

**PUERTO RICO'S
SOCIAL AND ECONOMIC CRISIS:**

A CASE OF




INEQUALITY



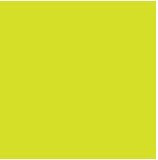
IN THE U.S.A.

Puerto Rico is an unincorporated territory of the United States.



In 1898, the United States (U.S.) took over Puerto Rico (P.R.) from Spain following the Spanish-American War. In 1952 Puerto Rico was declared a Commonwealth, a complicated status that renders it neither independent from, nor fully part of upon the United States.

Puerto Ricans are U.S. citizens, but the benefits of citizenship are partial.



Puerto Ricans were granted U.S. citizenship in 1917. However, there are many areas in which full constitutional rights, privileges and responsibilities of U.S. citizenship are **not** extended to Puerto Ricans residing on the island.

Puerto Ricans residing on the island **DO NOT HAVE:**

The right to vote for the President of the United States or to have congressional representation. They have a representative (“resident commissioner”) in the U.S. Congress, who has no voting power. But Puerto Ricans with residence in one of the 50 states or even in a foreign country can vote for the President of the United States. Notwithstanding the lack of representation in Congress, Puerto Rico is subject to all U.S. laws, except when specifically excluded.

The full benefits of federal programs. Eleven federal programs apply differently or are capped. These include Medicare, Pell grants, Earned Income Tax Credit and Nutritional Assistance.

The right to select less expensive vessels to contain the elevated cost of importing goods. The Jones Act requires every product shipped to and from the island to be carried on a U.S. built and operated vessel. Puerto Rico, being an island, is highly dependent on maritime transportation.

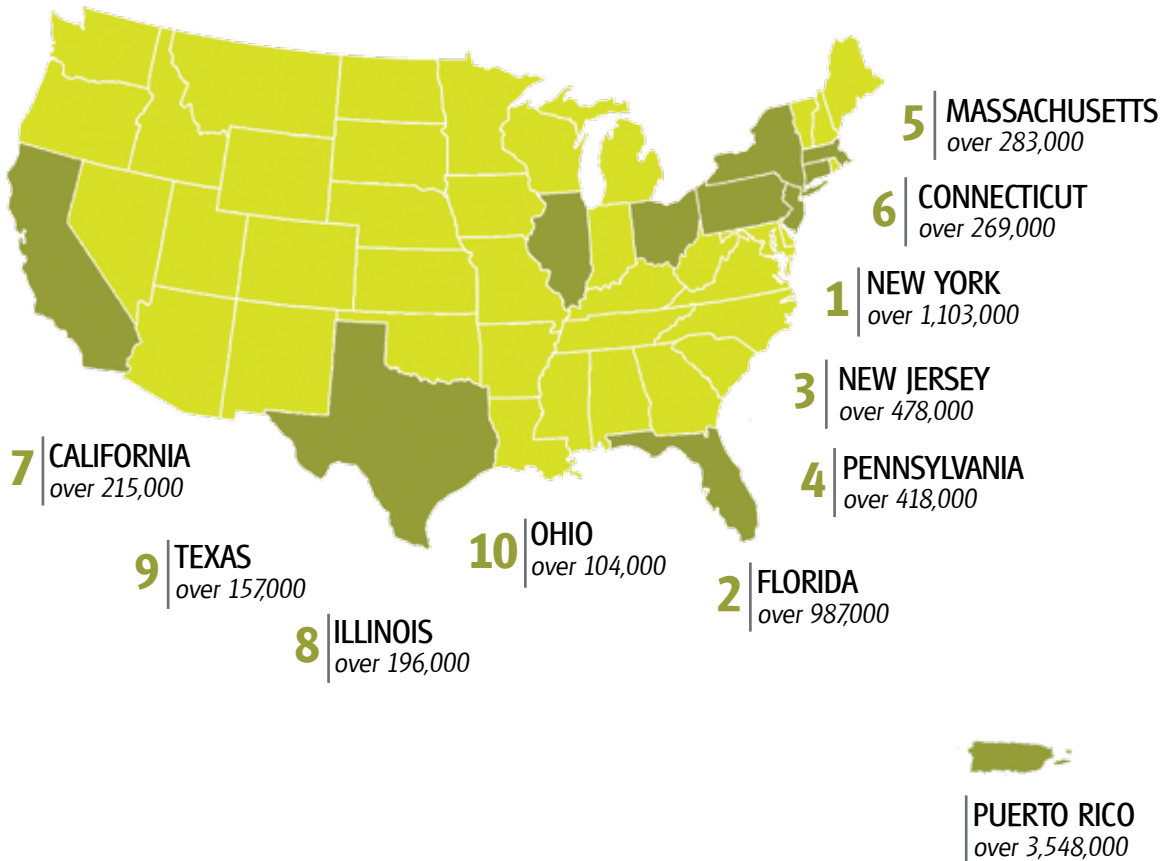
The right to use Chapter 9 for debt restructuring. This represents a major hurdle in managing the existing economic crisis.

On the other hand...

Puerto Ricans have been subject to military duty since WWI and have been active in all U.S. armed military conflicts since then.

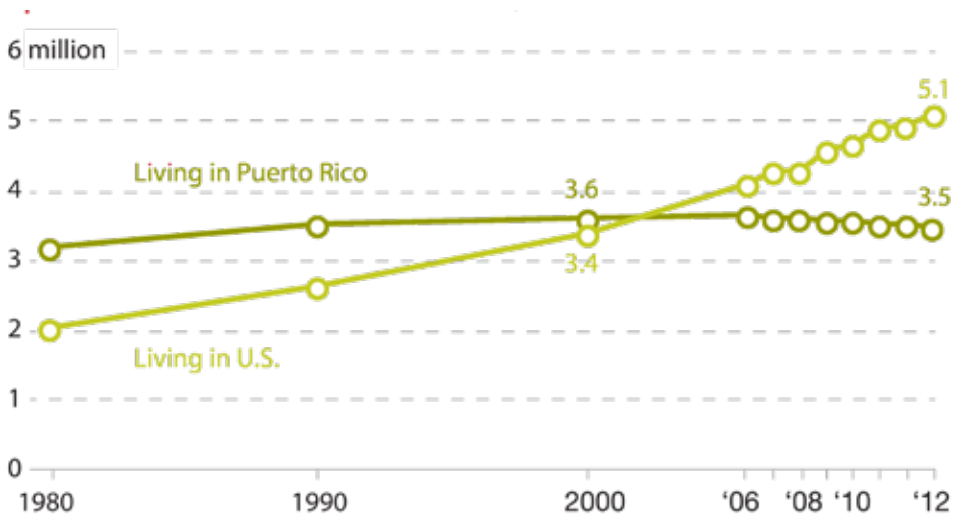
Federal taxes are paid on U.S. and foreign source income; not on Puerto Rico source income.

Puerto Rican Population*



* Hispanic Federation, Puerto Rico's Economic Crisis: Overview and Recommendations for Action

Puerto Rican Population Grows on the Mainland, Declines on Island*



Notes: "Living in Puerto Rico" is based on Hispanics of Puerto Rican origin for all years except 1980 and 1990, when based on total population in Puerto Rico.

Source: Pew Research Center analysis of American Community Survey (2006-2013) and Decennial Censuses (1980, 1990, 2000), Integrated Public Use Microdata Series (IPUMS).

* Hispanic Federation, Puerto Rico's Economic Crisis: Overview and Recommendations for Action

Population decline has been accelerating. An estimated 60,000 – 78,000 people leave the island each year and move to one of the fifty United States. Florida has been a favorite destination.

POVERTY AND INEQUALITY AT A GLANCE

**46.2% of
Puerto Ricans
live below
poverty levels**

U.S. Census Bureau, 2014

**900,000
Puerto Ricans
live in extreme
poverty**

U.S. Census Bureau, 2014

The face of poverty and inequality for Puerto Rican children and teenagers*:

56.7% of children under 18 years of age live below the poverty level

26.5% of children under 5 years of age live below the poverty level

75% of children and teenagers under 18 years of age are not enrolled in school

44.0% of children between 3 to 4 years of age are not enrolled in school

*Institute for Youth Development, 2012

Puerto Rico is a highly unequal society

How Puerto Rico compares to the Fifty States, Mississippi, West Virginia and Detroit*

| | Puerto Rico | 50 United States | Mississippi | West Virginia | Detroit |
|---|-------------|------------------|-------------|---------------|----------|
| Population | 3,548,397 | 318,857,056 | 2,994,079 | 1,850,326 | 680,250 |
| Participation in labor force | 35% | 63.8% | 58.1% | 57.8% | 52.5% |
| Population below federal poverty level | 46.2% | 14.8% | 21.5% | 17.9% | 39.3% |
| Median household Income (2013) | \$19,183 | \$52,250 | \$37,963 | \$41,253 | \$26,325 |
| Income Inequality (Gini Index)** | .547 | .481 | .479 | .465 | .457 |

*US Census Bureau, State & County QuickFacts/US Census Bureau, Household Income: 2013- American Community Survey Briefs

**A Gini Index of zero is complete equality.

Dimensions of the current economic crisis in Puerto Rico

Puerto Rico has a Gross National Product of \$70.7 Billion. The national debt, at nearly \$72 Billion is almost equal to the GNP.

GNP has decreased by 11.4% since 2006.

Approximately 150,000 jobs have been lost since 2006.

Between 2007 and 2015 financial institutions (banks, securities firms, mortgage institutions, finance and leasing companies) lost approximately \$60.7 billion (28%) in assets.

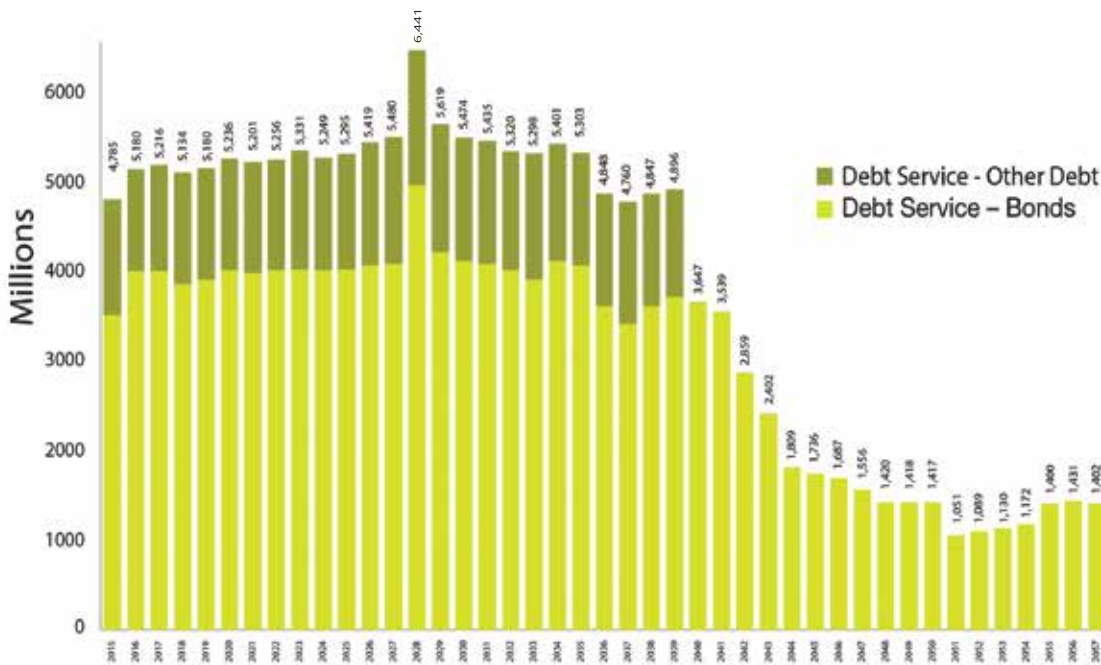
To raise revenue, the government has instituted new taxes on sales and businesses, raised existing taxes and increased the cost of public utilities. The poor are the most affected by the increase in the cost of living.

The following chart depicts Puerto Rico's debt service for next two decades. Puerto Rico must spend around \$5 billion a year or near 20% of the government's consolidated budget just to pay the debt service. The staggering debt payments are seriously impairing the capacity of the government to provide basic services for the population. As a matter of comparison, the government will spend annually \$2.9 billion in Education, \$2.8 billion on the government's health plan and \$752 on the Police Department. This situation led the Governor of Puerto Rico to declare on June 30, 2015 that without any additional tools or economic development growth, Puerto Rico will not be able to make all debt payments as structured.

ECONOMIC DATA

Estimated Debt Service (2015-2058)*

(With a \$73 billion debt)



* *Caribbean Business*, The true value of the Krueger report to Puerto Rico's economy. (2015)

Important factors that contribute to the economic downturn

The loss of the benefits of section 936 of the U.S. Internal Revenue Code in 2006

Trade agreements entered by the U.S. with low-cost producing countries

The high energy cost






**THE IMPACT OF THE
ECONOMIC CRISIS
ON NONPROFIT ORGANIZATIONS
IN PUERTO RICO**

The nonprofit sector provides a vital social safety net. The greatest impact of the economic crisis is on the most underprivileged and the reduction of services offered by nonprofits exacerbates this impact. Nonprofit budgets have been drastically reduced, putting them in a fragile state from which many may not recover. Moreover, nonprofit job loss will further increase unemployment rates and decrease the availability of services for those most in need.

The current fragility of the nonprofit sector is due to a number of reasons:



Many nonprofits typically receive a significant part of their income from government sources through grants and contracts. Government appropriations have been reduced and have not yet been paid out this fiscal year.

Many government contracts with nonprofits have not been paid on time, putting an extraordinary pressure on day to day operations.

Corporate and individual donations have decreased drastically.

Operating expenses have increased (sales tax increases, new taxes, and higher costs of utilities).

Puerto Rican foundations are small, and few U.S. or international foundations support work in P.R.

In summary, the underprivileged population is suffering the biggest brunt of the economic crisis and the reduction of primary services offered by nonprofits.

LOCAL FOUNDATIONS RESPONSE TO THE CRISIS

Foundations based in Puerto Rico are working jointly to strengthen the nonprofit sector response to the crisis by:

Supporting civil society efforts in demanding government transparency and accountability. For example:

A first ever coalition of nonprofit organizations, *Una Sola Voz*, mobilized and took action to advocate for continued government support for their work.

Four local Foundations jointly submitted an Amicus Brief to the U.S. Supreme Court to support a legal framework for the Puerto Rico bankruptcy process. Good news! The Certiorari was granted on December 4.

Centro de Periodismo Investigativo/Center for Investigative Journalism has sought to make public the names of hedge funds that hold Puerto Rico's debt. The government of Puerto Rico has not revealed this information. The Center has taken legal action to require the government to do so and has developed its own database of information and made it public.

Enabling ground-breaking, place-based, collaborative community development models. For example:

Transforming one of the historically disadvantaged and poorest communities in San Juan through an ambitious model project to restore waterways, ensure affordable housing through a land trust, create jobs and improve community and educational and health outcomes. (*Proyecto ENLACE – Caño de Martín Peña*).

The Puerto Rico Donors' Education Collaborative (comprised of five P.R. foundations) is working with local nonprofit organizations and public schools in Loíza – a municipality with one of the highest percentages of families living in poverty - to develop a collective impact project aimed at improving specific indicators for a youth group in P.R. The project focuses on increasing graduation rates by facilitating the lifelong (learning) skills needed to succeed to and through their post-secondary education and careers.

Facilitating the development of a new economic foundation for the island

Centro para una Nueva Economía/Center for a New Economy, a San Juan based economic policy think-tank, is articulating an effort in conjunction with the Initiative for Policy Dialogue at Columbia University, the Watson Institute for International and Public Affairs at Brown University, and the Brookings Institute, to jumpstart a series of country dialogues that lead towards a new industrial policy and rebuilding the foundations of the economy.

Promoting community economic development

A “Community Investment Fund” (FIC) has been developed to enable social investments for nonprofit community economic development projects.

The FIC is an instrument that provides financing opportunity to non-profits organizations while stimulating locally based economy. The instrument provides financial and social return to its investors. Local grant-making foundations and private financial institutions, have joined the Puerto Rico Community Foundation in strengthening this fund to become a \$1.1 million fund. The first financing was made to Ponce Neighborhood Housing.

Strengthening civic infrastructure through the Puerto Rico Nonprofit Resilience Fund

A Third Sector composed of strong organizations will enable Puerto Rico to make continual progress on pervasive, long-term community issues such as public safety, education, health and jobs. The “Puerto Rico Nonprofit Resilience Fund” is a special fund to strengthen innovative nonprofits by building their leadership and capacity, strengthening their management, enhancing their ability to raise funds from diverse sources, and building strong collaborations to pursue common priorities.

FINAL OBSERVATIONS

Foundations in Puerto Rico wish to build partnerships with US foundations to strengthen civil society's capacity to advance Puerto Rico's recovery and empower its most disadvantaged population. To enable these partnerships, Puerto Rico needs to be included within the domestic portfolios of national foundations. Funding in Puerto Rico is consonant with the missions of most foundations that seek to promote equity and reduce discrimination. Inequality within Puerto Rico and between Puerto Rico and the 50 states is dramatic. We believe that collaborative efforts and partnerships can help begin to turn around this historic and discriminatory reality.

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