



CENTRO PARA RENOVACIÓN ECONÓMICA,  
CRECIMIENTO Y EXCELENCIA

# PUERTO RICO

COMPETITIVENESS  
TOOLKIT





## ECONOMIC FREEDOM INDEX FOR PUERTO RICO

Centro para Renovación Económica, Crecimiento y Excelencia (Center for Economic Renewal, Excellence and Growth) is a non-partisan, non-profit organization in Puerto Rico that cultivates pro-market solutions to foster self-reliance and growth.

Inteligencia Económica Inc. is a Puerto Rican consulting firm that specializes in the preparation of economic studies and analysis for local and international businesses.

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# Introduction

The Center for Economic Renewal, Excellence and Growth (CRECE for its Spanish acronym) teamed up with Inteligencia Económica to assess Puerto Rico's competitiveness in the global landscape, and propose sensible policy reforms to improve the US Territory's business climate, unleash entrepreneurship and improve competitiveness. Using the World Bank's Ease of Doing Business Report, the Competitiveness Toolkit focuses on indicators and sub-indicators that require immediate attention to promote job creation and economic growth.

The Competitiveness Toolkit seeks to address the following assumptions:

- The rapidly changing global economic landscape as a result of the COVID-19 pandemic presents opportunities and challenges to Puerto Rico.
- Dependency on federal aid has discouraged the local government from implementing policy reforms that spur economic growth.
- The containment measures taken to curb the spread of COVID-19 have strained the already fragile small and medium sized business owners who create 40% of all private sector jobs in Puerto Rico.
- To take advantage of opportunities, Puerto Rico must implement reforms – independent of federal intervention – to improve its ease of doing business, attract investment and enable local entrepreneurs to grow and expand their businesses.






This report identifies four areas that require reforms to improve Puerto Rico's ease of doing business: 1) Paying Taxes; 2) Registering Property; 3) Construction Permits; and, 4) Getting Electricity. The Toolkit also provides examples of best practices from countries that have improved their competitive rankings by reducing bureaucratic procedures, and making it easier for entrepreneurs to do business. Finally, it shows how the implementation of reform in Puerto Rico can improve its competitive ranking in the World Bank's Doing Business report.



## About the World Bank's Doing Business Report

The World Bank's *Doing Business Report* (DB) provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level. Since 2002, the World Bank has measured the ease of doing business in countries and jurisdictions around the world by measuring the impact of regulations on domestic small and medium-sized companies during their life cycle.

The report evaluates the process of establishing and sustaining a business including:

-  Opening a Business
-  Dealing with Day-to-Day Operations
-  Getting a Location
-  Operating in a Secure Business Environment
-  Accessing Finance

**It is important to note that this analysis focuses on increasing Puerto Rico's ranking within the *Doing Business* report. Thus, it focuses directly on recommendations and measures that impact the subcategory scores.**

The DB report divides a country's business environment into 10 categories: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.

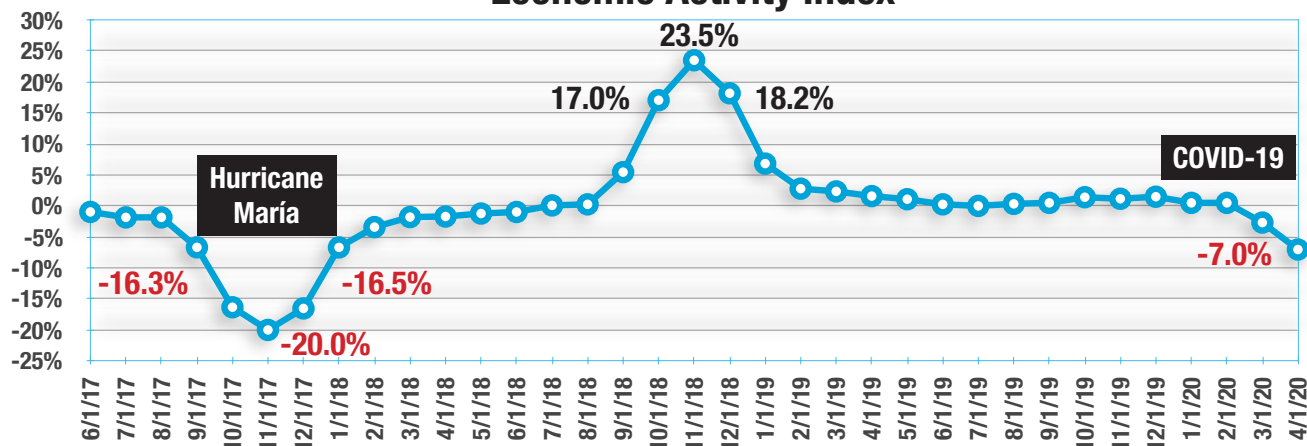
Each of these ten categories' scores is an average of various sub-scores. These sub-scores are direct ways of measuring the ease of doing business in a country. For example, within the Dealing with Construction Permits category, one of the sub-scores is number of procedures. This is the total number of procedures necessary to build a warehouse in a country. In this category, the lower the score, the better for the country, since fewer procedures leads to less time spent dealing with permits and faster construction.

This report focuses on the 4 categories in which Puerto Rico has the lowest ranks worldwide: Paying Taxes, Registering Property, Construction Permits, and Getting Electricity. For each category, there will be a table that will show Puerto Rico's position in comparison with Latin American countries with similar scores. They will also feature examples of improvements in other countries and how they could be applied to Puerto Rico. Finally, there will be a set of policy recommendations with corresponding measurable improvements in the categories and overall DB score for Puerto Rico.

# Puerto Rico's Economy in 2020

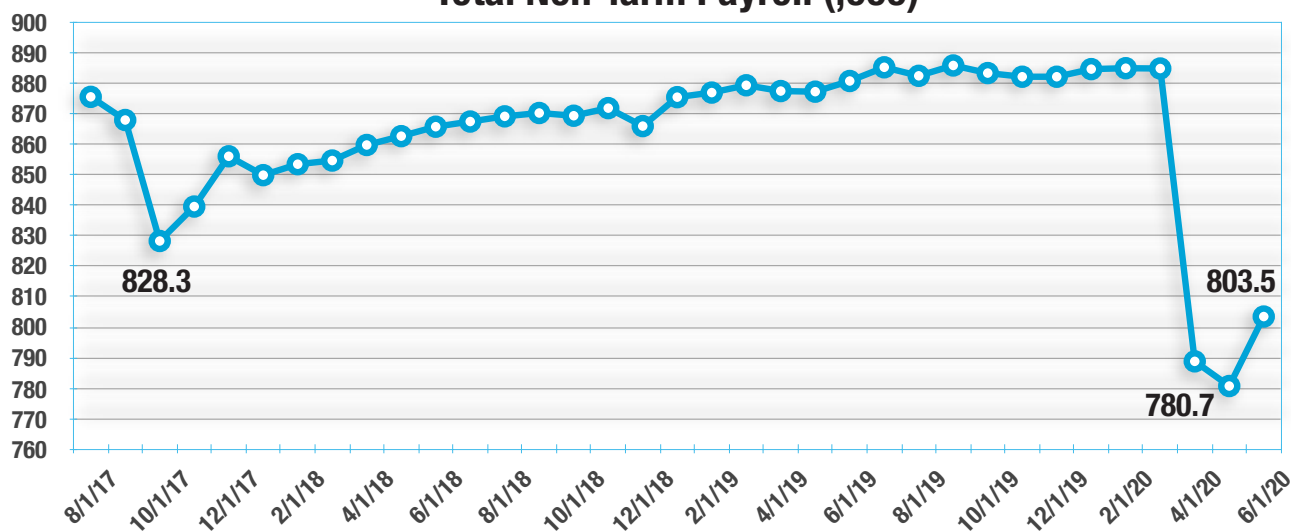
The economic growth experienced near the end of 2018, thanks to the arrival of federal recovery funds, slowed significantly in 2019 and has come to a grinding halt in 2020. Economic activity on the island remained stagnant for the most part.

## Economic Activity Index



Total non-farm payroll on the island managed to remain constant, alleviating some fears that continued emigration away from the island would snowball after Hurricane María, and would place even greater pressures on local government to be able to find a way to bankroll its spending with an ever dwindling population. The lowest point of employment after Maria was in October 2017, at 828,300 jobs. However, employment plummeted by 10.9% heading into the month of April 2020 due to COVID-19. Employment fell to its lowest in May 2020 at 780,700 jobs but reported an increase of 23,000 jobs the following month of June.

## Total Non-farm Payroll (,000)

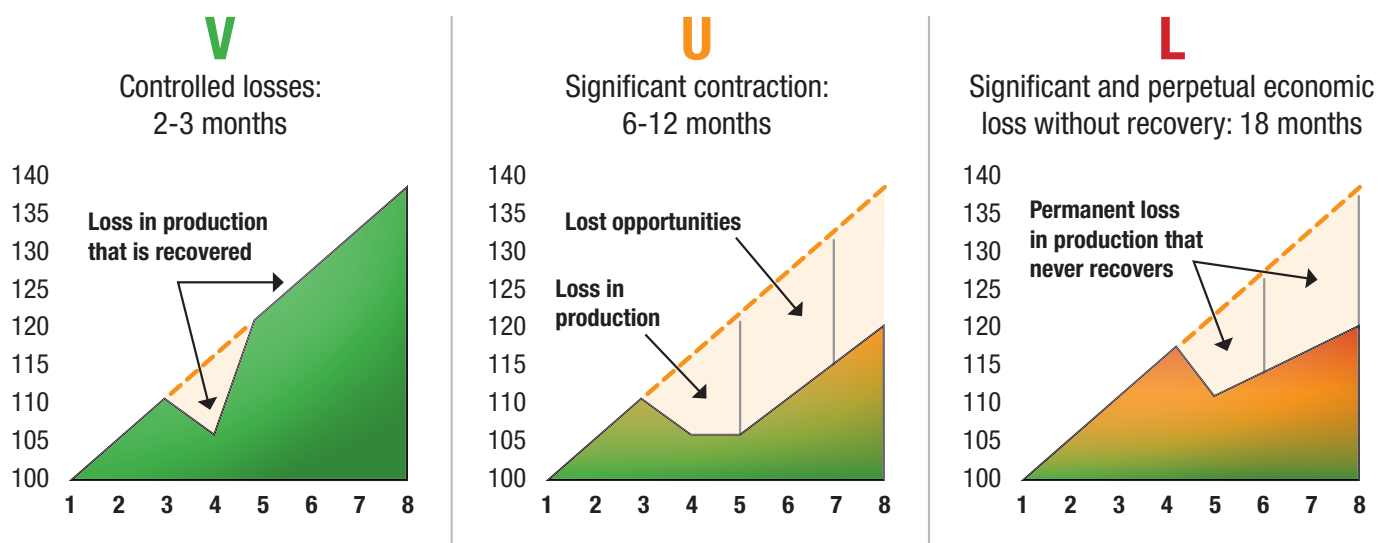


The remaining 2020 months will be key to determining what the island's recovery will look like after the COVID-19 pandemic.

## COVID-19 Reopening Process

Puerto Rico does not report specific numbers on business closings, however, overall numbers in commercial bankruptcies have not increased. Local businesses had federal, state, and municipal assistance to mitigate the pandemic and the government reopening policies.

The government plans include reopening the economy in four different phases. Phase 3 of reopening, which included restaurants, bars and beaches, provoked an increase in COVID-19 cases. As a result, the food and entertainment businesses were restricted once again. As we move forward, the economy's full reopening is wavering due to spikes in new COVID-19 cases. Taking this into account, we should consider three post COVID-19 possible recovery scenarios.



These three possible scenarios illustrate what could happen as the economy opens. Which one of these becomes reality will depend on government measures to prevent future outbreaks of COVID-19, as well as the rapid deployment of federal recovery funds. Based on the process implemented to date, it appears that Puerto Rico is moving to a U-shaped recovery, which will result in loss of production but eventual recovery.

The COVID-19 pandemic has exposed the inefficiencies of doing business in Puerto Rico.

Now that the lockdown is ending and businesses are reopening, Puerto Rico must provide practical solutions to free enterprise and enable local companies to effectively compete in the global marketplace. For instance, reducing the number of permits necessary for construction and the establishment of a new business will not only benefit currently existing businesses but will also serve to attract investment from outside the island.



## Competitiveness as an Economic Driver

Economic competitiveness is a measure of an economy's productivity, and this measure of productivity directly translates to a measure of economic growth. Economies that are competitive on the world stage are economies that can effectively promote economic growth and stability. By advancing policies that promote transparency and efficiency, countries directly affect the well-being of their people.


Economic ecosystems that enable entrepreneurs to start and operate a business swiftly encourage startups that bring innovative new approaches to the marketplace.

As more and more sectors of the economy begin to open, we are starting to see the importance of being able to adapt quickly to rapidly changing conditions. Restaurants that have been able to adapt to deliver food and drinks instead of waiting for reopening are just one example of the value of competitiveness. An entrepreneurs' capacity to adapt, innovate, and compete is directly impacted by the economic policies that regulate them. This also applies to economies. If Puerto Rico can make its business environment more adaptable and technology-based when compared to other countries in the region, it will be able to attract more investment.

## Puerto Rico within the Doing Business Report

In the 2020 edition of the DB Report, Puerto Rico ranked 65<sup>th</sup> in the world out of the 190 jurisdictions currently included in the survey, with a score of 70.1. This score is the same as Brunei and Colombia, and just behind India and Ukraine in the rankings. Puerto Rico was the 3<sup>rd</sup> ranked economy in Latin America and the Caribbean, below Mexico and Chile.

CATEGORY	2016	2020	Change
Starting a Business	91.1	91.2	0.1
Dealing with Construction Permits	59.4	59.6	0.2
Getting Electricity	76.6	73.5	-3.1
Registering Property	41.7	46.3	4.6
Getting Credit	90	95	5
Protecting Minority Investors	56	56	0
Paying Taxes	50.9	52	1.1
Trading Across Borders	81.9	81.9	0
Enforcing Contracts	54.4	61.8	7.4
Resolving Insolvency	84.8	83.3	-1.5
<b>EASE OF DOING BUSINESS</b>	<b>68.7</b>	<b>70.1</b>	<b>1.4</b>



In the past four years, Puerto Rico's score has increased from a 68.7 to its current score of 70.1. The scores for Resolving Insolvency and Getting Electricity, have decreased in the same period of time. The DB report points to inefficiencies in the categories of Dealing with Construction Permits, Getting Electricity, Registering Property and Paying Taxes, which lower Puerto Rico's overall competitive score and ranking.

## Paying Taxes

The score for the Paying Taxes section is measured by obtaining the average score in payments (number of payments per year), time (hours per year), total tax and contribution rate (% of profit), and the post filing index.

As of 2020, Puerto Rico has an overall score of 52 in paying taxes, 78.33 in payments, 73.88 in time, 42.06 in total tax and contribution rate, and a 13.76 on the post filing index. The optimal score for each of these subcategories is 100. Thus, scores closer to 0 indicate poor performance.

Puerto Rico's score of 13.76 on the post filing index is dismal, and the score of 42.06 in total tax and contribution rate is also inferior. By finding ways to increase the score in these two subcategories, Puerto Rico can improve its ranking in Paying Taxes and overall position in the DB report.

COUNTRY	Paying Taxes World Rank	Score
Trinidad and Tobago	160	53.53
Nicaragua	162	52.69
Puerto Rico	163	52.01
Honduras	167	49.92
Argentina	170	49.34

Within Puerto Rico's Paying Taxes score, the post filing index score is by far the weakest one. Puerto Rico's score of 13.76 for the post filing index is comparable to Panama, Togo, Chad, and Mauritania. Since Puerto Rico does not have a Value Added Tax (VAT), only the corporate income tax audits are used to measure the island's score on the post filing index. More specifically, the time it takes to comply with a corporate income tax correction (hours) and the time it takes to complete a corporate income tax correction (weeks) are taken into consideration.

As of 2020, it takes 41 hours to comply with a corporate income tax correction and 104.9 weeks to complete a corporate income tax correction in Puerto Rico. Other global economies have implemented business reforms which have helped speed up each of these processes.

### Puerto Rico's Corporate Income Tax Correction:

**41** hours to comply

**104.9** weeks to complete



## Spotlight on El Salvador's Reform

In 2017 and 2018, El Salvador was able to speed up both processes for corporate income tax corrections by implementing the use of electronic systems for filing taxes in 2017, and creating an online platform for filing and paying taxes in 2018.

Furthermore, in 2018, El Salvador was also able to make paying taxes easier by gravitating towards a risk-based audit assessment selection system which makes it easier to focus on larger companies.

Prior to these changes, it took 32.5 hours to comply with a corporate income tax correction and 47.7 weeks to complete a corporate income tax correction. Now it only takes 2.5 days to comply and 0 weeks because there is no tax audit per case study scenario.

These online reforms also helped improve other categories in Paying Taxes. For example, the total tax and contribution rate dropped from 38.8% to 35.5% in 2017 and the number of payments reduced greatly from 41 in 2017 to only 7 in 2018.

As a result of these reforms, El Salvador was able to increase its score in Paying Taxes from 47.2 in 2016 to 77.4 in 2018, and today, the country ranks 70<sup>th</sup> in the world in Paying Taxes, according to the DB report.

If Puerto Rico were to adopt El Salvador's reforms in the post filing index, and increase its total tax and contribution rate by 10 points, Puerto Rico's overall score would improve to 70.41, and rank 103<sup>rd</sup> in the world in the category of Paying Taxes.

### PUERTO RICO'S CORPORATE INCOME TAX CORRECTION vs. EL SALVADOR



**41** hours to comply  
**104.9** weeks to complete



**2.5** days to comply  
**0** weeks to complete

INDICATOR	Puerto Rico	LATAM & Caribbean	OECD	Best Performances
Payments (number per year)	16	28.2	10.3	3 (2 economies)
Time (hours per year)	218	317.1	158.8	49 (3 economies)
Total tax and contribution rate (% of profit)	<b>64.4</b>	47.0	39.9	26.1 (33 economies)
Post filing index (0-100)	<b>13.8</b>	47.5	86.7	none

Although the rank is still low, it would represent an increase of over 18 points and move Puerto Rico up 60 spots on the global ranking. This shows how poorly Puerto Rico compares to the rest of the world in this category. Also, note that this hypothetical score will continue to have lots of room to improve in all four of the categories used to calculate the Paying Taxes score.



## Policy Recommendations: Paying Taxes

Puerto Rico's current ranking in this category is reflective of a tax system that imposes a high burden on businesses operating in the island. The island's current income tax rate for corporations is 30.8%, the highest in Latin America.

Future tax reform should reduce the current income tax rate for corporations to enable local entrepreneurs to expand and grow their businesses. Lower corporate income tax rates would also attract foreign investment. In both cases, communities would benefit from increased opportunities, economic activity, and added jobs.

**Puerto Rico's  
Current Income  
Tax Rate for  
Corporations:** **30.8%**

Another onerous burden on corporations operating on the island is the number of payments that must be made. Puerto Rico is below the average number of payments in Latin America, which is 23, but there is still room for improvement. Countries such as Argentina, Mexico, and the Dominican Republic have managed to bring the number of payments below 10.

Reducing the number of separate payments that must be made to the government would lead to reduced costs when paying taxes, especially in time dedicated to filing taxes for a corporation.

The post-filing index, which indicates the time taken to submit a corporate income tax correction, is where Puerto Rico fares the worst. Only Jamaica has a lower score in this category than Puerto Rico. According to the DB report, it takes 104 weeks to complete this process in Puerto Rico. Various other Latin American countries such as Costa Rica and Colombia have implemented this correction process into their electronic filing mechanisms.

If this correction process can be integrated into the SURI online platform, Puerto Rico's score in this category could go from a 0 to 100, which would leave it tied for 1st in Latin America.

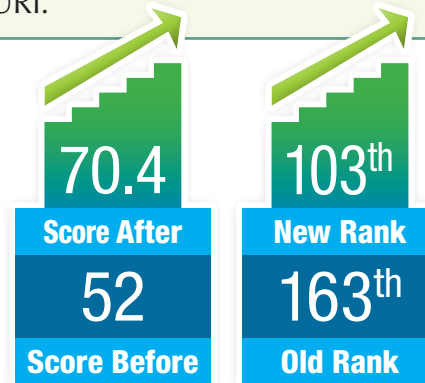
Meanwhile, Puerto Rico's ranking in this category could go from 163<sup>rd</sup> to 103<sup>rd</sup> after reforms are implemented.



#### KEY RECOMMENDATIONS:

- Decrease the corporate tax rate from 30.8% to something closer to LATAMs average of 16%.
- Decrease the number of payments made to the government from 23 to something closer to other countries of 10. Online submission of corporate income tax correction through SURI.

Policies
Decrease corporate tax rate from 30.8% to LATAMs average of 16%.
Decrease the number of payments made to the government from 23 to 10.
Online submission of corporate income tax correction through SURI.



## Registering Property

Puerto Rico performs poorly in the category of Registering Property, ranking 161<sup>st</sup> among 190 countries. The score for Registering Property is measured by looking at the number of procedures, number of days, costs to transfer a property, and the quality of the land administration system set in place to register property.

By improving on some of the subcategories used to calculate the score for Registering Property, Puerto Rico can both go up in its DB rank, and help facilitate the process of registering property for island residents.

Registering a Property in Puerto Rico requires:

**8** procedures and up to

**190** days to complete

Overall, Puerto Rico has a Registering Property score of 46.3. It takes 8 procedures, and up to 190 days (27 weeks or 6 months) to register a property in Puerto Rico. Puerto Rico's Cost of Property Value is 1.6%, and it scores 13.5 out of 30 in the Quality of land Administration Index. Of these 4 categories, the three underperformers are the amount of procedures, time, and the quality of land administration.

COUNTRY	Registering Property World Rank	Score
Trinidad and Tobago	158	46.66
Nicaragua	160	46.35
Puerto Rico	161	46.31
St. Vincent and the Grenadines	168	43.12
Dominica	179	33.48

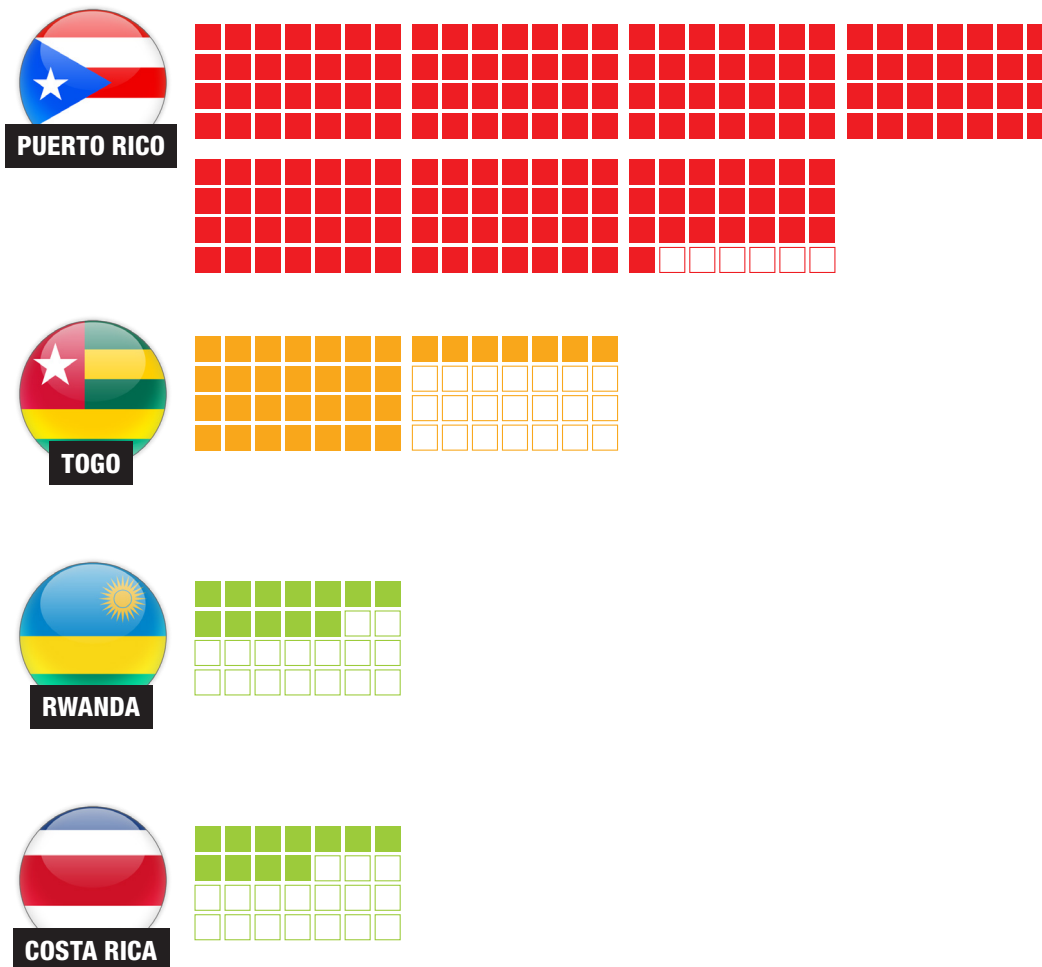
## Costa Rica, Togo, & Rwanda Achieve Efficiencies in Registering Property


A country that Puerto Rico can evaluate as a benchmark in Latin America is Costa Rica. The Central American country ranks 49<sup>th</sup> in Registering Property and 1<sup>st</sup> in Latin America and the Caribbean.

Costa Rica has a score of 74.4. It lists 5 required procedures, and it takes 11 days to register a property. The Cost of Property Value is 3.4%, and it scores 17.5 in the Quality of Land Administration Index. The most significant difference between Costa Rica and Puerto Rico is the amount of days it takes to register property.

An example of a country that was able to massively decrease the amount of days it takes to register a business is Togo. In 2018, Togo ranked 182<sup>nd</sup> in Registering Property, but as of 2020 they have skyrocketed all the way up to 56<sup>th</sup>. In just two years, Togo was able to reduce the amount of days it took to register property from 283 days in 2018 to 35 days in 2020, while in Puerto Rico the process takes 190 days.

### NUMBER OF DAYS IT TAKES TO REGISTER A BUSINESS IN...





Togo's rapid improvement can be attributed to its reduction in time needed to transfer property, the creation of an office dedicated to property transfers, and the facilitation of property registration by streamlining administrative procedures.

**Puerto Rico's 6<sup>th</sup> Step of the Registering a Property Procedure takes over:**

**180** *days*  
to complete

It should be noted that Puerto Rico already has an Office of Registry of Property, and with the enactment of Law 210 of 2015, property title reports can be performed online. Likewise, notary publics can connect with the Registry online to verify if any changes have occurred since the title report when executing a purchase-title deed. Despite these improvements, the 6th procedure, which entails filing and recording the sale and purchase deed, takes over 180 days, which translates into 25 weeks or nearly 6 months.

Togo was able to solve similar problems by reducing the amount of procedures from 5 to 3 and streamlining some of the more time-consuming procedures.

To put it into perspective, if Puerto Rico were to half the amount of procedures, and cut the amount of days all the way to 35, Puerto Rico's score would go from 46.3 to 73.17 which could potentially propel Puerto Rico all the way up to 52<sup>nd</sup> ranked in the world.



One policy that some economies have implemented over the years to help reduce the amount of time it takes to transfer property is imposing time limits. Rwanda is an example of a country that has implemented this policy successfully. After implementing time limits, the time it took to register property in Rwanda decreased from 32 days in 2016 to 12 days in 2017. The implementation of policies like these are one of the reasons why Rwanda ranks 3<sup>rd</sup> in the world in Registering Property.

Costa Rica has also established a time limit system in the process of transferring property. As a result, the time to transfer a property has gone from 19 days in 2017 to 11 days in 2018. Thus, further demonstrating how time limits in the transfer of property can help speed up the process and overall increase a country's score in Registering Property.

INDICATOR	Puerto Rico	LATAM & Caribbean	OECD	Best Performances
Procedures (number)	<b>8</b>	7.4	4.7	1 (5 economies)
Time (days)	<b>190</b>	63.7	23.6	1 (2 economies)
Cost (% property value)	<b>1.6</b>	5.6	4.2	0.0 (Saudi Arabia)
Quality of land administration index (0-30)	13.5	12.0	23.2	None

#### Example of Improvement



Togo had the best improvement:

Procedures required: **5** procedures → **3** procedures

Days to register a property: **283** days → **35** days

## Policy Recommendations: Registering Property

To improve Puerto Rico's overall score in Registering Property, it must reduce the time it takes to file and record a sale and purchase deed, reduce the amount of procedures, and improve transparency in the process.

Puerto Rico's biggest hurdle to speed up the process of Registering a Property remains the time it takes to file and record a sale and purchase deed, which takes an average of 180 days. It should be noted that current law directs the Registrar to notify the Notary of defects or proceeds to record the same within 90 days after filing. The amount of time it takes to complete this important step points to inefficiencies in the Registry of the Property. At the very least, Puerto Rico should strive to comply with current law, and reduce the time from 180 to 90 days. The Government of Puerto Rico should evaluate the amount of resources – both financial and human – that would be required to achieve this goal. The Financial Oversight & Management Board has proposed reforms to resolve this matter.

Reducing the amount of procedures to register a property can also improve Puerto Rico's score and ranking in this category. By integrating and connecting the Registry of the Property's online system with the Municipal Revenues Collection Center (CRIM), the final procedure in the process, which is to file the notice of change in ownership with the CRIM, could be eliminated because the Notary would have a connected program where they could simply file the notice electronically.

Finally, island residents and investors could greatly benefit from added transparency in the process of registering a property. Currently, Puerto Rico does not provide official statistics that track the number of transactions at the Registry of

the Property. The lack of access to measurable data hinders the citizen's ability to claim his or her right to a more efficient and quicker process to obtain a deed. It also sets back the ability for policymakers to identify deficiencies in the system to give way for practical improvements and solutions. Providing performance statistics would aid entrepreneurs by providing tools to hold the Registry of the Property accountable. It would also improve Puerto Rico's score in the Transparency of Information Index.

If Puerto Rico were to reduce the amount of procedures to 5 and reduce the amount of days it takes to register for property to 90 days, Puerto Rico's score in Registering Property would improve from 46.3 to 69.6.



When compared to other economies in the DB report, with this new score, Puerto Rico would rank 103<sup>rd</sup> in the world. These reforms have the potential of improving Puerto Rico's rank by almost 60 spots in future DB reports and would position it as #4 among other Latin American and Caribbean economies.

#### KEY RECOMMENDATIONS:

- Integrate and connect the Registry of the Property online system with the CRIM to eliminate the last procedure in the process.
- Enforce current law that imposes a time limit of 90 days for the Registrar to review property deeds.
- Provide public statistics that track the number of transactions at the Registry of the Property.

Policies
Integrate & connect Registry of Property system with CRIM to eliminate the last procedure in the process.
Observe the time limit of 90 days to review property deeds.
Provide public statistics to track the number of transactions at the Registry of the Property.



## Construction Permits

The World Bank's 2020 DB report ranks Puerto Rico 143<sup>rd</sup> in the world in Dealing with Construction Permits. It is Puerto Rico's 3<sup>rd</sup> worst category with an overall score of 59.6.

This score is generated after calculating the average score in 4 subcategories:

- how many procedures
- how much time it takes → weakest
- what are costs → weakest
- building quality control index

In these 4 subcategories, Puerto Rico has a total score of 32 in procedures, 59.9 in time, 66.4 in cost, and an 80 in the building quality control index. Of these 4 procedures, cost and time are the weakest.

Improving upon these subcategories can help yield a better score and ranking for Puerto Rico in dealing with construction permits. The following table shows where the island ranks in Latin America:

COUNTRY	Construction Permits World Rank	Score
Grenada	130	62.49
Bolivia	139	60.04
Puerto Rico	143	59.60
Uruguay	151	57.54
Barbados	153	56.64

Puerto Rico's largest contributing factor to its lackluster score in Dealing with Construction Permits is the considerable amount of procedures a business must go through when dealing with construction permits. As of 2020, there are a total of 22 procedures in Puerto Rico, compared to both the average in Latin American and the Caribbean (15.5) and the OECD countries (12.7), whose scores are also not optimal.

**Dealing with Construction Permits in Puerto Rico requires:**

**22** *procedures*  
to complete

In Latin America, Argentina faces similar problems to Puerto Rico with the country having over 21 procedures in 2019. However, Argentina was able to improve their score by reducing the amount of procedures from 21 to 17 in 2020.

The South American nation achieved this by streamlining procedures and installing an electronic platform for building applications, which made dealing with construction permits easier. It also helped reduce the amount of time it takes to deal with construction permits from 365 days in 2019 to 318 days in 2020. While modest, Argentina's reforms resulted in an improvement of 7.2 points in their score from 2019 and 2020. Argentina has a long way to go in improving

Dealing with Construction Permits in Puerto Rico takes around:

**165** *days*  
to complete

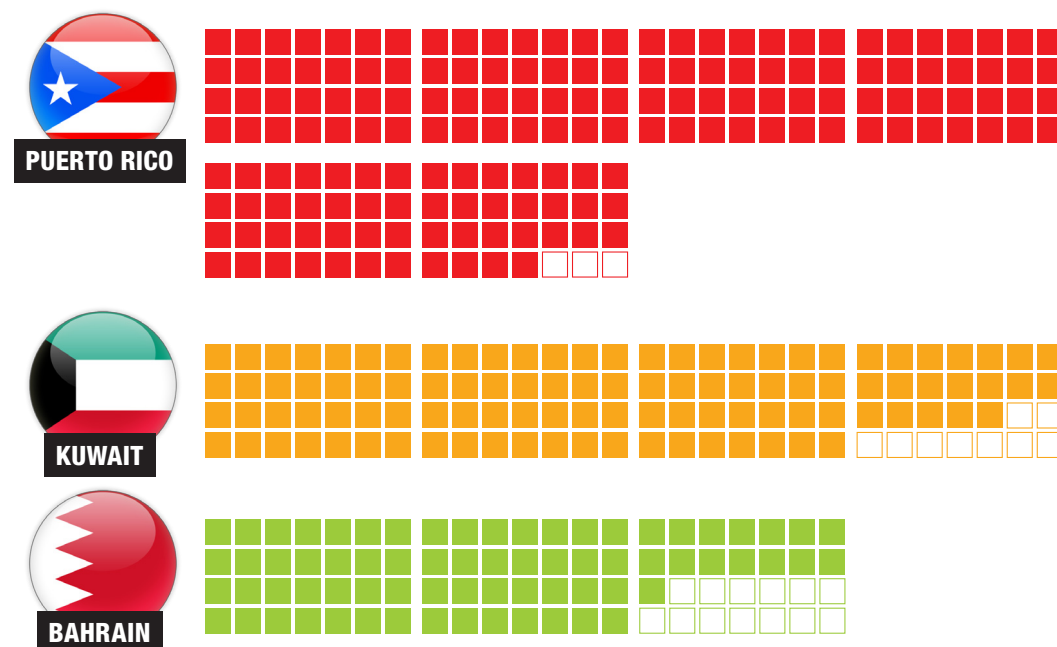
their score and rank, as despite these reforms, they still rank 155<sup>th</sup> in the world with a score of 56.4. Even though Puerto Rico may rank better overall, these reforms may prove to be effective to improve the island's score. As of 2020, it takes around 165 days (nearly 24 weeks or five months) to deal with construction permits in Puerto Rico. Most of the time this is a result of the extensive amounts of procedures and the amount of time it takes for someone to simply get a construction permit, which is about 120 days.

## Construction Permits Efficiency: Examples of Bahrain and Kuwait

Bahrain and Kuwait have both been able to greatly reduce the amount of time it takes to deal with construction permits. In fact, prior to 2020, both countries took longer than Puerto Rico in processing these permits. Following Bahrain's reforms, the amount of time has been reduced from 174 to 71 days, while Kuwait reduced its time from 194 to 103 days.

Bahrain transformed their application process using an online platform. The Middle Eastern country also transferred the application review process over to licensed engineering firms. Not only did this change reduce the amount of days, it also decreased the amount of procedures from 11 to 9. By reducing the amount of procedures, they were able to reduce the amount of time and capital that businesses must spend to obtain construction permits.

### NUMBER OF DAYS IT TAKES TO DEAL WITH CONSTRUCTION PERMITS







As a result, Bahrain increased its overall score from 73.4 in 2019 to 83.1 in 2020. Now Bahrain ranks 17<sup>th</sup> in the world in construction permits after having the 6<sup>th</sup> largest increase in score.

Around the same time, Kuwait successfully reduced the amount of time it takes to obtain a construction permit to approximately 73 days. It streamlined the process by reducing the amount of procedures from 22 to 19. The government of Kuwait authorized more private companies to give out permits through its electronic permitting platform, and they improved communication between the different agencies. All these reforms helped propel Kuwait's overall score from 61.4 in 2019 to 71.9 in 2020.

Kuwait currently sits at 68<sup>th</sup> in dealing with construction permits thanks to their 10.5-point increase in score, making them the economy with the 5<sup>th</sup> largest point increase in 2020.

If Puerto Rico were to reduce the amount of procedures from 22 to at least 15, and the time it takes to get a construction permit to 103 days, it would greatly improve its performance on the Dealing with Construction permits ranking. With these improvements, Puerto Rico would have a score of 60 in procedures and 77.8 in time. This would result in an overall score of 71.5 in Construction Permits. A score like this would boost Puerto Rico to a ranking of 73<sup>rd</sup> among countries in the Construction Permits category.

INDICATOR	Puerto Rico	LATAM & Caribbean	OECD	Best Performances
Procedures (number)	<b>22</b>	15.5	12.7	None
Time (days)	165	191.2	152.3	None
Cost (% warehouse value)	<b>6.7</b>	3.6	1.5	None
Building quality control index (0-15)	12.0	9.0	11.6	15.0 (6 economies)

Example of Improvement			
	2019	Change in Policy	2020
 <b>KUWAIT</b>	Amount of procedures: <b>22</b> Days for permit: <b>194</b>	The government of Kuwait authorized more private companies to give out permits in its electronic permitting platform, and improved communication between agencies.	Amount of procedures: <b>19</b> Days for permit: <b>103</b>
 <b>BAHRAIN</b>	Amount of procedures: <b>11</b> Days for permit: <b>174</b> <b>Score: 73.4</b>	Streamlined the application process by facilitating through an online platform.	Amount of procedures: <b>9</b> Days for permit: <b>71</b> <b>Score: 83.1</b>





## Policy Recommendations: Construction Permits

For Puerto Rico to improve its score in dealing with construction permits, it has to reduce the amount of procedures and time it takes for construction project reviews and approvals. One particular reform that could help improve the score in this area, is to consolidate (and reduce) the number of in-person trips that need to be made to the Office of Permits Management to request building inspections following construction.

After a proposed project finally obtains a construction permit, the Building Code in Puerto Rico requires 5 more inspections of several different aspects related to the construction permit(s) issued. The first 4 inspections are back to back, but they cannot be simultaneous. These 4 inspections are: footing and foundation inspection, concrete slab and concrete components inspection, frame inspection, and masonry wall inspections. Simply consolidating these 4 inspections into 1 procedure is a quick and easy reform that will improve the island's score.

### **The *Benayat* Platform in Bahrain**

Another policy reform that Puerto Rico should undergo is implementing an online platform like the Benayat platform created in Bahrain. This consists of an online platform that facilitates the process of applying for building permits. The Benayat platform reduces the amount of time (human hours) it takes to complete permitting procedures by eliminating (1) time-consuming in-person visits to multiple government offices, and (2) repetitious consulting of different government agencies and private firms to get the construction project approved.

Puerto Rico can also reduce the amount of bureaucratic procedures by delegating the application review process to private engineering firms engaged for that purpose, with relevant and up to date expertise and incentives to efficiently manage and process applications. In doing so, the process can become materially faster and more efficient, with a reduction in the amount of review and approval procedures. This is achieved, in part, by reducing reliance on government bureaucracy, and substituting it with private sector efficiencies that have proven experience in properly managing the permitting process.

The online system is meant to serve as a platform that connects these private engineering firms with the government, so that these firms have access to the different regulations, and a straight line of communication with the relevant regulatory and enforcement agencies.

The use of certified private engineering firms can also be enhanced through the online platform system, by having effective and healthy competition between the engineering firms, while ensuring compliance with applicable requirements – focusing on quality and timely service to customers/citizenry.

Another reform option that can improve the amount of time it takes to deal with construction permits in Puerto Rico is to preclude requiring owners who have purchased a plot of land that already has regulatory approvals to repeat the

permitting process. Today, if someone in Puerto Rico were to buy a plot of land, they have to go through the whole procedure of obtaining new construction permits even if the previous owner had already completed the process. By eliminating this requirement, the process would be more efficient, saving multiple government agencies time and resources on already approved locations.

With reforms like those generally described above, the overall score for Puerto Rico in Dealing with Construction Permits would improve considerably. Puerto Rico could potentially reduce the amount of procedures from 22 to 15. Based on that reduction, the reforms could reduce the amount of time needed to obtain construction permits to an average of 90 days. As a result, Puerto Rico's overall score in this category would increase to 73. Ranked among the economies in the 2020 DB report, Puerto Rico would find itself tied for 63<sup>rd</sup> in the world with Canada and the Maldives.

### What can Puerto Rico do?

- Decrease the amount of procedures to 15.
- Decrease amount of days for permits to at least 103.
- Implement a similar platform as the *Benayat* platform in Bahrain.
- Engage private engineering firms in the application review process to expedite the process.

Policies
Reduce the amount of procedures to 15.
Reduce the number of permits, and in-person trips.
Installing an electronic platform for building applications. Delegating the application review process to private engineering firms engaged for that purpose.





## Getting Electricity

Puerto Rico ranks 92<sup>nd</sup> globally in Getting Electricity with an overall score of 73.5, comparable with countries like Mexico at 71.7 and 68.0 in the Dominican Republic, while the United States' index is at 82.2, ranking 64<sup>th</sup> globally.

Out of the 10 categories used to calculate an economy's ease of doing business score, Getting Electricity is the 4th worst category for the island's ranking.

The Getting Electricity score is generated after calculating the average score in 4 subcategories:

- number of procedures
- the amount of time it takes
- the reliability of energy supply
- the transparency of the tariff (cost) index

Puerto Rico scores 66.7 in procedures, 93.9 on the amount of time, 96.1 in associated costs, and 37.5 on the reliability of energy supply and transparency of the tariff index. Of these subcategories, the reliability of supply and transparency of tariff index score, and the procedures score are the worst.

The reliability of supply and transparency of tariff index score is based on 6 sections that each give off at least one point. These 6 sections include:

Sections	Points
Total duration and frequency of outages per customer a year	● ● ●
Mechanisms for monitoring outages	●
Mechanisms for restoring service	●
Regulatory monitoring	●
Financial deterrents aimed at limiting outages	●
Communication of tariffs and tariff changes	●

The total amount of points is divided by 8, and the result will be the total score for the subcategory of the reliability of supply and transparency of tariff index.

One of the main attributing factors to Puerto Rico's grim performance is the unreliability of the service, and large amounts of power outages that occur on the island on a yearly basis. In total, the island scores a 3 out of 8 on the index. Puerto Rico already misses on 3 points in the section "Total duration and frequency of outages per customer a year" where the island scores a 0 out of 3. This is due to the island experiencing more than one hour of power outage per month according to the SAIDI and SAIFI indexes.

By contrast, Costa Rica has less than one hour of outage per year, earning them a score of 3 points in that section, and the maximum number of 8 points total in the reliability of supply and transparency of tariff index. Costa Rica's success

results from the implementation of projects that have helped keep power outages to the lowest amount as possible.

#### PUERTO RICO'S "OUTAGES PER CUSTOMER PER YEAR" vs. COSTA RICA



> **1 hour** of power outage  
per year  
**0 points** scored  
in this section



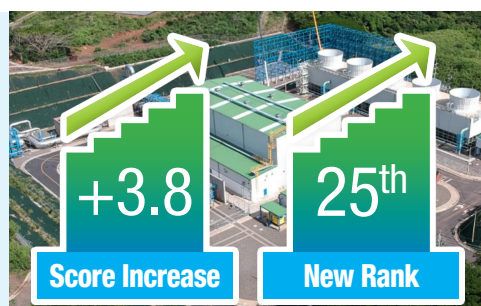
< **1 hour** of power outage  
per year  
**3 points** scored  
in this section

COUNTRY	Getting Electricity World Rank	Score
Peru	88	74.54
Belize	91	73.65
Puerto Rico	92	73.54
Grenada	93	73.38
Bolivia	96	73.16

### Reducing Power Outages in Costa Rica


In 2019, Costa Rica had gone down a point in the index because they had more than an hour of outages per year. However, in 2020, Costa Rica was able to recover that point after improving the reliability of the electrical supply by repairing the El Porvenir substation and installing over 1,140 new electric poles throughout the capital of San Jose. The country also created a mapping program for transformers and meters throughout the capital.

The success of these projects in improving the reliability of the electrical grid led Costa Rica to increase its overall Getting Electricity score by 3.8 points. As a result, Costa Rica now finds itself in 25<sup>th</sup> place in the world in Getting Electricity.



Puerto Rico could also improve its score in the reliability of supply and transparency of tariff index by installing a system of regulatory monitoring and placing financial deterrents on utilities. Regulatory monitoring would mean having a regulator oversee how reliable the utility is at supplying electricity.

The financial deterrents are meant to limit power outages by having the utility work towards reducing outages to avoid having to pay a financial compensation or fines imposed by a regulator. If Puerto Rico were to implement both reforms, they would increase their score in the index by two.



This has worked for countries like Costa Rica, Chile, and Finland, which count with both regulators and financial deterrents. In this index, both Costa Rica and Finland have a perfect score of 8, and Chile has a score of 7. Without these reforms, each countries' score in the index would drop by 2, bringing down their overall score in Getting Electricity.

Lastly, Puerto Rico could improve its score in Getting Electricity by reducing the amount of procedures to get power connected. As of 2020, there are a total of 5 procedures that need to be completed, which brings the island score in this subcategory to a total of 66.7.

## Reducing Procedures in Armenia

Armenia is a good example of a country that saw their score improve after reducing the amount of procedures. Armenia went from having 4 procedures in 2017 to 2 in 2020. The first reform came in 2018 when Armenia made the process of getting electricity easier by creating deadlines for connection procedures. This resulted in the reduction of procedures from 4 to 3 in 2018.



*The Hrazdan Thermal Power Plant in the town of Hrazdan, Armenia.*

Armenia's overall score in Getting Electricity increased by 5.4 points and the score in procedures went all the way up to 100. In 2020 Armenia further reduced the amount of procedures to 2 but fell in its score because of more frequent power outages. Nevertheless, Armenia continues to have an excellent score of 87.7 and is ranked 30<sup>th</sup> in the world. This rank and score is in large part, due to the few procedures that must be completed which makes the process to get electricity easier.

To fully understand how these improvements on the individual subcategories help Puerto Rico's performance in Getting Electricity, consider that if Puerto Rico could (1) reduce its procedures from 5 to 4 through consolidation or the use of an online platform, and (2) improve their score on the reliability of supply and transparency of tariff index from 3 to 6 by moving part of the generation to renewable energy, and explaining the cost of electricity, then Puerto Rico would




have a score of 83.33 in procedures, leading to at least 93.9 in time, 96.1 in costs and a 75 in the index. In total, Puerto Rico would have a score of around 87.08. In this case, Puerto Rico would place around 36<sup>th</sup> in the 2020 DB report.

In fact, if Puerto Rico were to go as far as reducing the amount of procedures to 3, it would give the island a score of 100 in procedures and an overall score of 91.25, positioning it at 21<sup>st</sup> in the world.




INDICATOR	Puerto Rico	LATAM & Caribbean	OECD	Best Performances
Procedures (number)	5	5.5	4.4	3 (28 economies)
Time (days)	32	66.8	74.8	18 (3 economies)
Cost (% of income per capita)	318.3	407.2	61.0	0.0 (3 economies)
Reliability of supply and transparency of tariff index (0-8)	3	4.4	7.4	8 (26 economies)

Example of Improvement			
	2019	Change in Policy	2020
	Transparency of tariff: <b>6</b> <b>Rank: 38</b>	Improved the reliability of electricity supply by repairing the El Porvenir substation, installing 1,140 new electric poles, and implementing a mapping program for transformers and meters throughout San José. Costa Rica also made getting electricity faster by reducing the time to approve the electrical grid design.	Amount of procedures: <b>5</b> Days for permit: <b>39</b> Transparency of tariff: <b>8</b> <b>Rank: 25</b>

## Policy Recommendations: Getting Electricity

The Puerto Rico Electric Power Authority (PREPA) has gone through intense scrutiny and transformation, particularly in the aftermath of hurricanes Irma and María in 2017, which left the entire island without power for months, and destroyed a substantial amount of the island's transmission and distributions system.



Puerto Rico's score in the Getting Electricity section of the DB report could be materially enhanced by improving the efficiency of PREPA's administration (management), privatizing strategic elements of its key services (transmission and distribution, and generation), professionalizing its staff and management, and de-politicizing its management structure.

This can be done by (1) pursuing and implementing multiple public private partnership transactions, (2) professionalizing staff and management (including its Board of Directors), (3) implementing operational initiatives that drive efficiency and modernization, (4) reconstructing the island's transmission and distribution grid with federal funding made available by FEMA to address hurricane impacts, (5) diversifying the island's energy generation infrastructure to further reduce reliance on fuel oil imports, (6) increasing the use of natural gas, (7) integrating renewable energy generation and battery storage technology, and (8) upgrading technology to leverage customer based synergies and micro-grids as part of the overall power grid system.

The DB report focuses mainly on the cost and timeliness of obtaining a permanent electricity connection for a building/customer. While the DB research collects data on the cost of electricity, this does not affect the calculation of the overall score. The overall cost to consumers and businesses on the island does not affect this score. Regardless, the ranking of cost-efficiency measures for PREPA would significantly improve and help reduce the time it takes to obtain these basic services, and maintain reliable electric service. In short, even though the cost of energy does not directly affect the index, if the cost of electricity is reduced, the overall score performs better because it indirectly affects other sub-indexes like the transparency tariff index.


According to the US Energy Information Administration, in 2019, 40% of Puerto Rico's energy generation came from fuel oil / petroleum, 39% from natural gas, 19% from coal, and just 2% from renewable energy sources. The use of fuel oil / petroleum for energy generation purposes significantly contributes to the volatility and historically high cost of electricity on the island.

Percentage of  
income spent  
on electricity  
by Puerto  
Ricans:

**7.1%**

According to the Financial Oversight and Management Board of Puerto Rico's certified fiscal plan for PREPA (published on June 29, 2020), consumers on the island spend, on average, 7.1% of their income on electricity. This is much higher than the average in the mainland United States, which ranges from 2.7% to 3.8%, and ranks higher than the average in Latin America, which ranges from 2.2% to 5.5% of [personal/disposable] income.

Much of this high cost is due to the usage of fuel oil / petroleum (all of which is imported) and overall grid inefficiencies. Fluctuations in oil prices, geopolitical developments, limited suppliers, and impaired credit (PREPA is bankrupt and



has been insolvent since 2014) make it more difficult to secure favorable prices and terms, and competitive suppliers, and as a result, the ability to accurately forecast future energy costs.

This, combined with decades of mismanagement, lack of maintenance, ineffective capital project delivery, frequent changes in executive management, deficient staffing, aging infrastructure, and outdated systems have led to budget deficits, decreased employee headcount, poor morale, inability to access the capital markets, and customer dissatisfaction. Additionally, these circumstances have led PREPA to its current situation of bankruptcy and associated financial and operational uncertainty.

Focusing on increasing the share of energy generated by renewable sources (naturally present in Puerto Rico) would have the effect of bringing stability to energy prices on the island. Shifting to renewables would also allow the island to meet its renewable portfolio standards, contributing to a reduction in its carbon footprint, and aligning with national and international trends related to climate change policies. This mandate requires that the island generate 25% of its energy from renewable sources by 2025. In 2019, this percentage stands at just 2.3%. The direct effect is measured indirectly in the index since no sub-category of the index measures renewable energy.

Required  
percentage of  
energy generated  
from renewable  
sources by 2025:

**25%**

Increased financial stability would allow PREPA to exit bankruptcy and more effectively help transform the island's energy sector by, among other things, providing access to the capital markets to invest in capital improvements that are sorely needed beyond reconstructing the grid after the impacts of the 2017 hurricane season. Investments in microgrids, which would reduce the risk of island-wide blackouts such as the ones in September 2016 and in 2017, following hurricane Maria, would have a direct and positive effect on the island's score in this category.

One of the categories relevant to this ranking directly deals with reliability and stability of electric service. Reducing the amount and length of power blackouts on the island, which could be done through investment in the island's aging infrastructure, would have a direct impact on its score. The privatization project for the island's transmission and distribution system, recently announced, seems to be focused on addressing these service improvements over the next few years and for a 15-year term.



### KEY RECOMMENDATIONS:

- Improve and sustain the stability (reduce turnover) and independence (depoliticize) of PREPA's administration (Management and Board of Directors).
- Restructure the public corporation to achieve greater efficiency and leverage private sector expertise and efficiency in electric generation and transmission & distribution.
- Privatize key operational functions (generation / transmission & distribution).
- Establish a permanent structure for greater transparency in procurement and periodic disclosure of company and energy sector information.
- Modernize energy infrastructure (reconstruct the grid post-2017 hurricanes and modernize power generation plants).
- Increase the adoption of renewable energy sources.

Policies
Improve and sustain the stability (reduce turnover) and independence (depoliticization) of PREPA's administration (Management and Board of Directors)
Restructure the public corporation to achieve greater efficiency and leverage private sector expertise and efficiency in electric generation and transmission & distribution
Privatize key operational functions (generation / / transmission & distribution)
Establish a permanent structure for greater transparency in procurement and periodic disclosure of company and energy sector information
Modernize energy infrastructure (reconstruct the grid post-2017 hurricanes and modernize power generation plants)
Increase the adoption of renewable energy sources





## Conclusion

Citizens thrive when the rules of engaging in the economy are clear, therefore it is important for governments to provide their citizens the tools they need to prosper on their own. Puerto Rico has been in a recession over a decade, while the government continues to increase taxes and overhaul most sectors, proving that no real growth is expected in the short-term. The private sector needs to be given the tools to shift the narrative of bankrupt business and economic stagnation.

The DB report is founded on the principle that economic activity benefits from clear rules that (1) allow voluntary exchanges between economic actors, (2) set out strong property rights, (3) facilitate the resolution of commercial disputes, and (4) provide contractual partners with protections against arbitrariness and abuse. These measures increase the quality of life of citizens and hail economic growth.

In the previous sections, we approached four different sectors where the island can increase their index. We have analyzed the situation in Puerto Rico and compared it to other countries to see how Puerto Rico can improve their standing. These include:

### **Paying Taxes**

- Decrease the corporate tax rate from 30.8% to something closer to LATAMs average of 16%.
- Decrease the number of payments made to the government from 23 to something closer to other countries of 10.
- Online submission of corporate income tax correction through SURI.

### **Registering Property**

- Integrate and connect the Registry of the Property online system with the CRIM to eliminate the last procedure in the process.
- Enforce current law that imposes a time limit of 90 days for the Registrar to review property deeds.
- Provide public statistics that track the number of transactions at the Registry of the Property.

## Construction Permits

- Decrease the amount of procedures to 15.
- Decrease the amount of days for permits to at least 103.
- Create an electronic platform for building applications.
- Engage private engineering firms in the application review process to expedite the process.

## Getting Electricity

- Improve and sustain the stability (reduce turnover) and independence (depoliticize) of PREPA's administration (Management and Board of Directors).
- Restructure the public corporation to achieve greater efficiency and leverage private sector expertise and efficiency in electric generation, transmission and distribution.
- Privatize key operational functions (generation / transmission and distribution).
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- Increase the adoption of renewable energy sources.

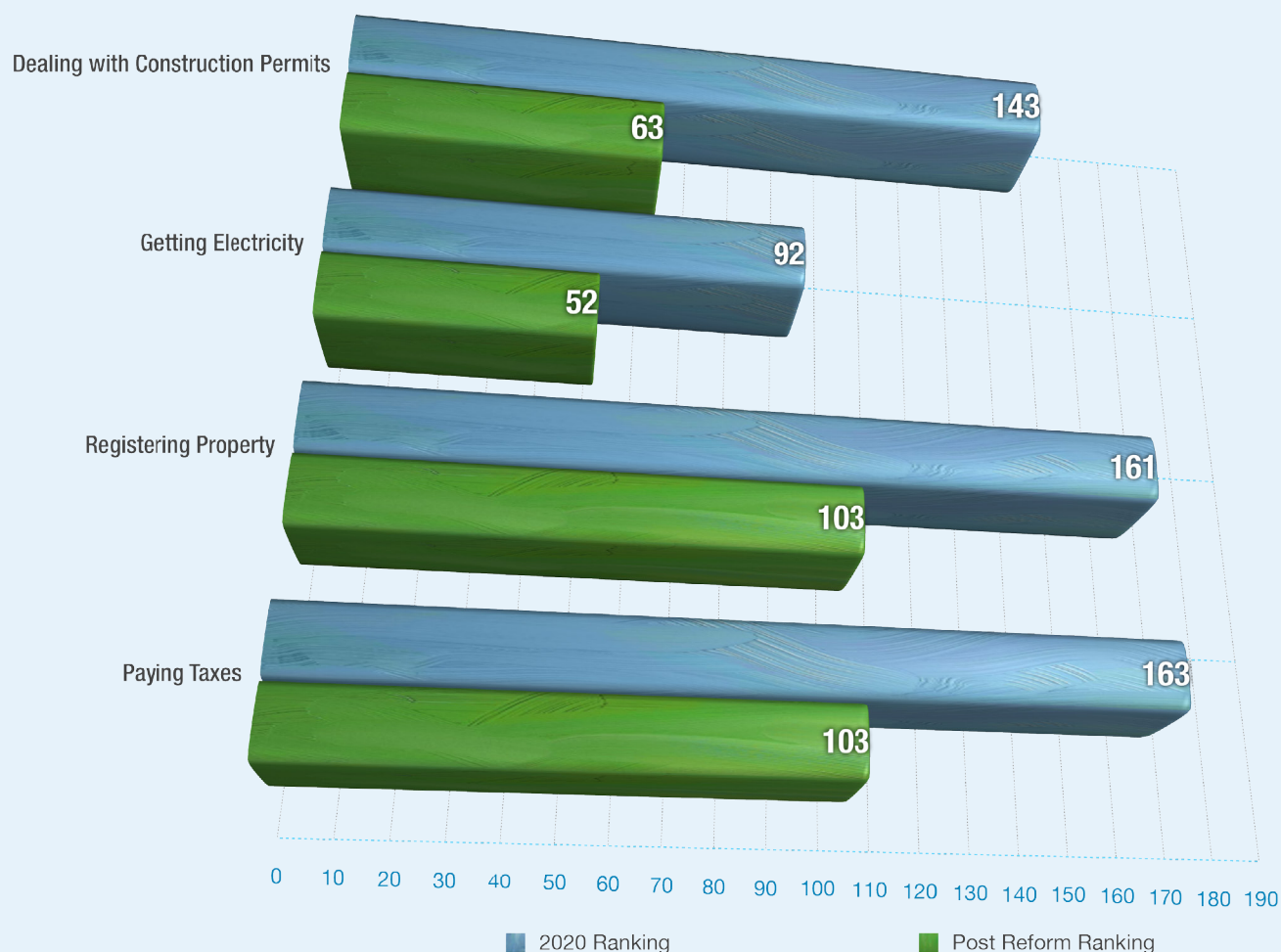
If these recommendations are implemented the following table illustrates what Puerto Rico's final rankings would look like in each category:

### Improvement in Puerto Rico's Doing Business Scores after Implementation of Reforms



## Improvement in Puerto Rico's Ranking Post Reforms

Scale of 1 to 190, with 190 being worst ranking



Implementation of these recommendations would improve Puerto Rico's scores in the DB report categories by a whopping 37% in Paying Taxes, 36% in Registering Property, 43% in Getting Electricity and 56% in Dealing with Construction Permits. Puerto Rico's Ease of Doing Business score would increase from 70.1 in 2020 to 76.5, positioning it right under Switzerland in the country rankings and #1 in Latin America & the Caribbean.

Improving Puerto Rico's competitiveness is a necessary step to attract investment, create jobs and foster local entrepreneurship. The most beneficial business environments for start-ups and entrepreneurs are those that free their time and lower the cost to innovate and create. Agile and transparent processes improve businesses' capacity to grow and create additional jobs. They also strengthen the rule of law by giving certainty to business to business transactions, and individual property rights. Finally, the reliability and cost of essential infrastructure –mainly electricity– improves the quality of life of island residents, lowers the risk of entrepreneurs, and improves Puerto Rico's ability to grow industrial sectors that create stable and good paying jobs.



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