

## Global Entrepreneurship Monitor (GEM) Puerto Rico, 2019

### Executive Summary

The 2019 annual results of the Global Entrepreneurship Monitor (GEM) illustrate the changes in entrepreneurial activity and sociocultural aspects that are taking place in Puerto Rico in relation to entrepreneurship. The data collected consecutively since 2013 allows to observe the evolution of society's perception on this topic. That first year, only 17.9 percent of those surveyed claimed that most people in Puerto Rico believe that starting a new business is a desirable career choice; it was by far the lowest percentage among all the countries conducting the survey. In 2019, that percentage rose to 30.7 percent, almost doubling 2013's percentage. Although it is still a low percentage compared to other countries, it shows a big change in relation to entrepreneurship perception on the island.

Consistent with the previous result, the number of people that intend to start a new business within the next three years (including self-employment) has risen from 13.1 percent in 2013 to 23.9 percent in 2019. That is, nearly a quarter of respondents (adult population aged 18 to 64) are seriously considering becoming entrepreneurs in the near future. That percentage is remarkable, higher than in the United States (13.7%) and high-income countries (20.2% on average), although below the average of the Latin American and Caribbean region (37.4%).

GEM 2019 results reveal that 11.3 percent of respondents qualify as nascent entrepreneurs, that is, they did something to start a new business, although it still did not allow them to pay salaries or receive benefits as entrepreneurs for at least three consecutive months. However, the proportion of people who have a new venture that already generates wages or benefits is much smaller: 2.2 percent (ventures that are at least three months old and at most three and a half years old). Both

percentages make up the early-stage entrepreneurial activity rate (TEA), which is 13.4 percent in Puerto Rico in 2019. This rate is comparable to that of many economies, placing us in 17th place of the 50 countries participating in the GEM in 2019. TEA in the United States is 17.4 percent, but the average among high-income countries is only 12.3 percent, whereas TEA in the Latin American and Caribbean region is 24.1 percent, in average.

It is of critical importance to note that no country has a TEA composition similar to Puerto Rico's, with a rate of nascent entrepreneurs five times higher than that of new ventures, suggesting that the entrepreneur's path in Puerto Rico has serious obstacles. The percentage of efforts to start new business that do not reach the next phase is too high. In the United States, for example, the rate of nascent ventures is just double than the rate of the new ones (11.8% vs. 5.9%); the ratio is even lower in high-income countries (7.8% vs. 4.7%, on average) and in Latin America and the Caribbean (15.6% vs. 9.1%, on average).

The evolution of TEA in Puerto Rico has a clear growth trend: from 8.3 percent in 2013 to 13.4 percent in 2019. The TEA component that has had a strong growth trend is the proportion of nascent entrepreneurs (from 6.6% in 2013 to 11.3% in 2019). The rate of new ventures has changed much less (from 1.8% in 2013 to 2.2% in 2019), and the only year in which substantial growth was observed was in 2018, after Hurricane Maria (2.6%).

In summary, there is a "bottleneck" in the early entrepreneurial activity in Puerto Rico, a situation that requires attention. This was already observed in GEM's results in previous years and was exposed in the corresponding reports. It continues to worsen in 2019.

In expressing the reasons for starting an enterprise, TEA entrepreneurs highlight sociocultural changes: 65.9 percent said they do so "to make a difference in the world". Puerto Rico is one of the countries where this reason was mentioned more frequently. It should be noted that there is also a high proportion of those entering the world of entrepreneurship "to continue a family tradition", 43.5 per cent. In addition, it is interesting that only 43.7 per cent mention "build great wealth" as a reason (versus 69% in the United States and 51.7% in high-income countries, although similar to the percentage in Latin America and the Caribbean, 48.3%).

However, the most mentioned reason for starting an enterprise was: "To earn a living because jobs are scarce (it's hard to get a job)". Eighty four percent (84.3%) of TEA entrepreneurs in Puerto Rico mention it as a motivation, a much higher figure than in the United States (41.4%) and high-income countries (54.2%), and at the same level as other Latin American and Caribbean countries (84.5%). That is, the development of entrepreneurial initiatives in Puerto Rico reflects partly sociocultural change, but it seems to be above all a reaction to the deterioration of the economic conditions of the last two decades and to the reduced employment opportunities on the island. This fact imposes greater urgency on the need to solve the "bottleneck" problem in the process of entrepreneurship.

Young people start new enterprises in Puerto Rico more often than other age groups; in fact, half (49.3%) of the new ventures in Puerto Rico have as protagonist a person under the age of 35. In terms of gender distribution, there is an increase in the proportion of women's new businesses, although as in other countries, entrepreneurship remains more frequent among men.

GEM study complements the adult population survey with an expert survey, for further analysis of factors that may benefit or hinder the development of entrepreneurial initiatives in the country. The 36 experts consulted in the Puerto Rico survey in 2019

described the picture in a similar way as their colleagues had done in previous years: almost all the factors analyzed represent obstacles, more than benefits, for our entrepreneurs.

In fact, the National Entrepreneurship Context Index (NECI), calculated from the set of these scores, is 3.18 for Puerto Rico in 2019, the second lowest value of all participating countries, only above Iran. In the United States it is 5.31, an average of 4.81 in high-income countries and 4.00 on average in the Latin American and Caribbean region.

As in previous years, the entrepreneurship framework conditioning factors that received lower scores by experts are: (a) government policies regarding taxes and regulation or bureaucracy, not perceived to be focused on promoting new small and medium-sized enterprises or to be neutral to the size of enterprises, and (b) the education for entrepreneurship in primary and secondary schools, not perceived to be incorporated into the education system.

Expert assessments in 2019 are also very low, both in absolute terms and compared to other countries, in relation to the presence and quality of government small business support programs, at the municipal, regional or national levels; to the definition of public policy around the theme (entrepreneurial activity as a relevant economic issue); and internal market barriers (to what extent new ventures can enter established markets).

On the positive side, experts highlight changes in the domestic market between 2018 and 2019, which have favored the development of new ventures. In any case, the results of this study underscore the urgency of accompanying these changes, as well as the sociocultural transformations, with policies and programs that focus on improving the viability of business initiatives in the short term.