

CUBA COOPERATIVE WORKING GROUP



REPORT

CUBA RESEARCH TRIP

JULY 19–25, 2014

NCBA CLUSA

SOL² ECONOMICS

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INTRODUCTION

The NCBA CLUSA Cuba Cooperative Working Group (CCWG) was formed in early 2014 to explore opportunities for engaging with Cuba on cooperative development in various sectors of the country's economy. NCBA CLUSA has a 60-year history of supporting cooperative development in more than 100 countries around the world, and is actively expanding its work in Latin America and the Caribbean, both as an implementer of development projects and as leader in the cooperative movement in the Americas.

The CCWG was formed in collaboration with Eric Leenson of SOL² Economics, which has been engaging with cooperative leaders in Cuba, Canada, and Latin America around the topic of socially responsible enterprise in Cuba over the past five years. In forming the CCWG, NCBA CLUSA reached out to a network of U.S. cooperative leaders from multiple sectors (finance, agriculture, food, energy,

governance, transportation) and types (worker, consumer, purchasing cooperatives, etc.) interested in establishing linkages with Cuban cooperatives, cooperative researchers and policymakers.

The CCWG's first project was a one-week exploratory trip to Cuba to better understand the Cuban cooperative movement, the overall economic situation in Cuba today, U.S.-Cuban relations, the history of Cuban cooperatives and the increasingly important role that cooperatives are playing in the process of economic reform. The group also wanted to gain a better understanding of ways in which the U.S. and international cooperative movements could engage their Cuban counterparts in an effort to collaborate and strengthen this emerging sector in Cuba (See Appendix A for trip participant list and Appendix B for list of guiding questions for the trip).



Cuba is a country in transition that has been evolving on many fronts over the last two decades. One of the key challenges for Cuba has been its efforts to reform its centralized economy in a way that allows for growth but does not dismantle certain social benefits such as education, health and social programs. However, once the Soviet Union

collapsed in 1991, the enormous subsidies and trading preferences for Cuba disappeared and the economy nearly collapsed. A decade of deep decline, deprivation and struggle for basic survival (known as the "Special Period") ensued.

As Cuba began to emerge from this period, a number of economic reforms or "updates" have been sanctioned by the State in recent years to allow for more market-based approaches, such as small family restaurants or local entrepreneurs. These changes have been slow and fraught with inefficiencies, lack of access to capital and investment, and continued significant state control over these "non-state" enterprises. However, openings for private enterprise development continue, albeit slowly, and cooperatives are emerging as important players in this context.

In April 2011, the Cuban Sixth Communist Party Congress approved a set of economic reform goals called the "Guidelines on Economic and Social Policy for the Party and the Revolution." Among these 313 measures, actions were proposed to dramatically increase non-state sector employment of the labor force;



encourage large-scale private sector business opportunities; allow for the creation of non-agricultural worker cooperatives for the first time; provide for the use of idle lands in usufruct; and decentralize the operation of state enterprises.

This renewed effort is converting state-controlled enterprises into worker-owned cooperatives—measures that were also taken in the 1990s through the expansion of agricultural cooperatives. Again, the vast majority of cooperatives being formed are former state-run enterprises. However, about one-fifth of approved, non-agricultural co-ops have arisen from interested individuals, not state enterprises. This shift is significant and has some profound implications for the future of the Cuban economy.

To better understand the role cooperatives have played throughout the various periods of economic experimentation in Cuba, the CCWG met with a number of co-ops and experts on the history and role of cooperatives in Cuba.

Cuba's first cooperatives were formed in the 1930s. There have been various phases and types of cooperatives developed in the more than 50 years since the Cuban revolution; and, interestingly, a significant private farming sector has persisted throughout this period. Most recently, Cuba has supported the development of non-agricultural co-ops.

Cuba currently spends about \$1 billion annually subsidizing basic food stuffs. Agriculture since the revolution had been part of the tightly controlled food production and marketing system that ensured all Cubans had access to basic food stuffs. Until recent years, as much as 82% of arable land was owned by the State. The percentage of land farmed by co-ops has increased significantly since 2010—now co-ops manage almost 70% of farmed land. In recent years, tight state marketing control has loosened somewhat, providing an opening for the formation of more co-ops and private enterprises, and allowing co-ops and private farmers to market some foodstuffs at non-regulated prices in private markets without state control.

Although the revolution has sought to provide enough food for all Cubans, productivity in the farming sector has been poor, with much land unused or underused. The cooperatives and the state-run farms that make up the majority of the agricultural economy have not been able to produce enough food to meet modest self-sufficiency goals, despite Cuba having large amounts of arable land and a generally favorable climate. Currently, Cuba is only producing about 30% of food consumed and importing about \$2 billion worth of food

annually to meet basic dietary needs. With better agriculture policy and production, it is estimated that Cuba has the capacity to reduce food imports by 70%.

With the goals of increasing production, reducing the size and complexity of state enterprises, and reducing imports, the government has continued to focus on legislation to expand cooperatives in both the agricultural and non-agricultural sectors.

Types of Agricultural Cooperatives

Agricultural cooperatives were first formed voluntarily after the revolution as part of land reform. These were cooperatives of private farmers, known as *Cooperativas Creditos y Servicios (CCS)*, and were focused on credit and services provided to farmer-members, each of whom owned and operated individual parcels of land.

A second type of agricultural cooperative was first formed in the 1970s, *Cooperativas de Producción Agropecuaria (CPA)*, allowing for a non-reversible sale of land and equipment by farmers to the cooperative in exchange for one member/one vote member-ownership.

Beginning in 1993, a third type of cooperative was created through legislation, called *Unidades Básicas de Producción Cooperativa (UPBC)*. Formed from state farms, the land continues to be owned by the state, with the co-op leasing the land. While some UBPCs have thrived, many others are failing. Today, the mix of agricultural production is 35% CCS, 25% UBPC, 8% CPA, with 2% being independent small farmers and 30% directly state-owned. A total of 84% of vegetable-origin food output is from the cooperative sector. In addition, 66% of milk, 61% of pork and 61% of sheep are produced by CCS and private farmers.

Non-agricultural Cooperatives

July 1, 2013 marked the launch of the first non-agricultural cooperatives in Cuba, or *Cooperativas No Agropecuarias (CNA)*. Initial approvals were given to agricultural markets (e.g. farmers' markets), construction, transport, and personal and technical services (e.g. everything from auto shops to beauty salons). Property is being leased to cooperatives by the State for those cooperatives born out of the state sector. Non-state sector cooperatives are taking advantage of low-interest leasing from the State.

The newest cooperatives are repopulating some rural areas, increasing incomes of agricultural and non-agricultural co-ops and creating 500,000 new non-state workers. Almost 500 non-agricultural co-ops have been formed, though one-half of these are not yet operational. These new co-ops get preferential treatment in contracts and in leasing state property and benefit from tax breaks, limited technical assistance, and access to finance. They do not own their property, but do often own other assets, such as equipment. In the agricultural sector, more than 5 million acres have been distributed to producers. Cooperatives pay less in taxes than private businesses and have some access to the State's wholesale system. Still, it is the government that makes the decisions about whether a state business is converted into a cooperative, and the existing employees are given little say.

It is anticipated that a new General Law of Cooperatives will be passed in 2016. The law's objectives will be to transfer a greater share of "non-essential" economic activity to cooperatives, allowing the State to focus on core activities, to increase and diversify production of consumer goods and services, and to promote more stable employment. Marino Murillo, who heads the

State's economic commission to revamp the economy, told the National Assembly in December that cooperatives have priority over small private businesses because they are a more social form of production and distribution.

The CCWG delegation met with many cooperators, allied advisors, and academics to understand the context of the Cuban cooperative sector and some of their current challenges and opportunities. Many in the group were surprised by the lively and open discussions and the consistency with which all of the groups were committed to integrating commercially viable cooperative businesses with social objectives.

The following is an annotated list of our meetings:

Dr. Armando Nova, Center for the Study of the Cuban Economy, University of Havana
History of Agricultural Cooperativism in Cuba

Dr. Nova gave a comprehensive overview of the history of cooperatives in Cuba from their origin in the 1930s up to the recent creation of many new agricultural and non-agricultural co-ops throughout Cuba and of the shift from state ownership of most land and a growing percentage of economic activity to private and cooperative control. Among the challenges cited by Dr. Nova: insufficient autonomy due to over-regulation and fixed-price required delivery to the State, lack of a market for inputs due to centralized resource allocation, and a lack of recognition for the role of the market in a planned economy.

Isis Maria Salcines Milla and Miguel Salcines Lopez, Organopónico Vivero Alamar
Cuban Urban Agriculture Site Visit

Ms. Salcines Milla (manager) and Mr. Salcines Lopez (founding President), key leaders in this urban agriculture cooperative (UBPC), gave a quick tour and overview of the transformation of the formerly destitute urban area into a thriving farm and economic and social enterprise amidst the many challenges and constraints of managing within the tight regulations of the Cuban economy. The organic farm sells to restaurants and to the

local community, growing dozens of crops and focusing on five in particular: oak leaf lettuce, sugar cane, mint, moringa and noni. Based on their successful growth, their ambitious goal is to transform the traditional Cuban diet of rice, beans, pork and chicken into a more balanced and healthy diet with more vegetables and fruits.

Evelio Gonzalez Sanchez, Asociación Cubana de Técnicos Agrícolas y Forestales, (ACTAF)

Mr. Sanchez gave an overview of sustainable agriculture and forestry in Cuba and the role of the ACTAF consultant-technicians in promoting gender equity, sustainable agriculture values and techniques, and in connecting Cuban agriculture and forestry to the international movements working for similar goals. He emphasized the challenges of trying to separate the role of the State and the role of business activity.

Roberto Cazuzo, Presidente, Cooperativa Novedades, Auto Repair Cooperative

This former state enterprise was formed as a cooperative one year ago. The results have been positive so far. The cooperative has doubled the value of services and has more money to buy inputs. All ten workers are members. None of the cooperative's auto repair services are supplied to the State, but only to private customers.

Camilia Piñeiro Harnecker, Center for Studies on the Cuban Economy at University of Havana

The New Non-Agricultural Worker Cooperatives

Dr. Piñeiro, a thought leader in developing the new Cuban economy, gave an overview of the new cooperative laws and the recent formation of non-agricultural cooperatives. She discussed some of the challenges and opportunities for the cooperative sector, along with a very open critique of the legislative process and an insightful diagnosis

of current state of the new co-ops. Among the issues cited by Dr. Piñeiro are the slow state approval processes, insufficient or non-existent training, lack of associations to represent cooperatives within sectors or nationally, and the lack of any social impact or social responsibility requirement.

Heriberto Dita Pestano, President, Servicios de Transporte de Pasajeros (SERVIPAS)

This newly formed cooperative with 57 members has operated for one year. Prior to that time it was a state-run enterprise. The cooperative provides transportation services for schools, nursing homes, senior centers and healthcare centers. Initially suspicious of the proposal from the State to convert to a co-op, their research indicated that the conversion would be done in a professional and acceptable manner. According to the president, the cooperative is working well, the worker-owners are earning much better salaries, and are more motivated. The cooperative continues to provide needed services, keeping most of their 44 vehicles on the road.

Exiquio Ramírez, President, Confecciones Textiles Marianao

This sewing cooperative was a state factory until nine months before the CCWG visit, when they were told by the State that they would be converted to a worker-owned cooperative. The first thing they had to do was change their mindset. The new worker-owners accepted the task, got support to teach themselves what a cooperative is, and began to learn about co-op management. Financial management and accountability is considered by the cooperative's leadership to be the foundation of the businesses' success. They have 46 members. All output (tablecloths, blouses, shirts, etc.) is under contract—about 50% of the contracts are with the State and 50% are private. The biggest problem the cooperative has today is procuring raw materials. Another challenge is the outdated equipment and

dilapidated facility. The co-op has empowered women in leadership roles and has a strong embrace of cooperativism.

Nardo Bobadilla Labrador, President, Cooperative El Mango

Dr. Labrador is a founder of the co-op and a veterinarian. The co-op (UBPC) started with 16 members on 10 hectares; they now have 103 members farming 101 hectares. They respect the principles of spontaneity, voluntary membership and cooperativism. They own everything but the land. They share profits collectively. They started with pigs and now, by investing half the profits, they have been able to expand to include cattle, goats, horses, rabbits, vegetables, social projects, community transformation, woodworking, recreation centers for families, and facility rentals for weddings and quinceañeras. They market 70% of their product to state institutions and 30% to the private sector.

Ambassador Carlos Alzugaray U.S.-Cuba Relations

Ambassador Alzugaray gave a highly informative overview of the political, economic, spiritual, and emotional history of U.S.-Cuban relations, including the memorable quotations, "For the grass, it doesn't matter whether the elephant is making love or making war" and "Big countries do what they want. Small countries suffer what they must." He pointed out that the U.S. and Cuba cooperate on a number of fronts, such as hurricane tracking, marine biology, disaster response (e.g. Haiti), and an oil spill recovery agreement that includes Mexico and the Bahamas. He pointed out the future importance to Caribbean trade of the Mariel deep-water port and its associated industrial park (*Zona Especial de Desarrollo Mariel*). The Mariel Port development and expanded oil drilling (and domestic consumption) could be significant drivers of economic growth. This will put pressure on

businesses and banks, but should be good for attracting foreign investment.

Produce Market Cooperative 30 y 33

This former state market is a cooperative with 12 members that has been a state-run market for 15 years and a co-op for a little more than a year. They have expanded their product lines, expanded their hours, and improved product quality since becoming a co-op. Like several of the cooperatives the CCWG visited, they shared that they have increased their salaries two- and sometimes three-fold since becoming a co-op. It is currently impossible to know if this is sustainable for this or any of the co-ops visited.

Adriana, Ernesto, and José Carlos, three students responsible for start-ups, Cooperativa de Metales and Cooperativa de Vidria

These co-ops were formed by the State from what appeared to be the top students in their technical school. The two cooperatives, one focused on metalwork and one on stained glass, have been waiting for a year to get workshop space. In the interim, they are taking odd jobs in the private sector and hoping to get assigned space soon.

Rafael Betancourt, Economist and Professor at San Geronimo College, President, Havanada Consulting

Havanada, a Canadian social enterprise consulting firm, developed the program for the CCWG visit with guidance from Mr. Betancourt. He accompanied the group for its entire visit, lecturing on different aspects of the Cuban economy and providing appropriate background and context to help participants better understand the unique Cuban experience.

SUCSESSES

- The Cuban agricultural economy has a majority of production in the hands of cooperatives. The non-agricultural sector is now opening up to this ownership model, setting the stage for Cuba to make great strides in creating a cooperative economy.
- Significant repopulation of rural areas is taking place as large families take advantage of farming state land available in usufruct. All these new farmers are affiliated with agricultural cooperatives, either CCS or CPA.
- The new cooperatives are energized, have increased their incomes, improved the condition of their physical assets, created better and more productive working situations, reduced theft and waste, and improved customer satisfaction. The workers themselves seemed enthusiastic and hopeful about their futures.
- There is an understanding among the cooperative leaders and workers that they are part of a major economic shift, and there is acknowledgement that they have a lot to learn; this opens the door for future collaboration.
- Production levels, accompanied by more favorable pricing and innovation, are increasing dramatically.
- Mechanisms, albeit bureaucratic, are in place and functioning for the development of bottom-up cooperatives comprised of groups of individuals coming together to better their economic and labor situations.
- To date it appears that some lessons have been learned from major mistakes of the UBPC conversion process of the 1990s. For example, state property is being leased to

cooperatives at reasonable rates, so that even privately formed co-ops are interested in participating in these programs.

CHALLENGES

- Almost all cooperative leaders in Cuba have been directly inherited from the management of state-run enterprises at the time of co-op start-up. Management and leadership are generally elected in an open forum that does not allow for new leadership to easily arise. "Mandatory" conversion to a cooperative is not in keeping with the principle of voluntary, democratic participation of members. Governance will be a key issue for future success.
- There is little access to cooperative education for members. Although there is some access to technical business assistance and training for managers, this too is limited. Most new co-ops do not receive cooperative education, nor is there explicit training on the cooperative principles. While cooperative principles and ideas are in part integrated into the guiding documents of the new cooperatives, rudimentary understanding does not appear to go much beyond the values of democratic participation and elections, and general equality in sharing economic risks and returns.
- There is no cooperative ministry; each sector's ministry has the responsibility of converting certain enterprises into cooperatives and providing guidance and support. This allows for uneven or inconsistent levels of support. In addition, the state enterprises have received no training on how to deal with the new cooperatives, leading to a lack of compliance with regulations and difficult commercial relationships.

- There is insufficient connection to the international cooperative movement. There are limited openings for the engagement of NGOs and other types of international support.
- There is little cultural context for creating an ownership culture. Many people are used to relying on the State for their livelihoods. Similarly, while there is some entrepreneurial tradition, it is quite limited. Social responsibility is integral to the “revolutionary spirit,” yet has largely not filtered down to the individual or even organizational level of the cooperatives. There is little social enterprise presence or support within the cooperatives visited.
- The inability of cooperatives—in all sectors—to secure inputs from national or international markets, due to economic and political constraints, is a major impediment to growth and sustainability.
- Non-agricultural cooperatives lack secondary or tertiary level cooperatives and there is no national cooperative association. Consumer cooperatives are still not permitted.
- The implementation of new laws or regulations often lags after their passage. There are long delays and difficult procedures for getting government approval for new initiatives. The general political environment for co-ops is seen as unstable.

Depending on the evolution of the emerging cooperative sector, and its ability to grow and sustain itself, Cuba is laying a foundation for cooperatives to play an important role in building a sustainable Cuban economy. Cuba sees this as an opportunity to embrace a balanced economy benefiting from both state and non-state enterprises. Whether or not this can happen will depend on a number of things, not the least of which is the State's willingness to allow this sector to flourish and become more market-driven as it evolves. The Cuban government is concerned about too much autonomy and inequality from the loosening of state control in this emerging sector. In addition, if the State burdens new cooperatives with excessive debt, this experiment will not last long.

It is important to note the tensions inherent in the economic "updates," where on the one hand, Cuba is trying to move away from a state economy, and on the other, it is responding to a growing private sector that is dependent on foreign currency and seen as undermining the social values of the revolution. It appears that the hope of the Cuban government, and many supporters of the cooperative model, is to develop a cooperative sector that achieves market success while avoiding the excesses of the market-driven economy and promoting social values and ownership.

There is a rare opportunity for the international cooperative community to support the emergence of a new cooperative sector in Cuba. There are numerous possibilities for engagement of the international cooperative sector in Cuba. For the United States, the opportunities will need to be carefully designed to work within the constraints inherent in the bilateral policies on both sides, and to respond to the evolving needs of Cuban cooperatives, which are unique in some respects and similar to other countries in others.

In Cuba's rapidly expanding cooperative sector, there is a need for cooperative education, governance and management training, and access to finance. Educational support and technical assistance is critical to both governance and management effectiveness of the new cooperatives. This includes everything from understanding the cooperative principles to technical training to market development.

In addition, there are almost no secondary or tertiary cooperatives, nor a national level cooperative association or movement that could serve as a counterpart to international cooperators or a coordinating body for the sector. The opportunity for developing these important building blocks of a healthy cooperative movement is significant and worthy of continued engagement with Cuban cooperators at all levels and across sectors.

One area raised by many of the CCWG participants was access to capital and financial sustainability given the various constraints in the system. Consideration needs to be given to the creation of a financial institution which can provide capital following the initial capital injections from the state or an agency designated and committed to assisting in the financial development of co-ops. In general, more focus on financial issues is needed, including but not limited to asset valuation, cost of inputs, balance sheets, financial management and long-term planning. These will ultimately determine the success and ability to survive of these new businesses.

The unique social dynamic in Cuba is also a fertile learning laboratory for U.S. cooperative groups to gain new insights into how this emerging sector can potentially deliver improved sustainability through socially responsible enterprises that prioritize social well-being.

The CCWG trip established initial contact between major U.S. cooperative leaders and activists, many of whom work with cooperatives internationally, and the emerging network of cooperative and social economy leaders and academics in Cuba. A number of seeds have been planted to further the goals of strengthening the cooperative sector in Cuba for the good of the Cuban people.

There is a strong desire among the CCWG members to strengthen and expand connections between the Cuban cooperatives, academics and social economy leaders and their international counterparts, with the intention of finding concrete ways to engage each other.

Below are some possible next steps:

1. Determine interest within other U.S. constituencies for improved relations through engagement with the Cuban cooperative sector

- Explore the role and specific projects for CCWG
- Engage other interested sectors within NCBA CLUSA membership
- Meet with U.S. Chamber of Commerce and other groups engaging with Cuba

2. Network-building and liaising with the following networks working in Cuba:

- CICOPA (Workers cooperative group of the International Cooperative Alliance)
- Cooperatives of the Americas (Regional Office of the International Cooperative Alliance)
- International Cooperative Alliance (global body)
- SOL² Economics network
- Cuban-American cooperatives

3. Meeting Opportunities to share CCWG's work and engage others, including Cuban cooperators

- October 2014—International Summit of Cooperatives in Quebec City
- November 2014—Cooperatives of the Americas in Cartagena, Colombia
- Oct/November 2014—CCWG Roundtable in Washington, D.C. to share information about Cuban cooperative sector and distribute CCWG's trip report
- May 2015—NCBA CLUSA Annual Meeting
- November 2015—International Cooperative Alliance General Assembly in Atalya, Turkey
- Other U.S. and international sector-specific cooperative meetings (worker, finance, energy, agriculture, etc.)

4. Technical Exchange and Assistance

- CICOPA legal working group to provide access to international best practices
- NCBA CLUSA exchange with Cubans: technical assistance and training in agriculture, food security and nutrition, natural resources management, and cooperative principles, government, and development, among other areas

5. Cuban Cooperative Legislation: Sharing International Best Practices

- Support direct citation of the co-op principles in the legislation
- Support incubators in sectors where it makes sense (e.g., artists)
- Support creation of consumer co-ops and secondary co-ops (including finance)
- Support the creation of a national cooperative association

Appendix A: CCWG Trip Participants

NCBA CLUSA

- Michael Beall, President and CEO
- Amy Coughenour Betancourt, Chief Operating Officer for International Development
- Stanley Kuehn, Regional Director, Latin America and the Caribbean

National Rural Electric Cooperative Association (NRECA)

- Martin Lowery, Executive Vice President, Member and Association Relations (also Board Member of the International Cooperative Alliance)

National Cooperative Bank

- Barry Silver, Executive Vice President (also Board Member of Cooperatives of the Americas—A Region of the International Cooperative Alliance)

U.S. Federation of Worker Co-ops

- Rebecca Kemble, President and Vice President (also President of CICOPA Americas)

Coop Coffees

- Jonathan Rosenthal, Executive Director

CDS Consulting Co-op

- Adam Schwartz, Member-Owner (also representing The Cooperative Way)

Democracy Collaborative

- Steven Dubb, Research Director

Food Co-op Initiative

- Stuart Reid, Executive Director

Pachamama Coffee

- Thaleon Tremain, CEO
- Therese Tuttle, Legal and Organizational Counsel

SOL² Economics

- Eric Leenson, President

Appendix B: The Original Questions Guiding the CCWG Trip

1. What is the make-up of the Cuban cooperatives?
2. What are the constraints that the cooperatives in Cuba face?
3. What are the strengths of the cooperatives in Cuba?
4. What laws exist for cooperatives in Cuba?
5. What opportunities exist for the international cooperatives to support the Cuban cooperatives?
6. What would the Cuban co-op members like to see in a partnership with a US co-op?
7. What training/capacity-building do the Cuban cooperatives have in place, if any?
8. What are the incentives for creating a cooperative in Cuba?
9. What potential exchanges have we identified?
10. What can we learn from the Cuban cooperative experience?
11. How do Cubans view the opportunity of a restructured economy given the reforms being implemented by the State?
12. What is the participation of co-ops in any sector?
13. What resources are available for cooperative governance, education and capital?
14. What changes have taken place with the creation of the new foreign investment law?
15. What conclusions or recommendations on next steps and areas of further study does the U.S. delegation propose?

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