



Ex-post evaluation of the implementation of the Deep and Comprehensive Free Trade Areas (DCFTAs) between the EU and Georgia and Moldova

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Contents

Recap: purpose and scope of the ex-post evaluation

Main findings

- Economic effects
- Effects on SMEs and consumers
- Regulatory approximation
- Impact on sustainable development
- Impact on human rights
- Competitiveness, business environment and investment climate
- Institutional structure
- Comparison with the ex-ante sustainability impact assessment

Conclusions and recommendations

Overview

Purpose of the evaluation:

- To evaluate the economic, social and sustainable effects of the DCFTAs
- To determine their relevance to the current trade and economic needs and challenges of the EU, Georgia and Moldova
- To assess the extent to which the DCFTAs contributed efficiently and effectively to reaching the objectives set out in the Association Agreements as well as the objectives of the EU's trade and neighbourhood policies

Scope:

- **Criteria:** effectiveness, impact, efficiency, coherence and relevance
- **Geographically:** Georgia, Moldova (including Transnistria), EU. The ex-post evaluation also covered third countries such as the UK, CEFTA, EFTA, EAEU, CIS, China
- **Period:** since date of the provisional application of the DCFTAs (1 September 2014) to 2019. Comparison period (where appropriate): from 5 years prior to start of the provisional application.
 - ❖ Note: to avoid the bias of the effects of the outbreak of the pandemic from the effects of the DCFTAs, the year of 2020 is not taken into account; the study was conducted before Georgia and Moldova applied for EU membership.
- **Groups affected:** whole economies, sectors, workers, women, rural/urban population

Final Reports

Final Reports provide the findings of the evaluation, based on quantitative and qualitative assessment and stakeholder consultations, as described in the Inception Report:

- Part A presents the evaluation context.
- Part B presents the evaluation findings, with dedicated chapters on DCFTAs effects on economy,(Chapter 5), legal approximation (Chapter 6), SMEs and consumers (Chapter 7), sustainable development (Chapter 8), human rights (Chapter 9), business competitiveness and investment climate (Chapter 10) , institutional framework (Chapter 11) and comparison with the ex-ante sustainability impact assessment (Chapter 12) .
- Part C provides conclusions and recommendations.
- Final Reports are complemented with Annexes, which include more detailed information on every task, and summaries of the stakeholder consultations.
- Inventories of the legislative approximation are provided as separate documents to each of the Draft Final Reports.



Economic effects

Economic effects of the DCFTAs

Georgia

- Trade in goods between the EU and Georgia have remained largely unchanged since the provisional entry into force of the DCFTA.
- Trade in services has expanded more steadily, but it is difficult to detect the direct impact of the DCFTA.
- FDIs have remained dynamic, and accumulated stocks are very large, but these seem to be more influenced by the construction of pipelines and 'tax-savings' schemes than by the potential transfer of industrial know-how.
- It is difficult to detect any direct impact from the DCFTA on reducing regional inequalities.
- CGE model based estimated effects on the main macroeconomic indicators are limited.

Moldova

- Trade relations between the EU and Moldova have developed considerably since 2014, in terms of both trade in goods and trade in services.
- In contrast, FDIs have been less dynamic, but the distribution of FDI suggests that this is related to export opportunities.
- It is difficult to detect any impact from the DCFTA on reducing regional inequalities.
- DCFTA' estimated effects based on CGE model on the main macroeconomic indicators are limited.

Bilateral trade in goods

Georgia

- The EU remains the main trade partner of Georgia, but the trade flows did not show much dynamics since 2014.
- Different sources give quite different pictures of the dynamics of exports from Georgia to the EU (the data reported by Geostat is three times larger than the one from EU Comext), but the most reliable data point at stagnation.
- From the EU's perspective, trade with Georgia remains rather marginal (0.04% in extra-EU imports, and 0.1% in extra-EU exports).

EU28 imports from Georgia			EU28 exports to Georgia			
	% of extra EU imports (Comext)	% of Georgia's total exports (Geostat)	Growth (Comext)	% of extra EU exports (Comext)	% of Georgia's total imports (Geostat)	Growth (Comext)
2008	0.036%	22.4%	-9%	0.10%	27.9%	62%
2009	0.030%	21.0%		0.08%	29.7%	
2010	0.036%	18.4%		0.09%	28.0%	
2011	0.050%	19.4%		0.10%	29.0%	
2012	0.038%	14.9%		0.12%	30.1%	
2013	0.039%	20.9%		0.12%	28.2%	
2014	0.037%	21.8%	3%	0.11%	27.6%	10%
2015	0.044%	29.3%		0.10%	28.5%	
2016	0.031%	26.7%		0.11%	30.3%	
2017	0.038%	23.9%		0.11%	27.6%	
2018	0.038%	21.6%		0.11%	27.3%	
2019	0.036%	21.6%		0.10%	25.3%	

Moldova

- Trade in goods has been very dynamic:
 - Moldova's exports to the EU more than doubled in 2008-2019, reaching EUR 1.8 billion in 2019 (66% export share).
 - Moldova's imports from the EU increased consistently from 43% in 2008 to 49.5% in 2019, making the EU Moldova's main import partner.
- From the EU's perspective, trade with Moldova remains rather marginal (0.010 % in extra-EU imports and 0.15% in extra-EU exports imports).

EU28 imports from Moldova			EU28 exports from Moldova			
	% of extra EU imports (Comext)	% of Moldova's total exports (Moldovan sources)	Growth (Comext)	% of extra EU exports (Comext)	% of Moldova's total imports (Moldovan sources)	Growth (Comext)
2008	0.04%	51.5%	29%	0.13%	43.0%	33%
2009	0.03%	52.0%		0.11%	43.4%	
2010	0.04%	47.3%		0.11%	44.2%	
2011	0.07%	48.9%		0.12%	43.5%	
2012	0.06%	46.9%		0.12%	44.5%	
2013	0.06%	46.8%		0.13%	45.0%	
2014	0.06%	53.3%	57%	0.14%	48.3%	26%
2015	0.07%	61.9%		0.12%	49.0%	
2016	0.08%	65.1%		0.12%	49.1%	
2017	0.09%	65.8%		0.13%	49.5%	
2018	0.11%	68.8%		0.14%	49.5%	
2019	0.10%	65.9%		0.15%	49.5%	

Exports to the EU

Georgia

- DCFTA primarily facilitates trade in manufactured goods. But Georgia mainly exports non-manufactured goods to the EU (raw materials). As a result, the overall structure of exports from Georgia has not changed.
- Georgia's exports experienced a significant concentration around copper ores and concentrates, which were already an important product in 2014. In 2014-2019 they grew almost threefold.
- Top five products accounting for 66% of EU imports from Georgia (in 2019):
 - Copper ores and concentrates (42%)
 - Minerals and fertilizers (7%)
 - Petroleum oils (8%)
 - Nuts (6%)
 - beverages, spirits and vinegar 3%

Moldova

- Moldova's exports of industrial goods to the EU benefitted from the DCFTA and exports became more diversified. The product composition of manufactured exports changed more than that of non-manufactured exports.
- The growth was considerable in exports of industrial goods, such as insulated wires, sunflower seeds and seats and parts (of furniture).
- Top five products accounting for 44% of the EU imports from Moldova:
 - Insulated wire, cable and other electric conductors (25%)
 - Sunflower seeds (6%)
 - Seats and parts thereof (6%)
 - Bars and rods (4%)
 - Wheat (3.5%)

Imports from the EU

Georgia

EU exports are concentrated in high value added products, which remained in line with their 2014 levels.

- The structure of EU exports to Georgia resembles that of overall EU exports (except for some refinery products).

The largest product groups accounting for 30% of EU exports to Georgia (in 2019):

- Petroleum oils (15%);
- Medicaments (10%)
- Motor cars and motor vehicles (5%)

Moldova

EU exports are concentrated in high value added products, which remained in line with their 2014 levels, except insulated wires which registered considerable growth (+10% CAGR).

The largest product groups accounting for 28% of EU exports to Georgia (in 2019):

- Petroleum oils (15%);
- Motor cars and motor vehicles (6%)
- Insulated wires (4%)
- Medicaments (3%)

Relative importance of bilateral trade in goods

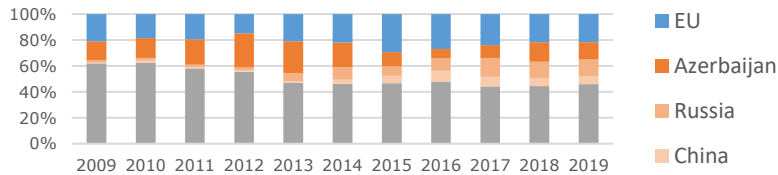
Georgia

DCFTA has not led to a trade diversion between Georgia and its non-EU trade partners:

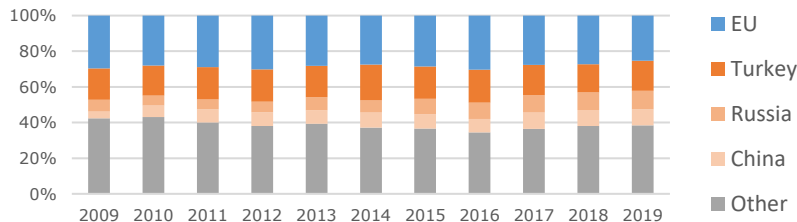
- Azerbaijan, Russia and China's joint share in Georgian exports expanded from 17% in 2009 to 32.3% in 2019
- Turkey, Russia and China's joint share in Georgian imports expanded from 28% in 2009 to 36.3% in 2019.

EU maintained its share in Georgia's trade and remained its main trade partner.

Georgia's exports



Georgia's Imports



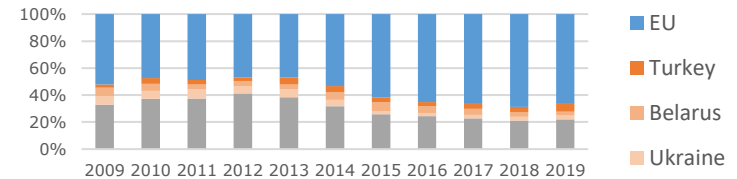
Moldova

DCFTA has not led to considerable trade diversion between Moldova and its non-EU trade partners.

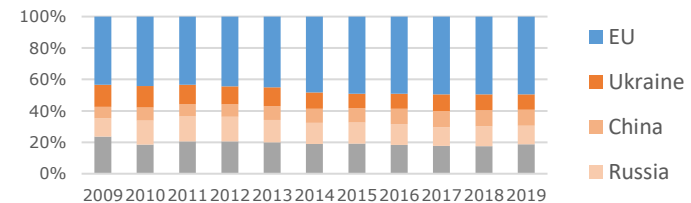
- Turkey, Belarus and Ukraine's joint share in Moldovan exports shrank from 15.1% in 2009 to 12.1% in 2019.
- Ukraine, China and Russia's joint share in Moldovan imports fluctuated around 32-33% in 2019.

In 2009-2019, the EU's share expanded from 52% to 66% in Moldova's exports, and from 43% to 49% in Moldova's imports.

Moldova's exports



Moldova's imports



Macroeconomic and budgetary effects

based on CGE modelling

Georgia

- As trade between Georgia and the EU was largely liberalised before 2014, the entry into force of the DCFTA did not result in any significant effects on Georgia's main macroeconomic and budgetary indicators.
- The most noticeable predicted impact was a decline in fiscal tax receipts (-0.49% , 2 mln EUR)

Variables	Impact
GDP	EUR 8 million (0.04%)
Consumption	- EUR 4 million (-0.02%)
Current account surplus without FDI	EUR 0 million (0.00%)
Capital	EUR 5 million (0.08%)
Fiscal tax receipts	- EUR 2 million (-0.49%)
Budget devoted to final consumption	EUR 0 million (-0.21%)
Total investment in the region	EUR 1 million (0.08%)

Moldova

- The trade-driven impact on macroeconomic equilibria has been minimal: exports to the EU increased since 2014, yet they are still significantly less than imports.
 - In 2014, Moldova's goods exports to the EU was around 50% of its imports from the EU, whilst in 2019, the figure had risen to 62%.
- The biggest estimated impact is observed on the fiscal tax receipts (- 2.62% or 8 mln EUR) lead by the reduction in tariffs.

Variables	Impact
GDP	EUR 49 million (0.49%)
Consumption	EUR 7 million (0.06%)
Current account surplus without FDI	EUR 0 million (0.00%)
Capital	EUR 23 million (0.89%)
Fiscal tax receipts	-EUR 8 million (-2.62%)
Budget devoted to final consumption	EUR 0 million (-0.58%)
Total investment in the region	EUR 0 million (0.93%)

Use of EU preferences, TRQs, market access

Georgia

- The **rate of use of preferences** by Georgia oscillated around 77%, which is **below average for other EU partners from the region** (i.e. 85-86% for Moldova and Ukraine)
- Preference utilisation rates **by EU exporters averaged above 70%**, with agricultural products (animals and animal products, prepared foodstuffs and animal or vegetable fats) achieving the highest rates.
- Preferences were used most extensively by both sides **in agricultural categories, rather than in the main export categories** of Georgia (mineral products) and the EU (machinery).
- **Georgian exporters have so far not made use of the TRQs**. This can be explained by the relative insignificance of garlic as Georgia's export good, and by China's monopoly on the EU market.
 - There are no TRQs applied for the EU exporters.

Moldova

- Moldovan exporters have been making extensive use of preferences under the DCFTA (86% in 2019).
- **Preferences were extensively used** for animal products (100%), animal fat (100%), vegetable products (92%), leather products (94%), footwear (99%) and articles of stone (99%).
 - Exports of mineral products have also recently made increasing use of preferences (increase from 12% in 2017 to 96% in 2019).
- By 2019, **entire quotas were used** in table grapes and plums. In other categories, TRQ utilisation was more modest (average 2% in 2014-2019).
- EU exporters benefitted from the removal of tariffs in agricultural products. EU exporters use of TRQs was extensive by EU exporters: TRQ use averaged 94%, with the use of the entire quota in pork, poultry, dairy and sugar products.

Trade in Services

Georgia

- For the EU Services trade with Georgia is negligible (0.04% in both EU's external exports and imports), but for Georgia the EU is the largest trade partner (EU share is 27% in Georgia's exports and 39% in Georgia's imports)
- No major shifts, neither in structure nor in the concentration of trade in services.
 - In 2019, 90% of Georgia's services exports to EU came on: travel (61%), ICT services (16.2%) and transport (13.5%).
 - In 2019, around 77% of the Georgia's services imports from the EU came on: ICT services (24%), transport (23), travel (15%) and government services (15%).
- DCFTA did not lead to trade diversion with the third countries.
 - In 2014-2019 Georgia's exports to all three reference countries (Russia, US and China) expanded, with Russia experiencing the biggest growth (by 15 times, from USD 33 million to USD 484 million).
 - In 2014-2019 Georgia's imports with US, Turkey and China increased from 24% to 27%. The increase was three-folds for imports from Turkey and China.

Moldova

- For the EU Services trade with Moldova is negligible (0.05% in EU's external imports and 0.04% in EU's external exports), but for Moldova the EU is the largest trade partner (EU share is 55% in Moldova's exports and 49% in Moldova's imports)
- No major shifts, neither in structure nor in the concentration of trade in services.
 - In 2019, 85% of Moldova's services exports to EU came on: transport (24%), travel (23%), ICT services (20%), business services (14%) and manufacturing services (14%).
 - In 2019, around 82% of Moldova's services imports came on: travel (69%) and transport (13%).
- The DCFTA seem to lead to reorientation of Moldova's services exports and imports from Russia to the EU.
 - In 2014-2019 Russia's share in Moldova's services exports nearly halved (declined from 13.2% to 7.4%), whilst the EU's share increased from 47.7% to 55.1%. The share of the other main partners like the US and Switzerland remained unchanged (6% and 4%).
 - In 2014-2019, the shares of Turkey and China remained stable, but Russia's share declined from 15% to 12% in 2014-2019.

Trade in Services (data discrepancies!)

Georgia

- For the EU Services trade with Georgia is negligible, but for Georgia the EU is the largest trade partner (EU share is 27% in Georgia's exports and 39% in Georgia's imports)
- No major shifts, neither in structure nor in the concentration of trade in services (travel and ICT).
- Little evidence that DCFTA led to trade diversion with the third countries.

Moldova

- For the EU Services trade with Moldova is negligible, but for Moldova the EU is the largest trade partner (EU share is 55% in Moldova's exports and 49% in Moldova's imports)
- No major shifts, neither in structure nor in the concentration of trade in services (travel and ICT).
- The DCFTA seem to lead to reorientation of Moldova's services exports and imports from Russia to the EU.

Foreign Direct Investment (data discrepancies!)

Georgia

- Mirror statistics: FDIs reported by the national sources are around four times larger than the FDIs reported by Eurostat.
- Georgia's share in the EU's total FDI is negligible (0.1%) but the EU is the largest investor in Georgia, sourcing around 58% of inward FDI stocks (GEOSTAT, larger than the EU's trade share – 23%).
- 2014-2019, EU FDI inflows into Georgia grew considerably from 7.6 to 11.2 USD billion.
 - But linked to pipeline construction and transactions not related to the DCFTA.
 - Role of financially motivated transactions (CY, LUX)?
- There is no indication that the DCFTA has had any negative effects on investments from non-EU countries, share of which remained stable around 40% (e.g. AZ).

Moldova

- Mirror statistics: FDIs reported by the national sources are around twice larger than the FDIs reported by Eurostat.
- Moldova's share in the EU's total FDI (extra-EU28) is negligible, (0.1%), but the EU is the largest investor in Moldova sourcing around 70% of inward FDIs in Moldova (larger than EU's trade share – 54%).
- In 2014-2019, the EU FDIs in Moldova has increased from 2 to 3 USD billion.
- More than two thirds (71%) of EU FDI are in financial and insurance activities, wholesale and retail trade and manufacturing.
- There is no indication that the DCFTA has had any negative effects on investments from non-EU countries, share of which remained stable around 30% .
 - FDIs from Russia are considerable (20%) (part of which might transit via Cyprus).


Overall Economic Impact

Georgia

- Trade flows did not see much dynamics:
 - Trade liberalisation before 2014
 - DCFTA has facilitated trade in manufacturing goods
- DCFTA has positively contributed to improving Georgia's business environment, more benefits should follow upon the full implementation.
- EU exports are concentrated in high value added products, which remained in line with their 2014 levels.
- Georgia's exports did not see much diversification neither in structure nor in export destinations:
 - more concentration around copper ores and concentrates, which were already an important product in 2014.
- Trade in services grew considerably, Georgia's exports of services nearly doubled in 2014-2019 (from 499 to 807 EUR mln, mostly travel, ICT and transport).
- FDIs have remained dynamic, and accumulated stocks are very large, but these are more influenced by the construction of pipelines and 'tax-savings' schemes than by the potential transfer of industrial know-how.
- DCFTA's estimated effects on the main macroeconomic indicators and regional inequalities are limited.
- DCFTA has not led to a trade diversion between Georgia and its non-EU trade partners.

Moldova

- Trade increased considerably:
 - Removal of tariffs
 - Moldova's exports to the EU have nearly doubled since 2014
- Exports still remain concentrated geographically (Romania) and across a few product groups, such as insulated wires in manufacturing and sunflower seeds in agriculture.
- Trade in services grew considerably:
 - Moldova's services exports nearly doubled (from 774 to 1064 EUR mln, mostly travel and transport).
- EU exports remain concentrated in high value added products, which remained in line with their 2014 levels, except insulated wires which registered considerable growth (+10% CAGR).
- DCFTA's estimated effects on the main macroeconomic indicators and regional inequalities are limited.
- EU FDIs into Moldova:
 - are related to export opportunities
 - have increased less than trade
- DCFTA has not led to a trade diversion between Georgia and its non-EU trade partners, except reorientation of Moldova's trade in services from Russia.

The background of the slide features a stylized financial chart. It includes orange vertical bars, a white line graph with circular markers, and teal vertical grid lines. A large white curved line separates the chart area from the text on the right. The overall aesthetic is modern and data-driven.

Effects on SMEs and Consumers

Case Study on SMEs: textile and apparel

Georgia

- Georgian companies specialise in knitting and crocheting, which only finish the production process, and trade is mainly conducted under the inward processing procedure (which enables Georgia to export to the EU, among others, via Turkey tariff free).
- Trade in apparel more than tripled in 2014-2019 (231%), but the growth was sourced by large enterprises, whereas SMEs have reoriented their exports towards the non-EU countries.
- Trade in textiles has not seen much changes since 2014. In 2014-2017 Georgia redirected its exports towards CIS countries and Turkey.

Moldova

- DCFTA has had a rather modest impact on trade flows, as exports of textiles and apparel, were almost entirely liberalised before the signing of the DCFTA.
- The implementation of the DCFTA promoted the investments in the sector and lead to the introduction of corporate social responsibility, human rights, labour standards, environment and climate policies in Moldovan enterprises.

Case Study on SMEs: ICT

- Given the nature of digitalisation, and limited coverage of ICT services under the DCFTA, it is difficult to single out the direct effects of the Agreement.
- AA was concluded before the launch of the Digital Single Market back in 2015, and most of the provisions laid down in the chapters and relevant annexes on electronic communications and information society are now outdated.
- The main drivers of the trade in ICT could be the business–friendly policies implemented by the government.

Georgia

- In 2016-2019, both Georgia's exports and imports of ICT services has expanded considerably, Georgia's exports increased ninefold (from USD 2.8 million in 2016 to USD 27 million in 2019)
- In 2019 Georgia's trade balance with the EU in the ICT sector turned up positive and the EU took around a 40% share in the total ICT exports of Georgia.

Moldova

- EU is the main trade partner of Moldova in both ICT imports (77%) and exports (62%), compared to the CIS countries which do not take more than 2% in Moldova's ICT exports and 6.1% in Moldova's imports of ICT services.
- ICT imports grew more than ICT exports of Moldova to the EU.

Stories on SMEs

Georgia

- **Fresh fruits and vegetables:** Georgia started exporting new products (apple, quince, kiwi, persimmon, berries and fresh vegetables, mainly to Lithuania). In terms of nominal values, exports remain limited, but the growth rates are impressive (216% in 2014-2019).
- **Jams and canned vegetables:** new export positions have been introduced. Exports remain limited in nominal value, but the growth rates are considerable (40% in 2014-2019).
- **Dried fruits:** new export positions have been introduced for dried fruits, fruit leather and dried lemon. Exports remain limited in nominal value, but the growth rates are considerable (24% in 2014-2019).
- **Pet furniture:** Exports are sourced from only company, which was established after the signing of the DCFTA. In 2014-2019, the company's exports to the EU from a negligible USD 21,000 to USD 10.5 million (growth was 1072%) .

Moldova

- **Wines:** DCFTA allowed Moldova to shift its wine exports from Russia to the EU (following Russian embargoes) and 2015-2018, wine exports to the EU increased almost twice.
- **Honey:** DCFTA triggered exports of Moldovan honey to the EU market (+229% growth in 2013-2014). Since 2014, the number of exporting SMEs has increased from 10 to 18. Almost all exports of honey are bulk exports which are then repackaged/bottled in EU.
- **Fresh fruits and vegetables:** the number of export categories increased from 17 in 2017 to 22 in 2019. TRQs in plums and grapes are used to the full capacity, and DCFTA seems to promote agricultural exports from Moldova to the EU significantly.

Case Studies n Consumers:


effects of the legislative approximation of SPS and HACCP in milk and dairy

Georgia

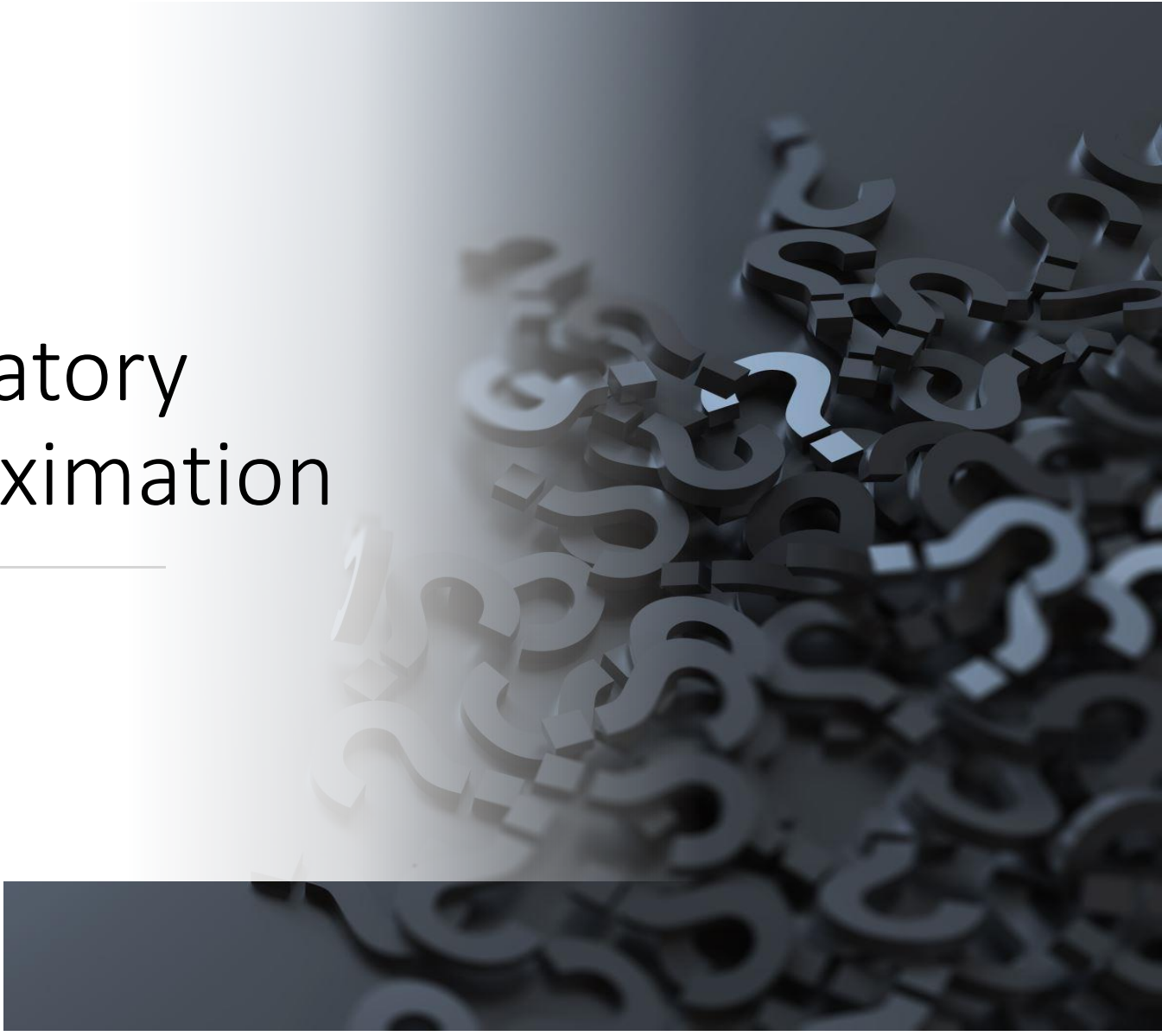
- Raw milk is produced mainly in households/smallholder farms, which are exempted from applying the SPS and HACCP regulations.
- Food safety requirements are applicable to most milk processing and dairy companies, which are the main suppliers of milk and dairy products on the market (around 10 large companies).
- Approximation of safety standards in the milk and dairy sector has not resulted in any noticeable price increase and thus, it has not had an influence on consumer welfare.
- Improved consumer safety and quality of milk and dairy products could be anticipated in the long run.

Moldova

- Around 93% of the milk still remains produced by the households and small farmers, which are exempted from implementing the SPS and HACCP regulations.
- There are four large enterprises and two SMEs that have fully implemented HACCP systems and three SMEs and two large enterprises which have initiated the process of adopting the HACCP standards.
- There is no evidence that the approximation of EU acquis in SPS has resulted in any noticeable changes in consumer safety or welfare.
- Improved consumer safety and quality of milk and dairy products could be anticipated in the long run.



Regulatory approximation



Legislative Approximation

Georgia

- Substantial legislative approximation work has been done in all areas covered by the DCFTA:
 - introduction of new regulations and practices
 - establishment of new institutions
 - new functions for existing institutions
- Implementation of new or amended legislation differs across sectors, sometimes out of the sync but mostly in line with the timeline foreseen by the DCFTA
- Approximated regulations have already changed the modus operandi substantially, for example in the areas of environment, SPS, financial services, energy and TBT, and have supported a further upgrade of public procurement and customs systems.
- In the longer term, legislative and institutional approximation paves the way for future trade and economic benefits of the DCFTA in EU-Georgia relations.

Moldova

- Study team has developed a law approximation inventory itself
- Legislative approximation of the DCFTA has been coherent with Moldova's international commitments and national policy framework
- There are delays in the transposition of the amended EU acquis:
 - many line ministries or agencies do not ensure the approximation of the acquis if it is not contained in the annexes to the DCFTA.
 - there are also examples where competent authorities are more advanced in transposition, even if the AA/DCFTA annexes have not been updated, for example in the financial and banking sector.
- Implementation of the DCFTA lags behind:
 - political issues and limited financial and human resources.
 - less progress has been achieved in sectors and areas where EU assistance was not provided.

Legislative Approximation

Georgia

- As envisaged by the Transparency Chapter of the DCFTA, **draft legislative acts undergo public discussion and consultations** with the business sector, consumers and other stakeholders.
- In most cases, **the opinions of stakeholders are considered**, in particular in terms of the timeline of entry into force and application of new legislation, as well as in view of particular provisions related to additional cost and/or regulatory burden.
- In practice, besides the revision of the existing legal base and changes in the legislation, **Georgia has mostly adopted completely new laws and regulations.**

Moldova

- The **legal requirement to publish an announcement is not always followed**. In most cases, the initiator of legislation (laws or subordinated normative acts) **usually develops a first draft and submits it for consultation** (mostly to the CSOs).
- In the particular case of legislation that transposes EU acquis, the Centre for Legal Approximation (CLA) issues a **statement of compatibility based on a table of concordance with the acquis**, developed by the author of the draft normative act.

Sustainable Development: TSD Chapter

Georgia

- **Since the entry into force of the DCFTA, environmental policy is more actively pursued** and there is progress in addressing social and labour issues.
- Georgia **advanced in the implementation of TSD Chapter** provisions through the approximation of its legislation to the EU acquis in environmental and climate areas, and bringing national labour laws into compliance with the requirements of the ratified ILO conventions.
- **Enforcement and implementation need to be improved significantly.**

Moldova

- Moldova has registered **progress in its implementation of provisions of TSD** chapter through the approximation of the national legislation to the EU acquis which leads to a **positive effect on the legal protection of workers.**
- **Enforcement and implementation need to be improved significantly:**
 - Positive role of targeted technical and EU assistance
 - Limited budget resources
 - A lack of institutional and expert capacities
 - A need for more EU support to local civil servants in order for them to build up their own capacities

Sustainable development: decent work agenda



Georgia

- Wages, sectoral employment, and household income
 - It is difficult to outline the direct effects of the DCFTA on social indicators, as they depend highly on economic development.
 - Despite a downward trend, in 2019 the **unemployment rate still remained high (17.6%)**.
 - Issues related to **income inequality and the gender gap** still need to be addressed.
- Decent Work Agenda
 - **DCFTA has positively affected labour conditions and labour safety** at the workplace (stakeholders' consultations).
 - Informal economy is decreasing, and the application of the **DCFTA** supports Georgia in further **increasing transparency** in public services and improving the business climate.

Moldova

- Wages, sectoral employment, and household income
 - It is difficult to outline the direct effects of the DCFTA on social indicators, as they depend highly on economic development
 - In the 2014-2019 period, Moldova maintained steady economic growth, and the labour market showed signs of **improvement with the activity and employment rates, and incomes**.
 - The average salary in 2019 was almost double the average salary in 2014. However, it is **close to the survival minimum**.
- Decent Work agenda
 - DCFTA implementation promoted **improving labour standards**, working conditions and providing social payments and benefits.
 - **Informal economy is decreasing, tax collection has been modernised**
 - Government needs to implement initiatives to eliminate tax evasion

Sustainable development: gender

Georgia and Moldova

Employment effects

- The sectors having **high shares in female employment have only been marginally** affected by the DCFTAs. In **other sectors**, the likely employment gains resulting from the DCFTAs appear to **have benefited men more than women**.

Female entrepreneurship

- A general improvement in the business environment can be observed. A **deterioration in female business ownership** had already started before the signing of the DCFTAs, thus cannot be directly related to the Agreements.

Consumption effect

- Analysis hints that the DCFTAs contributed **positively to decreasing prices** of goods and services that are most likely to be consumed by women, leading to gains for females as consumers.

Revenue effects

- Based on the available data, there is no **evidence found of revenue effects** driven by the DCFTAs in Georgia and Moldova.

Sustainable development: environment

Georgia

- According to the majority of the stakeholders, the DCFTA has had a positive environmental impact.
- According to the CGE modelling:
 - Marginal positive impact from the DCFTA, leading to a 0.02% decrease in CO₂ emissions.
- Improvements have occurred in:
 - reduction in greenhouse gas (GHG) emissions
 - certain air pollutants (particulate matter (PM) levels)
 - pesticide use
 - water use efficiency
- Other areas have seen a deterioration:
 - emissions of fluorinated greenhouse gases (F-gases) and certain air pollutants (most notably sulphur dioxide (SO_x)) are increased.
- Despite legislative improvements, some challenges also remain in waste management.

Moldova

- According to the majority of the stakeholders, the DCFTA has had a neutral or slightly positive effect on the environment and climate.
- According to the CGE modelling:
 - Marginal positive impact from the DCFTA, leading to a 0.11% decrease in CO₂ emissions.
- Some improvements were identified in:
 - water availability and access to drinking water
- Other areas have seen a deterioration:
 - Increase in greenhouse gas (GHG) emissions
 - growth in emissions of air pollutants
 - tree cover loss
 - increased fertilizer use and waste
- Water pollution remains a problem

Business environment and investment climate

Georgia

- DCFTA has positively contributed to improving business environment and investment climate
 - By the time the DCFTA entered into force, Georgia's business environment was already competitive, thanks to the systemic reforms undertaken by the country to root out corruption, strengthen property rights and introduce significant tax and legislative incentives for foreign investors.
- More positive effects will accrue with the full implementation of the DCFTA in the long-run.
 - Georgia should devote more efforts to undertaking needed reforms, particularly in the justice sector, to improve the business environment for domestic and foreign businesses operating in the country. This will also promote Georgia's attractiveness to foreign investors and will contribute to unlocking the full benefits of the DCFTA's implementation.

Moldova

- DCFTA has positively contributed to improving business environment and investment climate
 - Moldova saw a deterioration in the institutional landscape, macroeconomic environment, labour market efficiency and financial market development, which limited the DCFTA's impact on the overall economic competitiveness of the country.
- More positive effects will accrue with the full implementation of the DCFTA in the long-run.
 - Moldova should increase its efforts to root out corruption.

Human rights

- Georgia and Moldova are parties to the core international human rights treaties.
- All eight fundamental ILO Conventions and all four Governance Conventions are ratified.
- Strategic planning documents in the field of human rights are present.
- The internal legislative framework regulates the functioning of the Ombudsman office, a Human Rights Council and the national Anti-torture Mechanism.
- The DCFTA's impact on physical and mental health, SMEs and natural resources has been mostly moderately positive:
 - **The right to the highest level of physical and mental healthcare** has primarily improved because of **more funding being poured** into healthcare system, indirectly obtained from revenues generated from trade with the EU.
 - **SMEs** have a considerable share in trading with the EU, but the analysis shows that they may **not yet** be reaping the full benefits offered by the DCFTA.
 - **Natural resources are not managed sufficiently** well. Main issues are increased logging and increased use of water supplies for irrigation purposes.
- The level of civil and criminal justice remains insufficient. Both countries are confronted with a quite large informal economy and significant gender pay gap.

Institutional Setup

Georgia

- Georgia has advanced in the development of institutions and institutional capacity in the areas covered by the DCFTA.
 - All core institutions in charge of DCFTA implementation are in place and operational.
 - The government provides financing to these institutions for the implementation of DCFTA-related reforms, and the upgrading of infrastructure.
 - The financial sustainability of the agencies involved in the implementation of the DCFTA has increased.
 - Main challenges are insufficient financial and human resources for legislative and institutional development.
- The implementation of EU legislation has proved a difficult process in terms of both private sector readiness to comply with new regulations and public sector preparedness to enforce regulations.

Moldova

- Moldova has advanced in the development of institutions and institutional capacity in the areas covered by the DCFTA.
- The joint institutions, in particular the subcommittees of the Association Committee in Trade Configuration (ACTC)
 - exhibit an important agenda-setting power
 - play crucial role in the process of Moldova's (dynamic) approximation of EU legislation
- The DCFTA's 'comitology' is crucial in keeping issues on the agenda in case of delayed or insufficient implementation.



Ex-ante Assessment (TSIA)

- Ex-ante vs Ex-post evaluations
 - Ex-ante assessment significantly overestimated economic and social impacts
 - Ex-ante assessment slightly overstated environmental effects



Conclusions

- Effectiveness
 - DCFTAs' effects through trade and economic relations, as well as through legislative approximation.
 - DCFTAs have been effective in terms of achieving their key objectives.
- Efficiency
 - It remains challenging to single out precisely the costs and benefits associated with implementation of the DCFTA. The DCFTAs have been efficient in the sense that they have not led to a major trade diversion with non-EU trade partners of Georgia and Moldova. However, the rate of use of preferences could be higher.
 - Overall, the DCFTAs have been moderately efficient in achieving their objectives.
- Coherence
 - DCFTAs are slightly outdated due to major upgrades in the EU's legislation and policy (digital, environment, climate and trade in services).
 - Dynamic approximation should improve DCFTAs' coherence with the EU's recent trade and neighbourhood policies.
- Relevance
 - DCFTAs correspond to the current needs of the EU and Georgia and Moldova, but its coverage of the most recent trade and economic needs of the parties is limited (services trade, Digital Single Market, European Green Deal).

Recommendations for Georgia and EU

- To improve access of Georgian enterprises to the EU market:
 - Georgian government should develop tailored programmes to support SMEs in adopting of EU standards, particularly in SPS, in developing production and export capacities.
 - Needs-based assistance should be mobilised to help SMEs' in skills upgrading and internationalisation and by promoting their integration into the European Enterprise Network.
 - More EU assistance is needed to support setting up quality infrastructures to ensure that Georgian enterprises, and SMEs, have access to modernised certification networks and laboratories.
 - Laboratory infrastructure in Georgia needs to be developed to effectively implement EU regulations in SPS, TBT and for industrial products
 - DCFTA's efficiency could be improved through the higher use of preferences.
- Georgia should complement the DCFTA's implementation with prudent economic policy, and by undertaking needed reforms, particularly in the justice sector, to improve the business environment for domestic and foreign businesses operating in the country.
- The EU, as well as Georgia, should devote more attention to conducting cost-benefit analyses of new legal acts.
- The Government of Georgia should strengthen the institutional capacity and knowledge of the EU acquis of the governmental bodies, Parliament and DCFTA institutions that work on legislative approximation and engage a wider range of stakeholders while elaborating new legislation.
- Existing cooperation instruments for the EU technical and financial assistance should be strengthened through the better prioritisation of needs of EU and Georgia, also considering dynamic approximation and changes in EU legislation.
- Implementation and enforcement of the TSD chapter, on social and labour matters, and on gender and environmental policy should be strengthened. Enhancing coordination among public bodies and engaging all stakeholders in DCFTA implementation, including the public and private sectors and civil society will be useful to facilitate compliance and ease the burden on the private sector in implementing the TSD provisions.

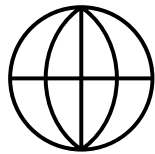
Recommendations for Moldova and EU

- To improve access of Moldovan enterprises to the EU market:
 - More targeted EU assistance is needed to help the private sector, and SMEs, to adopt EU standards and regulations in practice, including by setting quality infrastructure for to modernised certification networks and laboratories.
 - The Government of Moldova should complement the implementation of the DCFTA with relevant economic policy that aims to increase the production capacity of SMEs, particularly those owned by women, which still suffer from low productivity, lack of high-quality equipment, and limited production capacity and stability of supplies.
 - SMEs should also be supported in extending their cooperation and connection with industry associations in EU countries.
 - The DCFTA's efficiency could be improved through the higher use of preferences for agri-food products.
- To accelerate legal approximation foreseen by the DCFTA:
 - Ministries and other public agencies need to be further empowered and trained on the implementation of the EU acquis.
 - EU should provide more technical support to ministries and other implementing bodies to ensure proper transposition monitoring and the implementation of the EU acquis.
 - The national coordination mechanism on AA/DCFTA implementation should be further improved
 - Joint EU-Moldova legislative approximation inventory should be developed and should be regularly updated.
 - The capacity of the Government of Moldova to develop Regulatory Impact Assessment (RIA) needs to be improved.
- Implementation and enforcement of the TSD chapter, on social and labour matters, and on gender and environmental policy should be strengthened. Enhancing coordination among public bodies is needed to ease the burden on the private sector in implementing the TSD provisions.

Relevance & Coherence

- For the EU-Georgia and EU-Moldova DCFTAs to remain relevant and coherent to the trade needs of both parties:
 - EU should place more emphasis on services and digital trade, the green transition and due diligence in trading with Georgia and Moldova
 - EU should remove the remaining trade barriers, in particular in services trade, and also to reconsider and revise TRQs.
 - Dynamic approximation should be better utilised to update annexes that are no longer relevant to the fast-evolving EU legislation.

Ex-post evaluation of the implementation of the DCFTAs between the EU and Georgia and Moldova



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Thank You!

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