ESG in Ukraine

Opportunities and Challenges for Investment

Responsible Investing in Times of Crisis: Perspectives for European Companies in Ukraine

With the adoption of the 17 Sustainable Development Goals (SDGs) in September 2015, the United Nations ensured that economic, social and environmental considerations are all given due attention in the sustainable development strategies of businesses, organizations, civil societies and states. The SDGs aim to combat global poverty and reduce social inequality. In practice, many companies across various industries use the SDGs as guiding principles to develop and implement their individual ESG strategies for the coming business years.

ESG strategies are built around three pillars: Environment (E), Social (S) and Governance (G). In addition to financial returns, modern Socially Responsible Investing (SRI) approaches also take into account the social, societal and environmental impacts of an investment.

Environmental and climate protection - key aspects of the first pillar, **Environment (E)** - have been integral parts of corporate strategies across all company sizes for several years. Many organizations have launched sustainability initiatives to minimize their ecological footprint, slow down climate change and mitigate operational risks. Measures such as energy efficiency programs, decarbonization, natural disaster prevention, and resource-efficient production processes are no longer exceptions but established practices. These initiatives not only help reduce risks and ensure long-term environmental protection but also deliver cost savings through more efficient resource use and lower energy expenses. Moreover, sustainable products and services increasingly provide a competitive edge across many sectors. Companies that adopt these sustainable solutions are better prepared for future regulatory requirements and market shifts.

The **Social (S)** dimension of ESG has gained substantial importance in recent years. Companies typically pursue Corporate Social Responsibility (CSR) initiatives not only to meet their social obligations but also to strengthen their brand and enhance their reputation. CSR is a crucial factor for being perceived as an attractive employer, improving employee satisfaction and fostering innovation. In times of skilled labor shortages, organizations that emphasize fair working conditions, diversity, inclusion and sustainability are better positioned to attract and retain top talent. At the same time, such companies actively contribute to a positive public image that appeals to investors. Investors increasingly value companies that embrace social and environmental responsibility, as they are perceived as more resilient and future-proof. Through transparent and responsible corporate governance, organizations create better working environments and contribute to a more sustainable and equitable economy.

The **Governance (G)** pillar is likewise a cornerstone of sustainable corporate management. Responsible leadership is reflected in the establishment of effective control and management mechanisms. Transparency, integrity, independent audits, and compliance with both legal and internal regulations are essential elements of sound governance. The fight against corruption and the implementation of compliance frameworks have long become standard practice in many organizations. Strong governance ensures legal certainty, strengthens stakeholder trust and enhances corporate decision-making and oversight.

A company’s reputation—often built over decades—can be damaged within a very short time. Organizations that embrace transparent and ethical leadership not only ensure the long-term stability of their business but also earn the trust of investors and partners.

“The consideration of ESG aspects is not a passing trend but a decisive competitive factor. Only those companies that embed sustainability as an integral part of their business strategy will remain resilient, innovative and economically successful in the long term,” emphasizes Goran Mazar, EMA Head of

Clients & Markets and EMA and German Head of ESG at KPMG.

“The example of Ukraine also highlights how critical the ‘S’ in ESG becomes in regions affected by crisis,” adds Nicolai Kiskalt, KPMG Partner supporting Ukraine’s reconstruction through his expertise in transformation, strategic management and innovation, while advising companies on investments in Ukraine.

CSRD and ESRS: Their Significance for European Companies

With the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), the European Union has established a binding framework for corporate sustainability reporting. These regulations are designed to ensure transparent and consistent disclosure of ESG-related data by companies. Since January 2024, all publicly listed companies in the EU that are classified as Public Interest Entities (PIEs) have been required to provide comprehensive reporting on their environmental, social, and governance practices. This includes, among other aspects, the disclosure of climate-related risks, social responsibility within supply chains, and the implementation of governance standards.

The ESRS provide detailed guidance on how ESG data should be collected and disclosed. Together, the CSRD and ESRS aim not only to ensure consistent and comparable reporting but also to strengthen the trust of investors and stakeholders by providing a transparent record of corporate sustainability activities. Although the CSRD has not yet been fully transposed into German law and is currently being refined through the ongoing EU Omnibus process, it already offers a solid framework for aligning corporate sustainability strategies at both the national and international level.

How the Ukrainian State Promotes Sustainable Development and the “S” in ESG

Sustainability considerations have been embedded in Ukrainian legislation since 2019. The country’s development goals for 2030 incorporate economic, environmental and social dimensions. In addition, Ukraine’s National Economic Strategy, adopted in 2021, the working group established in 2023, and the Sustainability Reporting Implementation Strategy adopted in 2024 collectively ensure that sustainability is embedded in state policy on strategic, international and corporate levels. Ukrainian companies with business relations to the EU should therefore closely analyze CSRD requirements to align with international standards and minimize potential legal risks.

Environmental Aspects and Corporate Governance:

To strengthen environmental protection, Ukrainian guidelines recommend the systematic collection and disclosure of information on the environmental impact of corporate activities. The key focus areas include waste management, greenhouse gas emissions, energy consumption, and the efficient use of water and other natural resources.In the field of Corporate Governance, Ukrainian joint-stock companies are required to disclose information on shareholder structures, general meetings, ownership stakes, and dividend policies. Internal control systems and the continuous improvement of corporate governance structures are also regarded as critical elements of this domain.

Social Responsibility and ESG

The social dimension covers labor legislation and includes key areas such as occupational safety, employment, equality, inclusion and social protection. The Ukrainian government recommends that companies place particular emphasis on workplace health and safety, training and professional development, equal opportunities for all employees, and respect for human rights. In addition, measures to prevent corruption and bribery, as well as programs to foster employee motivation, are encouraged.

In Germany, social standards are already high. However, the main challenge often lies within global supply chains, where social conditions vary widely. In many countries, especially developing nations, significant deficits remain in labor rights, human rights and social equity. This is gradually changing, driven by the growing expectations of customers, employees, investors, consumers and business partners. Even without EU regulation, an increasing number of companies recognize that sustainability extends beyond environmental and economic performance and encompasses social responsibility as well.

In Ukraine, the social dimension of ESG plays a particularly critical role due to the country’s geopolitical tensions, economic challenges and social disparities. European investors can contribute meaningfully by developing projects that are not only profitable but also socially sustainable—thereby supporting both economic stability and societal progress.

Why Ukraine Represents an Attractive Investment Destination for European Companies

Ukraine offers European businesses a wide range of investment opportunities, supported by its strategic geographic location, competitive production costs, and a highly qualified workforce. A key advantage lies in the close cooperation between the Ukrainian government and international financial institutions, which actively promote private sector investment. This collaboration has led to lower capital costs, enhanced risk mitigation through guarantees, and improved financing frameworks. Moreover, concrete reconstruction plans following the war present additional opportunities for sustainable investment.

In April 2024, the German Federal Government published a policy paper outlining its key priorities for

Ukraine's reconstruction. The paper focuses on the country's financial and military support, while also encouraging private sector engagement through investments and exports. German companies benefit from investment guarantees and favorable financing terms that facilitate capital acquisition. At the same time, the Ukrainian economy is being supported in its efforts to align with EU standards.

Ukraine's transformation creates diverse opportunities for European capital in sectors such as energy, industrial manufacturing, high technology, professional services, natural resources, and defense industries. Fields like electronics, textiles, and automotive manufacturing stand to gain in particular from reconstruction efforts and infrastructure modernization - developments that could position Ukraine as a leading production hub in Europe. Furthermore, innovative sectors such as cyber technology, pharmaceuticals, and IT services offer significant investment potential.

A prime example of Ukraine's innovative capacity is the rapid development of drone technologies, where the combination of cyber expertise and digital innovation plays a central role. This technological know-how can be leveraged across various products and industries, fostering both economic growth and social development through sustainable investment in Ukraine.

These forms of support are offered by KPMG for socially responsible investing in Ukraine

"KPMG helps companies create genuine value across a wide range of ESG dimensions and make investment decisions that are both sustainable and successful in the long term," explains Goran Mazar.

"This expertise is complemented by our strong network and long-standing relationships with numerous companies and decision-makers in Ukraine," adds Nicolai Kiskalt. "Through our accumulated know-how, we can accompany investors at every stage of the investment process - from preparation and detailed planning to business setup and operational launch."

During the Preparation-Phase ("Pre-Phase"), KPMG experts provide access to up-to-date market intelligence, details on available subsidies and funding programs, and information about potential business partners.

The Plan-Phase covers location selection, timeline development, roadmap design, comprehensive legal advice, assistance with financing, and guidance on setting up or acquiring a business entity.

The social dimension of an investment in Ukraine becomes particularly relevant during the operational setup phase. Here, KPMG supports the establishment of all essential processes across procurement, logistics, finance, accounting, information technology, and human resources.

Finally, in the operational phase, when the Ukrainian subsidiary commences its business activities, KPMG continues to provide services in the areas of tax, audit, advisory, and business optimization — ensuring that each investment contributes to sustainable growth, transparency, and long-term value creation.

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