

CUBAN SMALL AND MEDIUM BUSINESSES: INNOVATION; PUBLIC POLITICS AND GOVERNANCE

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Abstract: *The following article aims to explore and bring closer the concepts of public policy, governance and innovation, and the emergence of Cuban SMEs and their current situation. For this, a bibliographic review and field research was carried out where the results indicate that this field of study is oriented to the relationship between the adoption of open innovation and company performance. Theoretical and empirical methods were used, including techniques and tools from administrative sciences and other related specialties. This study focused on the results of Cuban SMEs, from their creation; despite not being relevant at a global level, due to the short initiation time, they do contribute greatly to the country's productivity.*

Key words: *Cuban SMEs, innovation, public politics, governance.*

1. Introduction

As small and medium businesses (SMEs) grow and develop in Latin America, Cuba has also entered the management of its SMEs and applies more and more formal structures, also marked by the recruitment of specialized workers and the introduction of laws, rules and management procedures to them.

Worldwide there is a lot of talk about SME innovation, they are aware of applying it, they know that this is one of the best ways to move towards regional development in an effective and sustainable way over time. However, Cuba has not yet reached the desired state, in addition to having very little time since the legal approval for its creation.

In Cuba, SMEs are created as of September 29, 2021 through Decree Law 46. The rule appeared in the Official Gazette with the objective of regulating the creation and operation of MSMEs and facilitating their insertion into the legal system and in the productive transformation of the country, which brought with it a series of changes or modifications in decree laws and resolutions such as: Decree Law 48;49/21 and resolutions 212;213;103;111/21;63 and 64 /21;345-351/21;95;137;237;32/21. All of these strengthen the system in Cuba, already integrating the private system into the national evolution. This decree contemplates the requirements and steps to establish and

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regulate MSMEs, including division or extinction.

This article aims, in general terms, to make a theoretical approach to public policies, governance and innovation of Cuban SMEs that will lead to the strengthening and development of the national and regional system of science, technology and innovation in Cuba. The Constitution of the Republic approved in 2019, in its Economic Chapter, refers for the first time to science, technology and innovation (STI) activities as essential elements of the country's economic and social development.

Its essential aspects are related to the recognition of a broad (Núñez, 2014; Lundvall, 2015) and inclusive innovation system (Dutrénit and Sutz, 2013; Rodríguez, 2016), which recognizes the multiplicity of economic actors and the role of the sector producing goods and services in the success of the system. It also highlights the importance of the expression of the SCTI at the sectoral, territorial and local levels (Arocena and Sutz, 2020), which is consistent with the country's policy on territorial development and decentralization of decisions in municipal governments (Díaz-Canel, et al., 2020).

This document aims to analyse the current situation of SMEs in Cuba and their contribution to the growth of the economy from 2021 until 2023, to consider their behaviours and limitations within the country. In Cuba, most SMEs belong to the sectors of production of goods and services, being the basis of the country's social development by producing, demanding and purchasing products or adding added value.

The methodology used is noted, which combines documentary analysis with the analysis of qualitative information from primary sources. The results and conclusions are then presented.

2. Material and method

For the development of this research, the deductive/inductive method has been used, since the study is based on theories, general concepts related to macro and microeconomics, administrative and commercial notions. This will allow a general diagnosis of the scenarios in which SMEs operate and at the same time of the interrelation between human talent, technology and market.

The development of the research will be both quantitative and qualitative. It is considered quantitative because tools such as: statistics, national censuses and figures issued by both public and private institutions and organizations will be used, and qualitative because the main characteristics of SMEs are identified to draw inferences from their operations in the national and international market.

Likewise, a series of secondary sources are used to obtain information on the topic to be discussed, based on studies previously carried out on the topic, scientific articles, websites, press news, business and economic magazines, etc.

3. Results

3.1. Current situation in Cuba. Context in which it develops

When analysing the international context in which the Cuban economy operates, Alejandro Gil Fernández, minister of the sector, explained that in 2023 a slowdown of the

world economy is projected on Cuba due to high inflation, the increase in interest rates and the reduction of investments (Cuba Debate March 23, 2023).

The socioeconomic history of the country is built in several stages. But this research will focus on two fundamental stages 5 years before the pandemic and after the pandemic. Firstly, between 2013 and 2018, a period of economic stability is evident and favourable figures for certain economic indicators, while, after 2019, temporary crises occurred caused by external factors such as the pandemic, international financial problems, reduction in the price of nickel, among others.

A gradual improvement in the economy is expected given the high percentage of immunization with national vaccines and treatments. Such conditions should boost food production to reduce market prices, increase exports of goods and services and increase the efficiency of public spending and the contributions of the socialist state enterprise to the country's economy.

In the midst of the 2019 pandemic, the new Constitution of Cuba was approved and at the end of 2020, in the midst of the financial, economic, political and social crisis due to its passage, the president, Miguel Díaz-Canel Bermúdez, announced the beginning of the Organization Task which meant abrupt changes in four directions, namely seeking monetary unification, dismantling the social subsidy system, and a reform in salaries and incomes; with this, some changes were also experienced in its policies and regulations.

This study seeks to analyse the current situation of SMEs, because, during the crisis, they have overcome difficulties (poor technology, financing opportunities, technical training, etc.) that have tested their flexibility to adapt to changes and, at the same time, boosted the growth of the economy.

Expectations regarding foreign direct investment (FDI) flows to Cuba are not favourable. Added to the adverse effects of the pandemic and the negative consequences of the Russian-Ukrainian conflict is the blockade policy of the United States, whose extraterritorial nature continues to have a negative effect on the attraction of capital. In particular, the activation of title III of the Helms-Burton Act as of May 2019, added to the inclusion of Cuba in January 2021 on the list of countries sponsoring terrorism, has hindered the completion of businesses with foreign capital.

In the first quarter of 2022, exports of goods recorded year-on-year growth of 38%, mainly due to the increase in international prices of nickel, tobacco and honey, as well as increases in the volume of products such as rum and fishing (ECLAC, 2022).

Also in the first five months of 2022, seven new investment projects were approved, a number that is insufficient, but which exceeds the two projects that were completed during the same period of the previous year. In addition, the approval of three other projects is being studied, and around twenty are in the advanced stage of negotiation. The approved projects correspond to the sectors of light industry, construction, mining services, information technologies and tourism.

The implementation of the policies approved during 2021, including the expansion of economic actors in the non-state sector, made it possible to incorporate people into the labour market. It is estimated that around 65% of the total number of employees will work in the state sector in 2022, a figure close to that of 2021. In the non-state sector, growth is expected compared to the previous year, mainly due to the creation of SMEs and non-

agricultural cooperatives, and the increase in self-employed workers.

3. 2. Characteristics and sectors of action of Cuban SMEs

The relevance of SMEs for the Cuban economy is becoming increasingly noticeable due to their specific characteristics such as share capital which may come from one person or a small number of partners (Permanent residents in the country). The most common legal form is Limited Liability Companies and they are classified according to the specific number of people in micro, small and medium. Some problems SMEs face in sectors are barriers such as production and services, little training in management and administration, export and import that must be carried out through a state company, limited access to credits and financing, difficulties in implementing technological development processes.

More than 60% of private companies are considered micro, small and medium structures, considering commercial companies and cooperatives within them, while only 40% constitute state companies and budgeted units.

Figure 1 presents the types of companies approved in Cuba. It should be noted that these data are not found in the National Office of Statistics and Information (ONEI), only data provided by the Cuban authorities are available (Cuba debate November 16, 2021 and January 7, 2022).

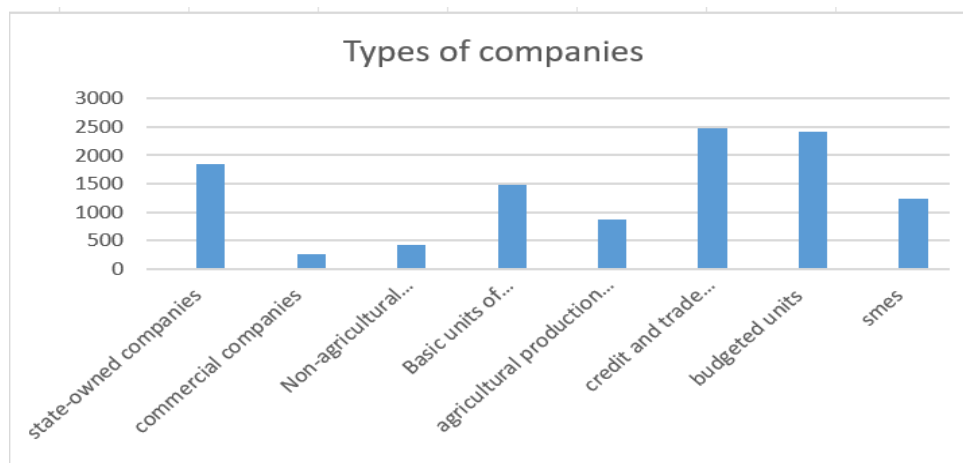


Fig. 1. *New types of companies in Cuba*

Source: *Information owned from sources of the Cuban authorities*

The Cuban economy is supported mainly by the agriculture, industry and tourism sectors. Most of its SMEs focus on service, production and food activities, within which the largest number of them is concentrated. As it can be seen in Figure 2, distribution is found in five main activities such as: A- food production and marketing; P- other type of manufacturing production; I- computer science; S- repair and construction services and R- recycling, where the largest number of SMEs is concentrated in Havana, Granma and Las Villas with a greater participation in computer science, manufacturing production and food production-marketing activities.

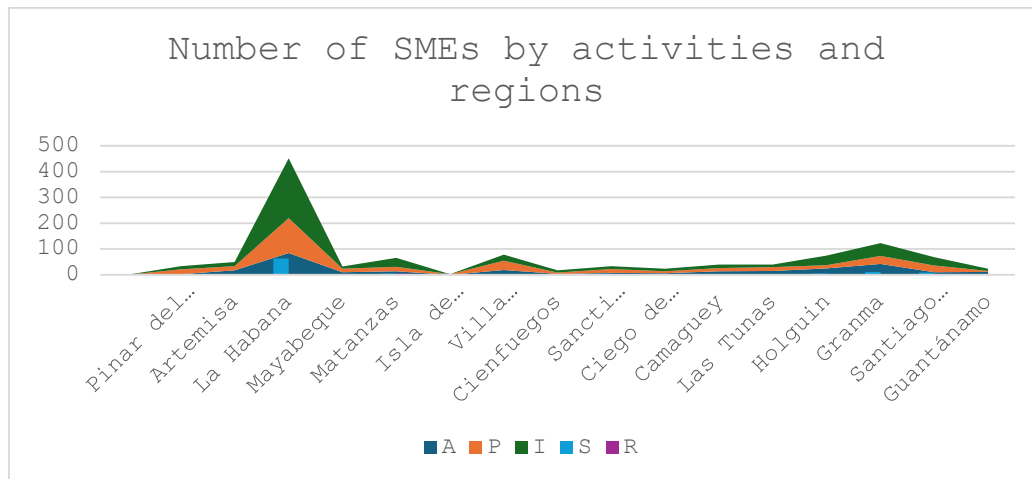


Fig. 2. SMEs by activities and region

Source: Information owned from sources of the Cuban authorities

Cuba classifies SMEs by size according to their characteristics into micro (1-10 people), small (11-35 people) and medium-sized companies (36-100 people) (MSMEs), as shown in figure 3 by region of the country, which highlights small businesses in the main regions with the highest concentration of SMEs.

SMEs are economic actors with legal personality and as such, they will be considered as a limited liability company, which means that the capital is divided into social shares and made up of the contributions of all the partners.

According to the approved legislation, a natural person can only be a partner in an SME, but it does not limit the possibility of presenting a broad project, always with a corporate purpose that defines its main and secondary activities, clarifies the Ministry of Economy and Planning (MEP).

According to the report on the economy in Cuba in June 2023 carried out by the professor and researcher at the Center for Studies of the Cuban Economy of the University of Havana Ricardo González for the Circle of Latin American Studies (CESLA), it is admitted that the private sector emerges as a very dynamic importer since foreign trade operations were authorized through state companies in August 2020. According to the authorities, during the period January-April 2023, these entities have carried out imports worth more than 270 million dollars, while exports were recorded for almost 5 million.

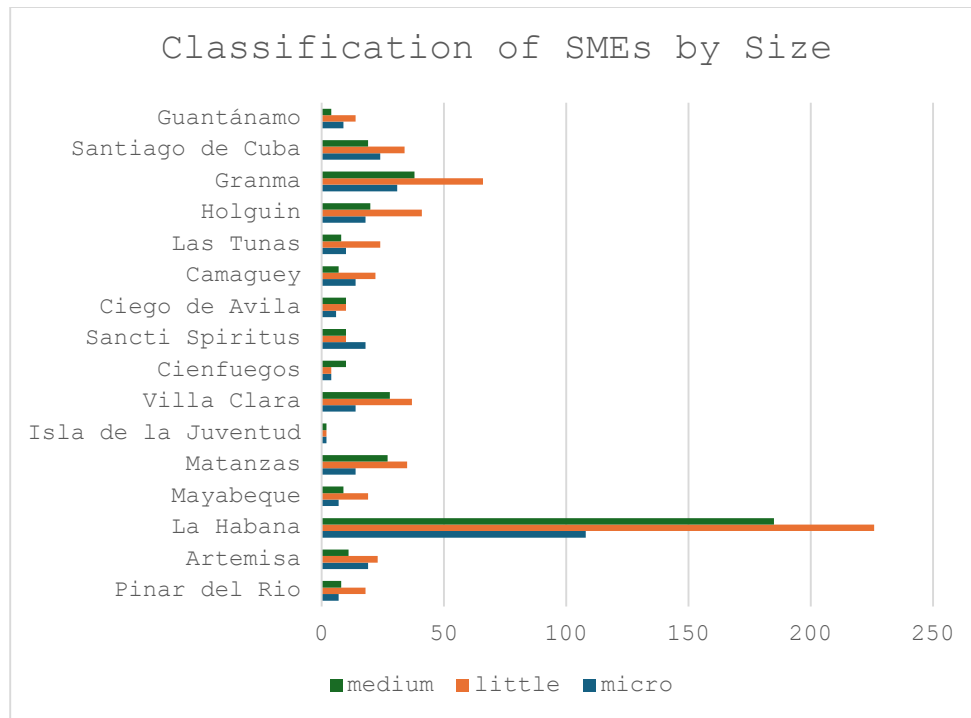


Fig. 3. Classification of SMEs by size in each region

Source: Information owned from sources of the Cuban authorities

He has also indicated that he does not welcome the fact that most of these purchases are destined for final products to supply the domestic market. However, it should be noted that the chronic shortage and poor development of the Cuban retail market is a structural problem, which, under the new conditions, represents an opportunity for private businesses. A better response would be to investigate the obstacles that continue to weigh on the private sector that focuses on the production of goods and services, and the existing monetary distortion that puts pressure on the value of the peso and makes imports of foreign items more expensive, the costs of which are subsequently passed on to the final consumer.

3. 3. Influences of SMEs on the Cuban labour market

To analyse the generation of employment that SMEs can create, first the figures from the statistical yearbook of Latin America and the Caribbean for 2022 are revealed on the evolution of employment and unemployment where Cuba occupies one of the top 10 with more than 66% of its working population contributing to society and having the lowest unemployment rate among all countries in Latin America and the Caribbean.

The economic panorama in Cuba in recent years has changed substantially because of the process of updating the Cuban economic and social model. Many transformations have materialized and are having a differentiated and automatic impact in terms of employment, income and equity.

Therefore, monitoring social problems and, especially, employment behaviours has become a priority issue. In this new scenario, the labour sphere has been one of the dimensions of social policy that has undergone the greatest changes in the last decade in the country, which has its expression through the deepening of different socio-spatial gaps according to (Esquenazi and Rosales, 2017).

The salary behaviours of the reference years of this research are increasing until 2021, as revealed by Trading Economics, where a salary increase begins to be seen from 2020, with an increase for the year 2021 of 80% compared to the previous year.

It must be considered that despite the salary increase which has a positive impact on the population as an incentive to work, it also has a clash with the high established prices of the products. The minimum monthly wage in 2021 was 2,100 CUP (\$87.5) and the same level prevails today.

It is estimated that the average salary amounts to 4,100 CUP (170.8 dollars), which represents an increase of 280 CUP (11.7 dollars) compared to that registered in 2021. Given the prevailing inflationary conditions, the deterioration of purchasing power is evident of the salary in Cuba both in 2021 and currently.

Another factor that influences and affects the workforce in Cuba is migration carried out mainly by people of working age. The total Cuban labour force peaked in 2011 at 5.2 million people, which at that time represented 76% of the working-age population (participation rate).

Declining sharply in 2017, the workforce shrank by almost half a million people from 2011 to 2020. These data do not yet reflect the impact of the current migratory wave, they may not be evident immediately, but they will be much more notable when it is possible to consolidate the recovery. Tourism will grow and labour will be required to operate at full capacity and the state and private economy will increase with the new economic actors in the country.

In this sense, it can be said that Cuban international migration, maintaining a current pace and profile, will deepen the decline in the country's population, which has already been occurring since 2012 and, very importantly, will contribute to the expansion of the migration index. Aging, which, according to some forecasts, may reach 30% of the population in the coming years, will cause significant economic and social effects (Albizu-Campos, 2015; Hernández and Foladori, 2013).

Table 1 shows the employment situation in the state and non-state economy in Cuba, where state workers predominate, while the number of women has been significantly increasing in non-state employment.

Table 1

*Employed in the economy according to the state and non-state employment situation
in thousands of workers by gender*

Employment situation	YEARS											
	2018			2019			2020			2021		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
State-owned	1663,1	1403,9	3067,0	1673,2	1405,4	3078,6	1673,2	1421,1	3094,3	1688,0	1432,6	3120,6
Not state-owned	1569,5	316,1	1885,6	1512,5	469,9	1982,4	1565,6	515,9	2081,5	1538,5	447,6	1986,1

Source: Adapted from the *Statistical Yearbook of Cuba 2023 (ONEI)*

3.4. Advantages and disadvantages faced by Cuban SMEs

Although it is true that small and medium-sized companies represent a great contribution to job creation and to the economy in general due to their characteristics, they are immersed in a series of challenges given their size and the growing competitiveness in the market. Thus, SMEs have advantages and disadvantages that they face every day.

This type of company can create links between state and private companies much more easily. To the extent that this experience is developed and deepened, it could favour the formation of mixed companies, stimulating the much-needed small and medium-scale foreign investment, which would encourage and formalize the contribution of capital from Cubans residing abroad. It has been demonstrated in other experiences that these sources can not only provide remittances, but also investments and commercial flows.

This should provide benefits to the economy in macroeconomic terms in the growth of the Gross Domestic Product, national income, exports and investments, and potentially favour the efficiency of large state companies, freed from many activities that allow them to better concentrate on strategic and high-value activities, such as the energy or the mining and telecommunications sectors.

Among its drawbacks is the fact that foreign and Cuban individuals who do not have residence in Cuba and foreign and Cuban legal entities cannot be partners of privately owned Cuban companies. Therefore, it nullifies the possibility of private MSMEs aspiring in the simplest way possible to one of the classic and most common forms adopted by foreign direct investment (FDI), that is, the acquisition of social shares (in the case of SRLs) or shares (in the case of SAs) of national companies by a foreign investor.

If we aspire to integrate non-state economic actors fully and completely into the Cuban economy, we must understand that the promotion of FDI is a vital element in that ecosystem.

3. 5. Importance of SMEs within the Cuban economy

Small and Medium Enterprises (SMEs) are essential actors for the growth of any economy. They constitute more than 50% of the companies in Cuba, these could have the largest participation in relation to the country's state companies, but the pace of growth is not as fast as expected.

Its characteristics make a great contribution to the generation of employment, which contributes to the development of the national productive apparatus of a country and contributes to the change of the productive matrix. Cuban SMEs contribute greatly to the country's productivity; there are still no figures that demonstrate the real impact of these actors on the economy, and we can say that little by little they are having an impact at a territorial level.

Recently, the Minister of Economy of Cuba, Alejandro Gil Fernández, informed Parliament that micro, small and medium-sized companies had imported around 166 million dollars in the first four months of the year. Detailing the foreign trade operations of non-state management forms, he said they had generated \$4,788,500 in exports and \$270,294,100 in imports.

It should be noted that many of our SMEs, on their own, develop local development projects, the creation of technology parks and the export of their services and products, such as shown in Figure 4.

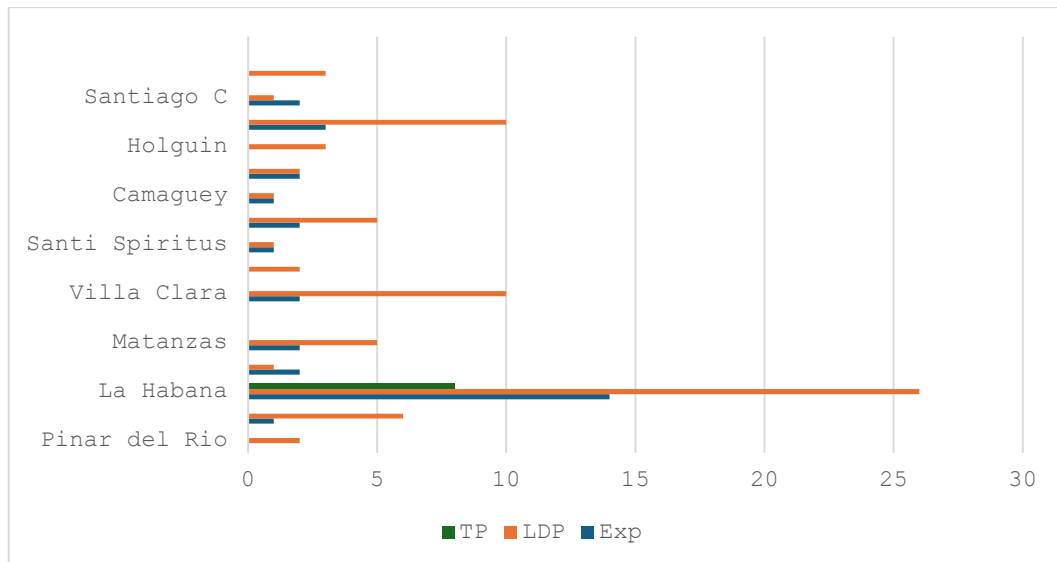


Fig. 4. Number of SMEs that develop exports, local development projects and technology parks.

Source: Owned from sources of the Cuban authorities

We must clarify that exports are not only measured as part of the Gross Domestic Product (GDP), but also reflect the growth of production and sales. On the other hand, local development projects are tools that are used to promote and manage the development of the country, which, together with the existence of scientific-technological

parks, represent an important factor for the competitiveness of the economy as a hub for business investment. The correct generation and management of such infrastructure can guarantee the development of a country's innovative potential.

Although Cuba currently does not have significant representation in these categories, we can say that among its main provinces are Havana, Granma and Las Villas, local development projects occupying 75% among these categories, with technology parks being a tiny part, managed by SMEs in the province of Havana, where the most used type of activity is manufacturing production and food marketing production.

In Cuba, more goods have always been imported than exported. For every 1% of GDP the country needs more than 30% of imports. MSMEs are part of that economy that does not produce enough; even so, they help to regulate prices and even place them below the State's offer.

Every SME must keep in mind that its success depends on the ability to innovate and make constant improvements in investment issues and the management of competitive strategies. All this with the aim of reaching internationalization, through the search for new markets, clients and the creation of innovative products.

4. Conclusions

In this analysis we can conclude that SMEs have become a key element in job creation. Because the initial investment required to start a small business is not large, they also contribute to the growth of the economy. Although according to the data provided by the authorities, Cuba's GDP grew by 2% in 2022, half of what was expected. This performance was negatively influenced by the slow recovery of international tourism, low levels of exports, the drop in imports, and persistent problems with the supply of energy, which have affected the production of goods and commercial services, such as manufacturing production of SMEs that have been affected in recent years by the energy crisis. Transform, innovate, take care of the cash are the recommendations that an SME must consider in times of crisis to survive. Likewise, these small and medium-sized companies must take careful care of their investments. To do so, they must apply a change, search and open themselves to activities that they have not done, this including risking and searching for new markets, new clients, and offering new products.

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