
ANKER LIVING WAGE REFERENCE VALUE

**RURAL
EL SALVADOR
2020**

LIVING WAGE

**USD 355
PER MONTH
(SVC 3,136)**



Anker 
Research
Network

GLOBAL
LIVING WAGE
COALITION

The Anker Reference Values are endorsed by the Global Living Wage Coalition (Fairtrade International, Rainforest Alliance, Social Accountability International and ISEAL Alliance). Development of the methodology was initiated and supported by Fairtrade International and German Federal Ministry for Economic Cooperation and Development (BMZ). Further support was received from Rainforest Alliance, Social Accountability International and Clif Bar & Company.



Anker Living Wage Reference Value¹

Rural El Salvador 2020

1. Anker Living Wage Reference Value for Rural El Salvador in 2020

The Anker Living Wage Reference Value for 2020 for rural El Salvador is USD 355 (SVC 3,136)² per month with a 95% confidence around it from USD 326 to USD 386 (SVC 2,883 to SVC 3,412). This is the wage required for rural workers to be able to afford a basic but decent living standard in a typical rural area of El Salvador. The Reference Value is comprised of a net living wage (i.e. take-home pay) of USD 318 (SVC 2,815) per month plus an estimated USD 36 (SVC 321) which would need to be paid by law as contribution to State Welfare Fund and in private pension on the living wage (LW).³

“A living wage is the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.” (Global Living Wage Coalition).

2. Anker Reference Value Methodology

Anker Living Wage Reference Values are based on a new methodology developed by Richard Anker, Martha Anker, and Ian Prates. This methodology is based on a rigorous statistical analysis of 40 internationally comparable, quality-assured Anker methodology studies that cover low-income and middle-income countries. It has been developed primarily under the auspices of the Global Living Wage Coalition.

Anker Reference Values are internationally comparable, consistent with results from existing Anker living wage and living income benchmark studies and easy to update every year. Thus, they are of especial value to countries where a full quality-assured Anker methodology living wage or living income study is yet to be conducted.

Anker Living Wage Reference Values represent a living wage for typical families in rural or urban areas of low-income and middle-income countries. Since they are based on a statistical analysis,

¹ Prepared by Fabricio Bonilla and Koen Voorend with Richard Anker, Martha Anker, and Ian Prates.

² El Salvador has been a dollarized economy since 2001, when the US Dollar replaced the Salvadorian Colon (SVC) as the official currency. In this report, the SVC is mentioned as a reference only. The exchange rate used to convert to US dollars is Salvadorian Colon (SVC) 8.8454. This is the average exchange rate for the three-month period from June 13, 2020 through September 12, 2020 according to Forex Exchange.

³ In El Salvador, employees earning a wage need to pay mandatory contributions to social security at a rate of 3% of gross salary to state welfare and 7.25% to private pension. Employees are allowed to deduct USD 1,600 (SVC 14,152) from their annual income for tax purposes. The living wage falls within the lowest tax bracket and thus is exempt from income tax, i.e. below USD 4,064 USD (SVC 35,947).

they have a margin of error for typical rural (urban) areas of a country, which is generally around +/- 10% using a 95% confidence interval. Since Reference Values are not location-specific within countries and represent the situation in typical rural (or urban) regions, the margin of error is likely to be larger for locations with atypical living costs within a country such as large cities with high living costs, or poorer (or richer) areas with relatively low (or high) living costs and norms.

3. Country Context

Geography and demographics

With 21,041 square kilometers (8,124 sq. miles), El Salvador is the smallest country in Central America. It borders Guatemala to the north and Honduras to the northeast, and faces the Pacific Ocean on 307 km of coast. Its capital city, San Salvador, is normally grouped together with 13 smaller municipalities in the growing San Salvador Great Metropolitan Area (GAMSS, acronym in Spanish).

El Salvador's population was estimated at 6,481,102 by July 2020.⁴ It is by far the most densely populated country in Central America, with approximately 308 inhabitants per square km (790 per square miles). The country's population structure is indicative of a young population with a median age of around 28⁵ with 45% of the population under 24 years old and another 40% between 25 and 54. The total fertility rate (TFR) of 2.02 (World Bank, 2020) is just below the replacement-level fertility.

At the national level, 73.4% of the total population lives in urban areas, which is estimated to have grown at an annual rate of 1.6% for the last five years.⁶

Economy

GDP per capita has slowly but steadily increased from 6,127 USD in 2010 to 9,139 USD in 2019 (PPP current international USD).⁷ Recent estimates expect 8.6% decline in GDP by the end of 2020, similar to the 9.1% average fall for Latin America.⁸ El Salvador is considered a lower-middle income country by the World Bank, although it is important to note that it is right at the cut-off point for being considered as an upper-middle income country.⁹

⁴ https://www.cia.gov/library/publications/the-world-factbook/geos/print_es.html

⁵ For men, it is slightly lower at 26.2, while women average 29.3 years.

⁶ Argumedo, P., & Oliva, J. A. (2017). El mercado laboral salvadoreño: retos de la formalización y el crecimiento económico.

⁷ The World Bank. (2020b). GDP per capita, PPP (current international \$) - El Salvador. Retrieved from <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=SV>.

⁸ CEPAL. (2020). Estudio Económico de América Latina y el Caribe 2020. Retrieved from <https://www.cepal.org/es/temas/covid-19>

⁹ The World Bank classification of development level is based on GNI per capita in USD using the Atlas method. It considers countries with \$1,036-\$4,045 as a lower-middle income country and countries with \$4,046-\$12,535 as an upper-middle income country. With GNI per capita of \$4,000 in 2019, El Salvador is classified as a lower-middle income country, even though it is only \$46 away from being classified as

According to the UN's 2020 World Investment Report, foreign direct investment to El Salvador was estimated at USD 662 million in 2019, mainly from the United States, Mexico and Guatemala. Key sectors for investment were the textile sector, electricity production, tourism and telecommunications.

Labor market

According to tabulations of 2018 household survey data, rural women ages 25-59 were much less likely to be in the labor force than men (45.7% compared to 94.7%). Despite this, rural women 25-59 were much more likely to be underemployed (defined as working less than 30 hours per week) than men (31.0% compared to 16.5%).

Of every 100 people that were employed in 2018, only 44 workers had a formal contract and only 35% were covered by the social security system.¹⁰ In general, women are worse off in terms of informality and in terms of income: on average, men earned USD 353 in the formal sector compared to USD 293 for women.¹¹

The agricultural sector has lost relative importance over the last decades as a source of jobs, while industry and especially the service sector have grown in importance. By 2019¹², 61.6% of the labor force was employed in the services sector, 22.1% in industry and 16.3% in agriculture. In rural areas, the percentage of workers in agriculture is much higher (44% in 2014) with more than half of those in rural areas in agriculture below the poverty line.¹³

The lack of economic opportunities has resulted in considerable emigration, especially to the U.S., and especially from the rural areas. By 2017, slightly more than 1.4 million Salvadoran immigrants were registered in US official data.¹⁴ This represents more than one-fifth of the country's population, and remittances were estimated at 16% of gross national disposable income in 2018¹⁵, the highest in Central America.

an upper middle income country.

¹⁰ Dirección de Estadísticas y Censos El Salvador. (2019). Encuesta de Hogares de Propósitos Múltiples 2018.

¹¹ Dirección de Estadísticas y Censos El Salvador. (2019). Op cit.

¹² Plecher, H. (2020). Employment by economic sector in El Salvador 2019. Retrieved from <https://www.statista.com/statistics/460536/employment-by-economic-sector-in-el-salvador>.

¹³ International Labor Organization. (2016). Panorama Temático Laboral. Retrieved from http://www.oitcenterfor.org/sites/default/files/file_publicacion/plaboraltematico1.pdf

¹⁴ O'Connor, A., Batalova, J., & Bolter, J. (2019). Central American Immigrants in the United States. Retrieved from <https://www.migrationpolicy.org/article/central-american-immigrants-united-states-2017>

¹⁵ Escobar, M. (2018). El Salvador : El reto de la protección social en una creciente economía informal.

Social Conditions

Poverty and Inequality

El Salvador has made considerable progress in reducing poverty and socio-economic inequalities.¹⁶ Poverty measured at the World Bank's international PPP USD 3.20 per person per day poverty line for a lower-middle income country, like El Salvador, dropped from 15% to 8.5% between 2007 and 2017. The poverty rate fell from 39% to 29% at the international poverty line for upper-middle income countries, which El Salvador is likely soon to become (see footnote above on this). Moreover, El Salvador has become one of the least unequal societies in Latin America, with its Gini coefficient declining from 0.51 to 0.38 between 2001 and 2017.

Despite improvement, poverty is an important issue in El Salvador, particularly among rural youth. In 2017, more than 60% of rural youths were considered poor, as measured by the multi-dimensional poverty index, compared to less than 30% in urban regions, their income being on average 24% lower. The high level of informality in the labor market disproportionately affects young people, as does underemployment.¹⁷

Health

The World Bank states that the sustained increase of public spending on healthcare has enabled El Salvador to expand access to public services, particularly for lower income families. Between 2007 and 2017, health-oriented public spending grew from USD 343 to 590 million, which translated into a 14% reduction in out-of-pocket healthcare expenses.¹⁸

However, despite increased social spending on health, El Salvador has highly stratified healthcare coverage. The Ministry of Health facilities cover 73% of the population. Three other institutions cover specific populations: (1) the Salvadoran Institute for Social Security (*ISSS*) provides services to 'formal' workers and their employers; (2) the Salvadoran Institute for Teachers' Well-being (*ISBM*) covers teachers in the public sector; and (3) military personnel are covered by the Military Health Command (*COSAM*). The Ministry of Health spends USD 118 per capita, which is much lower than *ISSS* (USD 242), *ISBM* (USD 484) and *COSAM* (USD 251).¹⁹ This means that healthcare for formal workers with social security coverage and specific occupations in education (teachers) and the military have access to much better healthcare provision than informal workers. A 2016 survey²⁰ determined that only 24.1% of the total population had health insurance (and only 35% of the employed population).

¹⁶ The World Bank. (2020a). El Salvador. Retrieved from <http://datatopics.worldbank.org/jobs/country/el-salvador>

¹⁷ PNUD. (2018). Op cit.

¹⁸ Beneke, M., Lustig, N., & Oliva, J. A. (2017). Op cit.

¹⁹ Beneke, M., Lustig, N., & Oliva, J. A. (2017). Op cit.

²⁰ Escobar, M. (2018). Op cit.

Healthcare coverage in rural areas outside of Ministry of Health facilities is particularly thin. Less than 11% of the rural population had health insurance, almost three times less than in urban areas (32.4%). Measured in terms of income quintile, the disparity becomes even clearer: 44% of the top fifth of the income distribution is said to have coverage (still arguably low), while only 2.3% of the bottom 20% are covered.

Education

Illiteracy rates at ages 15-24 have sharply declined between the early 1990s and 2018, from approximately 16% to less than 3%. The literacy rate reached 89% by 2018 for all people over 15. However, the picture is complex. For example, when compared to standards for their age, only 34% of second graders and 40% of third graders were considered able to read adequately, with rural children and those in lower socio-economic classes further behind.

Public education in rural areas is problematic, as for instance only 74% of rural education facilities have access to drinkable water compared to 96% of those in urban areas.²¹ Many young people in rural areas also leave school early to start working. On average, children start working at around 14 years in rural areas.²²

4. Wage ladder and gaps to a living wage, rural El Salvador

Figure 1 shows a wage ladder for rural El Salvador to provide context on gaps to a living wage. It compares the Anker Living Wage Reference Value for rural El Salvador with five other wage indicators. The Anker Living Wage Reference Value is approximately 2.6 times the World Bank international poverty line wage for lower-middle income countries (\$3.20 internationally comparable USD) like El Salvador and 1.6 times the poverty line wage for upper-middle income countries (\$5.50 internationally comparable USD). Since El Salvador is almost exactly at the demarcation border between the World Bank classification of lower-middle income and upper-middle income countries, our living wage is around twice the World Bank poverty line wage. The Living Wage Reference Value is 70-80% higher than the El Salvador national rural poverty line wage, the agricultural minimum wage, and the average wage for agriculture workers. These large gaps for rural workers persist despite the fact that when the minimum wage was last increased in 2018,²³ the minimum wage for general agricultural workers increased by nearly 70%, whereas the minimum wage for industrial workers increased by 23% and the minimum wage for commercial and service workers increased by 21%. It is also important to keep in mind that the majority of

²¹ The World Bank. (2019a). El Salvador Early Childhood Care and Education Project (P171316).

Retrieved from http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/03/25/000001843_20110329141118/Rendered/PDF/P1217550PID0ap1or0InfoShop0March25.pdf

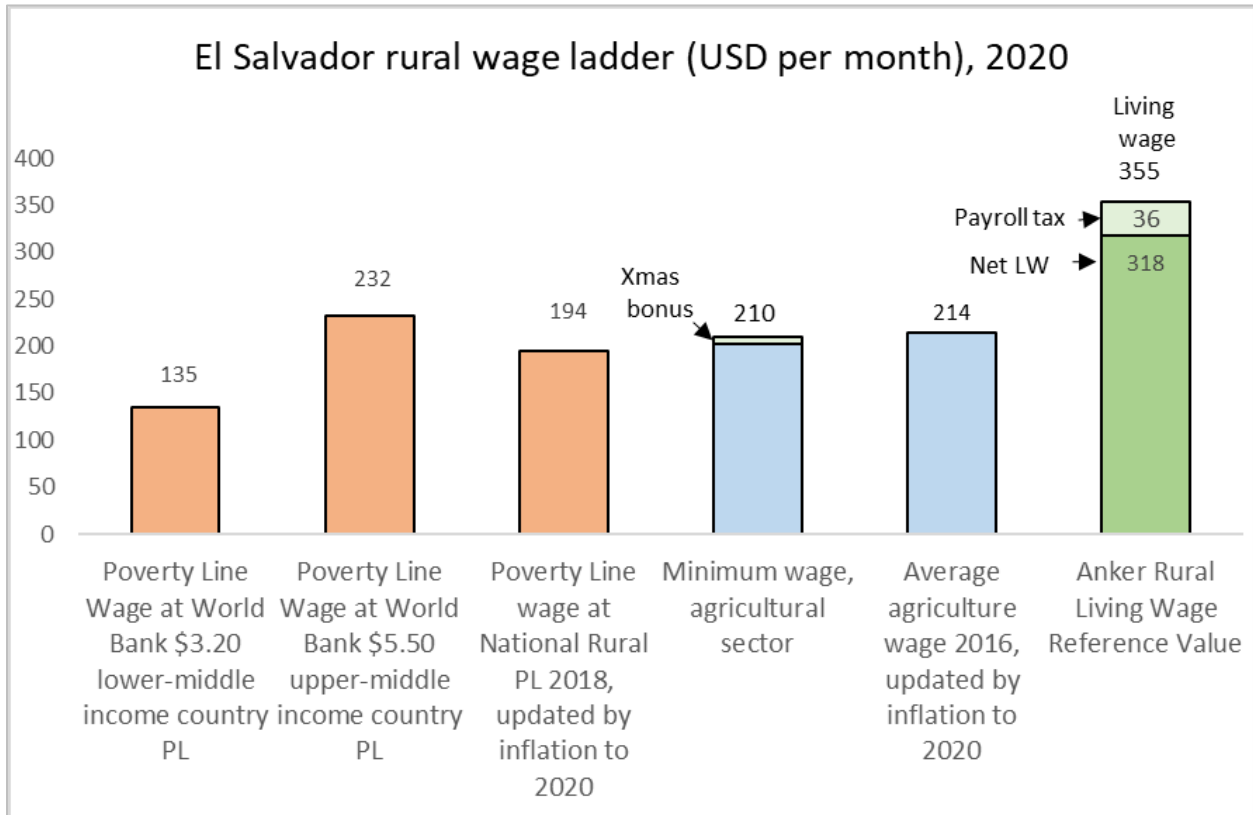
[118/Rendered/PDF/P1217550PID0ap1or0InfoShop0March25.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/03/25/000001843_20110329141118/Rendered/PDF/P1217550PID0ap1or0InfoShop0March25.pdf)

²² PNUD. (2018). Informe sobre Desarrollo Humano El Salvador 2018. El Salvador.

²³ Consejo Nacional del Salario Mínimo. (2018). A UN AÑO DEL AUMENTO AL SALARIO MÍNIMO Consejo Nacional de Salario Mínimo.

workers in El Salvador do not have formal employment relations and so many workers in El Salvador may not receive even the minimum wage.

Figure 1



Notes: ^a National poverty line for rural El Salvador is per person and was set in 2018. We updated this by inflation to 2020. Note that the rural poverty line is much lower than the urban poverty line (USD 8 compared to USD 12 and SVC 68.06 compared to SVC 106.80) per person per month in 2018.

^b The World Bank poverty line for El Salvador was estimated using the World Bank poverty line for lower-middle income countries (\$3.20 PPP) and upper-middle income countries (\$5.50 PPP) using a formula proposed by the World Bank to estimate future PPP that uses latest available PPP and subsequent inflation rates for El Salvador and the United States.

^c Family size of 4.5 (2 adults and 2.5 children) was used for expositional purposes to estimate the national rural poverty line wage and the World Bank poverty line wage. This family size is similar to: (i) average household size for rural areas of 4.38 when single-person households (that do not have children) and very large households (that are likely to be extended families with more than 2 adult workers) are excluded; and (ii) the rural total fertility rate adjusted for rural child mortality of 2.48 which implies a family size of 4.48.

^d Number of full-time equivalent workers per family of 1.59 is used for expositional purposes to estimate poverty line wages. It was estimated using micro data from 2016 household survey on labour force participation rates, unemployment rates, and part-time employment rates (less than 30 hours per week) for rural males and rural females ages 25-59.

^e Mandatory payroll deductions are 10.25% for: social security (3.0%) and pension (7.25%). Income tax would not be assessed on the rural living wage, because income tax is not paid on income below USD 459 (SVC 4,064) per year and there is a deduction of USD 181 (SVC 1,600) for lower wage workers.

^f The Anker Living Wage Reference Value is estimated directly based on statistical analysis and therefore does not have an explicit number of full-time workers per family or reference family size (although rural reference family size falls from 6 to 4 with development in Anker living wage benchmark studies).

^g Minimum wage was last increased in 2018. There has been around 1% inflation since then to 2020. Minimum wage is much higher in industry, commerce and services (around USD 300 per month) compared to agriculture (around USD 200 per month). Minimum wage is set per hour, with minimum wage per month determined by multiplying the stipulated per hour rate by 44 hours per week and 4.33 weeks per month. This implicitly assumes that minimum wage workers have paid sick leave, paid public holidays, and paid annual leave.

^h Christmas bonus of 10 days per year was added on a prorated value per month to the minimum per hour translated to a monthly minimum wage. Note that size of the Christmas bonus depends on the number of years of service (10 days for 1-3 years of service; 15 days for 3-10 years of service; and 18 days for 10+ years of service).

ⁱ Median wage for agricultural workers (i.e. wage of average worker) is undoubtedly lower than the average agricultural wage shown in the wage ladder, perhaps by 10% or so.