

## Fewer barriers to business: Cuba plans to amend private sector laws

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*Cuba's Economy Minister Alejandro Gil plans to present a reform proposal for "effective integration" of the private sector into the economy in the coming months (Source: Cubadebate)*

Almost two years after the entry into force of the new laws on the creation of small and medium-sized enterprises (SMEs) in Cuba, the government plans to make changes to the existing regulations. "It is now up to us to propose the necessary changes to achieve their effective incorporation into the economy and tangible benefits for the population," Economy Minister Alejandro Gil said Wednesday at a meeting of the Council of Ministers. For the upcoming reform, the main "results, shortcomings, and obstacles" of the past two years would be evaluated. In addition, a new institute dedicated to the control and coordination of the new economic actors will be created, the minister announced.

In September 2021, Cuba allowed the creation of SMEs in all sectors of the economy except for a 112-point negative list, and lowered taxes. This allowed purely private companies with up to 100 employees to constitute themselves as separate legal entities for the first time in the socialist country, which observers perceived as a turning point in the reform process. The goal of the "new economic strategy" announced in 2020 is to create comparable framework conditions for all actors in the economy so that they can interact with each other and create synergies. To date, some 7000 SMEs have been constituted, employing 180,000 people nationwide. Numerous sectors are represented, from construction and industry to services and information technology.

A major problem is still the partial dollarization of the economy and the existence of two exchange rates. The currency distortions make it difficult to implement the desired cooperation between the various sectors, Gil acknowledged. Contracts between the state and private sectors currently take place mainly in foreign currency, but most private companies have hardly any of that. The newly created possibility of importing final and intermediate goods often cannot be used in practice. In addition, there is a lack of start-up financing. As a result, quite a few of the new economic actors have difficulty implementing their plans under the current framework conditions. Their contribution

to economic performance - and thus to improving the still precarious supply situation - remains small so far.

To address the issue, the government plans to implement a macroeconomic stabilization program this year, mainly involving "changes in the foreign exchange allocation mechanism," Prime Minister Manuel Marrero explained at the meeting. The program is part of and a precondition for a major reform of state-owned enterprises that will result in a new Enterprise Law at the end of the year. "With the current scheme, we will not succeed in making state-owned enterprises the main actor in the economy. We see abusive prices and speculation. Then we say we need more foreign exchange to increase supply - and we're back in the same cycle. Stabilizing our macroeconomy is the key to all other issues," the prime minister said.

With the new enterprise law, state-owned enterprises are to be given significantly more autonomy, and the capabilities of the provinces will be strengthened. Topics such as innovation management and digitalization are also to be included in the law. This, along with as-yet-unknown changes to private sector laws, is expected to cut the "Gordian knot" of Cuba's economy and usher in a spiral of growth, according to government plans. "Given the extremely difficult situation of our economy, we need to do things differently to achieve recovery and growth," Marrero said. Cuba is blocking itself, said the prime minister, who called for an "open war against inefficiency and bungling."

Oniel Díaz of Auge, a private consulting agency dedicated primarily to SME development, expressed cautious optimism. "There will be skeptics who interpret this announcement as a cause for concern, because in the past there have been reasons for pessimism. I, on the other hand, am optimistic," Díaz said in a Facebook post in response to the meeting. He said he will use the coming period to highlight the existing obstacles to SME development in several video streams.

Cuba plans for its gross domestic product to grow 3 percent this year. This can and must be accomplished "in the midst of the global crisis marked by inflation, rising interest rates, and a decline in investment," according to Economy Minister Gil. In addition, the island economy suffers from the economic blockade imposed by the United States more than 62 years ago, which also excludes Cuba from global financial markets since its re-listing as a "state sponsor of terrorism" in 2021 by former President Donald Trump.