

# CUBA'S PRIVATE SECTOR:

*Pressure Valve or Engine of Development?*

---

By Ricardo Torres Pérez  
*September 2025*

# TABLE OF CONTENTS

<b>Executive Summary</b>	<b>03</b>
<b>1. Introduction</b>	<b>06</b>
<b>2. Overview of Cuba's Economic Situation</b>	<b>07</b>
<b>3. Characteristics of the Cuban Private Sector</b>	<b>09</b>
<b>4. The Role of the Private Sector in a State-Controlled Economy</b>	<b>13</b>
<b>5. Role and Impact of the Private Sector</b>	<b>16</b>
<b>6. Challenges for Continued Private Sector Development</b>	<b>20</b>
<b>Conclusion: Safety Valve or Engine of Development?</b>	<b>24</b>

# EXECUTIVE SUMMARY

Over the past decade, Cuba's private sector has emerged as an unlikely champion during one of the nation's most severe economic crises in recent memory. While the state sector has remained largely stagnant, private enterprises have shown remarkable growth and dynamism, raising a fundamental question: Is the private sector simply serving as a pressure valve during this crisis, or does it have the potential to drive comprehensive economic transformation? This report explores this critical question through seven analytical sections, examining both the sector's proven capabilities and the significant constraints imposed by a state apparatus wary of its growing influence and the political implications that follow.

Cuba's private sector—composed mainly of self-employed workers (TCPs) and micro, small, and medium-sized enterprises (MSMEs)—has demonstrated an impressive ability to create jobs, revitalize economic activity, and provide alternative consumption options, even within a challenging regulatory environment. This vitality stands in sharp contrast to the state sector, which continues to struggle with over-centralization and institutional inflexibility. Yet despite these successes, the private sector operates under restrictive regulations and constant state oversight, as the government remains reluctant to acknowledge private enterprise as a potential leader in Cuba's economic future.

## *Overview of Cuba's Economic Situation*

Cuba confronts severe GDP contraction, elevated inflation, and persistent energy crises. While the state economy deteriorates, the private sector has achieved growth and diversification, generating employment and partially mitigating productivity decline. However, this progress occurs within uncertain parameters, where macroeconomic recovery remains fragile and fiscal policy appears oriented toward revenue extraction rather than growth stimulation. The private sector, far from being a mere beneficiary, has proven fundamental in preventing systemic collapse, though its expansion faces constant threats from administrative decisions and abrupt regulatory changes.

## *Characteristics of the Private Sector*

Cuba's private sector has followed a path marked by both progress and setbacks. After comprehensive nationalization in the 1960s and tentative liberalization efforts in the 1990s, the sector experienced dramatic growth

beginning in 2021 with an explosion of new micro, small, and medium-sized enterprises. Within just three years, more than 11,000 MSMEs gained government approval. However, the virtual freeze on new licenses since mid-2024 reveals the state's reluctance to allow unchecked expansion. Notably, 60 percent of these enterprises represent entirely new ventures rather than transitions from existing self-employment arrangements, demonstrating Cuban society's entrepreneurial spirit while highlighting the sector's vulnerability to political decisions rather than market forces.

### ***The Role of the Private Sector in a State-Controlled Economy***

The private sector operates within an economy where state ownership remains an ideological cornerstone. Although MSMEs have been promoted as pragmatic crisis solutions, their autonomy generates suspicion. The state limits sector access while maintaining an arsenal of regulations, price controls, and administrative barriers that constrain development.

***The paradox proves evident: while the private sector demonstrates superior efficiency, innovation, and adaptability compared to state counterparts, its growth faces impediments rooted in fears of diminished political and social control.***

Rather than facilitating private sector expansion, the state has sought to confine it to a secondary role—useful for alleviating social tensions but inadequate for driving development.

### ***Role and Impact on Cuban Economy and Society***

The private sector has proven essential for sustaining employment, diversifying goods and services, and stimulating competition. Its fiscal contributions have expanded steadily reaching 23% of tax revenues by 2024. It has introduced more agile business practices aligned with international standards and demonstrated notable crisis resilience. However, its impact remains constrained by limited access to formal financing, the absence of a legal framework for foreign investment, and the persistent threats of new state restrictions.

### *Challenges Facing Private Businesses*

Primary obstacles for the private sector stem from the state itself: regulatory volatility, elevated tax burdens, discretionary controls, and "revolving door" policies regarding new company approvals. Legal insecurity and a lack of incentives for investment and innovation compound these challenges. The result: a vibrant yet besieged sector navigating between opportunity and permanent regression risks.

### *Prospects for Entrepreneurship in Cuba*

The future of Cuba's private sector hangs in the balance. While its potential as a driver of economic development is undeniable, realizing that potential requires the state to abandon its current strategy of containment and embrace genuine private sector expansion supported by transparent regulations and meaningful access to resources. Without this shift, the private sector will remain an effective safety valve that relieves social pressure but lacks the scope to fundamentally transform Cuba's economic structure. This represents a core challenge facing the island, and how it is resolved will shape Cuba's economic path for years to come.

# I. INTRODUCTION

Over the past decade, Cuba's private sector has experienced unprecedented growth, establishing itself as a crucial player in the island's economic landscape. Despite operating within a challenging regulatory environment, facing the effects of U.S. sanctions on state operations, and weathering a prolonged economic crisis, the private sector has proven its ability to revitalize economic activity, reduce unemployment, and create new income opportunities. This performance stands in stark contrast to the state business sector, which continues to suffer from the damaging effects of over-centralization and institutional rigidity.

Despite Cuba's state-run economic model, the private sector broadly encompasses Self-Employed Workers (TCPs), Micro, Small, and Medium Enterprises (MSMEs), cooperatives (agricultural and non-agricultural), farmers and usufructuaries, as well as artists and creative professionals. While the dynamics examined apply broadly across these categories, this report concentrates on a specific cohort—TCPs and MSMEs—which constitute the private sector's predominant segments in 2025.

This report analyzes the current trajectory of Cuba's private sector and evaluates its transformative role within the nation's economic model. The analysis is structured across seven sections. After this introduction, we examine recent Cuban economic performance, focusing on factors that directly affect business development conditions. The third section outlines the private sector's key characteristics and major milestones. We then assess how the sector fits within Cuba's unique economic framework. The fifth section explores the private sector's role and impact across Cuba's economic and social landscape. Next, we identify the primary challenges facing private enterprises. Finally, we present a comprehensive assessment of entrepreneurship prospects in Cuba.

## 2. OVERVIEW OF CUBA'S ECONOMIC SITUATION

Cuba confronts one of the most severe economic crises in its contemporary history, characterized by Gross Domestic Product (GDP) contraction, elevated inflation, and mounting external debt obligations. Paradoxically, the private sector has achieved substantial expansion during this period, generating employment opportunities and enhancing its economic participation.

Production across goods and services has declined throughout virtually all sectors, as evidenced by real GDP performance. In 2024, the economy experienced its fourth contraction within six years.<sup>1</sup> The fiscal deficit, both persistent and substantial, peaked at 17.7% of GDP in 2020 and has subsequently maintained high levels incompatible with macroeconomic stability. Consequently, inflation surged beyond 70% in 2021 and has continued registering elevated rates through 2024.<sup>2</sup>

**Table 1: Cuba: Economic Indicators (annual variation rates, %)**

	2018	2019	2020	2021	2022	2023	2024**
<b>Gross Domestic Product (real)</b>	2.2	-0.2	-10.9	1.3	1.8	-1.9	-1.1
<b>Inflation (%)</b>	2.4	-1.3	18.5	77.3	39.1	31.3	22.8
<b>Fiscal deficit (% of GDP)</b>	-8.1	-6.2	-17.7	-11.7	-11.1	-10.9	-6.5
<b>Exchange rate (CUP/USD) ***</b>	24.5	27.4	33.8	59.3	132	216	325
<b>Industrial production (index, 1989=100)</b>	66.4	61.6	53.8	54.8	46.0	38.6	35.2
<b>Exports</b>	3.1	-4.6	-20.5	-9.1	-2.4	-8.9	9.2
<b>Imports</b>	11.2	-2.9	-7.6	-4.6	-9.2	-4.5	-0.9
<b>International visitors (thousands)</b>	4,684	4,263	1,085	356	1,614	2,437	2,244
<b>Sugar production</b>	-43.7	31.2	-10.8	-32.7	-39.7	-27.1	-54.3
<b>Electricity consumption</b>	1.4	1.5	-3.2	-5.5	-5.3	8.0	-7.8

Source: Prepared internally based on data from the Statistical Yearbook of Cuba (various years), Isladata, and El Toque. Foreign trade figures are drawn from The Economist Intelligence Unit. \*Unless otherwise specified. \*\*Refers to the informal market.

<sup>1</sup>The Economic Commission for Latin America and the Caribbean (ECLAC) anticipates another 1.5% drop for 2025.

<sup>2</sup>Estimates have been made indicating that effective inflation has been triple digits. See Vidal and Luis, 2023.

<https://www.cambridge.org/core/journals/latin-american-research-review/article/cubas-monetary-reform-and-tripledigit-inflation/1086A26D58D4B72FF84F21A57A2F2794>

In foreign trade, exports declined 20.5% in 2020 and have demonstrated intermittent recovery subsequently. Imports have exhibited pronounced volatility, exacerbating supply constraints. Tourism, a strategic economic pillar, experienced dramatic contraction: international visitor arrivals plummeted from 4.7 million in 2018 to barely 356,000 in 2021. While the sector demonstrated partial recovery through 2023, visitor numbers declined again in 2024, creating adverse conditions. This trajectory has persisted through the first trimester of 2025, registering a 25% contraction in international arrivals.

Industrial production has similarly followed a downward trajectory. The production index fell from 66.4 in 2018 to merely 35.2 in 2024. Other sectors, including sugar production and electricity consumption, present equally concerning indicators. In 2024, the country confronted persistent energy emergencies, characterized by the significantly increased frequency and duration of electrical blackouts.<sup>3</sup> Meanwhile, sugar production collapse has transformed the island into a net importer of this commodity.

The broader economic collapse has created severe macroeconomic imbalances. Large fiscal deficits and shrinking foreign currency revenues have fueled inflationary pressures across the economy and driven continuous dollar appreciation. While the government made significant fiscal efforts in 2024, cutting public account deficits to roughly half their projected levels, this progress came through increased tariffs and taxes rather than economic growth, raising questions about long-term sustainability. Without comprehensive measures to support actual growth, meaningful macroeconomic stabilization remains out of reach.

Yet even within this challenging environment, the crisis has opened doors for transformation. Two key developments have emerged: the rise of private enterprises backed by domestic capital and the granting of foreign trade access to non-state actors. These changes have had considerable impact, as evidenced by the remarkable dynamism of private businesses—a sector that has helped cushion, though not prevent, Cuba's economic decline.

---

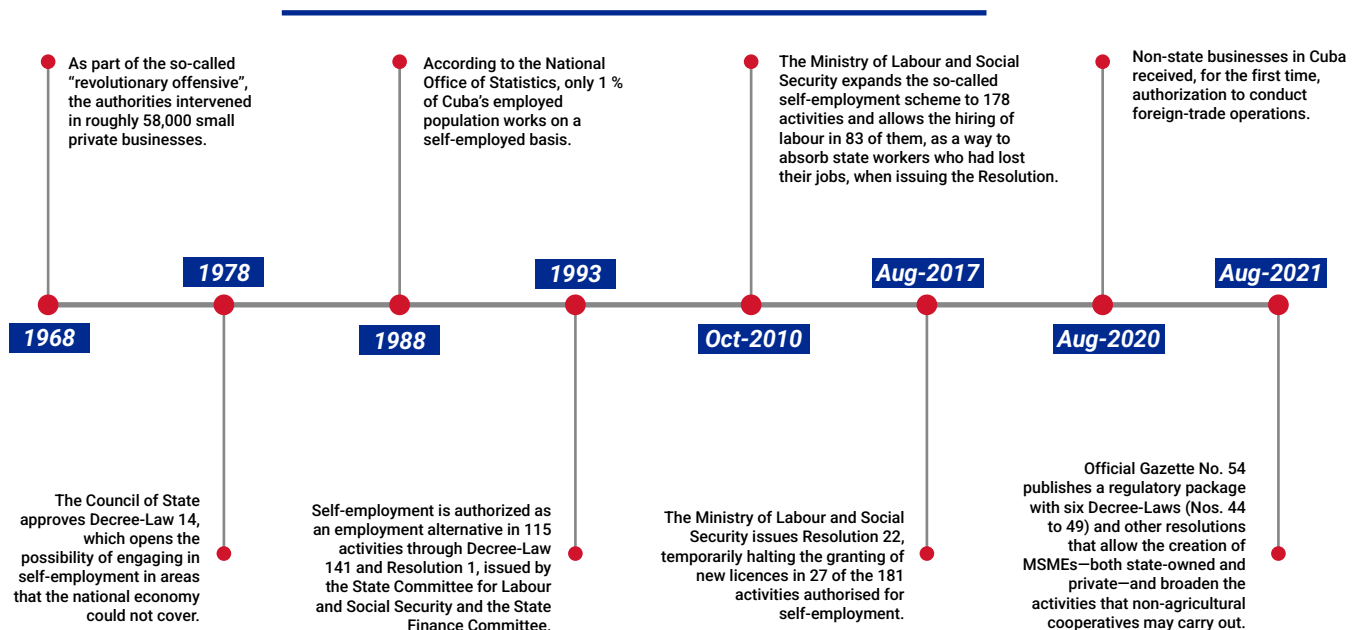
<sup>3</sup> Additionally, since the last quarter of 2024, four total collapses of the National Electroenergetic System (SEN) have occurred, on October 18, November 6, December 4, and March 14, 2025.

### 3. CHARACTERISTICS OF THE CUBAN PRIVATE SECTOR

Cuba's private sector has experienced several waves of transformation throughout its history. Large private enterprises operated freely until 1962, while smaller businesses and family establishments continued until 1968, when the revolutionary government completed comprehensive nationalization (Figure 1).

In 1978, the government legalized certain autonomous activities to enhance goods and services provision, reduce unemployment, and combat black market operations. During the 1990s, economic crisis created new private sector opportunities, with legal modifications in 1993 authorizing self-employment. By 1996, over 208,000 self-employed workers operated, though they confronted significant restrictions and social stigmatization. Subsequently, reforms stagnated and additional controls were imposed, constraining sectoral expansion. With Raúl Castro's presidency beginning in 2008, another reform wave emerged that expanded permitted activity categories and facilitated worker recruitment.

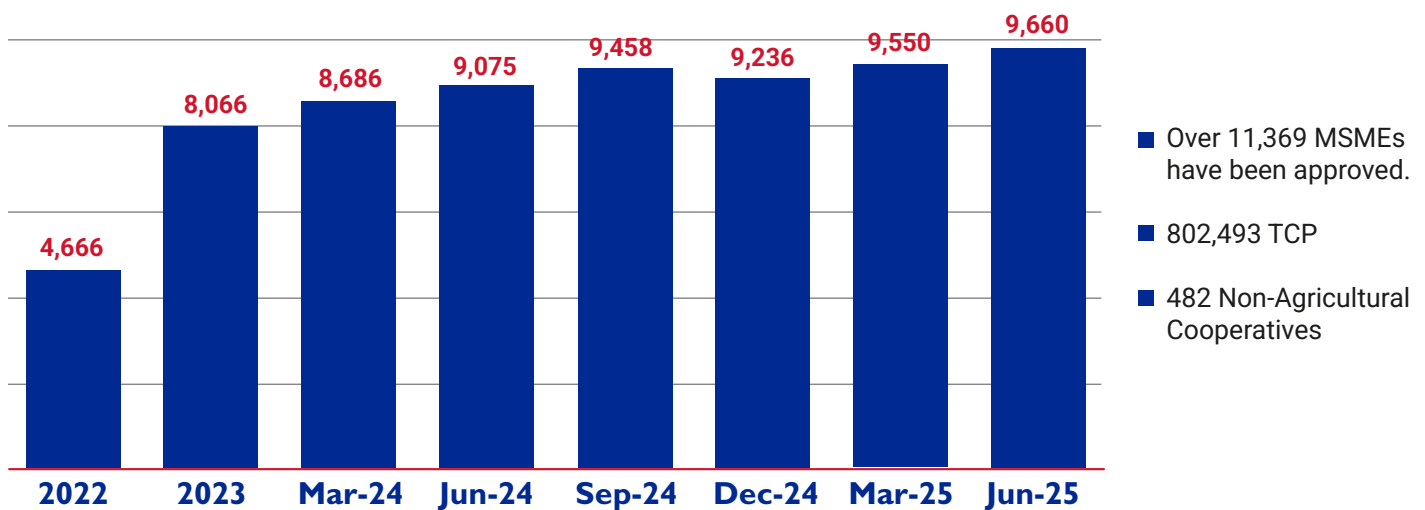
**Figure 1: Some milestones of the private sector in the Cuban economy after 1959**



Source: Author's elaboration based on the "New Economic Actors" site of IPS in Cuba: <https://www.ipscuba.net/especial/nuevos-actores-economicos/timeline.html>

In August 2021, amid economic and social crises exacerbated by COVID-19, Cuba approved a regulatory framework that modernized self-employment norms, enhanced flexibility for non-agricultural cooperative (CNA) creation, and established definitive requirements for MSME formation.<sup>4</sup> Most importantly, these regulations eliminated the restrictive lists of permitted activities, replacing them with shorter lists of prohibited categories. This fundamental shift dramatically expanded the range of economic activities available to private actors. Restrictions on goods and services deliverable under specific licenses were similarly abolished, enabling greater project diversity and scope.

**Figure 2: Micro, Small and Medium Enterprises in Cuba (and other private actors)**



Source: National Office of Statistics and Information (ONEI). Institutional Organization. June 2025; and Report on the Results of the National Employment Survey, 2024. Havana.

<sup>4</sup> This decision was taken amid widespread public discontent, which culminated in the large-scale popular protests of July 11, 2021.

The results have been impressive. Since the August 2021 legalization, more than 11,000 MSMEs have gained government approval,<sup>5</sup> creating employment for nearly 58,000 workers.<sup>6</sup> By the first half of 2025, just over 9,600 MSMEs remained active, while approximately 152 had ceased operations.<sup>7</sup> The gap between approved and operational businesses reflects several challenges: difficulties completing the registration process, changes to original business plans, startup delays due to worsening economic conditions, and emigration of founding partners. Despite these obstacles, official data shows that 60% of MSMEs represent entirely new enterprises rather than conversions from existing self-employment, demonstrating remarkable entrepreneurial resilience amid Cuba's severe economic challenges.

However, this progress stalled dramatically when the government essentially stopped approving new businesses beginning in May 2024. Combined with the natural loss of existing enterprises due to bankruptcy and broader economic pressures, this led to a net decline in operational businesses by year-end compared to mid-2024 levels (see Figure 2). Anecdotal evidence indicates the former factor proved decisive, pointing to constrained growth resulting directly from administrative policy decisions by Cuban authorities. Most significant was the virtual moratorium on new entity approvals during the institutional transfer of this function to municipal jurisdictions. The ramifications of this administrative restructuring will be examined later in this report.

***Available data indicates that MSMEs exhibit a markedly different sectoral distribution compared to traditional self-employment patterns.<sup>8</sup> Since the latter's authorization in 1993, gastronomy, hospitality, and transportation have dominated private economic activity. Conversely, official statistics reveal that MSMEs concentrate primarily in light manufacturing (30%), lodging and food services (23%), and construction (19%) (Figure 3).***

This sectoral reallocation likely reflects a more accurate representation of underlying demand structures and market opportunities, given MSMEs' expanded operational scope relative to their predecessors' constrained sectoral permissions.

---

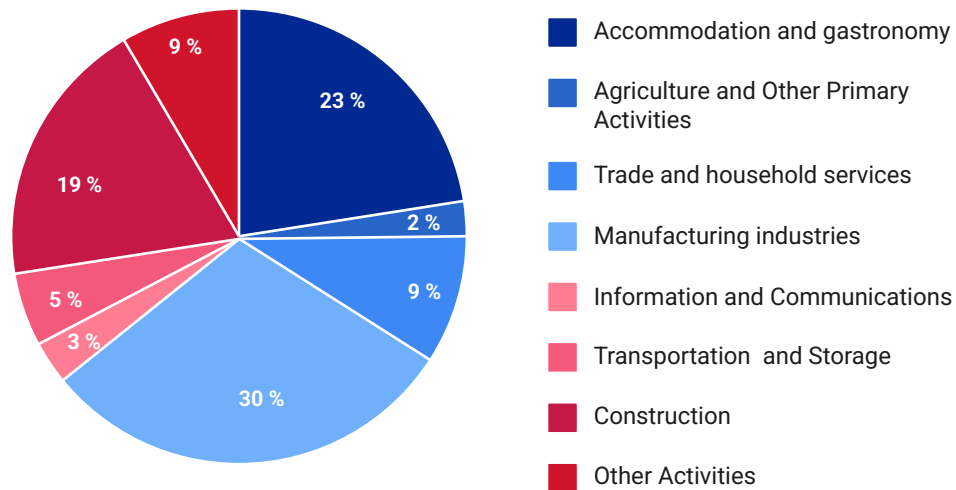
<sup>5</sup> MSMEs are registered with the National Office of Statistics and Information once registration in the Commercial Registry and the National Tax Administration Office (ONAT) is completed, processes subsequent to approval of these actors by the Ministry of Economy and Planning, hence the difference with what is published by that Ministry.

<sup>6</sup> National Statistics and Information Office of Cuba (ONEI), NATIONAL OCCUPATION SURVEY REPORT, 2024.

<sup>7</sup> Joaquín Alonso Vázquez. INFORMATION ON THE ECONOMY IN 2023 AND FIRST SEMESTER OF 2024. July 2024. Havana

<sup>8</sup> Classification by economic sector is based on the main activity entities declare during their constitution. However, in practice they can perform multiple activities called secondary, and often these even become the main source of sales.

**Figure 3: Distribution of MSMEs by Economic Activity, Cuba (June 2025)**



Source: National Office of Statistics and Information (ONEI). Institutional Organization. June 2025. Havana.

Importantly, this entire transformation occurred during a forced restructuring triggered by COVID-19's economic devastation. For entrepreneurs, this meant identifying and seizing new market opportunities beyond international tourism. Before 2020, private sector activity had concentrated heavily on tourism-related services, particularly restaurants, transportation, and accommodation providers.

## 4. THE ROLE OF THE PRIVATE SECTOR IN A STATE-CONTROLLED ECONOMY

The elevation of the private sector as a legitimate economic actor responds to imperatives for revitalizing a crisis-stricken economy, yet generates profound ideological and structural contradictions within a system that defines itself as socialist.

***The Cuban socialist framework rests fundamentally on state ownership as its cornerstone principle. In contrast, private MSMEs operate on a management approach based on individual profit maximization and capital accumulation, creating inherent philosophical conflict.***

While authorities have limited the reach of private enterprises by prohibiting entry into strategic sectors including healthcare, telecommunications, energy, and complex services, their growing presence remains obvious. MSMEs have been embraced as a practical tool for stimulating local development and job creation. Nevertheless, this coexistence between private property rights and centralized state planning creates systemic tensions that are difficult to resolve.

Both MSMEs and self-employed workers have considerable autonomy in fundamental business decisions. They can set their own prices, hire employees, and choose what products or services to offer without needing prior state authorization. This operational latitude has facilitated entrepreneurial expansion in sectors where state presence remains limited—including gastronomy, local transportation, and household services—fostering genuine competitive dynamics among private enterprises. Periodically, however, authorities have curtailed these property rights through targeted price controls on specific commodities and by delegating discretionary pricing oversight to municipal governments, a practice that has intensified markedly since early 2024.

Their autonomy extends notably to capital sourcing. Many enterprises rely on personal financing mechanisms, including savings accumulated during migratory periods, diaspora remittances, or informal credit arrangements within kinship networks. Available research utilizing official island-based data indicates that Cuban state banks have provided negligible financing to this sector.<sup>9</sup> Similarly, these enterprises operate independently of state budgetary allocations and receive no direct governmental subsidies. Conversely, private sector tax contributions have expanded steadily since 2010, reflecting their ascending economic significance. Between 2009 and 2016, personal income tax payments increased 4.9-fold, substantially outpacing general revenue growth of merely 1.5

<sup>9</sup> Economic Commission for Latin America (ECLAC). Preliminary Balance of Latin American and Caribbean Economies, 2024 (report on Cuba): <https://repositorio.cepal.org/server/api/core/bitstreams/cfe74133-4b1f-4878-964e-e7e2630ec59c/content>

times.<sup>10</sup> The non-state sector's fiscal contribution rose from 15% of total tax revenues in 2019<sup>11</sup> to 23% by 2024 (see Figure 4), underscoring their evolving role as revenue generators rather than fiscal burdens.

This independence also shows up in the management style that characterizes these companies. Generally, they have demonstrated greater efficiency, innovation capacity, and service quality compared to most state entities. While the country's economic crisis has hit the state sector harder, the private sector has managed to expand, withstanding both economic decline and frequent changes in government policy. Many entrepreneurs agree that one of their main motivations for starting their business was precisely to avoid the rigidity and slowness of state bureaucracy, leading them to adopt more dynamic business practices aligned with international standards in areas like customer service, communication, and technology adoption for process improvements. These marked differences can only result from fundamentally different incentive structures.

The prevalence of genuine competition within the private sector—conspicuously absent among state enterprises—demonstrates that these businesses do not function as concealed monopolies. Parallel markets and consumption alternatives have emerged beyond direct state oversight, reinforcing their autonomous character. Moreover, many enterprises have cultivated relationships with foreign investors and suppliers without governmental mediation, facilitating knowledge transfer, resource flows, and management practices that enhance their operational resilience. This has occurred despite the absence of a legal framework governing foreign capital participation in such ventures, inadvertently incentivizing informal arrangements.

***Anticipating exponential growth, the state has sought to circumscribe private sector expansion through stringent regulations, substantial tax burdens, and numerous administrative impediments—factors examined in subsequent sections. This posture suggests the private sector operates not as a state apparatus extension, but as an autonomous economic actor frequently at odds with official structures.***

Inevitably, within a state-enterprise-dominated model, these entities often serve as primary clients or suppliers to private businesses—a commercial dynamic characteristic of market economies generally.

---

<sup>10</sup> Ricardo Torres. We've been here before. *Progreso Semanal*. <https://progresoweekly.us/weve-been-here-before/>

<sup>11</sup> Meisi Bolaños, Minister of Finance and Prices, Speech before the Cuban parliament, December 2019.

<http://www.cubadebate.cu/opinion/2019/12/20/presupuesto-del-estado-para-2020-enfatiza-su-historico-caracter-social/>

A fundamental distinction between state and private enterprises concerns risk exposure. While state enterprises enjoy assured protection and support regardless of efficiency—economists term this "soft budget constraints"—private and cooperative enterprises face constant bankruptcy threats, dependent entirely on their capacity to generate revenue and maintain market viability.<sup>12</sup>

Cuban academic research aligns with international evidence: entrepreneurship flourishes and positively impacts national development when supported by conducive institutional environments and public policies. Particularly critical are "entrepreneurial ecosystem" components dependent on public action—specialized business development entities, fiscal and financial advisory access, and entrepreneurial culture promotion through educational and media channels. In Cuba, most of these elements remain absent.<sup>13</sup> More commonly, rather than facilitating private sector development, these factors constitute obstacles. Consequently, no coherent state policy emerges to promote this segment as a strategic partner. Instead, authorities attempt to balance the economic necessities of the private sector against the challenges it poses to the traditional state enterprise model.

---

<sup>12</sup> Ricardo González and Ricardo Torres. *Removing Soft Budget Constraints in Cuba: Toward Real Productive Reform*. Center for Latin American and Latino Studies (American University), 2024. <https://www.american.edu/centers/latin-american-latino-studies/upload/removiendo-restriccionesfinal.pdf>

<sup>13</sup> Ricardo Torres, David López, D. and Alejandro Orta. *Self-employment and its regulatory framework: a view from the entrepreneurial ecosystem in Cuba*. *Cofin Habana* 15 (special number), 2021.

## 5. ROLE AND IMPACT OF THE PRIVATE SECTOR

***From its distinctive position within the island's productive architecture, the private sector has evolved from a marginal player to an indispensable component of socioeconomic development.***

Economically, it has driven employment generation, intensified competition, and diversified domestic markets. Particularly significant has been its role in creating employment opportunities amid substantial state sector contraction. Between 2012 and 2024, the public sector as a whole eliminated almost one million jobs, while self-employment and MSMEs generated almost 570,000 jobs.<sup>14</sup> Unlike typical Latin American patterns, in Cuba these jobs are generally associated with higher wages and income, which creates tension with some officials who accuse entrepreneurs of "draining" the public sector.<sup>15</sup>

The ability of businesses to enter and exit markets freely serves as a cornerstone of economic efficiency, allowing resources to flow toward their most productive uses. When new companies enter a market, they intensify competition, which can drive down prices, improve product quality, and spur innovation. This ongoing process helps markets adapt to changing consumer needs and emerging technologies.

Conversely, allowing inefficient companies to exit the market is equally important, as it frees up resources—both capital and labor—that can then be redirected to more productive sectors or innovative businesses. While comprehensive data isn't available to fully analyze these dynamics in Cuban markets, both business entry and exit in the private sector have clearly outpaced activity across the broader economy. The number of state enterprises has remained essentially unchanged for two decades, while self-employment grew from approximately 200,000 in 2010 to over 800,000. Meanwhile, MSMEs—which emerged in late 2021 with more sophisticated structures—have established over 9,600 entities.

The private sector helps fill a crucial gap in Cuba's productive landscape: the predominance of large-scale enterprises with virtually no smaller businesses, which are typically more agile and better at adapting to changing conditions. Official statistics indicate 65% of state enterprises employ over 100 workers each, while slightly more than half of MSMEs maintain workforces of 11-35 employees.<sup>16</sup>

<sup>14</sup> According to data from the 2012 Population and Housing Census and the 2024 National Employment Survey.

<sup>15</sup> Héctor Pastori. *Small and medium enterprise: its importance. Private entrepreneurship in Cuba: policy recommendations.* Ruth Casa Editorial. Havana.

<sup>16</sup> MSME classification in Cuban legislation is as follows: Microenterprise: 1 to 10 people employed, Small enterprise: 11 to 35, and Medium enterprise: 36 to 100. Current norms prohibit private businesses with more than 100 employees. However, anecdotal information suggests several companies exceed this figure and resort to "remedies" such as dividing the matrix into various units, with close friends and relatives as partners.

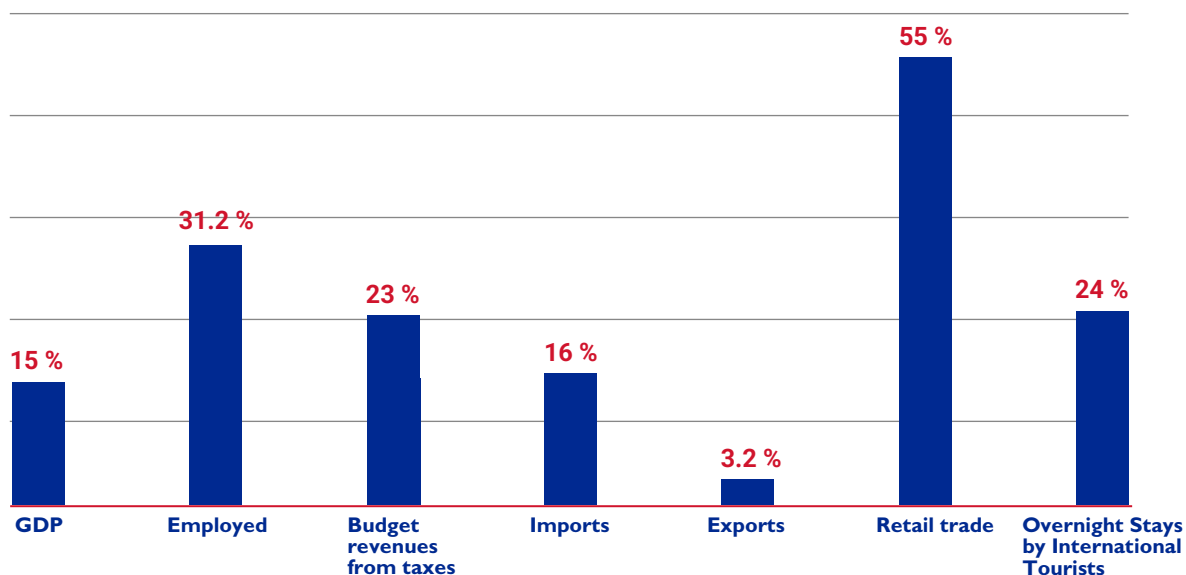
The growth of new businesses has improved access to goods and services that were previously scarce or unavailable: online retail with home delivery, internationally standardized restaurants, dehydrated foods, and custom software development. According to industry experts, private businesses are setting new standards in areas that were previously neglected, including customer service, communications with both employees and clients, and integrating technology—especially IT systems—into their daily operations. This has sparked new business models and helped modernize services across the sector.

***The Cuban diaspora plays a pivotal role in this transformation, transferring business models, capital, and establishing transnational commercial networks. Investment from overseas Cuban residents has facilitated private sector expansion domestically and enabled integration with international markets—not exclusively the United States, but Spain and other European and Latin American countries with substantial Cuban émigré communities.***

In the United States, this has been made possible largely through more flexible federal regulations governing private sector trade.

The private sector's maturation and ascending importance—encompassing MSMEs and self-employment—is evident in its participation across key economic indicators. By late 2024, this sector had become decisive in employment creation, retail commerce, consumer goods imports, and tax collection (Figure 4). Its influence proves even more remarkable considering the restrictions and challenges confronting entrepreneurs.

**Figure 4: Non-state sector participation in the Cuban economy (selected indicators, percentages)**

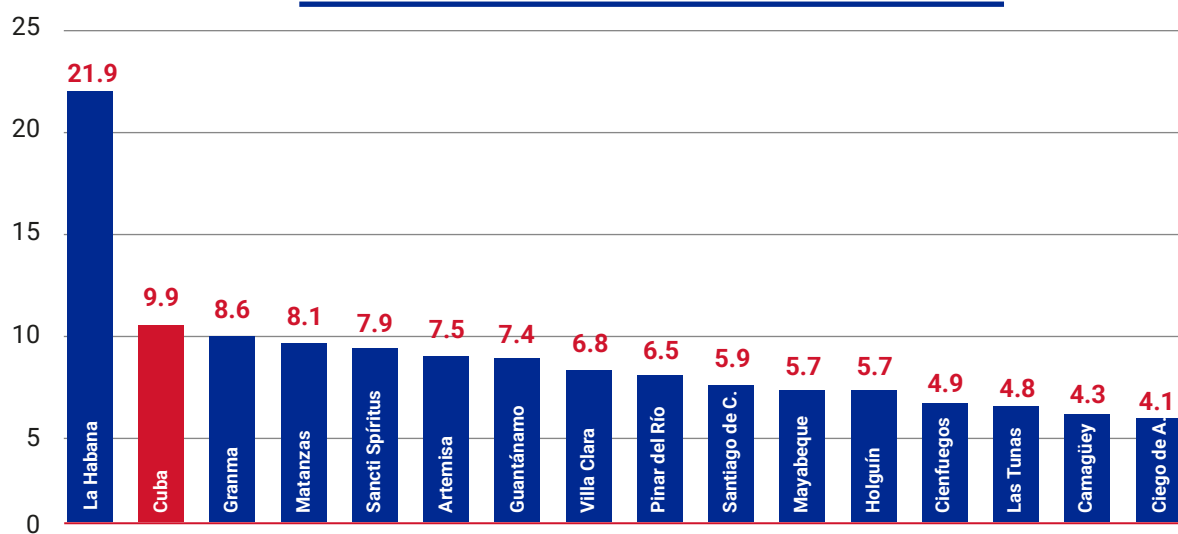


*Note: The estimate of GDP participation refers to 2023. Source: Author's calculations based on: José Luis Rodríguez, *The Cuban Economy in 2023 and Prospects for 2024 (II)*; Johana Odriozola, *Perspectives on the State-Owned Enterprise: What We Have and What We Want*. June 2023. *Cubadebate*. Retrieved from <http://www.cubadebate.cu/noticias/2023/06/21/miradas-a-la-empresa-estatal-lo-que-tene-mos-y-lo-que-queremos-video/>; Economist Intelligence Unit Cuba Report; Statistical Yearbook of Cuba 2023; Statement by the Minister of Economy and Planning before the National Assembly in July 2025; Ministry of Finance and Prices, *State Budget Settlement Report 2024* in <https://www.mfp.gob.cu/noticia/917>*

Beyond the economic realm, the private sector enhances citizen empowerment by expanding individual autonomy and cultivating an entrepreneurial ethos independent of state structures. This has facilitated greater citizen engagement in economic decision-making processes and strengthened civil society. While private sector growth has spread nationwide, MSME distribution varies

significantly across regions, with heavy concentration in the capital city. Havana benefits from being the country's main gateway, where international business connections converge, along with a disproportionate share of economic activity and purchasing power, creating substantial economies of scale.

**Figure 5: Entrepreneurship index (number of MSMEs per 10,000 inhabitants)**



Source: own calculations based on National Office of Statistics and Information (ONEI). Institutional Organization. December 2024. Havana.

This pattern follows similar trends in self-employment distribution, though eastern provinces show some notable exceptions. Granma's ranking, which places it ahead of several western provinces, is particularly surprising. Reports suggest that local government there actively helped self-employed workers transition to MSME status, indicating that supportive municipal policies can make a real difference even within an otherwise challenging environment. This reveals significant untapped potential across the country. These patterns provide valuable lessons for entrepreneur training programs like Proyecto Cuba Emprende, offering guidance on where gaps exist and optimal locations for establishing new program centers.

## 6. CHALLENGES FOR CONTINUED PRIVATE SECTOR DEVELOPMENT

In Cuba's economy, productive activity depends fundamentally on access to foreign currency. These resources finance imports that are essential to all production processes and service debt obligations that keep credit flowing. The combination of a dysfunctional economic model and multiple external shocks has caused a collapse in hard currency revenues—including exports, remittances, and foreign investment—which has depressed overall economic performance. This situation limits household purchasing power and reduces potential demand. Given the widespread inability to meet basic needs, opportunities for product diversification and market expansion remain constrained. As a result, many businesses become overly dependent on narrow customer bases and, to some degree, on remittance flows as sources of family income, which limits their growth prospects. The crisis also shows up in deteriorating essential services—electricity and transportation—which impose additional operating costs on businesses.

At the same time, the Cuban government shows no coherent strategy for managing recessions. Following decades-long patterns, authorities implement cyclical measures that never fully develop because they are reversed or their scope is reduced prematurely. This has established a "firefighting" approach that addresses issues individually and implements minimal interventions designed to preserve existing structures while avoiding structural reforms. These dynamics create deep business uncertainty, forcing entrepreneurs to guess about and anticipate what authorities really want to achieve.

Since at least 2021, Cuba's parallel foreign exchange market has become a distortion that, as international experience shows, is incompatible with sustained growth and inflation control. The official ban on this market represents a step backward toward previously abandoned policies where possessing and exchanging foreign currency was criminal activity. Cuba's experience in the 1990s offers useful lessons. For over two decades, the absence of parallel foreign currency markets indicated relatively successful monetary and exchange policies. Today's return of this market and its illegal status demonstrate ongoing failures in economic policymaking. When uncertainty prevails amid constant government threats, already high business risks become even more intense. Most recently, authorities have promoted economic dollarization without solving the problem of access to a formal and regulated foreign exchange market. This "institutional dollarization" appears designed to immediately capture foreign currency for the state and recover the market share it once had in retail trade (see Figure 4).

Cuban private entrepreneurs face multiple financing obstacles that limit their growth and long-term viability. The main challenges include a narrow range of financial products, with offerings that remain generic and poorly suited to MSME needs. Traditional state banking rigidity compounds these issues, applying criteria and risk assessments designed for large state enterprises without considering emerging private sector characteristics. Additionally, guarantee requirements prove difficult for most entrepreneurs, further restricting formal access to credit. Consequently, only 10.2% of official financing reaches the non-state sector, with merely 1.2% allocated to MSMEs.<sup>17</sup> This contrasts sharply with this sector's position as the largest net job creator since 2010.

This situation fosters informal financing market development—such as remittances and clandestine foreign investment—where conditions typically prove harsher and potentially usurious.<sup>18</sup>

***Many entrepreneurs depend on family resources, generating and amplifying capital access inequalities based on socioeconomic origins. This limits effective private sector transition possibilities and restricts it as an economic option for broader popular sectors.***

Finally, the lack of public financial support programs—such as subsidized loans, grants, and loan guarantee schemes—limits fair access to private sector development opportunities.

Since 2022, mere months after legalizing MSMEs, the Cuban government began implementing measures that hinder rather than facilitate private sector development, creating an environment characterized by legal insecurity and normative instability. This reflects a fundamental problem in government decision-making: confusion about what role the private sector should play in the national economy.

Examples include forcing TCPs with over three employees to transform into MSMEs or cooperatives under threats of closure, a new expropriation law enabling the taking of property for "social interest" including those declared to be in "tourist interest zones", and implementing mandatory banking restrictions

---

<sup>17</sup> Francisco Borrás. *Commercial banking: advances and paths to travel in banking and financing. Annual Seminar of the Center for Cuban Economy Studies. 2024.*

<sup>18</sup> *These high rates are common in informal finance but would ultimately be reflecting the risk associated with these investments. This conditions a business model that tries to minimize the investment recovery period through high prices for commercialized goods and services.*

on cash transactions. Additional requirements include opening fiscal accounts and adopting electronic payments, along with price caps and profit limits on sales to state entities. In August 2024, a new law redefined activity-specific rules, imposed environmental requirements, and added new conditions for foreign trade. This happened during a promised decentralization process scheduled for March 2025, whose implementation remains uncertain, leaving entrepreneurs constantly adapting to unpredictable changes.

***Throughout 2024, initial tax benefits for new businesses were eliminated while government controls and inspections increased. The tax structure shows, perhaps more clearly than any other area, public policy's obvious bias against developing domestic private capital.***

Comparing MSME general tax burdens with that of foreign investors<sup>19</sup> (across various modalities) reveals a complete disadvantage: not only do MSMEs face more numerous taxes, but receive similar or higher rates. For instance, profit tax reaches 35% for MSMEs, while mixed enterprises and fully foreign-owned Mariel Special Development Zone (ZDEM) subsidiaries enjoy 8- and 10-year exemptions (subsequently rising to 15% and 12%) respectively.<sup>20</sup>

The August 2024 law changed the regulatory framework for private enterprises. A new institute was created to centralize oversight of the private sector, highlighting the state's emphasis on control. New partnership restrictions were introduced (requiring effective Cuban residence<sup>21</sup>) along with new prohibitions on private sector activity in forestry, wholesale rum and tobacco sales, and organizing cultural or international events. New regulations exclude traditional self-employment (TCP) from wholesale trade, allowing them only to manage merchandise from their own production. MSMEs engaged in wholesale trade were required to establish connections with state enterprises, though officials failed to define what these relationships should look like.

In May 2025, authorities indefinitely postponed the implementation of this last provision requiring state enterprise linkages.<sup>22</sup> The measure threatened to further dislocate supply chains and retail sales, already compromised by scarcity and poor infrastructure, including frequent electrical blackouts.

Despite official assertions to the contrary, current incentive structures lead

<sup>19</sup> <https://www.ipscuba.net/especial/nuevos-actores-economicos/resources.html>

<sup>20</sup> Completely foreign capital enterprises located outside the ZDEM pay 35%, the same as MSMEs.

<sup>21</sup> Although the law was approved by the National Assembly, it is not in effect because it has not been published in the Official Gazette. (This refers to the law that establishes the category of "effective residence," which is new to Cuba's legal system.)

<sup>22</sup> This measure affected around 400 MSMEs and thousands of TCP. Although it will not be applied now, its definitive lifting was not announced.

entrepreneurs to see commercial activities as more profitable than domestic production or providing complex services. Selling imported products has much shorter payback periods than comparable manufacturing or service businesses. These policies, which increase costs and reduce profit margins, particularly hurt aspiring entrepreneurs by deepening uncertainty rather than creating conditions that encourage entrepreneurship.

**CONCLUSION:**

**PRESSURE VALVE OR**

**ENGINE OF DEVELOPMENT?**

***The growth and impact of Cuba's private sector is incontrovertible. However, whether the sector functions as a state policy safety valve or a development engine depends fundamentally on analytical perspective.***

When we look at the results and consider the private enterprise perspective, the balance tips toward viewing it as a development engine. Development requires expanded productive activity, well-paying job creation, expansion into complex sectors, conquering external markets, innovation, and resilience against external shocks. These characteristics have defined the sector's path since 2010, and especially since 2021.

The sector's relatively small scale reflects the regulatory and incentive framework that businesses face rather than their true potential, which has been amply demonstrated even under challenging circumstances. The same applies to moving into more sophisticated areas. In this regard, public policies have acted as development inhibitors, prioritizing other interests.

Looking at the question from the authorities' perspective reveals their apparent desire to keep the sector as a pressure release valve for the existing economic system. Typically, they emphasize job creation (focusing on quantity over quality) and simple production of goods and services for household consumption—an area where state enterprises have failed spectacularly. However, they show reluctance to remove restrictions and controls that would allow the sector to advance beyond "safe" limits. These boundaries seem far removed from what is needed to enable economic takeoff.

Even Cuba's closest allies have emphasized economic liberalization as an imperative. In 2023, a Russian delegation insisted that "real SME participation in the Cuban economy could be much greater, but for that it was necessary to modify key factors, such as creating a softer and more flexible tax regime."<sup>23</sup> In 2024, the Financial Times reported Chinese authorities' frustration with "Cuban leaders' lack of will to decisively implement a market-oriented reform program, despite the evident dysfunction of the current situation."<sup>24</sup> Previously in 2018, during a University of Havana Aula Magna conference, the Communist Party of Vietnam's Secretary General "exhorted Cuba to follow the path of reforms to develop its economy."<sup>25</sup>

<sup>23</sup> Russian Investments in Cuba: Business and Agreements Since 2020. *El Toque*, May 29, 2023  
<https://eltoque.com/es/inversiones-rusas-en-cuba-negocios-y-acuerdos-desde-2020>

<sup>24</sup> Ed Augustin, "China is not Cuba's sugar daddy": ties between communist nations weaken. *Financial Times*, October 13, 2024.  
<https://www.ft.com/content/9ca0a495-d5d9-4cc5-acf5-43f42a9128b4>

<sup>25</sup> The Vietnamese leader calls for "developing the market economy". *14ymedio*, March 29, 2018.  
[https://www.14ymedio.com/cuba/mandatario-vietnamita-desarrollar-economia-cuba\\_1\\_1054702.html](https://www.14ymedio.com/cuba/mandatario-vietnamita-desarrollar-economia-cuba_1_1054702.html)

So far, the "pressure valve" approach has produced poor results and undermined the private sector's enormous potential, which has been demonstrated across various productive sectors.

If the Cuban government is genuinely committed to development and economic recovery, it must implement concrete measures to dismantle the obstacles preventing greater private sector growth. Without ruling out other actions, they should consider: eliminating bureaucratic procedures for private enterprise approval; minimizing prohibited activities, particularly in professional and financial services; implementing transparent, rational legal frameworks that enable foreign investment in private enterprises; dropping state enterprise intermediation requirements for foreign trade operations; and restructuring the tax code to at least give the domestic private sector the same treatment as foreign investment.

For its part, the United States should do more to stimulate Cuba's private sector growth. Further measures should authorize financing and direct investment in private MSMEs, whether through general licenses or legislative changes to US-Cuba policy.

***Imposing additional restrictions on connections with Cuba will harm not only the island's most vulnerable populations but also damage private sector activity. The ironic consequence of further restrictions would be to strengthen state enterprises precisely when the Cuban government has implemented concrete measures to recover lost ground.***

# CUBA'S PRIVATE SECTOR:

*Pressure Valve or Engine of Development?*

---

## ABOUT THE AUTHOR

*RICARDO TORRES PÉREZ* is a research fellow and adjunct professor at the Center for Latin American and Latino Studies at American University in Washington DC. He holds a Ph.D. in Economics from the University of Havana and was a professor at the Centro de Estudios de la Economía Cubana (CEEC). He has received fellowships from Harvard University, Columbia University, American University, Paris 3 Sorbonne Nouvelle, and Finland's Central Bank. He has published several books and articles in international journals, was the chief editor of the series *Miradas a la Economía Cubana*, and is part of the editorial board of the *International Journal of Cuban Studies*. Torres has testified before the U.S. International Trade Commission and is frequently cited in print and broadcast media. He develops his research around economic development and system reform in Cuba and Latin America.

## ABOUT THE CUBA STUDY GROUP

*The CUBA STUDY GROUP* is a non-partisan, policy and advocacy organization comprised of Cuban-American business leaders and young professionals who share a vision of a free, sovereign, inclusive and prosperous Cuba that provides opportunities for all of its citizens to fulfill their aspirations. We aim to put our collective experience in leadership skills, problem solving, and wealth creation at the service of the Cuban people. By helping to remove both external and internal obstacles, we seek to facilitate change, empower individuals and promote civil society development in Cuba. We do not receive, nor accept, funding from any U.S. government source, or government-funded subcontractor.