

Report on State Aid granted in the Republic of Moldova in 2015 (Summary)

On 16.08.2013 the Law no. 139 of 15.06.2012 on State aid (hereinafter the Law on State Aid) entered into force. In accordance with Article 21 (3) of the Law on State Aid, the Competition Council prepares an annual report on the aid granted.

According to the state aid regulations, until 31 March 2016 the providers were to submit information to the Competition Council on state aids and de minimis aid granted in 2015.

Based on the information submitted by the providers, this report, which is the third report in the field since the entry into force of the Law on State Aid, was elaborated.

This report includes an analysis of the value, structure and trends registered during the 2013-2015 period in the granting of state aid and de minimis aid, a presentation of the state aid granted in the context of the economic and financial crisis, the monitoring of authorized state aids, as well as reflects the implementation of SIRASM. It is to be noted that many support measures have been granted for projects lasting several years and in order to describe the actual situation of state aids granted, a dynamic reflection of the structure of state aid offered during 2013-2015 is necessary. The reported data for the years 2013 and 2014 have been updated and corrected.

In 2015, the first notifications and reports of state aid through SIRASM were made by the providers. We would like to point out that SIRASM was created in order to fulfil the commitments assumed under the Association Agreement and to increase the efficiency of the state aid notification, authorization, monitoring and reporting process, ensuring the transparency of the state aid operations.

The State aid covered by this report includes all the support measures reported for 2015, namely: the existing aid (State aid that began to be implemented before the entry into force of the State Aid Law) and the state aid authorized by the Plenum of the Competition Council, which are in force in 2015.

In accordance with art. 342 par. (1) of the Association Agreement, from 01.01.2016, the Republic of Moldova is to submit a report every two years, following the methodology and presentation of the European Union's annual State aid analysis. With reference to the above and in line with EU experience in the State aid analysis, State aid granted under the general framework in this report is examined separately from de minimis aid and State aid granted in the context of the economic-financial crisis.

The amount of state aid reported for 2015 increased by 22.45% compared to 2014 and by 30.07% compared to 2013. This increase in the amount of state aid in 2015 compared to the previous years was largely due to state aid granted in the financial sector and the new support measures reported by the providers and examined within the Competition Council in accordance with the provisions of the Law on State Aid.

Out of the total amount of state aid reported for 2015 (5,455,777 thousand MDL), the amount of state aid authorized by the Competition Council was 814,482 thousand MDL (14.93% of the total value), the difference being represented by the existing aid. In this respect, it is to be noted that the state aid authorized by the Competition Council in 2015 has increased compared to 2014 both in value (1.89 times) and as share in the total amount of the state aid reported (from 6.35% in 2014 to 14.93% in 2015). The evolution of the nominated indicators was also influenced by the increased responsibility in the field of state aid, through the implementation of SIRASM by the Competition Council.

In 2015, the share of state aid in GDP in the Republic of Moldova amounted to 4.48%. This indicator increased by 0.50 percentage points compared to 2014 and by 0.31 percentage points compared to 2013. This was also determined by the higher rate of increase of the value of the state aid as compared to GDP.

Expressed in euro, the value of the state aid registered a oscillating trend over the period 2013-2015. In this respect it is specified that in 2015 the value of the state aid increased by 9.15% compared to 2014 and by 4.05% as compared to 2013. This trend was determined by the exchange rate change.

At the same time, the state aid per capita increased in the reporting year, it increased by 22.53% in 2015 compared to 2014 and by 30.23% as compared to 2013.

Table no.1

State Aid reported over 2013-2015

No.	Indicators	2013*	2014*	2015
1.	State Aid expressed in:			
1.1.	Thousand MDL	4 194 564	4 455 553	5 455 777
1.2.	Thousand Euros**	250 871	239 160	261 042
2.	Share in GDP, %	4.17%	3.98%	4.48%
3.	State Aid per capita*** - MDL	1 178	1 252	1 535
4.	State Aid per capita - Euros	70	66	73

* The data are updated according to the information provided by the state aid providers

** Calculated on the basis of the average annual exchange rate of MDL against Euro, the source - NBM (MDL / Euro 2013 = 16.72, 2014 = 18.63, 2015 = 20.90)

*** The number of inhabitants is in line with the information placed on the NBS web site

According to EU experience, it is necessary to reduce the overall level of state aid so that this indicator is less than 1% of GDP without compromising the purpose of the support measures, namely the correction of market failures. In order to take on good international practice, it is necessary to reduce the share of state aid in GDP.

According to the grant method, most of the measures were offered as individual aid (57.89% of the total number of measures granted). In terms of value, more state aids were granted through schemes, accounting 80.40% of the total value.

**Value and structure of State aid
Depending on the granting modalities for 2013-**

No.	Type of state aid de stat	2013		2014		2015	
		Thousand MDL	%	Thousand MDL	%	Thousand MDL	%
1.	State Aid Schemes	3 669 158	87.51	3 940 731	88.45	4 386 359	80.40
2.	Individual State Aid	525 406	12.49	514 822	11.55	1 069 418	19.60
	TOTAL	4 194 564	100	4 455 553	100	5 455 777	100

The experience of the European Union shows that state aid granted through schemes is usually less harmful to the competitive environment. The granting of support measures, mainly through State aid schemes, increases the accessibility of support measures, thus increasing the number of eligible economic operators and creating the necessary premises for sustainable social and economic development.

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

State aid providers have offered support measures to enterprises operating on the territory of the Republic of Moldova in the form of waivers in budget revenues and budget expenditures. In 2015, the amount of State aid reported in the form of waivers to budget revenues constituted 87.94% of the total amount of state aid reported. The significant share of state aid reported in this form was determined, including by significant increase in the amount of state aid granted in the form of preferential interest loans in 2015 compared to the previous years under review.

The amount of state aid reported as budgetary expenditure was much lower than in the case of budget revenue waivers. In the reported year, the value of the nominated indicator was 12.06% of the total amount of state aid reported.

The amount of state aid in terms of the modalities of granting the state resources and the resources of the administrative-territorial units is presented in Table no. 3, the state aid granted by waiving budget revenues is less transparent and harder to assess.

Table no.3

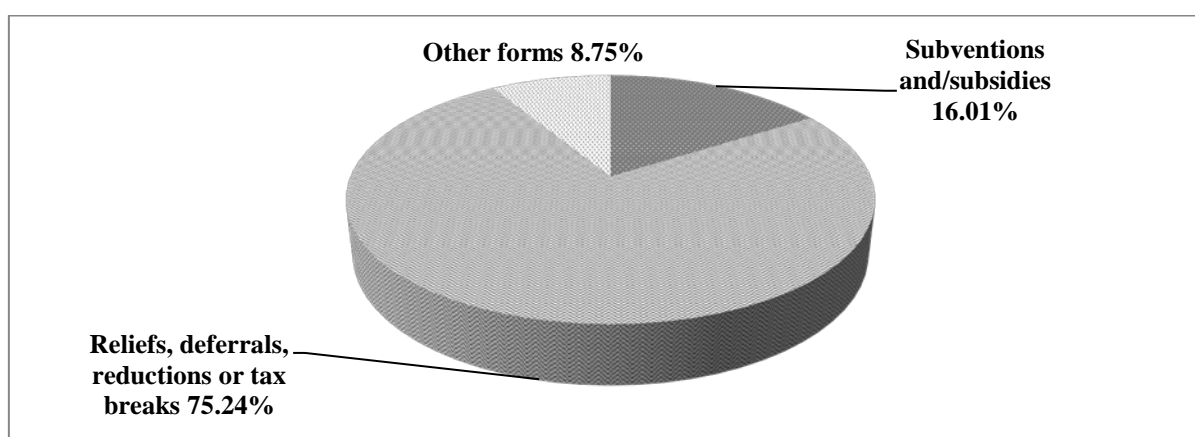
***The amount and structure of State aid reported,
From the perspective of recorded budget expenditures / waivers
over 2013-2015***

No.	Category	2013		2014		2015	
		Thousand MDL	%	Thousand MDL	%	Thousand MDL	%
1.	<i>wailleurs</i>	3 418 540	81.50	3 559 275	79.88	4 798 033	87.94
2.	<i>budget expenditures</i>	776 024	18.50	896 278	20.12	657 744	12.06
	TOTAL	4 194 564	100	4 455 553	100	5 455 777	100

This was due, in particular, to the high amount of state aid granted in the form of exemptions, reductions, deferrals or tax breaks, which accounted 75.24% of the total amount of State Aid reported.

Figure no.1

***The structure of state aid reported over 2013-2015,
Depending on the form of granting***



The annual amount of state aid, according to the form in which enterprises benefited from these support measures, is presented in Table 4.

Table no.4**Value and structure of state aid according to the form of granting, over 2013-2015**

No	Form of granting	2013		2014		2015	
		Thousand MDL	%	Thousand MDL	%	Thousand MDL	%
1.	Subventions and/or subsidies	724 828	17.28	891 101	20.00	642 099	11.77
2.	Cancelling or taking over debts	0	0	0	0	0	0
3.	Exemptions, reductions, deferrals or tax breaks	3 285 215	78.32	3 389 208	76.07	3 939 131	72.20
4.	Providing loans with preferential interest	37 705	0.90	106 091	2.38	779 373	14.29
5.	Grant of guarantees Under preferential conditions	8 324	0.20	10 653	0.24	10 242	0.19
6.	Investments by providers if the profit rate of these investments is lower than the expected normal rate by a prudent private investor	51 196	1.22	5 177	0.12	15 644	0.29
7.	Price reductions in the goods and services provided, including the sale of movable and immovable goods below the market price	87 296	2.08	53 323	1.20	69 288	1.27
	TOTAL	4 194 564	100	4 455 553	100	5 455 777	100

The experience of the European Union shows that state aid such as income foregone (exemptions and reductions from taxes and duties, cancellation of penalties and late payment of state obligations, etc.) are usually more damaging to the market economy than those in the form of budget expenditures (subsidies, subsidies).

The highest share of state aid granted in 2015 was for horizontal and regional development objectives, it constituted about 67% of the amount of state aid reported.

Table no.5

*The value and structure of state aid reported on objectives,
over 2013-2015*

No.	Objective	2013		2014		2015	
		Thousand MDL	%	Thousand MDL	%	Thousand MDL	%
1.	Horizontal objectives	1 982 253	47.26	1 894 084	42.51	1 369 479	25.10
1.1.	Research and development and innovation	230 727	5.50	252 488	5.67	284 791	5.22
1.2.	Environment protection	21 522	0.51	17 270	0.39	42 828	0.79
1.3.	To support SMEs	174 092	4.15	59 351	1.33	10 788	0.20
1.4.	Support to train employees and create new jobs	10 853	0.26	19 043	0.43	24 530	0.45
1.5.	SGEI	1 545 059	36.83	1 545 932	34.70	1 006 542	18.45
2.	Sectoral aid, depending on the sectors of activity of the national economy	591 893	14.11	680 562	15.27	1 659 526	30.42
2.1.	Auto	6 484	0.15	0	0	356 336	6.53
2.2.	Rail transport	21 574	0.51	0	0	0	0
2.3.	Airline transport	22 245	0.53	21 542	0.48	12	0
2.4.	Financial services	0	0.00	53 969	1.21	733 900	13.45
2.5.	Other sectoral objectives	541 591	12.91	605 052	13.58	569 278	10.43
3.	State aid for regional development	1 480 193	35.29	1 720 932	38.62	2 263 002	41.48
4.	Social aid granted to individual consumers, provided that they are granted without any discrimination based on the origin of the goods or services	47 020	1.12	40 957	0.92	51 146	0.94
5.	Promoting culture and preserving cultural heritage	82 576	1.97	105 958	2.38	112 624	2.06
6.	Aid to remedy damage caused by natural disasters or other exceptional circumstances	10 629	0.25	13 060	0.29	0	0
	TOTAL	4 194 564	100	4 455 553	100	5 455 777	100

A significant increase was recorded for state aid reported for sectoral targets. In this respect, it is worth mentioning that horizontal and regional state aids usually have a insignificant impact on the competitive environment and are therefore more tolerable in comparison with sectoral state aids.

According to the information provided by state aid providers, State aid for the provision of SGEIs for the year 2015 accounts more than 70% of the amount of state aid reported on horizontal objectives. In this context, it is stated that the delegation of SGEI management through an awarding act is a mandatory condition

for the granting of State aid to SGEI beneficiaries. At present, not all Moldovan enterprises provide SGEI (potable water supply, sanitation, etc.) based on awarding documents aligned with the EU requirements in the field. This provision is to be implemented by the providers of state aid for the provision of SGEI and will be a priority action of the Competition Council in order to implement the state aid provisions in this field.

Most of the reported support measures for 2015 were granted during the reporting period by the CPAs, accounting about 51% of the total reported measures, and those granted by LPAs - about 45%. There is a change in the structure of state aid reported by the providers, this was determined, including by the fact that LPAs reported the measures they granted as de minimis aid.

According to the state aid value reported for 2015, it is noted that 98.35% of the total value was provided by CPAs. Table 6 shows the amount of state aid reported to state aid providers.

Table no.6

***The amount of state aid reported by providers,
over 2013-2015***

(mii lei)

No.	provider	2013	2014	2015
1	The Ministry of Finance	124 147	118 997	125 046
2	Customs Service	3 180 027	3 309 942	3 920 625
3	The Ministry of Economy	53 263	59 146	1 125
4	Ministry of the Environment	123 402	228 094	83 889
5	Ministry of Culture	82 576	105 958	112 624
6	National Bank of Moldova	0	53 969	733 900
7	Agency for Agricultural Intervention and Payments	69 817	141 268	11 343
8	Academy of Sciences of Moldova	229 219	243 344	275 967
9	LPAs	144 215	60 463	89 915
10	Other providers	187 899	134 373	101 343
	TOTAL	4 194 564	4 455 553	5 455 777

In 2015, about 74% of the total amount of state aid reported was granted by the Ministry of Finance with the administrative authority subordinated to it, namely the Customs Service.

It is noted that during the period 2013-2015, the Ministry of Finance and the Main State Tax Inspectorate did not submit the information regarding the state aids granted under the Tax Code.

One of the problems to be noticed is the lack of evidence from the Ministry of Finance of information on the value and beneficiaries of state aid granted as fiscal facilities, which affects the truth of the presented information, being impossible to determine the exact value of the state aid offered in 2015. This can be overcome with the implementation of SIRASM.

The largest share of state aid granted in the form of fiscal and customs facilities by the Ministry of Finance to its subordinated administrative authorities is implemented until the entry into force of the Law on State Aid and was therefore offered without being included in one of the categories of State aid that can be considered compatible with the normal competitive environment. In this respect, the nominated state aids are to be reviewed in the light of the state aid legislation.

In 2015, the amount of de minimis aid reported was of 23,576 thousand MDL, being a decrease of 71.59% compared to 2014. The lower value of de minimis aid in 2013 compared to 2014 and 2015 was due to the increase in the level of reporting of State support measures and the reduced reporting period of de minimis aid (16.08.2013-31.12.2013).

For 2015, providers reported 175 de minimis aid measures. Most of the de minimis aid was reported by the LPAs, representing 86.86% of the total number of measures. According to the de minimis aid amount reported for the analyzed period, 51.33% of the total value was provided by CPAs. In 2015, the highest amount of de minimis aid was targeted to support SMEs and to provide SGEIs.

At the same time, in 2015 through Decision no. 01SS of 08.04.2015 The Plenum of the Competition Council authorized the State aid granted to Banca de Economii S.A. And B.C. "UNIBANK" S.A., intended to remedy the serious disturbance of the economy.

In order to monitor existing state aids, information was requested from state aid providers, public information on public aid providers' websites on authorized support measures and other available sources was examined. Implementation by the beneficiaries of support measures authorized by the Competition Council needs to be analysed in more detail in the coming years. At the same time, with a view to streamlining state aid monitoring, a longer period is needed to verify the consistency between expected and realized effects.

The main problems identified during the year are:

1) the highest share of state aid granted as fiscal and customs facilities, implemented until the entry into force of the Law on State Aid, were offered without being classified as one of the categories of state aid which can be considered compatible with the normal competitive environment, and have not been examined in order to align them with the provisions of the State Aid Law;

2) lack of evidence on each beneficiary of state aid granted by the Ministry of Finance with the administrative authority subordinated to the State Tax Inspectorate;

3) insufficient knowledge in the field of state aid of the representatives of the public administration authorities.

For this purpose priority actions in the field of state aid for the following year will be:

1) undertaking efforts to align state aid schemes put in place before 16.08.2013 to the EU state aid acquis within 8 years of the entry into force of the Association Agreement. The state aid schemes established pursuant to the Law no. 440 of

27.07.2001 on Free Economic Zones for which the period was extended to 10 years from the date of entry into force of the Association Agreement;

2) the notification of the Government and the Ministry of Finance regarding the inadequacy of the fiscal facilities with the provisions of the state aid law and the necessity of implementing a mechanism for recording the fiscal facilities granted per beneficiary;

3) continuing the organization of seminars for providers, including on de minimis aid.

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