

REPORT

on state aids granted in the Republic of Moldova in 2014

(Summary)

On 08.16.2013 entered into force Law no. 139 of 15.06.2012 on state aid (hereinafter - Law on state aid). In accordance with Art. 21 (3) of the Law on State Aid, the Competition Council produces an annual report on granted aids.

According to the regulations on state aid, the providers had to present until 31.03.2015 to the Competition Council the information on the state aids and de minimis aids granted during 16.08.2013-31.12.2014.

Based on the information submitted by providers it was drafted the current report which is the second report in the field from the entrance into force of the Law on State Aid.

It notes that more supportive measures were given for projects lasting several years and to fully describe the actual situation regarding the state aid, it is necessary to reflect the complex structure of state aid provided in 2012-2014. Reported data for the years 2012 and 2013 have been updated and corrected.

The current report includes an analysis of the value, structure and trends during the reporting state aid and de minimis aid period, of the legal framework for state aid drafted and adopted during the reporting period, as well as the monitoring of authorized state aid.

State aid represents a new area for the Republic of Moldova. In order to complete the regulatory framework for implementation of the law on state aid in 2014 there were developed and adopted nine regulations, which relate to state aid sector. It was also developed and approved by Government Decision no. 378 of 05/27/2014 the Concept of digital information system "State Aid Register".

With the support of the World Bank there was launched the digital information system "State Aid Register" (hereinafter-SIRASM). The development of the SIRASM was imposed by the commitments under the Association Agreement and the need to increase the efficiency of the process of notification, authorization, monitoring and reporting the state aid, ensuring the transparency of operations of state aid granting.

On 01.07.2014, the Competition Council in collaboration with the World Bank launched the SIRASM, during the International Conference "New competitive opportunities through the implementation of state aid policy".

State aid measures reported for the period 01.01.2012-16.08.2013 include existing aid, including those the value of which was below the de minimis threshold under the state aid legislation (2 mil. €).

For the period 16.08.2013-31.12.2014, with reference to art. 342 par. (1) of the Association Agreement and in accordance with EU experience in the part related to state aid analysis, the state aid granted under the general framework is examined separately from the de minimis aid.

The value of the reported state aid was reduced from 4,873,235 thousand in 2012 to 4,441,123 thousand in 2014, and it was determined including by applying the European Union methodology for tracking measures of state intervention.

Of the total amount of reported state aid for 2014, respectively 4,441,123 thousand MDL, the value of state aid authorized by the Competition Council was of 281 882 thousand MDL (6.35% of total), the difference being represented by existing aid¹.

During 2012-2014, the state aid share has been constituted on average 4.49% of the Republic of Moldova GDP. However, there is a declining trend of the analysed indicator from 5.52% in 2012 to 4.16% in 2013 and 3.96% in 2014.

However, it may be noted that the state aid reported per capita has a decrease of 14.16% in 2013 compared with 2012 and an increase of 6.22% in 2014 compared to 2013.

Table no.1

Reported state aid during 2012-2014

Nr.	Indicators	2012	2013	2014
1.	State aid in:			
1.1.	<i>thousand MDL</i>	4 873 235	4 183 301	4 441 123
1.2.	<i>thousand Euro*</i>	313 190	250 197	238 386
2.	Share of GDP, %	5.52	4.16	3.96
3.	State aid per capita ** - MDL	1 369	1 175	1 248
4.	State aid per capita ** - Euro	88	70	67

* calculation based on the annual average exchange, the source NBM (MDL / Euro 15.56 = 2012, 2013 = 16.72; 2014 = 18.63)

** the number of inhabitants is according to the information posted on the website of the NBS

According to the recommendations of the European Council (the Lisbon Strategy), European Union member states must act as part of an active competition policy, to reduce the overall level of state aid, so this indicator is less than 1% of GDP without undermining the purpose of supporting measures, namely correcting market failures. In order to implement the Association Agreement between the Republic of Moldova, on the one hand, and the European Union and the European Atomic Energy Community and its Member States, on the other hand, it is necessary to decrease the share of state aid in GDP. It is also necessary to note that the amount of state aid per capita granted in the Republic of Moldova is about 3 times lower compared to the average in the European Union, which in 2014 amounted to 184 Euro.²

According to the rules for granting the most aid measures were offered as individual aids (69.65% of total granted measures). In terms of value there were granted more state aid through schemes that constituted 89.64% of the total value.

¹ State aid which existed before the entry into force of the Law on State Aid

² Calculations in accordance with the information placed on http://ec.europa.eu/eurostat/tgm_comp/table.do?tab=table&init=1&language=en&pcode=comp_sa_01&plugin=1 and the information placed on EUROSTAT web page (<http://appsso.eurostat.ec.europa.eu/nui/show.do>)

Table no.2

***The value and the structure of state aid
depending on the ways for granting during 2012-2014***

Nr.	Type of state aid	2012		2013		2014	
		thousand MDL	%	thousand MDL	%	thousand MDL	%
1.	State aid schemes	4 489 166	92.12	3 669 158	87.71	3 940 681	88.73
2.	Individual state aid	384 069	7.88	514 143	12.29	500 442	11.27
	TOTAL	4 873 235	100	4 183 301	100	4 441 123	100

The European Union experience shows that state aids granted through schemes are usually less harmful to the competitive environment. Granting support measures, mainly through state aid schemes, increases the accessibility of support measures, thus registering an increase of the eligible operators number and creating prerequisites for a sustainable socio-economic development.

In this context it is noted that in order to make more efficient the state aid it is necessary to increase the number of support measures granted through state aid schemes.

During 2012-2014, state aid providers granted support measures to undertakings active in the Republic of Moldova in the form of budget revenue waivers and budget expenditures. The amount of state aid granted in the form of budget revenue waivers, which constituted 82.50% of the total state aid reported has increased by 4.03% in 2014 compared to 2013, but decreased by 15.26% compare to 2012.

The value of state aids in the form of budget expenditures was much lower compared to that of budget revenues waivers. At the same time, the analysed indicator recorded an increase of 29.86% in 2014 compared to 2012.

The value of state aid in terms of the way for granting state resources and resources of administrative-territorial units is presented in Table no. 3, state aid granted by waiving budgetary income being less transparent and more difficult to assess.

Table nr.3

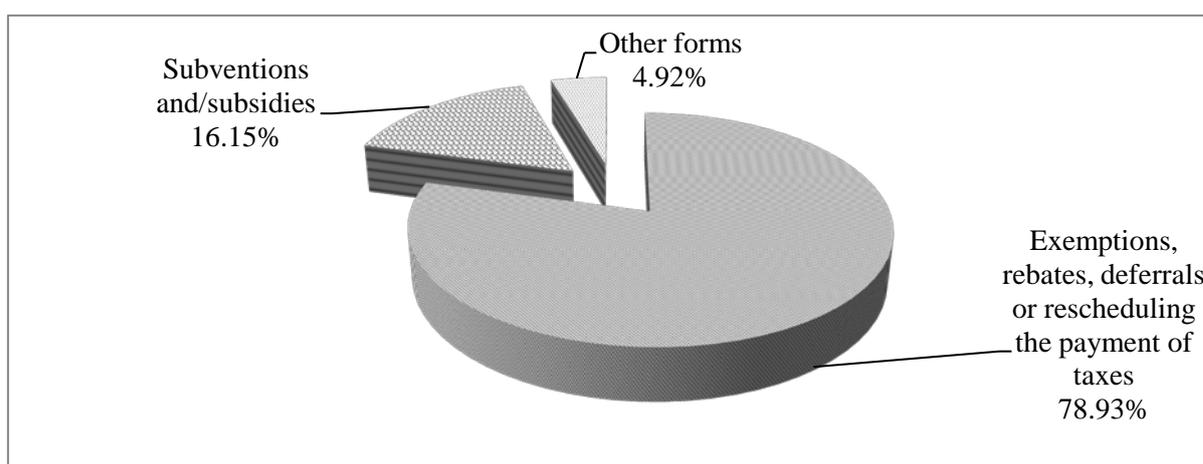
***The value and the structure of the reported state aid
in terms of budget expenditures/ revenue waivers during 2012-2014***

Nr.	Category	2012		2013		2014	
		thousand MDL	%	thousand MDL	%	thousand MDL	%
1.	Budget revenue waiver	4 183 037	85.84	3 407 447	81.45	3 544 846	79.82
2.	Budget expenditures	690 198	14.16	775 855	18.55	896 277	20.18
	TOTAL	4 873 235	100	4 183 301	100	4 441 123	100

This was mainly due to the high level of state aid granted as exemptions, rebates, deferrals or rescheduling the payment of taxes, which constituted 78.93% of the total reported state aid.

Fig.1

***The structure of state aid granted during 2012-2014,
depending on the form of granting***



The annual value of state aid, according to the form in which undertakings have benefited from such support measures, is presented in Table 4.

Table no.4

The value and the structure of state aid depending on the form of granting during 2012-2014

Nr.	Form of granting	2012		2013		2014	
		thousand MDL	%	thousand MDL	%	thousand MDL	%
1.	Subventions and/subsidies	564 310	11.58	724 659	17.32	891 101	20.07
2.	Cancellation or assumption of debts	20 551	0.42	0	0	0	0
3.	Exemptions, rebates, deferrals or rescheduling the payment of taxes	3 979 780	81.67	3 285 216	78.53	3 389 208	76.31
4.	Granting soft loans	38 703	0.79	37 566	0.90	97 471	2.19
5.	Granting concessional guarantees	7 343	0.15	8 324	0.20	10 653	0.24
6.	Investments of the provider where such investments profit rate is lower than the normal expected by a private prudent investor	105 718	2.17	51 196	1.22	5 177	0.12
7.	Discounts for provided goods and services, including sale of movable property and real estate below market price	156 830	3.22	76 341	1.82	47 513	1.07
	TOTAL	4 873 235	100	4 183 301	100	4 441 123	100

The European Union experience attests that state aid as revenues renunciation (exemptions and reductions from the payment of taxes, penalties cancellation and cancellation of penalties for delays in state obligations payment, etc.) are usually more harmful for the market economy than those as budgetary expenditures (grants, subsidies).

The largest share of state aid granted in the analysed period was for horizontal objectives and regional development, which constituted about 83% of reported state aid.

Table no.5

The value and the structure of state aid granted by objectives during 2012-2014

Nr.	Objective	2012		2013		2014	
		thousand MDL	%	thousand MDL	%	thousand MDL	%
1.	Horizontal objectives	1 941 253	39.84	1 970 990	47.12	1 884 075	42.42
2.	Sectorial objectives	522 614	10.72	591 893	14.15	676 144	15.23
3.	Aids for regional development	2 254 680	46.27	1 480 193	35.38	1 720 929	38.75
4.	Other objectives	154 688	3.17	140 225	3.35	159 975	3.60
	TOTAL	4 873 235	100	4 183 301	100	4 441 123	100

While in terms of value, it is noted that the amount of state aid granted for sectorial objectives has increased. In this regard, it is noted that horizontal and regional state aids have usually little impact on the competitive environment, and hence are tolerated compared to sectorial state aid.

According to the information submitted by providers of state aid in 2014 the state aid for SGEI constituted about 80% of reported state aid for horizontal objectives. In this context it is stated that delegating management of SGEI by an award act is a prerequisite to granting state aid for beneficiaries that provide SGEI. This provision shall be implemented by providers of state aid for SGEI.

Most state aid was granted by the Local Public Authorities (LPA) and constituted about 64% of total reported measures, while those awarded by Central Public Authorities (CPA) constituted about 34%, and by other legal entities - about 2%. However, according to the value of reported state aid, 97.28% of the total was provided by CPA. Therefore, LPA provided more support measures compare to CPA, but their value was lower than those given by CPA.

Table no.6**The value of state aid reported by providers for 2012-2014***(thousand MDL)*

Nr.	Provider	2012	2013	2014
1	Ministry of Finance	128 386	124 147	118 997
2	Customs Service	2 544 771	3 180 027	3 309 942
3	Main State Tax Inspectorate	1 413 168	9 686	Lack of data
4	Ministry of Economy	27 830	53 264	59 146
5	Ministry of Environment	39 468	123 402	228 094
6	Ministry of Culture	76 515	82 576	105 958
7	Agency for Payments and Intervention in Agriculture	27 399	69 817	141 268
8	Academy of Science of Moldova	243 245	229 219	243 344
9	LPA	182 035	132 952	50 502
10	Other providers	190 419	178 213	183 873
	TOTAL	4 873 235	4 183 301	4 441 123

During the analysed period, 80% of the total reported state aid was awarded by the Ministry of Finance and its subordinate authorities, namely the Customs Service and the Main State Tax Inspectorate.

It is noteworthy that not all providers submitted the information on the granted state aid in the reporting period, which is determined by the lack of records of state aid per beneficiary.

The value of the de minimis aid reported for 2013 constituted 536 thousand MDL, and for 2014 amounted to 82 770 thousand MDL. The significantly lower value of the de minimis aid in 2013 compared to 2014 was due to the increased level of reporting state support measures and to the reduced reporting period for de minimis aids (16.08.2013-31.12.2013).

Most de minimis aids were granted by LPA, which constituted 81.46% of the total number of granted measures. According to the reported value of de minimis aid for the analysed period, 81.29% of the total value was provided by CPA. The largest share of reported value of de minimis aid was granted in the form of subventions, which constituted 80.10% of the total amount in 2014.

In 2014 the largest value of de minimis aid was directed to support SMEs and to provide SGEI.

With the entry into force of the Law on State Aid all de minimis schemes and individual de minimis aids were to be granted under the Regulation on de minimis aid. In this respect, there were organized several trainings with providers on implementing legal provisions on de minimis state aids.

In order to make more efficient the monitoring of existing authorized state aids it was requested information from state aid beneficiaries, it was considered public information posted on the websites of the providers of state aid on authorized support measures and other available sources. Out of 9 support

measures authorized by the Plenum of the Competition Council in 2014, only one support measure has not been implemented in the reference year, namely the state aid scheme for environmental protection, notified by the Energy Efficiency Fund.

Assimilating best practices in the field of state aid imposes certain tasks to be undertaken:

- 1) alignment of state policy on state aid, by shifting further state aid towards horizontal and regional objectives, which have an insignificant impact on the competitive environment;
- 2) redistribution of ways for granting state aid, by gradually decreasing the amount of state aid granted in the form of budget revenues waivers granted and increasing those granted in the form of budget expenditures that are considered more transparent and easier to quantify;
- 3) alignment of all aid schemes instituted before 16.08.2013 to the Acquis Communautaire in the field of state aid, within eight years from the entry into force of the Association Agreement. Exception constitute state aid schemes established under Law no. 440 from 27.07.2001 on free economic zones for which the period has been extended to 10 years from the date of entry into force of the Association Agreement.
- 4) ensuring transparency in state aid and implementing the mechanism of evidence of state aid per beneficiary, including by applying the SIRASM
- 5) strengthening the institutional capacities of the Competition Council, state aid providers and courts in the field of enforcement of state aid legislation and in the field of state aid impact analysis.

Compliance with the provisions in the field of state aid will contribute to achieving the proposed objectives, to correcting market failures, to increasing the competitiveness of the undertakings and to reducing regional disparities.