



Investment Opportunities in Puerto Rico

By Antonio Duarte, Founder & Chief Marketing Advisor at DuartePino



Do you see the glass half full? Or do you see it half empty? On an island that is becoming increasingly accustomed to living or surviving during a crisis, it is often necessary to analyze how we want to perceive our reality. When COVID-19 arrived in Puerto Rico, the island was still handling the consequences of the fiscal crisis (which began all the way back in 2008), the impact of Hurricane María in 2017, and the earthquakes that hit the southern region in January 2020, among other events.

If we focus specifically on the local economy, we could say it is at a turning point precisely due to the accumulation of the different crises that have affected the island. Puerto Rico's economy is potentially in the early stages of a strong recovery after the first year-and-a-half of the COVID-19 pandemic. For the first time in nearly a decade, there is a substantial amount of financial resources available for investment, and, along with the increase in public spending and infrastructure investments, the island could see a period of solid economic growth. A continued economic growth would be assured and even extended if investment funds were provided to companies through the appropriate channels.

Historically, investment financing in Puerto Rico has been driven by credit loans, mainly from commercial banks, conducted over long-term relationships between the banks and their commercial borrowers. Although the sector has been growing in recent years, it has undergone further consolidation, which reduces the alternatives in a process already brokered through direct relationships. New and existing companies looking for growth opportunities should consider alternative ways to raise capital in order to streamline their access to funds and improve the correlation with their specific exposure to risk.

Some Economic Context

The COVID-19 pandemic caused a major disruption in economic activity around the world, including Puerto Rico. Given the island's position as a U.S. territory, the Commonwealth was included in all U.S. policy responses to the pandemic, such as the 2020 CARES Act and the 2021 American Rescue Plan. It is also positioned to receive funding from the two infrastructure bills currently being considered by Congress. As a result, Puerto Rico is likely to see a strong recovery after the pandemic, even considering the impact of new variants. In addition, it would be the first time in more than a decade that the economy is expected to have significant growth in the short and medium term.

According to the Puerto Rico Economic Development Bank's Economic Activity Index (EAI), Puerto Rico's economy had been consistently declining in activity between fiscal years 2012 and 2017. During fiscal year 2018, which covers the aftermath of Hurricane Maria, the index fell by 7.1 percent. Recovery efforts generated enough activity to offset this decline during fiscal year 2019, when the index grew by 6.7 percent.



Paralell 18

Before 2020, there was a benchmark expectation that the index would return to pre-Maria levels once the recovery funds were depleted. The COVID-19 pandemic caused a major disruption in economic activity. However, aid funds approved by the U.S. Congress largely helped mitigate the impact of this disruption. The index declined during fiscal years 2020 and 2021, but by less than the expected amounts: 1.7 percent and 1.9 percent, respectively. At the time of writing, the EAI was below the levels for fiscal year 2019, but above those for fiscal year 2018. In other words, the impact of the pandemic on economic activity, net of the policy interventions by the United States and Puerto Rico, so far, has not been much worse than that of Hurricane Maria.

Besides, the growth in the monthly EAI between April and June 2021 has exceeded pre-pandemic levels, which is largely due to the fact that the same months in the previous year were at the peak of the pandemic (it is easier to grow from rock bottom). However, it also reflects the impact of the resumption of business and the initial stages of the recovery phase.

This creates an environment in which, for those who invest well, growth can be sustainable thanks to these post-pandemic economic injections.

Changes in the Consumer and Service Economy

According to the 2017 Economic Census, the retail trade sector (NAICS 44-45) and service sectors like healthcare (NAICS 62), accommodation (NAICS 72), and administrative support (NAICS 56) represent 4 out of the top 5 sectors in Puerto Rico's economy, measured by their share of total employment. The manufacturing sector (NAICS 31-33) is the 4th largest with 11.8 percent, and together, these five sectors represent around 69 percent of total employment in Puerto Rico.

The future of the local product-and-service structure is difficult to predict, but there are some indicators that help us foresee changes. New opportunities are likely to emerge in unusual areas. Puerto Rico's post-pandemic industrial layout can be difficult to predict, but the following sectors should gain ground in the employment ranking:

Professional, Scientific, and Technical Services (NAICS 54): Given the existing relative advantages in Puerto Rico for life sciences and research operations, the recent efforts to promote Puerto Rico as a destination for this type of investment, and the growth of remote work

opportunities, Puerto Rico should be increasingly attractive for Foreign Direct Investment (FDI) in this area.

Information (NAICS 51): The pandemic had a great impact on local transactions, something that both companies and customers were forced to accept.

Construction (NAICS 23): Driven primarily by infrastructure investments, but also by the implementation of new environmental requirements in buildings (reuse), as well as an increased demand for residential units from a population that is declining less quickly due to new opportunities in Puerto Rico.

The Status of Commercial Banking

According to the Puerto Rico Office of the Commissioner of Financial Institutions (OCIF, by its Spanish acronym), as of the first quarter of 2021, financial institutions in Puerto Rico (that is, governmental and commercial banks, credit unions, investment companies) owned about \$170 billion in total assets. This is the third year of growth for financial institutions, after a period of sustained decline that began in 2007, when the impact of the elimination of section 936 from the IRS code began to take its toll. It is important to highlight that national commercial banks own most of it, with 45 percent, which has been the approximate average size of that segment for the last decade. The related segment of international banking entities owns 38 percent of the total assets, which reflects how much of the commercial banking sector dominates the financial institutions sector.

The share of total assets owned by banks and similar financial institutions reflects the pervasiveness of credit loans in investment financing, compared to the use of capital by way of venture capital and other private equity options. While capital funding tends to have higher required rates of return and most times involves sharing control, it also provides important benefits, such as low fixed costs. In most circumstances, companies are not required to pay out dividends unless it is decided on a case-by-case basis, unlike loans, which entail a monthly required payment regardless of the business's performance. This is where we aim to focus our attention, since traditional financial institutions are not —nor should be— the only source of financing for companies.

A Look at the Ecosystem of Startups and Scaleups on the Island

About five years ago, the Puerto Rico Science, Technology and Research Trust launched **Parallel18** with the mission of strengthening the island's entrepreneurial ecosystem. According to figures provided by the organization, since its creation, 211 companies have graduated from its accelerator program and 111 from the pre-accelerator program.

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— Lucas Arzola,
investment director at P18 Ventures

programs in the ecosystem, have created a roadmap where entrepreneurs have access to different support programs, depending on their progress stage. After we create a critical mass of companies that are operating and growing, it starts attracting capital, because now those companies need investment. This is how angel investors (venture capital firms) have become involved, looking at these companies emerging in Puerto Rico to start making investments," explains Lucas Arzola, investment director at **P18 Ventures**, the **Parallel18** division focused on raising capital.

According to data from the **Parallel18** Impact Report for its fourth year of operations, the startups that graduated from its programs have generated approximately \$189 million in revenues and managed to raise about \$126 million in capital to further their growth.

Arzola explains that, out of those \$126 million raised, \$20 million were from Puerto Rican investors. "This means there is significant investment activity and that investors in Puerto Rico are participating in those investments as well, competing with investors from the United States and Latin America, as well as with other accelerators and corporations. Currently, a network of investors is being established to support the companies with capital. That's something that did not exist when **Parallel18** started. Activity in this regard was practically nil. The development of scalable and validated companies had to happen first, so that this capital could be invested in those companies," he adds.



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Managing partner, MCC Multi Cultural Capital

Meanwhile, Maria Elena Carrión, who leads the independent mergers and acquisitions consulting firm **MCC Multi Cultural Capital**, believes Puerto Rico is at a turning point in economic and capital market terms. She especially notes the perception shift reflected in the headlines of the financial media, which a decade ago referred to the island as “the Greece of the Caribbean” but now focus their news on “access to capital markets and the growth of direct investments through private partnerships and by declaring Opportunity Zones.”

The finance expert assures that the island has several competitive advantages: “We have a well-educated bilingual population. For skilled jobs, we are super competitive in terms of wages and compensation. We have all the guarantees of being a federal territory, so we are protected by the Constitution and by federal law. We also have tax incentives. So, given our change in the economic cycle or our lack of participation in the bull market we’ve seen since the end of the Great Recession, we are a market that is really attractive for foreign investors, who are showing more interest in Puerto Rico.”

How a Local Company Can Get Investment

Given this landscape, it is becoming increasingly important that those trying to start a business in Puerto Rico have a clearer picture of the capital sources available to them. Of course, their alternatives vary, depending on the stage of their business and their goals.

Ana María Cintrón, who directs the non-profit organization **Causa Local**, asserts that it is necessary to convey the importance of raising capital if you are looking to start a business. “Many people want to start a business, but when it comes to growing, it is not clear to them that they need to raise capital. At this initial stage, there are few options in Puerto Rico to obtain capital,” she points out.

In her experience, many people complain that they are not getting support from local banks, but in her opinion, “not all companies are in a position to seek capital from banks.” “It’s like wanting to skip from Pre-K to senior year without going through the rest of the school grades. We should highlight how important it is to understand that entrepreneurship happens in stages, like everything else in life, and that access to non-traditional capital should be provided to those who need it but don’t have access to it,” she adds.

Cintrón explains that there are non-traditional initiatives “to support these entrepreneurs and, in turn, create a pipeline that will help them keep growing until they can access other sources of financing. It is also convenient for banks that multiple entrepreneurs register every year in Puerto Rico because those entrepreneurs are going to keep growing. They may not all grow, but a large percentage will.”

No matter what stage your business is in, it is very likely that whoever starts a business will need some type of capital. Both Cintrón and the organization **Colmena66** agree that, in order to know which type of alternative is the best, it is important to undergo a self-assessment process. Basically, you need to understand what stage the business is in, in which direction you want to grow, and how much money you need to do it.

At the initial stage, entrepreneurs almost always resort to family or friends (two parts of the famous three F’s) in search of this financial support. The **Colmena66** program warns that, although financing the business through friends or family can be beneficial in certain cases, it could still give way to drawbacks if not planned properly. They mention that, at this initial stage, another option to consider is “crowdfunding.” There are several forms of “crowdfunding,” depending on the company’s needs including Antrocket, GoFundMe, Indiegogo, and Kickstarter.

Non-Traditional Financing Alternatives

Options available for those just starting out include philanthropic loans, as is the case with **Kiva**. This is a nonprofit organization seeking to expand financial access in order to help underserved communities thrive. According to their website, they do this “by crowdfunding loans and unlocking capital for the underserved, improving the quality and cost of financial services, and addressing the underlying barriers to financial access around the world.” Through this organization, which operates in the island under the aus-

pice of **Causa Local**, applicants may access up to \$15,000 financed by people around the world who each lend \$25 to various companies and projects worldwide.

One suggestion Cintrón offered for all types of people who have a business is to “know your numbers.” From her years of experience in traditional banking to what she has learned while working at the nonprofit organization, she notes that many are unaware of their revenues and expenses when they start a business. “We start with the first ‘red flag’: If you have a product or service, your first employee is you. If you are just starting and you have no money, you have to do everything. You have to register, open a business account, etc. That profitability is important. In other words, something as simple as knowing what your revenues and expenses are. You would be surprised, because we ask that question, and most people don’t know how to answer it properly. There are a number of complexities: for example, you could be baking cakes from home, and if you’re not tracking how much electricity you consume when you bake, you don’t know what your business expenses are,” she says.

According to Cintrón, this is fundamental because, when a company is somewhat more structured and its structure is more robust, it is time to move forward to raise capital. This is when they may consider accessing programs like **WeFunder**, which is another initiative operating in Puerto Rico under the auspice of **Causa Local**. “We are talking about small private investors that help you reach your goal. This means I can invest in a business. I give \$100 and become a local investor. Then, the entrepreneur has the opportunity to receive that money and raise capital, and the group assigns an investor. The entrepreneur won’t be working with multiple investors, but rather with the one who leads that group. However, they all contributed money,” she details.

She adds that this model is ideal for recently established businesses, “because it’s an opportunity to raise up to \$1 million without needing to submit so many documents. Although they do ask for certain documents, they are much fewer than what other traditional methods require, because this is designed to support entrepreneurs who are just starting out.”

Causing a Domino Effect in the Economy

Cintrón emphasizes that alternatives like the ones they work on are just the beginning of the journey companies must undertake in their path towards growth. In that sense, other capital sources benefit from what the companies learn along the way. “We are looking for entrepreneurs who deliver growing results in a sustainable manner. They will eventually become bank customers—or of any type of financial institution—if they haven’t already. In that sense, it benefits these institutions, because they need to create that pipeline. But if these people never start, never take off, and fail to grow, they

will never become customers of these banks or traditional financial institutions,” she said.

She mentions the example of local company **Molcajete Foods**. This company, which makes corn tortillas and tortilla chips in Puerto Rico, started out by accessing capital through a Kiva loan. They have so far managed to build their factory, create jobs, and position their products in various locations in Puerto Rico. Part of the impact they make also has to do with creating networks between local companies. She points out that there are interesting business exchanges in the events held by the organization, where some companies become suppliers for others.

In this regard, Arzola from **P18 Ventures**, agrees that part of the approach to continue strengthening the ecosystem of startups and scaleups in Puerto Rico is collaboration. “Beyond what the accelerator programs provide, the community built, the collaboration between entrepreneurs is important. Also, connecting different groups around these entrepreneurs,” he states.

Where to Seek Investment to Enter the Market

In addition to the non-traditional sources mentioned earlier, there are other alternatives. Firstly, there are commercial loans, which, contrary to other options, do not require ceding equity or any type of control over the company. Commercial banks usually prefer to extend loans of more than \$10,000. In order to grant them, they usually look for good credit, a solid business plan, ability to repay, and the collateral.



“We are looking for entrepreneurs who deliver growing results in a sustainable manner.”

— Ana María Cintrón,
Founder, Causa Local

3 Most Common Types of Investors for Startups

Angel Investors	Venture Capital Investors	Family Offices
Typically, a high-net-worth individual who invests in a new or small business, providing capital in exchange for equity in the company.	Firms that are part of the private sector and have a pool of money to draw from corporations, foundations, pension funds, and organizations.	Private wealth management advisory firms that serve ultra-high-net-worth investors usually exceeding \$100 million to manage their investable assets.

As Carrión (**Multi Cultural Capital**) explains, “if you’re looking for debt capital and you’re an established company, banks may have consolidated, but they are healthier than ever. We have a well-capitalized banking system, which was not the case more than 10 years ago. Therefore, banks have the liquidity and are eager to lend to good, stable companies.” At that stage, there are also other traditional alternatives, such as loan funds, home equity loans, credit card cash advances, financial factoring, and other incentives that may apply depending on the industry. For the most part, these are debt-linked options.

In this regard, Carrión adds that a growing market has been developing in recent years for private debt from non-bank entities. Some examples she mentions are **Acrecent Financial Corporation**, **Parliament Capital**, and **Bluhaus Capital**. “They provide opportunities for smaller and more difficult loans that are still on the debt side,” she says.

Other alternatives include mutual funds and venture capital. This is the type of financing that, in the opinion of Arzola (**P18 Ventures**), should keep being developed in Puerto Rico. “The more capital there is, the better for the entrepreneurial ecosystem. If they do not have access to capital, businesses grow more slowly. That is why it is so important to address the issue of capital in Puerto Rico. We do believe there is room for more angel investors, for venture capital. Also, for other types of investment, since not all companies fit into venture capital programs, for example,” he says.

Risk Capital and Venture Capital

Simply put, through “venture capital,” private investors finance companies with high growth potential in exchange for shares or property. As the **Colmena66** program explains in its “Tu Camino Empresarial” (Your Business Path) guide, funds “come in through different sources, including individual investors and corporations, among others. The types of businesses they invest in are small and medium-sized companies with strong growth potential. These investments are typically characterized as high risk and high return opportunities.”

Although debt-based financing alternatives are much more developed in Puerto Rico, there is a capital equity sector that is beginning to organize at the local level. The

perspective in this segment is different in that the priority for those who invest in that segment is the growth of the companies they are financing.

After talking with several people who work in this sector, the point of convergence is that companies need to show growth to attract investment. Due to Puerto Rico’s geographic size and demographics, they tend to pay more attention to businesses that have the potential to grow on and off the island. For example, if a company can show solid data to prove it can dominate the local market and that it has strategic plans to scale and grow in markets outside the island as well, investors could see a greater potential in supporting these companies.

Risk capital or venture capital investors will focus primarily on the ability to grow three to five times larger. All this must be supported by a robust business plan and value proposition, aside from identifying the Total Addressable Market (TAM) the operation is aimed at.

How to Present to Investors

It is worth noting that a company’s approach towards potential investors must be adapted to the type of investment being sought. That is to say, if you are presenting the company to a debt investor, you should not necessarily emphasize the same aspects. It is in the debt investor’s interest to guarantee they will recover the money invested within the agreed time. On the other hand, an equity investor will focus their analysis on growth potential. In fact, the approach should be different when presenting to local investors versus foreign investors. Local investors will want to see the company grow about three times larger. Foreign investors will see if you can grow about 15 times larger. In order to grow 15 times larger, your TAM needs to be different. It can’t be just Puerto Rico. There is a level of sophistication that changes.

In the scenario where a company has several alternatives among potential investors, there are certain characteristics they should look for. The company must have clear expectations and ensure that these investors or investment firms have experience achieving what they want—even if it is in a different industry. They should see whether similar companies have positioned themselves in different markets. It is also important that this



ACTIVE INVESTORS

Ashford Venture Partners	Serial investment vehicle focused on venture capital and private equity in Puerto Rico.
ATO Ventures	Pre-seed and seed stage venture capital firm focused on technology startups backing companies at the earliest stages, often before products have been completely built.
Aurora Angel Network	Leading professional association supporting the success of angel investors in high-growth and early-stage ventures in Puerto Rico.
Caribbean Private Equity Partners	Leading investment firm deploying capital in the Caribbean Basin with long standing and deep professional and personal relationships throughout the region.
IDEA Seed Fund	Puerto Rico's first seed fund providing risk capital to early-stage innovation-driven ventures from Grupo Guayacán.
Morro Ventures	Puerto Rico's first institutional early-stage venture capital firm investing in technology companies across Latin America that leverage Puerto Rico as a platform for growth.
P18Ventures	P18Ventures has the mission to create investment opportunities for parallel18 startups and alumni, through a follow-on investment fund, investment events, and direct contact with investors.
Parliament Capital	Puerto Rico based, minority-owned alternative investment firm specializing in direct lending and private credit that targets underserved, privately held, lower middle-market companies in Puerto Rico, the US Virgin Islands, and the United States.
Semillero Ventures	Puerto Rico based growth-stage private equity investment fund specializing in agriculture, food, agribusiness, and appropriate agricultural technology.

**Source: Startup Universal Puerto Rico Profile

conversation be clear in terms of timeline expectations. That is: how much time are they going to spend working on your company? How often can you meet to assess your progress? Recommendations from several venture capital experts include asking a series of questions during that first approach with potential investors:

What is your investment portfolio?

What have you invested in?

How do you spend your time?

How do I make sure you will spend enough time on my company?

If you become part of my Board of Directors, will you attend meetings and participate actively?

These questions are essential to identify two extremely important characteristics when selecting potential investors: commitment and experience. It is vital to be clear about how committed they can be to the business and how much experience they have helping similar companies in order for the relationship to be one of mutual growth.

In this sense, Carrión (**Multi Cultural Capital**) highlights the establishment of various organizations dedicated to helping companies access equity financing alternatives as something positive. "We've seen the development of

local organizations that truly hone and empower entrepreneurs, giving them the tools to be competitive and grow in a global economy. Originally, we had Grupo Guayacán —which has done a great job— and organizations like **Parallel18**, **Endeavor**, and **ConPRmetidos**, which serves as a bridge between the diaspora and Puerto Rican entrepreneurs. So, startups have an increasing number of organizations that can help them grow. Plus, we're also seeing the development of new private equity funds," she points out.

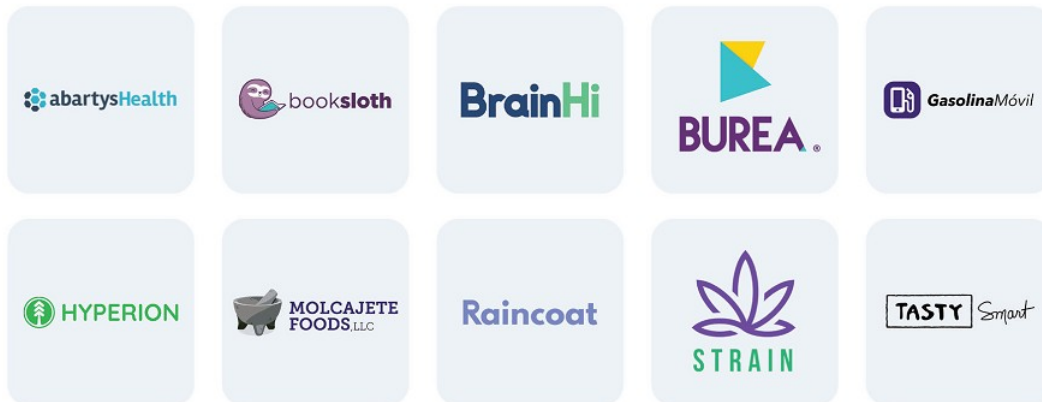
ALTERNATIVES TO INVEST IN PUERTO RICO

The emerging entrepreneurial ecosystem on the island makes it even more necessary to focus efforts on promoting the creation of more investment opportunities as well. "We need more capital and more options," stresses Arzola (**P18 Ventures**). "The deal flow exists. These companies need more investors and available capital, and more should be done to establish a connection for these groups to meet."

In fact, Foreign Direct Investment (FDI) has historically been another important source of investment financ-



TOP 10 EMERGING STARTUPS IN PUERTO RICO



****Note: Editor's pick, in alphabetical order.**

ing in Puerto Rico. The elimination of section 936 from the IRS code in 2006 removed a significant incentive for foreign corporations to establish operations and invest in the island. However, as part of the ongoing restructuring of the government, the island's legislature approved Act 13–2017 to create **Invest Puerto Rico**, an investment promotion agency (IPA) to increase awareness about the benefits of Puerto Rico as an FDI destination. **Invest Puerto Rico** began operations in early 2019 and during its first fiscal year, reported \$58 million in Committed Capital Investments expected to generate around 3,500 jobs.

These figures are encouraging in terms of the island's potential to attract foreign investment to support economic development. Carrión, whose firm works with local companies that want to bolster their position in the market through mergers and acquisitions transactions, points out several sectors with ample growth potential. She begins by highlighting the areas of healthcare, biotechnology, and pharmaceuticals.

"Everyone is talking about 'onshoring' (bringing manufacturing back to local territory) after the COVID-19 pandemic, due to all the disruptions that we saw in the global supply chain. That gives us a great advantage to bring back biotechnology, medical devices, and the pharmaceutical industry," she says.

Another sector that has great potential, according to Carrión, is tourism, "which currently represents 7 percent of the island's Gross Domestic Product." From her perspective, the range of alternatives Puerto Rico has for different types of tourists, as well as its relationship with the United States, should be used as an advantage to make these industries stand out economically. The same holds true for her in terms of the renewable energy sector. As we see a global paradigm shift towards energy sources that depend less on fossil fuels, there are

opportunities to develop technologies and companies in that sector.

"I think the multiplier effect of getting more than \$60 billion in federal funds —much of it geared towards rebuilding our infrastructure, our real estate inventory— will make us more competitive, and that means growth for most industries. It is a positive aspect. Puerto Rico is an unsaturated market, which outsiders had not really understood, and therein lies an opportunity. Right now, we are in the midst of a dramatic and very positive change in our economy," she emphasizes.

Other possibilities to receive foreign investment are Public Private Partnerships, a model that is gaining momentum in Puerto Rico, as it provides the possibility of promoting a sustainable economic impact and establishing Puerto Rico as a global competitor in infrastructure development. The creation of the Public Private Partnerships Authority (P3) sought to spearhead "the transfer of much-needed investments for Puerto Rico's infrastructure, looking to transform our economy by securing private capital for public projects. We are building a more robust, smarter, and stronger Puerto Rico. To achieve this, we execute strategic commercial efforts with meticulously chosen partners based on their credentials to provide the most efficient services for everyone," reads the authority's website. Currently, they have forms available on their website for those interested in being part of a public-private partnership in the island.

This is added to the fact that the U.S. Department of Treasury has declared 98 percent of the island as an Opportunity Zone. These zones were created to encourage local, national, and international investment, create jobs, and generate economic development in disadvantaged communities. This model allows investors to receive preferential tax treatment.

The Puerto Rico Department of Economic Development and Commerce (DDEC) explains that, through this model, investors can defer taxes on any previous earnings until no later than December 31, 2026, as long as the earnings are reinvested in a Qualified Opportunity Fund (QOF), an investment vehicle created to make investments in zones of qualified opportunity. According to the U.S. Internal Revenue Service (IRS), the proposed regulations clarify that almost all capital gains qualify for the deferral. To qualify for tax deferral, that capital must be invested in a QOF intended to carry out an eligible activity, in an area authorized by the U.S. Treasury Department.

The DDEC projects that, in the short term, Opportunity Zones will generate close to \$600 million in new investments, jobs, and benefits to municipal and central government coffers. Operations within an Opportunity Zone may include hotels, inns, and other businesses directly related to tourism; agricultural sector development; service to facilities; malls; high-tech companies, research and manufacturing, real estate development, among other areas, the agency adds.

Increase Visibility Abroad

According to the **Invest Puerto Rico** portal, in the past fiscal year, there was an increase in Puerto Rico's global media presence as a healthy market to invest in. Its most recent earnings report reflects a 3,800 percent increase in media coverage from the first quarter to the end of fiscal year 2020. This led to more than 160 million earned media impressions for the island. Additionally, the organization launched a three-month pilot campaign specifically focused on markets in the U.S. East Coast, such as New York City, Boston, and the District of Columbia.

"There are local organizations that are trying to build bridges. There are probably still small pockets of capital, and moving that capital through some of the organizations training our entrepreneurs is a good way to pool it. I think that the major opportunity here is that we have a

much larger population in the continental United States than in Puerto Rico," says Carrión.

The finance expert adds that the great number of Puerto Ricans residing outside the island could also see opportunities to return, thanks to the progress of initiatives seeking to improve the economy. "It is a great advantage in terms of repopulating the island. Many of them migrated recently due to conditions, such as Hurricane Maria, which led to another migration wave. We need to start setting the conditions for growth and job creation. For \$200, you can book a flight from Florida to return home, but we need to offer those people jobs and growth opportunities. If we do that, the main objective is to bring those who migrated recently back home, which is a solution to our population decline. Because the economy cannot grow if we continue to lose population," she explains.

A BRIGHT FUTURE

Although the outlook may seem bleak after a deep recession, the impact of hurricanes Irma and María in 2017, the earthquakes in the southern region in early 2020, and the COVID-19 pandemic, the truth is that several parties agree that we are living in a time of great opportunities.

Carrión (**Multi Cultural Capital**) assures that there has been a change in the perspective of many local companies after these events: "Our private sector is now stronger than it was 15 years ago because the companies that have survived and are not over-indebted have undergone the worst economic cycle. And when you have a shrinking market, companies that were perhaps insular in their perspective were forced to look outside."

For her part, Cintrón (**Causa Local**) agrees, but notes the need for more educational resources for small and medium-sized companies, specifically those focused on raising capital. "I think there is still a lot of work to be done in Puerto Rico's ecosystem of startups and scale-ups. Not only to educate, but also to show them that

New Meeting Point for Investment

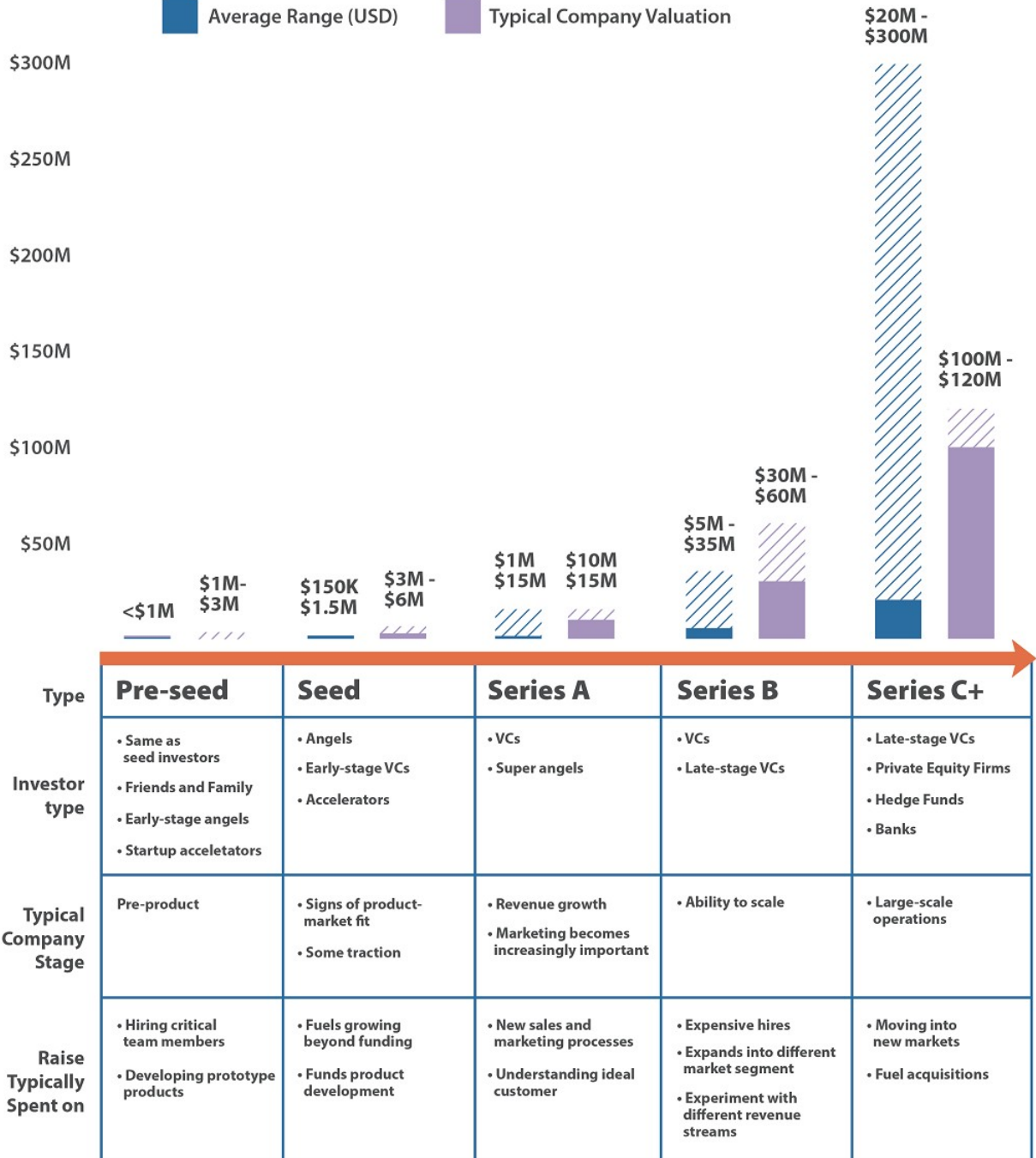
As part of their mission to attract capital investments to the island, **Invest Puerto Rico** launched **Impeller**, an exclusive online resource that provides a growing list of business opportunities for issuers and companies seeking to access different investment agreements inside and outside the island. According to the organization's website, this resource facilitates the flow of capital through a valuable tool, driven by the desire to greatly impact Puerto Rico's economic transformation.

From the investor's perspective, **Impeller** offers a broad list of investment agreements seeking recapitalization and economic growth for the island's benefit. The available sectors of opportunity at **Impeller** range from healthcare, technology and clean energy, to the visitor economy and commercial real estate. The tool's intuitive interface can provide a wealth of information about issuers, including their finances, company history, executive board, performance and needs. From the issuer's perspective, this new platform aims to help companies increase awareness of their operational footprint among credible investors seeking to close equity investment transactions in Puerto Rico.



How Venture Capital Funding Rounds Differ: The Breakdown

■ Average Range (USD)
 ■ Typical Company Valuation



Source: From Pre-Seed to Series C: Startup Funding Rounds Explained (Ryan Law)

MARKET FACTS

they must continue growing. I think it's up to those of us behind the business ecosystem to audit. Out of the 250 entrepreneurs we have impacted, 20 percent want to continue growing. That is not to say that the other percentage is not important for the local economy. But at the end of the day, we should see it as an investment. If I'm investing in these programs, then we need to see how many entrepreneurs we're generating that are going to export and grow," she says.

Cintrón also believes it is urgent to extend scopes beyond the metropolitan Area. She mentions some towns around the island where highly promising businesses are flourishing. "Right now, there are many entrepreneurs who are educated but do not know how to grow. Maybe, instead of focusing only on creating more new entrepreneurs, we should focus on those who want to continue growing, to join them in achieving that," she proposes.

Arzola (**P18 Ventures**) argues that we are at the right time to continue strengthening the investment network on the island. He explains that when they started **Parallel18**, the investment environment in Puerto Rico was not as robust as it currently seems to be becoming. Companies that have graduated from their programs have collectively raised millions of dollars in capital. "Of those \$126 million, \$20 million were obtained from Puerto Rican investors. That means there is significant

investment activity and that investors in Puerto Rico are participating in those investments as well, competing with investors from the United States and Latin America, competing with other accelerators, with corporations," he adds.

Carrión assures that all of this means there is an ideal environment for there to be what she calls "two avenues of growth for Puerto Rico."

"You can grow through both channels: the domestic market, which has had a turning point, and then keep expanding outside the United States. This is highly complementary because you end up having a more diverse business. Even companies that focus solely on the domestic market have been doing well due to their particular niches. This is why right now we can showcase Puerto Rico as a growth story. We don't need to explain that it is a shrinking market with debt problems. We can portray it as a growth story, and that changes the narrative," she concludes.

And, after all, I continue to see the glass half full.

*The author is a senior marketing executive with more than 20 years of experience contributing to the growth of market leaders in Puerto Rico, the United States, and Latin America. He is the Founder and Chief Marketing Advisor at **DuartePino**.

Contributors: Pablo Arroyo León, Gabriel Marrero Girona, and Maria E. Ramírez Ortiz, Advisors from **DuartePino**, collaborated in this article.



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How To Open A Business In Puerto Rico

By Antonio Duarte, Founder & Chief Marketing Advisor at DuartePino

Despite all the challenges of the ongoing Covid-19 pandemic crisis and its economic repercussions, there are still many opportunities to establish a new business that becomes successful. But to find these opportunities you must do your homework.

In an article last year, the co-founder of underwear company Thirdlove, Heidi Zak, said that this is the best time to start an enterprise because if you can build a business in the current environment, you will only be stronger tomorrow. As a result, he said, companies that are capable of solving problems during a crisis grow faster.

This is why we have created this roadmap for those who want to make lemonade with the lemons the current situation has given us, and establish and start a new venture in Puerto Rico today.

ARE YOU FROM HERE OR FROM ABROAD?

Although the island's entrepreneurial landscape is ideal both for local businesses and for those who want to move to Puerto Rico and start their business here, there are some differences in how to do it. Although the steps and requirements to start a business on the island are very

similar for both cases, the options vary in terms of financing alternatives.

STEPS TO DOING BUSINESS IN PUERTO RICO

As with any venture, the process starts with the basics: to give shape to the business idea. Entrepreneurship and corporate law expert Iván Ríos-Mena, Esq. recommends dispensing with the notion that you have to come up with a perfect and original business idea, stressing the execution is more important than the idea itself, which will probably undergo changes or adjustments during the process of establishing the business.

A. How can I generate ideas with business potential? - Start with an ideation exercise.

Identify a need or problem which no one is currently solving. A business is supposed to sell a solution to a problem customers have. "The idea" alone does not sell.

Brainstorm with your friends and mentors. Group dynamics can help you come up with thoughts that had not occurred to you before.

Develop critical thinking. Day by day, observe the obstacles or needs you confront. What is missing that you could solve better? What are the complaints of the people

you interact with? How much would they pay to get this need or obstacle solved?

Research and analyze the market. Maybe many have come up with your same idea. Find out how it is being developed in other countries. If you already know there is a market for your idea, you could discover its potential and get a clearer picture. You could even approach the people who have launched this idea and learn from their successes and failures.

Identify what makes you stand out. Ask yourself what you know about the need or problem you have identified? We all have particular knowledge and experience that we can use to our advantage. For instance, if you are a personal trainer and have never interacted with a banker, it may not be so productive to try to create a product to solve problems for bankers. However, maybe you work at a restaurant and notice the challenges for visiting patrons during the pandemic. You could look for a solution to this situation for the restaurant industry.

B. Can I do it? Do I want to? -

It is time to do some soul searching

Most times, the founder is even more important than the business idea. Therefore, we invite you to evaluate yourself before starting. Evaluate your strengths and weaknesses regarding the type of business or industry you want to work in.

As a starting point for this process, analyze your capabilities:

TIME – How much time do you have available to dedicate to the development of this new venture? First, be honest about how much time you can spend building a business if you have other responsibilities. Most entrepreneurs develop their businesses while they work, study or raise their children.

IDEA – Identify the kind of business you want to have. Will you offer services or products? Do you plan to manufacture something as part of your business?

KNOWLEDGE – What knowledge do you have to venture into this particular industry? Do you have experience in this area? Is there anything in your professional background that could help you bring your idea to life? Assess not only your technical knowledge to develop your vision, but also your ability to meet goals under pressure and without external motivation.

PURPOSE – It is vital to know the real reason why it is important for you to start your business venture. This is key element for its success. Most of the decisions you will have to make will be based on your business's purpose. Plans may be adjusted due to market changes, but the purpose will remain throughout the years. Just picture yourself trying to survive in a business without purpose amid a global pandemic. Where would you get the inner strength to thrive in such difficult times?

C. How do I organize my future? -

Establish a Business Plan

After you have evaluated your capabilities, weaknesses and strengths and are clear on where you want to direct your efforts, you should organize them. It is time to draft your Business Plan. This plan will become a road map that will allow you to go at your own pace and respond with the same flexibility with which the market fluctuates.

The Business Plan will serve as your business's operational document and help increase your chances of success. Remember that, in times of crisis, the plan may be a good basis to make objective decisions and practice the resilience necessary to overcome the moment.

The traditional components of a Business Plan are:

- Business Description
- Executive Summary
- Business History
- Analysis of the Competition and Market
- Location
- Operations
- Management and Human Resources
- Financial Data
- Analysis of Income Sources and Use of Funds
- Study of Costs and Break-Even Points
- Projected Revenues and Expenses
- Projected Cash Flow
- Projected Balance Sheet
- The Owners' Personal Financial Statements
- Supporting Documents
- Resume (CV) of Leaders
- Letters of Intent from Suppliers and/or Clients
- Credit Reference Letters
- Quotes or Estimates
- Lease Contracts
- Company Organizational Chart
- Patents and Use Permits, Sales and Use Tax (SUT) Merchant Registration Certificate
- Others

D. Do I need to rent? -

Determine where your business will operate

Once you complete your Business Plan, it is time to consider whether you need a facility from where to operate from. In these pandemic times, pay special attention to whether that location complies with the recommendations of authorities such as the Puerto Rico Occupational Safety and Health Administration (OSHA) and the Centers for Disease Control and Prevention (CDC). Furthermore, you should consider three important factors:

Cost of Lease – Cost per square feet and common area maintenance (CAM)

The Building's Physical Condition – Will it require improvements? Does it have an electric power redundancy system? Does it allow you to continue operating in case of an emergency? Check the traffic, parking space,

lease costs and the availability of water, power, telephone and internet connections.

Who to Consult for Potential Locations?

Puerto Rico Association of Realtors
Land Administration of Puerto Rico (ADM)
Puerto Rico Industrial Development Co. (Pridco)
Puerto Rico Trade & Export Company (CCE)
Clasificados Online or Clasificados PR

According to the latest report from Invest Puerto Rico and JLL, a commercial real estate firm, the office market in San Juan is the third largest of the Caribbean, after Panama and Costa Rica, and the 12th largest in Latin America. The average rent for class A office space (representing the majority of the commercial market) is more affordable compared with other U.S. metropolitan cities, especially when considering quality of life, living costs and market access. Comparable rentals in Miami cost twice as much as those in San Juan, while in San Francisco, they are 4.5 times higher.

E. How do I make it official? -

Select Your Business Structure

For many entrepreneurs, this is where the road becomes cumbersome. Not everyone has extensive legal knowledge, but it is essential to do things right from the outset. There are several options to structure your company:

Individual Business – Its main advantage is that it represents an adequate alternative to conduct small-scale commercial activity. This is so because its creation, organization and operations do not require the formalities inherent to more complex structures, such as partnerships and corporations.

Standard Partnership – It is a partnership in which two or more individuals, corporations or other legal entities agree to conduct and operate a business as joint owners with the intent to share the revenue generated. All partners are personally responsible for the partnership's ordinary operations.

Limited Liability Company – Generally, partners are not personally liable for mistakes made due to omission, negligence, incompetence or unlawful acts committed by other partners. An LLC should be registered in the Puerto Rico Department of State by filing a certified copy of the partnership's deed of incorporation.

Corporation – It is a type of business organization that has a legal personality separate from its owner; this means it exists apart from its stockholders, directors and officials. A corporation may acquire, transfer or dispose of its properties, as well as sue and be sued in a court of law, among other possibilities. Corporations must file annual reports, on or before every April 15, via email to the Department of State.

Cooperative – It is an autonomous association of people who have come together to satisfy their common financial, social and cultural needs. Cooperatives

are formed by a group of eight people, except for worker cooperatives, which only require five. You may find more information at the Cooperative Development Commission of Puerto Rico (CDCOOP).

Five Legal Tips for Establishing Your Business

Based on his experience assisting startup enterprises, Iván Ríos-Mena, Esq. recommends these legal steps be considered at this stage of your venture:

Make sure the name of the corporation is available at the Puerto Rico Department of State, preferably as a commercial brand and domain. If the business has not yet been incorporated, you may reserve the name.

Register the corporation by filing the Certificate of Incorporation at the Puerto Rico Department of State of the corresponding area. (This includes selecting a registered broker who receives essential notifications.)

The founders sign Confidential Information and Invention Assignment Agreements to pledge to not disclose confidential information related to the company and assign the product of the founders' work to the company.

If the company is doing business in a state other than the one where it was incorporated, it should register as a foreign corporation in the state where it will be doing business.

Submit all the applicable documents related to federal and state securities laws. All stock issues are subject to federal and state securities laws or exemptions.

F. What do I need to operate? -

Permits, licenses and obligations

At a certain point, you will need to obtain the permits, licenses and endorsements of the corresponding agencies, based on the type of business. The Permits Management Office (PMO) in 2018 launched the Single Business Portal, which is a website intended to facilitate the process of doing business on the island by unifying processes and expediting the granting of licenses, certifications and permits, and requesting permits among other procedures.

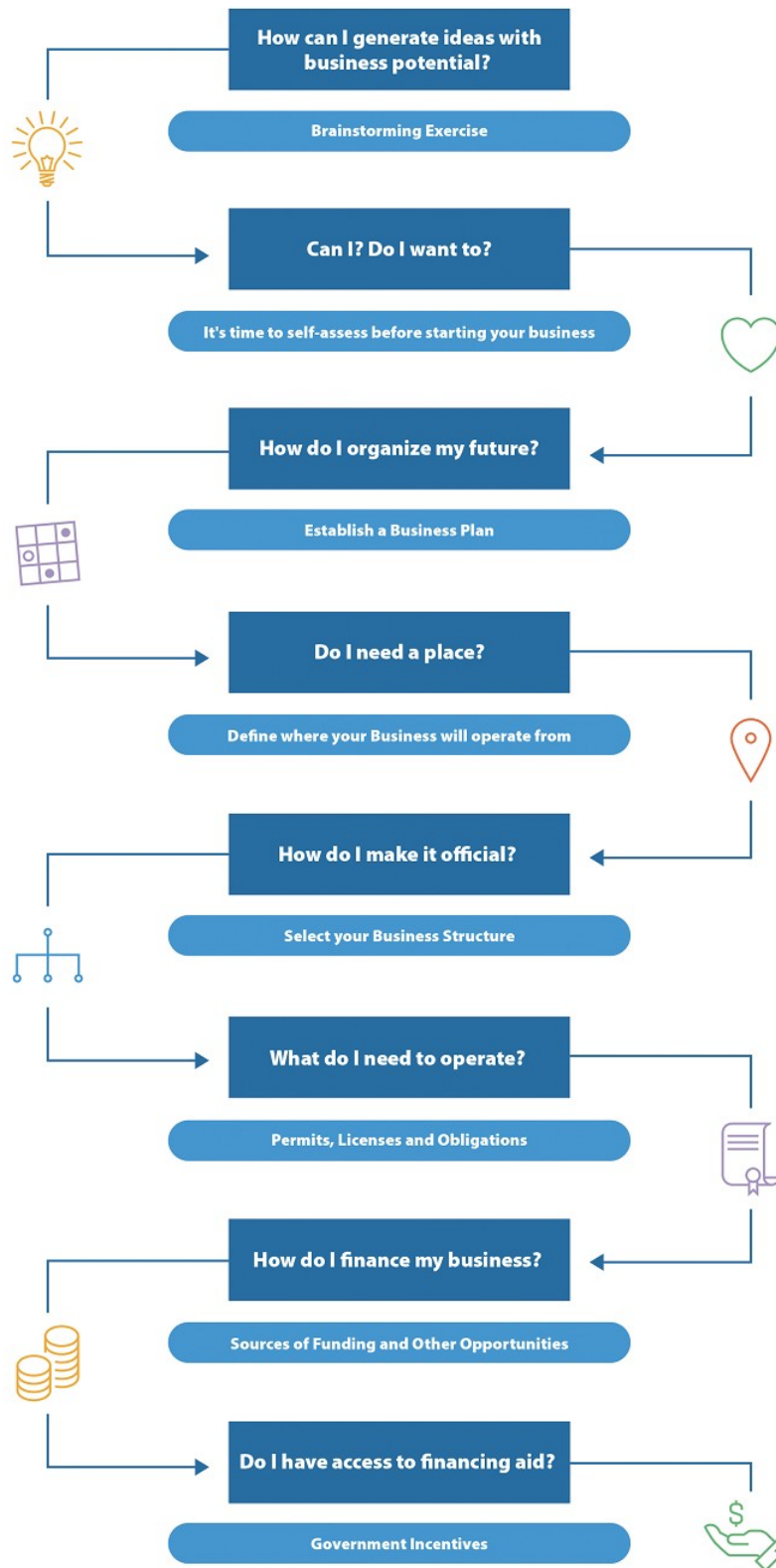
When establishing a business in Puerto Rico, you must consider all the transactions, permits and licenses needed to operate. The following is a list of the permits and licenses needed, as well as the corresponding regulating agency:

Permits Management Office (PMO) of Puerto Rico:

- Application for a Commercial Use Permit
- Certification for Fire Prevention
- Environmental Health Certification
- Application for Residential Use

If a business is established in an autonomous municipality, it should be referred to the corresponding office of Urban Development Permits.

Steps to do business in Puerto Rico



*Contributors: Pablo Arroyo León, Jessica Cruz Nieves, and Ivan Ríos-Mena, Advisors from DuartePino LLC.

Department of Treasury of Puerto Rico:

- Puerto Rico Sales and Use Tax (SUT) Merchant Registry
- Employer's Quarterly Return of Withheld Income Tax
- Monthly Deposit of Employer's Withheld Contribution
- Withholding Exemption Certificate
- Excise Tax License – issued to retail and wholesale businesses for the sale of cigarettes, alcohol, pool tables, and gaming machines.
- Registration as Employer
- Exemption Certification for Manufacturing Plants (If Applicable)

Department of Health of Puerto Rico

- Health License: it is issued to businesses that sell food and groceries or take care of children or seniors.

Environmental Quality Board of Puerto Rico

- Environmental Impact Statement

Municipalities

- Municipal Licenses
- Municipal Patents
- Use Permit for Mobile Businesses

Municipal Revenue Collection Center of Puerto Rico (CRIM)

- Real and personal property tax

To obtain most use permits, the endorsement of the agencies related to your industry will be required, as well as from:

- Puerto Rico Police Bureau
- Puerto Rico Fire Department
- Department of Family Affairs of Puerto Rico
- Department of Health of Puerto Rico
- Environmental Quality Board of Puerto Rico
- Tourism Company
- Public Service Commission
- Institute of Puerto Rican Culture
- Department of Natural and Environmental Resources

Furthermore, employers in Puerto Rico must comply with a series of obligations:

- United States Internal Revenue Service (IRS)
- Apply for Employer Identification Number
- Immigration Reform and Control Act
- Contribution to Social Security (FICA) and Medicare
- Unemployment Insurance
- Temporary Non-Occupational Disability Insurance (SINOT by its Spanish acronym)
- Chauffeur Insurance
- Christmas Bonus
- State Insurance Fund Corp. of Puerto Rico (CFSE by its Spanish initials)
- Worker Insurance Policy

- Information of Identification Number – Organizations (Employers)
- Withholding Exemption Certificate
- Monthly Deposit of Employer's Withheld Contribution
- Employer's Quarterly Return of Income Tax Withheld
- Child Support Administration of Puerto Rico (ASUME)

G. How do I finance my business?**Sources and other opportunities**

After establishing this roadmap to start your business, you must now find financing alternatives. [This edition of the Caribbean Business Book of Lists offers a special section titled "How to Finance My Business," with detailed information on the subject].

NOW WHAT?

Every business tends to be a continually evolving process. This simple checklist sums up how you can take your business from a simple idea to sustainable growth, including marketing considerations:

GET READY – Make sure there is a market for what you are offering. Invest in sound market analysis, starting by outlining opportunities and possible obstacles. Make informed, data-driven decisions to foster the development of your business.

GET ORGANIZED – Develop or adapt your business plan with go-to-market strategy details. It should include your brand strategy with its position in that market and the commercial approach plan—including distribution and pricing strategy—and should conclude with the marketing plan details to channel your market approach efforts.

NETWORK WITH OTHERS – Join professional associations, guilds and chambers of commerce, where you can meet the leading players in your industry, identify good talent and potential customers. This way of relating to the market may indirectly yield an unexpected benefit of developing your profession while increasing your business' social impact.

GET STRONGER – Now, more than ever, having business continuity and disaster recovery plans is a must. These plans are not just a business necessity in Puerto Rico but for every business that wants to survive crises such as the current pandemic.

SCALE – Prepare your business to grow on the island and abroad. Design your operation so it does not depend exclusively on you (a trial by fire for most entrepreneurs). It should be easier to replicate processes and integrate new employees, if necessary, so that you can manage a double-digit increase in customers without problems. Take advantage of the new digital world's opportunities to scale up by serving other markets from Puerto Rico.

While these strategic recommendations may speed up the process, it is important to consider that each case has its particular needs.

PUERTO RICO'S LARGEST TRADE ASSOCIATIONS

(Listed According to Total Number of Members as of 2020)

Current/ Previous Ranking	Organization Name Telephone Internet Address	Physical Address	No. of Members	No. of Full- Time Employees	Annual Convention	Executive Officer Title Email Address	Year Est. in P.R.	President (year 2021) Email Address
1/1	P.R. United Retailers Association (CUD) (787) 641-8405 centrounido.com	501 Muñoz Rivera Ave. San Juan 00918	5,000	12	September	Vilma Medina Executive Director vmedina@seguroscud.com	1891	Jesús Vázquez jvazquez@ cudpuertorico.com
2/2	P.R. Manufacturers Association (PRMA) (787) 641-4455 industrialespr.org	Centro Intl. de Mercadeo, Tower II Rd. 165, Ste. 702 Guaynabo 00968	950	6	June	Yandia Pérez Executive Vice President executivevp@prma.com	1928	Carlos Rodríguez president@prma.com
3/3	P.R. Chamber of Commerce (P.R. CofC) (787) 721-6060 camarapr.org	954 Ponce de León Ave., Ste. 406 San Juan 00907	577	7	-	Sharon Ferrer-Zayas Acting Executive Director & Finance Director sferrer@camarapr.net	1913	Luis Gierbolini presidente@ camarapr.net
4/4	Sales & Marketing Executives Association of P.R. Inc. (SME) (787) 773-5088 smepr.org	1566 Ponce de León Ave., Caribe Urb. San Juan 00926	493	4	-	María Lampaya Executive Director maria.elena@smepr.org	1951	José Bracero presidencia@smepr.org
5/5	P.R. Hotel & Tourism Association (787) 758-8001 prhta.org	33 Resolución St. Chubb Plaza Ste. 701-B San Juan 00920	400	2	-	Clarisa Jiménez CEO cjimenez@prhta.org	1950	Joaquín Bolívar III gmorales@prhta.net
5/6	P.R. Products Association (Hecho en P.R.) (787) 753-8484 hechoen.pr	525 Roosevelt Ave. Local 610, 3rd Fl. San Juan 00918	400	7	April-May	Carmen Ramírez Executive & Operations Director cramirez@hechoen.pr	1910	Aysha Issa presidente@ hechoen.pr
6/7	Southern P.R. Chamber of Commerce (787) 844-4400 camarasur.org	65 Isabel St. Ponce 00730	300	4	October	Jessica Fernández Executive Director jfernandez@ camarasur.org	1885	Salvador Rovira camarasur@ camarasur.org
7/7	Associated General Contractors of America, P.R. Chapter (787) 781-2200 agcpr.com	501 Perseo St. Centro Altamira Cond., Ste. 211 San Juan 00920	250	3	September	Ali Vargas Executive Director adm@agcpr.com	1963	Umberto Donato president@agcpr.com
8/8	Chamber of Food Marketing, Industry & Distribution (MIDA) (787) 792-7575 midapr.com	Centro Intl. de Mercadeo, Tower II 90 Rd. 165, Ste. 501 Guaynabo 00968	200	7	November	Manuel Reyes Executive Vice President mreyes@midapr.com	1979	Ferdysac Márquez gladys@midapr.com
9/9	P.R. Builders Association (787) 751-1471 constructorespr.com	701 Ponce de León Ave., Ste. 101 San Juan 00907	110	3	November	Nory Rivera Executive Director noryrivera@ constructorespr.net	1951	Alfredo Martínez- Álvarez Jr. amajr@martinal.com

Unless otherwise noted, all information was provided by the companies or obtained from their websites and/or public documents.
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