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Q1: Respondent details

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Q2: Country or Customs territory

- MULTILATERAL OR REGIONAL DEVELOPMENT BANK

Q3: Organization

Other (please specify)
International Financial Institution

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Q4: Title of case story

EBRD and EU prepare businesses for free trade area in Georgia, Moldova and Ukraine

Q5: Case story focus

Trade Facilitation.

Q6: Case story abstract

The prospect of free trade with the European Union (EU) offers many new opportunities to businesses in Georgia, Moldova and Ukraine. All three countries signed Association Agreements with the EU that foresee the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) between each country and the EU. EBRD and EU are providing support to help these countries to take full advantage of unrestricted access to the world's largest market, providing finance to small and medium-sized enterprises in the three countries, supported by the EU with a risk-sharing model. This aims to help enterprises to improve production and processes, adapt to EU standards and become more competitive domestically and in new export markets.

Q7: Who provided funding?

Multilateral organization,
Other (please specify)
International Financial Institution and EU

Q8: Project/Programme type

Multi-country

Q9: Your text case story

The prospect of free trade with the European Union (EU) offers many new opportunities to businesses in Georgia, Moldova and Ukraine. That is why the EBRD and EU are providing support to help them take full advantage of having unrestricted access to the world's largest market: they help enterprises improve production and processes, adapt to EU standards and become more competitive domestically and in new export markets.

All three countries signed Association Agreements with the EU that foresee the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) between each country and the EU. This step is expected to provide businesses and the economy with a vital boost – from farming to the IT sector. The EBRD is providing finance to small and medium-sized enterprises in the three countries, supported by the EU with a risk-sharing model.

Impact studies in preparation of the DCFTA suggest a large potential positive impact on – compared to the EU – small economies such as Georgia and Moldova, increasing exports to the EU and in the long run also on incomes, through wages and employment, provided adequate adjustment support, especially to ensure sustainability. “The DCFTA creates unique opportunities for small and medium-sized enterprises in Ukraine, Georgia and Moldova to export to the EU, with stable and predictable preferential access to the largest market in the world. At the same time, the new framework requires firms to make the necessary investments and to set up the right conditions to comply with higher technical standards involved and to encourage new business relationships,” said Johannes Hahn, EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations.

Boosting trade with the EU: Ukraine, Georgia and Moldova

Agricultural production plays a vital role for Ukraine’s economy, accounting for more than 25% of exports (including processed agricultural products). “For us, a fair share of our income is driven by export sales. Free access to the EU market offers us a great prospect for continuing to grow our business,” explained Kees Huizinga, CEO of agricultural producer Kischenzi.

The company’s main business derives from growing grain, oilseeds and vegetables, which it sells on to international traders. The EBRD provided Kischenzi with a loan of US\$ 5 million (equivalent to around €4.5 million) to help the company purchase modern equipment, such as cultivators and new combine harvesters, to meet its ambitions. The company exports a large share of its production outside Ukraine, with increasing off-take by the EU. The potential for growth is large. The transaction is supported by the EU with a risk-sharing guarantee on a first loss basis as part of the EU4Business initiative. The EU4Business initiative aims to support businesses in partner countries by equipping small and medium-sized companies to export to the EU, through both financing and technical assistance. This is also expected to enable the company to use innovative farming techniques to obtain the best possible results and ensure future sustainability of operations.

In Agriculture, such methods include precision agriculture which uses soil sampling and other techniques to help farmers manage variations between or within fields and achieves the best possible returns while preserving precious resources. Furthermore, controlled traffic farming reduces damage to the soil by avoiding heavy or repeated machinery passes. This also creates new job opportunities and supports inclusion in the country. Kischenzi is the only sizable income provider for local women in the rural Mankiya Rayon, with almost half of their staff being female. There is good reason for this: the company undertakes various activities to support schools and nurseries that provide child care facilities to its employees.

Some 1,300 km south-west in Georgia’s capital Tbilisi, the EBRD and EU’s support to local broadcast operator Stereo Plus Ltd provides another example of how a company – and the population as a whole – benefits from the two organisations’ cooperation to boost economic development.

Stereo+ obtained an EBRD loan which supported the switch from analogue to digital broadcasting in Georgia, an important step for Georgia’s ICT sector. The EU backed this transaction again through a risk-sharing facility. The digital switchover was critical in modernising Georgia’s information technology and communications sector and helped the country meet EU standards. This helps to open up new market opportunities, as the move to digital broadcasting freed up frequencies. The freed up frequencies can be re-allocated for other uses, which can include more advanced communication services, the so-called ‘digital dividend’, leading to a more competitive market. According to the company’s management, the EBRD was instrumental to making the switch-over, by providing finance for expansion.

Innovative services are vital to make companies more competitive, support their trade ambitions and boost sustainable growth.

In Moldova, leasing services are still in their infancy but provide more and more businesses with a viable financing option. The EBRD and EU help small firms build up their export chances by supporting Total Leasing & Finance. To help the company expand its portfolio for small and medium-sized enterprises, the EBRD provided an EU-backed risk participation in the loan granted by local partner bank Mobiasbanca, to enable the company receiving a larger loan and for longer-term to invest in industrial and agricultural equipment, and other purposes.

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This, in turn, made their business clients more competitive in the local economy and for export markets. Most of their clients would not have been able to acquire necessary equipment other than leasing it. Many companies are small producers and the new equipment helps them to manufacture higher-quality goods which they can then export to Western European countries, such as France, Germany.

EBRD and EU4Business support

These projects are part of a wide range of activities to support the private sector to make the most of the free trade area with the EU, which also includes providing local entrepreneurs with the necessary know-how to grow their business, training local partner banks and improving the business environment through policy dialogue with relevant government authorities.

Furthermore, the EBRD started in May 2016 to provide €380 million in loans and trade guarantees to local partner banks and other financial institutions for on-lending to businesses, while the EU is making available €19 million for technical assistance, investment incentives and risk-sharing. This marks the first phase of a planned €1.2 billion EBRD/EU programme to which the EU is expected to provide €56.5 million in funding to help businesses invest in improvements of product quality and service standards. This, in turn, will prepare them for the DCFTA and create an environment conducive to cross-border trade, job creation and economic growth in the three countries.

The EU funds are part of the EU4Business initiative, which provides a comprehensive package of support to attract new investments and improve services and products to the benefits of all citizens and consumers across the Eastern partnership region.

With its local presence and 25 years of experience of working to develop the private sector in the three countries, the EBRD is strongly positioned to successfully promote this project. The Bank is the largest institutional investor in the three countries and has invested €2.7 billion in Georgia, €1.1 billion in Moldova and €11.7 billion in Ukraine.

Q10: Lessons learnt

Respondent skipped this question
