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Labour market and education reforms are needed to create more and better jobs in Türkiye

Dennis Dlugosch

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LABOUR MARKET AND EDUCATION REFORMS ARE NEEDED TO CREATE MORE AND BETTER JOBS IN TÜRKIYE

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ABSTRACT/RÉSUMÉ

Labour market and education reforms are needed to create more and better jobs in Türkiye

The Turkish economy grew strongly over the past two decades and created many jobs. However, given its young and growing workforce, Türkiye needs to ramp up efforts to achieve high-quality formal job creation. A sizeable share of the workforce, mostly female workers, does not actively participate in the labour market. While informality has decreased significantly, it is still widespread and entrenches productivity differences across firms. Rigid labour market rules, particularly the high severance pay but also minimum wages, impede formal job creation. More flexible labour markets should be part of a comprehensive reform programme that shifts job loss protection to a broader-based unemployment insurance scheme, supported by well-designed activation policies. While educational attainment has risen impressively, a growing number of vacancies, significant skill mismatches and a low level of adult skills highlight the need to address the quality of education and to improve on the matching of talent to jobs.

This Working Paper relates to the 2023 OECD Economic Survey of Türkiye

https://www.oecd.org/economy/turkiye-economic-snapshot/

JEL Classification:. J08, J21, J23, J24, J65, I25, I26

Key words: Türkiye, labour market, labour supply, labour demand, labour regulations, education, training

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Des réformes du marché du travail et du système éducatif s'imposent pour créer des emplois plus nombreux et de meilleure qualité en Türkiye

L'économie turque a connu une forte croissance au cours des deux dernières décennies et de nombreux emplois ont été créés. Toutefois, compte tenu de sa main-d'œuvre jeune et croissante, la Türkiye doit redoubler d'efforts pour créer des emplois formels de qualité. Une part non négligeable de la main-d'œuvre, principalement des femmes, ne participe pas de manière active au marché du travail. Bien que l'emploi informel ait sensiblement diminué, il demeure largement répandu et accentue les écarts de productivité entre les entreprises. La rigidité des règles du marché du travail, en particulier le niveau élevé des indemnités de licenciement mais aussi du salaire minimum, entrave la création d'emplois formels. Le renforcement de la flexibilité des marchés du travail devrait s'inscrire dans le cadre d'un vaste programme de réforme visant à substituer au système actuel de protection contre la perte d'emploi un régime d'assurance chômage de plus grande portée, étayé par des politiques d'activation judicieusement conçues. Le niveau d'instruction a augmenté de manière impressionnante, mais le nombre croissant de postes vacants, l'important décalage entre l'offre et la demande de compétences et le faible niveau de compétences des adultes soulignent la nécessité de s'attaquer à la qualité du système éducatif et d'améliorer l'adéquation entre les compétences et les emplois disponibles.

Ce Document de travail a trait à l'Étude économique de l'OCDE de la Türkiye, 2023
https://www.oecd.org/fr/economie/turkiye-en-un-coup-d-oeil/

Classification JEL:. J08, J21, J23, J24, J65, I25, I26

Mots clés : Türkiye, marché du travail, offre d'emploi, demande d'emploi, réglementation du travail, éducation, formation

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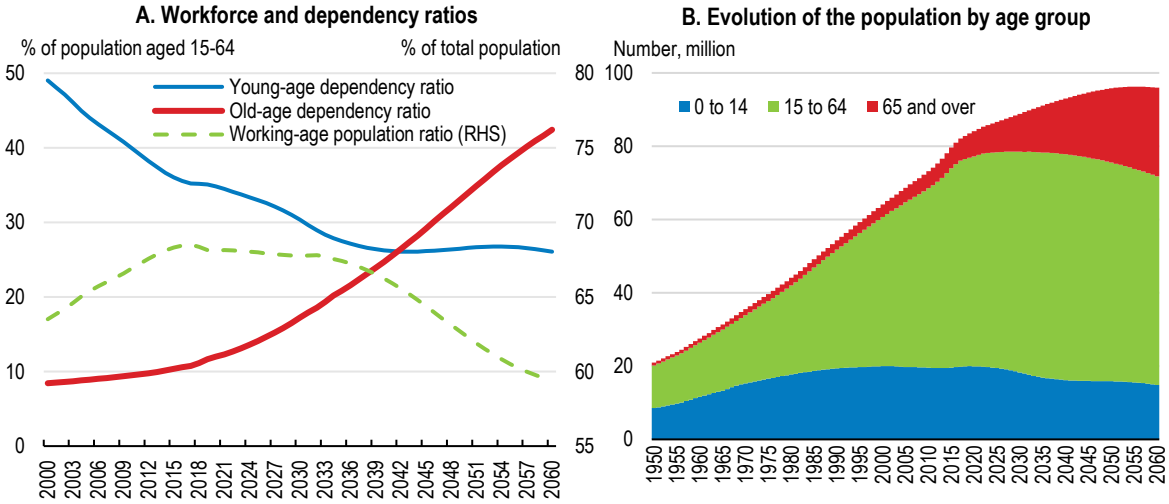
Labour market and education reforms are needed to create more and better jobs in Türkiye

By Dennis Dlugosch[1]

Despite the progress made by the Turkish economy over the past two decades, several labour market weaknesses persist: elevated informality coupled with low employment rates, to a large extent driven by very low labour force participation of women compared to other OECD countries, and poor labour market prospects for many youths.

The size of the Turkish workforce will increase over the next two decades (Figure 1). This amplifies the need to address existing labour market weaknesses. While a growing workforce can be a source of economic growth, tapping the demographic dividend necessitates strong formal job creation while equipping the young and growing population with skills relevant for labour markets. If net job creation parallels growth of the working age population, population growth could add more than 1 percentage point to GDP growth until the year 2032. A higher pace of job creation could lead to faster growth.

Figure 1. The demographic window is open



Note: Population estimates from 2022 are based on the medium fertility variant projection scenario. Young-age dependency ratio refers to people aged below 15 and over per 100 people of working age defined as those at ages 15 to 64. Old-age dependency ratio refers to the number of population aged 65 and over per 100 people of working age defined as those at ages 15 to 64.
Source: OECD calculations based on UN (2022), "Total population (both sexes combined) by single age" in the 2022 Revision of World Population Prospects.

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[1] Dennis Dlugosch works in the Economics Department of the OECD. Eun-Jung Kim (OECD Economics Department) prepared the statistics and figures. Michelle Ortiz (OECD Economics Department) provided editorial and communication assistance. This paper was prepared under the supervision of Isabelle Joumard and Philip Hemmings (OECD Economics Department). The authors would like to thank officials from the Government of Türkiye; Vincent Koen, Isabell Koske and Álvaro Pereira (Economics Department); Alexander Hijzen and Herwig Immervoll (OECD Directorate for Employment, Labour and Social Affairs); Bert Brys (Centre for Tax Policy) for their valuable inputs, comments and feedback through the preparation of this Paper.

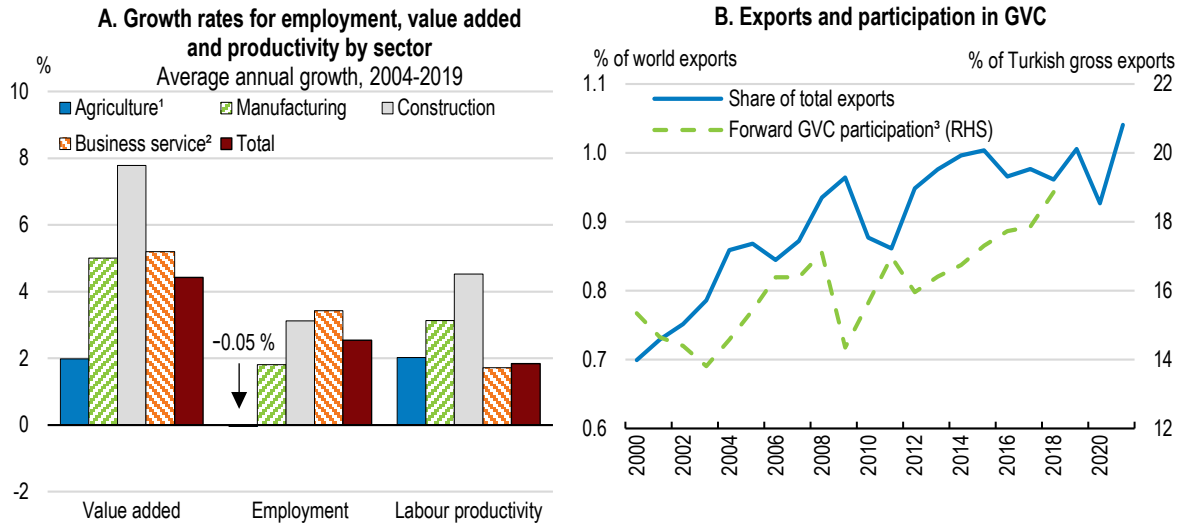
The first section of this chapter sheds light on these weaknesses and underlines the urgency for decisive policy action, given that structural change, including automation and digitalisation, is rapidly changing skill needs and the set of jobs available (OECD, 2019[1]). The second and third section discuss how more flexible labour market regulations and a broader-based unemployment insurance system bundled with well-designed activation policies would provide the foundation for robust formal job creation and a healthy pace of resource reallocation towards the most productive economic activities. The fourth section examines how the educational system can better align the supply of skills with evolving labour market needs. Labour market and education reforms are key to boost high-quality formal job creation but need to be combined with the reforms of economic framework conditions proposed in Chapter 1 (OECD, 2023[2]).

Labour market challenges and opportunities

Automation, digitalisation, and changes in global value chains are altering skill needs

The structure of the Turkish economy has changed considerably in the past two decades and will continue to change. Job creation in business service and manufacturing sectors coupled with urbanisation has raised living standards and allowed many workers to move away from low-productivity subsistence farming (Figure 2, Panel A). Lower income regions in the Eastern parts of the country could close part of the gap in living standards (OECD, 2014). Exports increased as the economy got more integrated into global value chains (Panel B). Labour productivity, also spurred by increased competition with worldwide markets, rose by more than 3% annually over 2003-19.

Figure 2. Rapid economic catch-up came on the back of growth in productivity and exports



1. Refers to agriculture, hunting, forestry and fishing.
2. Refers to business service sectors excluding real estate sector.
3. Defined as the ratio of domestic value added embodied in foreign countries' exports over gross exports.
Source: OECD (2022), OECD Structural Analysis (STAN) Databases; and OECD (2022), Trade in Value Added (TiVA) 2021 Edition. (database).

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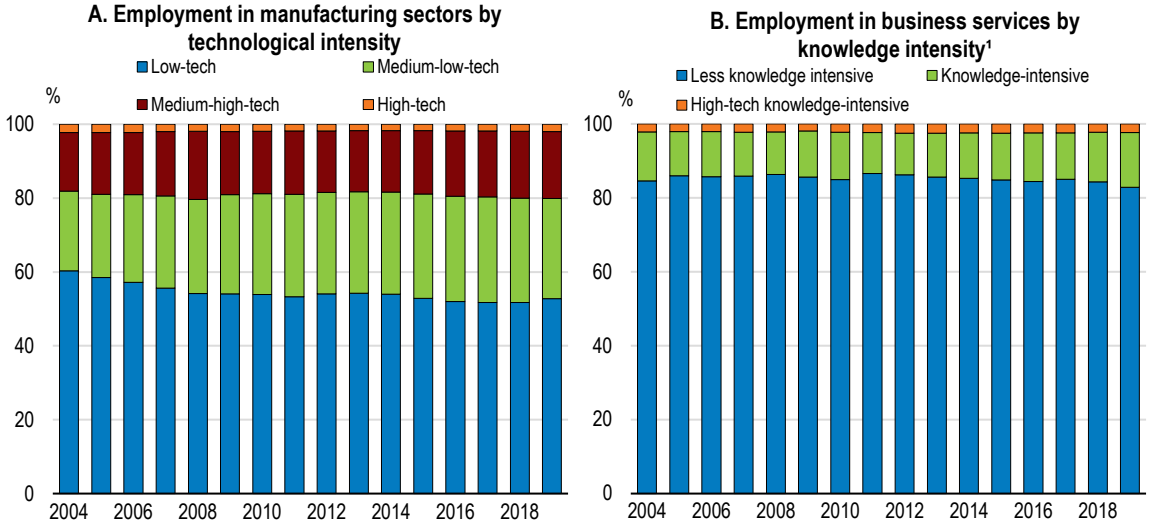
The increase in labour productivity, export orientation and stronger integration in global value chains has boosted employment in sectors with higher levels of technological sophistication and knowledge intensity (Figure 3). Whereas in 2004 around 60% of workers in manufacturing were employed in low-technology sectors, like food products or textiles, only just over 50% of workers were employed in these sectors in 2019. Over the same period, the share of medium-low (e.g., rubber and plastics) and medium-high technology (e.g., electrical equipment) sectors in total manufacturing employment increased significantly. Similarly, formal employment in business service sectors shifted towards more knowledge-intensive activities. These trends in aggregate employment mirror changes in job profiles as the share of jobs that require cognitive skills expanded while the share of jobs that require manual skills contracted (World Bank, 2019).

Figure 3. Employment in sectors with higher technological sophistication and knowledge intensity increased



Note: According to the Eurostat's aggregation of the manufacturing industry by technological intensity and the service sector by knowledge intensity. Classification based on NACE at 2-digit level. An exception was made for security and investigation activities that are classified as less knowledge-intensive service sector instead of knowledge-intensive service sector because separate data on this sector are not available and it was aggregated with other sectors which are less knowledge intensive.
1. Refers to business service sectors excluding real estate sector.
Source: OECD (2022), OECD Structural Analysis (STAN) Databases.

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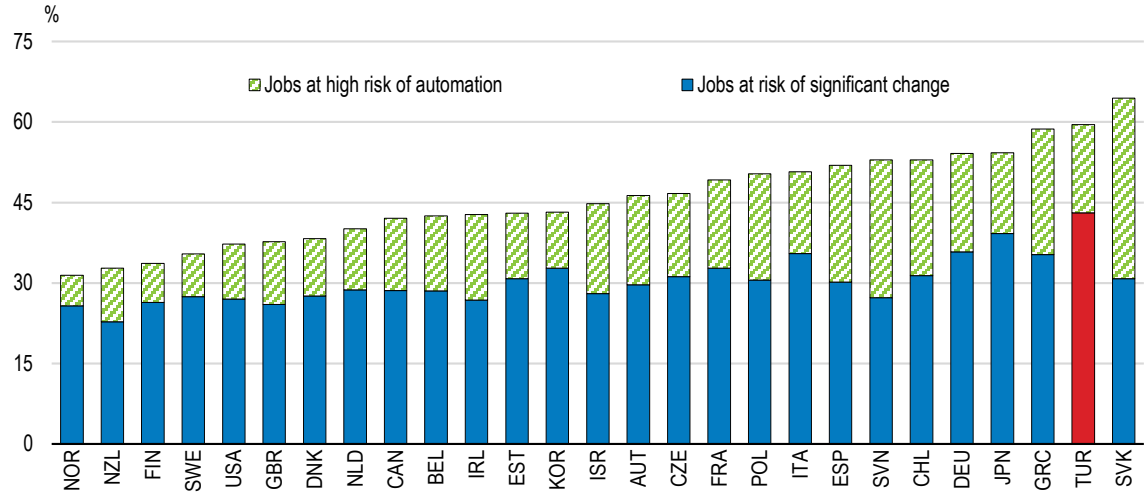
Further integration in global value chains will continue to increase demand for high-skilled jobs while automation will likely reduce demand for some job tasks (Arntz, Gregory and Zierahn, 2016[3]). Although lower-skilled workers often perform job tasks that are prone to automation, the risk of significant changes in job requirements also encompasses other types of workers. For example, some parts of the job duties of lawyers are already replaced or facilitated by machines (OECD, 2019[4]). Technological progress and structural reforms that help Türkiye better respond to global demand will support a further upward move in global value chains and likely push up wages, thereby triggering even more changes in skill demand and in the set of jobs available. Meanwhile the share of jobs at high risk of automation is elevated (Figure 4). At the aggregate level, a high risk of automation does not necessarily lead to lower employment growth. On the contrary, while some job tasks might get redundant, technological progress also stimulates further job creation (Scarpetta and Pearson, 2021[5]). However, workers will need to adapt to changing tasks by upgrading their skill sets to occupy the new jobs that will be created.

Figure 4. The share of jobs at high risk of automation is elevated

The share of jobs at high risk of automation and significant change[1]



1. Based on the survey of Adult Skills (PIAAC, 2012). Jobs are at high risk of automation if the likelihood of their job being automated is at least 70%. Jobs are at risk of significant change if the likelihood is between 50 and 70%.
Source: Nedelkoska, L. and G. Quintini (2018), "Automation, skills use and training", OECD Social, Employment and Migration Working Papers, No. 202.

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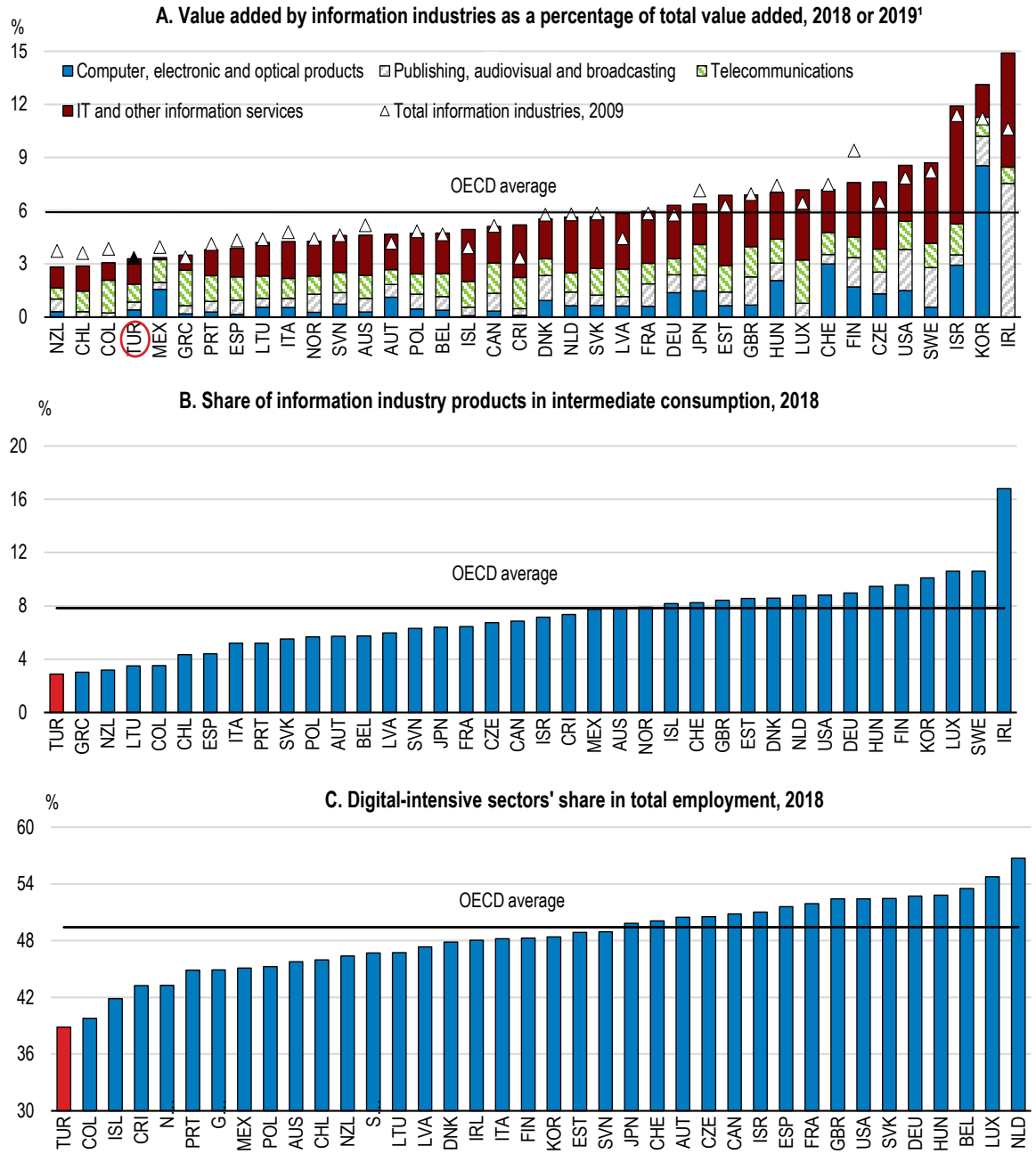
Digitalisation amplifies the need for a swift adaptation of skills. Despite significant progress, digitalisation is less widespread than in other OECD countries. The share of value added of the ICT sector and digital services lags (Figure 5, Panel A). Information products do not yet play a substantive role as inputs in other industries (Figure 5, Panel B). Subsequently, the share of digital intensive sectors in total employment is comparatively low (, Panel C). Thus, in addition to the elevated risk of automation, the necessary catch-up in digitalisation will come on the back of a change in the profile of many more existing jobs (OECD, 2019[1]). The economic shock induced by the COVID-19 pandemic has given a push to the use of digital technologies in firms and households and has amplified the catch-up process by providing an additional incentive for firms to rely less on labour and speed up automation (OECD, 2021[6]).

Figure 5. The digital revolution will alter the set of jobs available



1. Australia, Chile, Lithuania, Latvia, Portugal, and Switzerland for 2017 and Israel for 2016. Data on total information industries for Chile and Israel refer to 2006, instead of 2009 and come from OECD (2019), "Measuring the Digital Transformation: A Roadmap for the Future".
Source: OECD (2022), OECD Structural Analysis (STAN) Databases; and OECD Going Digital Toolkit (2022).

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Creating more and better formal jobs is key to reduce informality

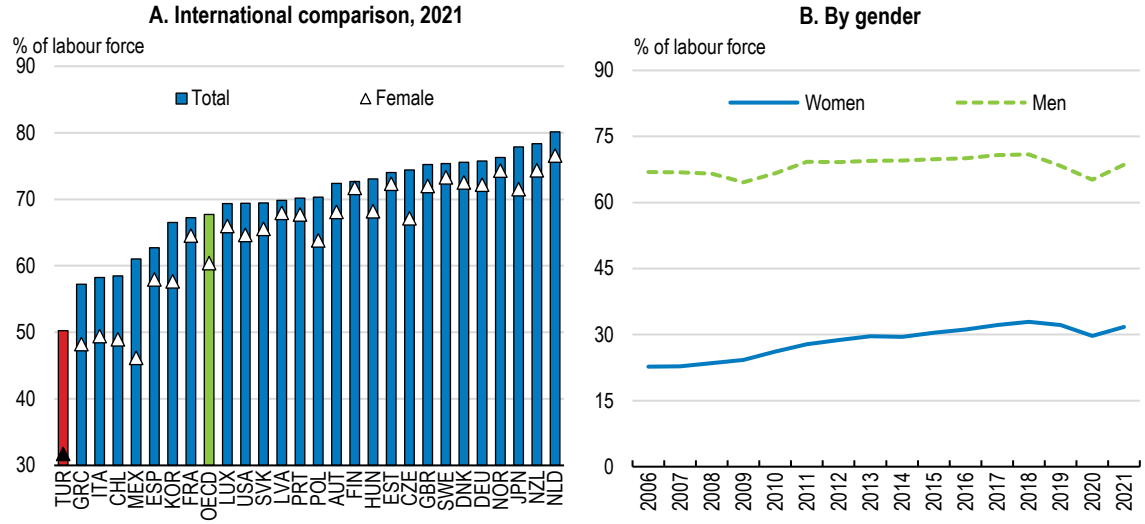
Economic growth in Türkiye does not create enough formal jobs. Aggregate employment ratios in Türkiye are the lowest across the OECD (Figure 6, Panel A). While employment ratios of prime-aged men are roughly comparable to the OECD average, employment ratios of female workers lag behind

(Figure 6, Panel B). Estimated cyclical sensitivities of unemployment and employment to GDP growth suggest that economic growth creates less new jobs over the short run than elsewhere (see Box). The growing workforce amplifies the need to speed up formal job creation.

Comparatively low formal job creation is the flipside of widespread informal and semi-formal work practices. Despite a considerable decrease over the past two decades, informal workers still account for around 26% of total employment. While informality is higher in agriculture, the 17% share of informal workers in non-agricultural sectors is still sizeable (see Box 2). For many firms, making use of informal and semi-formal work practices is a strategy to avoid costly regulations and taxation that provides them with an advantage over fully formal firms (Mohammad, 2021[7]).

Figure 6. The employment rate is low

Employment rate, 15-64 year-olds



Source: OECD (2022), OECD Labour Force Statistics (database).

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Informal work comes with several negative consequences for workers. Informal workers are not covered by employment-related social protection and therefore, are excluded from social safety nets. This contributes to income inequalities but also exposes informal workers to less safe working environments and conditions. In addition, informal workers often earn less than formal workers, exacerbating inequalities (Ohnsorge and Yu, 2021[8]). There is a close link between informality and poverty. Informality goes hand in hand with a smaller tax base for corporate and personal income taxes and therefore limits the government's ability to support vulnerable groups.

Informal and semi-formal work practices (see Box 2 for a definition) impede upscaling and make it harder for firms to tap returns to scale. Firms that predominantly employ informal workers often opt to stay small to circumvent the costs of formalisation. Indeed, firms in Türkiye tend to cluster around the size thresholds used to determine the set of regulations and subsidies firms are exposed to (Özlale and Polat, 2019[9]). Informality makes it also more difficult for fully formal firms to grow as they may face unfair competition from informal competitors. Furthermore, informal firms have less or no access to banking services and finance, constraining or even forestalling productivity-enhancing investments.

Box 1. Cyclical unemployment and employment sensitivities

The cyclical sensitivity of unemployment and employment to GDP growth can help to assess an economy's capacity to create jobs. Okun's law provides a nice framework to estimate these sensitivities (Ball, Leigh and Loungani, 2017[10]; Schwellnus, Koelle and Stadler, 2020[11]; An, Bluedorn and Ciminelli, 2022[12]). Importantly, these sensitivities should be interpreted as conditional correlations of growth and unemployment and employment and do not lend themselves to any structural interpretation. Nevertheless, a comparison of sensitivities across countries can help to shed light on how the relationship between job creation and economic growth.

Methodology and data

The sensitivities are estimated based on quarterly country-by-country time-series regressions of growth of unemployment and employment on up to two lags of GDP growth. Data comes from the OECD's ADB database. The ranking of countries according to the size of the estimated elasticity is robust to employing a panel model, where the coefficient of GDP growth is interacted with country fixed effects and using gaps from deviations from a long-run trend, either using the Hodrick-Prescott filter or potential growth, instead of growth rates.

Results

The results suggest that, over the short term, changes in unemployment and employment react less to GDP growth than in many other OECD countries (Figure 7). This finding is in line with an interpretation that rigid rules on labour markets, a high minimum-to-median wage and an expensive severance pay system discourage formal job creation but also cushion labour markets from the fallout of economic crisis and other structural changes that could lead to unemployment. Estimates based on a shorter and more recent time span show that cyclical sensitivities have increased, suggesting that the capacity of the Turkish economy to create jobs has strengthened in recent years. The results are broadly in line with more elaborate models that allow for an asymmetric relationship between GDP growth and unemployment and employment (Coşar and Yavuz, 2021[13]).

What are the dynamics of informal and formal employment following a shock to aggregate activity?

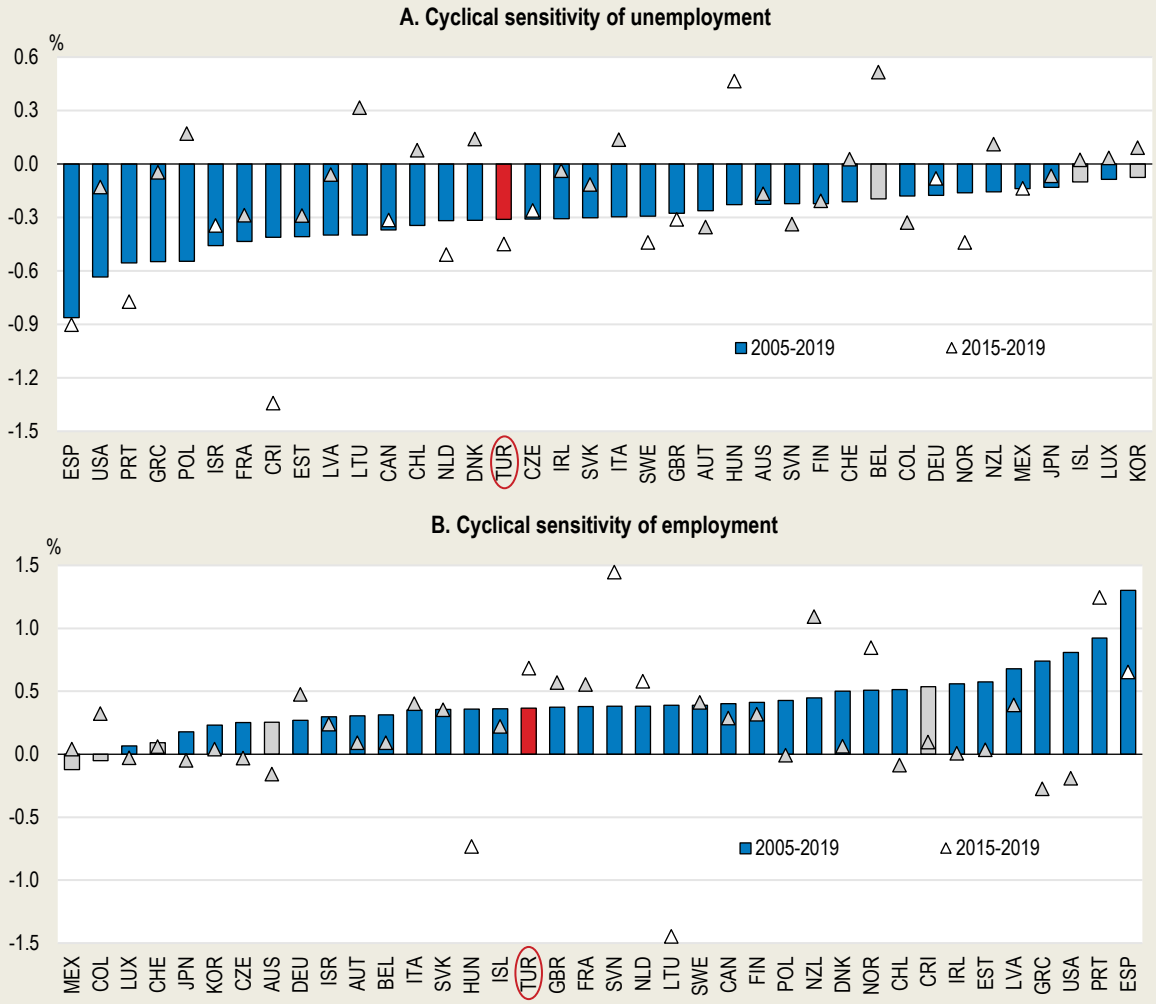
The estimated cyclical sensitivities remain silent about the dynamics following a shock to aggregate activity. In an economy that is characterised by informality, it is a priori not clear to what extent an economic expansion leads to formal job creation and whether formal job creation substitutes or complements informal job creation.

The second part of the empirical analysis looks at labour market dynamics in more detail labour by estimating a sign-restricted structural vector autoregression (VAR). The VAR uses the logarithmized levels of informal and formal employment, unemployment, and vacancies (Schiman, 2021[14]). Monthly data is sourced from Turkstat and the Turkish public employment agency (İŞKUR) and ranges from January 2005 to December 2019. The VAR is estimated with Bayesian techniques that account for parameter but also model uncertainty. The sampling requires five thousand draws with structural shocks that satisfy the sign restrictions to stop.

The restrictions that identify a shock to aggregate activity are standard in the literature (Schiman, 2021[14]) and postulate a decline in the number of unemployed workers and an increase in vacancies during an economic upturn. The empirical analysis also postulates that economic growth leads to an increase in informal employment, consistent with the view that the informal sector is very responsive to the business cycle. The sign of the impact on total employment was left unrestricted.

The impulse response analysis suggests that an aggregate activity shock initially increases both informal and formal employment (Figure 8). At the same time, vacancies increase. Thus, over a relatively short window of around 10-12 months, informal and formal job creation are complementary. Then, informal job creation slows down significantly while more formal jobs are created filling all the open vacancies. This suggests that, over the medium term, economic expansions shift the composition of total employment towards formal employment.

Figure 7. Estimated sensitivities of unemployment and employment to GDP growth



Note: The cyclical sensitivities are based on quarterly country-by-country regressions of growth in employment or unemployment on GDP growth of up to two lags. In Panel A and B, bars and triangles in grey represent estimates that were not significant at the 10 % significance level.
Source: OECD calculations.

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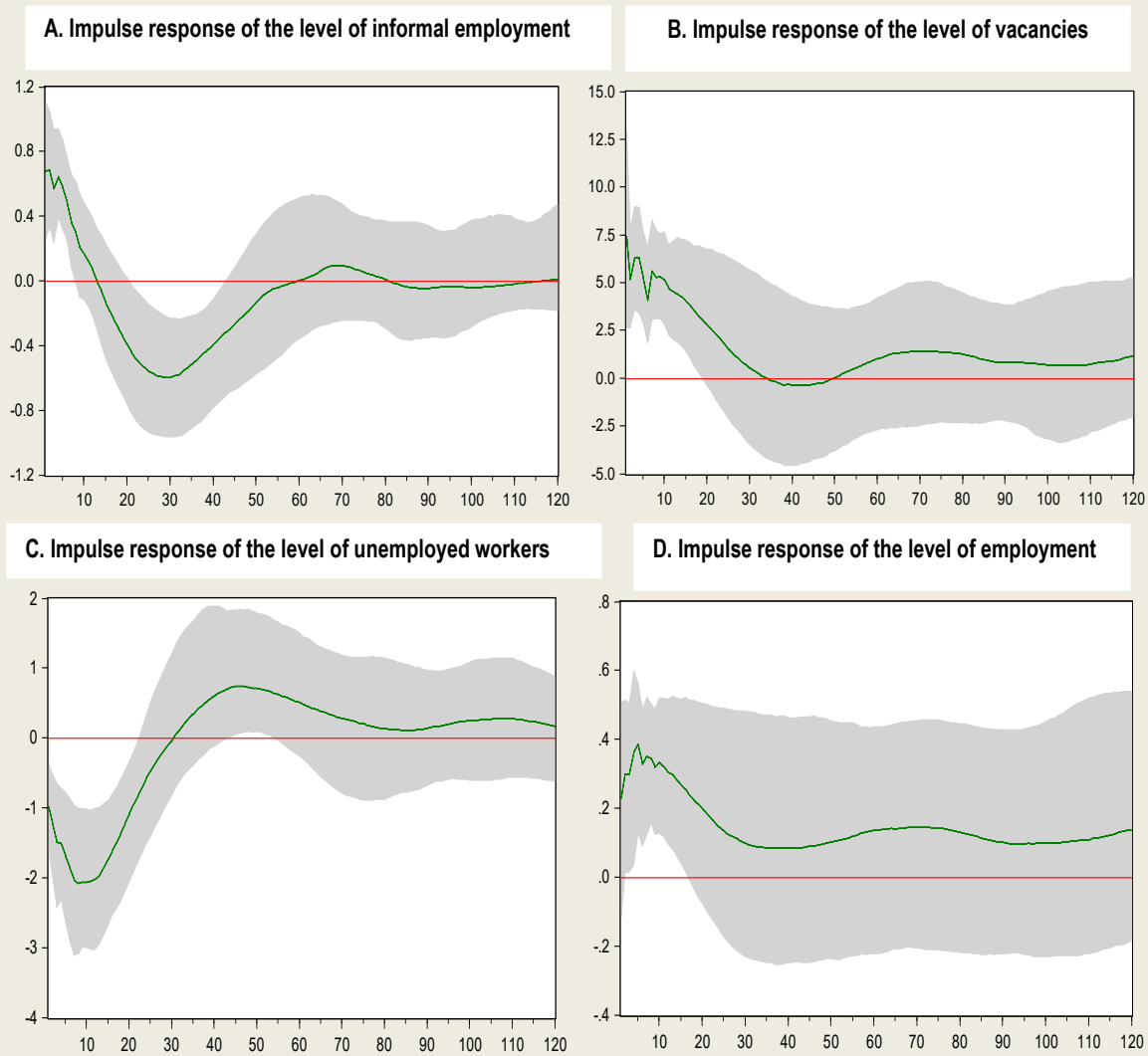
Figure 8. Labour market dynamics following a shock to aggregate activity



Note: Impulse response (green line) of a monthly VAR, estimated with Bayesian methods, employing a diffuse Normal-Wishart prior on the reduced-form parameter matrix and the reduced-form variance-covariance matrix. The VAR includes the logarithmized seasonally adjusted levels of informal employment, vacancies, unemployed and employed workers. The aggregate activity shock is identified by sign-restrictions (unemployment: -; vacancies: +; informal employment: +). The grey shaded area depicts 68% credible sets, the green line point-wise medians. The horizon of impulse responses amounts to 10 years (120 months). The time sample underlying the estimation of the reduced form VAR comprises the 2005M01 to 2019M12 period.
Source: OECD calculations.

Box 2. Informality remains high

The business sector is fragmented alongside different degrees of formalisation

Informal employment makes up around 29% of total employment among all workers above the age of 15 (Figure 9, Panel A). Informal employment refers to employment not registered with social security institutions. The rate of informality is given as the share of informal workers in total employment, i.e., the sum of formal and informal employment.

Besides informality, semi-formal work practices are frequent in many sectors and regions (OECD, 2021[6]). In semi-formal arrangements, workers are registered with social security institutions but undertake some work-related tasks outside their formal work contract. This can range from occasionally moonlighting a few extra hours to practices where workers are hired on contracts that deliberately do not encompass the envisaged working hours or wages. Wage underreporting, i.e. disclosing a lower wage than the actual one to public authorities, is a frequent form of semi-formal employment.

The business sector is fragmented according to the degree of formalisation of businesses. Previous *OECD Economic Surveys of Türkiye* have differentiated businesses as follows: 1) micro- and small-sized firms predominantly operating in agricultural or construction sectors; 2) medium-sized family businesses, i.e., firms that grew from informal businesses into larger entities and while formalised still make use of informal workers or 3) larger and fully formal firms. The last category comprises the growing share of young, sophisticated start-ups that operate in high-technology sectors.

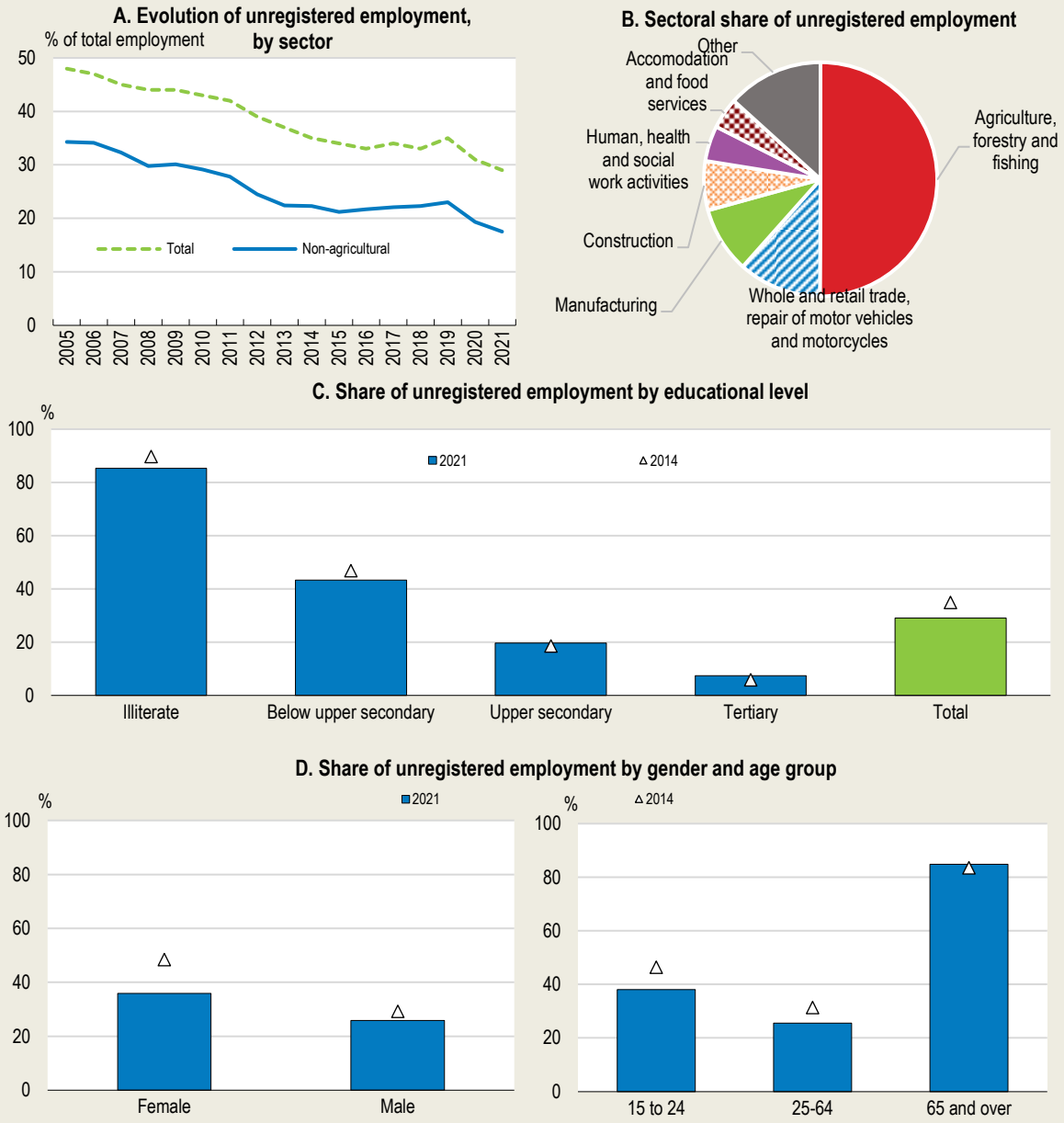
While still widespread, informality is trending downwards

In 2021, the agricultural sector employed more than half of all informal workers (Figure 9, Panel B). Wholesale and retail trade, manufacturing and construction sectors also employed sizeable shares of informal workers. Informality is to a large extent concentrated across smaller firms. The majority of informal workers are employed in micro-sized firms, i.e. firms with 1 to 9 employees, mostly family businesses. The share of informal workers decreases significantly with firm size (Bağır, Küçükbayrak and Torun, 2021[15]). While more than half of the workers employed in micro-sized firms are not registered with the social security system, less than 5% of total workers are informal across large firms, i.e. firms with more than 50 employees. Informality is correlated with the regional share of total value added of agricultural sectors and thus differs significantly across regions (Bağır, Küçükbayrak and Torun, 2021[15]).

While still elevated, the rate of informality has been declining steadily over the last two decades. Similarly, wage underreporting declined (Bağır, Küçükbayrak and Torun, 2021[15]). The significant decline in informality results from a range of factors, most importantly from increasing firm sizes, a smaller share of agricultural sectors in total value added and an increase in the level of aggregate education (Bağır, Küçükbayrak and Torun, 2021[15]). Indeed, the rate of informality is significantly lower for workers with higher educational attainment (Figure , Panel C). Furthermore, policy measures like stricter enforcement of existing labour market laws and fines have also helped to lower informality.

Women, younger but also older workers are more likely to work in informal jobs (Figure 9, Panel D). The higher share of informality among women is due to the significantly higher share of female workers who work in small family-owned agricultural businesses (World Bank, 2019[16]). However, the gender gap in informality is much smaller in non-agricultural sectors. Before the 1999 comprehensive pension reform, early retirement was common and contributed to elevated levels of informality of older workers (Bağır, Küçükbayrak and Torun, 2021[15]).

Figure 9. Despite trending downwards, informality is high



Note: Informality is measured as the number of people working without any social security relating to their main job. In Panel D, data are based on Turkstat's labour force survey's education classification. Those who are literate, but without any diploma are included in the population with below upper secondary education.
Source: Turkstat.

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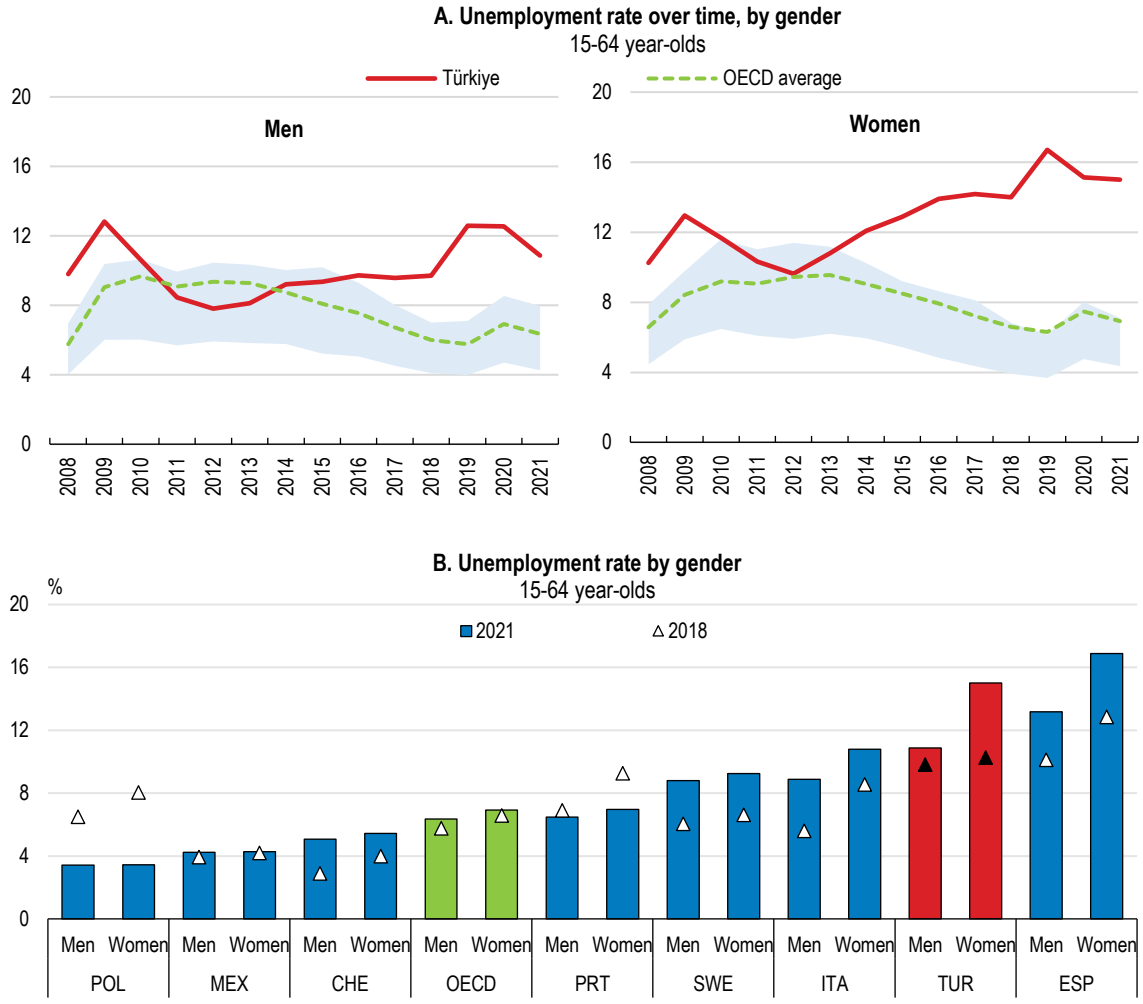
Vulnerable groups need to be better integrated into the labour market

High unemployment rates have been a long-standing feature of the Turkish labour market (Figure 10). While the rapid economic catch-up over the past two decades has led to strong job growth, at an average pace of 600 000 formal jobs per year, it did not suffice to outpace the increase in workers joining the labour force. Unemployment is much more prevalent for female and younger workers. The headline unemployment rate appears to understate labour market slack. Broad labour underutilisation, which is defined as the sum of inactive, unemployed, and involuntary part-time workers as a share of the working-age population, is significantly above the OECD average.

Figure 10. Unemployment has been persistently high, particularly for women



Note: In Panel A, the shaded area denotes the 25th to 75th percentile range of available data for OECD countries. Unweighted average of 37 countries for the OECD aggregate.
Source: OECD calculations based on OECD Labour Force Statistics (database).

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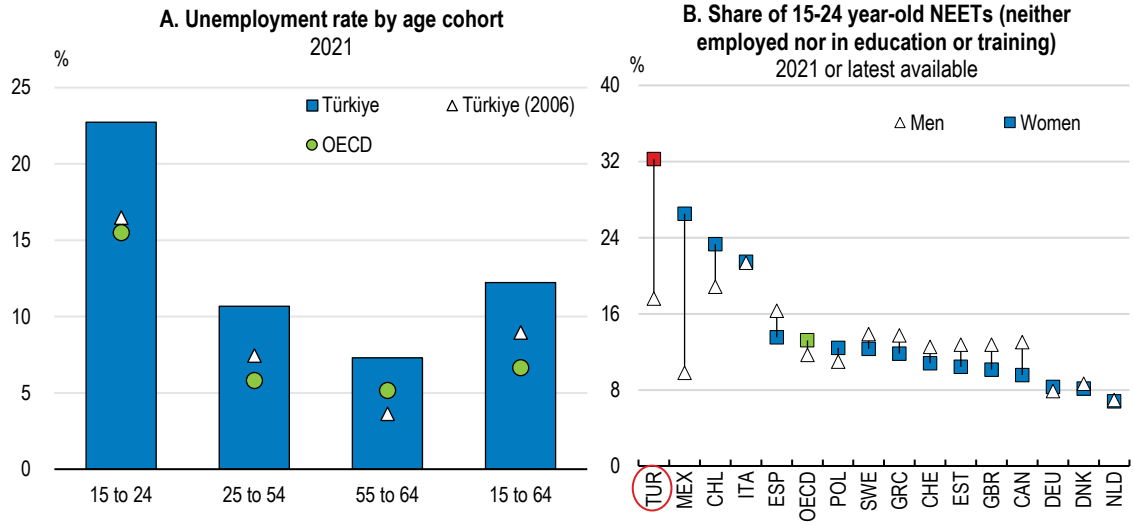
Youth face particularly poor labour market prospects. Youth unemployment is significantly above the OECD average even though it recently declined, to 17.8% in November 2022 (Figure 11, Panel A). Besides, many young adults are outside the labour market, and neither in education nor training

(Figure 11, Panel B). Youth not in employment, education, or training (NEETs) are deprived from the opportunity to improve their human capital, either through education or work experience. This is particularly worrying given that extended periods of inactivity or unemployment at young age are negatively associated with future employment opportunities and earnings and thus bear the risk of trapping people in low-income jobs and poverty (Carcillo et al., 2015[17]). Most NEETs aged between 15-24 years are women.

Figure 11. Many youths are unemployed or neither in employment, education or training



Note: In Panel A, unweighted average of 37 countries for the OECD aggregate.
Source: OECD (2022), Labour Force Statistics (database) and OECD Education at a Glance Database.

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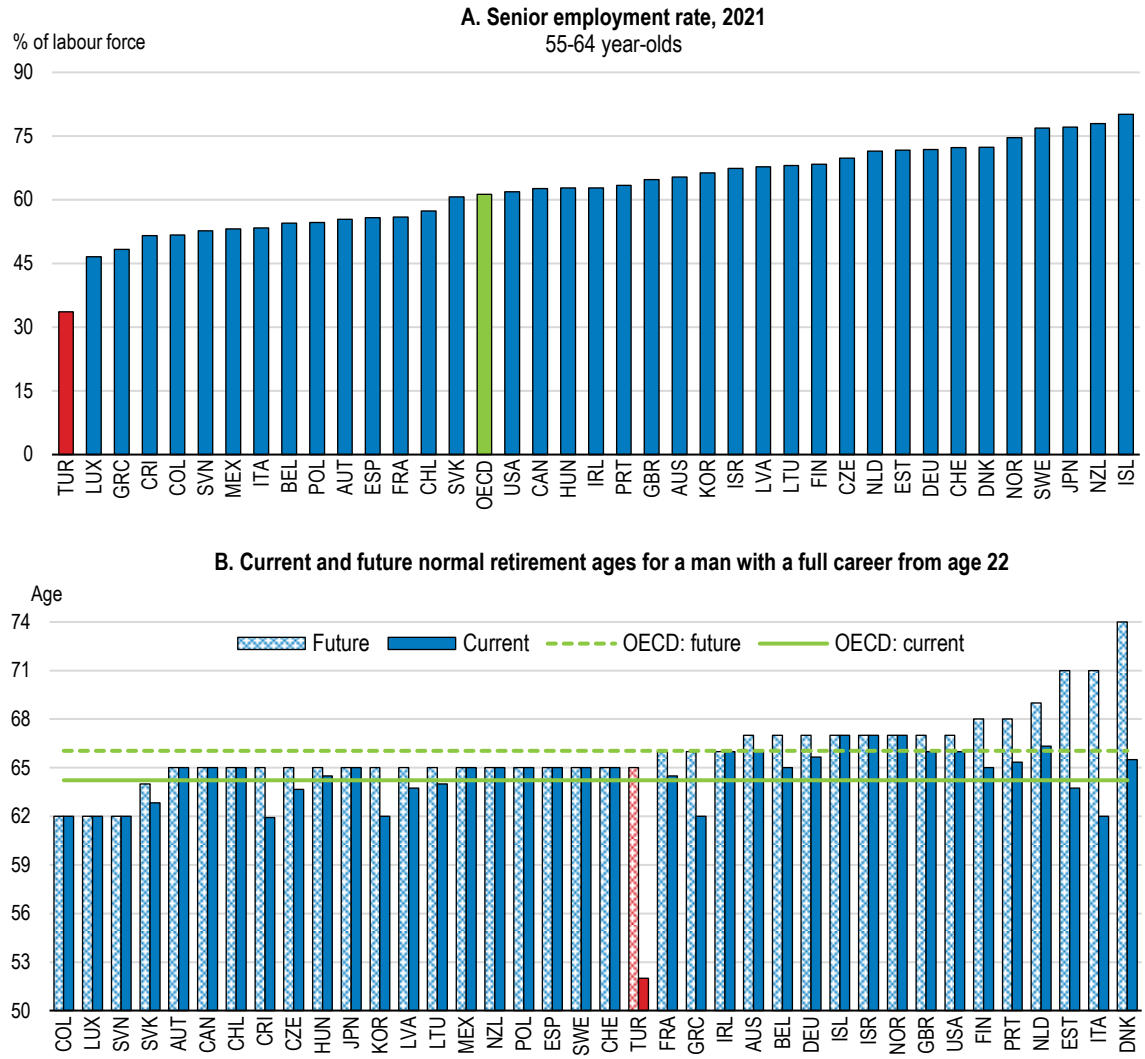
Employment ratios of workers aged between 55 and 64 are the lowest across the OECD, largely reflecting low labour force participation rates (Figure 12). Before the industrialisation of the Turkish economy, early retirement was common, largely driven by the high share of agricultural sectors and the prevalence of physical labour. Consequently, the effective retirement age in Türkiye today is higher than the normal retirement age, contrary to most other OECD countries. However, since the 1999 comprehensive pension reform, retirement ages have been increasing steadily and workers entering the labour force today, after a full career, will retire at 65, broadly in line with regulations in other OECD countries. A recent reform in December 2022 dropped the retirement age requirement for workers who joined the workforce before September 1999 and had a formal work contract for at least 20 years.

Figure 12. Low employment ratios of older workers reflect past incentives to early retirement



Note: In Panel B, current and future refer to retirements in 2020 and workers entering the labour market in 2020, respectively.
Source: OECD (2022), OECD Labour Force Statistics (database); and OECD (2021), Pensions at a Glance 2021: OECD and G20 Indicators.

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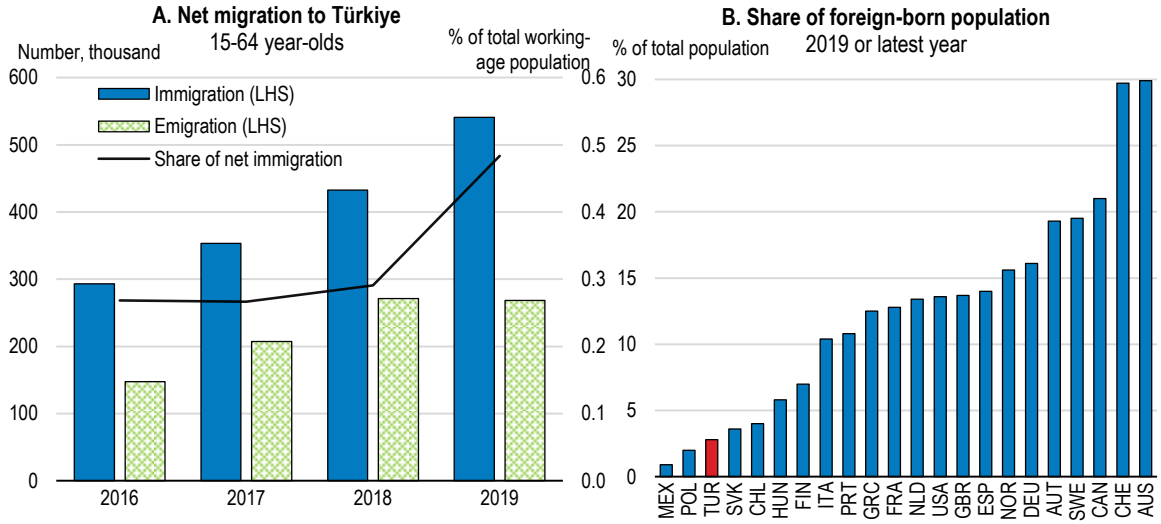
Positive net immigration adds to natural population growth (Figure 13). The integration of immigrants exacerbates existing labour market challenges. On average, net migration has added more than 250 000 persons per year since 2016. In 2019, more than a third of immigrants were citizens of Iraq, Turkmenistan, or Afghanistan. Türkiye also hosts around 3.8 million refugees, mostly from Syria, the largest refugee population in the world (see also Box). Most of the refugees work in the informal sector (Caro, 2020[18]).

Figure 13. Positive net immigration flows increase the size of the population



Note: Data on foreign-born population refer to all people who have migrated from their country of birth to their current country of residence. People born abroad as nationals of their current country of residence are also included.
Source: Turkstat, Migration Statistics; and OECD (2022), OECD International Migration Statistics (database).

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Box 3. Refugees from the Syrian civil war in the Turkish labour market

Türkiye's open-door policy has allowed refugees to flee from the Syrian civil conflict to the provinces in the South-East of Türkiye, neighbouring the war-torn parts of Northern Syria. By the end of 2017, around 3.2 million refugees had arrived in Türkiye. The largest increases in refugees were observed in 2014 and 2015. Türkiye currently hosts around 3.8 million refugees, the largest refugee population worldwide.

With the entering into force of the temporary protection regulation from October 2014, Syrian nationals, refugees and stateless persons from Syria are granted temporary protection status. Six months after having received this temporary protection status, they are eligible to obtain work permits for six months. Employers initiate the application for work permits.

Most Syrians in Türkiye tend to work in the informal sector, predominantly in textile and construction sectors. While unemployment rates of Syrian refugees are roughly comparable to those of Turkish nationals, the significantly lower labour force participation of Syrian women and the much higher share of NEETs across Syrian refugees stand out (Caro, 2020[19]).

The average age of Syrian refugees living in Türkiye is 23, compared to 33 for Turkish nationals (Caro, 2020[19]). The conflict has interrupted the education of many Syrians. As a result, the share of Syrians that could not complete primary education is over 30% higher than that of their Turkish hosts (Caro, 2020[19]). However, differences in educational attainment at higher levels tend to be much smaller. The Board of Education, which issues equivalence documents of educational degrees obtained abroad by foreign students who intend to pursue studies in Türkiye, provides help to smoothen the transition of Syrian students into the Turkish education system.

Empirical evidence suggests that the influx of refugees from Syria has had limited effects on aggregate labour markets. Most refugees have found work in informal sectors (Tumen, 2016[20]; Ceritoglu et al.,

2017[21]; Bağır, 2018[22]; Aksu et al., 2022[23]). Some of the native workers who were displaced by refugees in the informal sector could, however, find a new job in the formal sector, though some also either left the labour force or became unemployed (Ceritoglu et al., 2017[21]; Aksu et al., 2022[23]). The larger pool of informal workers available has helped firms, particularly smaller ones in labour-intensive informal sectors, to increase production (Altındağ, Bakış and Rozo, 2020[24]). Firm creation in the informal sector increased, too.

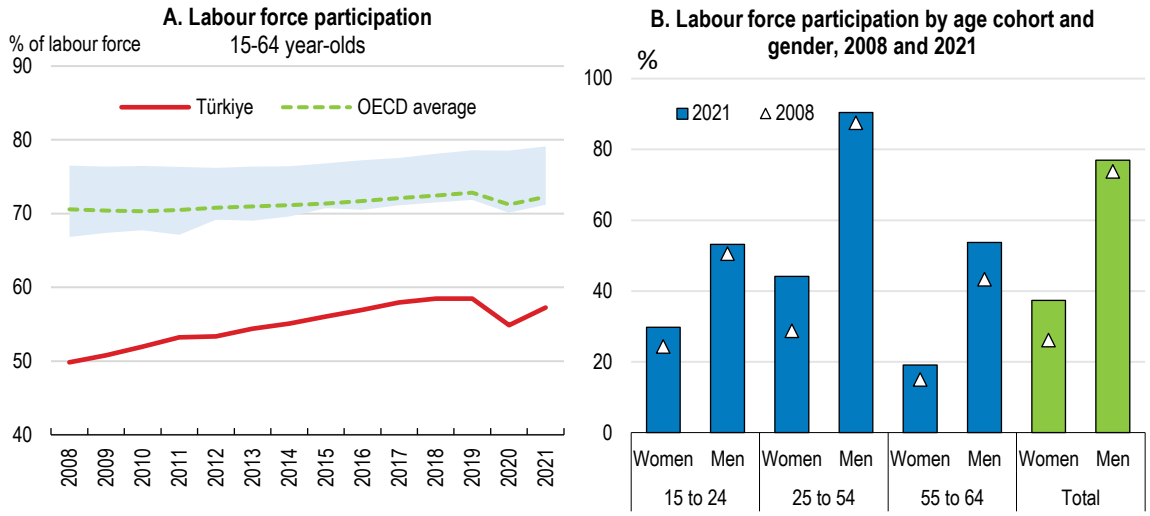
The Turkish authorities have rolled out numerous initiatives to help refugees to integrate into labour markets, supported by the European Union, the United Nations, and the United Nations Refugee Agency. Refugees are also eligible to tap help from active labour market policies provided by the Turkish Employment Agency (İŞKUR). This includes vocational training, on-the-job training programmes and language training. Several other initiatives, including public awareness and information campaigns but also simplified legal processes for work permits and cash for work programmes, aim to help with the integration of refugees into work and daily life.

Boosting labour market prospects of women

Better integrating women into the labour market needs to be a key priority. Labour force participation and employment ratios of women are very low (Figure 14). A lack of child-care services entrenches cultural norms in which women are expected to provide the bulk of care for children and older family members as well as various other types of housework (Mercan, 2020[25]). Furthermore, the rise of service and industrial sectors at the expense of agriculture has reduced employment opportunities of women. While the necessary adaption to urbanisation is still ongoing and can lead to higher labour force participation without the need for intervention, the lack of affordable and high-quality child-care services constitutes an impediment to the participation of women in the labour force and requires swift and decisive policy action. A better activation of the female talent pool would also help to address skill shortages.

Solely rising labour force participation of women risks increasing the already high unemployment rates of women which relates to their educational profile. Particularly in older cohorts, women are less educated than men (World Bank, 2019[16]). While in most recent cohorts more women graduate from tertiary education than men, unemployment rates of women who graduated from tertiary education are significantly above their male counterparts, owing, at least partly, to field of study choices that are not well aligned with labour market needs. Therefore, policy action that aims at incentivising more women to actively participate in the labour force needs to be flanked with career counselling, adult training and job placement services, ideally targeted at women.

Figure 14. Labour participation is low as few women join the labour force



Note: In Panel A, the shaded area denotes the 25th to 75th percentile range of available data for OECD countries.
Source: OECD calculations based on OECD Labour Force Statistics (database).

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Fostering the provision of early childhood education

The lack of affordable early childhood education and care services makes it difficult for women to participate in the labour force. While pre-school education is not compulsory in Türkiye, enrolment rates quadrupled between 2002 and 2022, one of the largest increases across the OECD. However, the increase started from a low base and enrolment rates in early childhood education and care services for 0-2 and 3–5-year olds remained among the lowest across the OECD until recently.

Policymakers need to ramp up efforts to increase the provision of high-quality, easy to reach and affordable childcare. This should be coupled with appropriate funding as low-quality pre-school experience may have detrimental effects on development and learning. Importantly, access to childcare facilities should not be made contingent on labour market status, so that informal workers could benefit too. Improving the provision of childcare and education services helps to boost labour force participation of women and improve educational outcomes. While public policy plays an important role in facilitating labour force participation of women, more equal job market prospects across gender also require an adaptation of modernisation of social norms regarding family and career choices of men and women (Kleven et al., 2022[26]).

Increasing the provision of child education and care services is a key priority for the government. Various measures have been rolled out to increase the physical capacity of public childcare facilities and schools. Several ongoing experiments directly support the employment and labour force participation of mothers, including vocational training courses, on-the-job trainings and other projects offered by the Ministry of Labour and Social Security (see Box 4 for some examples). Further, since 2016, the so-called half-time working allowance provides financial support for female employees in formal contracts, and employees who adopted a child under the age of three, who need to take unpaid leave after maternity leave to take care of their children.

In line with the targets specified in the 11th Development Plan and the Presidential Annual Programme for 2022, the authorities expected the schooling rate of 5-year olds to reach 89% by the end of 2022. This should help to increase the labour force participation of women with children, which is still significantly

below the participation of women without children (Dedeoğlu,, Adar and Sırali, 2021[27]). According to a McKinsey study conducted in co-operation with the Turkish Industry and Business Association, GDP could increase by 20% if Türkiye were to reach the average OECD activity rate of women (53.1% in 2019) within 10 years ((McKinsey and Tüsiad, 2016[28]), 2016).

The increase in capacity would be a welcome step, since due to limited supply, only a fraction of families with children were eligible to public childcare services (Gökmen, 2021[29]). If not eligible, women with children often dropped out of the labour force to take on childcare duties or relied on private providers, including family members and other informal providers.

Box 4. Supporting formal employment of mothers: some examples of ongoing projects

Promoting Educated Child Caregivers – the EDU-CARE project

The EDU-CARE, co-financed by the EU, project aims at professionalising jobs related to childcare services but also to promote formal employment across babysitters. Within the EDUCARE project, mothers, who have a formal work contract and have children aged between 0-36 months, have access to a subsidy, if they employ a babysitter with a formal qualification. A further one-time payment is provided for employing a babysitter who has attended a course that grants a babysitter certificate. The goal of the EDU-CARE project is to provide 3 700 jobs for child caregivers and to ensure 3 700 mothers, who are at risk of withdrawal from the labour market due to care responsibilities, to continue participating in labour markets.

Institutional Child-care services – the INST-CARE project

The institutional child-care support programme intends to support formal employment of women with young children by facilitating access to institutional childcare services. Mothers can tap a monthly subsidy if they have a formal employment contract, earned up to twice the gross minimum wage and pay school fees regularly. The project targets 10 250 women who either register for the first time or remain registered to the social security systems as full-time employees.

The Women-Up project

The project supports female employment in small-scale and young enterprises founded by female entrepreneurs in seven different provinces (Şanlıurfa, Kahramanmaraş, Samsun, Ankara, Aydın, Denizli, İstanbul). Specifically, financial support of monthly TRY 5 150 is provided to eligible beneficiaries for up to 20 months. So far, 4 000 female entrepreneurs and 4 000 female formal workers have benefitted from this project.

As in many other OECD countries, the provision of childcare infrastructure and education services is lower in rural areas. Several initiatives aim at facilitating childcare in rural regions, including transportable and cheaper to construct container-based kindergartens (“mobile” kindergartens), or by sending so-called mobile teachers to more remote regions. Furthermore, the minimum number of students required to open a primary school in rural areas was lowered from 10 to 5. An additional support programme amounting to around TRY 500 million (about 0.02% of GDP), to reduce the cost of pre-school education for families with children living in socio-economically disadvantaged households is expected to be rolled out in 2022. Several alternative access models were piloted in 2022.

Towards a more equal sharing of care services across gender

Unpaid household duties also constrain a more active participation of women in the labour market. Women take on the bulk of care of the elderly work, besides childcare and other household duties. This forces

many of them to drop out of the labour force or to seek informal employment opportunities that better allow to combine work, care and household duties (Dedeoğlu,, Adar and Sırali, 2021[27]). Traditional gender and cultural norms tend to augment women's domestic responsibilities (Alnıaçık, Gökşen and Yükseker, 2019[30]).

Increasing the uptake of paternity leave would constitute an important signal to foster a more equal sharing of household and care work across genders. Currently, mothers are entitled to a maternity leave of 16 weeks, in line with the OECD average while fathers can only take one week (OECD, 2020[31]). Overall, parental leave entitlements are less generous than in many other OECD countries–32 weeks on average (OECD, 2020[31]). A more pronounced switch to a parental leave benefit model as opposed to a benefit model centred on mothers can help to improve labour market prospects of mothers (World Bank, 2019[16]). Several OECD countries, including Iceland, Sweden and Korea succeeded in incentivising fathers to take on more childcare care work by using so-called "daddy quotas", i.e. specific portions of paid parental leave reserved to non-transferable entitlements for fathers, or bonus months, where both parents obtain more paid leave if fathers take a pre-defined period of paternity leave (OECD, 2016[32]).

Labour market reforms to create more and better formal jobs

Promoting labour market flexibility through sound regulations

Employment legislation is relatively rigid in Türkiye. This pertains to regulations concerning regular workers but also pertains to other work arrangements. Strict labour market rules for regular workers are, to large extent, driven by the costly severance pay system (Figure 15, Panel A). Combined with one of the OECD's highest minimum-to-median wage ratio, this results in comparatively high costs of formal job creation.

Restrictions on the use of standard fixed-term and temporary work agency contracts are stringent since they can only be used in the context of seasonal and agricultural work (Figure 15, Panel B). More industries, in particular business services, should be eligible to tap fixed-term and temporary work agency contracts. Such additional flexibility could help smooth the transition into formal jobs for the youth and female workers (World Bank, 2019[33]). Moreover, demanding reporting and authorisation requirements should be reconsidered as they hamper a more widespread use of fixed-term and temporary work agency contracts.

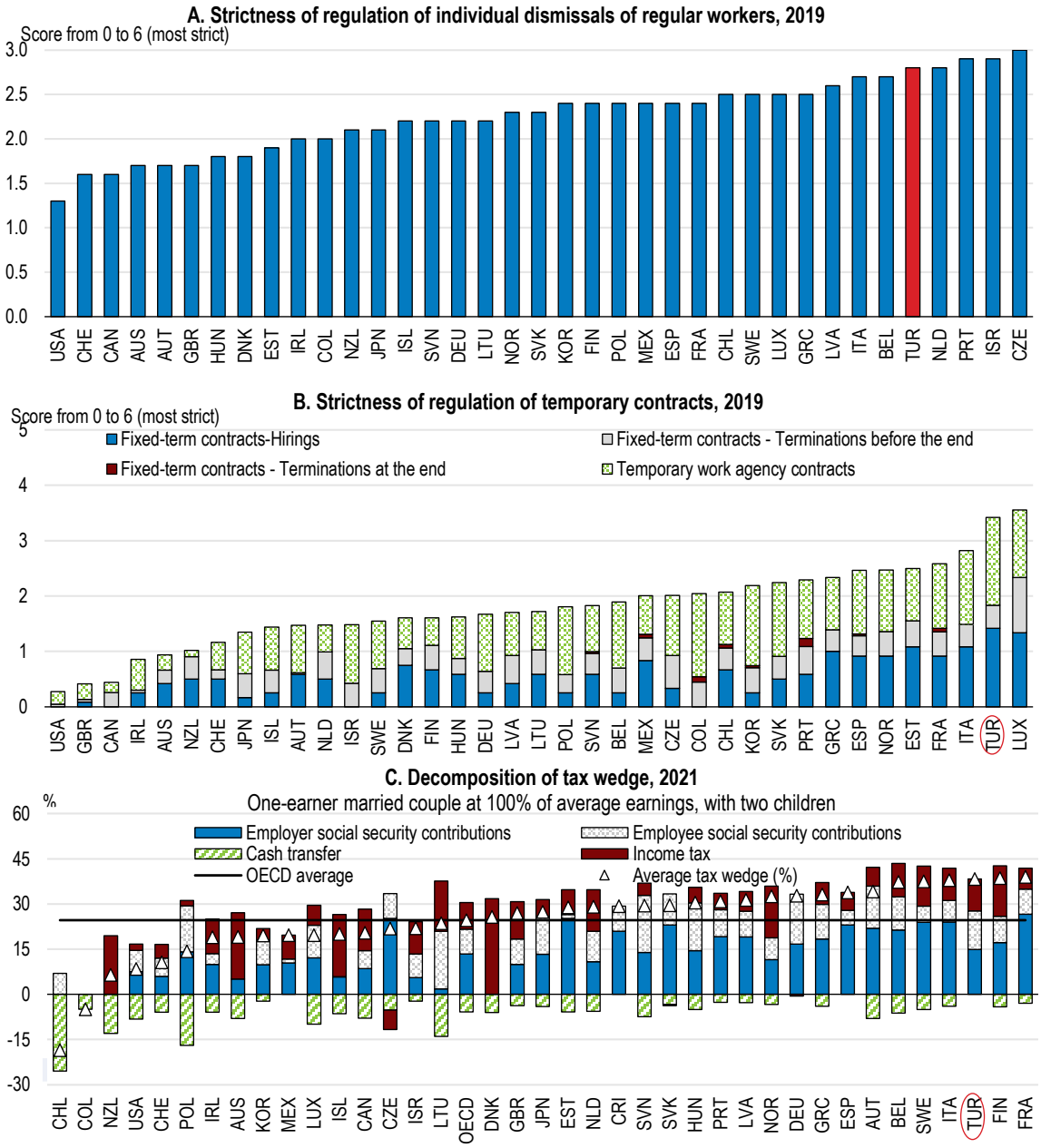
Part-time work is less prevalent in Türkiye than elsewhere. An important reform of the Turkish Labour Law in 2016 paved the way for various flexible work models, including part-time work (OECD, 2016[34]). While part-time workers make up only around 9.5% of all employed workers, significantly below the EU average of 16.5% (European Commission, 2022[35]), hours worked on part-time formal work contracts have increased since the 2016 reform (World Bank, 2019[33]).

Technological progress, in particular digitalisation, will shift the range of suitable work models away from traditional employee-employer relationships and will likely come with a rise in alternative work arrangements (OECD, 2019[1]). In 2020, the authorities sought to facilitate the use of fixed-term contracts, including by allowing for several renewals of fixed-term contracts for younger and older workers. However, the social partners objected and no consensus was reached. Moreover, to allow for more labour market flexibility, the Turkish Employment Agency (İŞKUR) authorises private employment agency to provide employment intermediation services.

In implementing labour market reforms to promote formal job creation by reducing the costs of job creation, it is important to ensure that workers do not bear a disproportionate burden of adjustment. This implies that more flexible rules for fixed-term and temporary work agency contracts should be part of a comprehensive approach that also allows for more flexible permanent contracts. While alternative work arrangements have some advantages for employers and employees, they likely also give rise to less

steady and more uncertain careers and thus increase employment and income risks, at least for some workers. Subsequently, ensuring sufficient social protection of workers and adequate access to high-quality re-employment services needs to an integral part of a comprehensive labour market reform.

Figure 15. Employment protection regulations are stringent and labour taxation is high



Source: OECD (2022), OECD Indicators of Employment Protection Database, 2021 Edition; and OECD Tax Wedges Database.

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High labour tax wedges also discourage formal job creation. Employee and employer social security contributions and net averages tax rates are high, as they cover parts of the costs of the universal health insurance system (OECD, 2022[36]). In addition, there are no cash transfers or other forms of support for families with children, e.g., preferential tax provisions (OECD, 2022[36]). As a result, the tax wedge for one-

earner married couples with two children are large compared to other OECD countries (Figure 15, Panel C). The authorities provide income taxes exemptions. In January 2022, a change in the regulations pertaining to income tax exemptions resulted in a decline of labour tax wedges for average income earners by 2 percentage points. Overall, lowering labour costs would help to improve labour markets prospects, especially for vulnerable groups, as was the case following previous reforms in Türkiye (Sunel, Kanık and Taşkın, 2014[37]).

There are 18 different premium incentives, support measures and discounts in place to reduce the burden for employers stemming from contributions to the pension system, health insurance and unemployment insurance. For example, with the so-called 5 points discount on premiums, the government subsidises 5 percentage points of the mandatory employer contribution to disability, old age and death insurance premiums of 11%, if premiums are paid regularly (OECD, 2021[38]). Other measures target specific contributions or beneficiaries, such as subsidising 25% of universal health insurance, employers in specific regions or job creation for vulnerable groups like the youth or women. Streamlining and simplifying the system of incentives, support measures and discounts would provide room to reduce employer social security contributions while safeguarding the financing of social security systems.

High minimum wages impede formal job creation

Türkiye has a country-wide minimum wage. The minimum wage is set by the Minimum Wage Determination Commission, an independent tripartite body encompassing 15 representatives, five each from the government, employer, and employee organisations. Decisions are taken by majority and in the event of a tie, the chair has a casting vote. Its decisions are based on a proposal from social partners, considering the social and economic situation of the country and the general situation of wages and living conditions. In case employer and employee representatives disagree, the institutional set-up of this Commission implies that the government sets the minimum wage.

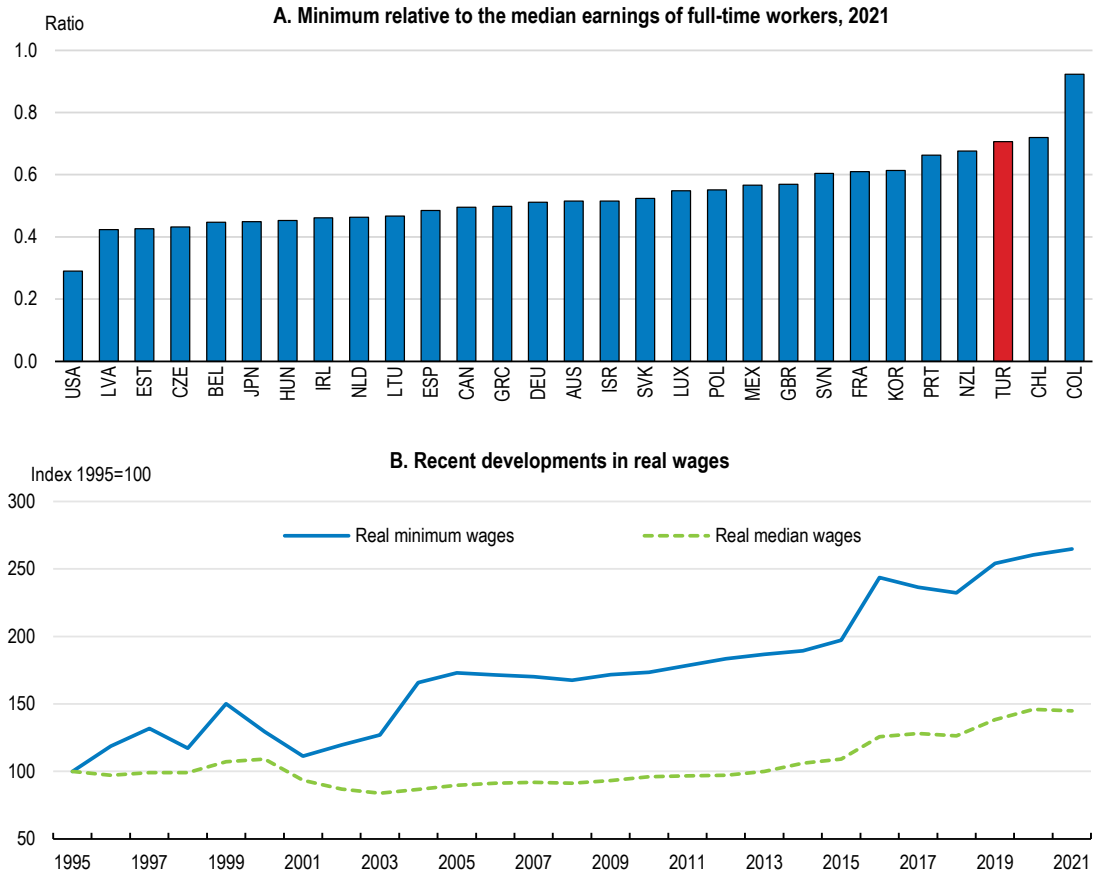
If moderate and well-designed, minimum wages constitute an effective policy tool to increase labour force participation and safeguard living standards (ILO, 2012[39]; OECD, 2019[1]). In emerging markets, minimum wages can also help to anchor wages in informal sectors, lead to higher wages for formal and informal workers and thus reduce poverty (Yüncüler and Yüncüler, 2016[40]). However, overly large increases in minimum wages weigh on job creation, particularly among less skilled and younger workers (OECD, 2019[1]). The impact tends to be stronger for women, younger and older workers. In economies characterised by high levels of informality, regular and modest increases in the minimum wage do not appear to be associated with losses in formal employment, though increases in informal employment have been observed (Broecke, Fort and Vandeweyer, 2017[41]).

The minimum wage has grown faster over the last two decades than the median wage and the minimum-to-median wage ratio is now one of the highest among OECD countries (Figure 16, Panel A). Minimum wage growth has also outpaced the growth of consumer prices and productivity. Between 2000 and 2021, the annual average minimum wage increases surpassed consumer price inflation by around 4 percentage points. Over the same time, labour productivity grew by roughly 3%. Most recently, the minimum wage was raised by 50% in January 2022, 30% in July 2022 and 55% in January 2023 to compensate for high inflation. Around 65% of workers in formal employment earn wages close to the official minimum wage. Most of them work in construction, repair, personal service, or manufacturing sectors with a relatively low level of technological sophistication (World Bank, 2019[16]). To compensate employers for the relatively high minimum wage, the authorities provide tax incentives and subsidies to reduce social security contributions paid by employers for minimum wage earners. A thorough evaluation of these subsidies would help gauge which measures could be phased out.

Due to the significant regional differences in income per capita and costs of living, the minimum wage is not well aligned with local socio-economic conditions (see also Box 5). In some regions the minimum wage

is higher than GDP per capita. This may disincentivise minimum wage earners in poorer regions to search for employment elsewhere and thus undermines regional mobility and contributes to informality.

Figure 16. Minimum wages are relatively high



Note: Minimum wages apply to workers aged 16 and over under the Minimum Wage Regulation. Median wages are estimated using gross earnings of full-time employees in enterprises with 10 employees or more in the formal sectors, based on the Structure of Earnings Survey of Türkiye.
Source: OECD (2022), OECD Labour Statistics (database).

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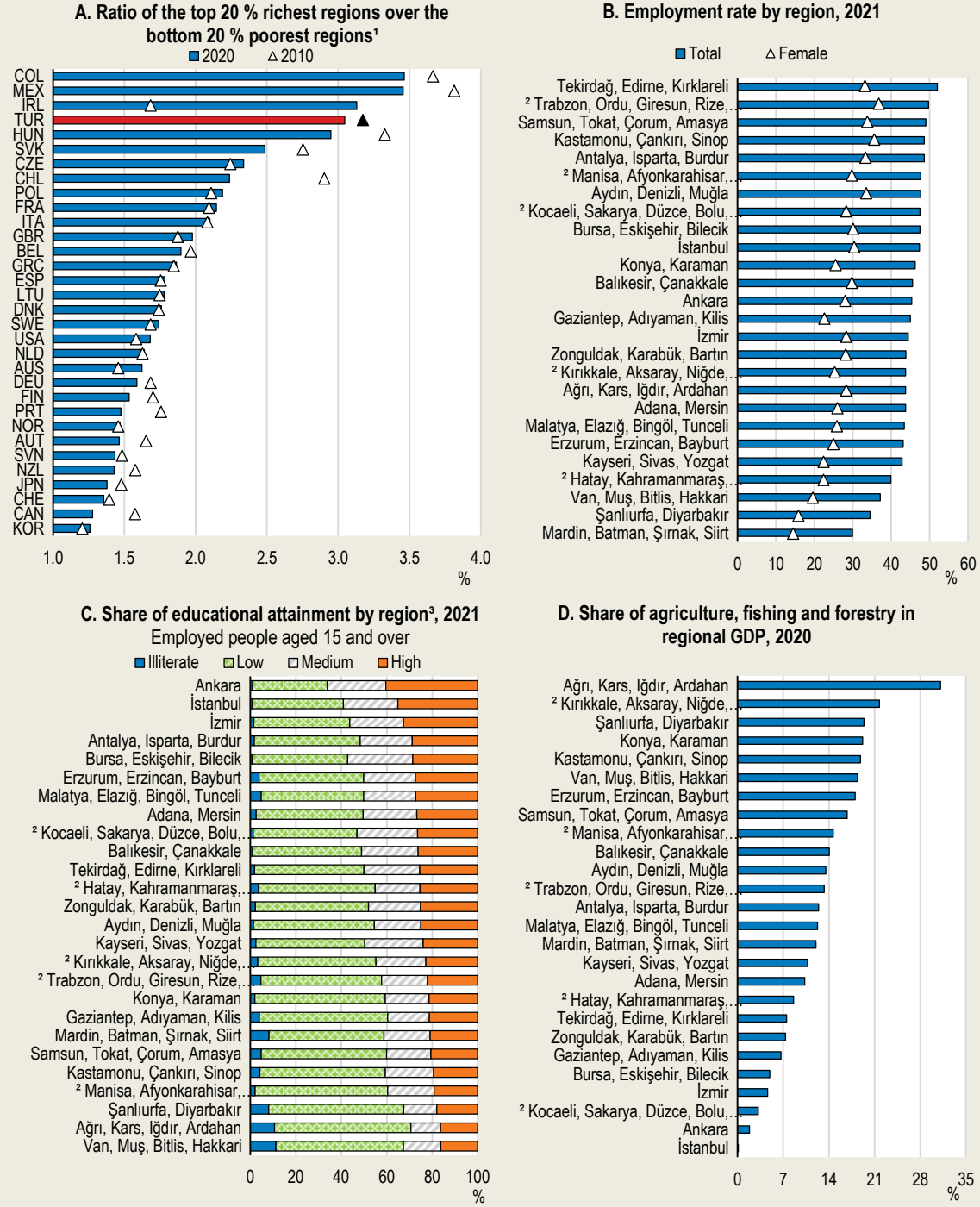
Box 5. Income per capita varies considerably across regions

Despite strong growth in income per capita in lagging regions, regional disparities remain high (Figure 17, Panel A). The real minimum wage at the end of 2021, i.e., before the further increases of 2022, amounted to TRY 42 930, or USD 14 073 at 2021 purchasing power parities. At the same time, the most lagging regions in Middle South-eastern Anatolia and East Eastern Anatolia generated a GDP per capita of less than TRY 26 000.

There is a close link between regional job prospects and the sectoral breakdown of economic activity. Regions where agricultural sectors contribute relatively more to value added tend to display lower employment rates (Figure 17, Panels B and D). Regional disparities in income per capita also relate to considerable differences in the level of educational attainment (Figure 17, Panel C). In several regions the share of illiterate people is close to the percentage of people with tertiary education (OECD, 2017[42]). Illiteracy rates throughout the country tend to be higher for women.

Figure 17. Income across regions varies with the share of agricultural sectors and the level of educational attainment



1. The top (bottom) 20% regions in terms of GDP per capita are defined as those with the highest (lowest) GDP per capita until the equivalent of 20% of national population is reached. Based on GDP per capita values expressed at 2015 constant prices, using OECD country deflators and converted into constant USD purchasing power parities (PPPs), 2015 reference year.
2. The full names of the region categories are as follows: Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane; Manisa, Afyonkarahisar, Kütahya, Uşak; Kocaeli, Sakarya, Düzce, Bolu, Yalova; Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir; and Hatay, Kahramanmaraş, Osmaniye
3. Low education refers to below upper secondary education, medium education refers to upper secondary (including vocational) education and high education refers to above medium education.
Source: OECD (2020), OECD Regional Statistics (database); and Turkstat.

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The high minimum-to-median wage ratio drives up the costs of formal job creation. This gives informal and semi-formal firms, at least to some extent, a cost advantage over fully formal firms since they can deviate from the country-wide minimum wage. Fully formal firms do not benefit from this flexibility. Therefore, the high minimum wage tends to impede job creation in the formal sector and incentivises firms, particularly smaller ones, to hire workers without complying with labour market and social security regulations. Given the already high minimum wage, as compared to the median wage, future minimum wage increases in Türkiye should be approached with caution and assessed very carefully in terms of potential labour market effects. Any increases should be communicated well in advance.

Several OECD countries have lower minimum wages for younger workers, to facilitate their integration into the labour market, or regional minimum rates Türkiye experimented with both approaches, age-specific and regional minimum wages. However, there are constitutional barriers today that prevent a renewed experiment with both differentiations in national-wide minimum wages. Türkiye had a reduced minimum wage for 15-16 year olds but abolished it in 2014. The implied increase in the minimum wage of around 24% for 15-year old workers is estimated to have reduced their employment rates by up to 3 percentage points, underlining that youth minimum wages can be an effective tool to help younger workers to enter the labour market (Dayioglu, Küçükbayrak and Tumen, 2020[43]). The implied increase has also reduced their labour force participation (Bakis, Hiscariklilar and Filiztekin, 2015[44]). Regional minimum wages were in place between 1969 and 1974 but were abandoned due to widespread non-compliance.

Adjustments to the minimum wage, particularly in times of rising inflation, need to safeguard a balance between the needs of workers and firms. Going forward, one option to achieve this would be for social partners to set a minimum wage floor through the Minimum Wage Determination Commission combined with more recourse to collective bargaining at the sector- or enterprise-level. Collective agreements on top of a national minimum wage floor would help companies and workers to find more tailored solutions - in addition to national regulations - for a fair sharing of costs (Cazes, Garnero and Pacifico, 2022[45]). Many OECD countries have sectoral rates, either in addition to a national rate, as in Australia, or without a national rate, as in Norway (OECD, 2019[1]). In Australia, industry- and occupation-wide regulations, determined by the Fair Work Commission, set sector- and skill-specific wages, on top of a national-wide minimum wage (OECD, 2019[1]). However, more recourse to collective bargaining at the sectoral or firm-level in Türkiye needs to be understood as a medium- to long run goal as it necessitates an increase of the relatively low levels of trade union density and of the coverage of collective agreements.

A high degree of predictability of minimum wages helps firms to plan ahead and avoids that sudden increases give rise to liquidity shortages. Following a pre-defined publicly disclosed set of clear guidelines would alleviate the adjustment burden for firms but also ensure alignment with evolving economic conditions.

Shifting job loss protection from the severance pay system to unemployment insurance

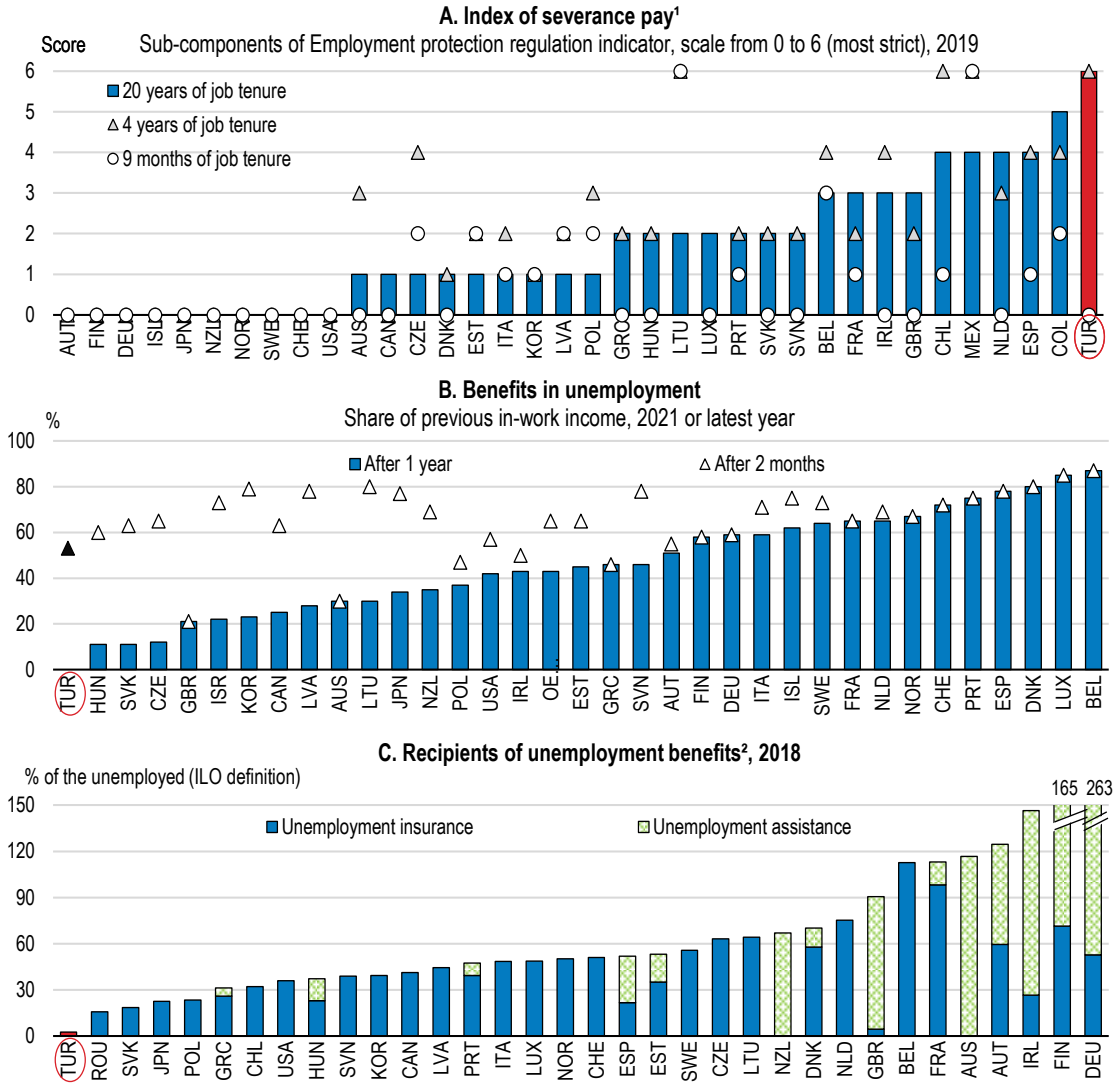
Spurring formal job creation requires reconsidering the advantages and disadvantages of the severance pay system. While the severance pay system lifts firing costs for employers and protects laid-off workers by disbursing benefits, it also hampers formal job creation and a healthy pace of reallocation of labour towards more productive sectors and firms (Holzmann and Vodopivec, 2012[46]).

The regulations governing severance payments in Türkiye are the strictest across the OECD. (Figure 18, Panel A). Eligibility for severance pay starts after one year of formal employment. From then on, workers are entitled to severance pay equal to one month for every year of service. For example, a worker with 12 years of job tenure is eligible for a severance pay equal to a full year of salary. The amount of severance pay is capped and cannot exceed the retirement bonus of the highest-level civil servant. In July 2022, the maximum monthly severance pay was lifted to TRY 15 371 (around EUR 850 at the time). Severance pay in Türkiye is bound to the current employer and not portable. Job creation thus also depends on whether firms can shoulder the necessary precautionary savings for future severance payments (Holzmann and

Vodopivec, 2012[46]). Since informal workers are not eligible to severance pay, businesses can be tempted to rely more on informal sources of labour.

Besides, the eligibility criteria imply that formal workers with "non-standard" employment histories are deprived from the social protection that the severance pay system provides. For example, workers with successive employment spells of less one year with different employers or, more generally, workers with frequent changes of employers, may have insufficient social protection. Employees can only tap unemployment insurance if they were covered by social security for at least 600 days in the previous three years and paid contributions for at least 120 days. This constitutes a significant hurdle for many workers on fixed-term contracts. The eligibility requirements of the unemployment insurance system need to be re-considered.

Figure 18. Severance pay is relatively high while the generosity of unemployment benefits is low



1. Values for 9 months, 4 years and 20 years of job tenure are registered as zeros for Austria, Finland, Germany, Iceland, Japan, New Zealand, Norway, Sweden, Switzerland, and the United States.
2. See OECD SOCR database via www.oecd.org/social/recipients.htm for more details.
Source: OECD (2022), OECD Indicators of Employment Protection Database, 2020 Edition; and OECD (2022), Benefits in unemployment, share of previous income (indicator); and OECD (2022), OECD SOCR database.

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A reform of the severance pay system has been on the agenda for many years. The 10th and 11th Development Plans list this reform as a key priority (Turkish Ministry of Treasury and Finance, 2021[47]). However, previous attempts to reform the severance pay system failed to reach a consensus between employer organisations and trade unions.

A reform of the severance pay system needs to encompass a wider reform of social protection, particularly the unemployment insurance system. Typically, for an emerging economy, severance pay constitutes an important source of job protection (Figure 18, Panel A). The introduction of unemployment insurance in 2000, besides other passive labour market policies in place that provide income support, was an important step (Box 6). However, the coverage of the unemployment insurance system is narrow due to strict eligibility criteria. The high incidence of informal employment further restricts the base of the unemployment insurance system as informal workers do not contribute to the system (World Bank, 2019[16]). As a result of the relatively narrow base, benefits, measured as a share of previous in-work income, and the share of unemployed workers who receive these benefits are the lowest across the OECD (Figure 18, Panel B and Panel C). Within the National Employment Strategy for 2014-2023, the authorities examine how to provide more social protection through the unemployment insurance system. Further, revising and improving the capabilities of the unemployment insurance fund is a main priority for the public employment agency (İŞKUR).

Informality also raises considerable challenges for designing an effective unemployment insurance system. Since informality is difficult to monitor, unemployed workers can tap unemployment benefits while simultaneously working informally. If informality is widespread, such practice drives up benefit claims and undermines the effectiveness of the unemployment insurance system (OECD, 2018[48]).

A comprehensive reform of the severance pay and unemployment insurance system should move from the protection of existing jobs towards the protection of workers. Structural change, including the digital transformation, will entail job losses for workers whose tasks and skills get redundant. Protecting existing jobs, for example through the severance pay system and other rigid employment regulations, will delay necessary adjustment. However, ensuring sufficient social protection for workers to bridge spells of unemployment while providing good access to effective re-employment services would facilitate reallocation towards more productive employment. Overall, workers could be better protected through the unemployment insurance system while severance pay is reduced.

Extending the coverage of the unemployment insurance system requires activation policies that balance sufficient support with incentives to search for a new job. On the one hand, the content and design of active labour market programmes need to adapt to changing needs, for example by also reaching out to workers who are not unemployed but at high risk of unemployment. Such prevention and early intervention services have proven effective if well-designed (OECD, 2019[1]). On the other hand, extending the coverage of the unemployment insurance system should come with a careful re-evaluation of responsibilities for benefit recipients. While weak work incentives are usually not a key impediment to the uptake of new employment, they often imply that unemployed workers do not participate, or only to a small extent, in active labour market programmes (OECD, 2019[1]). Indeed, for Türkiye, the OECD Indicator of Strictness of Activation Requirements suggests that the activation of benefit recipients could be improved. In particular, this concerns the incentives to search, prepare for or accept a new job. Stronger incentives to participate in activation programmes need to come alongside an extension of the coverage of the unemployment insurance system.

Introducing individual unemployment saving accounts is one option to increase incentives to stay in formal employment or to seek new employment swiftly after getting unemployed (Holzmann and Vodopivec, 2012[46]; OECD, 2018[48]). With individual unemployment savings accounts, workers use their own savings during times of unemployment. Thus, they internalise the cost of unemployment benefits which considerably limits the risk of moral hazard (Asenjo and Pignatti, 2019[49]). Any savings not withdrawn at retirement should be credited to pension entitlements, further increasing incentives to stay in, or return to,

formal employment. However, due to the absence of risk-pooling, individual savings accounts may not provide sufficient support for the unemployed, either because workers are unable to save enough or because unemployment spells are long and frequent. Such individual saving accounts also cannot insure against catastrophic events, like long-term disability (OECD, 2019[1]). Further, contributors may be exposed to considerable investment risks, depending on how the savings are invested. Therefore, individual savings accounts should not replace the existing unemployment insurance system but rather complement it. This would allow to combine the incentive structure of individual accounts with the risk-pooling of a common fund. Chile provides an interesting example of an unemployment insurance system that combines individual unemployment accounts with a collective fund (Box 7).

Box 6. Passive labour market policies in Türkiye

Unemployment benefits

Unemployment insurance is compulsory in Türkiye for formal jobs. Unemployment benefits are not means-tested and not taxable. The government, employers and employees contribute to the unemployment insurance system. Some basic statistics on the number of applicants, contributors, entitled workers and annual disbursements are provided in Table 1. The premiums are based on monthly gross incomes and amount to 1% for employees, 2% for employers and 1% for the government. Besides unemployment benefits, İŞKUR also pays health insurance premiums of unemployed workers and provides various active labour market policies.

Workers can only tap unemployment benefits if they have contributed to the mandatory insurance scheme for a minimum of 600 days in the last three years and if they had a formal job within the last 120 days before the termination of their contract.

Benefits amount to 40% of average gross earnings over the last four months but do not exceed 80% of the gross amount of the monthly minimum wage.

Table 1. Statistics on contributions and disbursements of the unemployment insurance system

	Number of applicants (In millions)	Number of entitled workers (In millions)	Beneficiaries (In millions)	Disbursements (In million TRY)
2018	1.64	0.85	1.31	4.82
2019	1.96	1.02	1.67	7.99
2020	1.51	0.51	1.13	6.20
2021	1.47	0.65	0.90	4.81
2022*	1.11	0.52	0.98	6.14

Note: Statistics for 2022 pertain to August 31, 2022.
Source: Turkish Ministry of Labour and Social Security, 2022.

Wage guarantee fund

The wage guarantee fund covers the wages of employees if the employer had to file for bankruptcy and unpaid wages are outstanding. Wages are covered up to three months. The maximum amount of support through the wage guarantee fund amounts to TRY 35 107.90 in 2022. Only workers registered with social security institutions can tap this support.

Job loss compensation

Workers whose contracts are terminated following privatisation can apply for support through the job loss compensation scheme. The set of eligible workers comprises employees who worked for a minimum of 550 days in the workplace that got privatised. Only workers who also qualify for severance pay can get job loss compensation. The benefits through this scheme amount to twice the net daily minimum wage on the termination of the labour contract.

The half-time working allowance after birth or child adoption

Female employees who gave birth or families who adopted a child under the age of three are supported through the "Half-Time Working Benefit after Birth and Child Adoption Allowance". The support amounts to the gross daily minimum wage and is paid for workers who have paid unemployment insurance premiums for at least 600 days in the past three years and who are working half of the weekly working time. The duration of the half-time working benefit is paid for a maximum of 30 days for the first birth, a maximum of 60 days for the second birth and 90 days for any subsequent birth.

Social assistance

The Ministry of Family and Social Services provides several social assistance benefits, in line with Türkiye's poverty alleviation strategy. Most beneficiaries do not participate actively in the labour market, due to disability or old age. However, a small number of them are currently employed.

Several reforms over the past decade have improved access to active labour market programmes and have helped to widen access to social assistance programmes. Since 2010, the beneficiaries of social assistance, who are able to work, are registered with İŞKUR and thus also benefit from its various active labour market programmes. A further reform from 2012 allows families in need who are registered with the social security system to benefit from social assistance. Moreover, since 2018, when social assistance beneficiaries are employed by private employers, social security contributions are paid by the Ministry of Family and Social Services for one year.

Box 7. Combining individual unemployment savings accounts with a collective fund: the case of Chile

Before Chile's 2001 reform, unemployment protection was based on a mixture of unemployment subsidies and severance pay (Holzmann and Vodopivec, 2012[46]). With the 2001 reform, Chile introduced mandatory individual unemployment savings accounts to which both workers and employers pay contributions. The individual accounts were complemented by social insurance with self-insurance through a common solidarity fund, the *Fondo de Cesantia Solidario*. The mandatory contributions to the individual savings accounts are split between workers and employers. The government and employers provide the contributions to the solidarity fund.

Workers need to fulfil certain criteria to be able to tap their savings accounts (Table 2). Any withdrawals from individual accounts are triggered by the separation from the employer, regardless of the reason. In case workers have insufficient resources on their individual accounts, eligible workers can make withdrawals from the common fund. The resulting unemployment benefits are linked to past earnings with a declining schedule. If eligible, permanent workers can also tap the benefits of the severance pay system.

Table 2. The unemployment benefit system in Chile

Contract type	Contributions to individual accounts	Contribution to the Solidarity Fund	Requirement for access when unemployed		Benefits
			To individual accounts	To the Solidarity Fund	
Permanent contract	Worker 0.6% of wages Employer 1.6% of wages For a maximum of 11 years	0.8% of wages for all the duration of the contract	12 continuous or discontinuous contributions in the last 24 months. Voluntary or involuntary termination of contract.	12 contributions in the last 24 months. The last three contributions need to be done continuously and from the same employer. Having insufficient resources in individual account. Dismissal due to unforeseeable circumstances, force majeure or due to the needs of the company.	In the first month, 70% of the average wage of the last 6 or 12 months. This percentage falls progressively to 30% from the sixth month onwards. Workers receiving the benefits from the individual accounts can collect benefits until their balance is exhausted. The Solidarity Fund covers up to the fifth month (if permanent worker) or third month (if fixed term worker). For fixed-term workers the replacement rate starts are 50%, 40% and 35%. The benefit received is in proportion of the average earnings of the last 12 months and has maximum and minimum caps. The benefits received from the Solidarity Fund are conditional on enrolment in public employment services.
Fixed-term contract	Employer 2.8% of wages	0.2% of wages	6 continuous or discontinuous contributions in the last 24 months. The last three contributions need to be done continuously and from the same employer. Proof of termination of contract.		

Source: (OECD, 2022[50]).

In case of a lack of political capital for a more comprehensive reform, policymakers could decrease the burden to employers of the current system - and thus incentivize formal job creation - by introducing portable severance pay accounts. Portable accounts, for example following the example of Austria (Box 7), would decouple severance pay from the current employer while preserving most of their benefits.

Box 8. Making severance pay portable: the cases of Austria and Brazil

Prior to the 2003 reform of employment protection legislation, severance payments in Austria were not portable and relatively high, thus broadly comparable to the system currently in place in Türkiye. Severance pay could represent up to a full year of wages for employment spells of 25 years. Employees lost their entitlement if they terminated the work contract since only termination by the employer or by mutual agreement gave rise to an entitlement to severance pay. Since severance pay was bound to the current employer, job mobility was impeded. Further, while employers were required to provision up to half of future payments, simultaneous severance payments could expose firms, particularly SMEs, to liquidity problems (Holzmann and Vodopivec, 2012[46]; OECD, 2018[48]). With the 2003 reform, individual savings accounts replaced the severance pay system. Individual accounts are funded with contributions from employers. Besides their scheduled contributions, employers did not face additional costs at the time of dismissal. Excess savings on individual accounts were added to workers' pensions. Employees are entitled to severance pay irrespective of how the work contract was terminated. Ex-post evaluations confirm that the reform supported the mobility of employees (Hofer, Schuh and Walch, 2011[51]; Kettemann, Kramarz and Zweimüller, 2017[52]).

Brazil also has a severance pay system based on individual savings accounts (The Guarantee Fund for Length of Service) – with one important difference. Besides severance pay, employers are required to pay an additional indemnity payment to dismissed workers. When switching to a system based on individual accounts, firms suddenly face regular contributions instead of uncertain one-off payments. Over the short term, these regular contributions increase firms' costs (Hijzen and Salvatori, 2021[53]). An additional indemnity payment that is reduced over time while the regular contributions increase, can help avoid a too sudden increase in these costs.

Better targeting activation policies to tackle job displacement

İŞKUR, the Turkish public employment agency, offers active labour market programmes comprising job and vocational counselling services, training and wage and hiring subsidies. In 2021, close to TRY 9.1 billion have been disbursed, roughly amounting to 0.6% of GDP, in line with the average public expenditure on active labour market policies across OECD countries. Active labour market programmes are financed by the unemployment insurance fund. There are four main hiring subsidies that aim at increasing the level of formal employment:

- In the "Additional Employment Incentive", İŞKUR subsidises labour taxes and social security premiums for each new employed formal worker, defined as the number of workers above the average number of workers registered with social security in the prior year. The maximum support period is 12 months.
- Employment of youth and women is supported through an incentive that covers part of the employers' social security premiums from 6 to a maximum of 54 months. Only new workers can qualify for this subsidy. Further, employing new workers with certain vocational qualifications is also supported through this subsidy.
- 33.5 percentage points of the total social security premiums, which amount to 34.5% of salaries, are reimbursed by İŞKUR if a firm hires a worker out of unemployment. Only workers who have received unemployment benefits prior to their new job are eligible.
- For firms with less than 50 employees, a fourth subsidy reimburses insurance premiums up to a threshold of five employees per employer for new workers or workers who have previously received cash wage support.

All programmes are monitored, evaluated and regularly adapted to the needs of labour markets. Besides these incentive programmes, İŞKUR is currently implementing the "Labour Market Support Programme for Young People Neither in Education, Employment or Training (NEET-PRO)". With the NEET-PRO programme, grants are disbursed to universities, professional chambers, local governments, development agencies and non-governmental entities to support projects that intend to increase youth employment. The programme also includes a monthly job search allowance, paid up to a maximum of four months, and a one-time reallocation allowance.

Moreover, unemployed workers can gain work experience with a private sector employer through on-the-job-training programmes implemented by İŞKUR. The duration of this training can range from three to six months and İŞKUR pays a daily allowance to participants, including insurance benefits. Firms do not need to pay trainees' wages during the training. More than 2.3 million workers have benefitted from on-the-job training between 2009 and 2021. Around half of the beneficiaries were women.

In general, well-designed hiring subsidies have a range of advantages, but their effectiveness and costs depend on their design. They tend to have lower deadweight costs, i.e., costs that arise from supporting employment that would have been generated without any subsidy, than wage subsidies (Brown, 2015[54]; OECD, 2019[55]; OECD, 2022[56]). They also appear to be more effective in bringing vulnerable workers into employment than training measures, public work programmes or public education (Sianesi, 2008[57]). Temporary and targeted hiring subsidies also constitute effective countercyclical tools to support the labour market during economic recoveries (OECD, 2021[58]). To reduce deadweight costs and to increase effectiveness, hiring subsidies should be targeted towards workers with otherwise low exit rates out of unemployment (Brown, 2015[54]). The authorities should streamline existing programmes and focus support at the most vulnerable groups, for example the youth, older workers, women, low-skilled or long-term unemployed. Allocating at least some of the funds devoted to wage subsidies to hiring subsidies would help to increase their scope.

Besides hiring and wage subsidies, İŞKUR also offers all workers registered as unemployed job placement and education counselling services and vocational training courses. Currently, İŞKUR employs around 5 000 counsellors who help jobseekers find or change jobs but also give advice on how to improve skills. In the first half of 2022, İŞKUR managed to place more than 900 000 workers into jobs. Around 605 private employment offices support İŞKUR in providing additional job placement services. However, since 204, 492 000 workers have applied for job placement services with private employment agencies. Job counsellors are supported by İŞKUR's profile-based counselling system, that provides targeted counselling services, individual action plans but also allows to track the labour market performance of workers who used İŞKUR's counselling services. For participants in vocational training courses, İŞKUR pays a daily allowance and various insurance premiums, including health insurance. Around a third of the beneficiaries of vocational training courses are young adults. In total around 1.3 million people have benefitted from vocational training offered by İŞKUR since 2012. Empirical evidence from randomized experiments in Türkiye suggests that the impact on formal employment of vocational courses offered by İŞKUR is limited, at least in the long run (Hirshleifer et al., 2016[59]). There is room to increase the scope of job placement services given the high number of unfilled vacancies. Part of the funds devoted to the provision of vocational training courses could help to support job placement services by İŞKUR. Further, engaging private job placement and counselling providers through performance-based renumeration could support public efforts.

Leveraging data and digital tools to provide information on job vacancies can help deliver higher quality services to the unemployed. Better data use and digitalisation could help alleviate skill shortages through a more efficient match of candidates to jobs (Algan, Crépon and Glover, 2018[60]). The authorities launched several initiatives in this respect. The *Skill Map of Türkiye* – a project by the Human Resource Office of the Presidency, a public body that disseminates contemporary human resources management practices for public and private entities – provides information on the regional distribution of skills based on data from Social Security institutions. The database allows to obtain data on educational attainment and level of skills of the active workforce, broken down by age and gender, at a granular regional level. This can help to investigate which regions provide labour with a sufficient skill set and thus may contribute to lower the costs of human resource planning. İŞKUR could complement such tools with digital solutions that directly allow to match vacancies to suitable candidates. For example, the French Public Employment Service has developed an application ("La Bonne Boîte") which allows jobseekers to target their unsolicited applications at enterprises that would be likely to employ them. İŞKUR's ongoing initiative to create an online job matching system and a nationwide skill inventory that would allow to track changing skill needs and identify skill gaps to provide the matching of job seekers to vacancies is a welcome step in this direction. The use of digital tools and data in public employment services should be evaluated regularly to ensure they serve their purpose (OECD, 2022[61]).

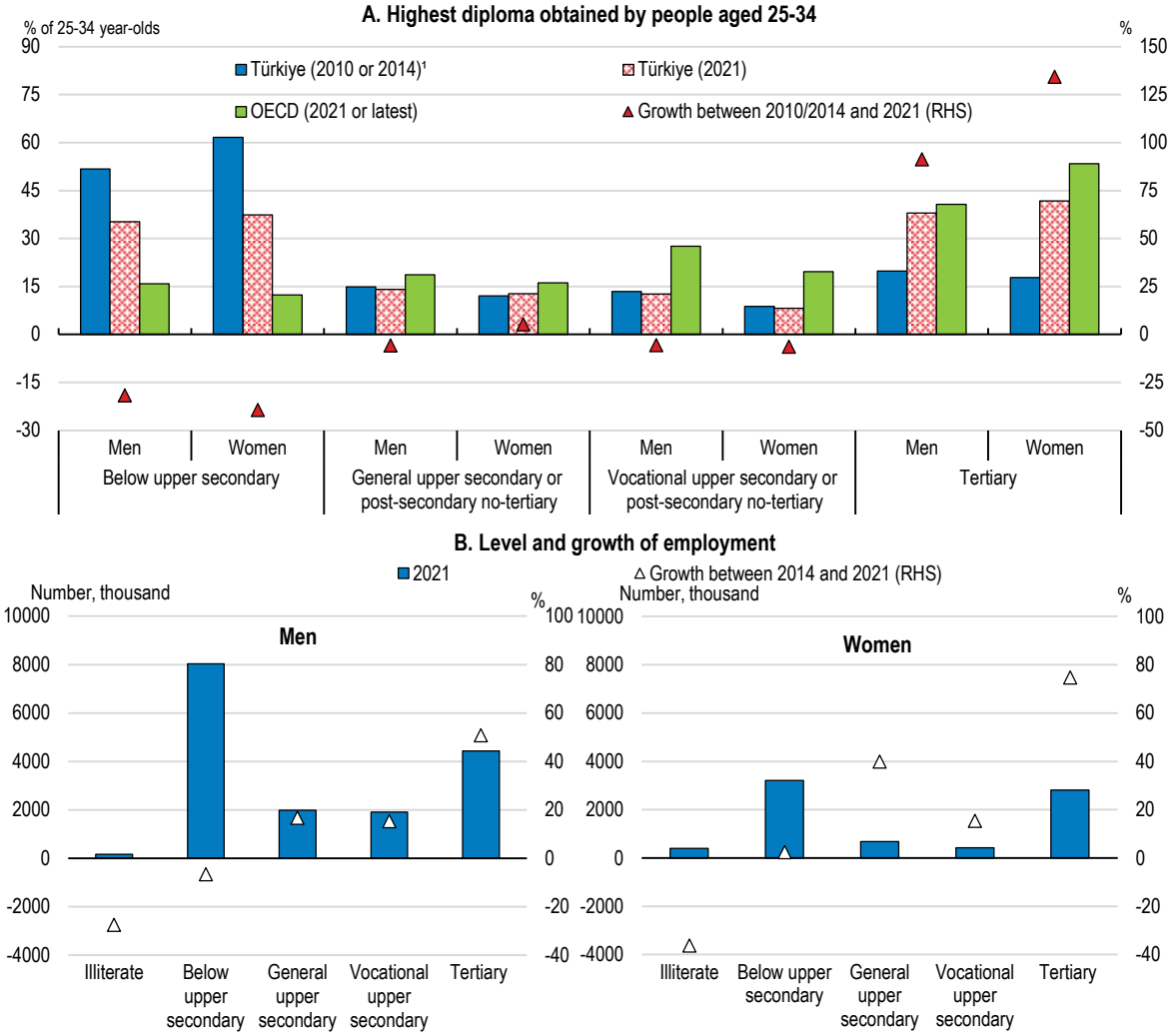
Transparent, non-discriminatory and competency-based recruitment procedures contribute to an efficient matching of labour market demand and supply. Pronounced regional disparities and gender-based cultural expectations in terms of labour market participation, field of study and job choice, could complicate the transition from education to employment for female students. The authorities are aware of this issue and have developed a web-based tool that bundles all opportunities for recruitment and internship in public institutions in a non-discriminatory way (Box 9). This tool also directly links public recruitment to Digital Türkiye. Thus, personal details and information on students' performance at school and university are automatically entered into the Career Gate system.

Aligning the supply of skills with evolving labour market needs

The educational system has made ample progress but has only partially met higher skill demand

Educational attainment improved significantly over the past decade (Figure , Panel A), on the back of higher public expenditure on education. Most of the higher expenditure was devoted to tertiary education (OECD, 2019[62]) and the share of 25–34-year-olds with tertiary education has more than doubled. Graduation rates of young adults from upper secondary education improved considerably (OECD, 2019[62]). At the same time, the share of young adults with below upper secondary or upper secondary education decreased or remained flat. The tertiary educational attainment of women has increased fast, closing the gap with men but still lags the OECD average.

Figure 19. Educational attainment has improved but gaps remain



Note: Data in Panel B are based on Turkstat labour force survey's education classification. Those who are literate but without any diploma are included in people with below upper secondary education.
1. Data on breakdowns between general and vocational upper secondary or post-secondary no-tertiary education refer to 2014.
Source: Turkstat; and OECD (2022), Education at a Glance database.

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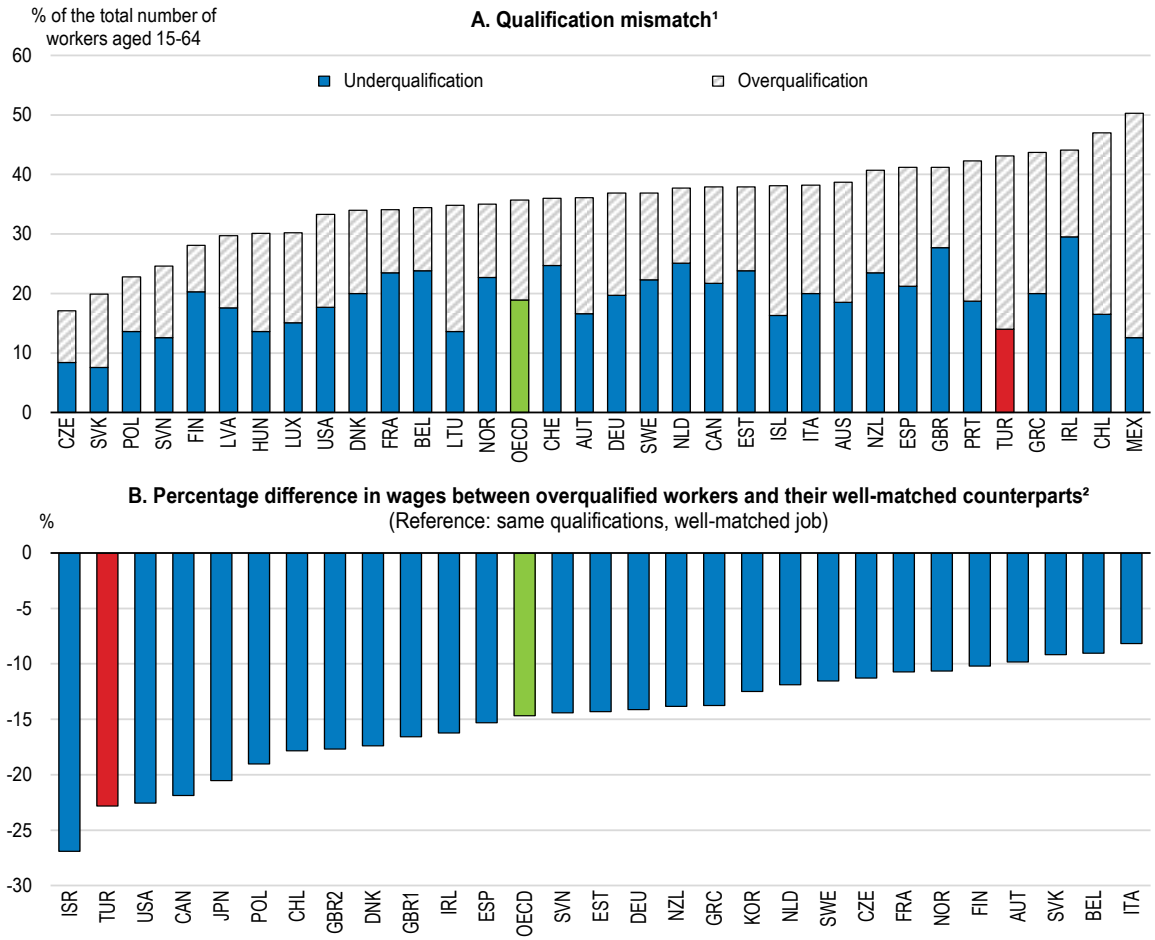
The increase in educational attainment met a higher demand for skills in labour markets. Over the past decade, the number of workers in formal employment with tertiary education outpaced employment of workers with lower educational attainment (Figure 19, Panel B). Employment of female tertiary and upper secondary educated workers rose more sharply than for male workers though the increase did not suffice to reach the level of male workers in formal employment.

Despite the considerable improvement of educational attainment, gaps remain. Around 40% of 25–34-year-olds still do not have an upper secondary degree (Figure 19, Panel A). As a result, the share of 25–34-year-olds with tertiary or upper secondary vocational education falls short of the OECD average, particularly for women. Furthermore, the fast increase in tertiary educational attainment has resulted in a polarization of educational profiles of workers. This polarization relates to skill shortages, which are particularly pronounced for workers with medium-level skills. This suggests that there is room for increasing the number of graduates from upper secondary education programmes to remedy skill shortages.

Figure 20. The skill mismatch is large and over-qualified workers receive lower wages



1. Qualification mismatch occurs when workers have an educational attainment that is higher (overqualification) or lower (underqualification) than that required by their job.
2. Based on the empirical analysis results shown in the publication, OECD (2016) in the source. Chile, Greece, Israel, New Zealand, Slovenia and Turkey: Year of reference 2015. All other countries: Year of reference 2012. Data indicated as Belgium correspond to Flanders; GBR1 = England and GBR2 = Northern Ireland.
Source: OECD (2022), OECD Labour Statistics (database), "Skills for Jobs"; and OECD (2016), Skills Matter: Further Results from the Survey of Adult Skills, Table A5.12; OECD Survey of Adult Skills (PIAAC) Databases.

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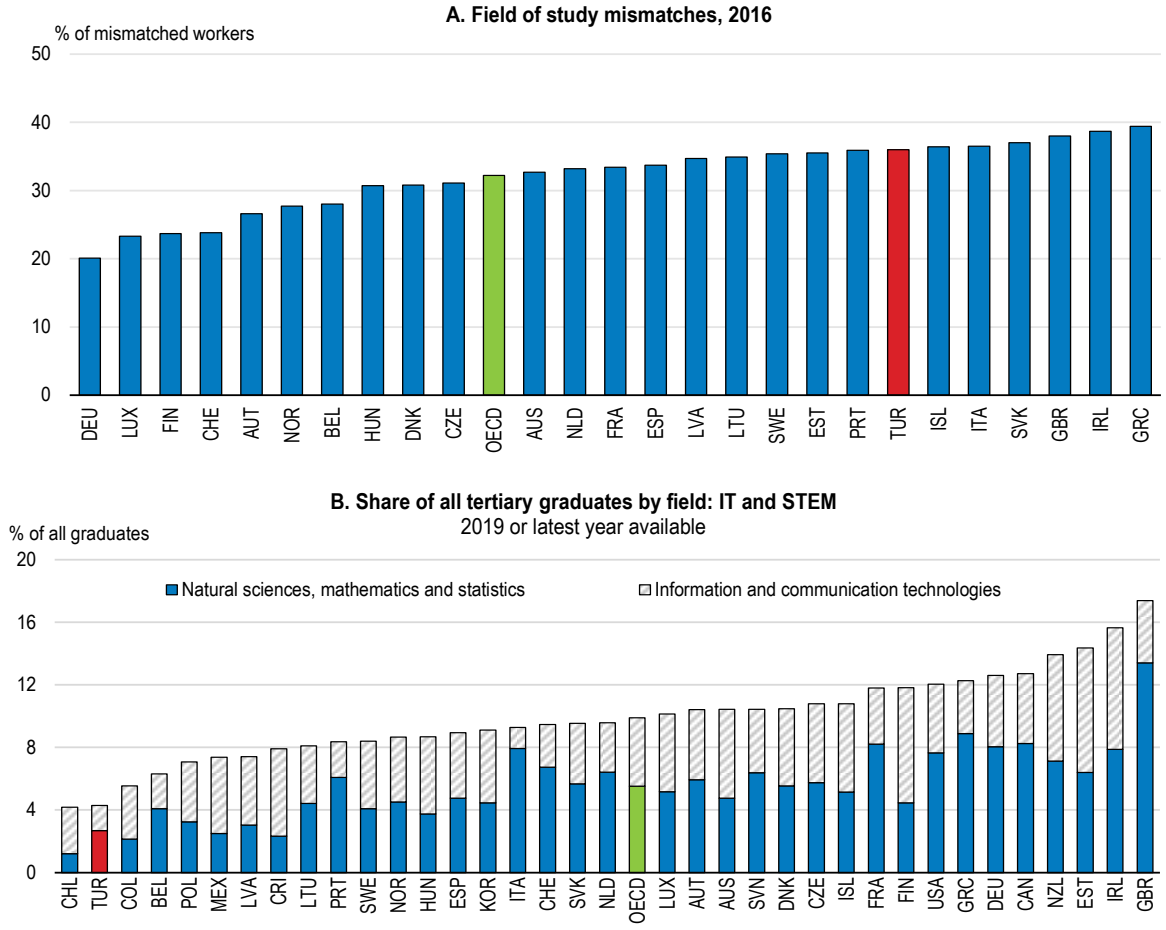
Significant skill mismatches have emerged alongside the fast expansion of educational attainment (Figure 20, Panel A). Around one third of workers in formal employment are overqualified for their current job, significantly above the OECD average of 17%. The share of underqualified workers is below the OECD average. Overqualified workers suffer from relatively large wage penalties as compared to their well-matched counterparts with a similar educational background (Figure 20, Panel B). However, income polarization among overqualified workers results to a considerable extent from increasing wage inequalities across occupations..

Figure 21. Study fields of graduates do not match the needs of labour markets



Note: Field-of-study mismatch occurs when a worker has a qualification in a different field than required for his/her job.
Source: OECD (2022), OECD Education at a Glance database; and OECD Labour Statistics, "Skills for Job" (database).

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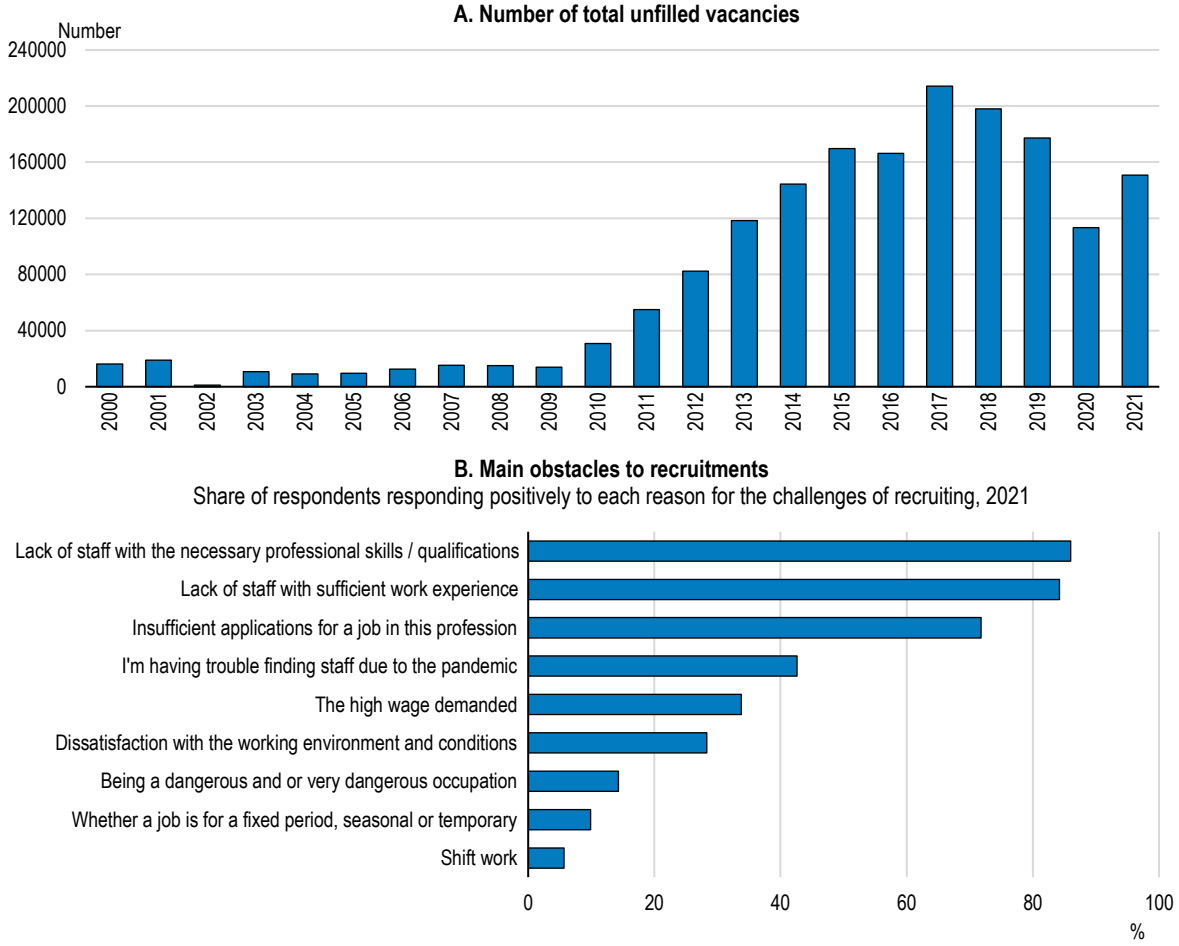
Study fields chosen by students are not well aligned with labour market needs. Around 40% of university graduates work in jobs that do not match the skills acquired during education (Figure 21, Panel A). The share of all tertiary graduates studying IT- and STEM-related fields is one of the lowest across the OECD (Figure 21, Panel B). These study choices are not aligned with employment outcomes. Data from UNI-VERI, a national research project that evaluates the labour market performances of university graduates by field of study and publicly discloses the results, show that more than 60% of business management graduates only earn around the minimum wage. Moreover, nearly 60% of them are likely to face medium-to high-level of skills mismatches. The prospects for law students are better since most of them faces no skill mismatches. Still, around 40% of law graduates only earn the minimum wage. Addressing these mismatches would allow to tap a double dividend given that a better matching of occupations with workers'

skills can lead to significant increases in labour productivity besides the increase in human capital (Adalet McGowan and Andrews, 2015[63]).

Figure 22. Unfilled vacancies increase despite the elevated unemployment rate



Source: İŞKUR (Turkish Employment Agency); and İŞKUR, "Labour Market Review 2021".

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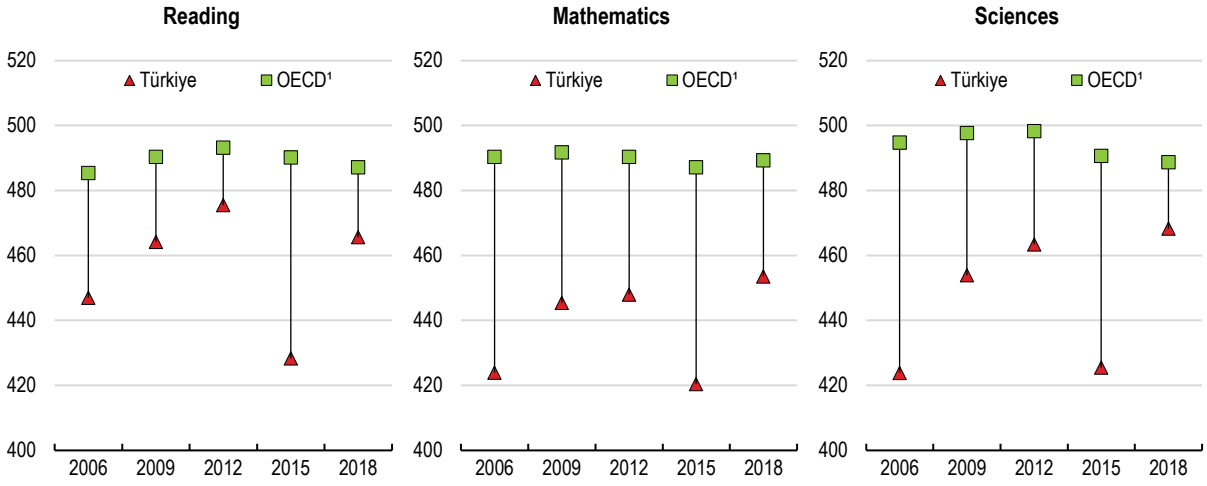
Besides mismatches, skill shortages currently stand at their highest level in over 15 years (Manpower, 2021[64]). An increasing share of vacancies cannot be filled despite elevated unemployment rates (Figure 22, Panel A). More than 80% of employers in Türkiye report difficulties in filling vacancies. Shortages are widespread, affecting several economic sectors but are particularly pronounced in manufacturing sectors and activities related to operations and logistics (Manpower, 2021[64]). Most vacancies cannot be filled due to a lack of professional skills or qualification or insufficient work experience (Figure 22, Panel B). The 2021 Labour Market Research Study conducted by İŞKUR, the Turkish employment agency, highlights that skill shortages relate to a lack of workers with medium skills. The shortage of workers with medium-level skills appears persistent as previous analysis came to the same conclusion (OECD, 2018[65]; Turkish Ministry of National Education, 2018[66]).

Improving the quality of general education

The development of basic skills through the educational system is a key pillar in preparing talent for the labour market. Regular updates of curricula are needed to align learning outcomes with changing labour market needs. While tertiary and secondary enrolment rates have increased, the large number of young people neither employed nor in education or training (NEETs) is worrying. A high share of the NEETs has less than high school completion (World Bank, 2019[16]). This may reflect the relatively poor job prospects for those educated youth, which may discourage some from studying.

Figure 23. There is room to improve educational outcomes further



1. The unweighted OECD averages over time are calculated using OECD PISA Data Explorer (https://pisadataexplorer.oecd.org/ide/idepisa/).
Source: OECD (2019), "PISA 2018 Results (Volume I): What Students Know and Can Do" and OECD (2022), PISA Data Explorer.

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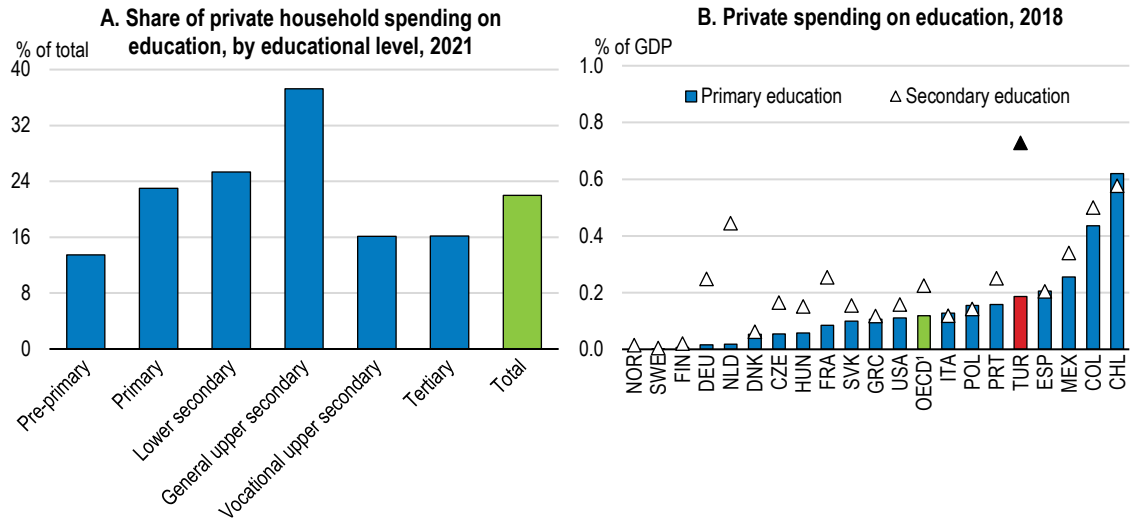
The quality of general education needs to improve. Learning outcomes for 15 year-olds in reading, mathematics and science are below the OECD average (Figure 23). The satisfaction of parents with the quality of schools is low (OECD, 2021[6]). Low test scores of 15-year-olds can relate to the under-supply of early childhood education.

Türkiye has a growing number of privately operated schools. The share of students enrolled in private schools across all layers of education has jumped from around 3% in the school year 2012-13 to nearly 8% in the year 2020-21. The increase in enrolment rates in private schools goes hand in hand with an increasing share of private spending on education. Households account for nearly 9% of total spending on primary education in Türkiye and 20% of lower secondary education, significantly above the OECD average (Figure 24).

Figure 24. Private spending on education is high



1. Unweighted average of 38 OECD countries.
Source: Turkstat; and OECD (2022), Private spending on education (indicator).

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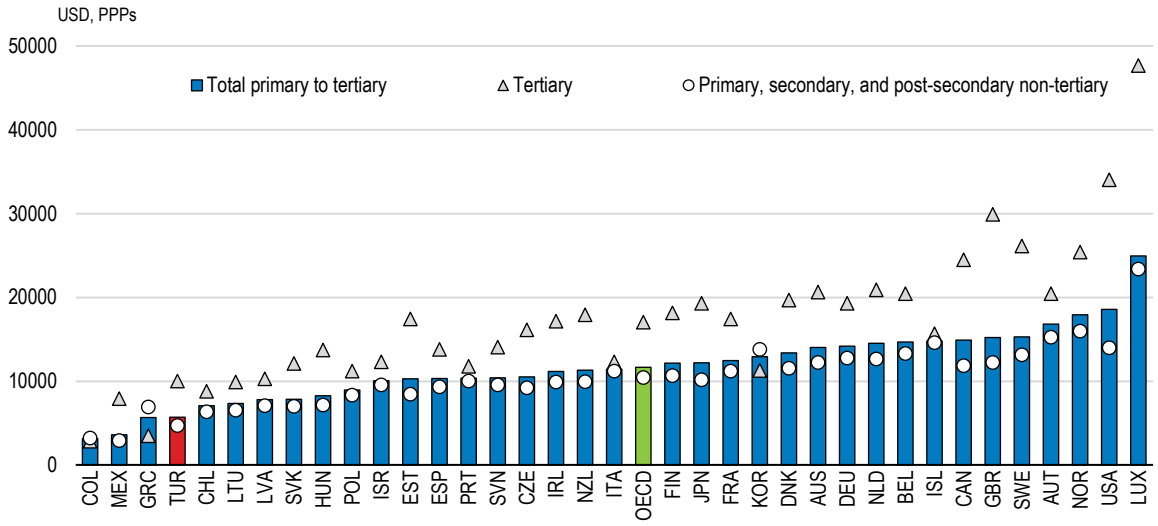
The government should increase public spending on primary education given the remaining gaps in educational outcomes and the large share of private spending. Public spending on primary education relative to GDP is below the OECD average despite a relatively young population (Figure 25) Some reallocations across education levels could raise overall spending effectiveness. Implementing evidence-based spending rationalisations in education, for example based on the OECD's evaluation and assessment frameworks for improving school outcomes, would help.

Figure 25. Education spending is tilted towards tertiary education

Expenditure per student based on full-time equivalent enrolment, by educational level, 2018



Note: For Canada, primary, secondary and post-secondary non-tertiary education includes pre-primary programmes.
Source: OECD (2022), OECD Education at a Glance (database).

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Teacher quality can positively influence learning outcomes of students. Limited salary progression for teachers in Türkiye decreases the attractiveness of the profession (OECD, 2019[62]). Empirical evidence from Israel underlines that performance-based pay can have positive long-term outcomes (Lavy, 2020[67]). Such a system would also incentivize participation in additional training (OECD, 2020[68]). Furthermore, performance-based pay could encompass a component that adds a further pay bonus for teachers who can improve learning outcomes in regions with lower educational attainment and higher drop-out rates.

An in-depth review of learning standards, curricula and teaching methods would help to identify outdated practices. Modern and less-academic learning standards, with teaching focussed on group-work and self-initiative, can help to unlock otherwise untapped cognitive and socio-emotional skills. Following a review of practices, Brazil recently aligned learning standards and methods with international best practices (OECD, 2020[69]). An update of curricula should also encompass digital and foreign language skills, a crucial element to support Turkish firms' integration in global value chains and digitalisation..

Improving digital skills

The lack of digital skills, besides limited access to fast broadband, is a major bottleneck hampering a more widespread adoption of ICT tools and activities (OECD, 2021[6]). Improving digital skills can help spur digital adoption across industries and ultimately lead to substantial productivity gains (Gal et al., 2019[70]). The digital skills of Turks appear to have improved over the last decade, albeit from a seemingly low level (OECD, 2021[6]). Survey results from the Turkish Statistical Institute show that the majority of the population uses the internet and computers regularly, supported by the widespread use of e-government services. Workers need a well-rounded set of skills to thrive in the digital workplace. This set is not limited to skills related to numeracy and problem-solving in a technology-rich environment but also needs to encompass literacy and socio-emotional skills (OECD, 2019[4]).

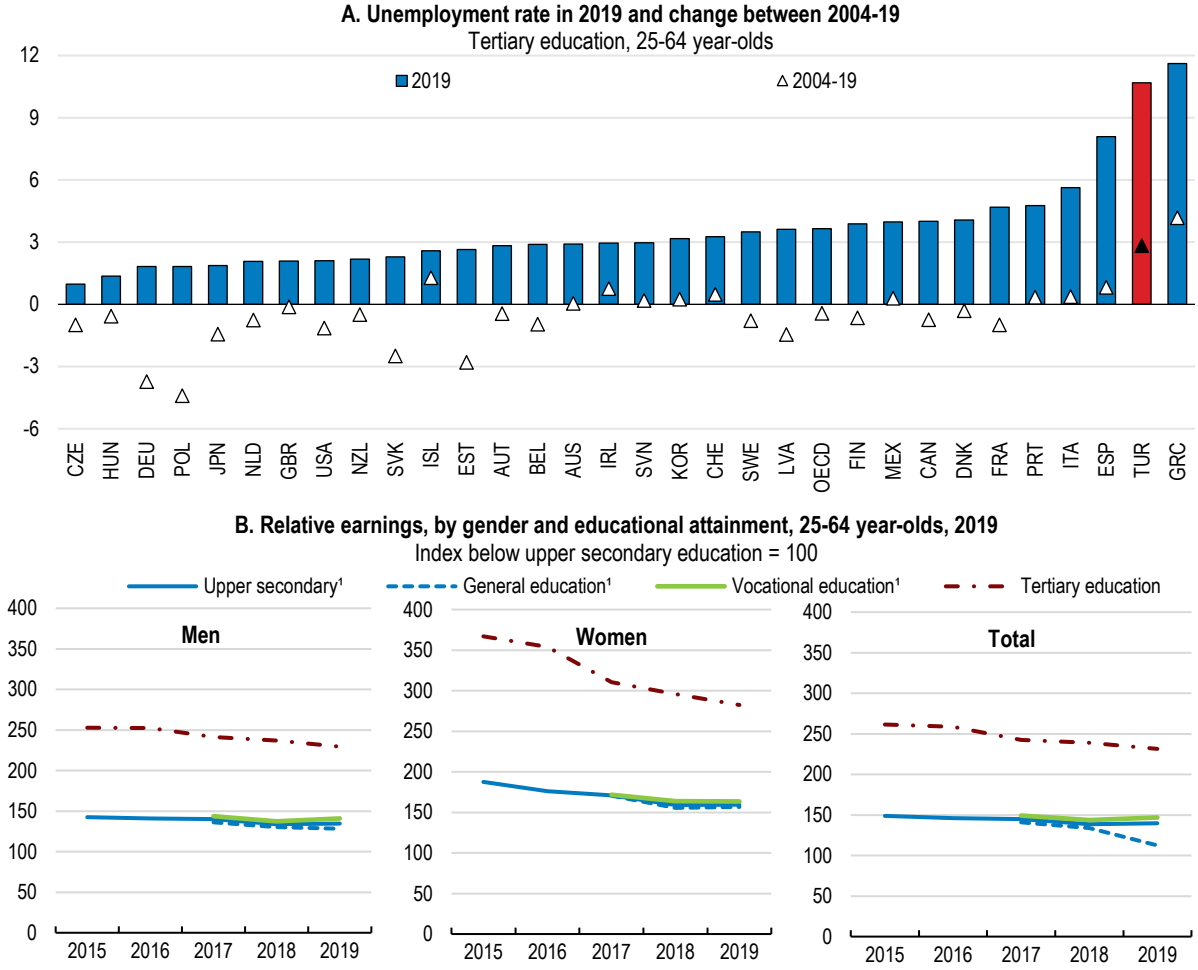
Policy actions specifically targeted at spurring digital skills should complement ongoing reforms that aim at boosting the level of general skills. To improve digital skills, various educational programmes have been developed and are already provided in schools and universities. However, mainstreaming the development of digital competencies and contextualising learning outcomes for digital skills across all levels of the formal education and training system would help ensure a wider dissemination of digital skills (OECD, 2022[71]). Based on *Education Vision 2023*, Türkiye has already succeeded in mainstreaming entrepreneurship learning in curricula at all levels of education, together with several additional projects geared towards teaching entrepreneurship in schools (OECD, 2021[6]). Policymakers could therefore leverage on the existing infrastructure and the organisational capital built for entrepreneurship learning to mainstream the uptake of digital skills across the formal education system. Quality training for teachers on how to use and integrate ICT in their teaching most effectively needs to complement any efforts to improve the acquisition of digital skills.

Strengthening tertiary education

The government should prioritise the quality of tertiary education over the quantity of graduates with a tertiary degree. The share of young adults with a tertiary degree increased from around 15% in 2008 to over 39% in2022 (OECD, 2022[72]). Furthermore, the number of universities has increased from 75 in 2002 to 208 in 2022. While the share of young adults with a tertiary degree still falls short of the OECD average by more than 10 percentage points, the swift and stark increase in the supply of tertiary graduates has been accompanied by a rise in the unemployment rate of tertiary graduates (Figure 26, Panel A). Unemployment rates and the length of the period of unemployment of tertiary graduates tend to reflect their higher reservation wages. Results from the PIAAC survey also suggest that the quality of tertiary education is lagging: the gap in skills of tertiary educated adults to the OECD average is significantly higher than for workers with below or upper secondary education. The shrinking wage premia for a university

graduate compared to graduates with only secondary education further suggests that there is an oversupply of tertiary graduates and that the surge in graduates from tertiary education may have been too fast (Orbay, Aydede and Erkol, 2021[73]).

Figure 26. The unemployment rate of tertiary graduates is elevated



1. It includes non-tertiary upper secondary education.
Source: OECD (2022), OECD Labour Force Statistics (database).

StatLink https://stat.link/4jkt30

Good and easy access to information about content, quality and labour market outcomes of tertiary education programmes contribute to reducing mismatches by guiding prospective students in their choices. At the same time, information about students' labour market outcomes could also incentivise universities to align curricula with labour market needs. The *National Youth Employment Strategy 2021-2023*, launched in October 2021, includes several measures aimed at strengthening the relationship between education and employment, for example outreach initiatives to better inform parents and prospective students about study choices. Part of the outreach targets women. Moreover, the Human Resource Office of the Presidency has developed an innovative tool to help students and parents to get information on labour market outcomes of different study choices by offering detailed information on expected wages, time to

find a job and skill mismatch for around 81 different programmes (Box 10). Career counselling consultants can also tap the UNI-VERI database for information to help prospective students with their career planning.

Box 9. Career gate: providing merit-based job and internship opportunities in the public sector

The Career Gate platform is the central hub for all job and internship applications with ministries and their subsidiaries. Employers from the private sector can participate on a voluntary basis. The platform lists all public job postings and standardises the job application process. Public institutions and participating private institutions receive applications through the platform and can carry out various assessment procedures.

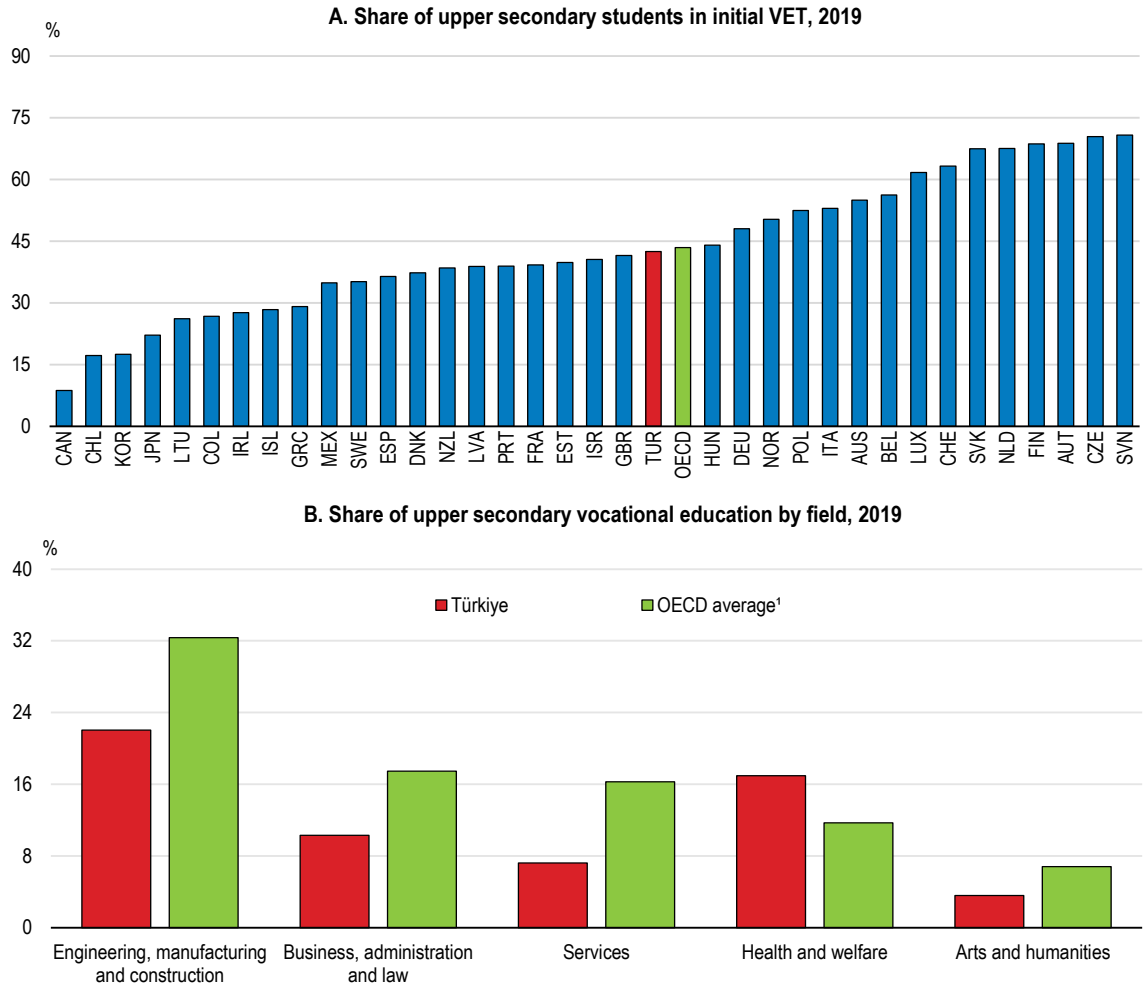
The internship module of the Career Gate platform started as a pilot project in 2020 but, due to its success, was quickly extended to all public institutions. Since its start, more than 245 000 offers for internships have been made available and a total of 110 000 students have successfully secured an internship position through the Career gate platform.

The information entered by applicants, for example personal information, high-school graduation information or foreign language exam results, is verified since it is linked with official public databases through the Turkish e-government system. The system automatically checks whether applicants match the job requirements listed in the vacancy. Candidates not eligible to apply to the postings are not allowed to pursue the application. Furthermore, for internships, the system guarantees some anonymity and prevents a gender bias in recruitment as the hiring institution cannot see the name, gender or address of applicants.

Policies to foster the uptake and quality of vocational education and training

Vocational education and training (VET) in Türkiye could play a larger role in addressing skill shortages. The OECD *Skills for Jobs* database suggests that contrary to most other OECD countries, around 7 out of 10 jobs that face skill shortages are related to medium-skilled occupations (OECD, 2018[65]). VET graduates are traditionally employed in middle-skilled occupations (Vandeweyer and Verhagen, 2020[74]). Unemployment rates of VET graduates are a touch lower than for tertiary graduates. VET graduates in Türkiye can also command a relatively high wage premium as compared to other OECD countries, though still lower than graduates from tertiary education. While the share of secondary graduates and students enrolled in vocational programmes is around the OECD average (Figure 27), it falls short of the rates observed in other countries with large export-orientated manufacturing sectors like Austria, the Czech Republic, Germany, or Switzerland.

Figure 27. There is room to increase the number of graduates from upper secondary education



1. Unweighted average of 33 countries except Türkiye.
Source: OECD (2022), OECD Education at a Glance database and OECD calculations.

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Vocational education and training can be an important tool to reduce the share of youth unemployment and NEETs. Work-based learning in VET programmes helps equip students with generic and job relevant skills (Musset, 2019[75]). The positive effect of work experience on employment rates of graduates from vocational training is particularly pronounced in Türkiye (Figure 28). Moreover, work-based learning, as compared to classroom learning, facilitates the acquisition of soft skills which are increasingly important to succeed in labour markets (Deming and Kahn, 2018[76]). Improving work-based learning in schools would therefore help to improve youth's labour market prospects. This requires engaging employers, who are often reluctant to offer work placements and ensuring equal access also for at-risk students.

Figure 28. Graduates with work experience do better in the labour market than those without

Employment rates of vocational graduates by type of work-based learning, 15-24 year-olds

Note: Based on the results from the labour force survey -ad hoc modules, 2016. The category "part-time independent experience" refers to any work activity carried out outside from the academic curriculum. The category for "total employment rate" refers to the average employment rate of the whole 15-24 year-old population. The groups of vocational graduates taken into account comprises both ISCED 3 (upper secondary graduates) and ISCED 4 (post-secondary non-tertiary graduates).
Source: Eurostat (2016), LFS ad hoc modules - Young people on the labour market.

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VET curricula need to be updated regularly to safeguard their alignment with skill demand in labour markets. The Vocational Education Board, which operates under the roof of the Ministry of National Education, determines together with relevant stakeholders the needs for apprenticeships and vocational training in different economic sectors. It also evaluates vocational and technical education at the national level. In addition, the Union of Chambers and Commodity Exchanges of Türkiye supports the provision of vocational education. Besides, several private sector entities provide vocational programmes in close alignment with public standards and requirements. Provincial Employment and Vocational Education Boards support national efforts at the regional level by monitoring skills demands and proposing regional vocational courses.

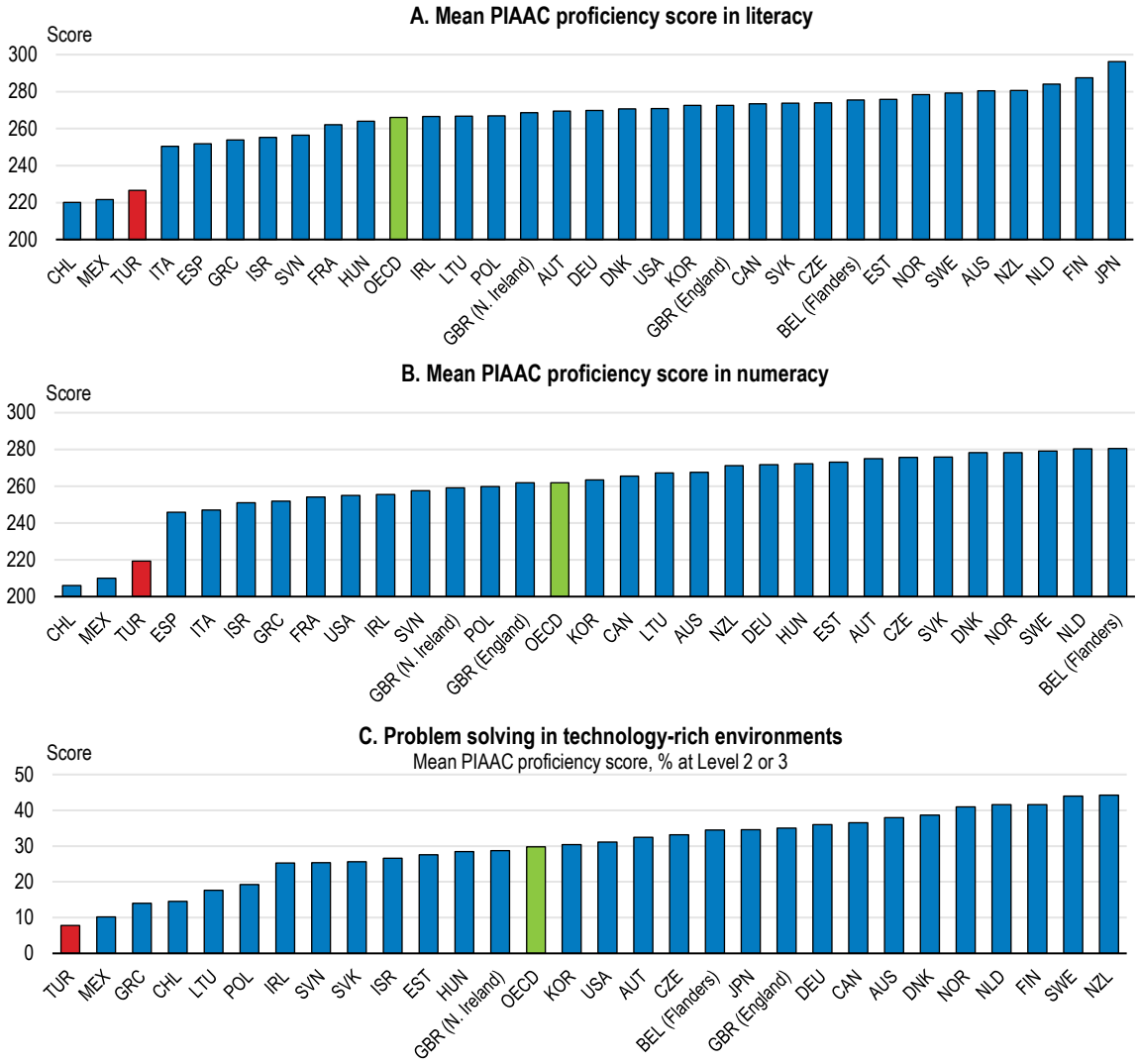
While job prospects for vocational graduates are good, blue-collar work suffers from low reputation, similar to many other OECD countries. This underlines the need for specific career guidance to help young people better understand what VET programmes have to offer, including their labour market prospects. The Human Resource Office of the Presidency has prepared a promising project, the so-called Career Counselling Information System, which enables school advisers, psychological counsellors, and guidance teachers to compare jobs and institutions based on the labour market performance of graduates from vocational schools of higher education and higher education programmes. In contrast to UNI-VERI, which only features tertiary education programmes, the Career Counselling Information System also allows to evaluate the labour market performance of 42 vocational schools delivering higher education. An extension of this system would be a welcome step in addressing the low reputation of vocational education.

Towards a new culture of continued education and training

The relatively low level of adult skills underlines the need for a continued updating of skills (Figure 29). Training and lifelong learning can, supported by career guidance for adults, counteract skill depreciation and contribute to a swifter reallocation of occupations to newer, more productive sectors (OECD, 2021[77]).

Digitalisation will likely require more frequent updates of professional and technical skills of business owners, managers, engineers, and workers. While the initial education system plays a bigger role in equipping workers with skills when the workforce is relatively young and growing, a well-developed and effective system of lifelong learning is also important in aligning skills with labour market needs.

Figure 29. Educational attainment of adults has improved but skills lag behind



Source: OECD Survey of Adult Skills (PIAAC) (2012, 2015, 2018), Tables A2.2, A2.4 and A2.7.

StatLink https://stat.link/hqrf50

Box 10. The UNI-VERI project: Evaluating labour market prospects of tertiary degree programmes

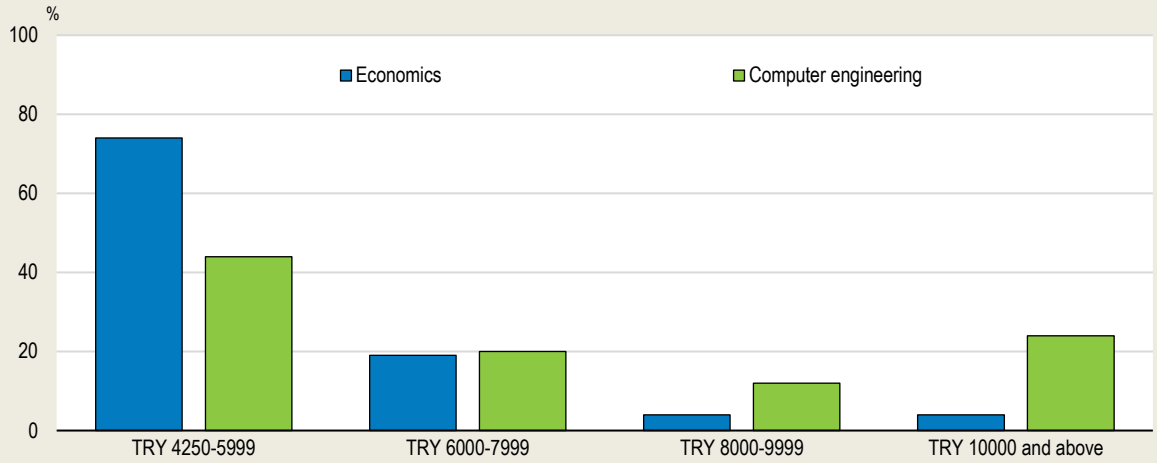
The UNI-VERI project was started in 2019 by the Human Resources Office of the Presidency. It provides a free to use website that allows to compare the labour market prospects of around 81 higher education programmes across six indicators, comprising entry wages to the share of graduates in public employment (see Figure 30 for an example).

UNI-VERI is based on several administrative databases. It brings together data on graduates from the Council of Higher Education with employee information from the Social Security Institutions database. The underlying administrative data are anonymized.

The project essentially provides access to three different layers of data. First, data aggregated at the country level is publicly available through the UNI-VERI website and allows high-school students, tertiary education professionals and policymakers to compare different degree programmes. Second, school rectors and career center professionals can get access to labour market outcomes of graduates from their university. This allows to compare the performance of their institution across several indicators with similar programmes in Türkiye. Third, counselling teachers in high schools can access data on labor market performance of all degree programmes at each university in Türkiye. A further layer covers the labour market performance of vocational degree programmes in tertiary education.

Figure 30. An innovative digital tool to compare job market prospects of different study fields

Share of graduates by entry-level monthly wage



Note: Data rely on information of graduates from a 4-year program between 2014 and 2019. Graduates of online faculties of universities and over the age of 35 are not included in the sample. The university graduate information obtained from the Council of Higher Education are matched with the employee information from the Social Security Institution (SSI). Reported wages are adjusted for inflation and expressed in terms of 2021 prices. See the source for more details.
Source: Presidency of The Republic of Türkiye, Human resources office, https://www.cbiko.gov.tr/en/projects/uni-veri.

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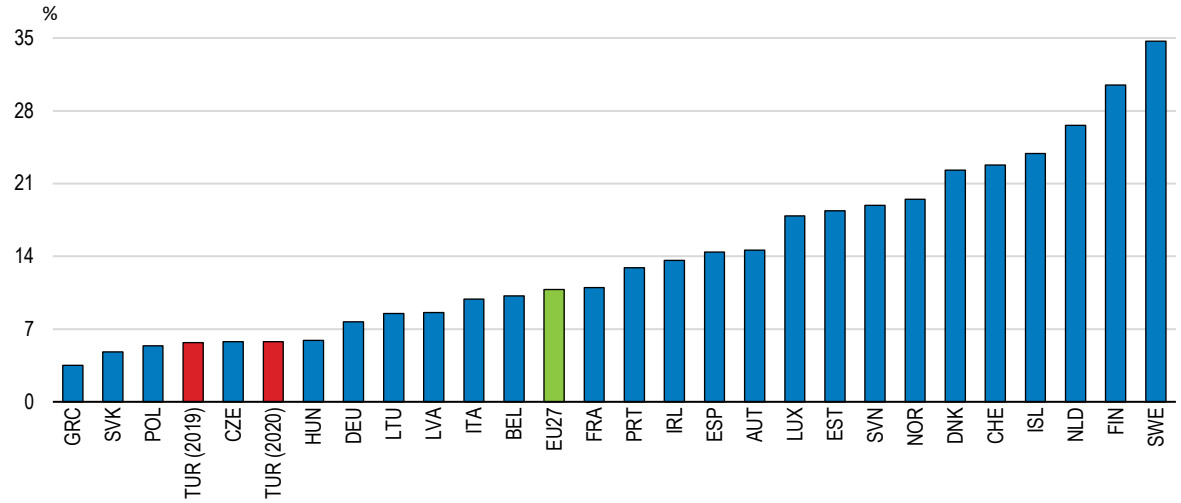
Figure 31. Participation in lifelong learning is low

Participation in lifelong learning, 25-64 year-olds, 2021



Note: Adults participating in education and training in the four weeks preceding the survey. Turkish data for 2021 is not available.
Source: Eurostat (2022), Education and Training Statistics, "Adult learning statistics".

StatLink https://stat.link/qid8f7

Only few adult workers participate in lifelong learning (Figure 31). Further, in line with other OECD countries, the heterogeneity in uptake of training across different levels of education is high: the share of high-skilled adults participating in lifelong learning is almost 50% higher than the share of low-skilled adults. This is particularly worrying given that low-skilled workers are in greatest need of expanding their skills. An awareness campaign targeted at enterprises but also workers would help foster a lifelong learning culture among Turkish adults. Experience from several OECD countries shows that proactive campaigns that target public spaces, e.g., kindergartens and schools, can be successful in reaching out to lower-skilled workers. Mobile information centres, following the example of the city of Brussels in 2017, could also be beneficial to engage low-qualified jobseekers in adult learning (OECD, 2020[78]).

Individual learning accounts can provide the soil for an effective system of lifelong learning. With individual learning accounts, workers accumulate training rights over time. The rate of accumulation can depend on the initial skill level, thereby providing greater opportunities to lower-skilled workers. The accumulated funds can then be used to purchase training from certified providers. However, non-wage labour costs are already relatively high, especially for the many small businesses. Public support for funding training accounts in Türkiye could help to avoid further increases in non-wage related costs for employers. This support could be higher for lower-skilled or otherwise vulnerable workers. Experience from several OECD countries with individual learning accounts is promising, provided the authorities ensure quality safeguards for participants (OECD, 2021[79]). Individual learning accounts in France have helped to increase participation rates of lower-skilled workers (OECD, 2019[80]). Besides individual learning accounts, leveraging digital tools, for example like the Distance Learning Gate of the Human Resource Office of the Presidency, which offers free training to public employees, can constitute a cost-effective way to increase the number of training participants.

Individual learning accounts have a range of features that make them particularly relevant for Türkiye. First, they empower workers to access training, in particular if training rights are portable. Second, individual learning accounts lay the ground for a competitive market for re-skilling services. This helps to ensure that the set of training provided is in line with labour market needs. Learning accounts also reduce the high opportunity costs of adult learning by providing a framework for modular training which can be spread over

time. Indeed, training entails some extra costs for businesses in the short term. Workers need to be replaced for the time of training while wages for those on training still need to be paid. Smaller firms are particularly exposed to the opportunity costs and often cannot send workers on training due to concerns over how to finance it or over finding suitable replacement. Financial support would help to ensure that workers in smaller firms also have access to training.

To be successful, learning accounts need to be accompanied by a thorough assessment of individuals' current and future skill needs. Recognition of prior learning can serve to identify training needs and to acknowledge and certify experience and skills from on-the-job training, informal apprenticeships, and other forms of non-formal education (OECD, 2017[81]). Recognition of prior learning is particularly helpful for vulnerable workers, for example informal workers, migrants, or refugees, and could contribute to smoothen the transition of informal workers into the formal workforce (Meghnagi and Tuccio, 2022[82]). Türkiye has already set up the framework and infrastructure for validating non-formal and informal learning, including for migrants and refugees (Akkök, 2019[83]). Further efforts to build up quality assurance, the inclusion of qualifications but also the validation of non-formal and informal learning would be welcome (European Commission, 2018[84]).

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Better labour market regulations to promote job creation in the formal sector	
Rigid employment rules, including for fixed-term and temporary work agency contracts, are contributing to the widespread use of informal and semi-formal work practices.	**Make permanent work contracts more flexible and increase the scope for fixed-term and temporary work contracts, while ensuring social protection of workers and access to reemployment services.**
The tax wedge on labour is high, partly reflecting social security contributions. A large variety of incentives are used to mitigate the negative impact on job creation in the formal sector.	Assess the cost-effectiveness of the various incentives, consider a leaner system with lower contribution rates and remove subsidies that provide similar incentives.
A high minimum wage, relative to median wages, reduces the prospects for low-income workers to obtain formal employment, particularly for women and young workers.	**Ensure that minimum wages are affordable for firms, for example by setting a minimum wage floor at the national level and promoting collective bargaining at the enterprise level.**
The severance pay system makes formal job creation very costly and, since it is bound to the current employer, hampers the reallocation of labour to more promising activities and businesses. Unemployment insurance fails to provide sufficient social protection to all workers.	**Shift social protection from the severance pay system to a broader-based unemployment insurance. Introduce portable severance accounts.**
Boosting labour market prospects of women	
Formal employment rates of the youth and female workers lag behind. Labour force participation of women is the lowest across the OECD.	**Continue to bring more women into formal employment, including by reallocating funds devoted to wage subsidies to well-designed hiring subsidies targeted at women and other most vulnerable groups.**
Efforts to increase the labour force participation of women risks increasing the already relatively high unemployment rates of women.	Ensure the availability of career counselling, adult training and job placement services targeted towards the needs of women.
Public spending on primary education is below the OECD average while the population is relatively young and educational outcomes lag behind. High private spending on primary education exacerbates inequalities of opportunities.	**Increase and broaden the provision of quality early childhood and primary education.**
Women take on the bulk of domestic care services, including but not limited to childcare. Mothers are entitled to a maternity leave of 16 weeks, in line with the OECD average while fathers can only take one week.	Increase the uptake of paternity leave to signal the importance of a more equal sharing of care work across gender, for example by introducing paid bonus months for paternity leave if fathers take a pre-defined period of paternity leave.
Better targeted activation policies to address job displacement	
Skill mismatches and shortages prevail.	Increase the number of persons receiving counselling services by engaging private job placement and counselling providers through performance-based renumeration.
Job vacancies are elevated.	Through the use of more comprehensive digital tools, support the improvement of public job counselling services.
Adjusting the supply of skills to evolving labour market needs and digitalisation	
Some learning curricula and related teaching methods for primary and secondary education appear outdated.	Combine modern learning standards and curricula with new teaching methods to foster group-work and self-initiative and improve soft skills.
Improving digital skills can help to increase the adoption of digital technologies, which have a potentially large productivity dividend.	Develop a holistic strategy for digital skills and better mainstream digital skills across all layers of the formal education system.
While the share of young adults with tertiary education increased significantly, there are important fields of study mismatches.	Increase the use of the UNI-VERI website and underlying database through a public awareness campaign.
There are significant shortages regarding middle-level skills. Middle-level jobs suffer from low reputation. The government has recently introduced innovative tools to assess educational institutions' outcomes and disclose results to the public to steer choice.	**Enhance up-to-date information on labour market outcomes for graduates from vocational education tracks, for example by extending the Career Counselling System.**
Adult skills are lower than in most other OECD countries. At the same time, participation in lifelong learning programmes is low.	Incentivise adult participation in high-quality lifelong learning, for example through individual learning accounts and improved career guidance. Consider financial support for smaller firms to support adult training across all firm sizes.

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