

Strategic Model
for a
New Economy

GROWTH | COMPETITIVENESS | JOBS



*Government of Puerto Rico
September 2009*

Executive Summary: Growth, Competitiveness and Jobs

We have lost the first decade of the 21st Century... We CANNOT lose another!

- The goals of this Strategic Model are:
 - **GROWTH:** To achieve Real GNP growth of 1.8% by 2013 and 3.0 % by 2017
 - **COMPETTITIVENESS:** To raise the credit rating of General Obligation debt to “A” and our global ranking in the WEF* to 25 by 2017
 - **JOBS:** To reduce the unemployment rate to 12.7% by 2013 and 10% by 2017 by creating 125,000 new jobs by 2013 and a total of 260,000 jobs by 2017
- To establish the Economic Development Steering Committee and the Technical Advisory Committee as the main implementation bodies to ensure results and compliance with objectives
- To realign promotional strategies and foster Puerto Rico’s integration into the global economy by exporting goods and services, and a transition to a knowledge-based economy
- To develop a world-class physical infrastructure to reduce the operational costs of doing business in Puerto Rico
- To reform Puerto Rico’s institutional and regulatory framework in order to turn government into a facilitator in the strengthening of the private sector

Agenda

1. The Economic Challenge is of Historic Proportions

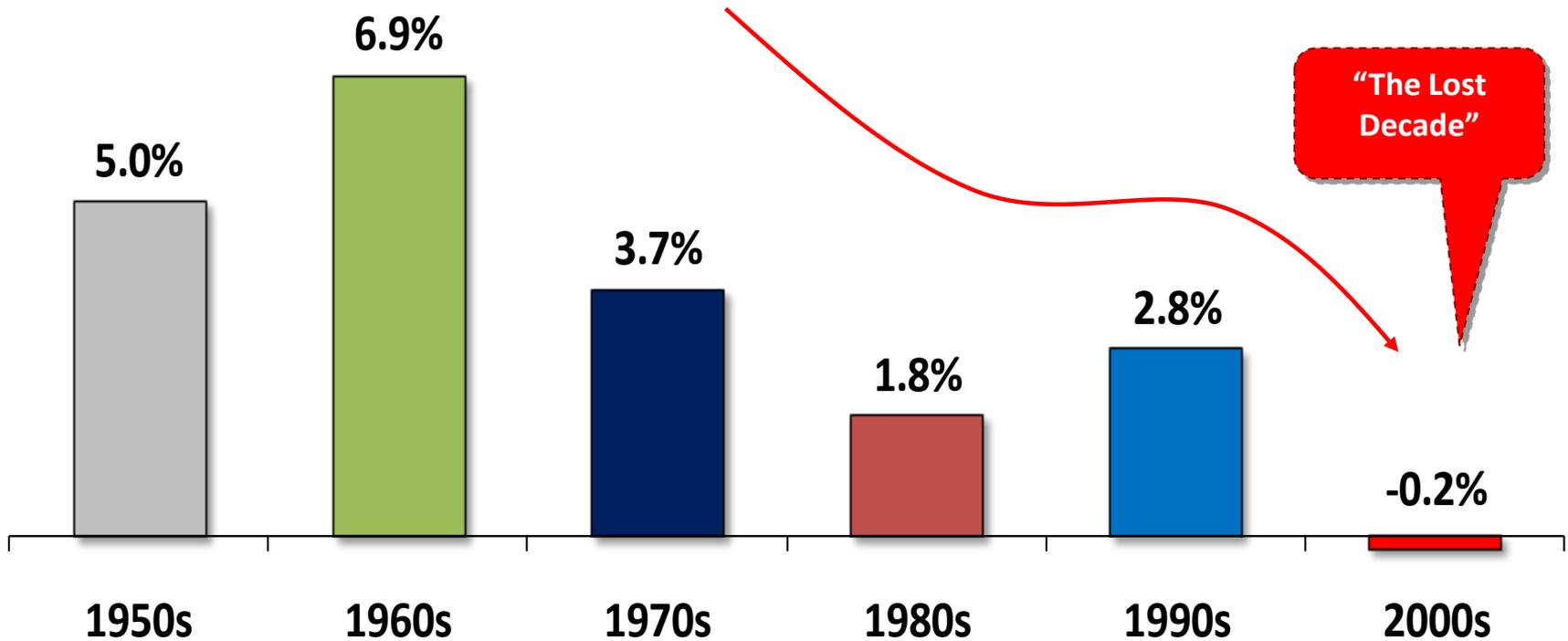
2. Strategic Model for a New Economy

3. Implementation of the Strategic Model

We lost the first decade of the 21st Century... We CANNOT lose another!

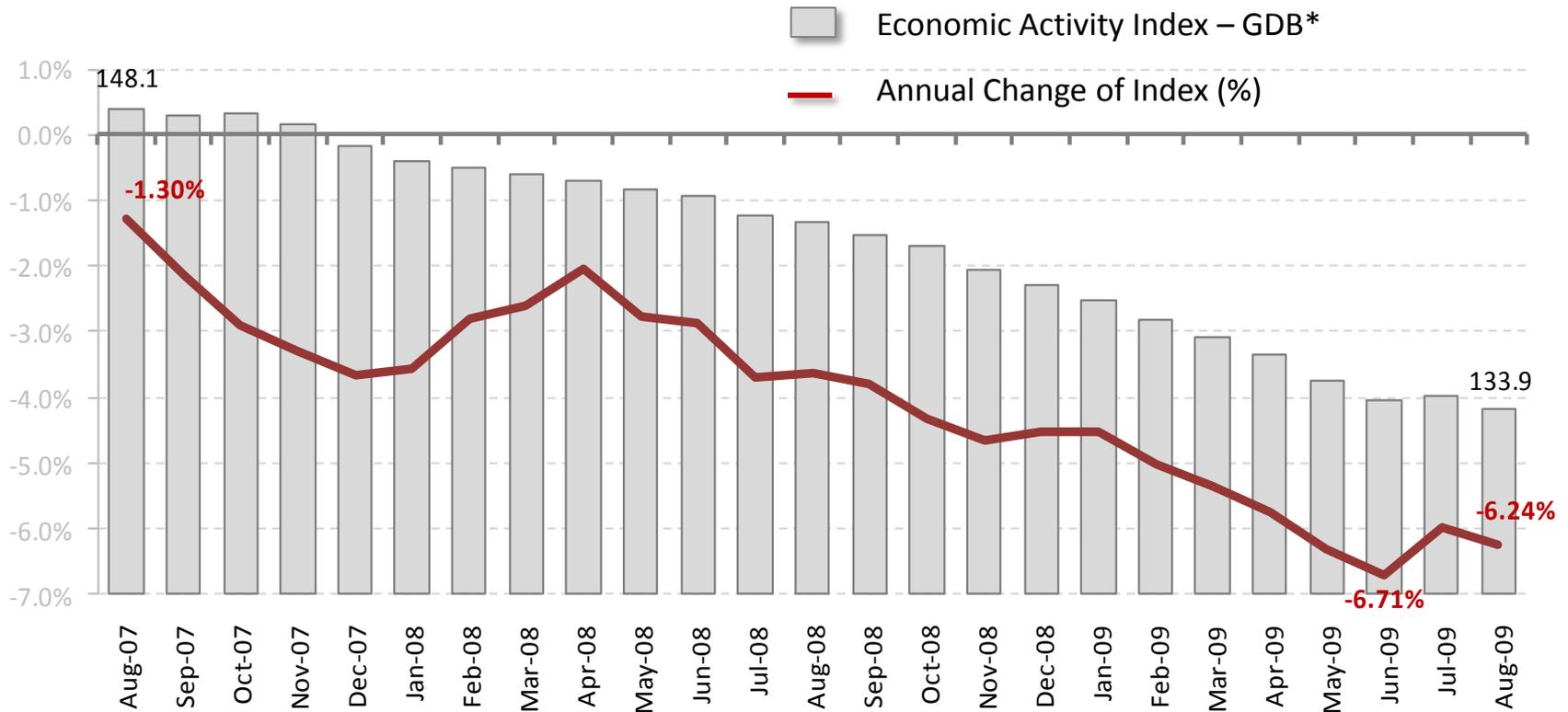
We have lost a decade in terms of economic growth

Compounded Annual Growth of Real GNP for every decade



We are monitoring the economic activity on a monthly basis through the Economic Activity Index

The contraction calls for extraordinary measures in the short and long-term

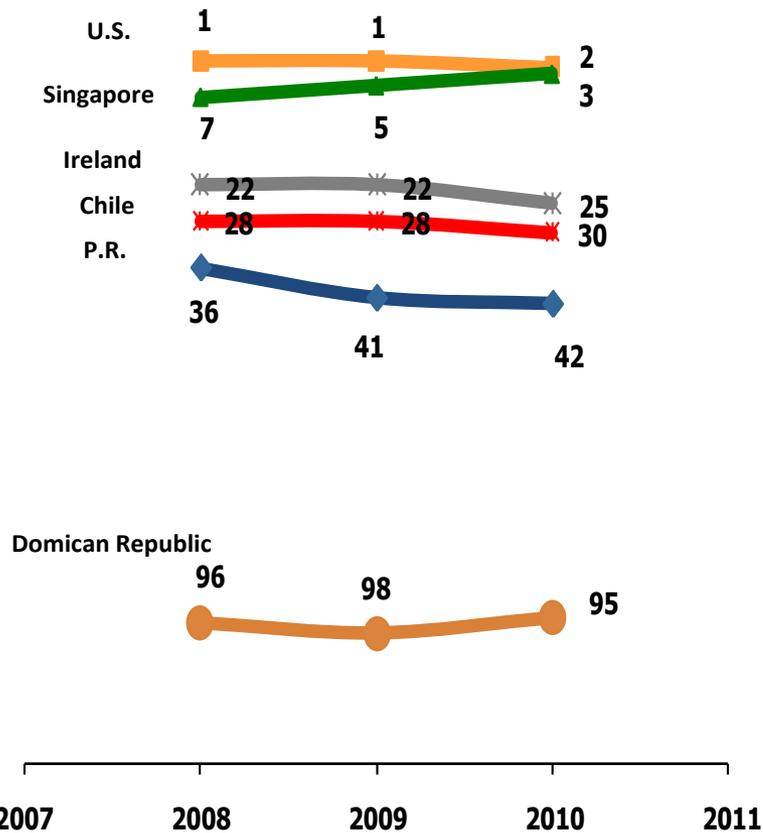


Source: GDB.

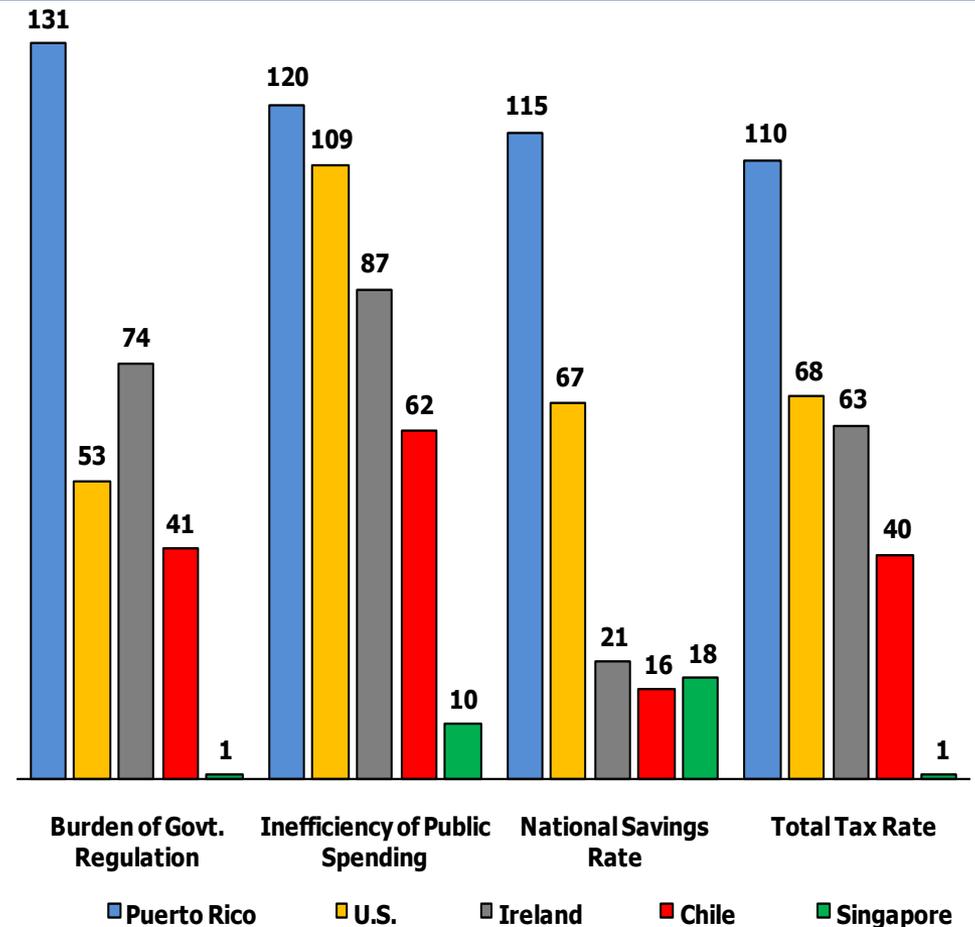
* The GDB Economic Activity Index (EAI) is published on a monthly basis, and it is 98% correlated to the GNP. It is made up of 4 indicators: Total Payroll Employment (Establishments Survey), Total Electric Power Consumption (MM of kWh), Total Cement Data (MM of Bags) and Gas Consumption (MM of Gallons). For more information about the indicators.

Puerto Rico's global competitiveness is degrading and the most problematic aspects of doing business in Puerto Rico are under the government's purview

Global Competitiveness Ranking



Factors that Adversely Affect the Ranking



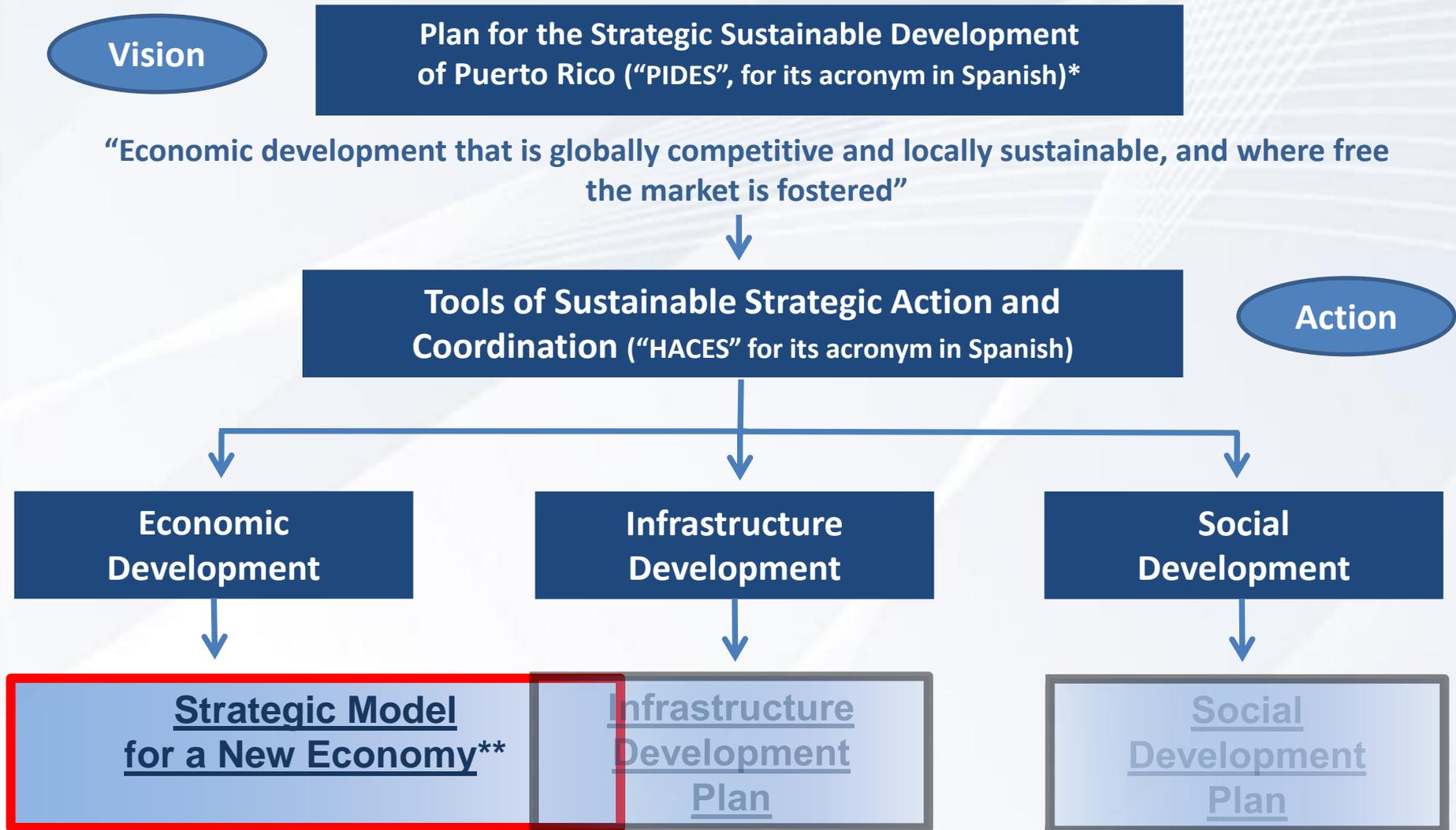
Agenda

1. The Economic Challenge is of Historic Proportions

2. Strategic Model for a New Economy

3. Implementation of the Strategic Model

The Government has formulated a vision for Puerto Rico and a strategic model to reach it



* As part of developing PIDES, 52 round table meetings and 6 public hearings were held throughout the Island.

**Its Spanish acronym is MENE = Modelo Estrategico para la Nueva Economia.

Conceptual Framework of the Strategic Model for a New Economy (MENE)

OBJECTIVE:
Growth, Competitiveness and Jobs

**RESTORE
GROWTH**

Short-Term
Stimuli

Long-Term
Growth
Measures

METRICS
Dashboard

INFRASTRUCTURE

Physical
Infrastructure

Strategic /
Regional Projects

METRICS
Dashboard

COMPETITIVENESS

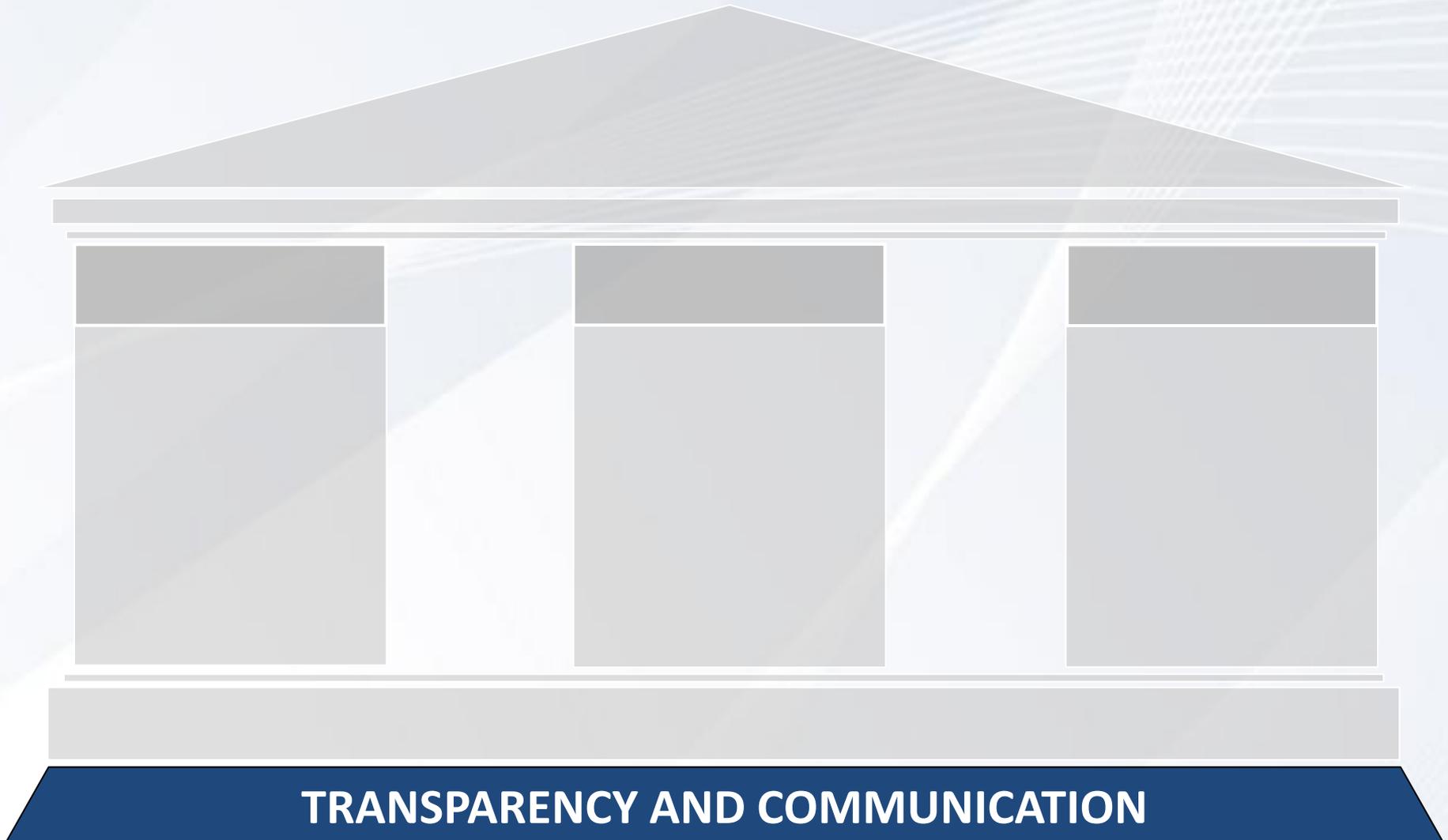
Functional
Infrastructure

Key Reforms /
Cost Reduction

FISCAL AND CREDIT STABILIZATION

TRANSPARENCY AND COMMUNICATION

Conceptual Framework of the Strategic Model for a New Economy



The Strategic Model is based on the free flow of information, which facilitates its widespread adoption



TRANSPARENCY &
COMMUNICATION

TRANSPARENCY

Objectives of the Transparency Policy:

- To promote institutional accountability
- To foster trust in administrative procedures
- To eliminate environments that promote preferential treatment and favoritism
- To facilitate citizen oversight

**PROMOTE INVESTMENT and
HEALTHY GOVERNMENT**

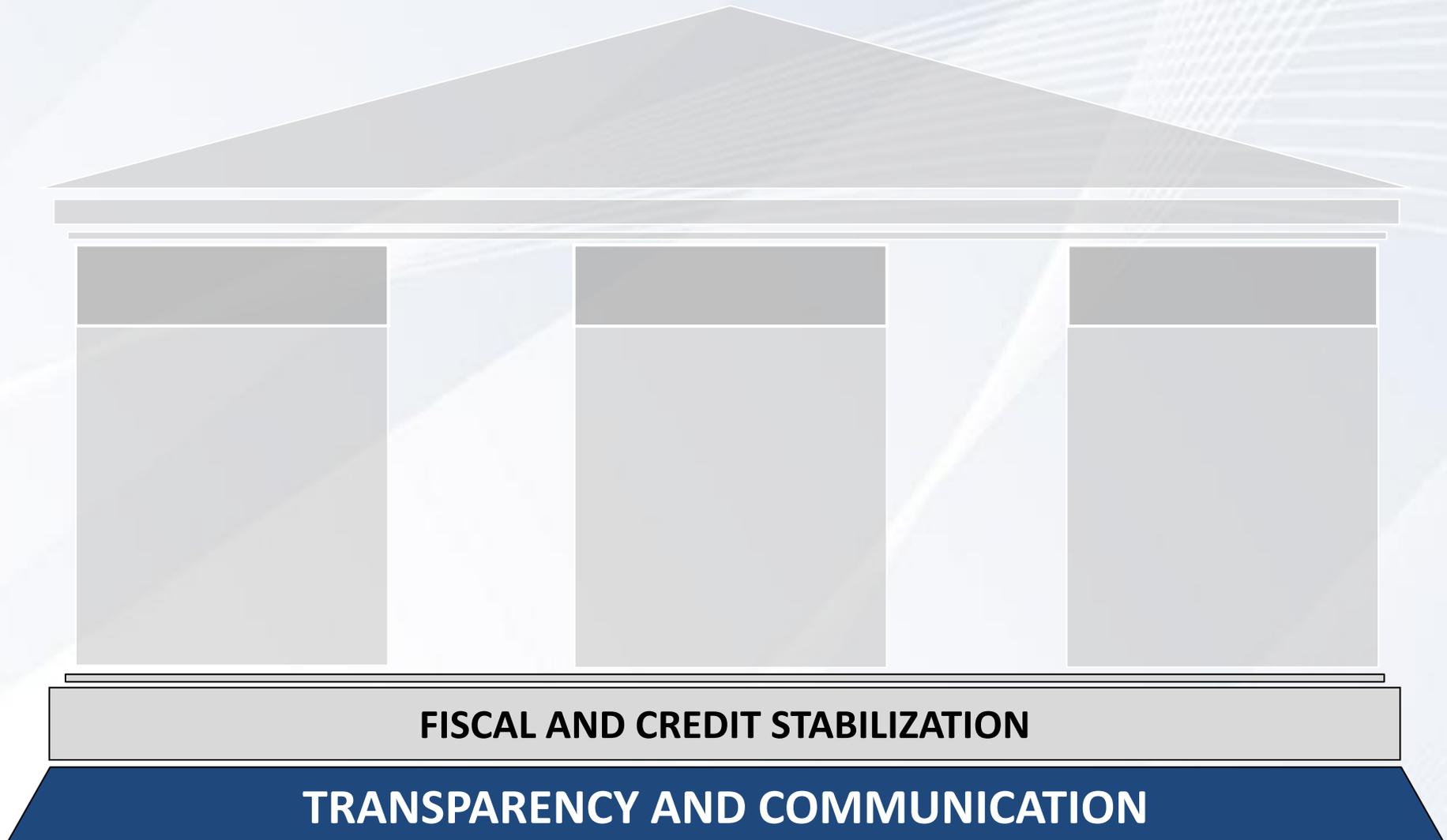
COMMUNICATION

Objectives of the Communication Policy:

- To promote open debate and collective participation
- To convey information about the Island's important events
- To regularly inform about efforts in economic development
- To promote understanding of the issues and the proposed solutions

**CONVEY THE VISION and
A SENSE OF DIRECTION**

Conceptual Framework of the Strategic Model for a New Economy



We have been able to stabilize the fiscal and credit conditions but the rating agencies are closely monitoring compliance with the Fiscal Reconstruction Plan



FISCAL
STABILIZATION

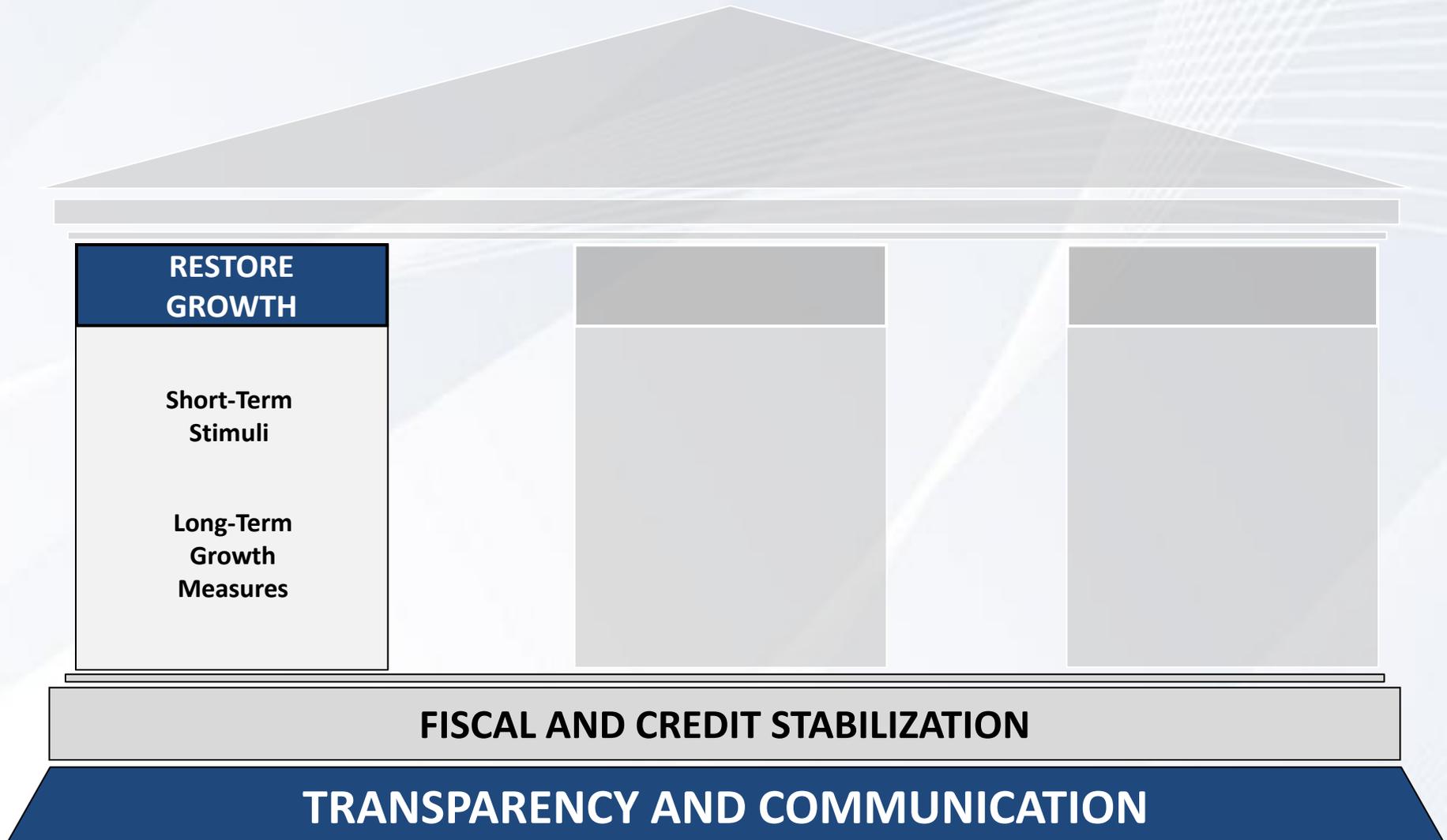
Puerto Rico Major Credits

Entity	Rating (S&P)	Outlook	Description
COFINA Senior	AA -	Stable	Rating increase on 05/09
COFINA Subordinate	A+	Stable	Rating confirmed on 05/09
PREPA	BBB+	Stable	Rating confirmed on 07/09
PRHTA	BBB+	Stable	Last revision on 02/09: downgrade
GDB	BBB	Stable	Rating confirmed on 09/09
Central Govt.	BBB-	Stable	Rating confirmed on 06/09
PRASA	BBB-	Stable	Revision in progress
Ports	BBB-	Stable	Last revision on 02/09: downgrade
PBA	BBB-	Stable	Rating confirmed on 07/09

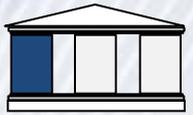
First credit increase in 10 years

Mid-term* goal of "BBB+" rating

Conceptual Framework of the Strategic Model for a New Economy



Restoring economic growth is based on the effective implementation of short-term stimuli and the long-term development of the productive base



RESTORING
GROWTH

A combination of measures to restore economic growth

Short-Term Growth Measures

Federal Stimulus Plan (ARRA*)

- Objective: Invest a total of \$6,044 MM into the Puerto Rico economy, of which 14% have been disbursed and will create 42,065 jobs

Local Stimulus Plan (PEC*)

- Objective: Invest \$500 MM in stimuli at the local level, of which approximately \$100 MM are in the process of being disbursed

Long-Term Growth Measures for All Sectors

Integration into the Global Economy

- Objective: Foster the development and strengthening of local companies capable of exporting competitive goods and services

Transition to a Knowledge based Economy

- Objective: Leverage the industrial base to create new jobs and businesses by creating new *clusters*** and consortia with a focus on innovation

* ARRA = American Recovery and Reinvestment Act; PEC = Spanish acronym for the Local Stimulus Plan.

** Cluster = Groups of interdependent and complementary businesses and institutions that make up an important area of economic focus and activity (Michael E. Porter, The Competitive Advantage of Nations, 1990).

The Federal Stimulus Plan is crucial in order to ease the current recession and 86% is yet to be disbursed



RESTORING
GROWTH

Federal Stimulus
Plan (ARRA)

PROGRESS REPORT

Objective:

- Introduce a total of \$6.044 billion* into the Puerto Rico economy, of which 14% have been disbursed and will create 42,065 jobs

Investment / Economic Impact :

- Total Investment:
 - Estimated: \$6.044 billion
 - Disbursed up-to-date: \$874 million
- Estimated jobs: 42,065 direct and indirect jobs**

Total Projected Disbursement up to Dec-31-09 total \$1,778 MM*

- \$530 MM *Work Pay Credit*
- \$33 MM Public Safety
- \$26 MM Infrastructure (21 Projects DTPW; 16, PRASA; 43, Housing)
- \$14 MM Employee Training
- \$10 MM Energy Programs

Challenges:

- Federal Government's bureaucratic process
- Need to further streamline the local process
- It takes longer to grant/disburse competitive funds

* Data as of September 18, 2009. Puerto Rico achieved an allocation that is \$1.044 billion higher than originally estimated.

** Direct jobs were estimated using a ratio of 10.87 direct, indirect and induced jobs per every \$1 million in investment. Direct and indirect jobs represent 64% of total jobs, according to Federal government formula being used for ARRA.

The Local Stimulus Plan complements ARRA funds and will be adjusted* to achieve greater flexibility



RESTORING
GROWTH

Local Stimulus Plan
(PEC)

PROGRESS REPORT

Objective:

- Introduce \$500 million in stimuli at the local level, of which approximately \$100 million are in the process of being disbursed

Investment / Economic Impact :

- Total Investment:
 - Estimated: \$500 million
 - Disbursed up-to-date: \$27.4 million

Total Projected Disbursements up to Dec-31-2009 total \$154.2 MM**

- \$132.8 MM Municipal Improvements Program, and Strategic Projects
- \$6.4 MM Employee Training
- \$15 MM Bonus to Retirees
- SMB program (small / med businesses) guarantee increased to 100%
- Creation of bonus for mortgage closing costs for Housing Stimulus Program

Challenges:

- Low participation in guarantee loan programs by banks
- Limited effect of housing stimulus due to recession

* Senate Bill 1122 (PS 1122) was submitted on Sep-11-09.

** Includes: \$9.7MM from PINI and Strategic Infrastructure Projects; \$0.5 MM, CIPE; \$9MM, Co-participation Program; and \$8.6MM Employee Retraining. Of a \$226 MM total, which excludes SMB guarantee programs. Data as of August 31, 2009.

Long-term growth measures to achieve sustainable economic development in a diversity of sectors



RESTORING
GROWTH

Integration into the
Global Economy

EXECUTIVE SUMMARY

Objective:

- To foster the development of local companies in order to expand their capacity to export competitive goods and services globally
- To foster investment and exports in the following sectors:
 - Advanced Services (financial, computer technology, engineering, design, research and development, health and entertainment)
 - Biosciences (pharmaceutical, biotechnology and medical devices)
 - High Technology (computer technology, telecommunications and aerospace)

Strategies and Initiatives:

- Re-establish the Foreign Trade Board to develop a new public policy for the export of goods and services
- Revise and expand the curricula of the Foreign Trade and Business Development Institute (ICEDE, for its acronym in Spanish)
- Realign promotional programs at PRIDCO, Tourism Company, and the Department of Agriculture and re-organize Puerto Rico's offices abroad
- Participate in more than 10 trade missions with counterparts from the most important markets to exporters
- Establish partnerships with local and international consortia to foster exports through treaties such as CAFTA-DR
- Foster entrepreneurship in activities with high potential for export

Long-term growth measures to achieve sustainable economic development in a diversity of sectors



RESTORING
GROWTH

Transition to a
Knowledge based
Economy

EXECUTIVE SUMMARY

Objective:

- To accelerate the transition to a knowledge-based and innovation economy, focused mainly on the development of human capital and intellectual property
- To foster capital investment in diverse areas of high growth potential

Strategies and Initiatives:

- Enable the Science and Technology Trust to implement a new public policy regarding innovation, science and technology
 - Establish a district of excellence in science and technology (Science City)
 - Establish an office of technology transfer for commercial research and development (R&D) programs
- Strengthen *clusters* and supporting consortia that focus on innovation; re-orient the promotion strategy and establish alliances with the private and educational sectors
- Increase the amount of public and private capital available to invest in R&D activities by using the FEDE* as cornerstone and by fostering the creation of private risk capital funds that invest on businesses focused on science and technology
- Develop the broadband infrastructure in all the regions of the Island and increase the number of internet users

The strategic model includes fostering strategic sectors, emphasizing competitiveness and sustainable growth



Focus on strategic sectors that will enhance production capacity

Manufacturing

- Objective: To retain, expand and diversify the current industrial base and attract manufacturing of high-value products based on R&D and high tech

Banking, Insurance and Credit Unions

- Objective: To foster a strong and healthy financial system in order to ease the efficient flow of capital in the economy

Tourism and Entertainment

- Objective: To develop new and attractive offers in order to retain and attract new tourist segments

Commerce

- Objective: To foster entrepreneurship and improve the value proposition for the consumer by emphasizing diversification and competition

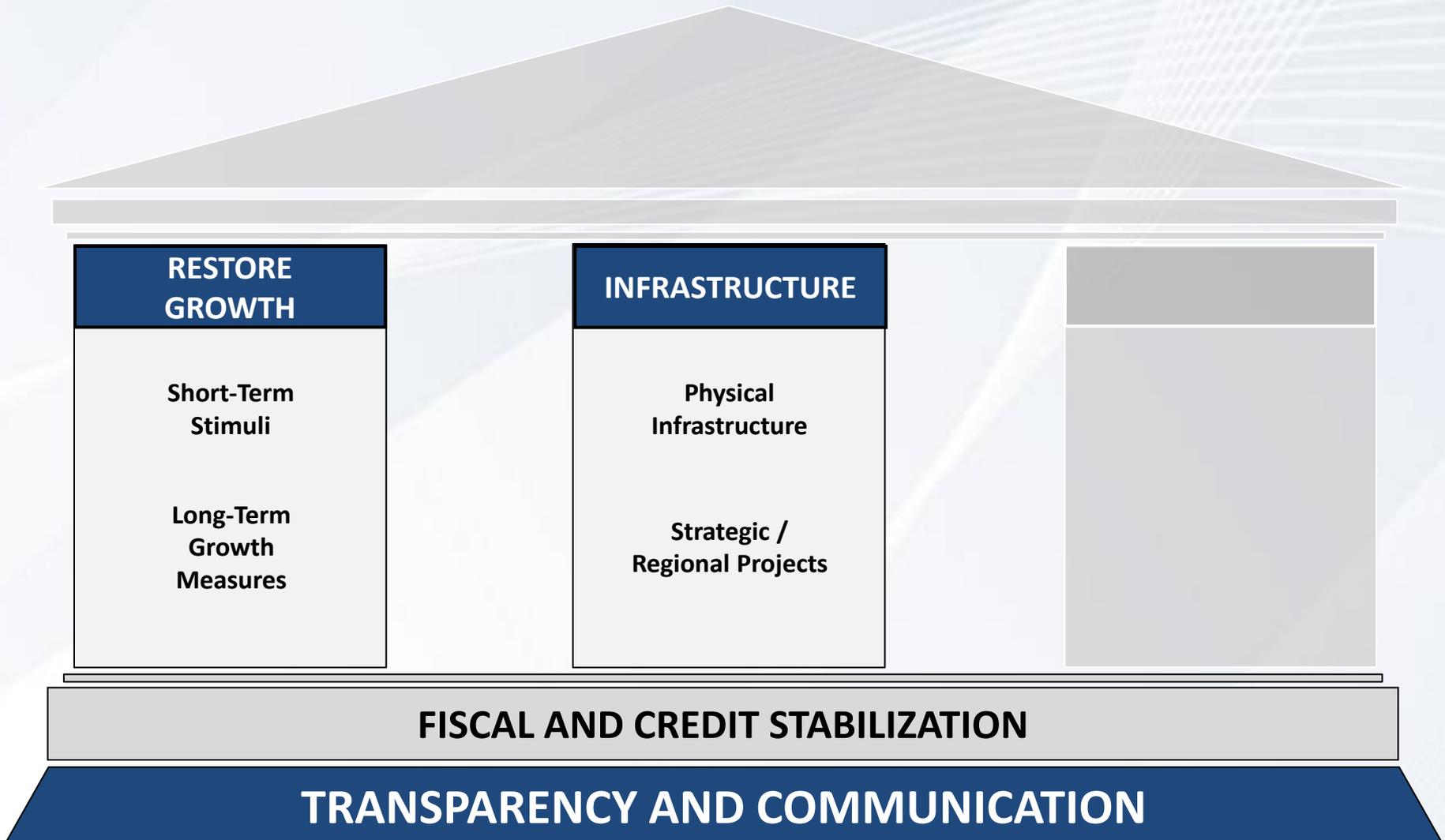
Agriculture

- Objective: To develop an entrepreneurial and hard working culture that is based on quality and competitiveness, and to maximize the yield of soils of high agricultural potential

Film and Creative Services

- Objective: To develop a film and creative services industry that is financially viable in the long-term

Conceptual Framework of the Strategic Model for a New Economy



Improve the physical infrastructure to expand the economy's productive capacity and reduce operating costs



INFRASTRUCTURE

Strategic investments in infrastructure will expand the Island's production capacity

Capital Improvements Plan

- Objective: The five main infrastructure public corporations have scheduled \$1,245 MM in capital improvements for FY 2010

Infrastructure PPPs

- Objective: To accelerate investment in infrastructure and private sector participation; invest \$6,214 MM and create 99,735 jobs

Water

- Objective: To bring water service to the whole Island, reduce water loss in the system and ensure the water supply

Energy

- Objective: To reduce the cost of energy and guarantee that electric power is accessible, reliable and sustainable throughout the Island

Transportation

- Objective: To guarantee developed and updated roads and pathways and safe and accessible collective transportation

Ports and Airports

- Objective: To maximize the role of ports and airports in the industrial supply chains and tourism development

Strategic projects will generate investments in all the regions of the Island to foster balanced economic development



INFRASTRUCTURE

Strategic investments in infrastructure will expand the Island's productive capacity

Golden Triangle

- Objective: The redevelopment of areas of Old San Juan, Puerta de Tierra, Isla Grande, the Convention District and Condado, among others (\$1,538 MM/ 24,685 jobs)

Caribbean Riviera

- Objective: To develop a tourism complex, related to the concept of destinations of entertainment and gambling (\$1,900 MM / 30,495 jobs)

Science City

- Objective: To create a district to position Puerto Rico at the forefront of the science, technology and R&D industries (\$1,765 MM / 28,328 jobs)

Port of the Americas

- Objective: To create an international trans-shipment port of global caliber with value-added zones in the southern region of Puerto Rico (\$750 MM / 12,038 jobs)

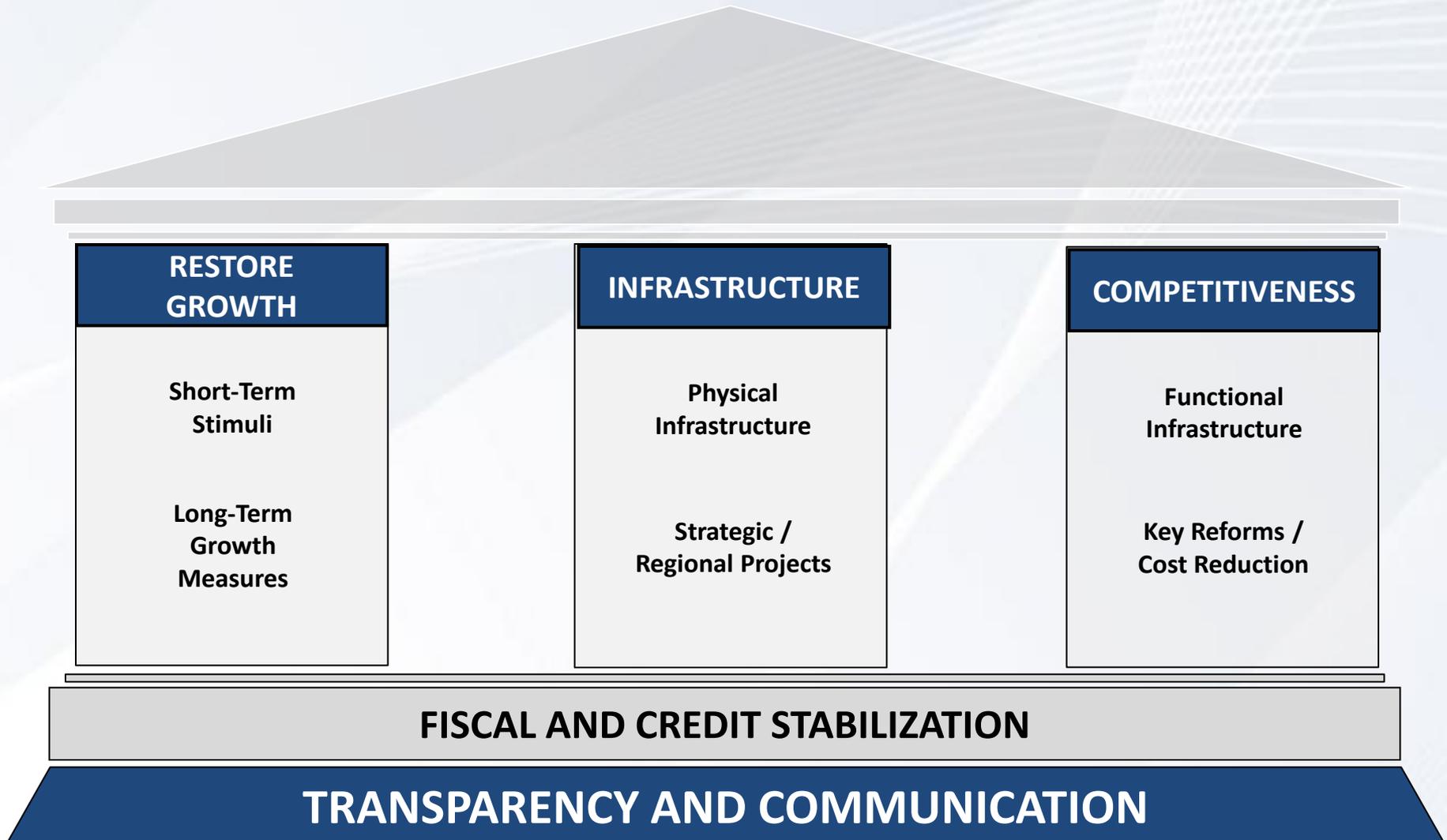
Mayagüez 2010

- Objective: To develop the infrastructure to hold the XXI Central American and Caribbean Games in the summer of 2010 (\$332 MM / 5,329 jobs)

Aguadilla Airport

- Objective: To redevelop the Aguadilla airport as the second most important international airport of P.R. and as a regional logistical center (\$21.8 MM / 350 jobs)

Conceptual Framework of the Strategic Model for a New Economy



Reforms address challenges regarding costs, efficiency and functionality, which currently reduce competitiveness our economy



COMPETITIVENESS

Reducing the costs of doing business and facilitating private sector growth

PPPs Reform

- Objective: **Approved Act 29 of 2009:** Creates new public policy related to infrastructure investment and public services

Permits Reform

- Objective: **Submitted PC 1649:** Creates a new permits system that is transparent, agile, efficient and accurate

Executive Branch Re-organization and Modernization

- Objective: **Submitted PC 1644:** Promotes a government structure that responds to current needs and fosters a better quality of life

Energy Reform

- Objective: To establish a new energy public policy and programs to diversify the sources of energy by ARRA, RPS* and GEF**

Tax Reform

- Objective: To reform the tax system and bring relief to the Puerto Rican taxpayer through reduced and fair tax rates

Labor Reform

- Objective: To incentivize work by increasing the participation rate and demand for labor in the private sector

*RPS is a regulatory policy that requires production increments from renewable energy sources, including the wind, solar, biomass, and geothermal.

** GEF = Green Energy Fund

Conceptual Framework of the Strategic Model for a New Economy

OBJECTIVE:
Growth, Competitiveness and Jobs

**RESTORE
GROWTH**

**Short-Term
Stimuli**

**Long-Term
Growth
Measures**

INFRASTRUCTURE

**Physical
Infrastructure**

**Strategic /
Regional Projects**

COMPETITIVENESS

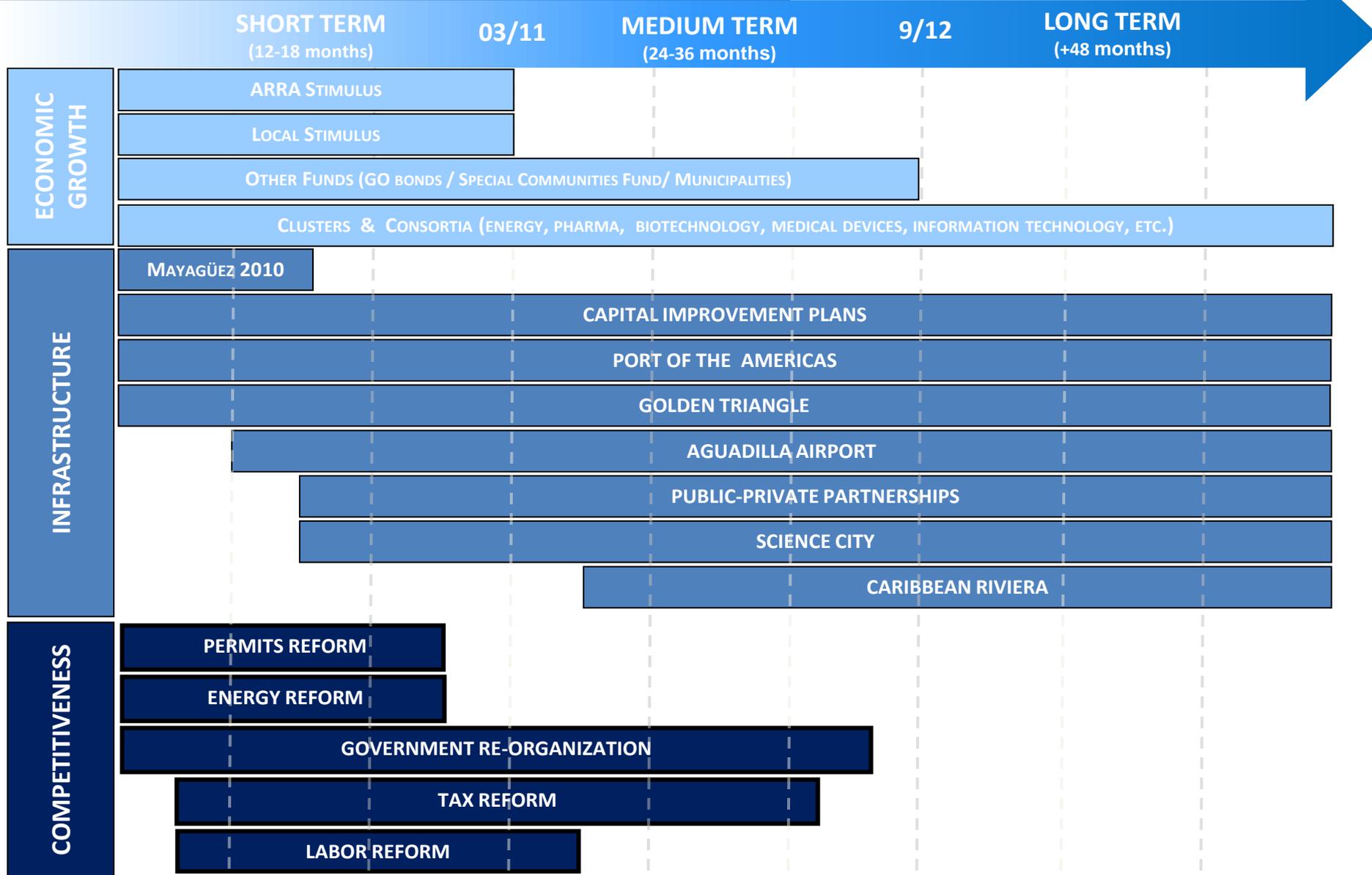
**Functional
Infrastructure**

**Key Reforms /
Cost Reduction**

FISCAL AND CREDIT STABILIZATION

TRANSPARENCY AND COMMUNICATION

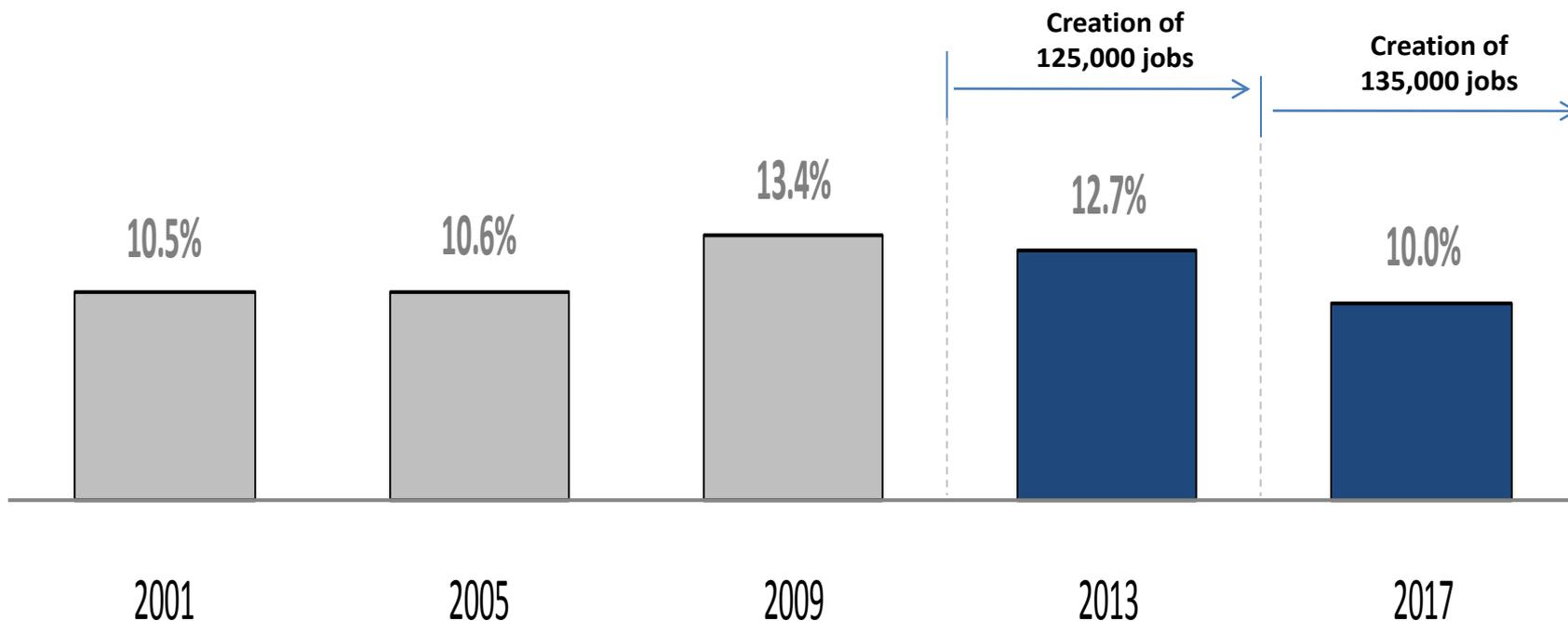
Work Schedule – Sequence of Initiatives



PLANNING AND MONITORING

The implementation of the Strategic Model has the goal of creating approximately 260,000 new jobs in the long-term, which entails a constant reduction of the unemployment rate

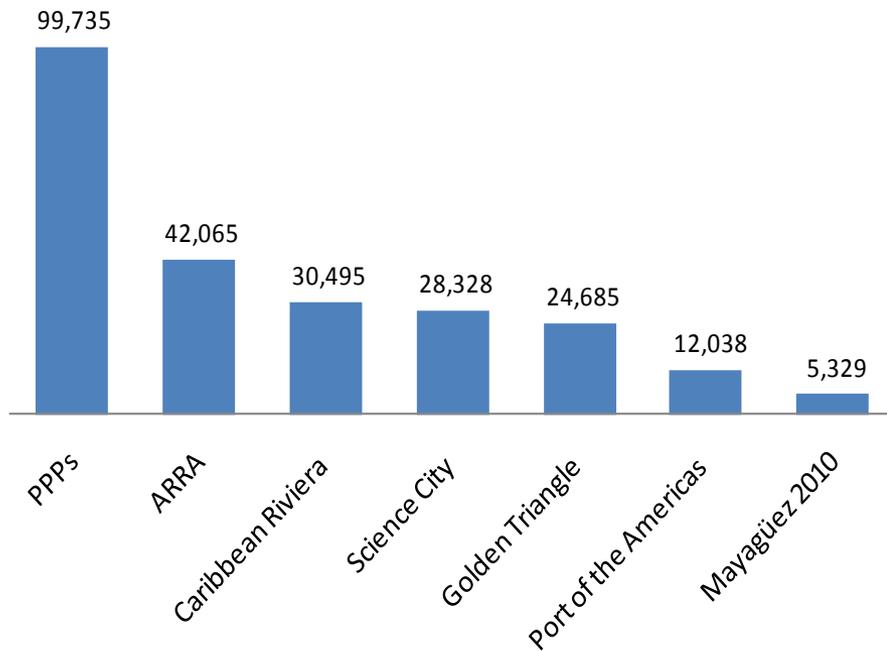
Target Goal: reduce unemployment rate to 12.7% in FY13 and 10% for FY17



Among the measures that will generate more jobs are the short-term stimulus programs, the PPPs and the regional strategic projects

PPPs, the stimulus programs, and the strategic projects alone have the potential to create around 243,000 direct and indirect jobs

Total Jobs to be Created by Different Initiatives



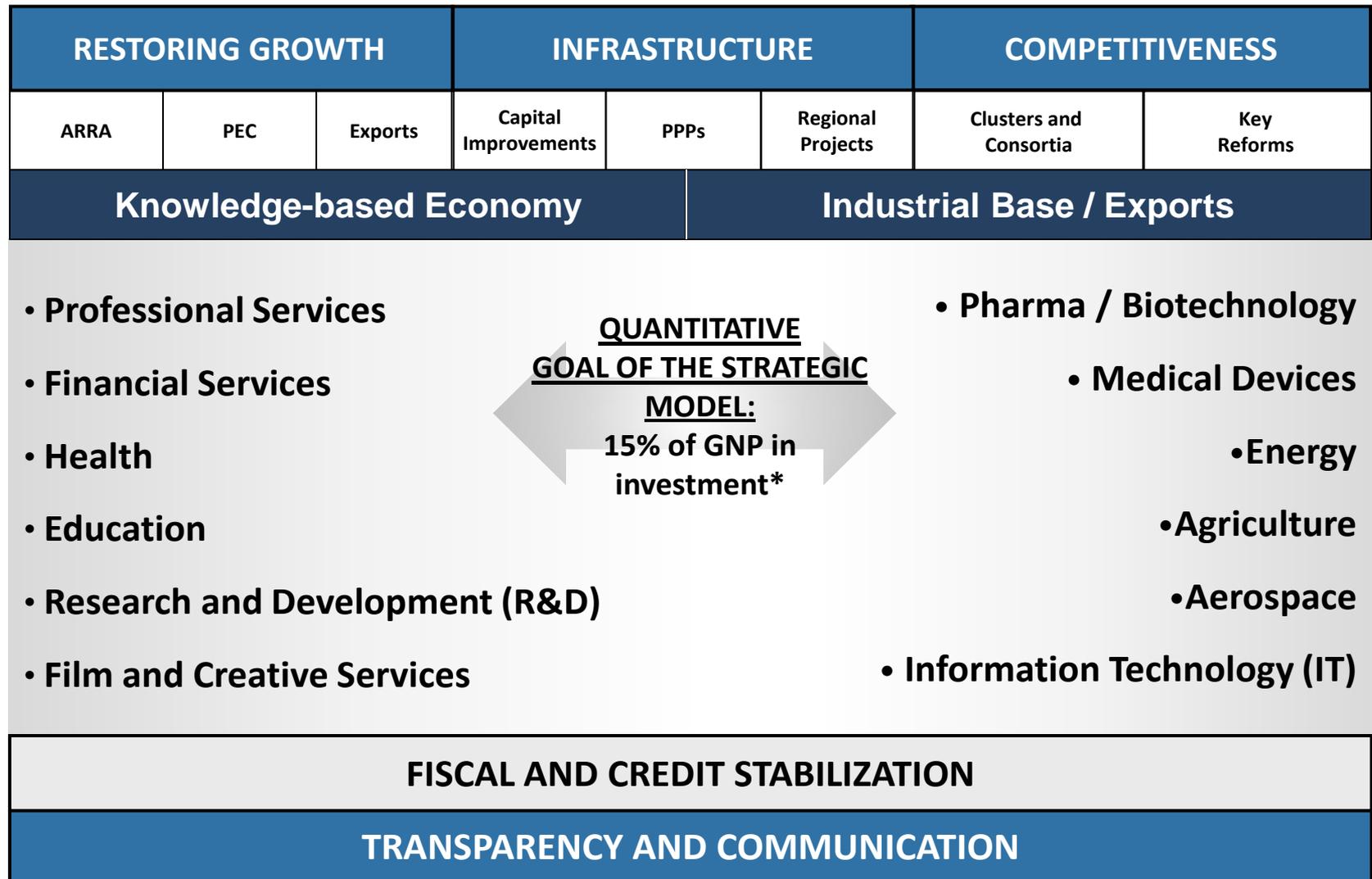
Initiative	Jobs*	Investment (\$ MM)
PPPs	99,735	\$6,214
ARRA**	42,065	\$6,044
Caribbean Riviera	30,495	\$1,900
Science City	28,328	\$1,765
Golden Triangle	24,685	\$1,538
Port of the Americas	12,038	\$750
Mayagüez 2010	5,329	\$332
Aguadilla Airport	350	\$21.8
Total	243,025	\$18,565

* Direct jobs estimated at a rate of 10.7 jobs per each \$1 MM of investment. Indirect jobs, at a rate of a 0.5 indirect jobs per direct job, according to GDB and P.R. Planning Board formula.

** Estimated direct jobs at a rate of 10.87 direct, indirect and induced jobs per each \$1 MM investment. Direct and indirect jobs make up 64% of the total, according to the federal government formula used for ARRA.

The Strategic Model focuses on the services sector and on the industrial productive base aimed at exports

STRATEGIC MODEL FOR A NEW ECONOMY



* Estimated investment over 4 years. This investment goal is calculated on the GNP base of FY2008, which added up to \$60.787 billion.

Agenda

1. The Economic Challenge Has Historic Proportions

2. Strategic Model for a New Economy

3. Implementation of the New Strategic Model

Strategic plans at the agency level will be implemented through new management and accountability procedures

New implementation mechanisms to ensure compliance and results

Procedures to be implemented at the level of the Steering Committee and the Technical Advisory Committee

- Biweekly progress reports regarding tools, reforms and strategic sectors
- Monthly evaluation and analysis of key indicators and performance metrics per agency

Procedures to be implemented at the Board of Directors level

- Presentation and approval of annual strategic plans
- Presentation and approval of detailed operational budgets
- Revision of any productivity incentives in order to align them with the objectives and priorities of the strategic model

Objectives and Indicators in the mid- and long-term (4 and 8 years, respectively)

Indicator	Actual	2013	2017
GROWTH			
Economic Activity Index	133.9	145.1	160.5
GNP Annual Growth Rate	(5.5 %)	1.8 %	3.0 %
Participation Rate	44.1 %	45.6 %	48 %
Unemployment Rate	15.8 %	12.7 %	10 %
New Jobs (Accumulative since August 2009)	---	125,000	260,000
Internet Users per each 100 Individuals	37.5	60	80
Budget Surplus / (Deficit)	(\$3,200 MM)	- balanced -	- balanced -

Objectives and Indicators in the mid- and long-term (4 and 8 years, respectively)

Indicator	Actual	2013	2017
INFRASTRUCTURE			
# of PPP Projects (Accumulative)	---	13	21
Private Investment in PPPs (Accumulative)	---	\$4,537 MM	\$6,214 MM
% of Energy Dependence on Oil-based Sources	68 %	55 %	32 %
% of Energy Dependence on Renewable Sources	0.7 %	6 %	13 %
COMPETITIVENESS			
Central Government Credit Ranking	BBB-	BBB+	A
Competitiveness Ranking (WEF)	42	35	25
Energy Price (cents/kWh)*	21.52	18	14

* Average Price (consumer and industrial) Subject to change based on fluctuations in the price of oil.

Interagency Coordination to Ensure Implementation and Monitoring



STEERING COMMITTEE OF THE STRATEGIC MODEL FOR A NEW ECONOMY



EXECUTIVE COMMITTEE

DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE
OFFICE OF THE GOVERNOR
GOVERNMENT DEVELOPMENT BANK



Agenda

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Conclusion: Growth, Competitiveness and Jobs

We have lost the first decade of the 21st Century... We CANNOT lose the next one!

- This Strategic Model establishes the measures to reactivate the economy in the short-term, while creating the foundations to rebuild the Puerto Rico's economy in the long-term
- We will achieve Growth, Competitiveness and Jobs by:
 - Re-igniting existing industries
 - Attracting and creating new industries and jobs
 - Developing world-class infrastructure projects
 - Implementing institutional reforms that make us more competitive
- This model establishes a clear implementation strategy with defined Performance Metrics and with a Steering Committee to ensure compliance and results
- The collaboration of all the sectors of the economy and all Puerto Ricans is an integral component of the success of this Strategic Model

Strategic Model
for a
New Economy

GROWTH | COMPETITIVENESS | JOBS



*Government of Puerto Rico
September 2009*