

Quarterly Report

Mype

Business Confidence Index

October - December 2020



THIRD REPORT Mype Business Confidence Index OCTOBER 2020

SMEs RECOVER THEIR EMPLOYMENT RATE FASTER THAN EXPECTED

INTRODUCCIÓN

The informal sector of the economy is particularly vulnerable, but it also has the greatest capacity to overcome crises over time. Although SMEs lost a bigger amount of jobs during the Pandemic in comparison to the formal sector, data from a recent survey conducted in November seems to prove that employment recovery has been twice as fast as in the formal sector.

Throughout this report, the SME Observatory presents the main findings regarding this rapid recovery. It seeks to explore to what extent an impact could have occurred on the employment quality of workers from the informal sector, and it also tries to find out about the future outlook regarding employment stability in the near future.



Bellow, we present you the summary of an exploratory survey conducted to a representative sample of the SMEs sector across the country.

1. BACKGROUND INFORMATION

The weight and growth of the formal and informal sector during the last three years

Despite the enormous efforts that have been made for decades, and despite the testing of the most diverse policies, the inability of our economy to generate formal employment continues to have a very firm handle on the informal sector. In El Salvador's case, the segment continues to grow and represents one of the largest groups, relatively speaking, from all of Latin America.

The population that is employed in this sector is growing annually by 2.5%, as can be seen in the following table. Also, it follows a trend of greater increase in comparison to formal employment. This situation promotes, stimulates, and generates conditions for the creation

of entrepreneurial ventures and the development of micro and small enterprises; all of them very dynamic.

ESTIMACIÓN DE LA INFORMALIDAD					
	CRECIMIENTO ANUAL				
	2017	2,018	2019	2,018	2019
POBLACIÓN TOTAL	6,581,860	6,642,767	6,704,864	0.9%	0.9%
POBLACIÓN ECONÓMICAMENTE ACTIVA	2,960,788	3,004,990	3,104,867	1.5%	3.3%
POBLACIÓN OCUPADA	2,752,094	2,814,266	2,908,119	2.3%	3.3%
SECTOR FORMAL	855,725	869,711	910,653	1.6%	4.7%
SECTOR INFORMAL	1,896,369	1,944,555	1,997,466	2.5%	2.7%
MYPES INFORMALES	837,627	845,347	883,884	0.9%	4.6%
ASALARIADOS INFORMALES	1,058,742	1,099,208	1,113,582	3.8%	1.3%

Fuente: Estimación Propia con base a Encuestas de Hogares 2017,2018,2019 y Estadísticas del ISSS

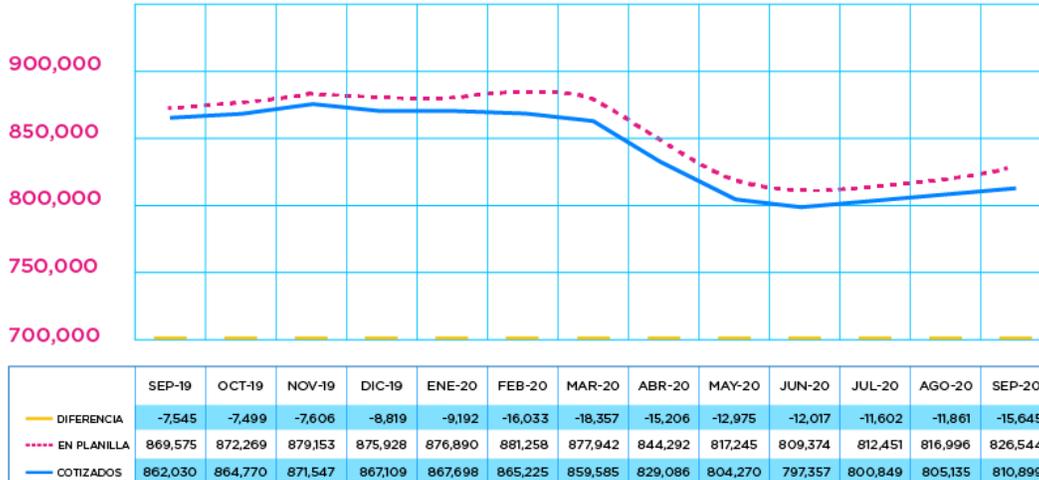
Until now our economy hasn't been able to find an equation that allows it to develop a greater capacity to generate formal employment opportunities for its rapidly growing population. As a result, the informal sector continues to acquire higher importance for the economy, because it employs 2 million people, that is, 64.3% of the Economically Active Population.

The previous data shows that informal SMEs are key agents for the economy. Not only do they contribute to reduce poverty, but they also facilitate commercial exchange among the most vulnerable population; they act as suppliers and as small-retailers to medium and large companies, and sometimes even to the government. On this basis, economists and the government are called upon to generate policies that strengthen and stimulate this sector's activities, through proposals that encompass the fiscal sphere and through several elements that contribute to the development of SMEs. Also, they should define with clarity and transparency the benefits that would result from the transition from informality to formality.

THE LOSS OF FORMAL EMPLOYMENT

According to statistical data published in November 2020, by the ISSS (Salvadoran Institute of Social Security), between February and June from the same year 71,884 jobs were lost, which represents 8.2% of the total amount of 881,258.

TRABAJADORES REPORTADOS Y COTIZADOS AL ISSS 2019-2020



FUENTE: INFORME DE COYUNTURA DEL ISSS NOVIEMBRE 2020

The above graph shows that, as of September 2020, the formal sector has recovered 24% of all lost jobs, which amounts to 17,170. A very hopeful outlook, taking into account that the economic reopening was in August.

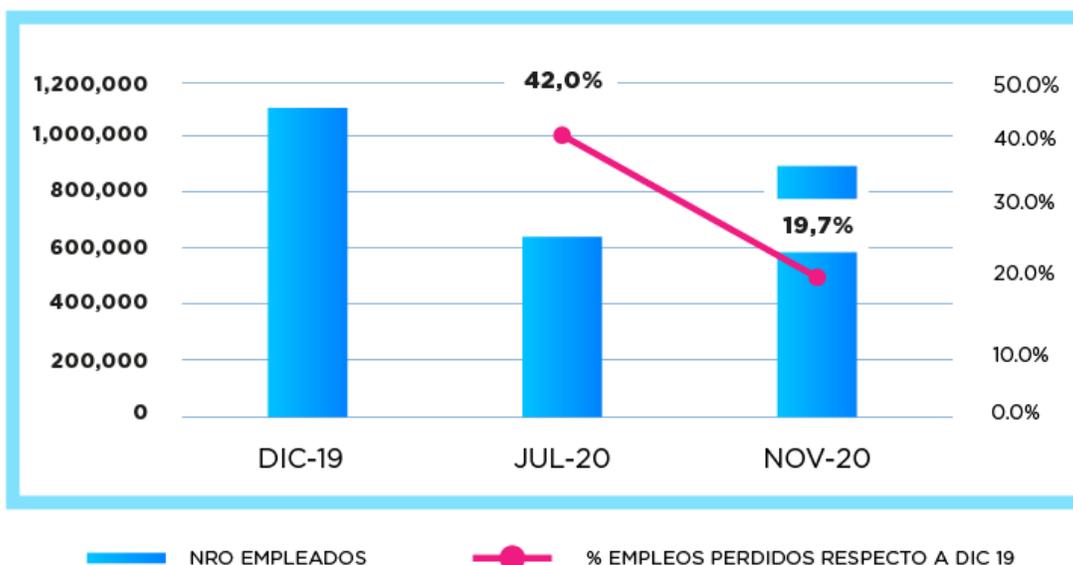
2. THE REACTIVATION OF THE INFORMAL SECTOR, FINDINGS OF A SURVEY

According to the study carried out by the MYPE Observatory of FUSAI, in August 2020, the informal sector lost up to 42% of jobs in comparison to February of the same year, as a result of the confinement measures and the closure of the economy.

A new survey carried out in November of this year found that in that same month of 2020, the informal economy recovered 53% of the jobs that were lost. This phenomenon is the result of an accelerated dynamic that characterizes this sector and its high capacity to adapt to different economic cycles faced by a year.

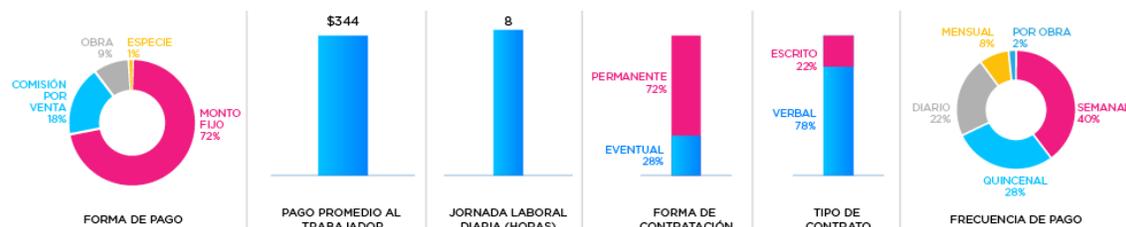
The following graph shows how, in three months, 42% of the jobs lost were fell to 19.7%, which amounts to 248,100 recovered jobs.

EVOLUCIÓN DEL EMPLEO GENERADO EN EL SECTOR INFORMAL



The ability to adapt reflects how employment is structured within SMEs.

The SMEs Observatory identified the following characteristics that give SMEs a higher work flexibility rate, and that allow them to adapt rapidly to crisis.



To summarize, the Results showcase the following:

- 72% receive a fixed payment, 18% receive it by commission depending on what they sell, and 9% by each task they perform.
- The average monthly payment of a worker from the informal sector is \$344, an income whose amount has been reduced by 6.4%, as a result of the crisis. It is also important to emphasize that this data refers to a sample that is mainly composed of the urban population.
- The average workday lasts 8 hours, and that figure has remained the same.

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- 72% of employees are hired permanently, while the rest are temporary.
 - Only 22% of informal workers have a written contract.
 - Regarding the frequency of payment: 40% receive it weekly, 28% biweekly, 22% daily, 8% Monthly, and the rest get it after each finished prearranged job.

Of all respondents, 18.2% manifested that they would hire more personnel (sellers and drivers are the most demanded positions) during the rest of the year, and only 4.0% are planning to lay off employees (the majority of which perform operational tasks).

3. PRELIMINARY CONCLUSIONS

- According to the data from the poll, as of September 2020, the formal sector of the economy recovered 24% of the employment it had lost due to the pandemic. In contrast, the informal segment recovered 53% as of November of the same year.
- Approximately 220,000 of all job losses in the informal sector are still to be recovered.
- The figures from the salary of workers in the informal sector have not been substantially affected, although according to the survey they have decreased by approximately 7%.
- The quality of employment in the informal sector keeps its pre-pandemic characteristics. The salaries remain the same, as well as the daily working hours, the personnel hiring mechanisms, and the frequencies and forms of payment.
- As time progresses, a group of entrepreneurs expects to increase its investment in personnel; 18% of all respondents stated that.

DATA SHEET:

- Respondents: 380 micro and small entrepreneurs from the informal sector, that are generators of employment.
- Number of respondents: 128 informal sector employees surveyed.
- Number of Departments from the country surveyed: 14
- Sectors: Trade, Production, Agricultural Services and Transportation.

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- Studied Segments: Informal Micro and Small Businesses.
 - Survey type: Electronic survey distributed and processed from 25 to 30 November of 2020.