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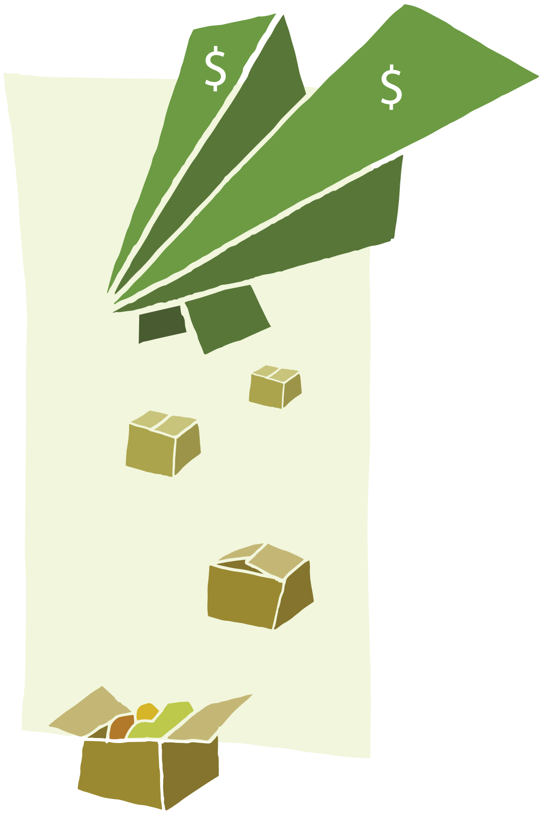
Improving lives and livelihoods

Poverty and Equity Assessment for El Salvador 2024



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Acronyms

AI	Artificial Intelligence
ASP	Adaptive Social Protection
CELADE	Latin American and Caribbean Demographic Centre
CSA	Climate-Smart Agriculture
CGS	Credit Guarantee Schemes
CSR	Comunidades Solidarias Rurales
CSU	Comunidades Solidarias Urbanas
CONAMYPE	Comisión Nacional de la Micro y Pequeña Empresa (National Commission for Micro and Small Enterprises)
CUBO	Urban Centers for Well-Being and Opportunities
DIGESTYC	Dirección General de Estadística y Censos (General Office of Statistics and Census)
ECLAC	Economic Commission for Latin America and the Caribbean
EHPM	Multipurpose Household Survey
ELCSA	Latin American and Caribbean Food Security Scale
EWS	Early Warning System
FAO	Food and Agriculture Organization
FUSADES	Fundación Salvadoreña para el Desarrollo Económico y Social (Salvadoran Foundation for Economic and Social Development)
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIC	Growth Incidence Curve
GNI	Gross National Income
ILO	International Labour Organization
IOM	International Organization for Migration
ISSS	Salvadorean Institute of Social Security
IVACC	Vulnerability Index to Climate Shocks
LAPOP	Latin American Public Opinion Project

LPG	Liquefied Petroleum Gas
MiCRO	Microinsurance Catastrophe Risk Organisation
MINSAL	Ministry of Health
MSME	Micro, Small, and Medium Enterprises
NDC	Nationally Determined Contributions
ONEC/BCR	Oficina Nacional de Estadística y Censos del Banco Central de Reserva (National Statistics and Census Office)
OCDE	Organisation for Economic Co-operation and Development
OEC	Observatory of Economic Complexity
PA	Paquete Agrícola
PBU	Pensión Básica Universal
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
RUP	Registro Único de Participantes (Unified Registry of Participants)
SDG	Sustainable Development Goal
SEDLAC	Socio-Economic Database for Latin America and the Caribbean (CEDLAS and World Bank)
SIUBEN	Single Beneficiary System
SPSU	Sistema de Protección Social Universal (Universal Social Protection System)
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
TVET	Technical and Vocational Education and Training
WFP	World Food Programme

Executive summary

El Salvador faces an important opportunity for improving lives and livelihoods. The recent commendable gains in reducing violence and some improvements in the macroeconomic outlook that made the country reach the mark for being classified by the World Bank as an upper-middle-income country signal a new opportunity. Building on the success story of poverty reduction during the past two decades, El Salvador can improve livelihoods, reversing the recent poverty trends that appeared after the pandemic. For this, it is necessary to strengthen the macro and business environment policy framework to attract larger investments that would allow firms to create more and better jobs. Along with this, it is essential to enhance the functioning of the labor markets and enable the poor to access quality jobs. Well-articulated policies to foster rural development and increase agricultural productivity will also be key. Bearing in mind existing fiscal capacity considerations, poverty alleviation also requires setting up fiscal space for scaling up a well-targeted social protection program and enhancing key services for the urban and rural poor, such as housing, water, sanitation, and food security. Beginning now, but with a medium to long term outlook, it is fundamental to continue working to improve education outcomes for all. Moreover, it will be key to focus on skills development along the life cycle, beyond attendance and graduation targets.

El Salvador substantially reduced poverty over the past two decades, although extreme poverty remains a challenge. Between 2000 and 2023, official poverty rates dropped 14 percentage points (4 in relative poverty and the other 10 in extreme poverty). However, in 2023, El Salvador had 600,000 people living in extremely poor households (9.3 percent of the population), whose incomes do not cover the cost of a basic consumption basket (US$1.5 per person per day in rural areas and US$2.3 in urban areas). Furthermore, the income of the poorest has shrunk since 2019, and has not yet recovered. Poverty disproportionately affects children, limiting their future development, as well as women in their prime age, and in El Salvador it also presents high territorial variation. This underlines the need to address poverty considering the different segments of the population and where they are located. Insufficient income for a segment of the population is associated with deprivation under a set of well-being dimensions (such as overcrowding and access to quality basic services like water and sanitation) and a lack of human capital development, which constrain the country's growth prospects. Such income and material deprivation also affect how people interact with others, limiting the much-needed trust and reciprocity that builds a society. Tackling poverty is thus a fundamental condition to establish long-lasting peace and well-being and the construction of a more cohesive and prosperous El Salvador.

While there is recent stagnation in the reduction of monetary poverty, there have been improvements in non-monetary dimensions of poverty. The current panorama in El Salvador, as in many of the small to medium economies in Latin America, is one of stagnation in the goal of poverty elimination. Official figures of monetary poverty, both total and extreme, have continued to rise and remain still above pre pandemic figures. Similarly, in the country, the likelihood of escaping poverty has been decreasing, while the likelihood of falling into poverty has been increasingly since 2018. Yet, at the same time other measures such as the official figures of multidimensional poverty and international poverty figures computed and compiled by the World Bank depict a more nuanced situation. Furthermore, beyond the pandemic, a recent positive development is the sharp reduction of gang related criminal activity. It is early to assess its net impacts on economic activity and poverty figures, but it opens an unprecedented opportunity for El Salvador. Achieving the goal of eradicating extreme poverty and growing the middle classes will require inclusive growth and improvements in the labor market. Non-poor households obtain 85 percent of their income from labor sources, while such proportion for extremely poor households is 75 percent. Increasing labor income would thus be the main instrument for improving Salvadorans' well-being. Nonetheless, non-labor income plays an important role in people's well-being as well. A comprehensive poverty alleviation strategy must consider both.

Augmenting labor income requires improving the dynamics of the labor market, including improvements in its fundamental input: human capital. Salvadoran labor markets are characterized by high female inactivity, high informality, and high underemployment—all reflecting a problem of low productivity, sectoral composition of output and (dis)incentives to formal work. Good quality jobs (stable, adequate, and secure) are not only scarce but also almost non-existent among the poor. This scarcity reflects problems with low human capital accumulation among the poor and a long-term drop in the payout returns from schooling in the labor markets. A comprehensive solution for the labor market challenges requires: both short-term and long-term interventions across different sectors, improving on productivity, job creation, access to quality jobs (especially for the poor), and human capital accumulation. On the latter point, beyond investments that ensure sound early childhood development, prioritizing improvements in education quality throughout the lifecycle is key. The provision of childcare and early childhood education can support not only human capital accumulation, but also, when appropriately paired with the development of a regulatory framework that promotes equitable care responsibilities and the fostering of corresponding social norms, support greater labor market participation among women.

One in four Salvadorans lives in households receiving remittances and one in five lives in households receiving domestic transfers, which have a substantial role in poverty reduction. Although in most countries non-labor income for the poor is primarily public transfers, in El Salvador things are different. Public transfers are negligible (for those in the lowest per capita income quintile, they are less than 1 percent of total household income, while they are 8 percent in Central America and 13 percent in Latin America). Most non-labor income in El Salvador corresponds to international and domestic private transfers. In this way, El Salvador counts on a solidarity network that substantially contributes to improve households' well-being. While this happens in many economies around the globe, in El Salvador the magnitude is noteworthy as 24 percent of Salvadorans live in households receiving remittances and 20 percent live in households receiving domestic transfers. On average, poor households receive around US$100 per month in remittances, while non-poor households receive more than US$200. Money transferred domestically is also sizable as, on average, these transfers are around half of what is received through remittances. In all, the contribution of remittances to poverty reduction is substantial. A sudden absence of these transfers could double extreme poverty in urban and rural areas, while rates for the elderly in rural areas would triple.

Salvadoran households are exposed to aggregate shocks, frequently climate-related, that affect household welfare and impact poverty reduction efforts. El Salvador is prone to climate shocks and natural hazards. Storms, floods, droughts (particularly given its location as part of the Central America Dry Corridor), earthquakes, landslides, sea level rises, and volcanoes pose important risks that will become more prominent with climate change. These events have cost the country approximately 0.75 percent of gross domestic product (GDP) per year during the past two decades, and this figure is expected to rise due to the increase in the number and severity of events. Additionally, disaster losses fall disproportionately on the shoulders of poor households. Vulnerable (non-poor) households may be pushed into poverty due to their lack of capacity to prepare for, cope with, and adapt to disasters. Natural disasters also disrupt the food supply chain, either by eroding locally produced goods or limiting the transportation of imported ones. This affects prices and the availability of basic inputs for the Salvadoran table. A severe climate-related shock in the country could have similar impacts as those of a sudden absence of remittances, doubling extreme poverty.

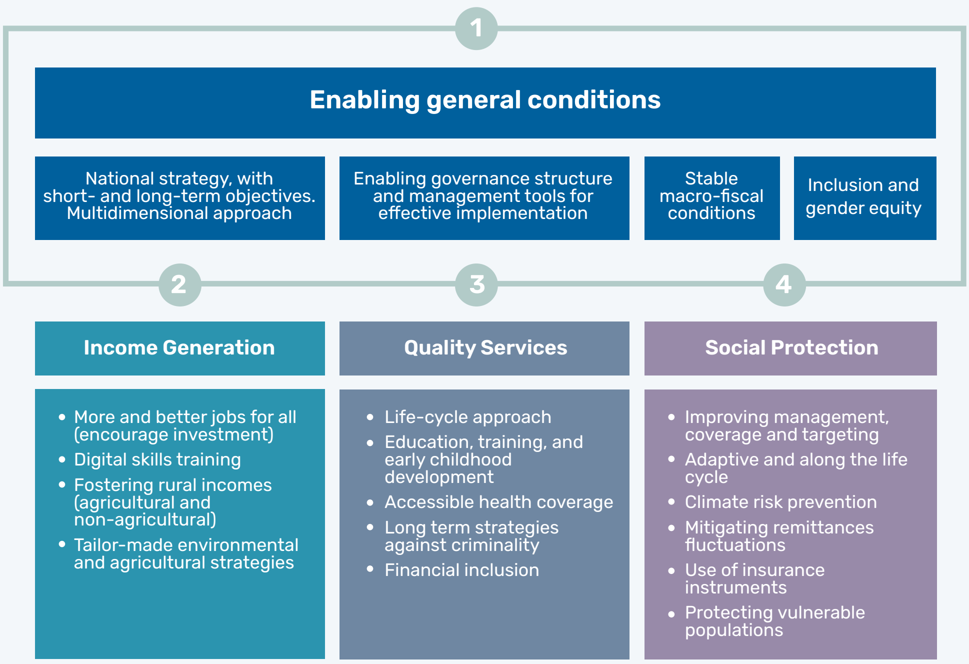
In this context, adaptive, well-designed and targeted social protection and insurance mechanisms, present an opportunity for poverty alleviation and protecting the vulnerable against the next shocks. Adaptive Social Protection (ASP) offers a valuable framework for reducing vulnerability by enhancing resilience to shocks. ASP helps households prepare, cope, and adapt to crises, preventing poverty traps through shock-responsive transfers and improved efficiency in the social protection delivery chain allowing for rapid, flexible responses. El Salvador should begin with a focus on enhancing data and modernizing its information systems by investing in its social registry and integrating it with risk data. Additionally, digitalizing payment systems is essential for the swift and effective delivery of emergency transfers, ensuring support reaches those in need more efficiently. Insurance should also be available at the macro and micro levels, aligned to fiscal capabilities and tied to personal policies like household and agricultural insurance and government-backed schemes like catastrophe bonds and climate social safety nets. These products can provide immediate financial relief in the event of a disaster, reducing the time and economic strain associated with the recovery process.

Modern social protection systems with better information, effective spending and robust support programs can play a key role in improving human capital outcomes and poverty alleviation. In its recent history, El Salvador has coupled low spending on the poor with the use of energy and water subsidies to alleviate households' budgets. While relatively effective in directly reaching the budgets of most households, their targeting could be improved gradually given that a large share of the subsidies currently benefit the non-poor. These expenditures could be redirected to help expand targeted transfers that build resilience for the poor, while protecting human capital, and improve poverty reduction. This would contribute not only to poverty reduction, under certain scenarios, but could also contribute to fiscal savings in the short run. Improving social spending requires detailed information to improve targeting and careful analysis to identify the efficiency gains. This will require an active use of a strengthened social registry of Salvadoran households, that can enable integrating data from statistical and administrative sources, with periodical updates. This improved social registry could then inform policy makers about the multidimensional needs across the territory, to best focus scarce resources where they are needed most. Furthermore, various social programs would have to be redesigned to increase both effectiveness and efficiency and improve their reach, magnitude and coverage. Successful reforms to this effect would require a broad communication and consensus building engagement to facilitate societal buy-in where all citizens feel included as part of the reform process.

This report proposes an agenda for building on gains to re-accelerate poverty reduction among Salvadorans. The last World Bank Poverty Assessment for El Salvador, from 2015, proposed two key policy recommendations: (a) effective pro-poor spending and (b) reduction of crime and violence through better access to jobs and education. Nine years later, the authorities have managed to achieve a substantial reduction in crime and violence and have indicated an intent to build on such progress to establish a path toward an El Salvador where shared prosperity is achievable. In this report, we propose a three-pillar structure to address poverty and inequality reduction: jobs, services, and social protection, with a cross-cutting set of primary conditions that articulates this structure.

Enabling general conditions for combating poverty. These conditions include the need for a national strategy against poverty with ambitious but achievable goals in the short, medium, and long run. These goals need to be appropriately disseminated such that they become a shared national priority. The three pillars of actions are interdependent and the success on any of them depends on the success on the others. Thus, as outlined in chapter 5, consolidating the actions of a national strategy is a step forward in combatting poverty. This effort requires a clear mandate, an effective governance structure and the necessary tools and instruments for its implementation, monitoring and evaluation

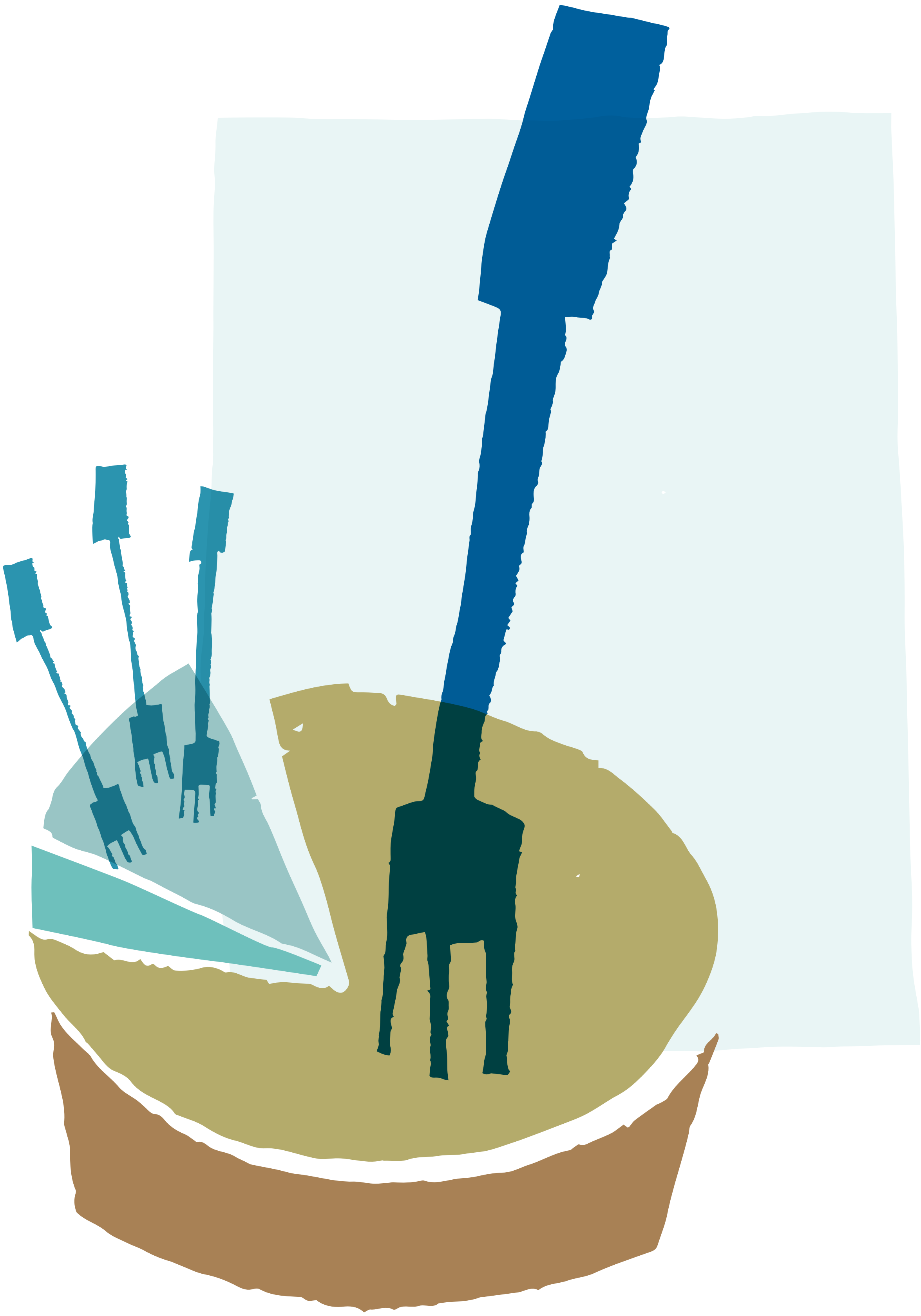
FIGURE 1. STRUCTURE OF POLICY OPTIONS



First, more and better jobs. Building on the commendable crime reduction efforts, it is necessary to attract investments to create more and better jobs. As has been clearly established, labor income generation constitutes the primary means to escape poverty, but quality jobs (stable, adequate, and secure) are elusive for the poor. An appropriate strategy against poverty should ensure enhanced access for the poor to those better jobs. Such a strategy needs different approaches in rural and urban areas, especially considering that labor incomes of the rural poor have dropped the most since the pandemic. Improving labor income in rural areas requires interventions to improve agricultural productivity and the infrastructure that connects rural households to the markets. Digital and green strategies to face the emerging economic challenges for households more broadly should also be prioritized.

Second, improve access and quality of key services for the poor. This entails setting goals with different time horizons: in the short run, attending urgent needs including housing improvements (tackling overcrowding) and food security; for the medium term, investments for the current generation such as education from the early years and training; and in the long run, investments for the forthcoming generation such as a battery of childcare services. Strengthening the education system requires investments in teacher upskilling and infrastructure with a clear goal of improving learning and skills development (beyond an emphasis on enrollment and attendance statistics). Investments on social integration and opportunities for youth should complement the strategies to be developed in the educational sector. The government is already working to develop and implement policy initiatives in these areas. It is the coordination of these initiatives across targeted groups and territories however, that can contributeto make a larger impact. These policies, when paired with an effective social protection system will contribute to the economic inclusion of the poor.

Third, adaptive and targeted social protection. This is necessary to mitigate shocks, build resilience, and ensure sustainable avenues to escape from poverty that are less dependent on external factors. The strategy will need to focus on enhancing the adaptiveness of the current social protection system ensuring that coverage can be scaled up or down as needed locally. It must also focus on better targeting, through investment in improving the social registry, which would provide the basis for ensuring resources are directed to those most in need. This is particularly relevant taking into consideration the current context of fiscal restraint. Access to quality health services and insurance also need strengthening, with an integrated framework linking social protection to labor productivity, avoiding disincentives to labor formality.



CHAPTER 1

Dimensions of poverty and equity in El Salvador

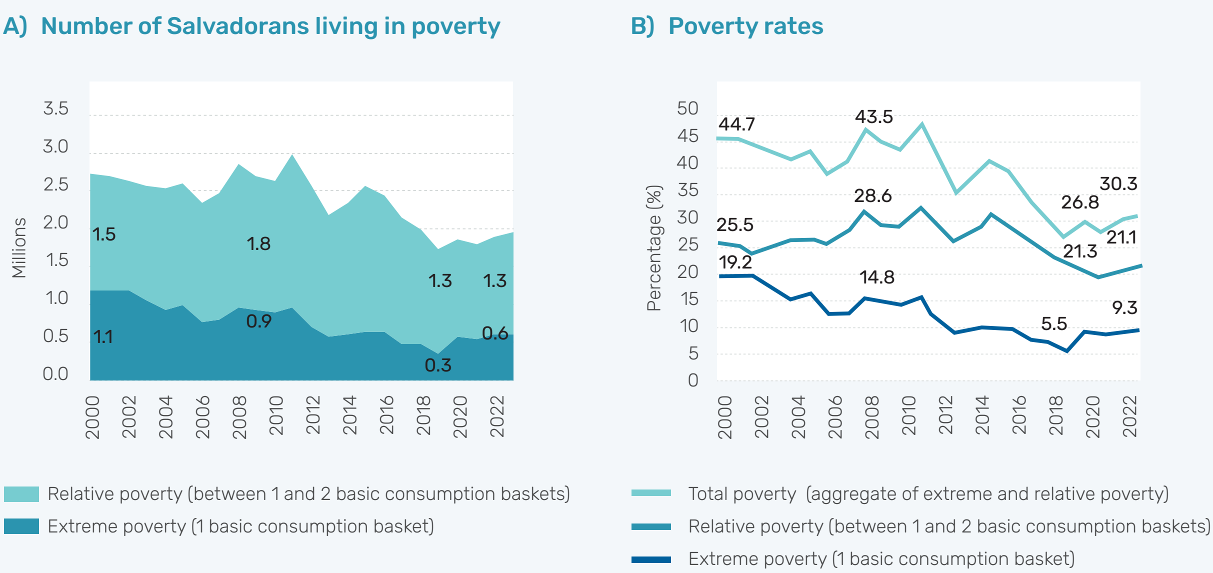
Poverty in El Salvador has abated since 2000 but in 2023 has shown worrisome signs, including persistently high child poverty, new pockets of poverty among single women, and large geographical pockets of population in need. A large elasticity of poverty to growth has helped poverty reduction, even under a relatively weak long-term pace of growth. However, through 2019–23, the income of the poorest 10 percent of the population living in urban areas, and the poorest 20 percent in rural areas has fallen. For these poorest households, labor sources of income have fallen since 2019, and are still to recover. Through our analysis period, fiscal redistribution has slightly contributed to reducing poverty. Jobs, and especially formal jobs, are the ticket out of poverty in a society where access to those opportunities are strongly hereditary. Education, a source of mobility elsewhere in the world, does not seem to have been effective in sustainably lifting new generations out of poverty. Not surprisingly, the most salient dimensions of deprivation are education, employment, together with housing, food insecurity, and malnutrition.

1.1

Two decades of poverty reduction, and new trends

In the last two decades, El Salvador has made outstanding progress in poverty alleviation. According to official figures, in 2023, 1.9 million people live in poor households (30.3 percent of the total population) and 0.6 million of them are in extremely poor households. In 2000, 2.7 million Salvadorans were poor (1.1 million of them extremely poor). Between 2000 and 2023, poverty rates dropped 14 percentage points (4 in relative poverty and 10 in extreme poverty). During the same period, poverty reduction in rural areas was higher than in urban areas (23 percentage points higher). The departments with the largest reductions were Cabañas, Chalatenango and Ahuachapán (around 30 percentage points); however, in these departments the poverty rate is still higher than the national rate. Poverty among children and older adults also showed the largest reductions[1].

FIGURE 2. TRENDS IN POVERTY HEADCOUNT AND OFFICIAL POVERTY LINES, 2000–2023



Source: EHPM (2023).

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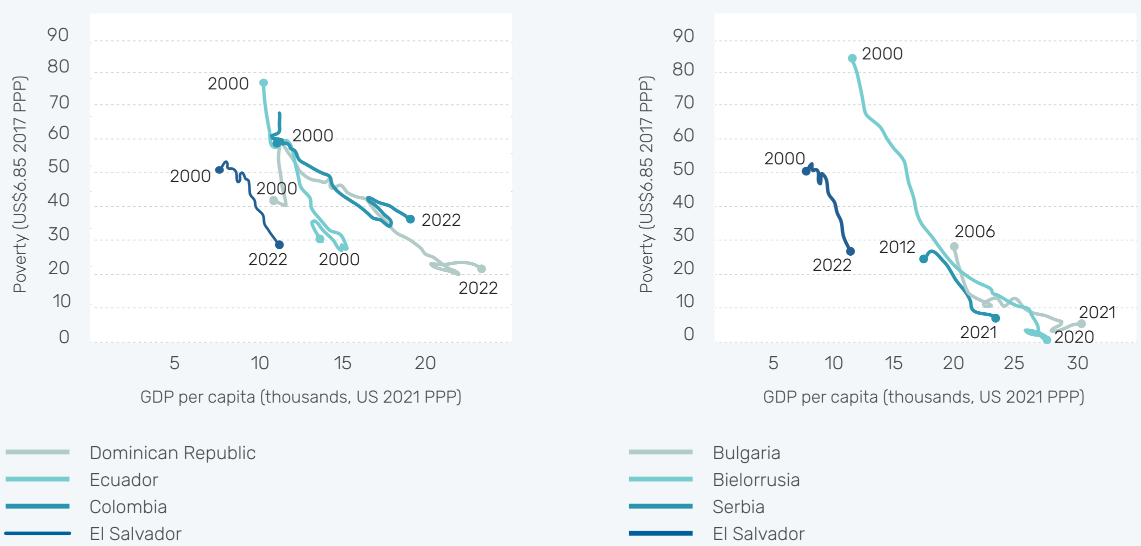
Source: EHPM (2023).

A comparison with countries with similar development status reveals that there is room for improvement on poverty alleviation. For cross-country comparisons, beyond the official poverty statistics, we also use international measures of poverty computed by the World Bank. In the appendix we discuss a methodological comparison of both. In 2023, the poverty rate in El Salvador is lower than that of its Latin American peers with similar gross domestic product (GDP) per capita. Only Bolivia shows a combination of a lower poverty rate and lower GDP per capita than El Salvador. This is a good signal about the links between macroeconomics and poverty.[2] Nonetheless, Salvadoran peers from Latin America (A) and the rest of the world (B) show that further improvements in poverty reduction, building on previous gains, are possible. Figure 3 also illustrates the high growth elasticity of poverty that El Salvador has shown during the last two decades. With low but stable growth the country managed crucial poverty reduction. It will be important to maintain this strength of the country.

FIGURE 3. GDP PER CAPITA (CONSTANT 2021 PPP) AND POVERTY US$6.85 2017 PPP EVOLUTION, 2000–2022

A) Latin America and the Caribbean **B) Rest of the world**



Source: World Bank Databank (2024).
Note: The peer countries have been chosen such that their GDP per capita in 2000 is similar to the one for El Salvador in 2022. Serbia and Bulgaria have poverty data only since 2012 and 2006. PPP: Purchasing Power Parity.

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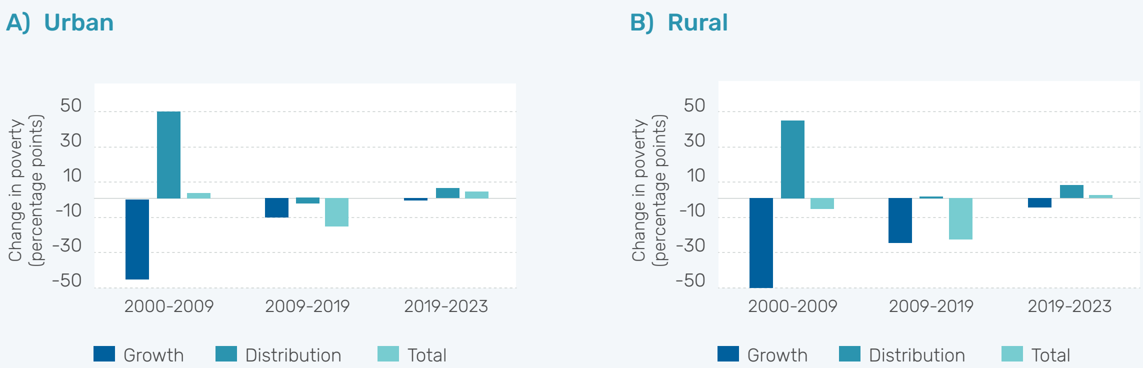
2. Aguilar et al. (2024).

During the past two decades, three periods stand out regarding poverty trends: a moderate reduction, a more notable drop, and a subsequent rise. In the trajectory of poverty reduction during the past two decades in El Salvador, there are three distinctive periods: 2000–2009, 2009–2019, and 2019–2023. In the first one, which ended around the global financial crisis of 2008, the progress in poverty reduction was moderate, mainly due to the decrease in extreme poverty.[3] The decade 2009–2019 shows a marked trend of poverty reduction of 17 percentage points (extreme poverty decreased by 9 percentage points). In addition, rapid recovery processes were observed in the face of setbacks linked to variations in the cost of living and climate disasters, despite a moderate GDP per capita growth rate of 1.7 percent. After 2019 extreme poverty increased, and after 2021 relative poverty also started to increase. At present, both the total and extreme poverty rates remain above pre-pandemic numbers despite the economic growth.[5]

While economic growth has boosted poverty reduction, redistribution has not contributed much. Economic growth, moderate but stable, has been the main driver of poverty reduction in the past two decades. This has been the case even before the period of analysis where El Salvador stands out as a country with higher-than-expected growth elasticity of poverty.[4] The role of economic growth, nonetheless, has evolved over time. In 2000–2009, growth was markedly pro-poor, even considering that redistribution counteracted poverty reduction. This role has continued, although less strongly, in 2009–2019 and 2019–2023. That is, the role for income distribution is growing, especially after the pandemic. The observed pattern highlights the need to simultaneously address the drivers for both income inequality and economic growth.

FIGURE 4. GROWTH-DISTRIBUTION DECOMPOSITION OF OFFICIAL POVERTY CHANGES (2000–2023)



Source: Aguilar et al. (2024).

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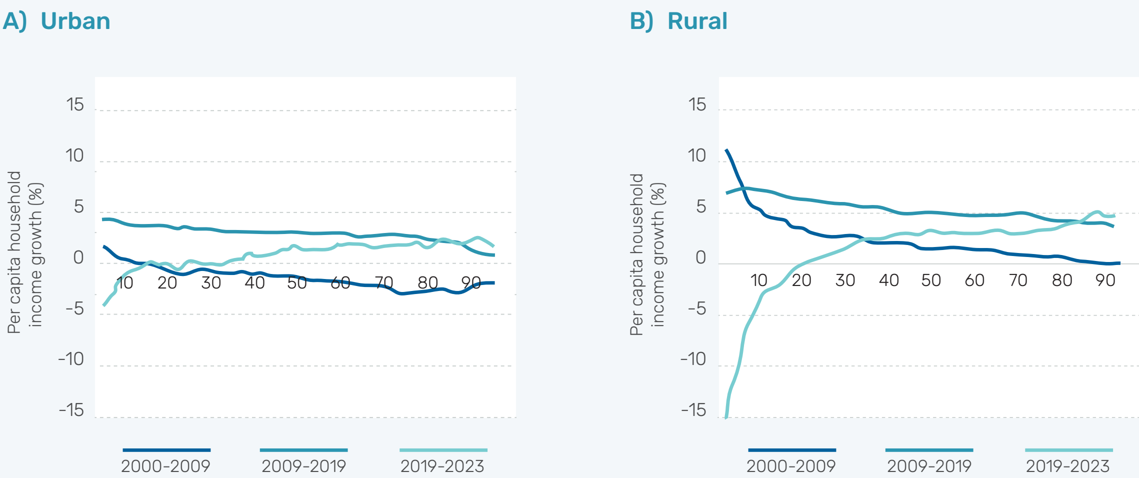
3. Salvadoran Foundation for Economic and Social Development (FUSADES, 2009).
4. Marques (2004).
5. Aguilar et al. (2024).

Before the pandemic, El Salvador showed higher income growth among the poor than the rich, but this has changed since then. Growth incidence curves (GICs) are useful to understand income changes along the income distribution. GICs across the three periods reveal higher income instability among lower income groups. The first period (2000–2009) was clearly pro-poor, the second (2009–2019) shows benefits for all income percentiles, and after the pandemic (2019–2023) a different pattern emerged as the incomes of those with the lowest incomes dropped. There are three factors associated with this pattern: minimum wages, remittances, and social protection. First, during 2009–2019 minimum wages increased five times, with the most common minimum wage growing at an average annual rate of 2.7 percent in real terms. Between 2019 and 2023, the minimum wage had been adjusted only once (in 2021) and by 2023 grew at an average annual rate of 1 percent in real terms. Second, between 2000 and 2019, the average real income from remittances grew at an average annual rate of 4.5 percent in households in the lowest income quintile and 1.4 percent in the others, but since then it fell at an annual average rate of 4.3 percent while for the others decreased to 1.6 percent. Third, the social protection system has contracted between 2009 and 2019. The percentage of poor households benefiting from social programs decreased from 8 percent to 3.7 percent and the amount of the average public transfer grew from US$15 to US$30, but by 2023 both had decreased to 1.6 percent and US$19, respectively.

FIGURE 5. GROWTH INCIDENCE CURVE, 2000, 2009, 2019, AND 2023



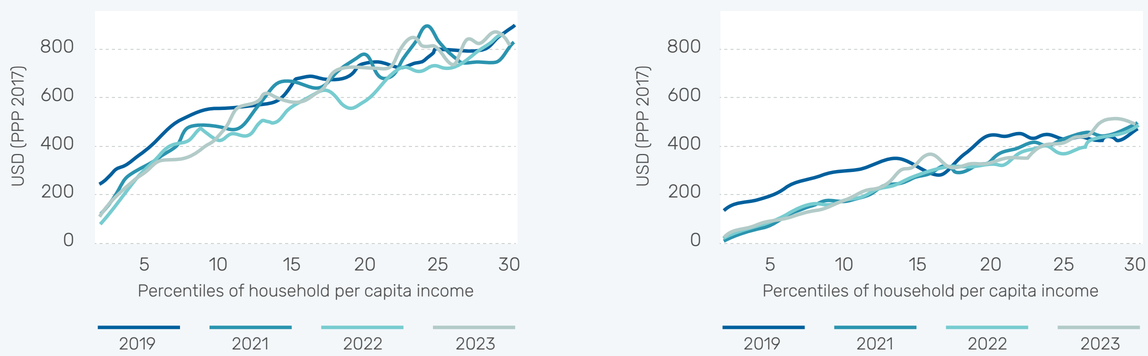
Source: Aguilar et al. (2024).

In the aftermath of COVID-19, the poorest households experienced marked declines in both labor and non-labor income, with rural labor income being the hardest hit. For households in the lowest percentiles of the per capita income (we have chosen to show only the first 30 percentiles, the poor population), both labor and non-labor incomes fell after 2019 and have yet to recover in real terms. Labor income, which represents the largest amount of household income, has also shown the biggest drops. In rural areas it fell by around US$100 for households in the lowest 15 percentiles of per capita income and in urban areas it fell by around US$90 for households in the lowest 12 percentiles of per capita income. Non-labor income fell by around US$45 in rural areas for households in the lowest 8 per capita income percentiles. In urban areas, households' non-labor income in the lowest 5 percentiles dropped by US$40. For the upper percentiles, in line with the GIC depicted above, income did not deteriorate as much.[6]

FIGURE 6. SOURCES OF REAL MONTHLY INCOME (PPP 2017) FOR POOREST HOUSEHOLDS, 2019–2023

A) Labor income

Urban **Rural**

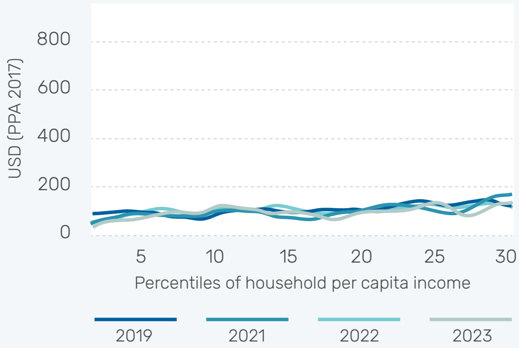


Source: EHPM (2023).

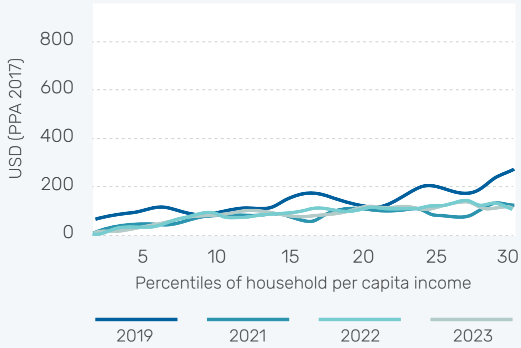
6. Aguilar et al. (2024).

B) Non-labor income

Urban



Rural



Source: EHPM (2023).

The decline in household per capita real labor income of the poorest between 2019 and 2023 is linked to sectoral and demographic changes. Although it is hard to sharply determine the causes of the real income drop for the poor after the pandemic, with the available data we identify two associated factors: (a) a shift in sectoral labor allocation and (b) a change in household composition. First, among households in the poorest quintile of per capita household income, there has been a shift from agricultural jobs to those in domestic service, with a subsequent income drop. In 2023, 19 percent of quintile 1 workers are in domestic service, 7 percentage points higher than in 2019, while the agricultural sector lost 9 percentage points in the same period. With such an inflow of domestic workers, average monthly labor earnings for workers within the first income quintile and within this economic sector dropped 42 percent. Labor earnings in agriculture, in turn, increased slightly (5 percent). Such a labor shift from agricultural to domestic work is not seen in any other quintile of the per capita income distribution. Second, in the years after the pandemic households have changed in the country, but those in the poorest income quintile have changed more. There are two important changes to highlight: a reduction in the number of household members and a reduction in the number of household members who work. Both reductions have been more pronounced among households in the poorest income quintile in such a way that the earnings capacity of the households deteriorated, both in aggregate and per capita terms.[7] In addition inflation eroded the purchasing power of the poor. During these four years the general consumer price index increased by 15 percent, but the food price index rose by 26 percent and the basic food index by 30 percent. As those in the poorest segments of the income distribution spend most of their budget on food, the inflation they faced caused their purchasing power to drop.

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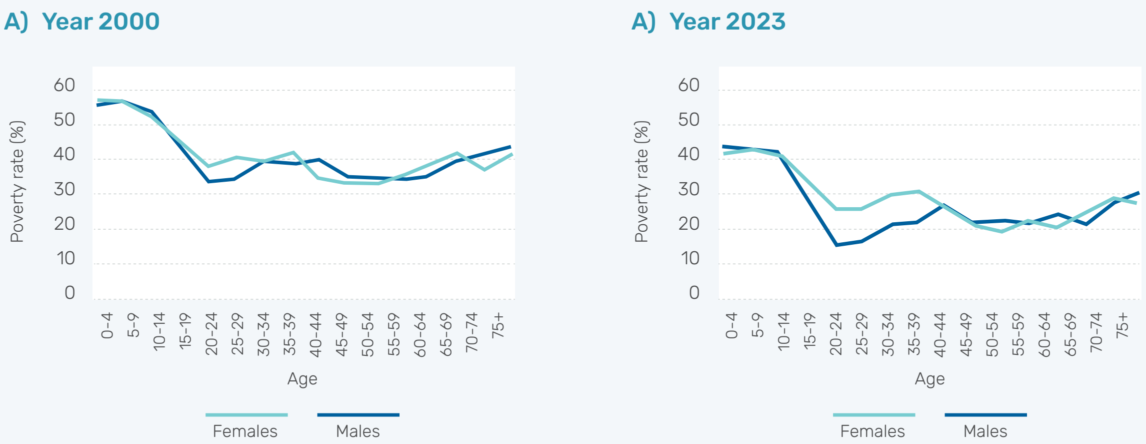
7. Aguilar et al. (2024).

Poverty is higher among children and a new phenomenon of higher female poverty during prime age is emerging. The demographic footprint shows that poverty is more prominent among children and adolescents (42 percent). Compared to non-poor children and adolescents, they have a higher incidence of food insecurity, illiteracy, and lower school attendance, among others that may affect their future development.[8] On the other hand, the evolution of poverty rates for men and women differ along the life cycle, showing a 'female penalty' during the productive and fertile ages (Figure 7). In the last 20 years, the gap between poverty rates has increased for men and women between the ages of 20 and 44, reaching a gap of about 9 percentage points in the 25–29 age group, disproportionately affecting women. This is linked to the high female inactivity in the labor market and the disproportionate burden of care responsibilities for adult and younger females. This novel phenomenon, however, is not exclusive to El Salvador. Most Latin American countries are facing similar patterns.[9] Another key element of this emerging pattern is that in El Salvador, as in much of the globe, the cost of motherhood in labor market outcomes is substantial.[10]

FIGURE 7. GENDER GAP IN OFFICIAL POVERTY, BY AGE, 2000 AND 2023

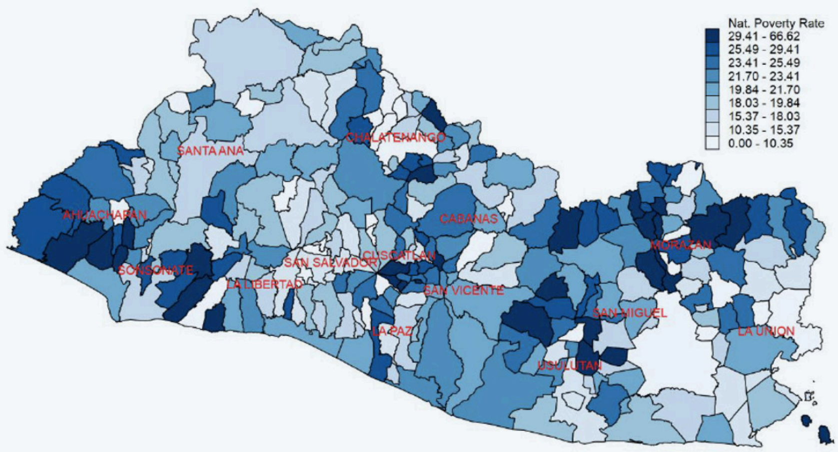


Source: EHPM (2000 and 2023

8. Aguilar et al. (2024).
9. Buitrago-Hernández et al. (2024).
10. Balcázar y Ñopo (2024a).

Territorial variations of poverty make the use of updated poverty maps necessary. Currently, rural poverty is two points higher than urban, but there are more poor Salvadorans living in urban areas (1.2 million) than in rural areas (0.8 million). Additionally, in 9 out of the 14 departments in the country the percentage of poor population exceeds the national figure. They are distributed in three zones: (a) the southwestern border with Guatemala (Ahuachapán), (b) the central corridor from the north border with Honduras to the territories on the Pacific coast (in which the extreme poverty rate of Cabañas and Usulután stand out), and (c) the eastern zone (Morazán and La Unión). However, not all the poorest municipal districts are in the departments with the highest poverty rates.[11] Thus, attending poverty requires some geographical targeting complemented with other tools, such as a dynamic social registry, to reach those most in need. The results of the new population and housing census that the country released in 2024 will be valuable in updating this poverty map, adapting it to the new administrative division the country enacted in March 2024.

FIGURE 8. GEOGRAPHIC DISTRIBUTION OF POVERTY BY MUNICIPALITY, 2019 (BEFORE THE ADMINISTRATIVE REFORM OF MAY 2024)



Source: Rude and Robayo (2023).

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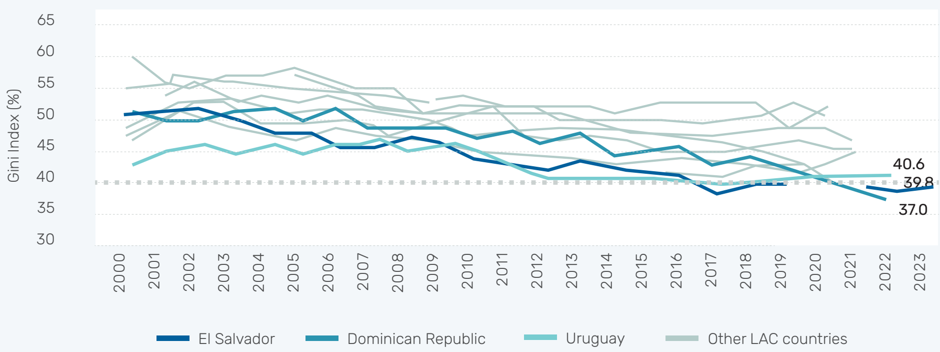
11. Rude and Robayo (2023).

Although still high, income inequality in El Salvador is among the lowest in Latin America after a long-term reduction process. El Salvador is one of the three countries of the region that has managed to go below the threshold of high inequality (0.40 in the Gini coefficient) in Latin America. Although there has been a slight post-pandemic increase, it remains among the three lowest in the region (together with Uruguay and Dominican Republic). While most Latin American countries have seen a post-pandemic reduction in inequality, largely due to decreasing incomes among the top income quintiles,[12] El Salvador has experienced a slight increase with a decrease in bottom incomes. Before the pandemic, in 2019, the top income decile had 29.8 percent of the income while the bottom two deciles had 6.3 percent. The most recent figures from the World Bank Poverty and Inequality Platform indicate that these percentages were 28.7 and 5.6 in 2022.

FIGURE 9. INEQUALITY EVOLUTION, LATIN AMERICA, 2000–2023



Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and World Bank) (SEDLAC) and EHPM (2000-2023).
Note: The dotted line indicates the Gini high inequality threshold.

At the same time, El Salvador has sustainedly increased its average income. As of July 2024, El Salvador went from being classified by the World Bank Group as a lower-middle-income to an upper-middle-income country for the first time. That is, its gross national income (GNI) per capita in 2022 exceeded US$4,466, joining other 18 Latin American and Caribbean economies under this classification. El Salvador's GNI per capita has shown an upward trend since the turn of the century, despite a slight decline due to the pandemic which has already shown a recovery. In 2022, the year on which the updates for the 2024 classification are based, this figure was US$4,670, above pre-pandemic numbers (US$4,090). By 2023, it had risen further to US$4,920.[13] This is good news. However, while GNI per capita has increased, extreme poverty has expanded. Income is increasing for the average Salvadoran, but since 2019 not for the poor. This stresses the importance of an analysis that goes beyond averages and highlights the particularities of poor households, their lives, and livelihoods.

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12. Maloney et al. (2024).
13. World Bank (2024a).

1.2

The ticket out of poverty and hereditary opportunities

In El Salvador, it is increasingly likely to fall into poverty and increasingly difficult to escape from it. In the interannual periods between 2018 and 2022, the entry poverty rate grew from 14.4 percent to 20.0 percent, and the exit poverty rate decreased from 48.2 percent to 43.5 percent. This is explained by the increasing likelihood, during the same period, of remaining in extreme poverty and falling into extreme poverty, either from relative poverty or from 'non-poverty'. The likelihood of remaining in extreme poverty increased during the COVID-19 pandemic, as did the probability of falling into extreme poverty. In the following years, these probabilities have remained at the figure recorded during the pandemic.[14]

Employment is the key to leaving poverty, and the lack of it is the ticket for entry. In El Salvador, as in most of the world, an increase in the number of working members in the household is the most favorable change linked to escaping poverty. Things get even better if such a job is formal. The probability of leaving poverty increases by 27 percent if one individual in the household gets a formal job, and by 10 percent if the job is informal. Conversely, the primary driver of falling into poverty is losing a job, especially if it was a formal one, reducing the likelihood of escaping poverty by 10 percent. This negative effect is similar in impact to what happens when a child is born into the household.[15]

Economic opportunities are strongly hereditary, but long-run trends are changing. This can be clearly seen in the analysis of educational attainment, the main predictor of earnings which also affects health, mortality, fertility, marriage, parenting, crime, and political participation, among others.[16] In El Salvador, the educational outcomes of individuals are strongly related to those of their parents.[17] More precisely, and comparatively, the probability of completing secondary school for individuals born in the 1980s whose parents did not complete secondary education is 25 percent. This is one of the lowest rates in Latin America, only slightly better than Nicaragua and Honduras.[18] While in El Salvador there is a high correlation between the educational outcomes of young adults and those of their parents, this correlation is lower than the one that existed in the educational outcomes between their parents and grandparents.[19]

In the short term, poverty is mostly transitory, but new dynamics of vulnerability are emerging. With peoples' incomes changing from one year to the next, it is possible to distinguish three types of households for any pair of consecutive years: those who are poor in both years (the chronically poor), those whose are poor in one of the two years (the transitory poor), those who are out of poverty in both years (the never poor). Between 2018 and 2022, almost two-thirds of poor households in El Salvador are transitory poor while the one-third is in a

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14. Aguilar and Ñopo (2024).
15. Aguilar and Ñopo (2024).
16. Torche (2021).
17. Aguilar et al. (2024).
18. Neidöfer (2021).
19. Celhay and Gallegos (2024).

situation of chronic poverty. During this period, poverty had become an increasingly transitory situation. In 2018–2019, 24 percent of the population was transient poor, but then rose to 26 percent in 2021–2022. This can be interpreted as good news within the maladies of poverty. However, this is paired with another fact: the percentage of population that remains as never poor has reduced from 63 percent in 2018–2019 to 58 percent in 2021–2022. From one year to another, between 44 percent and 55 percent of the poor exit poverty, while between 14 percent and 20 percent of the non-poor fall into poverty during the same period. The highest increases in poverty were seen during the pandemic years. Female-headed households show higher entry and exit rates into and out of poverty.[20]

1.3

Poverty from a multidimensional perspective

Beyond income, poverty means to have other material deprivations. While income is a fundamental instrument for poverty conceptualization and measurement, it is clearly not the only one. Salvadorans perceive poverty as *"having scarcity but of everything"* or *"living in the worst situation there can be."* [21] Thus, aligned with international practices, El Salvador also measures multidimensional poverty encompassing 20 deprivations in five fundamental well-being dimensions: (a) education; (b) housing conditions; (c) employment and social security; (d) health, basic services, and food security; and (e) habitat quality. A household is considered multidimensionally poor if it lacks at least 7 of the 20 deprivations. This way of measuring poverty by deprivations (multidimensional) complements the traditional one based on income. This allows exploring the differences in well-being between monetary poor and non-poor households, suggesting priorities for policy action.

El Salvador has shown steady progress reducing multidimensional poverty, although there is still a sizable population that is both income- and multidimensional-poor. In 2023, 25 percent of households were multidimensionally poor (that is, they had 7 or more deprivations), 9 percentage points below the statistic the country had in 2016 when multidimensional poverty was officially measured for the first time. Households that are simultaneously income-poor and multidimensional-poor deserve special attention as their condition may be chronic.[24] In El Salvador, four out of every ten monetary poor households are also multidimensionally poor. This issue is even more pronounced among rural households: half of rural households experiencing monetary poverty are simultaneously multidimensionally poor. The most salient dimensions of deprivations and gaps are housing (overcrowding), education (low adult education), work (social security and underemployment), and health, services and

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20. Aguilar and Ñopo (2024).
21. UNDP (2015).
22. General Office of Statistics and Census (DIGESTYC, 2017).
23. ONEC (2023b).
24. Bolch et al. (2023).

food insecurity (sanitation and food insecurity) (Table 1). As housing deprivation shows the biggest gap between monetary poor and non-poor, it deserves further analysis. An index that explores further housing deprivation based on (a) infrastructure (wall, roof, and floor materials); (b) access to services (sanitation, water, and electricity); (c) habitability (overcrowding); and (d) assets ownership (washing machine, refrigerator, cellphone, computer and internet access)[25] provides extra evidence. By 2023, 72 percent of Salvadoran households were deprived, with a slight progress since the turn of the decade (75 percent in 2010). Housing deprivation is higher for female-headed households, single-headed households, heads of household with no education, and in metropolitan areas.[26]

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25. Balcázar and Redaelli (2017).
26. Balcázar and Ñopo (2024b).

TABLE 1. MULTIDIMENSIONAL POVERTY: DEPRIVATIONS AND GAPS (2023)

Dimension	Deprivation	Description	Deprivation rate among the (official) monetary poor	Deprivation gap between (official) monetary poor and non-poor
Education	Low attainment	At least one adult ages 18–64 lacks secondary education or one adult ages 65+ lacks sixth grade of primary education.	87	16
	School backwardness	At least one child ages 10–17 in school is more than 2 years behind the normative age for their grade.	2	1
	Early care	At least one child ages 1–3 does not attend preschool.	18	9
	Non-attendance	At least one child ages 4–17 does not attend school.	11	6
Housing	Inadequate floor and wall	Dirt floor or walls that are in bad condition or made of sheet metal, wood, straw, palm, waste, cardboard, or plastic.	32	14
	Land tenure	The land is occupied as a settler, as a caretaker, or is owned by some other person or institution.	14	4
	Inadequate roof	Roof is in bad condition or made of straw, palm, cardboard, plastic, or waste.	18	8
	Overcrowding	There are 3 or more people per room in the house.	52	20
Health, services and food security	Food insecurity	15 questions about food availability for households with minors (if yes >6 = food insecure), and 8 questions for households without minors (if yes >4 = food insecure) (ELCSA [a]/ methodology)	25	14
	Health access	At least one person required medical attention in the previous month but could not access public healthcare or did not seek it due to lack of access or cost.	13	2

Source: EHPM (2023).
Note: [a]/ ELCSA: Latin American and Caribbean Food Security Scale (ELCSA)

Health, services and food security	Sanitation	No access to a sanitary system connected to sewer or sanitation in the property or it is shared with another household.	49	15
	Water	No access to drinkable water in the property or the connection is inactive for more than one month	26	7
Habitat quality	Crime	In the past year, at least one household member experienced robbery, theft, injury, or assault.	7	-1
	Insecurity	Due to insecurity, at least one member cannot go out at night, let children play, leave the house alone, start a business, or move freely in the community.	17	2
	Recreation	The community lacks parks, sports facilities, playgrounds, or community centers, or they are too far away or lack activities.	41	3
	Risks	In the past year, the household has been damaged or threatened by flooding, landslides, or mudslides.	12	3
Work	Child work	At least one child or adolescent engages in dangerous, excessive, or inappropriate work according to law.	5	2
	Social security	At least one of the working members is not a beneficiary or contributor to the health insurance or pension system.	74	7
	Underemployment	At least one member of the household is underemployed by hours (<40 hours per week), or by income (<minimum wage), or has unstable employment (inactivity >1 month per year).	71	11
	Unemployment	At least one member of the household is or has been unemployed for a month or more in the past 6 months.	18	7

Source: EHPM (2023).
Note: [a]/ ELCSA: Latin American and Caribbean Food Security Scale (ELCSA)

Income and material deprivation affect how people interact with others, and this emphasizes the importance of the relational dimensions of poverty. Those who express that their income is not enough for satisfying their basic needs tend to also perceive relational deprivations in how they participate in collective actions for their welfare (lack of political participation), how they feel about their life and their future (higher negative aspirations), and how they feel as a part of a society with the same rights and opportunities as others (higher perception of unfair income distribution and higher erosion of social contract). People that perceive their income is not enough and live with major difficulties, have higher distrust toward institutions, while those with enough income and savings show major distrust toward other people in a polarized society (Table 2). The construction of a cohesive and prosperous El Salvador requires a renewed emphasis on attending to the needs of the less fortunate, a long-standing pending issue.[27] Additionally, international evidence has served to establish the links between poverty and mental health.[28]

27. Pleités (2022).
28. Chen (2022) ; Marbin et al. (2022) ; Ridley et al. (2020).

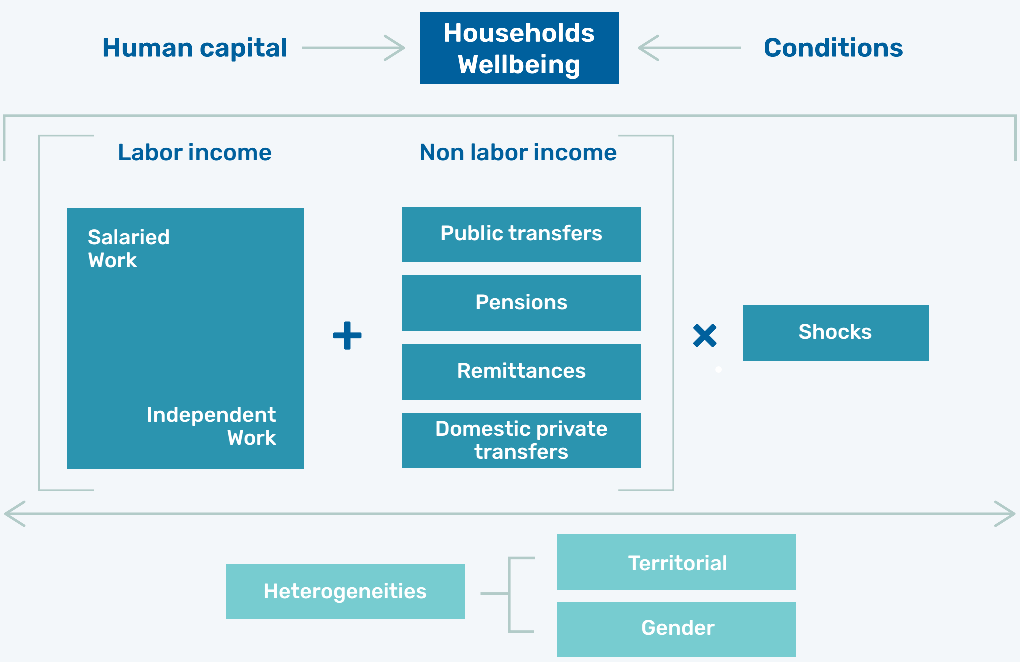
TABLE 2. LACK OF INCOME FOR BASIC NEEDS AND RELATIONAL DEPRIVATIONS, 2023

Relational deprivations	Description	Perception of Income is not enough and live with major difficulties (%)	Perception of Income is enough and can have savings (%)
Social participation	Lack of civil connections	13.9	17.7
	Lack of political action	22.2	13.4
Social trust	Lack of trust toward other people	71.3	75.2
	Lack of trust toward political institutions	9.3	4.7
	Lack of trust toward social institutions	2.8	1.3
Social distance tensions	Low satisfaction with life	25.2	4.1
	Low hope in the future	54.4	17.8
	Low justice in income distribution	60.0	31.0
	Intolerance toward inequality	36.7	31.3
Erosion of social contract	Lack of respect to institutions	17.3	10.3
	Deprotection of basic rights	30.6	16.0
	No social guarantees for equity.	29.6	12.8

Source: Latin American Public Opinion Project (LAPOP)El Salvador 2023 Database and Latinobarometro 2023 Database.

To elaborate on the understanding of how households sustain themselves, this report investigates their income sources. This first chapter, ending with this paragraph, presented a core diagnostic of the evolution of poverty, shared prosperity, and inequality. It also included an analysis of the characteristics of the poor and the dynamics in-and-out of poverty. The second chapter digs deeper into work and income generation, emphasizing labor market dynamics (both from demand and supply perspectives), informality, and opportunities for productive inclusion. The third chapter explores the role of remittances, domestic transfers, and public transfers to Salvadoran households' budgets. The fourth chapter is devoted to climate-related shocks and their impacts on moving households into poverty. The fifth chapter provides a set of recommendations for policy actions conducive to poverty and inequality reduction. The architecture of this report, inspired by the asset-based framework,[29] is then conceptualized as follows.

FIGURE 10. STRUCTURE OF THE POVERTY ASSESSMENT FOR EL SALVADOR 2024



Note: The asset-based framework considers as assets: human capital, physical and financial assets, social capital and natural capital. For further information see López-Calva and Rodríguez-Castelán (2016).

29. López-Calva and Rodríguez-Castelán (2016).

CHAPTER 2

Without work there is no prosperity

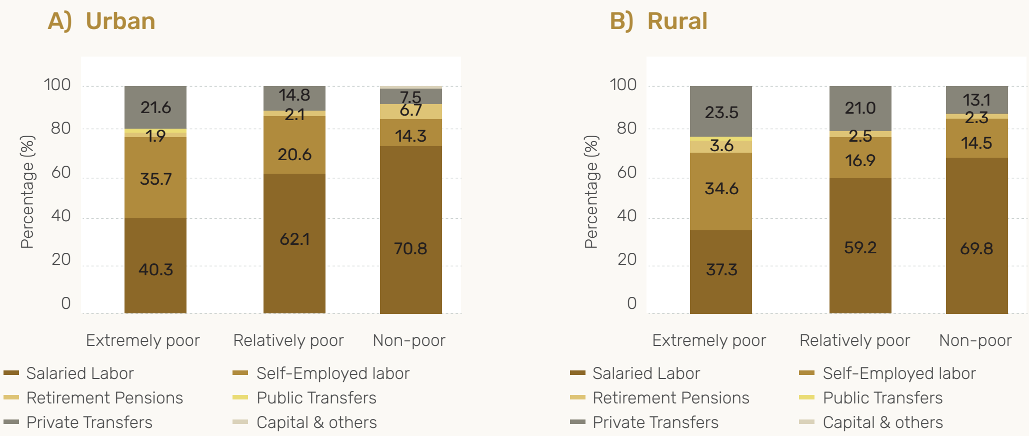
As in most societies, labor is the most important income source for households, so a poverty alleviation strategy should make sure labor markets function well, jobs are created, and the poor have access to them. Salvadoran labor markets are characterized by high female inactivity and high informality, but beyond those aggregate figures, the poor lack access to good quality jobs (stability, adequacy, and security). The poor are more likely than the rest of the population to hold more than one job and complement their income sources, but low productivity and lack of opportunities prevent them from earning more. The low productivity is linked to the abundance of small firms, reduced investment, and lack of innovation, which translates into low demand for skilled labor. The latter is exemplified by a worrisome signal: the schooling premium has been dropping for more than a decade.

2.1

The importance and precariousness of labor

Out of every six dollars a Salvadoran household has in its budget, almost five come from labor. Among non-poor Salvadoran households, 70 percent of their monthly income comes from salaried labor (that is, under the direction/control of another person/entity), 14 percent from self-employment, and the rest from non-labor sources. Relatively poor households, in turn, rely less on salaried work and more on self-employment. For extremely poor households, the situation magnifies as they rely almost equally on income from salaried work as from self-employment, in line with what happens in most of Latin America. A key lesson that the data reveals is that the poorer the household the bigger their reliance on income from self-employment and private transfers (for example, remittances and domestic family transfers). Both are simultaneously a blessing and a curse. We will return to them in this and the following chapters, but in this section let us focus on the most important source of income: labor.

FIGURE 11. SOURCES OF MONTHLY HOUSEHOLD INCOME, BY AREA OF RESIDENCE AND POVERTY STATUS, 2023

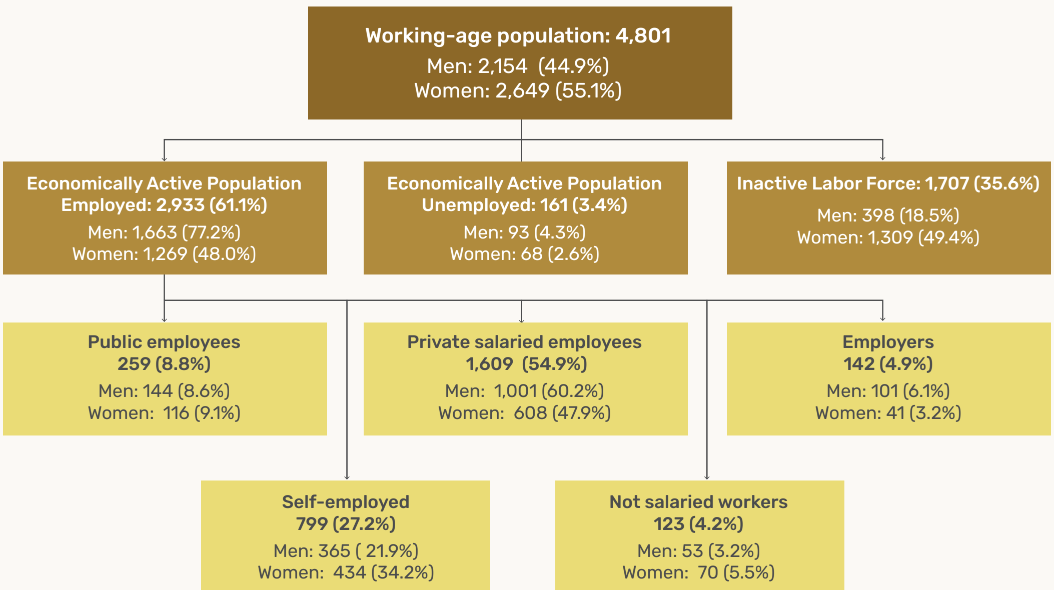


Source: EHPM (2023).

Labor income disparities between the poor and non-poor are pronounced, both in rural and urban areas. In rural areas, members of extremely poor households scrape together a mere US$31 per month from salaried employment, while relatively poor households manage to gather US$145, and non-poor households in turn accumulate US$448 per month. In urban areas, average earnings from salaried employment are higher, but income disparities are equally pronounced: extremely poor households earn US$55 per month, relatively poor households US$234, and non-poor households US$710. Earnings from self-employment are notably lower, both in rural and urban areas, but the gaps between poor and non-poor households are also striking. Salaried and self-employment incomes tend to be higher in male-headed households in urban areas. In urban areas, both wage and self-employment incomes rise with the age of the household head but drop substantially after age 65, falling below those with younger heads. In rural areas, wage incomes remain almost constant across ages, except for seniors, whose incomes are half those of other age groups. We will show next that such lower income generation among the poor comes from a combination of inactivity and precarious jobs.

The Salvadoran labor market is characterized by low unemployment but high female inactivity and self-employment. In El Salvador, just over 4.8 million people make up the working-age population (16 years old and above), with 2.6 million women and 2.2 million men. However, out of the 2.9 million who are employed the gender split reverses: 1.3 million are women and 1.6 million are men. While unemployment is low, inactivity is high: 1.7 million Salvadorans do not have a job nor are actively seeking one, and most of them are women. Female inactivity rates in El Salvador are among the highest in Latin America and the Caribbean, together with Mexico, Chile, Honduras, and Costa Rica.[30] Among those who work, nearly 0.8 million workers are self-employed, with women comprising more than half of this group.

FIGURE 12. CHARACTERIZATION OF THE WORKING-AGE POPULATION (THOUSANDS), 2023



Source: EHPM (2023).

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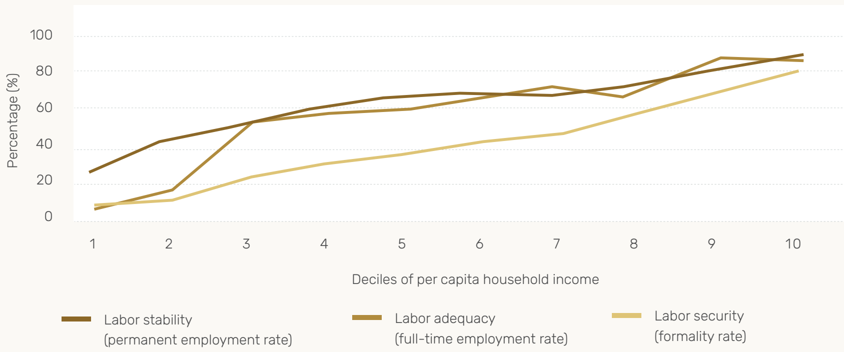
30. International Labour Organization (ILO, 2023).

The gender gaps in inactivity and self-employment are linked to the disproportionate burden of caregiving responsibilities placed on women. In El Salvador, as in much of Latin America, women of working age dedicate three times more hours to childcare and household chores, a gap that prevails across educational levels, area of residence, and socioeconomic status. When there is a child at home, female labor participation tends to drop, dropping even more when the child is under five years of age. The peak of the impacts of children's presence on females' work is from pregnancy and up to six months after childbirth. On the other hand, the presence of kids at home does not affect male labor activity rates. This overload of domestic work among women leads them to either withdraw from the paid labor market or to enter occupations that are compatible with caregiving responsibilities, with their subsequent earnings penalties. It has also been hypothesized that the low female labor force participation is the result of higher reservation wages for females because of the remittances. While appropriate tests for this hypothesis would require data that are not currently available, approximate evidence suggests that this does not seem to be the case.[32]

In El Salvador's workplace, access to stability, adequacy, and security are almost inexistent among the poor. In contrast to the idea of 'decent work', which is based on the pillars of employment with fair wages, labor rights, and social protection, labor precariousness encompasses three key dimensions: (a) labor instability, indicating the absence of long-term employment; (b) labor inadequacy, characterized by inadequate income or insufficient working hours; and (c) labor insecurity, denoting the absence of social security coverage and the freedom to organize for the protection of labor rights.[33] In Latin America, access to health insurance, retirement benefits, and secure contracts has consistently shown strong links with poverty avoidance. In El Salvador, access to stability, adequacy, and security are almost inexistent among the poor. In this regard, the country fares well below their Latin American peers, making the construction of pathways out of poverty difficult.[34]

FIGURE 13. LABOR STABILITY, ADEQUACY, AND SECURITY ALONG THE INCOME DISTRIBUTION, 2023



Source: EHPM (2023).
Notes: A permanent worker is someone who works for a salary without a specific end date of the employment relationship. A full-time worker is (a) someone who works 48 hours a week and earns an income equal to or greater than the legal minimum or (b) someone who works less than 48 hours a week but does not wish to work more. A formal worker is someone who contributes to social security. For more details on these definitions, see Lexartza and Grau.[35]

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31. United Nations Population Fund (UNFPA, 2024); Aguilar and Erazo (2023); Banegas and Winkler (2020); Isik-Dikmelik et al. (2023).
32. Souza and Garcia-Souza (2018).
33. Lexartza and Grau (2010).
34. Brummund et al. (2018) ; IADB (2024).
35. Lexartza and Grau (2010).

Job instability is prevalent among the poor. One in every four salaried workers hold temporary positions. Only 2 percent of temporary workers have a signed employment contract, with the majority holding contracts lasting less than three months. One in three permanent wage earners lacks a contract, a situation that affects nearly all domestic workers. This instability in salaried employment correlates with poverty: individuals employed on a wage basis without signed contracts are three times more likely to experience poverty. While there are no gender differences in labor instability, there are variations across residential areas, age, and education: younger individuals and older adults residing in rural areas with lower educational attainment exhibit higher labor instability.

Underemployment is a signal labor inadequacy in El Salvador. Nearly half of urban Salvadoran workers are underemployed (official statistics do not account for rural underemployment). This happens either because they would like to work more hours or because their income is insufficient. Underemployment is closely correlated with poverty. In El Salvador, the typical urban underemployed individual tends to be an older woman with low educational attainment. Underemployment could be even more challenging, but some supplement income with more than one job.

Salvadorans respond to labor inadequacy by holding more than one job. Nearly half of the extremely poor Salvadorans workers commit more than 40 hours per week to all their occupational endeavors, either in salaried work or self-employment. The reference to 'all their occupations' is deliberate as 6 percent of Salvadorans hold multiple jobs, a circumstance more prevalent among the extremely poor with 8 percent engaged in multifaceted employment. This is even higher among prime-age poor workers: 10 percent of workers between ages 30 and 49 years living in poor households hold more than one job. The situation has barely changed during the past two decades. It dropped slightly during the pandemic, but it has returned to the turn of the century figures. Holding multiple jobs appears to be a reaction to the inadequate income earned from the primary job. This underscores the economic hurdles confronting the most marginalized segments of society and the imperative for targeted policies aimed at fostering sustainable employment opportunities to mitigate poverty.

Informal work is widespread and a form of labor insecurity in El Salvador. In 2023, 1.86 million Salvadorans (64 percent of total workers) had informal jobs, and informality rates have increased considerably for women and the youth since 2000.[36] Although an important share of labor informality results from a lack of law compliance, a bigger share corresponds to self-employed workers who do not participate in social security because they are exempted. This constitutes an 'informality within the law' and in El Salvador it reaches 97 percent of self-employed workers. It is fair to say that such an impressively high figure is at par with those of most Latin American countries. On the other hand, 'informality that breaks the law' in El Salvador reaches 42 percent, a number below the one seen in Mexico, Colombia, and Peru. Such informality in private salaried employment is higher for men (7 points higher than women), younger workers (10 points higher than those older than 25), and those who did not attend school (40 points higher than those who completed tertiary education).[37]

Formal employment opportunities are not equally distributed. In economic sectors such as agriculture and construction, the norm is to work without social protection; in others, such as the manufacturing industry, formal and informal job coexist in similar proportions; and in others, such as education, public administration, or finance, informality is the exception. The size of the company also matters: the larger the

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36. Banegas and Winkler (2020).
37. World Bank (forthcoming).

company, the more likely it is to work in formal conditions, regardless of the economic sector in which it operates. Only 3 percent of workers living in extreme poverty are engaged in formal employment, a figure that is 5 and 14 times higher among the relatively poor and non-poor, respectively. The causal relationship governing poverty and informality is most likely bidirectional, constituting together an informality-poverty trap. Workers on informal jobs earn, on average, 40 percent less per hour than their formal counterparts, contributing to a fourfold increase in the likelihood of poverty among those engaged in informal employment.

The design of the income tax and labor contributions generate disincentives to formalize. The tax design is progressive in El Salvador, with a tax-exempt bracket for the lowest labor incomes (currently at US$472 monthly, approximately 1.3 times the most common minimum wage of US$365) and increasing rates as labor income rises. However, such fixed exemption generates disincentives to formalize as those who earn salaries slightly exceeding the exemption are worse off: they will have to pay a 10 percent income tax on the income exceeding the limit, but also a fixed amount equivalent to 3.7 percent of the supposedly exempt amount. Social security contributions are regressive: workers' monthly contribution is 3 percent of their net salary, but this is capped at US$30 per month. That is, workers earning above 2.7 times the most common minimum wage pay less than the 3 percent required from others. These designs result in the tax and contribution burden for lower-income workers being close to zero, growing up to 13 percent for those earning around 3 minimum wages, but becoming progressively smaller for those with higher incomes. However, these non-linearities in the cost of formality are not reflected on formality rates (Figure 13), suggesting that the complexities of formality go beyond its costs. Most of the contributions paid by lower-wage workers and their employers are allocated to funding long-term direct benefits (through a retirement pension), a smaller portion to funding contingent benefits (through health insurance), and nothing to funding short-term direct benefits. This scheme, in which contributing does not translate into concrete benefits, create disincentives for formality.

2.2

Low productivity, weak labor markets

Total Factor Productivity has negatively affected the economic growth in El Salvador. An analysis for the 2000–2017 reveals that capital (physical and human) and labor have positively contributed to the Salvadoran economic growth. The Total Factor Productivity, however, has had a negative impact.[38] The negative role of the Total Factor Productivity is a Central American phenomenon, with the notable exceptions of Costa Rica and Panama.[39]

Recent improvements in labor productivity in El Salvador have been mainly driven by increased within-sector productivity rather than labor reallocation. Labor productivity measures the amount of output produced per unit of labor (per hour worked or per worker).[40] Labor productivity growth was the main driver behind GDP growth in the 1990s (76 percent) and during 2011–2017 period (61 percent), though its contribution was rather modest in the 2000s (12 percent). Changes in labor productivity can happen through within-sector productivity improvements or through the reallocation of labor across different sectors. The contribution of the reallocation component dropped from

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38. Ulku and Zaourak (2021).
39. Moroz and Viollaz (2024).
40. ILO (2015).

over 1.5 percent in the 1990s to just 0.1 percent in the 2000s, largely explaining the slowdown in labor productivity growth seen in the latter period. Labor productivity growth picked up in recent years, reflecting an uptick in within-sector productivity and, to a lesser extent, a rebound in the reallocation component's contribution.[41] This uptick is driven by the industry, as in 2017 the value added per worker in this sector was 25 percent higher than in 2000, while in agriculture and services, labor productivity stagnated.[42]

Employment in El Salvador is concentrated in low labor productivity sectors, and firms are predominantly small. In El Salvador, sectors such as electricity, finance, rentals, and telecommunications boast above-average labor productivity, yet collectively they employ only 2 percent of the workforce. Conversely, sectors like agriculture, commerce, and low-tech manufacturing, which exhibit below-average labor productivities, employ half of the workforce. Between 2019 and 2021, sectors that have created most jobs are those with lower labor productivity, such as construction, and hotels and restaurants. About 95 percent of businesses in El Salvador are microenterprises and 92 percent are subsistence firms, employing 3 out of 4 salaried workers in the country. Only 0.3 percent of firms are large, but they concentrate 7.5 percent of salaried workers.[43] Compared to more developed countries in the region, El Salvador's business demographics exhibits a high concentration of employment in small firms, precisely those with the lowest labor productivity.[44]

In El Salvador, few formal businesses are created, limiting new formal employment opportunities. Since 2011, the entry of new formal businesses in El Salvador had grown very slowly, but it appears to have started declining from 2020. Comparatively, the rate of new formal business creation per thousand inhabitants in El Salvador is similar to that in Guatemala, but it is eight times smaller than in Costa Rica and four times smaller than the average in Latin America. The number of new jobs created by businesses entering the market is fewer than the number of jobs lost due to business closures. This means that, on balance, the entry and exit of businesses lead to a net loss of jobs.[45] Consequently, workers relocate to preexisting companies or become self-employed, indicating constraints to new firms' growth.

The obstacles to growing firms have changed, with crime reducing. In 2023, Salvadoran firms report that their biggest obstacles to operate and grow are the lack of access to financing, the practices of the informal sector, the inadequate preparation of the workforce, and delays in granting licenses and permits.[46] This represents a change from 2016, when Salvadoran companies identified crime as the biggest restriction to operating and growing, followed by unfair competition from informal firms, political instability, and the tax burden. However, the restrictions are not always the same for all types of firms: the lack of credit and practices of the informal sector are problems more frequently seen among small and medium enterprises, while licenses and permits tend to be a more frequent barrier for large companies. The low quality of the workforce, however, affects all companies equally [47] and poses a challenge for the new economy, based on digital technologies, innovation, and knowledge: digital startups in El Salvador report that poor quality training and education are significant barriers to hiring skilled talent.[48]

Despite low job creation, the nature of jobs is changing. Jobs now demand the development of both routine skills (cognitive and manual)

41. Ulku and Zaourak (2021).
42. Banegas and Winkler (2020).
43. CONAMYPE (2024).
44. Banegas and Winkler (2020).
45. Banegas and Winkler (2020).
46. World Bank (2023a).
47. Banegas and Winkler (2020).
48. Moroz and Viollaz (2024).

and non-routine skills (analytical, interpersonal, and manual). In El Salvador, jobs became more intensive in the use of routine cognitive skills, which are the most likely to be easily taken over by machines or artificial intelligence (AI), and typically come with lower wages.[49] However, new evidence shows that the routine work declined in El Salvador in the last decade, and knowledge tasks and person-oriented tasks grew.[50] Despite this, skills that require analytical thinking, which are more complex, not easily replaced by technology, and with the highest pay, have lower demand.[51] This could be the result of a combination of an economic structure that does not require workers with analytical skills and an educational system that does not generate them. Nonetheless, the country needs to quickly direct investments in the development of those skills that technology would hardly replace.

Employment faces a looming threat of automation, particularly affecting the rural poor. Jobs demanding skills and capabilities susceptible to automation are at a heightened risk, including those in construction and extraction, farming, fishing, forestry, production, and transportation sectors.[52] Excluding sectors with low rates of technology use, exposure to displacement by automation technologies affect 40 percent of the workforce (1.2 million people) in El Salvador, around the Central American average.[53] Despite the percentage of workers in jobs at risk of automation having decreased since 2009, four out of ten workers are still employed in such jobs. The risk of automation disproportionately affects the rural poor: seven out of ten in poverty hold positions vulnerable to more efficient automation.[54] However, it is important to note that occupations facing the highest risk of automation may not necessarily vanish entirely. Rather than being replaced outright by robots or software, human labor in these roles may be supplemented by automated solutions in various instances, creating a positive impact on productivity.

The upcoming green economy changes will throw a wrench into job creation needs in El Salvador. Developing economies are expected to see a bigger jump in greenhouse gas emissions down the line, and policies pushing for greener growth might cause a shift in labor demand, causing problems for countries with fewer skilled workers and less adaptability. The push for green growth will boost the demand for some existing jobs, change the tasks and skills required for others, and create emerging occupations. Currently, one out of five jobs in El Salvador are green, in line with the Latin American and Caribbean average. However, less than 1 percent of jobs are emerging green jobs.[55]

The educational qualification of workers is a key element for the creation of more and better jobs. One out of every ten companies in El Salvador identifies inadequate worker qualifications as their biggest obstacle to growth. While this proportion is lower than the one a decade ago and that of other countries in the region, insufficient human capital remains an obstacle.[56] The changes in the immediate future could introduce some pressure: automation processes and the shift toward a greener economy pose challenges for employment, mainly because they will require the adoption of new skills and abilities. This highlights the importance of investing in education and training, not only for individual career advancement but also for overall economic development.

49. Banegas and Winkler (2020).
50. Moroz and Viollaz (2024).
51. Banegas and Winkler (2020).
52. Lassébie and Quintini (2022).
53. Moroz and Viollaz (2024).
54. ONEC (2023a).
55. Winkler et al. (2024).
56. Banegas and Winkler (2020).

2.3

The challenge with human capital for better jobs

Graduates struggle in their school-to-work transition and while education continues to pay off, rewards have shrunk. Labor market insertion for recent graduates is challenging in El Salvador.[57] Yet individuals with higher schooling receive a reward for their achievements as they earn more. These rewards are smaller than they used to be, a fact that is even more noteworthy for those who have completed tertiary education.[58] This pattern observed comparing 2009, 2019, and 2023 is the same as between 2007 and 2017.[59] This is a regional pattern that in El Salvador acquires particular relevance as the lack of opportunities for more educated workers could incentivize migration to maximize returns on skills.[60]

FIGURE 14. SCHOOLING PREMIUM BY TYPE OF EMPLOYMENT, 2009, 2019, AND 2023

Source: EHPM (2009, 2019, and 2023).
Note: The dots correspond to coefficients of Mincer equations including sex, age, age squared, and a set of dummy variables (one per year of schooling, 0 being the base category).

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59. Banegas and Winkler (2020).
60. sik-Dikmelik et al. (2023).

Behind the decline in returns to tertiary education there is a mismatch between the demand for and the supply of skilled labor, which affects different groups in varying ways. The drop in the returns to tertiary education has been more pronounced among women and out of the capital city of San Salvador. Between 2009 and 2023, the number of individuals who completed tertiary education almost doubled: it increased from 176,570 (3.1 percent) to 315,562 (5.0 percent) due to a rise in both enrollment and graduation rates.[61] The number of women with tertiary education has grown more than that of men, which might explain the larger drop in returns for women. Since the increase in the number of professionals is homogeneous across the country, the larger decline in educational returns for those living outside of San Salvador may reflect that the demand for skilled labor outside the capital grew at a pace below than that of the labor supply.

Despite progress in secondary enrollment, there are still gaps and Salvadorans' skills development deserves attention. Secondary school enrollment moved from 74 percent in 2000 to 89 percent in 2023. This progress has been higher in rural areas, rising from 63 percent to 83 percent, compared with the 83 percent to 93 percent rise in urban areas.[62] Enrollment increased the most among the poorest. Reaching full enrollment, however, would require further improvements as out of ten adolescents dropping out of school four report having no interest in attending and others cite economic reasons for dropping out.[63] But beyond enrollment and attendance, skills development is a challenge. In El Salvador, 69 percent of 10-year-old children (late primary age) do not have basic proficient in reading. This is 17 percentage points higher than the average for Latin America and the Caribbean.[64] Among 15-year-old students, the situation is also serious as 91 percent of Salvadoran students are low performers in at least one subject on the Programme for International Student Assessment (PISA) standardized test which covers mathematics, reading, and science. With such widespread low performance, even the best Salvadoran students are short of the international standards: the average score of the top 10 percent of Salvadoran students is still lower than the average for all students in countries of the Organisation for Economic Co-operation and Development (OECD).[65]

Investing early in people's life cycle has shown progress but challenges remain. The earlier the investments in human capital, the higher their benefits. Investing in young children is one of the best investments for societies, providing a unique opportunity to tackle inequality, break the cycle of poverty, and enhance future outcomes.[66] To fully benefit from future opportunities in life and become productive members of society, by the end of early childhood, children must be healthy and well-nourished, have strong bonds with their caregivers, be capable of interacting positively with their families, teachers, and peers, be able to communicate in their native language, and be ready to learn throughout the primary school years.[67] In El Salvador, early childhood education has low coverage, although it increased over the past decade. In 2015 only 2 percent of Salvadorans under 4 years attended an early childhood education program; by 2023 it reached 5 percent. This coverage rate is nearly one-fourth of the average recorded in Latin American countries in 2019.[68]

There is a clear need of more and better jobs for Salvadorans, supporting the poor with policies to better facilitate accessing them: in the short run with labor market intermediation, in the medium run with training, and in the long run with quality education along the life cycle.

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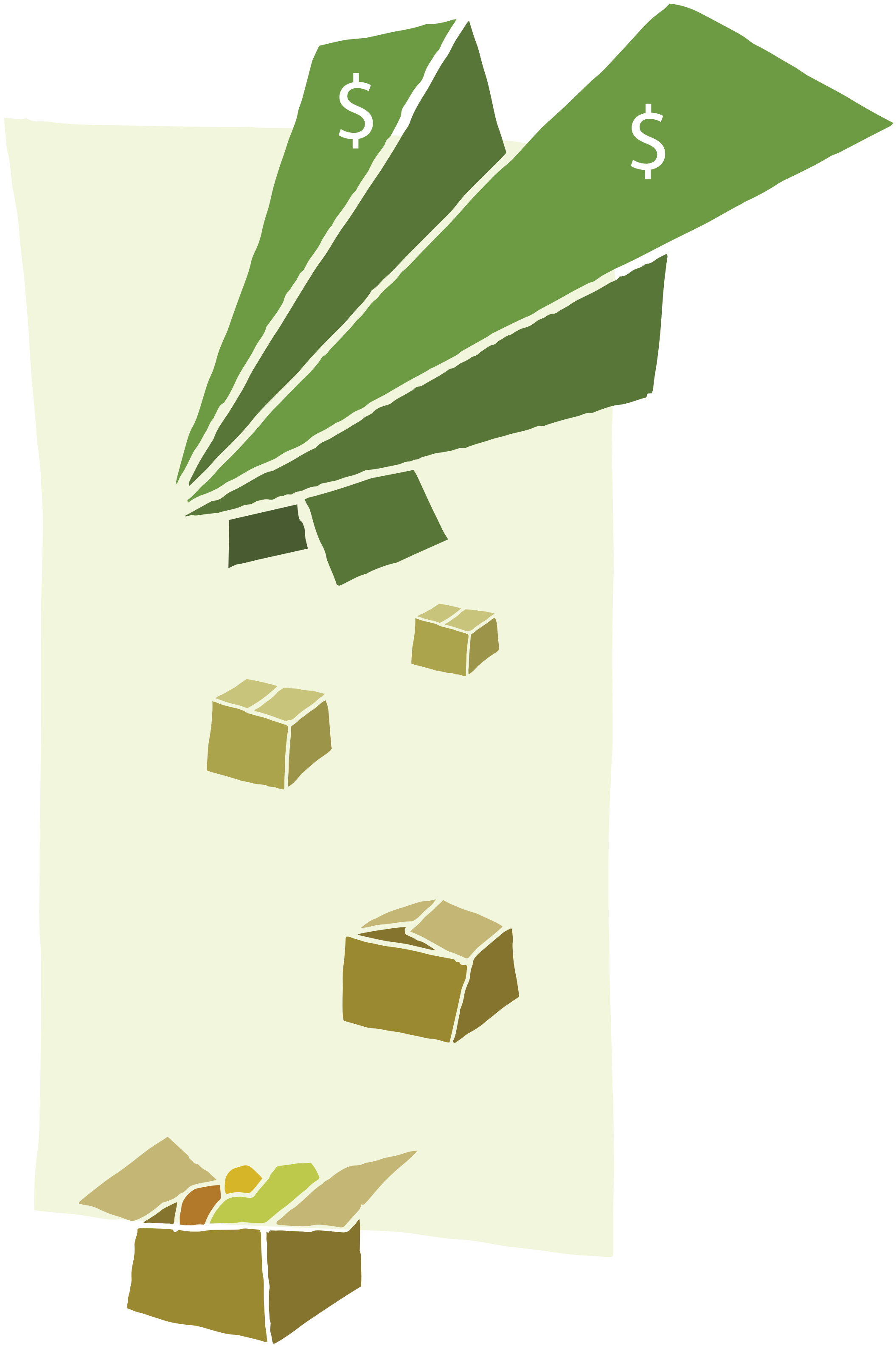
61. Mazariego (2022).
62. ONEC (2000, 2023a).
63. ONEC (2023a).
64. World Bank (2024b).
65. OECD (2023).
66. Cunha and Heckman (2010).
67. Denboba et al. (2014).
68. United Nations Children's Fund (UNICEF, 2023).



CHAPTER 3

Beyond work, what do Salvadorans live on?

El Salvador stands out among its peers for its high transfers among households, both international (remittances) and domestic. This substantially helps poverty reduction: in the hypothetical case of a sudden stop of those transfers, extreme poverty would double in both rural and urban areas. Moreover, poverty among the elderly in rural areas would triple if these transfers stop. Nonetheless, while remittances can be seen as one side of a coin, on the other side there is migration. High Salvadoran migration gets reflected in a mixture of social outcomes: population pyramid (missing prime-age males), incentives to study (higher school attendance), and incentives to work (high female inactivity and self-employment). While in peer countries household transfers are complemented with government transfers, in El Salvador things are different. Public transfers are low and subsidies, mostly on energy, lack effective targeting.

3.1

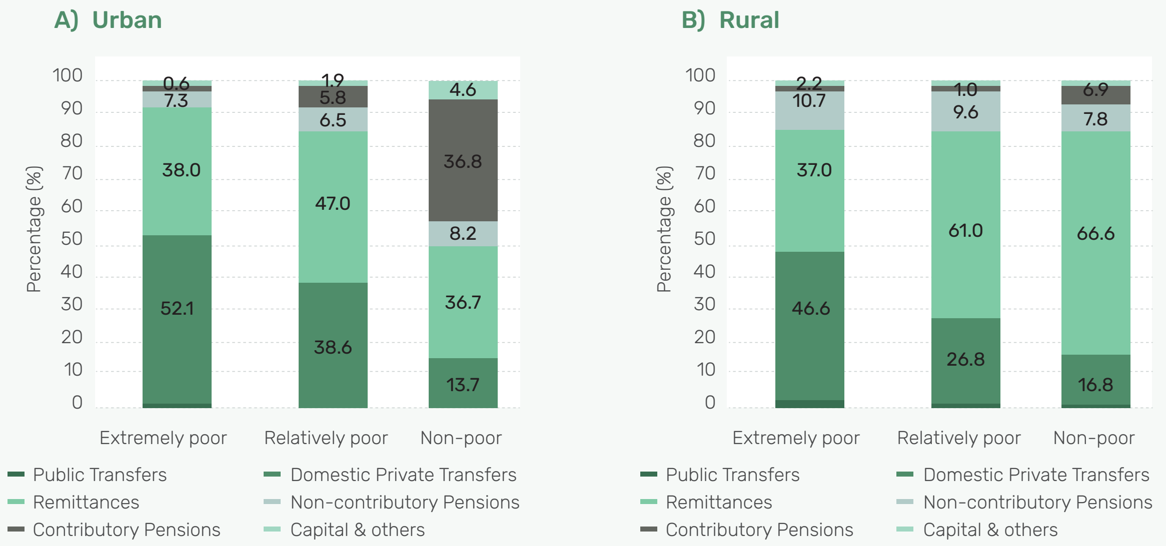
The importance of private transfers on households' budgets

Non-labor income is an important source for Salvadoran households, occupying a larger share of the poor's income. Besides the labor market, households can obtain resources from different sources: (a) public transfers; (b) private transfers (domestic transfers and remittances); (c) pensions (contributory and non-contributory); (d) returns to capital; and (e) others. In 2023, Salvadoran urban households earned a monthly average of US$125 from non-labor income, while rural households earned US$85. This non-labor income makes up about 16 percent of the total income in both rural and urban areas. For poorer households, non-labor income is smaller in absolute terms but higher as a percentage of their overall income. Among extremely poor households, 25 percent of their income comes from non-labor sources, compared to 15 percent for non-poor households. Private transfers are the primary source of non-labor income for Salvadoran households. They are received by households as domestic transfers ('help from family or friends living in the country' or 'child support') or as remittances ('help from family or friends living abroad'), and both can be understood as forms of inter-household or intra-household solidarity.

Domestic private transfers and remittances are crucial income sources for the poor. Among the poor, both urban and rural, private transfers (the combined total of domestic transfers and remittances) account for at least 8 out of every 10 dollars received as non-labor income. Compared with other countries in the region, the reliance on private transfers in El Salvador is high. While in Latin American and Central American countries private transfers represent 5 percent and 7 percent of the total income of households, respectively, this reaches 9 percent in El Salvador. In the lowest per capita income quintile, private transfers represent 15 out of every 100 dollars that Salvadoran households receive, almost double the average in Latin American and Central American countries. Overall[174], one in five households receive domestic private transfers, and this proportion is even higher among poor households. Domestic private transfers account for about half of the non-labor income for extremely poor households, both urban and rural, and they are even more important in households headed by women. One in four households receive remittances, although this proportion is lower among poor households. Remittances are also crucial in the non-labor income structure: in rural areas, they make up one-third of the non-labor income for extremely poor households and two-thirds for relatively poor and non-poor households, a figure higher in households headed by women. Private transfers play a role in reducing poverty, a point that will be discussed in more detail below, but before that we analyze public transfers.

174. World Bank (2024g).

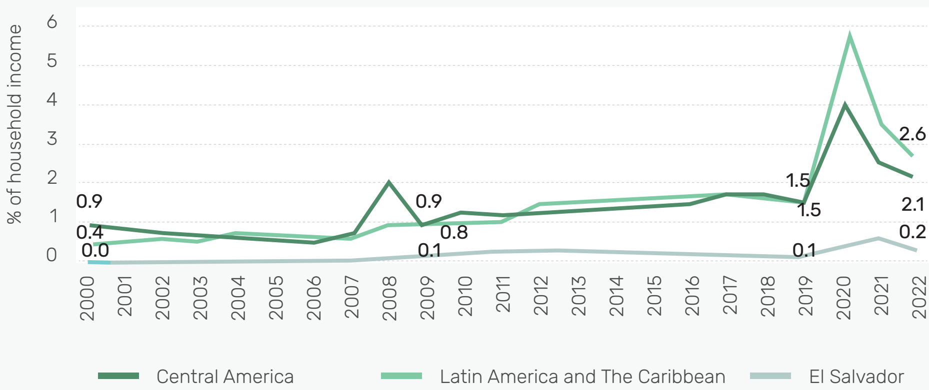
FIGURE 15. SOURCES OF NON-LABOR MONTHLY HOUSEHOLD INCOME BY AREA OF RESIDENCE AND POVERTY STATUS, 2023



Source: EHPM (2023).

Public transfers, a quintessential social protection tool, miss the mark when it comes to reaching the poor. Non-pension cash public transfers are almost non-existent in El Salvador, as only 0.2 percent of household total income comes from this source, compared to 2.1 percent in Central American countries and 2.6 percent in Latin American countries. The gap is even more critical among households in the lowest per capita income quintile, less than 1 percent of total household income derive from public transfers in El Salvador, but this figure reaches 8 percent in other Central American countries and 13 percent in Latin America. In El Salvador, only 2 percent of rural households and 1 percent of urban households receive public transfers. A silver lining is that when a rural household in extreme poverty receives public transfers, which is a rare occurrence, these account for more than 25 percent of their total income, and 17 percent if it is a rural household in relative poverty. The corresponding urban poor figures pale in comparison. The situation is not new, it has been in place for at least two decades.

FIGURE 16. PUBLIC TRANSFERS AS PERCENTAGE OF HOUSEHOLDS' INCOME, 2000–2022



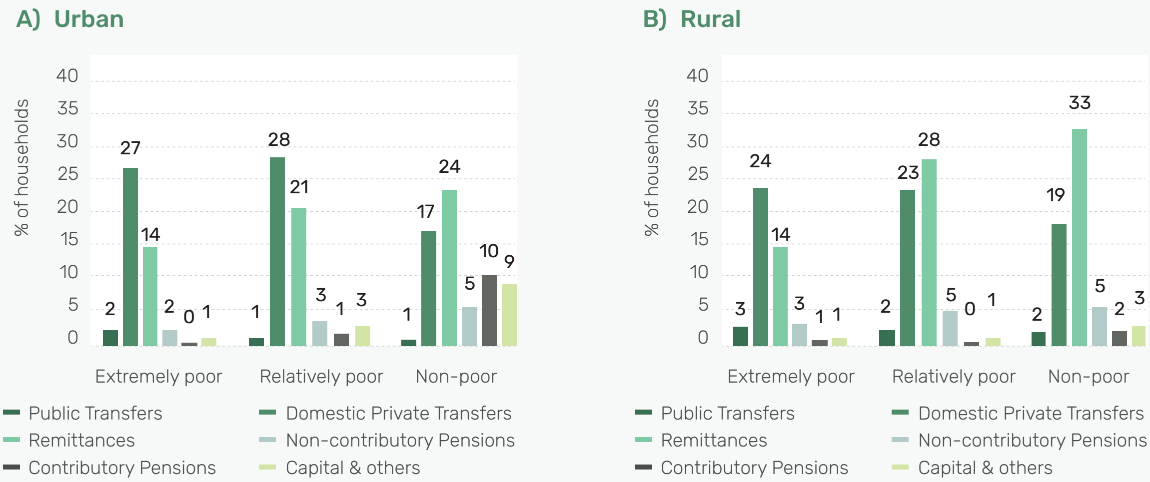
Source: SEDLAC (2000–2022).
Note: In cases where data are unavailable, values have been estimated using a combination of methods (interpolation, extrapolation, and microsimulations) and then pooled to create regional estimates.

The low presence of public transfers in households' budgets goes together with institutional weaknesses, linked to issues in targeting and provision. In 2009, to mitigate the effects of the global financial crisis, El Salvador established the Sistema de Protección Social Universal (SPSU), but it was not institutionalized until 2014 with the Social Development and Protection Law. The main programs of the system have been Comunidades Solidarias Rurales (CSR), Comunidades Solidarias Urbanas (CSU), Paquete Agrícola (PA), and Pensión Básica Universal (PBU).[69] Between 2015 and 2023, the PA annually benefited around 46 percent of rural poor households. During the same period, CSR coverage among the rural poor dropped from 12 percent to less than 1 percent, while CSU coverage among the urban poor was around 1 percent. The coverage of PBU fluctuated between 4 percent and 9 percent of poor households with at least one elderly person over 65, reaching its lowest rate in 2023. Overall, CSR and CSU had few leakages, whereas PBU faced more targeting issues.[70] A key challenge that SPSU faces pertains to Registro Único de Participantes (RUP), which is a registry covering the beneficiaries of the SPSU programs. RUP has limited coverage and its data on beneficiaries is outdated. This is exacerbated by its complex institutionality and governance structure. Improving its updating mechanisms should furthermore contribute to enhancing a currently insufficient coverage. A solid mandate with the appropriate institutionality would be valuable.

69. Rivera (2016).
70. Cerritos and Aguilar (2015).

Pensions, both contributory and non-contributory, have low coverage but are a lifeline for the recipients. Among the poor, pension income represents between 8 percent and 13 percent of household non-labor income. Only two out of ten men and one out of ten women over 60 years old receive a retirement pension from contributing to the pension system, and it is rare to find pensioners among the poor. This low coverage and relevance are a result of the long-standing high labor informality in El Salvador. Since the minimum pension is around US$300, among households that receive pensions in rural areas, the pension amount is higher than labor income. The coverage of contributory pensions is so low that it resembles that of non-contributory pensions, although these are indeed received by the poor. Non-contributory pensions represent between 7 percent and 10 percent of non-labor income for the poor, but the monthly amount is around US$100, which for the extremely poor is more than double their labor income.

FIGURE 17. ACCESS TO SOURCES OF NON-LABOR INCOME, BY AREA OF RESIDENCE AND POVERTY STATUS, 2023



Source: EHPM (2023).

In the absence of government transfers and pensions, private transfers (particularly remittances) stand as a shadow protection mechanism in El Salvador. Non-labor income is significant for households in El Salvador, where traditional social protection instruments like government transfers and pensions have very low coverage. This is in stark contrast to the importance of private transfers, which in El Salvador are the primary income source for households after labor earnings. Among private transfers, remittances make up a substantial portion of non-labor income for households, both among the poor and non-poor. Remittances stand out as a distinct income source because they tend to be more stable and are often spent on durable goods or invested, but they also influence household decisions regarding financial inclusion, labor supply, and human capital accumulation.[71] On a related issue, El Salvador

71. Acosta (2011); Anzoategui et al. (2014).

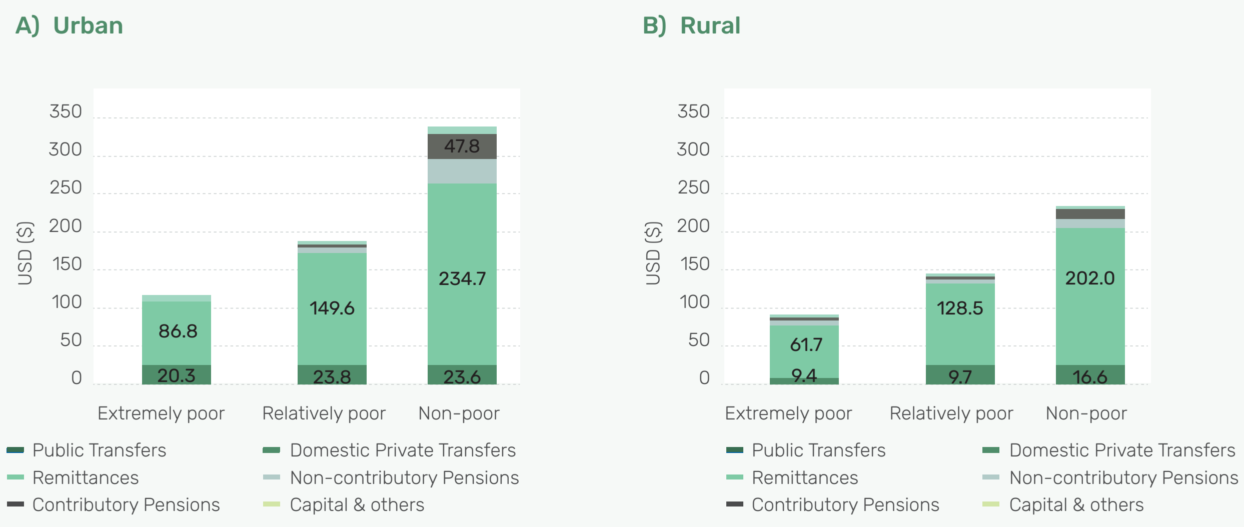
stands out for its low financial inclusion. In 2021, only 36 percent of the Salvadoran population ages 15 and older had a bank account, half the rate for Latin America and the Caribbean (73 percent). Moreover, only 1 in 10 Salvadorans ages 15 and older had borrowed in the past year from a financial institution, either directly at their offices or using a mobile money account, compared with 30 percent in the region. [72]

3.2

Remittances and domestic transfers: a relief with a hidden side

Remittances are the most significant source of non-labor income for households that receive them, making El Salvador stand out globally. The macroeconomic relevance of family remittances income was boosted from 19 percent of GDP in 2009 to 24 percent in 2023.[73] In 2023, El Salvador was among the ten countries in the world with the highest overall flow of remittances in their economies. [74] The im portance of remittances in the non-labor income of Salvadoran households is underestimated when including households that do not receive remittances in the analysis. When focusing only on households that receive remittances, they account for 80 percent of non-labor income for extremely poor households in urban areas and 83 percent for those in rural areas. The relative weight of remittances in non-labor income is even more substantial among relatively poor households that receive them: in urban areas, remittances represent 81 percent of non-labor income, while in rural areas, they constitute 90 percent.

FIGURE 18. SOURCES OF NON-LABOR MONTHLY HOUSEHOLD INCOME IN HOUSEHOLDS THAT RECEIVE REMITTANCES, BY POVERTY STATUS, 2023



Source: EHPM (2023).

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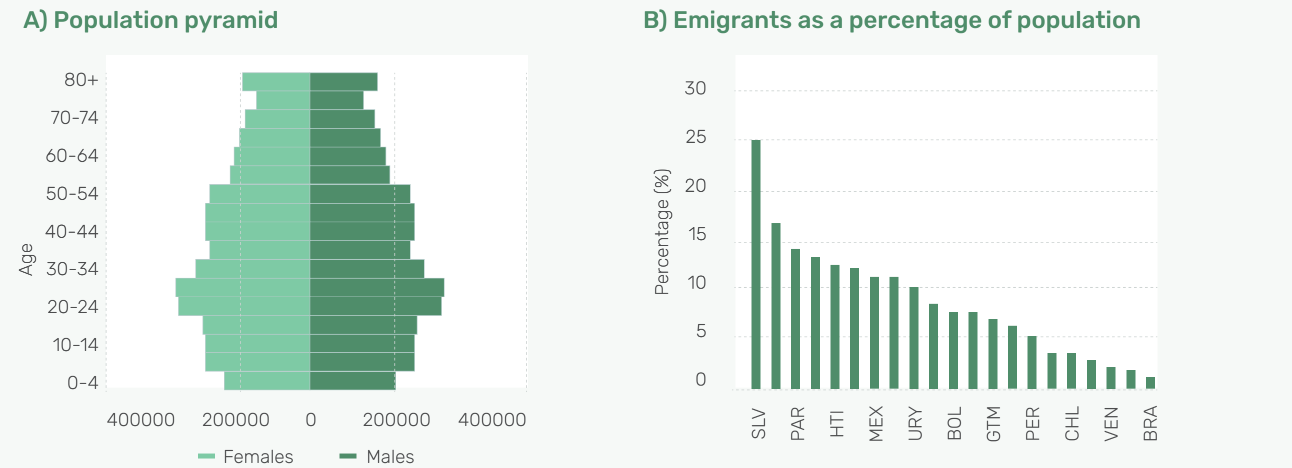
72. World Bank (2024c).
73. BCR (2024a, b).
74. World Bank – Global Knowledge Partnership on Migration and Development (KNOMAD, 2023).

Remittances help disrupt intergenerational transmission of poverty through the promotion of school attendance. In Salvadoran urban households, the median remittance reduces the hazard of a child leaving school by 54 percent during primary education and by 27 percent during secondary education. In rural areas, the effect is around 14 percent regardless of the educational attainment. These effects are notably higher than the impact of other income sources. These aggregate effects must be nuanced, nonetheless, as remittances have heterogeneous effects: girls ages 11–17 and boys ages 11–14 are more likely to remain in school compared to their peers from non-recipient households, but this effect is not extended to boys ages 15–17. In 2023, differences in access to education were mainly observed in preschool education and tertiary education (only among women).

The emigration of productive generations and the return of an aging population can put El Salvador under a demographic imbalance. El Salvador currently has a demographic bonus since its population mainly comprises young people. This can benefit its development potential through investment in human capital, by providing greater access and continuity in education and better jobs. However, the country faces the progressive emigration of these generations of productive age or close to it. El Salvador has the highest proportion of emigrants in Latin America and the Caribbean, with 25 percent of its population outside the country. These migrants tend to be young adults in their early twenties and relatively well educated, with more than half having some secondary or tertiary education. Adult Salvadoran migrants in the United States are 20 percentage points more likely to have a high school diploma than those living in El Salvador. As a flow of financing for development, the remittances sent by migrants have complemented the resources provided by international trade and foreign investment, but they have installed a dependency on 'the export of people' and the transformation of households into transnational productive units. Over time, the aging process in the country could be accelerated by the return of aging migrant generations. In 2022, the median age of Salvadorans abroad was 44 years, while in El Salvador, it was 27 years.

FIGURE 19. DEMOGRAPHICS AND MIGRATION IN EL SALVADOR



Source: KNOMAD (2023) and EHPM (2023)

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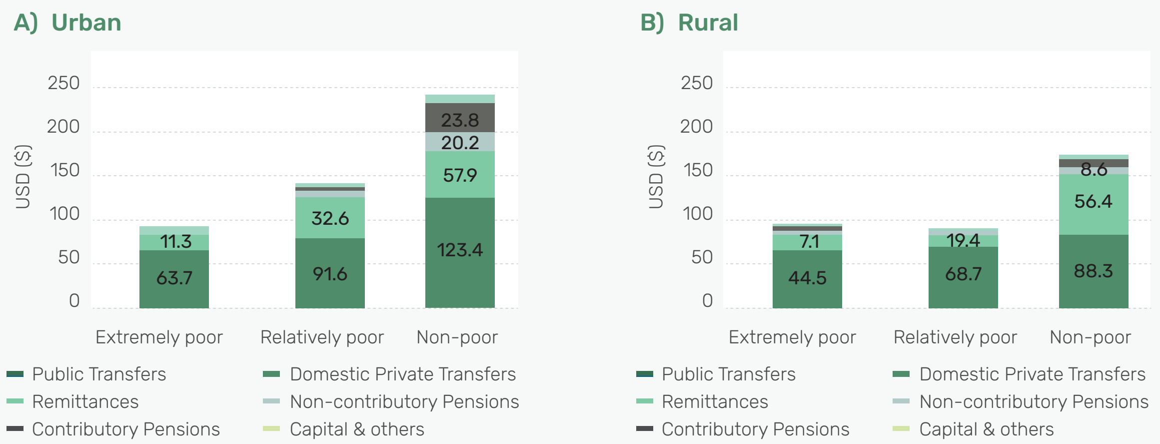
75. Edwards and Ureta (2003).
76. Acosta (2011).
77. Hidalgo and Ñopo (2024).
78. Robayo and Barroso (2022); World Bank (2022a).
79. Banegas and Winkler (2020).
80. Velásquez (2021); United Nations Development Programme (UNDP, 2022a).
81. Martinez (2008).
82. Latin American and Caribbean Demographic Centre (CELADE, 2024).

Remittances can inhibit labor activity outside the household, especially for women, and promote self-employment. Remittances can influence various aspects of labor supply: (a) the extensive margin—how remittances affect who is participating in the workforce and (b) the intensive margin—how remittances affect the number of hours per week and weeks per year that people work. In El Salvador, remittances do not affect unemployment, but they do impact the participation rates of people living in recipient households, especially women, whose participation rates are 13 percent lower. This evidence suggests that remittances serve as a financing mechanism that allows for the reassignment of household care and reproductive work, disproportionately burdening women. Additionally, those receiving remittances, compared against a control group, are more likely to have informal jobs, primarily due to self-employment; thus, remittances could be supporting employment with lower productivity. Recent data show that workers living in households with remittances have less full-time employment, less formality, and more vulnerable positions as self-employed workers or unpaid family members.

Just like remittances, domestic transfers are the most important source of non-labor income for households that receive them. The importance of domestic transfers in the non-labor income of Salvadoran households is underestimated when households that do not receive them are included in the analysis. Focusing solely on the 25 percent of Salvadoran households that receive domestic transfers—they make up 83 percent of non-labor income for extremely poor urban households and 79 percent for their rural counterparts. The significance of domestic transfers is also notable among relatively poor households that receive them: in urban areas, they account for 68.6 percent of non-labor income, while in rural areas, they make up 74 percent. Among households receiving domestic transfers, the average amount is US$108 in urban areas and US$78 in rural areas, roughly 80 percent of the per capita income needed to escape poverty.

FIGURE 20. SOURCES OF NON-LABOR MONTHLY HOUSEHOLD INCOME IN HOUSEHOLDS THAT RECEIVE DOMESTIC TRANSFERS IN EL SALVADOR, BY POVERTY STATUS, 2023

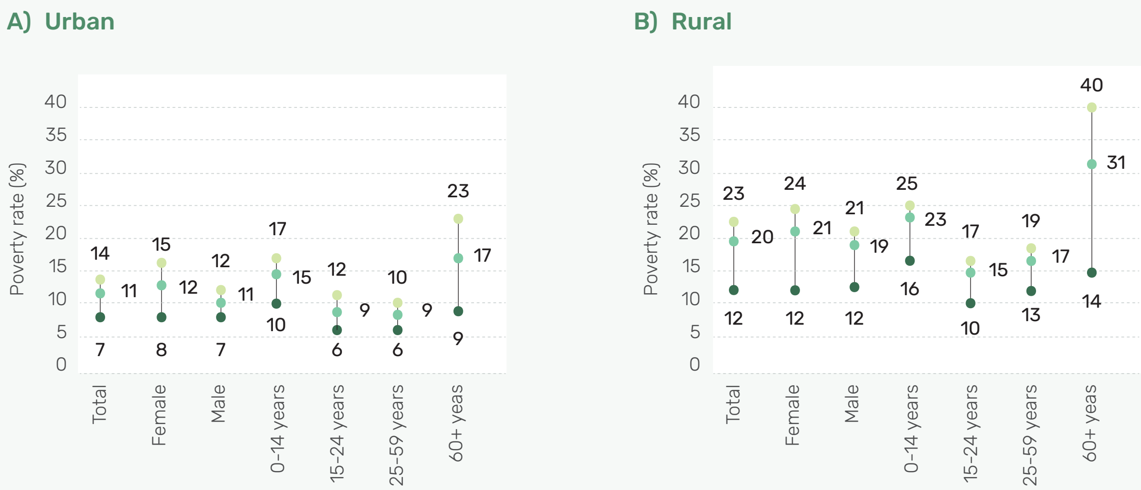


Source: EHPM (2023).

83. Souza and Garcia-Souza (2018).

Remittances and domestic transfers help reducing poverty to a half. Remittances alleviate the worst forms of poverty by directly injecting cash resources into households, mitigating the strains of scarcity.[84] In the hypothetical case that remittances were to disappear from household income, extreme poverty would increase by 4 percentage points in urban areas and by 8 percentage points in rural areas. Domestic transfers also contribute to poverty reduction. If both private transfers (remittances and domestic) suddenly disappear from household income, extreme poverty would double its value. The increase in extreme poverty in this counterfactual situation of absence of private transfers and remittances would be greater in households with older adults, where extreme poverty would triple. The latter is consistent with the proportion of elderly individuals receiving these private transfers (36 percent of population over 60 years age receive remittances and 27 percent receive domestic transfers). It should be noted that this is understood solely as an accounting exercise in the short term, if households do not change their income-generating decisions as they would in a general equilibrium model. Thankfully this scenario remains just illustrative ('what if'), but it highlights the heavy reliance on solidarity. Looking at it from a non-labor perspective, it is crucial to explore other avenues, especially when it comes to providing social protection for the most vulnerable, as discussed in the following section.

FIGURE 21. EXTREME POVERTY IN COUNTERFACTUAL SCENARIOS WITH AND WITHOUT PRIVATE TRANSFERS, 2023



- Official extreme poverty rate
- Extreme poverty rate in the absence of remittances
- Extreme poverty rate in the absence of remittances and domestic transfers

Source: EHPM (2023).

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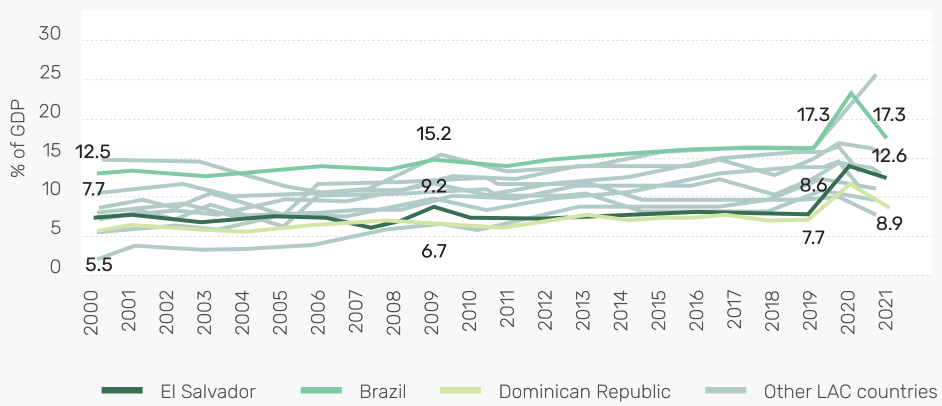
83. Pleités (2022).

3.3

Social protection with limited spending and targeting

The history of the past two decades in El Salvador is one of slow growth in social spending until a crisis hits. Public social spending—the sum of expenditure on recreation and culture, environmental protection, housing, health, education, and social protection—grew by about 3.5 percent annually between 2000 and 2008 and by about 5.0 percent annually between 2010 and 2019. Between 2008 and 2009, in response to the impacts of the global financial crisis, social spending grew by 31 percent (and decreased by 12 percent the following year), while between 2019 and 2020 it grew by 48 percent (and then grew by 6 percent the following year) to finance temporary measures because of the pandemic. [85]Despite the upward trend in public social spending, it has remained relatively constant in relation to GDP, except during crises. Between 2000 and 2008, social spending averaged 7.7 percent of GDP, a figure that reached 8 percent in the period from 2010 to 2019. This indicator peaked at 9 percent during the global financial crisis and 14 percent during the COVID-19 pandemic, and is now falling again.

FIGURE 22. SOCIAL SPENDING AS A PERCENTAGE OF GDP IN EL SALVADOR AND LAC COUNTRIES, 2000–2021



Source: CEPALSTAT (ECLAC 2024a).

85. Economic Commission for Latin America and the Caribbean (ECLAC, 2024a).
86. ECLAC (2024b).

Social spending in El Salvador has primarily been focused on education, but the COVID-19 pandemic increased spending on social protection. Historically, education has been the biggest component of social spending, averaging 3.7 percent of GDP from 2000 to 2021. In the same period, social protection averaged 2.0 percent of GDP, but in 2020, amidst the pandemic, it increased to 6.4 percent of GDP, surpassing education for the first time. This jump was primarily due to policies like direct cash transfers (a one-time US$300 payment per family to the most vulnerable households) and in-kind transfers (packages of basic food and hygiene products to all households). Although social protection spending decreased in 2021, it remained above the average recorded from 2000 to 2021.[86]

The existing social protection system has shown relative effectiveness in moments of crisis but requires further improvements of its social registry and other key dimensions. The foundations for the creation of the SPSU in El Salvador were established in 2009 as a central pillar within the Anti-Crisis Plan. This included public policy actions in strategic areas such as education, health, violence prevention, income generation, productive development, basic social infrastructure, and poverty eradication. The SPSU was further developed and expanded in subsequent plans, aimed at accelerating the achievement of the Sustainable Development Goals (SDGs). The system was designed to act as an umbrella for various sectoral policies and government programs, coordinated by the Secretaría Técnica de la Presidencia. Despite recent administrative changes and the elimination of certain secretariats, the system adapted to the COVID-19 crisis with emergency social protection measures, including economic relief and subsidies, although challenges remain in monitoring and evaluating the effectiveness of these interventions. El Salvador faces challenges across the social protection delivery chain beyond its coverage, and it includes the digitalization and flexibilization of the payment and delivery systems; the institutionalization, expansion, updating, and linking of the social registry with other databases; the operationalization and integration of disaster risk financial instruments with the social protection programs; and the strengthening of the institutional framework and capacity around key adaptive social protection issues.[87]

Cash transfers have very low coverage, although in-kind transfers for agriculture are important among the rural poor. By 2023, hardly any household was receiving the cash transfer under the Comunidades Solidarias program. Among extremely poor households with at least one member over 65, 8 percent in rural areas and 2 percent in urban areas received the Pensión Básica Universal. These figures show a drop in coverage with respect to 2019. The Paquete Agrícola, a program that provides seeds and fertilizers to small farmers, is the most widespread transfer program, benefiting 47 percent of extremely poor households and 43 percent of relatively poor households living in rural areas. Other in-kind transfers, such as the milk program, the school feeding program, and the uniforms and school supplies program, are universally provided to all children and adolescents enrolled in the public system (78 percent of all students), but these are not counted as part of household income.

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87. Elsik-Dikmelik et al. (2023).

Subsidies for residential electricity and liquefied petroleum gas (LPG) consumption are widespread but need better targeting for the poor. Challenges also exist with water subsidies. While subsidies or direct cash transfers are not considered as part of household income, they lower the cost of services, thereby increasing consumable income. Expenditure on electricity, gas, and water subsidies in 2019 was 40 times higher as a percentage of GDP than the expenditure on the conditional cash transfer program.[78] In 2023, 55 percent of urban households and 60 percent of rural households received the LPG subsidy, while 43 percent and 46 percent received the electricity subsidy, respectively. The LPG subsidy has a targeting issue: both poor and non-poor households benefit almost equally from it. In urban areas, 56 percent of extremely poor households receive the LPG subsidy, but so do 54 percent of non-poor households; in rural areas, 57 percent of extremely poor households and 61 percent of non-poor households benefit from it. The same goes for the electricity subsidy: 45 percent of urban households in extreme poverty receive it, but so do 43 percent of non-poor urban households; in rural areas, 47.4 percent of extremely poor households and 46 percent of non-poor households receive it. Additionally, non-poor households consume more energy than poor ones, making these subsidies regressive. The water subsidy is less widespread (about 21 percent of households receive it), but it also has a targeting problem: the proportion of non-poor households receiving the subsidy is nearly double that of households in extreme poverty. Access to water and sanitation, nonetheless, deserves extra attention. As the analysis on multidimensional deprivation highlights, among poor households one-half are deprived sanitation and one-fourth are deprived drinkable water. It is crucial to improve access to these basic needs.

The low coverage of transfers and poor targeting of subsidies result in a modest impact on poverty, but both can be enhanced. A microsimulation exercise shows that if residential electricity and LPG consumption subsidies were removed, the official poverty rate would increase by almost 1 percentage point in 2023. However, if along with the elimination of subsidies, the direct transfers to the same beneficiary households were multiplied by 3, the net effect on poverty would only be a slight increase of 0.06 percentage points. In another scenario we found that instead of eliminating subsidies, if a better targeting of subsidies occurs, poverty would slightly increase (by some decimal points). However, if it is also accompanied by an expansion of the coverage of transfers to households in the same communities or areas where the transfers were delivered in 2023, it would imply a slight reduction in both relative and extreme poverty (also, by a few decimal points).[89] Gains in poverty reduction can be achieved by improving the targeting of spending. Nonetheless, the complexity of the political and economic context, and the need to develop strategies tailored to different income ranges, must be considered.

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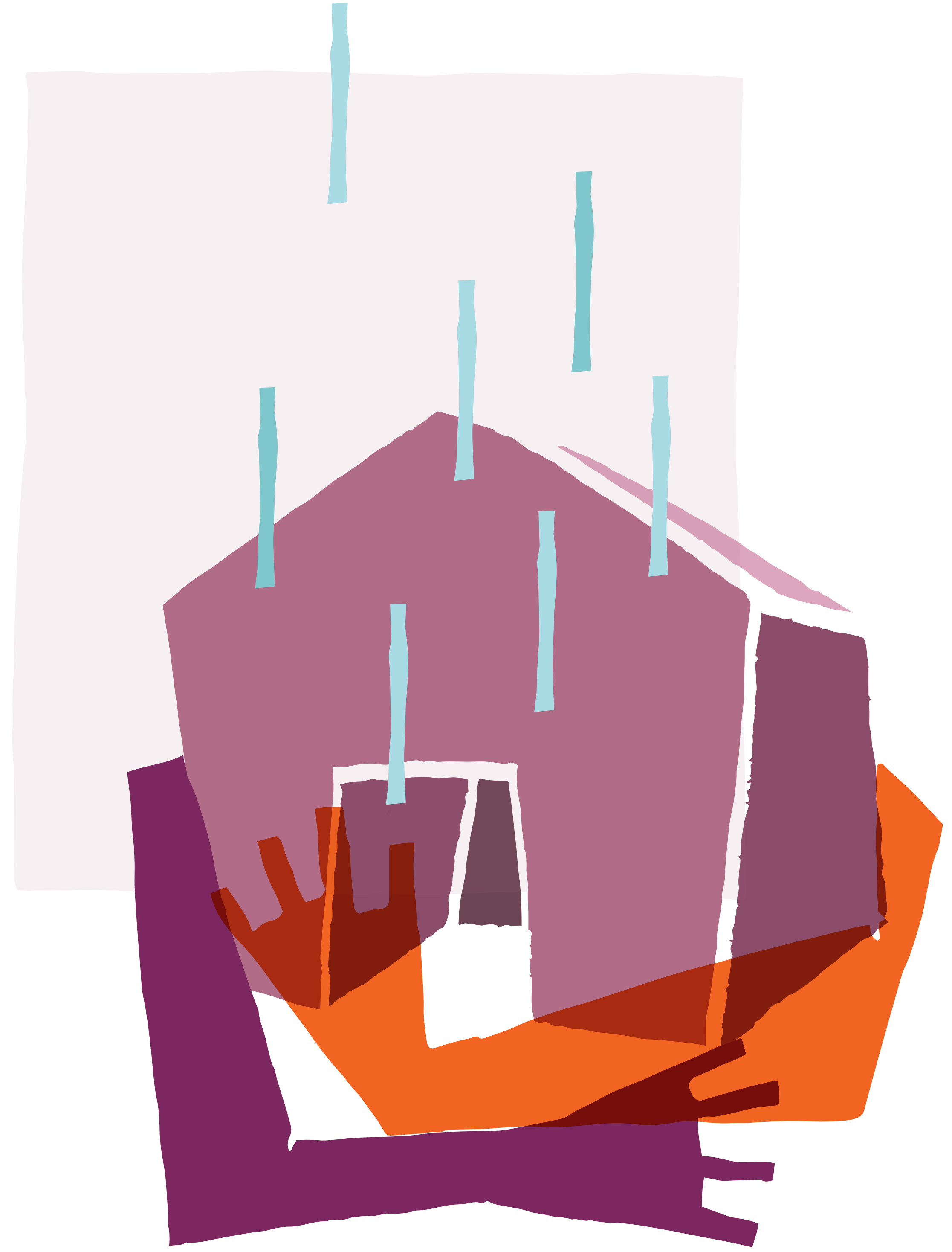
88. Elsik-Dikmelik et al. (2023).
89. Jiménez and Ñopo (2024).



CHAPTER 4

Poverty and climate change

Salvadorans are particularly exposed to a broad range of shocks. Climate-related shocks in particular are on the rise. Climate change will exacerbate droughts and floods, increasing vulnerability to shocks and exacerbating the burden of disaster-related losses. If a severe shock occurs, extreme poverty could double, but the impacts would extend also to those above the poverty threshold (they are the 'climate risk induced poor'). As survival strategies among households are sometimes far from ideal, effective social assistance and investments in mitigation and adaptation policies are crucial policy instruments that can provide a safety net for the most vulnerable. Additionally, climate risk links to poverty involve agricultural vulnerability and food insecurity. This is particularly relevant because food prices have experienced until recently a substantial rise since 2021, and future natural disasters could potentially contribute to further increases. To face this, beyond working on improving households' resilience against natural disasters, the authorities can work to facilitate an effective functioning of food markets.

4.1

The poor as the most vulnerable

Salvadorans are particularly exposed to a broad range of shocks. Severe weather events in the form of storms, floods, and droughts affect the country, particularly in the Dry Corridor (Box 1). During the two most recent decades (1999–2018), El Salvador was the second-most affected country in Central America, with climate shocks costing the country approximately 0.75 percent of GDP per year.[90] Similarly, earthquakes, landslides, sea level rise, and volcanos also pose risks that will become more prominent with climate change.[91] These natural hazards, combined with human hazards such as crime, violence, and accidents, put the country at high risk exposure.[92] As climate change worsens natural hazards, insecurity, conflict, and poverty exposure increase, acting as a 'risk multiplier'.[93]

Climate change will exacerbate droughts and floods, increasing vulnerability to shocks and exacerbating the burden of disaster-related losses, particularly on the shoulders of the poorest households. With time, climate disasters are increasing in intensity and frequency across the country, with consequential economic impacts on the poorest population. There were 39 hurricanes in Central America during the 2000s, 2.5 times more than in the earlier decade.[94] In addition, El Salvador's placement in the Dry Corridor, compounded by the presence of El Niño/Niña, creates extreme events of flooding and droughts. Tropical storms such as Amanda and Cristobal in 2020 created losses estimated at US$2.9 billion and an economic impact estimated at 7.5 percent of GDP.[95] However, the exposure to these disasters is quite unequal. While 33 percent of people from the poorest two income quintiles reported having suffered damages from landslides during 2012–2017, only 5 percent of the wealthier group (quintile 5) experienced similar losses. Similarly for floods, a lower share of the wealthier quintile reported having damages.[96]

Even those above the poverty threshold are at risk of being pushed into poverty by disasters; they are called 'climate risk induced poor'. In addition to the poorest population, some people in quintiles 2 and 3 of the income distribution may be pushed into poverty due to their lack of capacity to cope with a disaster. The specialized literature defines them as 'climate risk induced'—people who have an estimated income above the poverty line (like people in quintiles 2 and 3), but with such a high estimated variance in their income that they face an increased likelihood of falling into poverty due to climate risks. In 2023, approximately 55,000 individuals in El Salvador are climate risk induced, and will fall into poverty if shocked by a severe disaster.[97]

Areas with high vulnerability to poverty and high frequency of disasters concentrate the risk of being pushed into poverty. Vulnerability to poverty is measured to include both groups: people below the poverty line (poverty induced), and people whose expected income is equal or above the poverty line but their likelihood to fall into poverty is high due to climate shocks (climate risk induced) or other types of risks (idiosyncratic risk induced). In 2023, 49 percent of total people vulnerable to poverty were poverty induced, 49

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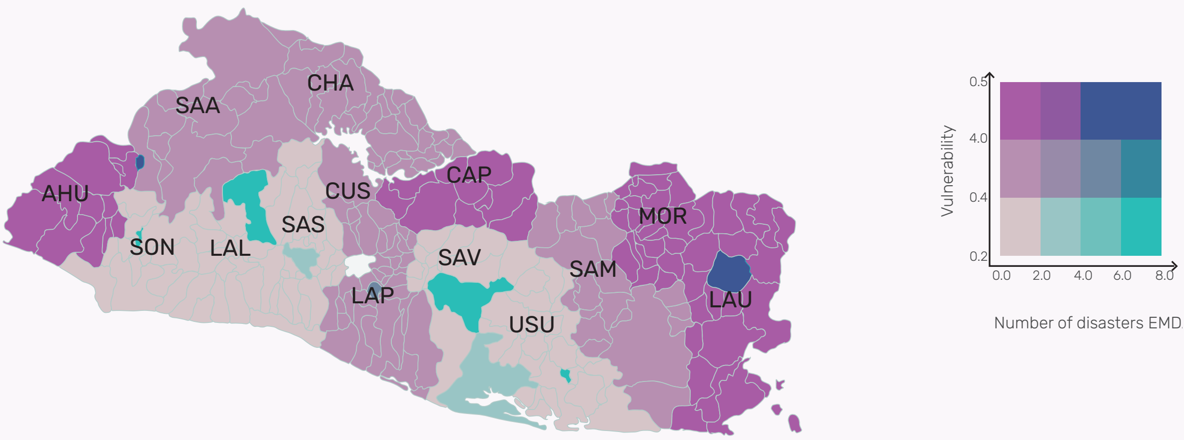
90. Eckstein et al. (2018); Eckstein et al. (2019).
91. Think Hazard (2024).
92. Rude and Robayo (2023); INFORM Risk (2020).
93. Laderach et al. (2021); Ruttinger et al. (2015).
94. Emergency Events Database (EM-DAT, 2023).
95. UNDP (2022b).
96. Hallegatte et al. (2017).
97. De la Fuente and Serio (2024).

percent were vulnerable because of other risks such as accidents or a terminal disease, and 2 percent were vulnerable because of climate shocks. Figure 23 shows the distribution of the number of disasters in the past two decades according to EM-DAT and the vulnerability to poverty distribution. Highly vulnerable areas with the largest number of disasters (exposure) are those where more people could be poorer or pushed into poverty because climate risks would exacerbate all types of vulnerabilities. These areas include the Santa Rosa de Lima district, located in La Unión department; the district El Refugio, located in Ahuachapán; and San Juan Tepezontes, located in La Paz.

FIGURE 23. VULNERABILITY TO POVERTY AND NUMBER OF DISASTERS



Source: De la Fuente and Serio (2024).
Notes: AHU, Ahuachapán; SAA, Santa Ana; SON, Sonsonate; LAL, La Libertad; SAS, San Salvador; CHA, Chalatenango; CUS, Cuscatlán; CAB, Cabañas; LAP, La Paz; SAV, San Vicente; USU, Usulután; SAM, San Miguel; MOR, Morazán; LAU, La Unión.

If a severe shock occurs, extreme poverty could double. By 2023, 12.4 percent of total population are vulnerable to extreme poverty (4.1 percent poverty induced and 8.3 percent risk induced). This value is higher in rural areas and for people at the early stages of life (children and adolescents ages 0 to 14 years). In the hypothetical case of a severe shock, the population considered vulnerable would become extremely poor. Under this scenario, as shown in Figure 24, the extreme poverty rate would increase by 7 percentage points in urban areas and 10 points in rural areas, meaning that it would almost double its value. This hypothetical scenario also suggests stronger consequences for children and adolescents up to 14 years old, and among women. These results underpin the relevance of addressing vulnerability in efforts to reduce extreme poverty. This would require important investment as it has been estimated that it would cost between 3 and 4 GDP points.[98]

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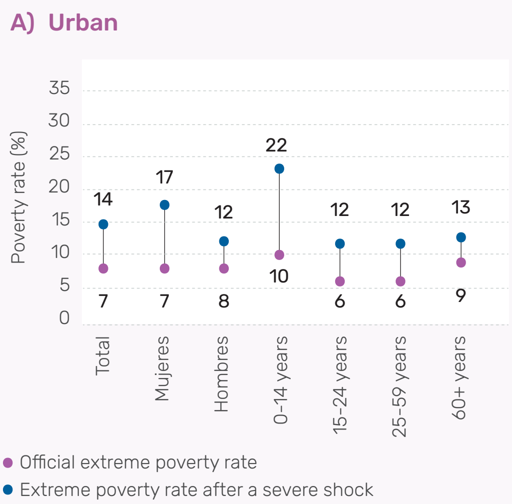
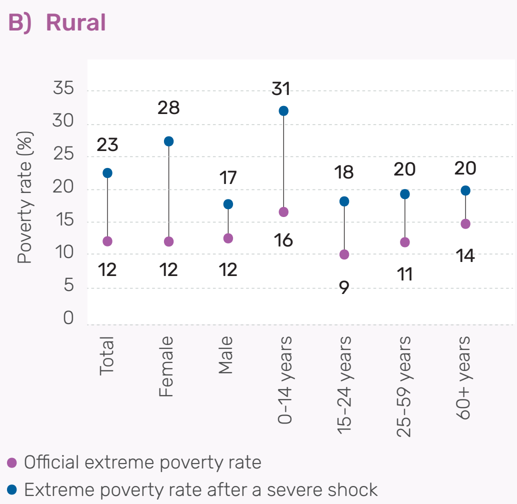
98. De la Fuente and Serio (2024).

FIGURE 24. EXTREME POVERTY IN COUNTERFACTUAL SCENARIOS IN FRONT OF A SEVERE





Source: EHPM (2023) and De la Fuente and Serio (2024

Heat and anomalous precipitation will also affect labor productivity and public health, worsening poverty. Total working hours lost to heat stress in 2030 for El Salvador will be equivalent to 32.3 thousand full-time jobs.[99] Even though El Salvador is a malaria-free country, the increasing heat stress altered the seasonality of other mosquito-related illnesses such as dengue, zika, and chikungunya, affecting the labor supply, productivity, as well as demand for health services. Beyond the present, this poses challenges for the future as the disease vectors may mutate generating new maladies. In addition, higher temperature impacts on public health through labor are likely to include a reduction in food production and food access, especially for poorer households, and an increase in key conditions for respiratory and cardiovascular diseases.[100] In this regard, the stratified access to health services in the Salvadoran population becomes particularly relevant. The poor mostly use services provided by the Ministry of Health (MINSAL). They may also have limited access to the Salvadoran Institute of Social Security (ISSS) facilities (due to their lack of access to formal jobs). An increased demand for health services among the poor will likely increase the imbalances between these two types of public services.

Similarly, intense floods and extended droughts affecting food security could exacerbate conflict and migration issues. Extended periods of drought, followed by intense rains, affect Dry Corridor planting and crops harvesting, threatening income and food security.[101] As food production is disrupted in many regions, it increases not only prices and market volatility, but also the loss of income for 13 percent of rural households,[102] whose labor income predominantly depends on agricultural production, heightening the risk of protests, riots, and other conflict related variables.[103] These destabilizations have further encouraged the ongoing migration of young and productive people from these territories, whose remittances play an important role in El Salvador, but at a social and economic cost. Subsistence farmers and their families are also particularly vulnerable to extreme weather disruptions.

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99. ILO (2019).
100. D'Amato et al. (2014); Kephart et al. (2022); Kwak (2022).
101. World Food Programme (WFP, 2024).
102. ONEC (2023a).
103. Laderach et al. (2021).

Harvest destruction leaves thousands without crops to eat or sell, as it compromises food reserve availability, the main source of food for subsistence farming families. With no food or work nearby, many families are hence forced to migrate to survive.[104]

The survival strategies that households adopt to cope with climate disruptions are sometimes far from ideal. Climate disruptions are forcing households with limited resources to adopt negative survival strategies such as selling assets, defaulting on loans, withdrawing children from school, skipping meals, and eating less nutritious food. These can undermine their already frail food security and nutrition, leading to a decrease in their productivity and the possibilities to obtain income in the long term, and even exacerbate intergenerational poverty.[105] When households suddenly face immediate crises (such as those caused by climate hazards) or when they are constantly subjected to stress (for example, due to prolonged droughts, water issues), their capacity to address the underlying causes of climate vulnerability or to implement lasting mitigation and adaptation solutions becomes even more limited.[106]

Effective social assistance and investments in mitigation and adaptation policies are crucial policy instruments that can provide a safety net for the most vulnerable. In 2011, only around 8 percent of total vulnerable people and risk-induced vulnerable individuals reported at least one member of their household being a beneficiary of a social assistance program.[107] This percentage was smaller in 2023, where less than 1 percent of vulnerable people report having social assistance. Currents effort need to be strengthened. The government is already implementing adaptation and mitigation policies, according to its Nationally Determined Contributions (NDC) Action Plan 2022–2030. Similarly, projects to strengthen the government capacity to manage climate migration are already in place[108] In addition, policy documents such as the country strategic plan 2017–2021 indicate there have already been efforts aimed at shifting the strategic focus from short-term disaster emergency responses to a more comprehensive approach to address disaster recovery and the roots of vulnerability[109] which could be leveraged to this effect.

4.2

The poorest' tables are lacking food and water

Climate risk links to poverty involve agricultural vulnerability and food insecurity. Low-income households often depend on economic activities closely linked to water availability, such as agriculture. Therefore, they are more sensitive to variations in precipitation patterns and extreme events like floods and droughts. For instance, during the 2015 droughts, 60 percent of the corn production in El Salvador was destroyed.[110] But the disruption in the food supply system also affects food prices and availability. The change in climate is affecting the climate suitability for crops, as stronger dry seasons (lower water availability) and higher temperatures are expected. This damages the expected harvest, makes producing food more costly, and increases food prices. Concurrently, climate pressures increase the demand for agricultural inputs, such as fertilizers and pesticides, increasing their prices and

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104. WFP (2024).
105. Rodriguez (2023).
106. Mullainathan and Shafir (2023).
107. De la Fuente and Serio (2024).
108. International Organization for Migration (IOM, 2023).
109. WFP (2022).
110. Food and Agriculture Organization (FAO, 2016).

aggravating the effect on food prices.[111] Beyond productive access to water, domestic access to water and sanitation for the poor require extra attention as one-fourth do not have access to drinkable water and one-half do not have access to in-premises sanitation.

Food prices saw a substantial increase since 2021, and, despite some recent stabilization future natural disasters could contribute to further increases. The price of food and non-alcoholic beverages increased 22.5 percent between March 2021 and March 2023, and increased 2.2 percent more between March 2023 and March 2024,[112] likely related to the absence of massive disasters that year (Storm Pilar was the only storm reported by EM-DAT in 2023, affecting 500 people). If any new climate disaster occurs in the country, food prices could go up even further due to the lack of locally produced goods and the difficulty in transporting imported products. Climate shocks are proven to cause an inflation rise in El Salvador, with a peak impact of two to five months post-shock, consistent with the destruction of agricultural production and reduced transportation of imported products.[113] As salaries have not risen,[114] people can only afford less food every year. Higher prices mainly affect households at the bottom of the income distribution rather than those at the top.[115] For the poor, a marginal increase in prices often leads to a decrease in daily food consumption (food access) and substitutions that affect food quality (food use). In El Salvador, living in extreme poverty conditions negatively affects the household budget allocated to dairy, vegetables, and meats.[116] Substituting proteins and vegetables with cheaper foods like carbohydrates fails to meet their nutritional needs.[117] In 2023, 61 percent of the extremely poor said that they were worried in the previous quarter about running out of food, 59 percent had a diet based on little variety of food, and 56 percent stopped having a healthy diet during the same period of reference. Food insecurity also reaches the non-poor as the corresponding percentages for them are 33 percent, 28 percent, and 23 percent respectively.[118]

The most at risk of food insecurity are rural populations, especially in the departments of La Paz, Usulután, and Morazan. These regions have the biggest shares of population whose food intake, diversity, and quality were reduced, and are classified with the highest share of food insecurity in the country. In these regions, moderate and severe insecurity appears more frequently in rural areas. This might be related to vulnerability of both areas to landslides and poverty. When disasters occur, they can be disconnected from the main markets, making it difficult to transport food to the rural areas of these provinces as well as to the cities.

To increase the amount of food produced each year nationally, the country faces several challenges, such as the decrease in climate suitability for certain crops and water stress. For El Salvador, coffee has been a historically important crop and continues to be the leading export in the vegetable products category.[119] Coffee combined with beans and maize constitute the most important crops in the country. In that regard, more than 40 percent of El Salvador's land will also be affected by a decrease in climate suitability for Arabica coffee production by 2050, while the suitability for beans and plantains will be strongly affected.[120] This situation opens the door to diverge into other crops such as variations of maize, cassava, rice, and sorghum, which will gain climate suitability. The dissemination of this type of information to farmers is crucial, as they could evaluate and compare the costs of adapting to the new crops suitable for their region or maintaining the same crop selection, with the extra costs it would entail to protect the plants.

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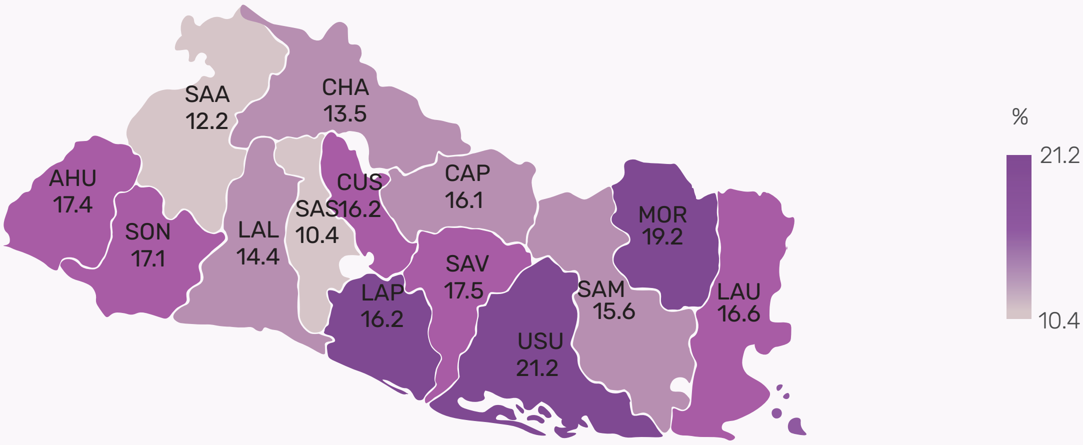
111. World Bank (2022b); Perego et al. (2024).
112. BCR (2024c).
113. Kim et al. (2022).
114. Consumer Defense Center (CDC, 2024).
115. Olivieri et al. (2023).
116. Sandoval and Carpio (2016).
117. Martin (2010).
118. ONEC (2023a).
119. Observatory of Economic Complexity (OEC, 2024).
120. Baca et al. (2014); Bouroncle et al. (2017).

FIGURE 25. PERCENTAGE OF FOOD INSECURITY BY REGION, 2023



Source: EHPM (2023).
Notes: AHU, Ahuachapán; SAA, Santa Ana; SON, Sonsonate; LAL, La Libertad; SAS, San Salvador; CHA, Chalatenango; CUS, Cuscatlán; CAB, Cabañas; LAP, La Paz; SAV, San Vicente; USU, Usulután; SAM, San Miguel; MOR, Morazán; LAU, La Unión.

4.3

Improving the households' resilience to natural disasters

Fostering resilience among the poorest against climate-related disasters requires targeted, heterogeneous responses specific to local environmental challenges. Different regions in El Salvador face unique climatic risks, requiring customized strategies that integrate local knowledge and resources. Coastal areas prone to hurricanes need distinct preparedness measures compared to inland regions susceptible to droughts or landslides. Similarly, among similar geographic areas, urban zones require a different set of policies compared to rural areas. Vulnerability is multidimensional, involving climate, conflict, food insecurity, and other drivers. The absence of spatial overlays that identify where these factors co-occur limits the ability to pinpoint localities most at risk, thereby reducing the effectiveness of targeted interventions and ultimately failing to enhance the resilience of vulnerable communities. Unfortunately, currently available data have coverage and accuracy limitations.[121]

Despite the potential of existing economic tools to offset the burden of disasters and aid in swift recovery, their implementation often falls short. Economic responses are crucial in mitigating the impact of climate-related natural disasters. These responses can include timely reconstruction efforts, insurance payouts, family transfers, and government support to affected households and businesses.

121. ECLAC (2021).

Measures, such as temporary emergency cash transfers, like the Bono US$300 implemented during the pandemic, highlight the potential mitigation effects for such initiatives. In addition, there is a growing support to the development of innovative insurance products and services for vulnerable individuals and communities. For instance, initiatives to reduce the vulnerability and improve the socioeconomic inclusion of small-scale producers in rural areas have been launched by public institutions, international organizations, and national and foreign private insurance companies. Some of them include for instance the Microinsurance Catastrophe Risk Organisation (MiCRO), a subsidiary of Swiss Reinsurance Company in Guatemala and El Salvador, which promotes parametric microinsurance against the risks of earthquake, drought, and excessive rainfall. However, there are several challenges in the effective implementation of economic responses, such as effective targeting, so that when a disaster hits transfers can be successfully distributed (that is, mobile targeting, vulnerability maps specific to disaster at the municipality level or district, among others). Stress tests for the system will therefore be important in providing valuable information for improving these mechanisms.

BOX 1. The Dry Corridor in El Salvador

El Salvador is located within the Dry Corridor, a region in Central America deeply affected by climatic shocks with alternate severe periods of droughts and intense precipitation. This dry tropical forest area occupies one-third of Central America and is characterized by long periods of torrential rains followed by prolonged periods of droughts. Unlike other countries, where only part of their area lies within the corridor, the entire geographic area of El Salvador is part of the corridor. In El Salvador, 73 percent of districts (193/262 of the previous municipalities) are in high-drought zones (orange in the figure), the highest exposure areas within the Dry Corridor. This constitutes 62 percent of the Dry Corridor in Central America. In addition, these communities are concentrated in the departments of Usulatán, Ahuachapán, Cabañas, and La Unión, departments which face the highest poverty rates in the country. This position within the Dry Corridor constitutes a concerning factor of climate exposure, as it makes it even more susceptible to climate change and poverty.

Source: FAO (2012).

CHAPTER 5

How to improve well-being for all?

Building on gains. The previous World Bank poverty assessment for El Salvador[122] proposed two key sets of policy recommendations: (a) effective pro-poor spending and (b) reduction of crime and violence through better access to jobs and education. The substantial reduction in crime and violence the country has recently accomplished is an important step. It will be necessary to complement it, building on this progress, to continue the path toward an El Salvador where prosperity can be shared by most households.

Violence reduction is likely to positively affect neighborhoods and municipalities. With gang-related violence reaching new lows, more economic development is possible. The mobility restrictions and geographic segregation imposed by gangs had detrimental impacts on labor, educational, and social outcomes: gang-controlled neighborhoods had lower incomes, lower probability of owning durable goods, and higher probability of dropping out of school compared to those just outside these territories. Also, their communities suffered more from stigma in the labor markets and social interactions.[123] Gangs also affected economic development at the municipal administration levels. The higher presence of gangs reduced municipalities' fiscal revenues, especially for those the mid-size ones, thereby increasing their dependence on transfers from central government. Additionally, municipalities with higher gang presence were less likely to spend their budgets (capital spending) and to provide basic services. Moreover, it has been found that the reduced revenues, lower capital spending, and lower service provision had spillover effects on neighboring jurisdictions.[124] It is still early to fully discern the impacts of gang violence reductions on poverty rates, but future public access to relevant data could enable proper modelling and measurement of the impacts. Despite this, existing analysis, already points to some key actions the government could take for synergetic impacts.

Poverty reduction can work most effectively when guided by an overall national strategy and with an adequate governance structure that effectively coordinates a multisectoral approach. A national strategy for combating poverty, establishing ambitious but achievable short-, medium-, and long-term goals, with high-level stakeholder buy in, is essential. The evidence from more than 70 countries is clear: establishing long-term policy frameworks, adopting evidence-based policies, implementing results-based management, and ensuring a meritocratic civil service can improve the effectiveness of service delivery for poverty reduction.[125] Clearly adopting a multidimensional (and hence multisectoral) approach is fundamental. The objective of building a more cohesive society must be approached in conjunction with a vision of inclusion and equity. Additionally, community engagement and open government policies can contribute to promote accountability for such a strategy. Empowerment of citizens is also pivotal to ensure the state is able to adequately meet the infrastructure needs of the poor [126] . Effective governance mechanisms for successfully implementing the poverty reduction strategy are key. These can have at least two key positive impacts on poverty reduction: enhancing 'public administration procedures' and 'public services delivery'. Furthermore, transparency in policy making and planning, vertical accountability, and effective corruption oversight and mitigation mechanisms in the public sector has also been shown to align with reduced poverty rates.[127]

Stable macro-fiscal conditions are key for implementing public policies that drive development and reduce poverty. Effective fiscal management, encompassing sustainable debt strategies and enabling price stability is essential. Structuring social security funding efficiently, to promote incentives for both

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122. Rounseville et al. (2015).
123. Melnikov et al. (2023).
124. Eaton et al. (2024).
125. Hassan et al. (2020).
126. Page and Pande (2018).
127. Nguyen et al. (2019).

workers and employers to contribute and increase labor formality, will support long-term financial health and stability, laying a solid foundation to build sustainable development policies. Acknowledging El Salvador's current limited fiscal capacity and the corresponding challenges that lie ahead, the detailed recommendations that follow should not be seen as quick or easy solutions but as opportunities to sustainably enhance Salvadorans' well-being over time. Improving income generation, while ensuring public engagement and enhancing resilience against shocks, as well as providing access to quality services can, when coupled simultaneously with efforts to strengthen the fiscal framework and the accountability in public service delivery, create a promising path toward effectively reducing poverty and income inequality.

Better functioning markets can also improve households' food security. As this report shows, price changes have accounted for an important share of some of the most recent increases to poverty rates in El Salvador. Price changes, especially those of food items, have been found to be responsible for between 2 and 3 percentage points increase in poverty across Latin America.[128] Price changes can depend not only on general demand and supply factors for (domestic and imported) goods and production inputs, but can also depend on a market structure where intermediators can also play a role. Well-functioning markets, that adequately integrate their intermediate links, can also contribute to improving households' food security. This entails promoting competition through lower barriers to entry and better logistical networks allowing for more frequent and enhanced interactions among producers, intermediaries, and wholesalers. Better information flows about prices and produce availability could also make markets work better more effectively and mitigate the impact of adverse price movements for consumers.[129]

We propose a strategy based on a three-pillar structure as a comprehensive approach to address poverty for El Salvador. Beyond the strategic considerations, an effective governance structure, and the strengthened macroeconomic conditions, and fiscal foundations needed for successfully implementing a poverty reduction strategy, we propose a set of recommendations anchored around three basic pillars. First, labor income generation, which constitutes the primary means to escape poverty. Second, access to high-quality services, essential for enabling well-being and building of human capital. Third, social protection to mitigate shocks and build resilience, ensuring that escaping poverty is sustainable. Figure 1 in the Executive Summary provides an overview of this structure. It is worth emphasizing the three pillars are not independent. The success on any of them will depend on the success on the others, both in the short and the long run. It is important to stress the point about the relevance of a broad national strategy that consolidate these elements, and the key actions covered under each pillar under a clear mandate, in coordination with the relevant actors and effective governance mechanisms for implementing it. This wills also require appropriate monitoring and evaluation tools, control panels, and all the necessary instruments for modern public policy management. In this regard, the experiences of the Centers of Government with two-tier approaches (that is, a performance framework supplemented by a more selective set of priority goals) as in Colombia, Pernambuco (Brazil), and Buenos Aires (Argentina) could be relevant.[130] Also, the experience with poverty alleviation in Peru reveals that performance-based stimuli could be effective to drive performance at the local levels.[131]

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128. Olivieri et al. (2023).
129. Perego et al. (2024).
130. Shostak et al. (2023).
131. Macroconsult (2023).

5.1

Income Generation

More and better jobs are needed. Chapters 1 and 2 highlighted the central role of labor income in poverty reduction, so it is necessary to create more and better jobs, while supporting the poor's ability to accessing them. For this, it is relevant to highlight three i's that are fundamental to escape form the middle-income trap: "First invest, then infuse foreign technology and then innovate."[132] The key policies to facilitate job creation by firms include attracting and promoting investment, while reducing barriers to formal job creation and maintaining a reasonable predictability of the regulatory framework. The recent B-Ready report by the World Bank highlights that there is room for improvement.[133] Initiatives such as 'Invest in El Salvador'[134] and the One Stop Shop for businesses (Miempresa)[135] aim to attract more foreign investments and streamline firm creation. These are steps in the right direction and could be further improved aiming for a continued reduction of the cost and time required for permits and licenses. Having tackled gang related criminal activity as a key barrier to business creation, fostering formalization is fundamental in improving job quality. Firms need to enhance their capacity to be more productive and create jobs. Key policies include improving access to credit with stronger support for micro and small enterprises by introducing Credit Guarantee Schemes (CGS) to reduce the credit risk and contribute to diversifying their access to targeted financial products. In order to improve access by the poor to quality jobs, efforts on job markets intermediations should be strengthened and, as we discuss below, directing more investments to human capital formation.

New and better jobs need to reach the poor and vulnerable, including women, to foster sustainable poverty reduction and inclusive economic growth. Chapter 2 highlighted the pronounced job disparities between the poor and non-poor to access stable (long-term employment), adequate (income), and secure jobs (with social security) as well as the high female inactivity linked to the disproportionate burden of caregiving responsibilities. Furthermore, the recent World Bank report 'Women, Business and the Law' highlights the importance of working towards an improved regulatory framework to promote gender equality in El Salvador.[136] In the short term, employment policies could be strengthened through a multipronged approach. This includes promoting private sector driven training to ensure relevant skills and better job matches and employing integrated interventions such as targeted wage subsidies with training to support vulnerable groups and new entrants to the labor market. Additionally, job search support and labor market prospective intelligence are essential to understand employment trends and demands.[137] These policies have been integrated as part of the World Bank financed project to improve access to jobs and skills development for vulnerable youth and young adults, which will soon begin implementation. [138]

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132. World Bank (2024d).
133. World Bank (2024f).
134. See https://investinelsalvador.gob.sv/
135. See https://www.miempresa.gob.sv/
136. World Bank (2024e).
137. Isik-Dikmleik et al. (2023).
138. https://www.worldbank.org/en/news/press-release/2023/11/28/banco-mundial-facilitar-oportunidades-empleo-y-desarrollo-habilidades-para-jovenes-el-salvador

Low human capital is a key barrier to find better jobs, as we discuss below, and more long-term investments in human capital formation are needed. Continuing to work on providing quality early childhood care can secure good care practices for the most vulnerable that contribute to increasing labor participation by freeing up time for caretakers to engage in employment.[139] Accessible childcare can expand the range of employment opportunities available to caregivers, enabling them to pursue more stable and lucrative positions.[140]

Training for digital skills, artificial intelligence, and green transitions is essential for future readiness. Offering upskilling and reskilling opportunities and coordinating with tertiary education institutions to supply workers for high-demand areas will create a workforce prepared for emerging economic sectors. Upskilling and reskilling programs must address the needs of both current and future labor market participants. Trainings will need to be targeted to workers who face greater challenges recovering from displacement by technology. The most vulnerable to disruption are generally the less educated, younger, and rural workers.[141] It is important to involve the productive sector to identify their short- and long-term needs and ensure high-quality capacity building to effectively enhance employability prospects and improve wages.[142] For example, through its ETRI-VET[143] initiative, the World Bank is working with countries to develop a tool (global public good) that assesses readiness of formal Technical and Vocational Education and Training (TVET) and higher education entities to reskill youth amidst digital transformation. El Salvador could directly benefit from its use. For green transitions, trainings should be designed based on green skills, that is, the specific skills related to the evolution of green technologies, to properly integrate them with existing training policies or in the long run create new educational and training programs.[144]

It is necessary to foster rural income through improved agricultural practices and market access. Labor income reductions in rural areas have been among the main drivers of the increasing poverty (Chapter 1), so working on this should be priority. Mainstreaming of climate-smart agriculture (CSA), a set of practices and technologies which simultaneously boost productivity, enhance climate resilience, and reduce greenhouse gas (GHG) emissions will be key. This includes greater organic input use, soil conservation measures, the adoption of irrigation systems and water- and energy-saving technologies, greenhouse production, agroforestry, and the adoption of drought- and flood-resistant crops and varieties. Better management of shade, fertility, crop residues, pests, and diseases are also needed to counteract the high variability of annual crop productivity in the Dry Corridor. These practices not only improve efficiency in the use of natural resources but also improve productivity and reduce vulnerability to climate shocks. In the short run, existing subsidies and support to farmers or agribusinesses could be leveraged to support the adoption of CSA technologies and practices, coupled with a strengthened provision of technical assistance to small producers to enhance CSA uptake (this is the case for instance for the Costa Viva[145]

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139. Mateo-Díaz and Rodriguez-Chamussy (2016).
140. Alfers (2016).
141. Moroz and Viollaz (2024).
142. Ripani et al. (2020).
143. https://www.worldbank.org/en/topic/education/brief/edtech-readiness-index
144. Vona (2021).
145. See: https://projects.bancomundial.org/es/projects-operations/procurement-detail/OP00319829?

initiative, funded by the Japan International Cooperation Agency -JICA- and implemented by the World Bank in partnership with Catholic Relief Services, to improve CSA adoption and link in-land agricultural communities with coastal markets). In the long term, subsidies and support to individual farmers should be shifted to finance public goods and services that can build up resilience and productivity. These actions will need to be supported by improvements in agrologistics infrastructure and services as well as investments in digital connectivity, which can enhance resilience and facilitate better market access. Improving rural infrastructure (access to drinking water and drainage, expansion of the rural road network) will also provide improved opportunities for the rural poor to access non-agricultural employment as well.[146]

Detailed tailor-made strategies for addressing specific environmental and agricultural challenges in rural areas of El Salvador are essential. Promoting agriculture productivity and resilience and sustainable landscape practices calls for a cross sectoral and territory based approach. Restoration of forest systems at the upper and middle parts of watersheds is recommended to enhance water infiltration toward aquifers and reduce the runoff (the 'flush' effect), which is important for facing extreme precipitation caused by El Niño. Reforested areas can also contribute to decreasing landslides. Improving irrigation technologies, such as drip irrigation, and using water harvesting solutions such as AGRI,[147] a publicly available tool that helps farmers locate nearby watersheds and identify the best time to harvest, address the high risk of drought events in the Dry Corridor. Adapting to a lower suitability for crops such as Coffee Arabica due to climate events requires diversification through better agrological management or different crops.[148]

5.2 Access to quality services

Ensuring sound early childhood development is foundational for reducing poverty and income inequality in the long term. Prioritizing improvements in education quality from the early years improves children's school readiness and lifelong learning and equips individuals with skills that will potentially enhance their productivity and therefore their economic returns. As addressed in Chapter 2, this is an important challenge in El Salvador. The national strategy 'Growing Together',[149] which came into effect in January 2023, aims at ensuring early childhood development through a multisectoral policy with a focus on health and education. In support of the education component, the World Bank is financing teacher training, curriculum modernization, and improved learning environments, with these efforts targeted toward supporting children's life trajectories through age-appropriate, high-quality, and nurturing services. These programs will set a solid foundation for lifelong learning, improving cognitive and social skills.[150]

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146. Marques (2004).
147. See https://alliancebioversityciat.org/stories/agri-tool-charts-better-way-forward-farmers
148. Baca et al. (2014).
149. See https://crecerjuntos.gob.sv/
150. Bendini and Devercelli (2022).

Improving high-quality education along the life cycle. The next step in the national strategy for human capital formation needs to address elementary and secondary schooling on the one hand and tertiary education on the other, within a life-cycle approach that secures minimum dropouts and maximum learning across all stages. As emphasized in Chapter 2, there are pending academic challenges tied to enrollment and attendance as well as with learning. The drop in schooling premium that El Salvador is experiencing (along with other Latin American countries) should also be noted. Strengthening the teaching career throughout the education system and building quality infrastructure are key elements necessary to generate improvements in the education system that can address student needs across the life cycle. These should be complemented with a clear emphasis on the need for improving foundational skills (mathematics and reading) at all educational stages.[151] Experiences such as the one in Ceara (Brazil) show that substantial improvements are possible when resources, monitoring, and political will converge within an evidence-framework for decision-making.[152]

Leveraging existing poverty mitigation programs in the country with revamped designs can play an important role in poverty reduction, human capital development, and economic inclusion for higher resilience. Well-targeted programs with expanded coverage have been shown to play an important role on poverty reduction. Countries such as Argentina, Brazil, and Uruguay have demonstrated the importance of investing in routine social protection programs with high coverage and scalability protocols for times of shock. Building resilience ahead of shocks involves articulating social protection from a life-cycle approach to address the risks and vulnerabilities in each life stage.[153] As outlined earlier in these recommendations, this starts with investments in early childhood development. Improving links to labor markets and livelihoods support for youth and for the adult poor and vulnerable not only enhances resilience but stimulates their recovery in the aftermath of shocks. On the other side of the life cycle, establishing the basis for a broader pension system to ensure financial security for the elderly is also relevant, especially given high informality rates and accelerated aging due to high youth migration, as discussed in Chapter 3. While some households benefit from pensions, the poor barely receive any, whether from contributory or non-contributory funds. Creating mixed contributory systems, where families—including the use of their remittances—and the government jointly fund pensions, can foster a sustainable and inclusive pension system, without disincentivizing formal work.[154]

Quality and accessible health services are foundational for reducing poverty and inequality, but the design of incentives is extremely important. The segmentation of the health system (composed by MINSAL, ISSS, and private sector) can reinforce socioeconomic inequalities, especially if the quality of the public services provided by MINSAL is limited. The poor often have limited access to formal jobs and, therefore, to the quality standards of ISSS services. An improved quality of services provided by MINSAL would improve general wellbeing of the most vulnerable, favoring a more equitable and efficient health system. At the same time, nonetheless, improvements in the health system should be carefully designed to avoid disincentives to formality in the labor

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151. World Bank (2018).
152. Raiser (2018).
153. Tisei and Ed (2024).
154. Levy (2017).

markets and, in turn, on human capital formation. A forthcoming World Bank report provides analysis and proposes plausible paths for reforms in such direction in the medium run.[155]

Some strategies could help build on the reduced gang-related criminal activity and help sustain these gains. Developing services to engage youth, preventing their involvement in criminal activities by offering attractive and viable paths to a productive life, and integrating them into the formal economy is essential. The Urban Centers for Well-Being and Opportunities (CUBO), community centers designed to engage residents, particularly youth, in productive and educational activities in vulnerable communities could provide an example of ongoing efforts that could be leveraged to this effect and contribute to improving community cohesion.[156] Evidence indicates these mechanisms have the potential to promote improved educational outcomes and reduce stigma, particularly among youth in affected areas. [157]

Providing financial inclusion enhances economic integration. Promoting digital financial services from diverse suppliers on common platforms, leveraging remittances to foster financial inclusion, and utilizing government-to-citizen payments through digital channels are all steps the government is already implementing to promote inclusion. An action with the potential to increase the scope and impact of those investments could be structured around improving El Salvador's low degree of financial inclusion, as shown in Chapter 3. CGS, accompanied by other measures such as enhancing the regulatory framework, can increase credit access for micro, small and medium enterprises (MSMEs) and provide an incentive for formalization while increasing financial inclusion for firms.[158] Equally critical is the provision of financial literacy programs to Salvadorans, allowing them to effectively use these services and enhance their economic opportunities. Sustainable expansion of digital financial services relies on the availability of effective digital infrastructure as well as on user capability and connectivity. Developing a modern legal and regulatory framework is important to address risks and create trust in digital transactions.[159]

Facilitating the reception of remittances and promoting certain uses can increase earnings potential and reduce vulnerability. Remittances in El Salvador are the main source of non-labor income for households that receive them, and offer both challenges and opportunities, as analyzed in Chapter 3. Policies that reduce transaction costs and incentivize the use of remittances for education, training, and asset acquisition can boost their economic impact. In a randomized field experiment, the 'EduRemesa' fund-matching program for Salvadoran migrants offered a 3-to-1 match and increased educational expenditures for students in secondary or tertiary education in El Salvador by US$3.72 for each US$1 matched, plus an additional US$0.33 sent by the migrant.[160] This suggest, Salvadorans can be encouraged to use remittances for investments conducive for development.

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155. World Bank (forthcoming).
156. CUBO (2024).
157. Jaitman (2019); Sviatschi (2019).
158. Banegas and Winkler (2020).
159. World Bank (2022c).
160. Ambler et al. (2015).

5.3

Social protection to mitigate shocks and build resilience

Information for better management and expenditure efficiency. It is necessary to redesign and improve social programs to increase both effectiveness and efficiency. Coverage, targeting, and size of the transfers need improvements that also take into consideration the country's fiscal capacity. This requires improving the quality of information and widening the reach of the RUP, currently just covering one-quarter of the population, to identify beneficiaries and prevent duplicates that can enhance the efficiency of these expenditures. Improving integration of different sources of administrative data and updating the information of registered individuals to improve targeting also can help in this endeavor. Additionally, implementing effective targeting tools ensures that support reaches those most in need. In El Salvador, one of the best targeted programs is considered to be the Conditional Cash transfer Bono Primera Infancia y Educación, but it has a low coverage and requires a higher budget allocation to increase its reach. Currently, the highest budgeted social public interventions are subsidies to energy, water and LPG consumption, yet about 74 percent of their beneficiaries are non-poor. Gradual retargeting of these consumption-based subsidies can improve the quality of these expenditures key to enhancing impact under tight fiscal contexts—which can help expand targeted transfers to build resilience for the poor, protect human capital, and improve poverty reduction. The changes needed to improve expenditure efficiency, nonetheless, require a carefully designed communication and dissemination strategy to avoid misinformation and mistrust which was at the core of previous unsuccessful attempts in the country.[161] Elements of a similar experience regarding energy subsidies reform in Indonesia could be a relevant benchmark for El Salvador. [162]

Adaptive social protection is key to supporting families in poverty and reducing vulnerability to shocks. Adaptive social protection helps build the resilience of households that are vulnerable to shocks through direct investments that support their capacity to prepare for, cope with, and adapt to shocks protecting their well-being and ensuring that they do not fall into poverty or become trapped in poverty because of the impacts. Linking poverty data with climate risk information allows for quicker responses to climate shocks, enabling horizontal or vertical expansion to protect both the currently poor and the vulnerable populations who are at risk of falling into poverty due to these shocks. Promoting resilient infrastructure and services, implementing resilient urban planning, building capacity locally, and adaptive social protection measures to respond promptly to disasters can mitigate their adverse effect and protect Salvadorans from falling into poverty due to these events. Effective implementation of these economic measures is key to building a resilient economic framework that can adapt to the increasing frequency of climate-related challenges. A solid adaptive social protection system can be achieved through (a) a stronger, more comprehensive social protection system composed of multiple programs with high coverage and adequate benefit amounts; (b) better data and information on risks and people's needs and better management of socials registries and early warning systems (EWS) to allow a faster shock response through forecasting and impact projections; (c) improved risk financing strategies and sufficient financial resources that enable

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161. Calvo-Gonzalez et al. (2017).
162. Calvo-Gonzalez et al. (2017).World Bank (2023b); Ihsan et al. (2024)

funding to flow in the event of a shock and thus enable a faster response to disasters; (d) better institutional arrangements and partnerships that anchor the planning, coordination management, and delivery of Adaptive Social Protection (ASP), including delivery and payment systems. The increasing frequency and severity of disasters as well as the high share of vulnerable people in El Salvador present compelling reasons to invest in ASP.

A system of temporary emergency cash transfers to alleviate the impact of climate change shocks. As addressed in Chapter 4, the poor are the most vulnerable to climate shocks. Carefully designed transfers in the face of shocks are a viable instrument. These transfers can be designed to scale up and down, depending on predefined 'automatic stabilizers' that trigger the emergency response. This involves selecting risks to trigger an automatic response, operationalizing the architecture of triggers and protocols for scaling, and calibrating benefits regarding coverage, size, duration, and pre-event financing.[163] Examples of these programs' implementation include those of Peru, Chile, and the Dominican Republic. Anticipatory transfers, which deliver support before the shock, can help buffer impacts and prepare for the aftermath. This strategy, in the advent of a flooding event, has been found to reduce food insecurity, increase the likelihood of effective evacuations, reduce asset losses, and a decrease in the likelihood of borrowing money at high interest rates. In contexts of crisis response, it is important to take early and speedy action, analyze deeper the ideal size and frequency of transfers, and use geographical variables to target beneficiaries of emergency response interventions.[164] For this, it would also be important to improve on the low financial inclusion the country exhibits and make more intense use of digital payment methods. In Peru, for example, the traditional method of distributing physical cash has largely been replaced by digital payment methods, such as mobile banking and e-wallets. This shift toward digitalization has also been integrated with financial inclusion initiatives, requiring beneficiaries to open bank accounts tied to their national ID numbers, making the payout of transfers during shocks faster. [165]

Strong data and information architectures have the potential to identify beneficiaries to shock-responsive programs based on their vulnerability and exposure to disasters. El Salvador has in place a robust functioning multi-hazard EWS but with poor links to the social protection sector to provide safety net support for effected populations. Data and information can be collected through EWS and social registries. With this information, it is possible to understand the extent of the shock and how many people are in need of assistance. There is potential to combine risk data (for instance, from EWS) with data in the social registry to inform shock response through the social protection system. In the Dominican Republic this has been done by combining a risk index: Vulnerability Index to Climate Shocks (IVACC) and the Single Beneficiary System (SIUBEN). IVACC is a tool that calculates the probability of a household being vulnerable to climate-related events. It is based on the socioeconomic and geographic characteristics of a household from SIUBEN. Because of IVACC, it is possible to understand the vulnerability of each household in SIUBEN and to implement policies for prevention, mitigation, and response to shocks before they happen.[166]

Insurance, particularly climate insurance products, is central to economic resilience against climate impacts. Remittances often surge in response to natural disasters in low- and middle-income countries, acting as a private insurance that mitigates these events' impacts. It has been found that remittances increase by more than 3 percentage points in countries like Nicaragua and Honduras following climate

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163. Gentilini (2022).
164. Pople et al. (2021).
165. Tisei and Ed (2024).
166. Tisei and Ed (2024).

events.[167] However, the scenario in El Salvador is less clear-cut, revealing a need for robust social protection and climate insurance products to better support vulnerable populations during extreme climate events. Insurance should be at the macro[168] and micro levels, aligned to fiscal capabilities and tied to personal policies like household and agricultural insurance and government-backed schemes like catastrophe bonds and climate social safety nets. These products can provide immediate financial relief in the event of a disaster, reducing the time and economic strain associated with recovery. By spreading the financial risk among a larger pool over time, climate insurance can offer a sustainable model for economic stability in the face of environmental unpredictability. Access to affordable and context-specific climate insurance could serve as a critical buffer for the poorest in El Salvador, safeguarding them against potentially devastating economic impacts. Developing the markets for those instruments would also be valuable, especially aligning them to the country's Estrategia de Gestion Financiera ante el Riesgo de Desastres, which represents a key set of policies and instruments to foster climate resilience. Developing sector-specific approaches (for example, for agriculture) under this policy, as well as ensuring that disaster risk finance instruments channel some resources directly to the most vulnerable households can also strengthen the strategy.[169]

Social protection and labor market policies should be addressed with an integral approach. In chapters 1 and 4 we show that poor households have more young children, and children are the most vulnerable to shocks. Early childhood care interventions offer dual socioeconomic benefits: they ensure high-quality care for vulnerable populations while simultaneously enhancing women's economic participation by reducing childcare constraints. By providing accessible childcare services, women can liberate time previously dedicated to caregiving, enabling them to enter, remain, and advance in labor markets[170] , thereby expanding their professional opportunities and potential for economic advancement.[171] This is particularly relevant in El Salvador given the low female labor participation, as shown in Chapter 2. On the other hand, establishing the basis for a broader pension system to ensure financial security for the elderly is also necessary, especially with high informality and accelerated aging due to high youth migration, as discussed in Chapter 3. While some households benefit [172] . Informality not only deprives workers of social security protection but also affects their future retirement benefits and their labor income in the present. Reducing labor informality would require likely changes not only in employment legislation, but also in the productivity and social norms such that the (dis) incentives toward (in)formality are worth it for most workers and employers [173] .

Improving human capital outcomes for the lower-income population is critical. Chapters 1 and 2 noted the link between low human capital and poverty. To break such link, social protection interventions have a transformative potential in addressing human capital gaps. Continued investment in well-targeted social protection programs (safeguarding the fiscal space)—such as conditional and unconditional cash transfers, along with productive inclusion initiatives—remains essential. These programs not only provide direct support to vulnerable populations but also help alleviate poverty and foster human capital development. Incorporating behavioral approaches and nudges into social assistance programs can incentivize individuals to access critical services, including healthcare, nutrition, education, and ECD thereby promoting human capital accumulation and improving overall well-being. Additionally, social assistance programs should incorporate well-designed graduation strategies to ensure smooth, sustainable transitions from benefits to labor market integration.

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167. G Babii et al. (2022); Kim et al. (2022); Balli and Balli (2011).
168. Cebotari and Youssef (2020).
169. Gobierno de El Salvador (2021).
171. Mateo-Días and Rodriguez-Chamussy (2016).
170. Alfers (2016).
172. Levy (2017).
173. World Bank (forthcoming).

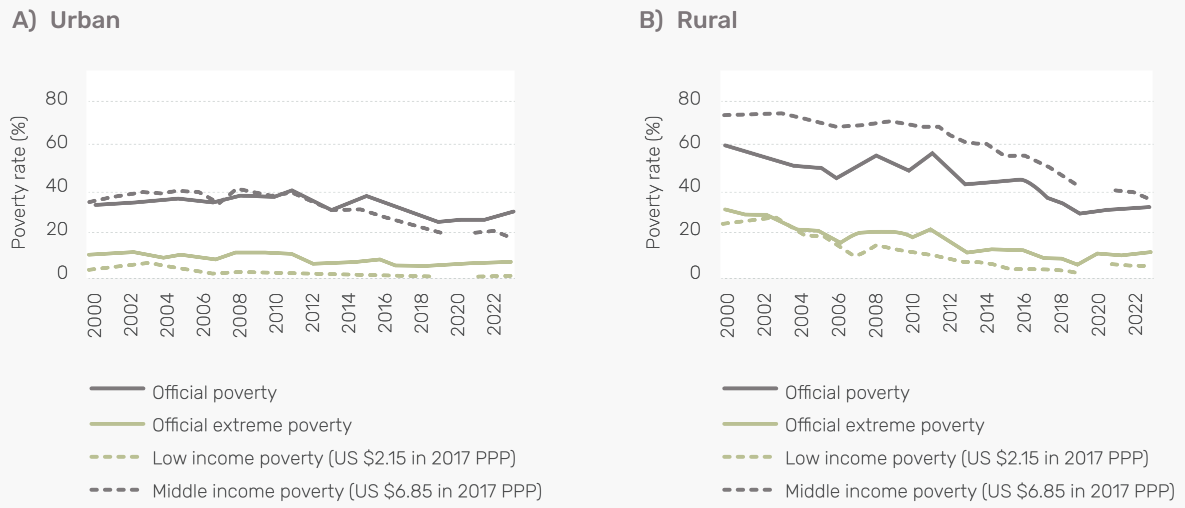
Appendix.

Comparing international and official poverty in El Salvador

In their daily life, Salvadorans refer to poverty as *"not having the resources to be able to buy and satisfy the needs we have."*[174] Accordingly, and following international standards, the National Statistics and Census Office (ONEC) measures two types of monetary poverty: extreme and relative. Being extremely poor means not having enough to cover the cost of a basic consumption basket (with a nominal value in 2023 of US$1.5 per person per day in rural areas and US$2.3 in urban areas). Being relatively poor means not being extremely poor, but also not having enough income to cover the cost of an expanded basic consumption basket, valued at twice the cost of the extreme poverty basket. Total poverty is then measured as the aggregate of extreme poverty and relative poverty. Note that the official statistics use different incomes ('poverty lines') for rural and urban areas.

For international comparisons, the World Bank uses two international poverty lines, one at US$2.15 and the other at US$6.85 per person per day (measured in 2017 PPP). These are the median official poverty lines of low-income and middle-income countries in the world, respectively. The World Bank uses a single measure for the whole country without distinguishing between rural and urban areas, as the official figures do. Qualitatively, they are comparable to the extreme and total official poverty statistics. The qualitative similarities among poverty indicators, however, does not constitute any sort of formal statistical property. They are clearly different statistical objects, obtained with methodologically different procedures, that behave qualitatively similar (Figure A.1). These methodological differences may lead to diverging trends between both types of poverty rates. Between 2021 and 2023 official and international poverty measures show opposite trends, while the official statistics indicate an increasing tendency, the international ones show a decreasing one.

FIGURE A.1. POVERTY TRENDS IN EL SALVADOR AT OFFICIAL AND INTERNATIONAL POVERTY LINES, 2000–2023.



Source: SEDLAC. (2023).
Note: There are no international poverty lines for 2020 due to methodological limitations.

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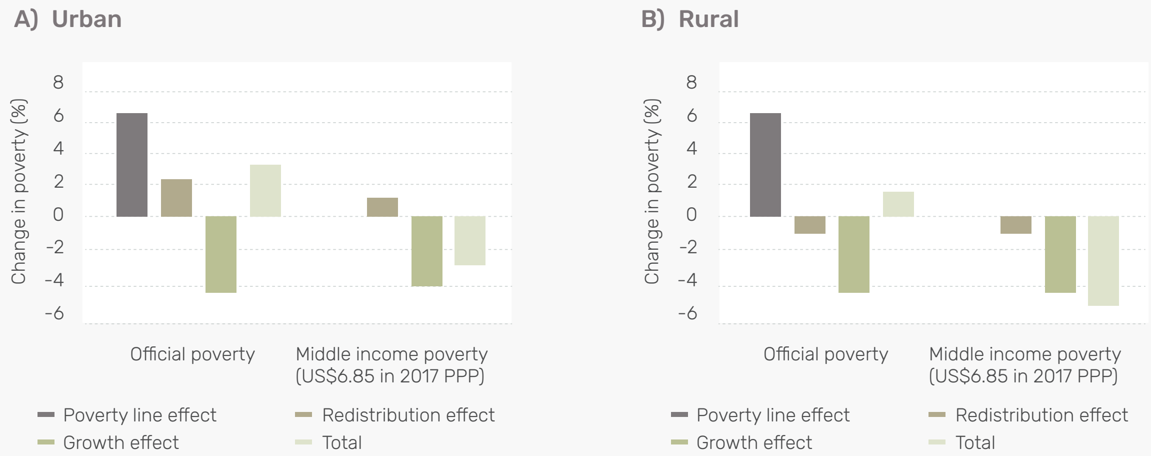
174. UNDP (2015).

There are four key differences between the official poverty figures and the international ones computed by the World Bank, three of them related to the computation of household income and one to income indexation (and, hence, the role of inflation). First, the World Bank imputes an income increase in rural households by 15 percent to reflect cost of living differences with respect to those in urban settings, computing then a single poverty line for the country. ONEC/BCR, the agency computing the official statistics, does not impute rural incomes, they address the rural-urban differences in cost of living by setting different poverty lines by urban and rural areas. Second, the World Bank imputes rent for those households who do not declare it. ONEC/BCR in turn does not. Third, there are income items that the World Bank does not consider for the computation of household income, but the official figures do include them (car depreciation, savings disposal, inheritances, lotteries, severance payments, and sporadic incomes). Fourth, the official poverty lines are updated annually to reflect changes in food prices within the basic food basket. Conversely, international poverty lines are expressed in 2017 PPP to account for differences in real prices between countries (and it is assumed that these lines change at the same rate as the consumer price index).

The first methodological difference does not seem to be the culprit of the diverging trends between 2021 and 2023 as those are seen within both rural and urban areas. The next two methodological differences also seem to have little role, especially for those in the lower income deciles. In urban areas, within the first decile of per capita household income, nominal per capita household income increased by 9 percent between 2021 and 2023 according to official figures and 6 percent according to the international ones. Within the second decile the income increased 7 percent and 6 percent respectively, and within the third decile both increased 6 percent and 5 percent. In rural areas both incomes increased by 13 percent and 11 percent respectively within the first decile and 12 percent and 11 percent within the second decile, and by 14 percent and 12 percent within the third decile respectively.

To analyze the fourth methodological difference, we resort to a decomposition exercise. We decompose changes in poverty into three parts: one due to overall income growth, one due to changes in the distribution of income, and one due to changes in nominal prices (and hence, the poverty line). Both, in rural and urban areas, the growth effect is similar in sign and magnitude, but the redistribution effect show different signs. As the international poverty line is fixed in real terms, the poverty line component in the poverty change decomposition is by construction equal to zero. Then the sign and magnitude of the poverty line effect (inflation) strongly influence the differences in sign of the changes in poverty between the official and the international measurements. The recent discrepancy in trends is mostly explained by price changes.

FIGURE A.2. COMPARATIVE DECOMPOSITION OF POVERTY CHANGES (GROWTH, REDISTRIBUTION, AND POVERTY LINE), 2021–2023



Source: EHPM (2021–2023).

Although for this report we will mainly use the official poverty statistics, the international poverty computed by the World Bank allows informative cross-country comparisons.

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Appendix 5

Comparing international and official poverty in El Salvador

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