



To: The Bipartisan Congressional Task Force on Economic Growth of Puerto Rico

From: Red de Fundaciones de Puerto Rico, Inc. and Movimiento Una Sola Voz, Inc.

Date: September 2, 2016

Re: The Non-Profit Community Service Organizations (NPCSO) in Puerto Rico- an important social safety net, a significant economic force and a key element in social change

Dear Sirs:

Introduction

You already know of the troubled economic situation in Puerto Rico and the many challenges you will face in helping us overcome the debt repayment crisis and forge a path to renewed social and economic prosperity. We write to describe the critical role of our nonprofit sector in working with government and business to help shape Puerto Rico's future and how the vital work of this sector is threatened by this crisis. The nonprofit sector is essential in achieving a vibrant Puerto Rico as a source of new ideas, social justice, policy analysis and civic involvement that are key to the island's economic and social recovery. Clearly, Puerto Rico's residents must play an active part in planning the island's future. Nonprofit organizations promote civic engagement that advances government transparency and accountability, and local decision-making. Community engagement and a strong public voice can ensure that Puerto Ricans will have a vital say in determining their own future.

We are the *Red de Fundaciones de Puerto Rico, Inc.* a network of the most active grant making foundations on the island, and the *Movimiento Una Sola Voz, Inc.*, a network of our 130 most important of community service organizations. Our philanthropic giving and social investments focus on innovative approaches to advance the poorest and most vulnerable members of our society; increasing government transparency and accountability; proposing and analyzing economic development alternatives and supporting economic development; enhancing our cultural, environmental, and creative heritage; and promoting excellence in education.

The Economic Crisis and its Effects

Puerto Rico, as a territory of the United States, has limited alternatives to manage the current economic and social crisis. Official unemployment is 12 % and labor participation rate is now a mere 39% (compared to 60% in the U.S.). Approximately 230,000 jobs have been lost since 2006. The lack of economic opportunities is motivating historically high numbers of people to leave the island-- 263,000 residents have left between 2010 and 2014; one out of ten have left during the last decade.

Puerto Rico's Gross National Product (GNP) of \$70.7 B (2014) has decreased during 9 of the last 10 years and is smaller than its national debt (\$72 B). The island has already defaulted on part of the debt.

Vulnerable communities, particularly women and children, are in desperate need of help. According to the 2014 U.S. Census Bureau, 46.2% of Puerto Rican families (1.6 million Puerto Ricans) have household incomes that are below the Federal Poverty Level. We estimate that percentage is now closer to 50%. In contrast, the United States' poorest state, Mississippi, has 22% of its population living below the poverty level.

The 2011 Community Survey from the United States Census Bureau says that Puerto Rico is one of five places with the greatest inequality in the world. The 20% wealthiest Puerto Ricans enjoy 55.3% of the Gross National Product, while the poorest 20% only live on 1.7% of the GNP.

According to the most recent statistics of the GINI Coefficient for Puerto Rico, published by the World Bank (years 2006-2012), from a total of 160 countries, where number one in ranking is considered to be the country with the most equality and the 160 with the least equality, Puerto Rico has a 146 ranking in the GINI coefficient measuring system. In other words, only 14 countries in the world have more inequality than Puerto Rico.

This inequality has serious consequences: violence, drugs, unemployment, school dropouts, a multiplicity of physical and mental health problems, and families fragmented by continuous emigration in search of employment, and better educational opportunities and health services. Most alarmingly, poverty in Puerto Rico can be invisible, because it is hidden in pockets, both in urban and rural areas.

Puerto Rico's Nonprofit Sector

There are three different kinds of non-profit organizations (those that operate for the benefit of its members, such as fraternities; those that offer products and services in competition with the private sector, but are non-profit, such as some hospitals; and those that provide benefits to society, operating for the public good by providing essential services. We represent the latter, what we call **Non-Profit Community Service Organizations, or NPCSOs**. The *Red de Fundaciones* and the *Movimiento Una Sola Voz* are NPCSOs.

A recent study has documented the impact of nonprofits in Puerto Rico regarding job creation, volunteer mobilization, and the avoidance of costs which would otherwise have to be covered by the government with its limited fiscal resources, or be ignored altogether. As a group (all categories), nonprofits in Puerto Rico create a substantial amount of employment and economic impact, and are a vital part of the economy: they provide 150,410 actual jobs; work with 381,481 volunteers, which are equivalent to 23,633 F/T jobs; make up 6.6% of GNP, or \$2.2 billion dollars; help 700,000 people directly, and 2.1 million indirectly; and constitute a force for small business development. NPCSO business incubators have an 87% success rate. See “Estudio de las Organizaciones sin Fines de Lucro en Puerto Rico 2015” by Estudios Técnicos, Inc.

Approximately 7 out of 10 Puerto Rican nonprofits have worked with the government, facilitating public policy formulation and implementation. In many ways, non-profits have demonstrated greater efficiencies than their governmental counterparts in the use of funds, reaching public objectives, and providing necessary services to our communities. We believe the nonprofit sector is not only a safety net; it is a source of innovative ideas, citizen involvement in good governance, and a proactive, strategic element in Puerto Rico’s future development.

The Non-Profit Community Service Organizations, or NPCSOs

The NPCSOs act as an extremely important safety net for the large proportion of Puerto Ricans who live in poverty. They are a source of much needed jobs and economic development and a key driver for social justice. The NPCSOs provide a wide array of important benefits to the communities in which they operate including:

- helping to create micro-businesses and community development plans;
- acting as government watchdogs, and assuring government transparency;
- providing analysis of government policy impacts, especially for the poor;
- developing projects that build the economy, grow citizen engagement, and improve quality of life for the poor;
- providing equitable redistribution of wealth by helping underserved communities;
- promoting solidarity and social cohesion in our communities;
- directly and indirectly stimulating the economy;
- attending social concerns overlooked by the government;
- engaging the community as an important part of their development;
- creating public policy which directly benefits the community;
- disseminating an alternative vision of progress to the people of Puerto Rico;
- protecting, financing, creating and disseminating Puerto Rico’s arts and culture;
- passing on our values, such as solidarity, business ethics, fair commerce, and responsible consumption on to the people;

- developing social capital by facilitating partnerships between diverse groups, offering possibilities for solidarity and collaboration, expanding civic and economic activity; and
- acting as a conflict resolution alternative in high-conflict areas.

The economic crisis facing the NPCSO

We have previously indicated the many services the NPCSO provide for the benefit of Puerto Rico and for specific communities. It is not an overstatement to say that NPCSOs are key to social stability in our Island. However, the deep economic crisis has seriously affected the ability of these institutions to innovate and to provide much needed services to the population.

The crisis has affected NPCSOs due to:

- Declining government assistance
- Reduction in government contracts
- Substantial delays in payment of government grants and for contracted services
- Substantial reduction in contributions by private corporations and individuals

At the same time, the crisis has fueled a growing demand for the services provided by the NPCSOs as the government has been forced to reduce its services. While the impacts of Puerto Rico's economic crisis are still unfolding, nonprofit organizations are doing more with less. As a group, the NPCSOs are in very fragile financial condition and many have been forced to reduce their services. Many may not survive the crisis if not properly supported. Puerto Rico needs a more robust and resilient nonprofit sector at a time when local community organizations are stretched thin as a result of increased demand for their work and decreased funds.

The NPCSOs Recommendations

The NPCSOs have a vital role to play envisioning and constructing Puerto Rico's future. Therefore, we respectfully submit the following recommendations to this Task Force:

1. Allow for federal funds targeted to nonprofits to flow directly, not through local government agencies as block grants that often delay payment for services rendered. Furthermore, the government retains a significant amount for managing the funds.
2. Allow the maintenance of a reasonable level of local legislative funding in grants and contracts for NPCSOs. This will allow them to continue their essential roles.
3. Adjust/reduce the requirements imposed for federal matching grants.
4. Provide mechanisms for prompt payment of government contracts for services rendered. This will strengthen the non-profits that depend on government grants for services provided.

5. Allow grantees to recover financing costs as a permissible expense.
6. Encourage US foundations to invest in Puerto Rico as part of their domestic grant making agenda. This will diversify our sources of funds and help build resilience in the sector as a whole.
7. Facilitate a White House summit to discuss the role of the nonprofit sector in Puerto Rico's recovery and growth and secure commitments from government, the private sector and philanthropy.
8. Hire a designated representative to act as a nonprofit sector advisor to the Task Force.

In Conclusion

You will be faced with many daunting decisions in the coming months. There is no question that all reasonable efforts must be made to pay back the bondholders. What the NPCSO firmly requests is that the Financial Control Board properly protects the wellbeing of 3.5 million US citizens living in Puerto Rico. Robust Nonprofit Community Service Organizations are an essential part of ensuring our present and future wellbeing.

Final Comment

It is of extreme importance for the Task Force to give serious consideration to suggestions being made by various entities in Puerto Rico (including, among others, Center for the New Economy and the Puerto Rico Manufacturers Association) in order to jumpstart the economy and return to economic growth.

Unless we return promptly to a healthy economy the nonprofit sector, and specifically the Non-Profit Community Service Organizations, will eventually suffer irreparable damage, and many will cease to exist, resulting in further harm to the vulnerable population served by these organizations.

Cordially,



Rafael Cortés Dapena, Esq.
President
Red de Fundaciones de Puerto Rico,
Inc.



Jose L. Díaz Cotto, PE, PhD.
President
Movimiento Una Sola Voz,
Inc.