

FINANCIAL STRATEGY TO ACCELERATE GREEN GROWTH IN MOLDOVA

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Abstract. *The financial strategy to accelerate green growth in Moldova is essential for ensuring sustainable economic development and environmental improvement. This strategy emphasizes the importance of expanding the green finance sector to support the adoption of eco-friendly technologies and practices among Small and Medium Enterprises (SMEs). The paper underscores the significance of leveraging various financing options, such as green bonds, venture capital, and government grants, Moldova can overcome the financial barriers that hinder the green transformation of its economy. Furthermore, the paper discusses the implementation of tax incentives, including accelerated depreciation, tax credits, and reduced corporate tax rates for green investments, can further encourage SMEs to invest in sustainable projects. These measures, combined with improved regulatory frameworks and increased awareness among businesses, will create a conducive environment for green growth. By addressing the financial and regulatory challenges, Moldova can pave the way for a greener and more resilient future.*

Keywords: financial strategy, green growth, Moldova, economic development, environmental improvement

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Introduction. Green growth aims to achieve both economic development and environmental improvement. To fund this, the green finance sector must be expanded. Stern (2006) contributed significantly to the field of green climate economics and finance, essentially founding a new domain within climate change economics and calling on policymakers worldwide for immediate action. His detailed and rigorous research forecasted that failing to take proactive measures to reduce GHG emissions and adapt to climate change could cost us over 5% of GDP, potentially shrinking the global economy by 5% to 20% within the next two decades.

Financing green technology and industry is crucial for fostering the next generation of eco-friendly firms. However, high uncertainty and a lack of proven high returns on green investments make investors hesitant to invest heavily in this sector (Hee Jin Noh, 2018).

Both institutional and individual investors strive to maximise their financial returns from investments. However, for private investors, investing in green initiatives has been challenging due to the high risks and low returns associated with the early stages of research and development. Despite this, as the green market becomes established and expectations turn positive—likely within the next decade—the market perception will fundamentally shift. Only well-prepared participants will thrive when this occurs. Historically, those who secure an early position in emerging markets tend to dominate. Although current investments in the green sector may seem like a bottomless pit, this phase is vital for market formation and growth. A long-term perspective is crucial in green finance. Policymakers understand that they cannot compel the private sector to invest in green energy without convincing assurances that a viable market will eventually materialise. This understanding led to the creation of the Green Climate Fund, designed to mitigate uncertainties and externalities by hedging the risks inherent in green investments.

Green growth policy is particularly appealing to developing countries aiming for economic advancement through green technologies and projects. According to the Paris COP 21 agreement, both developed and developing nations must contribute to global carbon reduction efforts. Nonetheless, economic development remains the priority for developing countries. Consequently, these countries will require green growth policies supported by financial resources that can be termed green finance.

Literature review. Green finance lacks a standard definition, with emerging terms like sustainable finance, environmental finance, carbon finance, and climate finance rising in importance. Sustainable Finance aims to create lasting economic and social value by considering environmental, social, and governance factors. Environmental Finance focuses on investments tied to the ecological environment, treating environmental damage as a financial risk and avoiding harmful projects. Carbon Finance funds emission-reducing projects through mechanisms like the Emission Trading Market and carbon funds. Climate Finance supports activities aimed at adapting to and mitigating climate change, promoting a low-carbon and climate-resilient development.

The core terminologies of green finance involve a comprehensive approach that tackles environmental challenges, fosters economic growth with a focus on sustainability, and strategically integrates the financial sector in the shift toward a sustainable future. Three definitions from the European Banking Federation, Organization for Economic Cooperation and Development (OECD), and the Government of Germany have been analyzed. While these definitions all stress the importance of environmental sustainability and addressing climate change, they differ slightly in their focal areas. The European Banking Federation offers an extensive view of environmental and climate-related issues, whereas the OECD

emphasizes economic growth along with pollution reduction. The German government's definition highlights the strategic integration of the financial sector into transitioning to low-carbon economies, focusing on both environmental and economic aspects.

Environmental Aspects: The European Banking Federation's definition explicitly includes issues like pollution, greenhouse gas emissions, biodiversity, and water or air quality. The OECD indirectly addresses environmental concerns by mentioning pollution and emissions reduction and improving natural resource use efficiency. Germany's definition aligns with these aspects by stressing the move toward low-carbon and resource-efficient economies within climate change adaptation contexts.

Climate Change-Related Aspects: The European Banking Federation mentions energy efficiency, renewable energies, and measures to prevent and mitigate severe climate events. The OECD indirectly touches on climate change by discussing greenhouse gas emission reductions. Germany's definition specifically includes the transformation of the financial sector toward low-carbon economies, tying directly into climate change initiatives.

Economic Growth and Efficiency: The OECD prioritizes economic growth while reducing pollution and greenhouse gas emissions, minimizing waste, and enhancing resource use efficiency. Germany focuses on the strategic incorporation of the financial sector in transitioning to low-carbon and resource-efficient economies, indicating an emphasis on economic efficiency alongside sustainability.

Components of Green Finance span significant portions of an economy's financial structure. Dr. Nannette Lindenberg's definition (Lindenberg N. 2014) highlights this extensive scope, identifying three main areas: financing both public and private green investments, supporting public green policies, and promoting a green financial system.

Analysis of the theoretical framework regarding sustainable financing in the field of green economy. Sustainable development entails fulfilling the needs of current and future generations, ensuring their interests are preserved without mutual compromise. At its core, it reflects the universal acknowledgment of our planet's limited resources, which everyone has a right to access. The rise of "green finance" supports sustainable development by marrying economic and environmental objectives. Green finance refers to financing methods that are eco-friendly and is vital for achieving sustainability. As highlighted by Wang & Zhi (2016), green finance merges financial and business practices with environmentally conscious principles. Its significance lies in guaranteeing that financial resources are allocated responsibly toward the environment, essential for realizing sustainability goals.

This study emphasises key principles, aiming to provide a clear conceptual understanding and encouraging detailed scholarly analysis. It seeks to explain the main elements and outline green finance's impact on sustainable development. Further sections cover essential terms, highlight leading green initiatives, list green finance strategies worldwide, and identify major challenges. Recommendations are

offered to overcome obstacles in adopting green financing for sustainable goals. The study ends with a brief summary of its findings.

The global significance of green finance in sustainable development. Green finance has gained global recognition for several important reasons. It aligns with the imperative of sustainable development, becoming a focal point in international financial spheres. The adoption of eco-finance products at the “One Planet Summit” in Paris in 2017, supported by global central banks and financial industry leaders, serves as evidence of its growing prominence. The Green Climate Fund's commitment to support green projects capable of reducing global greenhouse gas emissions by 1.4 billion tonnes underlines its essential role in financing sustainability efforts. Green finance prioritizes the societal benefits that flow from a healthier environment. They place a strong emphasis on the potential for economic activity and ecological well-being to coexist harmoniously, ultimately fostering long-term societal development. The "green" aspect of green finance is highlighted by the allocation of social capital to various sectors, including corporate governance, renewable energy, green building, climate resilience and environmental conservation. There is a diverse range of green financial products including: green bonds, green investments, green insurance, carbon credit and the anticipation of new products.

Green bonds, renowned for their risk mitigation attributes and appeal to socially conscious investors, have gained increasing importance in addressing climate change and financing strategies for sustainable development. Despite the recognized potential of green finance in promoting sustainable development goals, clear evidence of its global effectiveness remains elusive (Swaty S., 2023).

Economic opportunities in the green economy through innovation and investment. The recent global financial and economic crisis led to a decline in investment levels, which underscored the need to stimulate and revitalize investment activity in Europe. To address this, the Investment Plan for Europe, known as the Juncker Plan, was established with three main goals: removing barriers to investments, providing visibility and technical support for investment projects, and utilizing financial resources more effectively. This plan aims to enhance investments in strategic areas focusing on resource efficiency, the circular economy, and combating climate change.

The European Fund for Strategic Investments (EFSI), which supports the Investment Plan for Europe, plays a crucial role in advancing and endorsing the green economy. According to the plan, it is anticipated that investment projects worth 392.6 billion euros will be carried out through the EFSI, benefiting around 945,000 SMEs. Additionally, the European Union estimates that investments ranging from 422-527 billion euros are necessary to achieve efficient resource use.

The EFSI can be utilized to finance projects in several sectors:

- environmental protection;
- sustainable urban and rural development;

- enhancement of eco-system services;
- climate change initiatives.

The Investment Plan for Europe is a significant new funding source for resource efficiency, circular economy, and environmental projects, creating business opportunities to modernize the economy. About half of the approved EFSI projects focus on climate action. The EU, via EFSI, offers new funding structures and can bridge financiers and project promoters. In nations with limited financial access, it's challenging to get investors interested in innovative environmental sectors. Creating specific investment platforms for the circular economy is being considered to ease financing. Improved resource management could save European businesses €245-€604 billion per year, or 3-8% of annual turnover (EC, 2024).

The economic opportunities offered by the Investment Plan for Europe relate to:

- Securing non-refundable financing from the European Fund for Strategic Investments.
- Registering a project on the European Portal for Investment Projects (PEPI) to attract global investors.
- Taking advantage of advisory services offered by the European Investment Advisory Hub (EIAH).
- Accessibility for a wide range of fields, groups, or producer associations.
- Offering financial instruments that address key operational risks.
- Combining EFSI sources with funding from other programs like LIFE, EIB grants, the Natural Capital Financing Facility, and the Private Funds for Energy Efficiency program.

The economic policy of the European Union strongly supports the circular economy, aimed at transforming the European economy into a system that uses natural resources efficiently, preserves the value of materials and products through their reuse, and reduces the negative impacts of economic activities on the environment and health. For resource-limited Europe, the circular economy presents an opportunity to secure access to essential resources, maintain global competitiveness, and ensure a high-quality environment for its citizens. Implementing circular economy strategies can reduce EU industrial emissions, limit the production and exposure to hazardous substances, and help mitigate climate change. The circular economy's symbiotic benefits for both the economy and the environment offer a pathway to achieving certain UN Sustainable Development Goals (SDGs).

In December 2015, the European Commission adopted a circular economy⁹ action plan aimed at fostering employment, economic growth, and investment, while developing a carbon-neutral, resource-efficient, and competitive economy. This plan has facilitated the creation of new business opportunities and the development of new markets within the EU and internationally¹⁰.

⁹ COM(2015) 614.

¹⁰ https://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=cei_cie010&language=en

The government plays a crucial role in supporting green industries, especially at their inception. Due to budgetary limitations and inefficiencies, sustained funding is often unfeasible. Hee Jin Noh (2014) suggests that governments should promote private investments in green sectors. Traditional bank debt-financing isn't appropriate due to the need to protect depositors' money and avoid high-risk ventures. Hence, varied financial tools are needed, and governments should foster green finance. Two ways to attract private investment include initial public investment to reduce risks and develop a viable market, and forming public-private partnerships. To secure green finance, the public sector should start green projects and provide substantial incentives.

Green finance plays a critical role in fostering individual firms and driving economic growth by supporting the development of green technology and enhancing the expansion of related industries. To achieve this, an emission trading system, alongside legal frameworks linked to green finance, must be designed to function effectively.

Improving Moldova's current regulations can be approached in several ways. First, enhancing the cap-and-trade system is essential. The priority should be to design a system that allocates and facilitates transactions efficiently and transparently, aiding the green growth of enterprises. Emission rights should be distributed fairly and rationally among economic players. By strengthening capital allocation—how businesses distribute their financial resources across various processes, personnel, and projects—we should develop policies that leverage these resources effectively. Setting the free allocation rate and criteria is crucial for maximizing greenhouse gas reduction and contributing to economic growth.

Furthermore, the carbon exchange, which operates the cap-and-trade system, needs to be more proactive. Increasing the number of trading participants is vital, allowing private financial institutions to engage promptly. Encouraging participation through carbon emission derivatives trading can also contribute significantly. Supportive measures for participating firms should be planned, incorporating incentives such as financial or tax benefits to encourage the development of green technologies.

The second approach involves improving the traditional green finance support system to promote private sector funding. This includes expanding green certifications and tax support, offering incentives like favorable interest rates on green loans, regulatory relief, and tax exemptions.

Thirdly, there is a need to enhance the accounting and credit assessment systems. Firms with emission rights should recognize them as assets, while those obligated to pay for emission rights should register them as liabilities. However, ambiguities in the legal definitions of emission rights must be addressed through revisions and new provisions. When assessing a firm's credit, their carbon emissions should be considered.

Lastly, enhancing the carbon emission disclosure policy is crucial. Mandating the disclosure of carbon emissions will provide market participants with better

quantitative and qualitative information, motivating firms to increase their investments in green industries.

In conclusion, improving regulations around green finance requires comprehensive revisions to the cap-and-trade system, traditional green finance support mechanisms, accounting and credit assessment practices, and carbon emission disclosure policies. These efforts will rejuvenate the ecosystem of the green industry.

Conclusions. Moldova's financial strategy to expedite green growth is crucial for achieving sustainable economic progress and environmental enhancement. This approach underscores the need to expand the green finance sector, aiding Small and Medium Enterprises (SMEs) in adopting eco-friendly technologies and practices. By utilizing various financing avenues such as green bonds, venture capital, and government grants, Moldova can surmount the financial obstacles impeding its economic green transformation.

Additionally, introducing tax incentives like accelerated depreciation, tax credits, and reduced corporate tax rates for green investments can further motivate SMEs to channel resources into sustainable initiatives. These efforts, when coupled with improved regulatory frameworks and heightened business awareness, will foster an environment conducive to green growth.

The success of this initiative hinges on collaboration between the government, private sector, and international organizations. By uniting their efforts, these stakeholders can offer the essential support and resources to propel Moldova's economy towards a green transformation. This joint endeavor will not only advance global sustainability objectives but also boost Moldova's competitiveness on the world stage.

In conclusion, Moldova's financial strategy to hasten green growth presents a holistic approach to achieving enduring sustainability and economic vigor. By tackling financial and regulatory hurdles, Moldova can chart a course towards a greener and more robust future.

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