

ECONOMIC CHALLENGES OF UKRAINE AND MOLDOVA ON THE WAY TO EU

MANAGING POLITICAL INSTABILITY, ENABLING THE ROLE
OF CIVIL SOCIETY AND APPLYING LESSONS FROM THE
CENTRAL EASTERN EUROPEAN EXPERIENCE

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PREFACE

The study is a result of the Capacity Building for Moldovan and Ukrainian NGOs to Assess the Economic Impact of Politically Motivated Actions project made possible by the re-granting mechanism of the Eastern Partnership Civil Society Forum, which includes assistance of the European Union and the National Endowment for Democracy. The aim of the project is to raise the economic expertise of Moldovan and Ukrainian civil society organizations and to provide access to the experience in political and economic transitions of Central and Eastern Europe to strengthen dialogue between decision makers and civil society during implementation of the two countries' Association Agreements with the EU, which include Deep and Comprehensive Free Trade Agreements (DCFTA).

The study is based on the findings of three study visits to Lithuania, Moldova, and Ukraine during which multiple meetings and interviews with policy makers, diplomats, civil society experts, and representatives of the business community were conducted. The authors would like to thank to all of these professionals for sharing their advice, expertise, and opinions. An immense energy and efforts are concentrated around reform processes in Moldova and Ukraine. It is our hope that the findings of this study will make a positive contribution to the critically important reform processes underway in both Moldova and Ukraine.

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Ištrinti - (VšĮ Rytų Europos...).

November 2015

ISBN 978-609-95488-7-6

This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the authors and can in no way be taken to reflect the views of the European Union.

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INTRODUCTION

During the end of the last century Central and Eastern European (CEE)¹ countries have experienced enormous economic and political transformations – from planned to market economies and from authoritarian single-party to competitive multi-party political regimes. In contrast to these countries, other post-communist states have enjoyed less success. Some of them, such as Moldova and Ukraine, still face tremendous economic and political challenges even as they pursue European integration. How can they overcome the lack of free and fair market competition while restraining the power of oligarchs, combating corruption, and ensuring respect for the rule of law?

Even though European Union and other western institutions work hard with civil society to foster democratic processes, the desired goals, such as transparent political institutions or efficient judiciary system, are not being accomplished. Moreover, the situation has only been made worse by the re-emergence of Russia as a power in the region and its geopolitical games. Can political actors and NGOs learn from the experience of success stories – that is, those of the CEE states that are already members of European Union?

The new chapter for those countries began in the early 1990s, with the collapse of Soviet Union marking the beginning of huge economic and political transitions. These changes were made possible by a new set of rules. Of course, policymakers in some countries were able to implement necessary reforms more successfully than others. There are two key factors associated with the success of democratization: first, early and continual ideological turnovers in power, and second, the determination to introduce, implement, and enforce pro-market reforms in a timely manner.

After such political and economic transitions, former elites do their best to maintain influence in political arena. Such transitions often open the gates for the spread of corruption, the buying and selling of political influence, and emergence of oligarchs. Since civil society and media are only in their infancy, they have no capacity to observe and monitor government's actions and prevent corrupted political processes. Thus, frequent changes in government in the early stages of the democratization process are necessary to prevent the concentration of power and resources

¹ The authors define the term *Central and Eastern Europe* as 8 states that joined the European Union in 2004: Estonia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.

in the hands of a few, thereby leading to better governance in the future.²

In addition to regular handovers of power, ensuring better governance also demands that, policymakers prepare a clear strategic plan and adopt reforms early. These reforms include developing and enforcing laws, overhauling the legal system, and creating functioning institutions.³ The public is usually ready to tighten its belts and support implementation of often-painful reforms in the first years after transition. However, if the pace of reforms slows, if laws are not enforced, and if people see no positive outcomes, then they lose hope and trust in government. The resulting loss of momentum to change the system can have devastating consequences for a country.

Transitions produced different economic and political outcomes for post-communist states. When the Baltic states experienced successful democratization processes, Ukraine and Moldova struggled – for reasons that are clearly apparent. Neither Moldova nor Ukraine saw any real changeovers in power during the first few years of independence – a key reason for the slow pace of reforms.⁴ Former communist elites successfully remained in power under new party labels. Implementation of economic and institutional reforms lagged, regulatory frameworks were not created, and new laws were not enforced in a timely manner.

For example, Moldova had few changeovers in power in the early years of transition, but they were not ideological changes, as new reform-minded, pro-western leaders did not emerge at that time. The country formed 4 cabinets in the first five years since independence, however the first democratic elections

² Branko Milanovic, Karla Hoff, & Shale Horowitz, "Turnover in Power as a Restraint on Investing in Influence: Evidence from the Postcommunist Transition", *Economics & Politics*, Volume 22, Issue 33, pages 329–361, November 2010, DOI: 10.1111/j.1468-0343.2010.00365.x.

³ Jan Svejnar, "Strategies for Growth: Central and Eastern Europe", International Policy Center, Gerald R. Ford School of Public Policy, University of Michigan, 2006, <http://ipc.umich.edu/policy-briefs/pdfs/ipc-pb-1-growth-strategies-central-eastern-europe.pdf>.

⁴ Sarah Whitmore, "State-Building in Ukraine: The Ukrainian Parliament, 1990-2003", RoutledgeCurzon, 2004; Vladimir Solonari, "The Political Economy of Moldova", State University of Moldova, paper prepared for the Lucerne Conference of the CIS-7 Initiative, January 20-22, 2003, <http://web.worldbank.org/archive/website00504/WEB/PDF/SOLONA-6.PDF>.

nuimti pasvirimus: Central and Eastern Europe (1 isnasa) ir Economics&Politics (2 isnasa)- gal tada nebebus taip ryskiai, tarsi su bold, kai atspausdini. Tada puslapio numeri pataisyti i V

were only held in 1994.⁵ Moreover, the winners, the Agrarian Party of Moldova (PDAM), mainly consisted of former communist political elites, who were reluctant to change and hence did not enact real reforms. Although some pro-market reforms were initiated in 1992, they still permitted government intervention in the private sector and allowed the government to maintain large stakes in the country's economic assets. Since the system remained controlled by former communist officials throughout the 1990s, no systematic reforms were enacted as a result.

Both Moldova and Ukraine faces similar problems, with considerable deficits in terms of economic freedom, governance, and the rule of law. As in Moldova, former Soviet elites stayed in power after Ukraine gained independence.⁶ Therefore, state economic assets were passed into the hands of a few. Successive governments lacked political responsibility; as a result, economic and institutional reforms did not start in earnest until 1995 - around the same time that privatization programs were launched in both countries. Today, state-owned enterprises still play a significant role in these economies. Those companies that have been privatized often ended up in the hands of oligarchs. Thus, the current situation in Ukraine and Moldova is partially a result of a lack of early and persistent ideological changes in power and of the absence of political will to reform the system.

Some Central and Eastern European countries, like Lithuania, had completely different experiences. Early and frequent ideological changes in leadership and the implementation and enforcement of necessary legal, institutional, and economic reforms created conditions for the establishment of the rule of law. Moreover, political and economic elites along with the general public always had a clear objective – membership in NATO and the EU. However, this difference does not mean that Ukraine and Moldova have no valuable lessons to learn from Lithuania and the other more successful post-communist states. In fact, there are many similarities as well, from a shared Soviet past to transformations (both economic and political) and nation-building processes.

Today, the societies of Ukraine and Moldova are more open, more European, and more Western in their values. It seems that Ukraine and Moldova have chosen a European path - both have signed association

agreements, including a Deep and Comprehensive Free Trade Area (DCFTA), and started implementing EU standards, upgrading quality requirements, improving business climates, and changing regulatory frameworks. Although Ukraine postponed DCFTA implementation until January 2016 (by contrast Moldova has successfully begun the implementation process), both countries are taking steps to develop stronger economies while creating more open, transparent systems.

Civil society is an important component of any nation-building process. But can it help overcome the challenges Ukraine and Moldova face? The authors argue that NGOs should play a critical role not only by monitoring political processes, but also by taking an active role in reforms and in providing advice and expertise to decision makers, businesses, and the public. Nevertheless, the question of how to empower civil society to play a more active role, as well as how to make its voice heard, remains an open one.

⁵ Liubomir Chiriac, Igor Munteanu, Victor Popa, & Victor Mocanu "Local Government in Moldova, Ch. 7", in Emilia Kandeve, ed., "Stabilization of Local Governments", Open Society Institute, Budapest, 2001.

⁶ Sarah Whitmore, "State-Building in Ukraine: The Ukrainian Parliament, 1990-2003", RoutledgeCurzon, 2004.

UKRAINE

PECULIARITIES OF DEVELOPING UKRAINE'S TRADE POLICIES AMID HIGH-LEVEL POLITICAL RISKS

Main challenges:

- Russian aggression resulting in postponed implementation of DCFTA, outflow of foreign investments and capital from Ukraine, and closure of the Russian market to Ukrainian goods.
- Dependence on international financial support while lacking the political will to drive further progress on anti-corruption measures, de-oligarchization, demonopolization, and tax reforms.
- Low institutional capacity, including weak awareness-raising within the business community and the wider public regarding the DCFTA and the export opportunities it brings.
- Empowerment of reformers by finalizing and implementing the law on civil service and fostering closer cooperation between public institutions and civil society.

POLITICAL BACKGROUND

Since the very first years of independence, Ukraine's economic development and choice of an economic model have been under the strong influence of political elites working for corporate interests of oligarchs. These interests were usually at odds with the interests of Ukraine as a whole. Political maneuvering also prevailed over the European economic integration of Ukraine, resulting in a particularly deep political and economic crisis and the annexation of a part of its sovereign territory by Russia in 2014.

Given this background, it is notable that Ukraine was the first country to launch negotiations on a new deeper agreement with the EU in 2007 to replace the previous Partnership and Cooperation Agreement. Ukraine initialed the Association Agreement with an embedded DCFTA in 2012; however, the EU postponed the signing because of the domestic political crisis in the country—a crisis itself caused by Kyiv's low compliance with its own reform commitments and by the selective nature of justice under the presidency of Viktor

Yanukovich. Some cosmetic improvements in meeting these obligations were enough to make it possible for Ukraine to have signed the deal during the Eastern Partnership Summit in Vilnius in November 2013. However, Russia pressed the government of then-prime minister Mykola Azarov to refuse to sign, provoking massive public protests against the authorities. After the tragic confrontation, Viktor Yanukovich fled the country and a new government was elected. However, many oligarchs and former political elites are still in place.

Russian President Vladimir Putin used the acute political crisis in Ukraine to organize a special operation to annex Crimea in March 2014, and later to ensure an occupation of some parts of the Donbas region by pro-Russian terrorist groups as well as Russia's regular army units.

To provide the new Ukrainian government with moral support, the EU signed the political part of the Association Agreement in March 2014, doing the same for the rest in June of that year. After the ratification of the Agreement by the Verkhovna Rada (Ukraine's

parliament), the European Parliament approved its temporary application pending complete ratification by all parties. The EU Parliament also passed a decision to grant unilateral trade preferences to Ukraine until the scheduled entry into force of the DCFTA in November 2014.

Under Russian pressure, the free trade area part of the Agreement was postponed until January 2016, although the EU has extended its temporary unilateral preferences.

ECONOMIC BACKGROUND

Remarkably, the EU's Eastern Partnership (EaP) initiative was launched in May 2009, less than two years after the global economic crisis began. In Ukraine, this crisis caused significant problems for major banks and resulted in the decline of key economic indicators. In particular, the country's gross domestic product (GDP) fell by one-third in US dollar terms, industrial production shrank by 25 percent, real estate prices dropped by one-fourth, and the external trade deficit reached about \$10 billion, while the outflow of foreign investment doubled. External support was necessary to overcome these negative macroeconomic trends, and eventually arrived in the form of \$16.5 billion in IMF lending. As a result, however, Ukraine's external debt exceeded \$100 billion.

Many experts agree that Ukraine had not reached its full recovery after the 2008-2009 financial crisis by the time a new crisis spiral hit in late 2013. Ukraine's sovereign debt exceeded 70 percent of GDP in 2014, compared to 40 percent in 2013. Despite the fact that the negative trade balance decreased from 8.7 percent to 4 percent of GDP thanks to declining imports, rapid capital outflow and payments for Russian gas minimized the positive effect. As a result, foreign exchange reserves declined by 60 percent and reached a critical level of €6.2 billion. Thanks to a €7 billion external financial support program established under the auspices of the IMF, the EU granted a €1.36 billion loan in 2014 while also providing some €250 million in direct budget support as a part of an institutional development program.⁷

The Ukrainian government avoided default in 2015 by restructuring its foreign debt obligations—with the key exception of a Russian loan of \$3 billion made to the previous government as a reward for its decision to abandon its drive toward European integration. Experts,

politicians, and commentators in fact continue to debate the success of this restructuring because of the terms and conditions agreed with foreign creditors.

The crisis also badly hit Ukrainian exports, which had amounted to almost half the country's GDP. The following factors were behind some emerging negative trends in Ukraine's trade policies in 2014 and 2015:

- Russia's external military aggression, the occupation of some eastern territories of Ukraine and annexation of Crimea;
- The deteriorating economic situation for Ukrainian exports on global and regional markets, including EU member states and Russia (still Ukraine's largest export market), as a result of sanctions against Russia and Russia's retaliatory trade embargo;
- The internal financial crisis in certain EU states, especially Greece, which resulted in the EU being too distracted to assist Ukraine;
- The outflow of foreign investments and capital from Ukraine as a consequence of the military operations in the eastern regions of the country and the resulting increase in economic risks;
- The almost complete closure of the Russian market to Ukrainian exports in retaliation for Ukrainian sanctions against Russia;
- The slow and painful process of implementing economic reforms;
- The harsh devaluation of the national currency and the resulting, rising costs of raw materials and components for some Ukrainian exporters.

In general, overall exports from Ukraine decreased by 23.5 percent in 2014. However, exports to the EU (with a total value of €17 billion) increased by 1.5 percent increase compared to 2013. This year, however this figure has begun to shrink due to Ukraine's declining export capabilities, with the year-on-year decrease reaching almost 35 percent (€6 billion) in the first half of 2015. That said, preferential treatment of Ukrainian products has helped to slow this rate of decrease. Just as in 2014, the EU has been Ukraine's leading trade partner in the first half of 2015 with 37.5 percent of total trade turnover. Exports to Russia contracted by 60 percent, and exports to the countries of the Commonwealth of Independent States (CIS) as a whole have fallen by 54 percent in the first half of 2015.

THE CURRENT STATE OF PLAY IN UKRAINE'S TRADE POLICIES

Supported by the parliament and president, the Cabinet of Ministers is focusing on the following areas of trade and investment policy:

⁷ European Commission, "Implementation of the European Neighborhood Policy in Ukraine. Progress in 2014 and recommendations for actions", Joint Staff Working Document, March 25, 2015, http://eeas.europa.eu/enp/pdf/2015/ukraine-enp-report-2015_en.pdf.

- Measures to prepare for the introduction of the DCFTA (harmonization of legislation, implementation of preparatory measures, further liberalization of trade, awareness-raising for businesses);
- Macroeconomic stabilization and strengthening of the national currency;
- Implementation of the package of economic reforms listed in the Ukraine 2020 Sustainable Development Strategy;
- The development of a new export strategy within the framework established in the Ukraine 2020 strategy;
- Creating an institutional basis for promoting exports to foreign markets and for protecting exporters;
- Developing small and medium-sized enterprises (SME) as a key engine for exporting high-value-added items;
- Implementing further deregulation; shifting from supervising to promoting businesses, and reforming the system of supervisory agencies;
- Launching and implementing international programs to strengthen export potential and the business climate

Ultimately, to bring about successful reform of Ukraine's trade policies and create an attractive investment climate in the country, progress in five interconnected arenas is crucial: (1) political will, (2) strategic thinking, (3) institutional capacity, (4) active involvement of the civil society, (5) and sufficient international support.

1. POLITICAL WILL

The current government in Ukraine is the most pro-European and pro-reform to date. Petro Poroshenko was elected president in May 2014 on a platform that included clear plans for signing the Association Agreement with the EU and introducing radical reforms in the country. Meanwhile, in parliament, the political parties that formed a majority after the snap elections of November 2014 clearly indicated their willingness to conduct deep economic reforms in Ukraine, ensure quick economic growth, facilitate reaching international markets, and develop international cooperation. Based on the agreement, a government program was adopted in order to meet these commitments.

As more examples of political will, one can cite the inclusion of foreign nationals with experience of effective economic management into the government, notably the American Natalie Jaresko as minister of finance, and Aivaras Abromavičius of Lithuania as minister of economic development and trade.

2. STRATEGIC THINKING

As mentioned above, key documents such as the coalition agreement and the government program include provisions for improving trade policies and for harmonizing legislation with that of the EU.

The 2014-2017 Plan for the Implementation of the Association Agreement was adopted in September 2014.

President Poroshenko presented the Ukraine 2020 Sustainable Development Strategy in December 2014, a document that includes a plan for 62 separate reforms and policies, including more than 20 related to social and economic development.⁸ A governmental program was adopted for implementing the Strategy. The government also launched the National Export Strategy 2020 in December 2014. Moreover, a draft Program for the Development of SMEs before 2020 has already been prepared.

3. INSTITUTIONAL CAPACITY

For implementing and coordinating the reform agenda, Poroshenko created the National Council for Reforms. Meanwhile, in the sphere of European integration, the Government Office for European Integration was established, and; positions of deputy ministers for European integration were introduced in ministries responsible for executing the association agreement implementation plan.

The Ministry of Economic Development and Trade (MEDT) of Ukraine is the body directly responsible for implementing trade policy. MEDT has been charged with implementing 173 government initiatives aimed at reforming anti-monopoly legislation, promoting exports, advancing deregulation, developing SMEs, and creating a new taxation system.

Minister Abromavičius announced the creation of the Deregulation Office in September 2015 to ensure a quick and effective deregulation process, including the use of European best practices.

Notably, the body has plans for institutional export capacity building. The Council for Export Promotion has been established under the Ministry, and has been assigned numerous tasks including promoting Ukrainian goods and services to foreign markets, facilitating export processes, and assisting in removing

⁸ Decree of the President of Ukraine on the Ukraine 2020 Sustainable Development Strategy, Verkhovna Rada (Указ Президента України «Про Стратегію сталого розвитку «Україна - 2020», Верховна Рада України), January 12, 2015 <http://zakon0.rada.gov.ua/laws/show/5/2015>.

barriers to trade.⁹ Efforts are under way to establish an export credit agency to promote Ukrainian goods to international markets and to retarget the work of Ukreximbank towards providing credit for export transactions.

Given the fact that 99.8 percent of companies in Ukraine fall within the category of SMEs, the ministry's focus on SMEs for developing export capabilities seems reasonable, as does its ambition to switch to production of added value items and participation in joint production chains with companies from EU member states and other EaP countries. Talks to establish a state guarantee fund for loans up to €40 million fit the same pattern.

4. ACTIVE INVOLVEMENT OF CIVIL SOCIETY

After the 2014 Ukrainian Revolution (known as Euromaidan), the civil society of Ukraine became more interested in reforms and more active in suggesting new paths for the country's development. The Reanimation Reform Package is a notable example it is a public initiative backed by more than 300 civil activists and experts working in 23 groups on draft reforms and pieces of legislation. The initiative focuses particularly on anti-corruption and taxation reforms.

Stronger Together is another civil initiative with a record of successful advocacy for the DCFTA. The campaign brings together representatives of the Ukrainian authorities, the Delegation of the EU in Ukraine, Ukrainian and EU businesses, and civil society to raise awareness among Ukrainians of the opportunities offered by the implementation of the Association Agreement.

Working Group 2 of the Civil Society Forum of the Eastern Partnership focuses, among other issues, on trade relations in the EaP framework. Its experts have notably created an Index of Economic Integration of the EaP countries.

5. INTERNATIONAL SUPPORT

The government's proper and coordinated use of international assistance is yet another noteworthy issue from the perspective of improving conditions for entrepreneurship and investment environment. Ukraine received more than €1 billion as a technical assistance in 2014, apart from humanitarian aid and direct

⁹ Ministry of Economic Development and Trade of Ukraine, "Ministry Introduces New Trade Promotion Council" (Мінекономрозвитку представило нову Раду з просування експорту, Міністерства економічного розвитку и торгівли України), October 15, 2015, <http://www.me.gov.ua/News/Detail?lang=uk-UA&id=dd039ec6-9a3e-4d75-92c6-431079456202&title=MinekonomrozvitkuPredstaviloNovuRaduZProsuvanniaEksportu>.

budgetary support. The EU is clearly a key partner, along with its individual member states. More than 3,000 projects for international technical assistance have been registered, with over 300 more are coming soon. The e-procurement system ProZorro is one major success story in applying international technical assistance, having already produced considerable cost savings for the state budget.¹⁰

The EU and Ukraine agreed on the EU SURE (EU Support to Ukraine to Re-launch the Economy) program amounting to €55 million, with plans to establish 15 regional hubs for SMEs.

PROBLEMS OF CONSTRUCTING TRADE POLICIES FOR UKRAINE

Currently, the military operations in the East remain a major factor for the national economy. This factor, along with slow rate of economic reforms, high level of corruption and shadow economy, as well as the "oligarchization" and monopolization of major industries, are preventing the national economy from reaching sustainability without external support - something that is currently being offered by the IMF and EU.

The government is facing the challenge of building a new political and economic model under significant time pressure while needing both to address a backlog of issues and simultaneously to implement reforms in all key areas. The list of areas to be reformed, presented by the National Council for Reforms, includes 62 points; the short list alone consists of 18 items. Unfortunately, the past year of reform implementation in Ukraine shows that this ambition is hardly realistic, with the time factor being the key weakness.

Addressing structural issues, however, is crucial for achieving progress along the development path. Minister Abromavičius has noted that corruption; taxation reform and de-monopolization are the three key challenges for Ukraine's economy.¹¹ Political will

¹⁰ Ministry of Economic Development and Trade of Ukraine, "Aivaras Abromavičius: We reached a new level of coordination of international assistance", (Айварас Абромавичус: Ми виходимо на новий рівень координації міжнародної допомоги, Міністерства економічного розвитку и торгівли України) October 6, 2015, <http://www.me.gov.ua/News/Detail?lang=uk-UA&id=dd56287c-b27c-466f-a6a3-ddffe4d3474b&title=AivarasAbromavichus-MiVikhodimoNaNoviiRivenKoordinaTsiiMizhnarodnoiDopomogi>.

¹¹ Ministry of Economic Development and Trade of Ukraine, "Small and medium enterprises will be the driver of economic growth - Aivaras Abromavičius" (Малі та середні підприємства стануть драйвером економічного зростання, - Айварас Абромавичус, Міністерства економічного розвитку и торгівли України), October 1, 2010, http://www.kmu.gov.ua/control/uk/publish/printable_article?art_id=248522285.

is critical for addressing all of them. In particular, anti-corruption reform is progressing very slowly, and deadlines for enacting anti-corruption institutions have been missed.

Preparations for introducing the free trade area with the EU on January 1, 2016 are also far from smooth, amid the government's failure to ensure an adequate communication strategy and inform the business community about the strengths and weaknesses of the new trade regulations. The majority of SMEs have only a very vague idea of the new reality they are about to live in beginning next year. Although the EU has noted progress on technical issues in 2015, with 85 percent of all provisions implemented, Brussels still has questions regarding public tender procedures and food safety issues.

As far as the economic component of Eastern Partnership cooperation is concerned, Ukraine's relations with EaP states have no significant influence on the domestic economic situation, while the inter-country relations in EaP have witnessed a certain divergent trend, something primarily caused by Georgia's and Moldova's signing of association agreements with the EU. There have been no considerable changes in cooperation with Azerbaijan, while the decision of Armenia and Belarus to enter the Eurasian Economic Union was a key landmark for Ukraine's relations with these two countries. Links with Armenia have decreased, while interaction with Belarus—still an important economic partner of Ukraine—has been characterized by long-term significant fluctuations with recurrent discriminatory trade measures and supply restrictions.

The European Integration Index 2014 for Eastern Partnership Countries in its' analysis of external economic contacts found no coordinated measures aimed at deepening economic relationships among the countries of the initiative¹². Economic ties between EaP countries are more the result of established traditions than of state policies or EU efforts.

In a situation where exports have been falling rapidly, protracted strategizing about exploring new markets or establishing export-backing infrastructures now seems like an unattainable luxury. The National Export Strategy 2020 will not be ready by the end of 2015, though the task was established as long ago as December 2014, during the presentation of the Ukraine 2020 strategy.

Another point worth mentioning is that not all regions

of Ukraine were ready to switch to a new strategic approach emphasizing the development of their own economic capabilities. By 2015, all regions had to reconcile their regional strategies with the 2020 National Strategy for Regional Development adopted in 2014. With 2016 just around the corner, this process is still not complete.

Strengthening administrative and reporting capacity of the Government in regards to absorbing international aid is yet another task to be undertaken.

RECOMMENDATIONS

Despite certain negative aspects, Ukraine's overall performance in economic development is adequate, resulting in quite professional teams of reformers emerging at all ministries. It is clear that political risks can undermine progressive initiatives in all areas. Still, it is a key role of the government to eliminate all structural barriers towards creating an open economic model in the country.

In order to establish effective trade policies, Ukraine should focus on the following areas:

1. The Government has to identify three priority reforms (areas) show real achievement within one year.
2. The primary task is to implement anti-corruption reform, which implies creating a system of anti-corruption bodies along with radical changes to the existing judiciary and public prosecution systems. Completely replacing the key personnel and proper financial provisions are important components of such reform.
3. Taxation reform is a top priority. It should focus simplifying the economic component of taxes and duties along with the administration thereof, as well as the restructuration of taxation and customs offices. An inclusive process of reform is crucial to make sure the opinions of all stakeholders are taken into consideration. The proposals of the relevant working group of the Reanimation Reform Package are worth considering in this regard.
4. Together with the Verkhovna Rada, the Government should reinforce the transparency of regulatory bodies by creating a legislative foundation for reducing the number of such bodies and for the maximum replacement of their staff through open recruiting, while also establishing a system for planning inspections that is understandable for businesses.

¹² The European Integration Index 2014 for Eastern Partnership Countries, <http://www.eap-index.eu/sites/default/files/EaP%20Index%202014.pdf>.

5. The administration of international assistance by the Government should be transparent, systematic, and complementary, clearly indicate the **vietoj lassistance turi but assistance** beneficiaries and results of assistance projects and their implementation. Quarterly overall reporting for implementing international technical assistance projects is advisable, along with donor conferences; this can be facilitated by creating a comprehensive web portal.

developing effective methodology for monitoring the Agreement.
6. The process of drafting a national export strategy and an accompanying implementation plan has to be accelerated; apart from institutional capacities, they should focus on incentives for Ukrainian companies to reach new markets with high-tech, high-value- added products.
7. Modern economic development tools should be applied to boost competitiveness and bring the national economy closer to global leaders. Practical second-level measures should include implementation of open government and e-government standards; agencies for facilitation of exports and investments, regional development, support of SMEs; reorganization of financial markets, e.g. the stock market and the banking sector.
8. The Government has to change its approach dramatically to awareness raising of business community and the public on the DCFTA and specific opportunities for bolstering export capabilities. The national policy for increasing public awareness about Ukraine's European integration is a pressing need. Policy implementation at the regional level can be entrusted not just to local authorities, but also to business hubs established in 15 regions as a part of the EU SURE program. Other international aid tools can be leveraged to ensure that, such business hubs emerge in all regions of Ukraine. In addition to their other tasks, the authorities should distribute information about the specific features of EU programs such as Horizon 2020, COSME, DCFTA Facility etc., as well as public tender procedures in EU member states.
9. Efforts are needed to finalize the reconciliation of individual regions' development strategies with the 2020 National Strategy for Regional Development as well as the new national export strategy.
10. The EU has to revise its institutional support for the Civil Platform Ukraine-EU established in 2015 as a part of the Association Agreement, with the objective of building proper expertise and

It is important to realize that the window of opportunity is not so wide as it was a year ago; the risk that the international community will reduce or eliminate its support for Ukraine is growing. Accordingly, the rest of 2015 and the first half of 2016 represent a critical period for the implementations of the above-mentioned measures.

MOLDOVA

THE IMPACT OF THE DOMESTIC POLITICAL ENVIRONMENT TO THE EU-MOLDOVA ASSOCIATION AGENDA: FOCUS ON DCFTA

Main challenges:

- Political instability, caused by a corrupt, oligarch-led political elite, which has failed to form lasting coalitions and has therefore stalled reforms and endangered Moldova's European perspective.
- An economic crisis primarily caused by banking sector fraud and further exacerbated by decreasing remittances from Russia, which are a result of the impact of the international economic sanctions imposed following its aggression in Ukraine.
- Transnistrian authorities' refusal to implement the DCFTA due both to their misunderstanding of the agreement as well as to the region's strong economic and political dependence on Russia.
- Lack of engagement from the part of the Moldovan authorities to include the civil society actors into the reform-related processes.

BACKGROUND

After 18 years of independence, Moldova chose a new European model of development as a result of the so-called Twitter Revolution in 2009. Association with the EU became the main driver of domestic and foreign policy. With the implementation of the Visa Liberalization Action Plan beginning in 2010, Moldova began a profound reform process in the areas of justice, home affairs, corruption, and human rights. However, the political elites in Chisinau who initiated the reform process did not demonstrate enough drive or desire to achieve fully credible reforms, especially those affecting their personal and party interests. The numerous scandals in which public officials have been accused of corruption, the lack of financial transparency/ a generally closed policymaking process, and delayed results of reforms have led to mass popular disappointment. Even worse, people now tend to associate the EU with the ruling parties. Not

only is such a link incorrect, but it also puts the EU in a less favorable position, given that it certainly does not support one administration or another, but instead promotes assistance programs for all of Moldova's citizens more broadly.

A part of the EU's Eastern Partnership initiative from its creation in 2009, Moldova has not only participated in various EU programs, but also deepened its political and economic cooperation with the Union. EU - Moldova relations, previously guided by the Partnership and Cooperation Agreement and the ENP Action Plan, are now shaped by the EU-Moldova Association Agreement, which like that with Ukraine includes a Deep and Comprehensive Free Trade Area and an Association Agenda. Signed on June 27, 2014, the AA/DCFTA was ratified by the Parliament of the Republic of Moldova on July 2 and by the European Parliament on November 13 of that year; however, it is still pending ratification by all EU member states. For

Moldova, the major part of the AA/DCFTA took effect provisionally on September 1, 2014; it will be fully operational as of January 2016. In terms of funds, EU bilateral assistance to Moldova under the European Neighborhood Instrument (ENI) increased significantly from €40 million in 2007 to €131 million in 2014,¹³ assistance that supported the implementation of the DCFTA, agriculture and rural development, and financial policy reforms.¹⁴ In the next period (2014-2017), ENI bilateral assistance to Moldova will amount to between €335-410 million, depending on the country's needs and commitment to reforms.

DOMESTIC POLITICAL ENVIRONMENT AND ITS IMPACT ON AA/DCFTA IMPLEMENTATION

The €131 million EU financial and political assistance is closely tied to developments in Moldovan domestic politics. The parliamentary elections of November 2014, Moldova were challenged by kleptocracy and regional security crises. The election results were shaped in part by the reform agenda, but also Russia's military aggression in Ukraine; this was in contrast to previous elections, which were impacted by the color revolutions. Out of 24 electoral contestants 5 parties entered the new Parliament, 3 pro-Western (the Liberal Democratic Party [PLDM], the Democratic Party [PDM], and the Liberal Party [PL]) and 2 pro-Russian (the Party of Socialists [PSRM] and the Party of Communists [PCR]).¹⁵ Although the pro-Western parties gained 55 out of 101 seats, they were unable to form a majority government. After long negotiations a new Coalition for a European Moldova was established in February 2015 by the PDM and PLDM. The coalition government took office with the support of the PCR, thereby endangering the reform process as well as increasing political instability. At that point it became clear that political elites were pursuing not the European development of the country, but instead a completely different objective. Moldova's European aspirations were challenged not only by the PSRM (with 25 seats) but also by the unstable domestic environment, and the beginning of a long period of political and economic crisis. As was expected, the coalition resigned on the eve of local elections in June, after just four months in office.

¹³ Delegation of the European Union to Moldova, "EU-Moldova relations: pursuing common goals", http://eeas.europa.eu/delegations/moldova/eu_moldova/index_en.htm. This includes €30 million granted through the multi-country "umbrella" program.

¹⁴ European Commission, International Cooperation and Development, Moldova, https://ec.europa.eu/europeaid/countries/moldova_en.

¹⁵ The parliamentary elections in Moldova on November 30, 2014 (Alegerile parlamentare în Moldova din 30 noiembrie 2014), <http://www.e-democracy.md/elections/parliamentary/2014/>.

As a result, there were serious delays in terms of meeting the payment conditions agreed with the European partners. Due to the lack of political supervision over ministries and state agencies, the pace of reforms slowed or even stopped. Although a new coalition was formed (this time including all three pro-European parties), after less than a hundred days in office it was dismissed. There is now a risk of early elections due to a series of factors. First are the ongoing protests expressing popular disappointment with the governmental decisions. Second are the serious corruption charges brought against PLDM leader Vlad Filat (who remains in prison as of this writing) and a list of other public officials allegedly involved in Moldova's banking sector fraud, namely the disappearance of \$1 billion (equivalent to 15 percent of Moldova's GDP).¹⁶ Finally, there is the current push towards forming a center-left alliance, with obvious impact for the domestic and foreign policy vectors of the country.

reikia tarpo po November (kaire) BANKING SECTOR CRISIS

Moldova's economic crisis, specifically its high levels of public debt and poor public finances, is rooted in the most serious bank fraud which occurred due to non-transparent lending activities made possible because of weak banking supervision. The disappearance of \$1 billion has significantly changed the attitude of the European partners towards Moldova, transforming it from an expected success story into an unexpected "failed success story." At the Vilnius EaP Summit in 2013,¹⁷ Moldova had been recognized as one of the frontrunners in the association process, leading to the recognition of the country's "European perspective" at the Riga EaP Summit in 2015. Clearly, the bank fraud and other ongoing political failures on one hand, and regional security as well as refugee crises on the other have reshaped European priorities in its eastern neighborhood.

The banking sector issue has raised significant concerns among development partners regarding the country's macro-financial stability. As a result, budget support payments can only be processed once an IMF program is approved and a guarantee provided that the concerns mentioned above can be addressed.¹⁸ Nonetheless, the European Commission

¹⁶ Balázs Jarábik, Daria Goncharova, "The Fall of Filat: Moldova's Crisis Deepens", Carnegie Moscow Centre, October 28, 2015, <http://carnegie.ru/2015/10/28/fall-of-filat-moldova-s-crisis-deepens/ikjb>.

¹⁷ Joint Declaration of the Eastern Partnership Summit, Vilnius, November 28-29, 2013, <http://www.eu2013.lt/en/news/statements/-joint-declaration-of-the-eastern-partnership-summit-vilnius-28-29-november-2013>.

¹⁸ European Union Delegation to the Republic of Moldova, "EU Budget Support for the Republic of Moldova -

is still providing assistance to Moldova through specific programs. Indeed, the EU is still launching new funding projects, such as the Technical Assistance for the Implementation of the EU – Republic of Moldova DCFTA program begun in October 2015.¹⁹

DCFTA AND THE TRANSNISTRIAN REGION

The implementation of the DCFTA is an issue that directly regards Transnistrian region, which until January 1, 2016 enjoys Autonomous Trade Preferences (ATP) with the EU. The lack of agreement with the Transnistrian authorities on the DCFTA will lead to serious economic consequences for the region, such as increased unemployment, more bankruptcies for local businesses, and economic isolation. Given that 35 percent of Transnistrian exports go to the EU market²⁰ the Transnistrian authorities could expect severe popular dissatisfaction, especially from the part of the population in general and the business community in particular. At the present moment, no clear mechanism of implementing the DCFTA in Transnistrian region has yet been negotiated. The Transnistrian authorities continuously oppose the practical implementation of the DCFTA, due both to their economic and political dependency on Russia as well as to their misinterpretation of the agreement.

CIVIL SOCIETY CAPACITY TO MONITOR AA/DCFTA IMPLEMENTATION

It is very difficult to evaluate the efforts of civil society in monitoring the AA/DCFTA because several levels of involvement have to be taken into account. In general, it is hard to speak of unity when it comes to promoting the European vector, because even Moldovan civil society lacks full understanding and support for the European model of development. The societal divide (pro-European and pro-Russian supporters if we refer to foreign policy vector), equally affected by messages promoted by political elites, strongly contribute to maintaining uncertainties in the domestic and foreign policy vectors of the country.

pending the fulfilment of several conditions", July 8, 2015, http://eeas.europa.eu/delegations/moldova/documents/press_corner/press_release_eu_budget_support_2015_07_08_en.pdf.

¹⁹ European Union Delegation to the Republic of Moldova, "New EU-funded Technical Assistance Project in support to the implementation of the Deep and Comprehensive Free Trade Area (DCFTA) Launched", October 21, 2015, http://eeas.europa.eu/delegations/moldova/documents/press_corner/pr_project_launch_eu_en.pdf.

²⁰ Kamil Catus, "Transnistria's Economy Going from Bad to Worse", *New Eastern Europe*, January 23, 2015, <http://www.neweasterneurope.eu/articles-and-commentary/1462-transnistria-s-economy-going-from-bad-to-worse>.

As far as NGOs are concerned, one can observe considerable efforts made despite limited financial and knowledge capacity. Certainly, out of the several thousand NGOs registered in Moldova, some are more active than others. During the AA/DCFTA negotiations, civil society groups organized themselves in several networks (e.g. the National Platform [within the EaP Civil Society Forum], the National Participation Council, the Platform for Europe, or the National Convention on the EU in Moldova²¹), thereby contributing to the broader campaign to disseminate information, develop and advocate policy, and take positions on relevant piece of legislation when clear signs of a lack of engagement on the part of the Moldovan authorities were already evident. At present, taking into account the current political environment, Moldovan civil society does not have enough power or capacity to effectively influence political decision makers. Nonetheless, their role in the promotion and implementation of the AA/DCFTA should not be neglected, as they are a main stakeholder in this process.

The AA provides for a series of institutional mechanisms for supervising the implementation of the Agreement, which include dialogue with civil society. According to article 377,²² of the AA "[t]he Parties shall facilitate a joint forum with civil society organizations established in their territories, including members of their domestic advisory group(s) and the public at large, to conduct a dialogue on sustainable development aspects of this Agreement. The Parties shall promote a balanced representation of relevant interests, including independent representative organizations of employers, workers, environmental interests and business groups, as well as other relevant stakeholders, as appropriate." Later on, article 442²³ stipulates that the Civil Society Platform "... shall consist of representatives of civil society, on the side of the EU, including Members of the European Economic and Social Committee, and representatives of civil society on the side of the Republic of Moldova, and shall be a forum for them to meet and exchange views." It is important to mention that while the joint forum was duly established in July 2015, the ongoing political crises have continuously proved challenging to its activity.

ECONOMIC BACKGROUND

In 2014, Moldova's GDP amounted to €5.04 billion, a 4.6 percent increase in real terms compared to 2013.²⁴

²¹ National Convention on the EU in Moldova, <http://conventia.md/>.

²² Trade and Trade-related Matters (Title V) of the Association Agreement, European Union External Action, Official Journal of the European Union (2014): L260:125, http://eeas.europa.eu/moldova/assoagreement/pdf/md-aa-title-v-trade-related-matters_en.pdf.

²³ Ibid.

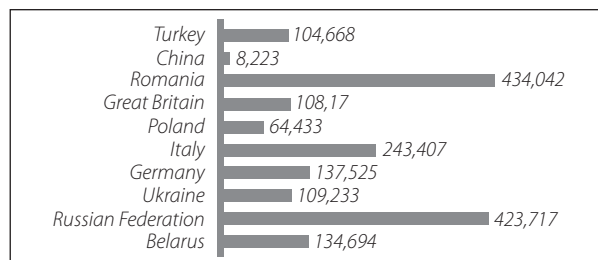
²⁴ National Bureau of Statistics of the Republic of Moldova, "Gross

In the first quarter of 2015, nominal GDP amounted to 24.42 billion leu increasing - in real terms - by 4.8 percent compared to the first quarter of 2014.

It is important to mention that remittances constitute a high percentage of the Moldovan economy, around 25 percent of GDP;²⁵ which demonstrates a high level of dependency. For example, remittances from a single country (Russia), at \$1.5 billion, comprised almost 60 percent of the total in 2013. Remittances from Russia are subject to severe cyclical and political risk, as evidenced by their decline in 2014 and 2015 (and not only in Moldova, but in the CIS region as a whole). The sharp drop in remittances during this period was primarily due to two factors: the decline in world oil prices and the impact of international economic sanctions, which took a heavy toll on the Russian economy. Moreover, the depreciation of the ruble against the dollar (and most CIS currencies as well) has reduced the purchasing power of such remittances, with particular impact on the livelihood of poor households.

Export volume over the last 10 years has increased more than threefold times to \$2.4 billion, with an 11 percent increase from 2012 to 2013 and a small decrease of 1.04 percent from 2013 to 2014. In 2014, exports of goods to EU countries totaled \$1.25 billion, compared a figure of \$736 million for the CIS countries. The main partners for Moldovan exports are illustrated in the table below (see Table 1).

Table 1: Moldovan exports in 2014, by country (million USD)



Source: National Bureau of Statistics of the Republic of Moldova

Nuimi pastraijos (The import....) paryskinima/bold

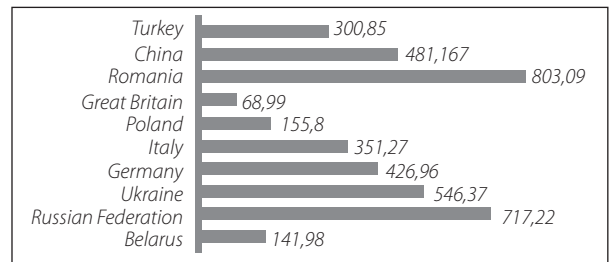
The import volume in 2014 o was \$5.32 billion, up 0.96 percent from 2013. Of this figure, CIS countries were the source of \$1.45 billion (27.3 percent), EU countries \$2.57 billion (48.3 percent): and others \$1.29 billion (24.5 percent)(see Table 2). In 2013 Moldova had a negative trade balance (amounting to \$3.09 billion).

domestic product in the first quarter of 2015", June 15, 2015, <http://www.statistica.md/newsview.php?l=ro&idc=168&id=4811>.

²⁵ The World Bank, "Migration and Remittances: Recent Developments and Outlook", April 13, 2015, <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf>.

The annual inflation rate was 5.2 percent in 2013.

Table 2: Moldovan import in 2014, by country (million USD)



Source: National Bureau of Statistics of the Republic of Moldova

As for foreign direct investment (FDI), foreign and domestic investors are treated equally under Moldovan legislation. However, due to political instability and the resulting insecurity for existing and potential investors alike, FDI flows are low - though discussions regarding making improvements to the investment climate are ongoing.

THE IMPACT OF DCFTA ON THE ECONOMY OF MOLDOVA

Immediately upon signing the AA/DCFTA Moldova started its provisional implementation. In January-June 2015, exports of goods to the EU countries amounted to \$626 million, representing 63 percent of total exports over that period. Imports from EU countries amounted to \$962 million, or 48 percent of total imports. In the first half of 2015, there was a dramatic decline in inflows of foreign currency into the country; not just remittances (for the reasons described above) but also due to distortions in the banking system, which aggravated the depreciation of the national currency against major reference currencies.²⁶

Thus, in the first half of 2015, the leu depreciated by 33.5 percent against the US dollar and by 8.8 percent against the euro. The average exchange rate during January- July 2015 was 20.2 leu to the euro, and 18.1 leu to the dollar. The significant devaluation of the national currency against major reference currencies created risks for the national economy. The depreciation caused difficulties in reimbursement of loans in foreign currency (dollars and euro), which would reduce the quality of the bank loan portfolio, increase pressure on consumer prices, and reduce consumers' purchasing power. The level of the inflationary pressures and decline of the situation in the banking sector have raised the complexity of the tasks

²⁶ National Institute for Economic Research, <http://www.ince.md>.

of the monetary authorities in ensuring price stability while forcing them to impose further restrictions on monetary policy in December 2014.

The DCFTA is beneficial for Moldova in terms of national income growth. In the short run, the DCFTA is expected to lead to an increase in national income of €75 million, and almost double that (€142 million) in the longer run. These changes in national income should translate to an increase in GDP of 5.4 percent in the long run. A big part of this increase will result from the lowering of sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), which account for €62 million. The second most important contribution for Moldova in the short run originates from services trade liberalization, amounting to €28 million.

It is expected that DCFTA will boost trade between the EU and Moldova. Exports are estimated to increase by 15 and 16 percent in the short and long run respectively, with imports increasing by 6 and 8 percent. This implies that the DCFTA is expected to improve the country's trade balance in the short run. In the long run, reduction or elimination of non-tariff measures should result in benefits amounting to €83 million.

Moreover, stronger domestic rules will improve the safety of consumer products and therefore of consumers in general. By providing a more stable and predictable trade regime, based on EU legislation, the DCFTA is expected to boost the inflow of EU FDI to the country, creating more enterprises and strengthening the competitiveness of the economy overall and of individual sectors in particular.

It is expected that wages in Moldova are projected to increase by 3.1 and 4.8 percent and over the short and long run respectively. Meanwhile, consumer prices are expected to decrease by about 1 and 1.3 percent respectively mainly due to increased import competition. This implies that on average purchasing power of Moldovan citizens will increase, especially in the long run. Still, out of 214 acts planned to be approximated for AA/DCFTA implementation by July 2015 the progress on legal approximation represent 29 acts, or 10 percent of the total.

The defining factors to assess the potential impact of the DCFTA on Moldovan exports are:²⁷

- Impossibility of economic operators to immediately redirect exports to the EU market in light of the embargo imposed by the Russian

Federation on fruits and vegetables.

- Low capacity for economic operators to adapt to the new requirements of the EU market.
- Moldova's inability to export animal products to the EU market.

On the other hand, the DCFTA benefits for exporters are the following:

- Unlimited access, without import tariff restrictions, on the Community market of agricultural and industrial products;
- Elimination of customs tariffs;
- Clear perspectives for the export of animal products;
- Taking over European standards and the norms of the quality infrastructure;
- Free and unconditional access to the Community market of services;
- Development of the national legislative framework in the field of competition;
- Expansion and coverage of protection over subjects of intellectual property;
- Refocusing from trade to production;
- The possibility of granting technical and financial assistance from the EU.

In order for these challenges to be addressed during the implementation of the DCFTA it is important to utilize the capacities of local producers to deal with competition from the EU markets (especially in agriculture and textiles). Another important aspect to be taken into consideration is the reduction in state budget revenues due to the elimination of customs duties.

RECOMMENDATIONS

1. The Moldovan authorities should:

- Use all available resources and technical assistance provided by the EU and the World Bank to increase the competitiveness of sensitive sectors.
- Improve the efficiency of inter-institutional cooperation in order to harmonize policies and legal frameworks.²⁸
- Establish continuous dialogue among the Government, public institutions, and businesses to identify needs and avoid legislative gridlock.
- Build capacities for public servants within the public institutions responsible for reforms, legal framework approximation, and monitoring of the implementation of the DCFTA.

²⁷ Moldovan Investment and Export Promotion Organization (MIEPO), www.miepo.md.

²⁸ As of September 2015, 48 out of 214 acts were harmonized to EU standards.

- Increase the level of public awareness and communication with the public, using tailored messages for distinct target groups by setting up an inclusive and multidimensional communication strategy—thereby counterbalancing foreign disinformation campaigns.
 - Provide strong political will and unity to implement and enforce the reform agenda, which goes hand in hand with the implementation of the AA/DCFTA.
 - Strengthen the partnership between the government and the civil society, creating a common vision for Moldova in order to encourage more thorough reform implementation.
2. Local authorities should act proactively in developing assistance programs and informing local business communities and SMEs not just about the advantages of the DCFTA, but also about its accompanying new legal and institutional requirements
 3. Despite the domestic political environment, civil society should thoroughly monitor and evaluate the implementation of the AA/DCFTA.
 4. Civil society should undertake diverse informational campaigns in less targeted the regions of Moldova in order to familiarize the Moldovan people with the most important chapters of the AA/DCFTA. **istrinti the, kuris yra pries regions**
 5. The EU should pay more attention to raising the institutional expertise and capacity of civil society in order to strengthen their advocacy skills and provide an alternative view on relevant policies during the AA/DCFTA implementation process.

KEY CENTRAL EASTERN EUROPEAN EXPERIENCES FOR UKRAINE AND MOLDOVA: THE CASE OF LITHUANIA

Lessons from CEE for Moldova and Ukraine:

- Unity among political parties and official support for strategic national interests is the key for success of any reforms.
- Reforms should be de-politicized and entrusted to qualified specialists with salaries commensurate with their responsibilities.
- Reforms have to be well coordinated and adequately supported both by inter-institutional cooperation and by nation-wide information campaigns that explain on-going processes and achievements to society while ensuring public support.
- The successful integration of CEE businesses into the EU market should stand as the best motivator to the EaP business community to meet production and trade standards listed in the DCFTAs and to diversify their business links.
- Similar positive competition to that which existed among the CEE countries during their EU integration processes would encourage EaP countries to take leadership in implementing their Association Agreements while fostering more sharing of expertise and encouraging further reforms.

IN SEARCH OF POLITICAL WILL AND MOTIVATION TO REFORM

After regaining independence in 1990, Lithuania followed a path of state building and reforms in line with European values and standards as they provided a sound blueprint for change and eventually achieved success in 2004 with its accession to the EU. Establishing democratic institutions, instilling rule of law, respect for human rights and freedoms, and entering market economy were not easy tasks and included many set backs. For example, there was huge disappointment in 1997, when Lithuania together with Latvia were not invited to start membership negotiations, unlike neighbouring Poland and Estonia.

Among the reasons that kept Lithuania committed to reform was the official promise of eventual EU membership from Brussels as well as strong unity among political parties. Lithuanian leadership worked together to meet the EU membership requirements and invested

into a nation-wide information campaign. As a result, Lithuanian voters supported EU accession by 91 percent in a 2003 referendum in which official turnout reached 63 percent.

Such a level of political consciousness evolved gradually, because as in other post-Soviet states Lithuania had to undergo a transformation process during which the political elite abandoned ideology of communism and re-established itself into social-democratic parties. Furthermore, it formed links with ideologically close European movements. Now, it is the responsibility of CEE political parties to share transitional experiences with their EaP counterparts and integrate them into the European networks. To be more precise, CEE social democrats, conservatives, liberals and other political groups should show leadership in mentoring members of parties with similar ideology in Moldova and Ukraine and to help them to establish links with their other European colleagues. In this way not only will Moldovan and Ukrainian politicians increase their qualifications, but they will also develop a network of friends able

to advocate for Moldova and Ukraine in their home countries.

Returning to the example of Lithuania, the driving force enabling political parties to set aside disagreements was the overriding conviction that security, independence and prosperity of Lithuania could be guaranteed only by EU accession and NATO membership. Such reasoning was widespread among other post-communist CEE states, which within an extraordinary short period of time managed to meet the membership criteria and join the EU.

During the accession period Lithuanian political parties established a practice of cross-party agreements in which each party pledged support for accession. This cooperation actually continued post-2004, and mostly focused on deepening links and increasing Lithuania's role within the organizations it had newly joined. Furthermore, Lithuania aimed to support democratic processes in the neighbouring states currently known as the EaP countries.

Compared to Moldova and Ukraine, the CEE states were able to break their ties with Moscow relatively easily, primarily because they did not share such strong identity links with Russia, and did not find themselves forced to balance their strategic choices between Europe and Russia. Lithuania's national identity also served as a factor weakening the force of pro-Russian propaganda, which in any case was not nearly comparable in reach and influence to today's campaign in the EaP region.

Another motivator for Lithuania to implement reforms was the competitive environment, since at the same time 11 other states were negotiating with the EU, including larger states geographically closer to the Union, such as Poland, which were receiving greater attention and support. As a result, countries like Lithuania had to compete and present better results of preparedness to enter the EU. If similar positive competition could be achieved among the EaP countries, the reforms would gain pace and would empower the sharing of expertise by learning one's strengths and weaknesses. All what is needed is an ambition to be the best performing EaP country by setting concrete goals, such as to have the most efficient healthcare, education, or transportation systems - and be rewarded with closer ties with the EU accordingly.

STRENGTHENING INSTITUTIONAL CAPACITY AND ENGAGEMENT WITH CIVIL SOCIETY

Another advantage of CEE countries was the greater momentum towards reform - unlike in Ukraine and

Moldova, this momentum was largely constant. Following the restoration of independence, a generation of young people were politically awakened and driven to pursue efforts to bring it into the EU.

The most qualified experts were entrusted to lead negotiations with Brussels. But compared to contemporary Moldova and Ukraine, Lithuania had a much weaker pool of professionals with international education and work experience. Bringing and most importantly keeping them in the public sector is however a challenge, mostly because of unattractive salaries and bureaucratic stagnation and subordination. To tackle a similar problem and to inspire the return of young professionals, the Lithuanian government supports Create for Lithuania,²⁹ an initiative that offers accomplished professionals the possibility of joining the public sector for a period of one year with the salary of an advanced public servant. The participants of Create for Lithuania get to develop strategic governmental projects and participate in high-level decision-making processes. The program has been recognized by UNESCO as an exemplary initiative for integrating members of the diaspora.

In addition to ensuring qualification of reform-makers, effective inter-institutional coordination and cooperation with civil society needs to be established. The role of civil society is often misinterpreted and limited to monitoring reforms. In addition to monitoring reform implementation, members of civil society should be taken as equally responsible partners in bringing about change. For its part, if civil society limits its interaction with public institutions to criticism without offering constructive advice or expertise, it creates tension and de-motivates public servants who are already trapped in dysfunctional and politicized systems of decision-making. It is important to differentiate critiques aimed at decision makers (mostly political parties, which due to party interest stall the decision making), from reform-makers, public servants tasked with implementing the association agreements.

Over past 25 years Moldovan and Ukrainian leaders so frequently manipulated the word "reform" that currently it carries negative connotations. Moreover, they failed to inform society about the negotiations regarding their association agreements with the EU, leaving all the work to civil society. As a result, public support in Moldova for EU accession declined from 72 percent in 2007 to 40 percent in 2015.³⁰ Due to the Russian

²⁹ More information about "Create for Lithuania" can be found on its official website: <http://www.kurkl.lt/en>.

³⁰ Stanislav Secieru, "The Eastern Partnership: the view from Moldova", European Council on Foreign Relations, May 15, 2015 http://www.ecfr.eu/article/commentary_moldova3026#.

invasion, Ukraine's public is more willing to integrate into the EU than it was previously, with 47.2 percent of population supporting EU membership as of February 2015.³¹ It is up to government and civil society to explain the purpose of reforms and implementation of the association agreements and DCFTAs with the EU. The political leadership of each country needs to establish good inter-institutional cooperation and to execute nation-wide information campaigns to tackle public fears and to explain step-by-step how certain reforms are to be implemented and what the expected outcomes are.

Any actions from government's or civil society's side to report on implementation will add up to transparency. Publicity about cases in which lawbreakers are brought to justice helps to prevent bad practices from being repeated and represents a positive force for change. The share of success stories, for example police reform in Ukraine, reflects positively on government's capacity and creates public trust and faith in reforms. If any public procedures create corruption, they need to be abandoned; for example, if university entrance procedures are affected by bribery, then an electronic system should be introduced.

To ensure effective coordination, Lithuania formed a clear structure and subordination of institutions, departments, and committees responsible for negotiating the country's accession and of ensuring legal compliance with the EU acquis. The main body coordinating membership negotiations and preparedness for joining the EU was the European Committee, established under the Government and active between 1998 and 2003. The closest equivalent to the European Committee is the Office for European Integration in Ukraine, likewise established by the Government in 2015. The Office is ambitiously seeking to improve coordination of the implementation of the EU-Ukraine Association Agreement, but its reach is limited to advising the Cabinet of Ministers. Coordination among ministries of preparation of laws and legal acts in compliance with the Association Agreement remains a serious challenge in Ukraine.

In Moldova, the overall coordination of implementation of the AA is performed by the Ministry of Foreign Affairs and European Integration (MAEIE), while the Ministry of Economy coordinates implementation of the DCFTA. Every semester the MAEIE reports to the Government, which also has established a Governmental Commission for European Integration consisting of ministers responsible for the chapters in the Association Agreement and chaired by the prime minister, who

oversees the process. Despite a well-established legal framework, challenges remain due to the lack of consistent inter-institutional dialogue or of a clear division of responsibilities, which combine to provoke delays and hinder the association process. The political affiliation of ministers and as a result of the ministries is also a factor that contributes to inequalities in the distribution of financial and technical assistance dedicated to the implementation of the AA and DCFTA in Moldova.

The European Committee in Lithuania contained a Public Information Division, which was responsible for raising public awareness about on-going reforms and increasing public knowledge about the EU. With the support of the European Commission and of member state embassies, the Division established European Information Centers in all ten counties, which further set up so-called "information shelves" about the EU at regional libraries. A similar approach of translating technical parts of the Association Agreement into easily understood messages should be applied in Ukraine and Moldova. For example, in Moldova, which is dominated by SME, information campaign about the DCFTA should directly target the business community. Since implementation of DCFTA is a sectoral action, the best way to present it to the public is by creating cooperation between the Ministry of Economy and business associations directly engaged with Moldovan producers. With decentralization underway in Ukraine, local institutions will need to familiarize themselves with the DCFTA. To simplify the process, information should be broken down into targeted parts, training public officials to advise local producers on those parts of DCFTA that are most relevant to their region, for example agricultural or metallurgic production.

Civil society is a voice representing the interests and needs of all citizens. Therefore, Moldovan and Ukrainian civil society need to find its voice in addressing decision makers in order to draw their attention to the weakest parts of reforms. The Municipal Performance Index, which evaluates performance of Lithuanian municipalities, is among the examples of how to engage effectively with and increase the accountability of decision-makers. The Index is compiled yearly by the Lithuanian Free Market Institute (LFMI),³² one of the organizations established by similar donor programs that are now open to EaP country NGOs as well. It measures the economic freedom of local inhabitants by evaluating each municipality's efficiency with public finances and capacity to create attractive living environment, using, for example, the rate of unemployment, variety of accessible services, and public support for private

³¹ Julia Sakhno, "Geopolitical orientations of Ukrainian Citizens: constants and changes of the last years (February 2012 – February 2015)", Kiev International Institute of Sociology, March 2015, <http://www.kiis.com.ua/?lang=eng&cat=reports&id=507&page=1>.

³² More about initiatives of the Lithuanian Free Market Institute: <http://en.lfri.lt/initiatives>.

initiatives and business. The Index is well accepted and makes municipalities compete for the highest ranking. A similar model has already been adapted in Georgia and Hungary. In Ukraine, where decentralization is among the key priorities, the closest measurement is the index of municipalities' transparency, which was initiated by the think tank community. It focuses on evaluating how municipalities report their activities and respond to inquiries of citizens. The Ministry of Economy of Moldova compiles a Small Areas Deprivation Index (SADI), which reflects the development level of local communities, including their access to education, healthcare, and infrastructure facilities. Because of the high number (900) of municipalities it is difficult to collect data and the index lacks recommendations. Nevertheless, the index is important, and the quality of the data will likely get better in the future, given that earlier this year the EU launched a project to improve regional statistics in the country.³³

In addition to familiarizing society with the performance of the public sector, a certain attention to its own actions needs to be brought. Economic experts and organizations can improve people's economic literacy and make them to understand the consequences of some of their financial mistakes. Another initiative by the LFMI is a tax calculator app that allows people to see how much they pay in taxes and where the money is being used. This has two important results: first, it urges government to cut or eliminate inefficient taxes; second, by making people aware about how what they pay is used to finance social security, education, and other government services, people tend to better understand the importance of paying taxes. This limits participation in shadow economy and contributes to fighting corruption. In 2014, the shadow economy in Lithuania accounted for 12.5 percent of GDP, while in Estonia and Latvia it reached 13.2 and 23.5 percent respectively.³⁴ By comparison, the numbers in Moldova and Ukraine (28 and 35 percent) were far higher.^{35 36} Moreover, other sources suggest that the shadow economy in the latter two countries in fact accounts for between 40 and 50 percent of GDP.

Finally, citizens need to be involved in creating a successful future for their country. In Lithuania, communities, NGOs and active citizens were encouraged

to present ideas for the government's formed State Progress Council, ideas that were later incorporated into Lithuania 2030 progress strategy. The initiative encouraged public discussions about the vision for Lithuania over the next decade and a half. The final document is currently used as a set of guidelines for officials when they make strategic decisions, including formation of the Export Promotion Strategy, which usually is prepared for the next three to four years.

ACCESSING THE EUROPEAN MARKET

Lithuania's integration into European markets has brought a significant boost to the country's economy. Negotiations between Lithuania and the EU regarding market access concluded by the signing of the free trade agreement in 1994. An association agreement was signed in 1995 and entered into force in 1998.

Today, Lithuania together with the other Baltic states is far ahead of Ukraine and Moldova from the economic perspective. Lithuania's GDP per capita is \$26,643, Latvia's - \$23,337, Estonia's - \$26,355, whereas Ukraine's and Moldova's are only \$8,666 and \$4,983 respectively.³⁷ In 2004, when Lithuania joined the EU, its GDP per capita was \$13,255, thus perfectly illustrating the impact not only of successful reforms, but also of opening to EU markets.³⁸ In the absence of such reforms and access, the Ukrainian and Moldovan economies grew much more slowly - the 2004 figures for were only \$6,057 and \$2,657 respectively.

After choosing the path towards European integration, Lithuania's exports started to shift from East to West. In 1997, the largest export markets of Lithuania were CIS countries (46.4 percent, of which Russia alone was 24.5 percent), followed by the EU at 32.5 percent.³⁹ Partially due to EU membership, Lithuania's exports to EU countries significantly increased, reaching 66.9 percent in 2004, whereas exports to CIS continued to decline to 16.3 percent the same year.⁴⁰ The latest data shows that Lithuania's exports to CIS recovered, reached 32.4 percent, but the EU still is the largest market and is the destination for 54.8 percent of exports. However, the most surprising fact is that Lithuania's export volumes

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³³ Improved Regional Statistics in the Republic of Moldova, "The European Union provides support for the improvement of regional statistics in Moldova, February 4, 2015, http://eeas.europa.eu/delegations/moldova/documents/press_corner/20150204_en.pdf.

³⁴ Stockholm School of Economic in Riga, "Shadow Economy Index for the Baltic Countries," <http://www.sseriga.edu/en/centres/csb/shadow-economy-index-for-baltics/>.

³⁵ Dumitru Budianschi et al. "Tax gap - an invisible reality" (Discrepanța fiscală - o realitate invizibilă), November 10, 2014, <http://expert-grup.org/ro/biblioteca/item/1038-discrepanta-fiscala&category=7>.

³⁶ "Shadow economy in Ukraine in 2014 up to record high since 2007, to 42% of GDP - Trade Ministry", Interfax Ukraine, May 15, 2015, <http://en.interfax.com.ua/news/economic/265907.html>.

³⁷ In order to better reflect economic situation the authors use GDP per capita based on purchasing power parity (PPP). The data for the year 2014 is accessed from World Bank databank at data.worldbank.org.

³⁸ The relevant figures at that time for Latvia and Estonia were \$13,306 and \$14,667 respectively. (Source: see footnote 37)

³⁹ Rimantas Rudzakis, Virmantas Kvedaras, "Lietuvos eksporto tendencijos ir ekonometriniai modeliai" (Lithuania's export tendencies and econometric models), Pinigu studijos 2003, http://www.lb.lt/rudzakis_1.

⁴⁰ Data accessed from Official Statistics Portal at www.osp.stat.gov.lt.

skyrocketed from €3 billion in 1997 to more than €24 billion in 2014.⁴¹

Corruption is considered to be one of key factors limiting economic growth; conversely, making the system more transparent makes it easier to establish businesses, obtain important licenses, and compete in the market. To be more specific, support from developed EU members was a force for implementing reforms that improved accountability of the public sector. If we look at the corruption perception index (CPI), Lithuania and other post-communist states today have significantly higher scores than Moldova and Ukraine (Lithuania - 58, Latvia - 55, Estonia - 69, the Czech Republic - 51, Slovenia - 58, Slovakia - 50, Ukraine - 26, Moldova - 35).⁴² Thus, European integration helped CEE countries to combat corruption, which as a consequence increased economic freedom for players in the market and resulted in more domestic and foreign investment.

During free trade negotiations with the EU there were similar worries in Lithuania to the ones Ukraine and Moldova face today. For example, there were concerns that cheaper European agricultural production would overwhelm the Lithuanian market and bring its agricultural sector to the point of collapse; however, this sector was actually the only one to remain stable during the 2009 financial crisis. Similar fears, which only delayed finalization of the agreement, were expressed by the textile industry.

The lesson of Lithuania is that, businesses often need a certain push to comply with EU standards instead of spreading panic and stalling reforms. Sometimes economic crises or embargoes offer such push. In 1998 Lithuania suffered from the Russian economic crisis; due to the devaluation of the rouble, local producers were faced with the necessity of finding alternative markets. The subsequent politically motivated Russian embargoes on Lithuanian dairy and meat production have also signalled a need for diversification. However, the most efficient motivator for businesses to adjust the quality of their production to European standards is information about the long-term gains of improved quality and wider market options. Access to richer markets might require greater investment, but it is repaid in the form of significant profits, especially in times of crisis or during politically motivated Russian embargoes.

The next step is to provide businesses with assistance to enter new markets successfully. The most common problems in penetrating foreign markets include: 1)

⁴¹ Ibid.

⁴² Higher CPI scores indicate lower levels of corruption. Index for the year 2014 taken from Transparency International at www.transparency.org.

lack of knowledge about the foreign markets and their culture; 2) incompatible production standards; and 3) lack of mechanisms enabling access to foreign markets. For example, not many companies in Moldova and Ukraine are aware about the free economic zones in the EU countries, where finalized products with certain components originating, for example from Ukraine or Moldova, can be branded as “made in the EU” and automatically gain access to the markets accessible to EU member states.

Beginning in 1997 the Lithuanian Economic Development Agency (LEDA) established by the Ministry of Economy was responsible for both export promotion and investment attraction; however, in 2009 it was restructured into two organizations: Invest Lithuania tasked with attracting FDI, and Enterprise Lithuania, entrusted with support for SMEs and encouraging Lithuanian exports. This division of responsibilities enabled clear functionality and simplified access for interested parties.

Moldova currently has the Moldovan Investment and Export Promotion Organization (MIEPO) working together with the Ministry of Economy in cooperation with German organization GIZ commissioned by the German Federal Ministry for Economic Cooperation and Development to advise Moldova’s prime minister on economic development. MIEPO has around 10 employees, compared to the 100 that LEDA had prior to its restructuring. Ukraine uses a model similar to the Lithuanian example. The investment agency Invest Ukraine has been functioning since 2009 under the State Agency for Investment and National Projects. An export promotion agency is to be established.

In addition to strengthening export promotion and investment attraction agencies, Ukraine and Moldova should invest in economic diplomacy. If coordination between the ministries of economy and foreign affairs is achieved, these countries will be able to enter foreign markets at a relatively low cost in terms of both financial outlays and human resources. In Lithuania, the two ministries hold regular meetings at the Council of Economic Diplomacy, which also includes such relevant public institutions as the ministries of agriculture and transport, Invest Lithuania, Enterprise Lithuania, and business associations. The Council sets economic goals and formulates messages to be transmitted by diplomatic representations to business actors in target countries. Furthermore, the Ministry of Economy supports the work of Lithuanian embassies abroad by assigning economic attachés. Another result of inter-institutional coordination is the arranging of meetings between high-level officials, including the prime minister and other ministers, with possible investors and partners

during their international visits; in many cases a gesture of personal attention is what seals an investor's decision to enter the country.

Local chambers of commerce, unions of industrialists, and private market research agencies also assist producers in locating and entering new markets. In Moldova and Ukraine, the American Chamber of Commerce and the European Business Association are key leaders in this sphere, while local groups are in need of further reinforcement. That said, a concerted effort should be made by authorities in Moldova and Ukraine to bolster SME networking at the regional and local level with the technical assistance of the European Union.

COORDINATING AND IMPROVING INTERNATIONAL SUPPORT MECHANISMS

Technical and financial support provided by international institutions and organizations (World Bank, IMF, European Commission), countries and their development agencies (USAID, EU member states, Canada, Japan etc.) and private initiatives (Open Society Foundations) has saved the Moldovan and Ukrainian governments from default, provided resources for implementing necessary reforms, strengthened institutional capacity, and developed civil society. However, the vast number of international actors raises the risk of duplicating support and increases the need for effective coordination from both sides – from donors and grantees alike.

The cases of Ukraine and Moldova suggest that development agencies are more open to sharing the results of past work than plans for upcoming initiatives. Therefore, such initiatives as the International Support for Ukraine Conference held in April 2015 in Kyiv should be continued. These events have to create a working environment for international donors and local implementers to share their best practices and to coordinate activities. This could be constructed on the model of the Belarus International Implementers Meetings, which is regularly held in Brussels, Vilnius, and Warsaw. Over past years, the Lithuanian capital has become an operating base for development agencies focused on Belarus; it also hosts the European Humanities University, the only Belarusian university operating in exile.

Improved coordination among donors would increase grantees' accountability and would minimize the risk of Moldova and Ukraine following the example of countries such as Bosnia and Herzegovina, which has become dependent on international aid and has not delivered many visible changes. This often happens when donor organizations fail to coordinate and create an environment in which similar initiatives to receive multiple grants.

Additionally, this fosters the creation of a certain set of civil society actors for whom international grants are the primary – or sole – source of income. To prevent this, international donors either need to join in co-financing initiatives or to establish a clear division of spheres of action. For example, the reform of police in Ukraine was supported by the United States, while in Moldova Sweden is the main donor in the energy sector, Germany is primarily focusing on modernization of local public services, and the EU supports reforms in the justice sector.

International organizations based in recipient countries also tend to hire away the best specialists from the public sector. For example in Moldova, after receiving professional and language training funded by international agencies, public servants leave government to join donor agencies, primarily because of the higher salaries offered by the latter. While the main longer-term solution would be increasing salaries for public servants, this issue could be solved in the short term by the insertion of clauses in the training agreement obliging the person to remain in public service for a specified period of time. Moreover, donors should follow the practice of private companies and devote time to training their own personnel.

The donors also need to be flexible to adjust to local realities. In the case of the EaP countries capacity building, especially of the public sector, is a long process; therefore, new mechanisms of support should be considered. As suggested by the MAXCAP Foreign Policy Taskforce, in order to reach more of society, especially in regions where local government lacks the competence to absorb and distribute financial aid, then direct EU payments (whether to farmers, or to companies seeking to upgrade and increase their competitiveness, or to citizens to compensate for higher energy costs), should be considered.⁴³

On the other side, applicants, including the government, need to demonstrate good strategic planning and approach donors with a long-term vision and with concrete requests. This would help to avoid following situations: having trainings on non-relevant topics or skills; too many trainings and study visits that exceed the time spent on executing reform-related work tasks; and bringing in visiting experts whose expertise or suggested models might not be relevant to Ukraine or Moldova.

⁴³ "10 Years of the ENP- the Way Forward with the EaP", MAXCAP Policy Brief, No. 1, August 2015, http://www.issiceu.eu/files/assets/news/maxcap_policy_brief_01-1.pdf.

FINDINGS AND RECOMMENDATIONS

The success of implementing the AA/DCFTAs in Moldova and Ukraine will depend on the six following elements: **po dvitaskio reikia tarpo**

- A stable political environment and political will to proceed with reforms. The case of Ukraine also calls for stabilization of military conflict in Eastern Ukraine.
 - Strategic thinking and concrete plan of reforms.
 - Institutional capacity with qualified reformers, clear division of responsibilities and effective coordination.
 - Civil society engaged in dialogue with decision makers.
 - Public support, sustained with effective nation-wide information campaigns.
 - International support, which needs to include increased domestic capacities to absorb technical and financial assistance.
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The perspective of EU integration was a driving force for political elites in the CEE countries to continue with reforms. The AA/DCFTAs, already includes some 80 percent of EU *acquis*, therefore it is important to instill an understanding, especially when addressing the society, that if the AA/DCFTAs are successfully implemented, then EU membership will be only a formality.

The political leadership of Moldova and Ukraine is divided not only along ideological lines but also according to their different strategic visions regarding the geopolitical orientation of the two countries. The expertise of CEE political parties, which underwent democratic transformation, should be applied for EaP counterparts in order to reconcile and enable cooperation on setting and implementing strategic priorities and national goals. Integration of EaP leadership into the European political networks is yet another tool to ensure democratic course of EaP political parties.

The EaP society needs to develop a feeling of ownership over reforms. A nationwide information campaign led by each government in cooperation with civil society has to be executed in order to manage public fears, to explain ongoing processes, and to present expected and already achieved results. Furthermore, every member of society should be given an opportunity to contribute to creating a strategic vision for his or her country.

The reform plan should have clear priorities and to be accompanied by nation-wide information campaign,

as this would explain on-going processes to the public, sustain its support and increase motivation for continuing reforms.

Key reform priorities for Ukraine in the context of DCFTA implementation:

- The Government has to change its approach dramatically towards awareness raising among the business community and the public on the free trade area with the EU and specific opportunities for increasing export capabilities. The national policy for public awareness on Ukraine's European integration is a pressing need.
- In economy, taxation reform is a top priority. It should focus on simplification of the economic component of taxes and duties along with the administration thereof, as well as the restructuring of taxation and customs offices. Inclusive process of reform is crucial to make sure opinions of all stakeholders are taken into consideration. Proposals of the corresponding working group of the Reanimation Reform Package are worth considering in this regard.
- Together with the Verkhovna Rada, the Government should reinforce the transparency of regulatory bodies by creating a legislative foundation for reducing the number of such bodies, for replacing their staff through open calls, and by establishing

a system for planning inspections that is understandable for businesses.

Key reform priorities for Moldova in the context of DCFTA implementation:

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In addition to managing political instability and banking crisis, which are the main factors jeopardizing reforms, the Moldovan authorities have to use all available resources and technical assistance provided by the EU and the World Bank to increase the competitiveness of sensitive sectors.

- Continuous dialogue between the Government, public institutions and businesses to identify needs and avoid legislative burdens. In addition, capacities for public servants within the public institutions responsible for the monitoring of implementation of the DCFTA, reforms and legal framework approximation need to be built.
- Local authorities should act proactively in developing assistance programs and informing local business communities and SMEs not just about the advantages of the DCFTA, but also about its new legal and institutional requirements.

Civil society is a voice representing interests of all population, therefore its' role should not be limited to monitoring and evaluating implementation of Association Agreements, including DCFTA. Experienced civil society members should be taken as equally responsible partners in bringing about change. Because if interaction of civil society is limited to criticism without advising expertise, it only creates tensions and demotivates the public servants who are already trapped in dysfunctional and politicized system of decision-making.

Civil society should undertake the following actions regarding the DCFTA implementation:

- Advising and supporting the Government in process of adapting national legal system to the EU acquis, which includes but are not limited with assistance in drafting legislation, indicating and minimizing shortcomings of undergoing reforms and transmitting messages to the public.
- Raising economic literacy and economic responsibility of the society. **po sios eilutes reikia tarpo**
- In a form of trainings, lectures and information campaigns providing knowledge and skills to businesses on gaining access to European markets. Special attention to be given to regional SMEs.

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The Eastern Partnership Initiative, under which the EU provides assistance to Ukraine and Moldova, lacks deeper economic networking among the six EaP countries. The example of positive competition among the CEE countries during their EU accession process should be applied by encouraging EaP countries to take a lead on certain spheres of implementation of the Association Agreement. In such case the EaP countries would start a self-driven mechanism where every country with its reform practices would contribute to on-going processes in the remaining ones.

Technical and financial support of international donors is what keeps Ukrainian and Moldovan governments from default, provides resources for reforms, strengthens institutional capacity and develops civil society. However, the vast number of international actors calls for improving aid coordination from both the donor and grantee sides. The regular meetings of donors and implementers should be held with intentions to share plans, coordinate funding, discuss project implementation, and - based on the results achieved - set goals for the upcoming half-year.

International donors should be willing to adapt to Moldovan and Ukrainian realities and be flexible with introducing new support mechanisms, for example, introducing direct payments to population, for example farmers, in regions where local government is lacking competence to absorb and distribute financial aid.

Administration of international aid either by the Government or civil society should be transparent, systematic, or complementary, indicate real beneficiaries, project results and recommendations for further actions. Any possible situations of turning Moldova and Ukraine into countries dependent on international aid without visible changes being delivered should be prevented at the early stage.

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Eastern Europe Studies Centre (EESC) is a non-profit Lithuanian organization dedicated to promoting human rights, democratic values and active civil society in the EU Eastern neighbourhood. Founded in 2006, EESC focuses on improvement of the social and civil environment through people-to-people contacts and better understanding of our Eastern neighbours. The Centre fulfils this mission by providing high-quality independent analysis on social, political and economic developments in the EU Eastern Partnership countries and by implementing development cooperation projects in Belarus, Georgia, Moldova and Ukraine, as well as by expanding the partner network and common projects in Azerbaijan and Armenia. Being the main foreign policy think tank in Lithuania, the Centre also leads Lithuanian public debates on emerging foreign policy and international security issues.

www.eesc.lt/en

Polissya Foundation for International and Regional Studies (PFIRS) is a non-governmental Ukrainian think-tank founded in 2004. The aim of Foundation's formation and activity is assistance in building a civic society through intellectual and information support of the processes of democratic changes and economic reforms in Ukraine. Principle tasks of the Foundation include but are not limited to: holding social-political activities aimed at the development of public activity of different population groups; and providing quality analysis on a wide range of social-political problems, foreseeing the tendencies of political and economic development of the society and implementation the results of research into practice. Experts from this think-tank are active involved in foreign and trade policies consulting. Since 2009 the PFIRS has been an active member of the EaP Civil Society Forum.

<http://pfirs.org>

Foreign Policy Association of Moldova (APE) is Moldova's leading foreign policy think-tank, committed to supporting Moldova's Europeanization, integration into the European Union and a viable settlement of the Transnistrian conflict. It was established in fall 2003 by a group of well-known experts, public personalities and former senior officials and diplomats reunited by their commitment to contribute their expertise and experience to a comprehensive analysis of Moldova's foreign policy options and formulation of an efficient foreign policy. APE is a member of Moldovan National Platform of the EaP CSF.

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