

*Small Business and COVID-19
Outlook and Policy Recommendations*

*Puerto Rico Chamber of Commerce
July 29th ,2020*



COVID 19 and SME's

Agenda

- Small & Medium Size Business (SME) sector in Puerto Rico
- Impact of COVID SME's
- Impact of COVID Economy
- Outlook for SME's
- Policy Recommendations

SME Sector in Puerto Rico

Number of Establishments by Employment-Size Class



Employment-Size Class, Number of Employees

Source: 2017 County Business Patterns, U.S. Census Bureau

This is the same breakdown as in the US

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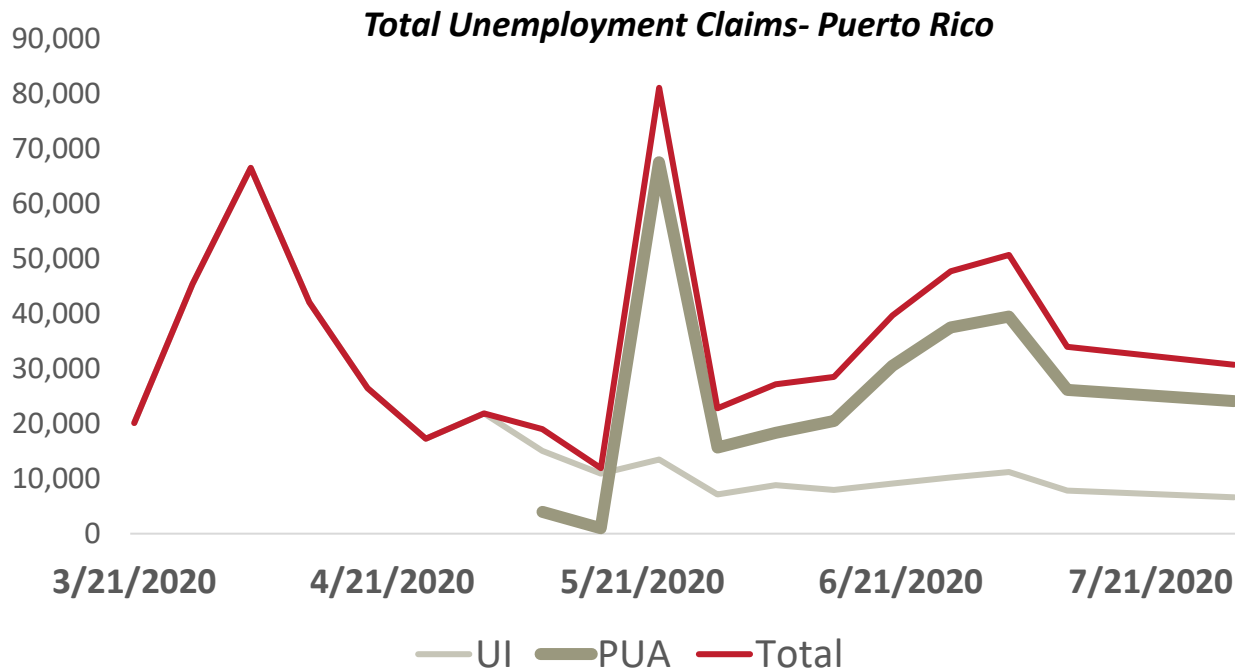
Private-Sector Employment by Employment-Size Class



Employment-Size Class, Number of Employees

Source: 2017 County Business Patterns, U.S. Census Bureau

COVID and the Economy



There are 220,000 persons receiving traditional unemployment benefits.

There are 221,000 persons receiving PUA benefits.

Puerto Rico has not reported official estimate of the unemployment rate since February, because of COVID-19. According to the Bureau of Labor Statistics' most recent household survey, Puerto Rico's unemployment rate is **26.8%**, the highest in the US (based on June 26, 2020)

The second highest is Nevada with 20.9%.

COVID and SME's

Cash-strapped small businesses struggle to stay solvent amid the COVID-19 crisis and have an uncertain outlook.

- According to a 2019 study by JP Morgan using data from 2013 to 2017, 47% of small businesses in the U.S had two weeks or less of cash/liquidity.
- A U.S. Chamber of Commerce/MetLife report, using data from a poll conducted between March 25-28, 2020, found that 43% did not think they can last six more months until they have no other choice but to shutdown permanently.
- According to ASORE, 47% of restaurants closed during the pandemic, the remaining ones were operating with reduced staff (75% reduction in sales)
 - According to ASORE, 50% don't expect to survive the pandemic.
- In a survey of 719 small businesses in Puerto Rico published by Colmena66, 59% reported that they could remain open for less than a month with their available capital, while 31% could survive between one and three months.

SME's and Economy

Micro and small firms are likelier to close business operations, compared with larger companies/multinationals.

Small businesses play a critical role in innovation, economic activity and growth, and job creation.

They also increase the competitive structure of the economy's different industries, creating a more dynamic business landscape and providing consumers with a wider array of goods and services.

The loss of SME's can have negative effects in the economy, affecting consumers

Market concentration

- Higher concentration, means higher prices, less competition.
- Market power weakens incentives to invest and innovate.

Less local sourcing from big manufacturers and bigger companies

- Sourcing locally can be a big boom to our local economy and the people who live here.

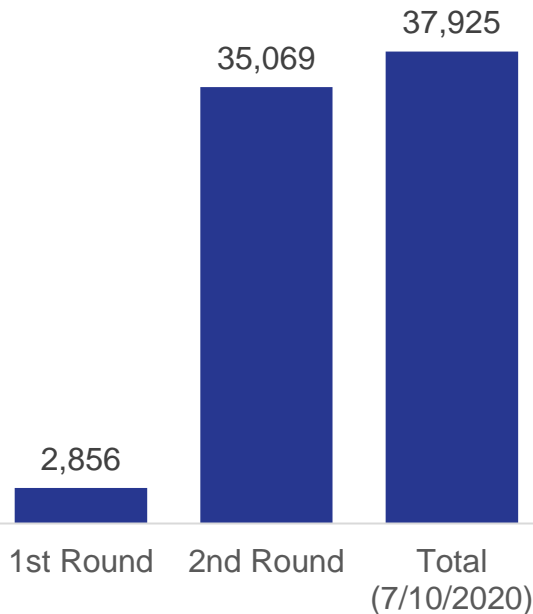
PPP and Puerto Rico

ECONOMÍA

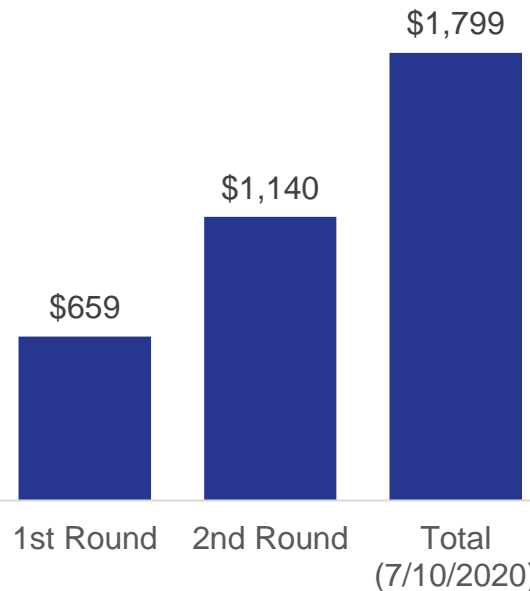
SBA logra récord histórico en la aprobación de los préstamos de ayudas para pymes

Desembolsaron sobre \$1,800 millones entre Puerto Rico e Islas Vírgenes como parte de los dineros disponibles bajo el programa de protección de nómina

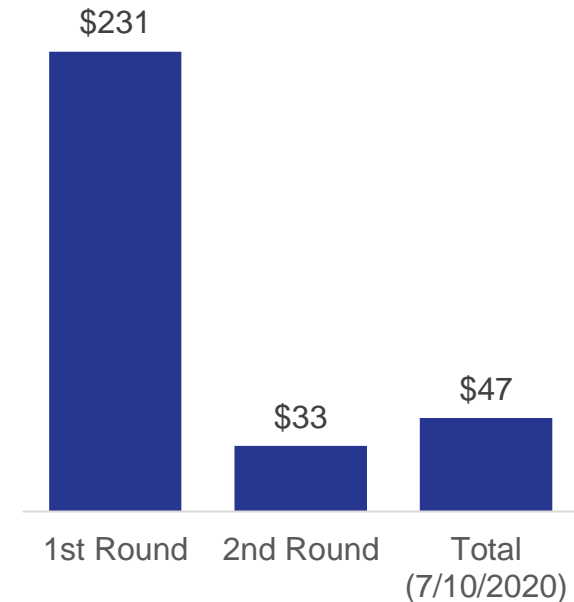
Number of PPP loans approved in Puerto Rico



Approved PPP dollar for Puerto Rico (in millions)



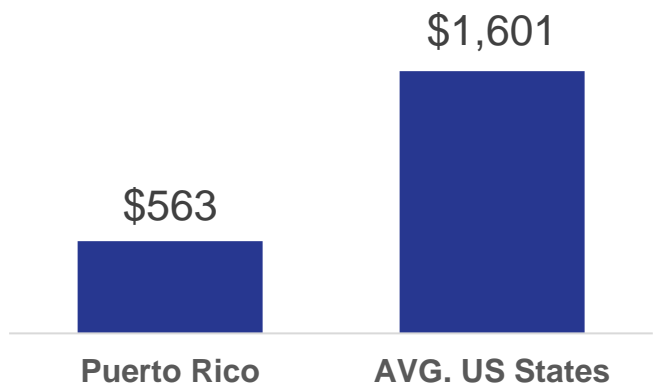
Average loan size in Puerto Rico (in thousands)



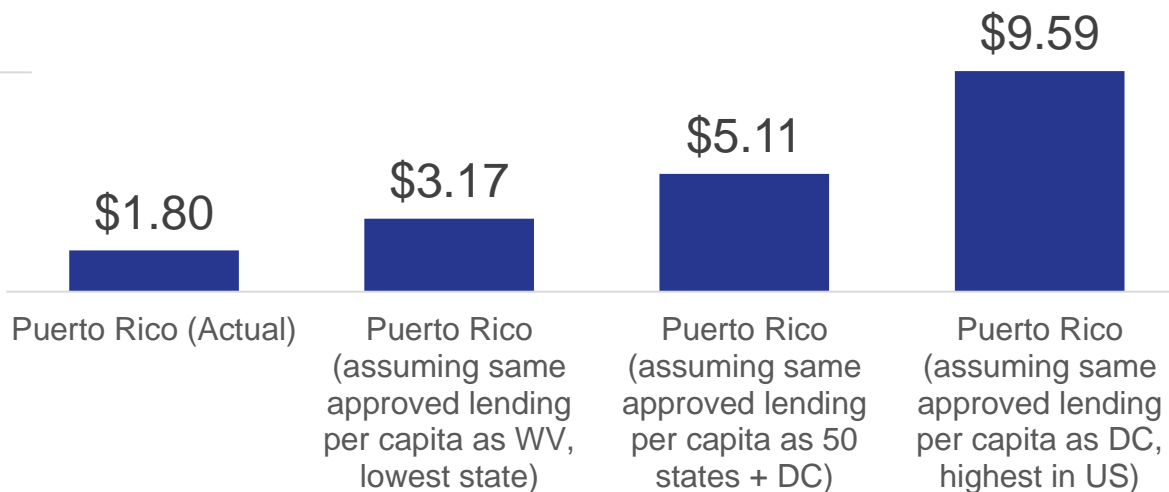
Puerto Rico and PPP

Puerto Rico has received, through July 10, 2020, \$1.8 billion through the Paycheck Protection Program. This represents \$563 dollars on a per capita basis, compared to an average of \$1,601 in the 50 states and D.C.

PPP Approved Per Capita: Puerto Rico vs. U.S. Average

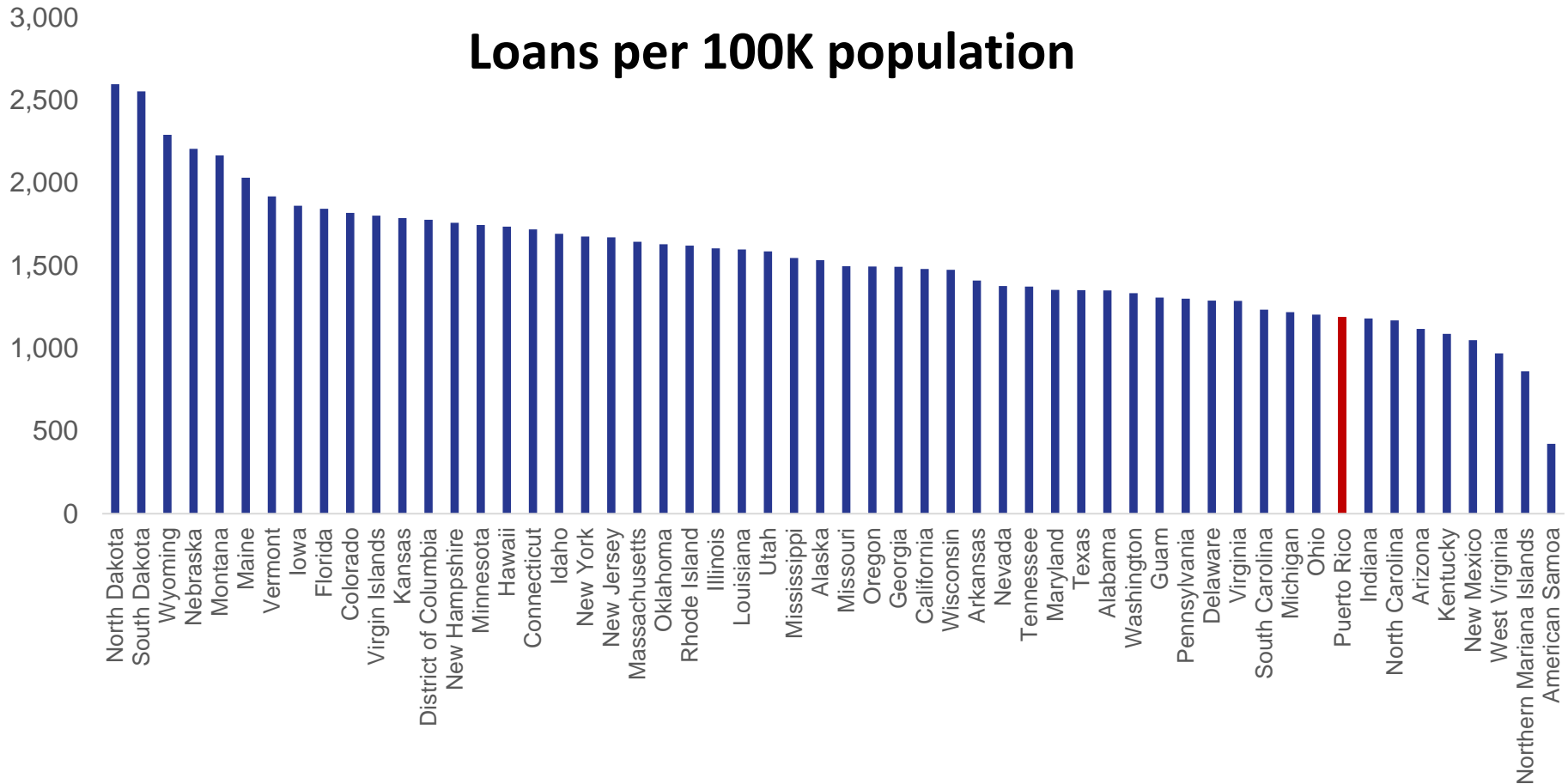


Puerto Rico Actual PPP Approved Lending (through July 10, 2020) and hypothetical scenarios In millions



Puerto Rico and PPP

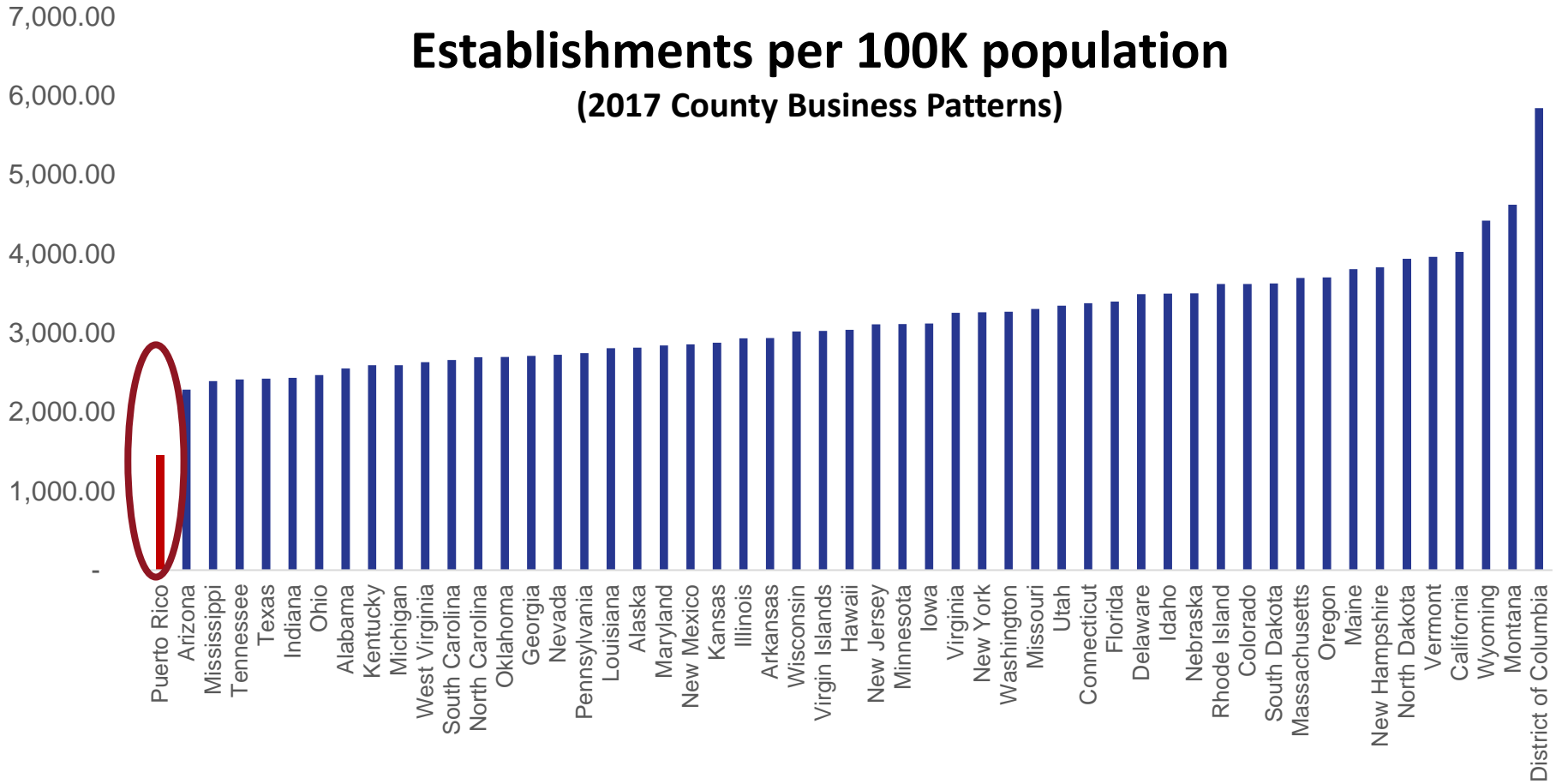
Puerto Rico was in the bottom 10 of states and territories in loans approved (per capita)



Puerto Rico and PPP

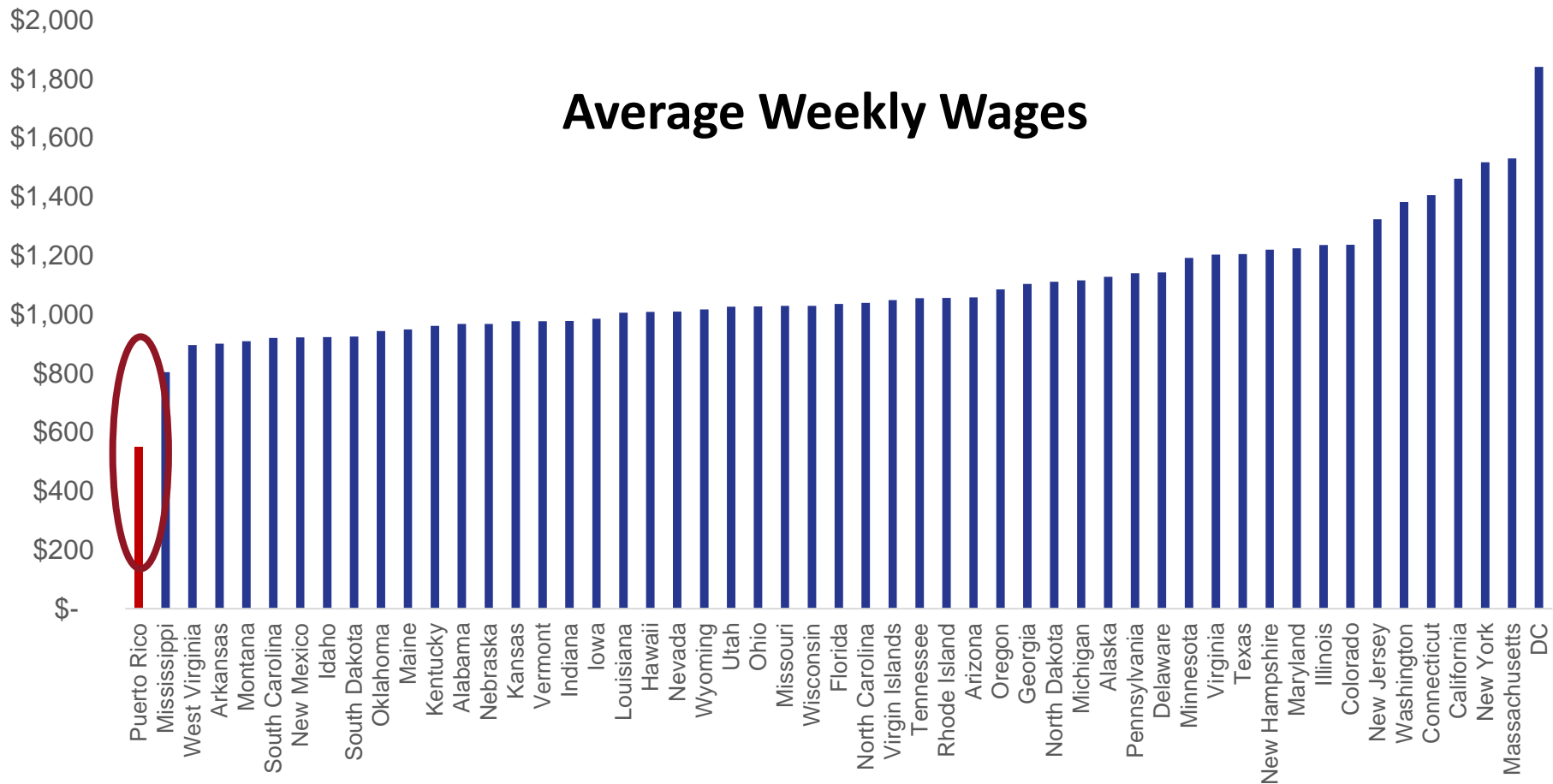
Puerto Rico has the fewest number of establishments per capita in the US

Establishments per 100K population (2017 County Business Patterns)



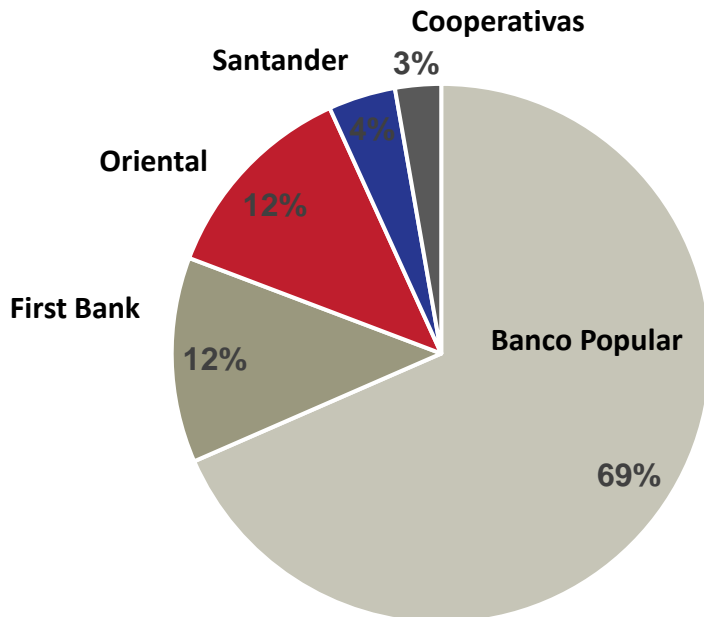
Puerto Rico and PPP

Puerto Rico has the lowest weekly wage
PR Avg. weekly wage was \$550 (QCEW Q4 2019) vs US average \$1,091



Puerto Rico and PPP

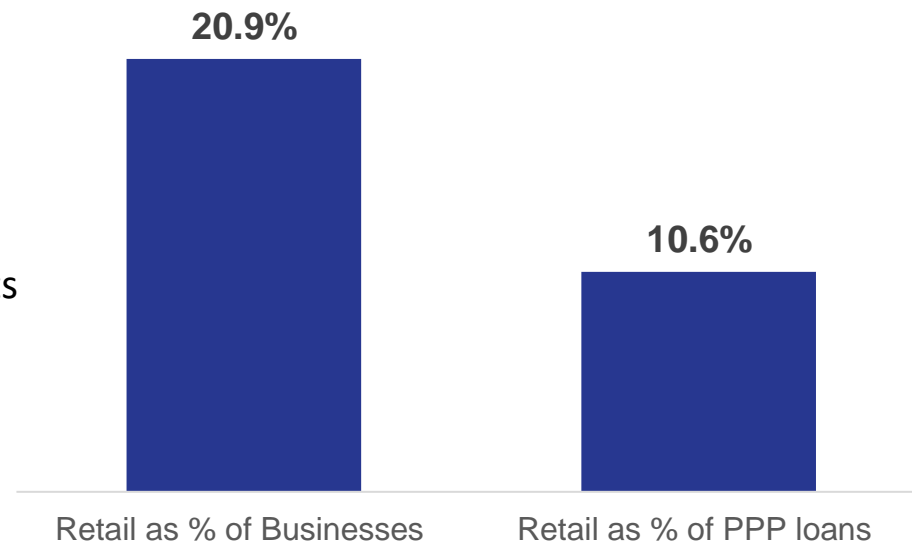
PPP Loans by Financial Institution



Cooperativas have 9% of deposits in Puerto Rico, but only 3% of the PP loans.

Retail, while 20% of business establishments in Puerto Rico, obtained only 10.6% of PPP loans.

Retail in Puerto Rico



Commonwealth Response: CARES Funds \$2.2 Billion

The CW announced it will direct CARES funds in three main areas: (1) strengthen capacity to address the COVID-19 pandemic (testing, contact tracing, isolation, and treatment), (2) ensure continuity of government services, and (3) **reactivate economic activity and job protection.**

Coronavirus Relief Fund: Private Sector–Related programs (Total: \$960 million)

Private Sector Payroll Protection Program

- Allocation: \$350 million

Assistance Program to Small Businesses

- Allocation: \$250 million, up to \$5,000 to each small business or microenterprise with between 2 and 49 employees

Assistance Program to Self-Employed Individuals

- Allocation: \$200 million, up to \$1,000 per person

Assistance Program to Medium Businesses

- Allocation: \$100 million, up to \$10,000 to each medium-sized company with between 50 and 500 employees

Assistance Program to the Tourism Industry

- Allocation: \$50 million

Workshops and Training Programs for SMEs

- Allocation: \$10 million

Commonwealth Response: CARES Funds \$2.2 Billion

Coronavirus Relief Fund – Disbursements Update as of July 28, 2020 (\$ in millions)

Category	Cost	Disbursed	Remaining
Private Sector Payroll Protection Program	350.0	-	350.0
Assistance Program to Small Businesses	250.0	115.8	134.2
COVID-19 Testing and Contact Tracing Program	150.0	63.4	86.6
Allocation to Unemployment Trust Fund	150.0	150.0	-
Assistance Program to Self-Employed Individuals	200.0	188.1	11.9
Transfer to the 78 Municipalities for Eligible Exp.	100.0	60.1	39.9
Acquisition of Materials and PPE	100.0	32.6	67.4
Assistance Program to Private Hospitals	150.0	139.6	10.4
Assistance Program to Medium Businesses	100.0	12.5	87.5
Emergency Assistance - Public Hospitals	50.0	2.8	47.2
Assistance Program to the Tourism Industry	50.0	11.3	38.7
Remote Work Program of the Government of PR	40.0	15.4	24.6
Telemedicine Program in Puerto Rico	40.0	-	40.0
COVID-19 Emergency Expenses in Prisons	10.0	6.1	3.9
COVID-19 related Training & Workshops for SMEs	10.0	-	10.0
Program of Assistance and Care - Homeless Pop.	5.0	0.3	4.7
Reserve	485.6	-	485.6
Total	2,240.6	798.0	1,442.6

Private Sector Programs- Recommendations

High-quality program design and implementation are critical to achieve intended outcomes. Implementation should also be periodically monitored as the programs are delivered to adjust their implementation as needed.

PPP Local Program

- ✓ Shift in the program's focus to the prevention of small business failure
- ✓ Providing greater flexibility in the use of funds
- ✓ Extending the time to spend the loan money
- ✓ Ensuring loans go to small businesses and not large firms
- ✓ Prioritizing Underserved and Rural Markets
- ✓ Greater oversight and transparency of loan recipients

Grant Programs

1. Grants should be disbursed in phases rather than in a one-time lump sum
 - ✓ Strategically selecting participants
 - ✓ Partnering with Non-Government Organizations (NGO's) and CDFI's

Critical areas to provide assistance and support to SME's

E-Commerce



- E-commerce has been a major driver of change in retail trade business practices prior to the pandemic. Corona-19 will create even more disruption and need of education/training/presence on e-commerce.

Budgeting & Forecasting



- SME's need assistance in strategic planning, building capabilities in digital marketing and sales, managing supply chain risk and disruption, optimizing staff management, among other business domains.

Big Data



- Business owners will need to devote more attention to understanding their customers through advanced sales and web analytics.

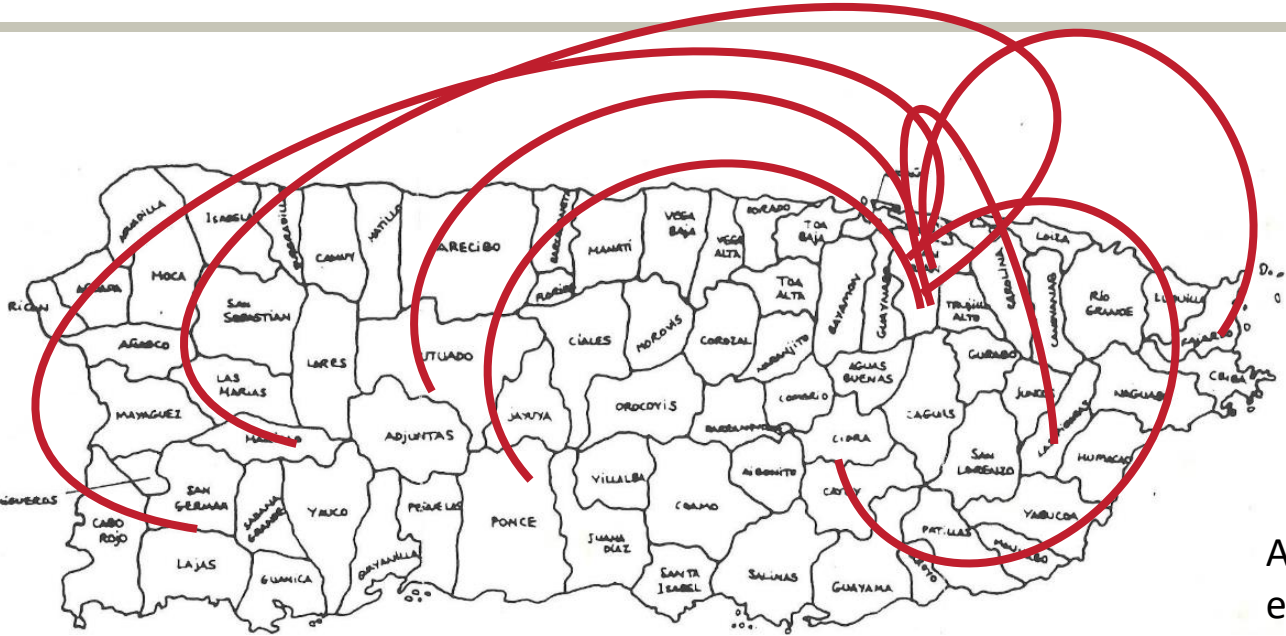
Inventory Management



- Inventory taxes have contributed to significant shortages of supplies during emergencies (i.e., Hurricane Irma and now COVID).

As the coronavirus crisis has accelerated the uptake of digital solutions, tools, and services within big firms, the lack of tech or e-commerce savviness will hurt small businesses.

Centralized vs. local based assistance to SME's




Current State
Centralized

A locally based response is more effective at providing necessary support and assistance to SME's.



Future State
Local-Based

 Economic Development Organizations (EDO's)