



Short Article

Lights and Shadows of the Puerto Rican Business Environment

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Takeaways

A business environment that facilitates investment, entrepreneurship, and business growth is of utmost importance for the economic development of any country.

In Puerto Rico, it takes 165 days to obtain a construction permit, involving 22 procedures.

In some countries, it's possible to register properties in just one day and through a single procedure. In Puerto Rico, 8 procedures and 190 days are needed.

Puerto Rico needs to reduce the number of bureaucratic procedures and expedite their completion to provide greater dynamism to its entrepreneurial and business framework.

Article

The existence of a business-friendly environment that facilitates investment, entrepreneurship, and business growth is of utmost importance for the economic development of any country. This becomes more relevant today, as companies, entrepreneurs, and productive factors—always scarce—can relocate to places where conditions are more favorable, creating a status quo in which countries constantly compete—at both regional and global scales—to attract investment and talent.¹

Within this paradigm, it is worthwhile to understand Puerto Rico's situation in the Latin American and global contexts, in order to identify areas for improvement that future reforms should focus on. In this article, we briefly review Puerto Rico's situation in the last *Doing Business* report from the World Bank, a reference study that compared the ease of doing business in most countries worldwide.² The index consists of 10 categories that measure the ease of starting a business, obtaining construction permits, accessing electricity, registering property, paying taxes, and trading internationally; the level of protection for small investors; and the government's ability to enforce contracts and resolve insolvency situations.

According to the aforementioned study, Puerto Rico is the second easiest country in Latin America to do business, second only to Mexico. The Island stands out as the third easiest country in the region to start a business, requiring only six procedures and less than five days, which is very important for local entrepreneurs. Additionally, it is the best country in the region to obtain credit to start a company.³

The situation of the Island is not as positive when compared on a global scale. Out of 190 countries, Puerto Rico ranks 65th, alongside countries such as Ukraine, Brunei, India, or Colombia. Despite being the fourth easiest country in the world to obtain credit, the report also presents some shadows: it is one of the worst countries globally in terms of paying taxes, registering property, and managing construction permits.

If Puerto Rico wants to compete on the international stage, it will need to carry out some significant reforms. Undoubtedly, where it has the most room for improvement is in the area of taxation. Reducing taxes on businesses would be desirable, but it is politically costly. Given the Island's budgetary situation—with a high level of public debt and forecasts of significant fiscal deficits in the coming years—it seems less viable. Streamlining the number of tax payments and procedures, facilitating compliance, and digitizing them would make Puerto Rico more competitive. Currently, businesses in Puerto Rico spend over 200 hours on tax payments, compared to less than 50 hours in the top-ranked countries in this area, such as Bahrain, Qatar, or Estonia.

It is also necessary to reduce and streamline the procedures for obtaining construction permits and registering properties. According to the study, Puerto Rico is among the countries where businesses spend the most time on these two tasks, as well as where the highest number of procedures are required.

¹ Ricardo Hausmann, Dani Rodrik, and Andrés Velasco delve deeply into this topic in their article *Growth Diagnostics*, available at <https://growthlab.cid.harvard.edu/files/growthlab/files/growth-diagnostics.pdf>.

² The World Bank's *Doing Business* report was discontinued in September 2021; notwithstanding, its data continues to be used as a source of information and reference.

³ For a recent analysis of Puerto Rico's situation compared to 93 jurisdictions in North America, you can refer to the work of Dean Stansel, José Torra, Fred McMahon, and Ángel Carrión-Tavárez, *Economic Freedom of North America 2023*, published by the Fraser Institute, available at <https://doi.org/10.53095/88975015>.

Specifically, in Puerto Rico, it takes 165 days to obtain a construction permit, involving 22 procedures, while in some countries, less than 10 procedures and 50 days are required.

Regarding property registration, the study estimates that 8 procedures and 190 days are needed, extremely high figures considering that in some countries, this task can be completed in just one day and through a single procedure. Of these 190 days, 180 are allocated to a single procedure: the submission and registration of the deed in the property registry. This means that the registry takes around six months to complete an operation that in other countries is done automatically or even digitally, after the submission of various documents confirming ownership.

Puerto Rico needs to reduce the number of bureaucratic procedures and expedite their completion to provide greater dynamism to its entrepreneurial and business framework. Facilitating tax payments, obtaining construction permits, and property registration would encourage entrepreneurship on the Island. The aspects we have highlighted are key to economic growth and could be partially behind the low growth experienced by Puerto Rico in recent years.

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