



Policy Brief  
**Assessing business expectations  
of the DCFTA**

Georgia, Moldova and Ukraine



## Policy Brief

# **Low understanding of DCFTA puts implementation process at risk**

The European Union (EU) is one of the largest trade partners for the Eastern Partnership countries including Georgia, Moldova and Ukraine. Regional trade cooperation has received new impetus for development with the signing of Association Agreements (AA) and Deep and Comprehensive Free Trade Areas (DCFTA) with these three countries.

A DCFTA is considered to be a highly advanced level of economic integration with the EU – one of the biggest markets in the world. Such agreements aim to bring important benefits to national economies including duty-free access to the European market and a better domestic investment climate. However, DCFTA implementation involves significant costs, mostly associated with implementation of regulatory alignment in diverse spheres.

The aim of this study is to assess businesses' expectations of the economic part of the AA in Georgia, Moldova and Ukraine and whether businesspeople understand the relevant benefits and challenges. The study focuses on firms mostly involved in the agricultural sector or generally working in rural areas.

In order to measure behaviour, awareness of programs, attitudes, and needs with the regard to DCFTA, the survey was carried out with more than 200 firms in Georgia, Moldova and Ukraine



The survey shows positive expectations among SMEs regarding DCFTA implementation going forward. Moreover, businesspeople are convinced that the DCFTA will contribute to improvement of the business climate in their countries.

The main challenge Georgia, Moldova and Ukraine are facing in the context of their DCFTAs seems to be low awareness of DCFTA-related matters among small and medium -sized firms. Knowledge about the DCFTA, and understanding of the changes it brings, is lacking among SMEs in the three countries according to results of the survey. Furthermore, the low awareness of issues related to the DCFTA was revealed not only from the results of the survey but also during the process of interaction with respondents.

It should be recognised that much effort has been put into educating businesspeople on different aspects of free trade areas in recent years in Georgia, Moldova and Ukraine. Despite many training sessions, roundtables and seminars dedicated to the Association Agreement and DCFTA having been organised by the European Union, national governments, NGOs and international donor organisations, there is still a lack of understanding of the actual impact of DCFTAs among small and medium-sized enterprises in all three countries.

Therefore, SMEs need to improve specific awareness of the different aspects of the DCFTA with special focus on some topics (market access, changes in customs administration, public procurement etc.).



This is a task both for governments and civil society. For instance, in Moldova the survey noted that representatives of northern regions and Transnistria had mostly negative expectations of the EU-Moldova free trade zone. In this case, local authorities and civil society could develop information campaigns to familiarise the local business community with main DCFTA chapters and its overall positive effect.

It is important to note that the full implementation of DCFTAs will take at least 10 years. Adoption of EU acquis in different sectors will naturally proceed at different rates. Thus, not all changes will affect businesses simultaneously. Therefore, it is highly important to build up national awareness raising programs or roadmaps in each country, taking into account the timetable for adoption of EU legislation under DCFTAs.

Hence, more efforts are required in this regard. The process of raising awareness should be strengthened by international donor organisations. Moreover, a special place in the process of communication and raising awareness should be dedicated to capacity building of business support organisations in the three countries.

**According to the results of the survey**, to realise the opportunities that the DCFTA offers, businesses primarily lack financial resources. Indeed, implementation of DCFTA principles in each of the three countries and compliance with EU trade rules requires investment and changes in business processes. SMEs from the agricultural sector, in particular, need financing for meeting EU market requirements and to upgrade the competitiveness of their products.





The vast majority of respondents in each of the three countries are not familiar with the activities of EU aid programs for small and medium-sized businesses. Moreover, Ukrainian respondents indicated they had not cooperated with any EU aid program for small and medium-sized businesses.

However, it should be noted that Georgian, Moldovan and Ukrainian businesses will benefit from increased financing through a DCFTA facility for SMEs. The program, worth approximately €200 million, allows the European Bank for Reconstruction and Development and the European Investment Bank to support businesses in raising product and service standards to prepare them for existing in the “DCFTA reality”. The facility combines financing through direct lending and lending through local partner banks, plus business advice and policy dialogue to improve the business and investment climate in the three countries. The success of the facility will depend on the commitment of all actors - including SMEs, governments and international financial institutions.

Information about specific features of EU programs such as Horizon 2020, COSME and EU SURE should be disseminated through seminars, roundtables and other capacity building events hosted throughout the countries. Events could be organised through regional business support organisations.

To conclude, according to the respondents, to realise the opportunities that the DCFTA offers, their businesses mostly lack:

- loans and investment;
- knowledge of the EU market;
- opportunities for manufacturing expansion; and
- partners in EU countries.



The biggest risks of DCFTA implementation, according to respondents, are:

- increased competition;
- non-competitiveness of national products; and
- domestic market entry by powerful multinational corporations.

Thus, the DCFTA is a unique instrument of international trade that provides many benefits for the national economy but also creates various challenges for enterprises.

The main barriers to businesses realising the maximum benefit of free trade are difficulties in accessing affordable loans and financing and low awareness of the provisions of the Agreement and the features of European Union markets.

The partner organisations will continue activities to fill these gaps by organising seminars and meetings for small and medium-sized businesses with leading experts on European integration.

*The policy brief has been produced with the assistance of the European Union.*

*The contents of it are the sole responsibility of the authors and can in no way be taken to reflect the views of the European Union.*

*The project “DCFTAs: Challenges and Opportunities for SMEs” was implemented by the European Business Association (Ukraine), the International Business Development and Investment Promotion Center (Georgia), Pro Cooperare Regionala (Moldova).*