

*Opening Remarks*  
*Informality: Causes, Consequences, Policies*  
Ataturk University  
Erzurum, October 25, 2010

Distinguished Guests:

- Good Afternoon. Welcome to the panel discussion on Informality: Causes, Consequences, Policies. It is a great honor for me to be here with you today, visiting for the first time your beautiful and historic city of Erzurum.
- In starting, I would like to extend my sincere thanks to the administration of Ataturk University for hosting us in this modern campus and to the Erzurum Tax Office, and in particular Yunus Bey and Fatih Bey, for taking the lead in preparation of the event.
- “Türkiye’de kayıt dışılık insanların günlük yaşamlarının bir parçasıdır.” This is the first sentence of our report on informality.
- Everywhere I have been in Turkey, from Van to Izmir, Antalya to Trabzon, and now in Erzurum, whenever I have discussed this topic with people – mayors, business people, workers, young and old, men and women – it always strikes a chord. People know that informal employment is widespread, that for a number of reasons it is a problem, and that reducing informality and creating more and better formal jobs is difficult.
- Here, in Erzurum, I understand, there is a unique initiative that takes this understanding one step further. The local committee on informality you have established, bringing all stakeholders together for one cause—understanding better the informal economy in Erzurum and providing the basis for possible solutions, is a great local initiative. This initiative could set an example for other cities across the country. We, as the World Bank, are ready to discuss with you our potential support in further developing this innovative idea and working towards generating results-based local programs to reduce informality and make it unacceptable.

- Let me now turn to the report. For this study, we have investigated the subject of informality in close cooperation with our colleagues in the Revenue Administration and other public agencies as well as private sector representatives. The report shows that it is possible to tackle informality, and that tackling informality can bring great benefits for Turkish workers, families, and firms. The results are summarized in this report, which is available in English and in Turkish. We have hard copies [show report again] here for you today, and the report is also on the internet, on the World Bank's Turkey website.

- The presentation that will follow my introductory remarks will give you a quick overview of the report, but let me just give you a few highlights, of the potential gains from formalizing the economy, particularly employment:

- Formalization is first and foremost about jobs. Formal labor contracts bring joint benefits to firms and to workers. First, workers become more productive, build firm specific skills, and earn more for themselves and for their employers.
- Second, formalization can increase the participation of women in the workforce—which is crucially important in Turkey. The State Planning Organization and the World Bank recently prepared a joint report on female labor force participation in Turkey, which you can download from the internet.
- Third, formalization can protect families. Informal workers are vulnerable workers. Our work suggests that, when the global crisis affected Turkey last year, many of the economically most vulnerable households were those whose breadwinners were working informally.
- For most employers, of course, informality means flexibility. Indeed, strict limits to flexible employment in Turkey today are one important reason contributing to informality. How can both employers and workers gain from formalization? One way can be, while strengthening the protection of workers, for example with improved unemployment benefits, *at the same time* increasing

employers' flexibility to create new jobs, including fixed-term and short-term jobs.

- Informal employment is also closely related to taxation, as I am sure will be discussed in more detail in the panel today. With informality, few people pay high taxes. This is both inefficient and unfair. Formalization means that *more* people will pay *lower* taxes. It will improve efficiency and fairness, while also increasing belief in and respect for a country's social institutions.

- The picture on the front of the Informality Report evokes exclusion, separation, screening off, and the hidden nature of much of the work and many of the transactions that take place in Turkey today. To quote the report again in closing, Turkey has *much to gain by bringing its vibrant economy out into the open and I am hopeful that the panel discussion today will provide practical ideas for achieving this.*

- Thank you!