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# ANKER LIVING WAGE REFERENCE VALUE

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**EL SALVADOR  
URBAN  
2022**



**LIVING WAGE**

**USD 519  
PER MONTH**

El Salvador is a dollarized country

Anker   
Research  
Institute

**GLOBAL**   
LIVING WAGE  
COALITION

*The Anker Living Wage and Income Research Institute engages in and disseminates high quality research, analysis, and training related to living wage and living income (based on the Anker methodology) to inform and influence companies, empower working people, and shape public policy, thereby helping to enhance quality of life and sustainable livelihoods for working people and their families everywhere. Social Accountability International (SAI) is the institutional host.*



*Global Living Wage Coalition (led by Fairtrade International, Rainforest Alliance, Social Accountability International and ISEAL) endorses Anker Reference Values. Development of the Reference Value 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.*



# Urban El Salvador Anker Living Wage Reference Value, 2022

*By:*  
*Azfar KHAN\**  
*Ian PRATES\*\**  
*Richard ANKER\*\*\**  
*Martha ANKER\*\*\**

## **Abstract:**

This report provides a living wage for typical urban areas of El Salvador. The report uses statistical regressions based on secondary data and results from Anker Living Wage and Living Income Benchmark studies to estimate living wages and living costs for typical urban areas in El Salvador. The Anker Living Wage Reference Value is presented alongside socio-economic data to contextualize the result.

**Keywords:** Living wage, Anker Methodology, El Salvador, urban living costs, Labor market

**JEL classifications:** J30, J50, J80, I30, I32, R20, R23

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\* Anker Research Institute (ARI), E-mail: [akhan@ankerinstitute.org](mailto:akhan@ankerinstitute.org)

\*\* Anker Research Institute (ARI) & Brazilian Center for Analysis and Planning (CEBRAP), E-mail: [iprates@sa-intl.org](mailto:iprates@sa-intl.org)

\*\*\* Anker Research Institute (ARI). E-mail: [marthaandrichard@gmail.com](mailto:marthaandrichard@gmail.com)

\*\*\* Anker Research Institute (ARI). E-mail: [marthaandrichard@gmail.com](mailto:marthaandrichard@gmail.com)

# Anker Living Wage Reference Value<sup>1</sup>

## Urban El Salvador 2022

### 1. Anker Living Wage Reference Value for Urban El Salvador

The Anker Living Wage Reference Value for 2022 for urban El Salvador is USD 519 (SVC 4,541)<sup>2</sup> per month with a 95% confidence around it from USD 478 to USD 592. This is the wage required for workers to be able to afford a basic but decent living standard in a typical urban area of El Salvador. The Reference Value is comprised of a net living wage (i.e., take-home pay) of USD 466 per month plus an estimated USD 53 which would need to be paid by law as contribution to State Welfare Fund and in private pension contribution on the living wage.<sup>3</sup>

The Living Wage may be defined as:

*“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 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. 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 especially of 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, 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

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<sup>1</sup> Prepared by: Azfar Khan, Ian Prates, Richard Anker and Martha Anker.

<sup>2</sup> El Salvador has been effectively a dollarized economy since 2001. In this report, the SVC is mentioned as a reference only. Exchange rate used to convert to US dollars is Salvadorian Colon (SVC) is 8.75.

<sup>3</sup> 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% of gross salary to private pension as well as income tax if their taxable income is higher than the tax-free amount. For income tax purposes, employees are allowed to deduct USD 1,600 per year and their contributions to social security and private pension.

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*

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

El Salvador's population was estimated at 6,481,102 by July 2020.<sup>4</sup> 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 28<sup>5</sup> with 45% of the population under 24 years old and another 40% between 25 and 54. The total fertility rate (TFR) of 2.00 (World Bank, 2022) is just below the replacement-level fertility.

At the national level, 73.4% of the total population in 2020 lives in urban areas, which is estimated to have grown at an annual rate of 1.6% for the last five years,<sup>6</sup> fed mainly by constant streams of people moving from rural to urban areas because of insufficient land, limited job opportunities, low wages, and persistent poverty.

#### *Economy*

GDP per capita has slowly but steadily increased from 6,127 USD in 2010 to 9,669 USD in 2021 (in PPP current international USD).<sup>7</sup> The respective contributions to GDP in 2019 of the major sectors shows that agriculture contributed 5.1%, industry 23.8% and services 61.5%.<sup>8</sup> Over the last two decades, the industrial sector has grown considerably and for a small country, El Salvador boasts 17 different free trade zones (FTZs). Most of the industrial base is in the vicinity of San Salvador, but also other urban centers, like La Libertad, Santa Ana, San Miguel, Usulután and San Vicente host industrial set-ups.<sup>9</sup>

<sup>4</sup> See [https://www.cia.gov/library/publications/the-world-factbook/geos/print\\_es.html](https://www.cia.gov/library/publications/the-world-factbook/geos/print_es.html)

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

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

<sup>7</sup> 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>.

<sup>8</sup> See, <https://www.statista.com/statistics/460526/share-of-economic-sectors-in-the-gdp-in-el-salvador/>

<sup>9</sup> See, <https://www.statista.com/statistics/460526/share-of-economic-sectors-in-the-gdp-in-el-salvador/>

A major impetus for growth is consumption, supported by high remittance inflows.<sup>10</sup> Notably, the country increased the minimum wage by 20% in 2021, affecting an estimated 500,000 workers in the country.<sup>11</sup>

The World Bank considers El Salvador a lower-middle income country – though, it is important to note that it is near the cut-off point for being considered an upper-middle income country.<sup>12</sup> In the Central American region, it is generally considered a bright spot for economic activity. 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. The economic sectors receiving the most inflows were manufacturing (69%), commerce (12.8%) and electricity supply (8.9%).<sup>13</sup>

### ***Social Conditions: Inequality and Poverty***

#### *Poverty and Inequality*

El Salvador has made considerable progress in reducing poverty and socio-economic inequalities.<sup>14</sup> Poverty measured according to the World Bank's international poverty line (PPP USD 3.20 pp/pd for a lower-middle income country) 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 may soon become (see footnote above on this). A positive development has been that El Salvador has become one of the least unequal societies in Latin America, with its Gini coefficient declining from 0.51 to 0.39 between 2001 and 2019. Still, income distribution is heavily skewed with the richest 20% of the population holding 45.6% of the income generated in 2019.<sup>15</sup>

Despite improvements, poverty is an important issue in El Salvador, particularly among youth. In 2017, as measured by the multi-dimensional poverty index, 30% of the youth in urban regions were considered poor. Moreover, the high level of informality in the urban labor market has

<sup>10</sup> Remittances from abroad totalled US\$ 5.391 billion (21% of GDP) in 2019: a year-on-year increase of 8.1%. See Economic Survey of Latin America and the Caribbean: El Salvador 2019. [https://repositorio.cepal.org/bitstream/handle/11362/44675/158/EEI2019\\_ElSalvador\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/44675/158/EEI2019_ElSalvador_en.pdf)

<sup>11</sup> Aprueban aumento del 20% al salario mínimo para beneficiar a más de 500 mil trabajadores, *El Salvador Times*, 9 de julio de 2021.

<sup>12</sup> World Bank classification of development level is based on GNI per capita in USD using the Atlas method. In 2020, 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 \$3,630 in 2020, El Salvador is classified as a lower-middle income country - even though it is only \$415 away from being classified as an upper-middle income country.

<sup>13</sup> Op cit. Economic Survey of Latin America and the Caribbean: El Salvador 2019. [https://repositorio.cepal.org/bitstream/handle/11362/44675/158/EEI2019\\_ElSalvador\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/44675/158/EEI2019_ElSalvador_en.pdf)

<sup>14</sup> The World Bank. (2020a). El Salvador. Retrieved from <http://datatopics.worldbank.org/jobs/country/el-salvador>

<sup>15</sup> <https://www.statista.com/statistics/1075313/el-salvador-income-inequality/#:~:text=El%20Salvador%3A%20wealth%20inequality%20based%20on%20income%20concentration%202010%2D2019&text=In%202019%2C%20it%20was%20estimated,which%20it%20reached%2044.7%20percent.>

disproportionately affected young people as they have high underemployment rates.<sup>16</sup> This has been a prime motivator of increasing crime, which has kept the poverty cycle alive.

### **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. However, despite increased social spending on health, El Salvador has highly stratified healthcare coverage. It has a multi-tiered system. The Ministry of Health public facilities cover 73% of the population free of charge, although public sector institutions unfortunately suffer from lack of qualified personnel and slow and delayed medical care.

Three other public type 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*). There are also, of course, private facilities, which only some are able to access because of high costs. The Ministry of Health spent USD 118 per capita in 2016 which is much lower than *ISSS* (USD 242), *ISBM* (USD 484) and *COSAM* (USD 251).<sup>17</sup> 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 survey<sup>18</sup> determined that only 24.1% of the total population had health insurance (and only 35% of the employed population).

### **Education**

According to the World Bank, in 2020, the literacy rate reached 90% for those over age 15. As in the case of public healthcare, however, public education is problematic. The Human Rights Measurement Initiative (HRMI) Tracker for El Salvador shows that of the five indicators (education, food, health, housing, and work) reflecting 'quality of life', the least well-performing is education delivery and attainment. Whereas the performance of all other indicators is in the 'fair' range, education falls considerably below in what is classified as 'bad'.<sup>19</sup> A recent OECD publication examining the problems of youth in El Salvador, highlights three major problems of educational delivery and attainment: (i) the poor quality of education which leaves many young

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<sup>16</sup> PNUD. (2018). Op cit.

<sup>17</sup> Beneke, M., Lustig, N., & Oliva, J. A. (2017). Op cit.

<sup>18</sup> Escobar, M. (2018). Op cit.

<sup>19</sup> The HRMI measures performance by setting benchmarks and measuring against them. These benchmarks reflect how the country is performing compared to what is possible at its level of income. <https://rightstracker.org/en/country/SLV>



people without basic knowledge and skills; (ii) the lack of equity in access to education particularly for those hailing from poor and disadvantaged backgrounds; and (iii) the high dropout rates where the exigencies of poverty force many to abandon studies for economic activities, in which criminal undertakings often feature. The OECD report ruefully concludes that “Social mobility through educational attainments is limited ... reinforces an endemic situation of social inequality in El Salvador.”<sup>20</sup>

### **Labor Market**

According to tabulations of 2018 household survey data, urban women ages 25-59 are much less likely to be in the labor force than men (45.7% compared to 94.7%). Despite this, urban women 25-59 are much more likely to be underemployed (defined as working less than 30 hours per week) than men). In 2020, it was estimated that informal employment as a share of total employment was 68.5%, making El Salvador the country with the highest level of informal employment in Latin America.<sup>21</sup> Of every 100 people that were employed in 2018, only 35% were covered by the social security system.<sup>22</sup> This highlights problems for the working population, as those in the informal economy who do not pay social security taxes are not covered by social protection systems in the same way as those in formal employment, leaving them without adequate healthcare or old-age protection for example. In general, women are worse off in terms of informality and in terms of income. In 2018 on average, men earned USD 353 in the formal sector, against USD 293 for women.<sup>23</sup>

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 2019<sup>24</sup>, 61.6% of the labor force was employed in the services sector, 22.1% in industry and 16.3% in agriculture. The lack of economic opportunities has resulted in considerable emigration, especially to the United States, and especially from the rural areas. By 2017, slightly more than 1.4 million Salvadoran immigrants were registered in US official data.<sup>25</sup> This represents more than one-fifth of the country’s population, and remittances were estimated at 16% of gross national disposable income in 2018<sup>26</sup>, the highest in Central America. In a sense, El Salvador has been a foreign income dependent economy for quite some time. Past experience of remittance utilization has

<sup>20</sup> OECD, Key Issues affecting Youth in El Salvador.

<https://www.oecd.org/dev/inclusivesocietiesanddevelopment/youth-issues-in-el-salvador.htm#:~:text=However%2C%20the%20country%20faces%20three,six%20grades%20out%20of%20nine.>

<sup>21</sup> <https://www.statista.com/statistics/1039952/informal-employment-share-el-salvador/#:~:text=The%20share%20of%20employment%20informality,highest%20levels%20of%20informal%20employment>.

<sup>22</sup> Dirección de Estadísticas y Censos El Salvador. (2019). Encuesta de Hogares de Propósitos Múltiples 2018.

<sup>23</sup> Dirección de Estadísticas y Censos El Salvador. (2019). Op cit.

<sup>24</sup> Plecher, H. (202). Employment by economic sector in El Salvador 2019. Retrieved from <https://www.statista.com/statistics/460536/employment-by-economic-sector-in-el-salvador>.

<sup>25</sup> 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>

<sup>26</sup> Escobar, M. (2018). El Salvador : El reto de la protección social en una creciente economía informal.



shown that for many households the income effects have had a positive impact on household food consumption, improved access to essential services (such as healthcare), increased consumption of leisure pursuits and nurtured self-employment activities, particularly in areas where a lack of access to paid work is endemic.<sup>27</sup> These conclusions are confirmed in a more recent Inter-American Development Bank publication.<sup>28</sup>

#### 4. Living wage ladder and gaps to living wage

Figure 1 shows a wage ladder for urban El Salvador to provide context on gaps to a living wage. It compares the Anker Living Wage Reference Value for urban El Salvador with five other wage indicators. The Anker Living Wage Reference Value is 3.8 times the World Bank international poverty line wage for lower-middle income countries (\$3.65 internationally comparable USD)<sup>29</sup> like El Salvador, and 2 times the poverty line wage for upper-middle income countries (\$6.85 internationally comparable USD). Since El Salvador is close to the demarcation border between the World Bank classification of lower-middle income and upper-middle income countries, our living wage is around 2.9 times the World Bank poverty line wage.

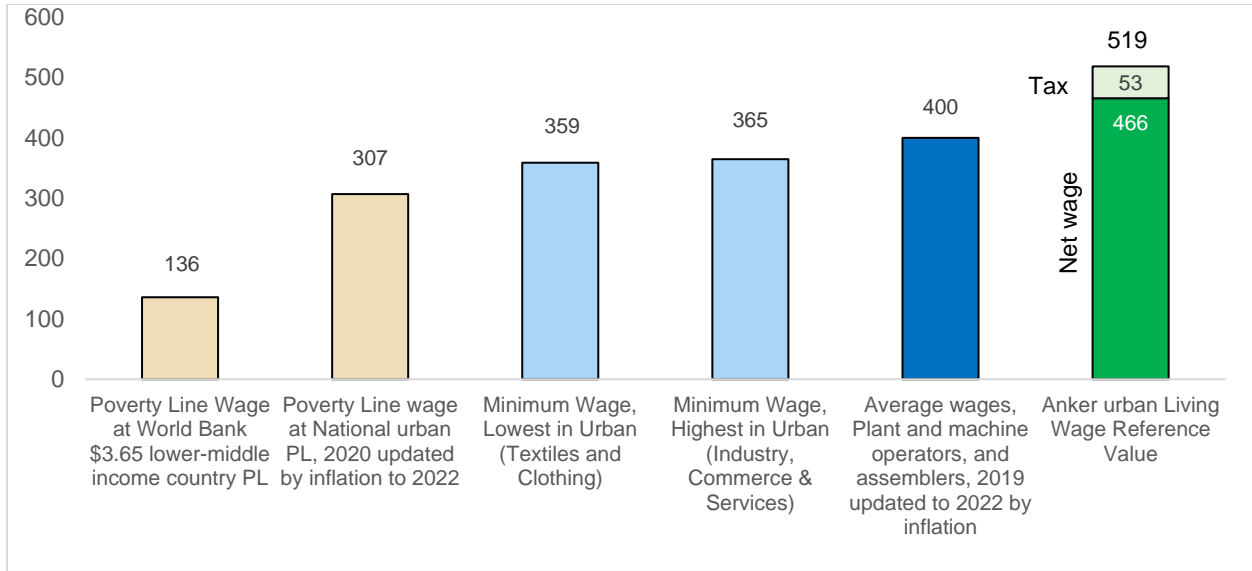
The Living Wage Reference Value is around 1.7 times higher than the El Salvador national urban poverty line wage. It is around 44% higher than the urban minimum wage and around 30% higher than average wage for industry workers. These gaps to minimum wage and prevailing wage persist despite the fact that the minimum wage has increased rapidly in recent years including 20% in 2021. It is also important to keep in mind that the majority of workers in El Salvador do not have formal employment relations and so many workers in El Salvador do not receive even the minimum wage.

<sup>27</sup> Acosta, P. (2006), Labour Supply, School Attendance and Remittances from International Migration: The case of El Salvador, World Bank Policy Research Working Paper 3903, April 2006.

<sup>28</sup> Inter-American Development Bank/IDB (2016). Remittance Recipients in El Salvador: A socioeconomic profile, Washington DC <https://publications.iadb.org/publications/english/document/Remittance-Recipients-in-El-Salvador-A-Socioeconomic-Profile.pdf>

<sup>29</sup> On October 2022, the World Bank updated international poverty lines for 2.15 PPP (low-income countries), 3.65 PPP (lower-middle income countries) and 6.85 PPP (upper-middle-income countries). These values were 1.90 PPP, 3.20 PPP and 5.50 PPP respectively. <https://www.worldbank.org/en/news/factsheet/2022/05/02/fact-sheet-an-adjustment-to-global-poverty-lines#1>

**Figure 1: El Salvador urban wage ladder (USD<sup>i</sup> per month), 2022**



**Notes:** <sup>a</sup> National poverty line for urban El Salvador is per person and was updated by inflation to 2022 by the authors. <sup>b</sup> The World Bank poverty line for 2022 for El Salvador was estimated using the World Bank poverty line for lower-middle income countries (\$3.65 PPP) for 2022 using a formula recommended by the World Bank to estimate future PPP that uses latest available PPP and subsequent inflation rates for El Salvador and the United States. <sup>c</sup> Family size of 4 (2 adults and 2 children) was used for expositional purposes to estimate the national urban poverty line wage and the World Bank poverty line wage. This family size is similar to: (i) average household size for urban areas of 4.03 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 urban total fertility rate adjusted for rural child mortality of 1.66. <sup>d</sup> Number of full-time equivalent workers per family of 1.56 was used to estimate the two poverty line wages. It was estimated using micro data from a recent household survey on labour force participation rates, unemployment rates, and part-time employment rates (less than 30 hours per week) for urban males and females ages 25-59. <sup>e</sup> Mandatory payroll deductions are 10.25% for: social security (3.0%) and pension (7.25%). Income tax would not be assessed on the urban living wage, because income tax is not paid on income below USD 459 per year considering that there is a standard deduction of USD 181. <sup>f</sup> 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). <sup>g</sup> There is no single national minimum wage. It differs by sector in the economy. Minimum wage was last increased in August 2021. Minimum wage is much higher in industry, commerce and services (around USD 360 per month) compared to agriculture (around USD 240 per month). The lowest and highest values for minimum wage were used for expositional purposes. <sup>h</sup> Average wage from ILOSTAT based on 2019 labor force survey. Median wage (i.e., wage of average worker) is lower than the average wage shown in the wage ladder. <sup>i</sup> El Salvador is effectively a dollarized country.