EXECUTIVE SUMMARY OF VOLUME TWO

The Turkey Joint Poverty Assessment Report (JPAR) consists of two volumes. The first volume, titled Turkey Joint Poverty Assessment Report, is a joint publication of the State Institute of Statistics (DIE) and the World Bank. The State Institute of Statistics (DIE) of Turkey and the World Bank have issued a joint report on poverty in Turkey for the first time. The findings of Volume One have been subject to thorough technical review by both institutions, and are considered to be joint findings.

This second volume is entitled “Turkey: Poverty Policy Recommendations,” and is a World Bank report. DIE does not endorse or have any responsibility for the policy recommendations in Volume Two. Additionally, the conclusions in Volume Two that are based on Volume One are attributed only to the World Bank. Volume Two consists of three sections: (i) an Executive summary of Volume One; (ii) key findings of Volume One (World Bank conclusions from the analysis of Volume One); and (iii) World Bank policy recommendations in the sectors considered in Volume One (macroeconomy, education, health, labor and social protection).

I. BRIEF SUMMARY OF VOLUME ONE

Volume One sets out a new poverty line methodology for Turkey as the basic measure of poverty in the country. However, several poverty lines are calculated for the purpose of international comparability, and comparability to the World Bank’s poverty measures using the 1987 and 1994 data. In 2002, 27 percent of the Turkish population was poor, based on the new poverty line methodology detailed in Annex One of Volume One (food and non-food consumption). However, very few (nearly zero) consumed under the food line or under the $1 per person per day line used in international comparisons (Table A.I.8 found in Vol. 1).

A. DATA COMPARABILITY

An in-depth analysis of the 2002 Household Budget Survey (HBS) compared to that from 1994 shows that living standards in Turkey remained almost unchanged. Poverty based on the previous methodology declined gradually from 1987 to 2002, from 38.5 percent to 34.5 percent. Poverty based on the updated methodology declined from 28.3 percent to 27 percent between 1994 and 2002. On the other hand, inequality marginally increased. Extreme poverty, already low, further declined from 1994 to 2002. Food poverty declined from 2.9 to 1.4 percent, while $1 per person per day poverty, depending on purchasing power parity (PPP) used, was 2-3 percent or even negligible (0.2 percent).

1 The poverty line is the minimum amount of consumption needed for an individual or household to cover its basic needs for food and non-food goods.

2 This is the updated poverty line for 1994, but the consumption aggregate for 1994 is the old version. For 2002, both the consumption aggregate and the poverty line were the new methodology. Additional details are found in Chapter One (Data Comparisons) and Annex One (Methodology) of Volume One.
B. RECENT ECONOMIC DEVELOPMENTS

Despite many advantages ranging from its strategic location to its dynamic population, Turkey has not achieved the stable high growth of leading emerging market economies. On average, the Turkish economy grew slightly under 3 percent per year over the past decade, well below the best performing emerging economies. Macroeconomic instability, rooted in fiscal imbalances, has played an important role in Turkey’s inability to grow as fast as other countries.

In response to the crisis following the collapse of the crawling peg and subsequent devaluation, the Government announced a strengthened economic program in May 2001. Economic activity rebounded strongly in 2002, and the recovery continued into 2003, with real GNP growth reaching 7.9 percent in 2002 and 5.9 percent in 2003. While the inventory build-up led the recovery in 2002, private consumption and investment was behind the strong growth performance in 2003. Fiscal gains were significant in 2003, as the primary surplus rose from 4 percent of GNP in 2002 to over 6 percent of GNP in 2003.

C. POVERTY PROFILE

Poverty in Turkey is strongly associated with age and household composition; children and families with children are poorer than average. Poverty rates are higher for unemployed heads, and female heads, and sharply higher for illiterate heads. There is a sharp difference in the poverty rates between rural and urban households, with rural poverty substantially greater. Poverty restricts the poor from accessing many goods and services. The poor are less able to afford discretionary expenditures. Turkey is a middle-income country, and its inequality is high. Both consumption and income indexes indicate that inequality is higher in urban areas than in rural areas, but not much. Other data confirm overwhelmingly that there is a sharp East-West divide in Turkey where Southeastern and Eastern Anatolia regions are much poorer and have sharply lower human development indicators than Western Turkey.

Education

In the 1997-1998 school year, Turkey shifted from five years of compulsory schooling to eight. Enrollment rates increased soon after this reform, not only for the 8-year basic education cycle but also for secondary education. As a result, poor households receive a larger share of public expenditures on basic and secondary education. The level of public spending on education also increased significantly after 1998, both in real terms and as a percentage of gross domestic product (GDP). While rapid progress in recent years is encouraging, analyses of household survey data reveal that there is significant room for further pro-poor improvements when it comes to: (i) quality of schooling—the parents of poor children are more likely to report problems with schools, and they are less likely to be satisfied with the quality of education their children receive; and (ii) enrollments in secondary education—the poor, females, and children who do not have a secondary school in their residential area are all substantially disadvantaged.
Health

Turkey's health care delivery and financing system is fragmented and despite significant efforts, the service delivery network remains highly uneven, with major concentrations in urban areas. Both Household Consumption and Income Survey (HCIS) and Household Budget Survey (HBS) data suggest that over one-third (36 to 37 percent) of the population in Turkey does not have access to health insurance, and almost half the population in rural areas remains without any coverage. Despite considerable progress achieved in the recent past, Turkey continues to rank far behind most middle-income and European Union (EU) accession countries on key health indicators. Health outcomes vary significantly across regions, reflecting the uneven supply of and access to health care in various parts. Low-income groups suffer from significant access problems. The prime reason for not seeking care when sick, or not seeking hospital admission when required, was lack of affordability. Public expenditure on health care grew at an average annual rate of 7.3 percent between 1999 and 2003. Public sector spending on health care is skewed in favor of the upper-income groups, particularly spending on outpatient care. The poor continue to face significant access barriers to health.

Labor

In Turkey, as in most countries, poverty is closely related to employment status and the type of job, whereby informally employed and casual workers have a higher rate of poverty. Education plays a key role in explaining employment and poverty outcomes. Unemployment in Turkey was 10.3 percent in 2002. There are very sharp differences in labor market participation rates between men and women, with extremely low rates of female labor market participation in Turkey. Reasons for not seeking a job varied from factors relating to age or family structure (student, housewife, elderly) to disability or seasonal employment. Poverty rates of those who had permanent employment were lower compared to those with casual or temporary jobs. Poverty was found to be sharply associated with the lack of registration at a social security institution. The largest sector of employment in Turkey is agriculture, which is also the sector with the highest poverty rate of those employed in it.

Social Protection

Social protection in Turkey consists primarily of limited formal systems in pensions and social assistance, supplemented greatly by informal mechanisms. Formal elements of social protection are the pension (social security) system, and the Social Assistance and Solidarity Encouragement Fund (SYDTF) and its 931 affiliated Social Solidarity Foundations (SYDVs). Institutional, care is provided by Social Services and Child Protection Organization (SHCEK). Turkey's social security system is highly fragmented. The three pension programs are SSK (Social Insurance Organization), Bag-Kur (BK), and Emekli Sandigi (ES), covering workers, the self-employed, and civil servants respectively. Turkey also provides a small noncontributory benefit to those over age 65 who earn below the level of the benefit. The pension system is showing large fiscal losses each year and is in need of transfers from the government to cover those losses expected to be around 4 percent of GDP in 2004.
The SYDTF is an extra budgetary fund financed by earmarked taxes and administered by a Cabinet Minister. The SYDTF, together with its local affiliates, is the largest program of social assistance in Turkey in terms of number of beneficiaries. Additional social protection programs are supported by a World Bank loan: conditional cash transfers and local initiatives. Conditional Cash Transfers (CCTs) are a national program recently introduced in Turkey with World Bank support. CCTs are payments made to the mothers of poor children, provided they attend school or visit health clinics. Supported under the Social Risk Mitigation Project (SRMP), the Government of Turkey has undertaken a significant expansion of the microprojects traditionally carried out by the SYDVs with approval from the SYDTF, along with a tightening of procedures. Additionally, institutional development activities to strengthen the SYDTF, SHCEK, and DIE (especially on poverty monitoring and measurement) have been undertaken in the institutional development component of the SRMP.

II. KEY FINDINGS

The following key findings emerged from the 2002 HBS data:

- Turkey is a medium- to high-inequality country.
- The rate of extreme poverty in Turkey is quite low.
- However, the overall rate of poverty is high when compared to the EU, and this reflects the first fact on inequality.
- Regional differences are the major driver of country inequality, and poverty is highly concentrated in Eastern and Southeastern Anatolia.
- High and persistent inequality has constrained Turkey's ability to benefit from growth years, while macroeconomic instability has hindered Turkey from escaping from its medium- to high-inequality, relatively high overall, poverty situation.

*Inequality.* Turkey’s Gini for income for 2002 was 44, which is noticeably lower than the very high Ginis in many extremely low-income countries. However, Turkey does not measure up well against Western Europe which is substantially less unequal.

*Extreme poverty.* Turkey compares very favorably with low- and medium-income countries in terms of its rate of extreme poverty. Turkey has essentially a zero poverty rate for the PPP US$1 per person per day poverty line.

*Overall poverty.* Turkey’s poverty rate of 27 percent is in the midrange for most medium-income countries but is much higher than those in the European Union countries.

*Regional differences.* Regional differences are the major driver of inequality in Turkey, and by every source of information, quantitative and qualitative, Eastern and Southeastern Anatolia are markedly poorer than Western Turkey.

*Inequality/growth.* As demonstrated by the growth-inequality decomposition for 1994 to 2002, inequality has held back improvements in poverty that growth would have led to in the absence of inequality. Projections for this in the future demonstrate that growth without redistribution
would not “solve” Turkey’s poverty problem. While sustained growth is essential for poverty reduction, if inequality is not held back, gains from growth can fail to significantly reduce poverty. And if inequality worsens, then gains from growth can be partly or even totally erased. Several scenarios for poverty in 2004 were calculated, depending on inequality not worsening from 2002-2004, and these demonstrate that gains from growth could be considerable in the short run if household consumption responds quickly or fully to GDP growth.

III. POLICY RECOMMENDATIONS

A. MACROECONOMIC

The JPAR and the previous poverty assessment emphasize that the creation of well-paying formal sector jobs is the main lever for poverty reduction in Turkey, and that macroeconomic instability has severely limited Turkey’s attempts to reduce poverty since 1987. The Turkish Government has undertaken a variety of policy reforms that are intended to promote stable economic growth which are being supported by the World Bank. These reforms will create the conditions necessary for sustained economic growth. Additionally, the Government’s reform program includes measures on strengthening the tax system, including the elimination of loopholes and increased transparency, equity, and progressivity of taxes. The tax strategy should assist in addressing Turkey’s persistent income inequality, which has been a brake on poverty reduction. The Government has adopted a strategy for tax policy reform that would bring Turkey’s tax regime in line with best practice in the European Union. Implementation of the Government’s tax reform strategy is crucial for many reasons, not the least of which would be to address Turkey’s high level of income inequality. Decomposition and simulations demonstrated that by addressing inequality, the poverty reduction effects of growth could be substantial. A transparent and progressive tax regime would enable Turkey to achieve other economic reform goals, such as expenditure targets for the social sectors, which in turn would help address the access issues documented in the health and education chapters of the joint volume.

B. HEALTH

Reforms in four areas could substantially help improve lower-income group access to health care, while contributing to an improvement of the country’s health outcomes. These include: (a) expansion of health insurance to assure better coverage of low-income households; (b) undertaking steps to assure that disadvantaged areas with poor health outcomes have access to professional health care services; (c) strengthening the quality of primary health care services, particularly in underserved areas; and (d) strengthening quality and outreach of maternal and child health services and essential preventive care.

C. EDUCATION

In order to ensure long-term economic growth and equity, there is a need to maintain public education spending levels of at least 4.25 percent of GDP (which is in fact a target stipulated in various Ministry of National Education publications). The gross enrollment ratio for compulsory 8-year basic schooling is 97 percent. Enrollment rates could increase even further if children of parents with little or no schooling (the demographic group most likely to be out of school) were
encouraged to enroll in school. If compulsory schooling were further increased to 12 years, as mentioned in some Government planning documents, the beneficiaries would be almost exclusively from the most vulnerable groups. Nonetheless, the prerequisites to such a move include raising the efficiency in the utilization of existing secondary schools and perhaps, establishing new secondary schools. The quality of education also needs improvement especially for the poor: parents of poor children are more likely to report problems with schools, and less likely to be satisfied with the quality of education their children receive.

D. LABOR

Implementing the reforms of the education system and the conditional cash transfers of the Social Risk Mitigation Project (SRMP) should help more educated women to participate in the labor market in the future. Also, the literacy training and micro-project endeavors under the Local Initiatives component of the SRMP should assist in this long-term goal. On the linkage among informal and agricultural employment and poverty, here the best policy recommendation is for Turkey to stay the course on macroeconomic reforms that have already led to significant real economic growth. As the economy grows and develops, more formal and better-paying jobs will emerge from that growth, and these will provide the avenue for Turkey’s 27 percent poor to find better jobs that will enable them to escape poverty.

E. SOCIAL PROTECTION

Recommendations for reform of pensions include: a rise in the retirement age, both in the short and long run; a rise in the number of years of contribution required before receiving a benefit; a reduction in the benefit accrual rate is also required to bring Turkey in line with other countries; a move to wage indexing the pensionable salary in lieu of the current valorization by nominal GDP growth; maintaining price indexation of pensions as dictated by the 1999 Social Security Law, in order to help contain costs; eliminating and avoiding supplementary payments to pensioners; maintaining or reducing the contribution rate; unification of the pension schemes, both in terms of benefit structure and in terms of administration to improve equity and administrative efficiency; and integration of social pensions with other social assistance benefits.

Recommendations for reform of social assistance include: restructuring the system in one single agency/ministry responsible for determining eligibility and payment of cash benefits (namely the SYDTF) and decentralizing service provisions to make them more responsive to local demands; financing the system adequately; improving the targeting of social assistance; and expanding CCTs.