

SUPPORT  
FOR  
A DEMOCRATIC TRANSITION  
IN CUBA

*"Only oppression should fear the full exercise of freedom."*

Jose Marti

January 28, 1997

### **Preface by the President of the United States**

The promotion of democracy abroad is one of the primary foreign policy objectives of my Administration. These efforts reflect our ideals and reinforce our interests -- preserving American's security and enhancing our prosperity. Democracies are less likely to go to war with one another or to abuse the rights of their peoples. They make for better trading partners. And each one is a potential ally in the struggle against the forces of hatred and intolerance, whether rogue nations, those who foment ethnic and religious hatred, or terrorists who traffic in weapons of mass destruction.

Today, freedom's reach is broader than ever. For the first time in history, two thirds of all nations have governments elected by their own people. As newly democratic nations have left the dark years of authoritarian government behind, millions of their citizens around the world have begun to experience the political and economic freedoms that they were so long and so wrongfully denied.

Creating open societies and democratic institutions and building free markets are major tasks that call for courage and commitment. To face these challenges, many democratizing and newly democratic governments have turned to developed democratic nations and international institutions for assistance and support. The United States has been at the forefront of these efforts, lending help in numerous areas in which we have long experience - for example, building democratic institutions and the institutions of a market economy, and protecting human rights through an effective and impartial justice system.

Cubans, like the other peoples of this hemisphere, of Eastern Europe, and of the former Soviet Union, desire to be free. The United States is committed to help the Cuban people in a transition to democracy. We will continue working with others in the international community who share our desire to welcome Cuba into the ranks of prosperous democratic nations, where it will proudly join the other thirty-four countries in this hemisphere.

This document outlines the assistance that a democratizing Cuba is likely to seek during its transition and the ways in which the United States and the international community will try to help. It draws from the experiences of other countries that have embarked upon similar transitions and highlights some of the lessons learned from those processes. It is my sincere hope that it will contribute to a better understanding of the international community's potential role in a transition to democracy and underscore the strong commitment of the American people to support the Cuban people when they embark upon that process of change.

William J. Clinton

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Response to a

## I. The Context for a Cuban Transition

### A. The Global Trend to Democracy and Free Markets

During the past decade over two dozen former communist countries have joined the global trend to democracy and free markets. The specific events which triggered these changes varied from country to country, but the numerous transitions have much in common. The lessons learned and experience gained by the United States and the international community in assisting these transition countries develop democratic institutions and market economies can serve the Cuban people well when the opportunity for transition presents itself in Cuba.

The experience of Central and Eastern Europe and the former Soviet Union indicates that the contrast between the personal freedoms and living conditions in democratic societies and the conditions in their own countries became increasingly apparent to the people, despite regime attempts to control information. Independent groups, calling on their governments to respect basic human rights, such as the freedoms of speech, association and assembly, gained popular support. Eventually, the bankrupt political systems dissolved in the face of disillusionment and demoralization within the regime, popular demands for fundamental change, and external international pressures for democratization.

At this point, transitional governments came to power, not yet perhaps themselves fully democratic, but clearly committed to undertake sweeping reforms needed to establish functioning democratic systems. They pledged to respect human rights and undertake free elections. They freed political prisoners and took action to reform or eliminate instruments of state repression, provided greater independence to the judiciary, and removed restrictions on civil society, the media and independent economic activity and private property. And they removed travel restrictions and other barriers that had isolated their people from the outside world.

While citizens themselves provided the impetus for change, external assistance has played an important role in facilitating many of these transitions. Foreign governments and international organizations and lending institutions have supplied critically important resources, training, and technical assistance necessary to overcome the legacy of the past. They have contributed assistance to help improve social conditions, build new political, economic, and judicial institutions, develop new laws, strengthen civil society and private enterprise, and support the economic liberalization and stabilization policies that spur new growth.

### B. Cuba Awaiting Transition

Cuba remains the only country in the Western Hemisphere not committed to democracy and a market economy and the only country in the former Soviet bloc not even in transition to democracy. The disintegration of the Soviet Union has exposed the degree to which Cuba's economic model was unsustainable without the artificial 'life supports' of massive Soviet

subsidies. The Cuban economy has contracted to a level roughly one third to one half below its level in 1989, with little prospect of rebuilding the country's capital base absent fundamental reforms. Even before the loss of Soviet subsidies, Cuba was progressively and predictably losing ground economically relative to other countries in Latin America. Among the most prosperous countries in Latin America in the 1950s, Cuba now has a per capita GNP about one third that of Chile and about one sixth that of Argentina.

Health and nutrition conditions have deteriorated notably in Cuba. Hospitals and schools remain open, but lack supplies. Since well before the current "special period," chronically low levels of investment produced a severe housing shortage and serious deterioration of Cuba's infrastructure. Ever increasing numbers of Cubans are driven to black marketeering and other illicit activities to survive in a dysfunctional economy. To alleviate food shortages, the regime was forced to reestablish farmers markets. But overall agricultural productivity remains extremely low. Central government control of the sector remains the norm, with little progress realized in converting state farms to self-managing cooperatives and with significant portions of the agricultural sector operated by the military. Small openings to allow self-employment have been accompanied by restrictions that hamper success and limit the creation of new jobs. While the regime continues to deny the general population the benefits of a market economy, it seeks to build an enclave foreign investment sector and a tourism industry based on preferential treatment for foreigners.

Cubans continue to be denied basic human rights. They cannot form alternative political parties to the Communist Party, elect representatives of their own choosing, form free associations such as independent trade unions, or freely express themselves, and they are denied recourse to an independent judiciary that could protect their rights. Since 1991, the United Nations has voted annually to assign a Special Rapporteur on human rights in Cuba, but the Castro regime has refused to cooperate. Since 1990, the International Committee of the Red Cross has been denied the limited access they previously had to the prisons in Cuba where thousands of political prisoners, housed along with common criminals, suffer abuse and deplorable conditions.

Disenchantment with the current regime's marxist ideology, economic mismanagement and abuse of human rights is widespread, but the regime's only response has been further repression of human rights activists and intolerance of reformist views within the government and affiliated institutions. The Castro regime has rejected international advice and support for political and economic reform. Efforts by the Spanish government to provide technical assistance to the Cubans on economic reform stalled in the face of the regime's intransigence. The European Union's negotiations with Cuba on a cooperation agreement also floundered when the regime refused to consider political reform. Hopes for a political opening were dealt a severe blow by further repression of independent groups in Cuba, such as those comprising the Concilio Cubano, and by the hardline call for ideological purity by the Central Committee of the Communist Party in March 1996. Absolute political control remains the paramount objective of the regime.

Repression is not the only tool the regime uses to maintain the dictatorship and forestall a

democratic transition. It also attempts to manipulate information on conditions internally and developments abroad to engender popular fears regarding the future prospects of Cuba without Castro. The choice for the Cuban people is not between the present and the past, as the regime would have the people believe, but between the present repression and economic malaise and a future of freedom and opportunity for all Cubans.

Based on the experience of the last decade, one can predict that, when given the opportunity to choose, the Cuban people, like the people of every other nation of the Western Hemisphere, and of every other former member of the Soviet bloc, will choose democracy and a market-based economy. The purpose of this report is not to predict the specific timing or circumstances of democratic change in Cuba, but to help to dispel misperceptions regarding the future challenges and opportunities that Cuba will face once the transition process begins.

### C. The United States and International Community Response to a Cuban Transition

The Cuban Liberty and Democratic Solidarity Act reconfirms the United States policy "that the self-determination of the Cuban people is a sovereign and national right of the citizens of Cuba which must be exercised free of interference by the government of any other country." Thus, while a peaceful transition and an expeditious economic recovery in Cuba will serve the interests of both the American and Cuban people, the timing, nature and course of the Cuban transition must be determined by the Cuban people themselves.

Once Cuba has a transition government -- that is, a government committed to the establishment of a fully democratic, pluralistic society -- the United States will be prepared to begin normalizing relations and provide assistance to support Cuba's transition. Economic sanctions will be suspended and negotiations will be initiated to promote bilateral trade relations. To normalize relations fully with a democratic government in Cuba, the United States is also prepared to enter into negotiations to either return the Naval Base at Guantanamo to Cuba or to renegotiate the present agreement under mutually agreeable terms.

To ensure that assistance necessary to facilitate a democratic transition and economic recovery is provided expeditiously and effectively following the establishment of a transition government, the United States will support the creation of a donor coordination mechanism under the leadership of an appropriate international organization. This mechanism will allow the Cuban government to ensure that its priorities and policies are clearly understood by the international community, and facilitate the task of matching Cuban assistance needs to the comparative advantages of each assistance provider.

In shaping its policies and assistance requests, the transition government in Cuba is likely to have aspirations and needs similar to those of other transition countries. While each country is unique, there are common challenges faced by all countries in transition from communism to democracy and market economies. Thus, while the Cubans themselves will need to determine their specific assistance needs, it is likely that a Cuban government embarked upon a democratic transition will seek assistance similar to that which has been provided to other transition countries.

This would include assistance --

**M** to meet critical humanitarian and other import needs early in the transition essential to relieving social hardship and initiating the reactivation of the economy;

**M** to help the Cuban people and the transition government in the process of building essential democratic institutions, both in the government and in civil society; and

**M** to help establish the policy, institutional, and legal reforms necessary to stimulate the domestic private sector, meet the long-term social needs of the population, attract foreign investment, meet conditions for lending from international financial institutions and otherwise lay the basis for economic recovery.

Over the medium to long term, the private sector should supply much of the capital resources and know-how needed for a sustained economic recovery following Cuba's transition, thus eventually obviating the need for further foreign assistance.

#### D. The Favorable Prospects for Cuba Following Transition

Cuba has excellent prospects for achieving sustained economic growth following a transition. First of all, it can benefit from the accumulated transition experiences of other Western Hemisphere and former Soviet bloc countries. The lessons learned from the Soviet bloc transitions have been presented in the World Bank's recently released World Development Report 1996, From Plan to Market. One of the principal observations in the report was the direct correlation between outward looking, liberal economic policies, and new growth and prosperity. The report noted that the transition countries studied typically returned to growth after three years of sustained liberalization.

As Cuba has already undergone the shock from the collapse of COMECON trade, the adjustment period for Cuba following commencement of sustained economic liberalization is likely to be shorter than that experienced by other former Soviet bloc countries. Also, the smaller size of the heavy industry sector in the Cuban economy relative to most of the former Soviet bloc countries should reduce the amount of additional economic dislocation due to adjustment problems common to this sector. Cuba's proximity to the United States market and its location in the heart of a rapidly growing trading region can provide an impetus to growth. The importance of this factor has been amply demonstrated by the former COMECON countries of Central Europe whose growth has been stimulated by rapidly expanding trade and investment with the European Union.

Cuba has a number of other advantages that many of the former Soviet bloc countries lacked. It is a relatively well-integrated society with a single language. Although there are racial tensions in Cuba, they are not comparable to the serious ethnic divisions that have plagued a number of transition countries. Cuba has a relatively educated, flexible, and mobile workforce that can be readily absorbed into new economic activities, and the Cuban people demonstrate a

strong entrepreneurial spirit. Cuba will also be able to draw upon the support of a large overseas Cuban community with extensive business and technical expertise, market connections, investment capital and a commitment to help their families and fellow Cubans on the island. Finally, a Cuba in transition can count on the strong bilateral and multilateral support from the United States due to the clear U.S. national interest in having a stable, prosperous and democratic neighbor.

As the World Bank president states in the introduction to the report From Plan to Market, economic transition essentially "is about how to unleash the enormous talents and energies of their populations, and how to help them achieve their countries' vision for a future of opportunity and well being for all their citizens." With an estimated 40% of the Cuban labor force unemployed or underemployed; with much of industry running at only 20% of its former capacity; with agriculture reflecting the poor productivity typical of highly state-controlled economies; and with individual rights, initiative and creativity repressed; it is not difficult to recognize the tremendous under-utilization of Cuba's natural and human resources.

Most Cubans long for greater personal freedom and recognize that a market economy would dramatically improve the overall economic prospects of the country. Nonetheless, some Cubans have reservations about a transition in Cuba, fostered by the regime's negative depictions of other transitions and by its claims that transition or democratic governments in Cuba would not be concerned with issues of national sovereignty, justice, equity, reconciliation and social welfare. Yet supporters and opponents of the present regime should both agree that these are broadly held values in the Cuban population, and thus they can be expected to be guiding principles of transition and democratic governments.

Personal concerns regarding a transition may vary. The pensioner may be concerned about further erosion of his pension. For him, a transition means a healthier economy in which the productively employed generate sufficient resources to provide improved living standards for the entire population, including pensioners. The worker, having seen real reductions in his wages or the disappearance of his job, can expect that a transition will increase job opportunities and that independent trade unions and effective labor laws will protect his interests and allow him to share the benefits of a growing market economy. Should he become unemployed for a period during the transition, he can expect that reasonable unemployment benefits and services will be available to him. The small farmer or homeowner who has acquired rights to previously confiscated property will expect a transition government to give due consideration to his acquired rights as it pursues resolution of legitimate property claims. Citizens will expect their transition and democratic governments to revitalize health and education services, improving quality while ensuring basic coverage for the population. Government officials and career military personnel should expect that a transition government committed to national reconciliation will prevent acts of retribution against those who do not seek to undermine a democratic transition. Finally, Cubans should expect that all citizens in a democratic Cuba will enjoy equal rights, and that no Cuban citizen will be denied privileges granted to foreigners.

As the transition and democratic governments seek to fulfill these expectations, the necessary international support will be available to help them do so.

## II. Consolidating a Political Transition in Cuba

### A. Human Rights in a Democratic Society

In the late 1940's, Cuba joined other nations in signing the United Nations Universal Declaration of Human Rights, yet the Castro dictatorship ranks among the world's most systematic violators of human rights. The active and diverse civil society that once existed in Cuba has largely been eliminated or placed under state control. The present regime regularly imprisons, harasses, and drives into exile Cubans who express unacceptable views or create or join independent organizations.

A transition government in Cuba is likely to welcome cooperation from the international community, particularly the United Nations or the Organization of American States, to help it ensure that human rights are respected in Cuba during its transition. Assistance could be provided to monitor human rights conditions, establish a human rights ombudsman function in Cuba, develop an effective public defender service, promote prison reform and meet the special needs of released political prisoners.

Democratic countries have hundreds, or even thousands, of diverse nongovernmental organizations (NGOs) and interest groups of varying size, strength, membership, and specialization that regularly influence political and social agendas, provide social services, and affect daily life in many ways. In transitional societies NGOs can play a critical role. They can fill social needs not met by government, provide forums for citizens to develop solutions to common problems, and draw public attention to waste, corruption, and abuse of power in the government. NGOs may also provide a means to peacefully channel and resolve individual and group differences in society, thus reducing the potential for disputes to result in violence.

Recognizing the important role of civil society in transition countries, external donors have directed considerable portions of their assistance to and through indigenous independent NGOs in transition countries, often using NGOs from their home countries as intermediaries. When Cuba begins its transition, the panorama of Cuban NGOs likely to attract external support will include formerly repressed independent NGOs, NGOs formerly controlled by the government, and newly created NGOs. Examples include labor unions, professional and business associations, cooperatives, community organizations, social service organizations, women's groups, environmental organizations, human rights organizations, and private think tanks.

An independent media plays a crucial role in a flourishing democracy and market economy. In addition to providing timely and objective information to citizens, it serves as an independent source of information to the government concerning public opinion and the realities in the country. International NGOs can help a Cuban transition government invigorate the independent media by providing assistance to train independent journalists in objective, responsible reporting methods. Technical and financial assistance can also be provided to help establish private independent radio and print media enterprises.

Critical to the development of democracy in any transition country is the formation of a strong multiparty system that will allow citizens of diverse views to effectively express themselves

politically, influence the government and its policies, and peacefully reconcile diverse popular interests and agendas. Even after restrictions to the formation of political parties are eliminated by a transition government, the legacy of decades of totalitarianism can impede the development of a strong competitive multiparty system in which compromise, consensus building, coalition building and democratic principles are the norm. To help overcome the common problems of inexperience and political culture in transition countries, donors typically provide assistance through national and international NGOs to strengthen democratic political parties. Training and technical assistance may be provided to party leaders and activists to develop organizational, fund-raising, communications and coalition building capabilities.

## B. Efficient, Democratic and Accountable Government

Transition governments face numerous governance challenges, however they come to power. They need to maintain peace and public order, without resorting to the authoritarian methods of the past. They are also challenged to increase the openness, transparency and responsiveness of the public sector. Moreover, they are faced with the concurrent tasks of satisfying the basic needs of the populace, beginning the process of national reconciliation, and defining and initiating a program of political and economic reform.

During the early phase of transition, the international community can ease the transition government's task of meeting basic needs by providing humanitarian assistance distributed through existing official channels and through NGOs. Cooperating countries and international institutions should also offer long-term advisors who can help coordinate the provision of technical assistance to support the government's political and economic reform agenda. Frequently, the impetus for reform is uneven between different parts of a transition government, and this factor can significantly shape the allocation of assistance. While donors will generally attempt to respond to a transition government's stated priorities, they will avoid committing significant resources to a particular institution in which the internal commitment to reform is lacking, regardless of the objective importance of the institution and its programs.

Transition governments also face the longer term challenge of reforming public management. Assistance is likely to be provided to strengthen financial management, control and accountability systems, develop depoliticized merit-based personnel systems, and improve tax administration. A Cuba in transition may also follow the example of other transition countries by devolving real power and responsibility to local governments. The international community can assist by providing the central government technical advice on decentralization and by providing training, technical assistance and resources to local officials. Effective municipal governments can provide much of the momentum for economic transition, as has been demonstrated by the role they have played in the privatization process in many transition countries.

Although the Cuban armed forces constitute one of the most important pillars of the present regime in Cuba, they could potentially play a positive role in Cuba's transition. The militaries in other former communist countries have acquiesced or actually assisted in democratic transitions. These militaries have found that their core professional interests need not be

threatened by the advent of democracy and the withdrawal of the military from non-military functions, such as internal security and economic activities.

A professional military that is sized to Cuba's needs, supportive of a civilian democratic government, and respectful of human rights can expect to participate in the Inter-American Defense Board, be welcomed to participate in international peace keeping efforts and benefit from an array of military-to-military cooperation arrangements, including with the United States.

Establishing the conditions for free and fair elections and passing power to a democratically elected government is a major goal of transition regimes. This entails ensuring freedom of speech, press and association, allowing political parties the opportunity to adequately organize and campaign, preparing election laws, ensuring accurate voter registries, developing the necessary administrative structures, training election officials and poll watchers, and educating the public on the election process and encouraging their active participation.

International assistance has been provided to transition countries in all aspects of preparing for and undertaking elections, including the acquisition of necessary equipment and materials. The Organization of American States, or other institutions, can also provide the additional assurance of international election observers. In this hemisphere, major international efforts have supported elections in countries such as Chile, Nicaragua, El Salvador and Haiti.

Newly established democratic legislatures in transition countries often need assistance to effectively perform an independent legislative role that differs significantly from the rubber-stamp role performed by legislatures in communist countries. Donors can provide technical assistance to help legislatures develop rules of order and procedure, committee structures, and communications mechanisms with the executive branch and the public. Exchange visits can be arranged for new legislators to experience the operation of legislatures in other countries, and technical assistance, informational materials and computer systems can be provided to help with legislative research and drafting.

### C. Rule of Law

One of the more complex and lengthy tasks facing transition countries is establishing the rule of law. In a country governed by law, the basic instrument that shapes society, the economy and the government is the constitution. The transition countries of central and eastern europe developed their new constitutions drawing heavily on their precommunist legal traditions. Cubans may decide to retain aspects of their present constitution, incorporate aspects of the 1940 constitution, and look to models elsewhere in the hemisphere and beyond for yet other provisions. If the Cuban authorities wish to examine the advantages and disadvantages of different constitutional models and provisions, the international community can assist in this process by providing the advice of constitutional experts.

Generally, establishing the rule of law also requires reform of the criminal and civil procedures and codes; the development of law enforcement institutions that are capable of enforcing the law while respecting guaranteed individual rights; a judiciary that has the skill and

independence to interpret and apply the law impartially; a legal profession that can effectively advise and represent individuals; public defenders who can defend vigorously and independently those who do not have access to private counsel; and respect for the rule of law by the citizenry and public officials.

The experience from other transition countries demonstrates the potential consequences of inadequate attention to developing an effective rule of law following the dismantling of the old authoritarian control structures. Crime and corruption can increase significantly and the development of a market economy can be seriously impaired. Based on this experience, the transition government in Cuba, as well as donors, are likely to give an early and sustained priority to developing and strengthening the rule of law.

The international community can provide advisory and institutional assistance in constitutional and legal reform to help the Cuban government incorporate the most appropriate elements from other legal systems into Cuba's own system. In establishing the rule of law, assistance for civic education and strengthening civil society can provide important complements to assistance aimed at the development of legal institutions.

Assistance to law enforcement agencies can begin once potential cooperating institutions have confidence that such agencies are committed to enforcing the law while respecting individual rights. A priority for a transition government is likely to be the development of a law enforcement capacity to deal with the potential threats of organized crime, fraud and corruption. Such assistance can be provided by law enforcement agencies from other concerned countries. As the volume of law enforcement cooperation increases, exchanges of information between Cuban and United States law enforcement agencies can be facilitated by the negotiation of a Mutual Legal Assistance Treaty similar to agreements that the United States has signed with other countries, such as Canada, Mexico, Jamaica, Argentina and Spain.

A democratic Cuba with a market economy will require considerably more judges than the country has at present, and they will need the skills and knowledge to effectively and fairly adjudicate cases in accordance with new laws and procedures. A major long-term effort will be required to retrain existing judges and train new ones. Effective administration of justice will also require training of other judicial personnel and the establishment of efficient administrative procedures and systems. Donor assistance can be helpful in all of these areas. In addition, a transition in Cuba is likely to require short-term measures to expeditiously deal with disputes such as property claims. The international community can provide technical assistance to help develop such mechanisms and institutional support for their implementation.<sup>1</sup>

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<sup>1</sup> Additional detail on possible types of assistance to help a transition government in Cuba resolve claims to confiscated property is contained in a report to Congress submitted in compliance with section 207 of the Cuban Liberty and Democratic Solidarity Act of 1996.

### III. Achieving Economic Transition and Recovery

#### A. Common Elements of Economic Transition

Although transition countries have each had their different challenges and somewhat different near-term objectives, their experiences have borne out some common lessons:

**M** Liberalizing the economies by opening trade and market opportunities creates growth. This means allowing competitive market prices to prevail in the economy and permitting the formation and operation of new enterprises.

**M** Growth typically comes through expansion of the private sector and reform and significant privatization of state enterprises.

**M** A policy of liberalization needs to be accompanied by a policy of economic stabilization, entailing fiscal and monetary discipline, and both policies should be consistently applied.

**M** Social safety nets can and should be restructured to protect citizens during the transition to a market economy and beyond.

**M** Property rights should be clearly established and protected, and appropriate financial, legal and regulatory systems need to be developed.

**M** An educational system designed to serve a command economy will require reform if it is to provide the appropriate mix of skills for a new market economy.

**M** Integration into the global economy, including full participation in international financial institutions and trade organizations, is a key ingredient to successful economic transition and recovery.

Technical and financial assistance from cooperating countries and international financial institutions can play a critical role in helping Cuba meet these challenges during its transition.

#### B. Private Enterprise and Independent Labor

The evidence from transition economies around the world clearly demonstrates that small businesses, especially in trade, services, and retailing thrive once restrictions are removed. This sector can provide most of the growth and job creation during the early years of a transition. Despite the many restrictions on private enterprise in Cuba, particularly the restriction against employing non-family members, the relative success of the self-employed provides a clear indication of the potential growth that Cuba can expect from this sector. Under present Cuban law, a foreign firm can employ Cubans through the state, but a private Cuban is prohibited from creating a job for another Cuban, regardless of how beneficial such an employment relationship would be to both parties. The Cuban entrepreneur is denied the opportunity to become more

successful and potential employees are denied the opportunity to share that success.

From early in the transition, the international community can help the government of Cuba create jobs and resurrect economic activity by financing programs that will provide technical assistance, training and credit to support the growth of small enterprises. A broad range of international NGOs are likely to become active in Cuba to help enterprising Cubans start and expand their own businesses.

Removing state controls and stimulating private initiative in the agricultural sector will also provide significant growth during the early transition years in Cuba. Farmers in Cuba, as elsewhere, have clearly shown the beneficial productivity effects of market incentives and individual ownership of land. International assistance can be particularly helpful in establishing the mechanisms to expeditiously title and register new private plots and develop land markets. For groups of farmers who prefer to operate as production cooperatives, donors can provide assistance to help them increase productivity and take full advantage of a market economy. External assistance may also be provided to help farmers establish and operate independent credit and/or service cooperatives. In addition, assistance may be provided to help privatize remaining state farms, agro-processing facilities and export marketing functions, and to stimulate the development of other private support services, such as the leasing of equipment and the provision of agricultural inputs.

### C. Legal and Institutional Framework for a Market Economy

To encourage the domestic and foreign private investment necessary for economic recovery and long-term growth, Cuba, like other transition countries, will seek to develop a legal and institutional framework that will provide a supportive, fair, transparent, and predictable business climate. Individual property and other economic rights need to be defined and made secure, while protecting public interests.

To secure property rights for all citizens, Cuba may seek assistance to establish a reliable property titling and registry system. Like many other transition countries, Cuba will also face the task of resolving the legacy of property confiscations in order to build the confidence of citizens and foreign investors alike that property rights will be protected in Cuba in the future. By promptly initiating a process to clearly identify who are the recognized owners of property, and by acknowledging the intent to provide some form of compensation to legitimate claimants who will not have their property returned, Cuba can minimize the scope and period of ownership uncertainty that can impede property exchanges and investment.

It will be up to the transition government to determine the circumstances under which it is advantageous to restore properties to former owners versus providing compensation. Common considerations include equity concerns for those who have acquired competing rights to property, the length of time required to clarify ownership under both approaches, and the government's interest in seeing productive property put to economic use. The transition government will have

the challenge of balancing these concerns in order to avoid dislocation or hardship for ordinary citizens while laying the foundations for economic growth.

The experiences of various countries of Central and Eastern Europe may be useful to Cuban officials in determining the best approach to claims resolution. While claims espoused by foreign governments, such as the United States, may be readily resolved through bilateral negotiation, the larger number of claims that would be subject to individual resolution under Cuban law presents a greater challenge. International assistance can be provided to help develop solutions that are politically, administratively and financially viable. The utilization of transferable privatization vouchers as a form of compensation is one example of creative solutions that have been used elsewhere.

In addition to securing property rights, transition governments establish other new laws to promote and regulate economic activity in a market economy, and generally protect the public interest. Technical, training and financial assistance will be available to help Cuba develop suitable laws and enforcement institutions relating to collateral, contracts, companies, bankruptcy, securities, land, condominiums, foreign investment, prevention of monopolies, labor codes, consumer protection and environmental regulations.

In order to efficiently mobilize and allocate investment capital and support private sector led growth, transition countries have had to undertake significant reform of their financial sectors. Reform of the financial sector has equity as well as efficiency implications. Instead of having credit allocations determined administratively or politically, credit should be broadly available to those borrowers who can productively use it and repay their loans.

International assistance can be provided, particularly by the international financial institutions, to restructure the state banking system with the prospect of partial or complete privatization; to develop the laws, regulations and supervisory capacity for a financial system that includes private banks; and to train bankers to adequately assess commercial risk on loans to private borrowers and state enterprises alike. Technical assistance can also be provided to help develop the legal and institutional framework for the operation of other financial markets, such as securities markets, venture capital operations, insurance and pension funds, and home mortgage lending. Private capital and expertise will play an increasingly important role in the development of the financial sector as the transition proceeds.

#### D. Managing the Economic Transition for Growth and Equity

The more successful transition governments have established coherent policies to liberalize and stabilize their economies in order to stimulate economic growth. Cuba has undertaken a number of stabilization measures to cope with the shock of the loss of Soviet subsidies and COMECON trade, but its liberalization measures have been far too limited to stimulate significant growth. External technical assistance will be available to help a transition government formulate and carry out stabilization and adjustment policies that will promote growth while protecting vulnerable groups. In addition, capital resources, primarily from the

international financial institutions, will be available to help cover financial gaps during the stabilization and adjustment process. With a sound policy framework, private capital flows will play an increasingly important role in financing the stabilization, adjustment and recovery of the Cuban economy.

Cuba can expect assistance similar to that provided to other transition countries to reform and privatize state enterprises. Donors can help the Cuban government design and implement privatization processes that are transparent and encourage broad participation. Privatization programs that provide partial or full ownership to workers can be designed where such solutions are appropriate to meet the government's social and economic objectives. Expertise can also be provided to help the government negotiate the most favorable terms on large scale privatizations.

Assistance in tax administration can be provided to help the Cuban government develop a tax system to obtain adequate revenues through broad compliance and enforcement of reasonable tax rates on consumers and the emerging private sector. On the expenditure side of the budget, assistance can be provided to help improve the efficiency of key government services. For example, comparisons of the cost of the Cuban health system with the costs of the health systems in countries in the region with comparable health indicators reveal that Cubans could have the same or improved health results at considerably less cost. A transition government in Cuba may also obtain donor assistance to help establish the long-term viability of the government's pension and disability system, and ensure that unemployment and social assistance programs provide effective protection to vulnerable groups during the economic transition and beyond.

In the early part of Cuba's transition, humanitarian assistance can help address immediate social needs and cushion the impact of adjustment measures. Assistance will also be offered to help minimize unemployment created from layoffs from state enterprises, the central government and the military. This would include retraining, job placement services, the financing of labor-intensive public works projects, and programs and policies aimed to spur job creation in the private sector.

#### E. Developing the Human Resources for a Successful Democracy and Market Economy

While politically constrained, Cuba's educational system has provided both broad access to basic education and extensive higher education in the fields of study considered important by the regime. The challenge to Cuban authorities following a transition will be to preserve the positive aspects of Cuba's education system while adapting it to meet the educational needs characteristic of a democracy and a market economy. Donors can provide assistance to the Cuban government in developing or revising academic programs in areas such as market economics, finance, accounting, business management, law, sociology and history. Assistance may also be provided to train teachers in methodologies that encourage critical thinking and creativity. As private educational institutions spring up to meet particular needs not met by the public educational system, assistance may also be provided to help develop accreditation and oversight procedures. Donors also will be prepared to assist with other educational reforms, such as decentralization and alternative financing schemes for higher education.

## F. Rebuilding Infrastructure

Years of low investment combined with neglect of maintenance in recent years have led to serious deterioration in Cuba's infrastructure. Significant investment will be needed in water and sanitation, power, telecommunications and transportation systems. Initially, the international community can help improve service by providing resources to finance inputs, spare parts and repairs. Technical assistance can also be provided to the Cuban government to develop an infrastructure investment plan that would identify emergency requirements and long term needs. Over the medium term, the Cuban government will probably seek donor assistance to finance feasibility studies; improve the operation and financial viability of public utilities; undertake the privatization of utilities and encourage competition in services; and develop regulatory mechanisms for natural monopolies. While some financing for major capital investments may be available from the international financial institutions and bilateral sources, over time the bulk of external financing for improvements in Cuba's infrastructure is likely to come from private sources.

## G. Integration into the Global Economy

A transition in Cuba will set in motion the process for Cuba's reintegration into the regional and international organizations that can provide important financial resources for economic restructuring. Restoration of membership in the International Monetary Fund (IMF) should be an early priority, both to gain access to IMF credits and as a necessary step toward renegotiation of Cuba's external debts. Renegotiation of the external debt will result in renewed credits from official and private sources. Readmission to the Organization of American States will allow Cuba to become a member of the Interamerican Development Bank (IDB). IDB and World Bank membership will allow Cuba access to structural adjustment loans. The United States will support early membership in these organizations and will offer bilateral assistance to help Cuba meet conditions for membership and loans.

Cuba's economic recovery during transition will be significantly aided by the increased opportunities for trade resulting from marketization of the economy and the lifting of the United States embargo. Cuba can also expect United States support for Cuba's inclusion in international trade agreements, and bilateral assistance to help Cuba overcome internal constraints to trade. Helping Cuba establish an attractive investment climate should also be an objective of the overall assistance program. Investment accords with the U.S. Overseas Private Investment Corporation (OPIC) and the World Bank's Multilateral Investment Guarantee Agency would allow foreign investors to obtain from these organizations political risk insurance and financing for their Cuban investments and provide the Cuban government access to investment advisory services.

## IV. Conclusion

Well conceived and implemented political and economic transition programs that lead to

democracy and market based economies are mutually supportive. A democratic government, a free press, an active civil society, and the rule of law, will all help ensure that a market economy emerges in Cuba that will benefit all Cubans. Similarly, economic policies that lead to growth and broad dispersion of property ownership, while protecting vulnerable groups, will help guarantee political stability and the consolidation of democracy.

Cuba has the human and natural resources to become a free and prosperous nation. When it undertakes a transition to democracy, Cubans from all walks of life, from San Antonio to Maisí, can count on the United States and the international community to help them forge a peaceful future, free from repression and economic misery. Cuba will then take its rightful place in the democratic community of nations, befitting its long history of struggle for freedom.

## **RESOURCE FLOWS TO SUPPORT CUBA'S TRANSITION AND ECONOMIC RECOVERY**

### **I. Bilateral and Multilateral Flows and Private Assistance**

A transitional government in Cuba committed to undertake fundamental political and economic reforms and ready to work cooperatively with external donors can expect substantial amounts of support from the United States, other governments, the European Union, agencies of the United Nations, the World Bank, the Interamerican Development Bank (IDB), and the International Monetary Fund (IMF), as well as from private sources, such as private voluntary organizations.

Prior to the advent of the current regime, Cuba was a member of both the IMF and the World Bank. Following a political transition, it should be a relatively straightforward process for Cuba to rejoin these two institutions. Cuba was never a member of the IDB. Consequently, the question of Cuba's voting share in the IDB would have to be resolved and Cuba would have to first rejoin the Organization of American States. These should not be serious obstacles. The amount of lending from the multilateral development banks would depend on a number of factors, including Cuba's possible eligibility for concessional financing under the International Development Association (IDA) of the World Bank, and the Fund for Special Operations (FSO) or the Intermediate Financing Facility (IFF) of the IDB.

Grant and other concessional assistance will be most significant in the early years of the transition. Due to proximity and national interest, the United States can be expected to be the predominant bilateral provider of such assistance, as was the case in other nearby countries that have undergone significant political change, such as Panama, Nicaragua and Haiti. While some concessional and non-concessional official credits and credit guarantees from various countries should start to become available early in the transition, Cuba will need to enter a funding agreement with the IMF and renegotiate its outstanding official debt before it can fully take advantage of this type of financing.

At this time, no country or international institution is in a position to make a specific funding commitment to support Cuba's transition. Nonetheless, it is reasonable to project that, during a six year period following the establishment of a transition government, Cuba would receive from \$4 billion to \$8 billion in private assistance and loans, grants and guarantees from the international financial institutions, multilateral organizations, and individual countries. After this period, the economic transition should be well advanced, and private and commercial flows into Cuba ought to be sufficient to make the economy self-sustaining without significant further external official assistance.

### **II. Remittances and Foreign Direct Investment**

With the removal of restrictions on remittances by the Cuban community in the United States, it is likely that there will be a surge in remittances starting early in the transition. These resource flows will provide both a positive stimulus to the economy and an important source of financing for small scale private investment. Projections based on remittance flows from other immigrant communities in the United States suggest that remittances to Cuba following a transition could exceed a billion dollars per annum.

While the Cuban Government has released varying figures on the total amount of foreign direct investment in Cuba, the amount of investment actually realized appears to be significantly lower than official declarations. With a democratic transition and market economy, dramatic increases in foreign investment can be expected to provide much of the capital needed for Cuba's economic recovery. It has been estimated that a three country composite of comparable Latin American countries (Costa Rica, Dominican Republic, and Jamaica) received \$267 million in foreign direct investment in an ordinary year. Given the investment opportunities that a reformed Cuba would offer, it is likely that foreign investment in Cuba would be substantially greater than this total.

### III. Conclusion

The amount of available financing, official and private, for Cuba's transition appears to be quite large, certainly larger than what was available on a per capita basis to any of the countries of the former Soviet Union. Assuming a will on the part of the transition government to carry out reforms expeditiously, ample funding to facilitate that process should be available.