Japanese ODA Loan

Ex-Ante Evaluation (for Japanese ODA Loan)

Europe Division, Middle East and Europe Department
Japan International Cooperation Agency

1. Name of the Project

Country: Ukraine

Project: Emergency Economic Recovery Development Policy Loan

Loan Agreement: May 16, 2022

2. Background and Necessity of the Project

(1) Current State and Issues of the Economic Sector and the Priority of the Project in Ukraine

The economy of Ukraine had been growing at a real GDP growth rate of around 3% for the few years leading up to the onset of the novel coronavirus disease (hereinafter referred to as "COVID-19"). Due to the spread of COVID-19 and its preventive measures, real GDP growth rate dropped to -3.8% in 2020. However, due to efforts to improve the macroeconomic situation over the past few years, the real GDP growth rate recovered to 3.4% in 2021 and was expected to continue to grow this year and beyond (IMF).

On February 24, 2022, the Russian army began its invasion across Ukraine, attacking basic infrastructure in multiple cities including its capital Kyiv, military facilities, etc., causing many to evacuate to neighboring countries (over 6.11 million people as of May 13, 2022) or become internally displaced (approximately 7.7 million people as of May 3 2022). Additionally, bombing of private facilities, etc. is increasing civilian casualties and there is concern that the situation will continue to worsen.

In addition to a decrease in private investment, sovereign bond yields had been surging before the invasion of the Russian army due to heightened geopolitical tensions, severely impacting the government of Ukraine’s access to the international financial market. While Ukraine suffers extensive damage domestically with the invasion, the real economy and government finances have also been severely impacted. Economic and social infrastructure has been damaged nationwide and trade activities have also been severely hampered by the blockage of navigation in the Black Sea and the bombing of major airports. As for government finances, the prospect of expanded fiscal deficits is becoming apparent and access to market funds is mostly lost. Meanwhile, despite the circumstances, financial systems including bank remittances are working to some extent, and the government of Ukraine is fulfilling its domestic and foreign debt payment obligations.

Although it is difficult to provide an accurate economic outlook with the situation of the war being fluid and the condition on the ground changing by the hour, the IMF predicts that the growth rate will drop to -35% in 2022 (as of April 19). In light of this situation, a total of US$5.1 billion in assistance has been announced by international organizations and countries (including Japan) as of March 4, 2022. Yet, a financial gap of US$6.7 billion still remains in 2022. Additionally, due to pressing demand in the energy sector, approximately US$5.5 billion is expected to be needed for purchasing gas for the winter of 2023 (World Bank). If military operations by Russia intensify or are protracted, Ukraine’s finances could further deteriorate. Therefore, further financial support from the international community is needed for the government of Ukraine to continue providing essential social and public services.

In March 2022, the World Bank (hereinafter referred to as "WB") decided to implement the Supplemental Development Policy Loan (hereinafter referred to as "S-DPL") as an additional loan to the financial assistance Second Economic Recovery Development Policy Loan (hereinafter referred to as "DPL-2") provided in December 2021. The "Emergency Economic Recovery Development Policy Loan" (hereinafter referred to as the "Project") supports through co-financing, the implementation of the reform items: ((1) Foster De-monopolization and Anticorruption Institutions; (2) Strengthen Land and Credit Markets; and (3) Bolster the Social Safety Net) supported by the WB through DPL-2 for supporting Ukraine's sustainable medium- to long-term growth, based on Ukraine's financial needs. The background for such support is for (1) it is expected to attract private investment by establishing a legal system, etc., related to privatization and concession contracts in Ukraine where it is difficult for new private companies to enter due to monopolies and corruption by some state-owned enterprises. For (2), it is expected to support the formation of a financial market accessible to small and medium-sized farmers, in addition to realizing the sale and purchase of agricultural land and the use of land as collateral, which had not been permitted in Ukraine. For (3), pensioners, who are considered a vulnerable group with a high poverty rate of which 65% are women, are expected to improve their livelihoods by reflecting price increases in pension calculations.

(2) Japan's and JICA's Cooperation Policy and Operations in the Economic Sector

The Project is in response to the US$100 million loan support announced by Prime Minister Kishida on February 15, 2022 in his conference call with President Zelensky. The Country Assistance Policy for Ukraine (July 2017) sets out "Boosting autonomous and sustainable growth" as a basic policy, and the Project is in line with the development agenda "Improvement of Economic and Investment Environment" under the priority area "Support for Economic Stability" set under this goal. Additionally, JICA provided its first Development Policy Loan (DPL) "Economic Reform Development Policy Loan" (loan amount: JPY 10,000 million) in July 2014 and the additional "Economic Reform Development Policy Loan (II)" (loan amount: JPY 36,969 million) in December 2015. The Project is the third DPL for Ukraine following the two mentioned above.

Additionally, the Project is expected to contribute to SDGs Goal 1 (end poverty), 2 (end hunger), 3 (ensure healthy lives and promote well-being), 8 (inclusive and sustainable economic growth), 10 (reduce inequality), and 16 (promote peaceful and inclusive societies) and is also in line with the three pillars of the Free and Open Indo-Pacific (FOIP) ((1) promotion and establishment of the rule of law, freedom of navigation, free trade, etc.; (2) pursuit of economic prosperity; and (3) commitment for peace and stability).

(3) Other Donors' Activities

Led by the IMF and WB, the international community had been providing coordinated support for the economic reform of Ukraine since prior to the Russian invasion (IMF: SDR 3.6 billion (approximately US$5 billion) Stand-by Arrangement (SBA); WB: DPL-1 (US$350 million), DPL-2 (€300 million); EU: Macro-Financial Assistance (€1.2 billion), etc.). After the Russian invasion, the following support has been announced.

The WB, as mentioned earlier, established the S-DPL (co-financing initiative of the Project, €437.05 million) as an additional loan to DPL-2, which was approved by the Board in December 2021. S-DPL was approved by the Board on March 7, 2022 and €357.3 million, which excludes the amount to be guaranteed by the Netherlands listed below, have been disbursed. It has been announced that a total of US$5.1 billion will be provided for the WB's S-DPL and its coordinated support (as of March 4), with key supporting countries such as the US announced in February that it would offer sovereign loan guarantees of up to US$1 billion and Canada announced in January and February that it would offer a loan totaling C$620 million. For S-DPL, in addition to Japan, Germany co-financed €150 million via KfW. Additionally, the Netherlands (€79.75 million) and Sweden (US$50 million) are to provide guarantees in coordination with S-DPL. Furthermore, initially, UK (US$100 million), Denmark (US$22 million), Latvia (US$5.5 million), Lithuania (US$5.5 million), and Iceland (US$0.5 million) provided grant financing via the multi-donor trust fund. Later on, US (US$500 million), Austria (€10 million), and Norway (approximately €20 million) also contributed to the fund.

Additionally, in response to the Russian invasion, the government of Ukraine requested cancellation of the SBA to IMF while requesting for a Rapid Financing Instrument (RFI). In response, SBA was canceled effective March 3, 2022 and a RFI of SDR 1.0059 billion (approximately US$1.4 billion) was approved on March 9.

The EU decided to provide MFA of €1.2 billion in January 2022 as emergency assistance in response to the worsening conditions. The first €300 million has been disbursed on March 11, followed by €289 million on March 18, and the remaining approximately €600 million is scheduled for disbursement in the second half of 2022. In addition to MFA, a grant aid of €120 million has been decided to strengthen response to the recent humanitarian crises.

3. Project Description

(1) Project Objective

The Project aims to maintain momentum of the economic policy reform and reform the various systems by supporting the implementation of the economic policy reform (Foster De-monopolization and Anticorruption Institutions, Strengthen Land and Credit Markets, and Bolster the Social Safety Net) implemented by the government of Ukraine through financially supporting Ukraine, which is facing an economic crisis due to the impact of military invasion. The Project will thereby contribute to social and economic stabilization and promotion of development efforts in Ukraine.

(2) Project Site/Target Area

Throughout all of Ukraine

(3) Project Beneficiaries (Target Group)

Citizens of Ukraine including farmers and pensioners

(4) Project Components

The Project supports the implementation of economic policy reform in Ukraine in collaboration with the WB. Since the completion of the five policy actions (see Annex) contributing to the three reform pillars agreed upon by the government of Ukraine in DPL-2 disbursed in December 2021 by the WB has been confirmed, the loan will be disbursed as a lump sum upon approval.

(5) Estimated Project Cost

13,000 million Yen (Japanese ODA loan: 13,000 million Yen)

(6) Schedule

The start date for the delivery of financial assistance through the Project is February 24, 2022 (applied retroactively to the date the Russian invasion started). Achievement of the policy actions has been confirmed and disbursement of the loan is considered as the completion of the Project (scheduled for May 2022).

(7) Project Implementation Structure

1) Borrower: Ukraine, represented by the Minister of Finance of Ukraine

2) Executing Agency: Ministry of Finance of Ukraine

(8) Collaboration and Sharing of Roles with Other Donors

1) Japan's Activity

Synergy is expected by implementing Knowledge Co-Creation Programs (KCCPs) deeply related to the reform items of the Project, or by gathering information during post-implementation monitoring, etc. by utilizing the network of the expert dispatched to the Ministry of Finance (continuing to work remotely) through the individual expert project "Advisor to the Minister of Finance" currently being implemented.

2) Other Donors' Activity

Co-financed with the WB. Of the loan amount €437.05 million (equivalent to US$489.45 million), the WB has disbursed €357.3 million, which excludes the amount to be guaranteed by the Netherlands. JICA will monitor in collaboration with the WB.

(9) Environmental and Social Consideration/Cross-Sectoral Issues/Gender Category

1) Environmental and Social Consideration

(i) Category: C

(ii) Reason for Categorization: The Project is determined as having minimal adverse impact on the environment under the "JICA Guidelines for Environmental and Social Considerations" (promulgated in April 2010).

(iii) Other/Monitoring: None

2) Cross-Sectoral Issues: None

3) Gender Category: [Gender Project] GI (S) (Gender Activities Integration Program)

<Details of Activities/Reason for Categorization> The Project targets the Ukrainian pensioners, of which at least 65% are women, and sets out reform item (3) Bolster the Social Safety Net of the Policy Matrix to increase pensions.

(10) Other Important Issues: None

4. Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

The baseline and target for measuring the effect of implementing each reform item are shown in the Annex. However, with conditions deteriorating, achievement of the evaluation indicators is expected to be delayed.

(2) Qualitative Effects

Improvement in the fiscal situation, decrease in monopoly/corruption, improvement in access to land and financial markets by farmers, and improvement of social security for vulnerable groups such as elderly women.

(3) Internal Rate of Return

Internal Rate of Return is not calculated as this is a program loan.

5. External Factors and Risk Control

(1) Preconditions: None

(2) External Factors:

No major changes in the situation such as regime change involving significant policy change that can impair the meaning of implementing the Project. If such a situation arises, discussions will be held with the Japanese government and the WB regarding response policy.

6. Lessons Learned from Past Projects

Based on the results of ex-post evaluation of the "Development Policy Loan (I -IV)" (evaluated in FY2009) for the Republic of Indonesia, a lesson was learned that DPL and Technical Cooperation are mutually complementary, creating synergies in various phases of the reform process, and therefore, collaboration between DPL and Technical Cooperation must be promoted. The Project also plans to implement KCCPs, etc. contributing to the achievement of various reform items in the Policy Matrix, in order to connect policy-level reform items with field-level reform. Knowledge Co-Creation Programs scheduled in FY2022 include KCCPs such as "Criminal Justice Response to Corruption" and

"Inclusive Agricultural Land Administration and Improved Tenure Security" which are deeply related to the reform items in this Project.

7. Evaluation Results

The Project aims to maintain momentum of economic policy reforms such as a land system and a social security system by providing financial support in a situation where finances are tight due to impact of military invasion. The Project is carried out under an international support framework for the government of Ukraine, which aims for medium- to long-term economic and national stability, and is in line with the Ukrainian development agendas and development policies as well as Japan and JICA's cooperation policy. It can also contribute to SDGs Goal 1 (end poverty), 2 (end hunger), 3 (ensure healthy lives and promote well-being), 8 (inclusive and sustainable economic growth), 10 (reduce inequality), and 16 (promote peaceful and inclusive societies). Therefore, the need to support implementation of the Project is high.

8. Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Sections 4.

(2) Future Evaluation Schedule

Ex-post evaluation: Two years after the project completion

END

Policy and Results Matrix for "Emergency Economic Recovery Development Policy Loan" **Annex**

Prior Actions under DPL-1 (Achieved)	Triggers for DPL-2 (Achieved)	Indicator Name	Baseline	Target
1) Foster De-monopolization and Anticorruption Institutions				
1: Completed the unbundling of the state-owned gas transport system from Naftogaz on January 1, 2020 through: (i) the enactment of Law #264-IX on Unbundling; and (ii) the transfer of state-owned gas transport system's assets from the balance sheet of UTG to Gas TSO LLC.		1: The share of gas transit revenues flowing in a transparent manner from Naftogaz to the new independent Gas TSO, based on the tariff set by the National Energy and Utilities Regulatory Commission (NEURC).	0% (2019)	100% (2022)
2: Enacted Law #155-IX on Concession to enhance the legal framework for attracting private investment in infrastructure and ensuring transparency in concession projects.	1: The Borrower has enacted Law # 1054-IX dated December 3, 2020 "On Inland Water Transport", and duly published in the Borrower's Official Gazette on January 9, 2021, establishing an open regulatory framework and enabling non-discriminatory access of operators to inland waterways.	2: Number of port concession projects signed with private investment mobilized through project financing by lenders.	0 (2019)	2 (2021)
		3: Number of voyages by ships (including cargo) on Dnipro River increases by about 20 percent.	11,938 (2019)	14,300 (2021)

3: Enacted Law #140-IX to strengthen the governance of the National Agency of Corruption Prevention (NACP) and Law #263-IX to restore liability for illicit enrichment and enable civil forfeiture of unjustified assets.		4: Number of full verifications of high risk declarations selected using prioritization criteria, assigned automatically to staff, and implemented using an improved methodology.	0 (2020)	1,500 (2022)
2) Strengthen Land and Credit Markets				
4: Enacted Law #552-IX to enable the sale of agricultural land and the use of land as collateral and Law #554-IX to strengthen transparency by improving access to cadastral data and links between the cadaster and registry.	2: The Borrower has enacted Law #1423-IX dated April 28, 2021 “On amendments to some legislative acts of Ukraine to improve the system of management and deregulation in the field of land relations”, and duly published in the Borrower’s Official Gazette on May 26, 2021, streamlining land transfer procedures and decentralizing land management, which simplifies procedures to create, transfer, and use land parcels; and transfer the ownership and administration of state land from the Geocadaster to local authorities.	5: Area of agricultural land previously under moratorium sold/purchased by eligible individuals.	0 hectares (2019)	150,000 hectares (2022)

	3: The Borrower has enacted Law # 1444-IX dated May 18, 2021 “On modification of some legislative acts of Ukraine concerning sale of the land plots and acquisition of the right of their use through electronic auctions”, and duly published in the Borrower’s Official Gazette on June 25, 2021, regulating local state land use, including mandating electronic auctions for state land sales.	6: Loans are issued to small farmers and backed by Partial Credit Guarantee (PCG) facility	No (2019)	Yes (2022)
	4: The Borrower has enacted Law #1865-IX dated November 4, 2021 “On the Fund for the Partial Guarantee of Loans in Agriculture” and duly published in the Borrowers’ Official Gazette on November 23, 2021, creating affordable and effective financing instruments for small farmers through the establishment of a partial credit guarantee facility.			

5: Issued NBU (National Bank of Ukraine) prudential regulations #49 and #52 on write-offs for fully provisioned NPLs and approved Cabinet of Ministers of Ukraine Resolution #281 to enable state-owned banks NPL resolution through conventional tools including restructuring and sale with haircut on principal, as well as write-offs.		7: Gross Pre-2020 NPL Portfolio of State-Owned Banks.	UAH397 billion (2019)	Under UAH300 billion (2021)
6: Enacted Law #79-IX to enhance the regulatory framework for nonbank financial institutions by abolishing the National Financial Services Commission and assigning the regulatory functions to the National Bank of Ukraine and National Securities and Stock Market Commission (NSSMC).		8: NBU and NSSMC adopt action plan on reshuffling supervisory regimes for insurance, credit unions, pension funds, and other NBFIs.	No (2019)	Yes (2021)
3) Bolster the Social Safety Net				
7: Approved Cabinet Resolution #251 to set the date and rate for the statutory pension indexation in 2020 and bolster the purchasing power of the pension benefit.	5: The Borrower, through its Cabinet of Ministers, has approved the Budget Declaration for 2022-2024 and submitted it to the Verkhovna Rada of Ukraine through Resolution No. 548 dated May 31, 2021 “On the Budget	9: Pension benefits increase in line with the indexation formula within the first half of each calendar year, allowing adequate support for pensioners, of which at least 65 percent are women.	No (2019)	Yes (2022)

	Declaration for 2022-2024" requiring indexation of pensions for all categories of retirees not later than March 1st of each year from 2022 to 2024.			