

# **REPORT**

## **State aid granted in Moldova in 2011-2013**

(Summary)

On 16.08.2013 law on state aid entered into force. In accordance with article 21 par. (3) of the Law on State Aid, Competition Council develops an annual report on granted state aid.

According to article 23 par. (2) of the Law on State Aid and p.26 of the Regulation on State Aid Register (approved by the Decision No. 3 of the Competition Council of 30.08.2013, published in the Official Journal no. 222-227 of 11.10.2013), providers of state aid, until 17.08.2014, were to inform the Competition Council on State aid granted before the entry into force of the law on state aid.

Based on the information submitted by providers and the beneficiaries of state aid, an inventory of existing aid granted during the reporting period was performed and the present report was drafted, which is the first developed report in the domain, since the entry into force of the Law on State Aid.

The report was drafted based on the data contained in the report forms of state aid provided by state aid providers and beneficiaries.

This report is a statistical tool for ensuring transparency in state aid, thus providing relevant information to the central and local public administration (hereafter CPA and LPA) for policy development in various fields of national economy and for taking decisions on effective distribution of available public resources. Also, it may constitute an information base for different scientific researches.

This report includes an analysis of the value, structure and trends in state aid until the entry into force of the Law on State aid namely the period 01.01.2011-16.08.2013, an overview of the legal framework of the state aid drafted and adopted during the reporting period and reflects beginnings of development of SIRASM.

In order to regulate the notification procedures, authorization and reporting of state aid in 2011-2013 12 normative acts were drafted that contribute to the implementation of the law on state aid.

In 2013, with the support of World Bank the procedure for developing automated information system "State Aid Register" was initiated. Creating SIRASM was imposed by the need to increase the efficiency of the notification process, authorization, monitoring and reporting of state aid by ensuring the transparency of operations of state aid granting.

According to the law on state aid, state aid amount for 2013 was equal to the amount of granted measures before the entry into force of the mentioned Law (08/16/2013), regardless of the time of their implementation.

The amount of reported state aid increased from 4,256,958 thousand MDL in 2011 to 4 824 718 thousand MDL in 2012. This was due to a pronounced increase of state aid for regional development. But in 2013 it decreased to

3,965,368 thousand MDL, reduction in value is caused by incomplete reporting period (up to 16 august 2013).

As the share of state aid in GDP, it is observed the same upward trend from 5.17% in 2011 to 5.47% in 2012. And in 2013 it was 3.95%. The small share of state aid in GDP recorded in 2013 compared to 2011 and 2012, was determined by the fact that the amount of state aid to GDP for 2013 comprised only state aid which was granted until 16.08 .2013, and the GDP figure reflected the amount for the entire year. The exact amount of the mentioned indicator for 2013 will be presented in the next report on state aid.

During the reporting period, the share of state aid in GDP was 5% in Moldova. This indicator is higher than in EU countries, which according to the recommendations of the European Council (The Lisbon Strategy), shall act as part of an active competition policy to reduce the general level of state aid, so that this indicator is less than 1% of GDP without undermining the purpose of the support measures, namely correcting market failures.

Expressed in Euros, state aid increased from 260,573 thousand Euros in 2011 to 310 008 Euros in 2012, but decreased to 237,105 thousand Euros in 2013.

At the same time, it may be noted that state aid reported per capita recorded an increase of 13.37% in 2012 compared with 2011 and a decrease of 17.81% in 2013 compared to 2012, which also was including due to incomplete reporting period.

**Table no.1**

**Reported State aid in 2011-2013**

No.	Indicators	2011	2012	2013 <sup>1</sup>
1.	State aid expressed as:			
1.1.	<i>Thousand MDL</i>	4 256 958	4 824 718	3 965 368
1.2.	<i>Thousand euro*</i>	260 573	310 008	237 105
2.	Share of GDP, %	5.17	5.47	3.95
3.	State budget correlation**, <i>coefficient</i>	0.22	0.23	0.18
4.	State aid per capita *** – MDL	1 196	1 355	1 114
5.	State aid per capita – <i>euro</i>	73	87	67

\* calculated based on the annual average exchange rate MDL/EUR, the source NBM (MDL/EUR 2011 - 16.34/1, 2012 - 15.56/1, 2013 - 16.72/1)

\*\* based on the revenue budget approved under State Budget Law for 2011,2012 and 2013

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

Based on the modalities for granting state aid, it appears that suppliers have chosen to implement individual aid, being 68.17% of the total number of measures granted. And in terms of value, more State aid was granted through schemes.

<sup>1</sup>The information was submitted for state aid until 16.08.2013

Table n.2

*Arrangements for granting state aid in 2011-2013*

Nr.	State aid type	2011		2012		2013 <sup>2</sup>	
		Thousand MDL	%	Thousand MDL	%	Thousand MDL	%
1.	State aid schemes	3 922 866	92.15	4 468 557	92.62	3 646 642	91.96
2.	Individual aid	334 092	7.85	356 161	7.38	318 726	8.04
	<b>TOTAL</b>	<b>4 256 958</b>	<b>100</b>	<b>4 824 718</b>	<b>100</b>	<b>3 965 368</b>	<b>100</b>

In this regard, is worth mentioning the experience of the European Union, according to which State aids through schemes are less harmful to the competitive environment.

In the analyzed period, most state aid was granted in the form of exemptions, reductions, deferrals or rescheduling the payment of taxes, making up over 80% of the total state aid reported.

State aid providers support measures offered to undertakings operating in the Republic of Moldova in the form of waivers budget revenues. It may be noted that in 2012 the amount of state aid granted in the form of waivers budget revenues increased by 12.94% since 2011. In 2013, it was 3,334,422 thousand MDL.

The amount of state aid in the form of budget spending was much smaller compared to that of budget revenues waivers. This increased in 2012 by 15.95% compared with 2011, and in 2013 was 630 946 thousand MDL.

Table nr.3

*The amount of state aid reported  
in the expenditure / budget dropouts recorded*

Nr	Category	2011		2012		2013 <sup>3</sup>	
		thousand MDL	%	thousand MDL	%	thousand MDL	%
1.	Disclaimer budget revenues	3 690 817	86.70	4 168 271	86.39	3 334 422	84.09
2.	Budgetary expenditure	566 141	13.30	656 447	13.61	630 946	15.91
	<b>TOTAL</b>	<b>4 256 958</b>	<b>100</b>	<b>4 824 718</b>	<b>100</b>	<b>3 965 368</b>	<b>100</b>

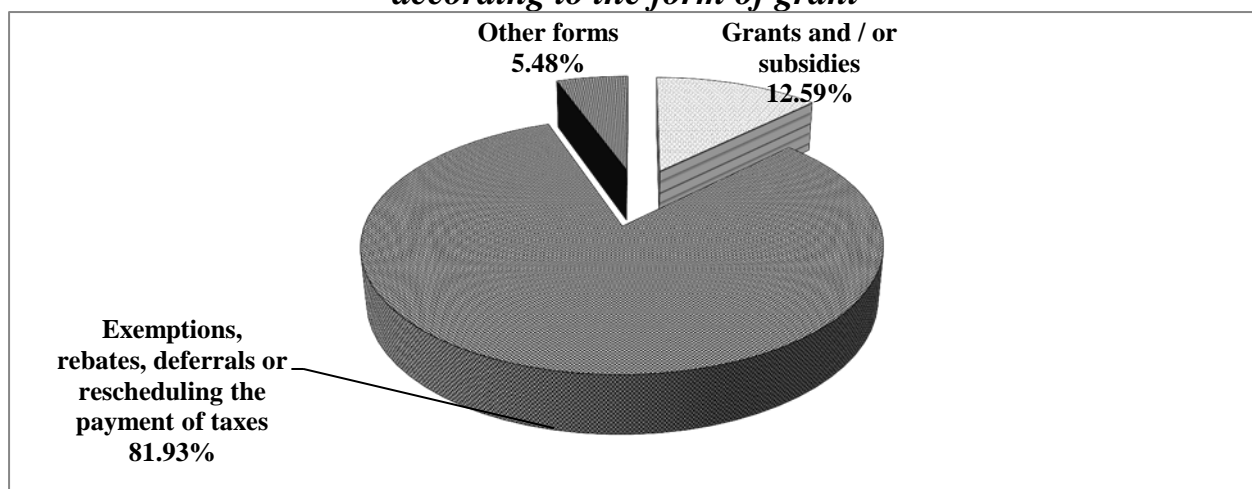
This was mainly due to higher amount of state aid granted as exemptions, rebates, deferrals or rescheduling the payment of taxes, which constitute 81.93% of the reported total state aid.

<sup>2</sup> The information was submitted for state aid until 16.08.2013

<sup>3</sup> The information was submitted for state aid until 16.08.2013

**Figure no.1**

**The structure of state aid granted in the reporting period,  
according to the form of grant**



As for the amount of state aid, according to the form by which the undertakings benefited from these advantages, is presented in the table below.

**Table nr.4**

**The amount of state aid in the reporting period,  
according to the form of grant**

Nr.	Form of granting	2011		2012		2013 <sup>4</sup>	
		thousand MDL	%	thousand MDL	%	thousand MDL	%
1.	Grants and / or subsidies	532 894	12.52	530 559	11.00	579 786	14.62
2.	Cancellation or debt assumption	50 849	1.19	20 551	0.43	0	0
3.	Exemptions, rebates, deferrals or rescheduling the payment of taxes	3 469 469	81.50	3 979 780	82.49	3 239 799	81.70
4.	Granting soft loans	23 403	0.55	38 703	0.80	18 410	0.46
5.	Granting of guarantees on preferential terms	15 590	0.37	12 180	0.25	11 835	0.30
6.	Investments provider if the rate of return on such investments is lower than the normal expected by a private investor	33 247	0.78	105 718	2.19	51 160	1.29
7.	Discounts on supplies and services, including the sale of movable and immovable property below market price	131 505	3.09	137 227	2.84	64 378	1.62
	<b>TOTAL</b>	<b>4 256 958</b>	<b>100</b>	<b>4 824 718</b>	<b>100</b>	<b>3 965 368</b>	<b>100</b>

<sup>4</sup> The information was submitted for state aid until 16.8.2013

The international experience attests that state aids granted as budget revenues waivers (exemptions and reductions from the payment of taxes, cancellation penalties and late payment obligations to the state, etc.) are more harmful for the market economy than in the form of budget expenses (grants, subsidies).

As for the objective analysis of state aid there were observed that the most state aid was granted on horizontal and regional objectives.

*Table nr.5*

***The amount of state aid granted by objective,  
during the reporting period***

Nr.	Objective	2011		2012		2013 <sup>5</sup>	
		thousand MDL	%	thousand MDL	%	thousand MDL	%
1.	Horizontal Objectives	1 825 008	42.87	1 954 078	40.50	1 971 618	49.72
2.	Sectorial targets	486 592	11.43	459 218	9.52	518 954	13.09
3.	Regional aid	1 823 280	42.83	2 256 734	46.77	1 344 087	33.90
4.	Other objectives	122 078	2.87	154 688	3.21	130 709	3.29
	<b>TOTAL</b>	<b>4 256 958</b>	<b>100</b>	<b>4 824 718</b>	<b>100</b>	<b>3 965 368</b>	<b>100</b>

The amount of state aid granted for horizontal objectives increased from 1,825,008 thousand MDL in 2011 it 1,971,618 thousand MDL in 2013.

The value of regional aid reported for 2012 has increased by 23.77% since 2011. In 2013, it was 1,344,087 thousand MDL.

As regards the State aids for sectorial objectives, their value fell by 5.63% in 2012 compared with 2011. In 2013 the value of the nominated state aid increased in 2011 and 2012 to 518,954 thousand MDL.

The state aid reported to other objectives included support measures to: promote culture and heritage conservation, social nature and to eliminate effects caused by natural disasters, which constitute 3.12% of all state aid reported.

In 2011, the share of the reported state aid to horizontal objectives constituted 42.87% of the total reported state aid, and in 2012 it recorded a slight decline to 40.50%. This trend was due to the significant amount of regional aid granted in 2012 compared to 2011.

In 2013, the share of state aid to horizontal objectives increased to 49.72% of the total state aid reported.

The share of regional state aid in total reported state aid has increased from 42.83% in 2011 to 46.77% in 2012, but in 2013 it dropped significantly to 33.90%. This decrease was driven by both facts that only state aid granted until 16.08.2013 was reported and that some aid providers have not submitted information on all State aid during the given period.

<sup>5</sup> The information was submitted for state aid until 16.08.2013

In the view of the above mentioned it is noted that horizontal and regional state aid in most cases have an insignificant impact on the competitive environment, and hence are more tolerated compared to sectorial state aid.

According to the information submitted by state aid providers, the state aid for services of general economic interest (hereafter SGEI), constitute more than 50% of state aid value reported for the horizontal objectives. Thus the share of state aid granted for SGEI increased from 58,14% in 2011 to 62,11% in 2012 and decreased to 57,87% in 2013. It is observed that companies have benefited from support measures for the provision of services such as collection, purification and distribution of water; wastewater collection and treatment; collection, treatment and disposal activities; mail and courier, and other activities.

In this context it is noted that the award of SGEI to enterprises in the reporting period was not carried out in accordance with the provisions the Competition Law No. 183 of 11.07.2012 and the Regulation on State aid to beneficiaries for services of general economic interest, approved by Competition Council Decision No. 11 of 30.08.2013 (published in MO of 11.01.2013 Nr.243-247).

Most of the reported support measures were awarded in the reporting period by LPA, which constitute 63.84% of the total reported measures and those granted by CPA - 33.90%. However, according to the reported state aid amount, 96.90% of the total state aid was provided by CPA.

**Table nr.6**

***The amount of state aid reported by suppliers in 2011-2013***  
(thousand MDL)

<b>Nr.</b>	<b>Provider</b>	<b>2011</b>	<b>2012</b>	<b>2013<sup>6</sup></b>
1.	The Ministry Of Finance	119 298	133 224	112 039
2.	Customs Service	2 222 594	2 544 771	3 170 510
3.	State Tax Inspectorate	1 236 806	1 413 168	9 686
4.	Ministry Of Economy	90 084	27 474	17 423
5.	Ministry Of The Environment	46 812	39 468	21 201
6.	Ministry of Transport and Road Infrastructure	76 626	57 224	40 743
7.	Academy of Sciences of Moldova	119 298	133 224	112 039
8.	APL	94 767	180 275	127 395
9.	Other suppliers	250 673	295 890	354 332
	<b>TOTAL</b>	<b>4 256 958</b>	<b>4 824 718</b>	<b>3 965 368</b>

According to the information presented in the table it appears that the largest providers of state aid according to the reported value of support measures are central authorities.

<sup>6</sup> The information was submitted for state aid until 16.08.2013

It is worth noting that about 84% of the total reported state aid was granted by the Ministry of Finance with subordinate administrative authorities namely the Customs Service and the State Tax Inspectorate.

Considering the fact that in 2014 were reported state aid granted until the entry into force of the law on state aid, reported support measures were not examined in terms of compatibility with the competitive environment, being considered as existing and only included in state aid Inventory . However taking into account the commitments assumed by Moldova to observe the provisions of the *Association Agreement*, state aid schemes will be aligned with the *acquis communautaire* in the field of state aid within 8 years. It is worth mentioning that this is one of the objectives proposed in the National Programme draft on competition and state aid for the period 2015-2020 (prepared in accordance with National Development Strategy "Moldova 2020", approved by Law no.166 of 11.07.2012).

In the draft of this program are several objectives that are proposed in state aid to be made during the period 2015-2020, namely:

1. Alignment of existing State aid provisions of the Community *acquis* in the field of state aid;
2. Improving the transparency of mechanism in the field of state aid;
3. Background of the decision granting the state support on an economic analysis of its impact.

These objectives can only be achieved through a close collaboration between Competition Council and state aid providers.

Since the entry into force of the Law on state aid, the state aid granted by state aid providers is evaluated in accordance with the laws and regulations on state aid.

Compliance with the state aid provisions will contribute to achieving the objectives pursued to correct market failures and increase business competitiveness and reduce regional disparities.