

**Ex-Ante Evaluation (for Japanese ODA Loan)**  
**Office for Ukraine Crisis Response, Recovery and Reconstruction**  
**Middle East and Europe Department**  
**Japan International Cooperation Agency**

<b>1. Name of the Project</b>
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Country: Republic of Moldova (Moldova)

Project: Economic Recovery Development Policy Loan

Loan Agreement: July 10, 2023

<b>2. Background and Necessity of the Project</b>
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(1) Current State and Issues of the Economic Sector and the Priority of the Project in Moldova

The Republic of Moldova (Moldova) had the weakest economy in Europe prior to the COVID-19 pandemic, and its real GDP growth rate fell to -8.3% in 2020 due to the spread of COVID-19 and its preventive measures. It was later boosted by favorable consumer spending with the relaxation of COVID-19 restrictions and an increase in wages. The real GDP growth rate recovered to 13.9% in 2021 and the economy was expected to continue growing from January 2022 that is the start of the new fiscal year in Moldova.

Then, the Russian invasion of Ukraine began on February 24, 2022, and Moldova received in huge influx of Ukrainian refugees. The Government of Moldova quickly declared a state of emergency and approved emergency measures such as (i) simplifying the entry process for Ukrainians and nationals of a third country fleeing from Ukraine, (ii) promoting integration of people choosing to stay in Moldova into the labor market, and (iii) providing educational services to school-aged refugees. The government also provided refugees with shelter, food, and health services. As of April 2023, there were about 102,000 refugees in Moldova (World Bank, 2023), placing a large burden on the country's finances. The United Nations and others in the international community are advocating the necessity of aiding Moldova in its efforts to strengthen its emergency response.

In addition to this massive influx of Ukrainian refugees, the situation is compounded by soaring food and energy prices and disruption of the energy supply and logistics, having a serious ongoing negative impact on the country's economy, industries, and social structure. Being dependent on Russia for gas supplies has created a particularly dire energy situation, and Moldova is working hard to secure sufficient power and energy while increasing its supply from the

European market. Moldova's agricultural sector that is one of the country's primary industries was also hit hard by severe heat waves and droughts in the summer of 2022 and increasing fertilizer prices.

Considering the state of flux in neighboring Ukraine, the World Bank has stated that economic prospects for Moldova are at high risk and highlighted the impact on its poverty rate from the invasion of Ukraine. The poverty rate dropped from 14.8% in 2020 to 10.9% in 2021 (projected) before the invasion owing to a 7% wage hike and an increase in the minimum pension, but the poverty rate for 2022 is projected to increase by 2.4% over the 2021 level due to soaring energy and food prices (World Bank, 2022). The real GDP growth rate has been gradually improving in the medium to long term since 2023. While it is projected to be 2% in 2023, the situation remains precarious as the projected real GDP for 2026 is expected to fall 14% below the prewar projection (2021) and it is impossible to know how and when the war in Ukraine will end (World Bank, 2023).

Considering the circumstances, the Ministry of Finance of Moldova predicts a 916 million USD gap in the 2023 fiscal budget (as of February 2023) and the fiscal gap is expected to grow with a decrease in budget revenue owing to stagnation in industry and other reasons and an increase in spending related to energy including energy subsidies.

The Economic Recovery Development Policy Loan (the Project) will provide financial assistance to Moldova that is working to (1) reduce the impacts on Moldovan citizens and Ukrainian refugees and (2) build resilience and boost competitive power to reduce its vulnerability to a financial crisis. Specifically, Moldova is currently projected to receive a total of about 543.3 million USD in financial assistance from other countries and from international organizations but will fall short of its 2023 fiscal budget by about 372.7 million USD (as of February 2023). The Project will cover that gap.

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

The Project is in response to a request made on July 28, 2022, by the Ministry of Finance of Moldova to the Government of Japan for cooperation to cover the 2023 fiscal gap. Japan's Development Cooperation Policy for Moldova (October 2020) specifies 'sustainable economic development and improvement of the standard of living' as its basic policy. The Project is consistent with the priority areas proposed as the objectives in that policy that

are promoting sustainable economic development, improving the standard of living, and reinforcing governance.

The Project will contribute to SDGs (Sustainable Development Goals) Goals 1 (No poverty), 3 (Good health and well-being), 8 (Decent work and economic growth), 10 (Reduced inequalities), and 16 (Peace, justice and strong institutions). Therefore, the necessity for JICA to support the Project is substantial.

### (3) Other Donors' Activities

After the start of the Russian invasion of Ukraine, the World Bank formed the Moldova Emergency Response, Resilience, and Competitiveness Development Policy Operation (DPO1), through which it has already disbursed a total of 159.24 million USD (breakdown: 43 million USD from the IBRD, 107 million USD from the IDA, and 9.24 million USD from the Global Concessional Financing Facility (GCFF)). The Agence Française de Développement (AFD) has disbursed 60 million EUR to co-finance the DPO1. In the Moldova Emergency Response, Resilience, and Competitiveness DPO2 (DPO2) that is co-financed by the Project, the World Bank has approved a total of 134.3 million USD as the 2023 fiscal budget (breakdown: 100 million USD from the IBRD, 25 million USD from the GCFF, and 9.3 million USD from the Multi-Donor Trust Fund).

## **3. Project Description**

### (1) Project Description:

#### ① Project Objective

For Moldova that is facing a financial crisis due to the impacts of the Russian invasion of Ukraine, the objective of the Project is to implement institutional reform to (1) mitigate the impacts of the invasion of Ukraine on Moldovan households and Ukrainian refugees and (2) build resilience and enhance competitiveness to reduce vulnerabilities to a financial crisis, thereby promoting the socioeconomic stability and the development efforts.

#### ② Project components

In cooperation with the World Bank's DPO2, the Project supports the implementation of emergency response and policy reform in Moldova. A lump sum will be disbursed following the signing of the Loan Agreement upon confirmation of the achievement of the policy actions agreed upon

by JICA, the World Bank, and the Government of Moldova (see appendix; World Bank policy actions are only 1 to 8).

③ Project Beneficiaries (Target Group)

Moldovan citizens and Ukrainian refugees

(2) Estimated Project Cost: About 13.5 billion yen

(3) Schedule (Cooperation Period):

The start date of financial support in the Project is January 1, 2023 (applied retroactively to the start of the Moldova fiscal year). Achievement of the policy actions was confirmed during loan agreement negotiations (June 5, 2023). Completion of the Project is when the loan is disbursed (scheduled for August 2023).

(4) Project Implementation Structure:

1) Borrower: The Government of the Republic of Moldova

2) Executing Agency: Ministry of Finance of Moldova

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

1) Japan's Activity

In the Project, to link policy-level reform items with practical reform, JICA is using or will use technical cooperation to assist in the achievement of the policy actions and activities to help increase the impact. Specifically, JICA will carry out activities to increase medical equipment maintenance and management capacity through a expert who has been dispatched, conduct a survey to collect and confirm information for the development of a disaster health management system for Moldova, and cooperate with support to promote small and medium enterprises.

2) Other Donors' Activity

Co-financed with the World Bank. Loan amounts are detailed in 2. (3) Other Donors' Activities. JICA will conduct monitoring in partnership with the World Bank.

(6) Environmental and Social Consideration:

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: The Project is assessed as minimizing negative impact on the environment according to the JICA Guidelines for Environmental and Social Considerations (January 2022).

(7) Cross-Sectoral Issues: None

(8) Gender Category: Gender Informed: GI(S) (gender activity integration project)

<Details of Activities/Reason for Categorization> The majority of the Ukrainian refugees being assisted in the Project are women, children, and older people. In addition, the number of female Ukrainian refugees with temporary protection status is set as operation and effect indicators. Also, the number of female-headed households among families receiving social assistance in Moldova is set as operation and effect indicators.

(9) Other Important Issues: None

#### **4. Targeted Outcomes**

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Baseline values and target values for measuring the effects of implementation of each reform item are outlined in the appendix.

(2) Qualitative Effects

Improvement in financial condition, improvement in railway sector services, improvement in access to finance, improvement in social security services for female-headed households and other vulnerable groups and promotion of digitalization of administrative services.

(3) Internal Rate of Return

The internal rate of return is not calculated as this is a program-based loan project.

#### **5. External Factors and Risk Control**

(1) Preconditions: None.

(2) External Factors: No major changes in the situation of Moldova, such as a change of the government accompanying drastic policy change, that would undermine the importance of the Project.

In such an event, a response plan will be discussed with the Government of Japan.

#### **6. Lessons Learned from Past Projects**

From the ex-post evaluation of Development Policy Loans (I to IV) for the Republic of Indonesia, it has been pointed out that, to provide concrete support for the policy actions presented in the development policy loan, JICA could

enact more effective policy improvement and reform by combining provision of a development policy loan with technical cooperation in specific areas. In the Project as well, to link policy-level reform items with practical reform, JICA is using or will use technical cooperation to assist in the achievement of the different reform items in the policy actions and activities to help increase the impact.

## **7. Evaluation Results**

With the financial strain being faced by the Government of Moldova due to the impacts of the Russian invasion of Ukraine, the Project aims to provide financial assistance to help reduce the impacts on Ukrainian refugees and the Moldovan households welcoming them and to build resilience and enhance competitiveness. It is therefore consistent with the development issues and development policies of Moldova as well as the development cooperation policies of Japan and JICA. The Project will contribute to SDGs (Sustainable Development Goals) Goals 1 (No poverty), 3 (Good health and well-being), 8 (Decent work and economic growth), 10 (Reduced inequalities), and 16 (Peace, justice and strong institutions). Therefore, the necessity for JICA to support the Project is substantial.

## **8. Plan for Future Evaluation**

### **(1) Indicators to be used**

As indicated in Section 4.

### **(2) Future Evaluation Schedule**

Ex-post evaluation: Two years after the project completion

END

Appendix: Economic Recovery Development Policy Loan - Policy Matrix

## Appendix

## Policy Matrix for the Economic Recovery Development Policy Loan

Policy Matrix for the Economic Recovery Development Policy Loan						
					As of June 5th, 2023	
	Sub-Sector	Prior Action	Indicator	Baseline(2021)	Target (2024)	Prepared by
Pillar1 : Mitigate the impact of the war in Ukraine on refugees and households						
1	Support for refugees from Ukraine	The Borrower has adopted a framework and an associated implementation action plan to provide a more secure legal status to refugees and better integrate them into Moldovan society by: (i) harmonizing the migration and asylum legal processes with EU legislation, and (ii) granting of temporary protection to access services including for housing, schooling, social assistance and employment.	Number of female refugees that are granted the temporary protection status	0	20,000	World Bank
2		The Borrower has adopted a framework and an associated implementation action plan to strengthen civil protection response and management in emergency situations, including from the influx of refugees.	Share of cases solved by the civil protection as a percentage of the requests for assistance from refugees	0%	100%	World Bank
3	Support for vulnerabilities	The Borrower has taken measures to strengthen the main anti-poverty program, by adopting a regulation of the Ajutor Social implementation, including the establishment of a separate guaranteed minimum income for children and an increase of the income disregard for earned child allowances.	Number of female-headed families receiving social assistance	26,784	32,000	World Bank
Pillar2 : Build resilience and enhance competitiveness to reduce vulnerability to future shocks						
4	Promotion of efficient energy use	The Borrower has taken measures to enhance energy efficiency by: (i) strengthening the legal framework through partially aligning the Energy Efficiency Law with the EU Directive; and (ii) introducing energy efficiency policies for public and residential buildings.	Number of public and residential building that have undertaken a full energy efficiency renovation/ rehabilitation	0	50	World Bank
5	Improvement of Access to Finance	The Borrower has taken measures to strengthen the legal framework for deposit guarantee scheme to increase the coverage of banks' deposits and strengthen capacity of the deposit guarantee fund partially aligning with the EU requirements to improve protection of households' deposits.	Volume of covered deposits as a percent of eligible deposits	8.5%	20%	World Bank
6	Improvement of business environment	The Borrower has taken measures to strengthen the legal framework of the corporate governance of SOEs by (i) mandating the Owners of State Enterprises to approve a corporate governance code, (ii) enabling the appointment of independent members to the Board of Directors of state enterprises, (iii) mandating the Owners of State Enterprises to evaluate the members of the Board of Directors of state enterprises, and (iv) mandating the Owners of Public Interest Entities to establish Audit Committees.	Number of SOEs that adopt the Corporate Governance Code	0	15	World Bank
7	Revitalization of railways	The Borrower has adopted complementary bylaws to further support the railway sector reorganization and harmonize the national legislation with the EU standards by: (i) regulating the organization and operation of the National Railway Authority; and (ii) regulating public service contracts for railway passenger transport services.	Signed Multi-Annual Infrastructure and Public Service Obligation contracts	No	Yes	World Bank
8	Private sector development	The Borrower has facilitated access to the digitalization of services for business by: (i) introducing remote business; and (ii) approving the framework of Public Depository of Financial Statements.	Share of new active G2B digital services envisaged by the reform	0%	75%	World Bank
9	Health system enhancement	(i) The MoH has started preparation for strengthening an emergency medical system to respond to disasters, infectious disease pandemics and conflicts etc. by reviewing what happened in the health sector after the Ukrainian crisis and (ii) the MoH has started developing the foundation for the medical device management system including preparation of the Guideline and training for technical human resources.	A plan for strengthening an emergency medical system to respond to disasters, infectious disease pandemics, conflicts and other emergencies is developed.	No	Yes	JICA
			The related personnel's capacity to implement the above-mentioned plan is developed.	No	Yes	
			The Guidelines for Medical Device Management is finalized.	No	Yes	
			At least 100 biomedical engineers are trained.	0	100	
10	SME promotion	ODA, former ODIMM, under Ministry of Economy has provided business consultations to entrepreneurs and SMEs in Moldova through 11 incubators all over Moldova and ODA's Consultancy Center, even after the Ukrainian crisis happened.	Numbers of job created and maintained through incubator space activities	892	1,012	JICA