

U.S.-CUBA
COOPERATIVE
WORKING
GROUP

2017
REPORT



WORKING
COOPERATIVELY

UNDERSTANDING
COOPERATIVES IN CUBA
AND OPPORTUNITIES FOR
U.S.- CUBAN ENGAGEMENT

NCBA CLUSA

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March 2017

Table of Contents

2	Introduction
5	Background and Overview of the Cuban Cooperative Movement
9	Cooperative Creation: Profiles of Manufacturing and Professional Services Co-ops
12	Growing Cooperatively: Profiles of Cuban Cooperative Farms
14	Dining Cooperatively: Profiles of Cuban Cooperative Restaurants
16	Comparing Co-ops: Insights from U.S.–Cuba Cooperatives' Sharing Session
19	Further Engagement and Conclusions
25	Who We Are: About NCBA CLUSA
26	Appendix A: List of U.S. Delegates
28	Appendix B: Glossary of Common Terms

CONTEXT OF TWO NATIONS

After experiencing the most dramatic shift in 55 years in the bilateral relationship between the United States and Cuba two years ago, the two countries are poised for new challenges and yet another pivot under the new U.S. Administration of President Donald J. Trump. The roll-out of actions following President Barack Obama's and President Raúl Castro's announcement on December 17, 2014 to normalize ties was intended to set the relationship on a new path, ending an era defined by the Cold War and a climate of long-held enmity.

The Obama Administration quickly moved to implement six sets of regulatory changes, easing restrictions on travel, remittances, financial services, and trade, thereby opening diplomatic channels and loosening the economic embargo against Cuba that requires congressional action to lift. A series of technical exchanges between U.S. and Cuban officials were also held to set the course for future bilateral dealings. A GAO report released in

December 2016 catalogued the progress made and limitations that still remain around U.S. support to the private sector in Cuba, and recommended a more thorough and deliberate review and data collection effort by U.S. government agencies.¹

The death of Fidel Castro in November 2016 marked yet another major event in the history of the two nations. Though Fidel had officially handed power to his younger brother Raúl Castro over a decade ago, his passing at age 90 marked the end of an era. That, along with Raúl's announcement four years ago of his plans to step down from the presidency in 2018 at age 86, has reshaped the leadership dynamic and underscores a level of uncertainty both within Cuba's internal political landscape, and with the relationship with its largest northern neighbor.

In his last days as president, on January 12, 2017, Obama took some final actions to advance his Cuba

¹ Cuba: US Policy Changes Increased Engagement with Private Sector, but Agency Information Collection is Limited, Government Accounting Office (GAO), December 15, 2016.

Prehistoric Mural in the Viñales Valley, Cuba



policy. The first on January 4 was a suspension of the provision under the Helms-Burton Act allowing lawsuits against foreign companies using private holdings that were confiscated by the Castro government. Every U.S. President has routinely suspended this lawsuit provision every six months to avoid alienating foreign companies and their governments for investing in Cuba, and a wave of legal battles that could hamper efforts to push for economic reforms.² Obama also ended the “wet foot dry foot” immigration policy that gave Cubans preferential treatment for pursuing U.S. residency and citizenship if they made it to U.S. shores.³ Reversing this 22-year law, which itself was an update of the earlier Cuban Adjustment Act of 1966 that granted Cubans entering U.S. waters the right to enter and pursue residency, further altered the dynamic between the two nations and re-set the rules that will now be in flux yet again.

THE U.S.–CUBA COOPERATIVE WORKING GROUP

Even before the official bilateral policy announcement in December 2014, NCBA CLUSA organized an initial research trip⁴ to Cuba in July 2014 with 12 U.S. cooperative leaders to learn about how cooperatives in Cuba were being legislated and formed as part of a set of economic changes in the country. At that time, many of the country's non-agricultural cooperatives (Cooperativas No Agropecuarias—CNAs) were in their first months of operation following the implementation of the government's new legislation. Following that initial visit, NCBA CLUSA created the U.S.–Cuba Cooperative Working Group (USCCWG), formally launched in March 2015.

For its part, Cuba has embarked in the last five years on a new “experiment” in the opening of its economy through the expansion of certain private sector businesses, including cooperatives. This was driven by the stated goal of the Cuban government to reduce

Over the last several years, Cuba has embarked on a new and exciting experiment in the development of its cooperative business sector.

the number of workers on the government payroll by 1.8 million and increase private sector contributions to GDP from 5% in 2011 to 40-45% by 2017.⁵ Under a broad-ranging package of economic “updates” instituted in 2011, Cubans now have the opportunity to establish private worker-owned and -managed cooperative enterprises in non-agricultural industries such as professional and accounting services, gastronomy, manufacturing, and construction. The implementation of this new cooperative policy starting in 2013 had been underway for a little over a year when the December 2014 decision was made to pursue diplomatic and economic rapprochement between the United States and the island nation.

In creating the U.S.–Cuba Cooperative Working Group (USCCWG), NCBA CLUSA assumed a leadership role in the forging of stronger ties across the Florida straits through cooperatives. Given the centrality of cooperatives to Cuba's economic updates, and the U.S. government's desire to support private sector expansion in Cuba, the USCCWG believes that the U.S. cooperative community, with over 100 years of experience in creating and operating cooperative businesses that serve over 100 million members, has a unique and important role to play in efforts to build bridges between the two nations.

The purpose of the U.S.–Cuba Cooperative Working Group (USCCWG) is to promote mutually beneficial collaboration between the U.S. and Cuba's cooperative sectors. It is a national-level, multi-sectoral cooperative leadership group representing U.S. purchasing, worker, and producer cooperatives from a broad range of sectors, including agriculture, energy, finance, grocery and consumer goods, transportation, insurance, and housing. It also includes a group of Cuban cooperatives and support organizations

² <http://www.miamiherald.com/news/nation-world/world/americas/cuba/article131092324.html>

³ <http://www.economist.com/news/americas/21714600-outgoing-american-president-makes-it-harder-donald-trump-undo-rapprochement>

⁴ More on this trip may be found in an NCBA CLUSA report: U.S.–Cuba Cooperative Working Group Cuba Research Trip Report, Revised March 2015.

⁵ Cuba: US Policy Changes Increased Engagement with Private Sector, but Agency Information Collection is Limited, Government Accounting Office (GAO), December 15, 2016.



The president of DecorArte, a newer CNA, addresses members of the U.S. Co-op Delegation.

in agriculture, services, gastronomy, tourism, and light manufacturing. The antecedent for this group is NCBA CLUSA's 63-year history of supporting cooperative and international development in more than 85 countries around the world.

Since its formation, the USCCWG has engaged with a range of institutions in the U.S. and Cuban governments, non-governmental organizations, and cooperative entities in both countries around the role of cooperatives in economic growth and diversification, promoting a robust sector and a range of activities to foster cooperative strengthening. Activities include panel discussions, forums, high-level meetings, and exchange visits of both Cuban and U.S. cooperative leaders.⁶

In order to learn about the progress the new Cuban co-ops had achieved since 2013, and to facilitate a forum with Cuban cooperative colleagues and institutions, NCBA CLUSA sent a second delegation to Havana from June 27 to July 2, 2016. With 24 U.S. delegates in attendance, the 2016 trip doubled the size of the 2014 delegation, and included representatives of such well-known cooperative brands as Organic Valley and True Value Hardware. (See Appendix A for a full list of U.S. delegates).

Over the five-day visit, the U.S. delegation met with a dozen agricultural and non-agricultural cooperatives around Havana and the surrounding provinces of Matanzas and Pinar del Rio. Through these meetings

and other exchanges, the U.S. delegates and their Cuban counterparts shared insights into the challenges and experiences of conducting business in their respective environments and contexts.

The encounter provided the U.S. delegation with unique opportunities to learn from their Cuban counterparts and discover avenues to engage with these emerging cooperative enterprises. Moreover, the visit also allowed delegates to hear from local experts and academics about the political-economic context surrounding the Cuban cooperative movement, with particular reference to changing U.S.-Cuban relations.

Today, the climate around these policies, regulatory changes, and bilateral exchanges at the governmental and civil society levels are set for a thorough review by the Trump Administration. Both before and after taking office, Trump's and his advisors' comments on Cuba have indicated his intention to roll back many of Obama's rapprochement policies and regulations unless Cuba makes significant concessions on human rights and other political and economic freedoms. Despite his pro-business stance overall, Trump's Administration has telegraphed its plans to focus on human rights, reinstate some of the travel restrictions, and negotiate "a better deal" for the Cuban and American people.

In this context, the U.S.-Cuba Cooperative Working Group will face a number of changes to the operating environment that will need to be evaluated to determine their impact on the Group's core objectives. Though the foundational objectives will remain the same, there will likely be a need to adjust the strategies and tactics for supporting the Cuban cooperative movement.

This report discusses the reality of the Cuban cooperative sector, highlights key information gathered during the July 2016 U.S. cooperative delegation to Cuba, synthesizes the delegation's observations, and presents ideas and challenges for future engagement with the Cuban cooperative movement in the current political environment.

⁶ For more on the USCCWG, visit <http://ncba.coop/us-cuba-about>

BACKGROUND OVERVIEW

AGRICULTURAL AND NON-AGRICULTURAL COOPERATIVES UNDER 2011 CUBAN LAW

Although Cuba has a long history of experience with agricultural cooperative enterprises, the latest stage in the development of the sector began in 2011 with the government's passage of 313 "Economic and Social Guidelines of the Party and the Revolution" (Lineamientos de la política económica y social del Partido y la Revolución), or simply, the "lineamientos," for the nation's economic development. These guidelines included new policies for a national experiment in the development of non-agricultural, cooperatively run businesses—Cooperativas No Agropecuaria, or CNAs.

Since this new experiment took effect in 2013, the government has approved the formation of some 500 non-agricultural co-ops, of which approximately 367 were operating by the end of 2015.⁷ Typically, these cooperatives include around 30 worker-owners, although some have more, and operate in industries including construction, manufacturing, dining and culinary services, transportation, and professional services, such as accounting and design.

In the agriculture sector, the Cuban economy currently boasts some 5,200 cooperatives, some of which formed as early as the 1930s in the form of associations, but primarily after agrarian reforms

in 1959 and 1963. Today, cooperative farms are responsible for 84% of vegetable production in Cuba, and manage 70% of the country's active farmland. Over the decades, these co-ops have gone through various phases of development, resulting in their organization into several different categories:

■ **Cooperativas de Créditos y Servicios (CCS)** –

This first wave of cooperatives formed after the agrarian reform laws of 1959 and 1963. The reforms awarded ownership of land to more than 100,000 rural families who worked the land as tenants, sharecroppers, and other land users. After 1961, the new landowners began to organize themselves into rural associations and voluntarily formed CCSs. CCS members own their own farms and associate for the purpose of accessing machinery and inputs, such as credit and other services from the CCS.

■ **Cooperativas de Producción Agropecuaria (CPA)** –

The 1970s saw the emergence of this second cooperative model which permitted farmers to make irreversible sales of their land to a cooperative to combine their land and produce jointly to increase mechanization and modernization of their collective farms. Each farmer has a voting membership in the management of the CPA.

■ **Unidades Básicas de Producción Cooperativa (UBPC)** –

This later form of agricultural co-op is a product of the country's so-called "special period" of the 1990s when the loss of commercial farming inputs from the collapsed Soviet Union forced Cuba to restructure its agricultural sector. To increase productivity, the State broke up many of its large conventional state-owned agribusinesses,

which at the time occupied more than 80% of land, and began leasing out parcels to

Organic compost produced by the Vivero Alamar Cooperative - Agriculture cooperatives were the first allowed in Cuba (see p. 12).

⁷ Cuba: US Policy Changes Increased Engagement with Private Sector, but Agency Information Collection is Limited, Government Accounting Office (GAO), December 15, 2016.



farmer co-ops. Due to their need to manage without synthetic petro-chemical inputs and heavy machinery, UBPC cooperatives are also notable for their pioneering use of organic, agro-ecological farming techniques.

The 2011 cooperative law expanded some benefits to agricultural co-ops, such as better access to finance, more favorable pricing schemes, and the ability to sell certain commodities to non-state buyers.

The new “non-agricultural” cooperatives (CNAs) have two ways to form under the law. The first method is known as “induction” and refers to businesses that are converted into cooperatives out of extant state enterprises. In most cases, induction occurs when the government informs the state-owned enterprise (SOE) that it will no longer be owned and run by the State. This leaves the workers two choices: to convert to a worker-owned cooperative themselves or to allow the enterprise to be put up for open bid to be converted to a cooperative by others.

In other cases, workers of an SOE may apply to convert to worker ownership and need approval to do so. “Induced” cooperatives still maintain a relationship with the State—for instance, they rent existing facilities, equipment, and other assets from the State and are required to pay taxes. However, any equipment or goods acquired through a direct investment by a co-op become private property of the business and the State does not assess fees for them.

The second option for co-op formation is the “spontaneous” method. Under this approach, workers may apply to form an entirely new enterprise of their own initiative, with at least three worker-members. As in the case of induced cooperatives, these newly created co-ops also pay taxes, sell goods or services to the State (and others), and may rent facilities from the State. In some cases, there is an initial financial investment made by the initial members, and new worker-members may also pay the cooperative to become a full member.

The general form of governance of the cooperatives is also prescribed under the 2011 law. All cooperatives have an executive committee which

typically consists of a president, vice president, secretary, and treasurer, though the particular positions may vary. These officials are answerable to a general assembly or council of the workers which meets monthly to vote upon (and approve by simple majority) measures regarding profit distribution, hiring and firing of personnel, changes to bylaws, membership, and other matters. New employees are typically brought on as contract workers for a period not to exceed 90 days, according to the law. After those 90 days, the existing members vote on whether to induct the new employees as full members.

Cooperatives Favored Within Cuban Private Sector

It is important to note that cooperatives are not the only sanctioned form of private enterprise in Cuba. Individual entrepreneurs/sole proprietors or “cuentapropistas” have also become a notable feature of the country's economic landscape. It is estimated that 500,000 Cubans are in the private sector—self-employed in individual or cooperative businesses—representing an estimated 29% of all Cuban workers.⁸ From small privately owned and operated cafes and restaurants known as paladares, to taxi services, to cooperative restaurants and the nearly ubiquitous casas particulares—the Cuban equivalent of a bed-and-breakfast—there are many ways in which individual Cubans have found opportunities to earn legal private income.

Yet another form of private sector development is the joint venture between SOEs and foreign businesses. With this model, the public-private ownership proportion can vary substantially, and in some cases (as with conventional energy production) the foreign companies can come to own a majority of the business. Several foreign hotel chains, for example, have struck management agreements to create joint ventures in which hiring Cuban workers is part of the deal, along with a number of other stipulations, even if the top manager is a foreigner. The required involvement of the Cuban government in these ventures, however, has caused some to question whether or not they should be considered a part of the private sector landscape.

⁸ GAO Report, December 15, 2016.

Despite these other options for pursuing business outside of the traditional state sector, the fact remains that cooperatives are currently the most favored form of private enterprise within the Cuban economy under the law. For example, while *cuentapropistas* are legally licensed, they do not currently enjoy the same status of being a recognized legal entity or “*persona jurídica*,” although this is reportedly set to change sometime in the near future. Cooperatives, on the other hand, do have this legal status, which provides them with greater ability to manage a number of operational issues, such as securing loans and contracts, issuing and receiving payments, and so forth. Most importantly, this legal status also allows co-ops to secure contracts with the State—the largest economic player in the country. Additionally, cooperatives receive preferential tax benefits and, in some cases, get discounted rates on the purchase of materials and inputs from the State, unlike *cuentapropistas*, although lack of a wholesale or import market outside of buying from SOEs, is a major barrier for many cooperatives.

Still, despite their favored status, cooperatives are currently not permitted in so-called “strategic” sectors such as energy, infrastructure, telecommunications, and sugar production. While this may be simply due to the fact that the State intended to confine experimentation to non-strategic industries, it is unclear whether any of these high value-added sectors will be opened to cooperative business formation in the future.

Current Challenges to Cooperative Expansion

In 2012, the Cuban government announced plans to privatize 13,000 SOE restaurants and personal service providers. As of 2015, only 108 of these have been converted and are operational.⁹ In addition, in October 2016, Cuban news outlets reported that Havana’s provincial government announced it was temporarily halting approval of licenses for SOE restaurant conversion.¹⁰ Over the last year, there has been a demonstrable slowing of the pace of expansion in the cooperative sector. There is a fair amount of speculation by analysts and

general observers about why this is the case. Some economic experts believe the slowing indicates that the government is analyzing and working out the kinks in the system in order to ensure that the cooperatives are legitimate, have the right support structures in place, and are operating properly. Some government advisors are in fact encouraging a review of best practices within the cooperatives, and the establishment of an official overarching supervisory body for the sector. If created, this body would provide training and ensure that co-ops meet specific industry standards for governance, staffing/hiring policies, fiscal management, and so forth.

Perhaps one of the biggest issues related to the prospect of cooperative expansion is the fact that each cooperative sector falls under a different ministry, and therefore, a different set of state

Cooperatives are currently the most favored form of private enterprise within the Cuban economy under the law.

agencies with which they do business. For example, restaurants in tourist areas fall under Gaviota, a state agency under the Ministry of Tourism that does a range of tourism services, including car rentals, transportation, and purchasing of food and supplies for gastronomic establishments. Other restaurants are under the Ministry of Domestic Trade. Professional services, like accounting, fall under the Ministry of Finance and Prices, and textile manufacturing falls under the Ministry of Industry. Construction cooperatives are under the Ministry of Construction, and automotive services and transportation are under the Ministry of Transportation.

This is similar in some respects to the U.S. cooperative sector, which also does not have a single U.S. government agency that oversees all cooperatives, unlike many other countries that have a Ministry or Department of Cooperatives. Cooperatives in the U.S. also relate to government agencies in their respective sectors, such as energy, agriculture, treasury, housing, etc. and have their own sectoral

⁹ GAO Report, December 15, 2016, pp. 20.

¹⁰ Ibid, pp. 20.

regulatory and legal frameworks, both at the national and state levels. However, in the case of Cuba, where State approval and supply chains are required to conduct so much day-to-day business, it has created a patchwork of varying approaches and is a source of inconsistency and confusion in terms of rules, processes, and procedures for consolidating the cooperative sector. This set-up complicates decision-making about how to manage a whole range of issues, such as access to inputs, importation, access to markets, pricing, and terms of conditions of the relationship with the State, such as costs of facility and equipment rental, and approvals for any number of actions required to do business.

Where some ministries have been eager to shed inefficient business operations, and the related costs of those businesses by turning them over to cooperative control, others in the government may see the cooperatives as a potential threat to the system and those running it. There are certainly competing views within Cuba about which way to go regarding the future of cooperatives and other private sector entities, and this plays out at the ministry level. For example, based on several interviews, where one ministry might be more proactive in facilitating cooperative growth and success, others may impede progress. There were numerous examples of how cooperatives had varying avenues and rules about access to credit, taxation, and licenses for importing crucial equipment and supplies. In all cases, cooperatives struggled to understand and deal with how to get things done, and what needed and did not need State approval.

Another important point is that with state agencies and ministries conducting centralized annual and 5-year economic planning activities, it is unclear as to whether each ministry is accounting for the cooperatives' and other businesses' needs for hard currency, equipment, supplies, and other financial and material needs in the plans. If this is the case, it leaves cooperatives outside of the economic planning model, and therefore subject to lack of clarity as to how they can move forward.

It is important to note that Cuba does not have a national-level non-governmental association for cooperatives similar to NCBA CLUSA. There is

a sectoral national association for small farmers (ANAP) that plays a lead role for the agricultural sector, and a national association for economists and accountants (ANEC), which has played a role with the CNAs, but in general, the cooperative sectors do not have similar national associations to represent their interests, bring together practitioners, and provide education and training.

Following the close of the 7th Congress of the Cuban Communist Party in April 2016, the government began to publicly unveil segments of its new five-year economic plan. Experts expect that the forthcoming segments will include revisions and additions to the 2011 cooperative law, and it is hoped that these will address some of the aforementioned issues including the establishment of a supervisory body and industry standards.

Besides such changes, there is a need to provide training to ministry bureaucrats to help them better understand and foster the cooperatives, and to provide the proper technical assistance to workers whose businesses are scheduled for conversion or who are interested in establishing spontaneous cooperatives.

Some experts in Cuba are less optimistic about the slow-down in approvals of cooperatives, and are concerned about continued government support to move forward with these changes. However, although there is currently some uncertainty regarding the particular path the cooperative reforms will take, most experts believe the government has no choice but to proceed with the reforms. To reverse the privatization trends would be a major step backward for the country's economic development, and would be unlikely, particularly given the relative success achieved in the shedding of SOEs, retaining the related jobs, and increasing private sector worker salaries. The question then becomes, in what form, and when, will the government begin to pick up the pace, refine, and consolidate what it has already begun in cooperative and small business development?

The following sections will shed more light on the realities currently facing Cuban co-ops, with a series of short summaries of the U.S. delegation's visits to the co-ops in Havana and the surrounding regions.

COOPERATIVE CREATION

COOPERATIVE CREATION: PROFILES OF MANUFACTURING AND PROFESSIONAL SERVICES CO-OPS

SCENIUS

Location: Havana

Type: Accounting and Financial Services, Non-Agricultural Cooperative (CNA), formed out of their own initiative

SCENIUS has the distinction of being the first CNA approved in Cuba, in 2013, and specializes in the provision of accounting and financial management services. Most of their work (approximately 90%) centers on providing these services to state enterprises, though they have also found a market in supporting other cooperatives.

SCENIUS has grown significantly in a short period—with revenue increasing from \$500 in the first month of operation to a current monthly level of \$130,000. Thanks to this increase, the company does not need to rely on government loans to satisfy its reinvestment goals, and member-owners have increased from three to over 200 in two years.

SCENIUS uses internationally recognized accounting standards and is well-known as a leading non-state business, meeting frequently with U.S. and other visitors interested in their experience. The enterprise has been an early and eager participant in the USCCWG, starting with the first Cuban cooperative delegation visit to Washington D.C. in May 2015. During that visit, which was organized and hosted by NCBA CLUSA, SCENIUS participated in a broad range of conversations with key U.S. cooperative organizations, foundations, universities, congressional members, and others concerning:

- The emerging cooperative movement in Cuba, and its opportunities and challenges;
- The high cost of importing/exporting and lack of clarity around what co-ops can and cannot do in terms of trade and service provision in both countries;
- How diplomatic and economic relations between the two countries impact the sector.

Quality control and productivity are key to SCENIUS' success. To become a full member of SCENIUS after

the 90-day probationary period, a worker must first have demonstrated their value to the company by bringing in new clients and generating new business.

Among the challenges they face, the lack of access to proper banking services is particularly notable. SCENIUS has not been authorized to set up a bank account, despite having the legal status to do so. All workers must therefore be paid in cash and in *Pesos Nacionales* (CUP) and not in the international, convertible currency (CUC). This makes payroll a cumbersome, manual process. To streamline the financial side of their business, SCENIUS needs access to better banking services, including the permission to open up international accounts.

Beyond this, SCENIUS also faces hurdles to entering the global market thanks to the difficulties posed by the dual currencies. (For more on the currencies see Appendix B). Currently, the government is looking to find a way to merge the CUP and CUC into one currency, but there are major hurdles such as preventing domestic inflation on the one hand, or losing international competitiveness on the other.

Cooptex

Location: Havana

Type: Textile manufacturing, CNA, converted from SOE into a cooperative

Cooptex is an “induced” or converted co-op specializing in the manufacture of uniforms; garments such as dresses, tops, and pants; and other fabric items, such as tablecloths and napkins. The first NCBA CLUSA delegation visited this cooperative in July 2014 and noted considerable improvements that took place over the two years. Launched in October 2013 with 50 members, Cooptex now consists of 57 members and takes in a gross monthly income of roughly \$5,000 CUC/month. With a growing volume of contracts, the coop expects to gross \$250,000 CUC in the current fiscal year—or a doubling of revenue over their inaugural year.

According to its president, the co-op has changed the lives of the members through significantly increased incomes—a 10-fold increase from when they were an



A Cooptex member owner sews fabric

SOE—with base salaries typically starting around \$100 CUC/month. All earnings are taxed at 10%.

In accordance with the law, salaries may vary somewhat based on a member's particular job—a scale which takes into account the quality, quantity, and complexity of tasks. While some overseas co-ops, such as Mondragon, are known to rotate workers between various jobs or tasks, workers at Cooptex remain in whatever position that they start and specialize in.

Workers stated that thanks to their new organizational and compensation model, they are able to avoid the problems that they faced in state-owned factories, such as those pertaining to work ethic, discipline, productivity, and so forth. Moreover, the creation of the cooperative has fostered a familial atmosphere, with all of the members working well together and sharing everything. Their sense of pride and personal investment in the company may be seen in their decision to reinvest some of the profits to upgrade the factory facilities.

Financing remains a persistent challenge, but they have collectively contributed to business upgrades. Thus far, investment dollars have come entirely out of company income without reliance on government loans. The cooperative also received valuable support after its launch in the form of free accounting services from SCENIUS. Early on, workers decided that their reinvestment priority should be given to making repairs and improvements to the factory itself. During the first year, this work consisted of repairing the kitchen and eating area. They are now advancing with recent renovations, including a floor retiling which was underway during the visit. However, to continue to grow, it will be important for Cooptex to find new sources of working capital and to upgrade the sewing machines, which are mostly 1970s Japanese and East German models that don't allow for more modern designs and more efficient production technologies.

DecorArte

Location: Varadero, Matanzas

Type: Graphic and decorative arts cooperative, CNA, formed out of their own initiative

Launched spontaneously by its members in 2014, DecorArte specializes in graphic and decorative art and claims to be the number one (and one of the few) non-state graphic design businesses in Cuba. The firm executes projects for private clients across the country and also serves state ministries and SOEs.

Their initial cohort of seven members has since expanded to 51 worker-owners who possess diverse skill sets from design to the manufacture of decorative products including furniture, bricks, masonry work, pavers, and more. A majority (nearly 90%) of the members are university educated.

The DecorArte print shop is equipped with state-of-the-art printing and embroidery equipment, which they were able to import through state import agencies. They gained access to this equipment by

attending international business fairs and meeting with vendors who provided the equipment, and were ultimately able to get it into Cuba through the SOE import companies, although this required significant effort in pushing through burdensome paperwork and procedures. This shop is staffed almost entirely by women. Many decorative items are created with traditional hand techniques in an adjoining studio.

Currently, the firm's annual revenue stands at \$100,000 CUC. Employees cite several major obstacles to growth that they have encountered over the past several years:

- The experimental nature of the CNA cooperative project. Members have had to learn best practices on the fly and have had no clear models of success to reference;
- The general lack of entrepreneurial culture or mentality among workers in Cuba. Co-ops like DecorArte must instill a sense of ownership and independent initiative among workers;
- The U.S. trade embargo, but also homegrown obstacles such as regulations, limits on import licenses and access to goods, and so forth.

The president and executive team take care of the day-to-day business management and decisions without the need for prior consultation with the assembly of members. However, the membership votes on major decisions, such as whether to reinvest profits in the business or to return them to the members. Thus far, the members have voted to reinvest most of their profits to promote expansion. In addition to accessing loans from the State, these reinvestment dollars have allowed the enterprise to purchase the latest equipment required to produce high quality products.

When asked what advice they would provide to other cooperatives wishing to emulate their success, the DecorArte team's response was simple: "complain less and look for ways to get the job done."

Members of DecorArte with the U.S. Co-op Delegation



GROWING COOPERATIVELY: PROFILES OF CUBAN COOPERATIVE FARMS

Organopónico Vivero Alamar

Location: Alamar, Greater Havana

Type: Agricultural cooperative, formed as a UBPC

Tucked away on the edge of a large apartment building complex in the Havana suburb of Alamar, the *Organopónico Vivero Alamar* organic farm has become one of the brightest stars in the constellation of agricultural co-ops that dot the Cuban landscape. The president, a former state agronomist, founded the farm in 1996 in response to the privations of the Special Period. Since then, it has become a successful example in the use of ecologically sustainable farming techniques and has been featured in documentaries and the international press.

As a product of land and management reforms of the 1990s, Vivero Alamar is categorized as a UBPC cooperative and its leadership consists of an executive committee answerable to the membership.

Like other farms around the world that specialize in agro-ecological techniques, Vivero Alamar operates according to principles of biodiversity and counts nearly 300 species of plants and animals within its agro-ecosystem. Such biodiversity ensures resilience in the face of blights that attack particular crops and animals and even enables chemical-free pest management in the form of crops such as sunflowers, which border fields of other crops.

Another principle of agro-ecological farming, self-provisioning, helps Vivero Alamar cope with one of the key challenges facing Cuban cooperative farms: a lack of equipment and other essential material inputs. With limited access to some essential supplies, co-op workers must rely on their own ingenuity and local ecology to stay in business, for example, creating nutrient-rich vermicompost or humus from plant and animal waste products digested and excreted by Red Wiggler earthworms. Run primarily by older worker-owners, the cooperative accommodates their needs, such as paying based

on seniority, and working shorter days, particularly in the summer heat.

Yet, there are limits to such inventiveness. As an example, the president pointed to a greenhouse which was intended to last only 10 years, but has been in service 16 years to date. "There's no Home Depot here," he joked with the group. To make matters more challenging, even donations of funds or materials from abroad are hard to come by. The lack of proper equipment has even constrained by the size of the farm, in that they were required by law to return land back to the state that they were unable to cultivate.

Yet despite such challenges, they are well positioned to grow the business thanks to their fame and their location in a large community with thousands of homes. Already, 90% of their produce goes directly to the community, and they have become suppliers to popular restaurants such as the iconic *Bodeguita del Medio* in downtown Havana.

Finca Las Marianas, member of Sabino Pupo Cooperative

Location: Havana (Eastern outskirts)

Type: Agricultural cooperative, formed as a CCS

Finca Las Marianas belongs to a larger producers' coop consisting of 74 farms. The farm's owner, a woman who serves as the president of Sabino Pupo cooperative, started the farm in 2008 thanks to a new law permitting any Cuban citizen to apply for land for productive agricultural use. As a condition of this arrangement, the family may only use the land as a cooperative farm; if they stop farming it altogether or stop farming it cooperatively, the law requires that they return it to the State. Formed only eight years ago, the farm was once part of a larger estate that was nationalized and parceled in the years following the revolution.

All of the farm's facilities, including the horticulture plots, livestock stalls, and pools for raising tilapia were constructed in the short 8-year existence of the operation. The president described the formation of the farm as an adventure, in which she left her pre-school teaching job and had to learn how to farm and raise animals, along with the other women

family members running the farm. The farm employs 12 workers who are provided room and board during the work week and who are integral to its operation.

The farm is largely a livestock and small ruminant operation specializing in pigs, cattle, chickens, and rabbits. The farm seeks to promote environmental sustainability and sells its organic fertilizer and different seedlings to other farms in the area. Together with the 73 partner farms of the Sabino Pupo CCS, they sell their products as a collective unit. The economies of scale that are achievable through this collective model afford them the benefit of being able to process animal products for direct sale to local markets—something that only the State could do until recent years.

Despite its ability to now sell products like pork to surrounding communities, the farm still sells all milk and beef to the State, given that these are classified as essential nutritional products for distribution to vulnerable groups like children and the elderly. Indeed, despite access to private markets, the State remains the main buyer overall, due to a ready market for the quantities produced. For many years, such reliance on government contracts meant that farms often had to accept lower prices for their products given the lack of alternative markets. In recent years, however, State prices for such agricultural goods have been on the rise and have attained more lucrative levels.

Fields at Sabino Pupo Cooperative



U.S. Co-op Delegates visit the pig pens at Finca Las Marianas, a member of the Sabino Pupo Cooperative



DINING COOPERATIVELY: PROFILES OF CUBAN COOPERATIVE RESTAURANTS

Casona 17

Location: Havana, Vedado District

Type: Gastronomy cooperative, CNA, converted from an SOE

Located a stone's throw from Havana's iconic Hotel Nacional, Casona 17 is an induced cooperative restaurant that launched in March 2014. In a district that is home to major hotels and numerous cultural attractions, Casona 17 is well-positioned for growth. In fact, since its conversion from an SOE several years ago, the restaurant has nearly tripled its staff from 13 to 36 worker owners.

In addition to now having the authority to design its own menu, the cooperative also does catering for conferences and parties, and rents out the upper level for special events. Before becoming a cooperative, State Tourism Ministry rules did not allow for such diversification of services.

Member-owners cited a significant increase in their salaries compared to what they earned previously as state employees, which in some cases was five times more. As elsewhere, the increase in income, along with the fact that personal earnings are tied to sales (as opposed to fixed by the State), Casona 17 employees are highly motivated to enhance the quality of their menu offerings, their service, and the condition of the property. The members have self-funded all restoration to the property except for the grill, which was paid for by the government. The restaurant building is rented from the Ministry of Tourism at a rate of \$10 CUC/square meter for the interior space, and \$1 CUC/sq. meter for the exterior. They also pay a tax rate of 10% on all sales.

Bienmesabe

Location: Playa, Havana

Type: Gastronomy cooperative, CNA, converted from an SOE

After a performance by Palmas y Cañas—one of the oldest traditional bands in Cuba—the restaurant manager and president of the cooperative fielded

questions from the U.S. delegation. He explained that Bienmesabe (roughly translated as “tastes good to me”) was a converted restaurant transferred from government ownership to the workers in 2014. Before their relaunch, state officials provided them with an orientation and monitored the progress of their transition over a 60-day period. After that, they received their certification and became one of the first gastronomy co-ops in the country. From early on, SCENIUS has been an invaluable source of operations advice and of support for their bookkeeping.

Prior to the conversion, the state had been losing money on this restaurant because it did not invest in any improvements. However, since then, the co-op has turned things around and moved into profitability by offering an entirely new menu and by building a skilled staff. They've also expanded the business to encompass services such as event catering and space rental.

The manager cited the greater autonomy the restaurant now enjoys as the key to their turnaround. Besides having the ability to set their own menu, choose and purchase their own ingredients, and expand their services, as a co-op they are also empowered to determine their own staffing needs. Under state management, new hires were assigned to restaurants by the Ministry of Tourism whose official approval was also required before an employee could be let go. This could be particularly troublesome if it was necessary to fire someone due to lack of performance or discipline issues. In such a case, it might be some time before the Ministry would send someone new, causing the restaurant to go short-handed in the interim.

During its time as a SOE, the restaurant had 35 workers on staff. Now, according to the manager, they have the number they require to run efficiently: 22. Of those current worker-owners, 9 made the transition from the staff of the previous state-run restaurant. Due to the greater autonomy and increased income, it's an attractive employment opportunity, and people are known to contact the restaurant in search of work virtually every day. To join the co-op, each new worker-member must contribute a \$40 CUC equity payment.

Member-owners cited a significant increase of their salaries compared to what they earned previously as state employees, which in some cases was five times more.

At monthly general assemblies, the member-owners have the opportunity to point out problems with discipline and service, vote on new members, and even weigh in on terminations. Otherwise, the manager is empowered to terminate staff for serious infractions.

The Bienmesabe team is looking to the future and hoping to make further improvements to their facilities to take greater advantage of their excellent location. With the Marina Hemingway nearby and their location on the road between Havana and the new special-investment-zone at the Mariel port, they are poised to see significant growth in their clientele.

Moreover, with many Cubans now coming back from abroad to set up their own restaurants, it is essential to reinvest to stay competitive. To achieve this, they are currently negotiating with the bank for a line of credit to renovate the restaurant and are working to convince an SOE to buy certain materials and equipment they require.

As they look for ways to grow and improve, the manager hopes to soon have the opportunity to collaborate with other co-ops on things such as wholesale bulk purchases—an option which is currently not available. The ability to purchase needed equipment and materials from abroad and circumvent the bureaucracy of the import/export agency would also be beneficial.

Dining at Divina Pastora, another co-op restaurant



THE U.S.–CUBA COOPERATIVES' SHARING SESSION

Perhaps the best opportunity the U.S. and Cuban co-op leaders had to develop a mutual understanding and dive deeper into an examination of their respective and shared principles, was at a special gathering at *La Maqueta de La Habana* museum in Vedado, Havana on June 29, 2016. With its extraordinary centerpiece exhibit—a 1:500 scale model of the City of Havana—the museum proved an apt setting for a detailed review of the cooperative landscape.

The meeting took the form of a series of short panel presentations and Q&A sessions, each featuring representatives from the U.S. and Cuban cooperatives. On the Cuban side, the participants included Nancy Varela, President of the *Confecciones Model* textile coop, Luis Dueñas Casal of SCENIUS, and Pedro Fuentes, President of the G'Obras construction cooperative.

Panel 1: Co-op Culture and Mission

Pedro Maturana of Arizmendi Association of Cooperative Bakeries, San Francisco, California; and Pedro Fuentes of the Cooperativa G'Obras, Havana

Pedro Maturana initiated the conversation with a discussion of the importance of the principles of workplace democracy to the Arizmendi cooperatives. Workplace democracy emphasizes the principle of one-worker-one-vote for all employees. Moreover, as Maturana pointed out, their democratic framework recognizes the idea that social and interpersonal concerns are as important as traditional business concerns for cooperatively managed enterprises.

For example, Arizmendi strives to ensure that workers' personal needs are taken into account, and looks for ways to help them ensure a healthy work-life balance. Moreover, because businesses are embedded in, and should respond to the needs of the surrounding community (of which the workers and their families are often a part), Arizmendi also focuses on building and maintaining strong ties to the community.

To promote socio-economic justice, the bakery cooperative also focuses on training people who are historically underrepresented in their sector. True to their values, Arizmendi has recently reached out to and engaged a gentrifying community in San Francisco around questions of how to build a local cooperative that helps preserve the historical demographic character of the community.

Pedro Fuentes of G'Obras construction cooperative in Havana likewise emphasized the fundamental social orientation of his recently formed cooperative. Since their formation in 2015, G'Obras has, first and foremost, been an important force in the improvement of the quality of life of its workers. Now one of the largest co-ops in the country with 318 members, G'Obras has increased its workers' salaries by up to six times over the typical Cuban construction worker's salary. This higher earning potential is not only good for the workers, but has proven good for the cooperative business by increasing overall productivity. The profits are the collective property of the co-op members and can be distributed to provide everyone with an extra 50% on top of their salaries.

But the co-op's social benefits don't end with higher income for its workers and their families. According to Fuentes, many Cuban construction workers have problems with housing access. Though approximately 90% of Cubans own their own homes or apartments, the State focus on healthcare and education spending means those without adequate housing must often seek other avenues to meet this basic need. G'Obras thus focuses resources on helping their members find a stable place to live.

Another problem for the G'Obras worker family is education, which although free and universal in Cuba, is sometimes not pursued due to economic demands. This is particularly true for many of the younger members. As such, the cooperative encourages them to go back to school to complete their education, with a particular focus on vocational skills training.

Finally, G'Obras provides support to its members with respect to health, nutrition, and other material needs, such as tools. When members have to go on health leave, the cooperative tries to maintain their

salaries in the short term, and provide some form of assistance and compensation over the long term, until the worker-members have recovered.

Panel 2: Co-op Culture and Social Aspects

David Bruce of Organic Valley and Nancy Varela of *Confecciones Model* textile co-op

According to David Bruce, the Organic Valley dairy cooperative formed around the need to provide a means of mutual support and solidarity between its producers. In a market dominated by conventional producers, Organic Valley felt it very important to provide protection to the producer-members from market and production challenges. Moreover, as the name suggests, they are dedicated to organic production and the attendant benefits for environmental and economic sustainability.

The Organic Valley producer-members are divided into regional/local networks (called pools) and each of these pools has a member committee that sets policies such as pricing. One rung up the governance ladder from these regional networks is the overall

board, which consists of seven members. This decision-making and organizational structure is tied closely to the corporate philosophy—that self-governance is a social process, and is educational and empowering for their members. For example, the social education of the members includes topics such as quality control and sustainable pricing models. They work to find a price that allows them to maintain profitability through periods of market fluctuation.

Panel moderator Rafael Betancourt pointed out the principles of Cuban agricultural co-ops, such as important social support networks that cooperative farms provide for their surrounding communities. For example, many have programs to advance the well-being of rural women in a sector that has been traditionally dominated by men.

Next up on the panel was Nancy Varela, President of Havana's *Confecciones Model*, which specializes in making Guayabera shirts and dresses. Converted from an SOE in 2013, *Confecciones Model* has dramatically improved the lives of its workers with salaries approximately five times higher than those in their SOE positions.

In addition to panels, Cuban co-op academics and leaders also addressed the delegation including Camila Piñeiro from the Center for Studies on the Cuban Economy, pictured here speaking with U.S. delegates.



Overall, the process of establishing the co-op has been a very positive one for her workers, most of whom come from the surrounding community. Given this social embeddedness, they also enjoy a strong local support network. The grandparents, who comprise a key pillar of this network, are crucial to helping the cooperative overcome one of its primary challenges: obtaining the necessary raw materials (linen, thread, etc.). To confront the deficit, the grandparents will often contribute in the form of old clothing, rags, and so forth.

In return, *Confecciones Model* gives back to the community by providing training for a local government-funded school that helps troubled young people by teaching vocational skills. Using cooperative profits, they also organize community

This higher earning potential is not only good for the workers, but has proven good for the business by increasing overall productivity.

events and festivals. In addition, they support the broader cooperative community, having recently organized a meeting of about ten small co-ops to promote sharing of information on their challenges and successes.

Cross-Industry Comparisons for Cuban Co-ops

According to *Confecciones Model*, access to lines of credit enables the cooperative to dedicate more of its profits to such social initiatives. However, while every supervisory government ministry has a fund that guarantees up to 75% of co-op loans, lines of credit differ from industry to industry. Thus, whereas the construction cooperative enjoys an unlimited credit ceiling, the textile co-op's line of credit is capped at 20% of the funds in its bank account. Interest rates for lines of credit range from 4% – 4.5%.

By law, cooperatives in every industry are allowed to distribute between 50%, but no more than 70%, of their profits to their workers, after reaching 50% of their contingency reserves. The remaining 30-50% may be

used for reinvestment or for social activities, and each cooperative decides how to distribute these funds.

Operating expenses and profit margins vary considerably across Cuban cooperative industries just as they do across private industries in other countries. Moreover, as different types of cooperatives fall under the supervision of different ministries with different rules, costs as a proportion of income also differ between industries. Thus, for example, because the textile industry enjoys narrower margins than construction, *Confecciones Model* is more limited in its ability to contribute to a social program fund than G'Obra.

To grasp the significant revenue and contract size differences between the industries, one can consider the large project contracts G'Obras is currently working on. At the moment, G'Obras is providing the labor to reconstruct a high-end state-run hotel on the Malecón, and also working for Chinese developers who are pouring massive resources into construction projects.

Panel 3: Consumer Cooperatives and Social Activities

Chris Maher of Briar Patch Food Co-op, Grass Valley, California

To round out the comparisons dialogue, Chris Maher of the Briar Patch Food Co-op discussed a form of business that is currently not a part of the Cuban cooperative landscape: the consumer cooperative. As a business that is embedded not only in the community of its consumer-owners, but also in a network of local farmers, Briar Patch recognizes that the health and well-being of its customers also depends on the well-being of the farmers who stock their shelves. Accordingly, in addition to empowering and providing stable wages for its workers, Briar Patch also provides educational and economic support for farmers, such as training and the payment of higher prices for their produce.

Briar Patch's work also extends to the broader cooperative grocer community. It engages with sister co-ops via a policy advocacy network that serves to promote government policies and regulations favoring natural foods, health, and environmental sustainability.

FUTURE ENGAGEMENT AND CONCLUSIONS

Opportunities for Further Cooperative Engagement with Cuba

In general, the U.S. cooperative delegation members who visited Cuba learned a great deal from their Cuban colleagues and were energized by the opportunities to support the Cuban cooperative movement. Despite challenges, Cuba has moved forward on these economic changes, and will hopefully continue to refine and improve the enabling environment for cooperatives to thrive.

All delegation members were interested in finding ways to engage further that meaningfully advance the cooperative sector in Cuba, and provide platforms for mutual respect and learning with U.S. colleagues. Based on the delegation's meetings and discussions, there were several areas of potential collaboration identified for further exploration and follow-up.

Cooperative education, training, and development of cooperative governance and management

Cooperatives in Cuba are in need of technical assistance, training, and other support to launch and sustain their businesses and to understand and embrace cooperative governance, principles, and structure using internationally accepted practices and norms. Since there is no unifying national level body, either in government or civil society (association or NGO), cooperatives are dependent on their line ministries for support. The ministries are not fully equipped to play this role, even in the agriculture ministry, where co-ops have been a critical part of the landscape for decades. Ministry officials generally do not have the practical experience or knowledge of running a co-op business, nor the resources to provide sustained and coordinated services to the sector.

Cuban agricultural co-ops have many more years of experience than the newer non-agricultural ones; however, they have been operated mainly as production supply cooperatives with heavy State involvement as the only buyer under controlled pricing mechanisms. State-managed supply

chains and markets have not allowed agricultural cooperatives to operate with the same autonomy as their peers around the world.

However, there is a rich cooperative experience to draw on in Cuban agriculture that should be leveraged to strengthen the agricultural cooperatives and continue to build their skills and tools as modern agricultural businesses. Also, Cuba's leading position in agroecology around the world should be acknowledged and is a source for substantive learning exchanges. NCBA CLUSA participated earlier in 2016 in an agroecology conference in Cuba that yielded rich learning and sharing of technical methodologies.

Similarly, among the non-agricultural cooperatives, there is a critical need for all levels of training on the cooperative principles, financial and administrative management, leadership, governance, and technical skills in their fields and sectors (e.g. restaurant management, customer service, marketing, personnel management, professional development, etc.).

Just as Cuba provides a wealth of learning opportunities, there are many resources to draw on within the U.S. cooperative movement, and also within NCBA CLUSA's broad network of members and partners in the cooperative movement around the world.

As a member of the International Cooperative Alliance, and a board member of the Alliance's Americas Region based in Costa Rica, NCBA CLUSA can leverage a huge pool of human and technical resources to partner with the Cuban government and the Cuban cooperative movement to strengthen existing cooperatives and build up co-op sector skills in Cuba. Cooperative leaders from many countries have already begun to engage with Cuba, such as Canada and some Latin American countries. Seminars, conferences, and exchanges with these countries have been ongoing.

However, there is a unique role for U.S. cooperatives to play, being the largest potential trading partner, the most varied and largest cooperative movement in the world, and the country geographically best positioned to support the development of

Cuba's cooperatives across sectors. Examples of collaboration could include train-the-trainer workshops, provision of manuals and other written materials, seminars, studies, on-site technical assistance, guidance in establishing a national level cooperative center and/or association, exchange training visits, mentorships/partnerships with U.S. cooperatives working in the same sectors, and other activities. U.S. cooperatives are interested in supporting the capacity-building of a cadre of Cuban cooperative professionals in government, academia, and cooperatives who can lead Cuba's cooperative growth and strengthening, and can tap into a deep resource within U.S. cooperative research, education, and practitioner communities.

Supply of tools, equipment, and materials to the cooperative construction industry by U.S. purchasing cooperatives

There are a number of construction cooperatives in Cuba that are well-positioned for the burgeoning construction sector on the island. Several restaurants, hotels, homes, and other buildings are being renovated and upgraded, and demand is increasing for architectural and construction services. The main challenge is lack of access to much-needed construction supplies, equipment, and in some cases even foreign workers.¹¹ Although state-run firms have access to imports from Cuban state import companies, the cooperatives do not have a license to import on their own, and most have also not signed contracts with the state import firms. This severely hampers their opportunities. Much of the construction supplies and equipment are being brought in directly by foreign firms (e.g. Chinese) which have agreements with the state import companies based on approved projects, such as the renovation of a landmark building into a Chinese restaurant.

A member of the U.S. delegation, True Value Company, is a purchasing cooperative for the retail hardware and commercial supply industries, with operations in the United States and in 59 countries around the world, including many in Latin America and the Caribbean. These businesses are individually owned stores that are members of the True Value

purchasing cooperative. Under this model, construction supplies and equipment could be supplied to Cuban cooperatives in one of two ways—1) via direct sales from True Value cooperative member hardware stores through a Cuban import company that has an agreement with the construction cooperative; or 2) through the establishment of a cooperative member store in Cuba, which could import inventory from True Value corporate through a state import company and sell the goods through a retail store to the public and to the cooperative sector. Other U.S. cooperatives also provide wholesale commercial building supplies and equipment.

The Cuban construction cooperatives are eager to explore various options, and the U.S. delegation is also interested in pursuing this opportunity in collaboration with NCBA CLUSA; however, such an endeavor will likely require any U.S. cooperative business to hire legal counsel to engage with the Cuban State and state-run import enterprises to find the best option and broker formal agreements with the Cuban cooperative and the import company. This will require a fair amount of perseverance and a commitment of time and financial resources to enter this market.

Technical exchanges on renewable energy and electric grid integration with rural electric cooperatives

Electric grid resiliency is critical for both Cuba and the U.S., particularly in light of vulnerability to violent tropical storms and uncertainty about continued discounted oil from Venezuela. A July 2016 announcement to the Parliament by Cuba's economy minister, Marino Murillo, said the country would have to cut fuel consumption by nearly a third during the second half of the year and reduce state investments and imports. State workers are being asked to reduce their hours and citizens will need to cut energy use.

The Cuban government has plans to expand renewable energy from roughly 5 % of electricity generation today to 24 % by 2030. New wind farms, solar plants, and bioelectric stations are all under construction.¹² The U.S. electric cooperatives have

¹¹ <http://www.reuters.com/article/us-cuba-economy-labor-idUSKCN1011RS>

¹² http://www.huffingtonpost.com/david-sandalow/us-cuba-energy_b_9518226.html

been doing extensive research on resiliency and renewable energy with both the Department of Energy and university energy laboratories. A bilateral knowledge-sharing of approaches to building more resilient electric grids by integrating variable renewable energy would provide an opportunity for electrical engineers from both countries to compare notes.

The U.S. government favors renewable energy investments and services for Cuba, and has facilitated licenses in this area. The National Rural Electric Cooperative Association (NRECA), a member of NCBA CLUSA, with 900 members in the U.S. and international projects in over 40 countries, is interested in working with NCBA CLUSA to engage the Cuban Ministry of Energy and Cuba's national utility to develop or participate in a technical exchange workshop regarding engineering design and construction and the integration of renewable energy into the grid. Since this is a strategic and sensitive sector for the Cuban government, such an exchange would need to have State involvement. Alignment with U.S. government efforts would also be important in order to leverage broader opportunities for energy sector collaboration.

Organic certification of Cuban agricultural production

As the delegation learned during visits to various agriculture cooperatives (UBPC, CCS, and CPA), 80% of Cuba's agricultural production is organic. However, most of it does not have internationally recognized organic certifications. According to *The World of Organic Agriculture Statistics and Emerging Trends 2010*, as of 2008, there were 2,954 organic farms, many of which belonged to cooperatives inspected by internal control systems.¹³ The production on these farms (e.g. coffee, honey, citrus, sugar, fruits, etc.) was certified primarily for export markets, mostly to Europe. This is a strong potential area of collaboration with NCBA CLUSA, given its international work in organic and Fair Trade certifications, and with the U.S. cooperative, organic, and natural foods sectors. Discussions with the Cuban Association of Agriculture and Forestry Technicians (ACTAF, *Asociación Cubana de Técnicos Agrícolas y Forestales*) identified organic certification

as an area in which NCBA CLUSA can assist due to its extensive experience in Latin America and Southeast Asia, especially in the coffee and horticulture sectors.

NCBA CLUSA member and delegation participant, Organic Valley, is a leading organic producer of dairy and beef in the United States, is committed to the cooperative business model, and has pioneered working with USDA to develop organic certification over 20 years ago. In addition, one of NCBA CLUSA's technical partners and spin-off organizations, CLUSA El Salvador, provides training on USDA organic certification and others to farmers and coffee producers and connects them with certifying

The main challenge is lack of access to much-needed construction supplies, equipment, and in some cases even foreign workers.

agents in El Salvador. Additionally, NCBA CLUSA has agreements with several other certifying bodies such as FairTrade America (FTA), the Symbol for the Small Producer (SPP), and the Latin American and Caribbean Network of Fair Trade Small Producers and Workers (CLAC) that could be leveraged into a joint project and/or a conference/workshop on organic production and certification. NCBA CLUSA has current coffee projects in El Salvador, Indonesia, and East Timor and the approval to import coffee to the U.S. market through private sector partners¹⁴ allowing for a platform to assist Cuban coffee producing cooperatives with organic certification. If the embargo were lifted and Cuban agricultural products had greater access to the U.S. market, organic certification would help the products gain market share and interest from the U.S. consumer co-op sector and other buyers, including European and other markets.

¹⁴ <http://www.usatoday.com/story/news/world/2016/06/20/cuban-coffee-sold-in-united-states-nespresso-technoserve/86117020/>; Also, Cooperative Business International, CBI, is a private sector global trading firm started by NCBA CLUSA, and owned by U.S. cooperatives, including a small share by NCBA CLUSA, that buys and sells specialty coffee, spices, flavorings, and other products produced by cooperatives in SE Asia.

¹³ <http://orgprints.org/17925/1/kilcher-2009-world-organic-agriculture.pdf>

Supply of technical assistance and access to raw materials from employee-owned businesses for Cuban textile cooperatives by U.S. textile worker cooperative in North Carolina

From the visit to a Cuban garment manufacturing cooperative, the delegation learned that there are challenges facing textile and garment manufacturers due to the lack of resources and raw materials that would allow them to improve their outputs. Consequently, this presents opportunities for collaboration between U.S. based worker-owned cooperatives in the textile sector and those in Cuba. For example, the one factory visited had sewing equipment that was decades old (Japanese and East German sewing machines that dated back to the 70s), and a lack of specialized equipment (such as embroidery, leather sewing machines, etc.) that would enable the factory to take on a more diverse range of orders. Worker-owners also spoke to the difficulties to obtaining high-quality raw materials (fabric, thread) on a reliable basis. The factory was at full capacity, but in order to scale (if this is what the factory worker-owners desired), developing skills and accessibility to needed equipment and materials would play a key role.

One of the U.S. delegation members, Opportunity Threads (OT) in North Carolina, is a leader in developing textile value chains and hubs within its region, through its involvement with the Carolina Textile District. OT has good relationships with cotton cooperatives and employee-owned weavers throughout the Carolinas and the southeast U.S. that could be sources of engagement with Cuban cooperatives. Additionally, OT members have the skills that could be valuable for exchange between cooperatives in both countries—for example, in patternmaking and more complex sewing, in group dynamics involved in running and growing a successful cooperative business within the garment industry, or in sector-specific ecosystem development in this industry.

Coop-to-Coop Material Donations and Services

One potential area for collaboration that could have an easier path for immediate engagement is the donation of equipment, supplies, and services

from U.S. cooperatives to Cuban cooperatives. The list of needed material goods is long, and corresponds to many of the areas above, such as tools, construction supplies, small machinery, such as sewing machines or power tools, textiles, threads, computers, cooperative education materials, and many others. There is recognition that such donations are not sustainable over the long run, and cannot address the larger issues of trade normalization or steady market supplies, but they can build good will and relationships and address some of the more immediate needs of Cuban cooperatives. Although there are a number of hurdles to the transport and entry of such donations, many organizations have been providing them for years under humanitarian assistance and people-to-people exchanges.

On the services side, U.S. cooperatives can donate staff time and expertise to specific cooperatives on topics such as management, marketing, governance, service provision, and other cooperative training and development topics identified in the first opportunity listed above. This could entail both on-site travel to Cuba, as well as technical visits of Cubans to U.S. cooperatives. Such activities fall under approved U.S. government license areas and comply with Cuban regulations as well.

These are six specific opportunities identified by the delegation, but several other areas were discussed throughout the course of the trip. These included sourcing of Cuban products by U.S. food cooperatives; partnerships between both organic and conventional U.S. and Cuban agricultural cooperatives on improving production, sourcing quality inputs, production technologies, equipment, and other areas; engagement of worker cooperatives from both countries to discuss the unique challenges of worker-ownership, governance, and management; and general learning exchanges, partnerships, and trade and investment opportunities between cooperatives in both countries.

With regard to the sourcing of Cuban products, in January 2017, the first legal export of Cuban agricultural products to the United States was approved. A Cuban cooperative exported artisanal charcoal made from marabu, a woody invasive

plant known for its clean-burning properties.¹⁵ This first transaction will hopefully pave the way for other Cuban products to be exported to the United States.

Barriers and Constraints

There are a number of barriers to pursuing these opportunities. The embargo is a central one that limits trade, investment, and financial flows between U.S. and Cuban businesses. Despite a number of new regulations in the United States that ease some of these constraints, the embargo is still in place and shrouds potential transactions in a long history of opaque and confusing rules and relationships. Under the Trump Administration, the embargo is not likely to be lifted, and certain regulations eased under President Obama will likely be reversed, calling into question the ability to pursue normalization.

However, equally important are the many hurdles on the Cuban side. Although on paper, there is nothing that prevents cooperatives from doing business with U.S. cooperatives, the reality is complex. Cooperatives must have agreements with state import businesses to import any goods, which very few have managed to do, and the end user of U.S. products must not be an SOE or other state agency but rather a private sector entity: cooperatives, *cuentapropistas*, or the Cuban people.

The delegation spoke with one cooperative that was able to garner support from several of the import companies to bring in printing and other equipment, but that seemed to be the exception. Most of them did not see any clear path to accessing supplies and other inputs, and were confused by regulations, rules, and lack of procedures to do so. Most of the new cooperatives have not been authorized to hold bank accounts, and access to financing and loans has been limited as well.

Another key barrier is the dual currency, which creates a number of challenges related to accessing hard currency that must be used for international transactions, and issues of foreign exchange rates with the Cuban Convertible Peso, which can cause significant losses when the official rate carries a

10-15% loss on the dollar. Furthermore, central state planning further complicates cooperatives' lack of access to foreign exchange because the government creates an annual prioritization for the expenditure of foreign exchange in which businesses must compete with all the other organizations needing it, including those purchasing food and providing social services.

The maze of both Cuban and U.S. regulations and procedures, or lack thereof in many cases, is a daunting environment for businesses and other cooperatives to enter the Cuban market. Cooperatives and cooperative associations involved in this and earlier NCBA CLUSA delegations are eager to find ways to overcome these barriers, but in some cases, may lack the resources to dedicate staff

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and time to the endeavor or to retain legal services to navigate these regulatory and bureaucratic waters. Those Cuban cooperatives (and U.S. non-cooperative companies) which have persisted have found the process to be onerous and lengthy, and have paid a high price in terms of human resources and time to push through the bureaucracies and find solutions. The upside of this effort is early entry into the Cuban market, the opportunity to pioneer new ties after 55 years of separation, and a foothold for future business and development opportunities.

Conclusion

The U.S. cooperative delegation led by NCBA CLUSA has the interest and will to pursue various opportunities with Cuba if the conditions are present to make this collaboration productive and valuable: these include clear and specific opportunities for engagement that add value; clarity around avenues and processes to achieve collaboration; a basic level of official U.S. and Cuban government

¹⁵ <http://www.reuters.com/article/us-cuba-usa-export-idUSKBN14Q0DB>

cooperation; and participation of Cuban cooperative counterparts with mutual interests.

There are many forms that engagement could take, some based on mutual business interests, and others based on a broader commitment to cooperative principles: Principle 6 (cooperation among cooperatives) and Principle 7 (concern for community). U.S. cooperatives can provide both materials and supplies, as well as technical assistance and training. They can also serve as trade and investment partners in commercial activities. People-to-people exchanges open doors and build relationships, but are limited in their impact over time without some of the deeper connections and the enabling environments to conduct open and transparent business and long-term partnerships.

Cooperatives in Cuba and U.S. counterparts would benefit from a regular U.S. cooperative presence in Cuba that would serve to cement partnerships.

Although having sufficient financial resources to engage with Cuba is certainly a potential barrier for many U.S. cooperatives, it is not the main one. For example, for this trip alone, the delegation as a whole contributed an estimated \$132,000 of participants' resources (travel expenses and time) that supplemented the support NCBA CLUSA has from the Christopher Reynolds Foundation and the Cooperative Development Foundation. The primary barriers to U.S.-Cuba cooperative engagement, in addition to the embargo and stymying bureaucracies, are the uncertainty of a clear path forward, the time and effort it takes to forge new paths, and the challenge of finding the best and most effective way to work with Cuba vis-a-vis a number of competing priorities for cooperative businesses and organizations at home and abroad.

Cooperatives in Cuba and their U.S. counterparts would benefit from a regular U.S. cooperative presence in Cuba that would serve to cement partnerships, provide ready outreach to various

stakeholders, offer technical support, organize events and activities, and provide a platform for cooperative engagement—not just from U.S. cooperatives, but from cooperative networks around the world. However, barriers to establishing such a presence are currently high, and in light of the recent change in U.S. Administration, not a likely scenario in the short- and medium-terms.

In the meantime, NCBA CLUSA will continue to pursue opportunities for exchange between the two countries' cooperative sectors, with targeted invitations to Cubans from the public and private sectors to learn from events and technical exchanges in the U.S., and with participation of NCBA CLUSA and its members in selected events in Cuba, such as trade fairs, agricultural conferences, energy conferences, and other high-level and technical meetings to advance specific activities and outcomes for cooperatives in both countries.

NCBA CLUSA will also pursue shorter-term potential donations of services, materials, and supplies that are in demand in Cuba, and that can foster good will and commitment on both sides in support of strong cooperatives and cooperation. As NCBA CLUSA and the delegation members move forward, they invite both U.S. and Cuban officials, government ministries, non-governmental organizations, cooperatives, and other businesses to engage in a transparent and mutually beneficial dialogue and in a set of concrete actions that will not only support Cuban and U.S. cooperatives, but will also strengthen bilateral relations based on the principles of trust and cooperation.

WHO WE ARE

ABOUT THE NATIONAL COOPERATIVE BUSINESS ASSOCIATION CLUSA INTERNATIONAL (NCBA CLUSA)

NCBA CLUSA is the primary voice in the United States for people who use cooperatives to build a better world by strengthening cooperatives, building resilient communities and providing economic opportunities. Through its international development program, NCBA CLUSA works through the cooperative principles in more than 20 countries in Africa, Latin America and Southeast Asia. Since 1916, NCBA CLUSA has shared the cooperative advantage, highlighting the impact cooperatives have in bettering the lives of individuals, families and communities. Through its advocacy program, NCBA CLUSA educates lawmakers and promotes the cooperative business model, working with public and private thought leaders.

NCBA CLUSA's international program has a 63 year history of supporting sustainable local development in over 85 countries around the world. NCBA CLUSA works in the technical areas of food security and nutrition, sustainable agriculture development, strengthening communities and farmer organizations, natural resource management, local governance, and empowerment of small holder farmers, women and youth, providing sustainable solutions through cooperative principles.

List of U.S. Delegates

Jessica Allen – Contract Associate, Jason Wiener | P.C.

David Bruce – Egg, Meat, Produce and Soy Pool Director, Organic Valley

Bruce Carrozzi – Senior Director of Retail Growth, True Value Company

Brian Cavey – Senior VP of Government Affairs, CoBank

Dr. Michael L. Cook – Professor in Cooperative Leadership, University of Missouri-Columbia

Juanamaria Cordones-Cook – Professor of Romance Languages, University of Missouri-Columbia

Amy Coughenour Betancourt – Chief Operating Officer, NCBA CLUSA

Carla Decker – President & CEO, District Government Employee Federal Credit Union (DGEFCU)

Keith Harrington – Writer, MA Economics

Dr. Ann Hoyt – Professor Emerita, University of Wisconsin – Madison, Center for Cooperatives

Esteban Kelly – Co-Executive Director, U.S. Federation of Worker Cooperatives, NCBA CLUSA Board Member

Alan Knapp – VP of Advocacy, NCBA CLUSA

Marcus Sage Laws – Program Associate, NCBA CLUSA

Eric Leenson – President, Sol Economics

Dr. Martin Lowery – Executive Vice President of Member and Association Relations, National Rural Electric Cooperative (NRECA); Board Member, International Cooperative Alliance

Chris Maher – General Manager, BriarPatch Food Co-op; Board Member, National Co+op Grocers

Pedro Maturana – Assistant/Worker, Arizmendi Association of Cooperatives

Anh-Thu Nguyen – Director of Cooperative Programs and Partnerships, We See Beauty Foundation; Member, Opportunity Threads

Alex Serrano – Vice President of Business Development & Technical Services, NCBA CLUSA

Ruth Skafsgaard

Jeffrey B. Stroborg – President and Chief Executive Officer, Southern States Cooperative

Nancy Stroborg – Rotarian

Bobby Sullivan – General Manager, French Broad Food Co-op; Board Member, National Co+op Grocers

Jim Wedeberg – Director of International Cooperative Development, Organic Valley



The U.S. Delegation at Sabino Pupo Cooperative

Cooperativas de Créditos y Servicios (CCS): The first wave of cooperatives to form after the Revolution, CCS co-ops were formed voluntarily by private small-holder farmers for the purpose of providing credit and other services to their individual members.

Cooperativas No-Agropecuarias (CNA): Non-agricultural cooperatives. CNAs are a product of the new cooperative law passed in 2011.

Cooperativas de Producción Agropecuaria (CPA): The 1970s saw the emergence of this second cooperative model which permitted farmers to make irreversible sales of their land to a cooperative in exchange for a voting membership in the enterprise.

Cuentapropista: An individual small private business owner – essentially the Cuban version of a sole-proprietor.

Nuevos lineamientos: Meaning “new guidelines”, this is the shorthand term for the economic reform package included in the five-year plan passed by the 6th National Congress of the Cuban Communist Party in 2011. These new guidelines included the country's new cooperative business reform policies.

Pesos Convertibles (CUC): Often referred to by its acronym (pronounced “kook”) this is Cuba's internationally convertible currency for use in foreign trade and for domestic use by foreign tourists. As of this writing the U.S. dollar-value exchange rate for CUC is approximately 1:1 (though there is a 10-15% surcharge levied on U.S. dollars exchanged within Cuba).

Pesos Nacionales (CUP): The domestic currency in Cuba's dual-currency system that is used primarily by Cuban citizens for day to day transactions including payroll. The exchange ratio of CUP to CUC is roughly 25:1.

Special Period: The period following the collapse of the Soviet Union in late 1991 when the disappearance of preferentially priced imports from the USSR plunged Cuba into a decade long economic crisis. Virtually overnight Cubans faced dramatic shortages of food, energy supplies and other essentials.

Unidades Básicas de Producción Cooperativa (UBPC): This newest form of agricultural coop was a product of the country's so-called “special period” of the 1990s when the loss of synthetic farming inputs from the recently-collapsed Soviet Union forced Cuba restructure its agricultural sector. To increase productivity, the state broke many of its large conventional farms and began leasing out parcels to farmer co-ops. Due to their need to manage without synthetic petro-chemical inputs and heavy machinery, UBPC cooperatives are also notable for their pioneering use of organic, agro-ecological farming techniques.

Voluntary and Open Membership: Cooperatives are voluntary, open to all persons able to use their services and willing to accept the responsibilities of membership.

Democratic Member Control: Cooperatives are democratic organizations controlled by their members who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights - one member - one vote and cooperatives at other levels are organized in an democratic manner.

Members' Economic Participation: Members contribute equally to, and democratically control the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

Autonomy and Independence: Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain cooperative autonomy.

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7ccdYfUj]cb'5a cb['7ccdYfUj] Yg 7ccdYfUj] Yg' gYfj Y'hY]fa Ya VYfg'a cghYZYWHj Y'mUbX'gYfb[hYb' hY'W'cdYfUj] Y'a cj Ya YbhVmk cf_]b['hc[YhYf' h'fc i [\ 'cWU'ZbUj]cbU'ZfY[]cbU'UbX'j]bYfbUj]cbU' gfi Wh'fYg'

7cbWfb'Zf'7ca a i b]m While focusing on members needs, cooperatives work for the sustainable development of their communities through policies accepted by the members.

NBCA CLUSA

SOL² ECONOMICS

IN PARTNERSHIP WITH

