

Ex-Ante Evaluation (for Japanese ODA Loan)

Japan International Cooperation Agency
Middle East and Europe Department
Europe Division

1. Basic Information

Country: The Republic of Turkey (Turkey)

Project name: Rapid Support for Micro and Small Enterprises Project

Date of signing L/A: April 15, 2021

2. Background and Necessity of the Project

(1) Current state and issues of the micro and small enterprises sector in Turkey, and the positioning of the Project

In the Republic of Turkey (hereinafter referred to as “Turkey”), micro and small enterprises (hereinafter referred to as “MSEs”) are important actors that support the Turkish economy, making up 99% of all firms in Turkey, 57% of total employment and 38% of total exports (2019, TurkStat). In Turkey, triggered by the crash of the Turkish Lira (hereinafter referred to as “TRY”) in the summer of 2018, economic activities stagnated due to an increased debt load in foreign currency by companies and rising inflation, and there was negative growth for three consecutive quarters starting in Q4 of 2018. Although the economy was on a recovering trend starting in Q3 of 2019 due to expansive fiscal and monetary policies, real GDP growth fell by 9.9% in Q2 of 2020, due to decreased production and a decline in domestic and foreign demand associated with the introduction of movement restriction measures aimed toward suppressing the spread of the novel coronavirus (hereinafter referred to as “COVID-19”) starting in mid-March of 2020. The real GDP growth in Q3 recovered by 6.7% due to support of fiscal and monetary policies, and although there is an outlook that a barely positive growth rate of 1.2% will be maintained for real GDP growth through 2020 (IMF), the inflation rate is high, and weak conditions for foreign exchange continue, and there is still a strong sense of uncertainty regarding the future of the economy.

As measures against COVID-19, the Turkish government has established strict mobility restrictions starting in mid-March 2020, when infections were first confirmed, and even issued a temporary curfew in 31 major cities. This caused supply chain disruption and lower demand, and MSEs are among the hardest hit.

In a survey conducted by the Small and Medium Enterprises Development Organization (hereinafter referred to as “KOSGEB”), which oversees planning and implementation of policies for micro, small and medium enterprises (hereinafter referred to as “MSMEs”) in Turkey, in April 2020 targeting MSMEs, 95% of such enterprises responded that are experiencing cashflow difficulties.

As measures related to COVID-19, the Turkish government announced emergency economic measures of TRY 240 billion (approx. JPY 3.7 trillion), including deferral of payments and tax relief. Through KOSGEB, emergency support such as (1) bearing costs due to deferral of bank loans, (2) financial support for SMEs, etc. that manufacture medical goods and equipment, and (3) expansion of interest support programs, etc. were implemented, and the priority of measures for MSEs in Turkey was high. However, according to KOSGEB, many MSEs that have less access to finance even during normal times faced more severe liquidity shortages to maintain business operation and employment; even just the MSEs in the manufacturing industry required \$940 million (approx. 178,000 enterprises applicable), and the fulfillment of the need for funds is a pressing issue.

Even in the “Eleventh Development Plan (2019-2023)”, measures such as improving access of MSMEs to finance, removing obstacles to the growth of MSMEs, providing the state-funded management consulting services, etc. are indicated for the purpose of further growth of MSMEs that support the Turkish economy. In addition, policies to strengthen the manufacturing industry, which is a particularly high value-added sector, are given. In “KOSGEB Strategy Plan 2019-2023”, action plans to improve production/management technology of MSMEs and to strengthen the functions and roles of KOSGEB, etc. are also indicated.

The “Rapid Support for Micro and Small Enterprises Project” (hereinafter referred to as the “Project”) is oriented as a project with high priority/urgency to support the recovery period after the end of the COVID-19 pandemic in Turkey, where MSEs have a high economic importance, and serves to maintain business operation and employment by providing liquidity support for MSEs through KOSGEB, in the form of parallel co-financing with the World Bank.

(2) Japan and JICA’s cooperation policy, etc. in the MSEs sector and the positioning of the Project

In the “Country Assistance Policy for the Republic of Turkey (September 2018)”, support to contribute to the resolution of sustainable economic growth

through reforming the economic structure is presented as part of the priority area “Strengthening cooperation with the private sector”. The Project promotes the maintenance of business operation and employment of MSEs that are innovative young firms for which there are expectations to contribute to the manufacturing industry and adding of value in particular, and aligns with the abovementioned policies and analyses. The Project is also considered to contribute to 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) of the SDGs.

(3) Approaches by other aid organizations

As support for MSMEs related to COVID-19 measures, the European Bank for Reconstruction and Development has financed a total of \$450 million to eight commercial banks. The World Bank has already provided IBRD loans (\$500 million, undertaken in September 2020) to two government-affiliated financial institutions as support for SMEs, and has also signed an L/A on March 8, 2021 for co-financing for the Project (IBRD loan, \$300 million) as highly concessional support for MSEs in even harsher conditions.

3. Project Description

(1) Project objective

The objective of the Project is to maintain business operation and employment of MSEs impacted by COVID-19 in Turkey by providing emergency liquidity support to micro and small enterprises, thereby contributing to sustainable growth of industries and economy.

(2) Project site / location

Throughout the Republic of Turkey

(3) Project components

1) Liquidity Support: An emergency liquidity support for MSEs that find it difficult to maintain business operation and employment, is carried out as performance-based reimbursable support financing (PRSF) every month for a three-month period, upon confirming that business operation and employment are maintained. Existing databases linked to the Turkish government’s e-government gateway, tax payment/social security data, etc. are used to confirm eligibility requirements of applicant enterprises and to process payments.

- Eligible MSEs: (i) MSEs that have recorded an annual income of TRY 75,000 or above in 2019; (ii) MSEs that have no overdue tax and social security contributions; (iii) MSEs that have a loss of 25 percent or more in income over the first five months of 2020. MSEs in (i) and (iii) are not applicable for Innovative Young Firms established in 2017 or later under KOSGEB support program, and only those in (ii) are applicable.

- Sector: Manufacturing sector (Innovative Young Firms include computer programming sector and scientific R&D sector)

- Payment amount: A certain amount depending on the business scale is planned on being paid in three installments, with the objective of compensating for wages, fixed costs (rent, utilities, etc.), etc.

- Payment period: May to December 2021

- Repayment period: Repaid in six installments within 24 months, after three years of receiving the financing. Although the repayment period can be extended, if there is no repayment even after the extension, all due installments will be collected through legal means, and the unpaid amounts will ultimately be covered by the Borrower.

2) Technical Support to Project Implementation Unit: Procurement of data storage unit, , and employment of specialits for IT, financial management, monitoring/evaluation, etc..

(4) Estimated project cost

\$622.62 million (of which, \$300 million (equivalent to JPY 31,800 million) is eligible for yen loan)

(5) Project implementation period

Planned for April 2021 to December 2021 (9 months in total). The Project will be completed upon completion of disbursement (December 2021).

(6) Project implementation structure

1) Borrower: Small and Medium Enterprises Development Organization of Turkey (KOSGEB)

2) Guarantor: The Government of the Republic of Turkey

3) Executing Agency: Small and Medium Enterprises Development Organization of Turkey (KOSGEB)

4) Management agency: Small and Medium Enterprises Development Organization of Turkey (KOSGEB)

KOSGEB is an agency under the Ministry of Industry and Technology that promotes and supports MSMEs and all expenses required to implement

the Project are planned on being covered in whole by the Turkish government's budget. In implementing the Project, a Project Implementation Unit (hereinafter "PIU") pertaining to the Project is established within KOSGEB, and will be responsible for implementation and supervision of IBRD loans and JICA loans. In view of the urgency of the Project, there are plans to coordinate with the World Bank to standardize/simplify the procedures necessary to implement the Project to the extent possible, and encourage strengthening of capabilities while alleviating the workload of the PIU. Since the operational/effectiveness indicators related to supply of liquid funds are aligned with those of the World Bank, there are plans for the portion of World Bank loans to be monitored jointly. However, with regard to support related to strengthening the funding system, the contents of support differ for each, and thus, reporting and monitoring are planned on being performed separately.

(7) Coordination and division of roles with other projects and aid organizations

1) Japan's assistance activities

JICA has supported improvement of the quality of consulting services implemented by KOSGEB for MSMEs through JICA's Technical Cooperation for Development Planning "SME Consultancy System Project" (FY2010 to FY2012). Based on this Cooperation, KOSGEB has built an SME consultant qualifications system, and has started operation of this system in February 2021. MSMEs that include those eligible for support under the Project will be receiving consulting services oriented toward medium- and long-term growth through the SME consultancy in the abovementioned system.

In addition, starting in March 2021, data collection survey is underway to examine the possibility/direction of further technical cooperation in the SMEs sector; in such survey, there are plans to also examine ideal support that contributes to continuation/expansion of the effects of the Project.

2) Aid activities by other aid organizations, etc.

The Project is a parallel co-financing project (IBRD loans, \$300 million) with the World Bank, and is planned on being implemented in close coordination with the World Bank.

(8) Environmental and social considerations, cross-cutting issues, and gender categories

1) Environmental and social considerations

① Category: C

② Reason for categorization: The Project is considered to have minimal

adverse impact on the environment as per JICA Guidelines for Environmental and Social Considerations (published in April 2010).

2) Cross-cutting issues: None

3) Gender categories: GI (S) (Gender Informed (Significant) Project)

<Activities/Reason for categorization> 10 percent of total PRSF will be earmarked for women-owned MSEs (same as IBRD Loan)

(9) Other special notes: None

4. Effect of the Project

(1) Quantitative effects

Outcomes (operation and impact indicators)

Indicator	Baseline (Actual value in 2020)	Target (2022) [1 year after Project completion]
Share of beneficiary MSEs that survive the COVID-19 crisis for at least six months after receiving performance-based reimbursable support financing (%)	0	65
Share of beneficiary innovative young firms that survive the COVID-19 crisis for at least six months after receiving performance-based reimbursable support financing (%)	0	50
Share of beneficiary surviving MSEs that maintain employment at the level recorded in March 2020, for at least six months after receiving performance-based reimbursable support financing (%)	0	70

(2) Qualitative effects

Improvement of financing scheme for MSEs, sustainable growth of industries and economy in Turkey.

(3) Internal rate of return

Internal rate of return cannot be calculated because it is not possible to identify beneficiary MSEs.

5. Prerequisites and External Conditions

(1) Prerequisites

None

(2) External conditions

The Turkish government's policies related to supply of liquid funds do not change.

6. Lessons from Similar Past Projects and Application to the Project

In Ex-post evaluation results (evaluation year: FY2011) for emergency budget support loans to the Philippines, Indonesia and Vietnam, it is indicated that the timing at which to provide support is extremely important to increase effects as a response to an economic crisis. It is also indicated that in addition to simplifying the application/payment procedure, it is preferable to establish a maneuverable and flexible mechanism.

With regard to the Project, the Turkish government seeks a quick response as emergency support, based on the fact that MSEs are facing further grave conditions due to the spread of COVID-19. A demand for funds by MSEs and demarcation of role and a complementary relationship with other emergency economic support measures by the Turkish government are confirmed. Since digitization of the government has progressed, the prompt utilization of existing databases, etc. for the application procedure by enterprises and for confirming qualifications and processing payments by the implementing agency is anticipated.

7. Evaluation Results

The Project aligns with the development issues/policies in the MSE sector in Turkey, as well as with the cooperation policies/analyses of Japan and JICA, and contributes to the maintenance of business operation and employment of MSEs in Turkey through supplying liquid funds for such MSEs. Accordingly, as the Project is also considered to contribute to 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) of the SDGs, the necessity to support the implementation of the Project is high.

8. Future Evaluation Plan

(1) Indicators to be used in future evaluation

As specified in 4.

(2) Future evaluation schedule

Ex-post evaluation one year after completion of the Project