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Interaction between the State and Large Business in the Financial Market and Foreign Economic Activity: Taxation in the Context of Sustainable Development

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Abstract: The paper analyzes the impact of Ukraine's tax system on the shaping of interaction between the state and large corporations in the financial market and in foreign economic activity. Tax-related incentives and burdens across three export-oriented sectors (energy, agriculture, and manufacturing) that jointly account for more than 70% of Ukraine's export revenues were defined based on a descriptive analysis of fiscal datasets. The study covered the period from 2015 to 2023. With the help of qualitative content analysis of policy documents and corporate sustainability reports. The study found that enterprises that benefited from preferential measures under the "green" tax invested more in sustainable investments than firms operating under standard taxes. In particular, renewable energy enterprises increased sustainable investments by 340% between 2015 and 2023. The results of the panel regression confirmed that the presence of tax benefits increased the intensity of sustainable investment by 0.7–0.9 percentage points of annual income. However, the effectiveness of tax benefits was limited by regulatory fragmentation, political instability, and geopolitical shocks. The analysis also reveals limited systemic integration of fiscal instruments with the UN Sustainable Development Goals (SDGs), as most tax benefits were sector-specific. Thus, it is proven that Ukraine needs an integrated, time-limited fiscal system that integrates sustainable development goals into tax policy. This involves simplified regulatory roadmaps for green investments and institutionalized mechanisms for dialogue between the state and big business.

Keywords: Finance, Taxes, Customs, Taxation, Large Business, Financial Market, Foreign Economic Activity, Customs Security, Sustainable Development

1. Introduction

Recently, there has been a global shift towards a more sustainable growth approach. This transition has introduced a fundamental shift in the relationship between corporations or large businesses and states or governments within a country. In terms of this transition, states are introducing updated policies to drive the shift toward sustainable growth. One of the crucial levers or mechanisms used by states is their approach to implementing an effective and inclusive taxation framework to achieve environmental, social, and economic goals (ESGs) (Vdovichena & Vdovichen, 2023). For economic development, these ESGs pose a challenge for implementing taxation mechanisms to achieve sustainable growth. Countries such as Ukraine face additional challenges due to the post-conflict dynamics in their political environments. This market regime creates a difficult situation for developing economies (especially for countries such as Ukraine) and their efforts to achieve integration into the European Union (EU). The unique yet troublesome environment Ukraine finds itself in is driving a recovery phase in its economy while addressing the challenges that arise from achieving sustainable growth. The Ukrainian economy has historically been, and remains, driven by significant export dependence and substantial foreign economic activity. It provides a unique yet critical research question for investigating how the state, through mechanisms such as taxation policies, can influence state-large business behavior toward sustainable growth outcomes.



The current commitment of the Ukrainian government to sustainable growth is driven by its implementation and integration into the United Nations (UN) Sustainable Development Goals (SDGs), as well as by the integration and adoption of the EU framework. In this regard, Ukraine currently faces both opportunities and challenges. Ukraine's economic potential, which is largely driven by the country's financial market (estimated at approximately \$180 billion), is complemented by foreign economic activity, such as investments, where the total of \$120 billion in exports and \$85 billion in imports, respectively (National Bank of Ukraine, 2024, and State Statistics Service of Ukraine, 2024). The management and coordination of tax policy to achieve sustainable goals is the biggest obstacle the Ukrainian state has faced. Another level of complexity is the alignment with the high standards set by the EU and UN frameworks.

In modern scientific literature, the topic of state-business interaction in the context of the transition to sustainable development is defined mainly through the prism of corporate social responsibility and institutional regulatory mechanisms. In particular, *Matten and Moon (2020)* noted the evolution of corporate social responsibility, a dynamic process that reflects changes in the interaction between markets and political institutions. At the same time, other authors pointed out the problem of agency relations between the main structures and subsidiaries of transnational corporations. Also, the results of the studies by *Kostova et al. (2018)* and *Stern (2021)* indicate that the institutional environment and tax regimes can influence companies' strategic decisions on investments, resource allocation, and compliance with ESG standards.

In addition, recent studies indicate that, within the context of instability, the functions of public administration and regulatory policy are expanding (*Holovnia et al., 2024; Riabova et al., 2022*). In particular, the management of small and medium-sized enterprises in an unstable environment required adaptive fiscal mechanisms to support socio-economic stability (*Ilyina, 2025; Parmar et al., 2021*). Thus, recent research indicates growing interest in the role of tax mechanisms in balancing economic competitiveness and achieving sustainable development goals (*Azarenkova et al., 2020*). In the case of Ukraine, the issues of tax policy and sustainable development have become particularly relevant in the context of post-crisis and war economic recovery. Modern scholars have noted that current tax reforms have affected the volume of foreign direct investment, an important factor in Ukraine's integration into international markets. At the same time, *Holovnia et al., (2024); Riabova et al., (2022); Azarenkova et al. (2020)* recognized that sustainability policy in Ukraine is directly related to business competitiveness, but the effectiveness of regulatory mechanisms determines companies' ability to adapt to European standards. Other scholars have emphasized that in an unstable economic environment, an optimized and systemic management approach is important (*Sopronenkov et al., 2023; Holovnia et al., 2024*). However, without diminishing the importance of research on corporate social responsibility, agency relations in transnational corporations, and the impact of tax reforms on the investment climate, the issue of systemic interaction between the state and big business in the context of post-conflict economic transformation remains insufficiently studied in the scientific literature. In particular, there is a lack of research that combines the analysis of tax policy, corporate behavior, and the achievement of sustainable development goals in countries with economies in transition. Thus, there is a scientific gap in understanding the role of tax policy in economic development, investment stimulation, and ESG-oriented outcomes amid high political and economic instability. It is precisely filling this gap that will determine the theoretical value of the study.

This research aims to analyse the interaction between the state and corporations in Ukraine's financial market and foreign economic activity, with a focus on the influence of taxation policies on sustainable development outcomes. This research addresses three primary research questions:

1. How the current taxation policies in Ukraine shape the behaviour of corporates in the financial market and foreign economic activity?
2. What is the method for the quantification or calculation which taxation incentives provides or the misalignment thereof towards sustainable growth practices for corporates in Ukraine?
3. What are the key yet crucial challenge of identifying the presented opportunities faced by the Ukrainian state in aligning taxation policies with SDGs?

2. Literature Review

To understand the interactions between the state and big business in the financial market and in foreign economic activities within the framework of sustainable development, the institutional and stakeholder theories were used as important analytical frameworks in this study. These theoretical frameworks provide fundamental insights into how both parties can achieve sustainable growth goals. They also provide insights into how formal (such as tax policy) and informal policies influence or create the environment in which corporations can fully exploit their complex relationships with the state of a country. Subsequent studies, namely [Mazur *et al.* \(2025\)](#) and [Matten & Moon \(2020\)](#), expanded institutional theory to sustainability contexts and showed how institutional pressures influence corporate environmental and social responsibility practices. Unlike descriptive approaches often used in modern science, this study aims to analyse the mechanisms of the influence of tax policy on corporate behaviour and investment decisions ([Kostova *et al.*, 2018](#)).

The concepts of stakeholders and stakeholder theory were introduced to provide deeper insight into the analysis of the complex relationships between states and corporations in each country. This research also provided insights into the dynamics of state-corporate relationships and their adherence to sustainable growth. [Parmar *et al.* \(2021\)](#) and [Scherer & Palazzo \(2022\)](#) then further investigated how states can act as primary stakeholders in promoting sustainable business practices through policy instruments, including taxation mechanisms.

Focusing on the taxation mechanism for achieving sustainable growth in a country, the Organisation for Economic Co-operation and Development (OECD) provided an extensive analysis of taxation reforms, primarily focused on environmental objectives. [OECD \(2021\)](#) provided a detailed account of how states may employ taxation to incentivise corporate co-operation towards sustainable growth at the business level, drawing on the EU's experiences with carbon taxation policies and green tax reforms. The paper also provided valuable insights for emerging and/or developing economies whilst considering similar approaches ([European Commission, 2022](#)).

From the standpoint of institutional theory, tax policy is an important institutional mechanism that creates regulatory incentives and restrictions for big business and shapes the conditions for its involvement in sustainable development practices. Thus, the authors have shown that tax instruments serve as coercive and normative institutional pressure, influencing corporations' strategic decisions.

Since then, the traditional sustainable growth approach has evolved to include a broader set of goals or objectives. More recent research by [Stern \(2021\)](#), [Baumol & Oates \(2012\)](#), and [Riabova *et al.* \(2022\)](#) showed that methodical taxation reforms and their implementation can address the incentives for corporations towards market failures related to environmental objectives while simultaneously promoting economic growth for countries. Recently, the concept of a green tax shift has gained noticeable traction by states as they look to align fiscal policies with sustainable growth objectives ([Andersen *et al.*, 2020](#); [Prokopenko & Bushman, 2022](#)). In terms of Ukraine's unique market and political conditions, the provision of recent tax reforms within the country also contributed to the stimulation of business behaviour and sustainable growth. [Smerichevskyi \(2021\)](#) and [Kovalenko *et al.* \(2023\)](#) specifically focused on the impact of Foreign Direct Investment (FDI) as a driver of taxation reform. The research provided mixed observations towards sustainability-oriented investments or "green" investments. [Petrenko & Sydorenko \(2022\)](#) then explored the responses of export-oriented sectors to tax policy changes, also highlighting the need for more coherent policy frameworks.

[Bondarenko *et al.* \(2021\)](#) identified shortcomings or ineffective coordination in implementing taxation reforms. [Prokopenko & Bushman \(2022\)](#); [Sopronenkov *et al.* \(2023\)](#) and [Holovnia *et al.* \(2024\)](#) also provided insights conflicts with sustainable growth objectives based on tax policy reforms. The impact of ongoing conflict on business-state relations and sustainable development efforts have been documented by [Stern \(2021\)](#), who also highlighted the need for the integration of policy methodologies. Moreover, regulatory inconsistencies have been identified as a vital factor contributing to the ineffective implementation of coordinated tax policies. [Bondarenko *et al.* \(2021\)](#) noted that a fragmented regulatory environment increases investment risks and reduces the effectiveness of fiscal instruments if they are not supported by coordinated planning, accounting, and control mechanisms at the enterprise level. Thus, the designed tax incentives may not achieve sustainable development goals.

Despite current research addressing the shortcomings of using taxation policy reform as a mechanism for achieving sustainable growth, none addresses the unique context of Ukraine. The complexity consists in the



consideration of a post-conflict economic and political environment. Recent research ignores the need for a post-conflict economic environment driven by state-led economic recovery to achieve sustainable growth objectives. This research aims to provide insights into the uniqueness and critical situation in Ukraine by examining how taxation policies influence state-business dynamics to achieve sustainable growth objectives (Azarenkova et al., 2020).

Based on the provisions of institutional theory and stakeholder theory, the study proposed a conceptual framework that explains the existence of a relationship between tax policy and the interaction of the state and big business that results in unsustainable development. The conceptual model identified the influence of tax instruments and various mediating and moderating mechanisms.

In particular, the tax policy (environmental taxes, tax breaks, investment incentives, fiscal restrictions) is identified as a powerful independent variable that shapes institutional incentives and constraints for big business. At the same time, the interaction between the state and big business in the financial sector and in foreign economic activity serves as a mediator in this model. It is manifested through investment decisions, compliance with regulatory requirements, participation in sustainable financing programs, etc.

The results of a sustainable development in the conceptual framework are represented by three interrelated dimensions: economic (financial market stability, investment activity, export growth), environmental (reduction of negative environmental impact, introduction of environmentally friendly technologies) and social (employment, corporate social responsibility, fiscal justice). At the same time, the model consists of moderating factors that affect the strength and direction of these relationships. Such factors include the following: institutional stability, regulatory coherence, macroeconomic conditions, and the military (post-conflict) context.

This research data goes beyond the existing literature. It includes corporate and state approaches to sustainable growth, with an empirical analysis of the role of tax policy reform in the context of Ukraine. This research aims to provide practical insights for policymakers within a country's state, in terms of an effective tax policy and incentive design for sustainable growth practices. The paper focuses on emerging or developing economies facing challenges similar to those faced by Ukraine (See Figure 1).

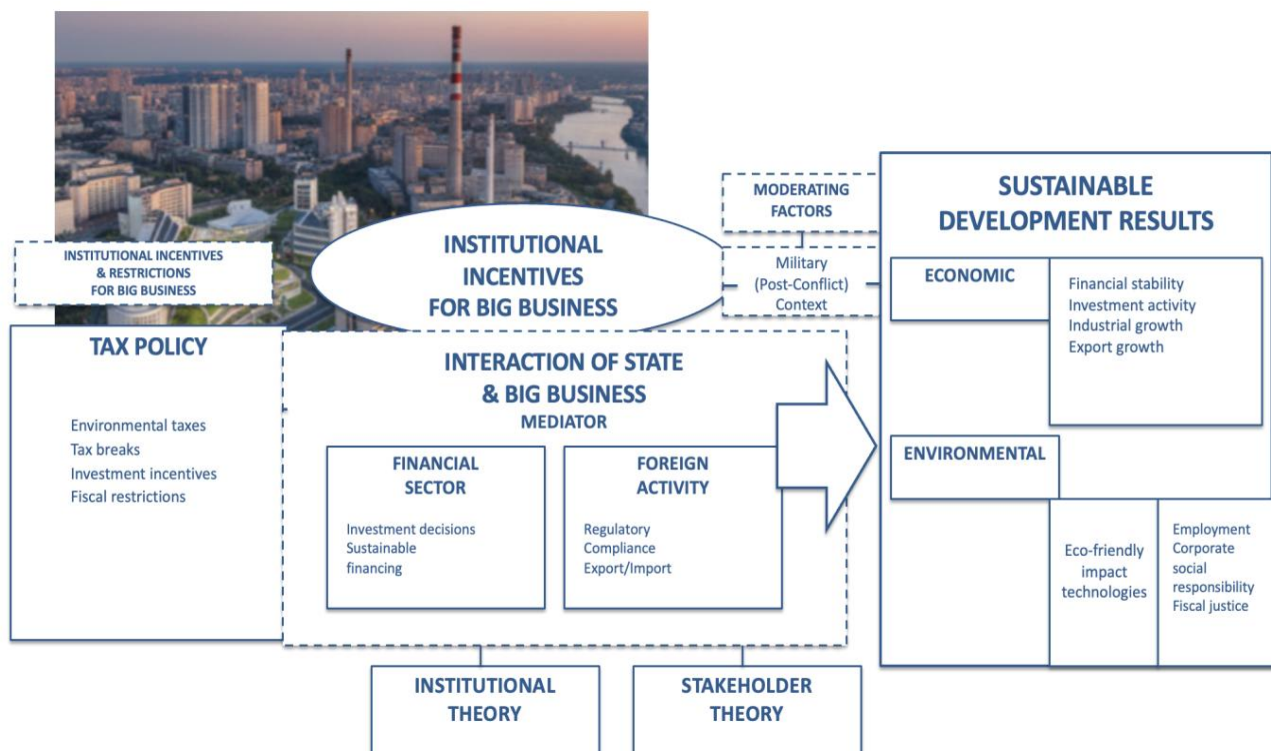


Figure 1. Conceptual basis: tax policy, interaction between state and business, and sustainable development in Ukraine

3. Methodology

3.1 Research Design

A mixed design, which consisted of qualitative and quantitative approaches in order to achieve the set goals, was used in the study. This approach was chosen, taking into account the complex nature of the interaction between tax policy, the behaviour of big business and the goals of sustainable development. The qualitative component was aimed at analysing the tax policy, regulatory decisions of the state, and strategies of corporate behaviour. At the same time, the quantitative analysis was focused on econometric analysis of fiscal, financial, and foreign economic indicators conduction.

3.2. Data Sources and their Formation

The quantitative analysis was based on a combination of macro- and microeconomic data. These data were obtained from official national and international sources. The main micro-level sources were: the State Tax Service of Ukraine (effective tax rates of enterprises, sectoral tax breaks, tax revenue volumes), the National Bank of Ukraine (information on foreign direct investment, regional capital structure, financial indicators of enterprises), the Ministry of Economy of Ukraine (export structure, sectoral indicators of foreign economic activity) and the State Statistics Service of Ukraine (production volumes, fixed capital investments).

To determine the instruments of "green" fiscal policy, international sources (World Bank, IMF, OEC) were used. Indicators of environmental taxes, shares of "green" financial instruments were obtained from these databases.

The research period covered 2015–2023 (annual data frequency). A panel structure of observations "enterprise–year" was formed for each enterprise.

The final analytical array includes the following groups of variables:

Fiscal indicators: nominal and effective tax rate (%), availability of tax benefits (binary variable), tax policy stability index;

Investment indicators: share of investments in sustainable development in income (%), volume of "green" investments (USD million);

Foreign economic activity indicators: export volume (USD billion), share of durable goods in the export structure (%);

Control variables: enterprise size (logarithm of income), industry affiliation, region of location.

The arrays were combined based on the unique enterprise identifier and the year of observation. To ensure comparability, monetary indicators were reduced to constant prices of 2023 using the consumer price index. Before conducting the regression analysis, data cleaning was performed: missing values that did not exceed 5% of the sample were replaced by the linear interpolation method; extreme outliers were capped by the Winsorization method (1st and 99th percentiles). Variables with high asymmetry (income, investment) were logarithmized to normalize the distribution.

Thus, a balanced panel of 1,080 observations (120 enterprises × 9 years) was formed, which allowed the application of panel regression analysis methods and ensured the stability of estimates.

3.3. Sample and Scope of the Study

The study focused on three key sectors of the Ukrainian economy that formed the basis of foreign economic activity:

The energy sector (including renewable energy);

The agricultural sector (including food processing);

Industrial sector (chemical and metallurgical industry).



In the economy of Ukraine, these sectors together account for about 78% of export activity and 65% of foreign direct investment.

The sample consisted of 120 large enterprises with annual revenue of over 50 million USD. The selection criteria were:

- (1) significance in the structure of foreign economic activity;
- (2) availability of open financial and investment reporting;
- (3) availability of data on investments in sustainable development.

To minimize selection bias, a stratified approach by industry was used, which made it possible to ensure proportional representation of sectors. Representativeness was checked based on a comparison of key financial ratios (profitability, export share, tax burden) with industry averages.

The study is limited to big business, as it generates the bulk of tax revenues.

3.4. Quantitative Analysis Methods and Model Specification

Quantitative analysis was performed using correlation analysis and fixed-effects regression. The operationalization of the variables was as follows:

Dependent variables: Intensity of investments in sustainable development (defined as the share of investments in sustainable development projects in the total annual income of the enterprise), annual volume of "green" investments (unit of measurement: million USD in constant 2023 prices), share of sustainable goods in the export structure, share of certified ecological or energy-efficient products in the total export of the enterprise, annual export volume

Independent variables: effective tax rate (ratio of actually paid income tax to profit before tax), preferential benefits: binary variable (1 - the enterprise uses targeted tax benefits; 0 - standard regime, tax policy stability index (author's index, which is aimed at predictability of the tax environment).

The index is built based on:

The number of changes to tax legislation in the relevant sector during the year;

The frequency of changes in rates or conditions of tax benefits;

The availability transitional provisions.

Calculation formula:

$$\text{PolicyStability} = 10 - (\text{number of significant changes} \times 1.5)$$

The indicator is normalized on a scale of 0–10, where 10 means complete stability of the tax regime during the year.

Regional tax incentives (RegionalTax_it)

Dummy variable (1 – additional regional incentives available; 0 – absent).

Control variables: enterprise size (natural logarithm of annual revenue in million USD), industry affiliation, location, time effects.

The basic model was as follows:

$$\text{SustainInvest}_{it} = \beta_0 + \beta_1 \text{TaxRate}_{it} + \beta_2 \text{TaxIncentive}_{it} + \beta_3 \text{PolicyStability}_{it} + \beta_4 \text{Controls}_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where

μ_i – individual fixed effects of enterprises,

λ_t – time fixed effects,



ε_{it} – stochastic error.

The choice of the model with fixed effects was justified by the results of the Hausman test ($p < 0.05$). Standard errors were adjusted for heteroscedasticity and clustered at the enterprise level.

4. Results

4.1 Tax Policy and the State – Behavior of Big Business

Ukraine's tax system has been characterized by limited integration with the Sustainable Development Goals. This has been reflected in a uniform corporate income tax rate (18%) for most economic sectors. As shown in Table 1, exceptions have primarily been made for renewable energy, with targeted tax incentives, including income tax exemptions, applied.

The analysis of the effective tax burden (Table 1) has indicated cross-sectoral differences. In particular, 3.9% in the renewable energy sector and 23.4% in the conventional energy sector. These differences indicated different levels of institutional pressure on businesses.

Corporate responses showed a sensitivity to taxation incentives. Corporations in the renewable energy sector that benefited from tax exemptions reported a 340% increase in investments in sustainable technology between 2015 and 2023.

Table 1. Sectoral Tax Rates and Effective Tax Burdens in Ukraine (2023)

Sector	Corporate Income Tax (%) *	Sector-Specific Levies (%) *	Local Taxes (%) *	Effective Tax Rate (%) *	Sustainability Incentives
Renewable Energy	0.0	2.1	1.8	3.9	Full CIT exemption, accelerated depreciation
Agriculture	6.5	0.0	2.2	8.7	Simplified taxation system
Manufacturing	18.0	1.5	1.7	21.2	Limited energy efficiency incentives
Traditional Energy	18.0	4.2	1.2	23.4	Minimal sustainability provisions
Financial Services	18.0	0.5	2.1	20.6	Green bond tax incentives (limited)

Source: State Tax Service of Ukraine, National Bank of Ukraine

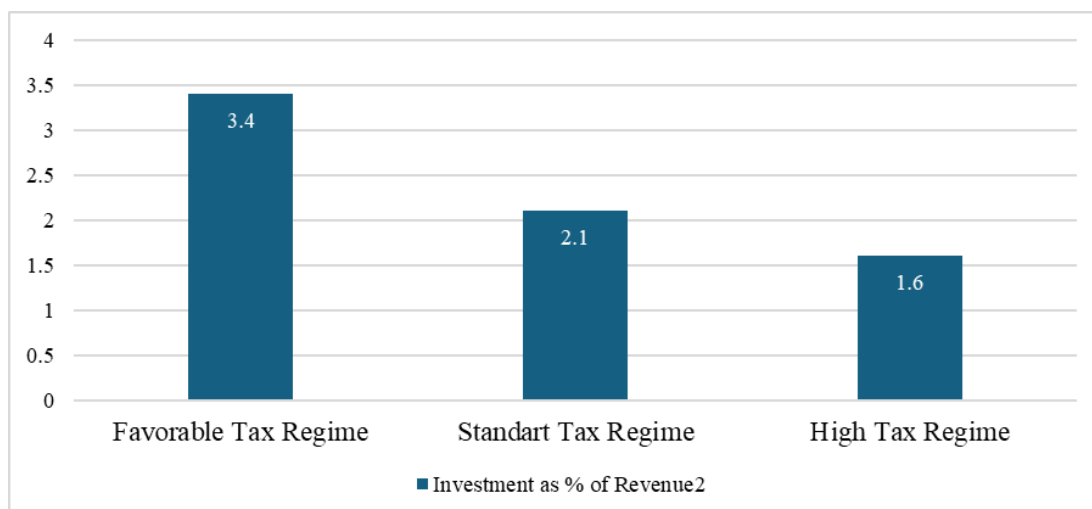


Figure 2. Sustainable Technology Investment by Tax Regime (2015-2023)

The analysis showed substantial disparities in sustainable development investments across sectors and taxation regimes. As shown in Figure 2, enterprises that actively operated under a favourable tax regime invested an average of 3.4% of their income in sustainable technologies. This figure was higher than that of enterprises with a standard (2.1%) and high tax burden (1.6%). Thus, in the field of sustainable development, there is a connection between the level of tax burden and investment activity.

The study sample also aimed to reflect the distribution of enterprises by type of tax regime. The largest number of enterprises operated under the standard tax regime (62 enterprises). However, 45 enterprises benefited from preferential tax conditions, and 13 operated in an environment with a high tax burden (See Figure 3). This sample structure confirmed that the results shown in Figure 2 we're not the result of a disproportionate representation of certain groups of enterprises.

Therefore, the intensity of investments in sustainable development differs between sectors of the Ukrainian economy. Particularly, the agricultural sector had the highest share of investments in revenues (4.2%). At the same time, the industrial sector invested 2.8% of revenue in sustainable technologies. This may be due to high initial capital expenditures and regulatory uncertainty, which limit the relative share of investments in revenues, despite the presence of tax incentives. Traditional energy and the financial sector had the lowest intensity of investments in sustainable development (1.9% and 1.5%, respectively) (see Table 2).

Investment volumes in monetary terms indicate the concentration of sustainable investments in sectors with a high share of revenues and scale of activity. Namely, the industrial sector formed the largest volume of investments (1.456 million USD). This reflected its significant role in the structure of the economy and foreign economic activity.

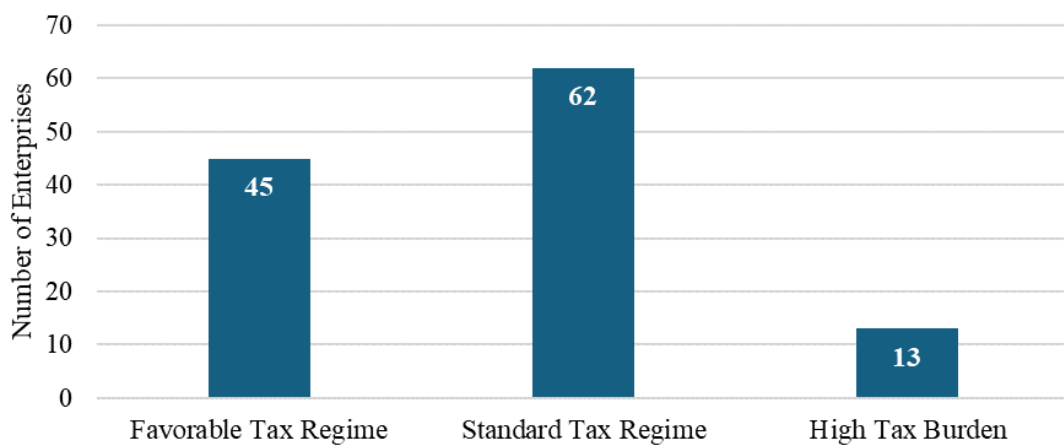


Figure 2. Sustainable Technology Investment by Tax Regime (2015-2023)

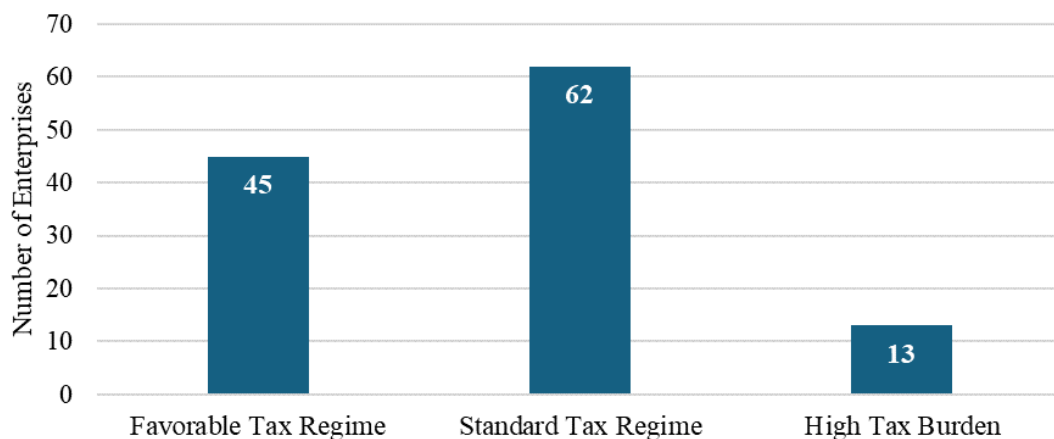


Figure 3. Number of companies tax regime (2015-2023)

Source: Analysis of 120 large Ukrainian enterprises. Investment measured as percentage of annual revenue.



Table 2. Sector-Specific Sustainability Investment Intensity

Sector	Investment as % of Revenue	Effective Tax Rate (%)	Investment Volume (\$ millions)	Number of Enterprises
Agriculture	4.2	8.7	892	28
Manufacturing	2.8	21.2	1,456	35
Renewable Energy	2.3	3.9	478	22
Traditional Energy	1.9	23.4	234	18
Financial Services	1.5	20.6	156	17

Source: State Tax Service of Ukraine, National Bank of Ukraine

Green Investment per Capita (USD)



Figure 4. Regional Distribution of Green Investment

Source: State Tax Service of Ukraine, National Bank of Ukraine

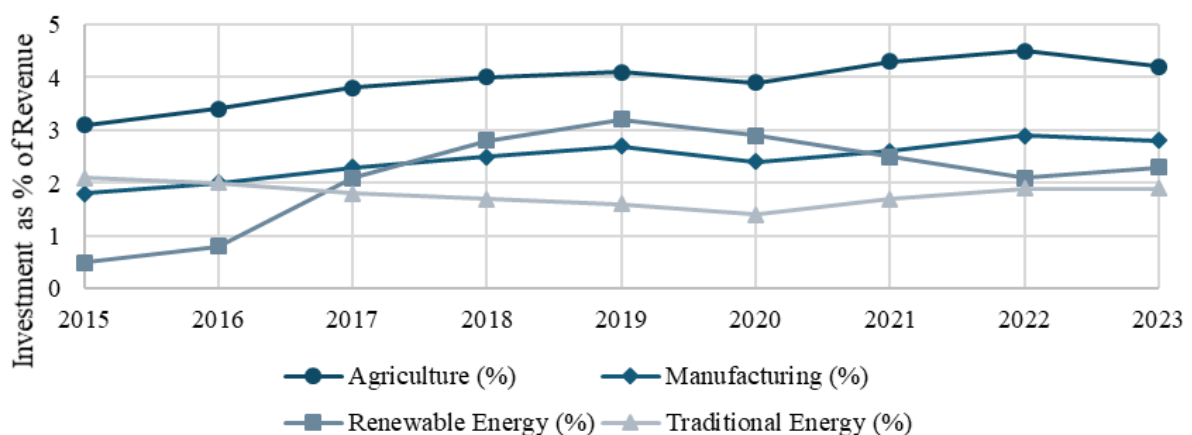


Figure 5. Sustainability Investment Trends by Sector (2015-2023)

Source: State Tax Service of Ukraine, National Bank of Ukraine

At the same time, the volume of “green” investments per capita significantly differs between the regions of Ukraine. Particularly, the western regions had the highest figure (145 USD). However, in the eastern and southern regions, it was significantly lower (65–78 USD). Such regional disparities indicated differences in the implementation



of local tax incentives and determined the role of the regional level of tax policy in shaping business investment decisions (See Figure 4).

It is also noticeable that there is a dynamic of investment in sustainable development by economic sectors in the period 2015–2023. Particularly, the agricultural sector had a stable growth in investment intensity, reaching over 4% of revenue in 2022. At the same time, the renewable energy sector was characterised by more volatile dynamics. This characteristic may be associated with high initial capital expenditures and regulatory uncertainty. Traditional energy consistently demonstrated the lowest investment indicators (See Figure 5).

Further investigation into foreign economic activity data suggests the ascertainment of a mixed relationship between taxation policies and export performance in sustainable sectors. Table 3 suggests that renewable energy equipment exports increased by 180% (Table 3 – highlighted in green) between 2015 and 2023 which is also is the same period of observed favourable tax treatment for domestic renewable energy production. However, overall sustainable goods exports remain limited, representing only 8.3% of total export value. Within the Agricultural sector exports showed strong performance with 67% growth (Table 3 – highlighted in green) between 2015 and 2023. Whereas during the same period sustainability certification remained limited. The manufacturing sectors exports of environmentally friendly products increased by 23%, but growth rates lagged traditional manufacturing exports of 31% growth. It is therefore observed that tax policy consistency showcases as a critical and valuable factor affecting export competitiveness.

Table 3. Export Performance and Sustainability Metrics (2015-2023)

Sector	2015 Exports (\$ billions)	2023 Exports (\$ billions)	Growth Rate (%)	Sustainable Goods (% of sector exports)	Tax Policy Stability Index*
Agriculture & Food	17.8	29.7	67	12.3	8.2
Manufacturing	22.1	28.9	31	15.7	6.1
Energy Products	8.4	11.2	33	8.9	4.3
Renewable Energy Equipment	0.3	0.8	180	89.4	9.1
Chemical Products	3.2	3.9	23	7.1	5.8

Source: State Statistics Service of Ukraine, Ministry of Economy

Table 4. Foreign Direct Investment in Sustainable Sectors (2015-2023)

Sector	Total FDI (\$ millions)	% of Total Sustainable FDI	Average Project Size (\$ millions)	Number of Projects	Main Source Countries
Renewable Energy	2016	72	45.8	44	Germany, Denmark, Norway
Energy Efficiency	378	13.5	18.9	20	Sweden, Netherlands
Sustainable Agriculture	224	8	14.9	15	France, Poland
Green Manufacturing	126	4.5	21	6	Germany, Austria
Sustainable Transport	56	2	11.2	5	Finland, Estonia

Source: National Bank of Ukraine, State Statistics Service

The local Ukrainian financial market indicates limited integration of sustainable development aspects into tax policy. Foreign direct investment (FDI) flows into sustainable sectors totaling USD 2.8 billion during the period under



review, accounting for 18% of total FDI, respectively. However, the concentration of investment in renewable energy, which accounts for 72% of sustainable FDI, reflected a lack of policy focus.

As shown in Table 4, the foreign direct investment (FDI) into sustainable sectors of the Ukrainian economy in 2015–2023 was determined by industry concentration. Renewable energy accumulated 72% of total sustainable FDI (USD 2.016 billion). Such concentration of investment indicated the targeted nature of tax incentives and regulatory support for this sector.

The energy efficiency and sustainable agriculture sectors attracted significantly lower FDI (13.5% and 8%, respectively). This indicated a limited effect of tax incentives outside of renewable energy.

The geography of investor countries (Germany, Denmark, Norway, Sweden, the Netherlands) determined Ukraine’s orientation towards European capital markets. However, it also highlighted the dependence of sustainable investments on external sources of financing (see Table 4).

Besides, Table 5 summarises the impact of key tax instruments on the behaviour of big business in the field of sustainable development. The most pronounced effect was observed in the exemption from corporate income tax in renewable energy. This situation influenced the growth of investments in sustainable development by 340 and the creation of over 12.4 thousand jobs and an increase in exports by 180%. The accelerated depreciation mechanism for energy efficiency projects had moderate but stable positive results. This confirmed the feasibility of using indirect tax instruments (see Table 5).

Table 5. Tax Policy Impact on Business Sustainability Behaviour

Tax Policy Measure	Implementation Year	Affected Enterprises	Investment Response (%)	Employment Impact	Export Growth (%)
Renewable Energy CIT Exemption	2017	156	+ 340	+ 12400 jobs	+ 180
Energy Efficiency Depreciation	2018	89	+ 67	+ 3200 jobs	+ 45
Green Bond Tax Relief	2020	12	+ 23	+ 890 jobs	+ 12
Carbon Tax (proposed)	2024*	450*	- 15*	- 2100 jobs*	- 8*

Source: National Bank of Ukraine, State Statistics Service

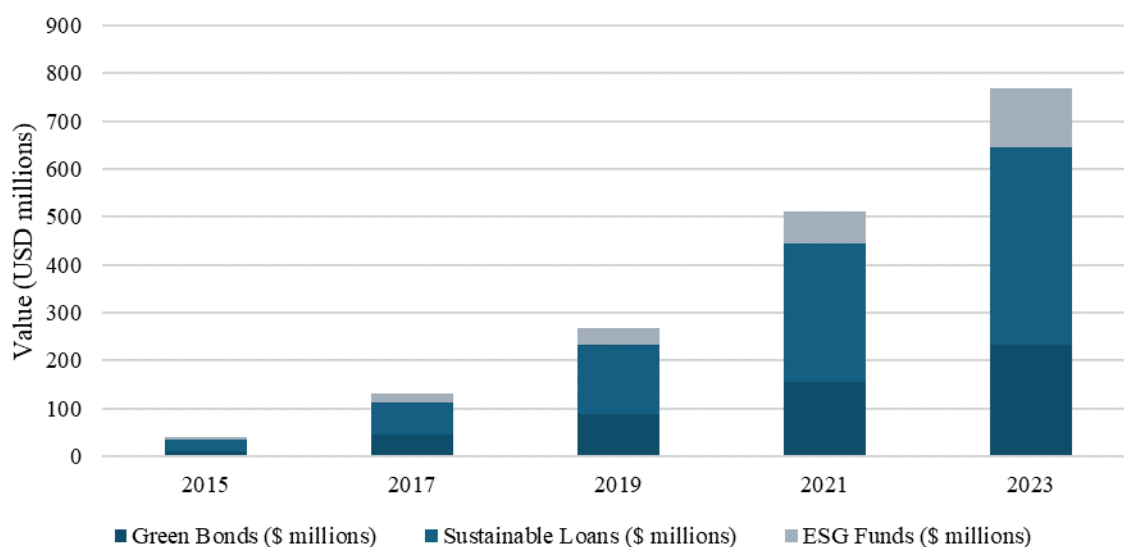


Figure 6. Development of Green Financial Instruments

Source: National Bank of Ukraine, State Statistics Service



As shown in Figure 5, the development of green financing instruments in Ukraine is limited. The share of "green" financial instruments in the overall structure of the financial market is insignificant. This is also consistent with the results of Tables 4–5. Such data indicate insufficient integration of tax incentives in the field of sustainable finance. However, in the period 2015–2023, there was a noticeable overall growth in the volume of green financing instruments in Ukraine. Sustainable loans had the most dynamic growth, however, the market for green bonds and ESG funds was limited in scale. Namely, by 2023, the total volume of green financial instruments reached about 770 million USD, however, a significant share fell on bank lending (See Figure 6).

Data from the regression analysis indicated a significant relationship between the tax policy and investments in sustainable development. In all model specifications, the effective tax rate had a negative and statistically significant effect on the intensity of sustainable investment. In particular, a decrease in the effective tax rate by 1 percentage point was associated with an increase in investments in sustainable development by an average of 0.10–0.14 percentage points.

The presence of tax incentives for sustainable development had a positive and highly significant effect. Enterprises that used targeted tax benefits invested in sustainable technologies by an average of 0.7–0.9 percentage points more than enterprises with a standard tax regime, other things being equal. This empirically confirmed the role of tax instruments as a mechanism for shaping corporate behaviour (See Table 6).

Table 6. Results of panel regression analysis

Variable	Model 1	Model 2	Model 3
Effective tax rate (%)	-0.14***	-0.12***	-0.10**
Tax incentives (dummy)		+0.86***	+0.71***
Tax policy stability			+0.09**
Firm size (log revenue)	+0.21**	+0.18**	+0.17**
Financial sector (dummy)	-0.34**	-0.31**	-0.29*
Traditional energy (dummy)	-0.42***	-0.39***	-0.36***
Constant	3.92***	3.48***	3.11***
Observations	1,080	1,080	1,080
R ² (within)	0.31	0.38	0.42

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. All models are estimated with fixed effects of firms and years; standard errors are robust.

Table 7. Mapping of empirical data to SDG Targets

Empirical result	SDG	Target	Impact
+increase in investments in RES	SDG 7	7.2	Direct positive
72% FDI in RES	SDG 7	7.a	Institutional support
+12,400 jobs	SDG 8	8.4	Socio-economic effect
Positive effect of tax benefits (0.7–0.9 pp)	SDG 9	9.4	Structural modernization
Regional disparities	SDG 10	10.2	Incomplete implementation
8.3% share of sustainable exports	SDG 12	12.6	Partial progress

The inclusion of the indicator of tax policy stability in Model 3 improved the explanatory power of the model (R^2 within = 0.42). Overall, this indicated that the predictability of the tax environment enhanced the positive effect of incentives on business investment activity. Sectoral coefficients determined that enterprises in the traditional energy and financial sectors systematically invested a smaller share of revenues in sustainable development, even after controlling for tax factors. Overall, the results of the regression analysis confirmed the provisions of institutional



theory and stakeholder theory, according to which the state's tax policy, based on a system of incentives and restrictions, affected the behaviour of large businesses.

The Sustainable Development Goals (SDGs) are defined as the strategic framework of the study, so the empirical data can be correlated with current goals. First, the growth of investment in renewable energy and the concentration of 72% of sustainable FDI in this sector are determined by SDG 7 "Affordable and clean energy", in particular: Target 7.2 – increasing the share of renewable energy; Target 7.a –international cooperation in the field of clean technologies. In addition, the positive and statistically significant impact of tax incentives on investment intensity (0.7–0.9 pp) was consistent with SDG 9 "Industry, innovation and infrastructure", in particular: Target 9.4 – modernizing industry to increase resource efficiency. Finally, the creation of more than 12,400 jobs in the renewable energy sector is consistent with SDG 8 "Decent work and economic growth". This is noticeable in Target 8.4 –increasing resource efficiency and gradually decoupling economic growth from environmental degradation. Noticeable regional disparities in "green" investments (145 USD per capita in the western regions versus 65–78 USD in the eastern and southern regions) indicated the incomplete implementation of SDG 10 "Reduced inequality". In addition, the limited share of sustainable goods in total exports (8.3%) indicated partial progress in achieving SDG 12 "Responsible consumption and production", especially: Target 12.6 – encouraging companies to implement sustainable practices (see Table 7).

Thus, the current tax policy of Ukraine currently contributes to the achievement of individual SDG goals, but its impact is selective and does not form a systemic integration of sustainable development into all sectors of the economy.

5. Discussion

The study confirmed that the tax policy in Ukraine has only partially integrated sustainable development goals and currently remains fiscally neutral for most sectors. However, the presence of narrowly targeted incentives in renewable energy (namely, income tax exemptions) has contributed to the formation of differences in the effective tax burden across sectors (from 3.9% to 23.4%). This configuration is consistent with institutional theory, which states that the state creates coercive and regulatory incentives that redistribute investment activity to priority sectors. Such views are generally consistent with institutional analysis (Vlasenko *et al.*, 2020; Tsekhmister, 2024). These authors pointed on the role of the state in shaping the "rules of the game" for corporate strategies.

An important consequence was that the sensitivity of business to tax incentives became noticeable (an increase in "green" investments in renewable energy by 340% while simultaneously reducing investments in traditional energy). Such an indicator confirmed the classical logic of environmental taxation (Baumol & Oates, 2012; Ilyina, 2025; Dykha *et al.*, 2019). Thus, Ukrainian practice showed that even targeted incentives can trigger noticeable changes in corporate behaviour. The results from Figures 1–4 and Table 2 indicated that enterprises with favourable tax regimes invested in sustainable technologies on average more than enterprises with standard and high tax burdens. This confirmed the idea of the effectiveness of "green tax reform" in forming investment demand for sustainable technologies (Andersen *et al.*, 2020; Bondarenko *et al.*, 2021; Mia *et al.*, 2022).

At the same time, the results from Table 2 added an important clarification: the presence of incentives did not guarantee maximum investment in relative terms. The renewable energy sector had the lowest effective rate. This can be interpreted as a consequence of high capital intensity, long investment cycle. This result was consistent with the authors, who emphasised that fiscal incentives work best when supported by stable rules (Guseva *et al.*, 2022; Prokopenko *et al.*, 2019). From the perspective of stakeholder theory, these results meant that the state, as a key stakeholder, can influence corporate decisions.

The export results presented in Table 3 indicated a "mixed" picture: the renewable equipment sector showed very high export growth rates, however, the overall share of sustainable goods in total exports remains low. This is consistent with international observations that "green" exports often rapidly grow in narrow sectors. At the same time, agricultural exports showed high growth under conditions of limited sustainability certification. This indicated a gap between economic growth and "green" standards and confirmed the need for instruments that stimulate the quality of sustainability. At the same time, the financial part (Figure 5; Tables 4–5) indicated that Ukraine had a growth of "green" financial instruments, but their share remains low. This is consistent with international literature,



which indicates that the development of green finance required a combination of tax incentives, disclosure standards and capital market maturity (Mazur *et al.*, 2025).

Regression analysis provided a quantitative description of the pattern, in particular, it was indicated that the tax rate had a persistent negative relationship with the intensity of "green" investments. This directly supported the conceptual model in which tax policy was the independent variable, and corporate investment decisions were the channel (mediator) of influence on sustainable development outcomes. In particular, the result on the stability of tax policy: its positive effect was consistent with the conclusions of researchers who indicated that institutional mechanisms worked only when they were predictable and long-term (Bobro *et al.*, 2025; Safarli *et al.*, 2024).

Overall, the results indicated that tax policy in Ukraine can stimulate sustainable investments and change corporate behaviour, but its effectiveness depends on several established factors: 1. incentive design, 2. policy stability, 3. sectoral capital intensity 4. Regional coherence of implementation. Hence, in order to further develop the sustainable concept, a transition from selective incentives to a more systemic tax architecture, in which green investments and the development of green finance will simultaneously be supported, is needed (Artemchuk *et al.*, 2024). Therefore, the following practical recommendations can be formulated:

1. To ensure the stability of tax policy for sustainable investments by fixing key tax incentives for the medium and long term. This will reduce regulatory risks for business.

2. To expand tax incentives beyond renewable energy. They should be extended to industry, the agricultural sector and transport, taking into account sectoral specificities.

3. To combine the tax policy with export strategy, stimulating the production and export of certified sustainable goods.

4. To introduce environmental taxes in stages. They should also be supplemented with compensation mechanisms to avoid short-term negative effects.

5. To reduce regional disparities by involving coordination of national and local tax incentives.

Despite the recommendations and the obtained results, the study has a number of limitations that should be taken into account when interpreting the findings. Namely, the analysis was based on a sample of 120 large enterprises, which ensured the representativeness for the main sectors of the economy. However, the limitation of the possibility of generalising the results to small and medium-sized enterprises was noticeable. In addition, the limited availability and heterogeneity of data on corporate investments in sustainable development are noticeable. Some of the indicators are formed on the basis of aggregated data, which is a typical limitation for research in transition economies. Despite the fact that the analysis used panel models with fixed effects, the issue of endogeneity between tax policy and business investment behaviour cannot be completely eliminated. This created the potential for further research using instrumental variables or quasi-experimental methods.

6. Conclusion

Thus, the state's tax policy has played an important role in shaping the behaviour of big business and directing investments in Ukraine's sustainable development. However, the study indicated that its effectiveness depended on the design, stability and institutional context of implementation. Empirical results and regression analysis determined that reducing the effective tax burden and the availability of targeted tax incentives significantly increased the intensity of attracting investments in sustainable technologies. However, the fragmentation and unpredictability of the policy limit their impact. The identified cross-sectoral and regional differences and the concentration of sustainable investments in renewable energy indicated the selective nature of the current model of tax incentives. In the Ukrainian post-conflict context, the tax policy should become a powerful tool for recovery and sustainable growth only if it transitions from point benefits to a systemic, coordinated and long-term-oriented tax architecture.

In addition, the study indicates that Ukraine's current tax policy has partially contributed to the achievement of individual Sustainable Development Goals (primarily SDG 7, SDG 8 and SDG 9). At the same time, the lack of systematic integration of tax mechanisms into all sectors of the economy has limited progress within SDG 10 and



SDG 12. Thus, to fully align with the SDGs, the tax system must move to a predictable and long-term model of stimulating sustainable development.

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Alla Slavkova: Conceptualization, Methodology, Supervision. Anna Pyslytsia: Data Curation, Investigation, Writing-Review & Editing. Nataliia Rudyk: Formal Analysis, Visualization, Methodology. Ievgen Volkovskiy: Validation, Resources, Investigation. Hanna Kolomiets: Data Curation, Project Administration, Writing-Review & Editing.

Does this article screen for similarity?

Yes



Conflict of Interest

The authors have no conflicts of interest to declare. There is also no financial interest to report. The author certifies that the submission is original work and is not under review at any other publication.

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