

## *Non-agricultural cooperatives in Cuba: A new way to unleash the forces of production?*

DR. C. YAILENIS MULET CONCEPCION

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Starting in 1959, when Fidel Castro came to power, countryside cooperatives were established as a way of increasing and developing Cuban agriculture. There are currently more than 5,000 such cooperatives, but for the first time in half a century, urban cooperatives have been authorized as part of the economic plan initiated by the adoption of the economic and social guidelines of April 2011.

The upgrading of cooperativism, which is part of a larger effort to update the Cuban economic model, seeks to enhance efficiency and productivity in the country. With this goal—of achieving greater efficiency in economic activity—the Cuban state has been forced to decentralize the operation of state enterprises and to allow new forms of non-state management. In that environment, urban cooperatives are an alternative with certain noteworthy advantages, but also unquestionable weaknesses since experiences with agricultural cooperatives have so far been mixed.

Urban cooperativism is part of a government program aimed at bringing the non-state sector to “contribute” close to 45% of Gross Domestic Product (GDP) by the end of a five-year period, something that is somewhat doubtful in light of the enormous sluggishness of the program. Approvals for private activity and cooperatives across the country need to be accelerated.

The first non-agricultural cooperatives launched operations just a few months ago. It would be premature to speculate on this new form of management and its role within the updating of the Cuban economic model. Nevertheless, some important aspects can be underlined:

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The establishment of urban cooperatives is a special response to the following guidelines for economic and social policy adopted by the Sixth Congress of the Cuban Communist Party:

- **Guideline 02:** “The management model recognizes and encourages socialist state-owned enterprises, which are the primary structure of the national economy, but also the foreign investment entities stipulated by law (e.g., joint ventures and international association contracts), cooperatives, small farming, usufruct, franchising, self-employment and other economic entities that may altogether contribute to increased efficiency.”
- **Guideline 25:** “Grade 1 cooperatives shall be established as a socialist form of joint ownership in various sectors. A cooperative is a business organization that owns its estate and represents a distinct legal entity. Its members are individuals who contribute assets or labor, and its purpose is to supply useful goods and services to society, and its costs are covered with its own income.”

Cooperatives may be established by natural persons, self-employed or salaried workers, and state-run organizations which decide to change the management structure of their entity to that of a cooperative.<sup>1</sup>

The aim is to improve management structures in sectors that directly impact the population and that have been inefficient for years. At the same time, the State can gradually shed activities that are non-essential to economic development or that have been plagued by productive inefficiency.

### **The legal framework that protects the establishment of urban cooperatives is the following:**

- Decree 305, dated November 15, 2012, “On non-agricultural cooperatives” stipulates the norms regulating the establishment, operation and termination of cooperatives in non-agricultural sectors.
- Decree 306, “On the special social security framework for members of non-agricultural cooperatives”.
- Decree 309 “Regulation on first grade non-agricultural cooperatives”.
- Resolution 570/2012 of the Ministry of Economy and Planning.
- Resolution 427/2012 of the Ministry of Finance and Prices.

### **What is the concept of a cooperative?:<sup>2</sup>**

- A legally-recognized organization with independent rights.
- It is established voluntarily on the basis of contribution of goods and rights of its members.
- Its general objective is the production and provision of services by means of collective management in order to meet a social demand and that of its members.
- It must have economic and social aims.
- It is sustained by the labor of its members. All members work, aid and cooperate with one another.
- It decides upon the use and enjoyment of the goods it owns.
- It meets its costs through income and is responsible for its obligations to its estate. They create after-tax funds and distribute profits proportionally among its members on the basis of the labor contributed by each member.

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<sup>1</sup> Grisel Tristán Arbesú, Group Leader, Standing Commission for the Implementation and Development of the Guidelines on Economic and Social policy.

<sup>2</sup> Cubadebate. 21 agosto 2013. *How has the experiment with non-agricultural cooperatives advanced?*

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An internationally accepted definition would state that: “a cooperative is an autonomous association of people who have joined voluntarily in order to meet their common needs and economic, social and cultural aspirations, by means of a jointly owned and democratically controlled enterprise”.

In the Cuban case, cooperatives rely on the labor of their members who contribute to the results of the cooperative and elect their president by direct or secret vote. The general assembly is its highest organ. So far they are being established by the will of the state.

The government’s interest is to develop both first and second grade cooperatives, but little progress has been achieved in the case of the latter. Multiple limiting factors account for this, which range from the little interest initially shown by the government to establish these cooperatives, to objective conditions weighing down on them such as dilapidated equipment owned by members who wish to join them. Hence, only first grade cooperatives have been development.

### **First grade cooperatives are formed in the following ways:**

- Based on the patrimony formed by the monetary contributions of natural persons who decide voluntarily to associate under the collective property framework.
- By natural persons who decide voluntarily to associate with the sole purpose of acquiring supplies and services, to commercialize products and services, or undertake other economic activities while members preserve ownership of their goods.
- On the basis of the means of production, such as real estate, which are to be managed in a cooperative manner and may be ceded for said purpose by means of a lease, usufruct or other legal methods that do not imply the transfer of ownership.
- A combination of the above-mentioned bases.

### **In order to be established, cooperatives must deposit an “Initial Working Capital” consisting of cash contributions by their members, or other sources, namely:**

1. In order to establish cooperatives, a certain amount of money is needed so as to enable them to start operations, said money being their Initial Working Capital.
2. The Initial Working Capital is established through the contribution of its members in Cuban pesos and bank credits granted for the same purpose.
3. Monetary contributions by its members are carried out once the establishment of the cooperatives has been approved within 60 business days as set out in Decree 309.
4. The bank deposit is made at a local branch in the municipality in which the cooperative’s legal place of business is established.
5. Each member of the cooperative may deposit the relevant contribution, or it may also be deposited by a designated representative by means of a simple or representative mandate as stipulated in Decree 309.
6. The authorization to establish the cooperative must be presented at the bank. It must be issued by the relevant authority and must contain the name of the cooperative, the list of aspiring founding members, their representatives, and the cash amounts each member will contribute.
7. Cash from members will be deposited in a bank account on behalf of the cooperative under formation; a certificate will be issued by the bank as proof, which shall be presented to a notary as part of the documentation needed to legally establish the cooperative.

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8. The account on behalf of the cooperative under formation cannot be used for any purpose other than to hold the contributions of founding members in escrow until the legal process for the establishment of the cooperative has been concluded.

Once the cooperative has been established and registered in the Commercial Registry, the cooperative may request the opening of a current account under its name, preferably in the bank's branch in which the contribution of members has been deposited. More than one account could be kept in said branch in Cuban pesos (CUP) or in convertible pesos (CUC). Once the opening has been finalized, the member contribution deposits will be transferred to the current account, thereby establishing the initial amount with which the account will start to operate.

The cooperatives are also allowed to receive bank credits to finance the Initial Working Capital or Working Capital in order to carry out current operations once they start to function and for the purpose of Investments.

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Non-agricultural (urban) cooperatives, as another formula to liberate tied-down productive forces, are spreading throughout Cuba. Yet, as is the case with any change in Cuba, there is no shortage of setbacks and restrictions.

By October 2013, 270 urban cooperatives had already been approved in Cuba, with 124 of them already present in the economic landscape since July 1 of that same year.

The concept of urban cooperatives differs from that of self-employed work in their legal procedures, acquisition of raw material, forms of payment and development. These features are more attractive from a taxation point of view; as per Law 113, taxes for cooperatives take into consideration the degree of distribution of generated profit and are less onerous than taxes for private individuals.

Cooperatives that assume repair of rented state facilities in their first year of operation are also exonerated from payment of leasing up to one year.

### **Until now three Groups of Approved Cooperatives have been disseminated as of July 1, 2013:**

#### Approved Group 1 (124 cooperatives)

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- 112 emerged in the State sector and 12 in the non-State sector.
- 99 are in agricultural markets located in Artemisa, Mayabeque and Havana.
- 2 in raw materials and recycling.
- 12 deal with construction, one of them in the repair of refrigeration equipment.
- 6 are devoted to auxiliary transportation services such as bodywork repair, painting, tapestry, crane services and road assistance, car wash and tire puncture repairs.
- 5 for passenger transportation, 2 of them for route taxis, 1 school bus transportation and 2 semi-buses in Artemisa and Mayabeque.

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### Approved Group 2 (71 cooperatives)

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- 22 commerce, gastronomy and service cooperatives.
- 16 small industries cooperatives.
- 12 construction cooperatives.
- 2 food production cooperatives.
- 2 transportation cooperatives
- 17 ornithology cooperatives.

### Approved Group 3 (73 cooperatives)

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- 38 of them will be devoted to commerce and gastronomy
- 1 in industry
- 1 in transportation
- 33 in constructions
- 41 break away from State activity and 32 from non-State activity

During the closing of the International Congress on Economic Management and Development in Havana on Thursday, October 17, 2013, Lina Pedraza, Minister of Finance and Prices, announced that more applications are being evaluated, and stressed that these urban entities undertake various economic activities in an experimental manner as permitted by law. Ms. Pedraza explained that the purpose is to allow state enterprises to focus on the main lines of development of the country.<sup>3</sup>

An attempt is being made to revitalize public transportation with the new urban cooperative management model. Several cooperative enterprises have already been established in the area of transportation, and some benefits can already be observed in the two new, recently created provinces of Artemisa and Mayabeque. The state supplies fuel at better prices: they can purchase 1 CUC with 10 CUP instead of 24 CUP, the latter being the official exchange rate.

### **DIFFICULTIES**

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In Artemisa, for example, a transportation cooperative was officially inaugurated on August 1, 2013 that leased 32 so-called semi-buses. That entity transports passengers in some 20 routes including the urban provincial capital area and offers connections between municipalities, communities and rural settlements. The new option benefits all 69 members of the cooperative because it enables an increase in remunerations depending on daily collections and provides greater autonomy in some services after fulfilling the social mission in terms of routes and established timetables.

Drivers claim that salaries in the form of advance pay have doubled with this type of cooperative. However, cooperatives have not contributed to lowering prices as was expected by the population.

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<sup>3</sup> Cubadebate. 18 de octubre del 2013 “Cuba estudia creación de nuevas cooperativas no agropecuarias”

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But not everything is optimal—there are stumbling blocks: cooperatives have entered into contracts with other state-owned entities that are not honored, many transportation enterprises want to pave the dispatches to offer better service but the state does not have the asphalt mix to supply to the cooperatives. They also complain that state institutions do not grant them the 20% discount on wholesale purchases as approved by the government.

Cooperatives in the construction sector also experience difficulties because they are not well distributed by territory. There are very few construction cooperatives in Holguin, Villa Clara, Cienfuegos, Granma, Guantánamo. There is also a lack of know-how on the part of entrepreneurs and investors and a tendency to confuse private workers and cooperative members. Access to supplies via wholesale trade is insufficient, and trying to rent premises and equipment is often problematic. Some state institutions in the area of construction are still reluctant to hire construction cooperatives for their works, or ignore them altogether. Some state institutions claim that they do not have the authority to contract with the cooperatives.

The state must continue to work on improving the supply of basic resources needed by these cooperatives to operate, and the technical condition of some of the equipment the latter have inherited from State entities. Training and procedures for the evaluation and processing of new proposals are also in need of improvement. Inexperience provokes irritation in the different approval processes, since approval is still being granted at the highest levels of government, an element that should be reassessed in the near future. Approval should be granted at lower decision-making levels.

### **CONCLUSION**

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The first non-agricultural cooperatives started operating just a few months ago, so it is premature to derive conclusions on their progress. However, it should be stressed that obstacles that have prevented the functioning of the state sector until now must be taken into account if these models are to increase production and untie the knots holding back productive forces. Thus, the capacity needed for the import and export—or for the production of—goods should be analyzed in view of the lack of a wholesale market of inputs.

The capacity to purchase means of transportation or production equipment to increase labor productivity should also be analyzed, including alliances with foreign capital that are so essential to bridging Cuba's development gap.

A challenge for economic authorities is to make the cooperative sector function through the transformation of state enterprises and not by the will of a group of people. Furthermore, the new urban cooperatives should promote solidarity and social responsibility.

One important thing: important synergies between cooperatives and the rest of the existing means of production in the country must emerge, not the same stagnant behaviors of the past.

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