

Informal Employment during the Covid-19 Pandemic

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The high prevalence of informal employment constitutes one of the most important structural problems of Turkey's labor market. The labor market in Turkey has a dual structure: Formal employment protected by legal regulations such as the Labor Law and the Unemployment Insurance Law on one hand, and informal employment with no legal regulations and harsh working conditions on the other.

This brief will summarize the current situation by analyzing the 15-year trajectory of informality in Turkey, discuss the possible effects of the Covid-19 pandemic on informal employment and propose a new direction for fighting it.

How is informality measured?

In Turkey, labor market statistics are announced using the data from the Household Labor Force Survey (HLFS) which is conducted by the Turkish Statistical Institute (TÜİK) at regular intervals. 13,000 households are visited and questions about their labor market situation are asked within the scope of the HLFS every month.¹ These questions aim to gather information on topics such as the employment and informality status as well as working conditions of individuals at the time identified as the reference week.

In Turkey, firms are responsible for registering employees with the Social Security Institution (SSI). There are no punitive sanctions imposed on individuals in cases of missing SSI registration. Therefore, individuals have no reason to falsely respond to the questions concerning their registration status in the HLFS. Indeed, according to the HLFS data, in 2018, 33.4 percent of all employed persons reported that they did not have SSI registration through their main job. HLFS provides sufficiently reliable information regarding the prevalence of informality due to the structure of the survey and legal responsibilities.

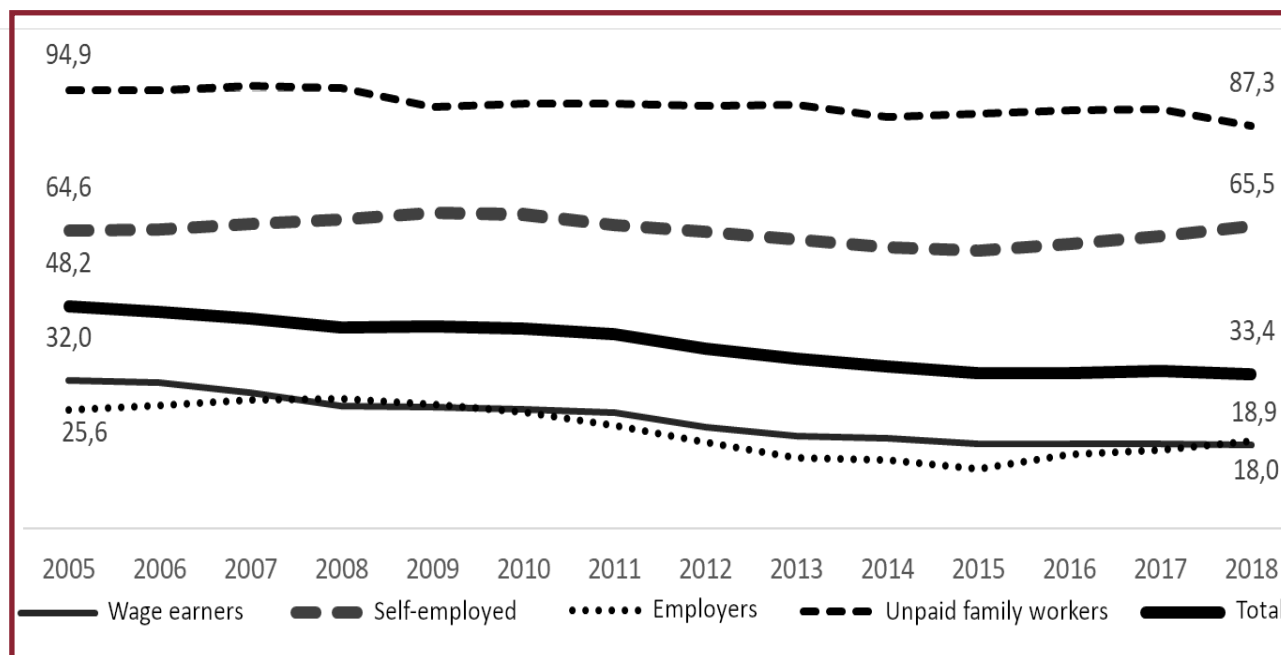
The decline in informality

The rate of informality calculated using HLFS data is shown in Figure 1. The first thing that stands out in the data is that informal employment in Turkey is differentiated according to forms of employment. As seen clearly in Figure 1, informality is very widespread among unpaid family workers and self-employed individuals. Informality in this form comes about as a result of the decisions of families or individuals themselves.

Informal employment is relatively lower among employers and salary earners, wage earners and casual workers (in short, wage earners). While employers are similar to wage earners in terms of informality rates, they are more like the self-employed in terms of decision-making. Considering that 1,282,000 people stated themselves as employers in the HLFS, it must be kept in mind that a significant part of these individuals are owners of very small businesses whether they conduct agricultural or non-agricultural activities. Therefore, in the fight against informality, it would be more accurate to evaluate them along with the self-employed within the context of informality among firms.

An important part of informal employment consists of individuals who are not registered to the Social Security Institution by firms despite working for salaries, wages or day wages at these firms. These employees, which the firms do not register, suffer not only from job insecurity but also from precarious working conditions.

Informal employment in Turkey has dropped from 48.2 percent in 2005 down to 33.4 percent in 2018. It is evident, however, that this drop is due to the fall in informality among wage earners and employers who make up a smaller share. It can also be said that this fall took place between the years 2005 and 2015 for the most part. The possible causes for the fight against informality having slowed down in recent years will be discussed below.



Graph 1. Informal employment and forms of employment (percent)

Source: HLFS, Betam calculations

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The cease in the decline of informality is sharpening the dual structure in wage employment and is deteriorating the employment conditions of vulnerable groups such as youth, women and immigrants. When this is compounded by the economic effects of the Covid-19 pandemic, the vulnerability of informally employed individuals and the households they live in will be exacerbated. Unfortunately, the measures taken against the economic effects of the pandemic aim only at protecting formal and wage employment, aggravating the situation of those working informally.

Informality among the self-employed and unpaid family workers

According to the data, the two groups with the highest prevalence of informal employment are unpaid family workers and the self-employed. The trajectory of informality in these groups have not changed much during the period under study. Given that agricultural production mainly takes place on family farms in Turkey, general health insurance is provided by the State and the ability of self-employed individuals to include their dependents in their own insurance coverage, one could conclude that households refuse to register to the SSI of their own volition. Nevertheless, note that not being registered to the SSI consigns these individuals to a lack of pension income in old age. It can be assumed that families are expected to provide livelihood in old age through family solidarity, especially in low income households.

Informality among salaried, wage earners and casual workers

Informality among those working for a salary, wage or day wage has declined from 32 percent in 2005 to 18 percent in 2018. The possible factors behind the increase in formal employment can be listed as follows: (1) The rise in the level of educational attainment. Research on this topic shows that there is an inverse correlation in Turkey between the level of educational attainment and working in an informal job.² (2) New firms which have begun to operate in the manufacturing and service sectors have a higher chance of creating formal employment thanks to various investment incentives. (3) The Fight against Informal Employment Project (KADİM) and similar public policies have strengthened the fight against informal employment. (4) The structural transformation in the economy, summarized as the shifting of production and employment away from agriculture towards non-agricultural sectors is still ongoing in Turkey. Persons moving away from agriculture which is carried out predominantly by the self-employed and unpaid family workers, in favor of non-agricultural sectors, may have a limited effect in reducing informality.

Rates of informality among wage earners, however, have declined mainly between 2005 and 2015 and then stabilized. While the sources of this stall are not exactly known, one possible cause may be the State relaxing its surveillance mechanisms. For the fight against informality, also means cutting off access to means of livelihood for many Syrians. There are about 3,600,000 Syrians under temporary protection

status in Turkey. To contrast, according to data of the Directorate General of International Labour Force under the Ministry of Family, Labour and Social Services, the number of Syrians who have been able to get a work permit was around 34,000 in the year 2018.³ In light of this data, it can be derived that the vast majority of Syrians in the labor market are employed informally. If the fight against informality is intensified under these conditions, it will be even more difficult for Syrians to maintain their livelihoods. While there is no official statement regarding this issue, it may well be that the State relaxed its efforts to fight informality to turn a blind eye to Syrians working. Findings from academic research conducted in recent years also point to Syrians replacing younger, less educated and female workers in the informal labor market.⁴

Another reason behind the slowing down of the decline in informality might be the significant rise of the minimum wage in January 2016. In dual labor market structures such as the one in Turkey, a rise in the minimum wage causes loss of employment in the formal labor market; and low-wage individuals who lose their jobs shift to the informal labor market.⁵

Informal employment creates vulnerabilities that are difficult to overcome especially among the salaried, wage earners and casual workers. Until recently, it was widely discussed that these vulnerabilities are mostly due to long working hours, low wages, forms of employment with no job security and precarious working conditions in general. For when informally employed, wage earners are not covered by the protective umbrella of the Labor Law and the Unemployment Insurance Law.

Indeed, according to HLFS micro data for the year 2018, the average wage for formally employed wage earners was 2,678 TL while for the informally employed wage earners, it was 1,293 TL. Let us remember that the minimum wage for the year 2018 was 1,600 TL. Furthermore, the workweek for formal wage earners was 47 hours on average while for informally employed wage earners, it was 50 hours.

In order to qualify for the unemployment insurance in Turkey, workers are required to have a labor contract during the 120 days before the labor contract was terminated and to have paid unemployment insurance premiums for a minimum of 600 days within the three years prior to the termination of the labor contract.⁶ According to HLFS data, there were over 4 million unemployed as of the end of 2019, while the number of persons who were receiving unemployment benefits was around 600 thousand. While one of the reasons for the very low take-up rates is the strictness of the qualification criteria, another is undoubtedly the high prevalence of informality.

The possible effects of the Covid-19 pandemic on informality

Analyzing the HLFS micro data concerning the year 2018 reveals that despite the decline over time, 9.6 million people are still working informally. 3.5 million wage earners, 3.2 million self-employed and 2.6 million unpaid family workers are working informally.⁷

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| | Registered | Unregistered | Total |
|------------------------------|------------|--------------|--------|
| Wage earner, Day wage earner | 16,018 | 3,518 | 19,536 |
| Employer | 1,039 | 243 | 1,282 |
| Self-employed | 1,695 | 3,213 | 4,909 |
| Unpaid Family worker | 382 | 2,630 | 3,012 |
| Total | 19,134 | 9,604 | 28,738 |

Table 1: Employment status and SSI registration status (2018)

Source: HLFS, Betam calculations

On the other hand, it is seen that policies which aim to reduce the economic repercussions of the Covid-19 pandemic both ignore informal wage earners and treat the self-employed and the unpaid family workers who work with them, as institutional firms, overlooking the vulnerabilities of this form of employment.

The measures that directly protect workers, taken within the framework of Law 7244, “Concerning the Reduction of the Effects of the New Coronavirus (Covid19) Contagion on Economic and Social Life and Concerning Changes to Some Laws”, published on April 17, 2020 in the Official Gazette are as follows:

The minimum wage support program will be continued. By reducing the cost of the minimum wage, the State aims to protect formal waged employment indirectly.

The termination of labor contracts for all workers has been prohibited for 3 months. However, in situations where there is a ban on terminations, the employer has been given the right to place the worker on unpaid leave. Employees who are placed on unpaid leave and who therefore cannot make use of unemployment benefits, will be provided 39 TL per day (1,170 TL per month) as “cash wage support” for the duration of the ban on terminations for up to 3 months, which can be extended to up to 6 months.

It has been announced that salary support will be given through the “Short-time Working Allowance” to workers in businesses that have reduced or suspended their activities, for the duration of 3 months. The Ministry of Treasury and Finance has declared that 700,000 applications have been approved within its scope.⁸ The eligibility conditions for the short-time working allowance have been relaxed. Hence, the requirement is to have worked for 60 days prior to the start of short-time work and to have paid premiums for a minimum of 450 days over the prior 3 years.

The lowest pension has been raised to 1,500 TL and major holiday bonuses have been pulled forward to April.

Preventing firms from laying off their employees in accordance with these regulations will allow the existing labor contracts to resume again when the social distancing measures come to an end. The short-time working allowance, along with direct income assistance to employees placed on unpaid leave, by their nature are only geared towards protecting those in formal employment. There are no measures geared towards directly protecting informal workers within this framework.⁹ According to data compiled by the OECD however, there are direct income supports provided to informal workers in countries in similar income groups where informality is widespread, such as Argentina and Brazil.¹⁰

Even in high income group countries where informal forms of employment are relatively limited, various regulations are prescribed for the self-employed. For example, while the United States and Ireland are allowing the self-employed workers to benefit from the unemployment insurance schemes, Spain and Italy have introduced direct income supports for the self-employed.

In Turkey on the other hand, there are measures in place that defer rather than compensate loss of income, such as the regulations introduced with Law 7244 which increase credit opportunities for “tradespeople” and postpone loan repayments. Again, note that these regulations are accessible only to registered tradespeople. In other words, informal workers among the self-employed and unpaid family workers will not be able to access even these instruments. This situation indicates that the conditions of the self-employed and unpaid family workers, who are categorized by the International Labour Organization as vulnerably employed, will become dire.

An opportunity to fight informal employment

Unemployment, which has been consistently rising since the year 2018, will come to the fore as the biggest problem Turkey faces as the economy deteriorates. Not only the number of unemployed, but also the number of people leaving the labor market will increase in the period ahead. Therefore, the unemployment rate will not provide sufficient data regarding the health of the labor market either. Seeing beyond the statistics, what actually matters is that the households can access sources of livelihood, and, in case this cannot be provided, that they are supported through social assistance mechanisms such as direct income support.

Informal wage earners constitute the group that will be affected by the deteriorating economy first, since they are not under the protection of a labor contract. Their chances of being laid off due to the pandemic are therefore high. On top of that, since their wages are low, it can be assumed that their savings are also relatively limited and that they need jobs more. In spite of that, they are completely outside of the protective umbrella of the economic policies.

From this perspective, the pandemic provides policymakers with an opportunity. Firms that register their informally employed employees to the SSI can be given remissions of punishment and SSI premium incentives in exchange for keeping their workers in question in employment for at least 3 months after the pandemic. The firms can be allowed to benefit from the short-time working allowance, if they register their workers. This will create an important opportunity to bring informal employment under registration.

Similarly, individuals who are self-employed or working as unpaid family workers informally can be incentivized to register with the SSI. These incentives can include access to credit lines and even direct income assistance if SSI registrations are completed for the self-employed and the unpaid family workers who work with them.

Otherwise, those working informally who were able to maintain their livelihoods under normal conditions will fall into destitution due to the social distancing measures implemented within the scope of the fight against the pandemic. Individuals in this group who were already in a vulnerable situation, probably have limited savings or resources to protect themselves against such an economic shock. Therefore, informal workers who must be prioritized in being brought under protection, will inevitably be more adversely affected by the economic consequences of the pandemic.

Certainly, Syrians in Turkey also make up a significant part of the informally employed. It can be estimated that an important part of this group, which has fled war conditions to take refuge in Turkey, do not have or have already exhausted the necessary savings or resources to absorb the economic effects of this shock. Similar SSI premium incentives to facilitate the transition to formal employment must be available to firms employing Syrians as well, and the 10 percent quota on Syrian employees which applies even to firms with Syrian ownership, must be lifted.

Notes

- 1 http://www.tuik.gov.tr/PrelstatistikMeta.do?istab_id=1201
- 2 Ben Salem et al. 2011; Kan and Tansel, 2014; Başlevent and Acar, 2015
- 3 <https://www.ailevecalisma.gov.tr/media/31746/yabanciizin2018.pdf>
- 4 Del Carpio ve Wagner (2015), Ceritoglu et al. (2017), Erzan et al. (2018).
- 5 Pelek (2015), Gürsel et al. (2018).
- 6 <https://www.iskur.gov.tr/is-arayan/issizlik-sigortasi/issizlik-odeneği/>
- 7 It is seen that 243,000 employers among 1,200,000 declared that they are not registered.
- 8 For the statement, see: <https://www.youtube.com/watch?v=RE1Cw1-ytdw>
- 9 It has been announced that direct income supports in Turkey will be given to 4,000,000 households. It is possible that these direct income supports will land upon informally employed individuals but no targeting to this end can be observed. It has been stated that 2,000,000 among the 4,000,000 households will be households that have received social assistances before. How the remaining 2,000,000 will be identified, however, has not been stated.
- 10 https://oecd.github.io/OECD-covid-action-map/data/CoronavirusUpdate_AllCountries_Public.xlsx

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