

PYMES in Cuba: Utopia or Necessary Reality?

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- There is great interest at the global level in the **role** that small and medium-sized enterprises (empresas pequeñas o medianas, PYMES) are playing in the process of economic development.
- Production **linkages** occur when manufacturing parts, components, and equipment as well as through joint projects; many small enterprises associated with large companies carry out these activities.
- The key roles of PYMES in creating jobs, stimulating and diversifying markets, improving income distribution and development in various regions of the world, and exhibiting a **more flexible adaptation** to economic crises are undeniable.

- An area of debate regarding PYMES is their definition since a universal concept is still missing; some classify these enterprises based on the number of workers; others focus on sales volumes, regional criteria, etc.
- For CEPAL, microenterprises have 1 to 4 workers, small enterprises have 5 to 19 workers, and medium-sized enterprises have 20 to 49 workers.
- Different types of classification exist in other regions.

PYMES in Cuba

- Some 2,300 industrial establishments existed in Cuba before 1959, half of them classified as microenterprises with less than 6 workers
- After 1959, due to the laws and transformations of the revolutionary period, including the nationalization process of 1960, there was a decline in investment levels and thus the number of enterprises and the value of their production declined as well.

- Due to the circumstances of that time, in 1968 the Cuban State nationalized the entire private sector in the areas of trade, services, and small industries, which completely changed the economic structure of the country; since then the structure has been characterized by the **dominance of the state sector** in all economic activities even though a very small private sector was maintained in transportation and agriculture
- The investment process between 1970 and 1990, which aimed to increase industrial employment and production with new criteria regarding the location of plants, stimulated the **creation of large enterprises** and vertically-integrated productive unions. This conspired against inter-company cooperation and contributed to the waste of installed capacities, in essence putting an end to competition and cooperation among smaller enterprises.

- The preference was to take advantage of the so-called “economies of scale” of major enterprises, a choice shared by the majority of countries of Eastern Europe and the USSR.
- In effect, the industrial business structure of Cuba in 1988 was one in which 88% of firms could be classified as large enterprises with 251 to 1,000 workers.

- After 1989, due to the exhaustion of the Cuban economic model based on so-called extensive growth along with the disappearance of the socialist bloc, Cuba began to implement economic changes
- A number of measures, essentially to survive, were introduced and inefficient state farms were converted into Basic Units of Cooperative Production (Unidades Básicas de Producción Cooperativa, UBPCs). Some 4,000 UBPCs were created from 400 state farms, yet still under the same centralized state scheme.
- Aimed to improve the provision of certain basic services to the population that the state could not effectively provide, as well as to offer alternative labor options and reduce the number of illegal workers, **Decree Law 141/93** was enacted to allow self-employed work (Trabajo por Cuenta Propia, TCP) and regulate the authorized activities, who could perform them, the requisites, and the general system.

- Many industries were downsized in the 1990s, some closed altogether, work shifts were reduced, but in general they continued to be run by **large enterprises**.
- With the opening of the economy in the 1990s, the number of licensed private workers rose to 121,000 in 1994 and reached a peak of 165,000 in 2005.
- Until 2010 there was a stagnation in this type of work, and small private activities actually decreased.

The government of Raul Castro decided to revive the private sector with **Resolution 32 of October 2010**. This time the number of authorized job categories increased from 157 to 178, and later rose further to 201.

Flexibilizing measures were also adopted to foment private activities:

1. Cuentaropistas can hire employees.
2. Can receive credits.
3. Can establish contractual relations with the state sector.

In this modified scenario, the “**new**” cuentapropistas in certain economic activities can fairly be considered as micro and small private enterprises.

- Considering the changes that are taking place in Cuba with the promotion of self-employment and greater flexibility toward this kind of work, and taking into account the reality of the sector, it is convenient to adopt different concepts of cuentapropistas: that is, micro and small enterprises (**micro y pequeñas empresas, MPYMEs**), and license holders can be defined as actual entrepreneurs even though the state continues to consider them as natural persons.

- It is believed that the majority of the Cuban industry, at least in the areas of light industry and other sectors, might be run by PYMES, which would help to rationalize and streamline Cuba's battered national industry, not necessarily its size but rather its forms of management with a growing presence of non-state management.

- In an archipelago with about 110,000 Km² and 11 million inhabitants, it is difficult to locate **large enterprises** in small urban settlements, they can only be located in major cities with some 100,000 inhabitants or more, and this of course inhibits the development of smaller areas. Small plants help transform the productive and employment profile of minor settlements and reduce the migration flows toward the urban centers of highest density and better living standard expectations that are linked to prioritized sectors such as tourism and mining, among others.

- It is advisable that the emerging non-state sector can be converted in the medium-term into a dense structure of MPYMES, can open current accounts and manage the paying instruments that are utilized in banking practices. At first sight:
 1. There would be a reduction of operational costs and less risk of managing and accumulating excessive cash volumes.
 2. MPYMES could pay through banks their tax obligations, social security contributions, and services of electricity, telephone, gas, water, and others.

- Not a new topic in the Cuban debate, in 1997 the Centro de Estudios de la Economía Cubana along with Ministerio de Finanzas y Precios, Banco Popular de Ahorro, and Centro de Investigación de la Economía Mundial, elaborated a document titled: “Las PYMES no estatales en el proceso de transformación de la economía cubana”.
- The aforementioned document designed the policy to implement PYMES in the country; it recommended the creation of these kinds of enterprises, established the steps to follow, identified the necessary institutions to be formed, and offered a summary of the different economic measures that had been implemented and that could enable PYMES, among them the downsizing of Cuba’s industrial sector, the agricultural changes, the expansion of self-employment, the development of the local and territorial economy, and the new role of joint businesses with foreign capital.

- Also in the mid-1990s, a group of Cuban officials at Centro de Investigación del Trabajo of MTSS had offered their views on the modalities of MPYMES in Cuba, among them:
- State PYME (like a new sector, with elements of decentralization and less concentration of large enterprises).
- Cooperative PYME (especially in the areas of services, commerce, transportation, agriculture).
- Microenterprises (created from the approved self-employment activities).

- In general, the Cuban PYMES can enjoy substantial advantages, but they need operational autonomy and the economic plan should not conspire against their functioning. They should operate under new conceptions of administration and management that involve product design, the acquisition of means of production, the quality and competitiveness of the product, and increased levels of consumer customization, among others.

The Ministry of Economy and Planning (MEP) wrote in a working document of 1996 on small and medium enterprises as a potential superior stage of the incipient self-employment work:

“... There is a psychological and contradictory factor that affects but does not determine self-employment work, that is the low acceptation from a political standpoint of people that carry out this work, over which we must act...an indirect regulation must be established to promote a more effective control of such activity, for instance:

1. Establishment of an input market with a system of single payment.
2. Establishment of competitive wholesale prices for inputs that are sold in this market, prices must be sufficiently low to discourage inputs to be channeled toward other markets.
3. Facilitate payment methods through the national banking system, which would boost the activities of this sector.”

Interesting about the document is that almost 20 years after those suggestions there are still the same concerns regarding the development of PYMES.

Criteria for the creation of PYMES in Cuba according to the number of workers

	Industry	Commerce and Services
Microenterprises	5	3
Small Enterprises	20	10
Medium Enterprises (inferior level)	21-30	20
Medium Enterprises (superior level)	21-50	30

Summary

- It is necessary to create an institution whose fundamental mission is the development of PYMES, with a “unique window” (“ventanilla única”) system, maintaining the ramifications in the territories and the linkages with the rest of related organizations. It should be an autonomous institution, yet one that empowers its members and is **very different from the existing institutions in Cuba.**
- Like in the rest of the world, it would be beneficial to create a development bank and other financial institutions of microcredit specialized in dealing with such market segment. And it could even be considered the possibility to rely on international collaboration.

- It is imperative to devise a legislation that foments ties between state enterprises and PYMES, so the latter can play a role in certain stages of the production process geared toward exports. Small private entities can add competitiveness to the final product to be exported.
- Cuban authorities have shown some interest in making the MPYMES segment grow in the Cuban market, but these enterprises are insufficient and still not adequately organized and vertically structured to make the sector grow at a higher pace and with enhanced possibilities of success.

- In the end, the Cuban PYMES would be more than valuable in the updating of the economic model and would produce positive results provided that the Cuban government understands their economic role and potential.