

Community Based Employment Development: Public and Private Investing Strategy

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Introduction

The Puerto Rico Community Foundation (PRCF) presents the following document to the *Puerto Rico Task Force* in order to introduce our institution as a leading philanthropic organization in Puerto Rico, with a proven track record of 31 years. The Foundation will present a series of recommendations that positively impact Puerto Rico's economic development.

Who we are

The PRCF is a leading grant-making and technical assistance philanthropic organization, that serves communities in Puerto Rico, and internationally. As the only community foundation in the island, we have been able to advise donors on relevant community issues and how to make a difference through grant making strategies and the establishment of endowment funds. Allowing our donors to touch the lives of many in the community, while impacting their future evolution. The Foundation also works to strengthen community leadership, providing grants, financing, capacity building and technical assistance to non-profits serving vulnerable communities. PRCF positions itself as a facilitator, empowering the different sectors to participate and pursue a sustained social transformation.

Our Institution was first conceptualized by the Puerto Rican diaspora in the US, including the Puerto Rican National Coalition. At that point, a fertile ecosystem was perceived to propel a community foundation model that would pool in funding from US and the Puerto Rican community in the island to serve as a grantmaking vehicle for the underserved communities in Puerto Rico. US foundations were sure to join in as Ford Foundation made a challenge grant for the amount of \$2M to startup this new philanthropic venture: *CS Mott Foundation, MacArthur Foundation, W.K. Kellogg Foundation, Carnegie Corporation, Rockefeller Foundation, The Cleveland Foundation and Robert Wood Johnson Foundation*, were among the many local and US collaborators. In the year 1987, \$800K were set aside to establish the Puerto Rico Community Foundation's community platform; its endowment. Today, PRCF has nearly \$30M in assets of which 67% is endowed. This group of foundations made a winning bet in Puerto Rico.

The PRCF mission is to: *develop the capacities of communities in Puerto Rico to accomplish their social transformation stimulating philanthropic investment and maximizing the impact and yield of each contribution.* Last year, the Foundation celebrated its 30th anniversary by publicly accounting for – true to its mission – its many years of work in communities through non-profit organizations: 6,000 affordable housing units were built or rehabilitated, providing a safe home for more than 16,000 individuals; established and sustained over 500 microenterprises that developed 1,200 jobs; \$58 million awarded in grants, scholarships, capacity building and technical assistance to non-profits and individuals.

PRCF's Economic Development Initiatives

Low- income communities in Puerto Rico are an untapped resource for Puerto Rico's economic development. Failed governmental policies have led to extreme dependency in low-income communities. PRCF taps on these community resources through two innovative economic strategies of public and private investing.

Community Investment Fund

The banking industry has gone through a rough patch in recent years forcing the industry to increase financing criteria thus limiting access to capital, especially to the non-profits. In lieu of the situation, PRCF launched the **Community Investment Fund (*Fondo de Inversión Comunitaria- FIC*)** in late 2014. With an initial seed money from PRCF of \$500,000, we were quick to attract other private financial investors (*Fundación Ángel Ramos, Banco Popular de Puerto Rico and First Bank*) to invest, resulting in a \$1.1M Fund. The Fund, for example, has provided financing to: (i) strengthen community loan programs for microenterprises or small businesses; (ii) rehabilitation of affordable housing, and to provide pre-development and development costs; (iii) provide *bridge loans* for projects with an identified repayment source (contracts, grants, etc.); and (iv) empower entrepreneurial activities with financial and social return. The Fund

has provided financing to three non-profit organizations: 1) CEI – Centro Estimulación Integral / bridge loan – a non-profit organization serving the autism and other special needs population; 2) Pathstone/ community loan program – a non-profit that leads a regional economic development initiative (Ponce, Adjuntas and Castañer) and: CMTAS/ empower entrepreneurial activity – an incubator of agriculture enterprises. Currently, the Fund has seven other businesses in its pipeline.

Creative Industries Fund

One of PRCF's goals is to reduce government dependency by setting up economic infrastructures that support income-generating community initiatives. This year, the Commerce and Exports Agency (Compañía de Comercio y Exportación) partnered with PRCF to establish the *Creative Industries Fund*. PRCF has become a partner to this government agency providing knowledge, expertise and a thorough transparency structure outside of the government. The structure of the Fund has been incorporated and PRCF is the institution that will watch over its compliance. The endowed Fund, equally seeded by PRCF and the government, will generate financing and grants to community projects in Santurce.

PRCF Community Based Employment Development Proposal

In Puerto Rico, micro and small/medium businesses generate 43% of private sector jobs. The small and medium enterprises represent a significant majority in both the local economy and at an international level. These entrepreneurs are the most important socio-economic actors in contracting economies such as ours; as a result, 58.9% of families live below the poverty level or face economic destabilization. These have been a key driver for the most recent migration wave. But for others, it has become the tipping point to start a business.

According to *Global Entrepreneurship Monitor (GEM)*¹, 42.9% of participants, in Puerto Rico, were involved in early entrepreneurial activities (business 0 to 3.5 years). That same study shows that 53.0% of respondents had the ability to undertake entrepreneurial activities, but only 28.3% of these were aware of the existing opportunities and resources to do so. Whereas, 13.1% of respondents indicated that they had the intention to get involved in entrepreneurial activities in the next three years.

PRCF seeks to support an infrastructure that can create and sustain **600 jobs**, from the ground up, through the establishment of the *Centro de Gestoría y Aceleración al Desarrollo Económico Comunitario (Center for Diligence and Acceleration for Economic Development --GeCom)*. The *Center* is intended to convene and integrate 24 non-profits community based organizations to optimize existing community resources to develop and strengthen micro and small businesses, and will be able to use the financing resources from the Community Investment Fund (FIC). *GeCom* would be created to guide, advice and align the efforts originating from the non-profits, providing technical assistance to the businesses created (which could be micro, small business and collective production such as worker-owned cooperatives). Our main goals are to develop and establish **240 businesses**, and to create and retain **600 jobs** (@2.5 jobs per business) in a period of **two years**.

In order to put this strategy into action, the PRCF needs buy-in from the government in the form of a Public-Community Partnership to stimulate job creation from the ground up in two ways:

- **Funding** – Provide seed funding of \$1.14 million to establish the *Center* (GeCom) that will focus on strengthening and empowering community organizations dedicated to business incubation and acceleration.
- **Regulation** – Submit and approve a bill to provide a deduction or tax credit on investments made to PRCF's Community Investment Fund; or 100% of the interest accrued on those investors who commit to impact investing, also through PRCF's Community Investment Fund.

This will give the government of Puerto Rico the opportunity to co-create and support an infrastructure that will accelerate job creation at a community level. This seed funding will enable and leverage a potential public/private investment of \$10 to \$15 million that will stimulate and strengthen the base of this project – for every \$1 invested by the

¹ Global Entrepreneurship Monitor (GEM), 2013, <http://gemconsortium.org/country-profile/101>

government, \$15 will be generated in private investment. In addition, strategic partnerships will be established between community organizations, government agencies, foundations and private enterprises in order to catalyze the businesses emerging in our community base.

Other Recommendations

Following are a set of recommendations based on economic development strategies that will bridge the gaps that affect the most vulnerable communities in the Island.

1. **Puerto Rico as a Housing and Urban Development Revitalization Area:** The PRCF recommends that the entire island of Puerto Rico be declared a Revitalization Area (authorized by Congress under provisions of the National Housing Act). Revitalization Areas are intended to promote "the revitalization, through expanded homeownership opportunities, of revitalization areas." HUD-owned single family properties located in a Revitalization Area are eligible for discounted sale through special programs. For example, currently under the Good Neighbor Next Door program, HUD offers certain single family properties for sale to public service employees, such as police officers, teachers, fire fighters, and emergency medical technicians at 50% off of the list price.

In addition, the PRCF recommends to increase the discount of FHA-Approved Nonprofits from 30% to 60% under a direct sales program. With this discount, local nonprofit organizations will continue to invest in their communities through property rehabilitation and resell to first-time homebuyers and low- and moderate- income families.

2. **Increased opportunities for Community Development Financial Institutions (CDFIs):** Amend regulations that will allow Puerto Rico CDFI's the opportunity to apply, in a non-competitive basis, financial assistance from the Department of the Treasury. Also, that the financial assistance – to CDFI's located in Puerto Rico – be accessed in the form of grants and with a minimum or no match dollar-for-dollar with non-federal funds. Puerto Rico CDFI's can have more money to meet the demand for affordable financial products in this actual economic crisis.
3. **Community Reinvestment Act Qualified Investments:** Consider donated land or property to non-profit organizations by financial institutions, as qualified investments for CRA amid the value and the geographic area. This will allow local banks to reduce the real estate owned listing while providing nonprofit organizations to have an inventory of properties for rehabilitation, rent or resell to first-time homebuyers and low- and moderate- income families. These activities will help the nonprofit organizations having a source of income to continue providing essential services.
4. **Individual Development Accounts:** Provide a funding source to stimulate Individual Development Accounts (IDA). According to the Office of the Comptroller of the Currency, IDA's are matched savings accounts that enable low-income and low-wealth individuals to save for a specified goal within a defined period of time. The most common savings goals are homeownership, development of small business ownership, and post-secondary education. According to the FDIC, an IDA is recognized as a savings account, funds deposited by the account holder will be matched, commonly by two or three dollars to one dollar. A "ceiling" of dollars and time frames typically is established for the match amount
5. **Law 20 Act** – Amend the law to require for any business to relocate to Puerto Rico to invest certain amount in community economic development organizations. It would be some sort of Community Reinvestment Act for Law 20 beneficiaries. This will allow for them to truly engage and embrace their new community while improving the quality of life of their surroundings.

Closing Remarks

To conclude, PRCF would like to emphasize our Institution's commitment to the wellbeing and sustainable development of our communities – as our mission mandates – so they can fulfill their social and economic potential. The PRCF has deep understanding of communities' most pressing issues, especially those related to economic development. We strongly believe that our Foundation can add significant value to the design and implementation of economic development strategies in this crucial time. PRCF is available to engage in a dialogue with the Task Force and provide more in-depth information regarding our initiatives.

