Interview: Frankie Chévere, Executive Director, CCE, Puerto Rico



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The Puerto Rico Trade and Export Company (CCE) helps small and medium-sized enterprises (SMEs) stimulate their business in Puerto Rico and abroad. Frankie Chévere, CCE's executive director, discusses the successes of the agency since 2013.

You came to CCE in 2013; what were the first challenges you had to address when you arrived?

I found an agency that was dormant. The motivation of CCE's employees was low because the previous administration had underutilized its services. CCE is the main government agency in charge of promoting and protecting the interests of local companies, especially SMEs. I found that there were very few incentive programs in place, and those that were granted to the corporation were not utilized. The information system we had in terms of public relations and promotion of our services was very poor. One of the first things we did was to revamp the website, which is now one of the best among the 130 government agency websites in Puerto Rico.

In general, my biggest mission was to let people know that CCE was here to help merchants and small businesses be competitive, as well as to create an export culture. With $68 billion in exports, this amount is larger than most Latin American countries, although 69.4 percent of those exports are solely from the pharmaceutical industry, and 95 percent of that figure comes from big pharma.

Based on an economic study of SMEs in Puerto Rico, we determined that the share of their exports is only six or seven percent. CCE aims to increase that.

What has been the change in perception regarding Puerto Rico's entrepreneurial and export culture?

This has indeed been a challenge; but after two and a half years, we are seeing notable changes in the attitudes and dispositions of Puerto Rican SMEs. CCE has created a positive environment which has made these companies see and believe that they can grow through the establishment of a public policy by the Puerto Rican government. For example, the first law that Governor García Padilla signed and promulgated in February 2013, one month into his term, was the Jobs Now Act (Law 1). This law created a scheme of short-term incentives for companies to create jobs in Puerto Rico through tax exemptions, salary subsidies, and energy credits. It aimed to give preferential treatment through those incentives to SMEs. Law 1's goal was to help create 50,000 jobs in 18 months through different laws initiatives, and after 18 months 55,000 jobs had been created, one third of which belonged to SMEs. Law 1 was administered by CCE and we worked with several other agencies to implement these incentives.

What sectors were these focused on?

It was a diversity of sectors for SMEs like food and beverage, retail, professional services, construction, and some manufacturing. Law 1 was not exclusively for SMEs; big companies, both local and foreign, also benefited from this. These jobs also included the health industry; we saw the creation of diagnostic centers, services for the elderly, small pharmacies, and medical offices, all of which benefitted from these incentives.

Many talented people graduating from Puerto Rican universities across different sectors are going abroad due to a lack of job opportunities. How do you convince these young people to return?

This was of huge concern when we came into office. In our meetings with the short-term Economic Development Council, we discussed the issue of talent migration. The Governor's vision was and is to create the proper economic development ecosystem in all sectors to convince our youngsters, who are well-educated, not to leave the country. By square mile, Puerto Rico has more post-secondary institutions than anywhere in the world (20 universities and colleges). The initiatives that we will implement in terms of economic development and job creation in different sectors aim to diversify the economy. Puerto Rico has depended on manufacturing for many years, and with the removal of Section 936 from the federal tax code there has been an exodus of manufacturing

jobs. We need to stop that exodus, and stabilize and expand manufacturing; but we must also enhance and expand other sectors like tourism, agriculture, or services, all of which SMEs are part.

In August 2014, the government created economic incentives for young professionals to establish the proper environment for them not to leave through Law 135, signed by Governor García Padilla. This law is a statute that provides for very liberal incentives for youngsters. The first is a full-pass tax exemption for the first $40,000 in gross income between 16 and 26 years old. Under the current tax laws in Puerto Rico, an individual would normally pay around $9,000 in income tax for that salary. Secondly, for individuals between the ages of 16 and 35, we have liberal tax exemptions for those who create new companies. For the business they create, we give full income, municipal and inventory tax exemption for the first $500,000 of gross sales of income during the first three years of operation. Plus they can find seed money from Furthermore, the Economic Development Bank of Puerto Rico can offer seed money to these young entrepreneurs as well as student loan refinancing. We are seeing the results of Law 135 today; there is a great deal of interest among young people to apply to this program, which went into effect in January and Puerto Rico already has almost 100 new certified companies.

To what extent does CCE help service providers to the life sciences industry?

CCE is taking its first steps in this direction, as it had never been oriented to providing services and counseling in many sectors including life sciences in the past. We started as an experiment called Supply Chain Ecosystem, specifically in aerospace, which had fantastic results. We are linking our local suppliers of products and services with the multinational sector, in this case aerospace. But we want to do that in other segments like life sciences, as Puerto Rico has many SMEs with that capacity. 91 percent of all companies in Puerto Rico are SMEs, which term was redefined last year in Puerto Rico under Act No. 62 as any company with 50 employees or less and annual gross income of less than $10 million or less. These companies represent 31 percent of total employee payroll here. That implies a diverse set of sectors, including healthcare. As a matter of fact, a recent study demonstrated that the healthcare industry within the SME sector (health services & assistance) represents 12.8 percent of that 91 percent. The number of health companies is even higher: 17.2 percent of the establishments in SMEs. Payroll in healthcare is similar at 12.7 percent.

This is just the beginning. There was no public policy in favor of developing local entrepreneurship for SMEs when we came into power. The political terrain was not being utilized to foster its mission. I found six programs in place out of which two had elapsed funds. We have 16 such programs now. One of them involves formational ecosystems and linkage between bigger companies and SMEs that can supply services and products to larger companies. We have had great success in

aerospace with the establishment of the Lufthansa maintenance and repair operation in Aguadilla. We are expanding that now into about eight other companies in the aerospace area. My goal before the end of my term is to do the same with the pharmaceutical segment.

When your term finishes, what would you like to have ultimately achieved?

There was an estimated net loss of 12,000 companies from 2009 to 2012. Through our public policies established in favor of developing local entrepreneurs, in 2014 the number increased by 2,484 new SMEs compared to 2012 (the highest in eight years), an increase of 5.4 percent. The number of SMEs that are closing has decreased by 9.3 percent (the best rate in ten years). In terms of employment among SMEs, jobs remained stable at 31 percent but the payroll increased by 2.3 percent (2014 vs. 2012), the highest level in three years. Sales of SMEs increased by 6.8 percent compared to 2012, or $1.6 billion more in sales. Exports increased by 14.4 percent in comparison to 2012 ($563 million more).

We have developed a strategy to enhance the export of services through our programs, including expo partners and trade missions which have been very successful in Central and South America and the Caribbean. We have established two new offices in Peru and Colombia in addition to those already established in the Dominican Republic and Panama. Part of our success in the increase of those numbers from local companies is due to local efforts but the service sector, including medical services, has been very attractive and has found very important markets abroad. This includes services like electronic billing or medical records. Countries like Panama and Peru are behind us in terms of those technologies. We have a local company called MC-21 that has been very successful in Colombia and Panama, and now with our help they are entering the Peruvian market. This company provides insurance programs for prescription drugs. At the end of this term, I see us continuing to increase in the various economic indicators for SMEs including the share of the contribution of gross national product and the share of the healthcare services industry.

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