



SURVEY

# IMPACT OF COVID-19

On the Cuban self-employment sector



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Survey of self-employed workers in Cuba (April-July 2020).

*By the Independent Trade Union Association of Cuba and the Cuban Association of Small Entrepreneurs*

### Introduction

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During the last five years, Cuban economy has been going through a period of insufficient growth due to the exhaustion of the political, social, and economic system, and its intrinsic structural deformation. According to official data, annual economic growth is below 2% (a figure that cannot be independently verified). These poor results are evidenced by the insufficient Foreign Direct Investment (FDI), the constant increase in import levels of basic consumer products (food and manufactured goods), depressed exports of goods and services, low productivity in the state sector due to the use of outdated equipment, the prevalence of administrative corruption, and insufficient wages for more than 70% of active workers.

The Castro regime had approved an economic plan with a growth of only 1% for 2020, but at the beginning of the year the Covid-19 pandemic made its appearance on the world scene. Its impact was immediately felt in public health and state finances due to the dramatic decrease in foreign currency inflow from tourism activities and family remittances from abroad.

At this moment, there is a progressive deterioration in the income of the population and the government, and a fall in domestic production (supply), contributing to an increase in inflationary pressures on basic necessities and increases in informality in the labor sphere.

During the pre-Castro era, Cuba had a strong private sector in its economy. In the agricultural sector there were about 60,500 small and medium enterprises (SMEs) that supplied the raw material

to the sugar industry and were the largest producers of food for the population. All of them began to disappear after 1959, and by 1968, when the State nationalized the entire private sector, these SMEs were finally extinguished. Between 1970 and 1990 the state adopted the Soviet economic model, emphasizing the development of large enterprises and the collectivization of agriculture.

In 1989, with the disappearance of the USSR and the countries of Eastern Europe, the Cuban economy entered a severe crisis, which Fidel Castro called the "Special Period in Peacetime". During that time, Cuba suffered a paralysis of its industrial sector –operating at 20% capacity– due to the suspension of trade on preferential terms with the Socialist Bloc.

In 1993, in order to revive the moribund economy, the government adopted Decree Law 141, allowing many who operated outside the controls imposed by the statist model to legalize their activities. In 1994 the government issued 121,000 licenses, but the growth rate of the sector slowed in subsequent years. Raúl Castro, in taking control of the government from his brother, recognized the importance of the private sector in some strategic areas of the Cuban economy that were not developing to the required level. In October 2010, the government issued Resolution 32 allowing the self-employed to establish relations with banks and state-owned companies and to hire a small number of employees, among other measures.

Despite the controls imposed by the regime and an extremely high tax burden, self-employ-

ment was growing and contributing to the national economy. The number of licenses granted reached 620,000 in 2019. During the period 2010-2019 the government allowed the creation of four groups of urban cooperatives. 498 of them were authorized, and by the end of 2016 there were 383 operating mostly in the western provinces from Matanzas to Pinar del Rio. Everything seems to indicate that, given the rapid growth of this type of business, the government did not authorize new cooperatives.

In his Central Report to the VII Congress of the Communist Party of Cuba, in April 2016, Raúl Castro stated: "The increase in self-employment and the authorization of the hiring of labor force have led, in practice, to the existence of medium, small and micro private enterprises that today operate without the due legal personality". Despite these directives from the 1st Secretary of the Party, the current economic policies have not allowed the promotion of the self-employed sector in Cuba. There is no institutional relationship between the private sector, the government, and the bureaucracy at all levels, due to ideological and power conflicts within the party and government circles. So far, the activities approved for the exercise of

self-employment and the regulatory measures are insufficient for the sustained development of the private sector of the economy.

Before the arrival of the pandemic in early 2020, the Cuban economy was already in a deep crisis; the pandemic has accelerated the need for radical structural changes in the economic model and state structures. Since the introduction of the timid reforms adopted in the last decade, the enormous potential of the Cuban self-employment sector has been proven.

The state of Cuban society facing the pandemic's impact has motivated the Independent Trade Union Association of Cuba (ASIC) to continue its study of the self-employed sector through personal interviews conducted in five provinces of the country with Cuban citizens who participate in economic activity in that sector. The 150 interviews were conducted from April to July 2020 in the following provinces: Havana (84), Artemisa (10), Villa Clara (26), Cienfuegos (19) and Holguín (11). These interviews were conducted in a climate of persecution and harassment directed by the political police against ASIC members and supporters as they carried out their work.

## Objectives

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- Identify the challenges faced by self-employed workers due to the isolation measures dictated by the Cuban government.
- Identify the legal and social communication framework that prevails in this sector.
- Identify opportunities and adjustments that self-employed workers can undertake to develop amidst the complex rules imposed by the Government.
- Identify proposals and suggestions that can be offered to the competent authorities for the benefit of self-employed workers.

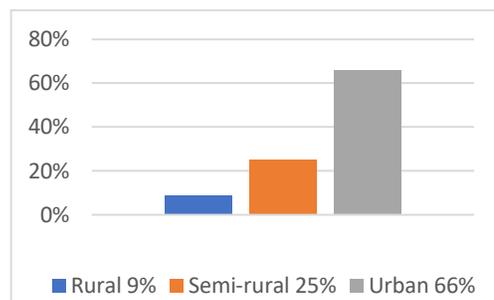
## Content

The survey consists of 11 questions asked to 150 self-employed workers living in four provinces. The data is presented below.

### THE SURVEYED

1. The workers surveyed come from three different areas:

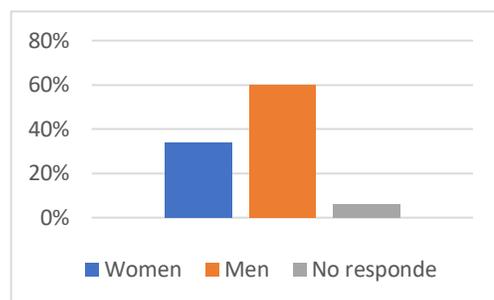
- Rural: 9%
- Semi-rural: 25%
- Urban: 66%



77% of the Cuban population resides in urban areas and these are the areas of greatest activity for self-employed workers. Havana, because of its condition of capital city and where 19% of the total population of the country resided in 2018<sup>1</sup>, is where the impact of the activities of the private sector in Cuba is manifested with more emphasis. Therefore, in the city of Havana, and to a lesser extent in other urban centers of Villa Clara, Cienfuegos, and Holguín provinces, is where the 66% of those interviewed live.

2. Gender:

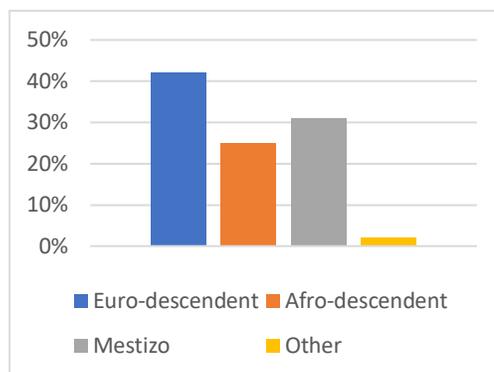
- Women: 34%
- Men: 60%
- No response: 6%



According to official data<sup>2</sup>, women represent 50.26% of the total population of the country, but due to the adverse conditions they face –caused by prejudices perpetuated in the existing social model– they do not have the due participation in the private sector of the economy.

3. Ethnic group:

- Euro-descendent: 42%
- Afro-descendent: 25%
- Mestizo: 31%
- Other: 2%

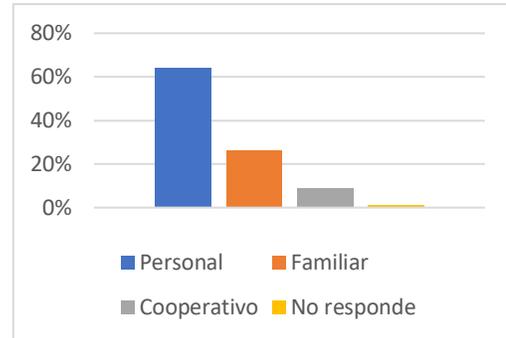


<sup>1</sup> Anuario Estadístico de Cuba 2018, Oficina Nacional de Estadísticas, Havana, Cuba..

<sup>2</sup> Idem.

4. The type of property under which the surveyed carry out their commercial activities are:

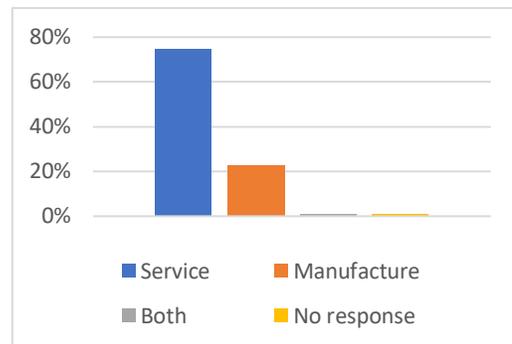
- Personal: 64%
- Family: 26%
- Cooperative: 9%
- No response: 1%



Members of the cooperatives linked to the state bodies, be these the Ministry of Agriculture –which regulates them and imposes quotas on them for production under contract– or the National Association of Small Farmers (ANAP) –a body dependent on the Cuban Communist Party (PCC) – refused to participate in the survey for fear of reprisals.

5. Type of commercial activity:

- Service: 75%
- Manufacture: 23%
- Both: 1%
- No response: 1%



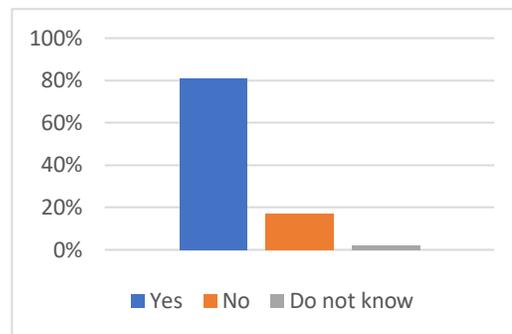
## QUESTIONS

1. Does the pandemic affect you as a self-employed person?

- Yes: 81%
- No: 17%
- Do not know: 2%

The majority of the surveyed (81%) have been affected by the pandemic in their business activities. The lack of financial reserves (capital) has impacted the operations of many self-employed. Only those who provide delivery and distribution of food improved their commercial position caused

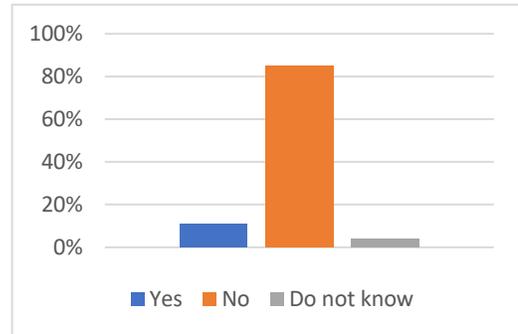
by the initial increase in demand, but this has been affected by the lack of goods due to the fall in the supply, together with the campaign of repression promoted by the government against the farmers who were delivering part of their production to the non-state market.



2. Was your business prepared for a situation like this, or a similar one?

- Yes: 11%
- No: 85%
- Do not know: 4%

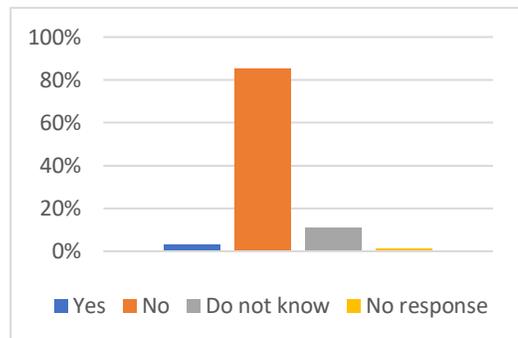
As reflected in the percentage of negative responses (85%), most surveyed were unprepared and did not have the material means to deal with the pandemic, as they did not expect this type of event to occur.



3. Do you find support in the legal and financial (specifically banking) system to overcome the current crisis?

- Yes: 3%
- No: 85%
- Do not know: 11%
- No response: 1%

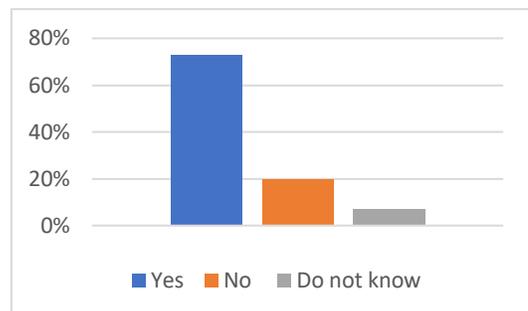
The majority (85%) did not have financial support from the country's credit institutions, be these the banking system or financial entities that promote economic development at the local or national level. The banking system in Cuba is very rudimentary and is fed by state funds, since more than 5 million Cubans have salaries that, according to the ONEI, average around US\$ 31.08 per month, which prevents substantial savings of their income. In addition, the criteria used in the issuance of credits are primarily political. In Cuba there is a great –warranted– fear that the government will again confiscate bank deposits and properties. For that reason, self-employed workers do not have bank accounts to cover most of their business transactions and their salaries or other obligations are paid in cash.



4. Were your human resources affected in the current situation?

- Yes: 73%
- No: 20%
- Do not know: 7%

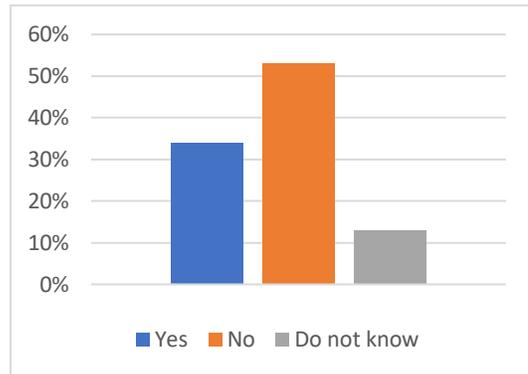
Many of those interviewed were unfamiliar with the term "human resources" and associated it with their finances, but later claimed that the pandemic had affected their business operations. They had not developed plans at the personal, family, or cooperative levels to deal with a crisis of this magnitude.



5. Do information technologies (internet) influence your adaptation to the new situation?

- Yes: 34%
- No: 53%
- Do not know: 13%

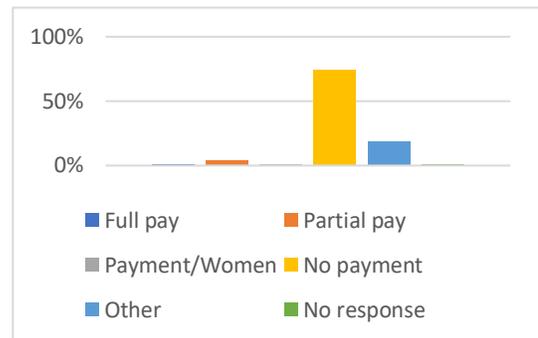
It is evident that those who responded positively (34%) are in urban areas and their use is a good source for the development of their commercial activities. Those who do not have access to the Internet aspire to obtain it, but stated that the high costs and poor service provided by the state monopoly ETECSA prevents them from enjoying that competitive advantage in the supply of their goods and/or services.



6. Did employers use any benefits to pay their workers during business interruption due to the pandemic?

- Full payment: 1%
- Partial payment: 4%
- Women's support payment: 1%
- No payment: 74%
- Other: 19%
- No response: 1%

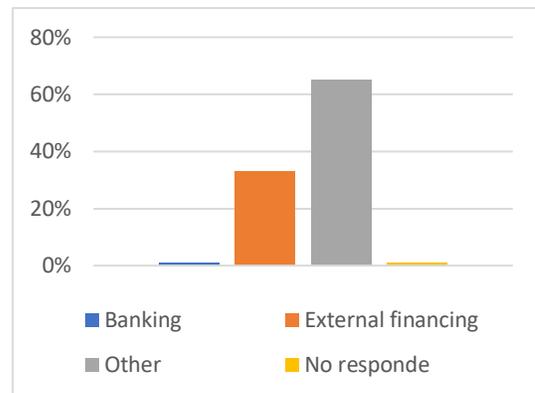
At the beginning of the pandemic, and as a result of the effect of strict quarantines imposed on the population that prevented the free movement of people even within urban centers, the activities of self-employed workers came to an abrupt halt. Employers suspended business activities and workers were denied access to their workplaces. As a result, with minor exceptions, employees no longer received the amount of their wages or other income related to their work activities.



7. How does your business amortize losses from the pandemic?

- Banking: 1%
- External financing (remittances): 33%
- Other: 65%
- No response: 1%

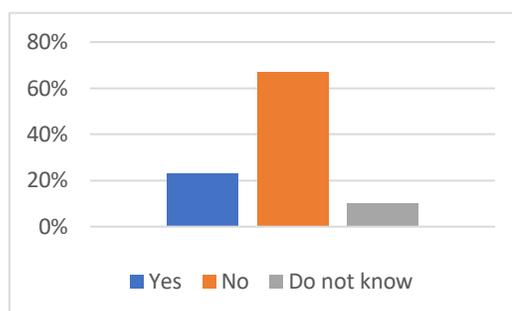
Bank credit is almost non-existent for self-employed workers, since the great majority of them operate outside the state banking system because of their lack of "legal personality," according to Raúl Castro in his speech before the 7th Congress of the PCC in April 2016.



One third of those surveyed subsist on external financing from family remittances. The rest have been operating at a low level using the capital reserves they had accumulated over the years when they have been operating as self-employed workers. It is clear that the private sector needs institutional support from the government through financial and technical assistance programs in order to continue to be the main source of new jobs in the Cuban economy.

8. Are you satisfied with the government's handling of taxes during the pandemic?

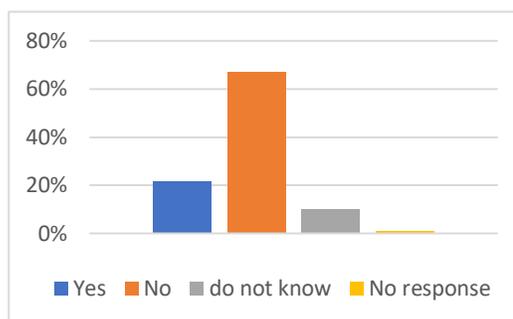
- Yes: 23%
- No: 67%
- Do not know: 10%



Two thirds of the interviewees consider that the tax rates are high, and in a way "confiscatory" since one of the fundamental objectives of the government is to prevent the accumulation of wealth and thus prolong the dependence of the people on the political structures that have controlled the country for more than 60 years. Although the government has "frozen" or postponed tax collection on certain activities, the self-employed continue to oppose the high tax rate on their business activities.

9. Does the current legal system ensure respect for your investment?

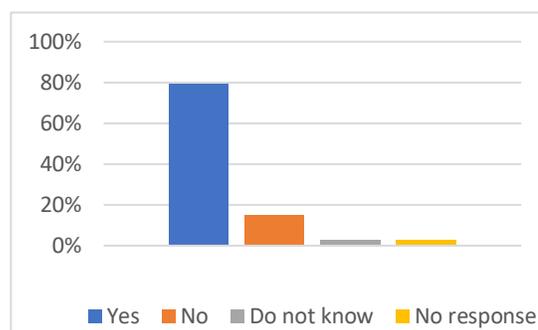
- Yes: 22%
- No: 67%
- Do not know: 10%
- No response: 1%



Most of the interviewees (67%) consider that the legal system does not respect the activities of the private sector –in fact, self-employed workers are operating outside the Constitution that has governed the country since 1992, which continues to give priority to state property over private property, and the confiscation of assets is an instrument available to the government for execution as it sees fit to guarantee the stability of the regime –as Cuban citizens see it daily.

10. Do you think that the current "campaign against illegalities" launched by the government affects the self-employed?

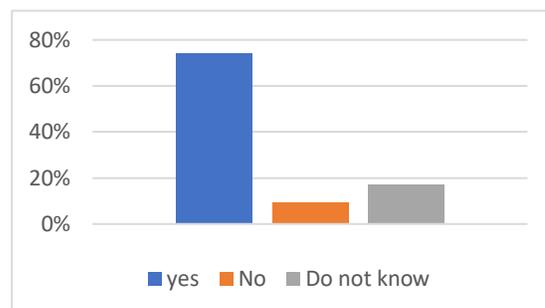
- Yes: 79%
- No: 15%
- Do not know: 3%
- No response: 3%



As expected, the majority (79%) of those who participated in the survey expressed that this campaign affects them directly, since it links the crimes of hoarding, diversion of state resources or theft with legitimate investments in materials and supplies for their businesses. It also creates confusion and fear among their clients and the public. According to most surveyed, with these campaigns the government tries to demoralize self-employed workers by accusing them of crimes. This diminishes the activity of the private sector in these critical moments and contributes to the increase in chronic shortages that the country suffers.

11. Would you remain self-employed after the end of the pandemic?

- Yes: 74%
- No: 9%
- Do not know: 17%



Nearly three-quarters of those interviewed stated that they will continue their work as self-employed workers after the end of the pandemic and will remain active despite the difficulties they have been experiencing during the pandemic; as well as the bureaucratic and regulatory hurdles imposed by the government, coupled with the lack of resources and constant government harassment that covers up the corrupt activities of the officials who oversee their business activities.

## Recommendations

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It is essential to adopt measures that establish a regulatory framework that fully recognizes:

- The legal personality of the self-employed sector.
- Its access to wholesale markets, both national and foreign.
- The possibility of participating in commercial financing programs (currently extremely limited).
- The elimination of onerous tax burdens that negatively affect the continued existence of the companies.
- The direct reception of foreign investment.
- The free access to international trade without the intervention of state monopolies.
- The elimination of bureaucratic and regulatory obstacles that increase the level of corruption of officials involved in the implementation of these measures.