

Strategic Model for a New Economy

Empowering an Entrepreneurship Economy

Hon. José R. Pérez-Riera
Secretary

April 7th, 2011

Agenda

- 1 **Implementation of the Strategic Model for a New Economy**
- 2 **Reforms from an entrepreneurial perspective**
- 3 **Government programs for entrepreneurs and exports**
- 4 **Recent economic highlights**

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Conceptual Framework of the Strategic Model for a New Economy

OBJECTIVE:
Growth, Competitiveness and Jobs

RESTORE GROWTH

Short and
Medium-Term
Stimuli

Long-Term
Growth
Measures

METRICS
Dashboard

INFRASTRUCTURE

Physical
Infrastructure

Strategic /
Regional Projects

METRICS
Dashboard

COMPETITIVENESS

Functional
Infrastructure

Key Reforms /
Cost Reduction

FISCAL AND CREDIT STABILIZATION

TRANSPARENCY AND COMMUNICATION

We have approved incentives to stimulate economic activity in strategic sectors

Promoting Puerto Rico's incentives to attract investment to the Island

Housing Incentives	<p>• Objective: Act No. 132 of 2010: Create an incentives program for purchasing residential and commercial properties</p>
Tourism Development	<p>• Objective: Act No. 74 of 2010: Viability for the development of world-class tourism projects through an aggressive incentives program</p>
Tourism Incentives for the Economic Development of Municipalities	<p>• Objective: Act No. 118 of 2010: Lay the groundwork to expand our tourism development in strategic locations to improve our position as a premier tourist destination</p>
Development of the Film Industry	<p>• Objective: Act No. 27 of 2011: Provide a framework for continued development of film industry infrastructure and tax incentives to attract foreign capital</p>
Renewable Energy	<p>• Objective: Act No. 83 of 2010: Create measures to stimulate the development of sustainable energy systems by establishing the Green Energy Fund</p>
International Insurance	<p>• Objective: H.B. 3034: Amend the Insurance Code of Puerto Rico to secure a tax regime that will apply to international insurers</p>

We have approved and implemented reforms to reduce the costs of doing business and improve the competitiveness of our economy

Reducing the costs of doing business and facilitating private sector growth

PPPs Reform	<p>• Objective: Act No. 29 of 2009: Creates new public policy related to infrastructure investment and public services</p>
Permits Reform	<p>• Objective: Act No. 161 of 2009: Creates a new permits system that is <i>transparent, agile, efficient and accurate</i></p>
Executive Branch Re-organization and Modernization	<p>• Objective: Act No. 182 of 2009: Promotes a government structure that responds to current needs and fosters a better quality of life</p>
Energy Reform	<p>• Objective: Act No. 82 and Act No. 83 of 2010: Establishes a new energy policy and programs to diversify the sources of energy through RPS* and the GEF**</p>
Tax Reform	<p>• Objective: Act No. 154 of 2010 and Act No. 1 of 2011: To reform the tax system and bring relief to the Puerto Rican taxpayer through reduced and fair tax rates</p>
Labor Reform	<p>• Objective: Incentivizes work by increasing the participation rate and demand for labor in the private sector</p>

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Reforms from an entrepreneurial perspective

Starting a Business

- ✓ The new General Corporations Act (**Act No. 164 of 2009**) provides for online corporate registration and the filing of annual reports
- ✓ The new Trademarks Act (**Act No. 169 of 2009**) regulates and modernizes trademark registration procedures in Puerto Rico
- ✓ **PR.GOV** provides online access to key government services including tax return filing, extensions of annual report, utilities payments, among others (**2.7 MM transactions**)
- ✓ “**A Guide to Doing Business in Puerto Rico**” is a comprehensive guide of the steps, requirements and information needed in order to establish a business in Puerto Rico



Streamlining the path from business plan to profits

Reforms from an entrepreneurial perspective

Dealing with Construction Permits

- ✓ The Permits Reform Act (**Act No. 161 of 2009**) creates a new permits system that is transparent, agile, efficient and accurate
 - Consolidates and simplifies the evaluation and granting or denying of permits under a single agency
 - Provides online access (www.sip.pr.gov) to every step in the process
 - Establishes a **maximum of 90 days** for granting or denying most permits and reduces the time required for an occupancy permit from **5-days** to **1-day**
 - Establishes a uniform system for the revocation of permits and for enjoining projects in violation of permits through the court system
 - Establishes a special process for environmentally sustainable structures



Streamlining the path from business plan to profits

Reforms from an entrepreneurial perspective

Operating the Business

- ✓ Via Verde will reduce costs by **over \$1.0 billion** per year and **cut pollution by 64%**
- ✓ The Energy Reform (**Act No. 82 and Act No. 83 of 2010**) require a minimum of renewable energy production of **12% by 2015** and **15% by 2020**, and creates a **\$290 MM Green Energy Fund** to provide incentives for green energy investments
- ✓ Attractive incentives that promote job creation and competitiveness
 - **Job Creation Incentives** – PRIDCO offers cash grants based on the quantity of persons employed and the geographic location of the company
 - **Training Incentives** – The Department of Labor (WIA program) provides incentives for training and re-training of employees
 - **Marketing Incentives** – PRIDCO offers companies up to \$50,000 in grants for marketing their products and services



Reducing operating costs to boost profits

Reforms from an entrepreneurial perspective

Paying Taxes

- ✓ The comprehensive Tax Reform (**Act No. 1 of 2011**) simplifies the tax system, reduces the tax burden for individuals and corporations, rewards work, and fosters economic development
- ✓ The Tax Reform will provide **\$1.2 billion** in annual tax relief to individuals and corporations over the next 6 years
- ✓ Tax relief will average a **25% cut** for individuals and **30% cut** for businesses in Puerto Rico in 2011, and up to a **50% cut** by 2016
- ✓ Special incentives laws provide even lower tax rates for companies in strategic sectors, such as **0-4%** for manufacturing and export services, **3%** for tourism and hospitality, **4-10%** for film studios and **5%** for international insurance



Reducing taxes to improve return on investment

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An innovative program that provides the necessary tools for citizens to establish their own businesses

Desarrollo para el Pueblo

Description



- Empowers new entrepreneurs to promote employment and economic development in those regions or municipalities which are economically depressed and have high unemployment
- **\$7.0 MM** have been allocated through the Local Stimulus Plan
- The Programs objective includes:
 - Promote the development of Small and Medium Sized Businesses
 - Contribute to business development in urban areas of municipalities
 - Promote economic activity in depressed regions
 - Promote Puerto Rican products

Results:

- Disbursement of **\$394,430 in loans** to **21 new businesses** and the creation of **87 direct jobs, 18 indirect jobs** and **54 retained jobs**
- Since the creation of the Program, in September 2010, **9 municipalities have been visited**, with **50 cases presented**, of which **21 have been approved** and **13 are still under evaluation**
- Currently, **over 700 citizens** have received information and training

An entrepreneurial pilot project aimed at the creation of micro businesses

Pa' Mi Gente

Description



- New entrepreneurial pilot project that will foster economic development by creating micro businesses
- In order to qualify, the person must be unemployed and registered with the Employment Service of the Department of Labor
- **\$5.0 MM** have been allocated through the Local Stimulus Plan
- **\$947,000 in additional** allocation from the Department of Labor
- The Department of Labor provides a **50% salary subsidy** for qualified micro businesses that employ new workers
- The qualified businesses are operated as cooperatives, where they can get health care insurance, line of credits, as well as other aggregated benefits

Results:

- Initiated the Program on April 2011
- **30 participants** have already been certified from the Program
- The expectation is that in the next 18 months **over 430 micro businesses** get established, with a commitment of creating **more than 800 jobs**

Developing a mechanism to stimulate entrepreneurship and creation of small businesses in Vieques and Culebra

Vieques and Culebra Microloans Program

Description



- Develops a public/private structure to provide the community with access to capital for sustainable businesses
 - **\$2.0 MM** have been allocated through the EDB to provide guarantees to loans to be issued by Banco Popular
 - **Loans are up to \$25,000**
 - Banco Popular acts as the lender with a 100% guarantee from the Economic Development Bank (EDB)
 - Structured training sessions are a prerequisite for Popular to process the loan application

Results:

- **\$100,000 have been approved** for training sessions on how to create a business plan and how to build your own business, as well as how to manage it when it is operational
- **Over 100 Viequesenses and Culebrenses** have passed through the training session and have created their business plans during our first two training sessions.
 - Participants left the session with printed business plans and loan applications filed with Banco Popular

Promotes the establishment of woman-owned new and growing businesses

Mujer Empresaria Loan Program / Jefa de Familia

Description

- **Mujer Empresaria Loan Program**
 - EDB loan program targeted to women-owned businesses
 - **Loans up to \$500,000**
 - **Up to 90%** of the project can be financed
- **Jefa de Familia**
 - Collaboration between the House of Representatives and the PR Trade Company to provide incentives to women micro-businesses
 - **\$2.0 MM** have been allocated through special assignments from the Legislature
 - **Up to \$5,000** in cash grants



Results:

- **Mujer Empresaria Loan Program** – **\$12.7 MM** in loans have been granted to **254 women-owned businesses**
- **Jefa de Familia** – **\$855,000** have been disbursed to **171 proponents**, of which **46** are already in business

Promotes entrepreneurship and exports through direct and hands-on services and support

Puerto Rico Exporta

Description



- The PR Trade Company provides services to SMBs, including:
 - Training and counselling programs, development of export business plans, market research, matchmaking, advise on how to finance exports, etc.
 - Planning, coordination, execution and follow--up of:
 - Trade Missions
 - International Fairs
 - Individual Missions
 - Regular business matchmaking using our Commercial offices abroad in Panama, Dominican Republic and Spain

Results:

- Since 2009, the government has supported **16 Trade Missions** with total sales reported exceeding **\$118 MM**
- **256 new members** have been added to the Puerto Rico World Trade Center
- Upcoming events include: Reverted Mission from El Salvador and Guatemala and the Summer Fancy Food Festival 2011 in Washington DC

Positioning local businesses to compete effectively in the very large federal government market

Puerto Rico Federal Contracting Center

Description



- Currently, the federal government spends a total of **\$500 billion** in purchases of goods and services, of which Puerto Rico only capture **0.17%**
- The FeCC's goal is to assist Puerto Rican business in every aspect of the process of obtaining and performing service and supply contracts with the federal government
- The FeCC is funded in part through a cooperative agreement between PRIDCO and the US Department of Defence through the Procurement Technical Assistance Center (PTAC)

Results:

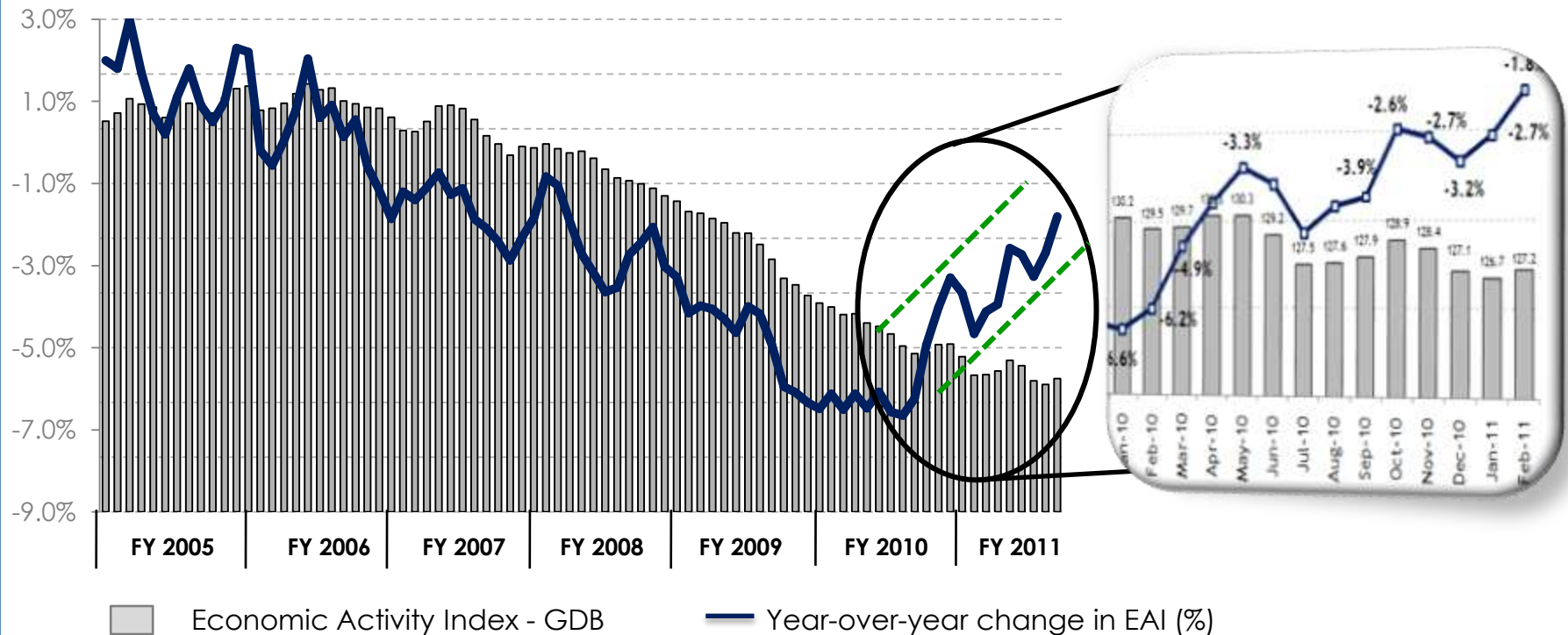
- The FeCC officially opened in February of 2011
- In FY 2011 the FeCC has coordinated **2 trade missions** to Washington DC with the participation of **8 local businesses**
- **3 industry clusters** have been formed and meet regularly to address federal procurement issues, including: information technology, textiles, metals and electronic components
- Federal contracts in Puerto Rico currently generate **18,500 direct jobs**, a figure that **could exceed 20,000** if it meets the goal of raising the participation of Puerto Rican companies to **\$1.0 billion**

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We are monitoring the state of the economy on a monthly basis through the GDB's Economic Activity Index

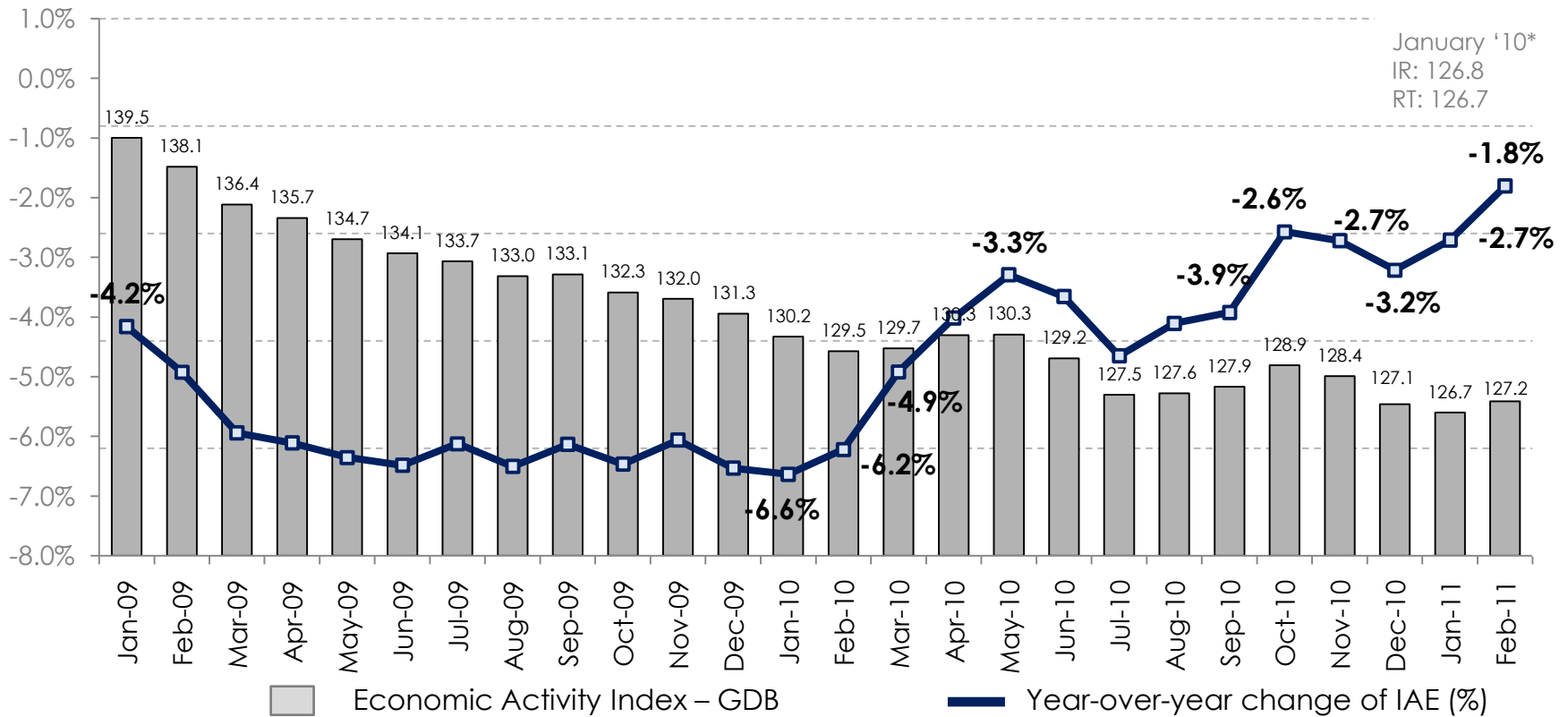
GDB Economic Activity Index



The GDB-EAI has a 98% correlation (R2) with Puerto Rico Real GNP

We are monitoring the state of the economy on a monthly basis through the GDB's Economic Activity Index

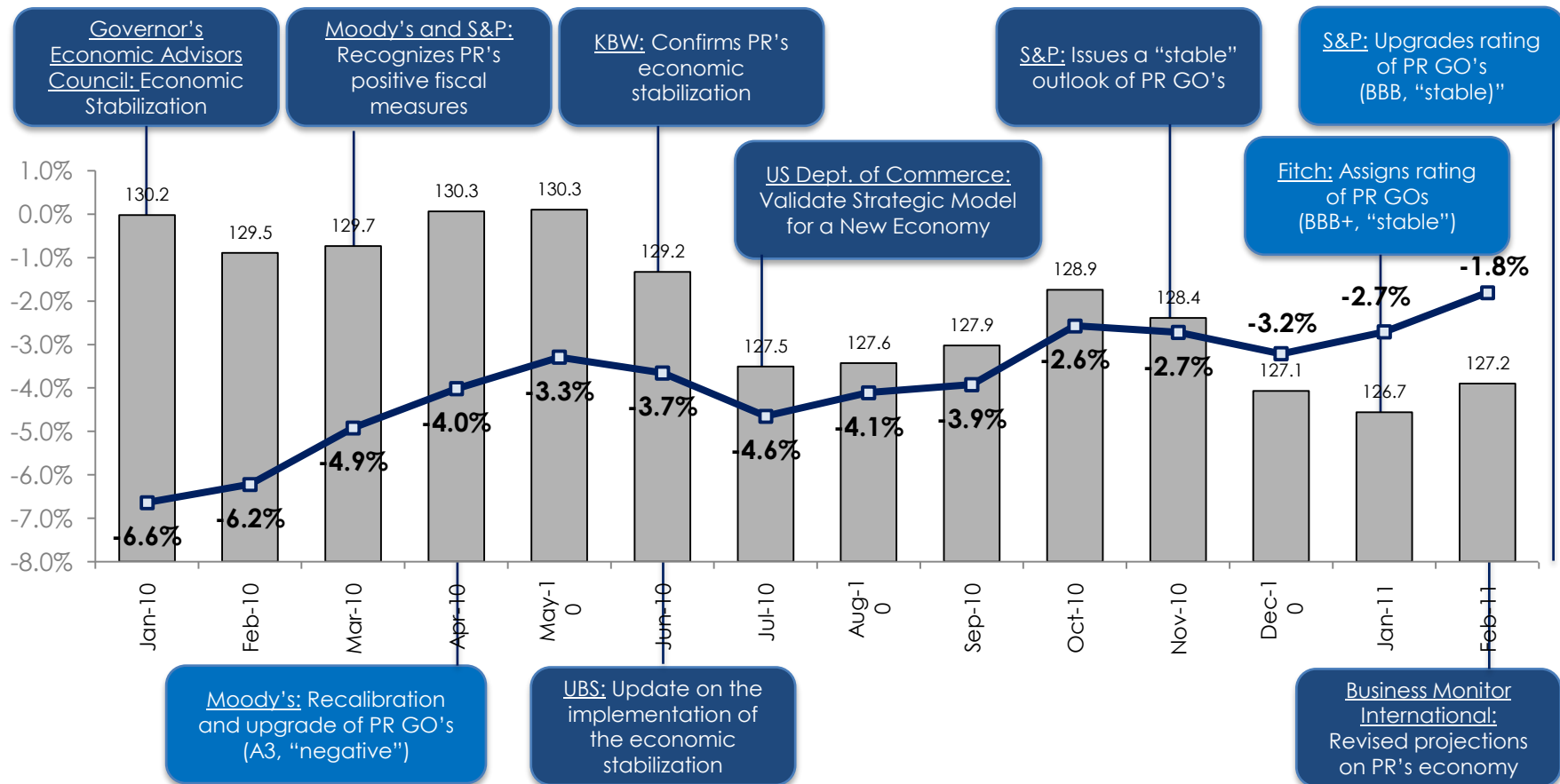
GDB Economic Activity Index



February registered the first month-over-month increase since October 2010

Consistent improvements in confidence and support for the plan from economists, analysts and business leaders

Results and Recognition Timeline



Increase in confidence with respect to the economy and support for the plan from economists, analysts and business leaders

April
2011

"... since mid-2010 there have been promising signs: Recently released revisions suggest that job growth on the island, while still very weak, improved modestly since last summer. And most of the weakness since then has not been broad-based, but instead concentrated in construction and manufacturing. The unemployment rate has come down by a full percentage point since its peak."

[PR-PMI] "The survey shows that business conditions on the island were steady in January, following improvement at the end of 2010. The PR-PMI has signalled growth for seven of the past nine months."

"Looking ahead to the rest of 2011, I see grounds for cautious optimism. In particular, exports, which have been so important to the economic recovery on the mainland, have the potential to contribute to growth here in Puerto Rico as well."

"I am hopeful that we will soon be able to look back at 2010 and see not only the end of the island's long recession but also the beginning of an era of growth and prosperity for Puerto Rico."



William C. Dudley
President and Principal Executive Official
Federal Reserve Bank of New York
April 1st, 2011





Puerto Rico

Chamber of Commerce

First E³ Summit of the Americas 2011

Education + Entrepreneurship + Exports =
COMPETITIVENESS



April 6 & 7, 2011 | Conrad San Juan Condado Plaza