

Press Release N0 28- Food Monitor Program

Non-state sector: new measures, more restrictions, less of everything

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On August 19, 2024, after several months of discussion on new regulations for the operation of the non-state sector, six decree-laws of the Council of State, two decrees of the Council of Ministers and eleven resolutions between the Central Bank of Cuba and the Ministries of Economy and Planning, Education, Finance and Prices, Industries, Public Health and Transportation were published in issue 78 of the Official Gazette, which further restrict the scope of action of MSMEs and self-employed workers in Cuba. One of the regulations, contemplated in Article 7(b) of Decree-Law 88, is the mandatory commercialization in Cuban pesos. This measure, however, is one of the most worrisome for private entrepreneurs whose businesses require imports for their operation, either as raw materials or manufactured goods. The concern is based on the almost null availability of foreign currency that the Government is able to offer.

Considering that the Cuban peso has no value outside the national territory, payments to international suppliers, as well as those concerning freight, customs and other taxes, have to be paid in dollars. Therefore, given the impossibility of acquiring hard currency legally in banks, the only solution is to resort to the informal foreign exchange market.

In addition to this, commercial transactions must be processed through bank cards associated to their corresponding tax accounts. This, as a result of the failed bancarization imposed a few months ago and the lack of confidence in Cuban banking institutions, makes it even more difficult for private entrepreneurs to acquire foreign currency in the informal market, whose operation is based more on cash transactions than on digital operations.

Contradictorily, on July 17 of this year, Prime Minister Manuel Marrero Cruz explained in Cuba's National Assembly that MSMEs and self-employed workers with permission to import should start paying their import duties in dollars. In this way, they would erase the payment they had been making until now, in Cuban pesos, at the official exchange rate of 120 CUP per dollar. Also, imports must be contracted through a state-owned company and the payment must be issued from a Cuban bank and have a certificate of legality; in other words, direct payments from abroad to international suppliers will not be allowed and the money will have to be justified.

In the case of MSMEs and non-state outlets, the price cap on some food products such as chicken, oil and pasta, among others, decreed by the Government a few weeks ago, is added.

On the other hand, the exemption from the payment of personal income taxes during the first year for newly created MSMEs is eliminated, as well as that of the first three months for new self-employed workers. What at the time the Government considered as a

necessary incentive in order to stimulate the incorporations to the non-state productive sector, has now ceased to be necessary according to the corresponding authorities.

In order to control the non-state sector, the National Institute of Non-State Economic Actors will be created, under the direction of Mercedes López Acea, vice-president of the Council of State. According to this leader, the INAEE and the new measures are a response to the distortions resulting from the lack of state control over the private sector, which already manages 44% of Cuba's retail trade.

Among other new measures is the prohibition of self-employed workers from engaging in wholesale trade. Likewise, this activity has also been restricted for MSMEs that have not declared it as their corporate purpose through contracts with state-owned companies.

Also of concern is the fact that MSMEs may only be integrated by Cubans who maintain an “effective” residence. Up to now, the capital of some of them had been injected by Cubans living abroad, either as a way of providing economic support to their relatives or as a way of maintaining commercial ties with the island. However, this new measure obliges the persons appearing in the contracts to live in the country for a certain amount of time, so the use of front men could be an increasing factor.

Another important point is the list of activities that cannot be carried out by the private sector because they are considered of vital importance by the Government. The list includes forestry and support services; ordinary hunting for commercial purposes; sugar processing; production of natural mineral waters; manufacture of motor vehicles; among many others.

Agricultural activities and charcoal and firewood production will only be allowed as long as they do not break the existing productive base and comply with land use regulations. Honey may only be sold to state-owned companies.

All these new measures are accompanied by a series of contraventions and applicable penalties, classified as less serious, serious and very serious, ranging from fines to the total closure of the activity. Thus, Decree-Law 91 (“On contraventions in the exercise of self-employment, micro, small and medium-sized enterprises and non-agricultural cooperatives”) highlights, as a form of censorship, subsection k of Article 13.1 of the third chapter, which explicitly prohibits “advertising in social networks or any other communication channel the exercise of unauthorized activities or acts contrary to the law, morality or social norms and values”.

With the generalized crisis that the country is going through, these new measures and restrictions are not only part of the tight state control over all economic actors in the country; but their fatal consequences will contribute to further deepen the generalized crisis that Cuba is going through. Therefore, from Food Monitor Program we warn about the negative implications they will have, such as: the increase of front men; greater

demand for foreign currency in the foreign exchange market and, therefore, greater devaluation of the Cuban peso; less quantity of staple foods; worsening of the food crisis; political censorship; use of food as a form of manipulation and state control; among other aspects.

