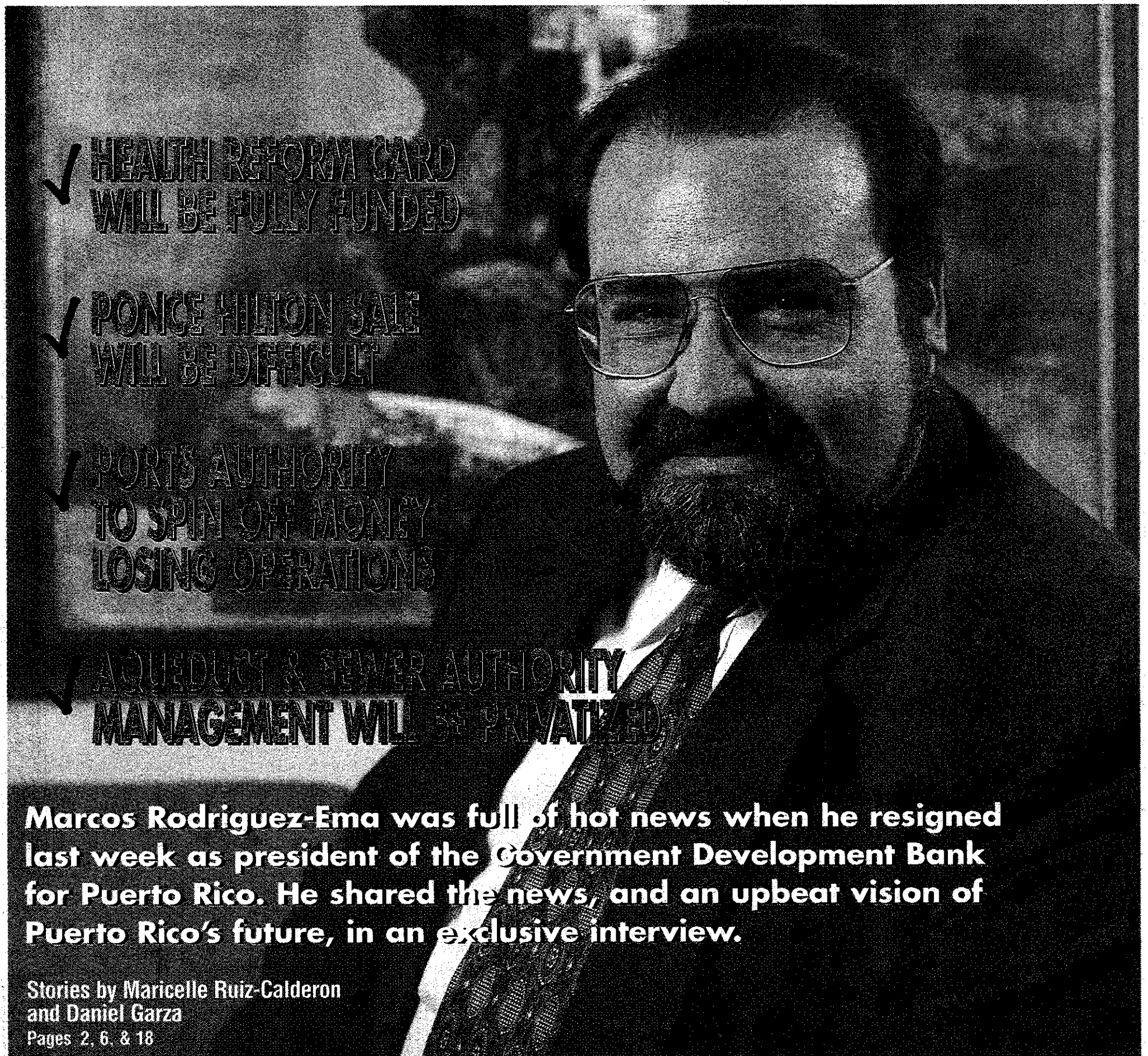


# CARIBBEAN BUSINESS

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✓ HEALTH REFORM CARD  
WILL BE FULLY FUNDED

✓ PONCE HILTON SALE  
WILL BE DIFFICULT

✓ PORTS AUTHORITY  
TO SPIN OFF MONEY  
LOSING OPERATIONS

✓ AQUEDUCT & SEWER AUTHORITY  
MANAGEMENT WILL BE PRIVATIZED

**Marcos Rodriguez-Ema was full of hot news when he resigned last week as president of the Government Development Bank for Puerto Rico. He shared the news, and an upbeat vision of Puerto Rico's future, in an exclusive interview.**

Stories by Maricelle Ruiz-Calderon  
and Daniel Garza  
Pages 2, 6, & 18

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## SPECIAL INFO

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BY MARICELLE RUIZ-CALDERON

Outgoing Government Development Bank for Puerto Rico President Marcos Rodriguez-Ema has some strong parting words of advice for the people of Puerto Rico.

Realize that Puerto Rico's potential to grow and prosper is vast. Seize the myriad opportunities arising, and maintain the momentum of reforms to make sure even more opportunities arise. But don't be so insular, risk-averse, status-obsessed and politically-motivated. Break the perplexing, self-inhibiting hang-ups that keep people from accepting that the world has changed and Puerto Rico must as well. Don't blow it.

Rodriguez-Ema was unusually outspoken when

*"We have made it possible for more young people to believe they can make it here. This alone makes me feel we have done our job."*

Ema, who became bank president when he was 35 years old, attributed positive change in multiple government sectors to a strong team of young public servants.

"What we have tried to do is to bring on board a whole group of young professionals who care about politics, but care more profoundly about

you're doing things that are being done elsewhere and that are working elsewhere. But this partisan politicking in Puerto Rico is so intense that you really need to double your efforts.

"In the course of that, you become controversial."

#### SUSCEPTIBLE TO NATIONALISM

Case in point: the sale of the Puerto Rico Telephone Co.

Rodriguez-Ema said the strike vividly portrayed how the local labor movement has "missed the boat."

"They could have spearheaded a new labor movement, willing to make changes on the island, but they were blinded by leftist politics," he said.

Continued on next page

# Strong words

## Marcos Rodriguez-Ema offers candid advice on economics, politics, as he steps down; dump hang-ups, take advantage of opportunities

interviewed by CARIBBEAN BUSINESS for nearly three hours after announcing his resignation last week, including breaking lots of news on issues of the day (see related story).

But the most penetrating comments had to do with forces keeping Puerto Rico from reaching even higher levels of economic development.

He spoke of how the perception of inevitable decline that prevailed in Puerto Rico up to the early 1990s, and that led to the exodus of families to Central Florida, has been reversed.

"We have made it possible for more young people to believe they can make it here. This alone makes me feel we have done our job."

Puerto Rico is not out of the woods yet, however, particularly given the continuing obsession with status politics, the intense opposition to any good idea if it comes from an opposing party and what he calls the remnants of Puerto Rico's leftist past that keeps many people and political leaders from accepting reforms that reduce the size of government and create a more free-market economy.

"We've trained minds to believe in huge government and subsidies, to believe good products are only available elsewhere, to invest capital outside of Puerto Rico, to be risk-averse.

"We must shift gears, we have pushed to the fringe those who can move the economy."

But how do you go about effecting change on an island where many view novel ideas as an attempt against their identity?

Focus on young people, he said. Rodriguez-

effecting change," he said

#### 'UNIQUE ROLE IN HISTORY'

Although young mavericks can set things in motion, Rodriguez-Ema believes real change will only become a reality the day Puerto Ricans accept their "unique role in history."

"We have to accept the notion that we are this very vibrant society that has a strong Hispanic culture and has a very strong influence from the United States," he said.

"Once we accept what we are, without any hang-ups, and define our political status, the creative potential is just tremendous.

"Defining everything we do as a society in terms of partisan politics is one of the saddest legacies we could leave our children."

Rodriguez-Ema, for instance, believes the government's privatization policy came under fire as a result of status politics.

"It wasn't economics," he said. "For crying out loud, the whole world is privatizing industries. Central America, South America, Germany, Poland, Africa, even Communist China, are all privatizing government-owned industries."

"Yet in Puerto Rico, because of politics and because we're so insular in our thinking, a lot of people think it's the wrong thing."

The so-called insular mentality, Rodriguez-Ema said, is what drives members of the present administration to fight tenaciously to achieve needed change.

"We are controversial, but you have to be," he said. "You know that you're right. You know that



*"Defining everything we do as a society in terms of partisan politics is one of the saddest legacies we could leave our children."*



Continued from previous page

"When it comes to making sense, you cannot make sense when your motive is politics and not your employees. And that's why it's so hard for me to comprehend them, because it's so simple when you look at it from the perspective of what's best for the employees and for Puerto Rico."

Still, Rodriguez-Ema said the opposition's attempts to portray the sale as anti-patriotic were very effective.

"When somebody attacks your Puerto Rican identity, you're more Puerto Rican than anybody," he said, adding that this is a tactic uncommon in the world. "Could you please tell me of one place in the world where a flag is waived to protest a privatization process? Only in Puerto Rico."

"But that's part of the prevailing insular mentality, the philosophy that Puerto Rico is surrounded by mirrors and is perceived to be larger than life."

"That's so wrong."

#### THE DUTCH EXAMPLE

Puerto Rico must take advantage of its strategic position both geographically and culturally speaking to further develop its economy, Rodriguez-Ema said.

"We're part of the community of nations, the hemisphere and the Caribbean," he said.

Continued on page 20



*"In the very recent past, everything on the island had to be subsidized. That's part of our tendency, to think we live in a government-protected bubble. The government can help you, but it won't do it for you. It doesn't work that way."*

# Prasa management to go fully private, says MRE

## Rodriguez-Ema also assures that sale of government-owned hospitals will secure card funding; Prepa will not be sold

Health facility privatizations will soon make it possible for the central government's health card program to be fully funded from the budget formerly destined for government hospitals, said outgoing Government Development Bank President Marcos Rodriguez-Ema.

"We're about one-fourth of the way done," he said, referring to the hospital sales. "By the end of fiscal year 1999, we should have sold about 70 government-owned facilities out of some 90."

Rodriguez-Ema said the GDB would like to sell as many facilities as possible before the Health Services & Facilities Administration, known as AFASS for its Spanish acronym, ceases operations June 30, 1999.

After that, he said the Health Department will oversee the remaining facilities until they're sold.

#### PRASA PRIVATIZATION

Meanwhile, Rodriguez-Ema said the government expects to fully privatize the Puerto Rico Aqueduct & Sewer Authority (Prasa) management this month. The company is under a partial management contract with stateside Professional Services Group (PSG), which he conceded hasn't worked out well.

"We're negotiating a contract with CGE (Compagnie Generale des Eaux, parent company of PSG)," he said, adding that under the current contract PSG confronted difficulties because three groups — PSG, Prasa and the Infrastructure Financing Authority, known as AFI for its Spanish acronym — each wanted to administer the problematic agency, each looking out for their own interests.

"CGE will have more say in Prasa's day-to-day operations, while AFI takes care of capital improvements," he said. "As we speak we're trying to figure what role the executive director should play."

The new agreement will allow the agency to invest an "ideal" \$200 million to \$300 million a year in capital improvements, Rodriguez-Ema said, adding that, if the planned arrangement doesn't work and unions fail to cooperate, the government always has the option of entering into a long-term contract with a private company.

#### NO PREPA PRIVATIZATION

The Puerto Rico Electric Power Authority (Prepa), meanwhile, has done a "fine" job, accord-

ing to Rodriguez-Ema, in putting forward a capital improvements program and privatizing through the construction of two private power plants.

But he said Prepa needs to focus on rate reduction. Among the options to maintain stable rates, he explained, is "hedging" or using a series of financial instruments to purchase oil for a set period of time at a locked-in price. Prepa officials also must avoid giving into unreasonable union requests during contract negotiations, he said.

"The problem is that manufacturers and business owners end up paying more for energy than the average person," he said, adding that in other places governments may raise consumer rates a bit to lower

manufacturing energy costs.

"Some local consumers may pay a bit more for energy, but refuse to do so because they see low rates as an entitlement."

Economic

Development and Commerce Department Secretary Carlos Vivoni is trying to find a solution to the "serious" fluctuating rates problem, Rodriguez-Ema said, adding privatization could make Prepa more efficient, but won't do away with this problem.

"I would concentrate on making Prepa leaner to pass savings onto consumers," Rodriguez-Ema said. "I'm not saying they should fire people, but they shouldn't replace retiring employees. They also should train employees on how to perform different tasks."

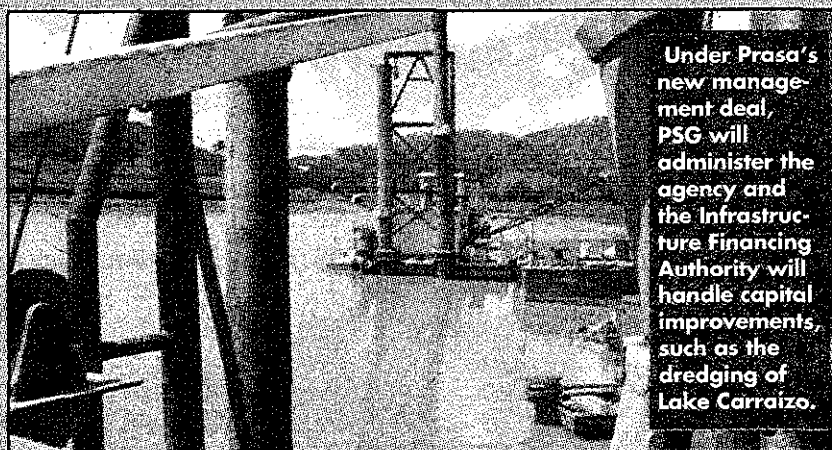
#### PUBLIC BUILDINGS AUTHORITY UNDER FIRE

Rodriguez-Ema had strong words for the Public Buildings Authority.

"I'm not sure it serves its purpose any more these days," he said. "It's extremely bureaucratic and slow and adds a huge cost to the construction of government buildings. It's something that really needs to be looked into. We simply didn't have time."

When it came to public building construction, such as prisons and the Coliseum of Puerto Rico, Rodriguez-Ema conceded the Rossello administration circumvented the PBA. ■

— MRC





WORDS Continued from page 19

The island, he explained, is in the middle of the world's largest market, stretching from Canada to South America, and local business people speak both Spanish and English, the two most-spoken languages in the hemisphere.

"One of the countries which does more business transactions with Puerto Rico is tiny Holland," Rodriguez-Ema noted. "They have an active group of representatives on the island who long ago established business ties, and continually work on furthering those relationships."

"We must follow that example. We need to break into different countries and cultures to sell our products. We need to learn how to compete in the real world, not in the economic fantasy world we lived in for 50 years."

"That formula won't work any more. It's already proven."

#### NO MORE TAX SUBSIDIES

On the road to a more vibrant economy, Rodriguez-Ema said the island must get over the need for "subsidized hangups" such as funds proceeding from the

Section 936 federal tax credit afforded to stateside companies on the island and held in local banks. He defines as subsidies assistance by government such as business grants and tax breaks.

Since the U.S. Congress approved the law to eliminate the subsidy during a 10-year phascout period, these companies have been moving 936 funds to the States. And some economists have been keeping track of the loss.

Still, Rodriguez-Ema noted "I haven't seen any banks crying over a decrease in earnings."

He added: "In the very recent past, everything on the island had to be subsidized. That's part of our tendency, to think we live in a government-protected bubble."

"Look, other free markets don't depend so heavily on subsidies. Subsidies like that aren't in place to move the Mexican, Chilean, U.S. or European economies. Why should we have to depend on subsidies that could be taken away overnight?"

#### FOCUS ON BUSINESS CLIMATE

But there's hope.

Although Puerto Rico is still very limited in terms of

capital markets, Rodriguez-Ema noted how ventures such as the Guayacan venture capital fund are quickly springing up, while investors diversify from Ginnie

Rodriguez-Ema blasted the negative impact of the status stalemate on the economy. "We have to accept the notion that we are this very vibrant society that has a strong Hispanic culture and a very strong influence from the United States. Once we accept what we are, without any hang-ups, the creative potential is just tremendous."



Maes and Treasury bills into higher-risk financial instruments.

He also noted the significant investment taking place, such as manufacturing expansions, hotels and retail stores.

Still Rodriguez-Ema said Puerto Rico would do even better if the government further decreases corporate taxes and expedites the permitting process, while local businesses seeking to invest abroad should strike a balance between persistence and patience.

Meanwhile, Rodriguez-Ema said the government's role in business is to facilitate the completion of transactions. That is, it must be a facilitator that provides the business climate, economic incentives and key assistance to entrepreneurs.

"The government can help you, but it won't do it for you," he explained.

"It doesn't work that way."

Even staunch communist countries such as Russia, China and Cuba have sought private investment to promote economic growth, Rodriguez-Ema pointed out.

#### GDB PRIVATE-SECTOR LENDING

He noted how, as a general rule, Puerto Ricans are averse to risk-taking. To deal with that problem, he said the GDB's Economic Development Bank (EDB) has loan programs targeting young entrepreneurs and business women. Bank officials also support trade policies and programs such as science and technology initiatives.

"Young entrepreneurs are normally taken for granted," he said. "If government officials shut the door, they will pack their bags, leave, and set up shop in Orlando."

Many of the loans are relatively small, but the GDB has also made large private loans, specifically to manufacturing facilities.

"I see the bank playing a limited role in that area," he said. "We don't have a line of people out there for huge loans. Fortunately the economy is doing well and they're all going to private banks."

#### WANTED: FEWER MUNICIPALITIES

Rodriguez-Ema, meanwhile, had strong words for municipalities.

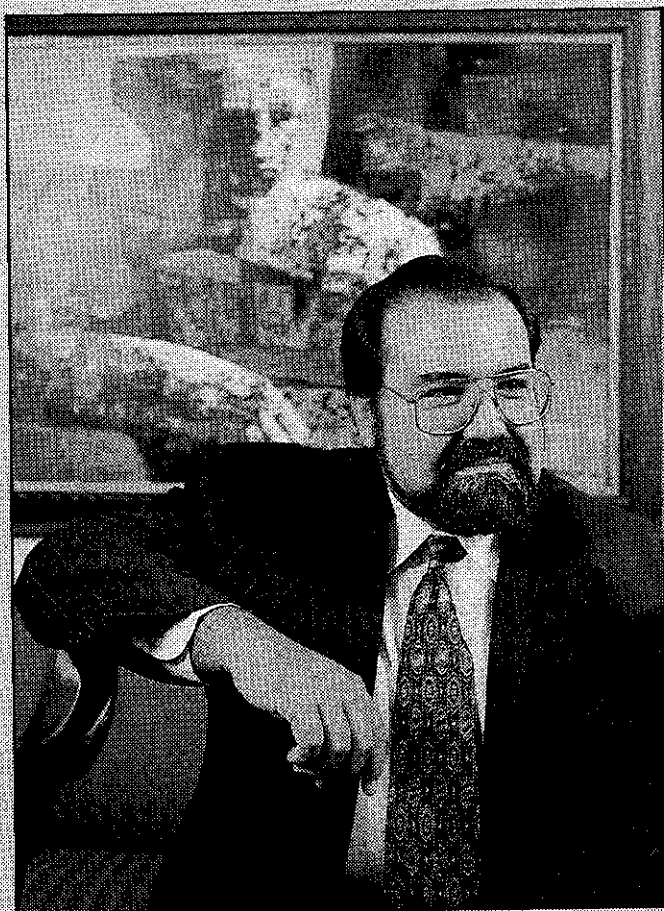
## 'It's the right time to step down'

When he was growing up in Isla Verde, Marcos Rodriguez-Ema had a different plan in mind for his life.

"I wanted to be a pilot," the outgoing president of the Government Development Bank for Puerto Rico recently said. "I just loved airplanes. Every single day, when I was four or five, I made my father take me to airport, which was close to our house. I would sit there for hours watching planes coming in and going out."

Years later, after attending foreign service school in Washington D.C., becoming a lawyer and toiling as a banker, Rodriguez-Ema ended up leading the way, but not quite in the position he had in mind as a child.

"I took the [GDB president's] job, because I sincerely believed I could help [Gov.] Pedro Rossello," he explained. "I had met this person and I was intrigued and fascinated by his style and his ability to attract a lot of people willing to follow him and do a laundry-list of things that needed to be done. I had that thing inside of me that said at some point you ought to give something to Puerto Rico, that you owe it to Puerto Rico. Anyone who wants to criti-



cize should be willing to join public service and be in this position."

Still, Rodriguez-Ema, who steps down from his post on September 30, said he didn't expect to stay on board as president for so long.

"This is the job of the lifetime," he said. "It's just something I loved. It will be with me as a school forever."

"I never expected to be here close to six years. The experience before I got here was that the average tenure was two years."

"Everything we wanted to do is pretty much accomplished. It's the right time to step down."

Rodriguez-Ema, whose average day at

the bank lasts between 12 to 16 hours, said he also wants to dedicate more time to his family, including three children between the ages of four and thirteen and his wife, who is pregnant.

At press time, Rodriguez-Ema said he still had not made future work plans. "The only real job I have is a list chores my wife has," he said as he laughed. ■

—MRC

WORDS Continued on page 21

# More small-business Aficas coming

By MARICELLE RUIZ-CALDERON & STEVE BEAUCLAIR

Two local banks are in line to follow Banco Santander's lead in issuing Afica bonds for small businesses, the outgoing president of the Government Development Bank for Puerto Rico (GDB) Marcos Rodriguez-Ema revealed.

For its part, Banco Santander is structuring a second small-business Afica of its own.

Afica is the Spanish acronym for the Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, a GDB subsidiary that grants tax exemption to private sector bonds.

Under Rodriguez-Ema's direction, the GDB challenged the banking industry to create low-cost, long-term financing for small businesses. Banco Santander responded with a successful \$50 million tax-exempt Afica issue in June.

Afica typically benefited large corporations, institutions or municipalities

who had credit ratings and could afford legal and underwriting fees involved in floating a bond issue.

Santander Securities, in conjunction with Merrill Lynch, issued the bonds in record time and Banco Santander, in turn, began closing on loans varying in amounts from \$200,000 to \$8 million for periods of 10, 15 or 20 years at low interest rates.

"The bank reports 45% of the Afica-Santander funds have been approved for lending," said Carlos Garcia, Santander Securities vice president and director of investment banking. "Other businesses are in the application process. All results thus far indicate a very successful program as we're on track with our projections."

"There is a strong possibility that by the end of this year or early 1999, Santander will issue another Afica bond given the success of our initial program," Garcia added.

Rodriguez-Ema said other products using Afica and the Tourism Development Fund programs could be implemented to benefit science and technology, as well as research and development areas.

"As we grow into the technology area, it's a concept worth exploring," he said. ■

## Madame President

The incoming president of the Government Development Bank for Puerto Rico (GDB), Lourdes Rovira, is expected to push forward Rodriguez-Ema's programs, including fast-track privatization and tax-exempt bonds for small and medium-sized businesses.

The Board of Directors of the Government Development Bank for Puerto Rico confirmed Rovira for president of the institution.

Rovira, expected to take charge after outgoing president Marcos Rodriguez-Ema steps down at the end of the month, will become the first female president in the bank's 55-year history.

"Nearly six years ago Gov. Rosello set out to reinvent government, abandoning the business-as-usual approach and propelling our island forward toward prosperity

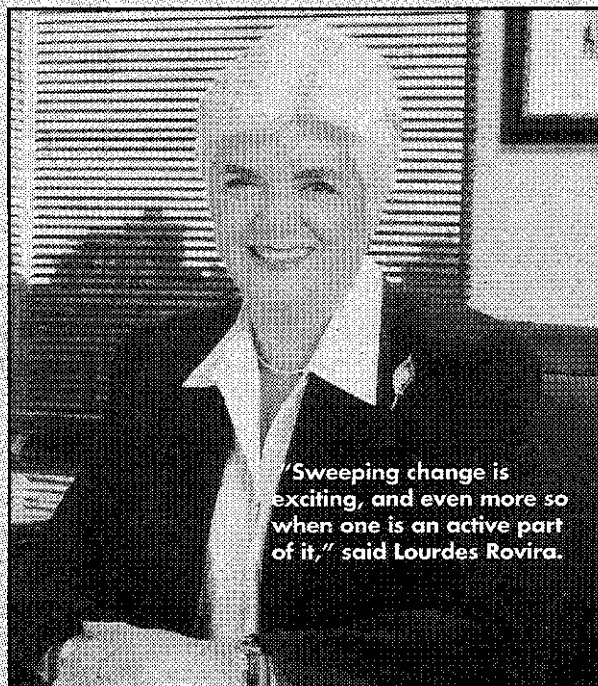
and prominence," Rovira said in a written statement. "Sweeping change is exciting, and even more so when one is an active part of it."

The duties of Rovira, who's been at the GDB for three years, so far have included overseeing public finances and structuring bond issues. Before she worked at the GDB, Rovira served as finance director at the University of Puerto Rico, where she restructured the

finance system of the 71,000-student, 11-campus university.

Rovira has also worked in the insurance industry and at the U.S. Small Business Administration. She's a UPR graduate and has completed executive business programs at Stanford University and the University of Michigan.

—MRC



**WORDS** Continued from page 20

"I love it when they call themselves autonomous municipalities on their letterheads, but the letterhead is all that's autonomous," he said. "For everything else, they're depending on the largesse of the central government."

His solution would simply be to eliminate a few municipalities.

"The problem with the municipalities in Puerto Rico is that we have too many, and we've substituted caciques (Indian chiefs) for mayors," he said.

"The real municipal reform will come when we have only about 25 munici-

palities. Some of them have to merge, others have to expand, and yet others have to disappear.

"Some of these entities are just too little to survive as municipalities. And that's why you have extreme fiscal problems in some of them because they're ill-equipped to deal with fiscal structures. They don't have the necessary specialists managing the economic side of the municipalities. And the political pressure is too intense.

Rodriguez-Ema said the idea of city managers wouldn't fly in island municipalities because mayors wouldn't allow others to control budgets. ■

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