

Global Entrepreneurship Monitor (GEM) Puerto Rico, 2018

Entrepreneurial activity in Puerto Rico has undergone substantial changes following Hurricanes Irma and Maria in September 2017. Although this event had serious consequences on economic activity in late 2017 and early 2018, it also brought new opportunities for entrepreneurs. This report details the results of surveys conducted by the Global Entrepreneurship Monitor (GEM) in Puerto Rico in summer 2018. These surveys have been carried out continuously since 2013 in Puerto Rico, which allows us to better understand the transformations.

The highlight in GEM Puerto Rico 2018 is the growth in the number of new enterprises in Puerto Rico: 2.6 percent of the population surveyed indicated that they have a *new enterprise* (firms for which salaries or wages have been paid at least for 3 months and began three years and a half ago or less, prior to the survey). Although the figure is still low when compared to other countries, it is higher than in 2017 (1.4%). Interestingly, the number of *nascent entrepreneurs* (those who are actively involved in starting a new venture, but still haven't received salaries or wages for at least 3 months) has not experienced the same change: 9.1 percent, compared to 9.5 percent in 2017. This assumes that the rate combining the two figures, the total early entrepreneurial activity rate (TEA), has risen to 11.6 per cent, but unlike previous years, growth has been due this time to entrepreneurs with new ventures. In previous years, growth was in nascent ventures.

Global Entrepreneurship Monitor (GEM) is an international research project, which enables data comparison. In previous years we have highlighted the contrast between the rates of nascent entrepreneurs, who place Puerto Rico among the most active internationally, and those of new entrepreneurs, who place it in one of the last positions. In no country is there such a difference between the rates of new and nascent business. In 2018 this difference has narrowed, although it is still very high when compared to other countries.

The recovery process that began after the hurricanes has created opportunities to do business. The 35.2 percent of respondents perceive that now there are good opportunities to undertake entrepreneurial activity, while in previous years the figure did not exceed 28 percent. In fact, 22.9 percent of respondents who now have no entrepreneurial activity say they intend to start a new business in the next three years, again a figure far higher than in previous years (18.3% in 2017) and relatively high in the international context.

In addition to individual perceptions towards entrepreneurial activity, GEM analyses the social values and conditioning factors of the national context. The evolution of these parameters is less influenced by conjunctural elements: it is still very low (20.7%) the proportion of the population who answers that our society considers being an entrepreneur as a good career choice, the lowest percentage among all participating countries. This is despite 80.9 percent think that the media pays attention to entrepreneurs.

Another positive aspect is that three out of four new and nascent entrepreneurs expect to create jobs in the coming years. 49.4 percent plan to generate between 1 and 5 jobs, and 24.2 percent believe they will generate more than 5. These proportions are higher than in the United States (71.8%), Latin America (66.4%) and other countries. It is also highlighted that 26.1 percent of entrepreneurs consider that they sell an innovative product or service, and 23.8 percent said they export at least a quarter of their production.

GEM 2018 data provides information on the profile of entrepreneurs with new initiatives. As in previous years, the role of young people stands out: 19.0 percent of people between the ages of 25 and 34 indicate that they are participating in a new or nascent business. In terms of gender, both male and female entrepreneurs have increased, but the increase has been more pronounced among men: 15.2 percent of men and 8.4 percent of women have



nascent or new entrepreneurial initiatives in 2018, versus 13.2 and 8.3 percent in 2017.

The GEM 2018 report includes for the first time information on family participation. In Puerto Rico, 28.4 percent of entrepreneurs with new initiatives develop them with a family member, a higher number than in the United States (22.9%) and the average in Latin America (23.9%). It also highlights, although in a more attenuated way, the proportion of consolidated business in which a family member participates (21.0%).

The report also assess for the first time the role of digital platforms (such as Uber, Etsy or Airbnb) in the development of new business, what is known as “gig economy”. The 13.6 percent of new entrepreneurs in Puerto Rico generate revenue through digital platforms. This figure rises to 34.8 percent among nascent entrepreneurs, the highest percentage among participating countries, and 60.0 percent among those planning to start an enterprise in the coming years.

In summary, in 2018 there is a growth in Puerto Rico in the number of new business that pay salaries or benefits to their owners, and now we have relevant data on the role of families and new technologies. However, despite progress in new ventures, the business sector in Puerto Rico remains small when compared to other countries. The cumulative result of the reduced rates of new business observed since the GEM surveys began, corroborated by other indicators of entrepreneurship, is that the rate of consolidated ventures remains very low, 1.9 percent. This rate refers to ventures that are 3.5 years of age or older. Puerto Rico occupies the last position in this indicator among the participating countries.

Moreover, if on one hand the passage of hurricanes and the process of subsequent recovery generated

areas of opportunity for new business, on the other hand, these atmospheric phenomena caused the closure of existing businesses. The 3.1 per cent of respondents indicated that they had discontinued some entrepreneurial activity in the months previous to the survey, up from 2.7 per cent who indicated the same in 2017. It points out that a quarter (27.3%) of those who closed operations in 2018 indicate that this is a direct consequence of an incident, which we can infer is the hurricane.

Finally, it should be noted that GEM introduced a new indicator this year, the National Entrepreneurship Context Index (NECI). The objective of this indicator is to facilitate the international comparison of environmental conditions, based on the results of the survey with national experts. The NECI of Puerto Rico in 2018 is 4.1 out of a maximum of 10 points, which leads us to rank 51st among the 54 participating countries, far from the United States (6.0) and Latin America (4.6).

The NECI reflects a conclusion that repeats year after year: beyond the effects of circumstances such as the passage of hurricanes in September 2017 and the recovery process afterwards, the context of Puerto Rico does not favor the development of entrepreneurial activity. The least contributing factors include bureaucracy, government taxes and regulations, and education towards entrepreneurship at the primary and secondary levels. These are the context factors worst valued by the experts in 2018. Although the experts consulted change every year, surveys have consistently provided this same result since 2013, and have also been consistent in assessing the other factors. When comparing with other countries, however, there is one element that stands out positively: entrepreneurship education in postsecondary institutions.