

## **Evaluation of Government Programs that Support and Assists Entrepreneurial Development**

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### **Abstract**

This study evaluates a government incentive and stimulus financing program provided to entrepreneurs in Puerto Rico, examines the training programs established as preconditions to attain financing, and compares this program to previous ones as well as to programs that exist in other countries. The study builds on Entrepreneurship theories and studies and on responses to a question guideline administered by phone to a population of firms that benefitted from an initial program. Since empirical evidence shows that SMEs across times are recognized as the wheel of growth in most economies, additional focus is given to analyzing how government funding contributes to Entrepreneurship and firm competitiveness. Our findings reveal recipients' perception about the program, analyze how capacitating programs are rated, and evaluate which training and operational aspects are crucial to entrepreneurs. Our findings are conclusive, even though recipients recommend certain follow up actions and are ambivalent on certain issues which suggest further analysis.

**Keywords: stimulus, incentives, training, Puerto Rico**

## **Introduction**

The initiation and growth of the small business activities in the island of Puerto Rico (PR), an unincorporated territory of the United States, is in some respects similar to those occurring in the continental US and the world. As a Commonwealth territory of the United States, Puerto Rico operates under U.S. judicial, monetary and tariff systems. It is an open economy with free mobility of goods, service, capital, labor and highly trained professionals who easily flow to the large and prosperous U.S. market. In spite of this, per capita income in P.R. is only 30 percent of the U.S. average and reported at \$18,500.00. The local population and businesses are undergoing a difficult economic downturn characterized by rising unemployment (14.5% in 2009), lower growth, diminished acquisition of goods and a scenario that does not provide for a new generation of professionals to find employment.

Puerto Rico's economic development program which was created in the early 1970s achieved remarkable growth earlier on but has stalled in the last decade. Therefore, the local government is extremely concerned about restoring growth, creating jobs and retaining professionals. To some extent, in spite of the progressive economic difficulties, Puerto Rico has adequately pursued new dimensions for income generation and to create employment through entrepreneurship. In recent years, though to a limited extent, the Puerto Rican government has made efforts to advance entrepreneurship and in the process, create new small business start-ups, assist cash- short firms, and to help the island's stagnant employment and economy. Nevertheless, assessments of the programs are scarce.

## Objectives

As a response to the prevailing problems, to the lack of private start-ups and business creation, in 2005 the government of Puerto Rico undertook an ambitious program geared at stimulating and supporting business creation and development called “Llave para tu negocio” (A key to your business). Seeking to evaluate the effectiveness of this program, *this paper focuses, on the short run*, on the analysis and performance of this stimulus program oriented at creating start-ups, business sustenance and economic growth. In the long run, the program evaluated is compared to other incentives program created locally and in countries of similar size and structure. Based on these study findings, recommendations and actions to improve future programs created at government level are offered.

## How the study is presented and its contribution

This study is presented in different sections. *Section 1* provides an introduction identifying the causes of the high unemployment levels, the limitations of entrepreneurial activity and lack of vigorous small business growth in Puerto Rico. *Section 2* describes the “key to your business” (*llave para tu negocio*) program. *Section 3* presents a justification for this study, and a comparative analysis of programs created to stimulate SMEs. The section also presents studies and findings reported in literature about state supported entrepreneurial programs. *Section 4* includes description of the current study, the data collection process and its analysis. *Section 5* discusses findings and *section 6* provides conclusions and offers recommendations for future studies and policy decisions. Lastly, descriptive and explanatory tables are included.

This study presents the first known evaluation of any stimulus package provided in the island. Though a previous study was implemented, it is unpublished. Moreover, this study aims not only to provide an accurate representation of the opinion and beliefs of participants of the program but also to contribute to entrepreneurship by recommending actions aimed at improving future programs. Even though the sample is small and convenient, participating firms represent all business sectors that are located island wide and are owned by persons of different gender and socioeconomic backgrounds. A potential benefit arises, also, from the comparison of this stimulus program to previous local programs, and to programs existing in other countries, thus broadening this study scope.

## **Theoretical Foundation**

### **Section 1. Causes for the high unemployment levels in Puerto Rico, reasons for the limitation of entrepreneurial activity and responses as to why the lack of vigorous small business growth exists in Puerto Rico**

For the local government at any political period, employment generation and business creation should override many other goals. As it is widely agreed, there is a positive correlation between economic growth and entrepreneurship (Acs and Audretsch 2003); also, empirical studies indicate the significant contribution of business creation for employment and for strengthening the economy. Startups are also the result of a combination of factors including family ambience, education, risk bearing and work experience, variables which studies point out as key to private sector growth and business creation, in the free enterprise system. Firstly, work skills and work habits required for jobs in the free enterprise system are often different than the work habits and skills acquired with

experience in the jobs in the public and regulated sectors. Thus, experience related human capital from public sector is not easily transferable to the free enterprise industry sector (Parent 2000, Neal, 1995). In addition, most studies have found that entrepreneurs with related experience tend to outperform those without any.

It is generally perceived that the current regulatory environment deters business entry, hampers job creation, and erodes competitive pressures in many ways. Moreover, occupational licensing requirements create artificial entry barriers, restricting the supply of services and raising prices to consumers. Furthermore, the permits process whereby the government oversees construction and real estate development projects, the commercial use of equipment and facilities, and the periodic renewal of various business licenses suffers from several serious problems. These problems raise the cost of doing business, undercut the drive for employment growth, and retard economic development (a look at the Competitiveness Index World Survey any year illustrates this fact).

On the other hand, private sector work experience directly exposes the worker much more to the various dimensions of the entrepreneurial skill demands and commitment needs than jobs in the public regulated sectors. Studies by Fairly and Robb (2003), show that self employment and business ownership rates are much higher among children of business owners (Hamilton, 2003). Other studies have found that the propensity to either become an entrepreneur or a potential successful business owner is routed in the early experiences in the free enterprise sector.

The small business data of the United States shows that 50 percent of the business owners had a self employed family member before starting a business (Fairly and Robb 2003). The latest 2000 household census shows that employment rates in P.R. range from 55 to 65 percent of the United States rates. This large employment short-fall cuts across all

education groups and is deeper for persons without a college degree; it is generally more than 50 percent of the free enterprise employment in USA. Further, the 2000 Census, and its updates show that only 37.5 percent of P.R. residents (aged 16 to 65) held a job during the reference week (In contrast 68.8 percent held a job in the USA). Additionally, the ratio of public sector employment to private sector employment is 9.3/28.2 in P.R. compared to 10.6/58.2 in USA. The free enterprise segment consists of businesses that operate in the economy without large subsidies, special regulatory advantages or oversight by the government bureaucracies. Thus, the free enterprise sector employment in PR during 2000 period was only 24 percent compared to 51 percent in the USA; this segment of the private sector excludes governmental employees in public utilities and sanitary services, primary and secondary education colleges and universities, construction and small industries. Moreover, public sector employment exceeds 35 percent of industry employment in P.R. Studies have found that attitude towards free enterprise activity or public sector employment are influenced and shaped by one's own, family or friend's nature of work experience (Alesina and Galser, 2004). These authors note that countries with higher social welfare spending believe in the propositions that "poverty is societies and luck determines income". In addition, countries with a history of socialized production hold a view that "it is the responsibility of government to reduce income differences" (Corners & Gruener 2002). These patterns across countries suggest that reduced work experience in free enterprise activity limits political support for economic reforms that could expand private business activity and employment. Yet, work experience is not attainable if employment is nonexistent.

Therefore, the underdeveloped state of the Puerto Rican private sector supports the view that Puerto Rico suffers from an inhospitable business climate, that the costs of doing business are excessive and burdensome, and that initiating and obtaining permits to start a firm rather

than becoming easier is more complicated. Moreover, large government transfer payments undermine work incentives and contribute to a deficit of work experience and marketable skills. The rise in minimum wage laws also discourage the hiring of less skilled workers, suppress the growth of employment in industries and activities that rely heavily on less educated workers and diminish opportunities to acquire experience and training on the job. Historically, the large role for public sector employment and production in Puerto Rico has softened competitive pressures on the island and discouraged the emergence of a vibrant private sector.

Competitiveness (Shee, 2002) is defined in many levels, one of which states that country competitiveness is the extent to which the country has a national environment that is conducive or detrimental to business. The Competitiveness Index yearly report, as such, also includes many variables to establish country competitiveness, some of this, are job creation and permits. Locally, there is a substantial decline in inputs to the manufacturing sector. In absolute dollars, manufacturing GDP increased to \$43.5 billion in 2009, as compared to \$40.5 billion the previous year, which represented a growth rate of 7.4 percent in one year due to labor competitiveness, among others. *But in 2009, the number of people employed (input) in the manufacturing sector declined to 97,825 from 104,200 in 2008, representing a decline of 6.1 percent.* The numbers keep growing. Even though, while manpower input declined by 6.1 percent, the manufacturing output increased by 7.4 percent in nominal prices (Puerto Rico Daily Sun Feb 8, 2010). The loss of 6,375 manufacturing jobs in fiscal 2009 is a big blow to government goals. Additionally, since the employment situation has deteriorated, a brain drain exodus is increasing: young graduates are moving out of Puerto Rico to find jobs elsewhere, mostly in the continental USA. What can be done to increase jobs, to sustain the economy, to retain professionals and compete? Entrepreneurial startup is an avenue.

Many factors have contributed to the job loss in the island: A recession lasting about four years, the diminished manufacturing conditions attributed to the loss of section 936, and the lack of a well accepted incentive program. Section 936 of the Internal Revenue Code was phased out in 1996 and entirely terminated by the end of 2006 when the Puerto Rico government asked the U.S. Congress to terminate the availability of Section 936 (Section 939 was placed into effect in 1976 when Treasury Secretary Salvador Casellas presented the Puerto Rican case before the U.S. Senate Finance Committee).

While section 936 of the US tax code and other federal tax incentives previously helped create a modern manufacturing structure in Puerto Rico, it was outdated and poorly aligned with the type of job opportunities needed by its population. At best, section 936 during its peak provided for a modest number of jobs in Puerto Rico, mostly because the firms were capital rather than labor intensive. Puerto Rico's own tax code contains many provisions that benefit special business interest at the expense of general welfare. Also, this provisions both reflect and contribute to a business climate in which profitability and survival too often rest on the ability to obtain favors from the government rather than the ability to innovate, raise productivity, and serve consumers.

## **Section 2. The key to your business program**

The “ key to your Business” program was created on May 3, 2005 by the board of directors of the Department of Commerce and Exports and the Economic Development Bank of Puerto Rico to advance entrepreneurship activity in the Island. The program had several aims: first to create 1,000 businesses owned by Puerto Rico residents during the period 2005 to 2008; second, to provide loans for newly created business, and for business expansion; third, to ensure the success of the new business start- ups which received the loans. As a requirement to obtain the loans, potential grantees had to take a seminar and training program.



After finishing this seminar recipients would be evaluated and if found “qualified”, loans could be granted. Among the objectives of the program was the granting of loans for up to \$50,000 for operating capital, acquisition of equipment & machinery, improving the business facilities and/or for the firm expansion. However, funds could not be used to establish business operations outside of Puerto Rico; purchase a currently operating business or to establish business dealing with restricted products. The process for qualifying was determined by the grantors. Though there was a maximum amount established, loans approved ranged from \$15,000 to \$50,000 with an average of \$30,000 per business<sup>1</sup>. Special features of the loans include a provision of a moratorium of up to 12 months on principal payment and moratorium helps the new business initial year’s cash flow disparities.

### **The education prerequisite, ensuring survival**

The education and training program required included a training seminar aimed at providing proper tools for participants to set up their business, the training program took 50 hours or less depending on the individual’s prior experiences. This program acted as a buffer since many unemployed persons tend to established firms as necessity not because of opportunity, a concept that has been studied deeply by the Global Entrepreneurship Monitor (GEM, 2005). At the end of the education-training programs participants are assisted in developing a business plan and are provided with follow- up on their business plan implementation. The economic development bank tied their credits with follow up visits to businesses to ensure continuity of operations and proper management. Certainly, training and prior experience are indicators of firms survival.

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1. Loans up to \$50,000 are provided at 0.5 percent above the prime rate and with no collateral (loans to small and start up businesses are typically 3 to 4 percent above the prime rate). The loan is not provided as a lump sum amount. Businesses get reimbursed after they present bills for their purchases of equipment inventory or opening of their store related expenses.

*Organizational ecology theory* deals with (Hannan and Freeman, 1977,1988) the evolutionary process and survival of firms within or between organizations over a long period of time. It is our belief that this theory and the empirical research associated with it explain the determinants of the survival chances of new businesses. This theory also explains the success of franchises and piggybacking on someone's experience. Thus, the requisite established by the program of requiring attending a course to aspirants as a prerequisite to obtain funding, in a way, ensures survival. Likewise, having large networks, backing up startups that contribute with some of their own capital, and examining individual traits of the entrepreneur are predictors of success (Hamilton 2003). Partly, considering these success factors have assisted in reducing a firm's demise.

### **How other countries support Entrepreneurship**

Seeking to fulfill the aim of this paper by analyzing the performance of the stimulus program oriented at creating start-ups and business sustenance in Puerto Rico, we thought it was wise to determine how the island compares to other countries; For this reason we examined programs in advanced countries as well as programs in developing countries. A study by Bennett (2008) presents evidence on *United Kingdom's* efforts to support entrepreneurship since the 1990s, with mixed results. Mainly, his study shows and defends the premise that governments need to engage in and support stimulus programs as a duty. Their study assumes that as the environment changes and different governments come and go with different policies, results and measuring the programs become harder. His findings suggest that regardless how good the programs are, none of the stimulus programs created in UK could be rated successful, mostly because support cannot be effective at a realistic cost.

Meanwhile the *Chinese* government, seeking to attend to the demands of its growing population, decided to boost support to its domestic SME sector by offering preferential tax policy and more funding avenues in 2010. With such policies in place, small firms would be able to raise funds through easier channels in upcoming years (Dhoot, 2010). The government also created a special fund managed under the central budget for SMEs. This move was intended to encourage the development of small and mid-sized companies across the country while fulfilling the government commitment towards the SME sector. The study also found that SME exporters were hit the hardest amidst rising defaults by international buyers.

A study by Sharma (2010), reported that the government of *India* announced a policy package in 2005, which could ensure 20% increase in credit to MSMEs every year and aimed to double credit in five years by 2010. The study also reports, that the exposure of firms to credit grew to almost four times. In the case of *India*, the government believed that SMEs that weathered the difficult economic times will emerge stronger if due financial and technological support is extended. The *Indian* government also created two stimulus packages, one aiming to reduce the and cut the prevailing interest rate by 0.5% for small firms and 1% for micro enterprises backed by banks and the second package duty drawback benefits for certain products like bicycles, agricultural hand tools and specified category of yarns with retrospective effect from September 1, 2008.

Another study implemented by the *Consultancies Initiatives* (CI) evaluated government support for SME in the *UK*; the program offered subsidized private sector marketing consultancy advice to firms, including deciding marketing strategy, advice in promotion, pricing, distribution, and market research to SMEs. In this study Wren (2010), of the Business School in Newcastle University found that the courses offered had strong and significant positive effect on the firms even though selected firms

showed no effect overall. Overall, their study helped the CI since based on its results, a policy was created. Their study also reported a positive turning-point from promoting start-ups to improving existing small firms, firm survival, sales turnover and employment. Moreover, *organizational ecology* emphasize different factors including the age of a firm, its size, strategy, startup size, capital and environmental conditions as preconditions for survival.

### **Section 3. Justification for the program**

After many years in which large corporations appeared to be the mainstay of American businesses, small businesses have again resurged and are seen as the source of sustenance of the economy. Studies by Birch in 1987 confirm with empirical evidence the contribution of new ventures and SMEs in creating new jobs, increasing social mobility and fostering economic development. At the same time, other studies have confirmed that a high proportion of businesses fail a short time after their creation. Thus, “The Key to Your Business” program created and its prerequisites aimed not only to stimulate business creation but to also ensure survival of the firms that received the grants. These prerequisites are backed in many respects by empirical studies which demonstrate that a high number of businesses fail within a short time of being setup (Freeman, Carroll and Hannan and Hannan, 1983; Aldrich and Auster (1986).

Small and medium sized firms (SMEs) during 2007 on statistically represent 99% of all business created, provide half the employment in the US and function similarly in Puerto Rico. Local small businesses (firms of 1-20 employees) contribute to approximately 48% of the island GDP, and makes up 95% of all firms (Asundi and Muñoz, 2003) and provide over 39 percent of total private sector employment. The numbers have not changed much. Governments need to engage, stimulate and protect the SMEs since to a large extent the sector contributes to GNP and self-

sufficiency (Bennet, 2008). The government of Puerto Rico as part of its policy decision was not unique in creating stimulus programs; the European Observatory program of 1996 studied programs established by the government of UK, China, and India, all countries that created stimulus and facilitating programs though of different versions and scales.

## **Research Methodology**

### **Section 4. Description of the current study, data collection process and its analysis, methodology and impediments**

The present investigation involves several stages: *first*, examining data pertaining the stimulus program la “*Llave para tu negocio*” created in the island; *second*, analyzing general literature on the policies oriented at stimulating job creation; next extracting a sample to evaluate the effectiveness of the program from the universe of firms which participated in the program. Further, an instrument was designed to evaluate the firms selected and the method of administering and analyzing results were selected. The questionnaire administration was at random and participants were selected conveniently from the database. Results were evaluated by percentages. No cross tabulations were used due to the smallness of the sample. Interviews were implemented by telephone. Lastly, once the responses were obtained, findings were compared to results from previous stimulus packages created locally, as well as to programs of the same nature implemented in other countries.

The data used came from the government databank and from the population of firms which participated in the program across geographical zones. The number of firms involved under the “Key to Your Business program during the years 2005-2008 were 241 (even though a larger number was the goal). Even though we called all the firms, several

difficulties arose while gathering responses: Lack of interest and responses from recipients, most did not care to reply or appear nor to be available to answer questions even after multiple calling intents. Questionnaire aims were multiple, yet questions were phrased to avoid digging into personal details. The questionnaire included closed and open ended questions and avoided sensitive information; questions were presented in broad ranks. The number of respondent firms was 31; this group constituted the responses we analyze here.

Enterprises identified in this study covered the overall geographical areas of Puerto Rico. Firms contacted were located in 49 towns and spread throughout the island of Puerto Rico. Lastly, though an intense program of repeated calls was instituted, it was difficult to reach recipients. The final number of completed questionnaires was 30; this sample represents more than the 10% minimum required mathematically on any study. Besides, since 30 of the respondents took the loan and were from different municipalities, we can definitely elicit that the overall population of loan grantees was represented (only one respondent did not qualify for the loan). Statistics are evaluated in percentages.

## **Data Analysis**

### **Section 5. Results and discussion**

#### **General results**

The study findings are grouped by aims. The first section examines how incentives and stimulus financing programs are perceived, accessed, and the benefits they provide to entrepreneurs. The second section evaluates how the training programs established as preconditions to attain loans are rated. Further, an attempt is made to measure the impact of these programs while examining and comparing the benefits from different programs with varied results. In addition, the general background of the

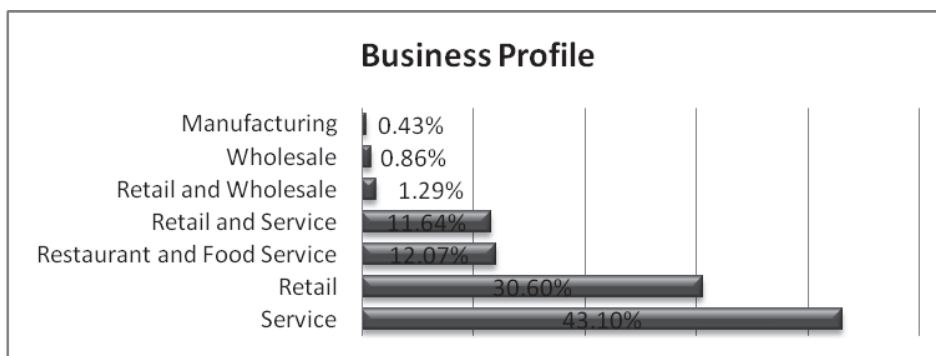
population of firms in the study is presented and overall results are summarized and compared to other programs.

The telephone interview effort to reach the 241 enterprises resulted in the following outcome: Fifty of the contacted firms' telephones were disconnected, while ninety three (93) of the firms did not respond even after calling each of them at least four times (at different times). Among the remaining ninety eight (98) firms that answered the telephone call, only twenty nine (29) firms provided responses to the set of survey questions. The remaining sixty seven (67) indicated that either the owner was not there at that time or he/she was too busy to answer. Still some of the firms agreed to provide the interview at a future date. A second effort made by December 2009 provided similar results and responses. As of Jan 2010, two more firms responded; this added to a total 31 firms.

### Specific results

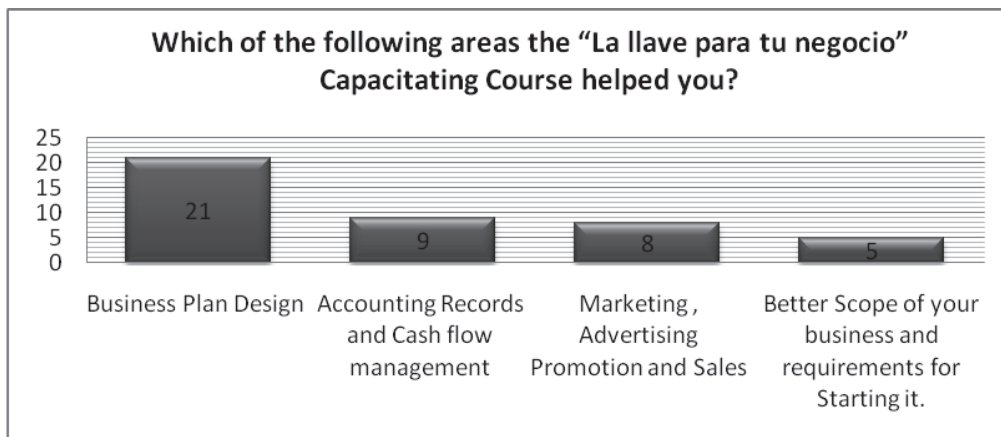
Firms participating in the program were: 18 from the northern part of Puerto Rico, 18 from the south, 34 from the west, and 25 from the southeast, a substantial number 115 were from the north east, section that includes San Juan the capital of Puerto Rico. The population of grantees included 118 females versus 123 males. Overall, the course was taken throughout the years 2005-2008 in almost equal distribution of people each year. Table 1 below shows the type of firms represented in the final sample

**Table 1.**



Related to the prerequisite of taking the orientation program and its benefits for the recipients, Table 2 below explains how respondents thought the required course, helped them. Overall, business plan preparation was the most liked program followed by the preparation of accounting records.

**Table 2.**



In general, when asked to rate the capacitating course, 10 of the 30 respondents rated the training as excellent, 16 as good, 4 as average and only one as poor. Yet, evaluating the business areas in which grantees needed more assistance and trying to learn which courses could be improved, 10 out of 31 thought accounting and finance could be improved. To this followed marketing and by more follow up visits. Of relevance is the fact that 25 of the respondents initiated their business after taking the course. This could mean that either the course was instrumental in forming the business or that the entrepreneurs saw the course and loan attached to it as the opportunity to initiate their firm. Furthermore, all firms evaluated are micro firms with over 50% (16 firms) being self employers while 11 of the firms employ 2 or more employees. Next is Table 3 which illustrates the areas of training that participants thought could be improved

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**Table 3.**

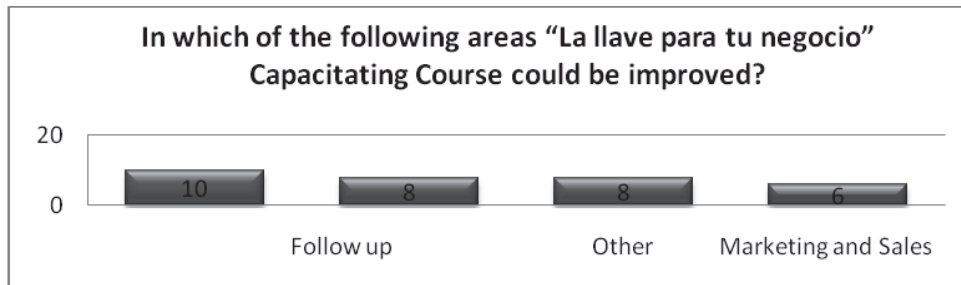
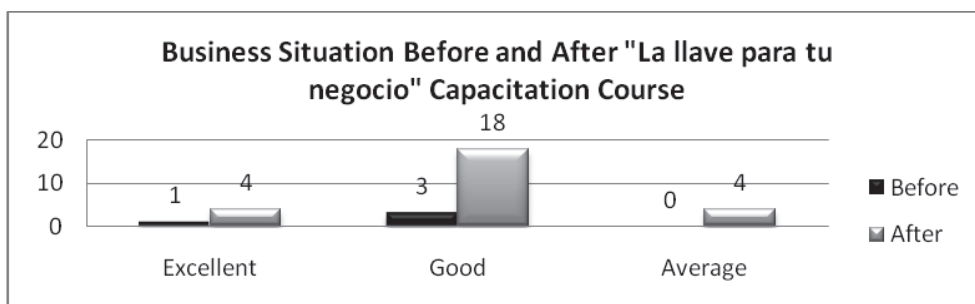


Table 4 below describes the businesses situation each firm confronted before and after the course. In general, most firms thought their firms were doing good/well while slightly over 10% did excellent.

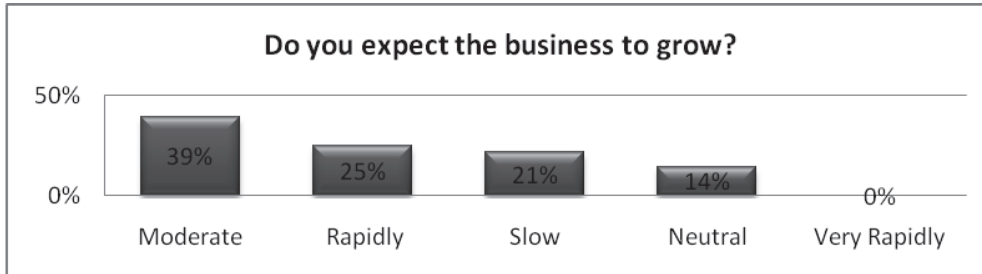
**Table 4.**



Entrepreneur's growth expectations and the success for their firms were overall conservative. Thirty nine (39) percent of the firms expected not only to continue in business but to grow moderately, while 25% expected rapid growth. The other firms visualized low growth expectations (see Table 5 below). Besides examining the business situation, we also tried to know another entrepreneurs measure of success: sales. Even though most owners were sensitive to this question, from the 16 persons who responded, slightly more than 50%, 5 reported monthly net income of \$1,000 to \$2,000 per month, six \$2,000 to \$4,000 and five from \$5,000 to \$8,000. Based on an average loan of \$30,000 and the number of jobs and self employment created, the money invested was adequate. If an

attempt is done to measure in real terms, the study sample cannot provide for an accurate reply.

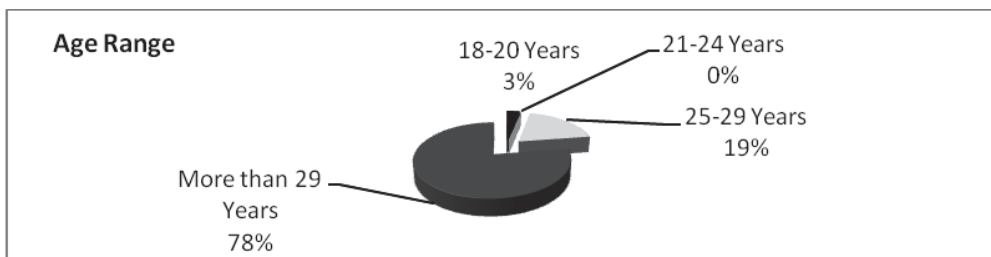
**Table 5.**



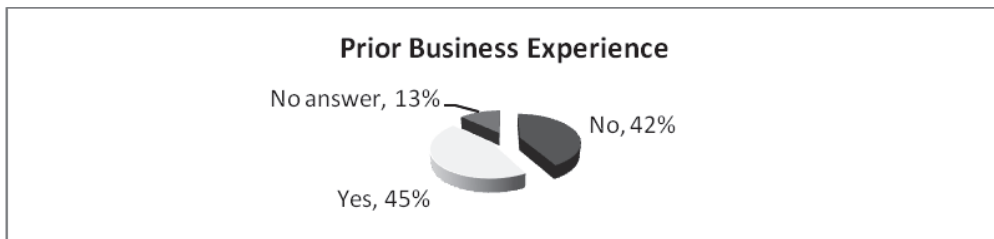
In summary, results show that recipients of the course appear to have benefitted from the course. Even though the assistance they received was minimal, many of the firms have been able to grow, some have located their firms outside their homes (74%) a situation which typically allows for growth, and others have been able to obtain minimum income in their first and second year of operation. In spite of receiving direct assistance, these firms are not exempt from problems. The difficulties faced vary. Twelve of the 30 respondents claim to have problems in marketing, including how to promote their goods, and 9 firms in handling their finances and in human resources. These findings coincide with other studies on firms that have received stimulus from government.

Profiling the recipients, the following graphs and tables illustrate the firm owners demographics.

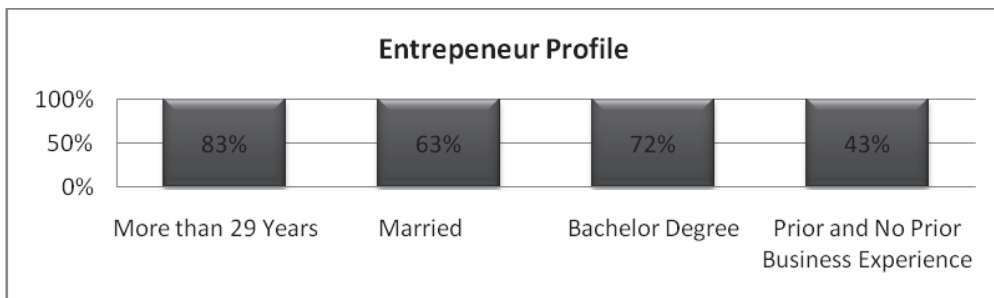
**Graph 1.**



**Graph 2.**



**Table 6.**



Summarizing, grant recipients in general have a high level of education, 83% are adults and are at an age where the drive to succeed is at the highest level of motivation. Also, 45% percent of the recipients had previous business experience, a factor that according to most studies tend to indicate higher chances of survival. This profile attests to a balanced selection of grantees, which is partially an assurance of endurance. This can also suggest that, maybe the large number of recipients that changed phones or did not care to answer might be owners who were not doing well. In general respondents of the study were doing well economically, were grateful to receive funding, and, in spite of their newness most had intention of growing. Potentially the profile of the entrepreneurs and the high level of education and experience could be a positive attribute. Even though assistance was received at the beginning of the program, many respondents felt that additional assistance would be beneficial.

# Conclusion

## Section 5. Conclusion and future studies

The aim of this paper was *first* to analyze the performance of firms that participated in the stimulus program oriented at creating start-ups and/or business sustenance. *Second* to compare and evaluate the program in relation to other incentive programs created locally and in countries of similar size and structure. *Third*, to contribute to the literature on Entrepreneurship and to evaluate how government assistance and policies can contribute to increased job creation, competitiveness and the country's global standing.

With regard to the first two aims, we believe that even though the number of respondents was at a minimum statistically, the representativeness of the population, the entrepreneur's positive attitude towards the program and the benefits received from it can be evaluated positively. The recipient's firm's performances showed operational benefits and a positive growth pattern. When compared to other programs previously implemented in Puerto Rico, the "*Llave para tu negocio*" rates well. Yet, if compared to stimulus programs offered in the countries of reference, the program comes short. In terms of the cost of the Key to Your Business program for employment and job creation, results are weak yet promising. The amount of money given to entrepreneurs did not match the large amount of prerequisites required nor the way the money was assigned. However, the program created self-employment which is a positive measure. Though the program did not last long enough to permit for longitudinal evaluation, it was the largest locally known SMEs government oriented program. Previous policy programs were oriented at larger firms and to attract mostly foreign investment (936 and Caribbean Initiative).

Evaluating the pre-requisite course, we believe the measure was correctly implemented and recommend that future programs not only carry on requirements but reinforce follow up and accountability. Likewise, stimulus should be extended beyond money measures, they should provide more strengthening for SMEs and examining entrepreneurs profiling and record to ensure success. We believe government regardless of the undergoing economic period has ample duties which include not only attracting foreign investment but also to encourage business creation, support established businesses and, overall, create sources of income, and value added quality of life for the overall population.

Even though economic conditions in Puerto Rico have been poor during the last three years and deteriorated further since October 2009, most of the entrepreneurs interviewed, including those who received loans between of \$15,000 to \$100,000, have been able to remain in business and expect to grow further. Considering their response to growth expectations and monthly sales revenue, we can conclude that if the group who refused to be interviewed performed like those interviewed the investment made by the government was worth it, though not cost effective. Even though sales do not seem significant if compared to large firms, revenues and self employment were achieved. Our affirmation is based on the list of firms that received loans even though the sample of firms interviewed was small. These positive results from this assessment coincide with reports from the government of the UK, India and China, which reported significant improvement in SMEs performance after receiving stimulus packages supporting job creation, business startups, and increased competitiveness.

Our findings also substantiate that additional improvement and success could occur if more training and follow up visits are done shortly after firms are established. Comparing results and the need for additional training to a study by Asundi and Muñoz in 2003 which examined the programs Administration to Train Future Entrepreneurs (AAFET ) and the

Workforce Investment Act (WIA), also aimed at advancing entrepreneurship and SMEs startups, show similar results. In general, the previous study provided evidence that knowledge gained prior to self-employment, improves survival chances. This study also found that the recipients who responded tended to have more experience and were more open to provide information. As Becker early in 1975 found, and as traditional human capital theory explains, schooling and work experience increase chances of success. Furthermore, a commonality across studies shows that grantees in all studies were uncooperative and neglected to respond to economic results; some firms went as far as to change their phones or went out of business. What happened to the amount/s of money received? These results are not uncommon. However, in previous studies by (Asundi & Muñoz, 2003) over 56% of the grantees went bankrupt, a rate much higher than the rates noted by SBA studies in the USA of only 20%. This study showed improvement and a higher success rate. What can be done with future programs to ensure permanence and success?

Definitely, promoting the growth of SMEs in developing and developed countries is an important part of the private and public sector development mission, yet it requires compliance and accountability. Our findings lead us to recommend that policy directors should ensure collaboration from grantees the evaluative and control phase. Notwithstanding, programs aimed at stimulating job creation, employment and on projecting Puerto Rico's image in the world are worthwhile and should be encouraged. Additionally, we advise that grantors should tie loans to careful screening of the recipient, to responsive evaluation of the grantees activities, to forceful follow up on the effective use of money, and to a certain level of accountability on the part of the grantee. If accountability is assured, more detailed evaluation of results could be done and future studies would not only be more accurate but could assist policy definitions. Finally, these concurrent actions will positively impact

economic growth, will ensure that loans are not taken as political favors, and, above all, will help firms compete more effectively in an ever changing and competitive economic world.

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## Attachment: Questionnaire used

### Questionnaire

#### General Aspects

1. When did you take the “La llave para tu negocio” Capacitating Course?		
2005 =	2007=	
2006=	2008=	

#### Program Quality

2. Which of the following areas the “La llave para tu negocio” Capacitating Course helped you?
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a) <input type="checkbox"/> Better Scope of your business and requirements for Starting it. b) <input type="checkbox"/> Business Plan Design c) <input type="checkbox"/> Computer Usage d) <input type="checkbox"/> Personnel Selection & Human Resources related e) <input type="checkbox"/> Accounting Records and Cash flow management f) <input type="checkbox"/> Marketing , Advertising Promotion and Sales g) <input type="checkbox"/> Other	h) ninguna
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3. In which of the following areas “La llave para tu negocio” Capacitating Course could be improved?	
a) <input type="checkbox"/> Finances & Accounting c) <input type="checkbox"/> Computer Usage d) <input type="checkbox"/> Marketing and Sales e) <input type="checkbox"/> Follow up f) <input type="checkbox"/> Other	No contesto b) <input type="checkbox"/> Human Resources

4. How would you classify the “La llave para tu negocio” Capacitating Course?				
a) <input type="checkbox"/> Excellent	b) <input type="checkbox"/> Good	c) <input type="checkbox"/> Average	d) <input type="checkbox"/> Poor	e) <input type="checkbox"/> Less than Poor

**Business**

5. When did you start your business? ( year)	
<input type="checkbox"/> a) Before Course ( Year) _____	<input type="checkbox"/> b) After Course (Go to Question 7) ( Year) _____

6. How would you classify your Business situation <b>before</b> the “La llave para tu negocio” capacitating course? (If applicable)				
a) <input type="checkbox"/> Excellent	b) <input type="checkbox"/> Good	c) <input type="checkbox"/> Average	d) <input type="checkbox"/> Poor	e) <input type="checkbox"/> Less than Poor

7. How would you classify your Business situation <b>after</b> the capacitating course? (If applicable)				
a) <input type="checkbox"/> Excellent	b) <input type="checkbox"/> Good	c) <input type="checkbox"/> Average	d) <input type="checkbox"/> Poor	e) <input type="checkbox"/> Less than Poor

8. Number of employees at the Beginning and Now?	
<i>Beginning</i> a) <input type="checkbox"/> Yourself b) <input type="checkbox"/> Yourself/ Wife or Husband c) <input type="checkbox"/> Yourself and another employee d) <input type="checkbox"/> Yourself and 2 employees e) <input type="checkbox"/> Yourself and more than 2 employees	<i>Now (Oct 2008, Dec 2009, Jan 2010)</i> a) <input type="checkbox"/> Yourself b) <input type="checkbox"/> Yourself/Wife or Husband c) <input type="checkbox"/> Yourself and another employee d) <input type="checkbox"/> Yourself and 2 employees e) <input type="checkbox"/> Yourself and more than 2 employees

9. What was your initial capital
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i) Own _____ ii) Provided under llave program _____ ii) Both No answer
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10. Where is your business located? At the Beginning and Now	
<i>Beginning</i> a) <input type="checkbox"/> Residence (A domicilio) b) <input type="checkbox"/> Private Local c) <input type="checkbox"/> Roving (Ambulante) d) <input type="checkbox"/> Others	<i>Now</i> a) <input type="checkbox"/> Residence (A domicilio) b) <input type="checkbox"/> Private Local c) <input type="checkbox"/> Roving (Ambulante) d) <input type="checkbox"/> Others

11. If any problem exist in your business, in which of the following areas would it be?
a) <input type="checkbox"/> Finances & Accounting b) <input type="checkbox"/> Human Resources Records c) <input type="checkbox"/> Personnel d) <input type="checkbox"/> Computer Usage e) <input type="checkbox"/> Marketing (Promotion and Advertisement) and Sales f) <input type="checkbox"/> Utilities, Facilities and/or Equipment

12. Would you continue this business into the next year?
<input type="checkbox"/> Yes <input type="checkbox"/> No

13. Do you expect the business to grow?
a) <input type="checkbox"/> Very Rapidly    b) <input type="checkbox"/> Rapidly    c) <input type="checkbox"/> Moderate    d) <input type="checkbox"/> Slow    e) <input type="checkbox"/> Neutral

14. Monthly Gross Income from Sales?( Fairly uniform through the year?)
a) <input type="checkbox"/> less than \$500    f) <input type="checkbox"/> \$8,001 - \$15,000 b) <input type="checkbox"/> \$501 - \$1000    g) <input type="checkbox"/> \$15,001 - \$30,000 c) <input type="checkbox"/> \$1000 - \$2,000    h) <input type="checkbox"/> \$30,001 - \$50,000 d) <input type="checkbox"/> \$ 2,001 - \$4,000    i) <input type="checkbox"/> \$50,001 - \$100,000 e) <input type="checkbox"/> \$4,001 - \$8,000    j) <input type="checkbox"/> \$more than \$100,001

15. Monthly Expenses? (Fairly uniform through the year?)
a) <input type="checkbox"/> less than \$200    f) <input type="checkbox"/> \$2,001 - \$3,000    k) <input type="checkbox"/> \$30,001 - \$50,000 b) <input type="checkbox"/> \$201 - \$300    g) <input type="checkbox"/> \$3,001 - \$5,000    l) <input type="checkbox"/> \$50,001 - \$70,000 c) <input type="checkbox"/> \$301 - \$500    h) <input type="checkbox"/> \$5,001 - \$8,000    m) <input type="checkbox"/> more than \$70,001 d) <input type="checkbox"/> \$501 - \$1000    i) <input type="checkbox"/> \$8,001 - \$15,000    No answers e) <input type="checkbox"/> \$1,001 - \$2,000    j) <input type="checkbox"/> \$15,001 - \$30,000

16. In which of the following areas would you need assistance for your business?
a) <input type="checkbox"/> Finances & Accounting b) <input type="checkbox"/> Personnel c) <input type="checkbox"/> Computerized Information System d) <input type="checkbox"/> Utilities, Facilities and Equipment

e) <input type="checkbox"/> Marketing (Promotion and Advertisement) None
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17. Would it be beneficial for you and your business to get together with you course mates and the staff after six months and a year of operating your business to talk about problems, experiences and solutions	
<input type="checkbox"/> Agree, provides great benefits	<input type="checkbox"/> Agree, may/ may not benefit
<input type="checkbox"/> Agree, provides some benefit	<input type="checkbox"/> Do not agree, no need see no benefit

**Demographics Aspects**

18. Age Range?
a) <input type="checkbox"/> 18-20 Years
b) <input type="checkbox"/> 21-24 Years
c) <input type="checkbox"/> 25-29 Years
d) <input type="checkbox"/> More than 29 Years

19. Civil Status?
a) <input type="checkbox"/> Married    b) <input type="checkbox"/> Single    c) <input type="checkbox"/> Divorced    d) <input type="checkbox"/> Widow / Widower

20. Educational Level and Where did you study?	
a) <input type="checkbox"/> Associated Degree	Name _____ of _____ School:  Town: _____
b) <input type="checkbox"/> Bachelor Degree	
c) <input type="checkbox"/> High School Degree	
d) <input type="checkbox"/> Some High School Grade	
e) <input type="checkbox"/> Eighth Grade	
f) <input type="checkbox"/> Below Eighth Grade	

21. Prior business experience	
a) <input type="checkbox"/> Yes    b) <input type="checkbox"/> No	How many years? _____ Type of experience _____

No answer