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CIVIL G20 TURKEY REPORT[2]

In the aftermath of 2001 economic crisis the Turkish economy experienced unprecedented growth achieving an average annual real GDP growth rate of 5.2% between 2002 and 2011.[3] Favorable economic conditions fueled by growth led to improvements in labor market indicators; formal employment expanded while per capita income between 2002 and 2011 rose from 3,500 USD to 10,500 USD. Meanwhile inequality, as measured by the Gini coefficient[4], dropped by 8.1 percentage points between the mid-1990s and late 2000s (2007) (OECD, 2011b).

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[3] The Turkish economy was Europe's fastest growing economy in 2011 expanding at a 8.5 percent rate. According to OECD's projections Turkey will continue to be the fastest growing economy amongst OECD members during 2011-2017, with a predicted annual average growth rate of 6.7 percent.

[4] Different methods have been used to calculate the Gini coeffi cient over time and by different countries and different organizations. For instance, earlier inequality studies in Turkey showed inequality between households and not individuals. Starting with TUSIAD in 1987 disposable income per adult equivalent was used to calculate inequality. Furthermore, Gini scores are calculated using different equivalance scales for household members such as household size (HS), OECD, Eurostat and Oxford. The Turkish Statistical Institute (TurkStat) uses the OECD modified scale, which gives a weight of 1.0 to the first adult, 0.5 to the second and each subsequent person aged 14 and over, and 0.3 to each child aged less than 14 in the household. Since TurkStat data is most available for Turkey, OECD country data will be used to compare with other countries where available.

In spite of substantial progress, Turkey faces a high rate of inequality when compared to other countries in the world. In 2011 the top 20% income group of Turkey's 74 million population accounted for approximately 45.2% of national income while the bottom 20% income group accounted for only 6.5%. There are deep income gaps between regions as well as between rural and urban areas. Furthermore, informal employment without access to social benefits is as high as 38.4% (as of January 2012) with 82.8% of agricultural employment in the informal sector (The Turkish Statistical Institute, 2012a). Turkey is also behind on human development indicators (HDI). Access to income generating opportunities such as education is low and inadequate especially for children coming from lower income groups (particularly from developing regions and rural areas). The Turkish tax system largely relying on indirect consumption taxes accentuates imbalances in income distribution rather than contributing to social welfare. The government has taken various measures in the past few years to channel investments to developing regions and to the agricultural sector and to create employment opportunities. Revamping of the education system has also been central to the government's efforts and has resulted in expanding enrollment in all levels of education and of female students. Yet drop-out rates for children from developing regions continue to be high and low quality in education persists.

Income Distribution and Poverty Trends in Turkey

Income inequality in Turkey has generally been declining over the past few decades. Mukhopadhaya (2004) study of global inequality trends between 1950 and 1998 showed that Turkey was one of the countries in the second highest Gini score group (also including Argentina, Venezuela, Malaysia) with an average Gini score between 0.45 and 0.5 (Mukhopadhaya, 2004). Taking a closer look at changes over time, the Gini coeffi cient declined from 0.56 in 1968 (Bulutay & Ersel, 1971) to 0.43 in 1987(SIS, 1990) but went up in the aftermath of market reforms of the 1980s reaching 0,49 in 1994 (SIS, 1996).[5]

However, the Gini score declined at a faster rate since the mid-1990s than it had increased between the 1980s and 1990s. Turkey was one of the few OECD countries for which income inequality experienced an overall drop between the mid-1980s and late 2000s. Between 2006 and 2011 the Gini score was on average 0.4132 and 0.40 in 2011. The decline in the Gini since 2002 is captured in a decline in the quintile income dispersion ratio[6], which expresses the income of the rich as multiples of that of the poor,

[5] While similar reform policies led to increases in income inequality in many OECD countries, the effects on middle and low income groups were most pronounced with the three middle income groups share of GRP falling more than in any other OECD country between the 1980s and 1990s. Furthermore the lowest income group's share fell more than any other OECD country except for Italy and New Zealand although the increase in the GRP share of the highest income group was not as striking as was for most OECD countries (OECD, 2008).

[6] The average income of the richest 20 percent of the population divided by the average income of the bottom 20 percent.

falling from 9,5 in 2006 to 8,1 in 2008 and 8 in 2011.[7] With income inequality declining, the share of national income of bottom and middle earners has gone up. From 2002 to 2011, the share of national income earned by the top 20% fell 9,6% (from 50 to 45.2%). Meanwhile, the poorest 20% saw its income share grow 22,6% (from 5,3 to 6,5%). On the other hand, income for the majority of the population in the middle 60% grew just 8,5% (from 44.6 to 48.4%) (The Turkish Statistical Institute, 2011b).

Yet, inequality in Turkey, measured by the Gini coefficient, is higher than those in developed nations, and even in some developing countries such as India, Indonesia and Russia. In the late-2000s Turkey ranked third highest for income inequality amongst OECD countries (after Mexico and Chile). This notwithstanding the fact that between the mid-1980s and late 2000s, household incomes in Turkey increased at a faster rate for the bottom deciles; in the same period, household incomes in most OECD 27 countries increased faster at the top deciles (OECD, 2011d)[8]. At the same time, Turkey shows a lower rate of inequality when compared countries with similar GDP per capita levels e.g. China, Argentina, Mexico, Brazil and South Africa (*See* Annex 1).

Improvements in income distribution led to a decline in income poverty measured in absolute terms. The share of population living under 1 USD per day has been down to zero since 2006. From 2002 to 2011, the population living below 2.15 USD fell from 3.04% to 0.14%. Similarly, the share of the population living below 4.3 USD per day fell from 30.3% to 2.79%. Food poverty and complete poverty (food + non-food) rates have also fallen since 2002. 339 thousand (0.48% of the population) and 12.75 million (18.08% of the population) persons continue to suffer from food poverty and complete poverty, respectively. These percentages are very high for rural areas with 1.42% and 38.69%, respectively (The Turkish Statistical Institute, 2011a).

The poor performance of the rural economy facing cuts in government subsidies in the aftermath of the 2001 Turkish economic crisis affected relative poverty rates. These increased (based on expenditures)considerably between 2002 and 2009 (from 14.74% to 15.12%) due to a sharp increase in the relative poverty of rural areas from 14.34% to 34.20%[936] (The Turkish Statistical Institute, 2011a) In terms of relative poverty, Turkey is above the OECD average of 11.1% (OECD, 2011c).

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[7] Along with the Gini coefficient which went up in 2009, the quintile ratio also rose to 8.5.

[8] The Average annual income change was 0.8% for the bottom decile and 0.1% for the top decile. The only other countries for which incomes for the bottom deciles increased at a faster rate were Belgium, Chile, France, Greece, Ireland, Portugal and Spain

[9] There was a fall in the share of relative poverty in urban areas by 4.74% points.

Income Distribution amongst Regions

In Turkey, income distribution is extremely uneven among regions; the more prosperous regions are in the West and poorer regions are in the East and North-East. Dividing the Turkish territory into 12 areas (Statistical Region Level 1)[10] – excluding Istanbul – the top shares of Gross Value Added (GVA) range between 13.8% and 10.4% for four rich regions in the West and the rates tumble down to a very low share between 4.9% and 1.5% for the remaining seven regions (generally in the East but also in West Marmara). The Istanbul region is by far the most prosperous of the nation contributing alone for a 27.7% of the domestic GVA. Western regions of Aegean and East Marmara, are second and third in their share of GVA, respectively. The poorest region are North-East Anatolia, Central East Anatolia and East Black Sea (The Turkish Statistical Institute, 2007 – 2008)[11] (*See* Annex 2).

Regional differentiation is also manifests in income per capita. South-Eastern Anatolia has the lowest average income with USD 2870 – almost half the Turkey's average of USD 5700 and almost a third of the richest Istanbul region (USD 7870) (The Turkish Statistical Institute, 2011 b). However, the level of income per capita does not always move in parallel with GVA (e.g. West Marmara has relatively high income per capita but low GVA and South East Anatolia performs better on its GVA than income per capita level).

South-East Anatolian region also has the highest number of poor and regional poverty rate of 3,749 thousand persons and 32.3%, respectively, when relative poverty is calculated according to the national poverty line.[12] Similarly, Central East Anatolian and Mediterranean regions have 1,548 thousand and 1,410 thousand persons living under the national poverty line, respectively. Wealthy regions such as Istanbul and the Aegean have far fewer poor persons (446 thousand and 706 thousand, respectively) (The Turkish Statistical Institute, 2011 b).

Any evaluation of inequality in Turkey has to take into account the signifi cant regional variations in income and in consumption capacities. Hence, purchasing power parities that assume homogenous consumption patterns across the country may have a distorting effect on price levels in different regions. Regional poverty thresholds that are calculated according to regional poverty lines, however, point to a different picture. Above all, such calculations show that industrialized regions such as Istanbul and the

[10] The 12 regions are: Istanbul, West Marmara, Aegean, East Marmara, West Anatolia, Mediterra-nean, Central Anatolia, West Black Sea, East Black Sea, North-East Anatolia, Central-East Anatolia and South-East Anatolia (Turkey Statistical yearbook, 2004)

[11] Dividing the country into 26 regions (statistical region level 2) second to Istanbul is the Turkish capi-tal of Ankara (in the Western Anatolian region) contributing a share of 8,5% GVA followed by Bursa, Eskişehir and Bilecik in East Marmara (located in Western Turkey) contributing 6,6%. Ağrı, Kars, Iğdır and Ardahan in the North East Anatolian Region add as low as 0.6% to the national GVA.

[12] Measured 50% of the national median equalized disposable income.

Aegean have more persons living under the poverty line. Also, for Eastern and the Mediterranean regions the numbers for the poor are lower when calculated with respect to regional poverty than if calculated with respect to national poverty line (The Turkish Statistical Institute, 2011 b) (See Annex 3).

Considering the Gini coefficient with respect to regions, presents an even more puzzling and complicated picture. While the lowest Gini index – 0.326 and 0.327 – recorded for the East Marmara and East Black Sea regions, respectively, correspond with low relative poverty levels (in relation to both national and regional poverty lines), the Western Black Sea region with the third lowest Gini score, has high relative poverty rate (in relation to the regional poverty line). On the other hand, the East Central Anatolia, which has the highest Gini index – 0.427 – well above the national value of 0.404, has high relative poverty and one of the lowest income per capita levels. (The Turkish Statistical Institute, 2011b).

Different arguments have been put forth regarding the relation between income levels and inequality. Dayioglu and Baslevent (2005) argue that high income regions that receive migration have more inequality than migrant –sending low income regions (Dayioglu & Baslevent, 2005). This argument holds true for relatively high income regions such as the Mediterranean and Aegean regions that also have high Gini index scores – 0.404 and 0.397, respectively. On the other hand, the Eastern Black Sea with a relatively high income per capita – just below the national average – has the lowest Gini index of 0.326. Similarly, Istanbul with the highest average income per capita, has a relatively low Gini index of 0.371 and Central East Anatolia with the second lowest income per capita has the highest Gini score (See Annex 4).

This picture suggests that neither GVA, income per capita nor poverty are exhaustive enough to explain inequality in Turkey. Inter regional inequality is multi-faceted and the overall income inequality among regions should be assessed looking at conditions and opportunities including for employment and education.

Employment

Employment trends in Turkey, although improving in the past decade, are worrisome further aggravating income gaps, poverty and regional differentials. Of persons aged 15 to 64 only 44.9% had a paid job in December 2012 (The Turkish Statistical Institute, 2012a), which is lower than the OECD employment average of 66% (OECD, 2011c).

Agriculture with its low-productivity is still one of the most important sectors of the labour force while contributing a small share to households' income. In 2012 employment in the agriculture sector comprised 24.6% of total national employment. Agricultural employment was almost or more than double the national average for Eastern Black

Sea and North Eastern, Central Eastern Anatolian regions but also high in Western Black Sea as well as in Aegean and Mediterranean regions. On the other hand, industrial employment was high in Western provinces as well as above the national average in South Eastern Anatolia (The Turkish Statistical Institute, 2012a) (*See* Annex 5).

Furthermore, female and informal employment are more prevalent in the agricultural sector; 17.7% of men were employed in the agricultural sector compared to 35.6% of women. The share of unregistered workers in the labor market without any social security is 37.4% of which 84% were in agricultural employment and 23.5% in non-agricultural employment. The unequal distribution of work between men and women in agriculture is even more emphasized in informal employment where the share of male workers is 73.1% to 96.8% female employment (The Turkish Statistical Institute, 2012a).

On the other hand, unemployment rate in agriculture stood at 10.1% in 2011 while non-agricultural unemployment rate was 12.4% (possibly due to the fact most agricultural employment being informal). Youth unemployment rate was as high as 19.8% (The Turkish Statistical Institute, 2012a).

Human Development and Access to Opportunity

Human Development Indicators

In Turkey poor people often lack resources such as financial capital, quality education and basic health services to improve their human capital, generate income and get out of poverty. Turkey's Human Development Index (HDI) value was 0.722 in 2012. Between 1980 and 2012 the HDI progressed from 0.474 to 0.722 – an increase of 52% – and the country passed onto the high human development category. Most of the rise in the HDI was due to a growth in GNI per capita increasing about 133% between 1980 and 2012 (UNDP, 2013).

Life expectancy also increased significantly during the same period by 17.7 years reaching about 74 years in 2012, though still about six years lower than the OECD average of about 80 years. Life expectancy for women is better at 77 years, compared with 72 for men (OECD, 2012a).

Although Turkey outperforms other high human development category countries for GNI per capita and life expectancy rates, the country's poor performance in education is a drag on the country's HDI value which remains below the average of 0.758 for these countries (UNDP, 2013).

Turkey's HDI value is also behind the 0.771 average for European and Central Asian countries. Furthermore, when Turkey's HDI value of 0.72 is discounted for inequality, it falls to 0.56, a loss of 22.5%. Losses in potential human development due to inequality is largest for inequality in education – falling 27.4% – followed by losses due to inequalities in income and life expectancy at birth of 26.5% and 12.8%, respectively (UNDP, 2013).

Access to Education

In Turkey, there are income differentials among persons with different levels of education, and having education is an important prerequisite for finding a job. According to TurkStat's Structure of Earnings Survey (2010), earnings of workers increased with higher level of educational attainment and workers with the highest degrees in education received highest earnings and worked the least contractual hours per week. Furthermore, access to and equity in educational opportunities holds the key to understanding why some groups and regions fi nd it difficult to improve their incomes and growth conditions, respectively.

In Turkey 33% of adults aged 25-64 have the equivalent of a high school degree, much lower than the OECD average of 74%. This is truer of men than women:
35% of men have successfully completed high school compared with 26% of women (OECD, 2011a). Notwithstanding, Turkey has made significant progress in providing access to education between 2000 and 2011 when net enrollment rates increased for all levels of education. The country almost achieved universal primary school enrollment with a 98.67% net enrollment rate as of 2011/12 and secondary and tertiary education enrollment reaching 67.37% and 35.51%, respectively (The Turkish Statistical Institute, 2013) [40] However, the rate of transition to secondary education is still insuficient, due to drop-out rates in the primary schooling. Gökşen, Cemalcilar, and Gurlesel (2006) found that the cumulative drop out rates for primary education for the period 1997–2005 was 14.7% (Cemalciler & Gökçen, 2012).

Studies have pointed to fi nancial limitations of households in explaining the growing gap between the educational expenditures of rich and poor households. Duygan and Guner's (2005) study focusing on bottom and the top income groups, showed that there is a negative relation between low income and education levels (Duygan & Guner, 2005; Duman, 2008). In 2005 more than half of the overall population and the poorest 20% income group, stopped their education at the primary level and only 8,05% and 0,47%, respectively, reached the higher education level. On the other hand, 26,84% of the richest 20% income obtained a higher level education.

Table 1. Education of Head of Households of Rich and Poor Income Groups and Overall Population (2002)

	Pre Primary (%)	Primary (%)	Secondary (%)	High (%)	University (%)
Poorest 20%	30.05	58.24	7.03	4.2	0.47
Richest 20%	5.39	35.89	8.54	23.33	26.84
Overall Population	14.92	53.26	9.57	14.21	8.05

(Duygan & Güner, 2005)

Furthermore, Caner and Okten (2012) show that children coming from privileged social and economic backgrounds are more likely to succeed in the highly competitive nationwide university entrance exam[13] and get admission to the most prestigious public universities, thus, receive higher subsidies from the government (Caner & Okten, 2012).[14] Also given a low quality of primary public education family background becomes even more important.[15]

Furthermore, although the regional gap in access to education has improved, enrollment continues to vary signifi cantly across regions. Regional disparities in net schooling rates are significant with some western provinces of Turkey showing a net schooling rate of around 90%. This rate drops to around 30% in some eastern provinces (ERG, 2010). For example, for Central Eastern Anatolia the net enrollment rate for primary education as of 2011-12 is 94.1% whereas it is almost 100% for western regions including Istanbul (99,4%) and West Marmara (99%) (ERG, 2010).

Recent studies have also emphasized internal migration dynamics in the last 15 years as a reason for high drop-out rates (Gökşen & Cemalcilar, 2010). These have pointed to tensions in the southeastern regions of Turkey that led to the displacement of people resulting in the loss of 'traditional' lifestyles based on agriculture. Populations that did

[13] About 1.2 million students attended private tutoring courses in 2011-2012 (ERG, 2010).

[14] Duman (2008) also points to the shift of government expenditures away from primary and secondary education towards tertiary education, which in turn lowers the chances of poor households utilizing the latter services.Public spending per student in 2011 for primary, secondary and vocational education was USD 1,580, USD 1,450 and USD 1,010, respectively (ERG 2010). There is no data available for spending per student at the tertiary level.

[15] The average Turkish student scored 454 in reading literacy, maths and science in the OECD's Pro-gramme for International Student Assessment (PISA) 2009, ranking 32nd out of 34 OECD countries.

not have the right skills under new labor market conditions were pushed into informal and irregular work and families with limited financial means could not send their children to school (Yukseker et al., 2007)[16]. In many instances children were compelled to work to contribute to family income.

Disparity in educational levels between men and women is also recorded. Gender Inequality Index (GII) reflects gender-based inequalities in education with 26.7% of adult women reaching secondary or higher level education compared to 42.4% of their male counterparts (UNDP, 2013). Education data for 2011/12, however, shows a narrowing of the gender gap: female to male ratios for enrolment in primary, secondary and tertiary education are 100.41%, 93.29% and 87.38%, respectively (Turkish Statistical Institute, 2012b).

Women in rural areas were at a greater disadvantage when compared to their urban counterparts; urban and rural primary enrollments for women standing at 94% and 90.6%, respectively, in 2010. For secondary education the difference was even starker with 41.1% and 64.7% enrolled from rural and urban areas, respectively. There is also a sharp urban – rural divide for males in secondary enrollments (53.6% in rural and 67.5% in urban) although it is not as high as for females (ERG, 2010). Finally, research points to the positive influence of mother's education at any level for female students (Caner & Okten, 2012).

Government Policy

Impact of Tax Policy on Inequality

In Turkey, the overall reduction in income inequality after taxes and transfers is less than for most OECD countries with the Gini Coefficient falling slightly from 0.464 to 0.409 (for the late-2000s). The OECD-wide inequality in income after taxes and transfers, as measured by the Gini index, was about 25% lower than for income before taxes and transfers in the late 2000s. Furthermore, according to the OECD figures (based on the 50% mark; in the late 2000s) 22% of the Turkish population were relatively poor before taxes and transfers and 17% were poor after taxes and transfers. Almost all OECD countries have higher percentages of relative poverty than Turkey before taxes and transfers and much lower after taxes and transfers. The USA and Mexico are the only two OECD countries that have higher percentages of relative poverty after taxes and transfer (OECD, 2012b).

The impact of taxes and transfers on income inequality depends on their size, mix and progressivity (Joumard et al., 2012). In Turkey the tax to GRP ratio at 25.7% was

[16] Yukseker et al. (2007) also argues that due to fi nancial constraints families had to choose which of their children to send to school in which case the daughters were often eliminated.

significantly lower than the OECD average of 33.8% in 2010 (OECD, 2013). Furthermore, the Turkish social security system comprises of cash transfers which are largely insurance based (e.g. pensions) with an aim to preserve former income levels and have little redistributive impact (OECD, 2012c) On the other hand, in kind transfers (in health and education) – which could enhance equality – as a share of GRP remain low.

Another feature of the Turkish tax system which limits its redistributive impact is that it relies heavily on the regressive consumption tax while taxes on income make up a small share of total taxes. In fact the tax revenue from personal and corporate income taxes declined from 7.1% of GRP in 2000 to 5.9% in 2011. The 2010 figure was 5.6%, half the OECD average of 11.3%.(Joumard et al., 2012) On the other hand, the share of consumption tax – taxes on goods and services – in total tax revenues increased from 36% in 1985 to 42% in 2000 and 48.4% in 2010 making indirect taxes the main source of tax revenue in the government budget with the percentage share of the direct taxes (on income) declining over time (OECD, 2012b). Today, the percentage share of taxes on goods and services is the highest amongst the OECD countries (the OECD average is about 33.1%); the income tax revenue is much lower than for the OECD average (OECD, 2012b). In this sense, Turkey represents a typical developing country, which has limited coverage of direct taxes and a predominance of domestic indirect taxes in its tax policies (Chu et al, 2000).

The redistributive impact of indirect taxes – taxes on goods and services – are typically regressive, with the poor paying a larger portion of their incomes in tax than the rich. In Turkey, in order to counteract the regressive impact of the indirect VAT tax on consumption goods, differential lower rates are applied to subsistence goods, i.e. 1% on raw food, 8% on processed food, and 18% as the standard rate. There is also the Private Consumption Tax (PCT), an excise tax for luxury goods. The PCT is not levied as widely as the VAT, however, its share in total indirect tax revenue is higher than that of VAT. Another excise tax is the Private Communication Tax (PCOT) levied on all types of installation, transfer and telecommunication services provided by mobile phone operators.

Studies on Turkish tax policy indicate that the tax system, which relies on the consumption tax, increases inequality and poverty in Turkey, particularly in Eastern and Southeastern regions where poverty is more extreme (Gökşen et al., 2008; Albayrak, 2010) Albayrak (2010) argues that indirect taxes will keep having a negative impact on inequalities in Turkey and that to reverse this trend would depend on the government's ability to expand the tax base for progressive direct taxes on income by decreasing informal employment and tax evasion (Gökşen et al., 2008; Albayrak, 2010).

Social Security System

The Turkish social security system has undergone major reforms in the past few years. The objectives behind these reforms were to reorganize administration of the social insurances (pensions)[17] and non-contributory schemes (for people who are not participating in the social insurance system as well as some professional groups) as well as to introduce an universal health insurance scheme (including the Green Card system covering uninsured persons).[18]

Social Insurance and Universal Health Insurance Law (Law No 5510)

Health insurance scheme has a universal reach extending to all citizens including those who are uninsured (see below). Social insurance, however, are open only to insured individuals and their dependants. Of the 73 million people of Turkey's population, around 16.2 million (in 2011) or 22% of the population are economically active contributing to the social insurance system. In 2011 the total number of persons who were insured, their dependants and the social security beneficiaries exceeded 61 million persons or approximately 83% of the population. There are approximately 12 million people who have no insurance (Coucheir & Hauben, 2011).

The Social Insurance and Universal Health Insurance Law also enlists some categories of individuals who are not considered to be insured persons. This means that they are exempt from the compulsory social contribution payments. The law, however, is not clear to what extent these persons have or do not have access to social insurance benefits, for instance, for those who are defined as uninsured persons – such as temporary domestic workers or a low-income temporary workers in the agricultural sector. It is not at all clear whether these groups can benefit from the temporary or permanent incapacity provision of the law in case of accident at work place (Coucheir & Hauben, 2011).

Furthermore, there are significant regional variations in social insurance benefits: in the Eastern provinces of Agri, Hakkari, Mardin, Mus, Sanliufa and Van less than 10% of the local population have social insurance as opposed to more than 30% in the provinces of Ankara, Antalya, Muğla and Tekirdag. In fact, 10 out of 81 provinces make up for 64% of insured employees with Istanbul alone counting for 30% of insured persons. With respect to gender 24% and 76% of females and males are insured respectively. These trends support the fact that there is a higher informal employment in the East (as

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[17] Prior to the reforms three main professional groups (employees, self-employed persons and civil servants) were under separate legislation and different public institutions. In 2006, the Social Secu rity Institution (SSI) was established merging the three main institutions governing social insurances under one administrative umbrella.

[18] In 2008 the Social Insurance and Universal Health Insurance Law became fully enforced aiming to create a unifi ed compulsory social insurance and medical insurance system for all workers irrespec-tive of their status as civil servant, employee or self-employed.

opposed to the West) and amongst women (as opposed to men) (Coucheir & Hauben, 2011).

Unemployment scheme

The Unemployment Insurance Law (Law No. 4447) was enacted in 1999 and put into force in 2000. The Turkish Employment Agency (ISKUR) provides unemployment benefi ts and Universal Health Insurance premium payments (as required by Law No. 5510). The agency is also responsible for providing services in finding employment, for occupational and vocational training for unemployed insured persons (OECD, 2011f) Unemployment Insurance scheme is compulsory.

The unemployment insurance scheme is open to employees only, hence, it does not cover the self-employed or the civil servants. Employees that have a minimum employment record of 600 days in the past three years before job loss, of which, a minimum of 120 days accumulated in the past year are qualified. The duration of the benefits range between 6 to 10 months depending on the length of employment – thus depending on their contribution to the unemployment insurance scheme. The benefit is only 40% of the average of income in the last 4 months of employment but cannot exceed 80% of the official minimum wage for employees over 16 years old (YTL 665.18 or USD 352 USD per month) and cannot fall below YTL 332.59 per month (USD 189)[19][20] (OECD, 2011f).

In effect, the unemployment insurance scheme has a low coverage rate with the number of beneficiaries of the scheme considerably low compared to the overall unemployment rate. For instance, when the unemployment rate hit 14% of the labour force during the economic crisis in 2009, less than half a million people were entitled to an unemployment insurance benefit (Coucheir & Hauben, 2011). This is largely due to the fact that eligibility requirements for unemployment benefits are extremely stringent (Ercan, 2011).

Furthermore, given that half the Turkish labor force is employed in the informal sector, the pressing challenge relating to unemployment benefits lies in formalizing employment which would increase the unemployment insurance coverage base and ensure all who are unemployed benefi t from the scheme (Ercan, 2011).

Notwithstanding, although the Turkish unemployment benefit system may not be generous in terms of coverage, there are transfer programmes that are not registered in national statistics. For instance, municipalities in certain cities provide benefi ts in kind and cash (i.e. they administer programs which distribute aid packages of coal and

[19] Article 39 of the Labour Law No. 4857.
[20] December 2011 exchange rate from YTL to USD taken from Turkish Central Bank website

food) for citizens in need. However, expenditure statistics for these are often absent (Ercan, 2011).

Non-contributory schemes

The non-contributory system refers to benefits that are financed out of taxation and provided to people who are not in the social insurance system. These schemes are often needs based and aim at poorer families.[21] There are also non-contributory benefits designed for special categories of professionals based on the recognition of specific risks or certain professional achievements (i.e. the military, teachers working abroad and successful athletes).

Furthermore, the Green Card System (Law No. 3816) addresses the poorest in need under the universal health insurance scheme. Those who are eligible are those with income per member of the household below 1/3 of the minimum wage. At the beginning of 2011, there were about 9.5 million people benefiting from a green card. In terms of regional spread, 22 out of the 81 provinces count for more than half of the total number of green card holders. In some provinces, mostly poverty sricken regions, almost half of the local population (Bingol, Bitlis, Hakkari, Sirnak) or more than half (Agri and Van) is benefiting from a green card.

Non-wage Labour Cost Reductions: Creating Employment

Since 2008 the Turkish government has undertaken initiatives to reduce non-wage labour costs in order to increase employment and reduce informal work. Some of these reforms are discussed below.

General reductions to social security contributions of employers: Employers' social security contributions for disability, old age and death were reduced from 19.5% to 14.5% of the gross wage. The 5% gap was covered by the Treasury and recipients of these benefits were not affected (OECD – ILO, 2011).

Targeted reductions for hiring women, youth and the long-term unemployed: For women and youth, who were registered as unemployed for at least 6 months and hired between May 2008 and May 2010, the employer's share of contributions were paid by the Unemployment Insurance Fund (UIF). The payment was for a period of five years contributing 100% the first year and then coming down to 20% by the fifth. In 2009 and 2010 61,615 and 63,230 jobs were created respectively (more than half were for

[21] The two laws that regulate the safety net for the poorest are Law No. 2022 – Pensions for the destitute and desolate people above 65 and Persons with Disability (PwD) – and Law No. 3294 – the Fund for promoting Social Assistance and Solidarity: – which provides social assistance cash for the poor.

women). Also for hiring all persons who were unemployed for three months, social security contributions were covered by the UIF for a period of six months. Other targeted programmes have been introduced which cover employer contributions for a period ranging from 6 to 54 months depending on the employee's age, status and qualifications (OECD – ILO, 2011).

Reductions for workers in training and R&D: Employers who provide vocational training to employees benefit from lower social security contributions. Furthermore, half of the employer's contributions are reimbursed for hiring employees in technology and R&D fields for a period of fi ve years. In 2011, 21, 647 research workers were hired under the programme (OECD – ILO, 2011).

Investment Incentives to underdeveloped regions: For the past few years, the Turkish government has created incentive schemes to attract investment to less developed regions; most signifi cantly, the Regional Investment Incentives Scheme, which is specifically directed towards regional development, but also including the General Investment Incentives Scheme, Large-Scale Investment Incentives Scheme and Strategic Investment Incentives Scheme that provide benefits to companies investing in underdeveloped regions (Ministry of Economy, 2012).

The Regional Investment Incentives Scheme aims to eliminate interregional imbalances and was first introduced in 2004 to employers in textile, clothing and leather industries. The employers, social security contributions were reduced in exchange for moving their business from developed to less developed regions. Reductions were extended to all sectors in 2007 and the requirement to transfer from developed regions was eliminated (OECD – ILO, 2011).

Support instruments for employers under the Regional Investment Incentives Scheme include corporate tax reductions from 20% to 5% for a period of five years, subsidized interest rates on loans, exemptions from VAT and customs duties for the procurement of machinery and equipment as well as social security premium support for employer and employee's shares. Reduction in non-wage labour cost whereby the state covers social security contributions for workers is of particular importance for resolving immediate employment issues in underdeveloped regions. The rates of support, are differentiated according to the level of development of the six regions with Region 1 representing the most developed major industrial cities in Western Turkey, Region 6 representing the least developed cities in Eastern Turkey (with the esceptions of Bozcaada& Gökçeada in the West).[22]

[22] Region 1 cities are Ankara, Antalya, Bursa, Eskişehir, Istanbul, Izmir, Kocaeli and Muğla.

Region 2 cities are also western cities of Aydın, Bolu, Çanakkale (except for Bozcaada & Gökçeada), Denizli, Edirne, Isparta, Kayseri, Kırklareli, Konya, Sakarya, Tekirdağ and Yalova.

The scheme led to the creation of 626,649 jobs in 2009, 722,891 in 2010 and 730,000 in the first two months of 2011 costing the Turkish government 322 million and 402 million euros in 2009 and 2010, respectively (OECD – ILO, 2011). Annex 6 government investment incentives for different regions.

Conclusion:

Inequality and Poverty. The Turkish economy has experienced signifi cant growth in the past decade while inequality measured by the Gini coefficient has dropped. Progress in income distribution has also led to a decline in poverty measured in absolute terms. Yet, poverty remains high in rural areas. Cuts in the government subsidies to agricultural production that were not accompanied by high levels of capital investments in this sector, are among the causes of the increase in the relative poverty of rural areas.

Uneven income distribution among regions. In Turkey for a very long time the regions in the Western part of the country were more prosperous, more developed than those in the East. Recently measures taken by the government have helped to reverse this pattern. Most significantly, the government measures seek to create employment through incentive schemes which provide benefits to companies investing in underdeveloped regions.

Labor Force in Agriculture. Agriculture with its low-productivity is still an important sector for employment (23% of total employment) while contributing a small share to households' income. Female and informal employment are more prevalent in the agricultural sector than in other sectors. Recently, the government policy seeks to overcome problems in this sector through attempts to attract private capital investments into infrastructure and through incentive based subsidies and credit to producers.

Informal Sector. Employment in the informal sector is as high as 55%. Those who are employed in this sector do not have access to social security benefits they benefit from universal health insurance scheme which cover uninsured persons as well as the insured. A lower share of women as well as a lower share of those in the eastern parts of the country, point to higher levels of women and of persons in the East employed in the

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Region 3 cities are Bilecik Burdur Gaziantep Karabük Karaman Manisa Mersin Samsun Trabzon Uşak Zonguldak.

Region 4 cities are Amasya Artvin Bartın Çorum Düzce Elazığ Erzincan Hatay Kastamonu Kırıkkale Kırşehir Malatya Nevşehir and Rize.

Region 5 cities located in Eastern and North Eastern Turkey are Adıyaman, Aksaray, Bayburt, Çankırı, Erzurum, Giresun, Gümüşhane, Kahramanmaraş, Kilis, Niğde, Ordu, Osmaniye, Sinop, Tokat, Tunceli, Yozgat.

Region 6 cities are Ağrı, Ardahan, Batman, Bingöl, Bitlis, Diyarbakır, Hakkari, Iğdır, Kars, Mardin, Muş, Siirt, Şanlıurfa, Şırnak, Van, Bozcaada& Gökçeada.

informal sector. Furthermore, the unemployment benefit scheme does not cover informal workers making the challenge relating to unemployment benefits all the more pressing.

Un-Institutionalized government transfer programmes. Municipalities in certain cities provide benefits in kind and cash for citizens in need. These programs are often not systematically organized and depend on the discretion of municipal workers, or the *muhtar,* the elected officials in city quarters or villages.

Access to Opportunity. In Turkey poor people lack access to quality education. Losses in potential human development due to inequality is the largest for inequality in education with signifi cant income differentials among persons with different levels of education. Although the regional gap between the eastern and western parts in access to primary and secondary education has improved, enrollment continues to vary significantly across regions. Disparity in educational levels between men and women is also recorded with women in rural areas at a greater disadvantage when compared to their urban counterparts. However, the gender gap is narrowing and women have surpassed men in countrywide net enrollments for primary education.

Tax Policy. In Turkey, the redistributive impact of taxes and transfers is limited. This is partly due to the limited reach of the tax system given the signifi cance of the informal economic sector the activities of which are not recorded. The nature of the social security system which primarily consists of cash transfers also dampens any redistributive impact this transfer might have had. Another limitation on the redistributive impact of the Turkish tax system is that it relies heavily on the regressive consumption tax while the progressive taxes on income make up a small share of total taxes.

Annexes

Annex 1. Gini coefficients, Interquintile Ratios and GRP per capita (2005 PPP $) levels of G20 Countries

G20 Countries	Gini Coefficients*	Interquintile share ratio (S80/S20)*	GDP per capita (2005 PPP $) (2011)
France	29.3	4.3	29,819
Germany	29.5	4.5	34,437
European Union (27 members)***	30.7	5.3	28,000
Korea, Republic of	31.5	5.7	27,541
Japan	32.1	6	30,660
Canada	32.4	5.4	35,716
India**	33.4	4.9	3,203
Australia	33.6	5.7	34,548
Italy	33.7	5.6	27,069
Indonesia**	34	5.1	4,094
United Kingdom	34.5	5.8	32,474
United States	37.8	7.7	42,486
Russian Federation**	40.1	7.3	14,808
Turkey	40.9	8.1	13,466
China**	42.5	9.6	7,418
Argentina**	44.5	11.3	15,501
Mexico	47.6	13	12,776
Brazil **	54.7	20.6	10,278
South Africa	63.1	25.3	9,678

Quintile income dispersion ratio is the average income of the richest 20 percent of the population divided by the average income of the bottom 20 percent. There is no data available for Saudia Arabia and therefore is not included.

* (OECD, 2008)

** (United Nations, 2013)

*** (Eurostat, 2011)

Note: GDP per capita taken from Human Development Report 2013 (2011 figures)

Annex 2. Regional Share of GVA (%) and Average Annual Equivalised Household Disposable Incomes (USD)

SR, Level 1	Share of Gross Value Added by regions (%) (2008)*	Average annual equivalised household disposable incomes (USD) (2011)**
TURKEY	100	5,700
TR1 Istanbul	27.7	7,870
TR2 West Marmara	4.9	5,670
TR3 Aegean	13.8	6,840
TR4 East Marmara	12.8	5,700
TR5 West Anatolia	10.9	6,590
TR6 Mediterranean	10.4	5,440
TR7 Central Anatolia	3.9	4,980
TR8 West Black Sea	4.9	4,900
TR9 East Black Sea	2.6	4,960
TRA North East Anatolia	1.5	3,760
TRB Central East Anatolia	2.3	3,430
TRC South East Anatolia	4.4	2,870

* (The Turkish Statistical Institute, 2007 – 2008)

** (The Turkish Statistical Institute, 2011b)
Note: December 2011 exchange rate from YTL to USD taken from Turkish Central Bank website

Annex 3. Comparison of Regional and National Poverty Thresholds for Statistical Regions Level 1

	Number of poors and regional poverty rates by relative poverty thresholds based on income (SR, Level 1) /2011			**Number of poors and regional poverty rates by relative poverty thresholds (calculated for Turkey) based on income (SR, Level 1) /2011**		
Risk of Poverty (%50)	Poverty Threshold ($)	Number of poor (Thousand)	Poverty rate (%)	Poverty Threshold ($)	Number of poor (Thousand)	Poverty rate (%)
TURKEY	2,150	11 670	16.1	2 140	11 589	100.0
TR1 Istanbul	3,040	1 499	11.7	2 140	446	3.8
TR2 West Marmara	2,190	361	11.6	2 140	374	3.2
TR3 Aegean	2,500	1 124	11.9	2 140	706	6.1
TR4 East Marmara	2,330	614	9.0	2 140	511	4.4
TR5 West Anatolia	2,570	933	13.7	2 140	593	5.1
TR6 Mediterrannean	2,020	1 134	12.3	2 140	1 410	12.2
TR7 Central Anatolia	1,950	503	13.3	2 140	591	5.1
TR8 West Black Sea	2,050	609	13.8	2 140	658	5.7
TR9 East Black Sea	2,090	271	10.7	2 140	299	2.6
TRA Northeast Anatolia	1,410	310	14.7	2 140	703	6.1
TRB Central East Anatolia	1,190	483	13.2	2 140	1 548	13.4
TRC Southeast Anatolia	1,070	1 155	15.1	2 140	3 749	32.3

Source: The Turkish Statistical Institute

Note: December 2011 exchange rate from YTL to USD taken from Turkish Central Bank website

Annex 4. Gini Coefficients and Average Annual Disposable Incomes for Statistical Regions Level 1

SR, Level 1	Gini coefficient by equivalised household disposable income (2011)	Average annual equivalised household disposable incomes (2011) (USD)
TURKEY	0.404	5,700
TR1 Istanbul	0.371	7,870
TR2 West Marmara	0.365	5,670
TR3 Aegean	0.397	6,840
TR4 East Marmara	0.326	5,700
TR5 West Anatolia	0.374	6,590
TR6 Mediterrannean	0.404	5,440
TR7 Central Anatolia	0.366	4,980
TR8 West Black Sea	0.335	4,900
TR9 East Black Sea	0.327	4,960
TRA Northeast Anatolia	0.39	3,760
TRB Central East Anatolia	0.427	3,430
TRC Southeast Anatolia	0.396	2,870

Source: The Turkish Statistical Institute

Annex 5. Labor Force by Sector for Statistical Regions Level 1

SR, Level 1	Agriculture (%)	Industry (*) (%)	Services (%)
TURKEY	24.6	26.0	49.4
TR1 Istanbul	0.6	36.7	62.7
TR2 West Marmara	25.6	28.5	45.9
TR3 Aegean	30.5	24.2	45.3
TR4 East Marmara	17.1	38.0	44.9
TR5 West Anatolia	13.4	23.3	63.3
TR6 Mediterrannean	29.7	19.4	50.9
TR7 Central Anatolia	39.4	21.3	39.3
TR8 West Black Sea	43.0	17.9	39.0
TR9 East Black Sea	55.2	13.4	31.4
TRA Northeast Anatolia	47.6	12.7	39.6
TRB Central East Anatolia	41.7	17.6	40.7
TRC Southeast Anatolia	23.3	28.1	48.6

* Including construction

(The Turkish Statistical Institute, 2012a)

Annex 6. Regional Investment Incentive Scheme

INCENTIVES		**REGIONS**					
		1.	**2.**	**3.**	**4.**	**5.**	**6.**
VAT Exemption		Yes	Yes	Yes	Yes	Yes	Yes
Customs Duty Exemption		Yes	Yes	Yes	Yes	Yes	Yes
Tax Deduction " Rate of Contribution To Investment" (%)	Out of OIZ	15	20	25	30	40	50
	In OIZ	20	25	30	40	50	55
Social Security Premium Support (Employer's Share)	Out of OIZ	2 years	3 years	5 years	6 years	7 years	10 years
	In OIZ	3 years	5 years	6 years	7 years	10 years	12 years
Land Allocation		Yes	Yes	Yes	Yes	Yes	Yes
Interest Support		No	No	Yes	Yes	Yes	Yes
Income Tax Withholding Support		No	No	No	No	No	10 years
Social Security Premium Support (Employee's Share)		No	No	No	No	No	10 years

Note: OIZ stands for Official Investment Zone

Source: Minstry of Economy (2012)

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