

Maximizing Budget Efficiency Under Martial Law

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Опубліковано	Секція	УДК
30.05.2025	Економіка	336:330

DOI: <https://doi.org/10.5281/zenodo.15644444>

Abstract. Amidst the full-scale invasion, Ukraine experienced substantial economic losses, marked by the destruction of critical infrastructure and the rapid transformation of its economy and financial system toward new market dynamics. The war disrupted supply chains, halted industrial production in occupied territories, and triggered mass migration, further straining economic stability. Despite these challenges, Ukraine's banking sector demonstrated remarkable resilience, remaining largely intact and maintaining financial stability even under wartime conditions. The National Bank of Ukraine (NBU) implemented emergency measures, including currency restrictions and liquidity support, to safeguard the financial system. Ukrainian migrants continued to access banking services abroad, utilizing payment cards and supporting relatives in Ukraine through remittances, which became a crucial financial lifeline for many households.

The initial weeks of the invasion brought severe disruptions to both the financial market and the public procurement system, pushing them into a state of near-paralysis. The national budget for 2022 effectively stalled as priorities shifted abruptly, with numerous procurement activities suspended to reallocate funding toward urgent defense needs, including weaponry, military equipment, and humanitarian aid. The government introduced expedited procurement procedures to ensure rapid response to wartime demands, yet this also raised concerns about transparency and accountability. This unprecedented situation brought to the forefront the urgent issue of ensuring the efficient use of state funds – resources that, under the strain of ongoing military conflict, could sustain operations for only a limited period.

Furthermore, the war necessitated rapid fiscal adjustments, including increased borrowing, international financial aid, and deferred non-critical expenditures. The suspension of certain budgetary programs and the redirection of resources toward defense and social support underscored the need for robust financial oversight mechanisms. The crisis also highlighted the importance of digital financial infrastructure, as electronic payments and remote banking services became essential amid physical infrastructure damage and population displacement.

Looking ahead, Ukraine faces the dual challenge of maintaining financial stability during wartime while laying the groundwork for post-war economic recovery. The banking sector's resilience, coupled with international financial assistance, provides a foundation for stabilization. However, ensuring transparent and efficient public spending remains critical, particularly as the country navigates prolonged conflict and prepares for large-scale reconstruction efforts. The lessons learned from managing finances under extreme conditions

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will be invaluable for shaping future economic policies and strengthening institutional frameworks in the post-war period.

Key words: wartime economy, financial efficiency, public procurement, public funds, Prozorro system, budget reallocation, tender procedure, expediency, corruption, financial management, martial law, economic resilience.

Максимізація ефективності бюджетних коштів в умовах воєнного стану

Анотація. Під час повномасштабного вторгнення Україна зазнала значних економічних втрат, що відзначилися руйнуванням критично важливої інфраструктури та швидкою трансформацією її економіки та фінансової системи до нової ринкової динаміки. Війна порушила ланцюги поставок, зупинила промислове виробництво на окупованих територіях та спровокувала масову міграцію, що ще більше погіршило економічну стабільність. Незважаючи на ці виклики, банківський сектор України продемонстрував надзвичайну стійкість, залишаючись переважно неушкодженим та підтримуючи фінансову стабільність навіть у воєнних умовах. Національний банк України (НБУ) запровадив надзвичайні заходи, включаючи валютні обмеження та підтримку ліквідності, для захисту фінансової системи. Українські мігранти продовжували користуватися банківськими послугами за кордоном, використовуючи платіжні картки та підтримуючи родичів в Україні за допомогою грошових переказів, що стало важливим фінансовим джерелом допомоги для багатьох домогосподарств.

Перші тижні вторгнення призвели до серйозних збоїв як на фінансовому ринку, так і в системі державних закупівель, що призвело до стану майже паралічу. Державний бюджет на 2022 рік фактично зупинився, оскільки пріоритети різко змінилися, а численні закупівельні заходи були призупинені для перерозподілу фінансування на нагальні потреби оборони, включаючи озброєння, військову техніку та гуманітарну допомогу. Уряд запровадив прискорені процедури закупівель, щоб забезпечити швидке реагування на потреби воєнного часу, проте це також викликало занепокоєння щодо прозорості та підзвітності. Ця безпрецедентна ситуація висунула на перший план нагальне питання забезпечення ефективного використання державних коштів – ресурсів, які під тиском триваючого військового конфлікту могли підтримувати операції лише протягом обмеженого періоду.

Крім того, війна вимагала швидких фіскальних коригувань, включаючи збільшення запозичень, міжнародну фінансову допомогу та відкладення некритичних витрат. Призупинення певних бюджетних програм та перенаправлення ресурсів на оборону та соціальну підтримку підкреслили необхідність надійних механізмів фінансового нагляду. Криза також підкреслила важливість цифрової фінансової інфраструктури, оскільки електронні платежі та дистанційні банківські послуги стали необхідними на тлі пошкодження фізичної інфраструктури та переміщення населення.

Заглядаючи в майбутнє, Україна стикається з подвійним викликом: підтримкою фінансової стабільності під час війни, одночасно закладаючи основу для післявоєнного економічного відновлення. Стійкість банківського сектору в поєднанні з міжнародною фінансовою допомогою забезпечує основу для стабілізації. Однак забезпечення прозорих та ефективних державних витрат залишається критично важливим, особливо враховуючи, що країна долає тривалий конфлікт та готується до масштабних зусиль з реконструкції. Уроки, отримані з управління фінансами в екстремальних умовах, будуть безцінними для формування майбутньої економічної політики та зміцнення інституційних рамок у повоєнний період.

Ключові слова: економіка воєнного часу, фінансова ефективність, державні закупівлі, державні кошти, система Prozorro, перерозподіл бюджету, тендерна

процедура, доцільність, корупція, фінансовий менеджмент, воєнний стан, економічна стійкість.

Introduction

Problem Statement. In the context of martial law and economic strain, the imperative to optimize public spending has become more urgent than ever. Ensuring the welfare of the population demands not only financial prudence but also systemic vigilance against inefficiency and corruption. As Deputy Minister of Economy Nadiya Bigun aptly notes, “corruption is only part of the procurement problem: while inefficient and irresponsible spending is not always visible, the losses it causes the state – and us, its citizens – are enormous.”

Although corruption remains a persistent risk within public procurement, the identification and prevention of inefficient budgetary practices present a more elusive and complex challenge. Despite the introduction of the ProZorro electronic procurement system, designed to foster transparency and cost-efficiency, its efficacy is constrained. The platform prioritizes the detection of corruption risks and operates within a legislative framework that, while necessary, can still be strategically circumvented.

The public procurement process typically unfolds in a standardized sequence: preparation of tender documentation, publication of procurement announcements, selection of a winning bidder, and contract finalization. However, this procedural structure often obscures a more foundational consideration – the necessity and efficiency of the procurement itself, especially when viewed through the lens of the full life cycle of the acquired goods or services.

In practice, the strategic dimension of procurement – evaluating whether the purchase is necessary, timely, and economically justified – is frequently disregarded. A recurring issue is the failure to assess procurement needs rigorously. Decisions are often made without determining whether a specific service, item, or material is indeed required at a given moment. Moreover, the selection of procurement options does not always align with principles of efficiency. A common example involves the acquisition of costly, high-maintenance vehicles – such as premium SUVs with large engines – for public institutions, where more modest, fuel-efficient, or electric alternatives could better serve operational needs.

Such inefficiencies are symptomatic of broader systemic shortcomings. Tenders are routinely announced without due diligence concerning the necessity or optimality of the planned expenditures. When extrapolated to the national level, these practices contribute to widespread misallocation of resources and the excessive consumption of public funds – amounting to hundreds of millions in potential losses.

Review of Recent Research Addressing the Problem. One notable initiative in addressing systemic inefficiencies in public procurement is the 2017 Law of Ukraine, *On Introducing New Investment Opportunities, Ensuring Rights and Legitimate Interests of Business Entities for Conducting Large-Scale Energy Modernization*. Developed under the auspices of the Ministry of Economy, this legislative act was designed to facilitate partnerships with energy service companies (ESCOs) to modernize public infrastructure. Its primary objective is to reduce energy consumption in public buildings while simultaneously attracting investment into the energy efficiency sector.

This legislative direction reflects a growing recognition of procurement as a mechanism not only for fiscal management but also for policy-driven modernization. Deputy Minister of Economy Nadiya Bigun has been particularly engaged in this domain, regularly contributing analytical commentaries and policy reflections in public forums such as *Ukrainska Pravda*.

The academic and expert community has also demonstrated sustained interest in the problem of procurement efficiency. Among the researchers whose work contributes to the theoretical and practical discourse are Tkachyk F. P., Nykyforov A. Ye., Kutsenko T. F., Knyzhnykov O., Miroshnychenko I., Boyer A., Brandon-Jones, Konashchuk N., Karlin M., Schapper R., and Yaremenko S. Their collective analyses span issues of governance, institutional capacity, and policy integration within procurement systems.

Comparative insights drawn from the experiences of the Visegrád Group countries (Poland, Hungary, Czech Republic, and Slovakia) have been especially instructive. These nations have successfully aligned their public procurement systems with broader European Union goals, treating procurement not only as an administrative tool for resource allocation but as an instrument for promoting sustainable development, social cohesion, and innovation. Their practices underscore the integration of non-price criteria, including environmental and social dimensions, into procurement decision-making.

By contrast, Ukraine's current procurement framework remains predominantly anchored in cost-based evaluation models. This approach, while administratively straightforward, often fails to promote the acquisition of environmentally friendly or socially beneficial goods and services. The absence of incentives for contracting authorities to prioritize "green" or innovative procurement options limits the transformative potential of public spending. Bridging this gap requires a conceptual shift toward value-oriented procurement strategies, grounded in both legislative reform and institutional capacity-building.

Purpose and Objectives of the Research. In light of the previously outlined challenges, there emerges an acute need to critically assess the feasibility and efficiency of public spending, particularly under conditions of constrained resources and heightened demand for fiscal accountability. The pursuit of budgetary optimization – regardless of the availability or volume of external investments – has become a key strategic imperative for Ukraine's public sector management.

Accordingly, the present study seeks to identify actionable pathways toward enhancing the rational use of taxpayer funds. The overarching purpose is to develop a comprehensive framework for efficient public procurement and budget execution during periods of crisis, such as wartime, with a view to ensuring national resilience and socio-economic stability.

To realize this purpose, the following research objectives have been formulated:

1. Explore ways to achieve maximum procurement efficiency
2. Analyze each stage of procurement and tender documentation preparation
3. Initiate legislative amendments to align with EU standards
4. Develop a wartime financing strategy that defines spending priorities and funding sources (e.g., foreign loans, domestic resource mobilization, and efficient budget use)
5. Prioritize expenditures, particularly defense, military support, recovery of affected communities and infrastructure, and post-conflict economic recovery

Results

Empirical evidence from European Union member states demonstrates that the introduction of rigorous legislative standards, coupled with the consistent application of economically grounded procurement practices, has yielded considerable progress in enhancing financial efficiency [1]. This trajectory offers a relevant benchmark for Ukraine, particularly in the context of wartime conditions that demand strategic reorientation of financial governance.

In periods of armed conflict, the overarching goal of financial management becomes closely tied to the imperative of safeguarding national security, ensuring the operational readiness of defense infrastructure, and mitigating the adverse economic consequences of sustained instability. The challenge lies in not only preserving fiscal discipline but also in rapidly adapting budgetary processes to shifting priorities and emergent threats.

Within this framework, a number of critical tasks come to the forefront. First, the formulation of a financing strategy must adequately reflect wartime realities. Such a strategy should be grounded in a pragmatic assessment of both existing and potential funding sources, including international loans, domestic financial reserves, and efficiency-driven optimization of current expenditures [2]. Second, the institutional quality of financial governance becomes paramount. This entails enhancing oversight mechanisms, reinforcing anti-corruption safeguards, and instituting high standards of transparency and accountability across all layers of public spending.

Additionally, the rational allocation of financial resources demands a nuanced approach to prioritization. Particular emphasis must be placed on financing defense operations, ensuring the maintenance of military capacity, supporting territories and populations affected by hostilities, and preparing the foundations for comprehensive post-conflict recovery [3]. Concurrently, active engagement with international partners – to secure financial assistance, investment, and project-based funding – can significantly expand the resource base available for urgent national needs.

Amid these demands, the necessity for a clearly articulated and targeted financial strategy cannot be overstated. Efficient allocation of limited resources requires not only timely decision-making but also robust methodological support. One potential solution involves the institutionalization of feasibility assessments for all major procurement initiatives. Such evaluations should be undertaken with the involvement of independent experts who possess the competence to conduct performance audits and provide technical consultations. Their role becomes especially critical in cases involving substantial public expenditures, where strategic errors carry long-term consequences [4].

Ensuring the integrity of this process requires alignment with the prevailing legal framework. Since the introduction of martial law, public procurement in Ukraine has operated under the guidance of Cabinet of Ministers Resolutions No. 169 and No. 185, which outline modified procedures for the ProZorro system and related mechanisms [5]. These regulatory instruments establish the formal boundaries for procurement practices under emergency conditions, though their effective implementation depends on broader systemic reforms.

In alignment with the wartime regulatory framework, the procurement process must begin with a critical evaluation of necessity. According to Cabinet Resolution No. 169, contracting authorities are required to formally approve the list and scope of goods, works, or services that are indispensable under martial law. This step is not merely procedural but reflects a strategic prioritization mechanism. All non-essential procurements are to be deferred until the cessation of hostilities and subsequently carried out in accordance with the general provisions of the Law of Ukraine “On Public Procurement.”

In this context, the planning stage has undergone significant procedural adaptation. Under Resolution No. 169, wartime procurements are exempt from inclusion in annual procurement plans, regardless of their monetary value or classification. Furthermore, such procurements are not subject to aggregation under unified classification codes [6], a departure from peacetime practices intended to ensure flexibility and responsiveness.

For procurements under UAH 50,000, several simplified channels are available. These include the use of ProZorro’s amended Order No. 10, which enables streamlined procurement procedures; the electronic catalog system (commonly referred to as the “basket” or “price request” tools); and the option to enter into direct contracts without resorting to electronic

platforms. These mechanisms are designed to minimize administrative burden and expedite procurement cycles in urgent conditions.

When procurement amounts equal or exceed UAH 50,000, a different set of provisions applies. Contracting entities that are not explicitly covered by Article 3, Part 9 of the public procurement law or by Resolution No. 185 must utilize either the simplified procedure or the electronic catalog. In cases where operational or security constraints justify bypassing the electronic system, such decisions must be substantiated by formal documentation – this may include internal orders, explanatory memos, signed protocols, or correspondence from military or other authorized state bodies [7].

A critical distinction of the current framework is that Resolution No. 169 does not impose any upper limit on procurement value. This regulatory flexibility underscores the necessity to respond rapidly to urgent needs while still maintaining a record of justification.

The electronic catalog itself is governed by specific wartime rules. For procurements not exceeding UAH 200,000, either method – the basket or the price request – is permissible. For procurements above this threshold, a price request must be used if there are at least two supplier offers. If only one supplier responds, a direct contract via the basket is allowed, regardless of the procurement's value. This system balances expediency with market competitiveness by promoting multiple offers while ensuring continuity of supply.

As for procurement within the defense sector, distinct confidentiality protocols apply. Entities operating under the auspices of the Ministry of Defense are currently prohibited from publishing either procurement plans or procedural details on the ProZorro platform. This data is temporarily classified and will be made publicly available only after the conclusion of martial law [8]. Such a restriction aims to protect national security interests while preserving the capacity for retrospective accountability.

Conclusions

The regulatory adjustments introduced during martial law have undoubtedly expedited procurement procedures and facilitated broader participation by reducing bureaucratic barriers. These reforms have enhanced the agility of decision-making, allowing state institutions to respond more swiftly to urgent needs. However, this streamlining has come at a significant cost to transparency and oversight. The acceleration of procurement processes – particularly those involving substantial expenditures from the defense budget – has created conditions under which hundreds of billions of hryvnias may be allocated with limited external scrutiny or procedural control [9].

This erosion of institutional checks has contributed to persistently low procurement efficiency and heightened exposure to corruption risks. The lack of comprehensive monitoring mechanisms not only undermines public trust but also jeopardizes the effective utilization of both domestic and international financial resources. In this context, a shift toward a more robust model of financial governance becomes imperative. Such a model should ensure the responsible management of state funds alongside external financial support, including grants and loans provided by international partners [10].

Drawing from comparative practices, Poland's approach to financial control offers valuable lessons. The Polish system combines administrative and criminal liability for procurement-related offenses, including mechanisms that actively deter collusive behavior. Notably, individuals found guilty of procurement fraud may face lifetime bans from participating in public tenders – a sanction that reflects both the seriousness of the offense and the state's commitment to integrity [11].

Adapting such measures within Ukraine's institutional framework could significantly strengthen accountability in public procurement. By embedding stringent deterrents and

reinforcing legal instruments, Ukraine can mitigate systemic vulnerabilities and move closer to the European standards of financial discipline and public trust.

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