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WEEK

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Higher gear

New Economic Development Bank President Ivonne Otero goes full throttle

By Alexander Lopez
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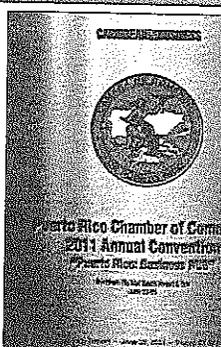
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The timing could not be better



Economic Development Bank steps up changes to reduce delinquency, improve efficiency and expand loans, right on time for the recovery

BY ALEXANDER LÓPEZ
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It has long been an article of faith in the banking industry that sound credit analysis begins and ends with management. If business' owners can't demonstrate that they know what they're doing, don't make the loan.

Provided the credit risk is good and the loan is made, the second article

of faith is to keep track of the client to make sure the loan doesn't go bad, and if it does, deploy a strong collection effort.

Historically, the Economic Development Bank for Puerto Rico (EDB) has had a spotty, on-again, off-again record of following these precepts. Ivonne Otero Guzmán wants to change that.

It's part of the renewed professional-management effort the recently

named president of the institution has initiated to ensure industry-standard best practices at the bank far into the future—practices the seasoned veteran of the banking industry hopes will keep the EDB from committing many of the mistakes that have plagued it in the past.

"We have completely re-engineered and restructured our procedures to speed up the cycle time," Otero noted. "Our staff had to be properly

trained for them to be effective their output."

The big wake-up call came following the "Llave para tu negocio" (Key Your Business) program in the mid-to-late 2000s. Approximately 1,000 loans were issued, and regardless of the business, the loan amount varied from \$50,000.

The loans were loosely monitored

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and it is well known that much of the money was spent on cars, vacations and other expenses unrelated to business development.

Currently, 70% of these loans are either in default or uncollectible, a great disservice to the borrowers, since they didn't develop the skills to operate a business and ended up losing money and ruining their credit rating.

In addition to the irregularities in loan disbursements, the process was long and tedious, often taking as long as a year or a year and a half to obtain loan approval.

Following recent improvements, completed applications are reviewed in an average of 38 days. The EDB receives more than 1,000 completed applications for financing every year, of which some 60% are approved.

"Llave para tu negocio" morphed into the new Development for the People program ("Desarrollo para tu pueblo," or DPP). Final approval of funding now takes an average of only 20 days.

Minimizing administrative expenses is another target for reform, and the bank already has reduced operating expenses by more than 30%, which liberates funds to make additional loans.

The timing couldn't be better. As the Puerto Rican economy begins to show signs of recovery, the EDB has become a significant piece of the government's overall strategy to encourage the creation and growth of small and midsize companies and stimulate entrepreneurship.

Otero, formerly vice president of finance & operations at the EDB, replaced Lizzie Rosso, who resigned as president to return to the private sector, after taking the first steps toward the professionalization of the bank.

Otero plans to step up the process and make it permanent, building on her studies in finance and banking at the University of Puerto Rico and more than 20 years in the banking industry, most notably at Citibank.

It is a record that has earned her strong backing from her new direct supervisor.

"As a member of the EDB team for the past two years, Otero has been key to the bank's success during this administration in helping small

businesses in Puerto Rico," Gov. Luis Fortuño said in a statement. "I have no doubt that as president, Ivonne will continue to apply her vast experience in the financial sector toward better economic development and job creation for all Puerto Ricans."

PRIMARY LENDING PROGRAMS

One of the steps taken by Otero was to eliminate outmoded loan programs, keep those that still work and launch new ones to fill additional niches.

"We have to evolve with the times," she said.

Created under Law 22, which took effect on July 24, 1985—in an effort to develop innovative financing strategies for small and midsize businesses—the EDB provides financial support through asset-based loans and participation loans with private financial institutions or under the U.S. Small Business Administration (SBA) 504 loan-guarantee program.

The bank also provides mezzanine financing (a hybrid of debt and equity financing often used to finance the expansion of an existing company) or capitalization loans, offers financing for tourism projects, and encourages entrepreneurship and self-employment through a variety of financial programs.

The EDB's principal financing programs are:

EDB-Direct Loan Program: Up to \$5 million for small and midsize companies

For real estate, a maximum of 80% of the value of the property can be financed. For machinery and equipment, the rate is 75%, 60% of the appraised value of the equipment if it is used. The bank may require collateral. Operating capital must be paid back in a maximum of five years. Purchases of machinery and equipment have a maximum seven-year duration on the term of the loan. Permanent improvements to real property are capped at 10 years, and the purchase and/or construction of real property can be financed for a period of up to 30 years.

An example of this program's benefits is Automeca Technical College, with campuses in Bayamón, Aguadilla, Caguas and Ponce. It was founded with the mission of



"We have completely re-engineered and restructured our procedures."

—Ivonne Otero, president of the Economic Development Bank

developing mechanics capable of finding employment in the automobile industry. The 30-plus-year-old company recently received a \$500,000 EDB loan to expand its operations, which currently employ 170 people.

New Entrepreneur Program: Up to \$500,000 for start-ups

The entrepreneur is required to contribute at least 10% of the total cost of the project, and the EDB may require additional loan guarantees from state and federal agencies such as the SBA and the Department of Economic Development & Commerce (DDEC by its Spanish acronym).

Las Flores Metalarte in Coamo was founded in an effort to create job opportunities for unemployed young people. Today the company is one of

the largest furniture manufacturer on the island, employing 140 people. The company was recently provided a \$725,000 loan and has converted into a cooperative whose employee owners all have a personal stake in its success.

Female Entrepreneur Program: Up to \$500,000 for Pymes owned by women

The EDB is focusing on women since this segment of the population has demonstrated significant interest in self-employment.

According to the U.S. Census Bureau, Puerto Rico is the only U.S. state or territory where women earn more than men. Women in Puerto Rico make 103% of what men earn on the island, and their income is growing at a faster rate than men's.

The EDB's Female Entrepreneur loan requires a 10% commitment on the part of the borrower and covers operating capital for five years, the purchase of machinery and equipment for up to seven years, permanent improvements up to 1 year, and real property up to 3 years.

This program can be combined with other EDB programs like DPP and loan guarantees from the SBA.

"Female entrepreneurship can be demonstrated by the Development for the People program, where a considerable number of applicants are women," Otero said.

The bank also provides a variety of targeted loans aimed at stimulating entrepreneurial activity in a variety of areas. These loans include:

TOURISM IN VIEQUES, CULEBRA

In an effort to stimulate economic activity in the island municipalities of Vieques and Culebra, the EDB has committed \$2 million in loans not to exceed \$25,000 each.

Thus far, 50 loans have been issued in Vieques and 15 in Culebra. The loans have been taken by entrepreneurs seeking to provide goods and services directed at encouraging tourism activity.

However, this doesn't imply that loans are exclusively for kayaking, rentals, guided tours, scuba diving and the like. Loans have been issued for auto-parts distributors, plumber electricians, small restaurants and other businesses that complement

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life on the islands and provide the high-end amenities required to fulfill tourists' needs.

In addition, the EDB has invested \$5 million in the construction of an eco-friendly hotel in Vieques that is due to open in 2012. Other hotel projects in Vieques are in the works.

YOUTH AGRICULTURAL ENTREPRENEUR

These loans are directed at encouraging young people between the ages of 21 and 29 to enter the agriculture industry.

The loans are capped at \$500,000 and require a minimum 10% investment on the part of the borrower. The loans are guaranteed through a collaborative effort with the Department of Agriculture.

OTHER AGRICULTURAL LOANS

Strict lending policies at commercial banks are keeping them from financing most agricultural ventures. The EDB has filled part of this void by funding numerous successful agricultural ventures.

In an alliance with the local Department of Agriculture, the EDB offers loans for agricultural entrepreneurs that are guaranteed by the department.

Two recent examples are the loans made to Hortaliza de mi Huerto and Hacienda Santa Clara to develop vegetable and coffee harvests in San Sebastián and Yauco, respectively.

The EDB sponsors a number of events to stimulate agricultural entrepreneurship by hosting events such as the "Mercado Urbano," or Urban Market, the first Sunday of every month at the Window to the Sea park in Condado, as well as Plaza las Americas in Hato Rey and Plaza del Caribe in Ponce.

Additional Urban Market events are being held in Canóvanas at The Outlets shopping mall and in Ponce at La Guancha, and soon will be held in Mayagüez as well. The event is expanding its scope and also will be held in Isla Verde.

SMALL BUSINESS, SELF-EMPLOYMENT LOAN GUARANTEES

FROM \$5,000 TO \$20,000

The product is designed to stimulate self-employment and



entrepreneurship in jurisdictions with limited resources known as "nonentitlement" zones. No capital contribution is required by the entrepreneur, since 100% financing is available for projects of this nature.

PARTICIPATION WITH PRIVATE BANKS

In an effort to boost liquidity and encourage private banks to issue more business loans, the EDB joins loans made by banks and contributes up to \$5 million per loan. Preferential interest rates are provided on projects that must maintain at least a 50% collateral on their loans.

DEVELOPMENT FOR THE PEOPLE

The EDB sponsors the Development for the People program, or DPP, which is aimed at promoting entrepreneurship and self-employment in 40 targeted municipalities with unemployment rates of over 20%.

The program is administered in close collaboration with mayors, and priority is given to the municipalities with the highest unemployment rates.

"There has been great collaboration with the mayors," Otero assured.

In its first phase, an outreach meeting is held at a well-known location in the municipality, such as the public square or a coliseum. The event is widely publicized through advertisements in the newspapers, and

on radio and television. Participants are greeted in a waiting area with a preliminary question-and-answer session. They are then escorted to an adjoining area, where they are given an initial orientation of the program. Subsequently, participants complete a brief evaluation of their motivation and commitment to the program on one of 14 computers. After completing the evaluation, they receive additional one-on-one orientation from the program's staff, who then schedule a more extensive one-on-one session to take place the following week at the mayor's office.

The Puerto Rico Trade & Export Co. (CCE by its Spanish acronym) provides an additional orientation session on the third Friday after the initial event to help participants begin compiling their business plan.

On the fourth Monday after the initial event, participants are expected to have completed their business plans, which should clearly outline their particular financial requirements.

Forty-five days after the first meeting, applicants should be filing their applications for financing, incentives and other forms of assistance. The program offers loans of up to \$20,000 at an interest rate of 7.5%, with terms of up to five years for repayment.

The money can be used for the purchase of machinery and equipment, operating capital, or to make

As the economy shows signs of recovery, the EDB has become a significant piece of the government's strategy to create small and midsize companies and stimulate entrepreneurship.

improvements to the entrepreneur's facilities.

The initial charge to apply for this loan is \$25, and there are additional fees—\$50 and \$100 administration fee for individuals and corporations, respectively, and legal fees of \$100 for individuals and \$200 for corporations.

"Many people are starting up mobile food-vendor establishments ["chinchorros," as they are known locally]," DPP counselor Frank Monroig said. "The start-up and operating costs are low, and the profit margins are high in the food industry."

Currently, 59 DPP loans have been

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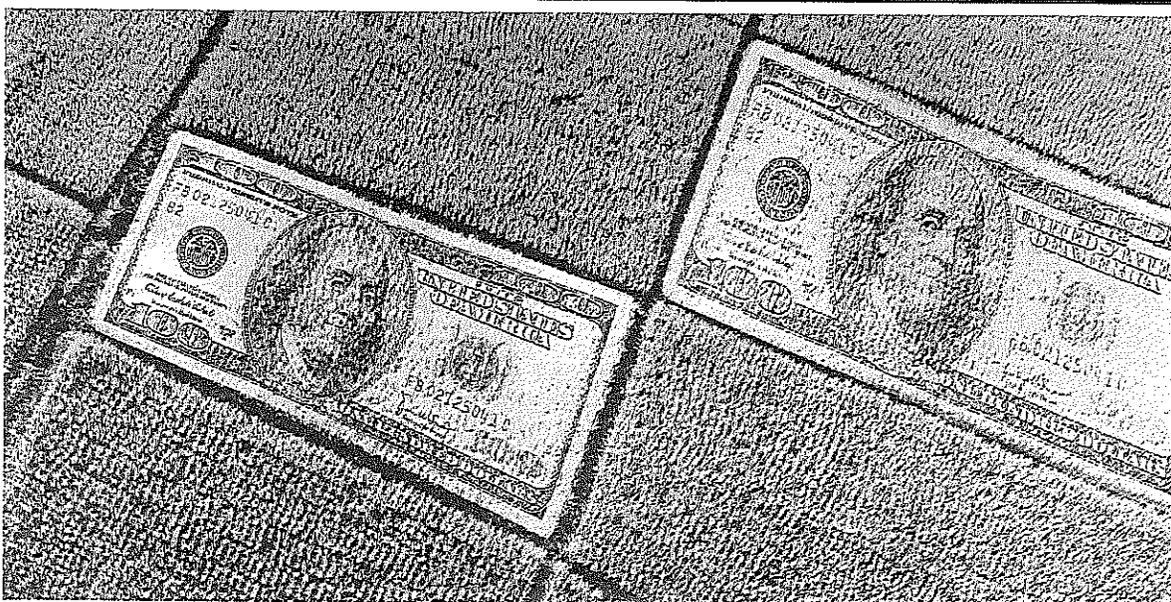
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issued, accounting for \$1.5 million and the creation of 355 jobs. Thus far, 18 municipalities have been visited, and there are more than 200 additional loan applications in the pipeline.

"We at the EDB visit the businesses personally to verify the proper functioning of the operation," Otero said.

If the capital requirements of a business developed under the DPP program exceed the \$20,000 limit, additional funding can be obtained from funding under any of the other EDB programs.

"As long as the participants' businesses are monitored adequately, default rates should remain low," Otero added.



In an alliance with the local Department of Agriculture, the EDB offers loans for agricultural entrepreneurs that are guaranteed by the department.

SMALL-BUSINESS INCUBATORS

In an additional effort to stimulate entrepreneurship and self-employment, the bank has created the concept of commerce zones (SUBEs by their Spanish acronym) centrally located in various towns.

A SUBE is a small commercial center sponsored by the EDB where small businesses work in a cooperative format, which allows them to share expenses and engage in joint marketing efforts of their goods and services.

SUBEs can be created by municipality, region or type of service. They promote economic activity in the area, create job opportunities and increase municipal collections. The entrepreneur benefits from reduced expenses in the establishment of the business, a facilitated permit process and reduced operating expenses.

There are currently three SUBE zones in the final planning stages in the municipalities of Barceloneta, Ciales and Corozal. They are expected to be operational by the end of the year.

OTHER SERVICES

The EDB provides orientation workshops for businesses in several forums throughout Puerto Rico on everything from how to write a business plan, evaluation of financing alternatives, how to fill out quarterly tax returns, how to establish a consignment business, international marketing strategies, and how to take advantage of government incentives.

The EDB is being innovative in its conceptualization of new product offerings to suit the needs of the Puerto Rican economy, Otero said.

Having identified the occasional structural inefficiencies in the payment procedures of certain government agencies, the EDB will be introducing several new programs that will make operating capital available to providers of much-needed services.

Doctors and other healthcare providers that offer services to the "Mi Salud" initiative will soon be able to apply for working capital loans that will help them continue their operations.

In the field of education, the "Porque tú Puedes" program will be encouraging teachers to form cooperatives that will allow them to provide tutoring services to students under the Title 1 program financed by the federal government.

A frequent complaint among teachers providing Title 1 services has been the long delays in receiving payment for services rendered. Under the cooperative structure, a coalition of teachers could form an organization that would qualify for a loan from the EDB to stabilize payments, and thus encourage teachers to provide services.

TWO EXAMPLES

Optima Infusion was founded in 2004 by Dr. Mariely Díaz Negrón when she was only 26 years old. The company is a leader in the

The EDB is being innovative in its conceptualization of new product offerings to suit the needs of the Puerto Rican economy, Otero said. "We have to evolve with the times."

intravenous administration of medicine in patient's homes and in the preparation of medications for healthcare facilities. The company also operates a specialized community pharmacy.

The EDB provided Optima Infusion with a \$990,000 loan to expand its operations.

Optima Infusion, which operates out of facilities in Dorado, is one of the few pharmacies on the island with an ISO 7 "Clean Room", the highest standard in its category. Antibiotics and chemotherapy medications are prepared there which are then used by various hospitals throughout the island and administered to patients in their homes by Optima Infusion personnel.

They also are certified by the The Joint Commission, an independent, nonprofit organization that accredits more than 19,000 hospitals and

health facilities throughout the U.S. The certification is recognized nationally as a symbol of quality and commitment.

Optima Infusion employs more than 40 people, including three with doctoral degrees in pharmacy. The company achieved sales of over \$12 million in 2010 and maintains \$5 million in assets.

In 2009, the loan provided by the EDB allowed the company to expand its operations, which led to a doubling of its sales from the previous year.

Dr. Díaz was recently selected the 2011 Person of the Year by the SBA in recognition for her outstanding dedication and service during her nine-year career.

For its part, the Toro Verde Adventure Park consists of several different adventures—the Canopy the Beast, the Toro Salvaje (or wild bull tour) and the mountain bike tour (see CB June 9, 2011).

The park already has generated 30 jobs in the municipality of Orocovis and with a nearly \$2 million loan guarantee from the EDB, the park soon will be creating additional jobs when it adds Eco Resort & Hotel to its name.

FOCUS ON RISK MANAGEMENT, OPERATIONAL EFFICIENCY

The EDB is focused on nontraditional businesses, emerging businesses and women in business. As

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a development bank, it typically assumes more risk than a traditional bank and measures its success with the progress of every business venture it finances.

There are nine regional EDB offices throughout the island. The headquarters are in San Juan and there are five offices that cater to agriculture, and another three that focus on commercial loans.

The EDB is projected to have more than \$1.5 billion in assets by the end of FY 2011.

The EDB's current loan portfolio is more than \$259 million, a slight increase from the \$257 million it managed the previous year. The bank manages almost \$149 million

in working capital and has a capital ratio of 9.72%, down from 12.5% last year but still healthy by industry standards.

The EDB is on track to surpass its projected goal for FY 2011 of \$180 million in approved loans and expects to have over \$188 million by the end of the current fiscal year (June 30).

Otero doesn't plan to alter the proportion of total loans comprising risky development loans. The bank has always struck a balance, where the income earned on sound loans subsidizes the amount lost on high-risk loans that go bad.

Since the bank's loan portfolio is designed to be more flexible than traditional banks, it has built in a higher tolerance for riskier

investments. The bank is capable of tolerating a delinquency rate as high as 30%, compared to the industry average among private banks, which is below 5%.

The current default level at the bank is 26.5%. It has been as low as 18% in the past. Still, the high rate of delinquency compared to that of the private banking industry makes Otero's reforms even more imperative, given the losses it creates.

The EDB operates on an \$11.3 million budget, which is 8% below its assigned budget. There currently are 141 employees, and the bank will soon be hiring three additional senior account executives, an expert in farm credits and a full-time business-development promoter.

In collaboration with the Puerto Rico Development Corp. (PRDC), 35 clients have been identified that can significantly expand their export operations by receiving working capital.

Otero plans to strengthen the bank's online presence. Although some 100 applications and instructions are available for download online, much of the website is full of outdated information about lending programs and initiatives that no longer exist.

The so-called Virtual Community for Entrepreneurs was expected to be online last year, but despite the EDB's commitment of human resources, few others joined on a completely revamped system in development and will be released in the near future. ■

Commercial banks, EDB join forces to support local entrepreneurs

Opportunities exist to improve, fine-tune Economic Development Bank's role in assisting small and midsize firms, struggling companies, start-ups

BY JOSÉ L. CARMONA
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Through its various lending and training programs, the Economic Development Bank for Puerto Rico (EDB) has been an important lifeline for small and midsize firms, as well as aspiring entrepreneurs, and more so during the five-year local economic downturn.

In an effort to bolster liquidity in the local market and increase the number of loans and amount of financing available to small and midsize firms, the EDB closely collaborates with local commercial banks and, in many cases, becomes a partner with struggling firms and helps start-ups get off the ground.

One such collaboration is "Movimiento Empresarial," or Entrepreneurial Movement. The program, created by the EDB along with FirstBank, the Small Business & Technology Development Center and the Women's Business Institute, provides small and midsize firms information on available economic incentives.

Movimiento Empresarial will hold an event at the Puerto Rico Convention Center in October.

Aurelio Alemán, president & CEO of First BanCorp, the parent

company of FirstBank, noted the EDB is a governmental institution that fosters the development of new businesses and complements efforts made by commercial banks to bolster the small- and midsize-business sector through financing and orientation workshops.

"In the past few years, we have seen how the government focused on, and placed a lot of attention on, this segment of the economy by establishing different assistance programs through the EDB. We feel the united efforts of the private and public sectors will result in a strengthened local economy," Alemán told CARIBBEAN BUSINESS.

Cynthia López, guaranteed government-loans manager for Banco Popular, said the EDB's role regarding loans awarded to small and midsize firms, jointly handled by Popular and other commercial banks, is a good strategy that has helped local businesses.

"I believe the relationship between the EDB and commercial banks is a good strategy, because it didn't happen before. It has had very good results," López said. "Just like everything else, we see areas of opportunity and improvement."

The Popular official indicated



that when two entities handle the same cases, the process can get cumbersome.

"We believe the EDB's role can be better defined because, for us, the most important thing is to be agile and efficient so clients receive the financing or service on time and in ways that best serve their purpose. That should be the EDB's focus," López added, alluding to changes being made by new EDB President Ivonne Otero (see main story).

López highlighted joint efforts in which the bank and the EDB closed 10 loans for a total of \$191,000 through a special

Commercial & Tourism Incentive for the Development of Vieques and Culebra.

These loans were awarded to entrepreneurs seeking to provide goods and services that directly or indirectly encourage tourism activity in the island municipalities.

She added that Popular has bigger loan participations with the EDB including a \$1.7 million loan and \$350,000 in financing in the process of being closed.

"We definitely participate with the EDB, and the loan activity will be much higher once the process is fully fine-tuned," López concluded. ■