GEORGETA MINCU

Assessment of Economic Incentives for SME Development

March 2018

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SUMMARY

This study was developed under a policy advocacy and public awareness raising program oriented towards implementation of the European obligations of the Republic of Moldova, funded by the East-European Foundation. The study was developed by the associate expert of the Institute for Development and Social Initiatives „Viitorul”. IDIS Viitorul is a member of the Small and Medium Enterprises (SME) Consultative Council, which is why the latter undertook to follow and assess the state policies with regard to provision of economic incentives for the SME development.

The study lists and analyzes trends, facts and statistics on certain economic incentives provided by the Government of the Republic of Moldova from budget and foreign sources. The study familiarizes the broad public with the inventory of fiscal incentives, customs facilities, soft loans, bank guarantees, grants and subsidies provided to economic entities, particularly to SMEs, which are aimed at encouraging their business development and growth with the view to create the common good accessible to each citizen of the country.

There are various tools and schemes for providing economic incentives, and these should be oriented towards reaching the legitimate goals of the state, and namely: insuring welfare of citizens, jobs, good conditions for carrying out entrepreneurial activity and for employees, availability of a social protection and healthcare system, environment protection, access to culture, leisure, and a healthy lifestyle.

We can state that currently, there is no efficient system for providing, monitoring, and assessing the economic incentives for economic entities in place to help the authorities satisfy the needs of the population. The number of instruments for economic stimulation reaches hundreds, while the number of state support suppliers reaches dozens. Tax incentives are also provided on basis of decisions other than legislative acts and no monitoring and evaluation is carried out over the effects and effectiveness of budgetary disclaimers in economic and social terms, as well as in terms of insuring a loyal competitive climate.

The study reflects facts and statistics about the state support provided by central and local public authorities in different forms - subsidies, exemptions, deferral of taxes and fees, soft loans, financial security, grants, and price discounts, concluding that the state support mechanism in the country is determined by challenges, such as noncompliance, with regard to provision of previous state support, with the current legislation and aquis-communautaire; low transparency of state support mechanisms, both domestic and foreign support; insufficient justification of the decision on state support provision based on an economic analysis of its effects.

The study was developed on basis of primary and secondary data, validated through an opinion poll covering a significant number of micro and small companies asked about the access and usefulness of economic incentives, as well as about the requirements of these in adjusting their businesses to the new regulatory framework in the context of the association of the Republic of Moldova with the European Union, and adoption of the aquis-communautaire in the national economy.

SMEs need financial support, consultancy for accessing economic incentives, but these should be provided in a transparent, relevant, timely, and efficient manner, and at small administrative costs.

ACRONYMS

AIPA	AGENCY FOR INTERVENTIONS AND PAYMENTS IN AGRICULTURE
AA	Association Agreement
AID	International Development Agency
AIPA	Agency for Interventions and Payments in Agriculture
AMP	AID Management Platform
CPA	Central Public Authorities
LPA	Local Public Authorities
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
IBRD	International Bank for Reconstruction and Development
WB	World Bank
NSB	National Statistics Bureau
CAEM	Classifier of Activities in Moldovan Economy
CC	Competition Council
DCFTA /ZLSAC	Deep and Comprehensive Free Trade Area
IMF	International Monetary Fund
GIZ	International Cooperation Agency of Germany
SME	Small and Medium Enterprises
MAC-P	World Bank „Competitive Agriculture" Project
MoE	Ministry of Economy
ODIMM	Organization for Small and Medium Enterprise Development
UNO	United Nations Organization
GDP	Gross Domestic Product
UNDP	United Nations Development Program
RoM	Republic of Moldova
SDC	Swiss Development Cooperation
SIDA	Swedish International Development Agency
SGEI	Services of General Economic Interest
USA	United States of America
EU	European Union
USAID	United States Agency for International Development

INTRODUCTION

Why do we need economic incentives?

I will try to link the theory on the need for economic incentives or economic intervention to those two objectives interacting in a market economy, and namely: i) *the objective of entrepreneur in the market economy,* and 2) *the objective of the state or* the society. The objective of the entrepreneur or rational investor will be maximizing the profit generated by own business. The objective of the state is or should be – insuring, protecting and promoting public interest and welfare, viewed at the individual level, as well as at the level of constituent groups of the society.

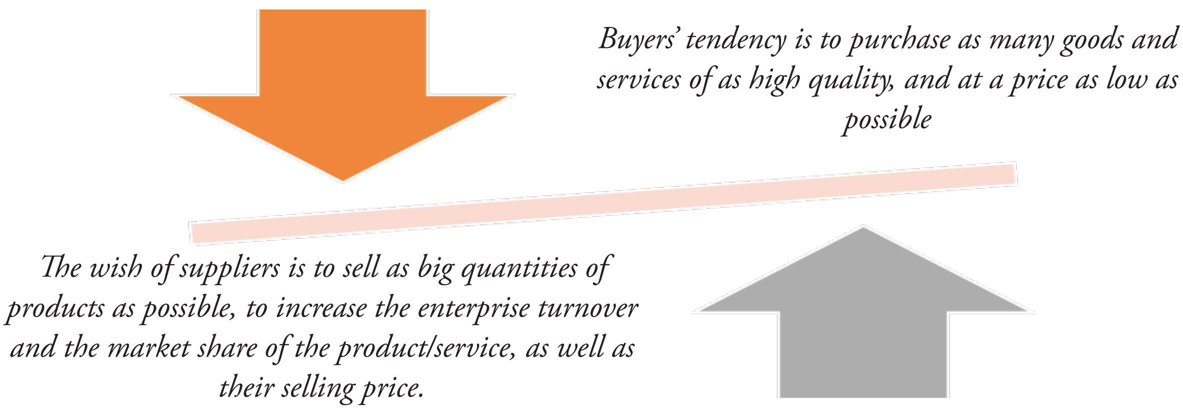
As a mechanism, considered to be fundamental for a good functioning of the market economy we take the sound functioning of the two concepts most frequently encountered in the economic theory, and namely the phenomenon of on-going interaction between the demand and supply. The buyer's tendency to purchase more quality goods at a lower price, and the wish of suppliers to sell more at a hire marketing price.

It is the demand and supply that insure the setting of a balanced price, at the same time insuring an acceptable profitability level for producers. Competition makes all the producers seek to reach a balance between the quality, production cost, and final price, the goal pursued being the same, i.e. to meet the demand manifested on the market to the greatest extent possible.

Proceeding from the objective of the society, we get to deal with the situation when we have to define the term „common Good". *Common Good* is a very complex definition, involving both economic aspects, such as welfare of the citizens, insuring jobs, good conditions for carrying out activity to employees, availability of a social protection and healthcare system, and non-economic aspects, such as quality and environment protection, access to culture, leisure facilities, healthy lifestyle, and other objectives of this kind.

Therefore, the state should be always interested to create or contribute to the development of a society, in which:

1) the economic evolution of a state is balanced, without creating or maintaining economically and socially unattractive under-developed areas;



2) there are sufficient jobs that are paid well and regulated in terms of labor protection;
3) the employed or potentially employable staff is well trained, and the knowledge of the latter is adapted to the constantly changing labor market requirements;
4) the goods and services of any kind are diverse, modern, appropriate for the consumer needs, and their purchasing costs are lower so that the number of those affording to buy then be as big as possible;
5) utilities of any kind are of good quality and available to all the citizens at reasonable prices;
6) the infrastructure allows for unfolding the economic and social life in good conditions;
7) the number of unemployed persons is reduced to the minimum, while the persons in disadvantaged situation in terms of employment can be integrated on the labor market, in certain conditions;
8) the environment in which the citizens carry out their activity is clean, non-polluted, appropriate for human life, and favorable for maintaining the biological diversity;
9) education and culture are available for as big a number of citizens as possible, etc.

It is normal and usual for the state to have own resources for accomplishing part of the above-mentioned objectives, and a new state like the Republic of Moldova is supposed to need the involvement of the business environment, of the private business sector for accomplishing the other part of objectives that are insufficiently met to date.

How do entrepreneurs contribute to the government objectives or public interest?
For example: the economic activity of entrepreneurs determines them to take actions which contribute to accomplishing part of the government objectives – creating new jobs, maintaining the latter, insuring appropriate conditions to employees for carrying out activities at their work place, creating new products and services, increasing the competitiveness of traded goods. Entrepreneurs oftentimes invest in research and innovation, and vocational training of their own employees in order to satisfy their own need for well trained staff, capable to operate the machinery and implement new technologies.

There are some limits, however, as rational entrepreneurs make investments within the limits which induce sectors generating added value to their own business, while the level of available funds is dictated by the constant need to reduce their production costs, and selling prices, respectively, with the view to maintain and improve the competitiveness of own goods and services on the market. Any exceeding of the minimum investment level with the view to accomplish public interest related goals will lead to increasing the costs and selling prices of goods and services, and to diminishing their competitiveness, respectively.

On the other hand, we have situations when the selling prices are limited by both the competition on the market, and the existence of some price affordability thresholds at the level of buyers, and of government regulations. In such situations, any increase in production costs affects the profitability level of economic activities, and, as a consequence, may affect the fulfillment of the entrepreneur's goal, which is to maximize the profit, the entrepreneur's goal coming thus in contradiction with the government objective. There are also areas in which entrepreneurs do not intend to invest as associated risks are too high, while potential benefits are too low.

In cases or in areas where competition is not manifested or does not lead to satisfying the public interest needs we have *market failures*. The role of settling or diminishing market failures belongs to the government, as entrepreneurs have no economic interest to invest in the settlement of market failures. On the other hand, they understand that any investment towards diminishing market failures will affect their competitiveness and reduce their profits.

There are different intervention instruments in the case of market failures. The most frequently encountered two options are: a) legal regulation of certain sectors/ areas/ activities / categories of problems where market failures occur; and b) financial compensation of certain market failures.

In the first case, i.e. of *legal regulation*, mandatory legal norms are established for all economic actors, for instance – establishing the minimum salary in the economic sector, minimum number of vacation days, normal length of a working day, the obligation to train own employees on safety at work and labor protection using own funds, the obligation for the producers to limit the level of gas or particulate matter emissions generated by certain production processes, etc. If all the actors on the market are obligated to observe the legal norms, such intervention will not affect the competition between them, and neither will it favor some competitors.

The second option of state action is *intervention by providing* financially quantifiable *advantages* to enterprises with the view to increase their interest to invest own resources in carrying out certain activities which are currently considered unprofitable or involve excessive risks to be attractive for investors. Providing some facilities to enterprises in order to reach the common good may tale for form of **economic incentives** (subsidies, state aid, tax incentives/relief, guarantees, soft loans, etc.)

Currently, in addition to its own sources generated by the economic system, the Republic of Moldova is supported by development partners and a number of economically developed countries, which provide technical assistance or financial support to Moldova so it can become capable to achieve the common objectives of the state. Details about foreign assistance provided to the Republic of Moldova can be found on the Foreign Assistance Management Platform (http://amp.gov.md/portal).

At the moment of developing this report, the Republic of Moldova had signed commitments in the amount of 4,378.72 million EUR, of which 2,523.26 million EUR had been disbursed through 1,959 projects[1].

Table 1. TOP FINANCING ORGANIZATIONS BY COMMITMENTS

Financing organization	Current commitments (EUR)
European Union	3,673,288
European Commission	3,657,960
Turkish International Cooperation Agency (TICA)	3,557,362
United States Department of Defense	2,974,618
Italian Republic	1,856,330
Kingdom of the Netherlands	1,726,947
Swiss Development Cooperation (SDC)	1,269,605
European Union Delegation in Moldova	1,024,857
Czech Development Agency	385,114
Embassy of Japan in Moldova	265,675

1 http://amp.gov.md/portal/

In 2016, the development partners of the Republic of Moldova disbursed over 440 million EUR, which is by circa 32.8% more compared to 2015. This was possible due to signing in November 2016 the Agreement with International Monetary Fund (IMF) in the amount of 152 million EUR for three years, de-blocking disbursements for budget support in the amount of 45.3 million EUR by the European Commission, and provision by Romania of the first tranche in the amount of 60 million EUR out of the 150 million EUR stipulated in the Agreement on Reimbursable Financial Assistance between the Republic of Moldova and Romania. In 2016, the European Union was a leader in terms of disbursements among the development partners of the Republic of Moldova, followed by the World Bank, Romania, UN Agencies, and the United States of America, all of these providing 76% of the total foreign assistance disbursed in 2016[2].

The goal of our study is to identify the economic incentives provided by the government from both own sources and foreign assistance sources to small and medium enterprises (SMEs) in the Republic of Moldova.

When classifying the SMEs in Moldova, *the annual mean number of employees* is the determining criterion constantly used to identify small and medium enterprises for statistical purposes. SMEs are defined as companies with up to 250 employees.

Category	*Number of employees*	*Annual turnover (million MDL)*
Micro	< 9	
Small	< from 10 to 49	< 25 or holding total assets < 25 million
Medium	from 50 to 249	< 50 or holding total assets < 50 million

In the EU, the distribution by medium, small, and micro categories is bases on the number of employees, turnover, and total balance. SMEs are defined as companies with up to 250 employees, annual turnover up to 50 million EUR, and total balance - 43 million EUR.

Category	*Number of employees*	*Turnover*	*Total balance*
Micro	< 10	< 2 mil €	< 2 mil €
Small	< 50	< 10 mil €	< 10 mil €
Medium	< 250	< 50 mil €	< 43 mil €

Source: Official Journal of the European Union. L 124/36, 20 May 2003

[2] Report on Foreign Assistance Provided to the Republic of Moldova in 2016

DEFINITIONS OF ECONOMIC INCENTIVES

Incentives are instruments motivating entrepreneurs to carry out some actions. Economic incentives are provided to encourage people to make certain choices or behave in a certain manner when they are involved in economic activities. These usually involve money, but can also involve goods and services. The government can create different programs with economic incentives, which provide additional incentives for companies that are already registered in the country, are active and pursue the goal of extending their economic activities.

The economic aspect of incentives can be divided into two big categories:

a. *financial incentives* (positive or negative), such as insurance related incentives (e.g. variable premiums), financing schemes (grants, subsidies, guarantees, and soft loans), and fiscal and customs incentives (reduced taxes, tax exemptions or specific duties); and
b. *non-financial incentives*, including recognition schemes, such as bonuses; pursuing positive recognition, but without significant direct financial implications.

This study only analyzes financial and economic incentives. Economic incentives are practiced by all countries, therefore, in order to not distort fair competition, there are internationally agreed ground rules, particularly for schemes which envision direct financial incentives provided to a sector or a group of entrepreneurs, in particular.

Economic incentives are either tax or customs incentives or different schemes of financial assistance provided to any economic entity, which should not create discrimination or distortions within the market economy.

As examples of tax incentives can be: tax exemptions, exemptions from customs duties and fees for the production of goods and services or raw material and semi-manufactured goods that are used in the production of other goods and services designed for exports; fuels and lubricants used in electric power generation or water required for manufacturing goods designed for exports or for providing services for export, duty-free allowances, suspensive customs procedures provided to exporters directly importing goods designed for re-exporting, as well as raw materials, finished and semi-manufactured products designed for incorporation or use in producing goods for export. The above mentioned incentives should be provided through simple procedures at maximum clearance speed, without prejudice to indispensable control.

However, the state can also provide economic incentives in form of direct support to certain companies, which are not provided to all economic entities, and so this type of incentives is most frequently discussed and most controversial one – we talk here about state support and some categories of subsidies which fall under the rules and principles for the provision of state support.

In addition to its national legal and regulatory framework in this sector, the Republic of

Moldova has commitments with regard to international and bilateral regulatory framework, within the limits of which we need to align the policies for stimulating entrepreneurial activity. Thus, the World Trade Organization imposes on its member states, through multilateral agreements, to observe some common rules related to stimulation of products designed for exports, as well as to provision of direct support to agricultural producers.

Another bilateral commitment in the area of economic incentives and state support is stipulated in the provisions of the Association Agreement signed between the European Union and the Republic of Moldova. We certainly do not exclude the fact that other bilateral or multilateral agreements also contain provisions related to the definition of and control over state support or subsidies provided to economic entities.

WTO

The WTO framework that regulates international trade defines economic incentives by the term *subsidies* (Agreement on Subsidies and Countervailing Measures) and support measures for agricultural producers:

A *subsidy* will be considered to be in place if there is a financial contribution on government behalf in any form of supporting the revenues or prices, while conferring an advantage to the economic entitie.

Along with this, the WTO framework specifies cases in which

a) a financial contribution is provided by the government of the country of origin or of export country, these including cases in which:
   - the government practices direct transfer of funds (e.g., in form of subsidies, loans, participation (investment) in the social capital) or potential direct transfer of funds or liabilities (e.g. loan guarantees);
   - the government does not charge or waives some public collections (e.g. tax incentives, such as tax credits); in this sense, tax exemptions for export products, which are imposed on identical products designed for domestic consumption, or reduction of such taxes and fees by an amount not exceeding the calculated sum, shall not be considered subsidies;
   - the government provides goods or services other than general infrastructure, or purchases goods;
   - The government: makes payments to a financing structure; or authorizes or orders a private organization to carry out one or more of the functions listed in items i)-iii), which are under its competences, and to use procedures that do not effectively differ from the common practice of governments; or

b) there exists any form of supporting the revenues or prices, in the sense of Article XVI of the General Agreement on Tariffs and Trade of 1994;

Domestic support measures in the agricultural sector are regulated by the WTO Agreement on Agriculture[3], and are divided into different „boxes", by their agricultural market distortion capacity:

The „orange box", also called „Measure of Global Support", re-groups the support provided through prices and aid coupled to production, which are not exempted from the reduction obligation. All WTO members can apply the „de minimis clause" which allows excluding from the current MGS any support the value of which is under 5% of the respective product value (specific aid) or of the total agricultural production (non-specific aid).

[3] http://www.europarl.europa.eu/atyourservice/ro/displayFtu.html?ftuId=FTU_3.2.7.html

The „blue box" covers aid linked to supply control programs that are exempted from reduction commitments: for e.g., direct aid provided by area and fixed yields or granted for a number of livestock heads.

The „green box" covers two aid groups. The first group relates to public service programs (for e.g., research, training, profile raising, promotion, infrastructures, domestic food aid or public stocks created for food security purposes). The second group includes direct payments by producers, which are fully decoupled from production. This mainly involves income insurance and security programs (natural calamities, financial participation of government in crop insurance, etc.), structural adjustment programs and environment protection programs. All the aid framed into the „green box" considered compatible with the WTO framework is fully exempted from the reduction obligation.

EU-Moldova Association Agreement

The commitments assumed by the Republic of Moldova with the view to observe the Association Agreement provisions on state support schemes are regulated in Title V, Chapter 10 Competition, Section 2 – State Aid (Articles 339 -344), and namely:

10) Within **five years** from the enactment of the Agreement, state aid shall be assessed on basis of criteria arising from the application of competition rules applicable in the EU, particularly those set in Article 107 of the Treaty on the Functioning of European Union, and of the interpretative instruments approved by Community institutions, including the relevant case law of the EU Court of Justice.
11) All the state aid schemes instituted before the establishment of the state Authority (2013) in the field of State Aid shall be aligned within **eight years** from the enforcement date of this Agreement.
12) The alignment period shall be extended by a maximum period of **ten years** from the enforcement date of the Agreement on State Aid Schemes instituted on basis of the Law of the Republic of Moldova on Free Economic Zones, No. 440-XV of 27 July 2001.

This means that the government will have to waive eight categories of incentives provided to free economic zones (FEZs)[4] after 2026, and other current state aid schemes.

The process of amending the current state aid schemes in compliance with the acquis-communautaire and with the obligations assumed to harmonize the legislation on state aid shall include the following actions:

a) identification of all current state aid schemes which do not comply with the requirements of legislation in the given area;
b) identification of regulatory acts that come into contradiction with the legislation on state aid;
c) development of proposed amendments to the legislation and their submission for approval
d) provision by the Competition Council of support to CPAs and LPAs needed to align the related legislation in areas under their responsibility to the requirements of the legislation on state aid.

NATIONAL LEGISLATION

In this study, we selected the national legal framework stipulating terms and definitions that can be qualified as economic incentives in the broad sense of principles for economic stimulus and common good granting policies, as described in the first chapter. The national legislation regulating different economic incentives includes the following:

[4] http://www.zelb.md/avantaje/facilitati-fiscale/

I. Tax Code, Law No. 1163-XIII of 24.04.1997
ii. Customs Code of the Republic of Moldova, Code No. 1149 of 20.07.2000
iii. Law on State Aid, No. 139 of 15.06.2012
iv. Law on Small and Medium Enterprises, No. 179 of 21.07.2016
v. Law on Principles for Subsidization of Agricultural Producers, No. 276 of 16.12.2016
vi. National Program in the Area of Competition and State Aid for 2017–2020, Law No. 169 of 20.07.2017
vii. Law on Antidumping, Countervailing, and Safeguarding Measures, No. 820 of 17.02.2000.

A list of terms and notions defining economic incentives is provided in *Table 2 Terms and Notions of Economic Incentives in the National Legislation.*

Definitions and notions provided in the national legislation

Table 2 Terms and Notions of Economic Incentives in the National Legislation

Terms and Notions	*Description*
Law on Small and Medium Enterprises, No. 179 of 21.07.2016	
State Programs for Supporting SME Sector Development	Represents a set of activities directed towards accomplishing a well determined goal within the state policy for stimulating the development of micro, small and medium enterprises, financed from the budget and/or special funds, including foreign donations (Article 11)
Support Instruments	special information, training, consultancy, and financial support actions, projects, and programs designed for the creation of small and medium enterprises and enhancement of their competitiveness
Financial Guarantee for Loans	a written commitment to a financial institution (guarantee beneficiary), assumed by another institution managing loan guarantee funds to insure sufficient collateral in established proportion and terms for loans provided to physical entities performing economic activity or to legal entities
TAX CODE	
Tax incentive	Amount of taxes and fees unpaid to the budget. Forms set under Article 6, paragraph (9), item g) of the Tax Cod include: - partial or complete tax or fee exemption; - partial or complete exemption from paying taxes or fees; - reduced rates of taxes or fees; - reduction of taxable object; - deferral of the deadline for paying taxes or fees; - rescheduling of tax liability.
CUSTOMS CODE	
	Contains articles about customs incentives, however no term or notion is defined.

Terms and Notions	*Description*
Law on State Aid	
Measures of Global Support	measures applied in all sectors of the national economy, with no difference
State Aid *7 aid categories:*	any support measure that cumulatively meets four conditions: a) is provided by the supplier from the state funds or from the resources of territorial-administrative units in any form; b) confers an economic benefit to the beneficiary which would not be obtained under regular market conditions; c) is provided selectively; d) distorts or risks to distort the competition.
grants and subsidies	state aid is equal to the value of transferred resources
debt cancelation or debt assumption	state aid is equal to lost revenues or value of the debt taken over
exemptions or reductions in taxes and fees	state aid is calculated as difference between the duty/tax calculated in accordance with the general rules and the amount actually charged from the beneficiary
deferrals and rescheduling of the payment of taxes and fees	state aid is equal to the amount of penalties and interest rates that should have been calculated and paid by the beneficiary to the state for respective debt (debit) for the entire period in which payment deferral is granted
soft loans	state aid is the difference between the market interest rate[5] and the effectively paid interest rate.
Guarantees under preferential conditions	state aid shall be determined by taking into account the aggregated amount of annual differences between the premiums that should be paid under market conditions and premiums planned to be effectively paid, which are updated as of the guarantee provision date, and the difference between the market interest rate that the beneficiaries could have incurred in the absence of the guarantee and the interest rate obtained under the guarantee
supplier's investment	constitutes aid when a private investor would not have made such an investment under regular market conditions. This method is based on the calculation of return achieved as a result of the intervention
discounts on goods and services supplied, including the sale of some movable and immovable assets below the market prices	state aid is the difference between the ex-ante evaluated market price and the effectively collected price upon supply of goods and provision of services. Selling of movable and immovable assets as a result of an open and unconditional tender which has been subject to sufficient publicity, and during which the best or sole offer is accepted, is done at the market price, by definition, and therefore does not constitute state aid

[5] Market interest rate is the rate calculated on basis of the average interest rate on new loans provided in the banking system in the month when the loan is provided, according to the loan term.

Terms and Notions	*Description*
de minimis aid	aid in equivalent financial value below the threshold of 2,000,000 MDL per beneficiary, provided to the same beneficiary within a maximum period of three years, regardless of the form and goal pursued, provided that such aid be not connected with export activities
state aid scheme	an act, based on which state aid can be provided to beneficiaries defined in the content of the latter in general or abstract manner, without requiring additional actions for application, or any act based on which aid funds that are not linked to a specific project can be provided to one or several beneficiaries for an undetermined timeframe and/or in undetermined quantum;
individual aid	state aid which is not provided on basis of a scheme that should be notified individually
illegal aid	aid other than the current one or aid relieved from the notification obligation pursuant to the law, which has been provided without the authorization of Competition Council or in conditions in which the Competition Council was notified, but failed to approve a decision on the latter within the legal term
Law on Antidumping, Countervailing, and Safeguarding Measures, No. 820 of 17.02.2000	
Subsidy	direct or indirect financial contribution by public authorities to economic entities for capitalizing export activity
Law on Subsidization of Agricultural Producers, No. 276 of 2016	
Subsidy	non-reimbursable and non-taxable financial support provided from the National Fund for Agriculture and Rural Development to support investments made in agricultural production and rural infrastructure development, which meet the eligibility criteria
Support action	main direction in agriculture and rural area financially supported by government, which contributes to the accomplishment of one or several agricultural and rural development policy priorities (set in the National Strategy for Agriculture and Rural Development for 2014–2020 (GR409/2014)
Grant	non-reimbursable financial or technical contribution provided to agricultural producers by donors, including foreign ones, upon procurement of goods (assets)
Law 169/2017 – National Program in the Area of Competition and State Aid (2017–2020)	
Exclusive rights	rights provided by a competent public authority based on any legislative, regulatory or administrative act, the effect of which is limitation of an economic activity within a certain geographic area to one or several enterprises, which have a substantial impact on the capacity of other enterprises to carry out such activity in the respective area;

Terms and Notions	*Description*
services of general economic interest (SGEI)	marketing of products: a) which are designed for citizens or are of the general society interest; b) which are no longer supplied or cannot be supplied in a satisfactory manner or in conditions compatible with the public interest, as defined by government, by enterprises carrying out activity under regular market conditions, i.e. which an enterprise would not assume to supply, or would not assume to supply to the same extent or in the same conditions if it took account of its own trade interests; c) the supply obligation of which is established by a public authority through a legislative, regulatory or administrative act or through a contract/number of acts or contracts that define the obligations of the given enterprise and of the authority, which are specific to the provision of such services.
Draft *Law on Employment Promotion*	
employment actions	Actions for reducing the misbalance between labor supply and demand, which include measures to promote employment and passive employment measures (unemployment insurance)
measures to promote employment	Measures directed towards increasing the employment opportunities of persons in search of a job, as well as towards stimulating the employers to hire unemployed persons and create new jobs, which include employment services and active employment measures

Institutional framework

The institutional framework regulating the economic incentives described in this study is quite diverse, along with the line ministries involved in economic area. Any central and/or local public authority can become a state aid supplier. Below we've listed several institutions that have the right to regulate, monitor, and carry out control over the economic incentives.

Ministry of Finance – has the mission of public finance management, implementation of good governance principles, development of efficient public policies, monitoring the quality of policies and regulatory acts, proposing grounded government interventions that are to provide efficient solutions in the areas of competence, analyzing the situations and problems, insuring the best relation between the expected results and projected costs. In the context of this study, the Ministry of Finance regulates and approves different tax and customs incentives, as well as provides soft loans and financial guarantees.

The list of state suppliers provided in Table 2 below shows statistics revealing that 80% of the total state aid inventoried by the Competition Council is provided by the **Customs Service**. These economic incentives take the form of customs and tax incentives provided at the border or in relation to imported goods and services. Currently, there are over 60 categories of VAT exemption, provided through the Tax Code and Customs Code.

The Ministry of Finance specialists developed a Single Registry of Tax and Customs Incentives, trying to determine their statute regarding the conditions for intervention qualification as *state aid*. The Ministry of Finance, with support from the World Bank experts developed a report entitled „Tax incentives in the Republic of Moldova". The report analyzes the tax and customs incentives in the Republic of Moldova, their number, international practice in the given area, as well as identifies incentives subject to exclusion, and namely irrelevant and inefficient incentives. As a result of respective report, a cost-efficiency analysis of certain fiscal incentives was to be developed.

The MoF Activity Report 2017 mentions about the need to create some mechanisms that would allow carrying out an assessment of cost estimation and impact of fiscal and customs incentives, paying special attention to the identification of fiscal and customs incentives falling under the Law on State Aid provisions. The report also mentions about the collected data on the cost of fiscal incentives, as well as on sales volume, profit, number of employees, export, activity area by each economic entity that benefited from incentives granted by the State Tax Service and Customs Service. Currently, an analysis of tax incentives and their impact on the economic and social sectors, as well as on the budget is being carried out.

Ministry of Economy – insures the coordination of policies and SME encouragement and support actions, as well as monitoring and evaluation of the latter,

- **ODIMM** - monitors, coordinates, and correlates the implementation of programs for supporting the development of small and medium enterprises. The ceilings of administrative expenditures for launching and unfolding SME sector development programs, and of complementary (monitoring, evaluation, and control) spending are set upon approval of the budget of each program at no more than 10% of the amount allocated for a given program. The strategy implementation process is financed by including the necessary financial resources in the Budget Law, as well as by establishing special funds in compliance with the current legislation.
- **Credit Guarantee Fund for Small and Medium Enterprises,** established within ODIMM, has the statute of autonomous internal unit, without legal personality.

AIPA – Agency for Interventions and Payments in Agriculture is an administrative body subordinated to the Ministry of Agriculture and Food Industry, responsible for managing the financial resources allocated from the state budget and other foreign funds (i.e. EU - ENPARD), designed for supporting agricultural producers, monitoring the distribution of funds and performing quantitative and qualitative evaluation of the impact generated by the government actions for supporting agricultural workers.

AIPA develops annual reports and presentations on the provision of subsidies in agriculture and rural development area. These reports are quite up-to-date and informative. (See http://aipa.gov.md/ro/rapoarte). It is the only institution that has published its report for 2017!

Competition Council – authority with duties to authorize, monitor, and report on state aid. The Council is obligated to monitor the current state aid underway, as well as the authorization decisions which have been issued by it. The monitoring actions are completed by preparing a monitoring report.

Pursuant to the legislation, the Competition Council shall prepare annual reports on state aid provided, which are submitted to the Government and Parliament. The annual reports on state aid provided shall be published in the Official Gazette of the Republic of Moldova (in compliance with the provisions of the Law on State Aid). To our regret, the legislation does not stipulate a deadline for submitting the annual reports on state aid, their publication being rather delayed, by approximately 2 years. For instance, as of the end of January 2018, one could find annual reports only for periods prior to 2015[6].

Local public authorities Finance the implementation of local and regional strategies and programs for supporting SMEs, as well as other actions for their support, local public administration authorities can allocate own funds. For example, in 2013, LPAs provided a total of over 144 million MDL in form of state aid (see Table 2, List of State Suppliers, CPA, 2013-2015, state aid, thousand MDL)

Consultative Council for Small and Medium Enterprises – was created by GR 93/2017[7], having the task to analyze the development of SME sector competitiveness, development of competences and entrepreneurial spirit, and provide recommendations for improving the SME development environment. The Council duties are: identifying the key problems, concerns, and needs of SMEs;…..forwarding recommendations for the development, amendment, and implementation of SME sector development support programs and policies in compliance with the common market requirements and the needs for improving the quality of products according to European standards; providing assistance in promoting SME sector development support policies;…carrying out awareness raising actions and collaborating with the civil society, private sector, and mass media on SME activity development related issues, and **monitoring the SME access to finances** and the rational implementation by competent institutions of the Council recommendations.

Unfortunately, the Consultative Council convened only once, to establish its nominal membership. Other documents or minutes of the latter have not been found in the public space to add value to this study. The creation of such mechanism is important, however one year has passed from its designation and it might be valuable in terms of information for the stakeholders interested in the development of SME support mechanisms to have some monitoring reports on SME access to financing, particularly on those supported with public money. **In this context, it is recommended to the Consultative Council to request from the Competition Council annual or half year reports on state support provided to SMEs by suppliers, regions, CAEM activities, and types of enterprises.**

State aid suppliers – State aid supplier can be any authority of central public administration or of territorial-administrative unit, or any legal entity directly or indirectly administrating the state resources or the resources of territorial-administrative units.

[6] https://competition.md//lib.php?l=ro&idc=51&t=/Transparency/Reports/Reports on State Aid&

[7] Government Resolution No.93 of 22.02.2017, on Establishing the Consultative Council for Small and Medium Enterprises http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=369091

Table 3 List of State Suppliers, CPA, 2013-2015, state aid, in thousand MDL

State Aid Suppliers	**Total 2013**	**total 2014**	total 2015	total 2016	total 2017
Customs Service	3180027.00	3309941.60	3920625.00		
National Bank of Moldova	0.00	53968.80	733900.30		
Academy of Science of Moldova	229218.60	243343.90	275967.10		
Ministry of Finance	124146.84	118996.69	125046.50		
Ministry of Culture	82575.80	105957.80	112623.70		
Ministry of Environment	123401.67	228093.79	83888.64		
Ministry of Labor, Social Protection and Family	35694.80	36766.80	37266.50		
Energy Efficiency Fund	0.00	753.11	27872.45		
Agency for Intervention and Payments in Agriculture	69817.02	141268.16	11343.02		
Agency for Innovation and Technological Transfer	7.91	9144.20	8823.70		
Civil Aviation Authority	21711.50	16352.60	7712.20		
Agency for Public Property	7113.17	5189.00	7007.00		
State Agency for Intellectual Property	2193.30	2184.72	2090.90		
Credit Line Directorate	36711.08	43706.30	1894.19		
Ministry of Health	363.50	1280.37	1374.90		
Ministry of Economy	53263.53	59146.09	1125.00		
Grant Implementation Unit – Government of Japan (Ministry of Economy)	20112.20	12982.10	6450.60		
ODIMM (Organization for Small and Medium Enterprise Development)	6143.68	0.00	0.00		
Ministry of Education	1912.10	2212.10	0.00		
Ministry of Regional Development and Constructions	15.60	0.00	0.00		
Agency of Energy Efficiency	4645.00	2981.90	0.00		
Main State Tax Inspection	9686.14	0.00	0.00		
Ministry of Transports and Road Infrastructure	40742.85	0.00	0.00		
LPAs	144214.55	60463.15	89911.00		
TOTAL STATE AID/SUPPOPRT PROVIDED	**4 193 717.84**	**4 454 733.18**	**5 454 922.7**		

Source: Data from the Competition Council tables

INVENTORY OF ECONOMIC INCENTIVES

In this chapter, we will perform, to the extent possible, an inventory of instruments, forms, and objectives of providing economic support. We will provide several examples, facts, and analyses on the most broadly spread or best known types of economic incentives. We will analyze, to the extent of data availability, the relevance of public incentives selected for the identified needs, their effectiveness (if the policy objectives are likely to achieve) and usefulness / accessibility (determining the likely impact against economic needs).

TAX AND CUSTOMS INCENTIVES

Tax incentives

As mentioned in the Chapter on Definitions and Terms – *tax incentives* are support tools or measures, represented by the amount of taxes and fees unpaid to the state budget. The state provides tax incentives for SME development through the Tax Code provisions (Article 12).

Tax incentives would include: partial or total exemptions from tax or fee or exemptions from their payment; reduced rates of taxes or fees; reductions in taxable object; deferral of the deadline for paying taxes and fees; and rescheduling of tax liability.

Any taxpayer has the right to benefit from tax incentives, in compliance with the legislation, for the fiscal period during which the latter has met all the conditions set for such incentives. At the same time, the taxpayers are obligated, in case of a fiscal legislation observance inspection, to provide upon the first request of persons with fiscal control functions the record keeping documents, reports and other documents and information on entrepreneurial activity carried out, calculation and payment to the budget of taxes and fees, and incentives provided. In cases of electronic record keeping, the taxpayers shall allow access to their electronic accounting system.

As mentioned above, the Ministry of Finance performed an exercise and selected the **tax and customs incentives and put them in a single Registry**. Having analyzed this Registry, we found out that there are approximately 350 cases in which tax incentives are provided, including at the border crossing, in form of exemptions, deferrals, discounts, etc. of different taxes and fees (VAT, excise duty, income tax, local taxes, etc.). This Registry was pending approval by the Ministry of Finance, however it was not finalized by the publication date of this study. Not all these cases refer to SME activity, but the majority of these incentives have a positive or negative impact on entrepreneurial activity.

Law on SMEs No.179 provides that the state shall provide tax incentives for SME development through the Tax Code provisions, while the SMEs shall benefit from a minimum share of public procurement contracts, as established in the legislation on public procurement (Article 12). The following entities shall not benefit from SME support tools: a) enterprises holding a dominant position on the market, which fact is stated by the competent authority; b) enterprises in the social capital of which the share of a founding member which is not a micro, small or medium sized enterprise exceeds 25%, except for non-commercial organizations; c) enterprises importers of goods subject to excise duty; d) trust companies and insurance companies; e) undertakings for collective investment in transferable securities; f) financial institutions; g) microfinancing organizations, savings and loan associations; h) exchange companies and pawnshops; i) gambling enterprises; and j) non-state pension funds;

Legal grounds for the provision of tax and customs incentives

VAT – exemptions, discounts

13) Tax Code (hereinafter referred to as TC), Article 103 (1) – (8), TC, Article 103 (92 – 97), TC, Article 4 (6 – 7, 15, 17, 18, 202), TC, Article 4 (131 - 135),
14) GR No.1086 of 25.11.97, Chapter I, item 2 of the Regulation,
15) GR No.369 of 05.06.95, Chapter III, item 1 of the Regulation,
16) GR No.949 of 12.10.10, Chapter III, item 6 of the Regulation,
17) GR No.765 of 20.08.10,
18) GR No.1001 of 19.09.2001,
19) Law No.8-XV of 17.02.2005, Article 8, paragraph (5, 8),
20) Melbourne Convention of 1988,
21) Florence Convention of 1950,
22) Derogation laws (…), VAT payment extensions -
23) Law No.1417-XIII of 17.12.97, Article 4 (20)-20^3)

Zero VAT rate –

24) GR No. 246 of 8 April 2010 „On the Procedure for Applying Zero VAT Rate to delivery of goods and services on the territory of the country and providing tax and customs incentives for technical assistance and investment projects underway, which fall under international treaties that the Republic of Moldova is a party to". It is worth mentioning that the resolution is amended by the State Chancellery only after the project/program is registered in the AMP (www.amp.gov.md), attaching the following to each project: a copy of the extract from the service provision/work contract containing the contractor's name, the donor's name, and the contract validity term, as well as approved Terms of Reference.
25) Order of the Ministry of Economy No. 66 of 04.05.2010 on Approval of the List of Economic Entities – Light Industry Enterprises and of the Types of Services Provided by the Latter on the Territory of the Republic of Moldova to applicants of placing the goods under inward processing customs procedure taxed at zero VAT rate

EXCIZES –

26) Tax Code, Art.124 (1 – 5, 7-8, 10, 14-17), TC, Art.124 (21) - (22), (101), (111), (112),
27) GR No.1086 of 25.11.97, chapter I, item 2 of the Regulation,
28) GR No.369 of 05.06.95, chapter III, item 1 of the Regulation,
29) GR No.949 of 12.10.10, chapter III, item 6 of the Regulation,
30) GR No.765 of 20.08.10,
31) Law No.761-XV of 27.12.2001, Article 21, paragraphs (1-2),
32) GR No.1001 of 19.09.2001

INCOME TAX –

33) TC, Article 49, items a-e), TC, Article 51, TC, Art.51^{1-3}, TC, Art.52, TC, Art.53^{1-3}, TC, Art.54, TC, Art.68, TC, Article 15, item c),
34) Law No.1164-XIII of 24.04.97, Article 24, paragraph (15), items a)-f),
35) Law No.1164-XIII of 24.04.97, Article 24, paragraphs (16) – (18), Article 24, paragraph (23^4),
36) Law No.8-XV of 17.02.2005, Article 8, paragraph (2), items a) –b)

TAX ON IMMOVABLE PROPERTY –

37) TC, Art. 282, paragraph (2), TC, Art.283, paragraph (1), items a)- s), TC, Art. 283, paragraph (4), item a) – item b -b^1), items c) - j), Art. 284, par. (1), items a), b), c)

38) Law No.1056-XIV of 16.06.2000, Art. 4, par. (7), item c), Art. 4, par. (9), item b).

LOCAL TAXES –

39) Tax Code, Art. 295 – Exemptions – from spatial planning tax, tax for organizing auctions and lotteries on the territory of the territorial-administrative unit, tax for placing publicity (advertising), tax for using local symbols, tax on commercial establishments and/or social service units, market fee, accommodation tax, spa fee, fee for passenger transport services provided on the territory of municipalities, towns, and villages (communes); parking fee, tax on dog owners, refuse collection (sanitation) tax, and from the fee for advertising devices,
40) TC, Art. 296 – LPAs can provide to subjects of taxation (if they make appropriate amendments to the budget of the territorial-administrative unit): a) additional exemptions to those listed in Article 295; b) deferred payment of local taxes for the respective fiscal year; c) incentives upon paying local taxes for socially vulnerable categories of the population.

FEES FOR THE USE OF NATURAL RESOURCES – exemptions from water tax - TC, Art. 306, item a) – prospecting exploration - TC, Art. 314, par. (2), fee for the extraction of minerals, fee for the use of space areas and underground constructions useful for enterprises in the penitentiary system, TC, Art. 319, Art. 324, Art. 329, standing timber fee/tax - TC, Art.334

ROAD FEES/TOLLS - TC, Art. 343 (exemptions from the road use fees - invalid persons who own hand-operated vehicles)

Customs incentives

FEES FOR CUSTOMS PROCEDURES –

41) Law No.1380-XIII of 20.11.1997, Annex 2, note item1, note items 1^1-1^7, note items 2 – 11, Art. 4, par. (5) and par. (6),
42) Vienna Convention of 18.04.1961, Art. 36-37,
43) Geneva Convention of 14.11.1975, Art.7,
44) Law 761-XV of 27.12.2001, Art.21 (1)-Art.21 (2),
45) Law No.213 of 12.07.13,
46) GR No.792 of 08.07.2004,
47) GR No.765 of 20.08.10,
48) GR No.949 of 12.10.10, chapter III, item 7 of the Regulation,
49) Laws by derogation,
50) Agreement between the United State of America and the Republic of Moldova of 21.03.1994,
51) Florence Convention of 1950,

CUSTOMS DUTIES –

52) Law No.1380-XIII of 20.11.1997, Art.28, item a), item b) – n, n^{2-5}), item o), item p, item q^{1-3}), Art. 28, item s), items t- t^1), item v), item w), item x), items y, y^1), item z), z^{1-2}),
53) Law No.172 of 25.07.2014 on Combined Nomenclature of Commodities, item 7, item 9,
54) Free Trade Agreement with CIS Countries,
55) GR No.1086 of 25.11.97, chapter I, item 2,
56) GR No.369 of 05.06.95, chapter III, item 1 of the Regulation,
57) GR No.949 of 12.10.10, chapter III, item 6 of the Regulation,
58) GR No.765 of 20.08.10,
59) GR No.114 of 22.02.12,
60) GR No.1001 of 19.09.2001,
61) GR No.792 of 08.07.2004,
62) GR No.955 of 21.08.2007,
63) Law No.112 of 02.07.2014,
64) Law No.49 of 31.03.2016,
65) Florence Convention of 1950,
66) Law No.172 of 25.04.2014 – Association Agreement Between the Republic of

Moldova and European Union, GR No.400 of 16.06.2015,

67) Law No.172 of 25.07.2014 – Free Trade Agreement Between the Republic of Moldova and Turkey (import quotas),
68) GR No.576 of 06.05.2016 – quotas for imports from Ukraine.

There are also one-off exemptions, approved by derogating laws – which are not monitored, and it is probably very difficult to quantify the budget losses for such operations. Reduced VAT rate, exemption from VAT with the right of deduction, or other exemptions specified in Articles 33, 34, and 35 of the Tax Code are not considered tax incentives.

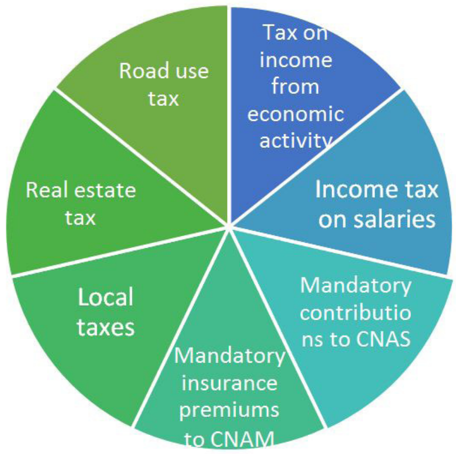
The goal of this study was to identify economic incentives, but their chaotic provision without any systematization did not allow analyzing the impact of these tax incentives on the economy, in general, and particularly on SME development. Even for a most developed country the monitoring and control of the efficiency of such incentives would constitute an unjustified luxury, given the administrative costs required for the control and administration process. Practice shows that any exemption, incentive or facility creates opportunities for corruption and tax evasion where a transparent system for their granting, monitoring and control of the efficiency for the determined goal is missing.

VAT incentives prevail at the level of goods imported in 2013, totaling 3,416.3 thousand MDL, or 63.9% of the total tax and customs incentives.

Incentives for IT Parks

Main characteristics of IT Parks – Founded upon initiative of IT sector enterprises; Maximum operation period – up to 10 years; Administrator coordinated with the Ministry of Economy and Infrastructure; Annual evaluation of the Park activity by the Ministry of Economy and Infrastructure; Practicing only activities mentioned in Law No.77 of 21.04.2016; Mandatory independent annual verification by an audit company of the key indicators; Single sales tax; Payment of subscriptions to the budget of Park Administration. **Single sales income tax - 7%**, or minimum 30% of the amount of the average monthly salary in the economy multiplied by the number of employees.

Composition of unit tax of 7% in IT Parks



Source: Presentation on IT Parks, ATA Consult.

However, currently there are several unresolved issues impeding the good functioning of IT parks, and namely: the taxation modality of facilities provided by the employer – pending an official answer from the tax authorities; the obligation regarding annual audit – it is necessary to specify if the intention was to carry out certain specific procedures or a complete auditing of financial statements; the formula for calculating the contribution of residents to the Park budget, which is currently based on the projected income of residents; the modality of collective decision making by the general meeting of the park residents; and the extension of the list of activities that can be carried out in IT parks[8].

The aid scheme promoted for IT parks might be cancelled after a period of eight years, which coincides with the commitments of Moldovan

[8] Presentation "IT Parks – Challenges and Opportunities for Business Environment in the Republic of Moldova", by Vladimir Melnic, Auditor, "ATA CONSULT" LLC, 13 February 2018

Government assumed under the Association Agreement with the EU, to review the state support/aid and cancel all the discriminatory schemes with state aid elements.

International experience: Romania – Tax exemptions for programmers and researchers - authorities encourage the creation of new jobs through exemption from tax wedge on labor for some employees, and namely: employees involved in the development of computer programs, employees carrying out research-development and innovation activities, employees carrying out seasonal activities covered by specific tax, employees with severe disability. These exemptions are provided to all economic entities, and not as planned in the Republic of Moldova, through IT Parks.

Tax facilities, as incentives, - including loans, exemptions, and deductions – represent one of the key instruments that are used by the states in the attempt to create new jobs, attract new businesses, and strengthen their economies. Incentives are also major budget commitments which collectively cost billions of dollars per year to the governments of these states. Considering such importance, the decision makers throughout the entire country request more and more quality information about the results of tax incentives.

SUBSIDIES

SUBSIDIES provided by the state are considered economic incentives. In the Republic of Moldova, both central and local public authorities can provide subsidies.

In the context of our study, there were analyzed several types of subsidies that can influence the development of SMEs, and namely those most frequently pursuing the following objectives:

i) subsidies provided for increasing the profitability of export activities,
ii) subsidies for creating new jobs;
iii) subsidies as a support measure for agricultural producers,
iii) subsidies qualified as state aid

Subsidies for increasing the profitability of export activities

The fist category of subsidies provided for ***increasing the profitability of export activities*** are those falling under Law No. 800. As it is a new instrument regulated from the moment when the Republic of Moldova joined the WTO, no registries or monitoring reports on this type of support have been identified. Also, the Republic of Moldova has notified the WTO Secretariat that is does not provide subsidies for increasing the profitability of export activities. However, we consider it necessary to more thoroughly study the support programs financed from the World Bank loans, for example – PAC-I, PAC-II which support certain enterprises oriented towards production of goods and services for export[9].

Under the Grant Component of the PAC-II Project, small and medium enterprises are provided non-reimbursable financial support to invest in value added activities or processes oriented towards exports. The goal is to help SMEs implement a set of activities aimed at improving their export competitiveness, increasing export potential using the business development services and other relevant services to improve their export competitiveness. The Grant Component has a budget of $USD 3 million, an amount that approximately 250 SMEs will benefit from within 2015-2019.

As grant beneficiaries can be enterprises from various sectors, provided that their investment projects demonstrate improving their export capacities. For co-financing, priority will be given to enterprises from the following export-

[9] Aid designed for covering the cost of participation in trade fairs or the cost of consulting services required for launching a new product or of a current product on a new market does not constitute aid designed for export related activities, as a rule.

oriented industries: foodstuffs and beverages, electronic and mechanical products, textiles and apparel/clothing, information technologies, and outsourcing of business processes (export of services). An enterprise can become a beneficiary if it pays at least 50% of the cost of services, has maximum 249 employees, exports or wants to export its products/services. The average grant amount provided in 2016 was 166.5 thousand MDL per beneficiary ($ 8.415). Thus, the average contribution of the MGF grant in the total amount of Business Improvement Projects (BIP) constitutes 46%[10]. More details can be found at http://uipac.md/granturi-de-cofinantare .

The Project Implementation Team submits regular reports to the World Bank, and the most recent report posted on their webpage is dated October 2016. http://uipac.md/rapoarte-granturi

Subsidies for creating new jobs

The second type of subsidies – *for creating new jobs* – the newest instrument introduced in 2018, provided for in the **Regulation on Subsidizing the Creation of New Jobs,** approved by Government Resolution No. 1145 of 20.12.2017 for the purpose of stimulating investment in economic development through the creation of new jobs and reduction of migration. The list of economic activities that are not provided subsidies for and the template Subsidization Agreement to be signed between the Ministry of Finance and the beneficiary are approved by the Government of the Republic of Moldova. Their content can be accessed at: http://gov.md/sites/default/files/document/attachments/intr20_97.pdf

The Ministry of Finance will provide *40 thousand MDL per year in form of subsidies*, for each newly created job, to companies that have created at least 100 new jobs, provided that the salary of each employee constitute at least 75% of the average salary in the economy. The eligibility conditions for economic entities include the following – to have no arrears on taxes and fees to the national public budget, to commit to maintain the number of employees for at least three years from the payment date of the last tranche of subsidies. The allocated subsidy shall be used by the beneficiary for the only purpose of paying liabilities to the consolidated budget, i.e., paying income tax on salary, mandatory healthcare insurance premiums, and social insurance contributions.

State enterprises and enterprises with a state share higher than 50% of the authorized capital are not eligible. The state budget for 2018 envisions subsidies for the creation of 1,000 jobs (40 million MDL), however, starting with 2019, the amount of subsidy for the creation of new jobs will be indexed depending on the increase of average salary in the economy.

International experience: Romania – has experience in implementing such kind of programs, qualified as de minimis schemes "subsidized jobs".

a. One of the programs implemented in Romania has as an objective *developing working skills in young graduates* of secondary and tertiary education institutions, who are in transition from school to active life, through on-the-job learning, and subsidizing the jobs with the view to increase the employment rate among young people at their first workplace after graduation.

b. Another support scheme is designed to support investments *promoting regional development through the use of new technologies* and creation of new job, which envisions financing of labor costs associated with highly qualified staff in areas, such as research & development, innovation,

[10] Interim Report on the Status of Project Activities, October, 2016, PAC II

energy, computing (informatics), as well as in high-tech processing industry for legal entities which operate in these areas and create at least 200 new jobs.

c. *Temporary employment programs* – hiring of unemployed persons for activities of local community interest is subsidized by government in form of *de minimis aid*. More exactly, a monthly subsidy is provided for each unemployed person hired on basis of individual employment contract for a determined period of maximum 12 months. The amount associated with each person is 350 RON for the period 1 April - 31 October of the year, and 500 RON (plus social insurance contributions paid by employers) for the period 1 November - 31 March of the year.

d. *Hiring of unemployed persons over 45 years of age who are close to retirement, and of disabled persons* – companies in Romania can receive a monthly amount of 900 RON for each unemployed person over 45 years of age hired for an undetermined period (at least 18 months). The rule is also valid in case of hiring unemployed persons who are sole breadwinners of their families, persons unemployed for a long period or young people between 16 and 24 years of age who have no job, do not follow any form of education and do not participate in vocational training activities, as well as for disabled persons employed.

Note: We can notice that the programs applied in Romania are open to all economic entities, without any qualification criteria in terms of economic and financial situation of the enterprise or the other 7 eligibility criteria mentioned in item 11 of the Regulation approved by Government Resolution No.1145 of 20.12.2017. Other aspects which would insure the relevance and usefulness of this scheme, but are missing, are as follows: the Regulation does not stipulate the conditions for state aid monitoring, express designation of the authority to carry out evaluation, the relevance and usefulness of the provided support, and no performance indicators that should be achieved by the program are mentioned. The rationale of the state aid scheme provided in the preamble of the Regulation makes reference to the provision of the legislation in Article 5, item j) – which is support for regional development[11], but it would be correct to make it item b) – support for the creation of new jobs.

Subsidies in agriculture

Subsidies for supporting agricultural activities represent the best known instrument in our country even though the funds spent for such purposes are not the largest ones. Subsidies for agricultural activities and rural development are provided through the *National Fund for the Agriculture and Rural Development (NFDARA/FNDAMR)* in compliance with the *Subsidization Program for 2017-2021.*

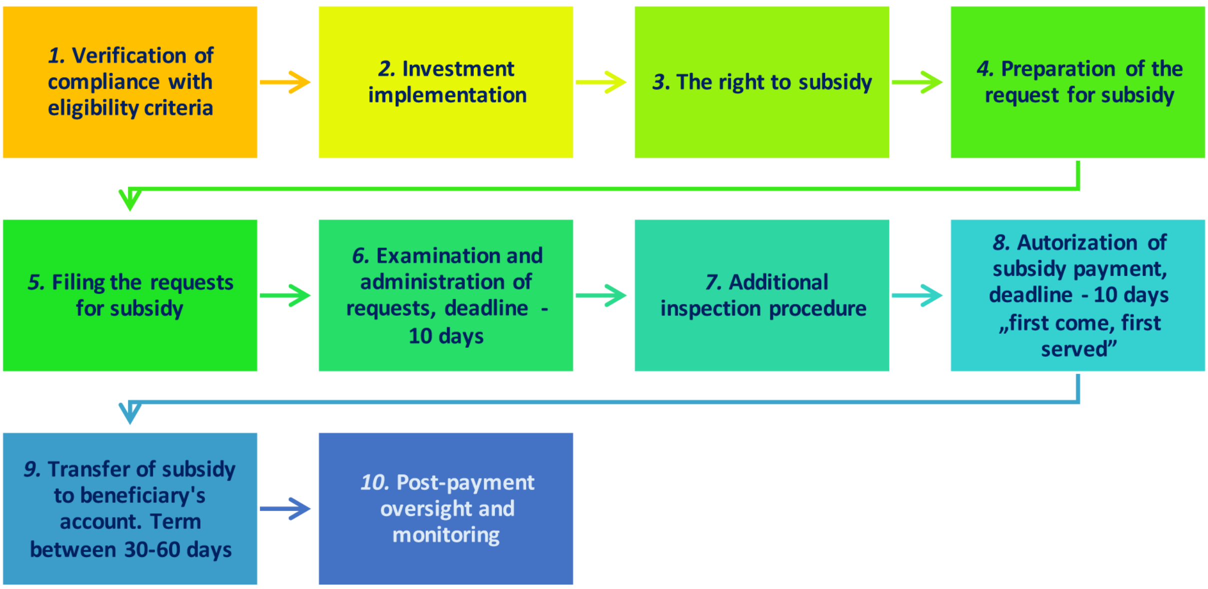
For 2017, financial resources in the amount of 900 million MDL were provided in the Fund for Subsidization of Agricultural Producers, which is by 20% more than in 2016. About 520 million MDL out of the total amount provided in 2017 were used to honor the financing requests submitted by agricultural producers during 2017, related to support measures, another amount of 340 million MDL being used to pay the arrears to farmers' requests filed in 2016.

Subsidization conditions. The subsidization year starts with a calendar period of the year between 1 November of the previous year and 31 October of the current year. Subsidization documentation is submitted within the period 1 February –31 October of each year, with certain exceptions (see item 14 of the Regulation, GR 475/2017);

[11] http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=373501. See item 3 of the Regulation

Eligibility criteria: agricultural producers operating on the territory controlled by the authorities of the Republic of Moldova, who are not in process of insolvency / liquidation and have made the investment according to areas of activity associated with the financial support measures and based on a business plan, have no outstanding tax and fee payment to the national public budget at the moment of filing the subsidization request, have membership in one of the agricultural producers associations of general or branch profile; prove the investment implementation by confirmation documents and are not included in the Ban List of agricultural producers, and are legal owners of the immovable property on which the investment is carried out, as well as owners of movable property constituting subject matter of the investment.

To benefit from subsidies, agricultural workers must **go through 10 important stages**:



The cumulative amount of financial support provided to an agricultural producer within one subsidization year for all support measures shall not exceed **3 million MDL** per beneficiary, while the ceiling for groups of producers is within **4.5 million MDL**. Currently, financial support is allocated according to priorities set in the National Strategy for Agriculture and Rural Development, under 5 subsidization measures which are described below:

Measure No.1 – Investments in agricultural undertakings for restructuring and adjustments to European Union standards. Support is provided for investments oriented towards production of vegetables and fruits on protected areas (winter greenhouses, glasshouses or tunnels), for investments in the creation, modernization, and clearing of perennial plantations, including viticulture plantations and orchards, for purchasing conventional agricultural machinery and equipment, for the equipment and technological renovation of animal breeding farms, for purchasing breeding stock and maintaining the genetic fund of the latter, for stimulating lending to agricultural producers by commercial banks and non-banking financial institutions, for stimulating the risk insurance mechanism in agriculture (winter frosts, early fall and late spring frosts; heavy rainstorms; floods (river overflows); knocking down and blowing out of crops; burning of cereal crops; excessive drought (causing a decrease in yield by 30%); hail; death of livestock, poultry, and bee families due to diseases, storm, hail, flood, excessive cold, and trauma; slaughtering by necessity of livestock, poultry, bee families, according to instructions from ANSA.

Measure No.2 – Investments in processing and marketing of agricultural products – support provided for stimulating investments in the development of post-harvest handling and processing infrastructure; stimulating the creation and functioning of agricultural producer groups; stimulating promotion activities on foreign markets through professional associations, for the organization of and participation in exhibitions, trade fairs, competitions with agricultural and food profile, including in commercial networks on the foreign market.

Measure No.3 – Preparation for the implementation of actions related to rural area and countryside – support for stimulating investments for agricultural land consolidation, compensation of 50% of the state tax and of the fee for notary services upon authentication of land sale-purchase, exchange, and donation contracts, as well as of the registration costs of contracts at territorial cadastral offices, and of the cost of cadastral works in case of a merger aimed at establishing a single immovable asset; for stimulating investments for purchasing irrigation equipment and compensating irrigation costs (water pumping/re-pumping within May-October period); for stimulating investment for purchasing no-till and mini-till equipment; for supporting the promotion and development of organic agriculture (as a fix amount per unit of surface area for the period of conversion to organic farming methods for certain crops (2-3 years), and for preserving organic farming practices: for certified organic products.

Measure No.4 – Improvement and development of rural infrastructure – support provided: for the construction or reconstruction and renovation of infrastructure related to agricultural undertakings (roads, bridges, gas, water, and electric power supply systems, water reservoirs for irrigation); for the construction or reconstruction and renovation of rural agritourist pensions, for the creation or extension of handicraft units – woodworking, handicraft, ceramics, tailoring, embroidery, hosiery, knitwear, ironmongery, leather working, rush and wicker processing shops, etc.:

Measure No.5 – Consulting and training services – support for the provision of consulting services through consulting companies and industry associations for: specialized trainings in: horticulture, crop cultivation, animal breeding, processing of products of animal and vegetable origin, soil science, marketing, management, including financial management, entrepreneurial law and innovative technologies, business plan development, including consulting assistance upon filing a request for financial support with AIPA and preparing the set of documents with the aim to attract additional funding sources from foreign projects.

New: A subsidization in advance program will be launched for young agricultural producers and women-farmers in 2018, constituting approximately 5% of the NFARD, designed for start-up projects. In 2018, AIPA will also provide a possibility to agricultural producers to file subsidization requests online.

Relevance, effectiveness, and usefulness of subsidies for agricultural producers

Over the past 15 years, Moldova has been systematically providing subsidies or insuring direct support measures for agricultural producers. Over time, the Ministry of Agriculture also benefited from technical assistance for strengthening the capacity of specialized institutions, and namely from FAO, IFAD, ENPARD, TWINING, ESRA, and other programs. Thus, the National Strategy for Agriculture and Rural Development for 2014-2020 was developed with the support of several expert teams, particularly of the EUHLPAM[12]. Currently, this document serves as a basis for annual allocations, while the support

[12] http://lex.justice.md/md/353310/

measures are selected so as to contribute to the accomplishment of the objectives set in the Strategy. This document also provides for an evaluation of subsidies required for its implementation, calculated at a rate between 30-50% of the investment needs.

We did not plan to carry out a detailed analysis of the coverage of support provided by each of the support measures, but we are grateful for the fact that there is a stable trend at least at the level of planning, and a growing trend in coverage level, the figure for 2017 reaching 56% of those planned, compared to 47% three years ago. (see the Table below).

The Fund for Subsidization of Agricultural Producers increased from 400 million MDL in 2014 to 900 million MDL in 2017 and 2018. While the number of beneficiaries increased from 5,133 in 2014 to 7,800 subsidy applicants in 2017, respectively [14] (Source: Data from AIPA, February 2018. * - paid in 2017, ** - will be paid in 2018)

The effectiveness of provided subsidies can be assessed if we could perform an intermediate evaluation of the accomplishment of the Development Strategy objectives through support instruments and measures provided. This could be possible theoretically, as there

Table 4. Coverage of subsidies required for the Strategy implementation, in thousand MDL (calculated as reimbursement of 30% of the investment needs), 2014-2018

No.	Objectives of the Strategy	2014	2015	2016	2017	2018 planed
1	Enhancing the Competitiveness of Agricultural and Food Sector Through Market Restructuring and Modernization	600 000	660 000	726 000	798 600	878 460
2	Insuring Sustainable Management of Natural Resources in Agriculture	360 000	396 000	435 600	479 160	527 076
3	Improving the standard of living in rural areas	240 000	264 000	290 400	319 440	351 384
	Total SUBSIDIES required	**1 200 000**	**1 320 000**	**1 452 000**	**1 597 200**	**1 756 920**
	TOTAL AMOUNT PROVIDED[13]	**564 700**	**610 000**	**700 000**	**900 000**	**896 000**
	Coverage level of subsidies provided/planned	**47%**	**46%**	**48%**	**56%**	**51%**

Source: Strategy and AIPA Report for 2017, expert's calculations

Years	Requests		Payments	
	Number of applicants	*Amounts requested*	*Number of contracts*	*Authorized amount*
2014	5133	1,107,755,642	2782	543,966,416.00
2015	9941	597,179,906	8034	388,019,554.95
2016	9937	596,923,397	7924	386,815,387.32
2017	7800	830,060,000	5000* +2700**	xx

[13] Source: AIPA presentation: Results of subsidization for 2017

[14] http://aipa.gov.md/

is a list of indicators (Table provided in the Annexes), but practically, only a few indicators can be found on the NSB official webpage, while the line ministry has not published any progress report on the Strategy implementation yet.

As mentioned in the AIPA report for 2017, for Action No.5 "Consulting and Training Services", there were submitted 15 requests/files for a total amount of 1.2 million MDL. The same report (see Figure 3 of the report, the table below) mentions about 1,363 requests for consulting services.

Through this study, we tried to assess the relevance and usefulness of support measures as they are provided to date, in compliance with the Regulation on Subsidization of Agricultural Products. The study data shows that the need for consulting and counseling in business development (for which the smallest amounts are allocated and used) and the need for obtaining state support are as important as the support provided for purchasing agricultural and conventional equipment and machinery, No-Till and Mini-Till equipment. In the same exercise we noticed that the stimulation of agricultural land consolidation and subsidization of the

Areas and forms of support	Number of applicants	Share of applicants, %	Amount requested, in MDL	Share of amount requested, %
Stimulating investments for purchasing agricultural machinery and equipment	2073	26,58	236,51	28,49
Stimulating investments for post-harvest handling and processing infrastructure development	406	5,21	204,7	24,67
Stimulating investments for the creation, modernization and clearing of perennial plantations, including of viticulture plantations and orchards	1180	15,13	183,85	22,14
Lending to agricultural producers	1463	18,76	78,13	9,41
Equipment and technological renovation of animal breeding farms	208	2,67	56,8	6,84
Stimulating agricultural producers to compensate the cost of purchasing equipment and irrigation	703	9,01	37,2	4,48
Production of fruits and vegetables on protected areas	58	0,74	12,6	1,52
Improvement and development of rural infrastructure	49	0,63	12,2	1,47
Risk insurance in agriculture	261	3,35	4,5	0,54
Promotion and development of organic agriculture	31	0,40	1,9	0,23
Consulting and training services	1363	17,47	1,2	0,14
Stimulating the creation and operation of agricultural producer groups	2	0,03	0,4	0,05
Consolidation of agricultural land	2	0,03	0,03	0,01
Stimulating promotion activities on foreign markets	1	0,01	0,04	0,01
Total	**7800**	**100,00**	**830,06**	**100,00**

users of plant protection products (pesticides) and fertilizers are irrelevant and considered to distort competition (see Figure 4).

STATE AID

State aid is an important tool of economic policies on competition and settlement of market failures. The important fact is that there should always exist a causal link between state aid and market failures which it addresses. State aid provision is justifiable only in zones/areas where different market failures occur, while the quantum/level of provided aid should be proportional to the level of failure that should be compensated. This is the principle of granting state aid in the EU member states.

Forms and objectives of state aid

The Law on State Aid, No.139 was approved on 15 June 2012 and came into effect on 16 August 2013. Further on, over 22 regulatory acts were approved for the implementation of the law and harmonization with the EU legal framework. Pursuant to *Article 6 of Law 139*/2012, state aid is classified into seven granting forms:

1) **Subsidies** and/or grants (subsidiile);
2) **Debt relief /writing-off** or debt assumption;
3) **Exemptions, discounts, deferral** or rescheduling the **payment of taxes and fees**;
4) Provision of **soft** loans (at preferential interest rates);
5) Provision of **guarantees under preferential conditions**;
6) **Supplier investments**, if the investment portfolio rate is lower than the ordinary one;
7) **Discounts (price reduction)** on supplied goods and services, marketing of some goods below the market price.

All these forms of incentives can be granted to SMEs, if requested for accomplishing **ten (10) objectives** **(Article 5 of Law 139/2012) provided for under items a) – j).**

a) designed to remedy a serious disturbance of the economy;
b) for training employees and creating new jobs;
c) granted to small and medium enterprises;
d) for research, development, and innovation;
e) designed for environment protection;
f) granted to beneficiaries providing services of general economic interest;
g) granted for saving beneficiaries who are in difficulty;
h) for founding enterprises by women-entrepreneurs;
i) granted at sector level, depending on sectors of the national economy;
j) support for regional development.

While analyzing the state aid inventory[15], we can observe that the rule of making reference to the legitimate objective in the column *Objective of Aid* is not always observed as stipulated in the Guideline for State Aid Notification, moreover, the objectives are numbered differently in the Inventory than they are in the legislation, which fact creates difficulties in monitoring the implementation and compliance of the legislation with the view to provide state aid/ support.

Before 2013, the Republic of Moldova practically did not monitor its economic incentives, particularly the state aid. Negotiations on the Association Agreement with the EU imposed the authorities to create some order in this area and insure higher transparency. To this end, the concept of an automated information system entitled „State Aid Registry" (SIRASM) was developed in May 2014. It is aimed at providing relevant information in the given area to CPAs and LPAs, as well as to specialists in the given area and interested public (regulatory acts, reports, legal practice, etc.), with the view to promote a competitive culture, as well as to

[15] https://sirasm.competition.md/inventar_public

Table 5: State aid provided within 2013-2015 in compliance with the objectives set in the Law on State Aid

(Thousand MDL)	2013	2014	2015
Horizontal objectives	**1982252**	**1894085**	**1369478**
Research – development and innovation	230727	252488	284791
Environment protection	21522	17270	42828
Support to SMEs	*174092*	*59351*	*10787*
Training of employees and creation of new jobs	10853	19043	24530
Services of General Economic Interest (SGEI)	1545059	1545933	1006542
Sector-specific objectives	**591893**	**680562**	**1659526**
Auto transport	6484	0	356336
Railroad transport	21574	0	0
Air transport	22245	21542	12
Financial services		53969	733900
Other sector-specific objectives	541591	605052	569278
Regional development	**1480194**	**1720931**	**2263003**
Aid of social character	47020	40957	51146
Promotion of culture and cultural heritage	82576	105958	112624
Remedying damages / natural disasters/ other emergency situations	10629	13060	0
TOTAL state aid, in thousand MDL	**4 194 564**	**4 455 553**	**5 455 778**

Source: Data from the Competition Council, calculated by the author, 2018

insure visualization of the stored information (with different access levels), and generation of pre-defined and specific reports.

Currently, the Competition Council has two access platforms – one for state aid suppliers, entitled *State Aid Registry* and another one, entitled *Public Inventory of State Aid*[16], which do not allow broad public access to current/updated information about the objectives in compliance with the categories set in the legislation, amounts of state aid provided per beneficiary, in order to perform quick analyses and evaluations of the relevance, efficiency, and usefulness of these instruments and of their impact on the competitive environment. As regards the provision of relevant information to potential investors, economic researchers, consultants and other decision makers, the latter only have at their disposal the information posted on the webpage of the Competition Council, through online Public Inventory of State Aid and regular reports.

The State Aid Registry is not a public instrument - https://sirasm.competition.md/autentificare. Probably not all institutions have understood which forms of aid are de minimis schemes yet. We are concluding so because we have noticed some of the de minimis schemes are registered in the Inventory of State Aid.

We found out that the reports on state aid are posted on the webpage of the Competition Council only after their approval by the Parliament of Moldova, and in reality, these reports are published approximately two years later, versus the moment of state aid granting. Thus, at the moment of drafting this report, i.e. in February 2018, only data for 2011-2013 was available in the SIRASM for the public.

[16] https://sirasm.competition.md/inventar_public

Aid is also divided into another two categories - **de minimis aid, and state aid**. Unfortunately, there is no efficient, well-developed system that could account for the granting of de minimis aid, which is why we could not assess and evaluate the de minimis aid. The granting of de minimis aid, the regulation and granting procedures are set by Decision of the Competition Council No.2 of 30.08.2013.

De minimis aid is state support in equivalent amount under the threshold of 2,000,000 MDL per beneficiary, provided to the same beneficiary once in maximum 3 years, regardless of the legal form or pursued objective of the latter, provided that such support be not linked to export activities. It is considered that the de minimis aid provided by government does not affect the competition between economic entities, and it is exempted from the notification procedure of state aid through the State Aid Registry.

The rule of de minimis aid does not apply to the following types of aid, and namely those granted to enterprises carrying out activity in the following areas: a) primary production of agricultural products; b) transformation and marketing of agricultural products in the following cases: when the aid amount is set on basis of the price or quantity of respective products purchased from primary producers or introduced on the market by respective enterprises; when aid is conditioned by its partial or integral transfer to primary producers; c) linked to exports, respectively aid directly linked to exported quantities, creation and operation of a distribution network, or designed for other current costs linked to export activity, and aid granted to enterprises which are in difficulty.

As a result of collaboration with the Competition Council, we managed to find out that the programs implemented by ODIMM, such as *PARE 1+1*, *PNAET*, and *Women in Business* – are state aid schemes and fall under the *Regulation* on *De Minimis Aid*, approved by the Decision of the Competition Council Plenum No. 2 of 30 August 2013. The amounts allocated through these programs are partially found in the online Inventory of State Aid.

International experience: In the EU member states, *de minimis aid* is considered the amount of 200,000 Euro. A simple calculation, taking into account the definition of SMI classification, reveals that such de minimis aid would **constitute 2%** of the turnover of small enterprises. In the Republic Moldova, this quantum is 2, 000,000,000 MDL, and **constitutes 8%** of the turnover of enterprises from the category of small ones. This difference of the amount in percent can be considered as a discriminatory treatment for those SMEs which do not manage to obtain this state aid in form of de minimis scheme. Taking into account the level of transparency and corruption assessed in the country, this is an aspect that should be reconsidered, or the de minimis schemes should be notified, and the information made available on-line.

Relevance, effectiveness, and usefulness of state aid

Permanent control and monitoring of state aid should contribute to excluding unjustifiable distortion of the competition, more efficiently directing the support instruments and aid schemes towards a more balanced economy and insuring the existence of state secured common good in cases when economic operators are not attracted by certain sector of general interest.

Analyzing the amount of state aid for all objectives, we notice that state aid registers substantial growth trends, and namely recording an increase by 8% compared to 2013, while in 2015 it achieved a growth by over 18%. At the same time, the funds allocated for supporting small and medium enterprises decrease by approximately 3 times every year. Such market intervention is not the one that would settle market failures, but rather creates an unfair

Table 6 ***State aid reported during 2011–2015***

Indicators	2011	2012	2013	2014	2015	2016	2017
State Aid (SA) expressed in:							
Million MDL	4 256, 9	4 873,2	4 194,6	4 455,6	5 455,8	-	-
*Thousand EUR**	260 573	313 190	250 871	239 160	261 042	-	-
Share in GDP, %	**5,17**	**5,52**	**4,17**	**3,98**	**4,48**	-	-
SA/capita** – *MDL*	1 196	1 369	1 178	1 252	1 535	-	-
SA/capita – *EUR*	73	88	70	66	73	-	-

Source: CC Reports on state aid granted in the Republic of Moldova during 2011–2015

Number of beneficiaries	3173	3589	3433	-	-	-	-
Number of suppliers	106	123	124	-	-	-	-
Number of records	1460	1731	1667	-	-	-	-
State sources, million MDL	3 022,7	3 386,3	3 957,4	-	-	-	-

Source: Public Inventory of State Aid

**Calculated on basis of average annual exchange rate of Moldovan Lei against Euro, source: National Bank of Moldova (lei/euro: year 2011 – 16,34; year 2012 – 15,56; year 2013 – 16,72; year 2014 – 18,63; and year 2015 – 20,90). **Population number - NSB*

competition, which led to a decrease in the number of private SMEs by approximately 400 units in 2015, 100 of which are joint ventures. At the same time, the number of inefficient municipal public enterprises is growing, even if the number of employees in the latter is also decreasing (data: statistica.md).

The opportunity of granting aid, the amount of the latter, as well as the correct procedure or most appropriate aid instruments should be established through analyses and advisability studies carried out prior to the effective establishment of proposed facilities. Any excess amounts provided to enterprises have the potential to insure an unjustified economic advantage to the latter, likely to excessively affect competition on the market. In such situation, the negative effects of granting state aid tend to surpass the positive effects of their granting, and this phenomenon is currently present in the economy of the Republic of Moldova.

During the analyzed period, the amount of state aid recorded a fluctuating trend. It increased from 4,256,96 million MDL in 2011 to 4,873,24 million MDL in 2012, due to a sharp increase of state aid for regional development, followed by a slight decrease in 2013, while in 2015, state aid increased again to 5,455,78 million MDL, constituting a growth by 28.16% compared to 2011. Respective support measures were provided without observing the rules for granting state aid, such as granting conditions, clear criteria, etc. Over 600 support measures provided to enterprises by the state aid suppliers were reported during 2011–2015.

Subsidies provided as state aid

Table 7: Subsidies granted as state aid during 2013-2015, in thousand MDL

Supplier	2013	2014	2015
Ministry of Finance	92374	83391	83355
Academy of Science of Moldova	229218	228094	83889
Ministry of Environment	123278	36766	37266
Ministry of Culture	82575	105957	112624

Subsidization objectives	2013	2014	2015
Horizontal objectives	**496815**	**429316**	**446740**
Research- development and innovation	229227	252488	284791
Environment protection	21522	14288	40368
Support to SMEs	**109838**	**40080**	**960**
Training of employees and creation of new jobs	3333	3448	3947
Services of general economic interest (SGEI)	132895	119013	116674
Sector-specific aid	**20250**	**0**	**0**
Rail transport	20000	0	0
Other sector-specific objectives	250	0	0
Aid for regional development	**125188**	**355827**	**82736**
Promotion of culture and conservation of cultural heritage	**82576**	**105958**	**112624**
TOTAL	**724 828**	**891 101**	**642 100**

Source: Competition Council, 2018

Supplier	2013	2014	2015
AIPA	69817	0	0
Ministry of Labor, Social Protection and Family	35694	2212	0
Credit Line Directorate	33541	243343	275967
Ministry of Transports and Road Infrastructure	21529	0	0
ODIMM	6010	0	0
Agency for Energy Efficiency	2354	9144	8824
Ministry of Education	1912	141268	0
Mayoralty of Şoldăneşti Town	22896	40079	960
Other LPAs	3624	90	0
TOTAL	**724 828**	**891 101**	**642 099**

Source: Competition Council, 2018

Pursuant to Law No.139 / 2012 – **Subsidies represent the first form of granting state aid**. As entries in the State Aid Registry started being make in 2013, 29 suppliers of state aid in form of subsidies were recorded for this year[17] (11 CPAs and 18 LPAs). The biggest number of subsidies as state aid were granted by the Academy of Science and the Ministry of Environment, while at local level, the mayor's office of Șoldănești town directed amounts of around 23 million MDL to a SGEI operator. Subsidies of such type are granted on basis of **state aid schemes** and as **individual aid**. The share of individual aid is rather high, i.e. in 2012, 26% of the quantum of subsidies as state aid was granted in form of individual aid, while in 2016, this indicator increased by 3%.

Subsidies as state aid were granted for the following objectives: particularly for Research, development, and innovation; Support to SMEs, Services of general economic interest (SGEI), Regional development, and Promotion of culture and cultural heritage. Fewer subsidies were aimed at environment protection, and practically no subsidies were granted for remedying the damages caused by natural disasters or other emergency situations.

SGEI services are not provided on basis of some awarding act that would comply with the provisions stipulated in the regulatory

[17] More recent data is missing

framework on state aid, and neither do they define the modalities and framework conditions to be met for insuring the services, performance indicators, technical conditions for providing the services or conditions for carrying out activities that are specific to the services, in order to insure quality.

The legal basis on which ***state aid for supporting SMEs*** was granted includes the following:

- Pilot Program for Attracting Remittances in the Economy „PARE 1+1" for 2010 – 2018, approved by Government Resolution No.972 of 18.10.2010.
- SME Support Program approved annually by State Budget Law;
- Regulation on the Program for Stimulating the Participation of Economic Entities in Trade Fairs and Exhibitions, justified by Government Resolution No.538 of 17.05.2007 „On ODIMM Establishment".
- Decisions of ODIMM Coordination Council
- Regulation on the Procedure for Distributing the Resources of the Fund for Subsidization of Agricultural Producers, GR No.152 of 26.02.2013, GR No.135 of 24.02.2014, GR No.352 of 10.06.2015, GR No. 910 of 25.07.2016 /for 2013, GR on Approval
- Decisions of district councils
- Law on State Budget for the respective year, for implementing Government Resolution on Record Keeping of Passengers in Suburban and Inter-city Traffic Insured by Moto-vehicle Transport Enterprises, No.999 of 29.10.1997[18].

Aid for SGEI, granted to beneficiaries providing services of general economic interest. We did not undertake to evaluate the correctness of state aid granted in this area, but while analyzing the statistics of state aid, we noticed

[18] http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=305936

INTERNATIONAL EXPERIENCE:
European Context of the SGEI

The main characteristics of SGEI are as follows:

Universality: It refers to the right of each citizen to have access to services that are considered essential, of a certain quality level, on the entire territory of member states, and at accessible prices. It imposes the obligation for industries to deliver a service defined by certain specific requirements, including full territorial coverage.

Continuity: Underlines the obligation of the supplier to insure uninterrupted operation of the service. There are certain services for which uninterrupted delivery is the commercial interest of the supplier, with no need to impose a legal requirement in this sense. At national level, continuity requirements must be harmonized with the right of employees to strike, and with the requirements for observing the rule of law.

Service quality: Defining, monitoring, and imposing a quality level to public authorities are the key elements in the SGEI regulations. These include safety regulation, billing correctness and transparency, territorial coverage and protection against disconnection. Member states are required to monitor and comply with the quality standards, and insure the publication of information about quality standards and current performance for operators.

Affordability: It refers to the fact that a service needs to be provided at a price affordable for everybody. One of the key EU principles is the principle of solidarity. This principle is built on by both operators and public administrations, which provide compensations or subsidies to insure that the service remains affordable. The application of affordability principle helps achieving social and economic cohesion within the member states.

Customer and user protection: It refers to the obligations imposed on suppliers to guarantee a good quality service, a high level of health protection and physical safety, transparency (tariffs, contracts, compensations), selection of service operators, competition between suppliers, constitution of regulatory authorities, implementation of redress mechanisms, representation and active participation of customers and users in the definition and evaluation of services and payment forms.

that the amounts provided for this objectives are rather high, ranking on the second position after the research, development, and innovation objective, constituting 26% of the state aid for general objectives, and varying between 18-20 % of the total state aid granted annually for the legitimate objectives of the state. The textbox below provides an example of regulation and qualification of SGEI in European context.

E.G. „Although the Joint Stock Company"Apa-Canal Hincesti Regional Operator"is not the only utility providing water supply services within the range of Hincesti municipality, this fact does not exclude the possibility of transferring the assets – public property into the management of another enterprise. Thus, the support measure risks to distort competition."

[Source: ASR-53-of-02112017-Decision-Hincesti Mayoralty]

Analyzing the decisions of the Competition Council, we can state that some state aid is approved for periods of 2-5 years and more, without setting a condition for monitoring the efficiency of respective enterprises, and sometimes even admitting the fact that the 4 conditions that must be met simultaneously for being granted state aid[19] are not well-justified.

In the EU member state, *de minimis* aid **represents 2%** of the turnover of an undertaking qualified as *small*. In the Republic of Moldova de minimis aid **represents 8%** of the turnover of the same category of enterprises. This difference of the amount in percentage can be considered as discriminatory treatment for SMEs which do not manage to obtain such state aid in form of de minimis scheme or in form of individual aid.

Taking into account the concerns of the SME sector and the estimated level of transparency and corruption in the country, it is recommended to reconsider such treatment or the rule for granting state aid. Another alternative would be to notify *de minimis aid* and make the information available online, but not so as it is done currently. The latter are not part of the State Aid Inventory www.competition.md, and it is not required to be preliminarily approved by the Competition Council.

Waiving of budget revenues (exemptions from, rescheduling of, discount on payment of taxes and fees)

In the structure of state aid distribution, according to granting forms in the analyzed period, the highest share was held by tax incentives, the latter constituting 77.74% of the total amount of state aid reported. State aid in form of tax incentives is considered more harmful for the competitive environment, and therefore their share in the amount of state aid is to be reduced up to the level recorded within the European Union[20] (i.e. 2014 – tax exemptions constituted 30% of the total state aid).

The procedure for state aid distribution shows that most of the state aid provided during the baseline period relate to **waiving of budget revenues,** these constituting, on average, 85% of the amount of state aid reported. During the analyzed period the share of state aid related to waiving of budget revenues in the total amount of reported state aid increased from 80% in 2014 to 88% in 2015. *(Table 9 Amount of state aid reported, by budget expenditures and waivers)*

Soft loans as state aid

Central and local public institutions can provide soft loans. According to Public Inventory, about 830 physical and legal entities benefited from this incentive in 2013. The most known

[19] 1) to be granted from state resources or from resources of territorial-administrative units in any form; 2) to be granted selectively; 3) to confer the beneficiary an economic advantage that wouldn't have been obtained under regular market conditions; 4 to distort, or risking to distort the competition

[20] According to European Union data (DG for Competition), state aid in form of tax incentives granted at European Union level

Table 9 Amount of state aid reported, by budget expenditures and waivers

Category	2011		2014		2015		2016	2017
	mln. MDL	**%**	**mln. MDL**	**%**	**mln. MDL**	**%**	**-**	**-**
Waiving of budget revenues	3690,82	87	3559,27	80	4798,03	88	-	-
Budget expenditures	566,14	13	896,28	20	657,74	12	-	-
TOTAL	**4256,96**	**100**	**4455, 55**	**100**	**5455,78**	**100**	**-**	**-**

Source: CC reports on state aid provided in the Republic of Moldova during 2011–2015

program – state aid scheme was the **PNAET Program,** financed by the Government of the RoM based on Government Resolution No.364 of 03.06.2008, and extended until 2018. It covers financing of rural investment projects by providing reimbursable commercial loans with a grant component, as well as financing of leasing contracts. Financing sources include foreign state loan and grant funds of investment projects for development, re-credited by the Ministry of Finance. The beneficiaries are young physical and legal entities carrying out entrepreneurial activity in all areas of activity in the rural sector, aged between 18-35 years.

2 KR – Small-scale Irrigation Systems Development Program & Installment Sales Program in Irrigated High Value Agriculture; Food Security for Underprivileged Farmers Project - all these provide preferential leasing for installment procurement at 0% interest rate of irrigation equipment and agricultural machinery to agricultural undertakings for a term up to 2 years.

The Energy and Biomass Project **(PCCF/PEBM-UNDP**) – provided soft loans and leasing. The Project was implemented in two phases. The goal was to finance procurement in installments, at 0% interest rate, of transport machinery and balers, equipment for biomass processing, collection, and transportation. The Project was implemented in cooperation with the UNDP. The results achieved under the Energy and Biomass Project during the second phase , 2015-2017, are available on the webpage[21]. Both expected results, and those achieved until to date are open to the public and can be analyzed. It

*Table 10: **Soft loans** as state aid, 2013-2015*

	2013	2014	2015
Ministry of Finance	31008.80	34377.80	41691.90
Credit Line Directorate	3169.40	3626.64	934.19
Agency for Energy Efficiency	2290.20	2981.90	0.00
Implementation Unit of Japanese Grant (2KR)	0.00	750.70	216.10
National Bank of Moldova	0.00	53968.80	733900.30
Cahul District Council	48.30	0.00	0.00
Hâncești District Council	1032.05	1225.70	0.00
Leova District Council	138.70	9149.60	3.74
Orhei District Council	0.00	0.00	2626.48
Commercial Bank "Moldindconbank"JSC	17.45	10.20	0.00
TOTAL	**39 717.9**	**108 105.34**	**781 387.71**

Source: Tables of Competition Council

[21] http://www.md.undp.org/content/moldova/ro/home/projects/moldova-energy-and-biomass-project2.html.

is regretful that the Project undertook to create nine (9) public-private partnerships for supplying biomass heating power service in the country, and now we are already in the final phase of the Project, with only two such partnerships established in Ungheni and Nisporeni to provide energy supply services, etc. The first phase of the Project was implemented during 2011-2014. Starting January 2015, the Project entered into its second implementation phase. The planned budget constitutes USD $11.2 million[22]

Financial guarantees

Access to financing was stated by SMEs as one of their biggest problems. In addition to the fact that there are insufficient cheap loans, very frequently the entrepreneurs, particularly young ones or those from agricultural sector, are faced with the lack of collateral. The use of financial guarantee in the SME sector lending activity has a number of advantages, particularly for financial institutions, and namely: it shares the credit risk; contributes to improving the credit portfolio; financial institutions benefit from coverage by a liquidity guarantee, reducing the amounts for their risk funds; they reduce their costs, expand and diversify their clients, with a low risk level. Using the financial guarantee is also advantageous for entrepreneurs-beginners without a credit history or even without assets subject to collateral.

CGF – guarantees for SMEs

To date, we do not have too many instruments in the list of instruments for stimulating SMEs which could take the form of financial guarantees, the **Credit Guarantee Fund (CGF)** being thus the only instrument of such kind. The Fund was established back in 2002, but the first capitalization was insured only in 2004. It is managed by ODIMM. The Fund issues financial guarantees classified into five (5) updated guarantee products. The financial guarantee issued by ODIMM can be used to cover the collateral required for loans requested from commercial banks. The CGF is capitalized from the state budget resources, with support from the European Union. SMEs can obtain such financial guarantee at up to 0.5% annual commission, and are exempted from the financial guarantee issuance fee.

Those **5 guarantee products for supporting SMEs** are designed for:

1. *Enterprises managed by young people* – financial guarantees are issued for a term of 60 months to secure loans in amount of up to 500 thousand MDL, but not more than 50% of the loan amount;
2. *Enterprises managed by women* – financial guarantees are issued for a term of 60 months to secure loans in amount of up to 700 thousand MDL, but not more than 70% of the loan amount;
3. *Newly-reregistered enterprises* – financial guarantees are issued for a term of 36 months to secure loans in amount of up to 700,000 MDL, but not more than 70% of the loan amount;
4. *Active enterprises* – financial guarantees are issued for a term of 60 months to secure loans in amount of up to 3 million MDL, but not more than 50% of the loan amount;
5. *Exporting enterprises* – financial guarantees are issued for a term of 60 months to secure loans in amount of up to 5 million MDL, but not more than 50% of the loan amount.

ODIMM collaborates with seven commercial banks with the view to apply this incentive. More details on participation conditions can be found at http://fgc.odimm.md/. As of 31 December 2016, the CGF facilitated disbursement of loans in the amount of 139.7 million MDL, and the support of investment projects in the amount of 232.5 million lei for 239 SMEs[23]. Financial guarantees issued by ODIMM indisputably contribute to the creation of new jobs and maintenance of the current ones. The

[22] http://www.md.undp.org/content/moldova/ro/home/projects/moldova-energy-and-biomass-project2.html

[23] CGF Report for 2016, ODIMM

*Table 11: **Financial guarantees**, as state aid, 2013-2015, thousand MDL*

	2013	2014	2015
Ministry of Finance[24]	4122.84	1227.59	0.00
ODIMM	132.75	0.00	0.00
IU of Japanese Grant /MoE	1099.40	0.00	0.00
Municipal Council of Chişinău	1713.50	1825.90	3524.10
Municipal Council of Bălți	2919.20	5190.79	6548.60
District Council of Orhei	463.00	1662.98	0.00
District Council of Soroca	231.00	746.20	0.00
District Council of Ştefan Vodă	1174.00	0.00	150.00
"Moldindconbank"JSC[25]	4.13	0.00	18.95
Total, financial guarantees	**13872.82**	**12667.46**	**12256.65**

CGF secured loans contributed to improving the production capacity in agriculture, food industry, woodworking industry, textile industry, and provision of different services. By October 2017, the CGF issued financial guarantee for 286 companies, in the amount of 80 million MDL, which facilitated the provision of bank loans in the amount of 238 million MDL, contributing to the implementation of investment projects in the amount of 361 million MDL, creation of over 740 new jobs, and retention of over 1,300 persons.

The analysis of the impact of financial guarantees on enterprises as of the end of 2016 reveals the fact that **each lei issued in form of financial guarantee allowed providing loans in the amount of 2.82 lei and supported investment projects in the amount of 4.69 lei.** Compared to the situation as of the end of 2015, the impact of multiplication process increased by 0.15 lei in the case of provided loans, and by 0.37 lei in the case investments made.

[24] Government Resolution No.599 of 01.07.1997 on Measures for Improving the Situation with Regard to Ensuring Drinking Water Supply and Sewerage Services to Economic Entities and the Population of Chisinau Municipality.

[25] Government Resolution No. 349 of 07.06.1993 on Measures for Protecting Housing Construction Cooperatives

Other financial guarantees, provided as state aid

In addition to financial guarantees for SMEs, provided by ODIMM, as a result of the study there were identified a number of outdated and exhausted regulatory acts (GRs*) based on which financial guarantees continue being issued and paid without any goal (i.e. financial guarantees for Apă-Canal Utility, even though respective Government Resolution was approved in 1997 and provided for a schedule of eight (8) years and reimbursement of related amounts to the Ministry Finance, in reality, the GR provisions are not observed, as based on these, guarantees have been issued at the expense of budget sources to housing construction cooperatives for years, starting in 1991 until 2016, when GR No.349 of 1393 was abrogated.

It is recommended to fully review the legislative base which currently allows for providing financial guarantees by CPAs and LPAs, and assess the legislation in compliance with the principles and conditions stipulated in the Law on State Aid. Institutionalized financial guarantees, such as those issued by the CGF, which are monitored and justified should be certainly maintained, while the others that are occasionally issued without any economic justification should be immediately abrogated.

Discounts on goods and services supplied, including the sale of movable and immovable property assets bellow the market price
We noticed that state aid provided to beneficiaries did not contribute to the development of the Industrial Park, but rather to its ruining. Respective aid was notified to the Council in form of the objective for *Less Favored Area*, while Chisinau Municipality, where this park is located, cannot be considered a less favored area.

Public resources are limited and should be allocated so as to satisfy the priority needs of the country and manage to insure the common good to all the citizens. We can state that we have a mechanism for granting state aid to low-performance enterprises, and that public resources are inefficiently allocated. Resources are not allocated according to clearly set objectives, but rather by deviating from the objectives mentioned in the law, thus dispersing the state efforts. As a result, state resources are not targeted to objectives that should produce benefic effects of general interest.

In the absence of adequate economic analysis, illegal aid is frequently provided or state aid is abusively used. This will lead to further distortion of the competition, significant increase of social and regional disparities with negative effects on the competitive environment.

Under the Association Agreement, the Republic of Moldova assumed some commitments in relation to state aid, such as to create an independent authority (Competition Council) invested with competences required for carrying control over state aid, developing the legislation on state aid control, and insuring transparency in the given area.

To adjust the state aid schemes in place in the Republic of Moldova to the EU acquis-communautaire, it is necessary to review the procedure for granting state aid by reducing the amount of state aid granted in form of waiving budget revenues and increasing the amounts of state aid granted in form of budget expenditures, considered to be more transparent and more quantifiable.

Case study: *Industrial Park "TRACOM" was created in May 2011, on basis of Joint Stock Company "Tractor Manufacturing Plant", located on 32 hectares, public property; The feasibility study for the creation of Industrial Park envisioned the investment of 13 million MDL in the IP infrastructure to insure its proper operation… however*

- *In June 2011, Tracom IP is transferred to "TRACOM Tractor Manufacturing Plant" JSC for 30 years, through Government Resolution No. 440 of 2011;*
- *In 2011, TRACOM Tractor Manufacturing Plant JSC benefited from* ***769.3 million MDL*** *as individual state aid in form of discount (the figure is doubled, might be an error),*
- *In 2012, TRACOM Tractor Manufacturing Plant JSC benefited from* ***769.3 million MDL*** *as individual state aid in form of discount,*
- *In 2013, TRACOM Tractor Manufacturing Plant JSC benefited from* ***385 million MDL*** *individual state aid in form of discount,*
- *In December 2015 – the name TRACOM Tractor Manufacturing Plant JSC was changed to "TRACOM" JSC;*
- *In 2015, TRACOM JSC ended the financial reporting year with a profit of 96,946 MDL,*
- *In March 2017, TRACOM JSD registers losses in the amount of* ***1,541,822 MDL*** *(according to Financial Statement for 2016.*

The problems of Moldovan economy in terms of free competition are also highlighted in the „Index of Economic Freedom – 2016 /2017" ranking, where the Republic of Moldova ranks 110 out of 180 countries, positioned between Tajikistan and China, much bellow Belarus, ranking 104. Romania ranked on position 39.[26]

[26] https://www.heritage.org/index/pdf/2017/book/index_2017.pdf

PROVISION OF SOFT LOANS / LEASING FROM FOREIGN SOURCES

Provision of soft loans is provided to economic subjects, in form of exemption from paying interest or paying a smaller interest rate than the rates on such loans on the capital market, by both the government in cooperation with different local and international commercial banks, and by different technical assistance programs financially supported by donors and development partners of the Republic of Moldova. Provided below is a list of active programs over the past years, which provide soft loans and leasing, institutions through which such instruments are made available, program costs in general, and their financiers (Table 12 List of programs providing soft loans and leasing).

Moldovan Orchard / Winemaking Industry – The Project is funded from a loan in the amount of 120 million EUR provided by the European Investment Bank (EIB) on basis of Financing Contract (FC) signed with the Government of the Republic of Moldova on 31 July 2014. The Contract came into effect on 27 May 2016 and is operational for 6 years from the effective date of project implementation. The *goal* of the Program is to redress the viticulture and winemaking sector and stimulate the production of wine with protected designation of origin (PDO) and protected geographic indication (PGI). The Program provides soft loans and leasing for periods up to 10 years to enterprises operating in the viticulture and winemaking sector, as well as in the value chain of the latter (producers of packaging, labels, corks, educational and research institutions, etc.), to members of a Regional Association of PGI Wine Producers. The Program beneficiaries enjoy tax and customs facilities, such as 0-rate VAT upon supply of goods, works, and services; exemption from customs duties and customs procedure fees upon import of goods and services. These instruments are made available through five commercial banks. More details about eligibility conditions can be found at http://winemoldova.md. The funds of this Program are not fully used, i.e. approximately one fifth (1/5) of the amounts available. One of the reasons would be unfavorable conditions set by commercial banks.

Competitiveness Enhancement Project (CEP 2) – provides soft loans to private enterprises (minimum private capital share - 75%) for investments targeting direct and indirect exports, related to activities in agricultural sectors, processing of agricultural products, production of goods and delivery of services (except for consulting services), directly or indirectly linked to income generation from exports. The total amount re-credited to indirect exporters shall not exceed 30% of the credit line. The maximum loan amount can reach: up to \$800 thousand USD – for a sub-loan designed for investment projects, and up to \$500 thousand USD – for working capital and raw material. The grace period is according to the participating bank policy, while the floating interest rate is determined by the Credit Line Directorate (semiannually). Retroactive financing of eligible costs financed by eligible banks is also possible[27] during the period before the entry into effect of the Credit line, but not earlier than 7 May 2014.

Total budget: \$29.4 million USD. The Program is financed by a credit and a loan from the World Bank Group. As these sources are cheaper than those from the portfolio of local commercial banks, they should be normally provided at preferential interest rates to stimulate investments and new technologies. Even though the Program stimulates long-term lending, the problem constantly reiterated by SMEs is

[27] CB "Fincombank" JSC, CB "Comerțbank" JSC, CB "ProCredit Bank" JSC, CB "Mobiasbanca" JSC. Groupe Societe Generale, Info: Credit Line Directorate (DLC), Tel. 022 23-82-46, email:dlcminfin@arax.md, http://www.mf.gov.md/istitutii/DLC/proiectenoi

Table 12 List of programs providing soft loans and leasing

Program title	Available through	Financier	Budget, USD	Budget, EUR	Budget, MDL
Moldovan Orchard	Partner commercial banks	European Investment Bank		120,0 mln	
Winemaking Industry	Partner commercial banks	European Investment Bank		75,0 mln	
Inclusive Rural Economic and Climate Resilience Program (PRRECI IFAD VI) (young entrepreneurs, SMEs, rural financing)	CB "MAIB" JSC CB "Fincombank" JSC CB "Mobiasbancă", JSC AEÎ	IFAD Government of Moldova	12,7 mln 4,8 mln 3.7 mln		
Small Scale Irrigation Systems Development Program (2KR)	UIAPCPA	European Union			24,9 mln
High Value Irrigated Agriculture Installment Sales Program (2KR)	UIAPCPA	US Government	4,6 mln		
Energy and Biomass Project in Moldova (PCCF/ EBPM-UNDP)	UIAPCPA	UNDP Moldova, European Union		0,4 mln	
Food Security for Underprivileged Farmers Project (2KR)	UIAPCPA	Government of Japan			157,9 mln
Competitiveness Enhancement Project –II	CB "Fincombank" JSC, CB "COMERŢBANK"…	World Bank	29,4 mln		
Investment Loans (DLC - reflow)	Partner commercial banks	Ministry of Finance | DLC	5,6 mln	5,6 mln	320,6 mln
MOSEFF (Moldovan Sustainable Energy Financial Facility)	CB "MAIB" JSC CB "ProCredit Bank" …	EBRD, European Union		42,0 mln	
Total Budget, Programs			**60,8**	**243,0**	**503,5**

Source: www.finantare.gov.md, accessed in February 2018 that loans are not provided for periods longer than 2 years, and so, the entrepreneurs have to go through the administrative application procedures once again, if they want to benefit from lending for 4 years or 8 years. These significantly affect the business predictability and planning, and finally, we have a very low rate of using credits from foreign sources, particularly those from Winemaking Industry and Moldovan Orchard.

Most of the **IFAD PROGRAMS** had components with soft loans or leasing. The International Fund for Agriculture Development has invested in the Republic of Moldova around $101 million USD until to date (more details at: www.ifad.md):

I.	Rural Financing and Small Enterprises Development Project	$8.0 mln,
II.	Agriculture Revitalization Project	$15.5 mln
III.	Rural Business Development Program	$13.7 mln
IV.	Rural Financing and Marketing Services Program	$13.2 mln
V.	Rural Financing Services and Agribusiness Development Project	$24.5 mln
VI.	**Inclusive Rural Economic and Climate Resilience Program VI**	$26.1 mln

IFAD VI – for SMEs – provided soft loans for financing agricultural investments of SMEs for all rural income generating agricultural activities. The amount of a loan could be maximum $150 thousand USD, the beneficiaries' contribution being at least 25% of the loan amount. Interest rate: 8.9% in MDL; 4.85% in USD; and 4.85 in EUR, for a term of up to 8 years, and a grace period up to 4 years. Loans available through commercial banks selected by IFAD, based on evaluation and monitoring criteria. Funding sources were provided from the International Fund for Agriculture Development (IFAD) and the Government of the Republic of Moldova, through Credit Line Directorates.

GRANTS

Grants – non-repayable financing - constitute the most attractive tool for support and stimulation. The Government of the Republic of Moldova, with the support of development partners and international financing institutions, has several programs which provide. These programs with grant components are provided in the table below. The majority of grants are conditioned by co-financing, the latter varying from 10% to 60-70%.

PARE 1+1 – It is one of the most publicized and know programs aimed at streamlining the human and financial resources of Moldovan migrant workers into sustainable economic development of the country by stimulating the creation and development of businesses by migrant workers and beneficiaries of remittances. The Program operates based on „1+1" rule, so that each lei (MDL) invested from remittances will be added one lei in form of Grant under the Program. Grant beneficiaries can be migrant workers, citizens of the Republic of Moldova and beneficiaries of remittances, I degree relatives. According to „PARE 1+1" Program implementation results during 2010-2017, **2,254 persons registered** for the Program, and **1,873 of these persons were trained** on business start-up and development, which fact contribute to increasing their skills in managing an enterprise. During the seven years of implementation, the Program facilitated access to non-repayable funding for **1,104 enterprises,** in the amount of **213.49 mln. MDL**. The total amount of planned investment in the economy constitutes[28] over **678.42 mln. MDL.**

[28] ODIMM Report, 2016

Table 13 List of programs providing grants

Name of Program	Available through	Financier	Budget, USD	Budget, EUR	Budget, MDL
PROGRAM PRRECI IFAD VI	• CB "Moldova-Agroindbank" • CB "Fincombank" JSC	(IFAD)	12,7 mln		
COMPETITIVENESS ENHANSMENT PROJECT: CEP-2 (Grants)	• (CEP IU).	BM/AID	3,0 mln		
AGRICULTURE COMPETITIVENESS PROJECT (MAC-P): "MDT"	• Agency for Interventions and Payments in Agriculture (AIPA).	World Bank, GEF	3,0 mln		
INNOVATIVE BUSINESS DEVELOPMENT FOR ECONOMIC GROWTH AT LOCAL LEVEL	• UNDP Moldova .	Ministry of Foreign Affairs of Norway	1,6 mln		
(IFAD VI) PROGRAM - INFRASTRUCTURE, CONSERVATION AGRICULTURE, AND VALUE CHAINS	• UCIP-IFAD.	(IFAD) Global Environmental Fund (GEF)	3,8 mln 4,6 mln		
STATE PROGRAM FOR STIMULATING PARTICIPATION IN TRADE FAIRS AND EXHIBITIONS	• (ODIMM)	National Public Budget			
EU HORIZON-2020 PROGRAM	• Online application	European Union		80,0 mln	
EU COSME PROGRAM	• Online application	European Union		2,3 mln	
SMALL BUSINESSES SUPPORT TEAM MOLDOVA	• EBRD, Chisinau	Swedish Government, European Union			
PUBLIC-PRIVATE BUSINESS PARTNERSHIPS PROGRAM	• Office of Austrian Development Agency in the RoM	Austrian Development Agency			

Name of Program	Available through	Financier	Budget, USD	Budget, EUR	Budget, MDL
CONTEST OF TECHNOLOGICAL TRANSFER PROJECTS	• Agency for Innovation and Technological Transfer...	Academy of Science of Moldova (National Public Budget)			10,0 mln
AGRICULTURE COMPETITIVENESS PROJECT IN MOLDOVA, HORTICULTURAL SECTOR	• (AIPA)	World Bank, Swedish Government	7,0 mln		
AGRICULTURE COMPETITIVENESS PROJECT IN MOLDOVA, CONSERVATION PRACTICES	• (AIPA)	Global Environmental Fund, World Bank	3,0 mln		
***PROGRAM FOR ATTRACTING REMITTANCES IN ECONOMY - PARE 1+1**	• (ODIMM)	National Public Budget, European Union			85,6 mln
WOMEN IN BUSINESS PROGRAM	• ODIMM	National Public Budget, European Union			51,5 mln
Total Resources			**38,7**	**124,3**	**147,1**

Grants for Young Entrepreneurs – PNAET. In 2016, 31 sub-projects in total amount of 9.17 mil. MDL were approved and disbursed, including grants provided by the Ministry of Finance in the amount of 3.6 mln. MDL. From the very commencement of the Program, i.e. between 2008 and 2016, a total number of 1,678 subprojects of young beneficiaries were financed in total amount of 482.2 mil. MDL, including non-refundable grants in proportion of 40% of the loan amount, i.t. 189.9 mil. MDL, of which the grant share of the European Commission constitutes 135.2 mil. MDL, or 71.2 %. The main objectives and social impact of the Program became visible, as an additional component was introduce, Component III – post-financing monitoring, while the role of young persons in the social-economic life of the country became an efficient tool in the initial capitalization of their private business. The interest of young people towards the Program is high and contributes to the creation of small scale economic entities in rural areas, creation of new jobs or maintenance of the existing ones, supporting thus the development of economic potential of rural localities and diminishing poverty. The participation of young women in the Program remains around 30%. The final beneficiaries have reported 2,400 jobs created and maintained, including approximately 35 jobs in 2016[29].

[29] mf.gov.md/sites/default/files/raportul_2016.docx

Grants for Young Entrepreneurs – IFAD – Young entrepreneurs from rural areas can benefit from three categories of grants: i) Grants for stimulating investment in the value chains supported under IFAD Program, ii) Grants (with a loan portion) for developing agricultural and non-agricultural businesses in rural areas; and iii) Grants for reimbursing the costs associated with promotion activities of companies financed under IFAD V and IFAD VI Programs. The activities designed for young entrepreneurs was launched in 2015 and will be available until 30 June 2018, with the deadline for submitting the documents on 15 May 2018.

Grants for the rehabilitation and creation of forestry and forestry-trees buffer strips – IFAD The Program is oriented towards rehabilitation of forestry and forestry-tree buffer strips/windbreaks, covering the rehabilitation costs for designing the rehabilitation works, but not more than $1,200 USD per hectare. The Program also provides grants for covering the costs for the creation of windbreaks based on designed for the execution of creation works, but not more than $3,000 USD per ha. The rehabilitated or planted area per beneficiary shall not exceed 10 ha for both economic entities and LPAs. Approved grants are reimbursed after the execution of plantation/rehabilitation works. Grant beneficiaries must contribute 10% (goods or services) of the total costs of works in the stage of forestry buffer strips creation/rehabilitation.

MAC-P „Access to Trade Markets" Investment Grants[30] - The Program aims at improving the performance of agricultural producers by creating producer groups, enhancing competitiveness of horticultural products and improving the post-harvest handling infrastructure, and finally, facilitating and diversifying access to trade markets. Under this Program, groups of producers constituted out of at least of 5 members (legal and/or physical entities) operating individually for at least 3 years in *horticultural* sector can benefit from non-repayable financial support in the amount of up to $350,000 USD, but not more than 50% of eligible costs. At the same time, producer groups previously financed under MAC-P will be eligible for accessing additional grants up to the ceiling of $350,000 USD. The Program is supported from the World Bank credited sources and from non-refundable sources of the Global Environmental Funds.

MAC-P MDT "Sustainable Land Management"[31] - Post-investment grant reimbursing 50% of the eligible investment amount, with a ceiling of $20,000 USD per agricultural producer. According to Program provisions, investments will be reimburse to those farmers who purchased, starting 1 November 2016, new agricultural machinery/equipment the manufacturing year of which starts with 2015, and who applied, after 1 November 2016, sustainable land management practices, as well as No-till and Strip-till technologies, vegetable filter strips, contour cultivation, integrated pest control, forestry buffer strips, agro-forestry measures, hydro-technical measures, rain water catchment systems, etc.

Women in Business Grant Program – ODIMM – The WBP is aimed at providing financial and non-financial support through grants for investments and services relevant for the development of businesses managed by women. It is a pilot Program regulated through Government Resolution No.1064 of 16.09.2016. The WBP will be financially supported by the Technical Assistance for DCFTA Implementation Project, while ODIMM is responsible for its implementation

[30] http://aipa.gov.md/ro/content/linia-de-granturi-investi%C8%9Bionale-%E2%80%9Dacces-la-pie%C8%9Bele-de-desfacere%E2%80%9D

[31] http://aipa.gov.md/ro/content/mac-p-mdt-%E2%80%9Dmanagementul-durabil-al-terenurilor%E2%80%9D

	Total Costs	Direct Support (Grant)	Administrative Costs
Year 1	6.4 mln. MDL	3.0 mln. MDL	3.4 mln. MDL
Year 2	13.1 mln. MDL	10.5 mln. MDL	2.6 mln. MDL
Year 3	32.0 mln. MDL	29.4 mln. MDL	2.6 mln. MDL

and monitoring. The Program had a high demand from women-entrepreneurs. The first call for proposals ended in November 2017, and ODIMM received around 200 requests for funding.

OTHER

Export Promotion Program – this objective is permanently stipulated in the Budget Law. For this Program, in 2018, MIEPO will manage a budget of approximately 32 mln. MDL, due to savings of approximately 10 mln. MDL in the budget for 2017. The objectives stated in the Program include: strengthening the key elements of the regulatory framework for the attraction and development of investments and promotion of exports, improving the quality of industrial, transport and marketing infrastructure for export-oriented sectors, maximizing the economic and development benefits of foreign investments by strengthening the links with the national economy, as well as increasing the export capacity of local producers. Unfortunately, we did not find any report on the use of previous annual budgets in terms of indicators, beneficiaries, and impact. Data on execution of the state budget for 2016 confirms the allocation of 29 mln. MDL. It is a known fact that MIEPO subsidizes different events and participation in international exhibitions, but unfortunately, it doesn't have a well-structured, systemic, and sustainable program in order to provide to exporters or investors a planned instrument with the view to promote and develop products for export.

„**Conservation Agriculture – Development of a Sustainable Soil Management System in the Republic of Moldova**" Project was signed on 7 March 2017. The internal enactment procedures on behalf of the Republic of Moldova we fulfilled with the enforcement of Decree of the President of Moldova No. 209 of 6 June 2017 on Promulgating Law No. 96 of 2 June 2017 on Ratifying the Grant Agreement, compiled via exchange of above-mentioned notes. The Project budget is 500 million Yen (approximately $4.8 mln. USD).

Fund for Supporting the Residents of Business Incubators united in the Business Incubators Network (RIAM- http://riam.odimm.md/. We found out from ODIMM reports about the use of the Fund for Supporting the BI Residents, which mention about 41 economic entities from Business Incubators which benefited from funding in total amount of 2,146,700 MDL. The maximum loan amount is 60,000 MDL, provided free of interest and commission for the incubation period. The total amount of the Fund is 2,760,000 billion MDL

QUALITY ASSESSMENT OF INCENTIVES

Along with studying the legislation, documents, reports and publicly available information, a survey on economic incentives provided in the Republic of Moldova was carried out. Respondents profile was selected by the author, these being active SMEs (i.e. those participating in Made in Moldova, and Women in Business Program, exporters and potential exporters).

The survey was conducted online, using the instrument called Survey Monkey[32]. The questionnaire contained 20 questions, and the average time for filling it in was 14 minutes. The questionnaire was sent to 1,500 enterprises and the response rate was 5% **- total respondents 70 enterprises**, including several specialized associations. We consider that the number of enterprises is rater representative, and the opinions of these representatives are also reflected in the conclusions and recommendations of this study.

Companies from 21 localities participated in the survey, 40% of which are from Chisinau Municipality, while the rest are from other 20 districts of the republic, representing the entire territory of the country and different types of activity, and namely 45% of respondents operate in the processing industry, 35% - in agriculture, while the rest – in the service provision.

If refer to the size of respondent enterprises, about half of them are micro enterprises with up to 9 employees, and about 80% of them have a turnover below 3 mln. MDL, another 40% are small enterprises, and 10% are medium enterprises. A bigger part of enterprises, about 40%, used to benefit from a grant or soft loans, while about 10-20% also benefited from other incentives, such as fiscal and customs facilities, financial guarantees, subsidies and others, mentioned in Figure 1.

Half of respondents stated that they benefited from some economic incentives over the past years or intend to benefit in 2018. We notice in Figure 2 that there is a high demand for soft loans, financial guarantees, grants and discounts, and the enterprises intend to apply for such instruments during this year. Also almost half (44%) of the beneficiaries of financial support mentioned that they would NOT develop

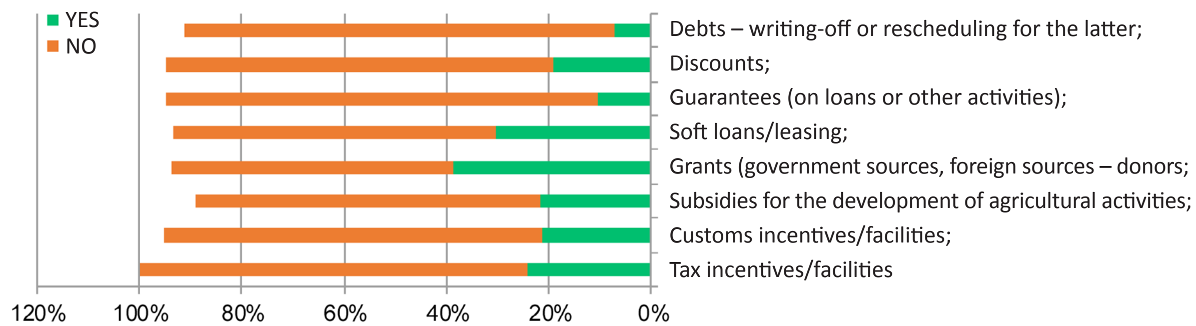
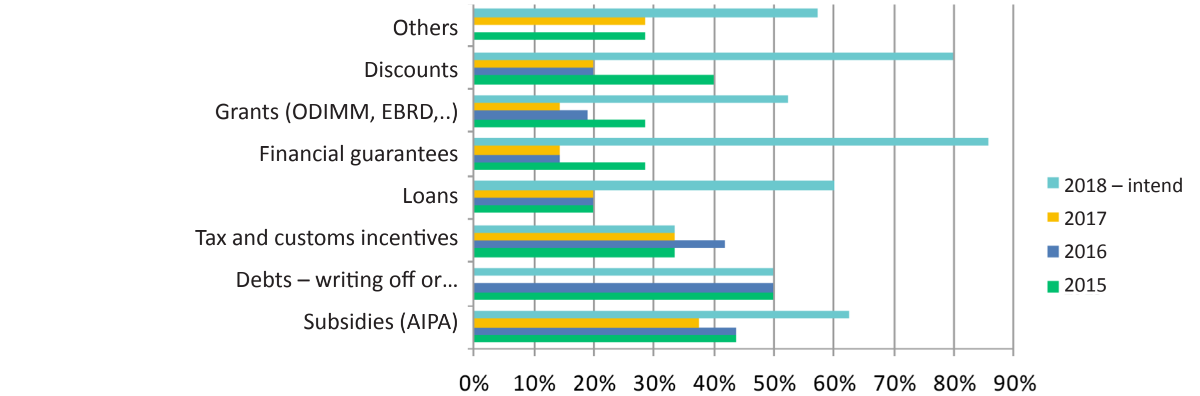


Figure 1. Have you ever benefited from economic incentives for SMEs?

Figura 2. During whitch period did you benefit from such support?



their business WITHOUT respective financial support.

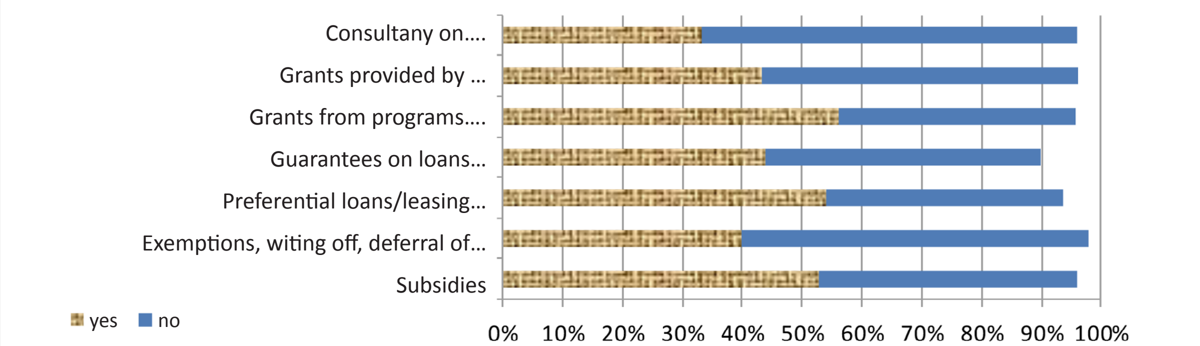
Among the most known institutions mentioned as suppliers of economic incentives or state aid are ODIMM, AIPA, followed by the Ministry of Finance and Tax Inspectorate, AITT, including also foreign partners – USAID, IFAD, and UNDP. There were also recorded cases when respondent enterprises do not know the institution providing the incentive or mistake the latter with the Program implementation team.

The other half of respondents that did not request or failed to benefit from any support mentioned in the list of concerns or problems encountered by them the lack of collateral for soft loans (31% of these), the lack of trust or of success in obtaining some funding (29%), the lack of information about the granting of state aid (22 %), and the lack of knowledge about financing opportunities (11%).

Surprisingly, the financial reporting and the lack of staff that would deal with the applications for funding do not represent impediments for the group of respondents. SMEs mainly lack information about WHERE they can access grants, subsidies, soft loans, including consultancy to facilitate access to state aid available (Figure 3). The number of those who have developed a business plan is rather big compared to the previous years – 63% of respondents confirmed they had developed a business plan or an application/request for funding to access the economic incentives available.

Out study was also aimed at identifying the type of financial support the SMES need for developing their businesses with the view to produce products and provide services for export in the European space under conditions of the Deep and Comprehensive Free Trade Agreement (DCFTA) signed with the EU. SMEx requested various state support instruments, and namely:

Figure 3 Do you know where you can access state aid for SMEs?



- Financial support (exemptions, grants) for purchasing machinery or re-equipping the production process, laboratory equipment;
- Support for promotion on foreign markets, participation in exhibitions, support in cooperation;
- Training in and consulting on setting the price of goods proposed for export, legal consultations on compilation of export contracts, regarding customs dimensions;
- Qualified labor, support in patenting inventions;
- Facilitation of customs procedures and transport;
- Reduction of VAT in the food value chain (from production to public catering services)
- More exactly - IMPORTING spare parts and fittings into the country, as in order to purchase and install them in the technological machinery in the RoM – we are treated as – DUAL DESTINATION, and this is RATHER INCORRECT in relation to economic entities from the RoM
- Grants and soft loans, bank guarantees;
- Support programs, consultancy and certification, financial support for developing marketing and sales departments;
- Fairness and non-interference in the business of companies, (i.e. a company stated that it was destroyed by local authorities of levels I and II by requesting it to provide free of charge services).

Through the survey, we tried to assess the relevance and usefulness of support measures as they are currently attributed in line with the Regulation for granting subsidies to agricultural producers. We noticed that the need for consultancy and counseling on business development and obtaining of state aid are as important as the support provided for purchasing agricultural and conventional equipment and machinery, No-Till and Mini-Till equipment. In the same exercise we noticed that the stimulation of agricultural land consolidation and subsidization of the users of plant protection products (pesticides) and fertilizers are irrelevant and considered to distort competition (see Figure 4).

More than half (57%) of respondents mentioned that the enactment of the DCFTA with the EU (in 2016) had an important and positively moderate impact on their businesses, while 38% stated that the enactment of the Association Agreement did not affect their business at all.

However, companies that want to adjust to the new regulations need to have strategies for

Figure 4. Which support measures provided by AIPA are most relevant?

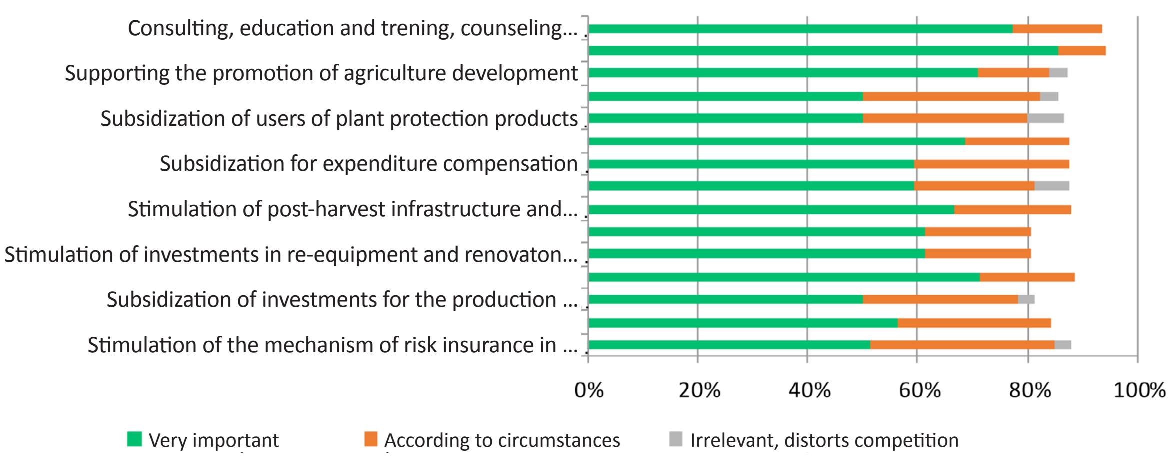
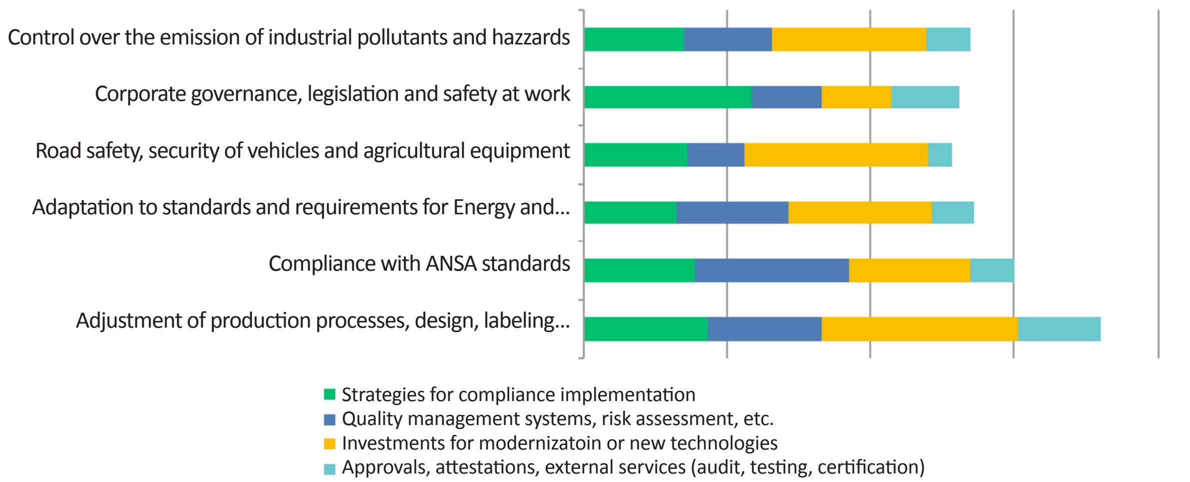


Figure 5. What are the NEEDS of you company in the context of association with the EU?



insuring compliance with the new requirements, to implement quality management systems, and need considerable investment for modernizing their equipment and acquiring new technologies. About 70% of the companies wishing to make such change mentioned that they do not have human resources and competences to implement the changes.

Although the majority of technical assistance programs and de minimis aid schemes could cover some of the needs of the companies related to adjustment of their business to the new requirements, most of the respondent SMEs have not even requested support from respective suppliers for the above-mentioned objectives. The proof of SMEs passivity and inertia is seen from data provided in Figure 6. While the answer to the question if they would be able to access foreign funding for such changes (e.g. to obtain bank loans, own capital) was affirmative in the case of 50%-60% of respondents, i.e. of the majority.

Every third respondent confirmed that they had an experience with provision of soft loans, as it is a known fact that most of the challenges are encountered upon accessing or implementing this measure, so the respondents were asked about their experience in terms of accessing loan under regular market conditions (Figure 7). Even though the experience of the majority was good, over one half of them mentioned that it wasn't easy to obtain a loan, and that the

Figure 6. Have you REQUESTED state support/aid for such changes?

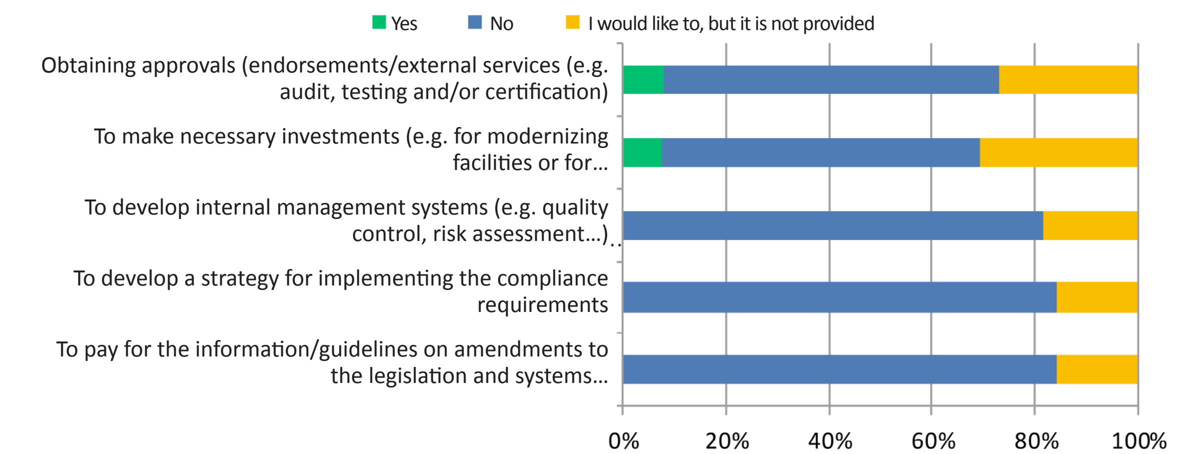
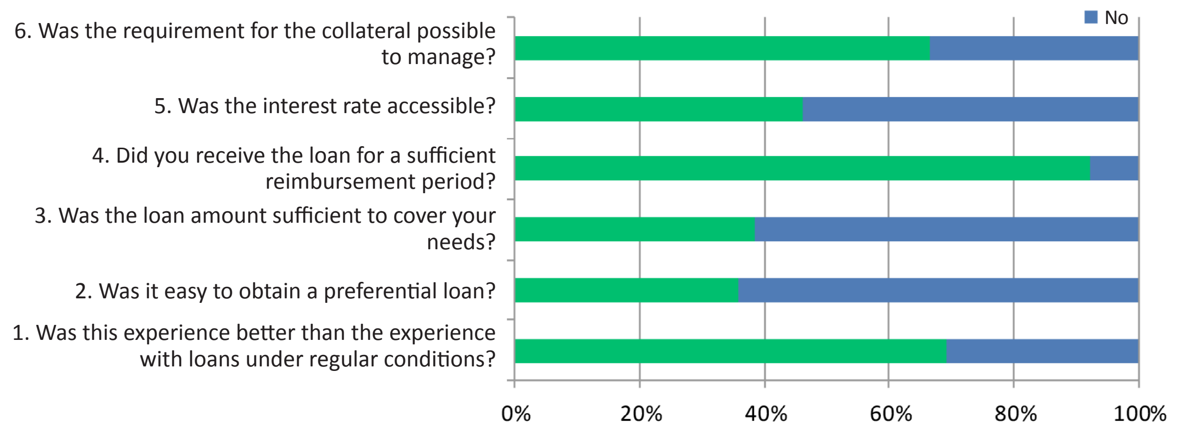


Figure 7. Share your experience in accessing preferential loans



latter wasn't sufficient for their needs, and the interest rates were also less accessible.

Around 80% of respondents do not know where to apply for consulting services to get support regarding their business development in order to benefit from the advantages of the DCFTA, and 12% of them do not even believe such services are available. In their answer to the question – What if consulting services were available? – 35% responded they would be willing to pay for such services to access better financing for their business, and 43% chose the option of partial reimbursement of consulting services.

CONCLUSIONS AND RECOMMENDATIONS

Moldova is a country-factory of economic incentives in form of various instruments, schemes, including individual aid provided to both central and local public authorities.

Economic incentives, particularly state aid, are most often provided in form of budget waivers rather than in form of budget expenditures. The spectrum of these waivers refer to very many cases, there are approximately 60 situations in which these are granted – exemptions, deferrals, discounts, etc. on duties, taxed, and public property selling price. The Customs Service is the main supplier of state aid under the category exemptions, discounts, and rescheduling of taxes and duties, with 99.53% of the aid related to this category.

The mechanism for granting state aid in the country is determined by the following challenges: i) noncompliance of the previously provided state aid with the provision of the current legislation and with the aquis-communautaire; ii) low transparency of the mechanism for granting state aid, both domestic and foreign one; iii) insufficient justification of the decision on basing the state aid on an economic analysis of its effects.

Resources that the state has are limited for carrying out its economic policies and objectives, which is why the decisions should be transparent, should be checked and monitored. Economic incentives should be provided only if an appropriate instrument is selected for accomplishing a well-defined objective, if they create the right impulses for economic development, are well proportioned, while the distortion that competition may bring is very small.

Increasing transparency in the attribution of the public property management right will help putting an end to inefficient management of the latter and provision of discounts without a legal basis for such discounts.

To date, the right to provide services of general economic interest is attributed in a discretionary manner, no open and transparent tenders are organized, no quality and performance indicators are set against the millions of lei granted to respective operators. There were attempts made through a number of foreign funding projects to create public-private partnerships (PPPs) as a mechanism for attracting investment and insuring the provision of good quality and efficient SGEI, the success story cases are very few, because of the other option existing in parallel, which is much more convenient.

Tourism is a sector where there is a need for state intervention, since it requires large investments, while their payback can happen only several decades later. The objective of developing tourism is among the priorities of the authorities for supporting it with financial resources. In 2018, the Republic of Moldova has been designated as Wine Tourism World Capital[33], under the UN auspice. In addition

[33] Press release, MoEI, 2 February 2018, http://mei.gov.md/ro/content/chiril-gaburici-year 2018-should-be-hospitality-year-in - the - Republic-of-Moldova

to the appeal of the Ministry of Economy and Infrastructure to more actively promote Moldova abroad and develop regional and agro-tourism, there is a need for a state support program, an aid scheme for supporting all the objectives stated.

Recommendations: To approve a program that would include different state aid schemes (subsidies, grants, financial guarantees, and soft loans) for supporting projects in tourism.

Summing up the 3 parts of our study, there were identified the following factors that insure efficiency and success for all the parties involved[34]:

a. A scheme of incentives should be open to enterprises of all sizes, and pay particular attention to the special needs of SMEs,

b. Any system of incentives should have clear granting criteria, and should be conceived so as to make it easy to use, maintaining low administrative tasks for both the participating enterprises and the suppliers of respective incentives.

c. If an incentive should target a big number of enterprises, insurance incentives, and taxation based incentives with accurately defined criteria are the most efficient ones, i.e. the so-called closed system.

d. If an incentive is oriented towards promotion of innovative solutions, then the subsidy schemes are the most efficient ones.

Tax incentives: Tax incentives should be approved by law and consulted with the public accordingly, preferably all approved in the Tax Code. In cases when tax incentives are negotiable and granted through resolutions, decisions, regulations or other documents of such kind, they avoid oversight and become prone to unjustified influences. Eligibility criteria for granting tax incentives should be clearly defined and easy to check to allow for using an approach based on rules. It is essential for the ministries and agencies involved in granting tax incentives to coordinate their activities.

The supreme and sole authority for approving tax incentives at national level should be the Ministry of Finance, while the Tax Inspectorate, as an administration of revenues, should deal with application of tax incentive schemes, being the sole authority with expertise and experience required for applying the tax legislation that the incentives are part of.

Upon granting economic incentives, the suppliers should take into account the following aspects:

- Identify the key sectors and take into consideration the potential they have and the regional perspectives of economy;
- Report aid granted on social priorities, such as: demography, quality of life, training, culture, circulation of persons (tourism, transport), environment protection and other objectives set in the development strategy of the country;
- Select financial resources that can be mobilized for supporting projects considered a priority and analyze the feasibility of respective investment projects with the view to support them strictly according to their real needs;
- Assess the state aid impact, by performing ex ante and ex post analysis, and correlate the duration and intensity of state aid with the investment payback period;

[34] https://osha.europa.eu/en/tools-and-publications/publications/reports/economic_incentives_TE3109255ENC

- Focus state aid mainly on horizontal objectives and support for regional development, rather than on certain sectors of the economy which should function without public support (SGEI, rail transport, water supply and sewerage);

- Reduce the share of state aid granted in form of waiver of budget revenues (exemptions, discounts, deferrals) and increase the aid granted in form of budget expenditures (funds for supporting entrepreneurship, investments in modern technologies and equipment, financial guarantees and soft loans);

- Eliminate individual aid and increase the number of measures insured through state aid schemes that are transparent and open to all economic operators wishing to apply.

Pursuant to current European policies on state aid, the following key requirements should be met:
- State aid should be lower, better targeted, with a lower potential for distorting competition;
- There is a need for a clear and precise economic approach;
- The procedures should be more efficient and provide more predictability;
- Transparency level should be higher.

International experience: Regardless of the social structure and objective, the introduction of economic incentives is a political decision for each country and cannot be recommended to be taken over exactly.

The best practices for efficient evaluation of tax incentives recommend the authorities to take three incontestable steps[35]:

i) Drafting of an evaluation plan, including members of parliament should introduce processes for regular assessment of the results of major tax incentives. Evaluation plans should be well conceived and insure examination of the entire portfolio of incentives granted by state, while the evaluation staff should be impartial, with relevant experience, responsible for analyses, and the reviews should be based on a strategic plan.

ii) Measuring the impact. High quality evaluations should carefully assess the results of incentives for the state budget and for the economy, in general. For this purpose, evaluators should assess the extent to which the incentives have successfully changed the business behavior with regard to compensation of what the companies would have done anyway, and

iii) Information or raising awareness about chosen policies. Both the legislators and representatives of executive power should use the results of assessments to improve the effectiveness of granted tax incentives. Policy improvement is more likely when a scheme is an official process, insuring that the legislators take the results into consideration, for instance by organizing hearings on evaluations in Parliament.

[35] http://www.pewtrusts.org/~/media/assets/2017/05/edti_how_states_are_improving_tax_incentives_for_jobs_and_growth.pdf?la=en

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[36] http://lex.justice.md/viewdoc.php?action=view&view=doc&id=344389&lang=1

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[38] http://aipa.gov.md/sites/default/files/raport%20totalizator%20privind%20implemenatarea%20indicatorilor%20enpard_0.pdf

ANNEXES

Annex 1 Subsidies Required for the Strategy Implementation, thousand MDL (calculated as a reimbursement by 30% of the investment needs)

No.	Strategy Objectives	%	2014	2015	2016	2017	2018
1	**Enhancing the competitiveness of agricultural and food sector by market restructuring and modernization**	**50**	**600 000**	**660 000**	**726 000**	**798 600**	**878 460**
1.1.	Modernizing the agricultural and food chain with the view to comply to EU food safety and quality requirements	80%	600 000	528 000	580 800	638 880	702 768
1.2.	Facilitating access to capital markets, input and output markets for farmers	10	0	66 000	72 600	79 860	87 846
1.3.	Reforming the education and scientific research system and rural extension services in the agricultural and food sector, and creating an integrated information system in agriculture	10	0	66 000	72 600	79 860	87 846
2	**Ensuring sustainable management of natural resources in agriculture**	**30**	**360 000**	**396 000**	**435 600**	**479 160**	**527 076**
2.1.	Supporting sustainable agricultural land and water management practices	70	252 000	277 200	304 920	335 412	368 953
2.2.	Supporting environment-friendly production technologies, organic products, including biological diversity	15	54 000	59 400	65 340	71 874	79 061
2.3.	Supporting adaptation to and mitigation of climate change effects on agricultural production	15	54 000	59 400	65 340	71 874	79 061
3	**Improving the living standard in rural area**	**20**	**240 000**	**264 000**	**290 400**	**319 440**	**351 384**
3.1.	Allocating investments for the physical and service infrastructure in rural area	30	72 000	79 200	87 120	95 832	105 415

No.	Strategy Objectives	%	2014	2015	2016	2017	2018
3.2.	Increasing employment opportunities in non-agriculture areas and increasing incomes in rural area	50	120 000	132 000	145 200	159 720	175 692
3.3.	Stimulating the involvement of local communities in rural development	20	48 000	52 800	58 080	63 888	70 277
	Total SUBSIDIES required		**1 200 000**	**1 320 000**	**1 452 000**	**1 597 200**	**1 756 920**
	TOTAL PROVIDED / PLANNED		564.700	610 000	700 000	900 000	896 000
	Coverage share		47%	46%	48%	56%	51%

Annex 2 – Performance and Implementation Indicators of the Strategy for Agriculture and Rural Development

Expected result	Impact indicators	BL-2014	2016	2017
Growth by 25%	**Share of gross agricultural production in the GDP**			
Growth by 40%	Share of investments in long-term tangible assets			
Growth by 60%	Share of used loans			
Growth by 50%	Rate of agricultural market users			
Growth by 50%	Rate of producers who joined associations or cooperatives			
Growth by 50%	Share of funds used for researches in agriculture			
Growth by 50%	Rate of trained employees			
Growth by 50%	Rate of agricultural producers who benefited from rural extension services			
Growth by 70%	**Area of land for which sustainable management practices have been applied**			
Growth by 15%	Consolidated land area			
Growth by 50%	Share of irrigated land			
Growth by 100%	Share of farmed land			
Growth by 60%	Share of land designed for organic agriculture			
3,000 ha	Share of energy crops			
Growth by 7,000 ha	Share of afforested land			
Growth by 70%	Share of expenditures designed for diminishing climate changes			
Decrease by 50%	**Rate of migrant persons in rural area**			
Growth by 70%	Share of investments in physical infrastructure			
Growth by 25%	Share of micro enterprises newly created in rural areal			
Growth by 50%	Rate of newly created jobs			
Growth by 100%	Number of projects initiated by rural communities			

Knowledge
creating
development