International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 06 Nov-Dec; 2025 Page. No. 116-130

To cite this article: Emil Mirzaliyev (2025). CAPITAL STRUCTURING AND FINANCIAL GOVERNANCE IN MULTINATIONAL ENTERPRISES: STRATEGIES FOR RISK MANAGEMENT AND SUSTAINABLE GROWTH, International Journal of Research in Commerce and Management Studies (IJRCMS) 7 (6): 116-130 Article No. 531 Sub Id 947

CAPITAL STRUCTURING AND FINANCIAL GOVERNANCE IN MULTINATIONAL ENTERPRISES: STRATEGIES FOR RISK MANAGEMENT AND SUSTAINABLE GROWTH

Emil Mirzaliyev

Financial Controller
Aberdeen, Scotland, United Kingdom

DOI: https://doi.org/10.38193/IJRCMS.2025.7608

ABSTRACT

This article investigates how these capital structuring decisions interact with varying tax regimes, currency exposures, and regulatory environments. The goal is to develop a practical framework for financial executives confronting complex global investment challenges. The methodological approach combines a qualitative review of academic literature and international standards—such as those from the OECD, IFC, and EBRD—with detailed case studies. These cases, including Holcim's €300+ million cement plant modernization in Azerbaijan and McDermott's Caspian subsea development, offer concrete examples of FX-hedging strategies, governance-driven financing, and contractual risk allocation in practice. The novelty lies in the shift in perspective: governance and ESG performance should be treated not as compliance burdens but as active financial tools. When deployed strategically, they demonstrably lower capital costs, build investor trust, and open doors to sustainability-linked financing. Evidence shows multinationals building resilience through specific tactics: FX-neutral debt structures to manage currency risk, internal capital markets to bypass local constraints, and governance reforms that lower borrowing costs. For CFOs in infrastructure, energy, and tech, these are not just tools—they are essential for long-term viability.

KEYWORDS: Multinational Enterprises (MNEs), Capital Structure, Financial Governance, Risk Management, Foreign Exchange Hedging, Internal Capital Markets, Sustainable Growth, ESG Integration, Infrastructure Finance, Cross-border Investment

INTRODUCTION

Multinational companies basically run the world's economy these days. They control most international trade, investment, and technology transfer. Yet, they have to operate across many different countries, each with its own tax rules, currency values, and legal systems. The old-school financial models don't really work for this complex reality. They can calculate basic cost of capital, but they fall short when dealing with ten different countries at once. The challenge no longer revolves

around balancing debt and equity anymore. It is about figuring out how to move money around the world efficiently while avoiding tax problems, currency crashes, and political instability.

With global supply chains, huge infrastructure needs, and the push toward sustainability, how these companies manage their money directly affects worldwide economic stability. Being financially flexible has an absolute necessity for survival.

The core issue is that financial theory operates on one level. The practical decisions facing CFOs and treasury teams operate on another, a landscape of huge opportunity, shadowed by profound risk. Consider the scale. An estimated $106 trillion in global infrastructure investment is needed by 2040. This article seeks to move beyond theory to identify the governance structures and capital allocation strategies that actually work—the ones that tie capital efficiency directly to long-term resilience and growth.

METHODS AND MATERIALS

This study adopts a qualitative research approach, combining literature review with case analysis. The review encompassed academic literature on multinational capital structure (e.g., Desai, Foley, & Hines, 2003; Singh, 2000) and industry reports from consulting firms and international organizations. Key sources included the working paper by Desai, Foley, and Hines (2003) providing a multinational perspective on capital structure choices, and the journal study by Singh (2000) on financial flexibility and tax shields in multinationals.

Emphasis was placed on reports on global infrastructure finance needs, such as a recent McKinsey report estimating about $106 trillion of cumulative infrastructure investment required globally by 2040 (McKinsey & Company, n.d.), and a Reuters investigative piece quantifying a €250 billion shortfall in European power grid funding (Reuters, 2025). International standards and guidelines were analyzed to frame governance and sustainability aspects, notably the European Bank for Reconstruction and Development (EBRD)'s corporate governance principles (EBRD, n.d.), the International Finance Corporation (IFC)'s Performance Standards on Environmental and Social Sustainability (IFC, 2012) (including related IFC guidance; IFC, n.d.), and the OECD's Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD, 2023). The Office of the Comptroller of the Currency (OCC) handbook on trade finance provided insight into risk mitigation instruments (letters of credit, guarantees, hedging tools) in cross-border projects (OCC, n.d.). More insights were drawn from J.P. Morgan Private Bank (2024) regarding foreign exchange hedging strategies (JPMorgan Private Bank, 2024) and a Global Infrastructure Hub (2021) benchmark report on foreign exchange risk in infrastructure finance (Global Infrastructure Hub, 2021).

In addition to published sources, the analysis incorporates two case studies from the author's professional experience, used illustratively to connect theory with practice. The first is a major capital

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project by Holcim in Azerbaijan (a €300+ million cement plant modernization), and the second is an offshore energy infrastructure project (McDermott's ACG subsea development in the Caspian region). Project documentation and internal financial data from these cases were reviewed (e.g., capital structure breakdowns, loan term sheets, treasury risk reports) to extract evidence of how capital structuring decisions and financial governance measures were applied in real-world scenarios. These cases are presented in the discussion to exemplify strategies such as FX-neutral funding structures, use of internal debt vs. external debt, covenant design, hedging of currency risk, and governance improvements to meet lender requirements.

RESULTS AND DISCUSSION

Classic corporate finance theory holds that firms should optimize their capital structure to minimize the weighted average cost of capital (WACC), but in a multinational context, this optimization takes on additional dimensions. Prior research demonstrates that MNE capital structure is shaped by international tax differentials, internal capital markets, and exposure to foreign exchange – not merely by a static firm-level debt target (Desai, Foley, & Hines, 2003). Desai, Foley and Hines (2003) found that foreign affiliates of U.S. multinationals adjust their borrowing to exploit tax advantages and to offset capital market weaknesses abroad. In particular, affiliates in countries with higher corporate tax rates tend to use significantly more debt (to shield income from taxes), and this effect is especially pronounced for intra-group (internal) debt compared to external debt (Desai et al., 2003). A ten percentage-point increase in the local tax rate was associated with roughly a 2.5% higher affiliate leverage ratio in their sample (Desai et al., 2003). This reflects multinationals' practice of tax-efficient debt placement: wherever interest expense is more tax-deductible, the MNE will allocate more debt to that jurisdiction (consistent with an international version of the Miller equilibrium) (Desai et al., 2003). Of course, extreme "corner solutions" are tempered by constraints like thin-capitalization rules that limit excessive interest deductions (Desai et al., 2003). Nonetheless, the ability to arbitrage tax regimes gives MNEs a strategic lever unavailable to purely domestic firms.

Equally important is the use of internal capital markets within the multinational. MNEs can reallocate funds across subsidiaries via inter-company loans or equity injections, thereby providing capital where external markets are costly or credit is rationed. Desai et al. (2003) documented that affiliates in countries with underdeveloped financial markets or weak creditor rights face higher external borrowing costs, and as a result they borrow less from local external sources and substitute toward parent-company loans (Desai et al., 2003). On average, for every dollar decrease in external debt due to high local interest rates, about 50–75 cents were replaced by internal debt from the parent, mitigating the funding disadvantage (Desai et al., 2003). This financial flexibility provided by internal lending allows the overall enterprise to buffer economic shocks and seize opportunities even when some subsidiaries are financially constrained. Singh (2000) further emphasizes that financial flexibility is a key determinant of the optimal capital structure in MNEs, acting as both a substitute

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and a complement to leverage. By shifting income and debt capacity across borders, a multinational can dramatically reduce the negative valuation impact of operating in high-tax or high-cost-of-capital countries (Singh, 2000). In fact, multinationals derive a synergistic value from this flexibility that can make the whole enterprise more valuable than the sum of comparable single-country firms (Singh, 2000). Optimal capital structures thus often differ substantially across subsidiaries – each affiliate can be levered up or down depending on local conditions – yet collectively these choices serve the global objective of minimizing the MNE's overall WACC and risk exposure (Singh, 2000).

Crucially, capital structuring in MNEs should be framed as a strategic decision, not just a mechanical outcome of market conditions. Management has discretion in how to allocate debt and equity capital globally. Strategic considerations include: (i) Tax optimization: placing debt in higher-tax jurisdictions (within the bounds of thin-cap rules) to maximize interest tax shields (Desai, Foley, & Hines, 2003); (ii) Regulatory and legal compliance: choosing financing instruments and debt locations that comply with local regulations (e.g., avoiding triggering withholding taxes or breaching foreign debt quota limits); (iii) Financing flexibility: maintaining borrowing capacity at the parent level to support subsidiaries when external markets tighten (Desai, Foley, & Hines, 2003); and (iv) Foreign exchange (FX) management: structuring the currency mix of debt to align with the currency of revenues or costs, thereby reducing FX mismatch risk (discussed further below). The author's experience with Holcim's Azerbaijan modernization project provides a concrete example (Figure 1).

Figure 1. The author's visualization of the FX-neutral capital structure of the Holcim Azerbaijan modernization project

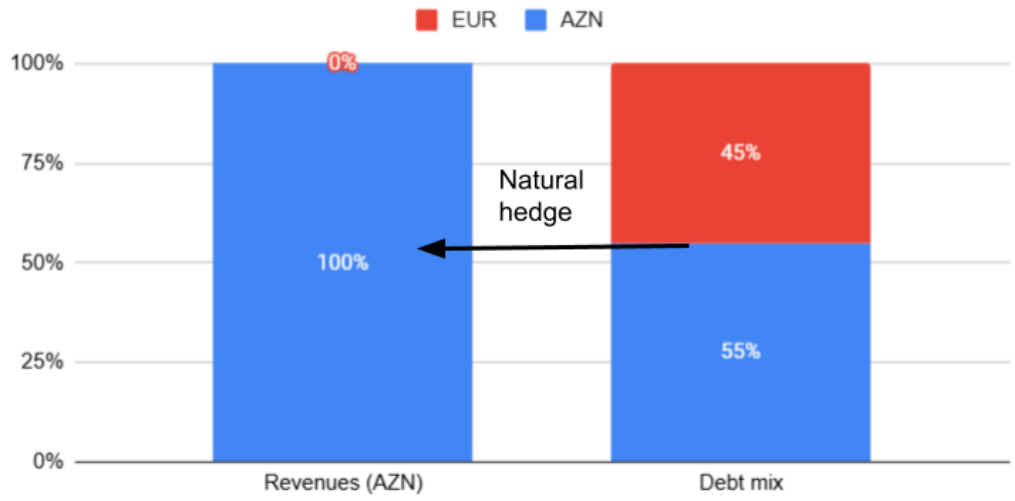

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Figure 1 shows an FX-neutral approach, which plots the currency composition of project revenues and debt. The project generated 100 percent of its operating cash flow in AZN, while 55 percent of the debt was arranged in AZN and 45 percent in EUR to match imported CAPEX costs. By pairing local revenues with local debt (blue segments) and foreign CAPEX with EUR debt (red segments), the financing structure created a natural hedge against exchange-rate volatility. This arrangement stabilized the project's debt-service coverage ratio (DSCR) and insulated shareholder returns from currency shocks.

The €300+ million project involved upgrading a cement plant's production line, with a revenue stream in the local currency (Azerbaijani manat, AZN) but significant capital expenditures in euros (for imported equipment and services). The financing strategy deliberately combined local-currency debt and euro-denominated debt in proportions that matched the project's AZN operating cash flows and euro-based costs, respectively. By taking AZN-denominated loans from local banks to cover local construction and operating expenses, Holcim captured interest deductibility in Azerbaijan and generated a natural hedge (AZN revenues servicing AZN debt). The remainder of the funding was provided via parent-backed euro loans to suppliers or through European development banks in euros, which was appropriate since a large portion of the capital expenditure had to be paid in euros. This careful capital structuring – essentially an FX-neutral funding approach – meant that exchange rate movements had a minimal net impact on the project's ability to service debt: local sales funded the local debt, and the euro debt was serviced by the parent company or offset by the fact that those loans financed euro purchases. Such alignment of debt currency with revenue/cost currency is a powerful strategic tool to buffer against FX volatility. Indeed, the importance of borrowing in the same currency as project revenue is highlighted in World Bank guidance for infrastructure finance (Global Infrastructure Hub, 2021). The Holcim case also underlines how capital structure choices (local vs. parent debt, currency mix) were pivotal for project continuity – during a devaluation of the AZN in 2015, the project's local debt was effectively devalued in euro terms while local revenues rose equivalently, leaving the debt coverage ratio intact and enabling the project to continue without distress.

Beyond cost minimization, capital structuring can directly enhance shareholder value by ensuring critical projects are financed in a resilient way. Internal memos from the Holcim project show that various structuring options (fully local debt, fully foreign debt, or mix) were evaluated not only on cost of capital, but on criteria like covenant flexibility, repayment profiles, and potential impact on dividends upstream. Management recognized that an inappropriately structured financing could jeopardize the project if macro conditions changed. By treating capital structure as a strategic planning element – deciding which entity carries the debt, in what currency, under what terms – the firm protected itself against downside scenarios. This strategic mindset is increasingly relevant given today's enormous infrastructure investment needs and constraints. One recent report estimated a $106

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trillion global infrastructure investment requirement through 2040, spanning energy, transport, digital, and other assets (McKinsey & Company, n.d.). At the same time, public finances are strained and there are material funding gaps in sectors like power grids and renewable energy. For example, Europe's 15 largest power transmission operators plan to invest €345 billion in the next five years but may still fall €250 billion short of what's needed, which "would need to be plugged through debt, equity, divestitures or lower dividends," according to a BCG analysis (Reuters, 2025). In this context, the way MNEs structure their capital – how much debt they can raise, from which sources, and at what cost – has tangible implications for whether crucial projects get funded or not. Optimizing debt capacity (while maintaining prudent leverage) and negotiating covenants that allow reasonable flexibility can make the difference between seizing growth opportunities or forgoing them due to financing shortfalls. In sum, capital structuring in MNEs serves as a strategic lever to manage multi-jurisdictional complexities and to ensure the enterprise can pursue value-adding investments worldwide at an acceptable risk-adjusted cost.

Strong corporate governance and financial controls are now recognized as essential pillars for sustaining enterprise value, especially in multinational firms that must answer to diverse stakeholders and comply with varied regulations. Empirical evidence shows that well-governed companies tend to enjoy better access to external capital and lower financing costs (European Bank for Reconstruction and Development, n.d.). This is partly because investors place a premium on transparency and accountability – governance is effectively seen as a proxy for reduced risk of fraud, mismanagement, or default. Good governance enhances decision-making and oversight, which in turn improves financial performance and resilience of the firm (EBRD, n.d.). The EBRD's Corporate Governance Toolkit bluntly states that Development Finance Institutions (DFIs) prioritize governance because it helps manage risks and add value to investee companies, while also protecting the DFI's own reputation European Bank for Reconstruction and Development, 2021). DFIs and international banks have learned from experience that lending to a company with poor governance can lead to credit losses or scandals that tarnish the lender as well. Thus, they often insist on governance improvements as part of financing agreements.

Governance can be thought of as a financing instrument in its own right – a means to unlock capital on favorable terms. Concretely, this implies that finance executives in MNEs should champion robust governance frameworks not just for compliance, but as a strategy to lower the cost of capital and safeguard enterprise value. Important aspects include: board and committee structures that provide effective oversight, internal control systems (audit, risk management, compliance functions) that satisfy international standards, and financial disclosure and ESG reporting that meet investors' expectations. Implementing such measures can directly impact financing. For example, when Holcim's Azerbaijan subsidiary sought loans from IFC and EBRD, the due diligence process evaluated the company's governance—resulting in covenants requiring the creation of an independent

audit committee and the adoption of IFRS reporting. By meeting these requirements proactively, the company not only secured the loans but did so at competitive interest rates; in effect, the governance enhancements contributed to de-risking the lenders' exposure, which was reflected in better pricing and longer tenor.

This anecdote aligns with broader DFI policies: the IFC's Performance Standards (2012) outline various governance-related obligations (especially under Performance Standard 1 on Assessment and Management of Risk), such as engaging with local communities, disclosing project impacts, and establishing grievance mechanisms (International Finance Corporation [IFC], 2012). These practices, though aimed at environmental and social governance, also instill discipline and transparency that reduce operational and reputational risks. In many loan agreements with DFIs or export credit agencies, borrowers must contractually commit to ongoing reporting on environmental, social, and governance (ESG) matters, with non-compliance sometimes defined as an event of default or linked to penalty interest. Such covenants elevate the importance of governance to the same level as financial covenants in protecting enterprise value.

On a policy level, global guidelines reinforce this trend. The OECD Guidelines for Multinational Enterprises (updated 2023) explicitly set forth the expectation that businesses and investors conduct risk-based due diligence to avoid adverse impacts on society and the environment (Organisation for Economic Co-operation and Development [OECD], 2023; OECD, 2023). They cover areas from anti-corruption and human rights to disclosure and stakeholder engagement, effectively codifying responsible governance as part of doing business. While these guidelines are voluntary, they are increasingly referenced by institutional investors and governments. Companies that align with them signal lower risk and attract socially conscious investment. There is evidence that equity investors reward strong ESG governance with higher valuations and that credit markets assign lower spreads to bonds issued by companies with transparent governance and sustainability practices (Khan et al., 2024). In fact, a comprehensive study by MSCI (2024) found that firms rated highly on ESG (which includes governance criteria) consistently financed themselves at lower interest rates – the most resilient companies to sustainability risks had on average a 7.9% cost of capital versus 8.6% for the lowest-rated firms, a notable difference (Khan et al., 2024).

Instituting rigorous financial controls and anti-corruption compliance programs in emerging-market subsidiaries can protect enterprise value by preventing losses from fraud or fines, and also demonstrate to lenders that the company is a trustworthy counterparty. The EBRD notes that improving corporate governance contributes to capital market development and that DFIs see it as crucial for reducing investment risk (EBRD, n.d.; EBRD, 2021). In sum, by treating governance improvements as an investment (with upfront costs in implementing new systems or practices, but yielding long-term returns in risk reduction and capital access), MNEs can safeguard their value. High standards of

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governance act as a safety net – preventing value erosion from scandals or non-compliance – and as a springboard – enhancing the company's reputation and enabling growth through easier access to financing.

MNEs undertaking capital-intensive projects across borders must navigate a myriad of risks: foreign exchange volatility, interest rate fluctuations, commodity price swings, political and regulatory risks, as well as counterparty and contractual risks. A comprehensive risk management framework is therefore integral to financial governance. Based on industry best practices and the author's project experience, a four-pillar framework can be outlined.

The first pillar is managing the firm's capital structure and financing mix to achieve an optimal WACC while maintaining financial flexibility. This means judiciously balancing debt and equity, and deciding at what level (project, subsidiary, or parent) to raise funds. For each project, the target leverage should be set considering the project's cash flow stability and asset risk. In stable infrastructure projects with regulated or long-term offtake agreements, relatively high leverage might be optimal to minimize WACC, whereas in riskier ventures, lower leverage is prudent. Multinationals also decide between local vs. foreign debt: borrowing in local currency may carry higher nominal interest, but if it lowers FX risk (and often comes with tax benefits on interest), it can still optimize the effective cost of capital (Global Infrastructure Hub, 2021). In essence, pillar one is about WACC optimization with an eye on risk: it combines corporate finance tactics (Desai, Foley, & Hines, 2003; Singh, 2000) with prudential limits to ensure the capital structure enhances, rather than undermines, the firm's risk profile.

The second pillar addresses the fact that cross-border projects involve multi-currency cash flows. FX volatility can dramatically affect project economics if not managed. The foundational principle is to match the currency of debt service to the currency of project revenues wherever possible, creating a natural hedge (Global Infrastructure Hub, 2021). The Global Infrastructure Hub notes that when a project earns revenue in a given currency (e.g., Thai baht) and can borrow in that same currency, it greatly reduces exchange-rate risk to debt repayment (Global Infrastructure Hub, 2021). A textbook example was the Nam Theun 2 hydropower project in Laos, which sold power in both Thai baht and U.S. dollars; its financing was structured so that roughly half the debt was in baht and half in dollars, aligning with each revenue stream and protecting the project's cash flows from currency swings. In contrast, if a project's revenues are solely in local currency but debt is taken in a hard currency like USD, the project company is exposed to any depreciation of the local currency – a mismatch that has led to numerous project failures in emerging markets.

To manage residual FX risk (when perfect matching isn't feasible), companies deploy financial hedging strategies. These include forward contracts, futures, or options to lock in exchange rates for future payments, and currency swaps for a longer-term hedge of debt obligations. A robust FX policy

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will set guidelines on the proportion of exposure to hedge, based on risk tolerance and market hedging costs. It's important to evaluate the cost-benefit of hedging: J.P. Morgan's analysis suggests that hedging is most worthwhile for exposures where FX volatility is high relative to the underlying business volatility (for example, foreign-currency denominated fixed-income investments or debt payments) (JPMorgan Private Bank, 2024). In such cases, hedging can significantly dampen overall volatility and improve risk-adjusted returns (JPMorgan Private Bank, 2024). On the other hand, for equity-like exposures (e.g., an overseas subsidiary's profit repatriation, which is subject to both business risk and FX risk), the cost of full hedging may not be justified, as the FX fluctuations might partially mean-revert or be less significant relative to business swings (JPMorgan Private Bank, 2024). The key is a tailored approach: natural hedge first, then layer financial hedges on net exposures (Figure 2).

Figure 2. Optimal FX-hedge ratios for foreign investors in U.S. assets by JPMorgan Private Bank (2024)

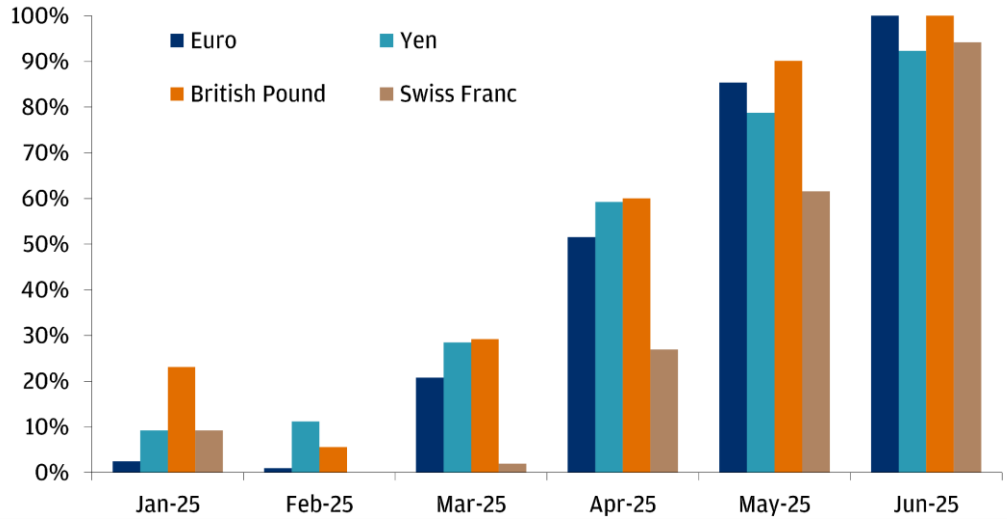

Figure 2 tracks a dramatic 2025 increase in optimal FX-hedge ratios for major currency investors in U.S. assets. Starting in the low single digits, these Sharpe-maximizing ratios surged to ~25–30% by March, ~55–60% by April, and ~80–90% by May, before peaking at ~92–100% in June (highest for EUR and GBP). Policy analysis links this trend to a weakening U.S. dollar. As dollar strength fades, the relative importance of currency risk grows, pushing the risk-return calculus toward more comprehensive hedging. Practically, this supports a dynamic hedge program (policy bands and triggers tied to carry/volatility signals) rather than a fixed hedge ratio—complementing our "natural-first, financial-second" approach and mirroring the rolling-forward program used to smooth AZN→EUR dividend upstream in the Holcim case.

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In the Holcim project, after structuring an AZN/EUR debt mix, the company still faced an exposure on annual profit transfers (dividends) from the Azerbaijani subsidiary to the European parent. To manage that, a rolling forward program was implemented: each quarter, a portion of expected next-year dividends in AZN were hedged into EUR. This smoothed the currency impact on upstream cash flows. Such treasury operations align with best practices where the treasury center actively manages FX via a hedge program approved by the board. By doing so, MNEs can prevent currency volatility from derailing project economics or debt service capability.

The third pillar addresses market risks in interest rates and commodities. Large projects often have floating-rate debt, exposing them to interest rate increases. Interest rate swaps allow firms to exchange floating-rate obligations for fixed-rate ones. For example, in the McDermott ACG subsea project, a LIBOR/EURIBOR-linked bank loan was hedged via an interest rate swap, fixing debt service costs and insulating the project from rate volatility. Commodity risk arises when project costs or revenues depend on commodity prices. Banks provide tools like structured trade products and hedging services to manage price and currency exposures (Office of the Comptroller of the Currency, n.d.).

A fourth pillar addresses the dangers locked in contracts and the stability of other parties. The first line of defense is the loan agreement. Its key elements need sharp focus. Covenants, like the rule to keep a Debt Service Coverage Ratio above 1.2 or clauses for a Material Adverse Change or a cross-default are not standard; they demand negotiation and then constant watching. More ESG covenants could currently be observed, where following IFC Performance Standards is basically expected. Underlying everything is counterparty risk. In the McDermott ACG project, this risk was mitigated through structures like milestone payments secured by letters of credit for client payment risk, and performance bonds to hedge against subcontractor default (Office of the Comptroller of the Currency, n.d.). Political risk insurance and partial credit guarantee from multilaterals further backstop extreme events. Well-structured project finance allocates risks to those best able to bear them, creating resilient projects that safeguard investment and cash flows.

The above four pillars work in concert. They were all evident, to varying degrees, in the case studies analyzed. For instance, the Holcim project's success owed much to an optimal capital structure (pillar 1) and rigorous FX risk mitigation (pillar 2), whereas the McDermott project highlighted robust contractual risk allocation (pillar 4) and also employed commodity hedging (pillar 3) for steel pipeline costs. An integrated risk management framework led by the CFO or treasury team ensures that each risk area is addressed with appropriate tools and that the interdependencies are recognized. Notably, some strategies can address multiple risk dimensions simultaneously. Diversifying funding sources (international banks, local banks, bond markets, DFIs) not only can reduce the cost of capital but also spreads refinancing risk and improves negotiating leverage on covenants. Maintaining strong governance (as discussed earlier) underpins all four pillars, as transparent reporting and oversight

increase stakeholders' confidence in how risks are managed. In cross-border projects, unforeseen challenges will inevitably arise – whether a sudden currency devaluation, an oil price collapse, or a change in regulation. The true test of an MNE's financial governance is how well its risk management framework allows the firm to absorb such shocks without catastrophic failure. By following the best practices above – optimizing capital structure, hedging wisely, locking in key variables, and structuring contracts to fairly distribute risk – MNEs greatly enhance their ability to deliver projects successfully across diverse environments.

Pursuing sustainable growth means that MNEs must not only manage downside risks, as discussed, but also position themselves to capitalize on long-term opportunities, including those arising from global shifts toward sustainability and ESG (Environmental, Social, Governance) priorities. Capital structuring and financial governance strategies can directly support sustainable growth in several ways. First, integrating ESG considerations into financing can both reduce costs and attract a broader investor base. There is mounting evidence that companies with better ESG performance enjoy a lower cost of capital (Khan et al., 2024). This is often attributed to investors perceiving such companies as lower-risk – for example, having less exposure to environmental liabilities, better stakeholder relationships, and stronger governance. A 2024 study in the Journal of Corporate Finance finds a statistically significant link between strong ESG scores and reduced cost of equity and debt, particularly in European markets where sustainable investing is mainstream (Khan et al., 2024). Likewise, the MSCI ESG Research study (2024) cited earlier quantified that firms rated in the top ESG tiers borrow at interest rates up to 0.8 percentage points lower than bottom-tier firms, all else equal (Khan et al., 2024). This "ESG dividend" in financing is a powerful incentive for MNEs to improve sustainability practices.

Concretely, companies are now tapping sustainability-linked loans and bonds, which tie the cost of financing to the achievement of ESG targets. For example, an MNE in the energy sector might issue a sustainability-linked bond that carries a coupon step-down if the company reduces its carbon emissions by a certain percentage, or conversely, a step-up penalty if it fails to meet the target. This directly aligns the financing cost with sustainable growth objectives. Such instruments encourage management to pursue long-term environmentally friendly investments (like renewable energy or energy efficiency projects) because doing so has a measurable financial reward in terms of cheaper capital. The EBRD's Financial Sector Strategy 2021–2025 explicitly supports this trend, aiming to help partner banks and firms align with the Paris Agreement by integrating climate considerations into risk management and governance practices (EBRD, 2021). It underscores that by 2023, the EBRD will align all activities with Paris goals, and by 2025, over half of its investments will be "green" (EBRD, 2021). This essentially means that to access EBRD funding (and similarly for many global investors), companies must demonstrate credible climate governance and sustainable investment plans. MNEs that proactively embrace ESG integration – through measures like climate risk

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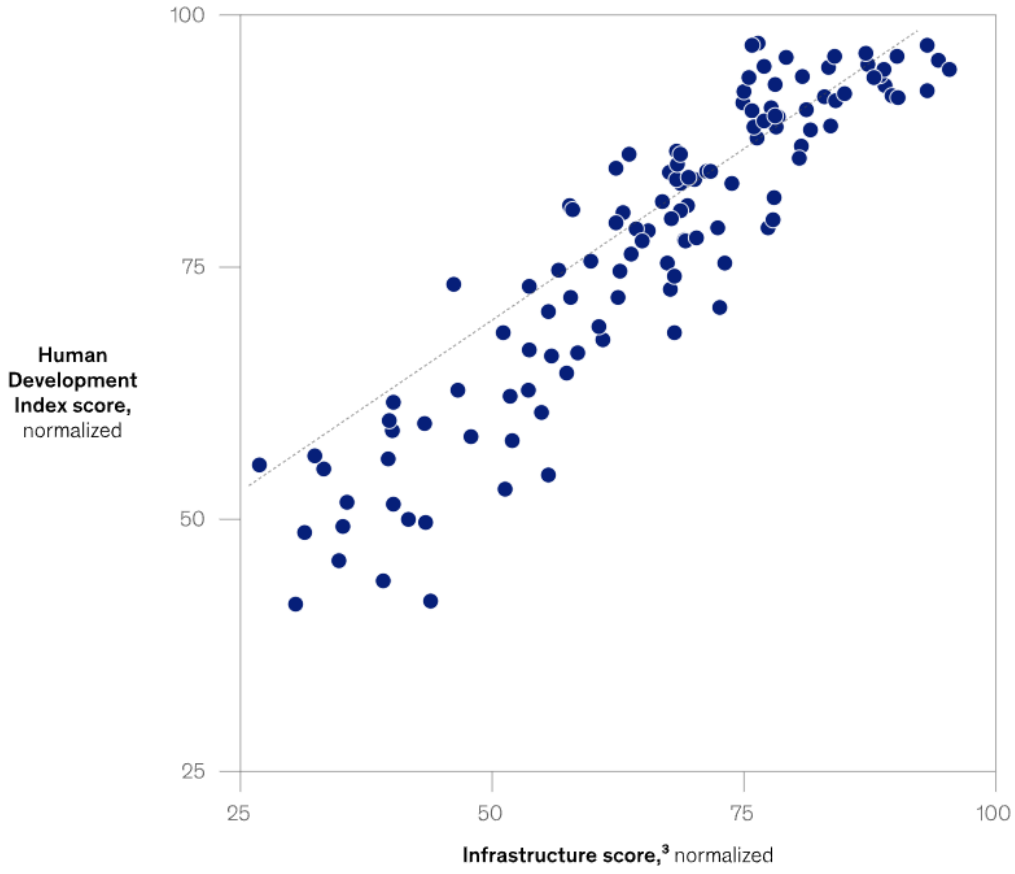
assessment, carbon disclosure, and setting science-based targets – not only contribute to sustainable development but also future-proof their access to capital. They become preferred partners for DFIs, green funds, and sustainability-focused investors.

During the recent data center boom, some European utilities and tech firms are facing enormous demand for new investments to power data centers (Reuters, 2024). Meeting this demand will require about $250 billion in new infrastructure investment in Europe alone (Reuters, 2025). Companies in this space must strategically sequence projects, possibly divest non-core assets to fund new ones, and partner with investors to share the load – all to maintain sustainable growth without risking financial health. The thesis that infrastructure investment is not just about physical assets but about enabling broader societal progress is further elaborated on in Figure 3.

Figure 3. Normalized infrastructure score vs. normalized Human Development Index (HDI) score by McKinsey & Company (2025).



As shown in Figure 3, there is a strong positive correlation between a nation's infrastructure score and

its Human Development Index (HDI). The points on the chart represent countries. It shows that higher infrastructure scores tend to align with higher normalized HDI scores. Expanding the concept of infrastructure to cover digital networks, renewable energy, and AI-driven systems can create a multiplier effect, improving access, efficiency, and resilience across entire economies. This correlation underscores why multinational enterprises that structure their capital effectively and practice strong financial governance can play an outsized role in advancing sustainable growth while improving living standards globally

Indeed, collaboration via blended finance is emerging as a key strategy for funding sustainable infrastructure. Blended finance involves combining public, philanthropic, or concessional funds with private capital to improve the risk-return profile of investments. The IFC has successfully used blended finance to catalyze projects in challenging markets – for instance, by providing a subordinate tranche or first-loss guarantee, the IFC helps de-risk projects and crowd in private investors (International Finance Corporation [IFC], n.d.). This mechanism can enable longer-term and more innovative projects (like first-of-a-kind renewable technologies or extensive grid upgrades) that pure private finance might shy away from. For an MNE, engaging with DFIs and climate funds in blended finance initiatives can extend loan tenors (often crucial for projects with long payback periods, such as green infrastructure) and secure lower interest rates, thanks to the concessional component. It also signals to the market the firm's commitment to sustainable outcomes, potentially improving its overall risk perception.

CONCLUSION

In conclusion, effective capital structuring and financial governance are twin engines that enable multinational enterprises to manage risk and pursue sustainable growth. The findings of this analysis underscore that capital structure is a strategic variable for MNEs: by allocating debt and equity across jurisdictions in a tax-efficient and risk-conscious manner, multinationals can lower their global cost of capital and shield themselves from local financial constraints. The case examples illustrated how these principles play out in reality: Holcim's Azerbaijan project demonstrated the importance of FX-neutral financing and careful leverage decisions to maintain project viability, while the McDermott subsea project showed how contractual safeguards and hedging can control execution risks. Both cases highlight the proactive role of finance executives in designing solutions (e.g., currency mixes, milestone payments) that ultimately protected cash flows and stakeholder value.

Looking forward, the integration of sustainability into financial strategy is becoming a defining feature of successful MNEs. Companies that align their capital structuring and governance with ESG objectives – for instance, by securing green financing or meeting the disclosure expectations of OECD guidelines – are finding that they can not only attract capital more easily but also achieve a lower cost of that capital. This creates a virtuous cycle, enabling more investment in sustainable growth

initiatives. In an era where trillions of dollars are needed for infrastructure and climate-related projects, MNEs will play a pivotal role. Those that leverage strategic financial management to crowd-in investment (through blended finance, public-private partnerships, and innovative debt structures) will help bridge global investment gaps while expanding their own businesses. Crucially, they will do so in a way that manages risk – by sharing it with partners, hedging it where appropriate, and building governance frameworks that anticipate and mitigate potential issues. The strategies detailed in this article provide a roadmap for achieving that balance of risk management and growth, ultimately contributing to the sustained success of multinational enterprises in the contemporary era.

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