IDENTIFYING FINANCING OPTIONS AND TAX INCENTIVES TO PROMOTE THEIR UTILISATION FOR SPEEDING UP THE GREEN TRANSFORMATION OF SME OPERATIONS

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Abstract. *This paper examines the financing options and tax incentives available to Small and Medium Enterprises (SMEs) in Moldova to promote their green transformation. The study explores how these financial tools can help SMEs overcome barriers to adopting sustainable practices and technologies. Furthermore, the paper discusses the role of government and private sector collaboration in facilitating this transition. The study underscores the significance of raising awareness among SMEs about available incentives and streamlining bureaucratic processes to improve access. Finally, it offers recommendations for enhancing Moldova's financial and regulatory frameworks to support the green transformation of SMEs.*
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Introduction. Moldova, a small country in Eastern Europe, faces unique challenges on its path to a greener economy, particularly within the Small and Medium Enterprises (SMEs) sector. SMEs are fundamental to Moldova's economy, constituting over 98% of businesses and contributing significantly to employment. With increasing global pressures to address climate change, it is imperative for Moldova to ensure that its SMEs integrate sustainable practices and technologies to remain competitive, reduce environmental impact, and meet international standards. The green transformation is essential not only for environmental sustainability but also for Moldova's economic progress. Adopting green technologies allows SMEs to lower operational costs, access new markets, and secure financing that promotes eco-friendly initiatives. However, realizing this transition requires a coordinated effort to improve the availability and appeal of funding options and tax incentives for SMEs, assisting them in overcoming financial barriers and knowledge shortfalls.

To further elaborate, Moldova's SMEs must navigate a complex landscape of regulatory requirements, market dynamics, and technological advancements. The government, in collaboration with international organizations, plays a crucial role in creating an enabling environment for green growth. This includes developing policies that incentivize sustainable practices, providing technical assistance, and facilitating access to green finance. Additionally, fostering a culture of innovation and continuous learning within SMEs is vital for the successful adoption of green technologies. By investing in research and development, and promoting knowledge sharing among businesses, Moldova can build a resilient and adaptive SME sector capable of thriving in a green economy.

Moreover, the transition to a greener economy presents opportunities for job creation and economic diversification. Green sectors such as renewable energy, sustainable agriculture, and eco-tourism offer new avenues for growth and development. By capitalizing on these opportunities, Moldova can enhance its economic resilience and reduce its dependence on traditional industries. Furthermore, integrating sustainability into the core business strategies of SMEs can lead to improved brand reputation and customer loyalty, as consumers increasingly prioritize environmentally responsible products and services.

The journey towards a greener economy for Moldova's SMEs is multifaceted and requires a holistic approach. It involves not only the adoption of green technologies but also the creation of a supportive ecosystem that encourages sustainable practices. Through collaborative efforts between the government, businesses, and international partners, Moldova can pave the way for a sustainable and prosperous future.

Literature review. Small and Medium-sized Enterprises (SMEs) are crucial to economic growth, job creation, and innovation, yet they fall short compared to large corporations in terms of environmental sustainability. Green transformation includes the implementation of eco-friendly measures such as energy efficiency and waste management. However, SMEs often struggle to finance these investments due to limited access to traditional loans and the prohibitive costs of issuing green bonds. While venture capital and crowdfunding offer alternative funding methods, they frequently lack the capacity to support established SMEs or generate significant financial capital.

Government grants, subsidies, and tax incentives like accelerated depreciation and tax credits can assist SMEs, but their complexity and competitiveness often reduce their efficacy. Simplified application processes and expanded eligibility requirements could enhance accessibility. Studies (Chen, S., Peng, Y., & Li, J. 2021; OECD, 2020; Boeing & Matisoff, 2020; UNIDO, 2021) indicate that although tax deductions and lower corporate tax rates promote green investments, the complication and required resources generally deter smaller businesses. The overall administrative burden and focus on short-term survival make it challenging for SMEs to fully engage in green transformation efforts.

Funding the green transition of SMEs is essential to meet global sustainability targets. Numerous financing options exist, including traditional bank loans, green bonds, venture capital, crowdfunding, and government grants, each with unique benefits and challenges. For SMEs, barriers often involve accessibility, administrative burden, and a lack of awareness. Tax incentives like accelerated depreciation, tax credits, and reduced corporate tax rates are effective but need to be simplified and better communicated to SMEs.

Future research should concentrate on enhancing the delivery of these financial and tax incentives and developing frameworks that improve SME engagement with green financing options. Policy initiatives must also emphasize the inclusion of SMEs in the global green transition, focusing on removing obstacles that impede their participation.

Research methodology. This research utilizes a mixed-methods approach to investigate the financing options and tax incentives available to Small and Medium Enterprises (SMEs) in Moldova, aimed at encouraging their green transformation. The methodology integrates qualitative analysis of policy documents and literature with quantitative evaluation of financing options and tax incentives along with their effects on SMEs. This comprehensive approach enables an in-depth examination of how financial instruments contribute to the green transformation of SMEs, blending theoretical insights with practical examples and expert viewpoints. The mixed-methods strategy offers a detailed understanding of both the policy framework and the tangible impacts of financing options and tax incentives in this dynamic area.

Main results. Small and Medium Enterprises (SMEs) in Moldova face multiple barriers when adopting green practices and technologies. Financial constraints are a primary issue, as many SMEs operate with tight budgets and limited access to affordable credit. Additionally, the technological knowledge gap and lack of expertise, combined with the high initial costs associated with green technologies, often deter businesses from pursuing environmentally friendly solutions. The complex regulatory environment, which may lack clear guidelines and incentives, further complicates efforts for Moldovan SMEs.

Many of these businesses remain unaware of the financing opportunities and tax incentives available to mitigate the financial challenges of adopting green technologies. Without a cohesive strategy from both government and private sector stakeholders, these companies find it difficult to move towards sustainability. Government involvement and private sector investments are crucial to supporting SMEs in overcoming these barriers and contributing meaningfully to the wider green transformation agenda (World Bank; EIB, 2024).

Moldova's SMEs have various financing options to support their green transformation efforts. Local banks and micro-financial institutions now offer specialized green loans aimed at funding sustainable projects like energy efficiency improvements, renewable energy installations, and eco-friendly waste management systems. For instance, financial institutions such as Moldindconbank and Moldova Agroindbank have developed products specifically for eco-friendly initiatives, making these options particularly advantageous for SMEs looking to make the transition.

International development organizations also play a significant role in Moldova's green financing ecosystem. Entities like the World Bank, the European

Investment Bank (EIB), and the Green for Growth Fund (GGF) provide substantial investments in environmental projects in Moldova, offering grants and low-interest loans to help SMEs adopt green practices. These organizations provide targeted financing that accelerates Moldova’s green transformation while reducing risks for small businesses.

Furthermore, private investors, including venture capitalists and impact investors, are increasingly interested in supporting green initiatives throughout Europe. Impact investment funds, which focus on achieving positive environmental and social outcomes along with financial returns, serve as valuable resources for Moldova’s SMEs (GGF; EIB, 2024; WB).

Moldova has introduced a range of tax incentives aimed at fostering green transformation within small and medium-sized enterprises (SMEs). These incentives encompass tax benefits for businesses that invest in renewable energy technologies, energy-efficient equipment, and environmentally friendly materials. Additionally, Moldova provides reduced VAT rates for certain green products and technologies, aiding the financial transition of businesses towards sustainable practices. However, the limited awareness of these incentives among SMEs hinders their uptake.

Several European Union countries have successfully adopted robust tax incentive frameworks to accelerate the green transition in businesses. For example, in Germany, companies benefit from lower energy taxes and depreciation incentives on energy-efficient technologies. Similarly, France offers tax credits to businesses investing in green research and development initiatives. Moldova could replicate these successful approaches by refining its tax policies to better encourage investment in sustainable technologies (OECD 2020, 2022; EC, MF).

To further enhance the green transition, the Moldovan government might consider more assertive tax reforms, such as offering complete tax exemptions for SMEs implementing renewable energy solutions or expanding tax credits for sustainability-focused research and development. Legislative efforts should aim to align Moldova’s tax policies with the European Green Deal and other global environmental standards.

Discussion and conclusions. Increasing the uptake of green financing options and tax incentives among SMEs requires a focus on raising awareness. This can be achieved through initiatives spearheaded by government entities, industry associations, and chambers of commerce. Furthermore, specialized training programs that bolster SMEs' management skills for green transformation would be highly beneficial. Educating businesses about sustainability practices, financial opportunities, and tax benefits enables them to understand the significance of adopting environmentally friendly operations.

Bureaucratic hurdles frequently impede SMEs from obtaining crucial financing and tax incentives. Simplifying these procedures, especially via digital platforms, could greatly improve accessibility. For instance, Moldova could create a centralized digital platform that allows businesses to apply seamlessly for green loans, grants, and tax breaks. This platform could also function as an information hub where SMEs can find current data on sustainable technologies and practices.

A collaborative effort between the public and private sectors is essential for promoting sustainability among SMEs. Cooperation among governments, banks, investors, and business associations is key to developing initiatives that support green transformation. Public-private partnerships can combine resources and expertise, ensuring that SMEs obtain the necessary assistance to implement sustainable practices.

The green transition of SMEs in Moldova is crucial for fostering enduring sustainability and economic growth. Leveraging financing opportunities and tax incentives allows SMEs to overcome the financial and knowledge barriers related to adopting eco-friendly practices. However, this requires a concerted effort from all stakeholders, including government entities, private enterprises, and international organisations. Moldova must continue to enhance its financial and regulatory frameworks to support SMEs in their environmental initiatives, ensuring they achieve global sustainability goals while remaining competitive internationally.

The green transformation of SMEs in Moldova is crucial for fostering long-term sustainability and economic development. Leveraging financing opportunities and tax incentives can help SMEs tackle the financial and knowledge barriers to adopting eco-friendly practices. Nevertheless, success in this area demands a joint effort from all involved parties, including government agencies, the private sector, and international organizations. Moldova needs to keep enhancing its financial and regulatory frameworks to assist SMEs in their environmental initiatives, ensuring they contribute to global sustainability goals while staying competitive internationally.

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