

Ex-Ante Evaluation

Private Sector Investment Finance Division 2, Private Sector Partnership and Finance Department, Japan International Cooperation Agency

1. Name of the Project

- (1) Country: the Republic of Türkiye (“Türkiye”)
- (2) Project Site / Target Area : the whole country
- (3) Project name: Project to Support Micro, Small and Medium Enterprises in Rural Areas of Türkiye (“the Project”)
- (4) Loan Agreement: November 5, 2024

2. Background and Necessity of the Project

(1) Current State and Challenges of the MSME Sector in Türkiye and the Background of the Project

According to the Turkish Statistical Institute (TOBB), as of 2022, Türkiye had approximately 3.77 million micro, small, and medium-sized enterprises (MSMEs), accounting for 99.7% of all registered businesses, 70.6% of employment, 42.5% of total turnover, and 31.6% of exports. This underscores the crucial role MSMEs play in the Turkish economy. While agriculture still accounts for a significant share of employment in rural areas (FAO), the growth of non-agricultural sectors is expected to create new job opportunities for those transitioning from agriculture, with MSMEs playing a vital role in this transformation (World Bank, 2011).

The Turkish government has identified MSME development as one of the key policy priorities in its 12th Five-Year Development Plan (2024–2028). The plan aims to enhance the human capital of MSMEs, expand market access, foster ecosystems that include large enterprises and universities, and improve access to finance. The Small and Medium Enterprises Development Organization (KOSGEB), operating under the Ministry of Industry and Technology, is responsible for implementing these policies. KOSGEB provides technical assistance to improve productivity and competitiveness, as well as support such as leasing programs for MSMEs embedded in agricultural value chains.

However, the MSME finance gap remains significant—estimated at approximately USD 80 billion, or around 11% of Türkiye’s GDP (IFC, 2018). Structural barriers to finance persist, including information asymmetries and perceptions of high risk, which contribute to unfavorable lending conditions such

as high interest rates (European Commission, 2023).

Moreover, the Turkish MSME sector is vulnerable to macroeconomic fluctuations due to its inherent fragility (OECD, 2022). In response to surging inflation since 2020, the Turkish government shifted to monetary tightening in May 2023. Under this tightening environment, businesses located in rural areas and those with a high proportion of female employees tend to be perceived as higher-risk compared to their urban counterparts, resulting in disproportionately negative impacts. Rural businesses also face structural disadvantages, such as remoteness from major markets (e.g., EU and domestic metropolitan areas), agricultural-centric development plans, and limited industrial development due to population outflows to urban centers. Furthermore, women entrepreneurs face systemic constraints, including limited access to finance, weak professional networks, and traditional social norms, all of which restrict their economic opportunities (World Bank, 2014).

(2) Japan's and JICA's Policy and Operations in MSME Sector in Türkiye

Japan's Country Development Cooperation Policy for the Republic of Türkiye (September 2018) places strong emphasis on promoting regional development and correcting regional disparities. The policy also identifies the need to enhance economic value-added and strengthen international competitiveness as future challenges.

In line with this policy, in December 2023, JICA signed a Japanese ODA loan agreement with the Government of Türkiye—up to JPY 20 billion—for the “Post-Earthquake Support Project for MSMEs,” aimed at providing liquidity support to earthquake-affected MSMEs through KOSGEB, following the February 2023 Türkiye-Syria earthquake.

The Project—aimed at improving financial access for MSMEs in Türkiye—aligns with several thematic areas outlined in JICA's “Global Agenda,” which sets out 20 strategic initiatives addressing development challenges in partner countries. Relevant agendas include No. 4: Private Sector Development (fostering private enterprise to stimulate economic growth in developing countries), No. 5: Agriculture and Rural Development (creating inclusive prosperity through agriculture and eliminating poverty and hunger), No. 13: Public Financial and Financial Systems (strengthening fiscal and financial foundations to promote economic stability and growth), No. 14: Gender Equality and Women's Empowerment (creating a society where everyone can fully realize their potential

regardless of gender). Additionally, this project is positioned under the Financial Access Facilitation Initiative (FAFI), launched in May 2023 to promote financial inclusion. Taken together, the project is well aligned with Japan's development cooperation priorities in Türkiye.

(3) Other Donors' Activities

N/A

3. Project Description

(1) **Project Description**

① Project Objective

② This project aims to improve access to finance for MSMEs in Türkiye by providing a loan to Şekerbank Türk Anonim Şirketi (hereinafter referred to as "Şekerbank" or the "Borrower"), a local commercial bank in Türkiye. The project is expected to enhance financial access for MSMEs in rural areas, contribute to job retention and creation, and help reduce the economic disparity between urban and rural regions

The proceeds of the loan will be on-lent by Şekerbank to rural MSMEs, including those located in areas affected by the Türkiye–Syria earthquake of February 2023, as well as women-led MSMEs operating in rural regions.

③ Project Beneficiaries (Target Group)

Direct Beneficiaries: MSMEs receiving loans from Sekerbank

Ultimate Beneficiaries: People employed by MSMEs and people who benefit from MSMEs services

(2) Project Cost: 149.7 million US dollars (for JICA portion, 30 million US dollars)

(3) Schedule: The loans will be fully repaid in November 2029 when the Project completion

(4) Project Implementation Structure

1) Borrower: Sekerbank

2) Guarantor: N/A

3) Implementing Agency: Sekerbank

(5) Collaboration and Sharing of Roles with Other Donors: Co-Financing with FMO and Proparco

(6) Environmental and Social Consideration

① Category: C

② Reason for Categorisation: It is judged under the JICA Environmental

and Social Considerations Guidelines (promulgated in January 2022) that the undesirable effects of the Project on the environment are minimized.

(7) Cross-Sectoral Issues: N/A

(8) Gender Category:

Gender-related Projects GI(S) Gender Activity Integration Projects
 <Details of Activities/Reason for Categorisation> In Türkiye, women entrepreneurs have traditionally faced limited economic participation due to social constraints and restricted access to finance and professional networks, stemming from male-dominated cultural norms. In addition to these longstanding challenges, the shift to monetary tightening in May 2023 has disproportionately impacted businesses with a high share of female employees, especially when compared to urban MSMEs. Furthermore, in the aftermath of the 2023 earthquake, the business environment for women entrepreneurs in the affected regions has become increasingly difficult, highlighting the urgent need for economic support. Against this backdrop, the number of loans disbursed to and the outstanding loan balance of women-led MSMEs will be set as key indicators within the JICA loan targeting rural MSMEs, to ensure the project adequately supports women’s financial inclusion.

(9) Other Important Issues: NA

4. Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (December 2023)	Target (December 2028)
1. Outstanding Loan Balance for Rural MSMEs	8,776	55,686
1-1. Of which: Outstanding Loan Balance for Rural Micro-Enterprises	2,415	15,323
1-2. Of which: Outstanding Loan Balance for Women-led Rural MSMEs	1,253	5,806

1-3. Of which: Outstanding Loan Balance for MSMEs in Earthquake-Affected Areas	1,440	6,530
2. Number of Rural MSME Borrowers under the JICA Loan	0	2,040
2-1. Of which: Number of Women-led Rural MSME Borrowers	0	850
2-2. Of which: Number of Micro-Enterprise Borrowers	0	816

(2) Qualitative Effects: Increase in Capital Investment and Productivity of Rural MSMEs, and Maintenance and Expansion of Employment.

(3) Internal Rate of Return: Since this is a bank loan project, Internal Rate of Return (IRR) is not calculated.

5 . External Factors and Risk Control

N/A

6 . Lessons Learned from Past Projects

In the ex-post evaluation of the Japanese ODA loan project “Agriculture Support Services Expansion Program” for the Philippines (Evaluation Year: 2019), it was found that although a management information system (MIS) was developed within the project, it was not utilized effectively due to the lack of integration with other core systems. This served as an important lesson learned.

In light of this, during the appraisal of the current project, special attention was paid to the credit risk management systems of Şekerbank. It was confirmed that the bank has established a preemptive alert system that statistically processes not only internal but also external data to monitor the status of each loan, triggering alerts when necessary. These systems were found to be functioning effectively, as evidenced by the declining trend in non-performing loan (NPL) ratios. Therefore, Şekerbank’s borrower monitoring and credit management framework is assessed to be adequate.

7 . Evaluation Results

This project aligns with Türkiye’s development challenges and policy priorities, as well as with the cooperation policy and analytical perspectives of the Government of Japan and JICA. It is also consistent with the content outlined above.

Furthermore, as the project contributes to gender equality and industrial development, it is expected to support the achievement of the Sustainable Development Goals (SDGs), specifically Goal 5 (Gender Equality), Goal 9 (Industrialization, innovation and Infrastructure), and Goal 17 (Partnership for the Goals). In this context, the significance of supporting such initiatives through overseas investment and lending is considered to be substantial.

8 . Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Sections 4.

(2) Future Evaluation Schedule

Ex-post evaluation is planned approximately 5 years after the LA signing .

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