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ESG FACTORS IN THE TRANSFORMATION OF UKRAINE'S FINANCIAL ARCHITECTURE: INVESTMENT DIMENSION AND SUSTAINABLE FINANCE

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ABSTRACT

This article examines the role of ESG factors in the transformation of Ukraine's financial architecture in the context of sustainable development, focusing on investment processes and the development of sustainable finance. The theoretical foundations of the transformation of financial architecture under the influence of the concept of sustainable development and the integration of ESG criteria into investment activities are considered. The research analyzes the current trends and prospects for implementing sustainable financing instruments, in particular green bonds. Attention has also been paid to the development of sustainable banking and the incorporation of ESG factors into the operations of banking institutions. The key risks and barriers to sustainable investment in Ukraine have been identified. The challenges associated with adapting the Ukrainian securities market to international sustainable finance standards are analyzed, and the prospects for its integration into global financial flows are outlined. The article proposes a conceptual model of the impact of ESG factors on the transformation of Ukraine's financial architecture. The directions for the transformation of Ukraine's financial architecture, taking into account ESG factors and European benchmarks for sustainable finance, are presented. The research findings indicate that implementing sustainable development principles is not only a factor in modernizing Ukraine's financial architecture but also a strategic tool for enhancing economic resilience, investment attractiveness, and international competitiveness. It is argued that building a financial architecture based on the principles of sustainable finance and the integration of ESG criteria is a necessary condition for attracting foreign investment as part of Ukraine's post-war recovery.

Keywords: sustainable development, ESG factors, financial architecture, investments, investment activities, securities, securities market, green bonds, sustainable finance, post-war recovery

JEL Classification: G10, G28, O16, Q28

INTRODUCTION

Global transformational processes linked to climate change and ecosystem degradation are gradually reshaping approaches to economic development, with a greater focus on sustainable development principles. These processes are also affecting the global financial system, where environmental, social and governance (ESG) factors are increasingly taken into account when assessing investment projects. Consequently, modern investors are increasingly turning their attention to "green" assets and projects that comply with the principles of sustainable development, whilst reducing their interest in financing the so-called "brown" sectors of the economy (Fanizza & Cerami, 2023).

For Ukraine, studying this process is of great importance given the geopolitical and domestic economic realities. Firstly, official candidate status for accession to the European Union requires the state to harmonize its national legislation with the provisions of the European Green Deal and the EU's sustainable finance taxonomy standards. Secondly, the devastating consequences of a full-scale war have brought the concept of Ukraine's post-war recovery to the fore. It is worth noting that this is not simply a matter

of restoring outdated industrial capacity, but of a large-scale transition to low-carbon and energy-efficient technologies. Reconstruction will enable investment in mitigating and adapting to the effects of climate change. In turn, this will help to increase Ukraine's resilience to future shocks (World Bank Group, 2023).

Therefore, a key driver of this transition must be a transformed financial architecture capable of attracting both public and private foreign investment. The securities market, which is currently undergoing a profound structural overhaul in Ukraine, plays a vital role in this regard. Institutional immaturity, low liquidity, and the limited range of instruments available on the Ukrainian stock market are significant barriers to attracting large-scale capital for green projects. At the same time, the integration of ESG criteria into investment activities and the large-scale trading of green bonds have the potential to be powerful drivers of the further development of the securities market, transforming it into an effective mechanism for financing environmental modernization. Furthermore, the disclosure of ESG information to ensure transparency in the public and financial sectors is a key factor in investment attractiveness and stakeholder confidence (World Bank Group, 2023).

Investment is growing in projects that meet environmental, social, and governance standards, as well as in digital infrastructure and healthcare. The number of "greenfield" projects (the creation of new enterprises) is increasing while their average cost is decreasing, and the volume of large cross-border mergers and acquisitions is falling. In international business, a greenfield investment is a form of investment in which a company builds its operations in another country from scratch. Instead of acquiring a local company (M&A – mergers and acquisitions), the investor purchases or leases land, builds new production facilities and offices, trains staff according to its own standards, and implements its own corporate culture and technologies.

Driven by current trends and a range of diverse challenges, the financial architecture is undergoing significant changes. At the same time, the concept of sustainable development is a key factor in modernizing the country's financial system. There is a gradual shift away from the traditional financing model, which is based primarily on profit maximization, towards one that accounts for the economic, environmental, and social consequences of investment decisions.

The transformation of Ukraine's financial architecture is particularly relevant in the context of post-war economic recovery and the need to attract international capital and harmonize national legislation with EU standards. The principles of sustainable development are integrated into the financial architecture, in particular through a set of economic, institutional and regulatory mechanisms designed to redirect financial flows towards projects that align with sustainable development goals. It is important, in this regard, to incorporate ESG (Environmental, Social, Governance) principles into the operations of financial institutions, investment funds and securities issuers.

When assessing investments, not only the financial performance of companies but also issues relating to environmental responsibility, social policy and corporate governance are becoming increasingly important. Consequently, the development of sustainable finance is gaining prominence, encompassing the issuance of green bonds, the establishment of specialized investment funds, support for environmental investment projects, and the implementation of international standards for the disclosure of non-financial information. It is precisely the implementation of the principles of sustainable finance that should become one of the key areas of state financial policy and the basis for partnership between the state, business, and international institutions in Ukraine's post-war reconstruction (Vartsaba, 2025). Additional mechanisms include state incentives for sustainable investment, tax breaks for environmentally focused projects, and the development of a system of state guarantees.

The spread of ESG approaches is gradually influencing the activities of financial market participants. Banks are increasingly taking ESG criteria into account when assessing credit risk, insurance companies are considering climate risk when developing and refining insurance products, and investment firms are using ESG ratings when making decisions about the composition of investment portfolios. In the stock market, taking ESG factors into account helps to increase the transparency of issuers' activities and build greater trust among investors. For companies, adherence to the principles of sustainable corporate governance can become a significant competitive advantage, as it helps to reduce certain types of risk, enhance investment attractiveness, and expand opportunities for raising long-term capital.

LITERATURE REVIEW

In recent years, the impact of ESG factors on the transformation of the financial architecture has taken center stage in academic research, driven by global challenges linked to climate change, the rapid digitalization of the economy, the need to ensure financial stability, and the implementation of the Sustainable Development Goals. The theoretical foundations of sustainable development were laid out in the report of the World Commission on Environment and Development, "Our

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Common Future" (1987), and were further developed following the United Nations' adoption of the Sustainable Development Goals in 2015. Since then, issues relating to sustainable financing have featured prominently in the research of international organizations and academics. The Organization for Economic Co-operation and Development (OECD), the World Bank, and the International Monetary Fund have made significant contributions to the development of the concept of sustainable finance. In their research, these institutions emphasize the role of the financial sector in mobilizing investment resources to achieve the Sustainable Development Goals.

Research on the relationship between ESG factors and financial performance was conducted by foreign scientists. For example, Schoenmaker & Schramade (2019) view sustainable finance as a new model for the development of the financial system, emphasizing that finance can play a leading role in channeling investment towards sustainable enterprises and projects, thereby accelerating the transition to a low-carbon and circular economy.

Friede, Busch & Bassen (2015) summarized the findings of over 2,000 empirical studies and established a predominantly positive correlation between ESG criteria and corporate financial performance. The findings suggest that taking ESG factors into account can be directly relevant when assessing companies' financial performance and investment prospects.

Amel-Zadeh & Serafeim (2018) devoted their study to analyzing investors' use of reported information on environmental, social, and governance (ESG) issues. Based on a survey, the authors found that the most common reason for using ESG information is its relevance to investment performance, whilst a significant barrier is the lack of standardized reporting standards. ESG integration strategies and active engagement with companies proved to be the most promising, confirming the significant role of ESG factors in investment decision-making.

Ziolo et al. (2019) examine the role of ESG factors in the financial decision-making process and their significance for the development of more sustainable financial systems. The authors justify integrating environmental, social, and governance criteria into financial institutions' activities and financial resource allocation processes. Particular attention is paid to the fact that taking ESG factors into account contributes to increasing the resilience of the financial system, improving risk management, and directing financing.

In Ukraine, issues related to the sustainable development of the financial system are explored in scholarly works focusing on capital market development, sustainable financing, ESG regulation, and the integration of the national financial system into the European Economic Area. Thus, the financial architecture is viewed as a multilevel system that includes financial institutions, regulatory mechanisms, and instruments that influence the activities of economic agents, while ensuring the development and effective functioning of the financial system (Kuzheliev et al., 2025).

Hryvkivska (2026) outlined the theoretical foundations for transforming the financial architecture of agricultural companies in the context of integration into international capital markets. The author argues that the transformation of the financial architecture contributes to increased investment attractiveness, growth in the market value of enterprises, and strengthened international competitiveness, while also creating the conditions for sustainable development.

Sviderska & Stehailo (2025) substantiated the conceptual foundations for integrating ESG criteria into strategic financial decision-making processes through the lens of financial controlling. The authors emphasize the need to consider environmental, social, and governance factors when formulating a company's financial strategy, thereby enabling the integration of traditional financial indicators with non-financial parameters of sustainable development.

Osipova & Pavlyuk (2026) analyzed the dynamics and cyclicality of foreign investment in developing countries over the period 2000–2026. The authors assessed the state of the investment climate in Ukraine, identified the main constraints to raising capital, and presented tools to stabilize investment processes.

Bondarenko (2025) examined the integration of ESG principles into the operations of Ukrainian banks and analyzed their impact on financial stability and competitiveness. The author highlights key trends in the banking sector and the ratings of central banks' "green" initiatives. The study also reveals the current challenges and future prospects for ESG banking.

In their study, Gnylianska & Danylyshyn (2025) focus on the transformative processes affecting global investment flows. Key trends include a shift toward safe-haven markets, the growing role of developing countries, digitalization, a focus on ESG investments, and a decline in the share of cross-border mergers.

A separate area of contemporary research is devoted specifically to the development of the securities market in the context of sustainable financing. For example, Glushchenko (2025) emphasizes the role of green bonds in transforming national economies and, in particular, outlines prospects for the development of the green bond market in Ukraine in the context of postwar recovery.

Based on an analysis of existing definitions, Ihnatchenko et al. (2020) generalized the concept of "green investments," which refers to investments in financial structures that promote the development of environmental infrastructure intending to minimize negative environmental impacts, conserve and rationally use natural resources, and enhance the country's socioeconomic development through structural reforms while improving living standards.

Abdullaieva et al. (2025) analyze the key challenges to Ukraine's investment attractiveness, particularly military risks and infrastructure damage, as well as mechanisms for attracting capital through international aid and government support. The authors identify macroeconomic stabilization, legal protection for investors, anti-corruption reforms, and the prioritization of strategic sectors as the key factors in enhancing investment attractiveness.

Despite a substantial body of academic research, the impact of ESG factors on the transformation of Ukraine's financial architecture, through the lens of investment processes, remains understudied.

AIMS AND OBJECTIVES

The purpose of this article is to examine, using a systematic approach, the impact of ESG factors on the transformation of Ukraine's financial architecture, to identify the characteristics of their integration into investment processes, and to justify promising directions for the development of economic relations in the context of establishing a sustainable financing model.

To achieve this objective, the following tasks have been formulated:

1. To examine the theoretical and methodological foundations of the transformation of the financial architecture under the influence of the concept of sustainable development and the integration of ESG criteria into investment activities.
2. To analyze current trends in the development of sustainable finance and ESG-oriented financial instruments in Ukraine.
3. To identify key risks and barriers to sustainable investments in Ukraine.
4. To develop a conceptual model of the impact of ESG factors on the transformation of Ukraine's financial architecture.
5. To justify the directions for the transformation of Ukraine's financial architecture, taking into account ESG factors and European benchmarks for sustainable finance.

METHODS

The methodological foundation of this study consists of a set of general scientific and specialized methods, the combination of which ensured the systematic nature and validity of the scientific findings. In particular, the observation method was used to examine trends in the financial sector and the specifics of integrating ESG principles into financial institutions' practices.

Methods of analysis and synthesis were applied to the structural elements of the financial architecture, indicators of financial market performance, and characteristics of ESG-oriented financial instruments, in particular, green bonds, which made it possible to identify the interrelationships between investment processes, financial institutions, the regulatory environment, and ESG factors. The inductive method was used to generalize trends in the development of the green bond market based on an analysis of specific indicators and practices for their use, while the deductive method was used to determine the impact of sustainable finance principles on the development of relevant segments of Ukraine's financial market. The method of scientific abstraction was used to define the characteristics of sustainable finance and ESG factors in the context of the transformation of the financial architecture. A systems approach was applied to analyze Ukraine's financial architecture as an integrated system, the elements of which interact under the influence of economic, institutional, investment, ESG, and regulatory factors; this made it possible to substantiate the directions of its transformation in the context of sustainable development. A graphical method was used to visually illustrate the trends in the indicators under study, their structural interrelationships, and the main results of the analysis.

RESULTS

The integration of ESG approaches in Ukraine is at an early stage. However, it should be noted that the gradual introduction of international standards for corporate reporting, environmental management and risk management is laying the foundations for enhancing the competitiveness of the national financial sector. The National Bank of Ukraine's activities in

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regulating ESG aspects in the financial sector are of particular importance. The National Bank assesses ESG factors and risks for the financial sector and how financial institutions take them into account. In developing its requirements and recommendations, the National Bank draws on international best practice and is gradually aligning its regulations with those of Europe, whilst taking into account the challenges and consequences of the war and ensuring that there is no undue impact on the accessibility of financial services (National Bank of Ukraine, n.d.-c).

For its part, the National Securities and Stock Market Commission has developed and approved the 2025–2030 Sustainable Finance Roadmap. This document outlines the regulator's vision for the further implementation of sustainable finance in the activities of capital market participants, enhancing Ukraine's investment attractiveness, attracting funds for post-war reconstruction, and implementing European legislation (National Securities and Stock Market Commission, 2025).

However, the current state of the global economic architecture and unprecedented geopolitical challenges necessitate a restructuring of the national financial sector. The transformation of the financial system in the context of martial law and post-war reconstruction is no longer merely an adaptive process, but is taking on strategic significance as the foundation for attracting capital. It is precisely the investment aspect of this transformation that takes on particular importance, as the system's ability to accumulate domestic resources and create attractive conditions for foreign investors will determine the pace of modernization of the national economy. The transformation of investment flows reinforces the role of Ukraine's European integration. Foreign investment is essential for modernizing production and infrastructure; however, attracting such investment is limited by high security risks and currency restrictions.

The transformation of investment flows is accompanied by a shift from a sole focus on profit to investments in sustainability and security, reshaping the global investment landscape toward greater fragmentation and localization. Figure 1 illustrates the main trends in the transformation of investment flows.



Figure 1. Key trends in the transformation of investment flows. *(Source: compiled based on (Gnylianska & Danylyshyn, 2025))*

Given the priority given to defense spending and the limited financial resources available for environmental programs, alternative mechanisms for raising capital are becoming particularly relevant. This involves introducing green bonds, which have already proven effective in other countries' financial systems and could become a strategic tool for securing investment in Ukraine's post-war reconstruction.

The Law of Ukraine "On Capital Markets and Organized Commodity Markets" states that "green bonds are bonds whose prospectus (decision on issuance, and for Ukrainian government bonds – the terms of placement) provides for the use of the raised funds exclusively to finance an environmental project or a specific stage thereof" (On Capital Markets and Organized Commodity Markets: Law of Ukraine, 2006).

The controversy surrounding the criteria for classifying capital investments as "green" stems from the lack of a unified methodology for identifying "green" assets. On the one hand, companies demonstrate high standards of environmental

responsibility, which attracts investors. On the other hand, such companies continue to operate in industries that are traditionally harmful to the environment (WGECO, n.d.).

The main characteristics of green bonds include (Finance.ua, 2025):

1. Nominal value – securities may have different nominal values depending on the issuer (the legal entity issuing the bonds) and the market.
2. Yield – depends on the interest rate (which can be fixed or variable), maturity, market conditions, and the issuer's risk profile.
3. Maturity – bonds are issued for various terms, ranging from several years to decades.
4. Earmarked use of proceeds – proceeds from the sale must be used exclusively to finance a specific environmental project.

Green bonds can be issued by government agencies, corporations, or local authorities. These bonds can be purchased by individual institutions (such as banks, insurance companies, pension funds, or investment funds), corporations and commercial companies, or private investors (Finance.ua, 2025).

As for the green bond market in Ukraine, although it has limited experience, it is gradually developing. For example, in 2019, DTEK placed green bonds on the Irish Stock Exchange totaling €325 million to finance renewable energy projects. Also, in 2021, NPC "Ukrenergo" issued green bonds on the London Stock Exchange totaling USD 825 million to develop electricity transmission infrastructure (Titkov, 2025).

In Ukraine, the EU4Environment program is also implementing a "green" bond issuance project. Green bonds are similar to conventional bonds, but the proceeds from them are used exclusively for "green" investments: in clean/renewable energy sources, energy efficiency, reducing air, water, and soil pollution, waste recycling and management, as well as clean transportation. Under the EU4Environment program, Ukraine receives support in developing mechanisms for public green spending, encouraging the private sector to invest in environmental projects, and reforming the tax system (environmental taxes) to create incentives for businesses. In addition, EU4Environment promotes dialogue between the government and financial institutions to establish "green" credit lines. This helps Ukrainian banks better assess environmental risks when granting investment loans (EU4Environment, n.d.).

There are now many professional, cutting-edge "green" companies whose shares are listed on major stock exchanges. Among them are startups developing new methods for producing biofuels or solar panels, as well as traditional market-capitalization giants that are expanding their product lines to include environmentally friendly products. Green investing can also be done through exchange-traded funds (ETFs) that track stock indices composed of "green" companies. Mutual funds can be another alternative, and in this case, a professional portfolio manager makes decisions regarding the allocation of "green" assets based on the fund's prospectus (WGECO, n.d.).

At the same time, the European Union adopted Regulation (EU) 2023/2631 to establish a unified approach to "green" bonds. The regulation entered into force in October 2023 and will apply starting December 21, 2024. It established the EU Green Bond Standard (EU GBS) as a mandatory benchmark for the issuance of "green" debt instruments in the European Union. The global market for sustainable bonds (green, social, sustainable, and sustainability-linked) is experiencing rapid growth. In 2024, the volume of new issuances exceeded USD 1.1 trillion, and the cumulative total reached USD 5.7 trillion by the end of the year. "Green" bonds accounted for the largest share – 62% (USD 3.4 trillion). By the first quarter of 2025, the cumulative market volume had grown to USD 5.93 trillion, confirming the market's momentum and significant investor interest (Titkov, 2025).

In Ukraine, the legal framework for the development of green financial instruments has already been established. Specifically, the "Concept for the Introduction and Development of the Green Bond Market in Ukraine" (2022) was approved, as well as the "Energy Strategy of Ukraine for the Period until 2050" (2023), which is based on the principles of a comprehensive approach to implementing energy policy and creating conditions for the sustainable development of Ukraine's economy.

The introduction of green investments will bring about changes in the financial system and help improve the country's overall standard of living. After all, there will be significant cost savings from the modernization of residential buildings, the installation of energy-efficient heating systems, and the adoption of energy-saving technologies. Funding projects for air and water purification, waste recycling, renewable energy development, and reducing industrial emissions will improve the state of the environment, which is particularly relevant to addressing the aftermath of the war in the country. The active issuance of bonds will stimulate the development of "green" sectors of the economy, which is a highly promising

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development for Ukraine. The modernization of transportation infrastructure, the development of green spaces, and the implementation of smart street lighting technologies will make urban living more comfortable (Finance.ua, 2025).

Effectively realizing the potential of green investments requires not only capital but also an appropriate institutional infrastructure, a key element of which is sustainable banking (Mendez & Houghton, 2020). It is financial institutions, by integrating the principles of responsible finance into their business models, that play a key role in acting as intermediaries between investors and sustainable development projects, mobilising and channelling capital to finance green and environmentally-focused projects (United Nations, 2025). Sustainable banking and responsible finance are strategic approaches in which financial institutions integrate environmental, social, and governance (ESG) principles into their business models, products, and decision-making processes (Figure 2).



Figure 2. Key aspects of sustainable banking. *(Source: compiled based on (National Bank of Ukraine, n.d.-c))*

In Ukraine, this area is being actively developed by the National Bank of Ukraine, in particular through the integration of ESG standards into internal processes and the implementation of a new incentive model for commercial banks, in which environmental and social key performance indicators (KPIs) influence management compensation (National Bank of Ukraine, n.d.-c). The achievements of Ukrgasbank, Oschadbank, Ukrsibbank, and PrivatBank can be considered successful case studies in the domestic sustainable banking market (Ruda & Martseniuk, 2026). In general, responsible financing involves not only the provision of services but also an assessment of how these funds impact the environment and society. This helps businesses transition to more sustainable operating models and ensures the bank's long-term sustainability.

Despite the considerable potential of green assets, the development of sustainable banking in Ukraine is often held back by high risks and a shortage of long-term domestic capital. Overcoming these barriers is made possible by the systematic support of international financial organizations, whose influence is channeled through mechanisms such as technical assistance, concessional lending, and investment risk insurance within the framework of global climate initiatives. A list of key international financial organizations and their roles in this process is provided in Table 1.

Table 1. The role of international financial organizations in the development of sustainable banking in Ukraine. *(Source: compiled based on Ogadzhanyan, 2025)*

International Financial Organization	Key Lever of Influence
International Monetary Fund (IMF)	Macroeconomic stability and reforms
World Bank	RISE, MIGA, IFC
European Bank for Reconstruction and Development (EBRD)	Direct investment and support for the private sector
European Investment Bank (EIB)	Grants and guarantees in the context of European integration
Organization for Economic Cooperation and Development (OECD)	Standards and rules of business conduct

International financial organizations influence Ukraine's investment climate not only through their programs, but above all through the implementation of those programs and their results. Under the EFF, the IMF links financing to structural reforms, particularly in governance and the financial sector. Through RISE, MIGA, and IFC, the World Bank supports the private sector, war risk insurance, and the mobilization of private capital. The EBRD finances decarbonization, insurance mechanisms, and the preparation of state assets for privatization. The EIB focuses on infrastructure reconstruction and investment guarantees under the Ukraine Facility. The OECD helps align Ukraine's regulatory and tax rules with international standards.

Despite the established focus on "green" recovery and support from international partners, the practical implementation of responsible finance instruments in Ukraine is associated with several risks. Further analysis requires a detailed examination of the barriers hindering sustainable investment in Ukraine.

First, there are political and security risks – military actions and the risk of asset destruction.

Ukraine remains a challenging environment for investment, and most investors currently considering investing in Ukraine view the risk of physical damage to and/or destruction of assets as the main obstacle. However, a system for insuring against war risks is currently being implemented, which is gradually reducing potential business losses (Ogadzhanyan, 2025).

Second, macroeconomic barriers include a high discount rate, inflation expectations, and currency instability.

The high discount rate and the corresponding cost of borrowing reduce the availability of long-term financing for businesses and raise investors' expectations regarding the project returns. According to data from the National Bank of Ukraine, in January 2021, on the eve of the full-scale invasion, the discount rate stood at 6%, and by July 2026, it had reached 15.5% (National Bank of Ukraine, n.d.-b). This is particularly significant for ESG initiatives, as a significant portion of such projects requires substantial capital investment in the initial stage, while the economic benefits of their implementation materialize over a long period.

Inflation expectations further complicate the assessment of future revenues and expenses for investment projects, increasing uncertainty about their actual value and real returns. The results of surveys on inflation expectations conducted by the National Bank of Ukraine among banks and businesses (Figure 3) show that businesses' expectations regarding future price trends have risen for 2026. At the same time, banks have more optimistic expectations regarding inflation trends. This difference in assessments indicates a divergence in how financial market participants perceive macroeconomic risks and may influence their willingness to make long-term investments.

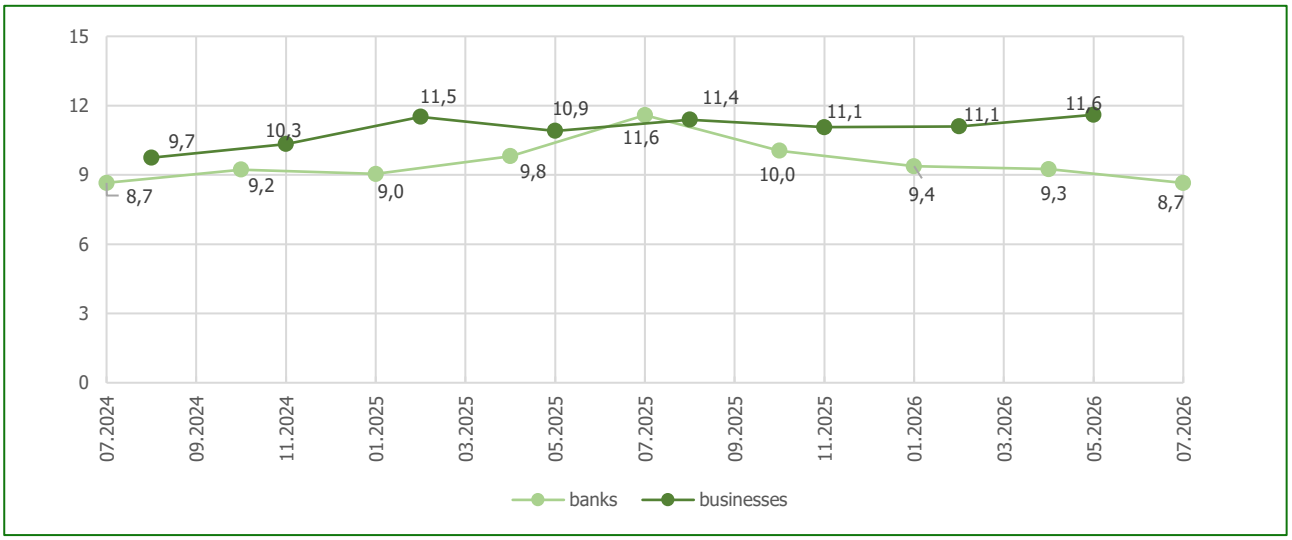


Figure 3. Inflation expectations over the next 12 months (average in Ukraine), %. *(Source: National Bank of Ukraine, n.d.-a)*

In addition, exchange rate volatility creates additional currency risks. According to surveys conducted as part of a study by the European Business Association, 78% of respondents believe that restrictions on foreign exchange transactions undermine Ukraine's investment attractiveness. The number of business leaders who consider the investment climate in Ukraine to be unfavorable is gradually decreasing – in 2025, 71% of respondents hold this view (79% in 2024, 84% in 2023). Among them, 14% consider it extremely unfavorable (20% in 2024). At the same time, 21% of respondents rate the investment climate as neutral, and 8% as favorable. In 2026, 29% of surveyed CEOs expect the investment climate to improve, 44% believe there will be no significant changes, and 27% predict a deterioration. Despite the war, 72% of surveyed member companies of the European Business Association will continue to invest in the Ukrainian market. In 2024, 70% of member companies already present in the market were ready to invest, and in 2023, 57% were (European Business Association, 2025). Overall, the results of business surveys confirm the significant influence of macroeconomic and currency factors on the assessment of investment risks in Ukraine.

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Third, institutional barriers include insufficient protection of creditors' rights, corruption risks, and the lack of a detailed "green" taxonomy (subordinate legislation).

Insufficient protection of creditors' rights increases the risk of non-repayment of invested funds and raises transaction costs. In turn, corruption risks can affect the transparency of decision-making procedures, the allocation of financial resources, and the implementation of investment projects. According to a study by Transparency International, in 2025, Ukraine scored 36 out of a possible 100 and ranked 104th among 182 countries on the Corruption Perceptions Index (CPI) (Transparency International, n.d.). For several years in a row, business representatives have emphasized the need to strengthen comprehensive anti-corruption efforts and ensure the rule of law. These are important prerequisites for creating a favorable investment environment and serve as key benchmarks for making investment decisions. For example, the European Business Association has been conducting the "Ukraine Investment Attractiveness Index" study since 2008, and in all the time the Index has been measured, it has never reached the positive range – above 4 points (European Business Association, 2025).

The issue of the regulatory framework for "green" financing also remains important. For instance, Ukraine has established a legislative framework for the issuance of green bonds. On July 1, 2021, a law came into effect that introduces such bonds as a separate subclass of securities – the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine Regarding the Simplification of Investment Attraction and the Introduction of New Financial Instruments" (2020). Article 18 of the Law of Ukraine "On Capital Markets and Organized Commodity Markets" (2006) is specifically devoted to green bonds. However, the regulatory framework remains insufficiently inclusive, which creates additional barriers to the full implementation of responsible finance instruments.

Fourth, the specific risks of sustainable projects include the longer return-on-investment period for environmental initiatives compared to traditional businesses.

Projects addressing issues such as sustainable development in the energy sector, energy efficiency, renewable energy, and the decarbonization of production generally require significant initial capital investment. At the same time, the financial benefits of implementing them accrue gradually over time. Furthermore, the economic efficiency of such projects cannot always be fully reflected by traditional financial indicators. Most of the expected outcomes are long-term or indirect and manifest as reduced environmental risks, improved energy efficiency, reduced resource consumption, and so on. Therefore, the use of traditional criteria to assess investment performance is insufficient and may overlook the long-term economic value of ESG-oriented projects.

For example, studies indicate that the implementation of solar power plants as part of the development of green energy in Ukraine for on-site consumption at enterprises is economically viable, and modeling results have shown that even under conservative investment conditions, taking into account technical degradation of equipment, the impact of inflation, and the cost of capital, the payback period is approximately three years (Kuzheliev, Tymoshenko et al., 2025).

Accordingly, a long payback period, high initial capital investments, and uncertainty regarding future financial results do not imply low economic efficiency of ESG-oriented projects but rather necessitate the use of appropriate financing mechanisms. One promising approach is to raise investment capital through capital market instruments, which allows the financial burden to be spread across a broad range of investors and ensures access to long-term capital.

In particular, sustainable development projects can be financed through the issuance of "green," social, and sustainability-linked bonds, as well as other ESG-oriented securities. The use of such instruments enables the pooling of funds from institutional and private investors and their channeling toward projects in renewable energy, energy efficiency, decarbonization, environmental modernization, and infrastructure restoration.

Reducing the risks associated with sustainable investing depends not only on the availability of financial instruments, such as "green" bonds, but also on the economy's ability to effectively use the capital raised for technological modernization and sustainable development. That is why it makes sense to consider the Global Innovation Index (GII) as an additional indicator of a country's institutional and technological capacity. It allows for an assessment of the environment in which investments in ESG and "green" projects can be transformed into innovation, new technologies, and economic modernization.

Ukraine's position in the Global Innovation Index for 2021–2025 was analyzed (Figure 4).

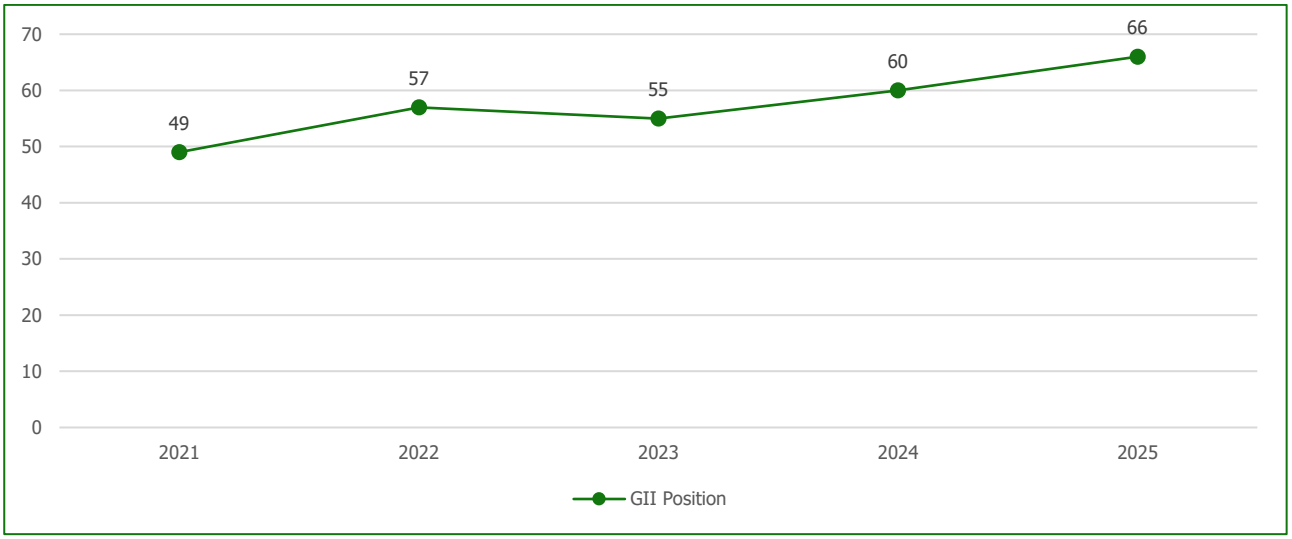


Figure 4. Ukraine ranking in the Global Innovation Index in 2021-2025. *(Source: compiled based on the World Intellectual Property Organization, 2025)*

Figure 4 shows the rankings of Ukraine over the past five years. Data availability and changes to the GII model framework influence year-on-year comparisons of the GII rankings. Ukraine ranks 66th among the 139 economies featured in the GII 2025 (World Intellectual Property Organization, 2025). Over the entire period analyzed, Ukraine shows better results for innovation outputs than for innovation inputs (Figure 5).

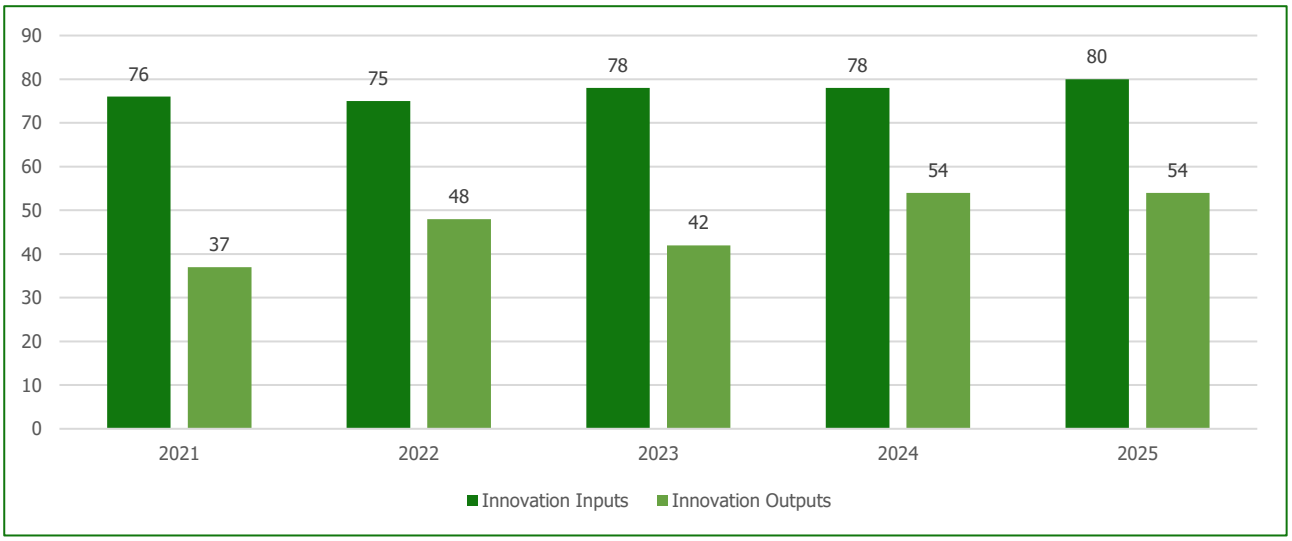


Figure 5. Innovation input and innovation output within the Global Innovation Index in 2021-2025. *(Source: compiled based on the World Intellectual Property Organization, 2025)*

In 2025, Ukraine ranks 80th in innovation inputs and 54th in innovation outputs. Indeed, the results of innovation in Ukraine far exceed the resources invested in it. This means that despite challenging conditions and limited investment, Ukraine is capable of generating high-value and innovative products. Ukraine transforms limited resources into significant results more effectively than many other countries. Ukraine's strengths include technological achievements, useful inventions and models, and mobile applications. As for weaknesses, it is worth noting political instability, the regulatory environment and business conditions, the difficulty of obtaining loans, low levels of investment, logistics, and environmental sustainability (World Intellectual Property Organization, 2025).

One indicator of international business confidence in a country's innovation ecosystem is the volume of foreign direct investment (FDI) attracted. Trends in FDI make it possible to assess the economy's overall ability to attract international capital in an environment where environmental, social, and governance standards are becoming increasingly important. For investors, adherence to ESG principles is one of the factors used to assess long-term risks, the quality of corporate

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governance, and the sustainability of investment projects. Table 2 shows the trends in FDI into and from Ukraine, as well as the net balance for the period from 2021 to 2025.

Table 2. Trends in FDI in Ukraine for 2021–2025, USD million. *(Source: compiled based on Minfin, n.d.)*

Year	FDI into Ukraine	Absolute Deviation	FDI from Ukraine	Absolute Deviation	Balance	
2021	6687	-	-198	-	6885	-
2022	1152	-5535	529	727	623	-91.0%
2023	4247	3095	42	-487	4205	575.0%
2024	3329	-918	-162	-204	3491	-17.0%
2025	2602	-727	104	266	2498	-28.4%

In 2021, prior to the start of the full-scale invasion, Ukraine saw a peak in foreign direct investment inflows (USD 6,687 million) and the largest positive balance (USD 6,885 million). However, as early as 2022, FDI inflows fell sharply to USD 1,152 million (5.8 times lower than the previous year). The net inflow decreased by 91%, amounting to only USD 623 million. In 2023, there was a noticeable increase in investor interest and a recovery. The volume of FDI in Ukraine rose to USD 4,247 million, and the balance showed an exceptional increase of 575%, reaching USD 4,205 million. In 2024–2025, a gradual slowdown in investment was observed. In 2025, the volume of FDI in Ukraine amounted to USD 2,602 million, which is 28.4% less than the previous year's balance. Overall, the figures remain low compared to capital inflows, although a sharp increase in capital outflows (USD 529 million) was recorded in 2022. Despite the military conflict, Ukraine maintains a positive FDI balance throughout the period, indicating that capital inflows still exceed outflows (Figure 6).

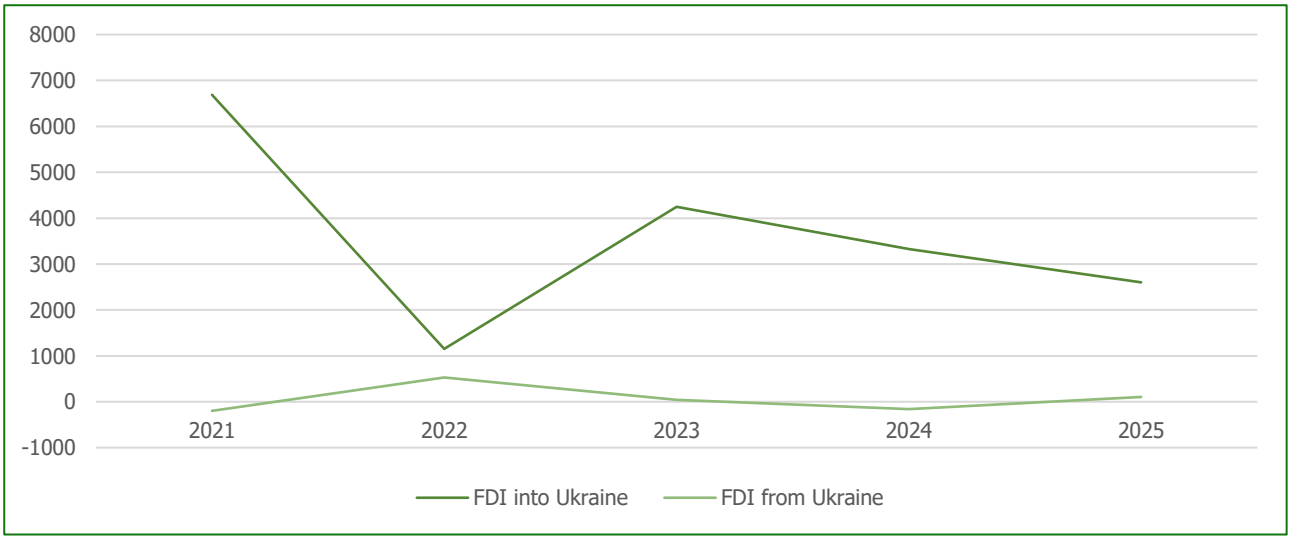


Figure 6. Trends in FDI in Ukraine for 2021–2025, USD million. *(Source: compiled based on (Minfin, n.d.))*

Although the securities market formally exists in Ukraine, in reality, it does not fulfill its primary function—it does not serve as a mechanism for attracting broad-based capital into the economy. At the end of 2022, the National Securities and Stock Market Commission adopted a decision to admit securities included in the S&P 500 stock index to trading in Ukraine. These securities are held in an account of PJSC "National Depository of Ukraine" opened with the international depository and clearing institution Clearstream Banking Luxembourg. Consequently, Ukrainians can purchase shares of companies such as Apple, Amazon, Exxon, Johnson & Johnson, and Coca-Cola, among other well-known foreign companies, using the national currency. However, these are not direct shares but their derivatives, which are held through the National Depository. At the same time, the only type of investment in Ukraine for individuals that is not subject to income tax is government bonds (InVenture, 2025).

These trends in the securities market indicate certain constraints on the market in Ukraine. This is a consequence of the growing impact of both military and macroeconomic risks, which are exacerbated by the insufficient institutional capacity of the financial infrastructure.

Against this backdrop, the intensification of investment processes in the country not only drives the expansion of access to financial instruments but also underscores the need to increase transparency, investor confidence, and the quality of corporate governance, as well as to take environmental and social factors into account in investment decision-making. ESG factors can be viewed as a key driver of the transformation of Ukraine's financial architecture, as their systematic integration into the day-to-day operations of financial institutions and their investment processes requires consideration of environmental, social, and governance criteria, as well as stricter requirements for disclosing information about related risks and opportunities. Disclosure of ESG information enables investors to assess both companies' current financial performance and non-financial factors that may affect future cash flows, risk profiles, and prospects for raising capital. This, in turn, helps reduce information asymmetry among financial market participants and creates the conditions for making objective investment decisions.

In July 2026, a draft Law of Ukraine "On the Taxonomy of Sustainable Economic Activities and Sustainable Investments" was presented in Ukraine, marking an important step towards establishing a modern system of sustainable finance. The document introduces uniform rules for classifying economic activities according to environmental sustainability criteria. This will enable the state, businesses, banks, and investors to adopt a consistent approach to assessing investment projects, increase the transparency of the financial market and help prevent "greenwashing" practices (Ministry of Economy and Environment of Ukraine, 2026).

The current state of ESG and sustainable finance in Ukraine indicates a gradual shift from establishing regulatory and institutional frameworks to implementing specific financial and investment projects, underscoring the need for further transformation of the financial architecture. A practical manifestation of the development of the relevant infrastructure was the launch in 2025 of the Green Platform, designed to systematize financial programs available to businesses and communities in the areas of energy efficiency, resource conservation, and sustainable modernization. The existence of such a platform demonstrates the development of institutional mechanisms to channel financial resources toward projects aligned with specific sustainable development goals. At the same time, an important aspect of the practical integration of ESG principles is their gradual incorporation into the operations of financial institutions, investment processes, and risk assessment mechanisms.

However, ESG financing in Ukraine is characterized by the simultaneous development of practical financial mechanisms and the presence of barriers that limit their scaling. Among the key constraints, it is worth highlighting the underdeveloped nature of the domestic market for sustainable financial instruments, the high level of military and investment risks, the limited availability of long-term financial resources, the lack of standardization in ESG data and assessment methodologies, and the uneven readiness of financial market participants to integrate ESG criteria into their investment decision-making processes. This situation creates a need not only to increase the number of individual ESG projects but also to systematically align financial instruments, institutional mechanisms, the regulatory environment, and ESG risk management practices.

Thus, the existence of practical initiatives in the field of sustainable finance, on the one hand, and institutional and regulatory constraints on their further development, on the other, lays the groundwork for the transformation of Ukraine's financial architecture toward the systemic integration of ESG criteria. Such a transformation involves the development of sustainable financial instruments, the improvement of the regulatory and institutional framework, increased transparency of ESG information, and strengthening the financial system's capacity to channel capital toward sustainable development projects. In this context, it is advisable to view ESG factors not merely as a set of criteria for assessing individual investment projects, but as a factor in the structural reorganization of the financial architecture, influencing the nature of the interaction between the state, financial intermediaries, businesses, and investors, as well as the mechanisms for mobilizing capital and the channels through which it is allocated.

Based on a synthesis of research findings and an analysis of current trends in sustainable finance, a conceptual model of the impact of ESG factors on the transformation of Ukraine's financial architecture is proposed (Figure 7).

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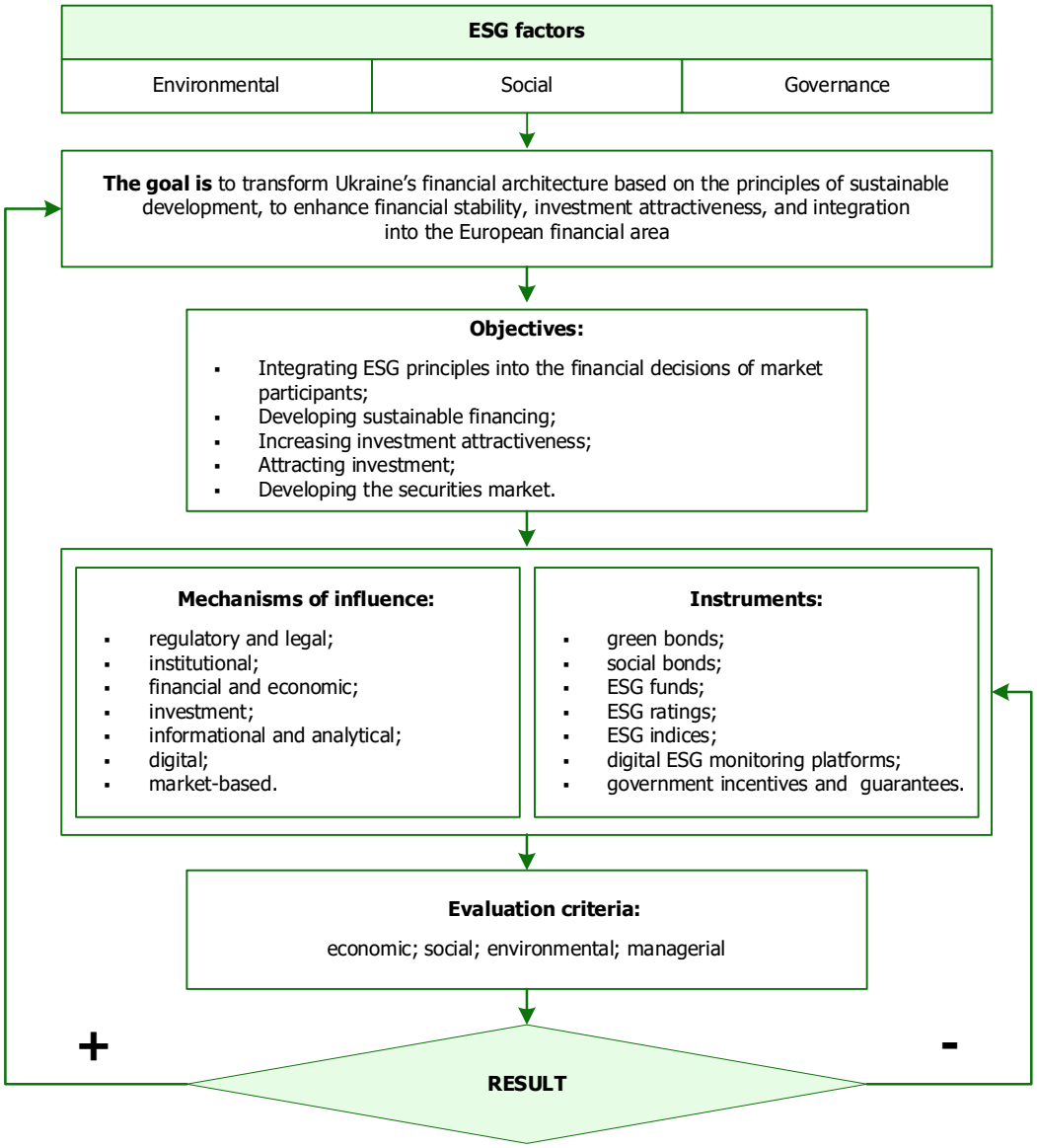


Figure 7. Conceptual model of the impact of ESG factors on the transformation of Ukraine's financial architecture.

The proposed conceptual model is based on the assumption that integrating ESG factors into the functioning of the financial system creates the conditions to transform Ukraine's financial architecture in accordance with the principles of sustainable development and European standards. The goal of this transformation is to increase the resilience of the financial system, strengthen its investment attractiveness, ensure the efficient allocation of financial resources, and integrate Ukraine into the European financial space.

To achieve this goal, a set of interrelated tasks has been identified to ensure the consistent implementation of the conceptual model, including: integrating ESG principles into the financial decision-making process of market participants; developing sustainable financing mechanisms; enhancing investment attractiveness; stimulating the attraction of domestic and foreign investment; and developing the securities market as a key driver of the transformation of Ukraine's financial architecture.

These tasks are carried out through a combination of regulatory, institutional, financial and economic, investment, information and analytical, digital, and market-based mechanisms. The practical implementation of these mechanisms is ensured through sustainable financing instruments, including green and social bonds, ESG funds, ESG ratings, ESG indices, and digital platforms for monitoring ESG indicators, as well as government incentives and guarantees to support ESG-oriented investments and the development of the capital market.

The integration of ESG principles helps reduce information asymmetry between issuers and investors, increase transparency in corporate governance, improve risk management systems, and strengthen the confidence of institutional and

private investors. As a result, the investment attractiveness of business entities and the financial sector as a whole increase, stimulating growth in investment activity.

The revitalization of investment processes creates the conditions for the development of the securities market by increasing the volume of share issuances and corporate and government bond issuances, and by proliferating green and social bonds, ESG funds, and other innovative financial instruments. This contributes to increased stock market liquidity, diversification of financial instruments, higher market capitalization, and expanded opportunities for long-term economic financing.

Economic, environmental, social, and managerial criteria are used to evaluate the effectiveness of the conceptual model's implementation. The economic criteria primarily include the volume of ESG investments, the market capitalization of securities, market liquidity, and the volume of sustainable financial instruments. Environmental criteria include indicators of decarbonization, resource efficiency, and green economy development. Social criteria include the level of financial inclusion, the development of human capital, and social responsibility, while managerial criteria include the quality of corporate management, the level of transparency, risk management, and ESG ratings.

Achieving the target values for the above criteria will bring about a transformation of Ukraine's financial architecture, which will manifest itself in the strengthening of financial stability, an increase in investment attractiveness, the development of the securities market, the promotion of innovative financial instruments, integration into the European financial area, and the creation of the conditions for long-term sustainable development.

Thus, there is a sequential cause-and-effect relationship between the constituent elements of the conceptual model: the adoption of ESG principles stimulates investment inflows; investment activity contributes to the development of the securities market; and the development of the capital market, in turn, acts as a catalyst for the transformation of Ukraine's financial architecture in line with the principles of sustainable development.

The proposed conceptual model serves as the theoretical foundation for future empirical research, which will allow for an objective assessment of the existing relationship between the degree of implementation of ESG principles, the activity of investment market participants, the development of the securities market, and the transformation of Ukraine's financial architecture as a whole.

Thus, the study of the issues outlined above indicates that the transformation of the national financial architecture must be based on the principles of sustainable development. This entails synergy among economic efficiency, social responsibility, and environmental safety and requires establishing forward-looking directions for the development of economic relations in the context of a sustainable financing model. Given Ukrainian society's continued orientation toward European socioeconomic values and the need for postwar economic recovery, establishing an effective financial architecture, one capable of ensuring sufficient investment resource mobilization, capital market development, and the state's overall financial stability, is of paramount importance. Thus, the results of the analysis allow us to identify the following areas for improvement:

- Development of ESG regulation. One of the key areas is establishing an effective ESG regulatory framework aligned with international standards and European Union legislation. An important component of such regulation is the introduction of systematic disclosure of information on sustainable development, including data on the environmental impact of companies' activities, social aspects, and corporate governance issues. This approach is consistent with the European Sustainability Reporting Standards (ESRS), which require disclosure of information regarding a company's impact on people and the environment, as well as sustainability-related risks and opportunities. Strengthening regulatory requirements for ESG disclosure, ESG risk assessment, and the integration of sustainable finance principles into the operations of financial institutions will help increase financial market transparency and ensure that investment decisions are well-informed.
- Promoting the development of "green" financial instruments. A key priority in the transformation of the financial architecture is to promote the use of green financial instruments, primarily green bonds, ESG funds, and other mechanisms for financing environmentally-focused projects. To this end, a system of government incentives for issuers and investors should be established, the regulatory framework governing the issuance of green securities should be improved, and mechanisms for state co-financing of strategically important projects in the sectors of energy, transport infrastructure, housing and communal services, and territorial regeneration should be introduced.

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- Enhancing investment attractiveness. To attract investment capital on a long-term basis, it is necessary to establish a stable institutional environment, whose main priorities should be ensuring the legal rights of investors, modernizing the corporate governance system, bringing the transparency of issuers' activities in line with international standards, developing the stock exchange infrastructure, and expanding the range of financial instruments and their derivatives. Institutional investors, particularly private pension funds, insurance companies, and mutual funds, play a significant role in this regard, as they are responsible for ensuring the long-term accumulation of investment resources.
- Harmonization of national legislation with European Union regulations. It is clear that the development of Ukraine's financial architecture requires compliance with EU requirements regarding the harmonization of national legislation in the area of sustainable finance and the functioning of capital markets. To this end, it is necessary to implement, in stages, the provisions of European regulations on the classification of sustainable economic activities, the disclosure of ESG information, the standardization of corporate reporting, and the comprehensive management of potential climate risks. This is precisely what will accelerate the process of integrating the national financial market into the European financial area.
- Digitalization of the financial market. One of the key factors in modernizing the national financial architecture is transforming the digital infrastructure. This process should involve the comprehensive implementation of cutting-edge financial technologies (FinTech), machine learning models for assessing potential risks, the automation of ESG reporting, and the use of blockchain technology to ensure reliable custodial accounting for all securities transactions. The practical implementation of these measures will ensure the efficient functioning of the financial market, reduce transaction costs, and provide potential investors with open access to financial products and services, provided there is sufficient transparency in the capital market.

Consequently, the implementation of the proposed measures will contribute to the development of a modern financial architecture in Ukraine, guided by the principles of sustainable development. A comprehensive combination of ESG regulation, the development of green financial instruments, enhancing investment attractiveness, harmonizing national legislation with EU standards and the digitalization of the financial market will create the conditions for the continued effective functioning of the securities market, the revitalization of investment activity and the assurance of the country's economic and financial stability.

DISCUSSION

The findings of this study confirm that the transformation of Ukraine's financial architecture is being driven by global trends towards sustainable finance and the gradual integration of ESG principles into the financial system. The analysis carried out has shown that the implementation of sustainable development principles is not limited to environmental considerations but encompasses institutional, investment, and regulatory changes that directly affect the functioning of the securities market and capital mobilization mechanisms.

The results of the study are consistent with the findings of Friede, Busch & Bassen (2015), who established a positive correlation between the implementation of ESG criteria and companies' financial performance. The analysis also shows that the integration of ESG principles increases financial market transparency, helps build investor confidence, and creates the conditions for attracting long-term capital. This is particularly relevant for Ukraine, as economic recovery depends to a certain extent on the revitalization of domestic and foreign investment. With this in mind, the World Bank Group (2023) prepared a report outlining opportunities for engaging the private sector in green and resilient reconstruction in Ukraine.

The results also confirm the findings of Eccles, Ioannou & Serafeim (2014) on the impact of sustainable development principles on companies' investment attractiveness. At the same time, this study expands upon existing scientific approaches by considering ESG not only at the level of individual companies but also as a factor in the transformation of the state's entire financial architecture through the development of the securities market and investment activity. A conceptual model of the impact of ESG factors on the transformation of Ukraine's financial architecture was developed, which integrates ESG factors, the mechanisms through which they exert their influence, the tools involved, evaluation criteria, and expected results.

At the same time, the results confirm that the implementation of sustainable development principles in the operation of the national financial system remains quite limited. Indeed, even the gradual harmonization of Ukrainian legislation with the European Union's unified standards and the development of a market for green financial instruments leave the system at an early stage of development, and practical examples of Ukrainian issuers adopting ESG criteria are not yet systematic. One should not overlook the destructive impact of military risks, the stock market's near-zero capitalization, the low liquidity of exchange-traded transactions, and the underdeveloped state of institutional investors.

CONCLUSIONS

The study found that sustainable development is one of the key factors driving the transformation of Ukraine's financial architecture. The integration of ESG principles is changing the mechanisms by which the financial system operates, contributing to greater transparency in financial markets, improved corporate governance, and the development of new approaches to attracting investment.

By analyzing current trends in the development of sustainable finance and ESG-oriented financial instruments, the specific features of their development in Ukraine have been identified. It has been established that the Ukrainian sustainable finance sector is still in its formative stages; accordingly, the adoption of ESG practices and sustainable financial instruments in Ukraine remains limited relative to the long-term financing needs of economic recovery and development.

Based on an analysis of the current operating conditions of the financial system and a synthesis of scientific research, the key risks and barriers to the development of sustainable investment in Ukraine have been systematized. This systematization has made it possible to determine that the constraints on the development of sustainable financing are not only financial but also institutional and regulatory; therefore, overcoming them requires a comprehensive transformation of the relevant elements of the financial architecture.

Based on the study, it can be concluded that there is a synergistic relationship among the level of implementation of sustainable development principles, investment activity, and the degree of development of the securities market, which, in turn, affects the overall effectiveness of the financial architecture. Based on the results of theoretical generalization and analysis, the authors propose a conceptual model of the impact of ESG factors on the transformation of Ukraine's financial architecture, which presents the overall logic of this process and can be used in both theoretical and practical contexts.

Therefore, the practical value of this study lies in the development of a comprehensive set of measures for modernizing the national financial architecture, which includes: the development of ESG regulation, the promotion of green financial instruments, the enhancement of investment attractiveness, the harmonization of national legislation with European Union standards, and the digitalization of the financial market. We believe that the practical implementation of these measures will contribute to the creation of a modern, resilient, and competitive financial architecture capable of ensuring the effective mobilization of investment resources.

Thus, this study made it possible not only to summarize the role of ESG factors in the development of sustainable finance but also to systematize the mechanisms through which they influence Ukraine's financial architecture, identify the main constraints on that influence, and establish a conceptual foundation for its further transformation, taking into account national conditions and European benchmarks.

As areas for future research, it is important to highlight the need to develop appropriate econometric models to assess the impact of ESG factors on capital market development, analyze the effectiveness of introducing green financial instruments, and study transformations in Ukraine's financial architecture.

ADDITIONAL INFORMATION

AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ESG-ФАКТОРИ ТРАНСФОРМАЦІЇ ФІНАНСОВОЇ АРХІТЕКТУРИ УКРАЇНИ: ІНВЕСТИЦІЙНИЙ ВИМІР ТА РОЗВИТОК СТАЛОГО ФІНАНСУВАННЯ

Стаття присвячена дослідженню ролі ESG-факторів у трансформації фінансової архітектури України в контексті сталого розвитку з акцентом на інвестиційні процеси та розвиток сталого фінансування. Розглянуто теоретичні засади трансформації фінансової архітектури під впливом концепції сталого розвитку та інтеграції ESG-критеріїв в інвестиційну діяльність. Проаналізовано сучасні тенденції та перспективи впровадження інструментів сталого фінансування, зокрема зелених облігацій. Також увагу приділено розвитку сталого банкінгу та врахуванню ESG-факторів у діяльності банківських установ. Визначено ключові ризики та бар'єри для сталих інвестицій в Україні. Проаналізовано виклики, пов'язані з адаптацією українського ринку цінних паперів до міжнародних стандартів сталого фінансування. У статті запропоновано концептуальну модель впливу ESG-факторів на трансформацію фінансової архітектури України. Представлено напрями трансформації фінансової архітектури України з урахуванням ESG-факторів та європейських орієнтирів сталого фінансування. Результати дослідження свідчать, що впровадження принципів сталого розвитку є не лише чинником модернізації фінансової архітектури України, але й стратегічним інструментом підвищення економічної стійкості, інвестиційної привабливості та конкурентоспроможності на міжнародному рівні. Обґрунтовано, що розбудова фінансової архітектури на принципах сталого розвитку та інтеграції ESG-критеріїв є необхідною умовою для залучення іноземних інвестицій у межах повоєнного відновлення України.

Ключові слова: ESG-фактори, фінансова архітектура, інвестиції, інвестиційна діяльність, цінні папери, ринок цінних паперів, зелені облігації, стале фінансування, повоєнне відновлення

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