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**FINANCIAL AND NON-FINANCIAL MECHANISMS
OF SECURING THE COMPANIES' SUSTAINABLE DEVELOPMENT
IN THE CONDITIONS OF NEW GEOPOLITICAL REALITY**

Specialty 5.2.4 «Finances»

ABSTRACT

of the thesis presented for the degree of Candidate of Economic Sciences

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Relevance and Significance of the Study.

Active sanctions against our country by the United States and the "collective West" were introduced in 2014 after the return of Crimea to Russia. Since the start of the Special Military Operation, financial sanctions have reached an unprecedented scale. Sanction-related pressure has multiple dimensions and extends far beyond the financial sector per se. In this situation, the management of modern Russian companies requires strategic recommendations on how to ensure financial stability, increase trust in Russian brands, and compensate for non-financial damage to the reputation of Russian companies. All of this is essential for Russian companies to achieve long-term sustainable development in the current geopolitical environment. Standard approaches are no longer reliable in ensuring financial stability. One of the most promising strategies currently available is green finance, closely linked to the sustainable development paradigm and generally referred to as ESG. This defines the relevance of this study.

In light of the above, **the objective of this work** is to substantiate financial and non-financial mechanisms that can ensure the sustainable development of companies in the new geopolitical reality.

To achieve this objective, the following **tasks** were addressed:

1. To substantiate criteria for the financial stability of companies that reflect the balance between current financial results and the achievement of long-term development goals, determined by incorporating ESG principles into management and investment decisions.
2. To identify the reasons for the differences in the assessment of the impact of companies' adherence to ESG principles on their financial stability indicators, as seen in the "golden billion" countries, on the one hand, and in countries of the global majority, on the other, and to substantiate recommendations for the Russian Federation on how to take these differences into account when developing its own standards and criteria for "green" financing.

3. To identify factors influencing the feasibility of state support for the implementation of priority ESG projects and to develop an algorithm for quantitatively assessing the optimal level of such support.
4. To develop recommendations for improving the methodology for ranking companies in ESG ratings.
5. To develop recommendations for mechanisms needed to improve the financial stability of companies through the development of the ESG agenda and ESG financing instruments in the current conditions of the Russian economy.

The research **object** is the relations between economic entities interacting on the basis of sustainable development principles and the specifics of their manifestation in the context of the new geopolitical reality.

The research **subject** is the mechanisms for stimulating sustainable development in the corporate sector of the Russian economy, based on an integrated approach to addressing the financial, social, and environmental challenges of their operation.

The most significant **novel findings** of the study personally obtained by the author are as follows.

1. In the current geopolitical turbulence, Russian companies are facing multiple serious challenges, both financial (sanctions) and non-financial (damage to business reputation, calls for boycotts, "cancel culture"). Overcoming this combination of challenges requires comprehensive strategic solutions that will enable companies to maintain sustainable development. In this light, the implementation of ESG principles in corporate operations appears promising, facilitating a gradual transition to a green economy as a whole.

When examining corporate sustainability through the lens of the triple bottom line, financial success becomes not the sole objective of a company's activities, but rather part of a broader business plan. This thesis proposes a modified triple-criteria concept, identifying and substantively expanding criteria for determining the financial stability of corporations, ensuring a balance between current financial

results and the achievement of long-term development goals within the broad context of considering the interests of current and future generations:

- Financial criterion: achieving a company's current state in which additional income from sustainable development projects, growing at a rate that outpaces inflation, serves as a source of wealth growth and an investment resource;
- Non-financial criterion: reducing the cost of capital raised for sustainable development projects through high-quality disclosure of non-financial reporting and transparent implementation of ESG principles to ensure increased trust in business processes, products, and services;
- Integrated criterion: improving the company's position in ESG ratings, a distinctive feature of which is the comprehensive consideration of environmental ("E"), social ("S"), and governance ("G") development factors.

2. A review of studies examining the impact of ESG principles on corporate financial performance reveals a significant bias toward the "golden billion" countries, which promote the climate agenda solely out of self-interest. Meanwhile, developing countries' paths toward implementing the ESG agenda, regulating it, and incorporating it into their economic activities have been much less studied. As a result, rating results can often be distorted by the specific nature of global processes, particularly the transfer of environmentally "dirty" industries from developed to developing countries, where environmental restrictions are lower. It should be noted that historical differences in the competitiveness of rated companies from different countries are not taken into account. This circumstance, along with the potential nonlinear relationship between ESG indicators and corporate financial stability indicators, as well as the influence of countries' levels of economic development on this relationship, is one of the most likely reasons for the significant discrepancies (sometimes even contradictions) in the results of studies devoted to the topic of ESG impact on countries' economic development. Other reasons for discrepancies may include significant differences in existing ESG ratings (with studies often using only a single rating as an independent variable, ignoring its differences from other ratings)

and a lack of differentiation in the company sample by country and industry. There is a focus on short-term financial performance indicators and insufficient consideration of the non-financial effects of ESG projects. This situation leads to a decline in trust in existing ESG standards and ratings due to their lack of objectivity and an inherent preference for companies from the "golden billion" countries.

3. Meanwhile, developing countries are becoming increasingly active actors in the ESG agenda. Russia's two largest BRICS partners, China and India, are actively developing the regulatory framework for ESG, so cooperation with them in this area holds considerable promise. Russia appears to have made remarkable progress in developing such regulation at the national level and can offer its regulatory and methodological developments as an example, while continuing to refine them jointly with India and China, thereby harmonizing the standards across the three countries. At the same time, Russia could benefit from the experience of its partners—for example, it would be advisable to pilot an initiative in Russia requiring major companies to submit ESG reports not only on their own operations but also on the value chains they build. In the new geopolitical reality, a prerequisite for creating a favorable investment climate for financing sustainable development projects in the Russian Federation is the harmonization of green financing standards and criteria with those of the global majority actively pursuing this agenda, including within the countries entering the BRICS, SCO, and other associations.

4. In Russia, the role of ESG financing and its expanded use in supporting the resilience of Russian organizations under sanctions is key. Green financing tools have been actively developed since 2021, when criteria for classifying projects as sustainable (including green) development were developed and approved, along with requirements for a verification system for such projects. In the context of unprecedented sanction pressure from the collective West, virtually closed access to global capital markets, and high market interest rates, strengthening government support for the implementation of the ESG agenda should involve not only (and perhaps not primarily) increasing the volume of financing for ESG projects, but also better targeting of such financing. In this case, the multiplier effect will significantly

optimize the amount of government support and the resulting positive effects, while properly accounting for the combination of commercial and budgetary effects will avoid excessive budget expenditures.

Financial support for "green" projects can take various forms and shapes; now, when the urgency of addressing environmental issues is greater than ever, the need to develop financing mechanisms for such projects and establish appropriate institutions for this purpose is increasing in most countries. The most commonly used instruments for financing green projects include green bonds (issued by various actors from municipalities to large commercial enterprises), green loans (their terms may vary, but the funds must necessarily be directed to support green projects) and green subsidies (provided by government in various forms, from benefits to direct provision of financial assistance).

Green bond issuance is rapidly developing in Russia. However, given the current financial and economic conditions, significantly complicated by Western sanctions, it appears necessary to intensify the development of other types of green financing. Currently, with the key interest rate high, green projects could also benefit significantly from a reduction in the interest rate on green loans and a flexible approach to the terms for which businesses can obtain such loans. It would also be advisable to consider the possibility of introducing additional taxes for companies that significantly contribute to environmental pollution.

The analysis also demonstrates the objective need to improve methods of state support for the implementation of ESG projects, adjust traditional approaches to developing ESG ratings, and develop mechanisms for increasing the financial stability of companies using ESG financing instruments.

6. Factors influencing the feasibility of state support for the implementation of priority ESG projects have been identified: A) the multiplier effects inherent in such projects; B) an objective assessment of the possibilities of interest rate subsidies; C) the presence of non-financial effects that cannot be reduced to traditional economic indicators of company performance. It has been demonstrated that identifying and quantifying the multiplier effects they generate is fundamental

to justifying the optimal level of government support for ESG projects. An algorithm for assessing the impact of such effects on the need for interest rate subsidies using greenium technology and on decision-making regarding the feasibility of implementing ESG investment projects has been developed and tested using the example of a project to construct a Solid Municipal Waste Utilization and Recycling Complex. It has been demonstrated that maximum commercial, budgetary, and social efficiency are achieved by jointly considering multiplier effects and applying greenium. These effects manifest themselves not only in the simultaneous reduction of the payback period for investments in ESG projects and in the reduction of the required amount of government support for their implementation, but also in the form of positive environmental and social results for society as a whole that cannot be reduced solely to financial indicators.

7. The study identifies shortcomings in existing recommendations related to the abandonment of unified ESG ratings for companies in favor of separate ratings based on the "E," "S," and "G" elements. These shortcomings stem from the inability to consider companies' business performance holistically, with comprehensive consideration of their environmental, social, and economic impacts. The feasibility of using unified ESG ratings for companies, combined with differentiated weighting factors for individual elements across different types of activities, is substantiated. This differentiation stems from the dominance of the social component "S" in the All-Russian Classifier of Economic Activities (OKVED) sections related to the services sector and the environmental component "E" in OKVED sections such as "Agriculture, Forestry, Hunting, Fishing, and Fish Farming" and "Mining." At the same time, the significance of the management component "G" remains quite high and cannot be differentiated for all types of economic activity.

Without claiming to develop a new methodology for assessing the effectiveness of investment projects, we emphasize the key finding of the case study: the multiplier effect of implementing ESG projects can be so significant that a combined assessment of the commercial and budgetary impacts of such projects will

provide grounds for revising the scope and mechanisms of state financial support to prevent excessive budget expenditures.

8. Prospects for the further development of the ESG agenda and ESG financing in Russia under sanctions and the new geopolitical reality are primarily associated with increasing national technological sovereignty and linking it with ESG principles, active international cooperation with BRICS+ countries (including in the areas of harmonizing ESG standards and attracting investment in ESG projects) and other friendly countries (including in the area of scientific and methodological definition and harmonization of ESG principles and standards), and reliance on increasing ESG literacy among citizens and civil society as a whole. Recommendations have been developed for developing mechanisms to enhance the financial stability of companies, advancing the ESG agenda and ESG financing instruments, including through improving mechanisms for state support for the implementation of sustainable development projects, including:

- Developing the Russian corporate bond market, promoting its investment attractiveness and liquidity through administrative and tax incentives;
- Informing companies that are potential issuers of corporate bonds (including "green") about the advantages of such a solution and providing a step-by-step explanation of the nuances of the process of issuing such securities;
- Supporting small and medium-sized businesses wishing to issue such bonds; facilitating and accelerating the registration procedure for issuing bonds for small amounts in order to reduce enterprise costs;
- Developing mechanisms to attract investors from friendly and neutral countries, including the BRICS countries; implementing mechanisms for comprehensive protection of the rights of investors purchasing "green" bonds;
- Developing a methodology for assessing the achievability of environmental goals declared by a particular "green" project, in order to avoid greenwashing by the initiating companies;
- Supplementing the national program for improving citizens' financial literacy by fostering a culture of attractiveness among private investors for

sustainable development projects, thereby increasing demand from individuals for various green financing instruments to invest their savings;

- Considering the size of the greenium when determining state support for sustainable (including green) development projects. The specificity of justifying the size of the greenium for state support of bank lending for ESG projects is also evident in the fact that not all the effects they generate can have a financial dimension. If the presence of non-financial effects is confirmed by an independent professional assessment commissioned by an authorized government agency, then the position of the project initiator company in ESG ratings, the popularity of which is rapidly growing, becomes decisive. Companies with leading ESG ratings have significantly more grounds for increasing the volume of state support in the form of interest rate subsidies, which essentially means increasing the size of the greenium.

- Expanding the range of financing instruments for green projects and mechanisms for state support for their implementation, which is necessary in the context of unprecedented sanctions pressure from the collective West, virtually closed access to the global capital market, and high market interest rates. These instruments include: A) differentiated government support based on the impact of specific projects on achieving sustainable development goals – from tax incentives and reduced interest rates on green loans, as well as a flexible approach to the volume and timing of such loans, to the renunciation of all forms of government support and increased penalties for companies that do not adhere to the principle of environmental responsibility in their activities; B) incentives for pension funds to invest the savings of non-state pension funds in green projects, while simultaneously creating a crowdsourcing platform, Green Pensions, to inform the public about the benefits of such investments.

- Supporting further research aimed at identifying the conditions under which companies that adhere to ESG principles can expect to increase their financial stability (by reducing costs, mitigating risks, etc.).

Given the high innovative nature of current "green" projects that technologically modernize the economy, without the introduction of clear criteria and mandatory procedures for activities aimed at implementing the ESG agenda, market incentives alone are unlikely to achieve a significant breakthrough. This is especially important given Russia's strategic focus on accelerating technological leadership and sovereignty, as it is impossible without the broad participation of Russian business in this process (state funding for research and development accounts for a significantly larger share of these funds, and the total funding has been below or slightly above 1% of GDP for many years). Therefore, the transition from a recommendatory to a mandatory framework for regulating companies' non-financial reporting could well become a tool for engaging Russian companies in the country's technological development. Moreover, it seems advisable to establish a common information platform where companies could exchange best practices in greening their operations, implementing social responsibility, and corporate governance.