

Ex-Ante Evaluation
Private Sector Investment Finance Division 2,
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

- (1) Country: Ukraine and the Republic of Moldova
- (2) Project site / Area name: Ukraine and the Republic of Moldova (Moldova)
- (3) Project name: Export-oriented Industry Support Project
- (4) Signing date: February 19, 2024

2. Background and Necessity of the Project

- (1) Current status and issues of Private Sector Development and ICT Sector in Ukraine and Moldova

Ukraine has been facing a humanitarian and economic crisis since the full-fledged invasion of Ukraine by Russia on February 24, 2022. The total estimated needs for rehabilitation and reconstruction are enormous, amounting to approximately US\$411,000 million over the next 10 years, and cannot be met solely by public sector assistance. The Ukrainian government has identified private sector development as one of the five priority areas for reconstruction (energy, demining, private sector, housing, and critical infrastructure), and according to the World Bank, the private sector will need to invest approximately US\$140,000 million over the next 10 years, or about one-third of the total amount. In addition, the full-fledged invasion of Ukraine has resulted in a large number of displaced persons, and as the war drags on, the creation of employment and assistance to improve the livelihoods of those returnees who have returned to Ukraine is an urgent issue. While the number of returnees is increasing, it is estimated by the World Bank that approximately 1.5 million people have permanently lost employment opportunities as a result of the full-fledged invasion, including those from many companies that have relocated their bases both inside and outside the country since February 24, 2022.

Even before the full-fledged invasion, Ukraine was an information and communications technology ("ICT") powerhouse that was establishing itself on the global stage. The ICT sector has developed remarkably in recent years, producing four unicorn companies (unlisted start-ups with a valuation of US\$1,000 million or more). The country also has more than 1,000 outsourcing companies that contract work from Western software and other companies, about 4,000 tech companies working to solve social problems, and more than 180,000 software developers and tech specialists. In addition, exports from the ICT sector have increased from US\$400 million in 2010 to US\$6,800 million in 2021, a growth of more than 17 times over the past 10 years (Ukraine ICT Report). While traditional key sectors

such as agriculture and industry have fallen back since February 24, 2022, the ICT sector has remained strong, with ICT sector exports of approximately US\$7,300 million in 2022, up 5.8% from the previous year, and accounting for about half (45%) of all services exports (Ukraine Invest). Ukraine's ICT sector plays an important role in the country's economy, both since the full-fledged invasion and in the recovery and reconstruction efforts following end of hostilities.

Moldova, which is adjacent to Ukraine, has a population of approximately 2.4 million, and as of July 2023, had received a cumulative total of approximately 900,000 displaced persons from Ukraine, with an estimated 100,000 still in Moldova, placing a heavy financial burden on the Moldovan government. The ICT sector also plays an important role in Moldova, with ICT sector exports growing from US\$60 million in 2016 to US\$259 million in 2020, and more than 80% of services produced in the country are exported abroad. The ICT sector is emerging as a powerful industry in terms of both economy and employment.

On the other hand, rising country risks in Ukraine and neighbouring countries following the full-fledged invasion of Ukraine have led to a decline in investment funding in the region. In particular, venture capital (VC) investment funding for startups in Ukraine has declined from US\$832 million in 2021 to US\$218 million in 2022, and ensuring access to capital for growth is an urgent issue for the export-oriented ICT and tech industries. In the export-oriented ICT/tech industry, ensuring access to capital necessary for company growth is an urgent issue, and is also important from the perspective of expanding employment through industrial development. This project aims to develop the ICT/tech industry in Ukraine and Moldova, which are impacted by the Russian aggression, and to create employment through investment in an investment fund for ICT/tech companies in both countries, and thus it is consistent with the challenges of the sector and their policies.

(2) Japan and JICA's policy and operations in the private sector development and ICT in the region

Prior to Russia's full-fledged invasion of Ukraine, Japan's Country Development Cooperation Policy for Ukraine (July 2017) positioned "economic stabilization support" as a priority area and stated that efforts would be made to support Ukraine's industrial development and expansion of foreign capital attraction. Since February 24, 2022, the Japanese government has noted the importance of continued assistance and has expressed its commitment to contribute to the restoration and reconstruction of Ukraine, including by the private sector. JICA has three pillars of assistance to Ukraine and neighboring countries: (1) cooperation to support Ukraine's national infrastructure, (2) cooperation with neighboring countries and displaced persons in Ukraine for regional stabilization, and (3)

support for rehabilitation and reconstruction. In addition, the third pillar of support for rehabilitation and reconstruction is focused on four priority issues (“development of infrastructure for full-scale rehabilitation and reconstruction”, “reconstruction of livelihoods that will contribute to the return of displaced people”, “promotion of agriculture, industry, and exports that will create jobs” and “support for democracy and strengthening governance”), and the cooperation necessary for Ukraine and neighboring countries from the emergency humanitarian assistance phase to the recovery and reconstruction/development phase is being considered and implemented, with the utilization of existing projects and the formation of new projects that can take advantage of Japan’s strengths. In addition, JICA’s Global Agenda (“Private Sector Development”) includes support for startups working to solve social issues, and JICA has conducted the “Information Collection and Confirmation Study on Startup Development in Europe” (April 2021 – June 2023) for startups in Ukraine. The ICT sector has been supported by the expansion of the technical cooperation provided prior to the full-fledged invasion, including an acceleration program and a pitch event for Ukrainian startups. With regard to Moldova, in line with the "Promotion of Sustainable Economic Development" priority area in JICA’s Country Development Cooperation Policy for Moldova (October 2020), cooperation that contributes to the development of the private sector has been implemented. This project is consistent with the policy of such efforts.

In addition, in JICA’s Global Agenda "Promotion of Digitalization," the project is consistent with the policy of the Global Agenda, which includes the development and promotion of digital industries as one of the important items to support a digital society. In addition, the Global Agenda "Gender Equality and Women's Empowerment" calls for the promotion of gender smart business (GSB), and JICA is a member of the 2X Collaborative, which was established in January 2022 as an expansion platform of the 2X Challenge established in 2016, and has been promoting gender lens investments. The Fund has been certified by 2X Challenge as a flagship fund that meets 2X Challenge standards and will also contribute to the promotion of gender equality.

3. Project Description

(1) Project Description

① Project Objectives

The objective of the Project is to develop industry and create jobs in Ukraine and Moldova through funding in an investment fund with a focus on growth-stage export-oriented ICT and tech companies, thereby contributing to sustainable economic and social development in the countries.

② Project Components

To invest in an investment fund that invests in export-oriented ICT and tech companies in Ukraine and Moldova.

③ Project Beneficiaries (Target Group)

Growth-stage export-oriented ICT and tech companies, etc. in Ukraine and Moldova.

(2) Estimated Project Cost: About 350.0 million USD (JICA investment: 20 million USD)

(3) Project implementation schedule (cooperation period): September 2022 - September 2032

(4) Project Implementation Structure

1) Investee: Horizon Capital Growth Fund IV, L.P. (HCGFIV)

2) Project Implementation and Management Agency: Horizon Capital GP IV, LLC

(5) Collaboration and Sharing of Roles with Other Projects and Other Donors

1) Japan's Activity: JICA provides the NINJA program for Ukrainian startups ("SU") to understand the current status and challenges of SU companies and ecosystems in the European region, the status of investment from European funds, and the environment surrounding them, and through the implementation of the acceleration program, conducted a study of proposed cooperation approaches necessary to build an ecosystem.

2) Other Donor's Activity: This project is a joint investment with IFC and development finance institutions (DFIs) such as EBRD, DFC, DEG, FMO, PROPARCO, SIFEM, Swedfund, and Finnfund.

(6) Environmental and Social Considerations

① Category: FI

② Reasons for categorization: The subprojects cannot be identified prior to JICA's approval for financing, and they may have environmental impacts under the JICA Guidelines for Environmental and Social Considerations (January 2022).

③ Others: In this project, the projects envisaged as equivalent to the use of the capital contribution will be categorized for each subproject based on the Ukrainian/Moldovan national legal system, JICA environmental and social guidelines, and other donors' environmental and social policies, and necessary measures will be taken for the relevant category. Note that

subprojects do not include Category A projects.

(7) Cross-cutting issues: Poverty reduction is expected to be promoted through the promotion of job creation through the development of export-oriented ICT and tech industries, and through the creation of quality jobs (decent work).

(8) Gender Classification:

① Gender-related Projects ■GI(S) Gender Activity Integration Projects

Reason for classification: In the target countries, a gender challenge was identified where women entrepreneurs have limited access to investment relative to male entrepreneurs. This project plans to focus on Executive Search support - transparent searches for Executive roles and participation in selecting Executive leaders as trusted Advisor, as well as to set the percentage of total investment for women-owned or women-operated companies at 30% of the total investment. Creation of a talent acquisition strategy that avoids bias to build a diverse, inclusive workforce made up of the very best professionals aiming at least 30% of Executive hires are women. Since this project meets the criteria (entrepreneurship, leadership, employment, and investment) of the 2X Challenge (financing for women), it will be applied as a 2X Challenge project.

(9) Other Special Notes: N/A

4. Targeted Outcomes

(1) Quantitative Effects:

Indicator	Baseline (2022)	Target (2032)(*)
Number of jobs created by portfolio companies (persons)	N/A	16,000
Percentage increase in sales (tax payments) of portfolio companies (%)	N/A	150
2X Challenge as % of portfolio companies (%)	N/A	30
Percentage of women in leadership positions in portfolio companies (%)	N/A	25

(*): Year of fund duration ending

Reference indicators will be monitored for the number of female jobs created by the investee, the percentage increase in foreign currency (hard currency) income of the investee, the percentage of small and medium enterprises (SMEs) in the investee, the sales of the investee, and the average wage in the market versus the wage of the investee company.

- (2) Qualitative effects: development of export-oriented industries and IT industries, creation of quality jobs (decent work), and reduction of human resource outflow in the medium to long term.

5. Assumptions and External Conditions

N/A

6. Lessons Learned from Past Projects

In the past ex-post evaluation of the Local Enterprise Development Fund projects (evaluation year: 2010), etc., it was learned that it is necessary to (1) establish criteria for replacing investment managers, (2) request the preparation of reports that can accurately evaluate development effects, (3) prepare a long list of investment destinations, and (4) confirm taxation to JICA. In light of these lessons learned, the following points were confirmed during the review: (i) When a key investment manager is replaced, new investment activities from the Fund will be suspended until his/her replacement is endorsed by the Advisory Committee; (ii) The abovementioned operational and effectiveness indicators will be submitted to JICA annually; (iii) A pipeline list pertaining to potential investment targets has been obtained, and the profitability and probability of exit of each company has been verified; and (iv) Taxation to JICA has been confirmed.

7. Evaluation Results

This project is to invest in a fund that provides investment and management support to export-oriented ICT and tech companies in Ukraine and Moldova, in line with the development challenges and policies of the countries and the cooperation policies and analysis of Japan and JICA. It is considered to contribute to Goal 1 (poverty reduction), Goal 5 (realization of gender equality), Goal 8 (economic growth and employment), Goal 9 (industrialization and innovation), and Goal 17 (partnership) of the SDGs, and therefore, there is a high need for support through overseas investments and loans.

8. Plan for Future Evaluation

(1) Indicators to Be Used: As shown in Section 4.

(2) Future Evaluation Schedule (Estimate):

Ex-post valuation is planned in the year of the end of the fund's life.

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