

CONSULTIVA
internacional, inc.

Investment Management Consultants
A Registered Investment Adviser

August 22, 2016

The Honorable Orrin Hatch
U.S. Senate
Chairman, Congressional Task Force on Economic Growth in Puerto Rico
104 Hart Office Building
Washington, DC 20510

Dear Senator Hatch:

In this letter we are presenting specific recommendations for economic development that focus on the empowerment of local businesses and leveraging Puerto Rico's competitiveness in key industries. *Consultiva Internacional, Inc.* is an independent, locally-owned registered investment advisor located in Guaynabo, Puerto Rico, which has been serving a diverse array of institutions, individuals, and state government entities in Puerto Rico and the United States over the past 16 years.

Beyond each of the specific recommendations provided in this communication, our investment strategy committee is convinced that Puerto Rico's main need is to increase local well-distributed wealth, so that our citizens can dedicate more resources to their communities and rebuild. Any catch-all measure that would provide "extra points" to Puerto Rico specific programs or incentivize investing locally will enhance all economic development efforts.

1. Develop and carry-out a Long-Term Economic Plan

Knowing this is the task force's main goal, we must stress the importance of developing a plan that has everyone as a stakeholder, including the U.S. government, and that is carried out through an independent entity. Congress can enable the Economic Development Administration (Dept. of Commerce) to provide a special planning grant to Puerto Rico to generate an Economic Development Plan that everyone can stick to, and also empower an independent entity to implement it while having the resources, authority and protection to survive changes in local and even federal administration.

2. Declare Puerto Rico a "Caribbean Enterprise Zone"

This could facilitate support from various federal agencies to impact businesses, increase exports, and expand the island's economic footprint in the Caribbean Basin. Puerto Rico should be at the forefront of business to business activity in the region, leveraging existing human capital in the fields of finance, law, insurance, education, and technical services. Puerto Rico's professionals are versed in U.S. law and federal compliance requirements. Having a fully bilingual population also gives the island an advantage. Puerto Rico should be the place through which overseas investments are conducted, economic

development assistance is provided, and community development aid is given to countries in the region.

3. Promote Private Sector Investments

Match to the tune of 1:1 private capital raised by local privately-owned and managed investment funds which have formed under local Private Equity Law 185 and serve as a catalyst for accelerating capital support for startups and high-growth firms. This can be done through the SBA, as they already have infrastructure to do this (Small Business Investment Company). While we are not in their target market, the Overseas Investment Corporation could be another agency to engage in these efforts. Also, encourage local legislators to amend the current law so that nonprofit institutional investors find incentives similar to the tax incentives currently enjoyed by high-net worth individuals, for example a provision of tax credits that can be sold by these to corporations and individuals with tax obligations.

4. Promote Local Impact Investments

The Fed can provide a special 2:1 match to private investors to target "impact" areas, underserved communities which are low in employment and high on government aid. This could possibly be done through the U.S. Treasury, Dept. of Commerce, SBA, and other agencies. The government will get a double return, a financial return as other investors, to make additional investments, and a social return that produces savings in the form of reduced government aid (food stamps, housing subsidies, unemployment benefits). This should include investing in companies in emerging sectors such as clean energy, which will also produce savings related to lower fossil fuel consumption and less environmental harm. The White House already has an impact investing initiative running which includes Regional Innovation Clusters, Start-Up America, Freshworks Fund and other programs.

5. Co-Invest in Early Stage

Early-stage companies face difficult challenges accessing capital, particularly those without the necessary assets or cash flow for traditional bank funding. The federal government can support investments in life-sciences and other high-growth areas, which have been targeted by the Puerto Rico Science & Technology Trust, the University of Puerto Rico, and other research centers. Investments should be enhanced by grants for research, training and technical assistance. The Small Business Innovation Research and Small Business Technology Transfer are good models to follow, but more resources and better coordination are needed to promote participation in these and similar programs.

6. Introduce Changes in CDFI Fund / U.S. Treasury Programs

Create a special category within the CDFI Fund programs for venture capital funds (VC). It is important that this program have additional funding and does not just move funding from other CDFI Fund programs to VC. This is necessary to obtain support from the CDFI Fund staff and Department of Treasury, as well as from the CDFI Coalition. While VC funds were included in the original CDFI Fund legislation, and they continue to be part of the Fund's mandate, very few CDFI Fund awards go to VC funds. This is in large part because all other types of CDFIs are lenders, and Venture Capital Funds for Community Development (CDVC), tend not to fit the expected business model. Therefore, the legislation should also include a mandate for the CDFI Fund to tailor its application to fit VC funds better than its current application does. This could

help Puerto Rico in particular, because there are various CDVC-type funds forming under local legislation (Law 185, 2014, Puerto Rico Private Equity Fund Law). Most new job creation in the US (and PR) occurs in entrepreneurial small businesses, which are the target market for CDVC funds, but generally are not appropriate for debt.

7. Introduce Changes in USDA / Rural Business Investment Companies

The USDA's Rural Business Investment Company program could be funded with Operational Assistance (OA) grants. When the program was created, it included funds for these OA grants, but congress has not appropriated such funding for a number of years. It would be an easy fix to appropriate money for these grants. The program already exists.

We look forward to the Task Force's deliberations and will be glad to provide any additional information or offer testimony. Please call us at 787-763-5868 if you have any questions.

Sincerely,

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