

Ex-Ante Evaluation (for Japanese ODA Loan)

Middle East and Europe Department
Japan International Cooperation Agency

1. Name of the Project

- (1) Country: Republic of Turkey
- (2) Project Site/Target Area
11 provinces in southeast Turkey (Adana, Hatay, Kahramanmaraş, Gaziantep, Adıyaman, Şanlıurfa, Diyarbakır, Elazığ, Malatya, Kilis, and Osmaniye provinces)
- (3) Project: Post-earthquake Support Project for Micro, Small and Medium Enterprises

Loan Agreement: December 20, 2023

2. Background and Necessity of the Project

- (1) Earthquake Damage and Current State and Issues of the Micro, Small and Medium Enterprises Sector and the Priority of the Project in the Republic of Turkey

On February 6 and 10, 2023, earthquakes hit the southeastern region of the Republic of Turkey (Turkey), causing massive earthquake damage on an unprecedented scale, including catastrophic destruction of entire towns in some of the areas hit.

The Government of Turkey announced the Türkiye Recovery and Reconstruction Assessment (TERRA) including the status of the damage and the country's financial need for recovery at a donor conference held in Brussel (Brussels Conference) on March 20, 2023. In TERRA, the amount of damage from the earthquakes was estimated to be 103.6 billion dollars, equivalent to 9% of Turkey's GDP for 2023 (projected).

According to information from the Turkish Mercantile Exchange, micro, small and medium enterprises (MSMEs) are key actors in supporting the country's economy, accounting for 65% of all sales for private companies, 56% of all exports, 74% of employees, and 99% of all businesses. Of the private companies impacted by the earthquakes, about 470,000 were MSMEs, accounting for roughly 99%. The Small and Medium Enterprises Development Organization of Türkiye (KOSGEB) confirmed that about 110,000 (23.3%) suffered property damage and have been approved as impacted companies by the Ministry of Environment, Urbanisation and Climate Change. According to TERRA, MSMEs in the disaster areas were heavily impacted by deaths of

workers, evacuate to other areas, damage to plants and other buildings as well as machinery, and disruption of the supply chain, for example. The Ministry of Industry and Technology estimates the financial need of impacted MSMEs at around 9 billion dollars. Although KOSGEB has provided about 512 million dollars in assistance, for example providing temporary business offices and interest-free loans, a further roughly 8.5 billion dollars is required for the reconstruction and recovery of impacted MSMEs.

The Government of Turkey recognizes MSMEs as the pillar of the country's economy, and its Eleventh Development Plan (2019-2023) includes measures to further develop MSMEs such as improving access to funding for MSMEs, elimination of growth constraints, and provision of consulting opportunities with government agencies. Furthermore, TERRA outlines the need for increased support to cover the costs for impacted MSMEs to repair and purchase equipment, showing how high priority and urgent reconstruction and recovery of MSMEs from the earthquakes is to the Government of Turkey.

(2) Japan's and JICA's Policy Cooperation Policy and Operations in Earthquake Damage and the Micro, Small and Medium Enterprises Sector in Turkey

At the Brussels Conference, the Government of Japan declared its intention to send the Japan Disaster Relief Team to Turkey, donate emergency relief supplies, and provide further financial cooperation to Turkey, based on its experiences with the Great East Japan Earthquake. Japan's Country Assistance Policy for the Republic of Turkey (September 2018) places "deepening the strategic partnership through the supports aimed at sustainable economic growth" as its basic assistance policy and "supporting the development of strong urban infrastructure assisting economy" as an important point, under which Japan provides support related to industrial human resource development to further strengthen the social infrastructure that props up the country. The JICA Country Analysis Paper (March 2015) for Turkey also places industrial human resource development as a key priority to improve the business and investment climate. Furthermore, in the fourth report of the Global Agenda that is on Social Work and Social Development, promoting growth of small- and medium-sized companies is seen as key to economic growth in developing countries. This project is consistent with these policies and analysis and will provide financial assistance to the Government of Turkey to aid in reconstruction and recovery from the earthquakes through economic

reconstruction.

(3) Other Donors' Activities

At the Brussels Conference, international organizations and governments of various countries announced a total of approx. 6.05 billion EUR (approx. 850 billion yen) in aid. On August 1, 2023, the World Bank that is co-financing this project signed a contract for a loan of 450 million dollars in liquid capital of the total project cost of 135,031 million yen.

3. Project Description

(1) Project Description

① Project Objective

By providing liquid capital as an emergency support measure for MSMEs impacted by the earthquakes that hit the southeastern region of Turkey, this project aims to support the reopening and continuation of MSMEs, support the recovery and maintenance of employment, and aid in the earlier reconstruction and recovery of areas affected by the earthquakes.

② Project components

As an emergency measure for impacted MSMEs, this project is being carried out as reimbursable financing of liquid capital.

③ Project Beneficiaries (Target Group)

- Applicable companies: (a) recognized as an MSME based on the legal status and format in Turkey (b) registered in an affected area and approved as impacted (includes companies that have had at least a 30% decrease in income following the earthquakes) (c) all business categories that are to receive support from KOSGEB (d) had sales of at least 3,940 dollars in 2022 (e) no unpaid taxes or unfulfilled social security obligations. However, startups that were just launched do not have to meet requirement (d).
- Loan amount: The following will be provided as a lump sum according to region, scale of impact, and size of company (micro, small, or medium) to cover salaries and fixed costs (e.g., rent and utilities).
- Loan period: January 2024 to December 2025
- Reimbursement period: Although this project will provide an interest-free loan, it will include the requirement for reimbursement. The reimbursement period will be three years, of which two years will be a grace period. In the final year, the loan must be reimbursed in three payments. After payment of the loan, if the following targets are not met by Group 1 within six months and Group 2 within 24 months, the full amount must be reimbursed immediately.

- Group 1: The company has resumed and is continuing business and has maintained or increased employment compared to the time of receiving funds.
 - Group 2: The company has resumed and is continuing business and has recovered employment to at least the same level as the average for the one year prior to the earthquakes.
- (2) Estimated Project Cost
135,031 million Yen (Japanese ODA loan: 20,000 million Yen)
- (3) Project Implementation Schedule/Cooperation Period
January 2024 to December 2025 (24 months in total). Full disbursement of the loan to micro, small and medium enterprises (December 2025) is considered as the completion of the Project.
- (4) Project Implementation Structure
- 1) Borrower: Small and Medium Enterprises Development Organization of Türkiye (KOSGEB)
 - 2) Guarantor: The Government of the Republic of Turkey
 - 3) Executing Agency: Small and Medium Enterprises Development Organization of Türkiye (KOSGEB)
 - 4) Operation and Maintenance System: Small and Medium Enterprises Development Organization of Türkiye (KOSGEB)
- As KOSGEB has already completed a procedure for a JICA ODA loan project in the Rapid Support for Micro and Small Enterprises Project, there are no particular concerns. However, as the current project targets a larger number of companies than that previous project, more personnel than the previous project had will be assigned to the Project Implementation Unit (PIU) established within KOSGEB and support staff will be hired at local KOSGEB offices.
- (5) Environmental and Social Consideration
- 1) Environmental and Social Consideration
 - ① Category: C
 - ② Reason for Categorization: This project is assessed as minimizing negative impact on the environment according the JICA Guidelines for Environmental and Social Considerations (established January 2022).
- (6) Cross-Sectoral Issues: None
- (7) Gender Category: GI (S) (gender activity integration project)
<Details of Activities/Reason for Categorization> Based on the assumption that female business operators affected by the earthquakes

are encountering difficulties and data obtained in the earlier Rapid Support for Micro and Small Enterprises Project, 10% of the liquid capital being provided to MSMEs will be provided to woman-led companies (same as the World Bank). KOSGEB has agreed to monitor the number and percentage of MSMEs headed by women.

(8) Other Important Issues: None

4. Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (Actual value in 2023)	Target (2027) [2 years after project completion]
Of the companies that have received funding, the ratio of MSMEs that have maintained or increased their employment compared to the average for the one year prior to the earthquakes within 24 months of receiving the funds	0	60%
The ratio of companies led by women among the above MSMEs	0	15%
Of the companies that have received funding, the ratio of MSMEs that have generated the same or higher level of income compared to the average for the one year prior to the earthquakes within 24 months of receiving the funds	0	70%
The ratio of companies led by women among the above MSMEs	0	15%

Note: These targets are the same targets as the World Bank that is co-financing the project.

(2) Qualitative Effects

Improved financial access for MSMEs and recovery of the private sector in areas devastated by the earthquakes

(3) Internal Rate of Return

Will not be calculated, as MSMEs that are the target for support cannot be identified.

5. External Factors and Risk Control

(1) Preconditions:

None

(2) External Factors:

No change in the policies of the Government of Turkey related to the provision of liquid capital.

6 . Lessons Learned from Past Projects

The ex-post evaluation results of Emergency Budget Support ODA Loans for the Republic of the Philippines, Republic of Indonesia, and the Socialist Republic of Vietnam (evaluation year 2011) noted the importance of the timing of providing the loans to increase the effects of the loans as measures to address a financial crisis and the desirability of simplifying the procedures to ensure speedier payment of loans. Although this project is not budget support, based on the above, using a database and other tools to speed up the application procedure by the companies and eligibility requirement checking and loan processing by the Executing Agency could reduce administrative costs and enable disbursement of loans more quickly.

7 . Evaluation Results

The Project is consistent with the development issues and development policies of Turkey in the micro and small enterprises sector as well as the assistance policies and analyses of Japan and JICA. It will aid in the continuation of business and maintenance of employment of MSMEs through the provision of liquid capital to MSMEs. It will contribute to SDGs Goal 8 (Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all) and Goal 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation). 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 (TDB based on discussion with the World Bank.)

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