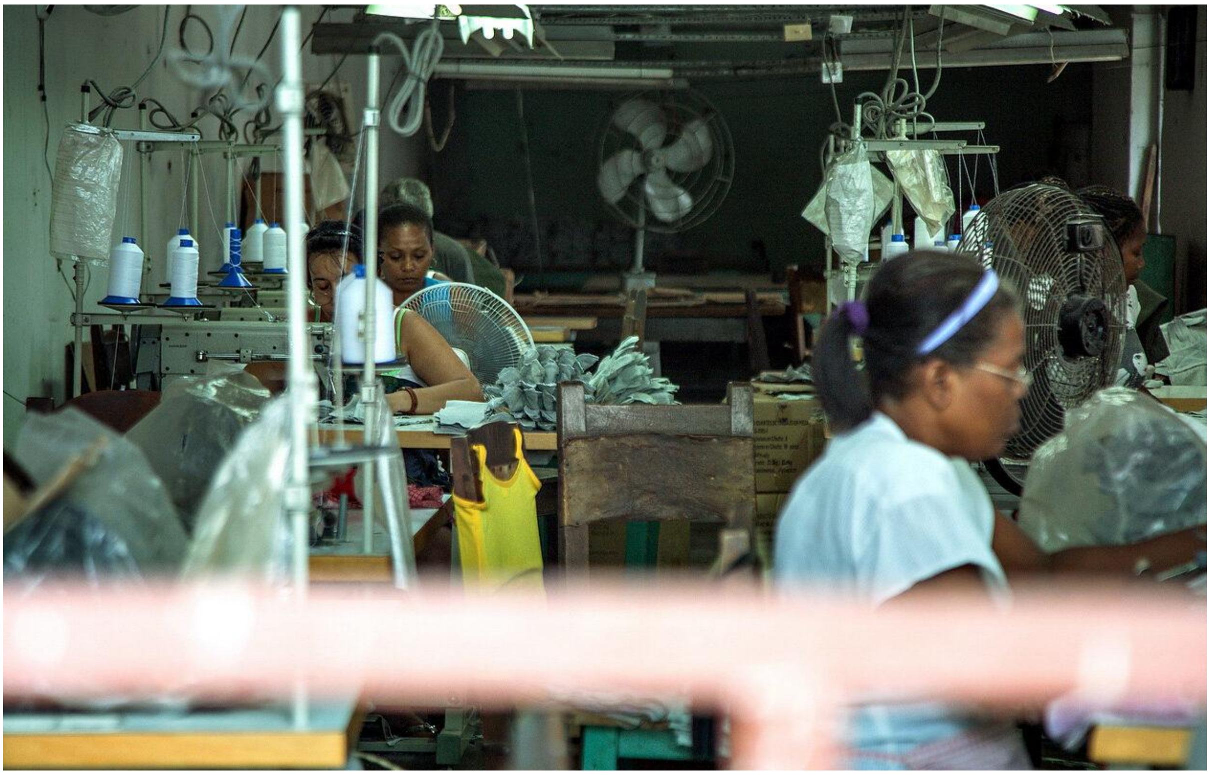
More Than 3,000 New SMEs: Cuba Opens Up Its Private Sector



Cuba is lifting many restrictions on the private sector (Source: Dominkab/Flickr/CC BY-NC-SA 2.0)

As part of the recently adopted comprehensive economic reform consisting of 176 measures, the Cuban government has expedited and approved the registration of more than 3,000 new small and medium-sized enterprises (SMEs). Mercedes López Acea, president of the newly created National Institute for Non-State Economic Actors, announced this on Wednesday during the talk show “Mesa Redonda.” As a result, the total number of private enterprises has risen by a good fifth to more than 15,200.

Faster Approvals

Since the second half of June, more than 3,500 pending applications have been reviewed, of which “the vast majority” were approved, according to López Acea. In the future, the procedure for registering SMEs is to be streamlined to focus on essential information—owner, primary business activity, registered office, number of employees, and tax status—and shortened to about 20 days. “The goal is to further reduce these timeframes,” said López Acea. However, any existing debts owed to banks or the tax authority must first be settled.

Yovana Vega Mato, director of the Business Division at the Ministry of Economy (MEP), cited another concrete example of this simplification: in the future, even in the public sector, prior approval from the MEP will no longer be required to establish a business. “This provides the Cuban business landscape with significant flexibility,” she said.

New Legal Entity: Private Enterprises with No Size Limit

One of the most far-reaching changes is the introduction of the legal entity known as the "private enterprise" (*empresa privada*), which goes beyond the previous SME category. Until now, private businesses were limited to a maximum of 100 employees. This limit has been removed. In the future, any entity with more than 100 employees can be recognized as a private enterprise.

"Many of these organizations already function like businesses in practice," said López Acea. "When you look at their size, revenue, and results, you realize that they are essentially businesses." The relevant legal frameworks—Decrees 29 and 32—are currently being updated at full speed.

One Owner, Multiple Companies

Another new development is that, in the future, a single person may be the owner or shareholder of multiple private companies and SMEs—something that was not possible until now. López Acea explained that entrepreneurs who have reached a certain level of development often wish to organize specific business areas into independent structures. For example, not every SME owner wants to transform their company into a joint venture with the state, but with a spin-off, this could become an option.

"Now there is the possibility of founding a new private company or an SME in which one can develop a new activity that has different characteristics and that, from an organizational or entrepreneurial perspective, is better managed separately," she said. Alternatively, entrepreneurs could expand their existing businesses or join forces with other players.

In addition, private actors will in the future be able to import directly, maintain foreign currency accounts, and establish joint ventures with state-owned enterprises or foreign companies. Foreign investors will also be able to take direct stakes in private companies without necessarily having to enter into a partnership with the state.

More Than 62 Percent of Prohibitions to Be Lifted

López Acea announced that a decree would be published shortly, completely abolishing or relaxing more than 62 percent of the activities previously prohibited for the private sector.

"The relevant authorities conducted a thorough review of what should be permitted, what should be made more flexible, and what must be maintained," she said. The sectors affected include transportation, the restaurant industry, and manufacturing.

Activities that will remain restricted are expected to be in the minority. The framework will be continuously adjusted, with room for further relaxations as needed.

State-Owned Enterprises to Gain More Autonomy

At the same time, state-owned enterprises are to be granted significantly more autonomy. Roberto Ricardo, president of the newly founded National Institute for State Enterprise Assets (INAEE), presented 17 key reforms for the state sector.

According to these reforms, state-owned enterprises will in the future be able to establish their own subsidiaries and SMEs, set their own corporate goals, and independently determine prices and wages. The companies are also to decide on their own investment plans, annual plans, and the allocation of profits. “From now on, the companies will decide on their prices and the wages they pay their workers,” Ricardo emphasized. Corporate governance is to be strengthened through a supervisory board (*junta de gobierno*), in which 20 percent of the seats are reserved for representatives elected by the workforce.

Ricardo explicitly refuted speculation that the new institute was a higher-level ministry or a regulatory authority. “It is neither a ‘super-ministry’ nor an overarching structure,” he said. The INAEE will have a lean structure and focus on monitoring key performance indicators: the return on state investments, profit growth, and growth in export and foreign exchange earnings. Its main task, he said, is to represent the people as owners of the means of production.

Another step is the planned gradual transformation of state-owned enterprises into joint-stock or holding companies. Ricardo explained that companies will be categorized into strategic, competitive, socially oriented, and technology-based groups—with competitive enterprises to be transformed first. The transactions are to be carried out via the “Soberanía” digital platform. Transparency is an “important condition” in this process: “We cannot afford to make any mistakes here. There are examples from around the world that show what happens when this principle is forgotten,” said Ricardo, alluding to concerns raised by analysts regarding the risk of insider trading.

According to the latest information from the program, Cuba currently has 2,803 state-owned enterprises with 1.1 million employees, 15,200 SMEs, 454,521 self-employed individuals, 4,966 cooperatives, 131 joint ventures, and 72 wholly foreign-owned companies. (Cubaheute)