



**BILDNER CENTER**

FOR WESTERN HEMISPHERE STUDIES

# Colloquium Session 2 Institutional Reforms

## Non-State Enterprises in Cuba: Innovative or Rent Seeking?

*Saira Pons Pérez*



# **NON STATE ENTERPRISES IN CUBA: INNOVATIVE OR RENT SEEKING?**

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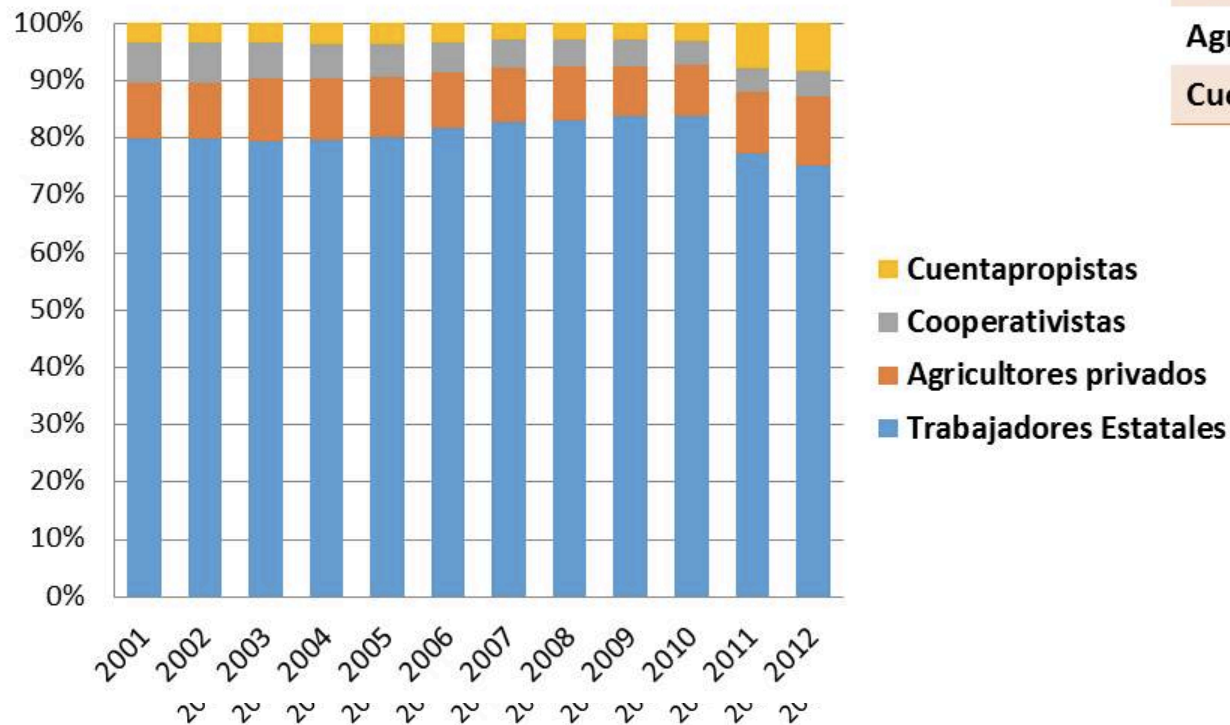
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# OUTLINE

1. The growth of the non state sector
2. Incentives: market structure, tax regime and property rights
3. Concluding remarks

# 1. THE GROWTH OF THE NON STATE SECTOR

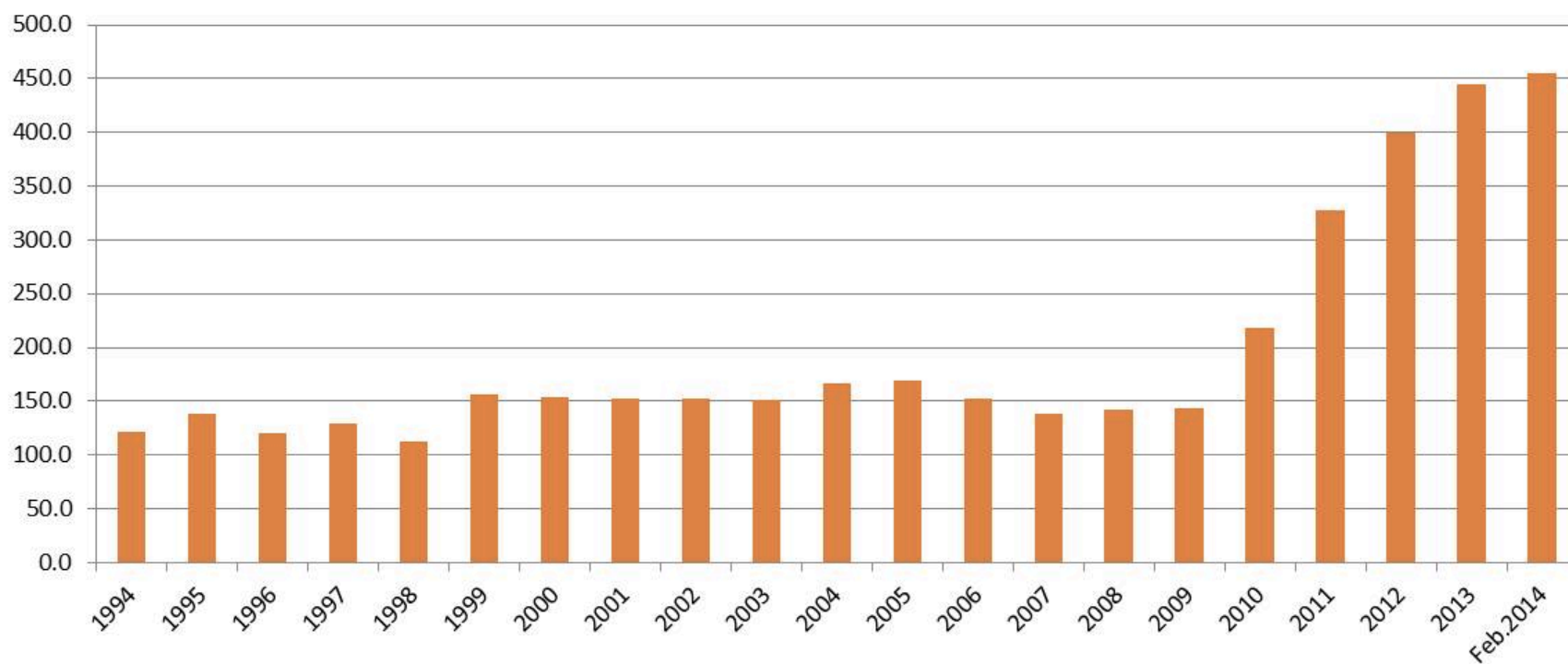
Structure of the employment (%)



	2001 -2008	2009 -2012
Total Ocupados	10%	- 1%
Trab. Estado	14%	- 10%
Cooperativistas	- 27%	- 9%
Agric. Privados	6%	30%
Cuentapropistas	- 7%	186 %

# 1. THE GROWTH OF THE NON STATE SECTOR

## 2010 CUENTAPROPISTAS



# 1. THE GROWTH OF THE NON STATE SECTOR

**2012 Non-agricultural cooperatives** (Decree Law No. 305)

498 approved cooperative /May, 2014

GASTRONOMY

TRANSPORTATION

FISHING

SMALL  
INDUSTRIES

CONSTRUCTION

SAME ACTIVITIES  
THAN  
«CUENTAPROPISTAS»

# 1. THE GROWTH OF THE NON STATE SECTOR

**2014 Foreign Investment (Law 118)**

**Marinel Development Zone (Decree Law No. 313 / 2013)**

**Main sectors:**

- Agriculture
- Food Industry
- Mining Industry and Energy
- Sugar
- Wholesale
- Health
- Tourism
- Chemistry
- Electronics
- Biotechnology and pharmaceutical
- Transportation
- Construction



## 2. INCENTIVES

**MARKET STRUCTURE**

**PROPERTY RIGHTS**



## 2. INCENTIVES: MARKET STRUCTURE

**Competition vs.  
Central Planning**

**Absence of a  
Competition Policy**

**Soft Budget  
Constraint**

## 2. INCENTIVES: MARKET STRUCTURE

### **Cuentapropistas**

- \* A big number of small enterprises
- \* Without any legal barriers to entry
- \* However, nothing avoid the existence of a monopoly group

### ➤ **Cooperatives**

- \* Barriers to entry (experimentation)

### ➤ **Foreign Investment**

- \* Barriers to entry (a complement for national investment)

## 2. INCENTIVES: MARKET STRUCTURE

### BETWEEN MARKETS:

**Group 1:** Industrial activities reserved for state sector and foreign companies.

**Group 2:** Activities of small and medium scale reserved for cooperatives and self-employed.

## 2. INCENTIVES: MARKET STRUCTURE

### Group 1: State sector and foreign enterprises

Taxes	State Enterprises	Foreign Investment	Marinel Development Zone
Corporate Tax	(35%)	(0%) the first 8 years (15%) after 9 years Exemption on reinvested profits (in approved cases)	(0%) the first 10 years (12%) after 11 years Exemption on reinvested profits (in approved cases)
Tax on Sales	(2%) wholesale (10%) retail	(0%) wholesale – 1st year (1%) wholesale - after	(0%) wholesale – 1st year (1%) wholesale - after

## 2. INCENTIVES: MARKET STRUCTURE

### Group 2: Cooperatives y cuentapropistas

\* Differences in access to inputs, credit, participation in foreign trade, association with foreign capital and taxation.

CUENTAPROPISTAS		Non agricultural cooperatives	
Annual Net Income	Tax Rate	Annual Taxable Profit (per cap.)	Taxe Rate
Under 10,000	15 %	Under 10,000	10 %
10,000 – 20,000	20 %	10,000 – 20,000	15 %
20,000 - 30,000	30 %	20,000 - 30,000	25 %
30,000 – 50,000	40 %	30,000 – 50,000	35 %
Above 50,000	50 %	Above 50,000	45 %

## 2. INCENTIVES: MARKET STRUCTURE

**MAIN RISK:** The discretionary provision of benefits may affect the conditions for competition and to divert attention from innovation to political lobby.

## 2. INCENTIVES: PROPERTY RIGHTS

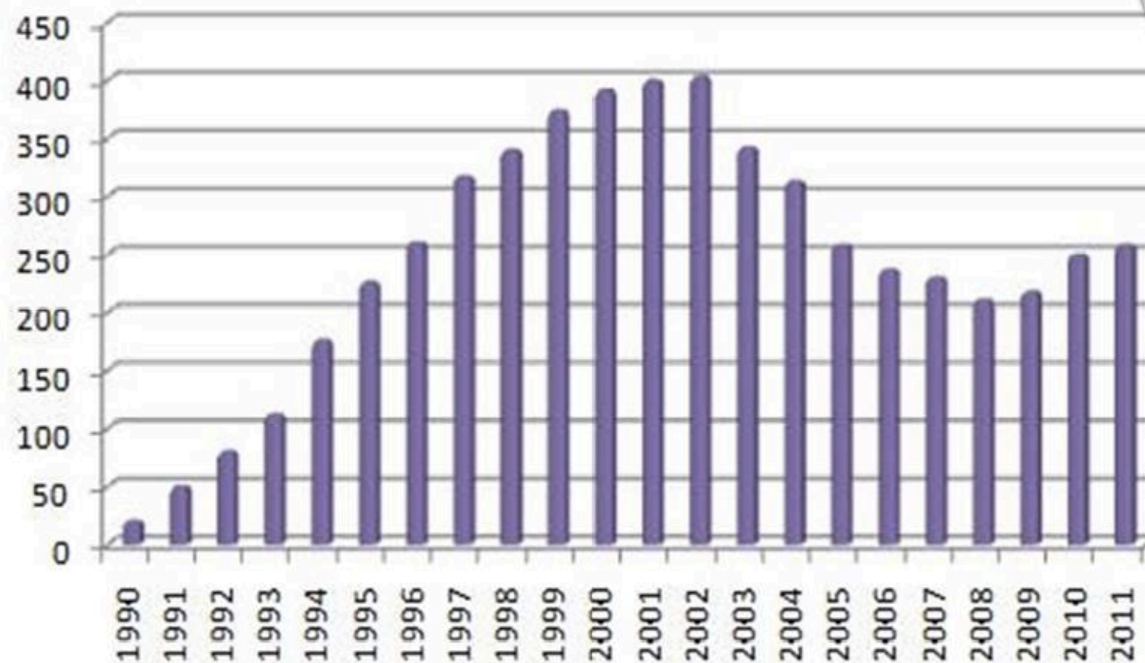
### ➤ CUENTAPROPISTAS





## 2. INCENTIVES: PROPERTY RIGHTS

### ➤ FOREIGN INVESTMENT



**EXPLICIT AND  
IMPLICIT  
EXPROPRIATION**

Fuente: Omar  
Everleny Pérez  
(2014)

## CONCLUDING REMARKS

- While progress has been made in market acceptance as vital economic space within Cuban socialism, there is not a consideration of competition as a regulatory mechanism.
- Several of the changes that have taken place in the economic sphere (particularly tax reform) generate imbalances and undermine the possibility of competition.
- The perception of insecurity in property rights causes a shift of capital towards the short term (fast recovery).
- Therefore, the new non-state sector is currently being developed in an environment that creates incentives for the rent seeking behaviour.

FINAL DE LA PRESENTACIÓN