

Quarterly Report

Mype Business Confidence Index

October - December 2020



FOURTH REPORT Mype Business Confidence Index DECEMBER 2020

SMEs RECOVER THEIR CONFIDENCE IN THE ECONOMY BY THE END OF 2020

After 2 Quarters of continuous improvement, the perception of business owners regarding the good functioning of their businesses and atmosphere of investment begins to be optimistic.

I. INTRODUCTION

COVID-19 put SMEs in a complicated situation during the first half of 2020, and it put their capacity to survive in doubt, due to the drastic reductions in their activity, the payment of salaries, rents, and other operating costs that had to be covered.

The economic and financial relief provided by financial institutions and the government acted as a palliative in this situation, but: will it guarantee the future survival of SMEs? Are they the required tools and do they provide what is sufficient for companies to resume their business dynamics? Are the measures that SMEs have taken on their own, in addition to the support they have received enough to allow them to reactivate their operations again? A quarter after the reopening of the economy, what is the current situation of entrepreneurs, and what expectations do they have?



These are some questions that will be covered in the latest study about the Business Dynamics of informal Microenterprises in El Salvador.



II. RESULTS OF THE MICROENTERPRISES DYNAMIC SURVEY

1. Elements of the Business Confidence Index

After the collapse of the economy in June 2020, business owner's confidence has gone through a consecutive recovery during the last 2 Quarters.

Business confidence responds to 2 elements:

The **Situation Indicator**, which measures the behavior of businesses during the last concluded Quarter (in this case from October to December 2020)

The **Expectations Indicator**, whose objective is to identify the perception that entrepreneurs have regarding their businesses for the starting Quarter (From January to March 2021)

The spike in business confidence registered during the fourth Quarter of 2020 came as a result of the improvement from both the situation indicator and the expectation indicator. This is due to the fact that the percentage of people that thought the performance of their businesses was favorable between October and December 2020 was established at 27.7%, a figure with higher numbers than the one from the last Quarter (21.0%).

At the same time, the percentage of entrepreneurs who believe that their business will perform favorably in the first quarter of 2021 remains above 60% for the second period in a row, while entrepreneurs who are pessimistic about the evolution of their business have dropped from 49.7% in the previous quarter to 30.5% (figure 1).

Figure 1.

Situation and Expectations of SMEs in 2020.

Figura 1

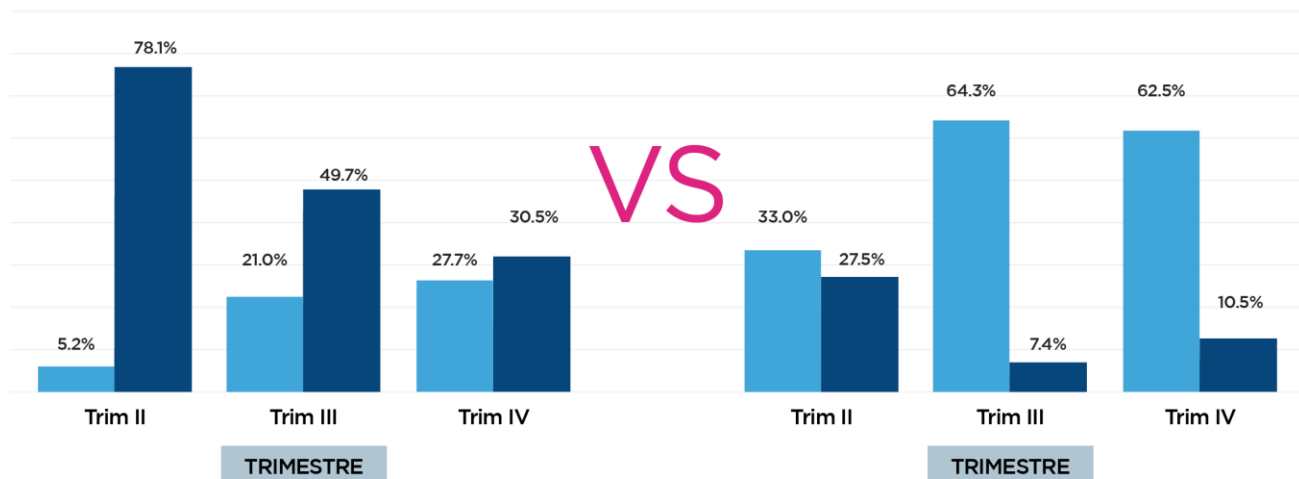
SITUACIÓN Y EXPECTATIVA DE LA MYPE EN EL AÑO 2020

SITUACIÓN ACTUAL

EXPECTATIVA

■ % Situación Favorable ■ % Situación Desfavorable

■ % Expectativa Favorable ■ % Expectativa Desfavorable



*Para efectos metodológicos no se incluye el porcentaje de empresarios cuya opinión fue neutral tanto en situación como expectativa, proporción con la cual se alcanza el 100% de respuestas en cada uno de los trimestres.

**Due to methodological reasons the % of entrepreneurs with a neutral opinion have been excluded, both in the situation index as well as in the expectation index. With that proportion, we would reach 100% of the total amount of answers in each one of the Quarters.*

The fourth Quarter of 2020, was characterized by a bigger involvement of the various business sectors in the reopening of the economy, and by the growing recovery of lost employment that will finalize at the end of the year with 97,000 jobs still waiting to be recovered.

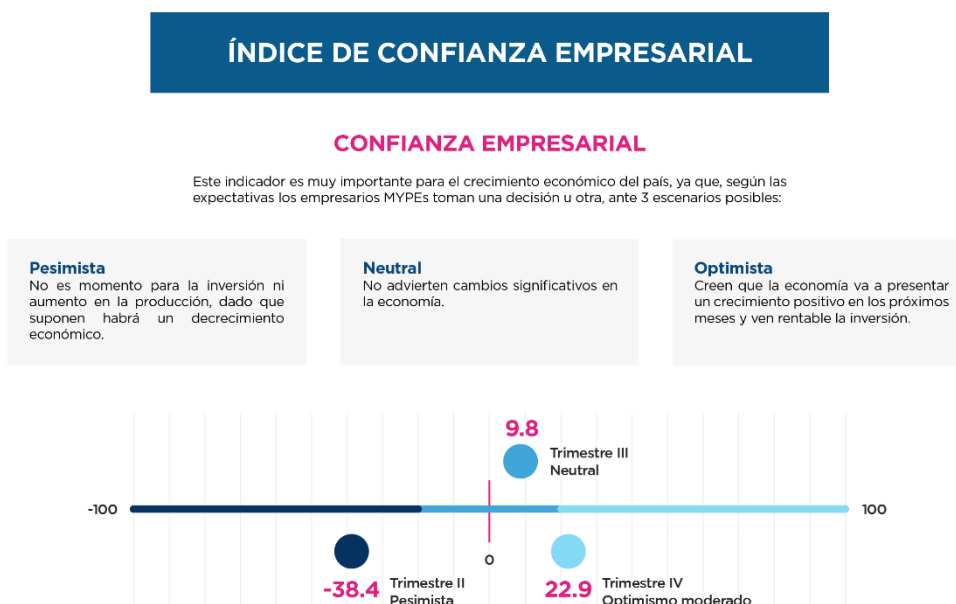
The previous results are reflected in the level of confidence that entrepreneurs have regarding the behavior of their businesses, going from a negative perception at the end of September 2020 where they didn't notice major changes in the economy, to a moderate level of optimism at the end of December when they already started noticing significant

changes. Also, a more optimal environment is being analyzed to stimulate investment and the good performance of their businesses.

Figure 2.

Business Confidence Index

Figura 2



2. Factors that inhibit SMEs development

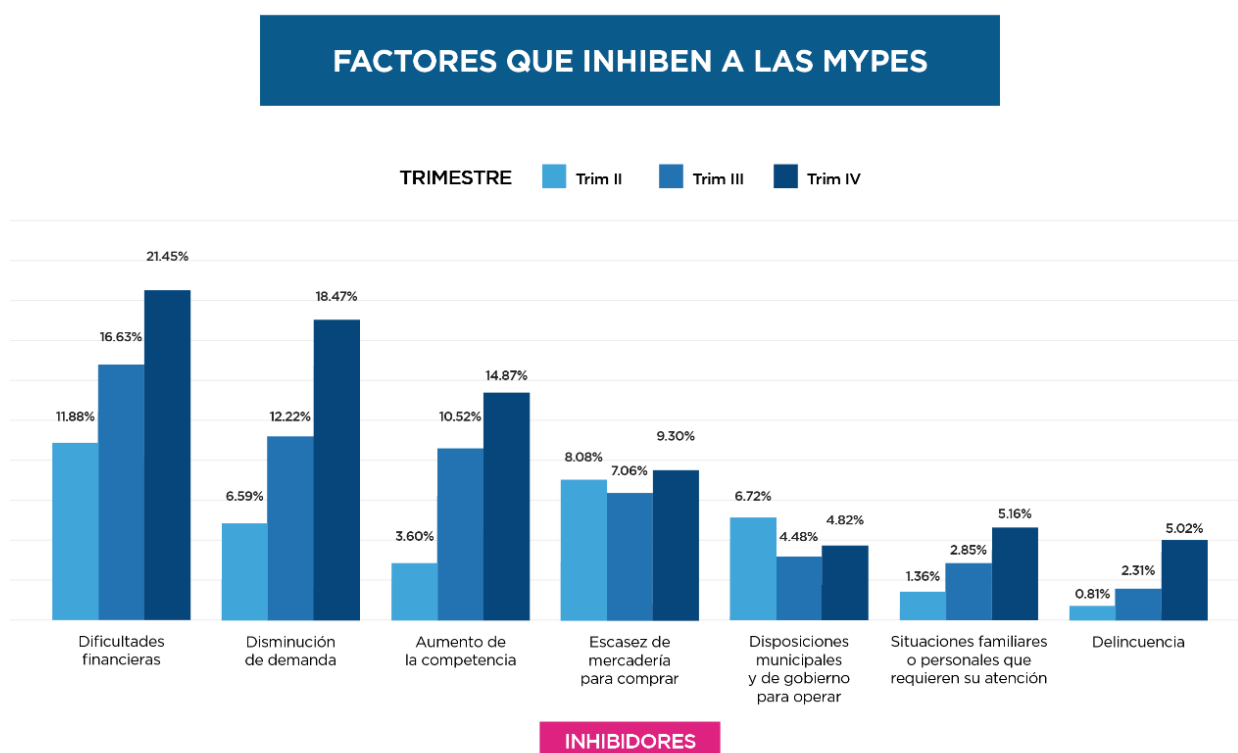
As opposed to the elements that have allowed for the accelerated improvement of microenterprises after the confinement, down below several factors will be mentioned, which act as a brake on their good performance and which require immediate attention in order to facilitate the rhythm of growth in the sector.

- 21.5% of those surveyed have difficulties in accessing financing or accessing a temporary or permanent relief measure for obligations that they had previously acquired. As a result, financial institutions will be required to redefine policies and procedures as soon as possible, taking into consideration that the effects caused by the pandemic will prolong over time. This is the main cause that is affecting business owners, and in the last quarter, this factor has grown by 29%, according to the respondents of the survey.

- 18.5% suffer a decrease in demand for their products
- 14.9% are affected by a higher level of competition
- 9.3% have difficulties in accessing merchandise to sell later
- Provisions of government and municipal bodies continue to impact SMEs business operations by 4.8%.
- With the reopening of the economy, the impact of crime is also returning to be a factor that damages businesses, approximately 5% of business owners are being affected.

Figure 3.
Factors that inhibit SMEs

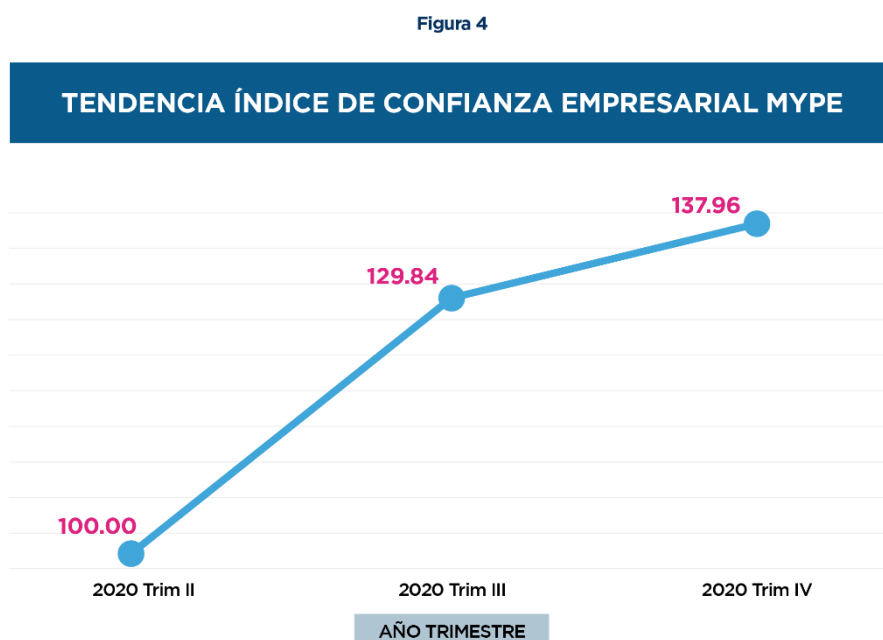
Figura 3



3. Business Confidence index

SMEs business owners from the informal sector are defined by their entrepreneurial spirit, their high capacity to adapt to adverse situations, and their optimistic traits when it comes to facing obstacles. Also, they are characterized by their ability to seize every opportunity. This can be seen in the Business Confidence Index (fig.4); a Quarter after the reopening of the economy the confidence index has grown by 38%.

Figura 4.
Trend business confidence index Mype



In the following graphs, you can see the capacity to react that the different economic sectors and market segments have had. A notable fact is the accelerated take-off shown by activities related to the production sector (made up of bakeries, carpentry, the textile industry, the metalworking industry, dairy processing, footwear manufacturing, food product manufacturing, etc.)

When it comes to market segments, Simple Accumulation Enterprises stand out with a 43.3% business confidence index recovery.

Of no less importance, is the recovery shown by the Business Confidence Index after the confinement in each segment of the market. Not a single one reflects a downgrade in the Quarters that follow.

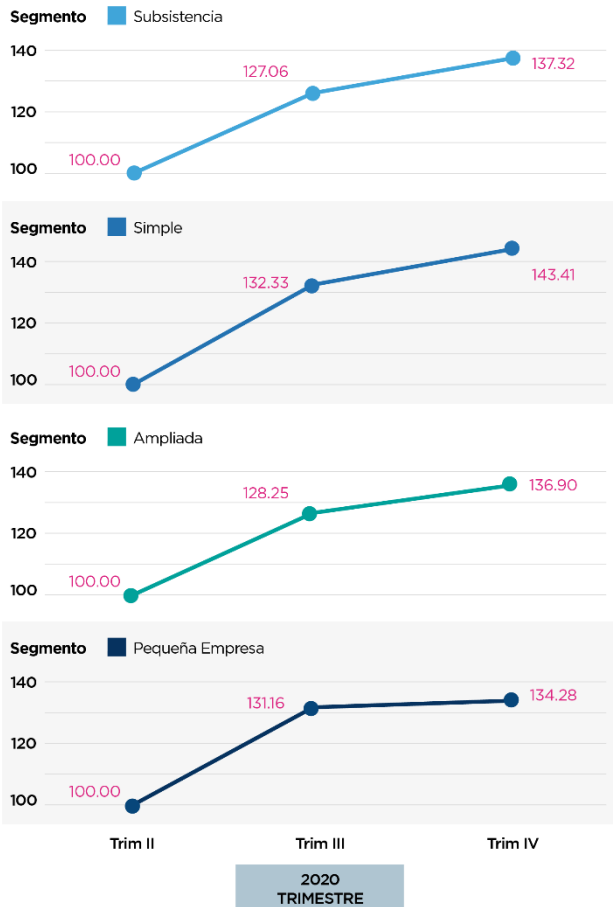
Figure 5.

Business Confidence Index per Market Segment and Economic Sector (SMEs)

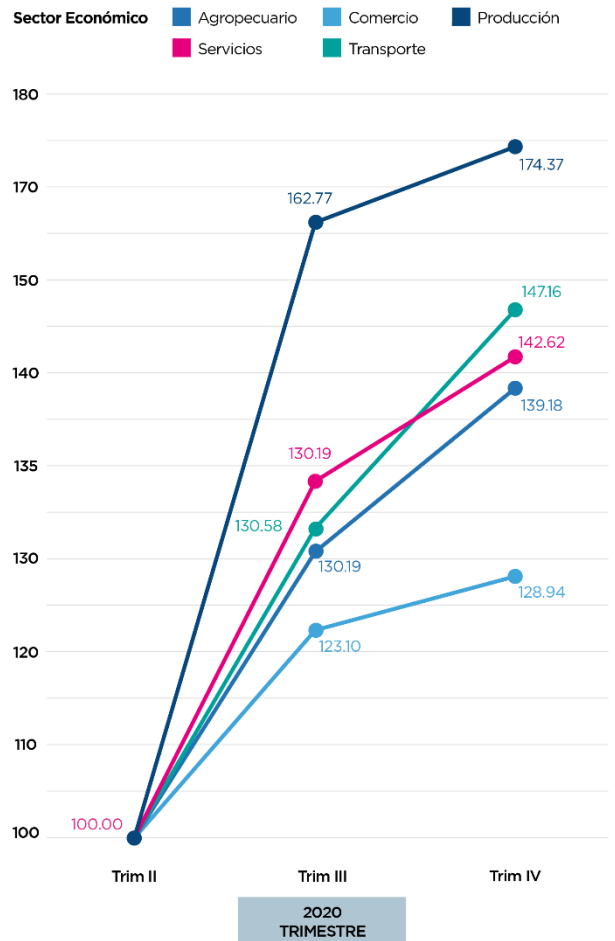
Figura 5

ÍNDICE DE CONFIANZA EMPRESARIAL POR SEGMENTO DE MERCADO Y SECTOR ECONÓMICO MYPE

TENDENCIA ÍNDICE DE CONFIANZA MYPE POR SEGMENTO



TENDENCIA ÍNDICE DE CONFIANZA MYPE POR SECTOR



Below, we present a table that summarizes the Business Confidence Index with the different elements that conform to it.

INDICADOR	AÑO 2020		
	TRIM II	TRIM III	TRIM IV
ÍNDICE DE CONFIANZA EMPRESARIAL MYPE	100.0	129.8	138.0
1. INDICADOR DE SITUACIÓN	-72.9	-28.7	-2.8
2. INDICADOR DE EXPECTATIVA	5.4	56.9	52.0
3. CONFIANZA EMPRESARIAL	-38.4	9.8	22.9
4. INDICADOR DE VENTAS	100.0	134.5	133.4
5. INDICADOR DE INVERSIÓN	100.0	125.3	126.7
6. INDICADOR DE EMPLEO	100.0	125.3	126.4
7. INDICADOR DE PRECIOS	100.0	95.3	94.9

Business owners have gained confidence concerning the good performance of sales, the opportunities to invest in their businesses, and the acquisition of workforce. Nonetheless, when it comes to prices, till the fourth Quarter of 2020, they still perceive a growth in the cost of their products, which limits their capacity to buy and acquire merchandise.



APPENDIX 1.

METHODOLOGY USED TO CALCULATE BUSINESS CONFIDENCE INDEXES IN MICRO AND SMALL ENTERPRISES IN EL SALVADOR

Areas of the survey

i. Population

The targeted population of the study is composed of micro and small business owners that belong to the informal sector from all the different economic activities. Due to the characteristics of the gathered variables, the respondents must be the owners or managers of the businesses, because they are the only ones who have a global perception about the performance of the business and about the evolution of the different variables from which we are gathering information.

ii. Territorial

The units of analysis are located all over the country

iii. Time parameters

These statistical indicators are established on a quarterly basis. The phase of information gathering lasts a week and it includes the end of a trimester and the beginning of the upcoming one. As a result, for each period the gathered information comes from two different Quarters: the one that is coming to an end and the upcoming one. To illustrate, in the first survey that was made during the first two weeks of January 2021, the questions asked will be about the perception of the evolution of the businesses' activity in the Second Quarter of the year (Quarter that is ending), and about their expectations for the Third Quarter. When it comes to publishing the Results of that information, it will be located in the third quarter.

iv. Definitions

The Questionary refers to:

- Expectations
Respondents are asked about the trends they expect regarding the evolution of their businesses for the upcoming quarter. The variables that are asked for are:
- The performance of their business as a whole

- Personnel employed in the company
- Investment awaiting to be done
- The pricing levels

v. Situation

Information is asked about the trends that are being followed by the business during the quarter that is coming to an end. The question variables are the same as the ones that are employed to measure expectations.

vi. Business Activity Inhibitors

SMEs are asked about the factors that they consider to be limiting for their businesses. The options vary between:

- Low demand
- Lack of merchandise
- Financial difficulties
- Increase of competition
- Municipal and governmental restrictions
- Family or personal situations that require attention
- Others.

- Sample Design

CONSIDERANDO EL UNIVERSO FINITO

FORMULA DE CALCULO

$$n = \frac{Z^2 * N * p * q}{e^2 * (N-1) + (Z^2 * p * q)}$$

Donde:

Z = nivel de confianza (correspondiente con tabla de valores de Z)
 p = Porcentaje de la población que tiene el atributo deseado
 q = Porcentaje de la población que no tiene el atributo deseado = 1-p
 Nota: cuando no hay indicación de la población que posee o nó el atributo, se asume 50% para p y 50% para q


N = Tamaño del universo (Se conoce puesto que es finito)
 e = Error de estimación máximo aceptado
 n = Tamaño de la muestra

INGRESO DE DATOS

Z =	1.96
p =	50%
q =	50%
N =	845,347
e =	4%

TAMAÑO DE MUESTRA

n =	600
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The sample is composed of 600 micro and small business owners that were surveyed. The illustrative data has been divided through stratified sampling based on estimations about the participation of each segment in the universe of informal SMEs in El Salvador.

vii. Questionnaire

Taking into account that the targeted population is less prone to keep written registries, and considering the fact that the ones who do, write them with very little detail, which hinders the extraction of precise and unbiased quantitative information, it is highly recommended to rely on the mental knowledge that they have about the performance of their businesses over time. Also, it is important to ask quantitative questions that aren't too complicated and easy to understand for the different segments that are being studied. The proposed survey is:

1. ¿How do you rate your businesses' performance?
 - a) For the Quarter that is coming to an end
 - b) For the upcoming Quarter

Answer choices: Favorable, Normal, Unfavorable. You can only choose one answer.

2. When comparing the end of this Quarter to the former one, ¿How do you value the following trends of your business?
 - a) Sales that have been made
 - b) Number of people employed in your business (you included)
 - c) Acquisition of merchandise and fixed assets
 - d) Merchandise prices

Answer choices: It augmented, it remained the same, it descended. You can only choose one answer.


3. For the following variables ¿How do you expect the upcoming Quarter to be in comparison to the one that is coming to an end?
 - a) Amount of sales that you expect
 - b) Number of people that will be employed in your business (you included)
 - c) Merchandise and fixed assets that you expect to buy
 - d) Merchandise Prices

Answer choices: It will augment, it will remain the same, it will diminish. You can only choose one answer.

¿What factor do you think will limit the activity or good performance of your business?

Select the ones you consider relevant:

- a) Decrease of the demand

- 
- b) Scarcity of merchandise to be acquired
 - c) Financial difficulties
 - d) Increase of competition
 - e) Municipal and governmental dispositions on operations
 - f) Family or personal matters that will require your attention
 - g) Others.

Answer choices have to be for the ending Quarter and the upcoming one.

4. Also, questions are included that can be related to: Performed economic activity, department and municipality where the activity is performed, age range, monthly sales range, range of number of people that depend on them economically, etc.

viii. Definition and Indicator Calculations

- Perception on the Current Economic Situation Index. It reflects the difference between favorable and unfavorable answers concerning the ending quarter. It can oscillate between -100 (everyone has a negative perception) and +100 (everyone has a positive perception). If the result is positive, the valuation of the ending Quarter contains more favorable opinions.
- Expectations Index: It is measured in the same way as the Current Situation Perception Index. If the result is positive, it means that optimists outnumber pessimists in regard to how their businesses will perform during the following quarter.
- Business Confidence Index

It is built upon a geometrical measure normalized between the Situation Index and the Expectation Index.

$$\text{Business Confidence} = \sqrt{(\text{Situation} + 200) * (\text{Expectation} + 200)} - 200$$

Business confidence can fluctuate between -100 and +100.

From this point forward we calculate the index that will have the first upcoming Quarter as a base, so in this first calculation, the index will be +100. For the second calculation we perform, the Business Confidence Index will go as follows:

$$= \frac{\text{Business Confidence} + 200}{\text{Business Confidence till Jun20} + 200} * 100$$