates, where the lion's share of the relevant functions is assigned to budgetary institutions and departmental structures. The potential of public and volunteer organizations in terms of providing public services is used relatively little, and private providers mainly serve the well-off segments of the population of large cities (Chan & Gao, 2019). In view of this, it would be useful for Chinese communities in agrarian-industrial areas to activate local resources of solidarity and mutual assistance now, create a database of alternative providers of social services, and work out protocols of cooperation with them in case of crisis situations. Diversification of support channels for vulnerable groups is the best investment in the social resilience of the community.

5) Conclusion #5: Digitalization of management processes and interaction with citizens. Under the conditions of physical restrictions on movement caused by hostilities, maintaining effective communication between local authorities and residents became a serious challenge for many Ukrainian communities. However, those municipalities that already had developed e-government services were able to reorient themselves quite quickly to a remote format of work and service provision. Thanks to the use of video conferencing technologies, cloud document management services, chatbots, online petitions, and interactive portals, it was possible to ensure the participation of residents in solving local problems even during the curfew and remote work of officials. Digital platforms also proved to be indispensable for

informing the population about the security situation and coordinating the actions of authorities and volunteer headquarters. It is pertinent to note that China is at the forefront of the global «digitalization of governance» movement and already has considerable achievements in this area. Despite this, at the level of individual counties and townships, a digital divide still remains, and many departments use outdated approaches to administration and communication with citizens. The Ukrainian case proves the critical importance of accelerating digital transformation at the local level, especially in less developed agricultural regions. Therefore, Chinese communities should take care of the large-scale introduction of e-democracy technologies, automation of management processes, digitization of data, and opening them to the public.

6) Conclusion #6: Formation of local food and energy systems. The collapse of traditional supply chains and the threat of a humanitarian catastrophe forced many Ukrainian communities to develop their own capacity to ensure food and energy security. In particular, cities and towns on whose territory powerful agricultural enterprises are located promptly restructured their work to meet the needs of the domestic market, organized the uninterrupted sale of products for local consumption, and created municipal funds of food reserves for vulnerable groups of the population. Similar steps were taken in terms of activating local «green» energy: solar and wind power plants, which made it possible to reduce the dependence of communities on centralized energy supply. For Chinese agrarian-industrial regions, the experience of building municipal food and energy security systems can be extremely relevant. After all, these territories are often remote from the main logistics hubs and experience a lack of quality infrastructure, which increases their vulnerability in the event of crisis phenomena. Therefore, county and township governments should already take care of strengthening local agricultural producers, forming local value chains, and integrating distributed renewable energy sources into municipal networks. This will make communities more self-sufficient and resistant to external shocks.

Summarizing the above, we propose two summary tables on the key lessons and conclusions from the Ukrainian experience of organizing the life of communities in wartime conditions, which may be useful for Chinese agrarian-industrial territories (see Tables 3.3 and 3.4).

Table 3.3.

Key challenges for Ukrainian communities in wartime conditions and ways to respond to them

Challenge	**Description**	**Response methods**
Destruction of critical infrastructure	Damage or destruction of electricity, water, heat supply systems, transport communications as a result of hostilities	- Proactive creation of material reserves and stocks - Formation of emergency teams and shutdown schedules - Prompt interaction between utility services and authorities
Large-scale forced displacement of population	Departure of a significant part of residents to safer regions, the need for their accommodation, provision of basic needs	- Creation of temporary housing and humanitarian aid funds - Establishment of inter-municipal cooperation on resettlement of displaced persons - Assistance in employment and social adaptation of IDPs
Curtailment of business activity	Suspension of work of many enterprises, disruption of supply chains, reduction of tax revenues	- Introduction of tax incentives and preferences for business - Support for the re-profiling of enterprises for defense needs - Promotion of the development of local value chains
Disruptions in the provision of public services	Destruction of social infrastructure, shortage of personnel, increased burden on the social protection system	- Development of alternative mechanisms for the provision of services through volunteer organizations and humanitarian missions - Introduction of electronic services and digital platforms for communication with citizens

Source: compiled by the author based on [2; 5; 7; 9; 10].

Table 3.4.

Potential areas of application of the Ukrainian experience in the conditions of Chinese agrarian-industrial territories

Area	**Relevance for the PRC**	**Potential measures**
Strengthening of local security and civil protection systems	Vulnerability of remote regions to various kinds of hazards (natural, man-made, social)	- Conducting an audit of protective structures and critical infrastructure facilities - Formation of local material reserves - Working out evacuation and crisis response plans
Fiscal decentralization	Limited possibilities for county and township governments to independently manage financial resources	- Expansion of tax powers of local governments at the basic level - Increase in the share of local governments in the distribution of public finances - Easing of administrative control over local budget expenditures
Building inter-municipal networks	Predominance of vertical ties and top-down coordination in relations between territories	- Intensification of direct horizontal partnerships and cooperation projects between counties/townships - Creation of associations and unions of local governments within economic regions - Conducting joint exercises and exchanges of experience in overcoming challenges
Deconcentration of social services	Dominance of budgetary institutions and limited participation of non-state providers in the social sphere	- Support for the development of local volunteer and charitable organizations - Introduction of mechanisms for social contracting of services from the «third sector» - Formation of municipal registers of alternative providers of social services
Digitalization of governance and communication with citizens	Uneven digital development and persistence of traditional administration approaches in rural areas	- Development of digital infrastructure and networks in counties/townships - Transfer of most administrative services to electronic format, automation of document management - Introduction of digital platforms for citizen participation in solving local issues

*Source: developed by the author.

And finally, let’s formulate three key conclusions for the authorities of Chinese agrarian-industrial territories based on the study of the Ukrainian experience of adapting communities to wartime conditions:

1) The effectiveness of local self-government's response to crisis phenomena critically depends on the level of its institutional capacity and financial self-sufficiency. Therefore, it is necessary to maximize the organizational potential of basic administrative-territorial units through decentralization of resources and powers, investment in human capital development, horizontal cooperation, and exchange of experience. Digitalization of management processes, automation of service provision, introduction of e-democracy – these are the priorities that will allow preparing local authorities for work in emergency situations.

2) Countering complex threats requires close cooperation between the state, local self-government, business, and the public. The authorities must establish sustainable communications and relationships of trust with key stakeholders in the community long before a possible crisis occurs. It is especially important to overcome departmental isolation and bureaucratic barriers in interaction with the non-state sector. Volunteer initiatives, private providers of social services, and charitable organizations should be considered as full-fledged partners, not competitors, in ensuring the resilience of communities.

3) Issues of guaranteeing food, energy, and social security should take a prominent place on the development agenda of agrarian-industrial territories. This refers to the need to diversify local economies, support farms, cooperatives, small food producers, and stimulate the development of local «green» energy. The formation of stocks of critical goods and materials, the creation of logistics hubs will allow communities to more effectively withstand both sudden shocks and slow crises. Basic self-sufficiency is the key to flexible adaptation to the changing context of today.

CONCLUSIONS

1) Based on Section 1.1, we can say that international practice allows us to distinguish several basic models of LED that differ in the focus of local strategies and sources of development: endogenously oriented model ("driver' is internal community resources); exogenous model (emphasis on attracting external investments); cluster model (development of networks of interconnected enterprises); creatively oriented model (focus on creative industries, cultural capital); 'smart' model (introduction of digital and innovative solutions). At the same time, successful communities often apply a combination of different LED models and tools, adapting them to their own unique conditions and needs. A defining feature of leading LED practices is their emphasis on endogenous resources and competencies of the community, active innovation, and cooperation of various local actors for the common goals of sustainable development.

2) Based on Section 1.2, we can say that absolutely all armed conflicts and wars have a colossal destructive impact on the development of territorial communities that extends far beyond the period of active hostilities. Large-scale losses of human capital, destruction of production facilities and infrastructure, a sharp drop-in business activity and investments actually push communities to the periphery of economic and technological progress. The uniqueness of this impact lies in its systemic and long-term nature: it's not just individual enterprises or industries that are destroyed, but the entire model of functioning of local communities. Therefore, communities that find themselves at the epicenter of hostilities, after their completion, face numerous structural challenges – a deformed economic base, technological lag, infrastructure gaps, social upheavals. Overcoming this destructive legacy requires not just a restoration of the pre-war status quo, but a radical transformation of the trajectory of community development on the basis of innovation, sustainability, and inclusiveness.

3) According to the results of Section 1.3, it was revealed that the success of the post-war recovery of territorial communities critically depends on the timely

mobilization of a sufficient number of financial resources from diversified sources – official international assistance, IFI loans, private investments, own revenues of local budgets. At the same time, the most effective approach is the program-target method of financing, which involves the concentration of funds on priority areas of reconstruction within the framework of special funds created by donors together with the government and municipalities. In parallel with this, it is necessary to ensure a gradual increase in the fiscal autonomy of communities through the decentralization of tax powers. Attracting private capital requires the introduction of attractive investment incentives, as well as the use of innovative instruments such as municipal borrowing and crowdfunding.

4) The military aggression by Russia in 2022 led to a 6.4% decrease in local tax and fee revenues. However, in 2023, revenues are expected to increase by 18.6% and 11.1%, respectively. The growth of local tax and fee revenues correlates with the type of territorial communities, with the lowest growth observed in urban communities (9.2%), settlement communities (14.1%), and rural communities (15.5%). The efficiency of accumulation of local taxes and fees is highest in rural budgets and lowest in urban budgets. The study also reveals a multivector nature of local tax and fee revenues, with the highest level recorded in municipalities with 20 to 50 thousand inhabitants. Local taxes and fees are crucial for developing financial independence and capacity of local governments. To increase their influence, mechanisms should be found to broaden the tax base and mobilize financial resources. However, further study is needed to form a consensus on new approaches and mechanisms for administering local taxes and fees.

The crisis in China's local finance is a complex issue with deep-rooted causes and significant impacts. Addressing this crisis will require comprehensive reforms and sustained efforts from both the central and local governments.

For a long time, China’s government budget grew by double digits year on year, but this situation has changed gradually over the last decade. Revenue growth has fallen below an average of five percent annually since 2019. At the same time, deficits increased and were estimated to range at around seven percent of the GDP in both 2022 and 2023.

China's public debt has evolved with three main factors: a relatively low ratio of government debt to GDP, an irrational structure with high-cost, short-maturity debt, and a heterogeneous distribution of debt. The surge in local government debt in recent years is attributed to the need to adjust the "urban management" model, rising debt both internally and externally, and the heterogeneity of debt distribution. Additionally, local governments' increased involvement in economic growth has led to a rise in local government debt.

To prevent and eliminate local government debt, it's crucial to curb its increase and eliminate stock. This involves balancing fiscal revenues and expenditures, adjusting financial and administrative rights, including local government debt indicators in performance evaluations, financing major infrastructure construction through treasury and provincial government bonds, and promoting eligible city financing through these methods.

5) Based on Section 3.1, it is determined that the most important lesson of the Chinese LED experience is a change in management philosophy towards unlocking the internal potential of territories. In Ukrainian realities, this means reorienting communities from the position of waiting for external assistance to proactively mobilizing their own resources – human, financial, land, entrepreneurial. Of course, this does not exclude the need for large-scale state support and international assistance, especially in the context of restoring the de-occupied territories. However, even in conditions of war, the most viable communities were those that relied primarily on internal reserves and sought to manage them effectively. Cultivating such an approach – through educational programs for managers, exchange of best practices, building horizontal ties between communities – should become the cornerstone of Ukraine's municipal policy on the path to post-war revival.

6) Despite significant differences in socio-political realities, the experience of Ukrainian communities in adapting to wartime conditions can be a valuable

source of lessons and conclusions for Chinese agrarian-industrial territories. The most relevant aspects from the point of view of increasing the resilience and adaptability of local self-government in the PRC are: advance preparation of territorial civil protection and crisis management systems; deepening fiscal and administrative decentralization; formation of horizontal networks of inter-municipal cooperation; diversification of social service providers based on local solidarity resources; digitalization of governance processes and communication with citizens; and development of local food and energy systems.

7) Studying and creatively adapting these approaches (taking into account Chinese specifics) can become an important factor in strengthening the institutional capacity and self-sufficiency of territories, increasing trust between the government and society, and timely response to complex challenges to community security. In conditions of complication of the geopolitical situation and the growth of global turbulence, it is the initiative and viability of local communities that is the key to national resilience. Therefore, the exchange of experience and best municipal practices between Ukraine and the PRC can bring mutual benefits, lay the foundations for a long-term partnership and synergy of efforts in building capable local self-government.

8) In summary, these conclusions highlight several key takeaways:

– Successful LED strategies combine different models and tools, but always emphasize local resources, innovation, and multi-stakeholder cooperation.

– The impact of war on communities is systemic and long-term, requiring not just restoration, but a radical transformation based on sustainability and inclusiveness.

– Post-war recovery hinges on mobilizing diverse financial resources, with program-target financing and fiscal decentralization being most effective.

– Ukraine can learn from China’s focus on unlocking internal territorial potential, while China can benefit from Ukraine’s experience in community resilience and adaptation under wartime conditions.

– Ultimately, the exchange of municipal best practices between Ukraine and China can foster a mutually beneficial partnership in building strong, self-sufficient local governance in the face of global challenges.

These conclusions paint a picture of the complex, multifaceted nature of post-war community recovery and the critical role that LED strategies, financial tools, and cross-national learning can play in this process. While the challenges are immense, the opportunities for transformation and resilience-building are equally significant. By studying and adapting best practices, strengthening local capacities, and fostering a spirit of innovation and cooperation, communities in both Ukraine and China can emerge from crisis stronger, more sustainable, and better prepared for the future.

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