

Impact of reforms on SME development in Eastern Partnership Countries

Eastern Partnership Civil Society Forum: Working Group 2 Conference

Report

9-10 July 2015, Brussels

Renaissance Brussels Hotel

Rue du Parnasse 19 – 1050 Brussels

More than 25 participants and external guests gathered for the two-day Working Group 2 Conference in Brussels, Belgium. The objectives of this event were:

1. To provide an update on policies and projects/actions happening in EaP on Platform 2 areas
2. To encourage the development of regional perspectives and joint support initiatives
3. To explore the situation with SME policy in the 6 countries – identify good practices
4. To share project initiatives and identify common actions until the Annual Assembly.

PRIORITIES AND ACTIVITIES OF NATIONAL PLATFORMS – REPORTS AND BRAINSTORMING ON AREAS OF COMMON INTEREST AND PLATFORM 2 RELATED EVENTS

The meeting began with participants sharing about the Platform 2 related events they attended and presented main ideas and recommendations from those events. The next part of the session was dedicated to priorities and activities of national platforms:

Karen Chilingaryan (National Coordinator of WG 2, Armenia NP) stressed that National Platforms need to work together to achieve concrete results for the Annual Assembly in Kyiv. The Working Group 2 in Armenian NP works on energy security, focusing on alternative energy sources. Armenia shares common problems with Georgia and should focus more on development of solar energy.

Ihor Lednik (National Coordinator of WG 2, Belarus NP) stated that national platform is a very difficult instrument for CSOs to dialogue with the government, which leads to inertia. He believes that the problem of civil society is that it has great potential, but is very dependent on external funding and, hence, its productivity suffers.

Iurii Vdovenko (National Coordinator of WG 2, Ukraine NP) noted that work within Ukrainian NP is improving. Unfortunately, expert potential in Ukraine is not sufficient. Lack of communication is a challenge – it is not clear how NP can cooperate with EU, also, people do not know the difference between currently existing platforms (NP of EaP CSF and the Bilateral CSO Platform established under AA). The priorities of WG2 in Ukraine is DCFTA.

Eugen Roscovanu (National Coordinator of WG 2, Moldova NP): Moldova NP organizes workshops and other events, provides information on DCFTA through seminars. 90% of the platform activities are related to SMEs. Moldova NP also focuses on problems of advocacy, related to improving the general economic situation. In terms of advocacy, the platform works with Minister of Economy and Finance. Demonopolisation, deoligarchization and debureaucratisation of business is necessary in Moldova. Many

businessmen in Moldova do not know what DCFTA is and the number of SMEs in Moldova is declining. Corruption and intransparency are keeping the state captive and that drives away foreign investment so that remains a crucial area of focus.

Ilgar Huseynli (National Coordinator of WG 2, Azerbaijan NP): Laws regulating NGOs in Azerbaijan have changed dramatically. The Azerbaijan NP does not have a clear picture how to organize its work. Despite that, the platform managed to organize 3 events on the topics related to WG2. There is a serious dilemma about if/how to work with the government. NGOs cannot get any financial help from international donors; therefore, Azerbaijan NP cannot organize big conferences or other events. There is a strong need to create an agency to promote growth of SMEs in Azerbaijan. Civil society has experts who do analysis and write articles, conduct research on oil and energy sectors and the situation on SMEs. Unfortunately, the Azerbaijan NP members have to rely only on their own resources because access to international funding is lacking.

Kakha Gogolashvili, (National Coordinator of WG 2, Georgia NP) mentioned that in Georgian NP there are 2 coordinators of WGs to ensure more activity and shared responsibility among members. The WG 2 has held meetings on issues related to trade with EU and DCFTA and has offered consultation to businesses interested in understanding the relation. DCFTA is a complex document and for one question it took research through several layers of trade agreements with the EU, including past ones, to finally understand that a certain decision impacting businesses which was taken by Georgian government was presented, wrongfully, as a DCFTA requirement. The main focus is engaging in dialogue with government on implementation of DCFTA.

Projects selected for financing under WG 2 priorities, through the EaP regranting process 2015:

Yuliya Vengerovych (Ukraine NP, EaP CSF): Association Agreement is an instrument which gives many possibilities, especially in SME's sphere. Ukrainian NP wants to work on recommendations for policy makers. The project will gather expectations of SMEs from DCFTA (Moldova, Georgia and Ukraine) and provide general policy brief on the regional review as well as general recommendations and tendencies for these countries.

Maria Tarigradean (Moldova) shared their idea of organising capacity building seminars for CSOs and local SMEs in partnership with organisations from two other countries in EaP region. If the project will be successful, the same project could be implemented in other countries as well. It is planned to cooperate with a local NGO from Moldova, which has experience working on capacity building on the topics related to SMEs and green economy. The output of this cooperation will be an assessment with a survey on SMEs in rural areas.

Tanya Basarab (EaP CSF Secretariat) briefed the group on the results of the whole re-granting process. One requirement to keep in mind for the future is that the same organisation cannot be main beneficiary twice during the three-year period. That means that if the organization is leading in one project, it can only be partner in other projects. All the selected projects should include in their plans the discussion about the progress of their work in Annual Assembly in Kyiv.

DCFTA IMPLEMENTATION IN GEORGIA, MOLDOVA AND UKRAINE

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“The bottom line of these efforts is that civil society would consider itself as a strong actor in working with governments and being active actor in monitoring and advising the reforms.”

Joanna Miksa-

“EU institutions need to communicate clearly that DCFTA is not only about export, but also the overall changes, which this agreement will bring to the overall situation in EaP countries.”

“In order to help companies to export to EU, the most important objective is to encourage companies to comply with EU standards and rules.”

Gabriel Blanc-

Kakha Gogolashvili (Coordinator of WG 4, Georgian NP, EaP CSF): Georgia, Moldova and Ukraine signed DCFTA more than one year ago. The agreement is still not enforced in Ukraine but many things are being done in order to prepare real implementation of DCFTA. In Georgia, there are practically no constrains. However, even though small businesses understand the importance of DCFTA, they do not see the practical use of this agreement. Therefore, more communication about benefits of DCFTA is needed. In Ukraine, the issues of trading barriers were practically solved, but Russia intervened. In Georgia, the government puts significant efforts into communication with different stakeholders on DCFTA. Unfortunately, there is not enough investment on DCFTA implementation. In addition, we need to improve the monitoring of these processes.

Joanna Miksa (DG TRADE) gave detailed presentation about the implementation of DCFTA in Georgia, Ukraine and Moldova (full presentation can be found [here](#)). The ground-work of reforms is ongoing at the moment. All these reforms require intensive exchange between Commission and governments, and the Commission consults governments on the implementation of these agreements. We are not yet at the cruising speed, we need to be patient for DCFTA to be in full implementation. We need to be careful how we interpret results because a lot of unexpected events happened and not considering them may lead to the wrong conclusions. Both parties need to work on the sustainability of the changes and to monitor the reform processes, which are taking place in EaP countries. The main goal is to focus on sustainable aspects of trade policy. The bottom line of these efforts is that civil society would consider itself as a strong actor in working with governments and being active actor in monitoring and advising the reforms.

Gabriel Blanc (DG NEAR) presented the means of support to SMEs in the context of DCFTA. He presented the ongoing study about the DCFTA impacts on SMEs in EaP countries. The results show that little percentage of companies know that this agreement was established and many of them consider that if their companies are not exporting, DCFTA is not useful for their companies. This was an important finding – EU institutions need to communicate clearly that DCFTA is not only about export, but also the overall changes, which this agreement will bring to the overall situation. Improving accounting and auditing

standards are bringing more transparency and confidence for investors and business community about the rules taking place in the country. The consultants defined the following recommendations:

1. Raising awareness. These agreements are highly technical therefore we need to communicate clearly the expertise to businesses in EaP countries. Working with business associations should help with this issue;
2. Bringing suitable financing to SMEs to comply with requirements of DCFTA;
3. Enhancing regulatory bodies to help companies meet the trading requirements.

The approximation of legislation is not a part of DCFTA, but it is very important for this agreement. The Commission have been designing specific budget support programs for Moldova and Georgia and we are continuing our work with specific requests from the partner countries. Important new initiative – support program for SMEs. In order to help companies to export to EU, the most important objective is to encourage companies to comply with EU standards and rules. The Commission is providing technical assistance and business advisory services to SMEs as well as SMEs incentive grants – to encourage them to meet EU standards by covering part of their investment costs. In the presented study, the Russian factor and situation in Ukraine was not taken into account. That study was based on the projected outcome of the agreements and now the results must be taken with a pinch of salt.

Eugen Roscovanu (Moldova NP, EaP CSF): In Moldova the DCFTA provided new possibilities to exporters. Exports to the EU increased and now it is the main trading partner, due to the long-term Russian embargo most exporters understood that they have to reorient to a stable market that is represented by the EU. There are challenges with fulfilling the standardization requirements of the EU market. For example, the fruit export quota has doubled, however, only 40% was used. The exporters came across standardization issues. Moldovan exports must adjust to very different standards. It is very profitable to comply with EU requirements, but meeting these packaging requirements is also very expensive and difficult, therefore these sectors need time for adaptation. The EU gives the guidelines, which helps our producers to expect stable income and trade. Good credits and long-term loans are needed so the producers could redo packaging systems, etc. Unfortunately, the Moldovan banking sector was shaken. The government cannot deliver on its obligations for investments. In addition, bureaucratization and monopolization of import and export is in place. Nevertheless, many SMEs trading with the EU believe that DCFTA will be more and more positively influencing the exports situation of Moldova. Participating in the Business Summit which was held in the margins of the Riga Summit in May helped achieve a break through with the government on facilitating taxation. This was a lobbying objective of 8 years which finally was implemented rather quickly after that summit. In addition, the government has eliminated the stamp as a requirement for certain producers. This again is an achievement of long-term lobbying and such changes are practical and useful for SMEs to understand and benefit from the DCFTA process.

Yuliya Vengerovych: DCFTA and Association Agreement are a very complicated agreements to implement. The main priorities in Ukraine are the constitutional reform, decentralization, taxation reforms and energy security. The process itself is lacking institutional capacity in implementation of DCFTA and association agreement. The public and private sectors have the overload of the different tasks coming from the government. The dialogue is not that active as it should be between governments and SMEs. Ukrainian NP has a big support form Support Group for Ukraine from the European Commission. They meet with civil society every time they come to Ukraine and meet government representatives.

Kakha Gogolashvili: In Georgia, the government was developing the national plan for implementation of DCFTA. The civil society organizations were consulted and had a chance to contribute to the plan. Currently, the biggest problem is lack of communication and timely involvement of business community. Government should introduce a system of consultation with stakeholders, because dialogue does not exist now. It is very important to communicate DCFTA to SMEs, otherwise DCFTA will simply not work. In addition, Georgia needs impact assessment as required by DCFTA, because nowadays the laws are being adopted without any evidence about their probable impact.

AGRICULTURE AND RURAL DEVELOPMENT IN EAP COUNTRIES

Sargis Serdakyán (Agriculture and Rural Development Subgroup Coordinator, EaP CSF), the moderator of this session, asked colleagues from EaP countries to nominate experts in agriculture for the Working Group and asked the EU institutions to facilitate more meetings on agriculture. He stressed the need for broader discussions about the current challenges of agriculture in EaP countries.

Vincent Rey (DG NEAR) gave the presentation “Eastern Partnership Support to agriculture and rural development” (Full presentation can be found [here](#)). He described in detail the main instruments to deliver the aid: sector reform programs on agriculture, support programs to institutions and Neighbourhood Investment Facility (e.g.: ENAPRD in Georgia, ESRA in Moldova).

Dominik Olewinski (DG AGRI) gave the presentation “The Eastern Partnership Panel on Agriculture and Rural Development” (Full presentation can be found [here](#)) and presented the origins and objectives of ENPARD program. He also talked about the possibilities for involvement of civil society and general added value of the program. He specified that the three countries that signed AA/DCFTAs need to focus a lot of efforts on implementing the fit-sanitary and health and safety standards for them to begin using the export quota. For example, currently none of the three countries export animal products to the EU because the standards are not fulfilled. Furthermore, the governments could submit early requests so that the process of standardization is implemented. That could help speed up opening of the market for producers of products of animal origin (only honey producers have access to the EU market at the moment).

Filip Razvan - Ghitescu (DG NEAR): The competitiveness of the agriculture sector in EaP region is increasing and the Commission receives more and more expression of interest how agriculture sector can take better advantage of DCFTA and EU. All the EaP countries express interest to get more support for capacity building. The outcome of the research among SMEs on the benefits of DCFTA also applies to the agricultural sector. Romania’s experience was similar, the funding requirements pushed farmers to associate so they can benefit better from EU funds. This is also the case for small agricultural enterprises from EaP countries. They will need to associate into cooperatives or other forms and those will represent them in dialogue with public authorities; these processes are beginning already.

Halina Ilyaschuk (Belarus) presented the study made by Belarus National Business Platform “Structural Modernization of business and government” (Full paper can be found [here](#)). The access to information about EU standards and the development of SMEs is inefficient. The Belarus Business Platform involves state and private business initiatives and supports its members organise themselves to promote their collective interests and to defend interests of its individual members whose rights are being infringed. It would be beneficial to organize an event focusing on SME development and innovation, as well as the development of the region.

IMPACT OF INSTRUMENTS FOR SME DEVELOPMENT

“Currently, the main challenge with DCFTA lies in the implementation.”

Michaela Hauf-

Michaela Hauf (DG GROW, Platform 2 Coordinator) gave the overview of platform 2 activities and developments. Platform 2, focusing on economic integration, has grown and a new panel on statistics was created. A new initiative was launched to harmonize and digitalize markets. The midterm review of Platform 2 will be presented at the beginning of December. In addition, a promotional tour in EaP countries is being organized for the CSOs and small businesses. Platform 2 is also launching the SME competitiveness project, implementing with OECD. It is providing technical assistance through EBRD to small businesses to make SMEs more competitive. EBRD can help through local or national consultants. One of the goals is to increase the knowledge of SMEs on how they need to communicate with governments on reporting. The Panel of SMEs in Ukraine is planned in October.

Progress was different per country and per dimension. The biggest progress was made by three DCFTA countries - Georgia, Moldova, and Ukraine. In Ukraine there is stagnation regarding the SMEs support, because there was no budget for that. Currently, the main challenge lies in the implementation.

Birgit Hans (Eurochambers, EU): presented [“East Invest”](#) project. It is a regional investment and trade facilitation project for the economic development of the Eastern Neighbourhood region, launched in the framework of the European Eastern Partnership Initiative.

Sabit Baghirov (Azerbaijan NP, EaP CSF) gave the presentation “Agribusiness SMEs and small farms in Azerbaijan” (full presentation can be found [here](#)).

CSOs CONTRIBUTING TO STRONGER CROSS-BORDER COOPERATION (CBC) PROGRAMMES

Nathalie Thiberge (DG NEAR) gave the presentation “ENI Cross Border Cooperation 2014-2020 & Eastern Partnership Territorial Cooperation” (full presentation can be found [here](#)). For the upcoming period, the Commission has suggested 17 programs. First call for proposals will be launched 2016/2017. You can find all related information on the website www.eaptc.eu. This program will be open to organizations in cross-border regions with some exceptions. However, main rule remains – the lead organization has to be established in the eligible geographical area. Generally, there are no limits how many partners the project can have. Usually they can benefit from smaller funding, but it is possible to have partners outside the eligible area. Regional and local authorities are the main beneficiaries of this program and focuses on border regions between EU and EaP countries. Trans-border cooperation in EaP countries will be launched as a pilot initiative and it is open to cooperation among EaP countries only.

Iurii Vdovenko (Transborder Cooperation Subgroup Coordinator, EaP CSF) presented the situation in Ukraine in the framework of regional policy and precisely the reforms related to CBC. Ukraine is experiencing an extensive decentralization reform. More responsibilities are being transferred to regional bodies. Ukrainian government is adapting new territorial system, which is similar to the Polish model. The

regional government will be more independent and more resources will be redistributed to the communities. Not everybody understands the benefits of these revolutionary changes, but it is an approximation to European model and it will make cross-border cooperation much easier for EU and EaP border communities.

Ihor Lednik (National Coordinator of WG2, Belarus NP) talked about digital integration in the EaP region. The war in Ukraine takes this problem to a completely different level right now and the priority for EaP countries is to establish institutional framework for CBC. He presented closer digital integration initiative (the overview about the first Eastern Partnership ministerial meeting on digital economy can be found [here](#), the report of the meeting can be found [here](#); to read more about Ministerial Declaration on eGovernment, please follow [this link](#)). It is very important that civil society becomes a beneficiary and key actor in the digital integration sphere.

LOOKING AHEAD: POLICY RECOMMENDATIONS ON STRENGTHENING THE EAP CSF ENGAGEMENT WITH DCFTA IMPLEMENTATION AND FLAGSHIP INITIATIVES FOR ECONOMIC COOPERATION

Key recommendations:

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- Engaging in dialogue with governments on implementation of DCFTA.
 - Clear and targeted communication about benefits of DCFTA. Communicating clearly that DCFTA is not only about export, but also about the overall changes, which this agreement will bring to the economy and business environment.
 - Improving the monitoring of DCFTA implementation processes.
 - Both EU institutions and EaP countries need to work on the sustainability of the changes.
 - Raising awareness; DCFTA agreement is highly technical, therefore, we need to communicate clearly the benefits to businesses in EaP countries. Working with business associations should help with this issue.
 - Bringing suitable financing to SMEs to comply with requirements of DCFTA. It would be beneficial to organize an event focusing on SME development and innovation, as well as the development of the region.
 - Enhancing regulatory bodies to help companies meet the trading requirements.
 - Encouraging companies to comply with EU standards and rules.
 - Introducing a system of consultation with stakeholders, because dialogue does not exist now. It is very important to communicate DCFTA to SMEs, otherwise DCFTA will simply not work.
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Tanya Basarab (EaP CSF Secretariat): There is a lot of untapped potential in this group - only 2 projects will be financed under priorities of WG2. There are many projects and programs for cross border cooperation and the trans-border programme being launched should definitely be followed closely by WG members in their countries, connect to these programmes at this early phase either through partnership with local authorities or through monitoring. Ukraine will play a particular role in the future success of EaP, since it is a big country and its development will decide how the EU reacts to the rest of the region.

Digitalization of the economy will help fight petty and maybe even big corruption, which paralyzes reform processes in all areas. Such is the experience shared by Lithuanian organisations in WG 5 meeting.
