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Cuba in Waiting: Micro, Small, and Medium Enterprises in Development

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Over time, academic studies have demonstrated that micro, small, and medium enterprises (MSMEs) generate employment, facilitate development at local and regional levels, and adapt well to economic crises. Despite minor shortcomings, they are generally beneficial to an economy. A review of the business structures of large economies, such as Japan, Italy, and South Korea, and more recently China and Vietnam, among others, confirms the positive contribution of this form of organization and management to a country’s economy.

We need to recognize how important it is for a country such as Cuba to establish MSMEs in order to strengthen the nation’s business fabric. Their introduction would not be novel when we consider that prior to 1959, MSMEs were the prevalent form of business organization.

We must, nonetheless, make a few things clear. First, there is no universally recognized definition of what is the size and scope of a MSME. What characterizes an MSME depends on who is making the classifications - whether an international organization, a region, or a country - as well as on the metrics of classification - the number of employees, the volume of sales, or the enterprise’s affiliations with larger companies.

Generally, business enterprises can be considered to be micro, small, medium, or large. Any classification method based on number of employees is difficult to apply because there is no consensus in the business community on where to draw the line. At the international level - in Europe, particularly Spain - the number of employees is the most common criterion. There, a micro-enterprise has up to 10 employees; a small enterprise has between 10 and 49; a medium enterprise between 50 and 249; and a large company employs at least 250¹.

In [*La pequeña y mediana empresa. algunos aspectos*](#) (The Small and Medium Enterprise: Certain Aspects), the Economic Commission for Latin America and the Caribbean (ECLAC) proposes a classification system for enterprises in Latin America in which micro enterprises have between one and four employees, small enterprises between 5 and 19, and medium enterprises between 20 and 49.²

For a country to prosper economically, it must be able to produce wealth. Regardless of the prevailing economic system, enterprises are responsible for producing that wealth. To accomplish that productive function, they should use the means of production: labor (human resources employed to produce goods and services) and capital (money and everything that money can buy, including machines, equipment, tools, and buildings and so forth).

Another no less important factor is the form of organization used for the enterprise, which will determine how it is administered and managed. In fact, it is the form of organization that drives how an enterprise coordinates labor and capital to achieve the objectives that are its *raison d'être*.³

Without going into great detail, it is necessary to review the history of MSMEs in Cuba and their experience before and after the Revolution of 1959. Before the Revolution, there were some 2,300 business establishments, half of which were micro enterprises that employed less than six workers.

The sugar industry consisted of a few powerful companies, skewing the productive structure of Cuban sugar, as well as a large number of smaller firms. The rest of the sugar

industry in Cuba was composed of small firms, with little capital and small workforces oriented toward filling domestic demand⁴. Micro enterprises constituted 45% of the Cuban business fabric, and it is estimated that small enterprises represented another 35.5%.⁵

From the Revolutionary Offensive to Date

Starting in 1959, new laws and other transformation, including the nationalizations of 1960, led to decreasing investment in Cuban enterprises, as the confrontation with the United States escalated. In this context, the size and scope of the public sector, as measured by basic assets, continued to increase as the process of nationalizations progressed. By 1968, with the exception of the agricultural enterprises, most companies were State-owned and large.

In 1968, the Cuban State nationalized the entire private sector, commerce, services, and small industries. This totally changed the economic structure of the country, and from this moment on the State predominated in all branches of the economy. There remained but a negligible private sector in transportation and agriculture.

The investment process the State undertook between 1970 and 1990 sought to increase industrial employment and production. It did so by setting new criteria to govern the location of firms, and it tended to create large, vertically integrated companies. This discouraged cooperation among firms, deterred utilization of existing productive capacity, and annulled competition or cooperation among smaller firms.

The State preferred to take advantage of so-called “economies of scale” provided by larger enterprises—the same choice made by the USSR and Eastern European countries. Consequently, in 1988 Cuba, 88% of businesses would be classified as “large” (*i.e.*, with a workforce of between 251 and 1,000 employees). The rest were either medium or small, but with workforces in excess of the international average.⁶

After 1989, the efficacy of the all-embracing Cuban economic model was exhausted and the socialist bloc disappeared. The Cuban economy underwent a profound crisis, with

imports falling by double digits, partially paralyzing industry, so that at times only 20% of Cuba's productive capacity could be utilized.

In order to provide some basic services to the population that the State could not supply, create new job opportunities, and legalize informal economic sectors that were sprouting, in 1993 the State adopted Law Decree 141. This authorized self-employment (*cuentapropismo*), authorized certain private sector activities, and regulated them. In the gastronomic sector, private restaurants, known as "*paladares*", were legalized, but were restricted to no more than 12 customer seats. Later, the type and number of permitted eateries was expanded, opening the door to the resurgence of Cuban micro enterprises.

With the opening of the Cuban economy in 1993, the number of self-employed workers grew. In 1994, 121,000 licenses for private activity were issued and by 2005 the number of licenses issued had increased to 165,000. After that year, the number of licenses for private business activity fell significantly. With the ascension of Raúl Castro to the presidency, Resolution 32 was promulgated in October 2010, relaunching the private sector.

This new resolution expanded the list of authorized activities, from 157 to 178. Soon, the list grew to 201 authorized activities and the implementing regulations provided more flexibility to the private sector actors. *Cuentapropistas* (self-employed workers) were allowed to hire employees, receive credit, operate with checking accounts and establish contractual relations with the State sector, among other developments. In this new context, *cuentapropistas* began to assume the characteristics of micro and small private enterprises.

The period between 2008 and 2018 witnessed broader changes. The private and cooperative sectors boomed. New directives deregulated Cuban businesses and distributed State land in usufruct (right to use) to people who agreed to farm it. This opened a door to the creation of many activities in Cuba, similar to those existing in other countries throughout the world.

It has not been a linear process. There has been both progress and setbacks, but all in all there is evident a boom in the number of licenses issued from 2010 to the year 2019, when the State issued some 620,000 licenses.

Urban cooperatives—a new term coined to differentiate them from their agricultural counterparts—were also authorized under the Raúl Castro administration. The Executive Committee of the Ministers' Council was charged with the approval process. Initially, cooperatives were formed through four separate authorizations for a total of 498 cooperatives. By September 2016, 383 cooperatives were functioning, principally in Havana, Artemisa, Matanzas, Mayabeque, and Pinar del Río—all located in the western region of the country. From 2016 to 2019, the State ceased issuing new licenses for private activity and cooperatives. This was, frankly, a setback.

In practice, due to the additional guidance provided by the implementing regulations, self-employed workers (*cuentapropistas*) and some urban cooperatives may already be characterized as micro or small private enterprises. In order for the regulations to encompass all of the economic actors, clarifications of key concepts and scope is still necessary. As we undergo the process of refining these regulations, we need to consider the concepts of the Cuban economic model as described by Raúl Castro in the Seventh Party Congress in April 2016.

In his *Informe Central* (Central Report), the Cuban president expressed the need to “call things by their name and to not hide behind illogical euphemisms to obscure reality. The increase in self-employed labor and the authority to employ other workers has brought with it, in practice, the existence of private medium, small, and micro enterprises that function without the juridical existence which they are due.”⁷

At the same venue, he presented the “Conceptualization of the Cuban Economic and Social Model of Socialist Development”, of which paragraphs 181 and 182 describe the types of companies that may be formed. Paragraph 181 recognizes “small businesses fundamentally run by the worker and his/her family.” And Paragraph 182 “authorizes private companies of medium, small and micro scale, according to the volume of activity and the number of workers, to be recognized as legal persons.”⁸

In other words, in Cuba today it is already necessary to rethink the term “self-employment.” Despite the length of time it has taken to adopt the implementing regulations, this type of activity is already generating budding economic development. It is still difficult to estimate its scope and potential because of the precarious Cuban economic context, the plodding process of changing the regulatory framework, and the lack of supplies experienced by the private sector, among other problems. There is no doubt, however, that today’s *cuentapropistas* only need time to demonstrate their potential.

The term “*cuentapropista*” is inadequate to describe the economic units that now make up a good part of the Cuban economy and that are capable of mobilizing, in an organized fashion, the means of production (capital and human resources). Indeed, they should be considered enterprises, if they fall within the definitions previously described. Accordingly, those who hold the licenses to carry out those private business activities should be referred to by their names: entrepreneurs.

Part of Cuban industry—at least Cuban light industry—could be reorganized as MSMEs. This would help resize the battered national industry and it would brake ongoing decapitalization. It is undeniable that private enterprises enjoy advantages in Cuba, such as access to the highly qualified workforce and a national market with a large unsatisfied demand. Cuba has more than the necessary conditions for MSMEs to become a key part of economic growth. We should not forget that in recent years the GDP (gross domestic product) growth rate has been extremely low – at times close to zero. With the impact of the Covid-19 pandemic, we can expect significant decreases in growth, as it paralyzes productive activities and services like tourism.

The already existing business sector should be organized as MSMEs. It is necessary for the State to design and foster an environment that recognizes their role and creates the conditions that MSMEs need to reach their potential. As we consider decentralizing the planned economy, we must focus attention on the role MSMEs could play.

The emerging non-State sector should become, in the medium term, a dense fabric of MSMEs, with whatever bank accounts they need for operation, not just for the benefit of

the entrepreneurs themselves but for that of the State institutions with which they interact. The State should study how best to incentivize banks to provide credit to MSMEs.⁹

MSMEs could take diverse forms in Cuba, for instance as cooperatives, as micro enterprises or as small businesses that undertake both current authorized activities and future activities.

They could also be the form of organization used for joint ventures between the State enterprises and cooperatives or between cooperatives and the private sector. MSMEs could also be used to organize activities between private firms and cooperatives with a foreign partner. In short, there are various ways to link foreign capital with private, domestic capital.

One option to explore would be selling equity interests to workers of current State enterprises or transfer to them some of the means of production. It would be logical, for instance, to do this in the clothing and personal services sectors.

In general, Cuban MSMEs could enjoy many advantages, but they must have autonomy as they must be effective; the national economic plan must not be allowed to undermine their operations. MSMEs should be able to take advantage of new ideas in business administration and management, including product design, purchasing, and quality control so they can be competitive and adapt to consumer preferences, among other things¹⁰.

Cuban statistics currently do not capture the sales of micro and small enterprises, so we do not have valid data, and our dual currency system creates even more distortions. Because of this, proposals governing the size of MSMEs should be based on the number of employees. A micro enterprise should consist of no more than five employees, a small business of no more than 20, and a medium business of no more than 30.

It is time to consider how best to utilize Cuba's highly educated human resources, and we should prioritize fomenting economic activities that make the greatest use of that education. Doing so would help avoid further disqualification of human capital that follows when well-educated Cubans move to high-income, low qualification employment. It may

also stop emigration to more and less developed countries in Latin America, where there are more opportunities for highly qualified workers than there are now in Cuba.

In a country like Cuba, we can expect great results from MSMEs, above all if there is a desire to achieve social and economic development throughout the national territory.

Lessons

Despite having received the political stamp of approval, Cuba has not yet developed its MSMEs. The business relations of the existing private actors with State-owned enterprises is almost null. And while the reconceptualization of the economic model approved by the Communist Party of Cuba and the government in 2016 refers to small and medium enterprises, the prevailing economic policies supposed to foster their growth do not prioritize industrial development. Those policies do not foment the creation of new industries, and they do not stabilize Cuban society, which has for years suffered from economic hardships.

To date, the authorized list of activities that private actors may undertake remains insufficient and does not take into account the potential of Cuban professionals. Nevertheless, those workers who have taken advantage of these private sector licenses recognize that their quality of life has improved and that they provide useful services to the population and to the State.

World economic history shows that many large companies began as micro enterprises and grew with scant financial support. Many were launched less than 40 years ago and are now multinational businesses.

Cuba should consider creating an institution or department in the Ministry of the Economy and Planning, like Japan's Ministry of International Trade and Industry (MITI) to foster MSMEs through a *Ventanilla Única* (one stop office), with venues throughout Cuba. The mission of this entity would be to interface with relevant regulators to assist the MSMEs in obtaining all necessary permits for their creation and operation. It should be an autonomous institution that assists its member MSMEs - truly different from the ones we have seen in our recent economic history.

As in the rest of the world, it would be advantageous in Cuba to create a development bank or other micro-finance institutions targeted to the MSME market segment. Cuba might also join microcredit institutions that already operate at the international level.

Emerging legislation on industrial policy or enterprise law - which had been scheduled for consideration and approval in 2022 - should encourage the establishment of connections between the State-owned companies and the MSMEs, so that the latter may participate in appropriate stages of the production process with a view to export. The participation of small private actors will enhance competitiveness in exporting the final product.

Cuban authorities have taken action to grow the private sector, but those actions to date have been insufficient and inadequately structured to advance the sector and better position it for success.

Without a wholesale market for raw material inputs, the ability to import and export materials and final products, or clarity on what the government refers to when it proclaims that it will not allow "the concentration of wealth", it will be very difficult for MSMEs to contribute to the economic development that we all want.

Finally, to the extent that the government appreciates the potential for MSMEs and seizes the opportunity they present, they could become a very viable part of the current economic model.

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