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

This is the same breakdown as in the US
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.
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

<table>
<thead>
<tr>
<th>Round</th>
<th>Number of Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Round</td>
<td>2,856</td>
</tr>
<tr>
<td>2nd Round</td>
<td>35,069</td>
</tr>
<tr>
<td>Total</td>
<td>37,925</td>
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</tbody>
</table>

Approved PPP dollar for Puerto Rico (in millions)

<table>
<thead>
<tr>
<th>Round</th>
<th>Approved Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Round</td>
<td>$659</td>
</tr>
<tr>
<td>2nd Round</td>
<td>$1,140</td>
</tr>
<tr>
<td>Total</td>
<td>$1,799</td>
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</table>

Average loan size in Puerto Rico (in thousands)

<table>
<thead>
<tr>
<th>Round</th>
<th>Average Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Round</td>
<td>$231</td>
</tr>
<tr>
<td>2nd Round</td>
<td>$33</td>
</tr>
<tr>
<td>Total</td>
<td>$47</td>
</tr>
</tbody>
</table>
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.

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

In millions

- Puerto Rico (Actual): $1.80
- Puerto Rico (assuming same approved lending per capita as WV, lowest state): $3.17
- Puerto Rico (assuming same approved lending per capita as 50 states + DC): $5.11
- Puerto Rico (assuming same approved lending per capita as DC, highest in US): $9.59
Puerto Rico and PPP

Puerto Rico was in the bottom 10 of states and territories in loans approved (per capita)
Puerto Rico has the fewest number of establishments per capita in the US

Establishments per 100K population
(2017 County Business Patterns)
Puerto Rico has the lowest weekly wage
PR Avg. weekly wage was $550 (QCEW Q4 2019) vs US average $1,091

Average Weekly Wages
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 in Puerto Rico

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

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

<table>
<thead>
<tr>
<th>E-Commerce</th>
<th>Budgeting &amp; Forecasting</th>
<th>Big Data</th>
<th>Inventory Management</th>
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<tbody>
<tr>
<td>• 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.</td>
<td>• 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.</td>
<td>• Business owners will need to devote more attention to understanding their customers through advanced sales and web analytics.</td>
<td>• Inventory taxes have contributed to significant shortages of supplies during emergencies (i.e., Hurricane Irma and now COVID).</td>
</tr>
</tbody>
</table>

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)