

# SMALL BUSINESS DEVELOPMENT IN POST-TRANSITION CUBA

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Small businesses form the productive foundation of most mixed economies around the world. They provide an effective outlet for entrepreneurial initiative and ability, they fill market niches that are not profitable for larger firms, and they create jobs in a wide variety of occupations. The encouragement of small business growth has been a major concern of both governmental and non-governmental organizations in many developing countries.

Cuba will face some special problems in developing its small business sector again after the transition. Some such issues will be made easier by studying the lessons of the transitions in Eastern Europe. Among these topics are the re-establishment of entrepreneurial incentives and rationalization of the price system. Other issues are particular to the Cuban experience. These include developing a small-business sector from a position of essentially no commercial small businesses and access to capital. This study attempts to outline the issues involved and to provide an initial analysis of the potential solutions to the problems.

The paper first briefly describes small business operations in the United States to highlight their important role in job creation and market expansion. The conditions necessary for small business success are then contrasted with the actual birth and death rates of U. S. firms. Out of this comparison comes a picture of an extremely dynamic process.

The paper next focusses on small business conditions in Belize, using available data from a variety of sources, to show that Belizean entrepreneurs face many of the same dynamic market conditions found in more

developed countries. A description of the critical role played by key governmental and non-governmental organizations follows. Different market conditions and challenges facing Belizean entrepreneurs are then explained, along with their implications.

The final section of the paper addresses the special problems that the Cuban economy will face as it begins to create a small-business sector in the transition. The required legal, social, and incentive structures are identified.

## SMALL BUSINESSES IN THE UNITED STATES

In order to provide a foundation for considering Cuba's small business sector, this section analyzes the world's leading small business sector, that of the U. S. This discussion provides an introduction to the data available on small businesses, highlighting several of the data problems that exist even in the information-intensive American economy. One especially important concept is the volatility inherent in this segment of the economy, with individual firms entering and exiting the market with amazing frequency. This issue will prove to be daunting in the Cuban case. The reasons for failure of American small businesses are also explicated. Again, these topics will be of considerable importance to Cuba.

**Defining and Counting Small Businesses.** A critical first step in analyzing small businesses is to define them so that they may be counted. Over the years, many different definitions have been used by Federal, state, and local governments in the United States. One widely-accepted current approach is that used by the Small Business Administration (SBA). The

classification scheme developed by the SBA is used primarily for identifying small businesses which may be given preferential treatment in government procurement programs.

The SBA considers a small business to be “any concern organized for profit that, including its affiliates, is independently owned and operated, is not dominant in [its] industry,” and meets any special criteria the SBA imposes. The size criteria used by the SBA may differ from one industry to another, as defined by the U. S. Department of Commerce Standard Industrial Classification (SIC) codes. For all practical purposes, however, any firm that has fewer than 500 employees, and meets the other criteria noted above, is a small business.<sup>1</sup>

Counting the number of businesses in a large, developed country is a rather daunting task. Probably the best indirect measure available in the United States is the number of income tax returns filed by business establishments. In 1992, 21.3 million business firms filed tax returns. Of this total, about 14,000 had 500 or more employees. The remaining firms, by definition, were small businesses.

Out of the 21.3 million businesses, 5.7 million reported having employees. Almost 60 percent of these firms reported fewer than five employees; over 89 percent of the firms had fewer than 20 employees. A perhaps surprising corollary is that, in 1992, 15.6 million business concerns were single person firms, comprised of entrepreneurs working part-time or full-time in their chosen field.

Another striking characteristic of the small business sector in the United States is its dynamic nature. Although the number of small firms with employees has been increasing since 1986 at an annual rate of about 2 percent, this net figure reflects substantial

business birth and death rates. Typically, about 15 percent of all firms terminate or go out of business every year. At the same time, the number of new firms grows annually by about 15 percent. Another 2 to 3 percent of all firms, called “successor firms” are taken over by new or other existing firms. The 17 percent growth figure, minus the 15 percent termination figure, yields the net growth rate of 2 percent.

These percentages reflect substantial absolute numbers of business firms. In calendar year 1992, for example, government records show a total of 871,001 new and successor firms being formed. Over the same period, 818,756 other firms went out of business. This pattern of change is reflective of what Joseph Schumpeter called “creative destruction,” a process in which entrepreneurial activity not only feeds economic growth, but is also the source of economic fluctuations.<sup>2</sup>

Small businesses also tend to concentrate in specific industrial sectors in the United States. Table 1 shows the distribution of small businesses for 1992, ranked in declining order of concentration. As common sense would suggest, small businesses were most common in those sectors where a low capital-to-labor ratio is found, and where individual enterprise is most easily rewarded.

**Job Creation by Small Businesses.** Contrary to popular belief, the small business sector in the United States tends to be an active producer of new jobs. Between 1988 and 1990, for example, small businesses generated almost all of the net new jobs created in the United States. Analysts believe that about 70 percent of the new jobs that will appear in the country’s fastest-growing industries will be generated by small business expansion. Taking into account all anticipated job growth to the year 2005 (about 23.3 mil-

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1. See, for example, Office of the President, *The State of Small Business: A Report of the President, 1993* (Washington, D. C.: U. S. Government Printing Office, 1993), p. 295. The President’s Report is bound together with the Annual Report on Small Business and Competition and the Annual Report on Federal Procurement Preference Goals of the U. S. Small Business Administration.

2. The data in this section come from *The State of Small Business*, pp. 36-37, and Small Business Administration, *Handbook of Small Business Data: 1994 Edition* (Washington, D. C.: U. S. Government Printing Office, 1994), pp. 36 and 62. See also Joseph A. Schumpeter, *The Theory of Economic Development* (Cambridge, Mass.: Harvard University Press, 1934), pp. 56-62 and *Business Cycles* (New York: McGraw-Hill Book Company, 1964), pp. 46-104.

**Table 1. Small Business in the United States, 1992**

U. S. Industrial Sector	Small Businesses as a Percent of All Businesses in the Industry
Construction	88.01
Wholesale Trade	66.86
Services	60.15
Retail Trade	54.92
Finance, Insurance, Real Estate	44.27
Mining	39.76
Manufacturing	37.66
Transportation, Communication, Utilities	35.39

Source: *The State of Small Business*, p. 53.

lion new positions), projections show small businesses creating about 66 percent of those positions.<sup>3</sup>

**Small Business Success and Failure.** Periodic surveys by the firm of Dun and Bradstreet document the tenuous existence of most small businesses. The reasons for small business failure are equally easy to document. Analyses by Dun and Bradstreet identify the following specific drawbacks of entrepreneurs or poor decisions the entrepreneurs make:

- Lack of experience
- Lack of capital
- Poor location
- Too much inventory
- Excessive purchasing of fixed assets
- Poor credit granting practices
- Unwarranted personal expenses
- Unplanned expansion

- Faulty attitudes<sup>4</sup>

Any one of these items could prove troublesome to the businessperson. Typically, the small business that fails, and fails early, suffers from several of these problems. Dun and Bradstreet offer the following suggestions to the entrepreneur as pragmatic strategies to keep a business alive and growing:

1. Recognize your limitations, and stay within them.
2. Plan ahead. It is wise to sit down and write out your policies.
3. Keep enough records, but no more than necessary.
4. Watch the balance sheet, as well as the income statement. Especially watch your liabilities.
5. Investigate first, not after. Don't take pigs in pokes.
6. Establish good relationships with suppliers and banks.
7. Learn all that you can about your business and its market.
8. Seek professional advice if you need it: lawyers, bankers, and accountants, for example
9. Watch your health.

These suggestions clearly constitute a counsel of perfection.<sup>5</sup>

A slightly different approach is used in the tabulation of business failures. For calendar year 1992, Dun and Bradstreet analyzed the demise of business firms to identify the proximate and primary causes of their failure. Obviously, the deeper, underlying causes listed previously are reflected in this tabulation. Table 2 presents the data. Some business failures understandably result from unforeseen market conditions or unfavorable changes in the economic environment.

3. *Handbook of Small Business Data: 1994 Edition*, p. 1.

4. Dun and Bradstreet, *The Pitfalls in Managing A Small Business* (New York: Dun and Bradstreet), p. 16.

5. *The Pitfalls in Managing A Small Business*, pp. 16-19.

Most of the causes listed under the categories of neglect, fraud, experience, finance, and strategy are traceable, at least in part, to the lack of experience and ability of the businessperson. The clear implication is that additional training, education and experience would help businesspersons mitigate or avoid many of these terminal business conditions.

The tenuous life of American small businesses is further emphasized by Dun and Bradstreet figures showing business failures by age of firm. Table 3 presents these observations for 1992. The figures show that, during the given year, almost 36 percent of all business firms that failed were no more than five years old. Two thirds of all failing firms were no more than ten years old. And many of those surviving the ten-year mark would fail before seeing fifteen years. A corollary of this record is that small businesses may create short-term jobs, unlike the jobs generated by a government bureaucracy or a large, oligopolistic manufacturing firm. Employees of small businesses (including the entrepreneurs) can therefore expect some job turnover during their working careers.

All of these data suggest that the picture of a business sector dominated by large conglomerates is somewhat misleading. Although a handful of large corporations accounts for over 60 percent of the output of the U.S. economy, numerically these firms are dwarfed by small business concerns that occupy more specialized niches in the marketplace. Most of the business firms that are born every year in the United States are one-person operations, reflecting the will and the desire of an entrepreneur to produce a good or service that customers will appreciate and buy, thereby generating profit. The training, experience, and judgment of these entrepreneurs are critical to the survival and persistence of their firms, as the preceding Dun and Bradstreet data clearly show.

Because a market economy permits, and even demands, risk-taking and experimentation, failure is also a normal part of business experience. It is a seeming paradox that, without business failure, there would probably be little business success. Both are by-products of the competitive market process. How well an economic system prepares its entrepreneurs

**Table 2. Causes of Business Failure in the United States: 1992**

Major Causes and Subcategories	Percent of all
<b>1. Neglect Causes</b>	3.70%
Business conflicts	2.10%
Family problems	0.40%
Lack of commitments	0.30%
Poor work habits	0.90%
<b>2. Disaster</b>	4.50%
<b>3. Fraud</b>	2.20%
<b>4. Economic Factors Causes</b>	64.10%
High interest rates	0.00%
Inadequate sales	2.60%
Industry weakness	22.70%
Insufficient profits	37.70%
Inventory difficulties	1.00%
Not competitive	0.60%
Poor growth prospects	0.20%
Poor location	0.20%
<b>5. Experience Causes</b>	0.80%
Lack of business experience	0.20%
Lack of line experience	0.30%
Lack of managerial experience	0.30%
<b>6. Finance Causes</b>	23.90%
Burdensome institutional debt	5.00%
Heavy operating expenses	16.60%
Insufficient capital	2.30%
<b>7. Strategy Causes</b>	0.90%
Excessive fixed assets	0.10%
Over expansion	0.20%
Receivables difficulties	0.60%

Source: Dun and Bradstreet, Business Failure Record, 1992.

**Table 3. Business Failures by Average Age of Business Firm, 1992**

<b>Age of Business Firm</b>	<b>Percent of All Business Failures</b>
One year or less	1.70%
Two years	6.20%
Three years	9.90%
Total Three Years or Less	17.90%
Four years	9.40%
Five years	8.70%
Total Five Years or Less	35.90%
Six years	8.20%
Seven years	7.40%
Eight years	6.10%
Nine years	4.80%
Ten years	3.90%
Total Six to Ten Years	30.40%
Over ten years	33.70%

**Source:** Dun and Bradstreet, Business Failure Record, 1992

for the critical decisions that must be made for firms such as these, helps to determine the growth path of the economy.

In the United States, extensive help is available both to businesspersons contemplating a new venture and to those entrepreneurs who already manage a going concern. The SBA, in conjunction with many universities throughout the United States, including the University of North Florida, provide training, technical assistance, problem-solving help, and aid with financing. Other, more specialized organizations, such as the Institute for Business and the International Council for Small Business, provide various types of aid, some of it fee-based. Many trade organi-

zations mount training programs for firms in their industry. And local Chambers of Commerce are frequently the source of small business aid consulting. There is even an academic journal, the *Journal of Small Business Management*, that addresses the specific problems of small firms.<sup>6</sup>

Even with such extensive aid, many U. S. firms fail with great regularity, just as new firms are coming into existence to replace them. The Schumpeterian process of “creative destruction” thus lends variety, freshness, and change to the marketplace, and helps it adapt better to the needs of the consuming public.

### **SMALL BUSINESSES IN BELIZE**

In order to understand the likely post-transition Cuban experiences with the development of its small business sector, it is useful to consider a reasonably well-functioning analog in another developing country. The choice here is Belize, a geographically small Central American country with a population of less than 200,000. Examining Belize is sensible in that the climates and crops of Belize and Cuba are largely similar. Belize also provides examples of both the potential positive and negative activities that can affect the small business sector.

Defining and counting small businesses in Belize is more difficult than performing that task in the United States. National small business statistics have not been collected by the government, either routinely or periodically. In addition, the transitional segments of the economy, where entrepreneurs are moving their operations into the market system, are difficult to identify and measure. Casual empiricism, based upon extensive in-country travelling since 1981, suggests that a high percentage of Belizean business firms are individual proprietorships, managed and operated by their owners. These firms are lightly capitalized, and typically service local or regional markets.

Periodic surveys of registered factories by the Belizean Labour Department provide the employment patterns reported in Table 4. These figures, although

6. For a listing of small business resources, see, for example, Joseph R. Mancuso, *Mancuso's Small Business Resource Guide* (New York: Prentice Hall, 1988), or Office of Management and Budget, *Catalog of Federal Domestic Assistance* (Washington, D. C.: U. S. Government Printing Office, 1994).

not comprehensive, provide a clear indication that the typical (or modal) Belizean factory is a small business. Factory categories include sawmills, sugar factories, distilleries, garment factories, bakeries, aerated water firms, machine shops, printing firms, fruit processing firms, corn mills, cigarette factories, ice plants, furniture shops, aluminum products firms, and flour mills. The details of the reports also suggest some changes in the pattern of factory employment over time. Corn mills appeared in double digits for all reported years. Bakeries also showed consistently high numbers. In contrast, garment factories increased from 1 to 7 over the period, reflecting one of the growth (and export-oriented) sectors of the economy.

**Table 4. Size of Work Force in Registered Factories in Belize, 1986-1988, 1990**

	1986	1987	1988	1990
Work Force Under 10	66	48	79	55
Work Force Under 25	16	13	17	15
Work Force 25 and Over	13	5	31	19

**Source:** Annual Report of the Labour Department, 1986, 1987, 1988, and 1990.

A survey carried out by Planning Innovations, Inc., in November, 1988, attempted to develop a profile of small-scale enterprises in Belize. Researchers visited all nine major urban or town centers in Belize, where they interviewed 189 business owners and managers, representing 18 different business sectors. Small-scale enterprises were defined as "all small business enterprises engaged in manufacturing, processing, assembly, or repair and servicing activities." Additional criteria limited the number of employees

to less than five, and the value of the firm's fixed assets to no more than BZE\$50,000.00.<sup>7</sup>

Auto repair firms constituted the largest segment of surveyed firms, accounting for 20.6 percent of the total. The latest available data show over 20,000 vehicles of all types registered in Belize, all of them imported, and most of them older models. Woodworking and furniture firms made up another 15.3 percent, reflecting the exploitation of Belize's extensive forest resources. Ninety-one percent of all the surveyed firms were owned by men. The firms owned by women were concentrated in beauty care services, dressmaking, and food processing.

Business owners reported a median equity invested of BZE\$1,500.00 at business start-up. Two-thirds of the owners used their own savings as startup capital. Only 5.3 percent indicated that they had borrowed funds from commercial institutions. Median annual gross sales for the surveyed firms was BZE\$10,000.00 in 1988. The median annual wage bill was BZE\$4,160.00 for those firms paying wages.<sup>8</sup>

Government publications report that small enterprises in Belize include "the manufacture of metal doors and windows, furniture, concrete blocks, bricks, clothing, boat building, soft drink bottling, brewing, cigarette manufacture, tyre recapping, the production of flour and animal feed, wire and paper products, an agricultural fertilizer plant, matches, plywood and other meat products, a meat packing plant, food processing operations and the manufacture of rolled steel bars for the construction industry."<sup>9</sup>

A less formal survey, presented in a commercial publication, lists some of the largest private employers in Belize, with figures derived from records of the Belize Chamber of Commerce and Industry and the In-

7. The Belizean national currency, the Belize dollar, is denoted by the symbol, BZE\$. Since 1974, the Belize dollar has enjoyed a fixed exchange rate of BZE\$2.00 = US\$1.00.

8. Planning Innovations, Inc., *Small-Scale Enterprises in Belize: A Survey. Part I*, Report prepared under USAID Contract No. 505-0000-C-00-8701 (Washington, D. C.: Planning Innovations, Inc., December, 1988), pp. E-1 to E-5. For vehicle registrations, see Ministry of Economic Development, *Abstract of Statistics: 1993* (Belmopan: Government Printery, 1994), Table 9.4.

9. See Belize Information Service, *Fact Sheet: Belize* (Belmopan: Government Printery, 1994), p. 7.

come Tax Department. The figures in Table 5 may be subject to considerable error, and hence are suggestive, rather than definitive. They also suggest an upper bound to the employment levels of Belizean firms.

**Table 5. Estimated Employment of Some of the Largest Belizean Business Firms**

Name of Business Firm	Number of Employees
Citrus Company of Belize, Ltd.	800
Williamson Industries	690
Belize Sugar Industry, Ltd.	625
James Brodies	580
Belize Telecom	486
Belize Food Products, Ltd.	300
Tropical Produce, Ltd.	300

Source: Country Business, 1991-1992, pp. 9 and 15.

While other firms that employ several hundred workers may be identified, the clear implication of these figures is that there are no very large firms in Belize, measured by the standards that would be applied in countries such as Germany, Canada, or the United States. The business sector in Belize, according to all indications, is a small business sector, with all of the opportunities, strengths, and flaws of small businesses elsewhere. There probably is a relatively high turnover rate, especially among the smallest concerns in the country.

**Belize and CBI II.** An indirect measure of the high turnover rate of Belizean small businesses comes from recent amendments to the Caribbean Basin Ini-

tiative. Reconsideration of CBI by the U.S. Congress led to passage of the Caribbean Basin Economic Recovery Expansion Act of 1990 (CBI II). This revision of the 1983 legislation contained two very important changes: CBI was made a permanent program of the U. S. Government, with no termination date; and both Belize and the Eastern Caribbean countries were targeted for special efforts to encourage wider use of CBI preferences.<sup>10</sup>

The special targeting of Belize for encouragement is based partly upon a CBI participation level that did not meet U. S. expectations. From 1984 to 1989, Belizean exports to the United States under CBI ranged between \$42 million and \$50 million per year, basically without a positive growth trend. In contrast, U. S. exports to Belize rose steadily after 1986, reaching \$101 million in 1989. The United States has been and is the single most important trading partner of Belize, buying over 40 percent of all Belizean exports in 1989, and supplying about 50 percent of the goods and services then imported into Belize.<sup>11</sup>

Further concern was generated by the 1988 and 1990 Caribbean Basin Investment Surveys. Carried out by the U.S. Department of Commerce, the 1988 survey identified those firms in CBI countries that had invested in a new foreign exchange generating operation between January 1, 1984, and December 31, 1987. The 1990 update identified firms that had made such investment between January 1, 1988, and December 31, 1989. The 1988 data from Belize showed 34 firms that met the criteria. By 1990, half of those firms, representing 148 jobs and \$28 million in assets, had gone out of business. An additional eight firms met the 1990 survey criteria. Total annual export sales for the reporting firms amounted to \$6.2 million, based upon \$30.5 million of assets, and

10. See U. S. Department of Commerce, *1989 Guidebook: Caribbean Basin Initiative* (Washington, D. C.: U. S. Government Printing Office, October, 1988), for a broad outline of the CBI program, and *1991 Guidebook: Caribbean Basin Initiative* (Washington, D. C.: U. S. Government Printing Office, November, 1990), for details on the amended legislation.

11. See *1991 Guidebook*, pp. 55-56, and U. S. Department of Commerce, *1990 Caribbean Basin Investment Survey* (Washington, D. C.: U. S. Government Printing Office, February, 1991), pp. 16-17.

a full-time work force of 976 persons.<sup>12</sup> In short, this restricted sample of firms showed a fifty-percent mortality rate over a two-year period. The addition of eight more firms (a positive growth rate of almost 24 percent) fell far short of compensating for the loss.

**Tourism and the Hospitality Industry.** Because tourism has been targeted for special encouragement by the Government of Belize, and because small businesses (bed and breakfast concerns, small hotels, guide operations, travel agencies) can both exist and thrive in this sector, some observations about recent changes in facilities are warranted. Between 1981 and 1993, the gross value added by hotels and restaurants in Belize increased by 189 percent, mirroring an increasing inflow of tourists, particularly after 1985.<sup>13</sup>

Over the past decade, the flow of foreign tourists into Belize has approximately trebled, from about 67,000 per year to about 220,000 per year.<sup>14</sup> As the data in Table 6 show, the business response to the growing flow of foreign tourists has been positive. From 1991 to 1994, according to Belize Tourist Board data, the number of hotel rooms in Belize rose by almost 36 percent, reflecting a net increase of 119 lodging establishments over the period. The strongest growth occurred in the cayes, in Cayo District, and in Stann Creek District, responding to a growing interest in ecotourism activities inland and the complex of diving and fishing activities around the barrier reef.

Examination of the underlying details for Table 6 brings two important conclusions to the fore. First of all, the net increase in hotel rooms was accomplished by the process of “creative destruction” noted above. Some hotels went out of business, others came into being, while yet others either expanded or contracted. The process was very dynamic, even over a short time span. Table 7 details those changes.

Secondly, many of the smaller hotel operators discovered that renting rooms will not cover all expenses. The hotel business, particularly for smaller operators, is seasonal. In an economy with a limited market and strong competition for tourist dollars, small hotel owners and operators therefore diversified their activities. Some introduced restaurants or eating facilities, that might also draw neighborhood customers. Others provided travel services, acted as guides, or sold souvenirs and crafts. In short, instead of specializing solely in the provision of lodging, they broadened their market appeal by engaging in other, related activities.

This latter point is of special importance, since much anecdotal evidence suggests that Belizean small businesses often have so limited a market that they cannot provide a living for the entrepreneur who operates them. Instead, the entrepreneur must find other remunerative activities during the slack periods of the year.

**The Formal Sector/Informal Sector Dichotomy.** Another way of analyzing business organization in developing countries is based upon the perceived dualistic nature of Third World urban economies. Many agencies and organizations in those countries categorize firms as belonging either to the formal sector or to the informal sector. Jan Berman summarizes the classification scheme as follows:

The “formal sector” is taken to mean wage labour in permanent employment, such as that which is characteristic of industrial enterprises, government offices and other large-scale establishments. This implies (a) a set number of inter-related jobs which are part of a composite, internally well-organized labour structure; (b) work situations which are officially registered in economic statistics; and (c) working conditions which are protected by law. Some authors therefore speak of the organized, registered or protected sector. Eco-

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12. *1990 Caribbean Basin Investment Survey*, pp. 5-6, 16-17, and 55. Appendix J of this publication includes a complete listing of all business firms included in the surveys.

13. Central Statistical Office, *National Accounts Bulletin, 1980-1993* (Belmopan: Government Printery, 1994), pp. 34-37.

14. Because of large numbers of border crossings by returning Belizean nationals and short-term visitors from Guatemala and Mexico, the tourism data are approximations. See Central Statistical Office, *Abstract of Statistics, 1993* (Belmopan: Government Printery, 1994), tourism/immigration tables.

**Table 6. Belizean Lodging Places and Rooms, 1991 and 1994**

Location	1991		1994	
	Number of Establishments	Number of Rooms	Number of Establishments	Number of Rooms
Belize District	52	855	60	896
Ambergris Caye	38	560	51	704
Cayo District	32	337	61	561
Caye Caulker	20	185	29	289
Other Cayes	16	126	23	207
Stann Creek District	26	223	54	396
Toledo District	10	81	31	212
Corozal District	7	124	11	163
Orange Walk District	10	106	10	101
Totals	211	2,597	330	3,529

**Source:** Hotel Directory compiled by the Belize Tourist Board from periodic survey.

conomic activities which do not meet these criteria are then bundled under the term “informal sector”, a catchword covering a considerable range of economic activities which are frequently marshalled under the all-inclusive term of “self-employment.” This is employment of a sort that is very little organized if at all, which is difficult to enumerate and is therefore ignored by official censuses and, finally, employment in which working conditions are rarely covered by legal statutes.<sup>15</sup>

Breman goes on to criticize the looseness of the definition of the informal sector. He points out that the definition is usually supplemented by a listing of typical informal sector members, such as street vendors, newspaper sellers, shoeshine boys, stall-keepers, prostitutes, and beggars, or, as he concludes, “the exten-

sive collection of small tradesmen, the loose and unskilled workers and other categories with low and irregular incomes who lead a laborious, semi-criminal existence on the margins of the urban economy.”<sup>16</sup>

Breman argues that the impossibility of demarcating the informal sector as an “isolated sector of the urban economy” supports an alternative approach that views an economic system as a continuum of business organizations, ranging from “a capitalist sector which is narrowly linked with the international economy” at its more organized end, to “a sector composed of pre- or non-capitalist modes of production” at the other extreme.<sup>17</sup>

15. See Jan Breman, “A dualistic labour system? A critique of the ‘informal sector’ concept,” in Ray Bromley, ed., *Planning for small enterprises in Third World cities* (Oxford: Pergamon Press, 1985), p. 43. For a comprehensive discussion in the context of Indian society, see N. Vijay Jagannathan, *Informal Markets in Developing Countries* (New York: Oxford University Press, 1987), *passim*.

16. Breman, “A dualistic labour system?,” pp. 43-44.

17. Breman, “A dualistic labour system?,” p. 53.

**Table 7. Number of Hotels, Number of Hotel Rooms, and DFC Loans for Tourism in Belize, 1974-1992**

Year	Number of Hotels	Number of Hotel Rooms	Value of DFC Loans for Tourism (000 BZ\$)
1974	61	618	
1975	71	759	
1976	82	798	332.90
1977	81	799	155.00
1978	94	854	438.50
1979	118	1,076	346.50
1980	120	1,166	661.30
1981	143	1,352	370.30
1982	141	1,377	110.60
1983	153	1,481	535.00
1984	153	1,485	345.70
1985	146	1,441	1197.80
1986	157	1,519	44.50
1987	163	1,653	1662.00
1988	188	1,891	237.00
1989	201	2,168	122.00
1990	210	2,115	1657.00
1991	248	2,784	1397.00
1992	271	2,896	637.00

**Source:** Central Statistical Office, Abstract of Statistics, various issues; Development Finance Corporation (DFC), 29th Annual Report, 1992.

When the formal/informal classification scheme is used, it implies that entrepreneurs in the informal sector will require greater assistance to create, operate, and maintain their business firms than entrepreneurs

who have moved into the formal sector. Since the Belizean economy is in a state of structural transition, in which non-market, or barter, activities are gradually moving into organized markets, agencies in that country that support economic units have also used these terms in their approach to analyzing small business. In particular, the National Development Foundation of Belize has begun to focus on “formalizing the informal sector.”

Jeffrey Ashe focussed on the “micro-entrepreneurs” in Third World countries, as part of a survey to identify their credit and technical assistance needs. The term emphasizes the smallness of the enterprises involved. Ashe distinguished among three levels of micro-entrepreneurs, each with separate needs:

At the lowest level (Level One) people do whatever they must do to subsist. They do not perceive themselves as entrepreneurs, nor do they conceive of their money-making activities as “business opportunities.” Activities are often ephemeral—selling chewing gum or cigarettes on a corner, or colas and sweets during parades.

People at the next level (Level Two) have a fundamental understanding of business practices and have a viable going concern. They may make tortillas, or sew clothes . . . , or hawk an assortment of clothing or toys, or sell prepared food. Level Two entrepreneurs will invest whatever resources are available—be it capital, raw materials, skills, effort, time or ingenuity—into their businesses.

At Level Three, business owners have better skills. They understand the basic principles governing their markets better and are flexible enough to expand when the opportunity arises. Examples of businesses at this level might be a shoemaker with a small rented shop who has an assistant, or a family of tailors who divide their living area with a cloth to create a workshop.<sup>18</sup>

The entrepreneurs at Level One are best helped by community assistance programs, that include not

18. Jeffrey Ashe, “Extending credit and technical assistance to the smallest enterprises,” in Ray Bromley, ed., *Planning for small enterprises in Third World cities* (Oxford: Pergamon Press, 1985), p. 279.

only support for the development of formal business enterprises, but also education, health, nutrition, and sanitation. In other words, these programs may address the entire life style of the entrepreneur, as part of an integrated community development effort. Level Two enterprises that are already generating income may be aided by a more focussed approach, emphasizing the need for credit and technical assistance, and often setting up groups of like-interest businesspersons to exchange information and support. At Level Three, entrepreneurs are operating well-developed firms that can generally qualify for loans from established financial institutions, in spite of their small size.<sup>19</sup> Ashe's classifications roughly coincide with the formal/informal categories. Level Three firms would probably be classified as the formal sector, in spite of their small size, while Levels One and Two would correspond to the informal sector.

These classification schemes not only provide an intellectually satisfying way of understanding small businesses, but they also emphasize the differing needs of small businesses at various stages of development. In the Belizean case, the evidence suggests a wide spectrum of small businesses, ranging from the ephemeral, one-person, seasonal retail or service activity at one extreme, to the well-established, well-connected business firm at the other extreme. In Belize City, the nation's capital, street vendors are ubiquitous in the downtown business district, coexisting and competing with the retail firms that line the streets. In the district towns, such as Punta Gorda or Belmopan, the same phenomenon is observed, especially on long-established "market days." The vendors form a fluid group that is never the same from week to week. In order to meet the diverse set of needs posed by such a broad spectrum of entrepreneurial activity, either helping institutions must offer a broad variety of support activities, or there must be a broad group of complementary institutions, each offering some of the needed activities.

**Support for Small Business Growth in Belize.** Belize has developed a complex of support organizations and agencies for small businesses, reflecting the wide range of entrepreneurial experience and developmental level shown by those firms. Entrepreneurs can receive training, financial support, and operational guidance, and are encouraged to do so by the Belizean government. The major financing and training agencies are described below.

The Development Finance Corporation (DFC) is a government development bank (a "body corporate with limited liability established by the Development Finance Corporation Act, Chapter 226 of the Laws of Belize").<sup>20</sup> It provides technical assistance and financing for firms in agriculture, tourism, and manufacturing. In Belize, it has been in operation since 1973. As of 1992, the DFC had a capital base of about BZE\$50 million, coming from a variety of sources, including the Caribbean Development Bank, the Commonwealth Development Corporation, the European Investment Bank, and USAID. From 1973 to 1992, the DFC has loaned BZE\$123.8 million on 16,011 projects.

The DFC has focussed on larger projects and larger loans. Almost 50 percent of the loans made during the 1973-1991 period were for BZE\$50,000 or greater. The percentage was even higher in 1992. Nevertheless, small businesses have not been forgotten.

Over 12,000 loans have been made with face amounts of BZE\$5,000 or less. Another 1,409 loans were made for amounts ranging between BZE\$5,001 and BZE\$15,000. While these loans account for only 11 percent of the total dollars lent by the DFC, they have been of critical importance to the small business sector in Belize, particularly since the commercial banks in Belize normally extend trade credit, rather than longer-term loans for investment purposes.

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19. Jeffrey Ashe, "Extending credit and technical assistance," pp. 279-280.

20. Belize Development Finance Corporation, *29th Annual Report: 1992* (Belmopan: Development Finance Corporation, 1993), Appendix page 5.

Table 8 highlights the wide distribution of DFC loans to Belizean firms, showing the importance of DFC funds to sugar cane producers, citrus producers, and other agricultural interests. In addition, housing and student loans have subsidized Belizean students studying abroad as well as Belizeans moving up to better housing.<sup>21</sup> A complementary organization exists, however, that fills the need for assistance to the smaller firms in the economy. It has gradually developed a network of helping organizations, that tie together government agencies, trade organizations and cooperatives, and financing agencies.

The National Development Foundation of Belize (NDFB) was founded in 1983 to provide support for small enterprise in the country. It owes its existence to the U. S. Alliance for Progress initiative aimed at providing non-traditional funding and training assistance for small businesses in developing countries of this hemisphere. Both USAID and the Government of Belize supported NDFB in its initial stages. The UDP government thereafter (1984-1989) provided subsidized loan funds of BZE\$520,000. Private-sector support has come from 66 Belizean business firms and businesspersons, at last count, who have contributed about BZE\$300,000.<sup>22</sup>

NDFB basically makes loans to entrepreneurs who do not have the resources to finance the beginning and operation of a small business. The organization also provides technical assistance, management training, and marketing assistance to entrepreneurs. From the point of view of NDFB, small business includes legal activities in the fields of farming, fishing, retailing, ecotourism, manufacture, and trade. Instead of defining small business specifically in terms of sales level or number of employees, NDFB uses the more pragmatic approach of itemizing the characteristics

of small businesses, as follows: limited capital, assets, and employment; non-access to bank loans; family owned and managed; capable of providing low-cost employment to the owners and others. NDFB argues that small businesses produce more than fifty percent of the annual GDP in Belize.

Since beginning operations in 1983, NDFB has made about 3,500 loans, with an aggregate value of BZE\$15 million. Ninety percent of the loans were for less than BZE\$10,000. Twenty percent of the loans went to women entrepreneurs, and 40 percent to small farmers. Loans are available from a minimum of BZE\$500 to a maximum of BZE\$25,000. Loans may finance up to 100 percent of project cost.<sup>23</sup>

Several other organizations that focus on small business activity are closely related to the NDFB. The Small Business Association of Belize (SBA/BZE) is an organization composed of businesspersons who represent small or non-formal businesses. Most of the members are clients of NDFB. The organization was begun on June 10, 1992, as one of the initiatives coming from the CARICOM Regional Small Business Consultation held in Port of Spain, Trinidad and Tobago, on March 25-27, 1991.

The SBA/BZE mobilizes the efforts of small business owners and operators to provide mutual support for business development. The group exerts political influence to support legislation, identifies credit sources, conducts or supports research studies on small business, refers members to appropriate helping agencies, and provides liaison with other NGO's and agencies, including the Small Sector Development Council (SSDC) and the Confederation of Co-operatives and Credit Unions of Belize (CCC-B).<sup>24</sup> Two

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21. United States Department of Commerce, *Andean and Caribbean Basin Financing Directory* (Washington, D. C.: U. S. Government Printing Office, October, 1992.), p. 97.

22. This section relies upon National Development Foundation of Belize, *NDFB At A Glance* (Belize City: NDFB, no date); NDFB, *Ninth Annual General Meeting Report, 1991/1992* (Belize City: NDFB, 1993), *passim*; and an informational letter from NDFB to prospective supporters, dated February, 1994.

23. *Andean and Caribbean Basin Financing Directory*, p. 97.

24. Small Business Association of Belize, *Agenda for the Development of Small Business in Belize*, a report prepared by Michael M. Seepersaud (St. Lucia: Financial and Management Services, October 8, 1992).

**Table 8. Loans Approved by the Development Finance Corporation, 1991-1993, BZ\$ 000**

ACTIVITY	1991		1992		1993	
	Number	Value	Number	Value	Number	Value
<b>1. Agriculture</b>	1,406	5,568	792	8,637	1,553	4,823
Sugarcane	734	642	567	760	1,055	1,267
Citrus	21	811	31	2,038	148	1,385
Bananas	5	2,384	6	2,705	1	700
Livestock	6	327	7	60	17	218
Poultry	1	6	4	2	12	47
Agro Industry	-	-	2	51	-	-
Fishing	2	12	1	500	6	149
Rice	3	35	107	88	143	490
Corn	9	208	4	2	12	87
Vegetables	4	13	-	-	5	22
Mixed Farming	3	28	7	115	11	36
Peanuts	-	-	1	3	-	-
Beans	213	225	12	8	114	249
Other	405	877	43	2,305	29	173
<b>2. Tourism</b>	5	1,397	5	637	3	592
<b>3. Industry</b>	3	1,697	7	649	9	1,310
<b>4. Services</b>	4	265	9	1,152	14	526
<b>5. Student</b>	38	214	74	517	116	868
<b>6. Housing</b>	69	1,441	117	3,794	131	4,228
<b>TOTALS</b>	1,525	10,582	1,004	15,386	1,826	12,347

"-" indicates zero; "r" indicates a revised figure

Source: Development Finance Corporation, Belmopan, Belize

specific programs targeted by SBA/BZE include Women Enterprise and Entrepreneurial Development (WEED), and Youth Enterprise Services (YES).

- The Small Sector Development Council of Belize (SSDC) was founded on October 2, 1992. Its membership includes representatives from the following organizations and agencies:
- National Development Foundation of Belize (NDFB)

- Belize Fishermen Cooperative Association (BFCA)
- Small Business Association of Belize (SBA/BZE)
- Association of National Development Agencies (ANDA)
- Trade Union Congress (TUC)
- Council of Voluntary Social Services (CVSS)
- Belize Honey Producers Federation (BHPF)

- Belize Federation of Agricultural Cooperatives (BFAC)
- Credit Union League (CUL)

Four government ministries also have representatives on the Board of directors of SSDC: the Ministry of Economic Development, the Ministry of Agriculture and Fisheries, the Ministry of Social Development, and the Ministry of Housing, Cooperatives, and Industry.<sup>25</sup> The SSDC is a broad-based organization that tries to encourage intersectoral communication and growth, and to keep interest groups in contact with appropriate governmental agencies and ministries.

While not specifically targeting small businesses, several government programs do facilitate the development of small export enterprises. The Export Processing Zone Act of 1990 sets up EPZ's for investors, permitting free inflow and outflow of materials and funds, with no import or export license required. The Fiscal Incentives Act of 1990 is intended to encourage business growth through tax breaks and other incentives. Foreign investment is "particularly welcome" when it uses Belizean labor and raw materials, helps produce for the export markets, is environmentally sound, and increases the nation's capital stock.<sup>26</sup>

#### **SMALL BUSINESS DEVELOPMENT IN EASTERN EUROPE: LESSONS FOR CUBA**

The other experience relevant to the consideration of the development of Cuba's small business sector in the transition is that of the Eastern European economies. While this topic is too broad to consider in detail here some, the main problems are identified below.

First, one difference between the former East Bloc countries and Cuba is that most European countries already had relatively prosperous and organized small-business industries in place when the transition began. Although political reality relegated the true

entrepreneurs to the underground economy, many small businesses operated profitably, and some even flourished, despite the Soviet-style economic regimes. Thus, for these countries, the transition has been merely a matter of adjusting to the increased market pressures, rational pricing structures, and decreased government interference in the business sector that accompanied the transition.

Unfortunately for Cuba, the analogous sector ceased to function in the 1960's as a major player in the economy because of the substantial shortages and lack of raw materials available in Cuba. This lack of a head start will jeopardize the Cuban transition for more reasons than simply the dearth of enterprises. For example, the lack of a strong small business sector now implies that many would-be entrepreneurs lack the management skills and experience that are essential for avoiding business failures. In addition, the lack of businesses has driven down demand for loanable funds. When the demand begins to increase, therefore, transactions costs are likely to be extraordinarily high for a period of time.<sup>27</sup>

Fortunately, a few options for improving access to capital are available for Cuba. First, Cuba does have the decided advantage of a huge pool of available capital in the hands of expatriates living in Miami. Presumably, much of this pool will return to Cuba once the "rules of the game" are clearly defined by the transition government. Unfortunately, the Eastern European experience also illustrates that transition governments often fail to understand the issues that are critical to a well-functioning market economy. Ambiguity in one such issue, property rights of current versus pre-Castro landowners, promises to be sticky. A resolution of ownership rights could easily extend for years, slowing the flow of capital into Cuba.

Another possible solution for providing capital to export-oriented firms is that of "forfeiting," which in-

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25. NDFB, *The Non-Formal/Small Sector on the Move* (Belize City: NDFB, no date).

26. Belize Ministry of Economic Development, *Belize Investment Guide* (Belmopan: Government Printery, 1994), p. 1.

27. See Gregory Rand "Foreign Financial Intermediation in Cuban Transition," University of North Florida working paper, August, 1995, and the references contained therein for a fuller discussion of capital availability issues.

volves government guarantees of loans to foreign companies that wish to purchase capital equipment. Because the return on capital investment is spread over time, many firms that wish to import capital equipment are unable to make desired purchases due to cash flow problems. Banks in several European countries, notably France, have addressed this market failure by having governments guarantee the loans. If European banks and governments can be convinced of the investment-worthiness of Cuba, forfeiting might well become the method of choice for importing physical capital.<sup>28</sup>

### CONCLUSIONS

There are several requirements for the existence of a strong, dynamic small business sector in a mixed economy. First, a well-defined, established set of property rights is essential for providing entrepreneurs the proper incentives to take risks. Rational pricing by market forces is also required. This will likely be the most important and daunting problem faced by Cuba in the transition. Conflicting claims by expatriates and non-expatriates could tie up courts and cast a long shadow of uncertainty over Cuba's private sector for many years. A necessary condition for a successful small business sector is the resolution of these conflicts.

Second, Cubans, like Eastern Europeans, must learn to accept the inherent instability of a market economy. This dynamism is especially evident in the small business sector, where even in the well-informed American market some 15% of small businesses fail

every year. This Schumpeterian "creative destruction" is an essential part of a healthy economy, but it does create hardships. Cubans must fight the inevitable pessimism that business failures create.

Third, the lack of practice at managerial and entrepreneurial skills will imply that Cubans will initially make unsophisticated, and inaccurate, decisions about starting small businesses. In this case, too, the only solution is time and experience. One bright spot is the ample supply of managerial and entrepreneurial experience just north of Cuban waters. These businesspeople will be able to substantially improve the business decisions made early in the transition. Native entrepreneurs will then be able to learn the required skills relatively quickly, especially as contrasted with the Eastern European experience.

Fourth, availability of capital, both physical and human, will hurt Cuba in the initial stages of transition. Imprecise property rights will exacerbate this problem. However, there are two potential solutions: forfeiting activity by European banks and investment by Americans and Cuban-Americans.

All things considered, small business is likely to be the backbone of the Cuban transition. Its success must be a top priority for the transition government. Although Cuba has been cursed with some unique problems, it is also blessed with potential solutions that have been unavailable to other transition economies. Given the nature of the Cuban people, it is likely that small business will succeed there.

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28. For a complete discussion of forfeiting, see Yatin Bhagwat "Forfeiting: A Technique to Increase Trade Between NAFTA Countries." Paper presented at "Economic and Financial Cycles and NAFTA: Issues and Analysis of Micro and Macroeconomics" symposium, Mexico City, June 7, 1995.

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