

MA THESIS

ILLEGAL, BUT LEGITIMATE

UNDERGROUND
ENTREPRENEURIAL
PRACTICES IN CUBA
(1993-2023)




**Beyond
Roots**

AFROCUBAN EXPERIENCES

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ABSTRACT

Legitimate underground economic activities (LUEAs) have been a longstanding phenomenon in Cuba and have evolved in response to socioeconomic contexts and public policies. From 1993 to 2023, Cuba's regulatory framework for self-employment has undergone three significant periods of legalization and reform, followed by periods of stagnation and constraints on the private sector. These cycles directly and indirectly influenced LUEAs, with more open regulations correlating with a decline in LUEAs and restrictive policies driving entrepreneurial activities underground. Despite regulatory attempts to control self-employment, LUEAs persisted, fueled by license constraints and the prohibition of professional activities. Additionally, the gap between legal and socially acceptable practices allowed LUEAs to thrive. Economic crises and ineffective policies further entrenched underground economic activities, making them a permanent feature of the Cuban economy.

Keywords: Legitimate underground economic activities (LUEAs), Cuba, regulatory framework, self-employment, informal economy, private sector, black market.

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LIST OF ACRONYMS

Basic Units of Cooperative Production - Unidades Básicas de Producción Cooperativa (UBPC)

Communist Party-Partido Comunista de Cuba (PCC)

Convertible Cuban Peso (CUC)

Cuban Peso (CUP)

Economic Commission for Latin America and the Caribbean (ECLAC)-Comisión Económica para América Latina y el Caribe (CEPAL)

Legitimate Underground Economic Activities (LUEAs)

Local Development Projects-Proyectos de Desarrollo Local (PDL)

Ministry of Economy and Planning-Ministerio de Economía y Planificación (MEP)

Ministry of Labor and Social Security-Ministerio de Trabajo y Seguridad Social (MTSS)

Micro, Small, and Medium Enterprises (MSMEs)-Micro, Pequeñas y Medianas Empresas (MIPYMES)

National Office of Statistics and Information-Oficina Nacional de Estadísticas e Información (ONEI)

National Office of Tax Administration-Oficina Nacional de Administración Tributaria (ONAT)

Non-agricultural Cooperatives- Cooperativas No Agropecuarias (CNA)

US dollars (USD)

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CHAPTER I. INTRODUCTION

Illegal but “legitimate underground economic activities” (LUEAs) are intrinsically associated with entrepreneurship in Cuba.¹ Private microenterprises, in both modalities legal and licensed, and underground, informal, and extra-legal, have been a longstanding phenomenon on the country. The second variation gained relevance after the Cuban government “eradicated” self-employment and private business by the end of the '60s, pushing the entrepreneurs towards the black market and second economy to trade goods and services. These practices, however, have evolved, and entrepreneurial activities have responded to specific socioeconomic contexts and public policies.

The regulatory framework for entrepreneurship and self-employment in Cuba has navigated through 3 periods of changes from 1993 to 2023. First, 1993-2010: decriminalization and legalization of self-employment; second, 2010-2021: reform and expansion of self-employment; and third, 2021-2023: approval of private micro, small and medium-sized enterprises (MSMEs). Each period has responded to the need to overcome economic crises, upgrade the Cuban economic model, and legitimize illegal entrepreneurial activities previously tolerated.² Nevertheless, every wave has been followed by periods of stagnation of public policies and constraints on the private sector in Cuba.

Furthermore, although legal entrepreneurship has generated employment, increased individual income, the provision of goods and services, tax revenues for the government, and contributed to the GDP, the institutional ecosystem has challenged the development of the private sector in Cuba. From the government's point of view, self-employment was considered a temporary fix, a “necessary evil”, with notable sociopolitical consequences for a socialist country, provoking increased income inequalities among citizens, and contesting the state's economic and political monopoly.³ Prejudice against entrepreneurship framed this

¹ Archibald R. M. Ritter and Ted A. Henken, *Entrepreneurial Cuba: The Changing Policy Landscape* (Colorado, USA: Lynne Rienner Publishers, Inc, 2015), 6.

² Ileana Díaz Fernández, “Emprendimiento en Cuba: ¿Enfocado al desarrollo económico?,” *Economía y Desarrollo* 164, no. 2 (2020), http://scielo.sld.cu/scielo.php?script=sci_arttext&pid=S0252-85842020000200009#B8; Ritter and Henken, *Entrepreneurial Cuba*, 8.

³ Cuba is a socialist country with a one-party political system, a planned mixed economy, and a pro-Soviet Marxism-Leninism ideology. Key features include state power supremacy, limited self-organization, and state control of fundamental production means. Until the 1990s, Cuban socialism significantly reduced inequality, provided universal social services, advanced women's rights, reduced unemployment, increased female labor force participation, and promoted anti-imperialism and global solidarity.

sector as a palliative measure to solve economic downfalls and hindered its transformation into SMEs for almost three decades. Consequently, in response to a restrictive, ambiguous, and volatile public policy framework, some entrepreneurial practices remain legitimate underground economic activities.

RESEARCH QUESTION AND SUB-QUESTIONS

This thesis will attempt to answer the following research question:

How has the regulatory framework influenced the evolution of legitimate underground economic activities (LUEAs) in Cuba between 1993 and 2023?

To better understand this topic, the study is divided into three periods: 1993-2010, 2010-2021, and 2021-2023. Each period coincides with major changes in the regulatory framework for entrepreneurship and self-employment. The research starts in September 1993, when Cuba first legalized some self-employment activities. From 2010 to 2021, the number of licensed occupations grew significantly, leading to a major expansion in entrepreneurship. In 2021, new policies allowed the creation of private micro, small, and medium enterprises (MSMEs). While the regulations have gradually opened up, they still limit the scope of entrepreneurial activities. Consequently, in each period, entrepreneurial practices adapted to the changes in public policies.

To address the research question, this MA thesis will explore the following sub-questions:

- In which socioeconomic and political contexts were the changes in the public policies towards entrepreneurship approved?
- How did self-employment and legitimate underground entrepreneurial practices evolve because of the changes in public policy?
- Why and how did entrepreneurs engage in legitimate underground entrepreneurial practices?

This research is structured into six chapters. After the introduction, Chapters II, III, and IV will address the three sub-questions for each of the specified periods (1993-2010, 2010-2021,

Ailynn Torres Santana, "Socialism from above: assessing the Cuban experience," *Dissent Magazine* (Winter 2019), <https://www.dissentmagazine.org/article/socialism-from-above-assessing-the-cuban-experience/>; Díaz Fernández, "Emprendimiento en Cuba".

and 2021-2023). Chapter V will present and discuss the research findings. Finally, Chapter VI will offer the concluding remarks and a comprehensive answer to the main research question.

THEORETICAL/CONCEPTUAL FRAMEWORK

To date, the economist Douglass C. North has offered one of the most cited frameworks to understand the role of institutions in society. In his book *Institutions, Institutional Change and Economic Performance*, North defines institutions as “the rules of the game” and “humanly devised constraints that shape human interaction.”⁴ He examines both formal institutions (regulations, public policies, laws) and informal institutions (norms, customs, behaviors) that shape societal change and regulate organizations. According to North, organizations include political, economic, social, and educational bodies, which, along with individuals, are the players within (or not) the rules of the game. This analogy helps explain how public policies can foster or constrain entrepreneurial activity, define whether it is legal or illegal, legitimate or illegitimate, and whether it occurs in the formal or informal economy.

Drawing on North's assessment of formal and informal institutions, Webb et al.'s article “You say illegal, I say legitimate: Entrepreneurship in the informal economy” bridges the gap regarding entrepreneurship studies within the informal economy.⁵ The authors propose a multilevel framework that combines (micro-level) entrepreneurship theory with (macro-level) institutional and (meso-level) collective identity theories.⁶ Webb et al. explore how institutions and collective identity influence opportunity recognition and exploitation in the informal economy. Furthermore, the authors debated the dichotomy between legal and legitimate, from the perspectives of both formal and informal institutions. The incongruence between the definition of legitimate from both lenses allows the existence of the informal economy. Thus, the authors referred to “legal or illegal opportunities as specified by formal institutions, and legitimate or illegitimate as specified by informal institutions.”⁷

⁴ Douglass C. North, *Institutions, Institutional Change and Economic Performance*, (Cambridge: Cambridge University Press, 1990), 3.

⁵ Justin W. Webb et al., “You say illegal, I say legitimate: Entrepreneurship in the informal economy,” *Academy of Management Review* 34, no. 3 (July 2009): 492, <https://doi.org/10.5465/amr.2009.40632826>.

⁶ Webb et al., “You say illegal,” 492.

⁷ Webb et al., “You say illegal,” 495.

Webb et al.'s main argument is that what can be defined as illegal by formal institutions can still be understood as legitimate according to the values, norms, and beliefs of large societal groups (informal institutions).⁸ Finally, the authors propose the institutional categories of entrepreneurial activities to analyze the “means” and the “ends” of entrepreneurs that would place their endeavors within the boundaries of legal/illegal (formal institutions) or legitimate/illegitimate (informal institutions).⁹ This framework is crucial for this study, as it helps to categorize Cuban entrepreneurs' case studies as legal/illegal or legitimate/illegitimate.

Entrepreneurial Cuba: The changing policy landscape by the economist Archibald Ritter and sociologist Ted Henken is another cornerstone work to build the theoretical framework of this MA. This study will use their definition of “legitimate underground economic activities” (LUEAs), which refers to microenterprises that produce “legal goods and services outside the regulatory and tax regimes of the state”.¹⁰ These entrepreneurial activities create legal and legitimate goods and services, but restrictive policies often frame them as unlicensed or illegal according to formal institutions.

This MA thesis will combine the three frameworks discussed above. North's definition of formal and informal institutions will be coupled with Webb et al.'s analysis of illegal, but legitimate informal entrepreneurship, and with Ritter and Henken's definition of LUEAs.

Figure 1 shows the institutional categories of entrepreneurial activities defined by Webb et al., which, along with the definition of LUEAs, will guide the case study selection for this research. Case studies will appear in square A and/or square B (informal economy) and will feature entrepreneurs producing goods and services outside the regulatory framework and/or avoiding taxes due to restrictive public policies. This study will exclude illegal and criminal

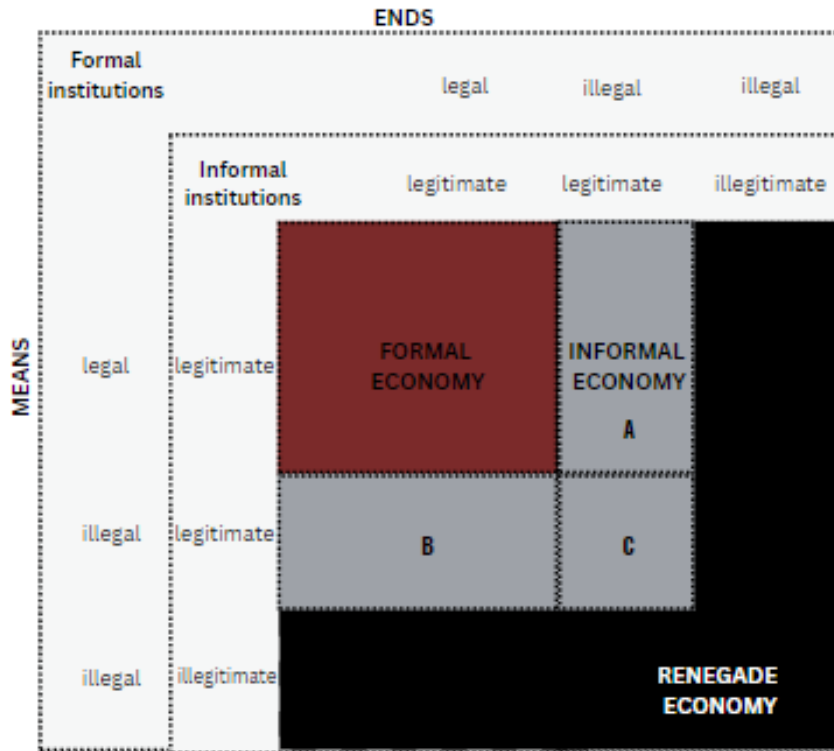
⁸ Webb et al., “You say illegal,” 493.

⁹ Webb et al., “You say illegal,” 496.

¹⁰ Ritter and Henken, *Entrepreneurial Cuba*, 205.

activities, such as drug trafficking, prostitution, and the sale of stolen goods, which Webb et al. classify as part of the renegade economy.

Figure 1 *Institutional Categories of Entrepreneurial Activities*



Source: Adapted from Webb, Justin W., Laszlo Tihanyi, R. Duane Ireland, and David G. Sirmon. “You say illegal, I say legitimate: Entrepreneurship in the informal economy.” *Academy of Management Review* 34, no. 3 (July 2009): 496. <https://doi.org/10.5465/amr.2009.40632826>.

LITERATURE REPORT

This section will review the academic literature on several related topics. It will first examine international articles on the second economy, entrepreneurship in ex-socialist states, and the distinction between entrepreneurship and self-employment in developing countries. Then, it will focus on the informal economy and entrepreneurship in Cuba, analyzing changes in the regulatory framework for self-employment across different periods. This section is primarily based on Cuban academics' articles, complemented by international studies.

Concerning the second economy in ex-socialist states, the sociologist Maria Łoś studies how the second economy ran in nations with similar economic structures as Cuba.¹¹ In her book

¹¹ Maria Łoś, ed., *Second Economy in Marxist States*, (London: Palgrave Macmillan, 1990).

The Second Economy in Marxist States, Łoś defines the phenomenon as economic activities seen as incongruent with the ideologically approved prevailing mode of economic organization.¹² In this same vein, business theorist Jorge F. Pérez-López adapts this model to Cuba, defining the second economy as “all economic activities which are inconsistent with the dominant ideology that shapes the official economy.”¹³ This model is useful for understanding Cuba's second economy which is similar to those in ex-socialist Eastern European countries.

Regarding the debate about entrepreneurship and self-employment in developing countries, David N. Margolis proposed an in-depth analysis of the two categories, often indistinctly interchanged.¹⁴ In the article published in the *European Journal of Development Research*, the author notes that over half of the workforce in developing countries is self-employed and around two-thirds do so out of necessity rather than opportunity. Margolis concludes that social protection systems, labor market frictions, the business environment, and labor market institutions influence the type of self-employment (necessity-driven vs. choice-driven).¹⁵ He also highlights that while most jobs in the developing world are self-employed, only about a third are true entrepreneurs. This conceptual debate is interesting for the Cuban case. According to the Cuban regulatory framework, self-employment is the official denomination used to refer to entrepreneurs in the country, and for this study, we will use both categories indistinctly.

To understand the informal economy in Cuba, relevant papers were reviewed, including Jorge F. Pérez-López's "Cuba's socialist economy toward the mid-1990s" in the *Journal of Communist Studies and Transition Politics*. This article analyzes Cuba's severe economic and social crisis following the Soviet Union's collapse in the early 1990s.¹⁶ In response to a severe economic contraction, Cuba implemented measures such as approving foreign currencies, authorizing self-employment, transforming state farms into cooperatives, and

¹² Łoś, *Second Economy in Marxist States*, 2.

¹³ Jorge F. Pérez-López, *Cuba's second economy: From behind the scenes to center stage* (New Brunswick: NJ: Transaction Publishers, 1995), 14.

¹⁴ David N. Margolis, “By choice and by necessity: Entrepreneurship and self-employment in the developing world,” *European Journal of Development Research* 26, no. 4 (2014), <https://doi.org/10.2139/ssrn.2462705>.

¹⁵ Margolis, “By choice and by necessity,” 426.

¹⁶ Jorge F. Pérez-López, “Cuba's socialist economy toward the Mid-1990s,” *Journal of Communist Studies and Transition Politics* 11, no. 2 (June 1995), <https://doi.org/10.1080/13523279508415284>.

attracting foreign companies for joint ventures, especially in tourism.¹⁷ Pérez-López argues that Cuba's socialist system has survived due to a second economy that meets citizens' basic needs, challenging the insufficient centrally-planned economy. This paper is crucial for understanding the initial legalization of self-employment and the ongoing dynamics of Cuba's informal economy.

Early uses of the term underground economy can be traced back to the “La economía sumergida en Cuba” by the professor Alfredo González Gutiérrez.¹⁸ The author defines the underground economy as the space for unauthorized economic transactions, arising from insufficient state supplies and increased by excessive monetary issuance without mercantile counterpart. Additionally, González Gutiérrez compares the Cuban underground economy with the informal sector in Latin America, where informality provides lower-cost alternatives for marginalized populations. In contrast, Cuba's informal economy has higher prices due to state supply shortages. The author explains why Cuban entrepreneurs are attracted to the underground economy, noting that it is not only a response to restrictive policies but also a highly profitable business.

Furthermore, González Gutiérrez outlines four stages of the underground economy's development in Cuba. First, the latent stage (before 1989) where the underground economy supplemented state deficits and accounted for less than 20% of income. Second, the development stage (1989-1992): with more money circulating, the underground economy grew to similar volumes to the state transactions. Third, the boom stage (1993-May 1995) where severe food rationing led the underground economy to surpass the state market in value, integrating foreign exchange, and altering labor and social behaviors. Four, the decline stage (from May 1995): financial reforms, market openings, and legalized self-employment reduced the underground economy's dominance. According to González Gutiérrez's assessment, the underground economy lost space after the measures taken in the 90s, especially legal self-employment, which provided social recognition to some activities previously included in the informal economy.

¹⁷ Pérez-López, “Cuba's socialist economy toward the mid-1990s,” 125.

¹⁸ Alfredo González Gutiérrez, “La economía sumergida en Cuba,” *Cuba: Investigación Económica. INIE*, September 1995.

From a more contemporary approach, Victoria Pérez Izquierdo, Fabian Oberto Calderón, and Mayelín González Rodríguez provide a comprehensive analysis of Cuba's early regulatory changes for self-employment in their article “Los trabajadores por cuenta propia en Cuba.”¹⁹ They note that before 1990, self-employed workers faced legislative constraints, primarily redistributed goods and services rather than produced them, were generally older with lower education levels, and often had strong ties to the underground economy. The authors concur with González Gutiérrez that excess liquidity in the 1990s stimulated the underground economy, leading to higher prices than in the official first economy. This suggested that the underground economy was not primarily a means of income generation for marginalized segments of the population, but rather a market created by imbalances in supply and demand in the official economy.

Additionally, Pérez Izquierdo, Oberto Calderón, and González Rodríguez argue that as self-employment expanded and became more accessible, the underground economy's influence diminished. The shift from illegal to legal activities and the increase in licensable occupations created more opportunities for private enterprises. This transition provided employment and filled market gaps by offering otherwise unavailable goods and services, becoming a significant income source for families.

Updating the work of González Gutiérrez, professors Nelson Ulises Lim Chang and Ulises Pacheco Feria analyze the emergence and development of Cuba's informal economy in “La economía informal en Cuba.”²⁰ They agree that the informal economy arose as a response to the centrally planned economy's failure to meet urgent needs, leading to unauthorized survival activities. The 1990s economic crisis propelled the informal sector's growth; however, the sector slowed down after the government's economic strategies to integrate into the main state economic some activities previously discouraged or prohibited.²¹

Despite challenges due to scarce information and the illegal nature of many activities, Lim Chang and Pacheco Feria emphasize the informal economy's substantial size and dynamic

¹⁹ Victoria Pérez Izquierdo, Fabian Oberto Calderón, and Mayelín González Rodríguez, “Los trabajadores por cuenta propia en Cuba,” 2003, https://www.nodo50.org/cubasigloXXI/economia/pizquierdo1_311004.pdf, 3.

²⁰ Nelson Ulises Lim Chang and Ulises Pacheco Feria, “La economía informal en Cuba,” (Santiago de Cuba: Facultad de Ciencias Económicas y Empresariales, Universidad de Oriente, 2005), 1–17, <https://www.scribd.com/document/277489195/Economia-Infomal-en-Cuba>.

²¹ Lim Chang and Pacheco Feria, “La economía informal en Cuba,” 3.

impact on Cuba's socioeconomic landscape. They note that studying this sector is compelling due to its complex history since 1959 and its significant role in the nation's economic development. However, it was a novel and challenging area of study given the lack of in-depth approaches and available information.

From another viewpoint, Spanish anthropologist Elena Sachetti analyzes Cuban entrepreneurs from 1993 to 2009 in her article ““Para vivir, hay que seguir inventando, mi hermano”. La experiencia de la microempresa en Cuba”, published in the *Revista de Antropología Iberoamericana*. She examines the private sector's composition, activities, behaviors, and growth aspirations, arguing that the 1993 economic restructuring in Cuba accelerated social and cultural changes.²² This led to a proliferation of the private sector, despite restrictive laws and government control. As a result, new microentrepreneurs were being introduced to the principles of a free-market economy, setting them apart from state workers. This shift in their relationship with the job market brought changes in their daily practices, objectives, and consumption patterns.

Sachetti categorizes Cuban entrepreneurs into two groups. The first group engaged in self-employment to improve small domestic units' economic circumstances. The second group comprised microenterprises with medium to high development, market integration, loyal customers, and a professional workforce. This latter group often had tense relationships with the state and close ties to the underground economy.²³ Their business models aimed for continuity and growth, including most *paladares* (restaurants), larger cafeterias, room rentals to foreigners, and medium to large-scale artisanal activities targeting the Convertible Cuban Peso (CUC) market.²⁴

A key work already referenced in this MA is *Entrepreneurial Cuba: The changing policy landscape* by Ritter and Henken. The authors examine the shifts and continuities in the first two waves of policy changes in Cuba, comparing them with other historical periods and forecasting the private sector's evolution. They argue that bureaucratic constraints,

²² Elena Sachetti, ““Para vivir, hay que seguir inventando, mi hermano”. La experiencia de la microempresa en Cuba,” *AIBR. Revista de Antropología Iberoamericana* 4, no. 2 (2009), <https://www.redalyc.org/pdf/623/62312915002.pdf>.

²³ Sachetti, “Para vivir, hay que seguir inventando,” 187.

²⁴ The CUC was introduced to streamline currency transactions, it formally replaced the US dollar in November 2004.

ideological barriers, and political apprehensions hindered microenterprise growth in Cuba. Ritter and Henken also emphasize the need for comprehensive reforms, expanded licensable occupations to include professional activities, reduced restrictions, and greater access to credit and wholesale resources to help entrepreneurs transition from the underground to the formal economy.²⁵

Furthermore, the authors argue that Cuba's underground economy combines features of the informal sector in developing capitalist countries with characteristics of the second economy in socialist nations. They bridged previous academic works on informality with Maria Łoś' study of the second economy, concluding that under capitalism the boundaries of informality are established by legal criteria, whereas under socialism the second economy is framed by both legal and ideological standards.²⁶ The authors align their theoretical framework of the underground economy with Pérez-López definition of the second economy in Cuba, previously mentioned in this literature report, which included all the activities challenging the logic and ideology of the central-planned first economy, and not only the outlawed economic activities.²⁷

From a more general perspective, the paper “Emprendimiento en Cuba: ¿enfocado al desarrollo económico?” by economist Ileana Díaz Fernández, offered a review self-employment in Cuba from the 1960s to 2018.²⁸ The author analyzes the first two waves of entrepreneurship; however, she argues that since the 70s, the Cuban government applied early and small-scale experiments of legalization of self-employment. Díaz Fernández concluded that only in the 1990s, self-employment started to be considered a complement to the central-planned economy, a source of employment, and a legitimate way to increase individual revenues. Nevertheless, as soon as the economy showed signs of recovery from the profound crisis in the 1990s, self-employment was no longer encouraged and was labelled as a “necessary evil” and a temporary fix by the Cuban government. Díaz Fernández notes that despite being legal, self-employment faced prejudice from public policy and policymakers, constraining its long-term development. This ambiguity, lack of stability, and transparency in legislation hindered the growth of dynamic, legitimate private businesses.

²⁵ Ritter and Henken, *Entrepreneurial Cuba*, 4.

²⁶ Ritter and Henken, *Entrepreneurial Cuba*, 46.

²⁷ Ritter and Henken, *Entrepreneurial Cuba*, 203.

²⁸ Díaz Fernández, “Emprendimiento en Cuba”.

The most recent work found about the evolution of the Cuban economy is *La Economía Cubana Pospandemia de COVID-19*.²⁹ The book is coordinated by the Cuban academic and head of the University Foundation for Innovation and Development of the University of Havana, Vilma Hidalgo de los Santos. The volume presents a collection of essays by academic experts from the University of Havana, which examine Cuba's post-pandemic economic state and propose new future measures. Authors like Juan Triana, Silvia Odriozola Guitart, and Hidalgo de los Santos discuss various aspects including Cuba's global economic relations, macroeconomic analysis, structural impediments to growth, considerations for economic restructuring, social policies, and the vital role of the agricultural sector. This comprehensive analysis sheds light on the complexities and potential pathways for Cuba's economic development amidst external pressures and internal challenges.

The literature review uncovered gaps in research on entrepreneurship in the informal economy, entrepreneurship in socialist contexts, and the underground economy in Cuba. While authors have updated previous studies and contributed to ongoing debates, no significant discrepancies or corrections were found. However, three patterns emerged. First, most of the works focus on the initial changes in the regulatory framework. Second, studies on the informal/underground economy primarily explore its origins and evolution until the 1990s. Several authors concurred that the informal economy was more prominent during this period, exhibiting a downward trend afterwards. Only Ritter and Henken's book addresses this issue in the 2010s, suggesting a need for further study. Thirdly, while all the consulted authors agree that the regulatory framework has been restrictive for the development of the private sector, diverse viewpoints were evident. International authors like Ritter, Henken, and Sachetti take a more critical stance, whereas Cuban academics like Díaz Fernández, Pérez Izquierdo, Oberto Calderón, and González Rodríguez express moderate views, and Hidalgo de los Santos fewer critical perspectives.

²⁹ Vilma Hidalgo de los Santos, ed., *La economía cubana pospandemia de COVID-19* (La Habana: Editorial UH, 2022).

INNOVATIVE ASPECTS

This dissertation will contribute to several debates discussed in the previous section. By intertwining topics that were found to be dispersed or overlooked during the literature review, it aims to shed light on the role of public policy in shaping entrepreneurial activities within the informal economy. The research offers an innovative approach by connecting these themes and analyzing Cuba as a case study, where it converges a robust regulatory state capacity, socialist entrepreneurship, and the presence of underground economic activities.

No updated studies were identified regarding the current state of the policy framework towards entrepreneurship in Cuba. Most of the prior academic works focussed on the initial waves, which is understandable given that the latest set of measures was only approved in 2021 and a comprehensive assessment of the impact of these changes may require some time. However, this thesis will address the evolution of LUEAs in Cuba from 1993 to 2023, extending and updating Ritter and Henken's study of entrepreneurship on the country. Ritter and Henken's approach serves as a starting point, as it is considered the most recent and comprehensive study concerning underground entrepreneurship in Cuba.

Another innovative element, as outlined in the theoretical framework, involves integrating North's formal/informal institutions framework, Ritter and Henken's LUEAs, and Webb et al.'s theorization of illegal, but legitimate informal entrepreneurship. This combined approach will shape the criteria to select and analyze the case studies. In essence, the added value of this study lies in providing an updated case study approach of legitimate underground entrepreneurship in Cuba, its evolution, motivations, and consequences for both the state and the entrepreneurs.

SOURCES AND METHODS

This research will use a combination of primary and secondary sources to analyze the evolution of the LUEAs in Cuba from 1993 to 2023. Primary sources include governmental regulations, semi-structured interviews with business owners engaged in LUEAs, statistical data from the National Office of Statistics and Information (ONEI), and insights from Cuban academics and private consultants.

The study of governmental regulations, accessed through the official publication *Gaceta Oficial de Cuba*, will provide insights into the Cuban government's stance on self-

employment and entrepreneurship. This research will analyze Decree-Laws and resolutions regarding self-employment, the private sector, and MSMEs in Cuba from 1993 to 2023.

Semi-structured interviews with business owners will offer firsthand perspectives on LUEAs. Interviews with Cuban academics and private consultants will enrich the analysis by incorporating expert insights into the entrepreneurial sector on the island. The interviews will follow a pre-formulated questionnaire with open-ended questions, which allows to gather sufficient information to answer the research question while offering space for the interviewees to clarify and develop their answers. The information gathered from the interviews will be complemented with statistical data from the ONEI to contextualize economic indicators and the evolution of self-employment.

Secondary sources consist of academic materials from various libraries and repositories. Academic books and journal articles, contribute to a comprehensive literature review, providing broader context and theoretical frameworks for understanding entrepreneurship and informal economies. These sources are allocated in the University of Glasgow Library (online), the Erasmus University Rotterdam Library, the Cuban National Library, and the Entrepreneurship and Innovation Network of the University of Havana.

Finally, to analyze primary and secondary sources, a careful and extensive desk work will be conducted. This will complement the literature review and will contribute to identifying and analyzing key aspects of the LUEAs in Cuba while offering an overview of the context in which the practices were developed.

Challenges associated with primary sources include potential subjectivity and self-censorship among interviewees, as well as limitations in accessing non-digitalized archival information in Cuba. Interviewees involved in LUEAs may be prone to offer biased or incomplete information. Considering the sensitivity of the topic, they might not feel comfortable discussing these issues, fearing potential reprisal for the practice of underground activities. Moreover, self-censorship may hinder interviewees from freely and openly evaluating and criticizing the regulatory framework and public policy of the government. Despite these challenges, the research aims to provide a nuanced understanding of LUEAs and the Cuban government's regulatory approach.

Methodologically, the research employs qualitative methods, including an extensive literature review and a case study approach. First, the literature review contextualizes the regulatory framework changes and their impacts, while the case study methodology delves into the practices of LUEAs from the perspective of actors and entrepreneurs.

The use of a case study method is suitable for examining deeply to gain insights into phenomena that are new, not well understood, or unexamined, as it is the study of LUEAs in Cuba. Additionally, the case study method enables researchers to comprehend the how and why of contemporary events, problems, and situations, as it offers a powerful narrative to illustrate a particular social context or phenomenon. The relevance of case study research increases when questions seek to explain contemporary circumstances or social phenomena (represented by “why” and “how” research questions). Moreover, case studies are particularly relevant when questions require an extensive and in-depth description of a social phenomenon.³⁰ The reasons discussed above represent a powerful incentive to the use of case studies to analysing the evolution of LUEAs in Cuba between 1993 and 2023.

³⁰ Robert K. Yin, *Case Study Research and Applications: Design and Methods*, 6th ed. (Los Angeles: Sage Publications, 2018), 33.

CHAPTER II. “MEMORIES OF UNDERDEVELOPMENT”: LEGITIMATE UNDERGROUND ENTREPRENEURIAL PRACTICES IN CUBA (1993-2010)

*One of the signs of underdevelopment,
is an inability to establish links,
to gather experience and grow.*

Memories of Underdevelopment (1968)

Cuban film by Tomás Gutiérrez Alea

Any study of contemporary Cuba must reflect first on the Cuban Revolution and the subsequent radical societal, economic, and political transformations post-1959. The Revolution sought to break away from the US dominance and enhance equality and sovereignty. At the same time, this was a motivation against capitalist development and the stimulation of private entrepreneurship. Although the Revolution achieved relative equality, expectations for improved living standards were left unmet, leading to disappointment with daily life under socialism. The economy, reliant on sugar exports, struggled to develop independently under socialism, and it suffered a severe crisis exacerbated by the Soviet Union's collapse.

This chapter offers an in-depth examination of the underground entrepreneurial practices in Cuba from 1993 to 2010. It first explores the 1990s economic crisis and the government's reforms, including the shift from a state monopoly and the legalization of self-employment in 1993. Subsequently, it examines changes in the regulatory framework and the evolution of self-employment in response. The chapter then analyzes the development of LUEAs during this period, focusing on key examples, causes, motivations, and consequences. Finally, it contrasts case studies' entrepreneurial journeys and their engagement in LUEAs with the general trends found in the period. By following this outline, this chapter addresses all three research sub-questions about the contextual landscape, regulatory changes, self-employment development, and causes and evolution of LUEAs.

2.1 THE "SPECIAL PERIOD": SOCIOECONOMIC AND POLITICAL LANDSCAPE

2.1.1 CAUSES OF THE CRISIS

Cuba's 1990s profound crisis, known as the "Special Period in Time of Peace," stemmed from post-1959 revolutionary economic strategies. The collapse of the Soviet-led bloc exacerbated the country's fragile and dependent economic structure, insufficient export diversification, limited access to foreign credits aggravated by the US embargo, and a socialist centrally planned economy heavily reliant on sugar production and exports.³¹ Despite early attempts at industry diversification, post-1959 central planning perpetuated reliance on sugar. The enduring US embargo, initiated in 1962, hindered development by disregarding Cuban sovereignty and disrupting bilateral commercial agreements.³² Additionally, socialism's emphasis on inclusive development and ties with the Soviet Union restricted Cuban progress in unforeseen ways.

To illustrate, the Cuban government's industrialization strategy from 1961 to 1963 faced challenges due to Cuba's historical reliance on sugar monoculture and its dependence on the US. The strategy aimed to diversify exports, rapidly industrialize, and substitute imports to drive economic growth, create jobs, and redistribute income. Its objectives included boosting sugar production to 7 million tons annually while reducing the share of sugar exports from 80% to 60%, as well as promoting agricultural diversification for food self-sufficiency and modernizing various industries, such as cane by-products, metallurgy, and transportation.³³

However, the rapid industrialization efforts encountered obstacles due to insufficient consideration of the costs and import levels required for later import substitution. Consequently, sugar output sharply declined in 1962-1963 from 4.8 to 3.8 million tons, partly due to the reduction of the land available for sugar cane cultivation.³⁴ Agricultural diversification also fell short of meeting food demand or compensating for the sugar export deficit.

³¹ Archibald R. M. Ritter, "The Cuban economy in the Twenty-first century. Recuperation or relapse?," in *The Cuban Economy*, ed. Archibald R. M. Ritter (Pittsburgh, US: University of Pittsburgh Press, 2004), 6.

³² Marifeli Pérez-Stable, *The Cuban Revolution: Origins, course, and legacy*, (Oxford University Press, 1999), 84-85.

³³ Pérez-Stable, *The Cuban Revolution*, 85.

³⁴ The reduction of the land available for sugarcane cultivation responded to the strategy of using that land for other crops to achieve agricultural diversification.

Archibald R.M. Ritter, *The economic development of revolutionary Cuba* (New York: Praeger, 1974), 116.

Economist Carmelo Mesa-Lago outlined Cuba's socialist economic evolution in cycles: idealist, antimarket phases, followed by pragmatic, pro-market-oriented phases.³⁵ The initial cycle, marked by idealism and antimarket tendencies, witnessed the virtual eradication of markets through rapid collectivization, adopting a command economy following the Stalinist model.³⁶ The proclamation of the socialist character of the Revolution in 1961, coupled with the US embargo's impact, deepened Cuba's isolation from the Western hemisphere. The Island then shifted towards the adoption of the Soviet model, supported by substantial economic aid and trade from the USSR. This phase saw increased collectivization, reduced foreign investment, centralized decision-making, egalitarianism, and free social services.

Contrary to expectations, central planning led to improvisation and chaotic decision-making, failing to address economic challenges. The application of the Soviet model, ill-suited to Cuba's sugar-dependent economy, suffered from the exodus of skilled workforce and managers, lack of planning experience, and unreliable statistics.³⁷ Overly ambitious industrialization targets led to declining sugar exports and trade deficits, increasing from 12.3 million Cuban pesos in 1961 to 237 million in 1962, and 322.2 million in 1963.³⁸ By 1964, the Cuban government abandoned industrialization, refocusing on sugar and agriculture.

The setback of rapid import-substitution industrialization revealed the challenge of diversifying away from sugarcane monoculture and external dependency. Industrialization and diversification depended on foreign exchange earnings, leading to the sugar agro-industrial complex becoming the focal point of growth in the next decades.³⁹

In 1959, the Agrarian Reform Law aimed to transform agriculture by eliminating large landholdings, especially those owned by US interests in sugarcane, prompting the US to terminate trade agreements with Cuba by 1960. Then, the nation turned to the USSR for

³⁵ Carmelo Mesa-Lago, "Economic and ideological cycles in Cuba. Policy and performance, 1959-2002," in *The Cuban Economy*, ed. Archibald R. M. Ritter (Pittsburgh: University of Pittsburgh Press, 2004), 25.

³⁶ For a complete examination of the cycles and its characteristics, see: Mesa-Lago, "Economic and ideological cycles in Cuba," 25-42.

³⁷ Mesa-Lago, "Economic and ideological cycles in Cuba," 30.

³⁸ Agricultural diversification and rapid industrialization aimed at changing the sugar monoculture model of the Cuban economy. Therefore, it was discouraged sugar cane cultivation and sugar production during this period. Comité Estatal de Estadísticas, "Anuario Estadístico de Cuba," 1986, 406.

³⁹ Pérez-Stable, *The Cuban Revolution*, 86.

support, and by 1964, the latter had committed to purchase 2.1 million tons of sugar at preferential prices and to increase Cuba's sugar quota over the next five years.⁴⁰

Nevertheless, neglect and mismanagement had damaged Cuba's sugar industry, causing a decline in skilled personnel and infrastructure. In 1970, the aimed record-breaking ten-million-ton sugar harvest fell short, yielding only 7.558.569 tons.⁴¹ Throughout the 1980s, sugar remained a significant part of Cuba's exports, with an average value share of total exports at 76.6%, with the USSR accounting for 66.2% of total Cuban trade.⁴²

Furthermore, Cuba joined the Council for Mutual Economic Assistance (CMEA) in 1972. The membership in the socialist trading bloc granted Cuba advantageous terms for its sugar exports, preferential prices for nickel exports, low-interest loans, a fifteen-year postponement of debt repayment, and below-market prices for petroleum imports.⁴³ However, it reinforced sugar's central role in the Cuban economy.

Cuba suffered the severest effects of the crisis in the early '90s, but the decline of its special relationship with the Soviet-led bloc was evident between 1985 and 1990.⁴⁴ Trade deficits with socialist countries increased throughout the 1980s, declining Cuba's hard-currency earnings by over 50%, increasing total debt, and exacerbating Cuba's enduring dependence.⁴⁵

Finally, on a positive note, despite economic challenges, between 1960-1990, Cuba progressed in meeting basic needs. The rationing system ensured equality by providing necessities at affordable prices.⁴⁶ By 1961, adult illiteracy was virtually eradicated through a massive alphabetization campaign. And within two decades, free education and elevated healthcare were provided. To illustrate, the patient-to-doctor ratio decreased from 1.393 in

⁴⁰ Manuel Moreno Fraginals and Teresita Moreno, "The ten million ton sugar harvest (La zafra de los diez millones)," 2017, <https://snimsib.files.wordpress.com/2017/11/ten-million-ton-sugar-harvest.pdf>, 2.

⁴¹ Moreno Fraginals and Moreno, "The ten million ton sugar harvest," 2,6.

⁴² William LeoGrande, "Cuban dependency: A comparison of pre-revolutionary and post-revolutionary international economic relations," *Cuban Studies*, no. 9 (1979), 9; "Anuario Estadístico de Cuba," 1986, 406-408.

⁴³ Cole Blasier, "COMECON in Cuban development," in *Cuba in the world*, ed. Cole Blasier and Carmelo Mesa-Lago (Pittsburgh: University of Pittsburgh Press, 1979).

⁴⁴ Ritter, *The Cuban Economy*, 6.

⁴⁵ "Anuario Estadístico de Cuba," 1986, 415-419; Comité Estatal de Estadísticas, "Anuario Estadístico de Cuba," 1988, 419-423.

⁴⁶ Archibald R. M. Ritter, "Economic illegalities and the underground economy in Cuba" (Canadian Foundation for the Americas (FOCAL), March 2006), <https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=1893baaabfb71616f24be7f962c0d51075c350df>, 8.

the 70s to 247 in the 90s, while life expectancy rose from 70 years in the 60s to 74 in the 90s.⁴⁷

2.1.2 CONSEQUENCES OF THE CRISIS

The collapse of socialism in Eastern Europe and the Soviet Union changed deeply Cuba's economic landscape. The country suffered a drastic 75% decline in foreign exchange from 1990 to 1993 due to the loss of favorable trade terms with the former Soviet Union and Eastern Europe.⁴⁸ Those terms essentially subsidized the Cuban economy, with the USSR paying above-market prices for Cuban sugar and nickel exports, and Cuba receiving petroleum imports from the Soviets well below market prices. This subsidy, estimated to account for 23-26% of national income from 1980 to 1987, made Cuba's perceived prosperity between 1975 and 1985 unsustainable.⁴⁹ With former USSR transitioning to a market economy, these subsidies ceased, triggering a chain reaction that severely reduced Cuban exports and imports of essential goods.

The macroeconomic crisis of 1993 resulted in drastic reductions in petroleum imports, comprising 93% of the total supply, causing severe contractions in transportation services and electricity generation, leading to widespread blackouts and industrial shutdowns.⁵⁰ Scheduled electricity cuts fluctuated between 12-16 hours per day, provoking unrest in the population, and affecting daily working hours, entertainment, and public services.⁵¹

A food crisis followed, driven by diminished domestic production and imports, leading to malnutrition among the Cuban population. Personal consumption fell by 15% between 1989-1990, with the intake of vital nutrients dropping significantly below recommended levels.⁵² Monthly rationing of foodstuffs and other goods was noticeably reduced, leaving Cuban consumers with fewer options at higher prices.

⁴⁷ Ministerio de Salud Pública, "Anuario Estadístico de Salud 2010," April 2011, <http://files.sld.cu/dne/files/2011/04/anuario-2010-e-sin-graficos1.pdf>.

⁴⁸ Ritter, *The Cuban Economy*, 6.

⁴⁹ Archibald R. M. Ritter, "The Cuban economy in the 1990s: External challenges and policy imperatives," *Journal of Interamerican Studies and World Affairs* 32, no. 3 (1990), <https://doi.org/10.2307/166090>.

⁵⁰ Ritter, *The Cuban Economy*, 6.

⁵¹ Jorge F. Pérez-López, "Cuba's socialist economy toward the Mid-1990s," 131.

⁵² Julio Carranza Valdés, "Cuba: Los retos de la economía," *Cuadernos de Nuestra América* IX, no. 19 (1992), 142; Viviana Togores González, *Ingresos monetarios de la población, cambios en la distribución y efectos sobre el nivel de vida* (La Habana: Centro de Estudios de la Economía Cubana. Editorial Félix Varela, 2003), 20.

The economic downturn also resulted in decreased tax revenues, widened fiscal deficits, accelerated money creation, and increased inflation, diminishing the real purchasing power of the Cuban peso and fostering a demand for US dollars, effectively leading to the dollarization of the Cuban economy.⁵³

In the 1990s, Cuba's social development experienced a significant decline, marked by healthcare system deterioration, lower living standards, increased impoverishment, social re-stratification, exclusion from certain markets, disparities between living standards and work outcomes, and growing inequalities.⁵⁴ Therefore, it was a clear necessity for new policies and strategies.

2.1.3 REFORMS AND MEASURES

In response to the crisis, the Cuban government transitioned to a pragmatic cycle in economic, social, and political decision-making. The “Special Period” was effectively a structural adjustment program, aiming to safeguard social services while implementing changes.⁵⁵ Initially, the strategy was to confine the reforms to specific sectors to protect the socialist system and the state monopoly. However, the results were modest, and the economy continued to deteriorate.

Between 1993 and 1996, facing an escalating crisis, the government reluctantly introduced cautious, piecemeal market-oriented reforms aimed at domestic sectors. As a result, Cuba legalized US dollar circulation and exchange, enacted a new foreign investment law, introduced agricultural markets, bolstered tourism infrastructure, endorsed international tourism, and legalized self-employment.⁵⁶ While these measures were limited in scope, they marked a turning point. Between 1993 and 1995, the market-oriented reforms sparked economic recovery. Though not fully restored to pre-crisis levels, economic indicators by 1996 showed some improvement: GDP rebounded from negative to growth, inflation and fiscal deficit decreased, and trade experienced significant growth.⁵⁷

⁵³ Ritter, *The Cuban Economy*, 6.

⁵⁴ Togores González, *Ingresos monetarios*, 2-3.

⁵⁵ Carmelo Mesa-Lago and Jorge Pérez-López, *Cuba under Raúl Castro: Assessing the Reforms* (Boulder (Co): Lynne Rienner, 2013), 15.

⁵⁶ Ritter, *The Cuban Economy*, 9.

⁵⁷ The GDP experienced a turnaround, shifting from a decline of -14.9% to growth of 7.8%, marking the highest rate since 1985. Monetary liquidity decreased from 73% to 42% of GDP. Inflation dropped from 26% to

One of the initiatives undertaken by the Cuban government was the legalization of US dollar circulation and exchange. The holding of US dollars by Cuban citizens was illegal after 1959.⁵⁸ Dollars were rarely seen during the 1970s and the 1980s, except in the small tourist sector and the dollar stores -which were also forbidden for Cubans.⁵⁹ During the 1990s crisis, the circulation of US dollars reappeared in the black market due to the Cuban peso's devaluation. In response, the government legalized its use in June 1993.⁶⁰ This led to a dual currency system and the stratification of Cuban society: the traditional state sector using Cuban pesos and a new sector embracing dollars. As a result of the circulation of two currencies, the state lacked full control, causing shifts in income structure and concentration of liquidity among specific population segments.⁶¹

In 1994, appeared in the scene the Convertible Cuban Peso (CUC) as one of Cuba's official currencies, running parallel to the Cuban peso until its complete phase-out in 2021.⁶² The CUC was introduced to streamline currency transactions, it formally replaced the US dollar in November 2004.

After the legalization of dollar tender, the Cuban peso appreciated from 78 pesos per dollar in 1993 to 19.2 pesos per dollar in 1996, remaining within a range of 20 to 26 pesos per dollar thereafter until 2020.⁶³ The former stability around 24 pesos per dollar was sustained by remittances, income sources in foreign currencies, and state payments in CUC, maintaining a balanced monetary supply in both currencies and preventing depreciation of the Cuban peso.

Although several measures were taken between the 1990s and 2020 to transition to the de-dollarization of the economy, the dual monetary system remained in place provoking

negative numbers, indicating deflation. The fiscal deficit reduced significantly from 34% to 2.5% of the budget. Exports and imports surged by 72% and 80%, respectively.

Mesa-Lago and Pérez-López, *Cuba under Raúl Castro*, 16-17.

⁵⁸ It was recognized as criminal offense by the 1979 and 1987's Penal Codes.

Pérez-López, "Cuba's socialist economy toward the Mid-1990s," 140.

⁵⁹ Nicholas Rowe and Ana Julia Yanes Faya, "Cuban monetary policy. Peso, dollar, or euro?," in *The Cuban Economy* (Pittsburgh: University of Pittsburgh Press, 2004), 46.

⁶⁰ Rowe and Yanes Faya, "Cuban monetary policy," 46.

⁶¹ Togores González, *Ingresos monetarios*, 2-3.

⁶² Initially, the exchange rate was 1 CUC = 1 USD, later adjusting to 1 CUC = 1.08 USD until 2011, when it reverted to 1 CUC per USD, with a 10% cash exchange tax.

"Peso Cubano Convertible," EcuRed, accessed 15-04-2024, https://www.ecured.cu/Peso_cubano_convertible.

⁶³ Viviana Togores González, "Los cambios en la estructura socioeconómica cubana. Ingresos, mercados de trabajo y consumo" (Seminario Internacional "Equity and Social Mobility: Theory and Methodology with Applications to Bolivia, Brazil, Cuba, and South Africa, Brasilia: PNUD/IPC, 2007), 12.

distortion in national accountability and deepening the income inequality among the Cuban population.

Other initiatives undertaken by the Cuban government were the establishment of Basic Units of Cooperative Production (UBPC) in 1993, from former state farms, and the opening of agricultural food markets in 1994. This represented a significant transformation of the agricultural sector. By the 1990s, Cuba had over 6.8 million hectares of land dedicated to agriculture, with approximately 75% of it owned by state farms.⁶⁴ In response to escalating food shortages, the government approved the conversion of state farms into cooperatives in September 1993. According to Messina Jr., by 1995, over 2,800 UBPCs were established, covering 42% of the total agricultural land in Cuba. By 1997, UBPCs showed higher productivity compared to state farms, with only half as much idle agricultural land.⁶⁵

Additionally, the opening of food markets facilitated the sale of “surplus” food supplies once farmers met their quota obligations with the state. This allowed consumers to purchase food, albeit at higher prices, outside of the ration system and the black market. Nova González estimated that during the 90s, ration supply only provided 60% of daily caloric consumption for the population, who relied on the food markets to source about one-third of the caloric requirements.⁶⁶ Food markets rapidly expanded, increasing the availability of agricultural products by 19% and meat by 5% between 1995 and 1996.⁶⁷

Concerning tourism and foreign investments, the post-1959 Cuban government adopted a cautious stance towards tourism, due to the negative repercussions of the tourism boom in Havana during the '50s, which contributed to prostitution, gambling, and drug-related problems.⁶⁸ Despite initial reluctance, Cuba started attracting visitors in the 1970s, but ideological concerns hindered tourism development. In 1982, Decree-Law 50/1982 facilitated

⁶⁴ William A. Messina Jr., “Cuban agriculture in transition. The impacts of policy changes on agricultural production, food markets, and trade,” in *In the Cuban Economy* (Pittsburgh: University of Pittsburgh Press, 2004), 107.

⁶⁵ Messina Jr., “Cuban agriculture in transition,” 107.

⁶⁶ Armando Nova González, “Las nuevas relaciones de producción en la agricultura,” 1998.

⁶⁷ Messina Jr., “Cuban agriculture in transition,” 107.

⁶⁸ Richard Sharpley and Martin Knight, “Tourism and the state in Cuba: From the past to the future,” *International Journal of Tourism Research* 11, no. 3 (May 2009): 242, <https://doi.org/10.1002/jtr.685>.

economic associations with foreign entities, allowing up to 49% foreign ownership in mixed companies, and attracting foreign capital for tourism.⁶⁹

The economic downturn of the '90s prompted a reassessment of tourism's potential as a key driver of foreign currency inflows and economic prosperity. This led to a surge in hotel construction, the development of tourism infrastructure, and increased foreign capital involvement in the sector. Consequently, hotel room capacities rose sharply from 12.900 in 1990 to 26.900 in 1996, and 42.600 in 2005.⁷⁰ Tourist arrivals also experienced a remarkable increase, with an average annual growth rate of 19% in arrivals and 26% in revenues throughout the 1990s, solidifying tourism as the main source of foreign currency to the Cuban economy in that period.⁷¹

In parallel, foreign investment received a significant boost with the passage of Law 77 on Foreign Investment in 1995, expanding avenues for foreign capital infusion across diverse sectors, and especially tourism.⁷² To illustrate, the Spanish hotel group, Sol Meliá opened its first hotel in Cuba in 1990, and by 1998 it became the main international tour operator on the island, managing 23 hotels and 20% of the room capacity.⁷³

The evolution of tourism during this period indicated a conceptual shift, with tourism evolving from being viewed as temporary and potentially detrimental to becoming an integral pillar of Cuban development. However, this integration into society also presented challenges, notably an upsurge in illegal activities driven by the growing imperative for Cubans to acquire foreign currency. These illicit activities ranged from unlicensed tourist rentals to prostitution and black-market dealings, underscoring the complex relationship between economic imperatives and societal dynamics.

⁶⁹ María Dolores Espino, "Cuban tourism during the Special Period," *The Association for the Study of the Cuban Economy* 10 (2000).

⁷⁰ Sharpley and Knight, "Tourism and the state in Cuba," 248.

⁷¹ Eros Salinas, Lluís Mundet, and Eduardo Salinas, "Historical evolution and spatial development of tourism in Cuba, 1919–2017: What is next?," *Tourism Planning & Development* 15, no. 3 (February 6, 2018): 223, <https://doi.org/10.1080/21568316.2018.1427142>.

⁷² Asamblea Nacional del Poder Popular, "Ley No. 77. Ley de La Inversión Extranjera," *Gaceta Oficial No. 3 Extraordinaria*, September 6, 1995.

⁷³ Félix Blanco Godínez, "Cuba's tourism industry: Sol Meliá as a case study," *The Association for the Study of the Cuban Economy* 8 (1998).

2.2 “ONE WAY OR ANOTHER”: LEGALIZATION AND EVOLUTION OF SELF-EMPLOYMENT BETWEEN 1993 AND 2010

In the aftermath of 1959, foreign and domestic companies that owned the fundamental means of production were nationalized. Only micro and small private businesses and some professionals like doctors and dentists survived the nationalization process.⁷⁴ In 1968, with the so-called "revolutionary offensive," the last private businesses were eliminated, except for the peasants who benefited from the Agrarian Reform Laws.⁷⁵

By 1975, a step back was taken, authorizing some self-employment activities with the introduction of the pilot phase of the System of Direction and Planning of the Economy (SDPE).⁷⁶ However, in the 1980s, the SDPE showed inefficiencies, while there was a decrease in labor productivity due to inflated staffing, and underemployment.⁷⁷

In the second half of the 1980s, as part of a period of "rectification of errors" and idealist cycle, self-employment was considerably restricted and no longer promoted. Data from the period showed that from 46.500 self-employed workers in 1981, it decreased to 25.200 in 1989.⁷⁸ Meanwhile, the main self-employment activities were barbers, tailors, gardeners, taxi drivers, photographers, electricians, carpenters, and mechanics, along with professional jobs such as dentists, doctors, architects, and engineers graduated before 1964.⁷⁹

2.2.1 REGULATORY FRAMEWORK

The legalization and expansion of self-employment was a cornerstone measure taken by the Cuban government to palliate the crisis. Self-employment was legalized through the Decree-Law 141/1993, which established 55 activities that could be carried out privately, individually, or with unpaid family assistance.⁸⁰ Between 1995 and 1997, a set of resolutions and decree-laws were issued that increasingly regulated self-employment with greater

⁷⁴ Pérez Izquierdo, Oberto Calderón, and González Rodríguez, "Los trabajadores por cuenta propia en Cuba," 2.

⁷⁵ Ileana Díaz Fernández, Camila Piñero Harnecker, and Héctor Pastori, "El trabajo por cuenta propia en Cuba: Lecciones de la experiencia uruguaya," *Centro de Estudios de La Economía Cubana* Boletín Cuatrimestral (April 2012): 2, <https://www.researchgate.net/publication/284188145>.

⁷⁶ Díaz Fernández, Piñero Harnecker, and Pastori, "El trabajo por cuenta propia en Cuba," 2.

⁷⁷ Díaz Fernández, Piñero Harnecker, and Pastori, "El trabajo por cuenta propia en Cuba," 2-3.

⁷⁸ Díaz Fernández, Piñero Harnecker, and Pastori, "El trabajo por cuenta propia en Cuba," 3.

⁷⁹ Díaz Fernández, Piñero Harnecker, and Pastori, "El trabajo por cuenta propia en Cuba," 2.

⁸⁰ Consejo de Estado, "Decreto-Ley No. 141/1993. Sobre el ejercicio del trabajo por cuenta propia," *Gaceta Oficial No. 5 Extraordinaria*, September 8, 1993.

restrictions.⁸¹ Within this period, the licenses were extended to 117 and later to 157 activities, but also included an increase in fees and a rigid control system. In 1998, a new regulation came into effect, which lasted until 2003 and did not introduce significant changes. In 2004, a new resolution -Res.11/2004- reinforced the temporary nature of self-employment and announced 40 activities for which new licenses would not be granted, although existing ones would be renewed -including all branches of gastronomy, construction workers, artisan, driver taxis, seamstress, tailor, etc.⁸² The last regulation of this period was Res. 9/2005 which updated Res.11/2004, but without substantial alterations.⁸³

In general terms, the regulatory framework established that individuals could only possess one license. Additionally, cohabiting family members were allowed to assist with food-related activities in all their modalities; however, hiring salaried workers and the holding of multiple licenses in the same household was forbidden. Self-employed workers could not trade with state entities. Raw materials were to be obtained from the retail network in foreign currency, agricultural markets, and industrial product markets; and wholesale trading of products was not allowed. Professional activities were forbidden, and only by the late 90s university students were included among the self-employed if the activity was not related to their profession.⁸⁴

2.2.2 DATA AND ACTIVITIES

The initial licences were distributed as follows: transportation and support activities, housing repair activities, activities related to agriculture, activities related to family and personal needs, and household activities. By 1995 there were around 138.100 registered self-employed citizens.⁸⁵ By 2003, the total registered licenses reached 147.743. Figure 2 shows the number of self-employment licenses granted between 1980 and 2009. As noted in the graphic, the number of licenses increased notably in 1995 due to the initial liberalization. However, towards the end of the decade, self-employment declined due to increasingly strict

⁸¹ Sachetti, “Para vivir, hay que seguir inventando,”178-183.

⁸² Ministerio de Trabajo y Seguridad Social, “Resolución No.11/2004. Reglamento sobre el ejercicio del Trabajo por cuenta propia,” *Gaceta Oficial No. 32 Ordinaria*, May 11, 2004.

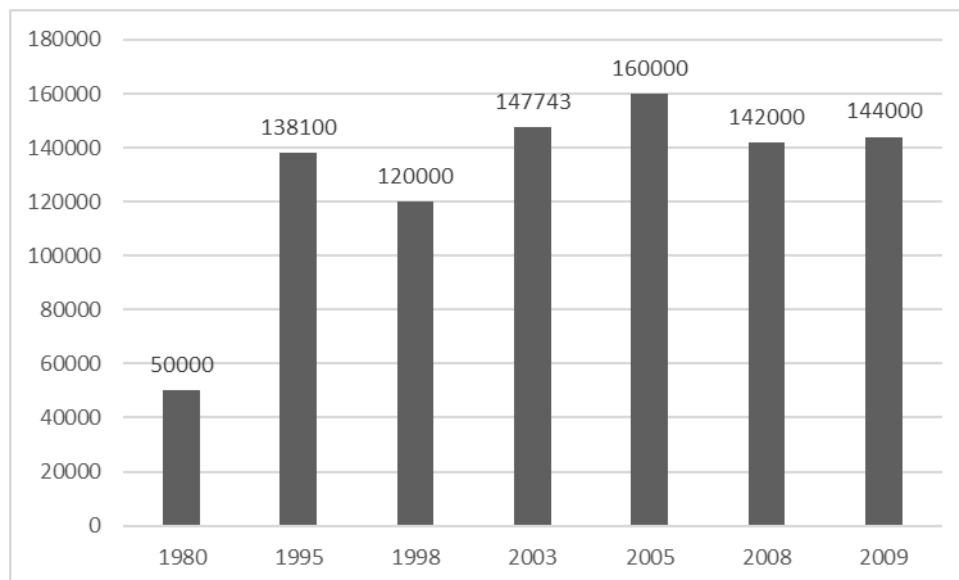
⁸³ Ministerio de Trabajo y Seguridad Social, “Resolución No.9/2005,” *Gaceta Oficial No. 13*, May 25, 2005.

⁸⁴ Sachetti, “Para vivir, hay que seguir inventando”; Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba”; Pérez Izquierdo, Oberto Calderón, and González Rodríguez, “Los trabajadores por cuenta propia en Cuba”.

⁸⁵ Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba,” 3.

regulations, which were further reinforced in 2004. The graph illustrates a continuous decline from 2005 onwards, remaining stagnant until a new wave of liberalization in the 2010s.

Figure 2 *Number of self-employment licenses granted between 1980 and 2009*



Source: Own elaboration based on Díaz Fernández, Ileana, Camila Piñero Harnecker, and Héctor Pastori. “El trabajo por cuenta propia en Cuba: Lecciones de la experiencia uruguaya.” Centro de Estudios de La Economía Cubana Boletín Cuatrimestral (April 2012): 9, <https://www.researchgate.net/publication/284188145>.

A study conducted by Pérez Izquierdo, Oberto Calderón, and González Rodríguez showed that self-employed represented 4% of the total employment in the country in 2003, and the sector was male-dominated (73% of the total registered), and the most representative age groups were above 60-years-old (29%), and between 30 to 39-years-old (22%).⁸⁶ The surveyed group reported that 56% entered into self-employment looking for an increase in their family income, while 36% answered that they were enjoying self-employment activities. In their study, the authors confirmed that self-employment was decreasing since 1996. Only 1996 witnessed an increase of 25.38% in licences compared with 1995, showing a descendant tendency until 2003 when only 22 out of 100 licence requests were granted.

⁸⁶ Pérez Izquierdo, Oberto Calderón, and González Rodríguez, “Los trabajadores por cuenta propia en Cuba,” 7,10.

2.3 THE DAMOCLES SWORD: LEGITIMATE UNDERGROUND ENTREPRENEURIAL PRACTICES BETWEEN 1993 AND 2010

2.3.1 EVOLUTION IN THE PERIOD

During the period spanning from 1993 to 2010, LUEAs were marked by the transition towards the formality of a large number of private businesses that were previously operating illegally. Nevertheless, the period was also characterized by the perpetuation of previous informal/illegal practices. Tax underreporting, supply shortages, activity limitations, and the absence of clear distinctions between production and sales roles within self-employment activities, were persistent causes of LUEAs.

The Cuban economist and professor González Gutiérrez argued that between 1993-May 1995 the underground economy experienced its highest boom because of the insufficient rationed food supply.⁸⁷ In terms of value, by mid-1993, it was estimated that the underground economy had a transaction volume similar to that of state retail sales, but with prices 20 times higher.⁸⁸ After May 1995, there was a decline in underground activities and a coexistence with the legal market. The author attributed this change to the measures taken by the government to face the crisis, mainly to the economic space granted to self-employment, which provided social recognition to activities previously included in the underground economy.

Furthermore, the initial surge in self-employment licenses seemed to channel individuals who were operating informally, as over 30% of those who obtained licenses had no formal employment ties.⁸⁹ Research conducted by Díaz Fernández, Piñero Harnecker, and Pastori as well as findings by Sachetti shed light on this transition period.⁹⁰ However, one notable phenomenon during this time was the tendency to underreport taxes, indicative of a thriving informal market and challenges in sourcing supplies.

Regarding the informal market and supply challenges, the business environment remained precarious. The scarcity of supplies to produce goods and services by self-employed

⁸⁷ González Gutiérrez, “La economía sumergida en Cuba”.

⁸⁸ Alfredo González Gutiérrez, “La economía cubana en 1994 y escenarios para 1995,” *Cuba Investigación Económica* 1 (1995): 5, https://www.nodo50.org/cubasigloXXI/economia/ggutierrez_310805.pdf.

⁸⁹ Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba,” 9.

⁹⁰ Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba”; Sachetti, 2003, 50, cited in Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba”.

individuals often led to illegality and diversion of resources from the state sector. Self-employed individuals predominantly relied on various markets for their materials and supplies, including the currency exchange market, the black market, self-employment shops, and agricultural markets.⁹¹

Concerning the allowed licensable occupations, professional activities continue to be forbidden. These limitations were certainly misguided in a country with a high proportion of skilled labor, and perpetuated previous and future cycles of restrictions on professional activities.⁹² The absence of financing mechanisms and restrictions on hiring also posed challenges for self-employed workers.

Finally, according to Pérez Izquierdo, Oberto Calderón, and González Rodríguez, the lack of a clear delineation between production and sales in self-employment activities led to contradictions between legislation and observed behaviors. Many self-employed individuals required assistance across various activities, not just limited to food-related ones.

Consequently, they resorted to subcontracting additional labor, often employing relatives, neighbors, or acquaintances who sought income opportunities. In failing to grant licenses to these unregistered assistants, the state forfeited potential tax revenues while also perpetuating illegality.⁹³

2.3.2 CASE STUDIES: STORIES TOLD BY THEIR PROTAGONISTS

Case 1: Mario operates a house rental business and resides in Varadero, a prominent Cuban tourist destination. In the 1990s, amidst the economic crisis and increasing tourism, he argued that house rental -bed and breakfast-, fishing, and gastronomy were the primary income sources for locals.⁹⁴ Consequently, his family began renting out a spare room informally. Rental procedures were regulated by the Housing Law of 1988, amended by Decree 171/1997, which permitted renting more than two rooms per house.⁹⁵ However, Varadero's designation as a "zone of high significance for international tourism" subjected it to special

⁹¹ Pérez Izquierdo, Oberto Calderón, and González Rodríguez, "Los trabajadores por cuenta propia en Cuba," 22.

⁹² Díaz Fernández, Piñero Harnecker, and Pastori, "El trabajo por cuenta propia en Cuba," 9

⁹³ Pérez Izquierdo, Oberto Calderón, and González Rodríguez, "Los trabajadores por cuenta propia en Cuba," 20.

⁹⁴ Mario A. García Albuérne, "Interview about his experience in self-employment in Cuba," interview by Yaquelín Samper Hormaza, March 21, 2024.

⁹⁵ Consejo de Estado, "Decreto-Ley 171/1997. Sobre el arrendamiento de viviendas, habitaciones o espacios," *Gaceta No.3 Extraordinaria*, May 15, 1997.

regulations, with local authorities exercising discretionary power over rental approvals.⁹⁶ Mario noted that Varadero's regulations prolonged the legalization process, yet his family sustained itself by earning foreign currency through informal rentals.

In 2000, he obtained a license permitting him to rent out his house, but solely to Cuban residents and in Cuban pesos. Consequently, he persisted in informally accommodating tourists and accepting payment in foreign currencies such as dollars or euros. It wasn't until 2017 that he finally obtained a proper license, allowing him to fully legitimize his business: renting to tourists, accepting foreign currency, and paying taxes in CUC.⁹⁷ Before obtaining this license and transitioning to formal operations, Mario continuously operated in the informal sector and avoided taxes, first due to his informal operations without license, and later because he was paying taxes in Cuban pesos while earning foreign currencies.

Case 2: Carlos, carpenter turned repairer. Carlos obtained a carpenter license in 2000, which required him to pay a monthly lump sum tax of 45 Cuban pesos.⁹⁸ The license limited his activities to furniture repair and the production of furniture only upon direct request, with customers providing raw materials.⁹⁹ Additionally, he could not join any furniture production or sales associations. In 2003, a yearly sworn statement called the Annual Personal Income Statement was introduced, obliging him to declare all personal incomes. Taxes were levied on the remaining revenue after deducting the monthly lump sum, with only a 10% allowance for necessary expenses related to his work.¹⁰⁰ In 2010, the monthly lump sum tax was increased to 200 Cuban pesos.¹⁰¹

⁹⁶ Consejo de Estado, "Decreto-Ley 233/2003. Que modifica artículos de la Ley No. 65, Ley General de la Vivienda," *Gaceta Oficial No. 12 Extraordinaria*, July 15, 2003;

Ministerio de Turismo, "Resolución No. 23/2001," *Gaceta Oficial No. 51 Extraordinaria*, July 5, 2001.

⁹⁷ As mentioned before, the CUC was introduced in 2004 and formally replaced the US dollar in the domestic economy.

⁹⁸ Ministerio de Trabajo y Seguridad Social, "Resolución Conjunta No. 1/98 MTSS_MFP," *Gaceta Oficial No. 22 Ordinaria*, May 4, 1998.

⁹⁹ The regulation stated that "carpenter: is intended to provide individual services for the repair and maintenance of wooden furniture and real estate, as well as the production of furniture upon direct customer request, with the customer providing and justifying the raw materials. It does not include association for the production and commercialization of furniture."

Ministerio de Trabajo y Seguridad Social, "Instrucción No.1/98," *Gaceta Oficial No. 22 Ordinaria*, May 4, 1998, 387.

¹⁰⁰ Ministerio de Finanzas y Precios, "Resolución No.253/2003," *Gaceta Oficial No. 15 Extraordinaria*, September 12, 2003.

¹⁰¹ Ministerio de Finanzas y Precios, "Resolución No.286/2010," *Gaceta Oficial No. 012 Extraordinaria Especial*, 2010.

Carlos encountered significant challenges in procuring and justifying raw materials and supplies as a carpenter, due to factors such as the absence of wholesale markets and restrictions on raw material purchases.¹⁰² Consequently, he consistently underreported his taxes and sought ways to reduce his tax obligations. In 2018, Carlos modified his license to become a "repairer of various items," which included bed frame repair, under a simplified tax regime requiring a 40 Cuban pesos tax obligation.¹⁰³ In reality, Carlos continued to operate as a carpenter, purchasing supplies and selling his work on the black market. Despite having a valid license, he continued to underreport taxes.

2.4 CHAPTER CONCLUSIONS

Between 1993 and 2010, Cuba faced a severe economic crisis following the Soviet bloc's collapse. The "Special Period" highlighted Cuba's fragile economy, insufficient export diversification, limited foreign credit access due to the US embargo, and deficiencies of a socialist centrally planned system heavily reliant on sugar production and exports. To address the crisis, the Cuban government introduced market-oriented reforms and legalized self-employment in 1993.

Legalization of self-employment aimed to mitigate the crisis, with significant regulatory changes between 1993 and 1996. However, restrictions persisted, limiting licensable occupations, controlling raw material sources, and forbidding the practice of professional activities and workforce hiring. Consequently, the number of self-employment licenses initially increased but declined by the decade's end due to tightening regulations.

Concerning the LUEAs, this period saw a mix of formalization of previously illegal businesses but also the perpetuation of ongoing informal practices. The most common practices in the period were operations without licenses, tax underreporting, and operations in the black market due to supply shortages. Case studies highlighted the same tendencies. Mario transitioned to formal operations but had long engaged in informal activities due to restrictive regulations. Carlos faced supply issues and regulatory constraints and continuously

¹⁰² Carlos A. Albelo Abrahante, "Interview about his experience in self-employment in Cuba," interview by Yaquelin Samper Hormaza, February 8, 2024.

¹⁰³ Ministerio de Trabajo y Seguridad Social, "Resolución No. 12/2018," *Gaceta Oficial No. 35 Extraordinaria*, June 29, 2018, 582; Ministerio de Finanzas y Precios, "Resolución No. 194/2018," *Gaceta Oficial No. 35 Extraordinaria*, June 29, 2018, 540.

CHAPTER II. MEMORIES OF UNDERDEVELOPMENT

underreported taxes. In summary, Cuba's economic and regulatory landscape from 1993 to 2010 was marked by efforts to adapt to crisis conditions through cautious reforms, resulting in fluctuating levels of self-employment and persistent LUEAs.

CHAPTER III. “DEATH OF A BUREAUCRAT”: LEGITIMATE UNDERGROUND ENTREPRENEURIAL PRACTICES IN CUBA (2010-2021)

“Uncle” Paco, a stellar worker, is buried with his work permit. Without it, obtaining a pension becomes impossible. Amid a bureaucratic odyssey, the nephew confronts his uncle's corpse, attempting to persuade him to surrender the document, despite resistance. Then, the nephew begs: “Uncle, put in your part.”

Death of a Bureaucrat (1966)

Cuban film by Tomás Gutiérrez Alea

3.1 SOCIOECONOMIC AND POLITICAL LANDSCAPE BETWEEN 2010 AND 2021

Although the official end of the "Special Period" suggested a turnaround, Cuba's economic challenges have endured and even exacerbated. Economists Carmelo Mesa-Lago and Jorge Pérez-López noted a brief economic rebound between 1995-1996, followed by a halt in reforms until 2003, and an idealistic cycle of reversal of the reform process lasting until 2006.¹⁰⁴ This stagnation prevented the measures from reaching their full potential and resulted in adverse effects: GDP growth slowed, with significant declines in sectors like sugar production.¹⁰⁵ Despite a reduction in unemployment from 9% in 1996 to 3.3% in 2002, this came at the expense of expanding labor surpluses in the state sector.

Additionally, Cuba returned to reliance on an exclusive trading partner by the early 2000s. Venezuela emerged as Cuba's primary economic supporter, providing approximately 4 billion US dollars in credits, investments, and aid.¹⁰⁶ Venezuela also covered an oil import bill of around 2.5 billion US dollars, paid by Cuban professionals' services.¹⁰⁷ Additionally, bilateral trade reached 2.6 billion US dollars, accounting for 18% of GDP.¹⁰⁸

¹⁰⁴ Mesa-Lago and Pérez-López, *Cuba under Raúl Castro*, 19-20.

¹⁰⁵ Facing production costs exceeding international prices, the Cuban government initiated a significant restructuring of the sugar industry, which involved shutting down 45% of sugar mills, repurposing 60% of sugarcane lands, laying off 100,000 workers, and sugar production falling 47% from 2004 to 2005. The expected but not reached outcome was to reallocate resources for more productive economic activities. Mesa-Lago and Pérez-López, *Cuba under Raúl Castro*, 19.

¹⁰⁶ Mesa-Lago and Pérez-López, *Cuba under Raúl Castro*, 21.

¹⁰⁷ Sugar output dropped significantly between 2002 and 2007, prompting Cuba to shift from goods exports (excluding nickel) to exporting professional services like healthcare, education, sports training, and security. Consequently, in the early 2000s, Venezuela and Cuba entered into special bilateral agreements, supported mainly by Venezuelan oil sold at preferential prices, in exchange for Cuban professionals.

Mesa-Lago and Pérez-López, *Cuba under Raúl Castro*, 20-21; Joseph L. Scarpaci, Ted A. Henken, and Archibald R. M. Ritter, “Two decades of re-aligning mundane entrepreneurship in Cuba,” *Economía, Sociedad y Territorio XVI*, no. 51 (April 2016): 383, <https://doi.org/10.22136/est002016814>.

¹⁰⁸ José Antonio Alonso and Pavel Vidal, eds., *¿Quo vadis, Cuba? La incierta senda de las reformas* (Madrid: Catarata Libros, 2013).

The macroeconomic crisis of the 90s and subsequent government responses highlighted Cuba's structural weaknesses and struggles with international competitiveness. Upon assuming power in 2006, Raúl Castro inherited an unsustainable economic and social situation. This prompted a renewed focus on pragmatic economic strategies and the most significant transformations since 1959.

This chapter offers an in-depth examination of the underground entrepreneurial practices in Cuba from 2010 to 2021. It first explores and contextualizes the incremental socioeconomic reforms pursued by Raúl Castro's administration including the expansion of self-employment. Subsequently, it analyzes changes in the regulatory framework and the evolution of self-employment in response. The chapter then examines the development of LUEAs during this period, focusing on key examples, causes, motivations, and consequences. Finally, it contrasts case studies' entrepreneurial journeys and their engagement in LUEAs with the general trends found in the period. By following this outline, the chapter addresses all three research sub-questions about the contextual landscape, regulatory changes, self-employment development, and the causes and evolution of LUEAs.

3.1.1 TWO CHANGES OF LEADERSHIP, THE VI CONGRESS OF THE COMMUNIST PARTY, AND THE CUBAN ECONOMY

The transformations led by Raúl Castro's administration (2006-2018), aimed at fundamentally changing the ownership structure, a benchmarking move in the six decades of the Revolution. By the end of the reform cycle, it was officially recognized different types of property: state, cooperative, mixed, and private.¹⁰⁹ Some of the milestones during the process were the adoption of a new agricultural model and adjustments in land ownership in 2007 and the expansion of self-employment regulations in 2010. Additionally, other changes directly impacted the daily lives of Cubans, such as access to mobile phones and hotels for nationals (2008), limited public access to the Internet (2009), and the authorization to trade homes and vehicles (2011).¹¹⁰

¹⁰⁹ Ileana Díaz, Zuleika Ferre, and Héctor Pastori, "Análisis del emprendimiento en Cuba a partir de encuestas de opinión," *Revista Estudios del Desarrollo Social: Cuba y América Latina* 8, no. 3 (2020), http://scielo.sld.cu/scielo.php?script=sci_arttext&pid=S2308-01322020000300001.

¹¹⁰ Ricardo Torres Pérez, "Updating the Cuban economy: The first 10 years," *Social Research: An International Quarterly* 84, no. 2 (2017): 261-62, <https://doi.org/10.1353/sor.2017.0019>.

The process of "updating" Cuba's economic model reached its peak after the approval of the socioeconomic policy guidelines at the VI Congress of the Communist Party (PCC) in 2011.¹¹¹ The guidelines outlined the fundamental changes and the schedule for execution over 5-years-span.

However, this process faced early challenges. For instance, the Minister of Economy was designated chair of the commission to oversee the implementation process. This hindered the long-term goals and vision of the commission against the short-term objectives of the role of a Minister.¹¹² Furthermore, analysts like Alonso and Vidal identified key issues with the reforms of the 2010s, including the lack of a clear final goal despite the guidelines, sequential rather than simultaneous reforms, excessive gradualism, a return to centralized planning, and high dependency on Venezuela, leaving Cuba vulnerable to external changes.¹¹³ By 2016, only 21% of the guidelines were fully implemented.¹¹⁴

Regarding the Cuban economy during the period, the country renegotiated its external debt to improve creditworthiness, reducing indebtedness by 70% and securing favorable repayment terms.¹¹⁵ However, debt repayment still consumed a significant portion of export earnings, between 30-35%, hindering investment. Foreign investments fell short of the forecasted 2-2.5 billion US dollars hindering foreign capital inflows to the country.¹¹⁶ Nevertheless, Sherritt International (Canada) and Meliá (Spain) expanded their mining and tourism investments, while other multinational corporations also engaged in oil arrangements.¹¹⁷

¹¹¹ VI Congreso del Partido Comunista de Cuba, "Lineamientos de la Política Económica y Social del Partido y la Revolución," April 2011, <http://www.cuba.cu/gobierno/documentos/2011/esp/1160711i.pdf>.

¹¹² Torres Pérez, "Updating the Cuban economy," 258-259.

¹¹³ Alonso and Vidal, eds., *¿Quo vadis, Cuba?*.

¹¹⁴ "Resolución sobre resultados de la implementación de los Lineamientos de la Política Económica y Social del Partido y la Revolución, aprobados en el VI Congreso y su actualización para el período 2016-2021," Cubadebate, April 18, 2016, <http://www.cubadebate.cu/especiales/2016/04/18/resolucion-sobre-resultados-de-la-implementacion-de-los-lineamientos-de-la-politica-economica-y-social-del-partido-y-la-revolucion-aprobados-en-el-vi-congreso-y-su-actualizacion-el-periodo-2016-2021/>.

¹¹⁵ Torres Pérez, "Updating the Cuban economy," 261; Carmelo Mesa-Lago and Pavel Vidal-Alejandro, "The impact of the global crisis on Cuba's economy and social welfare," *Journal of Latin American Studies* 42, no. 4 (2010), <https://doi.org/10.1017/S0022216X10001331>.

¹¹⁶ In general, the investment rate was persistently low since the 90s, averaging 10.5%. This, combined with the adjustment in imports of capital goods, explains the decline in the contribution of capital to economic growth in Cuba.

Vilma Hidalgo de los Santos and Juan Triana Cordoví, "Una radiografía de la economía cubana previa a la pandemia," in *La Economía Cubana Pospandemia de COVID-19*, ed. Vilma Hidalgo de los Santos (La Habana: Editorial UH, 2022), 18; Torres Pérez, "Updating the Cuban economy," 265-270.

¹¹⁷ Mesa-Lago and Pérez-López, *Cuba under Raúl Castro*, 21.

Moreover, Cuba transitioned towards a service-oriented economy. Tourism, healthcare, and other professional services emerged as the primary sectors of Cuba's economy. As a result, service-based revenues constituted over 80% of the nation's total exports in the period.¹¹⁸

Additionally, Cuba's exports suffered from declining Venezuelan oil supply and decreasing international oil prices.¹¹⁹ From a notable annual growth of over 7% of real GDP in 2007 supported by bilateral trade with Venezuela, it fell to over 1% in 2009 maintaining a similar growth rate until 2014 (as a consequence of the 2008's international recession).¹²⁰ The GDP peaked at over 4% annual growth in 2015 but fell to negative terms by 2016 (-1%). Cuba's first recession since 1993 was attributed to various external factors including weak commodity prices and the downturn in Venezuela, highlighting again Cuba's external vulnerability and dependence on external partner economies.

By the end of this period, Miguel Díaz-Canel assumed leadership in Cuba in 2018, closing the nearly 60-year era of Castro rule, and initiating a shift in power towards a younger generation. One of his first executive decisions was a constitutional reform process, which led to a new Constitution coming into force in April 2019. One of the most significant changes was the recognition of private property over certain means of production by Cuban or foreign natural or legal persons and its complementary role in the Cuban economy.¹²¹ For the first time, a Constitution approved after 1959 acknowledged this type of property, fracturing the state monopoly.¹²²

¹¹⁸ Tourism experienced annual growth rates exceeding 10% until the year 2017, with a tendency to incorporate high value-added activities (clusters with sectors such as health, culture, among others). The number of visitors exceeded 4 million in 2016, with approximate revenues of 3068.6 million dollars. In the first semester of 2017, tourism grew by 22%, a record figure in the last decade.

Hidalgo de los Santos and Triana Cordoví, "Una radiografía de la economía cubana," 21.

¹¹⁹ Goods exports exhibited a poor performance, showing a decreasing trend from 2011 onwards, and in 2019, a 35% drop in revenues compared to 2017. The stagnation of the industry was evident, characterized by a low technological complexity component, with the exception, of the biotechnological and medical-pharmaceutical industry.

Hidalgo de los Santos and Triana Cordoví, "Una radiografía de la economía cubana," 22.

¹²⁰ Torres Pérez, "Updating the Cuban economy," 268.

¹²¹ Asamblea Nacional del Poder Popular, "Constitución de la República de Cuba," *Gaceta Oficial No.5 Extraordinaria*, April 10, 2019.

¹²² Since 1992, the Cuban Constitution recognized the ownership of mixed enterprises, corporations, and economic associations. Along with cooperatives and predominant state ownership, those were the only types of ownership recognized at a constitutional level until 2019.

Asamblea Nacional del Poder Popular, "Constitución de la República de Cuba," July 1992.

3.1.2 CUBA AND THE US BETWEEN 2010 AND 2021

The decade-spanning 2010-2021 witnessed the most significant transformation in the bilateral relationship dating back to 1959. Obama administration eased restrictions on remittances, family travel, and "people-to-people" educational and cultural exchanges between 2009 and 2011.¹²³ The pivotal moment arrived in December 2014 when it was announced the restoration of diplomatic relations. In 2015, embassies were established in both nations, and Cuba was removed from the list of "state sponsors of terrorism."¹²⁴

In 2016, Obama made history as the first US president to visit Cuba after 1959. Obama's visit had a specific emphasis on Cuban entrepreneurs. A select group participated in his address, during which he promoted business opportunities and training programs such as the Young Leaders in the Americas Initiative (YLA).¹²⁵ In June 2016, for the first time, 11 Cuban entrepreneurs participated in the Global Entrepreneurship Summit (GES 2016) at Stanford University.¹²⁶ Since 2016, Cuban entrepreneurs have travelled annually to the US to acquire training to enhance their businesses.

Additionally, the shift in relations prompted several US-based companies, including Airbnb, General Electric, CleBer, Verizon, and Cisco, to explore new business opportunities in Cuba.¹²⁷ However, only Airbnb seized upon this opening and capitalized on the surge in tourist arrivals after 2014.¹²⁸ To illustrate, there was a 16% increase in tourist arrivals from 2014 to 2015, followed by a 13% rise in 2016.¹²⁹ In December 2016, Cuba reached a record of 4 million foreign tourists, including 284,552 travelers from the US, a figure three times higher than the number of visitors in 2014.¹³⁰ Additionally, the number of *casas particulares*

¹²³ Peter Kornbluh and William M. LeoGrande, *Back channel to Cuba: The hidden history of negotiations between Washington and Havana*, (Chapel Hill: The University of North Carolina Press, 2015), 368.

¹²⁴ "Brief Diplomatic History," US Embassy in Cuba, accessed 18-03-2024, <https://cu.usembassy.gov/our-relationship/policy-history/#:~:text=The%20United%20States%20established%20diplomatic>.

¹²⁵ Barack Obama, "Remarks by President Obama at an entrepreneurship and opportunity event in Havana, Cuba," US Embassy in Cuba, <https://cu.usembassy.gov/remarks-president-obama-entrepreneurship-opportunity-event-havana-cuba/#:~:text=And%20I%20will%20keep%20saying>.

¹²⁶ AUGE, "Impacto sobre el sector privado de la política hacia Cuba de la administración Trump," 2019, 27.

¹²⁷ Obama, "Remarks by President Obama".

¹²⁸ Despite the embargo, Airbnb was granted special authorization by the US Department of Treasury allowing them to offer authorized travel services to non-US visitors going to Cuba.

"Booking in Cuba - Airbnb Help Centre," Airbnb, accessed 07-05-2024, <https://www.airbnb.co.uk/help/article/1251>.

¹²⁹ Oficina Nacional de Estadísticas e Información República de Cuba, "Anuario Estadístico de Cuba 2015," ONEI, 2016.

¹³⁰ AUGE, "Impacto sobre el sector privado," 20.

listings on Airbnb, operated by bed and breakfast owners, surpassed 36.400, generating an estimated revenue of 47 million US dollars between 2015 and 2019.¹³¹

Nevertheless, the ephemeral normalization was quickly reversed with the Trump administration (2017-2021), which restored travel restrictions, banned dealings with key Cuban state companies, and reclassified Cuba as a "state sponsor of terrorism".¹³² Those measures hardened the embargo policy with direct implications on the flow of remittances and the arrival of tourists, and indirectly, on the climate of foreign investment on the island.¹³³ Additionally, this turn occurred just before COVID-19 pandemic, exacerbating the challenges faced by the Cuban people, as tourist arrivals and the economy sharply contracted in that period.

3.2 "ONE WAY OR ANOTHER": EXPANSION OF SELF-EMPLOYMENT BETWEEN 2010 AND 2021

In September 2010, the government announced the layoffs of approximately 500.000 state workers in response to increasing deficits, surpluses, and redundant workers in the state sector.¹³⁴ To compensate, the government also announced the expansion of self-employment aiming to the absorption of the laid-off workers into the private sector. In October 2010, several regulations were published. These legislations regulated self-employment for lessees, tax payment rules, and the hiring of workers by license holders. This effectively allowed the existence of microenterprises or private businesses by not limiting the number of employees that could be hired.¹³⁵ The legal framework for self-employment aligned with the spirit of the guidelines approved later at the VI Congress of the PCC in April 2011.

¹³¹ "Update about Airbnb presence in Cuba: 36,400 listings today," US-Cuba Trade and Economic Council, Inc., August 20, 2019, <https://www.cubatrade.org/blog/2018/2/27/j7itw13vmx3zsubroow3wnsh6che0u>.

¹³² In June 2017, Trump altered the US policy towards Cuba, leading to the prohibition of business with certain Cuban entities for American entities and individuals. The list of prohibited entities expanded in November 2018 with the addition of 26 new Cuban subentities. By June 2019, group "People-to-People" trips were entirely prohibited, along with travel by passenger ships, recreational vessels, and private aircraft.

AUGE, "Impacto sobre el sector privado," 12-14; Bhaskar Sunkara, "Obama opened a door between Cuba and the US. Why is Biden closing it again?," The Guardian, March 26, 2024, sec. Opinion, <https://www.theguardian.com/commentisfree/2024/mar/26/joe-biden-cuba-policy>.

¹³³ Hidalgo de los Santos and Triana Cordoví, "Una radiografía de la economía cubana," 17.

¹³⁴ Scarpaci, Henken, and Ritter, "Two decades of re-aligning mundane entrepreneurship in Cuba," 384.

¹³⁵ Díaz, Ferre, and Pastori, "Análisis del emprendimiento en Cuba," 2; Díaz Fernández, Piñero Harnecker, and Pastori, "El trabajo por cuenta propia en Cuba," 4.

Additionally, the Cuba-US relationship during the period provoked contradictory impacts on the sector and the regulatory framework.¹³⁶ The normalization in 2014 brought economic benefits with increased American tourism and promising prospects for state-owned enterprises with joint contracts. However, Obama's visit in 2016 and his open support for the private sector sparked distrust, symbolically empowered conservative sectors within the Cuban government, and ultimately imposed a brake on the expansion of self-employment.

3.2.1 REGULATORY FRAMEWORK

The regulations established in 2010 constituted an update of the Decree-Law first approved in 1993 and nullified its complementary resolutions.¹³⁷ As in previous occasions, the Ministry of Labor and Social Security (MTSS) issued a new resolution (Res No.32/2010) that regulated a list of approved activities to carry out self-employment.¹³⁸ In that regard, 178 activities for self-employment were approved, for 9 others were only granted license renovations, and 83 activities could be carried out with hired workers. In addition, citizens could possess more than one license and perform more than one activity.

From 2011 to 2013, new and sequential regulations were implemented to foster employment growth in the private business sector. However, upon analysis, these regulations revealed inconsistencies and a pattern of taking two steps forward followed by one step back, ultimately resulting in rigorous regulations and prohibitions.

On the one hand, in 2011 the MTSS approved through Res. No.33/2011 the expansion of the number of licensable occupations to 181 (yet maintaining only license renovations for the same 9 activities as in 2010), and allowed all the licensable occupations to hire workforce.¹³⁹ Between 2011-2012, the MTSS enabled tax flexibilization for self-employment prioritizing job creation over tax collection, exempted license-holders from employment tax for hiring up to five employees, and allowed private businesses to close for repairs while suspending licenses and tax obligations.¹⁴⁰ A similar pattern of flexibilization followed with the approval

¹³⁶ Oscar Fernández Estrada, "El sector privado en Cuba: entre el dogma y la reforma," Friedrich-Ebert-Stiftung-Cuba, September 2020, <https://library.fes.de/pdf-files/bueros/fescaribe/16568.pdf>, 3.

¹³⁷ The last regulation of the previous period was Res. 9/2005.

¹³⁸ Ministerio de Trabajo y Seguridad Social, "Resolución No.32/2010. Reglamento del ejercicio del trabajo por cuenta propia," *Gaceta Oficial No. 012 Extraordinaria Especial*, October 7, 2010.

¹³⁹ Ministerio de Trabajo y Seguridad Social, "Resolución No. 33/2011. Reglamento del ejercicio del trabajo por cuenta propia," *Gaceta Oficial No. 029 Extraordinaria*, September 7, 2011.

¹⁴⁰ Ritter and Henken, *Entrepreneurial Cuba*, 147.

of two new regulations in 2013 (Res. No. 41/2013 and Res. No. 42/2013), allowing the extension of the number of licensable occupations to 201, and reducing to only one activity the group without license renovation.¹⁴¹

On the other hand, the same regulation (Res. No. 42/2013) established for the first time the denomination, description, and scope of the activities that could be carried out as self-employment.¹⁴² This decision restricted the licensable occupations, as the license holders were constrained to work within the limited scope of the work description.

In the fall of 2013, new measures and announcements were taken to achieve order, discipline, and control over the private sector.¹⁴³ To illustrate, Decree-Law 315/2013 regulated personal offenses of self-employment, fines, and prohibitions. Among them, forming organizations like cooperatives or business associations was prohibited unless explicitly authorized, primarily for political reasons.¹⁴⁴ Along with the prohibitions, there were closed the 3D cinemas (previously unregulated, but tolerated), and “seamstress” license holders were prevented from selling imported items.¹⁴⁵ This provoked some activities to be restructured and/or prohibited, leading to the loss of business investments.¹⁴⁶

Four years later, a more restrictive pattern was visible. In August 2017, licenses for thriving activities like apartment rentals, cafeterias, and restaurants were indefinitely suspended under the pretext of examining new regulations to enhance self-employment.¹⁴⁷ A year later the new regulations were issued, and Decree-Law 356/2018 drew further restrictions for businesses that have experienced the most growth, such as restaurants, leasing, and taxi transportation.¹⁴⁸ Furthermore, the MTSS intended to restrict the holding of licenses to only one activity (as

¹⁴¹ Ministerio de Trabajo y Seguridad Social, “Resolución No. 41/2013. Reglamento del ejercicio del trabajo por cuenta propia,” *Gaceta Oficial No. 027 Extraordinaria*, September 26, 2013; Ministerio de Trabajo y Seguridad Social, “Resolución No. 42/2013,” *Gaceta Oficial No. 027 Extraordinaria*, September 26, 2013.

¹⁴² “Resolución No. 42/2013,” 262-268.

¹⁴³ Ritter and Henken, *Entrepreneurial Cuba*, 160.

¹⁴⁴ Consejo de Estado, “Decreto-Ley No. 315/2013 Sobre las infracciones personales de las regulaciones del trabajo por cuenta propia,” October 4, 2013; Ritter and Henken, *Entrepreneurial Cuba*, 167-168.

¹⁴⁵ “Gobierno cubano prohíbe cines 3D,” OnCubaNews, November 2, 2013,

<https://oncubanews.com/cultura/cine/gobierno-cubano-prohibe-cines-3d/#:~:text=El%20texto%2C%20publicado%20en%20las>;

Scarpaci, Henken, and Ritter, “Two decades of re-aligning mundane entrepreneurship in Cuba,” 389.

¹⁴⁶ Fernández Estrada, “El sector privado en Cuba,” 3.

¹⁴⁷ Fernández Estrada, “El sector privado en Cuba,” 3.

¹⁴⁸ Consejo de Estado, “Decreto-Ley 356/2018. Sobre el trabajo por cuenta propia,” July 10, 2018; Díaz, Ferre, and Pastori, “Análisis del emprendimiento en Cuba,” 4.

before the 2010s); however, just days before the intended resolution (Res. No. 11/2018) should have come into force, it was modified by a new regulation (Res. No. 24/2018) that overruled the one-license restriction.¹⁴⁹ Nevertheless, regulations in 2018 modified the licensable occupations and their scope, redefining and regrouping the activities into a new list of 123.¹⁵⁰

By 2019, the MTSS modified yet again 2018's regulations, issuing Res. No. 103/2019 and Res. No. 104/2019.¹⁵¹ The new norms did not introduce greater changes than extending the list of licensable occupations to 127.

Additionally, the experimental approval of non-agricultural cooperatives was granted in 2012. The regulation recognized them as "organizations with economic and social purposes, voluntarily constituted based on the contributions of goods and rights and supported by the work of their members."¹⁵² During the period analyzed, it was the only entity with legal personality and own assets. The regulations for non-agricultural cooperatives were updated in 2018, without noticeable changes in the norm.¹⁵³

3.2.2 DATA AND ACTIVITIES

The flexibilization of the regulatory framework in 2010 provoked an abrupt increase in the number of self-employed individuals from 147.000 in 2010 to 392.000 in 2011. The following years witnessed a gradual and stable growth in the number of licenses, reaching a peak of 605.908 self-employed individuals by 2019.¹⁵⁴ Figure 3 shows the number of licenses granted between 2010 and 2019.

¹⁴⁹ A representative from the MTSS stated that the reasons for that measure were the redesign of a new group of activities, and because self-employment is an option for the person to exercise it, but it's not about being an owner with many businesses. She also questioned how a person can carry out several activities at the same time. Delia Reyes García, "Paso a la legalidad," Mesa Redonda, December 5, 2018, <http://mesaredonda.cubadebate.cu/noticias/2018/12/05/paso-a-la-legalidad/>; Ministerio de Trabajo y Seguridad Social, "Resolución No. 11/2018. Reglamento del ejercicio del trabajo por cuenta propia," *Gaceta Oficial No. 35 Extraordinaria*, June 29, 2018; Ministerio de Trabajo y Seguridad Social, "Resolución No. 24/2018," *Gaceta Oficial No. 77 Extraordinaria*, December 5, 2018.

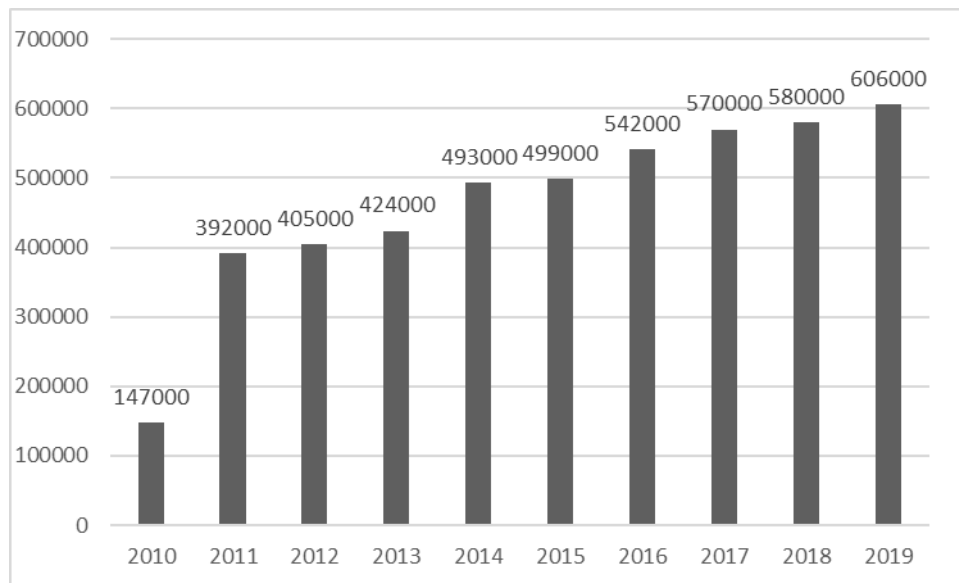
¹⁵⁰ Ministerio de Trabajo y Seguridad Social, "Resolución No. 12/2018," *Gaceta Oficial No. 35 Extraordinaria*, June 29, 2018.

¹⁵¹ Ministerio de Trabajo y Seguridad Social, "Resolución No. 104/2019," *Gaceta Oficial No. 85 Ordinaria*, October 22, 2019.

¹⁵² Consejo de Estado, "Decreto-Ley 305. De las Cooperativas No-Agropecuarias," *Gaceta Oficial No. 053 Extraordinaria*, December 11, 2012.

¹⁵³ Consejo de Estado, "Decreto-Ley 366/2019. De las Cooperativas No-Agropecuarias," *Gaceta Oficial No. 63 Ordinaria*, August 30, 2019.

¹⁵⁴ Díaz, Ferre, and Pastori, "Análisis del emprendimiento en Cuba," 3; Reyes García, "Paso a la legalidad".

Figure 3 Number of licenses granted between 2010 and 2019

Sources: Elaborated by the author with data from Díaz, Ileana, Zuleika Ferre, and Héctor Pastori. “Análisis del emprendimiento en Cuba a partir de encuestas de opinión.” *Revista Estudios del Desarrollo Social: Cuba y América Latina* 8, no. 3 (2020): 3, http://scielo.sld.cu/scielo.php?script=sci_arttext&pid=S2308-01322020000300001.

According to data from the National Office of Statistics and Information (ONEI) and the MTSS collected by Díaz, Ferre, and Pastori, by 2019 65% of self-employed were concentrated in six provinces; 32% were young people, and 35% were women.¹⁵⁵ The activities with the highest number of licenses granted were related to: food preparation and sales (9%), transportation (8%), leasing (5%), telecommunications agents (5%), and hired workers (25%).

The data from the period showed that self-employment gained weight within the economy. They represented 32% of the active workforce, and provided goods and services for the population, albeit at higher prices with better quality than the state offer. Their tax contribution accounted for 3.125 million Cuban pesos to the state budget in 2018, representing 12% of its composition.¹⁵⁶ Furthermore, by 2019, the private sector managed 26.224 tourist rooms, surpassing two of the most significant foreign hotel groups in Cuba:

¹⁵⁵ The six provinces were La Habana, Santiago de Cuba, Matanzas, Villa Clara, Camagüey, and Holguín. Díaz, Ferre, and Pastori, “Análisis del emprendimiento en Cuba,” 3.

¹⁵⁶ AUGE, “Impacto sobre el sector privado,” 7.

Meliá with 14.661 rooms and Iberostar with 7.881 rooms.¹⁵⁷ During 2013-2019, only in the tourism sector, self-employed individuals contributed between 14% and 22% of the total revenues.¹⁵⁸ This was a significant figure for activities that were only considered complementary to the main economy according to the Cuban government.

In addition to the increase in licensable occupations for self-employment, several other positive changes were observed. First, hiring labor was permitted, formalizing employer-employee relationships previously informal. Second, while most professional activities remained prohibited, some exceptions included language instructors, music and art teachers, typing instructors, and computer programmers.¹⁵⁹ Third, real estate agents and brokers for house rentals were permitted, along with the sale and purchase of private houses. Fourth, bulk purchases of certain inputs were authorized at reduced wholesale rates. Fifth, state banks offered credit opportunities for self-employment. Sixth, providing goods and services to state entities was legalized. Lastly, tax obligations were relaxed, allowing more spending to be deducted from taxable income.¹⁶⁰

3.3 THE DAMOCLES SWORD: LEGITIMATE UNDERGROUND ENTREPRENEURIAL PRACTICES BETWEEN 2010 AND 2021

3.3.1 EVOLUTION IN THE PERIOD

During the period spanning from 2010 to 2020, LUEAs were again marked by the transition towards formality of a large number of private businesses, but also the perpetuation of the practice of informal/illegal activities. Those were expressed through the combination of tax underreporting, a challenging business environment, activity limitations, and the absence of intermediaries.

¹⁵⁷ AUGÉ, “Impacto sobre el sector privado,” 8.

¹⁵⁸ Ileana Díaz et al., “Emprendimientos privados en el contexto nacional. Estudio de actividades específicas,” in *Emprendimientos privados. Resiliencia y articulación con empresas estatales*, ed. Daibel Pañellas Álvarez and Ileana Díaz Fernández (Fundación Friedrich Ebert (FES), 2021), 24.

¹⁵⁹ Ritter and Henken, *Entrepreneurial Cuba*, 145.

¹⁶⁰ In a nutshell, there were two tax systems. First, a simplified tax regime for 93 activities that paid a monthly sum lump between 40-150 Cuban pesos. Second, a general tax regime that paid: 10% tax on the total revenue from sales or services; an average 25% tax on the wages of the contracted workers starting from the fifth hired worker; and personal taxes at year-end according to the percentages established for annual net income brackets and a progressive scale beginning in 15% for the first 10.000 Cuban pesos, and up to 50% for additional income exceeding 50.000 pesos.

Ritter and Henken, *Entrepreneurial Cuba*, 150-151; Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba,” 6-7.

Concerning the transition towards formality, the exponential increase in the number of licenses in 2011 indicated that numerous individuals were entering into regulated self-employment. The government anticipated that many of that total laid-off state workers would move to the private sector. However, by 2011, 67% of new license holders had no formal employment or were engaged in informal work before obtaining their permit, while only 18% were state workers, and 16% were retired.¹⁶¹ Moreover, since 2010 it was regulated that individuals within the same household were allowed to obtain more than one license, which was formerly prohibited and pushed some households to participate in multiple informal self-employment activities.¹⁶² Finally, the hired workforce represented 25% of the total granted licenses, which indicated that a portion of the once informally hired assistants formalized their work status.

Agreeing with Díaz, Ferre, and Pastori, this last element is crucial as the legalization of hiring workforce can be seen as the basis for the creation of micro, small, and medium-sized private enterprises in Cuba.¹⁶³ Nevertheless, entrepreneurial endeavors in the self-employment regime were carried out by individuals, without legal personality until 2021. This meant that, although self-employment activities functioned as a business, legally they were not.

Furthermore, the transition to formality should have also promoted the legalization of their sourcing, marketing, and operations, thereby increasing contributions through tax payments. Nevertheless, albeit with slight improvements, the business environment continued to be precarious for obtaining supplies, and access to credit, investment, or wholesale markets. Consequently, increasing operating costs of private micro-enterprises encouraged the illicit sourcing of raw materials, likely diverted from state institutions, and found in the black market.¹⁶⁴

Regarding tax under declaration, the regulatory framework did not allow the deduction for verifiable expenses above the authorized percentages (ranging from 10% to 40% by groups of

¹⁶¹ Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba,” 14.

¹⁶² Ritter and Henken, *Entrepreneurial Cuba*, 146.

¹⁶³ Díaz, Ferre, and Pastori, “Análisis del emprendimiento en Cuba,” 2.

¹⁶⁴ Ritter and Henken, *Entrepreneurial Cuba*, 146; Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba,” 9.

activities).¹⁶⁵ This decision forced virtually all new entrepreneurs to underreport their income, as most of new businesses do not have profits of 90% or even 60%.

Most of the professional activities continued to be prohibited. Additionally, with few exemptions like real estate agents and brokers for rental houses, intermediaries were still banned, obliging each producer to directly sell their own goods. The government's prohibition on certain activities, such as import-export trade and most professions, was an expression of the will to maintain the state monopoly, and to symbolically control the private sector. However, this control resulted in pushing all targeted economic activities, along with potential tax revenue, into the underground market.¹⁶⁶

3.3.2 CASE STUDIES: STORIES TOLD BY THEIR PROTAGONISTS

Case 3: AUGE is a business consultancy. As a professional service, it was prohibited in the period. By the end of 2014, the 4 founders decided to start a private business, and in early 2015 they applied for creating a non-agriculture cooperative.¹⁶⁷ The application is denied, meanwhile, they are operating informally.¹⁶⁸ Oniel Díaz Castellanos, one of the founders, applied for a “messenger” license as it encompassed the following definition: “deliver to the customer any product or service they request; it does not include postal services and remittances.”¹⁶⁹ That category was under simplified tax regime and paid a monthly lump sum of 40 Cuban pesos.¹⁷⁰ Around 2017, Oniel had a profitable business and decided to get another license, enter the general tax regime, and pay for his real revenues. Oniel was granted a “bookkeeper” license, and later in 2018, an “event organizer” permit.¹⁷¹ As the one-license restriction never came into force, he kept the last two licenses, and renounced the “messenger” license, as it was the least related to his business.

¹⁶⁵ Díaz Fernández, Piñero Harnecker, and Pastori, “El trabajo por cuenta propia en Cuba,” 7.

¹⁶⁶ Ritter and Henken, *Entrepreneurial Cuba*, 177.

¹⁶⁷ “Decreto-Ley 305/2012”.

¹⁶⁸ Oniel Díaz Castellanos, “Interview with the co-founder and CEO of AUGE,” interview by Yaquelin Samper Hormaza, March 11, 2024.

¹⁶⁹ “Resolución No. 42/2013,” 261.

¹⁷⁰ Ministerio de Finanzas y Precios, “Resolución No.286/2010,” *Gaceta Oficial No. 012 Extraordinaria Especial*, 2010.

¹⁷¹ Bookkeeper: “Provides the service of handling accounting. It may offer tax payment services. Excluded are accountants and mid-level accounting technicians with employment ties in the field.” Event organizer: “Decoration services, birthday party organization, weddings, and other festive activities.” This license was based on the broad “other festive activities”. “Resolución No. 42/2013,” 264.

Case 4: Beyond Roots, Afro-Cuban cultural and tourism activities. In December 2016, Cuban professionals Adriana Heredia and José Luis Corredera launched this venture. They saw an opportunity motivated by the favorable environment and increasing visitor influx to Cuba post-2014, as well as Airbnb's debut on the island in 2015, Beyond Roots commenced operations under the license of "event organizer," held by Adriana, which encompassed activities like "decoration services, birthday celebrations, weddings, and other activities."¹⁷² The vague category of "other activities" served as a platform for offering guided tours and experiences. Later, José Luis acquired a photographer's license, enabling him to accompany visitor groups. In 2019, the business expanded by inaugurating Cuba's first Afro-Cuban-style store, falling under the license category of "craftsman/artisan."¹⁷³

Throughout this period, Airbnb experiences constituted the primary revenue stream, despite the absence of legal regulations or prohibitions regarding Airbnb operations in Cuba. However, Adriana and José Luis had to devise creative solutions for receiving income and fulfilling tax obligations. Revenues were channeled through an AIS card designed to receive remittances from abroad.¹⁷⁴ Adriana paid taxes based on the official conversion rate of 1 USD = 24 Cuban pesos, referencing the AIS monthly bank statement. She explained: "We never encountered issues receiving earnings from Airbnb. In fact, there was no contractual agreement with Airbnb. So, the money arrived as remittances, and there wasn't extensive state oversight over this new activity or traceability to our operations."¹⁷⁵

3.4 CHAPTER CONCLUSIONS

The expansion of licensable occupations indicated a shift towards a more dynamic private sector between 2010 and 2021. However, slow institutional changes, bureaucratic resistance, lack of transparency, and limited results hindered the reform process. Despite the

¹⁷² "Resolución No. 42/2013," 264.

¹⁷³ Craftsman: "Manufactures and sells items, accessories, and garments by transforming non-precious materials, excluding those derived from protected flora and fauna species. This includes the use of natural fibers, excluding gold, silver, bronze, platinum, and similar metals, as well as jewelry made entirely or partially from these precious metals or costume jewelry."

Ministerio de Trabajo y Seguridad Social, "Resolución No. 12/2018," 575.

¹⁷⁴ AIS cards (American International Service cards), exclusively for national use, were conceived by Financiera CIMEX S.A. FINCIMEX, a joint-stock company established in May 1995, for sending remittances to Cuba from abroad.

"Envío de Remesas a Cuba a Tarjetas AIS | Trámites En Cuba," Cubatramite, March 22, 2024, <https://www.cubatramite.com/envio-de-remesa-a-cuba-a-traves-de-tarjetas-ais/>.

¹⁷⁵ Heredia Sánchez, interview.

government's initial push to encourage self-employment, this momentum was overshadowed by tighter regulations. These restrictions undermined the credibility of government support for entrepreneurship, driving businesses either out of operation or into the underground economy.

Nevertheless, the number of self-employed individuals grew significantly, indicating a substantial increase in private sector activity. Other positive changes included the possession of more than one license, approval of hired workforce, and some exceptions for certain professional activities. Notably, most of the professional activities remained prohibited, limiting the potential of qualified labor and pushing economic activities into the informal market.

Concerning the LUEAs, this period saw a mix of formalization of previously illegal businesses but also the perpetuation of ongoing informal practices. The most common practices in the period were operations not under the proper licenses, tax underreporting, and operations in the black market due to supply shortages. Case studies highlighted similar tendencies. AUGÉ was hindered by restrictions on professional activities, thus Oniel operated with different licences. Beyond Roots sized ambiguity in the regulatory framework to operate with different licenses too. Both cases paid taxes diligently and shared a desire to move entirely into the formal economy.

In conclusion, while the period saw significant reforms towards self-employment, the lack of a consistent and supportive regulatory framework, combined with the government's desire to maintain control, limited the full realization of these changes. This created an environment where private sector growth was suppressed, pushing economic activities into the underground market and LUEAs.

CHAPTER IV. “THE SURVIVORS”: LEGITIMATE UNDERGROUND ENTREPRENEURIAL PRACTICES IN CUBA (2021-2023)

I don't care about capitalism, socialism...even if feudalism returns.

What matters is understanding how the system works.

The Survivors (1979)

Cuban film by Tomás Gutiérrez Alea

The brief three-year period spanning from 2021 to 2023 was atypical for Cuba for several reasons. Firstly, the COVID-19 pandemic exerted its most significant impact on the Island in 2021, completely disrupting lifestyle and healthcare. Secondly, in the same year, the government undertook a profound monetary reform amid the adverse economic effects of the pandemic, exacerbating the convertibility problems of the national currency and triggering hyperinflation. Thirdly, the convergence of these first two factors, coupled with structural economic challenges, precipitated a severe economic crisis in Cuba, resulting in a decline in living conditions. Fourthly, also in 2021, in an attempt to address the crisis effectively, the government initiated a new reform to promote self-employment, leading to the establishment of private micro, small, and medium enterprises (MSMEs) and Local Development Projects (PDLs in Spanish)).

This chapter examines in-depth the underground entrepreneurial practices in Cuba from 2021 to 2023. It first explores the socio-economic and political context, and then, the changes in the regulatory framework. A cornerstone of the new reform process was the approval of private MSMEs and PDLs. Therefore, this chapter investigates the development of self-employment in response to the regulatory changes. Subsequently, it analyzes the evolution of LUEAs during this period, focusing on key examples, causes, motivations, and consequences. Finally, it contrasts case studies' entrepreneurial journeys and their engagement in LUEAs with the general trends found in the period. By following this outline, the chapter addresses all three research sub-questions about the contextual landscape, regulatory changes, self-employment development, and the causes and evolution of LUEAs.

4.1 SOCIOECONOMIC AND POLITICAL LANDSCAPE BETWEEN 2021 AND 2023

In 2020, like every other corner of the world, Cuba was struck by the COVID-19 pandemic, but its most severe impacts unfolded in 2021. By the end of 2023, there were 1.115.182 reported infections and 8.530 deaths.¹⁷⁶ The year 2021 alone accounted for over 8.091 COVID-related fatalities, reaching a peak in August with approximately 8.000-9.000 new daily infections and 80-90 daily fatalities, nearly collapsing the healthcare system.¹⁷⁷ However, almost 40 countries across the five continents received over 4.000 Cuban doctors during the first year of the pandemic, as an effort from the government to couple solidarity with the service export strategy.¹⁷⁸ Additionally, by the beginning of 2024, 91% of the Cuban population had received a complete vaccination scheme using domestically produced vaccines, which speaks of the strength and innovation of the biopharmaceutical Cuban industry.¹⁷⁹

While worrisome, the tensions in the healthcare system were not the greatest challenges of the COVID-19 pandemic for Cuba. The most significant impact was the added pressure on an already weakened economic structure. As noted in the previous chapter, in 2016 began a new recession cycle for the Cuban economy. The decline in the economic performance was again associated with the influence of external factors on the Island. Cuban academics like Hidalgo de los Santos and Triana Cordoví argued that the downturn was linked to several factors. First, the changes in the Latin American political landscape and, especially, due to economic problems in Venezuela. Second, the ephemeral momentum of normalization of economic relations during the Obama administration was quickly reversed by the Trump administration, which strengthened the embargo with implications on the flow of remittances, the arrival of

¹⁷⁶ Ministerio de Salud Pública, “Parte de cierre del 23 al 31 de diciembre de 2023,” MINSAP, January 2, 2024, <https://salud.msp.gob.cu/parte-de-cierre-del-23-al-31-de-diciembre-de-2023/>.

¹⁷⁷ Oficina Nacional de Estadística e Información, “Anuario Estadístico de Cuba 2021,” (La Habana: Oficina Nacional de Estadística e Información, December 2022), 386; “Cuba: Los datos, gráficos y mapas más recientes sobre el coronavirus,” Reuters, July 15, 2022, <https://www.reuters.com/graphics/world-coronavirus-tracker-and-maps/es/countries-and-territories/cuba/>; Frances Robles, “‘Ingresan para morir’: El coronavirus muestra las fallas del sistema de salud cubano,” *The New York Times*, August 2021, <https://www.nytimes.com/es/2021/08/18/espanol/cuba-coronavirus.html>.

¹⁷⁸ Sarah Marsh and John Zodzi, “‘Ejército de batas blancas’ de Cuba ayuda en lucha contra el coronavirus en el mundo,” *Reuters*, September 14, 2022, <https://www.reuters.com/article/idUSKBN2651WI/>.

¹⁷⁹ Ministerio de Salud Pública, “Actualización de la estrategia para el desarrollo de las vacunas cubanas,” MINSAP, April 5, 2024, <https://salud.msp.gob.cu/actualizacion-de-la-vacunacion-en-el-marco-de-los-estudios-de-los-candidatos-vacunales-cubanos-y-la-intervencion-sanitaria/>; Ed Augustin, “Cuba’s vaccine success story sails past mark set by rich world’s Covid efforts,” *The Guardian*, January 5, 2022, <https://www.theguardian.com/world/2022/jan/05/cuba-coronavirus-covid-vaccines-success-story>.

tourists, and the climate of foreign investment in the Island. Third, the drastic reduction in imports (27% lower in 2019 compared to 2011), and the deterioration of the export of professional services caused a sharp 11% decline in the GDP in 2019.¹⁸⁰

As explained before, Cuba transitioned from a sugar economy to a services economy, with professional services exports, remittances, and tourism being the main economic sectors. Overall, Cuban foreign trade was characterized by a concentration on a few low-value-added products and a limited number of markets, which explains the high vulnerability to external shocks and the difficulties in maintaining a stable growth path.¹⁸¹ To illustrate, in the pre-pandemic years, professional services exports deteriorated by 30% in 2017 compared to 2013 due to the decay of leftist governments in Latin America, representing a decline of over 2 billion US dollars in revenues for Cuba. Additionally, tourism revenues were already decreasing by 19% in 2019 compared to 2018, influenced by the effects of Trump restrictions. Furthermore, good exports showcased a 35% fall in revenues in 2019 compared to 2017.¹⁸²

The factors mentioned above show how the Cuban economy worsened during the pandemic. The fiscal deficit reached 17.7% of GDP in 2021, while retail sales declined by 14% in 2020, exacerbating shortages during the pandemic period.¹⁸³ The Consumer Price Index (CPI) grew by 18.5%, while agricultural prices increased by 44.7% in 2020. Additionally, in the same year debt service accounted for 23% of export earnings, reversing the relative improvement seen following the renegotiation with creditors in the 2010s.

Amid the pandemic and the difficult economic and financial scenario, the government announced that starting on January 1st, 2021, the CUC would disappear, fixing its exchange rate at 1 CUC=24 Cuban pesos, and aiming to end the monetary duality established in the

¹⁸⁰ Hidalgo de los Santos and Triana Cordoví, “Una radiografía de la economía cubana,” 17; Vilma Hidalgo de los Santos, “Panorama macroeconómico bajo impacto de pandemia y el ordenamiento monetario,” in *La economía cubana pospandemia de COVID-19*, ed. Vilma Hidalgo de los Santos (La Habana: Editorial UH, 2022), 39.

¹⁸¹ By 2020, 51.8% of trade and 76.1% of exports were conducted with just five countries: Venezuela, China, Canada, Spain, and the Netherlands. Among them, strategic allies such as Venezuela and China capture 31% of exports and 28% of imports, respectively. Additionally, only five products contributed 76.6% of the total goods exports: nickel, metal waste, tobacco, sugar, and beverages in 2019, placing Cuba among the countries with the least diversification.

Hidalgo de los Santos and Triana Cordoví, “Una radiografía de la economía cubana,” 22-23.

¹⁸² Hidalgo de los Santos and Triana Cordoví, “Una radiografía de la economía cubana,” 21-22.

¹⁸³ Hidalgo de los Santos, “Panorama macroeconómico,” 39-40.

90s.¹⁸⁴ The dual currency system caused multiple distortions in the cost and price system, and business, financial, and public accounts.¹⁸⁵ However, the long-awaited measure landed in the worst possible scenario, with a Cuban economy truly weakened by the impact of the pandemic and the reduction of tourist arrivals.

The process known as *ordenamiento monetario* (monetary reordering) included over 9.000 legal norms and was deeper than a traditional monetary reform.¹⁸⁶ Although an urgent matter, the *ordenamiento* provoked drastic consequences for the economy, expressed mainly by hyperinflation, depreciation of the Cuban peso, erosion of real income and wages, and deterioration of the population's living conditions. Hidalgo de los Santos contended that the exchange rate reacted, fostering conditions for a near-structural dollarization in Cuba. Therefore, the gap between the new official rate and the informal market rate widened due to increased dollar demand from state-run retail markets.¹⁸⁷ Moreover, supply shocks, fiscal deficits, and overreacting exchange rates in the informal market sparked uncontrolled inflation. Unlike other nations, Cuba lacked stable external sources or an external lender to manage the impact of such monetary reforms.

The informal currency market responded to new circumstances of reduced foreign currency inflows and domestic monetary expansion. Shortages in markets in Cuban pesos, the opening of state markets in foreign currencies, and the collapse of the official exchange market

¹⁸⁴ As discussed in Chapter 2, the CUC was created in 2004 as a second official currency, running along with the Cuban peso, and formally replacing US dollars in Cuba.

“Inicia el 1ro de enero ordenamiento monetario y cambiario en Cuba: la tasa de cambio será 24 pesos cubanos por un dólar,” Cubadebate, December 10, 2020, <http://www.cubadebate.cu/noticias/2020/12/10/gobierno-cubano-informa-sobre-tema-de-interes-para-la-poblacion-video/>.

¹⁸⁵ The dual currency system divided markets and sectors in the economy, including public accounts. While the exchange rate depreciated in the household and retail market (24 CUP = 1 USD), it remained unchanged in companies and the public sector (1 CUP = 1 USD), with centralized currency allocation through exchange controls. Public sector wages, tied to the official exchange rate, quickly eroded real incomes.

Hidalgo de los Santos, “Panorama macroeconómico,” 35.

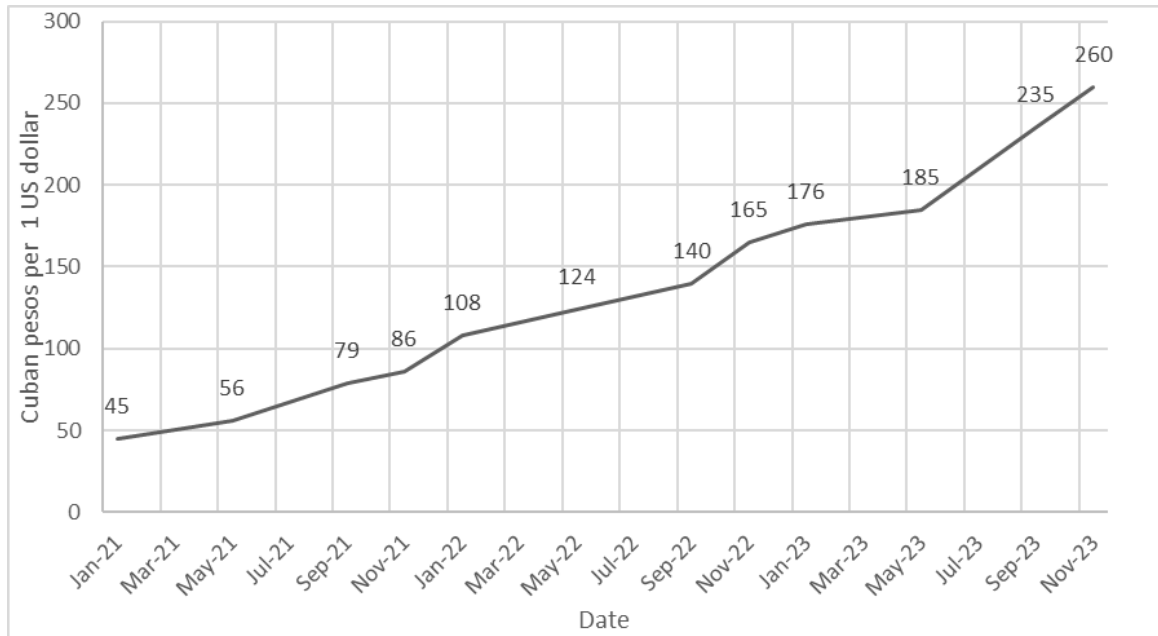
¹⁸⁶ Among the most important measures, the “ordenamiento” included: 1) monetary unification: replace the convertible peso (CUC) with the national currency (CUP), establishing a single exchange rate of 24 CUP = 1 USD; 2) pricing, wage, and social security reforms adjusted wholesale prices to retail levels (24 CUP = 1 USD), raised the minimum wage tied to a consumption basket, and revised public sector salaries, pensions, and transfers; 3) redesign consumption schemes, raised normed consumption basket prices and public tariffs; 4) institutional changes included restructuring planning and macroeconomic policies.

Hidalgo de los Santos, “Panorama macroeconómico,” 36-37.

¹⁸⁷ Hidalgo de los Santos, “Panorama macroeconómico,” 38.

intensified the situation.¹⁸⁸ Figure 4 illustrates how the rapid depreciation of the informal market exchange rate widened the gap with the new official rate (1 USD = 24 CUP).

Figure 4 Estimation of the informal foreign exchange rate of US dollars in the informal market (2021-2023)



Source: Own elaboration based on the publications of El Toque. “Tasas de Cambio.” El Toque, April 25, 2024. <https://eltoque.com/tasas-de-cambio-de-moneda-en-cuba-hoy>.

Consequently, prices in deregulated retail markets adjusted to the exchange rate, and an active informal market reemerged, handling a significant share of household transactions. In parallel, inflation escalated exponentially, and while the government did not provide official data about it, estimations pointed out an inflation growth of 505% in 2021, with an interannual growth rate of 39% in 2022.¹⁸⁹

The Cuban population suffered again the most severe effects of the new crisis. As in the 90s, citizens faced scarcity of food and medicines, the loss of the purchase power of their wages, and a constant increase of inflation, reflected mainly in the prices of food. The ECLAC reported that the rise in the cost of living has been vividly visible in the increase of the cost of food and non-alcoholic beverages (63.7%), restaurants and hotels (67.5%), and transportation

¹⁸⁸ Hidalgo de los Santos, “Panorama macroeconómico,” 41-42.

¹⁸⁹ Economist Intelligence Unit (EIU), “Cuba Country Report September 2021” (EIU, October 12, 2021); Comisión Económica para América Latina y el Caribe (CEPAL), “Cuba: Informe Macroeconómico,” CEPAL, 2023, <https://repositorio.cepal.org/server/api/core/bitstreams/3392278d-b1b7-46de-b047-b0c0d6aa11a9/content>.

(33.2%) from 2022 to 2023.¹⁹⁰ To illustrate, table 1 shows the top prices of basic food products in the Cuban diet. The data confirmed an alarming situation, just considering that buying one of each product -in its unit of measurement- was around 7.020 Cuban pesos. However, the monthly minimum wage was 2.100 Cuban pesos, while the average salary amounted to 4.219 Cuban pesos.¹⁹¹ To sum up, wage-earner Cuban citizens were not able to buy the basic household foodstuff with their monthly income.

Table 1 *Top prices per product in October 2023*

Products	Unit of measurement	Price (Cuban pesos)
Black beans	lb	520
Kidney beans	lb	500
Onions	lb	500
Garlic	lb	840
Tomato	lb	500
Pork	lb	600
Rice	lb	550
Cooking oil	lb	1100
Powder milk	500g	1250
Eggs	unit	110
Cheese	lb	550
Total		7020

Source: Own elaboration based on the Consumer Price Index (CPI) of the National Office of Statistics and Information (ONEI) compiled by Pérez Villanueva, Omar Everlenny. “El 2023 casi termina y la economía cubana sigue sin despegar.” *La Joven Cuba*, December 1, 2023. Accessed 05-03-2024, <https://jovencuba.com/economia-cubana-2023/>.

4.2 “ONE WAY OR ANOTHER”: EXPANSION OF SELF-EMPLOYMENT AND MSMEs BETWEEN 2021 AND 2023

The year 2021 witnessed once again the reconfiguration of the norms for the private sector, highlighted by landmarks such as the authorization of Local Development Projects (PDLs) for local entrepreneurial ventures in April, and the establishment of private MSMEs in September. PDLs holders were able to propose activities and project scopes to the local authorities, breaking free from the constraints of the list of licensable occupations (still in

¹⁹⁰ “Cuba: Informe macroeconómico,” *CEPAL*, 5.

¹⁹¹ “Cuba: Informe macroeconómico,” *CEPAL*, 5.

place in April 2021). Consequently, PDLs emerged as a viable and legal avenue to pursue activities previously restricted under self-employment regulations.

Regarding MSMEs, their establishment came with a set of measures aimed at relaxing self-employment regulations. Notably, the list of licensable occupations was replaced by a list of prohibited activities. This change allowed all entrepreneurial forms (self-employment, non-agricultural cooperatives (CNAs), and MSMEs) to pursue business ventures from a pool of over 2.000 non-prohibited activities.¹⁹²

4.2.1 REGULATORY FRAMEWORK

Concerning PDLs, Decree 33/2021 established the guidelines for the development of various local initiatives within the framework of decentralizing local governance in Cuba.¹⁹³ This regulation introduced PDLs as a novel mechanism to foster entrepreneurial ventures aimed at promoting strategies with economic and/or social impacts within local communities.¹⁹⁴ PDLs could be held by a variety of actors, including state entities, self-employed individuals, agricultural and non-agricultural cooperatives, legally recognized institutions and associations, as well as natural or legal persons.

Key advantages of this new mechanism were that PDLs holders were allowed to hire labor for project execution, with all participants receiving remunerations based on the profits generated, and up to 50% of the post-taxes profit being distributed within the project.¹⁹⁵ Additionally, it was guaranteed access to wholesale markets and, if needed, retail markets for restocking. Moreover, differentiated tax treatment and pricing were applied, the latter agreed upon by the parties. PDLs also had access to various financing sources, including funds from Municipal Administration Councils and international cooperation. Notably, PDLs could engage in export activities, with 80% of the foreign currency generated by exports retained by the project.

¹⁹² Ileana Díaz Fernández, “Perfeccionamiento del trabajo por cuenta propia (Informe Inédito),” *Red de Emprendimiento e Innovación de la Universidad de La Habana*, 2021, 3.

¹⁹³ Consejo de Ministros, “Decreto 33/2021. Para la gestión estratégica del desarrollo territorial,” *Gaceta Oficial No.40 Ordinaria*, April 16, 2021.

¹⁹⁴ A PDL was defined as a “set of resources, efforts, and actions, with its own identity, to transform an existing situation into a desired one, contributing to the development of the territory where it operates and impacting the quality of life of the population.” “Decreto 33/2021,” 1298.

¹⁹⁵ “Decreto 33/2021.”

Another significant aspect was that PDLs were not restricted by the approved list of licensable activities; rather, entrepreneurs proposed activities and scopes to local authorities. These proposals needed to align with the priorities identified by the territories and outlined in local development strategies, aiming to address issues or stimulate development factors to enhance the quality of life for the population.¹⁹⁶ Furthermore, projects were required to primarily utilize local resources and generate employment opportunities for the local population.

A pivotal feature of PDLs was their ability to serve as a suitable and legal avenue to promote ideas and activities limited under other modalities. Local governments had the authority to approve various types of projects (economic; sociocultural; environmental; institutional; research, development, and innovation) expanding entrepreneurial capacity beyond the list of licensable occupations.

Furthermore, the combination of private and governmental ownership of PDLs facilitated interaction between state and private sectors, fostering mutually beneficial relationships.¹⁹⁷ Finally, although PDLs lacked a legal personality, they had their own identity for all legal purposes and the establishment of contractual associations. However, the absence of legal personality later constrained the reach of the initiatives.

Concerning self-employment and MSMEs, as previously mentioned, the primary change was the replacement of the list of licensable activities with a list of prohibited activities.¹⁹⁸ The presence of prohibited activities, rather than authorized ones, allowed for the delineation of license scope based on the entrepreneur's business proposal among a selection of 2.000 non-prohibited activities. This same principle applied to the design of the social object and the bylaws of MSMEs.

¹⁹⁶ AUGE, “Resumen Ejecutivo. Los Proyectos de Desarrollo Local, una oportunidad para el emprendimiento en Cuba,” April 2021, 10.

¹⁹⁷ AUGE, “Resumen Ejecutivo. Los Proyectos de Desarrollo Local,” 15.

¹⁹⁸ This measure also applied to non-agricultural cooperatives. However, due to the scope of this research, I will analyze only self-employment and MSMEs in this period.

Consejo de Ministros, “Decreto 49/2021. De las actividades a realizar por las micro, pequeñas y medianas empresas privadas, cooperativas no agropecuarias y trabajadores por cuenta propia,” *Gaceta Oficial No. 94 Ordinaria*, August 19, 2021

Furthermore, Cuban authorities introduced a consolidated set of measures simultaneously, streamlining the regulatory dispersion seen in previous cycles. In the same edition of the *Gaceta Oficial*, 12 regulations for self-employment and 13 for MSMEs were published, with some regulations applicable to both actors.

For self-employment, regulation changed taxation, accounting, hiring of labor, fiscal operations, application procedures, sanctions, and governmental oversight and control.¹⁹⁹ Under Decree-Law 44/2021, self-employed individuals could hire up to three employees, conduct business transactions with Cuban and foreign entities, manage payments through a Cuban bank account, engage in export activities, and import necessary materials through authorized state entities. Additionally, self-employed workers could request transfers and temporary suspensions of their activities and appeal the denial of their license.

In terms of taxation, all self-employed individuals were subject to the general taxation regime for tax payment, unless deemed eligible for the simplified regime by the National Office of Tax Administration (ONAT in Spanish).²⁰⁰ Those under the general regime were required to establish and maintain a bank account at a Cuban commercial bank branch, open a fiscal bank account in Cuban pesos, and submit a sworn declaration at the end of the fiscal year, regardless their taxation regime.

In the case of MSMEs, a significant milestone was the legalization for the first time of private enterprises with legal personality.²⁰¹ The scale of the enterprise was determined by the workforce count: micro-sized encompassed 1-10 employees; small ranged from 11 to 35; and medium-sized included 36 to 100 hired workers. This classification held significance as any

¹⁹⁹ Consejo de Estado, “Decreto-Ley 44/2021. Sobre el ejercicio del trabajo por cuenta propia,” *Gaceta No. 94 Ordinaria*, August 12, 2021.

²⁰⁰ The National Office of Tax Administration (ONAT) could authorize the application of the simplified taxation regime for self-employed workers whose annual income does not exceed 200.000 Cuban pesos and who do not hire any labor. Under the simplified regime, self-employed workers are required to pay monthly consolidated fees amounting to 20% of their earnings, with a deduction of 3.260 Cuban pesos recognized as the minimum monthly exemption.

Ministerio de Finanzas y Precios, “Resolución No. 345/2021. Normas para la tributación y el tratamiento de precios y tarifas para los trabajadores por cuenta propia,” *Gaceta Oficial No. 94 Ordinaria*, August 19, 2021.

²⁰¹ MSMEs were defined as “economic units with legal personality, which have their own dimensions and characteristics, and whose purpose is to develop the production of goods and the provision of services that meet society’s needs”.

Consejo de Estado, “Decreto-Ley 46/2021. Sobre las micro, pequeñas y medianas empresas,” *Gaceta Oficial No. 94 Ordinaria*, August 19, 2021.

self-employed individual employing more than three workers was required to transition to MSME status.

MSMEs were structured as commercial entities, adopting the form of a limited liability company (LLC).²⁰² The LLC model refers to a company whose capital is divided into social shares, with contributions from all partners paid at the time of the company's formation. Additionally, under Decree-Law 49/2021, MSMEs were mandated to maintain accounting records of their operations for tax purposes and to issue financial statements for business activities within the country following the Cuban Standards of Financial Information.²⁰³

Concerning taxation, MSMEs were subject to various duties.²⁰⁴ They were required to pay a profit tax at a rate of 35%, retail sales tax or service tax at a rate of 10% on the total monthly income generated from their activities, as well as the tax on labor utilization at a rate of 5% on the monthly remuneration paid to employees. MSMEs were also mandated to contribute to local development through the Territorial Contribution for Local Development, imposed at a rate of 1% on the total income derived from their activities. Furthermore, shareholders of MSMEs were required to pay personal income tax on dividends received annually, with tax rates scaling up to 20%.

4.2.2 DATA AND ACTIVITIES

The first private MSMEs were approved in September 2021. However, the process for MSME creation was guided by specific areas of interest identified by Cuban authorities. During the initial phase, key sectors were determined, including food manufacturing, exports, technology-based enterprises, projects linked to local development initiatives (PDLs), businesses involved in circular economy practices, manufacturing, information technology, logistics, transportation, and construction services.²⁰⁵

The Ministry of Economy and Planning (MEP), responsible for overseeing the new MSMEs, justified the gradual expansion into new sectors as a response to the number of existing

²⁰² “Decreto-Ley 46/2021,” 2712.

²⁰³ Consejo de Estado, “Decreto-Ley 49/2021. Modificativo de la Ley 113 del sistema tributario, de 23 de julio de 2012,” *Gaceta Oficial No. 94 Ordinaria*, August 19, 2021.

²⁰⁴ Ministerio de Finanzas y Precios, “Resolución No. 350/2021,” *Gaceta Oficial No. 94 Ordinaria*, August 21, 2021.

²⁰⁵ Ministerio de Economía y Planificación, “Preguntas y respuestas sobre el perfeccionamiento de los actores Económicos,” 2021, 19.

ventures in 2021 and its anticipated growth from the introduction of private MSMEs.²⁰⁶ Among the 600.000 self-employment licenses issued in 2021, a substantial portion was deemed eligible for conversion to MSMEs. Following this strategy, MEP initiated applications for gastronomy services and bookkeeping in January 2022 and later expanded to include commercialization and event organization in June 2022. By this time, Cuba had reached its highest number of economic actors, totalling 12.486, encompassing state, mixed, and private enterprises.²⁰⁷

From September 2021 to December 2022, Cuba saw the approval of 6.273 new economic actors comprising 6.138 private MSMEs, 75 state-owned MSMEs, and 60 non-agricultural cooperatives.²⁰⁸ Among those actors, 144 were part of PDLs. Regarding their origin, 45% were conversions of existing businesses, while 55% were new ventures in 2023.²⁰⁹ According to their size, 1.481 were micro-sized, 3.382 small-sized, and 1.841 medium-sized enterprises by January 2023.²¹⁰ The new economic actors were estimated to have generated 179.317 new jobs in the economy. Furthermore, the private and cooperative sector, includes MSMEs, accounted for up to 13% of GDP, and 8% of imports.²¹¹ Table 2 shows the number of new economic actors approved between 2021-2023.

According to the National Office of Statistics and Information, five sectors accounted for 90% of private MSME activities by the end of 2022. Specifically, 36.8% of MSMEs were engaged in manufacturing, 23.9% in construction services, 15% in restaurants and gastronomic services, 7% in commercialization activities, and 6% in real estate and rental services.²¹²

²⁰⁶ Ministerio de Economía y Planificación, “Preguntas y respuestas,” 19.

²⁰⁷ Lissett Izquierdo Ferrer and Rogelio Carmona, “Cuba en datos: Cuba registra el mayor número de empresas en 12 años,” *Cubadebate*, August 26, 2022, <http://www.cubadebate.cu/especiales/2022/08/26/cuba-en-datos-cuba-registra-el-mayor-numero-de-empresas-en-12-anos/>.

²⁰⁸ Canal de Actores Económicos, “Ministerio de Economía y Planificación aprueba nuevos actores económicos,” Telegram, December 28, 2022, https://t.me/s/actores_economicos_cuba?q=6.273.

²⁰⁹ Daniel Torralbas Socorro, “Mipymes en la mira: dos años después,” *Cubadebate*, October 24, 2023, <http://www.cubadebate.cu/especiales/2023/10/24/mipymes-en-la-mira-dos-anos-despues/>.

²¹⁰ Oscar Figueredo Reinaldo and Edilberto Carmona Tamayo, “Cuba en datos: coordenadas de los nuevos actores económicos,” *Cubadebate*, March 17, 2023, <http://www.cubadebate.cu/especiales/2023/03/17/cuba-en-datos-coordenadas-de-los-nuevos-actores-economicos/>.

²¹¹ Torralbas Socorro, “Mipymes en la mira”.

²¹² Own elaboration based on data from the Oficina Nacional de Estadística e Información, “Anuario Estadístico de Cuba 2022” (La Habana: Oficina Nacional de Estadísticas e Información, 2023), https://www.onei.gob.cu/sites/default/files/publicaciones/2024-04/aec-2022_0.pdf, 136.

Table 2 *Number of new economic actors approved per year (2021-2023)*

Years		
2021	2022	2023
1.373	4.900	3.673
Total		
1.373	6.273	9.946

Source: Own elaboration based on the data provided by Ministerio de Economía y Planificación. “Listado de actores económicos aprobados.” *Ministerio de Economía y Planificación*, April 18, 2024. Accessed 15-04-2024, <https://www.mep.gob.cu/sites/default/files/Documentos/Archivos/Listado%20de%20Nuevos%20Actores%20Econ%C3%B3micos%20aprobados%20hasta%2018.04.24%20.pdf>.

In the case of self-employment, the number of workers in the category declined to 596.300, compared to previous years (602.400 in 2020 and 617.000 in 2019).²¹³ The upward trend observed in the number of licenses during the previous period (2010-2021) was slowed down due to two main factors. Firstly, the COVID-19 pandemic directly impacted private businesses in the country, leading to closures and subsequently reducing the number of license holders. Notable impacts identified by the private consultancy AUGE included a decrease or total interruption of income, sales reductions, termination of labor contracts, worsened supply availability, and halted investments for new businesses.²¹⁴ Secondly, the decrease in self-employed workers occurred also because those with more than three hired employees were mandated to transition to MSMEs.

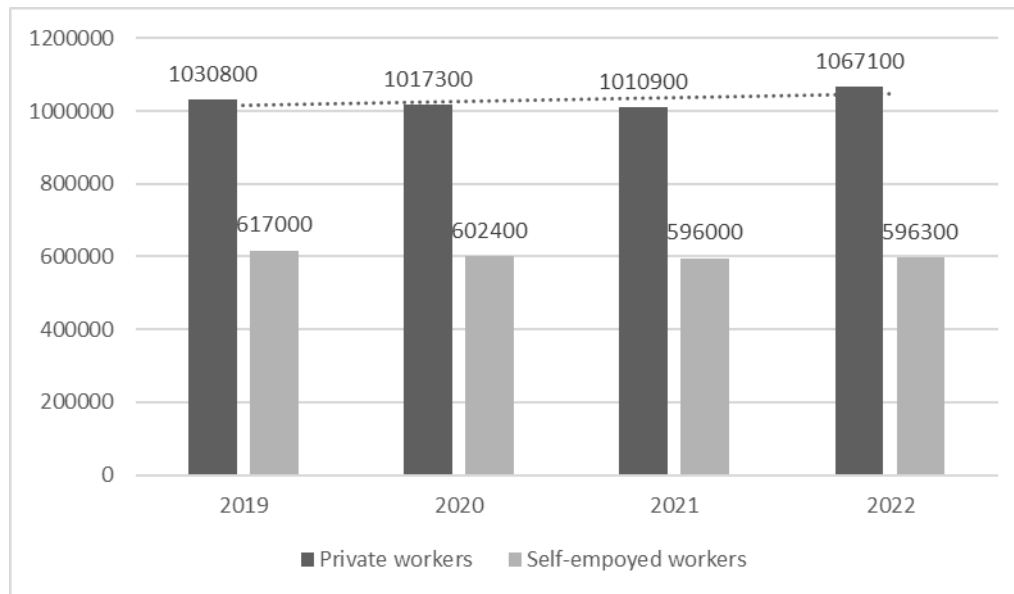
Figure 5 illustrates the total number of private workers, including self-employed workers, between 2019 and 2020. According to the graph, by 2022, the number of self-employed workers decreased by 1% compared to 2020 figures. However, the total number of private workers increased by 5% during the same period. This increase can be attributed to the

²¹³ Oficina Nacional de Estadística e Información, “Anuario Estadístico de Cuba 2022,” 175.

²¹⁴ AUGE, “El emprendimiento privado en Cuba. Un paciente positivo a la Covid-19,” 2020, 12.

creation of 6.273 new economic actors by the end of 2022, including 4.665 private MSMEs.²¹⁵

Figure 5 Total number of private workers (including self-employed workers) between 2019 and 2022



Source: Own elaboration based on the data of the National Office of Statistics and Information. “Anuario Estadístico de Cuba 2022.” La Habana: Oficina Nacional de Estadísticas e Información, 2023. Accessed 05-04-2024, https://www.onei.gob.cu/sites/default/files/publicaciones/2024-04/aec-2022_0.pdf, 175.

4.3 THE DAMOCLES SWORD: LEGITIMATE UNDERGROUND ENTREPRENEURIAL PRACTICES BETWEEN 2021 AND 2023

4.3.1 EVOLUTION IN THE PERIOD

During the period spanning from 2021 to 2023, LUEAs were marked by the transition of informal micro-enterprises towards formality with the legalization of MSMEs. Nevertheless, alongside this transition, the persistence of informal or illegal activities was also noticeable.

Concerning the transition towards formality, by 2023, out of the 9.000 MSMEs created, 45% were the result of the conversion of pre-existing businesses.²¹⁶ While not all these converted

²¹⁵ “Anuario Estadístico de Cuba 2022,” 133.

²¹⁶ Torralbas Socorro, “Mipymes en la mira”.

businesses were previously engaged in informal activities, this trend indicates a willingness among new stakeholders to formalize their past endeavors. To illustrate, the private consultancy AUGE identified four main reasons for this transition: obligation due to surpassing the limit of three hired workers, demand from state clients, seizing new opportunities, and finally legalizing partnerships.²¹⁷

In terms of workforce, by January 2023, over 4.800 new enterprises were classified as small and medium-sized, employing 11 to 100 workers, marking a 3.2-fold increase compared to the 1.481 micro-sized enterprises with 1 to 10 workers. This suggests that many previous businesses were operating as micro-enterprises before legalization. However, the restriction of three hired workers for self-employment was overly limiting, forcing small businesses to restructure based solely on their workforce without considering the scale of their activities and revenues.

Regarding partnerships, AUGE's analysis showed that 48% of MSMEs consisted of two or more shareholders.²¹⁸ This highlighted a previous practice where individuals operated informally as partners without legal protection. The introduction of the limited liability company (LLC) format for MSMEs in Cuba addressed this issue.

Nevertheless, the legalization of MSMEs also came with operational restrictions. First, Decree-Law 46/2021 stipulated that individuals could only participate as shareholders in one MSME.²¹⁹ This provoked the perpetuation of previous practices to designate another person - often relatives of friends- to represent third parties in additional business ventures. Second, while there was no limit on the number of activities MSMEs could engage in, the Ministry of Economy and Planning (MEP) later restricted it to only seven by the end of 2022.²²⁰

Third, most of the professional activities remained prohibited, pushing them into the underground economy. Interestingly, in early 2021, there was an unofficial preliminary list of prohibited activities that excluded certain professions like accounting, consulting, tourism services, marketing, and advertising, among others. However, when the list was officially

²¹⁷ AUGE, "Las 100 MIPYMES de AUGE," September 2022, 11-12.

²¹⁸ AUGE, "Las 100 MIPYMES de AUGE," 14.

²¹⁹ "Decreto-Ley 46/2021," 2717.

²²⁰ Ileana Díaz Fernández, "Interview with professor Ileana Díaz Fernández, Cuban Academic," interview by Yaquelín Samper Hormaza, March 8, 2024; Díaz Castellanos, interview.

approved, professional activities continued to be prohibited. According to Ileana Díaz Fernández, a renowned Cuban academic, state bodies mutilated the first draft of activities based on fear of losing control and monopoly over certain activities.²²¹

Fourth, high tax rates for MSMEs, set at 35% on profits, have been criticized, as they tax small enterprises the same as large state-owned companies. This policy risked suffocating MSMEs and encouraging tax evasion. The parity of conditions should not be determined by ownership form but by the size of these actors. The application of this principle has led to, for example, micro-enterprises with just 10 workers having the same tax rate on profits as a large state-owned company with hundreds of employees and national operations.²²²

Finally, the extensive monetary reform of 2021 worsened the system of multiple exchange rates, forcing MSMEs to turn to the informal market for foreign currency.²²³ This practice incurred additional costs and challenges in justifying income sources, potentially leading to tax evasion and a decrease in state revenues. To clarify, while MSMEs expressed all their earnings at the official exchange rate of 1 USD=120 CUP, they must exchange dollars for covering costs at over 300 Cuban pesos in the black market. Consequently, a portion of the dollars handled by MSMEs cannot be justified as originating from their revenues. Oniel Díaz Castellanos, AUGE's co-founder and CEO, highlights the repercussions, stating: “There's a difference there that someone has to pay either by underreporting or evading taxes, which is counterproductive, detrimental to the country and its citizens, as it diminishes state revenues and limits resources for essential societal needs.”²²⁴

4.3.2 CASE STUDIES: STORIES TOLD BY THEIR PROTAGONISTS

Case 3: AUGE, business consultancy. Operating as a professional service remained prohibited during this period. However, in 2022, AUGE transitioned into a small-sized enterprise, and capitalized on the absence of restrictions on the number of activities permitted within MSMEs' scope. This allowed shareholders to enumerate numerous activities in their bylaws. For instance, AUGE is authorized to engage in various activities such as

²²¹ Díaz Fernández, interview.

²²² AUGE, “Las 100 MIPYMES de AUGE,” 14.

²²³ MSMEs have had to cope with several parallel exchange rates: two formal (1USD = 24 CUP for state bodies and 1USD = 120 CUP for private businesses and individuals), and the volatile informal market (1USD=more than 300 CUP).

²²⁴ Díaz Castellanos, interview.

"commercialization of foodstuffs" and "house rental," in addition to its core services, which encompass "document preparation, bookkeeping, event organization, and graphic design."²²⁵

Positioning itself as a "corporate service company" rather than a consultancy firm, AUGE leveraged the opportunity to formalize the existing partnership among its founders, thereby obtaining legal status and bolstering credibility within the new regulatory landscape. Currently it employs four workers. Despite offering services that were still prohibited, AUGE diligently fulfills its tax obligations, including taxes for activities it is not supposed to undertake.

Case 4: Beyond Roots, Afro-Cuban cultural and tourism activities. Beyond Roots initially established a PDL in May 2021, to integrate all the hired workforce into one single project. With over 50 workers already under different self-employment licenses, the founders sought to enhance operational efficiency and expand their offerings, including ventures like a hair salon alongside existing tourist experiences and the Afro store. The PDL was approved, but it did not start operating immediately.

However, with the implementation of MSME regulations in September 2021, Beyond Roots saw an opportunity to obtain legal status. Nonetheless, compliance with Decree-Law 46/2021 necessitated avoiding 112 prohibited activities, including those related to travel service packages and tourist information provision.²²⁶ To address this challenge, Beyond Roots chose to update their approved PDL, leveraging its less restrictive regulatory framework. This strategic move allowed them to explicitly include activities aligned with their core offerings, such as organizing educational tourist experiences focused on promoting culture. The co-founder commented that: "PDLs were not constrained by MSME regulations. The approval of activities was very discretionary, depending on what the local government decided. So, I submitted an update of my PDL and explicitly included it as one of the activities "organization of educational tourist experiences focused on the promotion of culture." In

²²⁵ Díaz Castellanos, interview.

²²⁶ Beyond Roots needed to avoid the 112 prohibited activities, which included #76 "organization of travel service packages for sale through travel agencies or by tour operators", and #77 "providing customers with information about travel and activities from tourist guides and tourism promotion activities." "Decreto-Ley 46/2021," 2762.

other words, it included exactly the description of the experiences, I included it in the PDL, and they approved it.”²²⁷

The restructuring of the business resulted in B2C activities, including tourist experiences, the Afro store, and the salon, falling under the PDL, while B2B activities, such as textile production, screen printing, and e-commerce sales, were managed under the MSME. Despite resolving legality concerns with its dual status, the founder acknowledged the management complexities involved, particularly in terms of double tax accounting and administrative burdens. However, they recognized the advantage of maintaining permission to operate tourist activities under the PDL, which outweighed the challenges posed by the dual entity structure.

The co-founder commented: “The legality of the PDL is what determines that I don't close the local development project and that I continue to deal with the hassle of having a local development project and an SME, which is stressful because I have to do accounting for two institutions, I mean, I have to do double tax accounting, I have to prepare papers for two institutions. For us, it means a lot of wear and tear, but it's a card up our sleeve because I have permission to operate tourist activities.”²²⁸

Nevertheless, difficulties in procuring supplies and raw materials for activities such as the store, hair salon, textile production, and screen printing, pushed Beyond Roots to resort to the black market to acquire US dollars at fluctuating informal exchange rates.

4.4 CHAPTER CONCLUSIONS

During 2021 and 2023, the effects of the COVID pandemic and the monetary reform drove the Cuban economy towards a new cycle of "repressed inflation," marked by shortages, hyperinflation, the growth of the informal market, and partial dollarization. The Cuban population suffered severe effects, facing food and medicine shortages, declining purchasing power of the Cuban peso, and rising inflation, particularly in food prices.

Amidst the crisis, significant changes in the private sector regulations were introduced in 2021. Key developments included the authorization of PDLs and MSMEs. PDLs allowed

²²⁷ Heredia Sánchez, interview.

²²⁸ Heredia Sánchez, interview.

entrepreneurs to propose activities to local authorities beyond the list of licensable occupations. This list was later replaced by a listing of prohibited activities with the introduction of MSMEs. By the end of the period, the number of new economic actors, especially private MSMEs, grew considerably. However, the number of self-employed workers declined after the COVID-19 pandemic and the reconversion of some of them into MSMEs.

Concerning LUEAs, the period showed a new shift towards formality, but also the persistence of informal practices. The most common LUEAs in the period were tax underreporting, operations in the black market, and the prohibition of professional activities. The legalization of MSMEs enabled to formalize of past informal endeavors and partnerships. However, the monetary reform of 2021 exacerbated the multiple exchange rate system, forcing MSMEs to rely on the informal market for foreign currency. AUGE and Beyond Roots continued to engage in LUEAs. AUGE was triggered by the prohibition of professional activities, and Beyond Roots used the black market to obtain US dollars due to the ongoing difficulties in securing supplies.

Overall, while significant steps were made in reforming the private sector and encouraging formalization, restrictive regulations, high taxes, and an unstable economic environment continued to pose significant challenges for Cuban entrepreneurs.

CHAPTER V. FINDINGS AND DISCUSSION

5.1 RELATION BETWEEN THE REGULATORY FRAMEWORK AND THE EVOLUTION OF LUEAs BETWEEN 1993 AND 2023

Upon examining the regulatory frameworks between 1993-2023, discernible patterns and minor differences emerged, influencing the evolution of LUEAs. Table 3 summarizes the aspects discussed in the previous chapters, encompassing the socio-economic and political landscape, approved measures, the reform's scope, and the progression of LUEAs.

Table 3 *Different factors and characteristics of the regulatory frameworks for self-employment and MSMEs (1993-2023)*

Factors	1993-2010	2010-2021	2021-2023
Socioeconomic & political context	Macroeconomic crisis Special Period	Economic recession Change of leadership Cuba-US relationship	COVID-19 Macroeconomic crisis Monetary reform
Regulatory framework	Decree-Law 141/1993 Joint Res No. 1/1998 Res No.253/2003 Res. 11/2004 Res. 9/2005	Res No.32/2010 Res No.33/2011 Decree-Law 305/2012 Res No.41 & 42/2013 Decree-Law 356/2018 Res. 24/2018 Res No.103 & 104/2019	Decree 33/2021 (PDLs) Decree-Law 44/2021 (self-employment) Decree-Law 46/2021 (MSMEs)
Type of reforms	Sequential and gradual	Sequential and gradual	Simultaneous
Normative dispersion	Yes	Yes	No
Regulatory body	State Council, MTSS, MFP	State Council, MTSS, MFP	State Council, Council of Ministers, MFP
Licensable occupations	Yes	Yes	No
Prohibited activities	Yes	Yes	Yes
Counterreform process	Yes	Yes	Yes
LUEAs	Transit to formality (legalization of self-employment) No professional activities Licenses restrictions No hired workforce Tax underreporting	Transit to formality (more licensable occupations, more than 1 license, and hired workforce) No professional activities Licenses restrictions Tax underreporting	Transit to formality (MSMEs and PDLs) No professional activities List of prohibited activities Tax underreporting (inflation and currency convertibility problems)

Source: Own elaboration.

The first trend observed is the susceptibility of public policy to socio-economic and political contexts. The regulatory framework and reform processes were reactive rather than proactive. It was noted that each reform period was triggered by macroeconomic crises or recessions. For instance, the Special Period and the crisis following the collapse of the Soviet bloc in the 90s; the economic downturn in Cuba post-2008 global crisis and reduced support from Venezuela in the 2010s; the COVID-19 pandemic and the monetary reform in 2021.

Overall, a significant asymmetry exists between the aims of the reforms and the outcomes achieved. The reasons for this asymmetry lie in the reactive nature of public policies to crisis scenarios, prompting the development of crisis-tackling policies without designing and implementing long-term strategies to foster private micro-enterprises. Consequently, the legalization of private enterprises was delayed for nearly three decades. Furthermore, from the government's perspective, self-employment was viewed as a temporary solution, a "necessary evil" helping economic recovery, job creation, and family income. However, these policies were short-sighted, implementing counterreform measures once some economic recovery was achieved, thereby hindering the development and growth of private businesses.

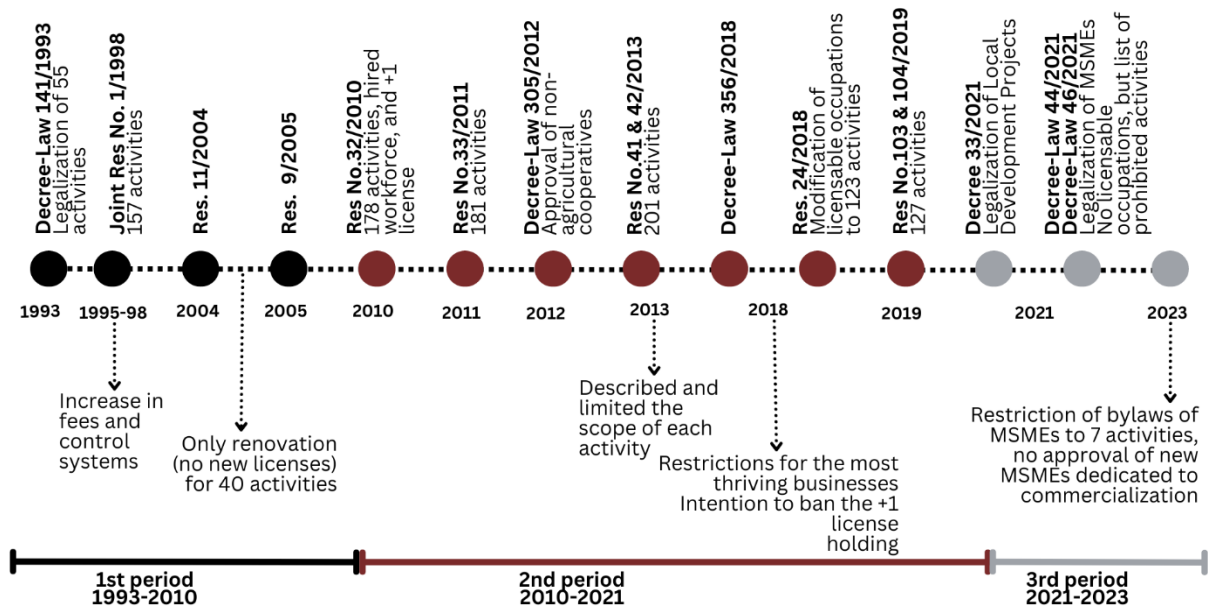
According to Cuban academic Ileana Díaz, "historically, self-employment has been used to mitigate moments of crisis. In the 70s, it was used to support state-owned enterprises due to the country's challenging economic situation. In the 90s, during the Special Period. There was also an economic situation in 2008-2009, leading to a more significant opening, such as allowing labor hiring in 2010. If one analyzes the 2019 Constitution, private work and property are complementary to state property. Complementary does not imply marginalization. However, every time self-employment or now MSMEs gain strength, the government becomes apprehensive. The government becomes afraid and starts putting obstacles or limitations. Sometimes they (self-employment and MSMEs) are illegal, sometimes they are inspected, and negative public opinion also plays a role."²²⁹

The second pattern observed is the erosion of trust in governmental institutions in every new cycle of changes in the regulatory framework. Countermeasures and a halting of the reform process consistently followed periods of reform and openness to self-employment and entrepreneurship. As a result, policymaking concerning private businesses was viewed as

²²⁹ Díaz Fernández, interview.

misguided, lacking transparency, and reliability. Figure 6 illustrates the progression of reform cycles (above the timeline) and counterreform cycles (below the timeline) between 1993 and 2023.

Figure 6 *Timeline of the reform and counterreform cycles of the regulatory frameworks towards self-employment and MSMEs in Cuba (1993-2023)*



Source: Own elaboration.

Several insights can be drawn from analyzing the evolution of the regulatory framework. Each period witnessed an expansion of opportunities for self-employment and entrepreneurship in Cuba. Notable changes included: the legalization of 157 activities in the 1990s; the introduction of labor force hiring and increased license flexibility in the 2010s, perceived as the groundwork for private micro-enterprises; and in 2021, the establishment of MSMEs and the substitution of licensable occupations with a list of prohibited activities.

However, there is a noticeable tendency of excessive gradualism in the regulations. In the first two periods, reforms occurred sequentially, with new regulations introduced every two to three years, reinforcing doubts about policy-making strategies. The third period saw a simultaneous set of measures, yet still followed by restrictive actions. Despite these push and pull dynamics, each cycle exhibited a more significant opening than closure measures, indicating a slow upward trend in the regulatory framework.

According to the business consultant and entrepreneur Oniel Díaz, "each closure cycle is weaker. In the 90s, the government ceased issuing licenses and targeted businesses. In 2011, they (the government) allowed Cubans to hire labor for the first time, a significant change. Subsequent counterreforms did not erase the essential changes from the previous opening. Then, in 2018, there was an "improvement" in self-employment, the government stopped things for a year and a half, but they did not implement it. Now, in 2022, they restricted the social object of MSMEs. In my opinion, the ability to reverse and completely block progress diminishes with each cycle. So, the trend shows that they (the government) open, and close, but each time they open more and have less ability to close. The troubling aspect is that this process has taken 30 years. It has been a lengthy process, and entrepreneurs find themselves in the middle of it."²³⁰

The third trend identified is the influence of the flawed and restrictive regulatory framework on the evolution and persistence of LUEAs. The preceding two patterns examined here (a regulatory framework triggered by economic crises with a short-term vision towards self-employment, and the the government's lack of credibility due to reforms and counterreform cycles) coupled with other factors, ultimately impacted LUEAs. For example, the persistence of a list of licensable occupations in the first two cycles certainly restricted the activities and scope of self-employment. Additionally, the continuous prohibition of professional activities was another factor contributing to the development of LUEAs.

Professor Ileana Díaz reflected that "while Decree-Law 46 and Decree 49/2021, which paved the way for SMEs, are generally positive, they have limitations. While it was positive to create the list of prohibited activities, the regulations restricted activities that truly have no reason to be prohibited, such as all professional services, tourism-related activities, and some related to telecommunications. The so-called "fundamental means of production" which, according to the Constitution, belong to the entire population, are the ones that need to be preserved by the state. But nothing is preventing professional activities. They are limited simply because the government wants to maintain control over a set of activities."²³¹

She added that "there is a lack of clarity at the national level about what is wanted. I believe this is the most important of all problems because if the government were clear about what

²³⁰ Díaz Castellanos, interview.

²³¹ Díaz Fernández, interview.

the Constitution states, then it would be clear what simply cannot be private. The rest can be private. So, there is no criterion at the national level; instead, there is a stance focused on control, driven by fear of losing socialism and related ideological constructs.”

Overall, the openings of the regulatory framework are consistent with a downward trend of LUEAs, which were more common in the first two periods. The evolution of LUEAs was marked by the transition towards formality of businesses previously carried out informally, allowed by the openings in the regulatory framework. For instance, with the legalization of some activities in the 90s and the expansion of self-employment, the approval of hiring labor force, or having more than one license in the 2010s, businesses progressively transitioned to the formal economy. Moreover, with MSMEs, another transition was allowed to legalize partnerships and gain legal personality.

Professor Díaz argued that “not all MSMEs engage in informalities. Due to the prohibited nature of their activities, some MSMEs find themselves engaging in illegality and informality. In the case of self-employment, this situation can occur more openly. Self-employed individuals are bound by the same regulations as MSMEs and have the same prohibitions, but they undoubtedly have more flexibility to work and carry out activities that may fall within informality and certain levels of illegality.”²³² And this was more visible during the 90s and the two periods with licensable occupations.

Nevertheless, the persistence of the prohibition of professional activities, along with further license restrictions and the list of prohibited activities since 2021, has been a common denominator in the evolution of LUEAs. These underground practices have been observable through obtaining a license to gain legal status but developing other unauthorized or non-regulated activities, tax underreporting, and operations in the black market. The excessive control of regulatory bodies has resulted in pushing targeted economic activities, along with potential tax revenue, into the underground and informal economy.

5.2 DICHOTOMY BETWEEN LEGALITY AND LEGITIMACY

Legality refers to the law and what is sanctioned and regulated within its boundaries. While legitimacy refers to the widespread perception that the actions of an entity or individual align

²³² Díaz Fernández, interview.

with the accepted standards, values, and beliefs within a social framework.²³³ Revisiting Webb et al.'s theory, cited in the theoretical framework of this thesis, it is evident a dichotomy between what is legally sanctioned by formal institutions (such as laws and regulations) and what is deemed morally acceptable by society, as outlined by informal institutions (social norms and customs). Consequently, a range of opportunities arises in the informal economy within the gap between what is legally permitted and what is morally accepted by society.

Furthermore, the authors categorize entrepreneurial efforts within the formal or informal economy based on the concepts of "means" and "ends." The "means" refers to the elements and processes directly involved in producing final products and services, including raw materials, labor, and other resources, as well as primary activities like logistics, operations, marketing, and service provision. The "ends" denote the outcomes, such as goods or services, generated by the enterprise.

Following Webb et al.'s categorization and the analysis of the case studies presented in this research, they are allocated as follows:

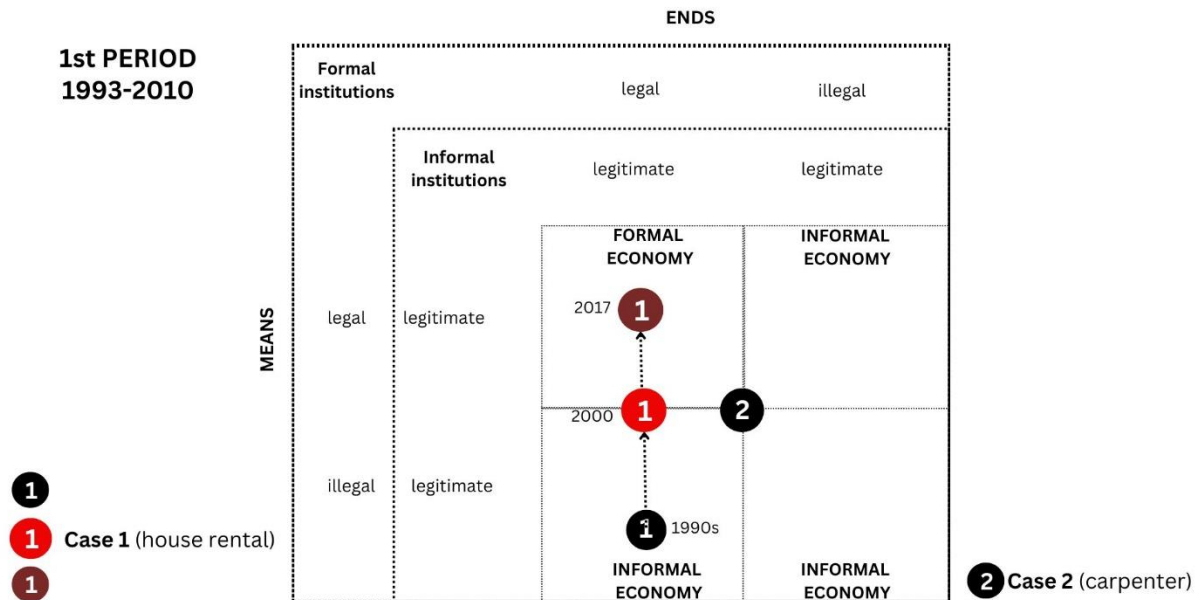
In the first period (1993-2010), the case studies examined were case 1 (Mario, house rental business) and case 2 (Carlos, carpenter). Figure 7 represents their allocation according to the institutional categories of entrepreneurial activities.

In case 1, Mario initially operated entirely within the informal economy by illegally renting out a spare room during the 90s. By 2000, he transitioned to a borderline position after obtaining a license, which permitted him to rent the room but only to Cuban residents and in Cuban pesos. However, Mario continued to rent to tourist visitors and accepted payment in foreign currency. This borderline status stemmed from a combination of legal and illegal "means" employed by Mario, although the "ends" of his business were legitimate. The regulatory framework played a crucial role in maintaining his business on the edge of formality. Throughout this period, Mario consistently underreported taxes, initially by operating without a license and later by paying taxes in Cuban pesos despite earning foreign

²³³ Mark C. Suchman, "Managing legitimacy: Strategic and institutional approaches," *The Academy of Management Review* 20, no. 3 (1995): 574.

currencies. By 2017, already in the second period of transformations, Mario was granted the proper license, facilitating his transition into the formal economy.

Figure 7 Allocation of cases 1 and 2 according to the institutional categories of entrepreneurial activities (1993-2010)

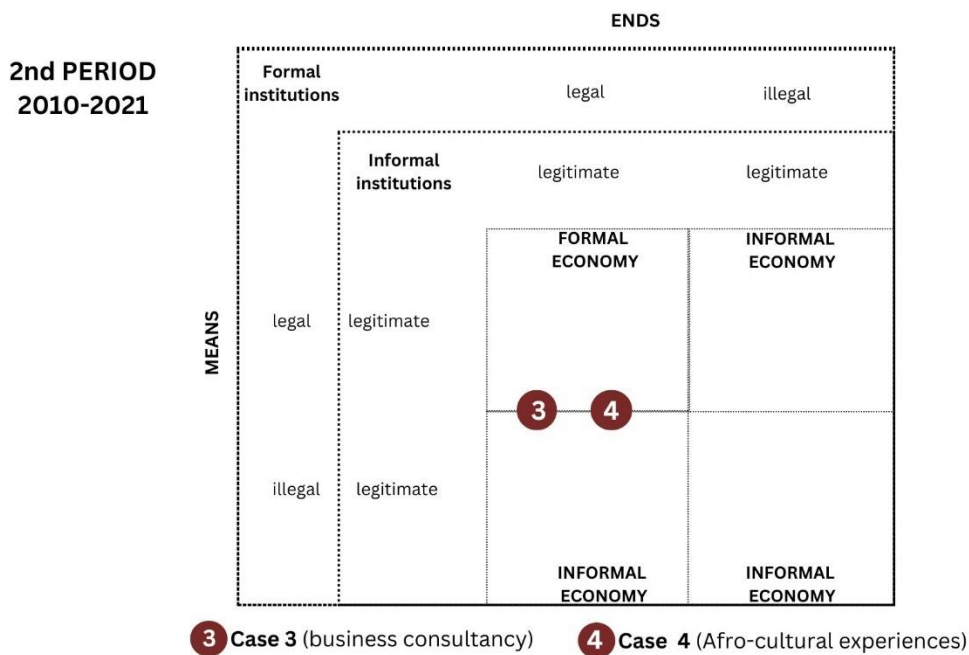


Source: Own elaboration

Case 2, Carlos, followed a different trajectory, yet interestingly, his position on the graph remained unchanged. Carlos consistently adopted a mixed approach towards both the "means" and "ends" of his endeavors. In terms of "means," he always maintained licenses to operate lawfully, yet encountered significant challenges in legally acquiring raw materials and supplies, ultimately resorting to purchasing them on the black market. Regarding the "ends," he persistently underreported taxes due to difficulties in deducting expenses. This trend became more pronounced after 2018 (in the second period), during which he changed licenses to reduce his tax liabilities while continuing his work as a carpenter, thereby perpetuating the same practices.

In the second period (2010-2021), the case studies under scrutiny were case 3 (AUGE, business consultancy) and case 4 (Beyond Roots, Afro-cultural experiences). Figure 8 shows that both cases were allocated in a borderline position due to different reasons.

Figure 8 Allocation of cases 3 and 4 according to the institutional categories of entrepreneurial activities (2010-2021)



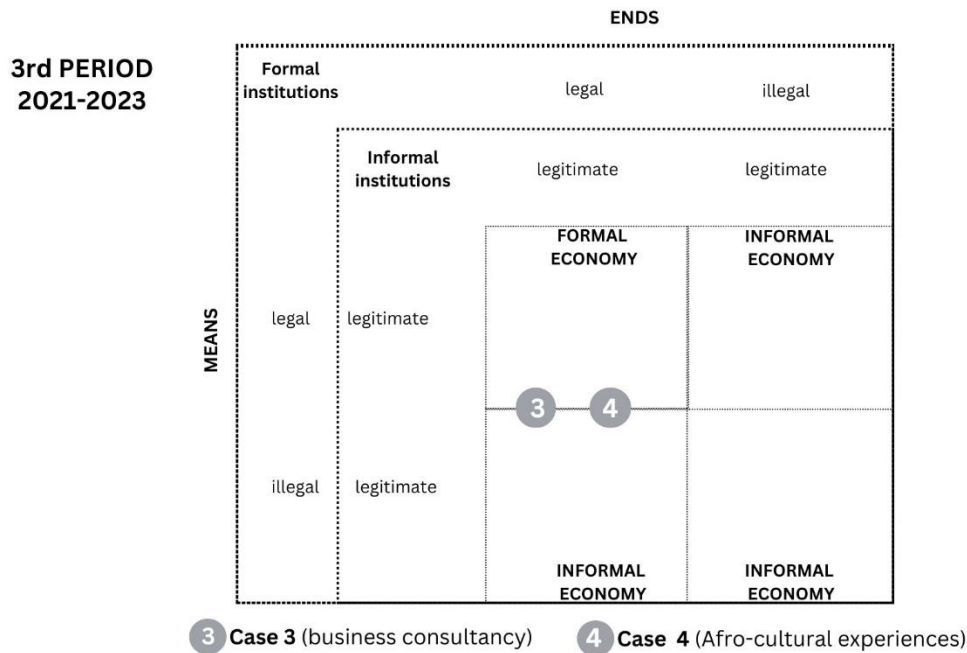
Source: Own elaboration

In case 3 (AUGE), the provision of consultancy services was prohibited as most of the professional activities. Consequently, Oniel Díaz, the co-founder, operated using alternative licenses, resulting in the "means" being on the edge between legality and illegality. However, the "ends" remained legal and legitimate. Oniel diligently obtained an additional license to ensure tax compliance under the general tax regime.

The borderline position of case 4 (Beyond Roots) stemmed from the methods employed to conduct business. While an event organizer license covered the legal aspect, the venture floated on the edge due to the broad categorization of "other activities" for tourist experiences. Moreover, there were no contractual agreements with Airbnb, and the relationship was not regulated by Cuban authorities. Consequently, Beyond Roots operated under the principle that "activities not regulated or prohibited could be pursued". Additionally, Beyond Roots also obtained supplies in the black market. Nevertheless, the "ends" remained legal and legitimate, as the co-founder, Adriana Heredia, diligently paid taxes on all revenues received in US dollars at the official exchange rate, fulfilling all tax obligations.

In the third period (2021-2023), the evolution of case 3 into MSME, and case 4 into MSME and PDL was examined. Remarkably, despite alterations in the regulatory landscape and the legal structure of the businesses, both cases persisted in the same borderline position (shown in figure 9) observed in the preceding period.

Figure 9 Allocation of cases 3 and 4 according to the institutional categories of entrepreneurial activities (2021-2023)



Source: Own elaboration

In the case of AUGE, the primary factor contributing to its fixed position was the persistent prohibition on professional activities, which encompassed consultancy services. Consequently, under the prevailing regulatory framework, the necessary conditions to firmly establish the business in the formal economy remained underdeveloped. Like the previous cycle, AUGE continued to voluntarily fulfil its tax obligations.

Beyond Roots presented a contrasting narrative. The legality of operating tourist experiences was secured through the PDL figure. Therefore, the "means" were legally compliant. However, the primary obstacle to maintaining a foothold in the informal economy stemmed from challenges in procuring supplies and raw materials for complementary activities such as the store, hair salon, textile production, and screen printing. To address this, the business resorted to the black market to acquire US dollars at fluctuating informal exchange rates,

ensuring the continued operation of Beyond Roots. Like the previous cycle, the "ends" remained legal and legitimate.

5.3 DID THE “ENDS” JUSTIFY THE “MEANS”?

The insights gathered from the individual examination of the case studies facilitate a comparative analysis of their transition or lack thereof between periods, their motivations, and the impact of the regulatory framework on the LUEAs they undertook.

On the one hand, the case studies effectively correlated the development of their LUEAs with the broader trends concerning the relationship between the regulatory framework and the evolution of LUEAs outlined at the beginning of this chapter. However, they evaluated the influence of these trends to varying degrees. Overall, cases 1 and 2 attributed economic reasons as the primary cause, while cases 3 and 4 emphasized the impact of the restrictive regulatory framework.

Cases 1 (Mario) and 2 (Carlos) identified the first trend as exerting the most significant influence.²³⁴ In both instances, the regulatory framework triggered by economic crises was directly linked to other economic challenges they encountered. For example, they navigated through the adverse effects of the “Special Period”, encountered difficulties in procuring supplies and clients, struggled with deducting expenses, and consequently underreported taxes and/or operated with different licenses or even without a license.

In contrast, cases 3 (AUGE) and 4 (Beyond Roots) considered the second and third trends as having the highest influence. For them, the lack of reliability in policy-making, as evidenced by the cyclic processes of reforms and counterreforms, and the restrictive regulatory frameworks, had the most significant impact on the evolution and persistence of LUEAs in their businesses.

To illustrate, Adriana Heredia argued: “you always have the uncertainty that it's not 100% legal and that's still happening today. I was legal because the law supported me. The law said "other activities," and I was doing "other activities." The thing is, you live with the fear that tomorrow they (the government) might issue a new regulation, updating the licenses, and it would say "other activities, except for tourist experiences on Airbnb." That is the

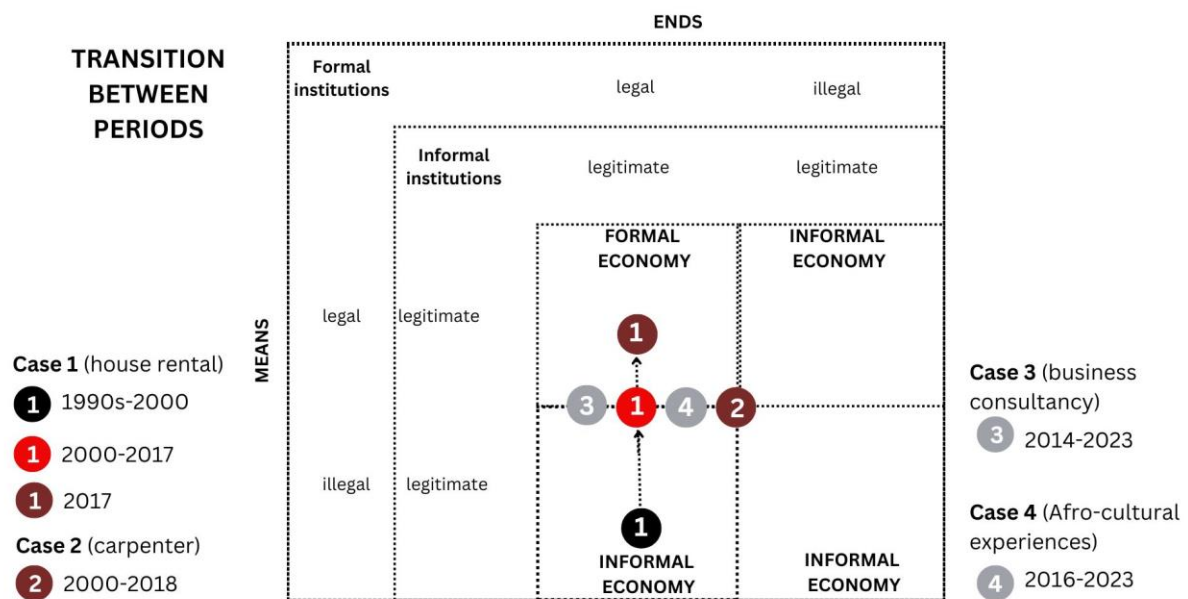
²³⁴ Albelo Abrahantes, interview; García Albuerne, interview.

fundamental problem that entrepreneurs have faced from that time until today. The legal framework is unclear; you never know if you're right or wrong.”²³⁵

Meanwhile, Oniel Díaz also identified as a great challenge for AUGE “the constant instability and lack of predictability regarding the regulatory framework. It seemed that the Cuban government (in 2021) had finally overcome its vacillation processes, but no, we are witnessing the Z version of its hesitation process.”²³⁶

On the contrary, the examination of the transition or lack thereof among the case studies across different periods (shown in figure 10), along with their motivations, revealed divergent outcomes.

Figure 10 *Transition or lack thereof among the case studies according to the institutional categories of entrepreneurial activities (1993-2023)*



Source: Own elaboration

Case 1 (Mario) saw a transition to the formal economy in 2017 following regulatory changes that permitted the legal operation of his rental business. However, over two decades, he consistently engaged in LUEAs to sustain his family, expressing a willingness to continue if regulations remained unchanged. In contrast, case 2 (Carlos) maintained his position due to

²³⁵ Heredia Sánchez, interview.

²³⁶ Díaz Castellanos, interview.

ongoing challenges related to supply shortages and legal constraints, leading him to change licenses and underreport taxes, thereby forgoing any transition between periods.

Similarly, cases 3 (AUGE) and 4 (Beyond Root) also remained static between periods, each with distinct reasons. AUGE was hindered by restrictions on professional activities, preventing a shift to the formal economy. Meanwhile, Beyond Roots was affected by economic challenges and currency exchange issues, prompting their engagement in LUEAs. Despite these differences, both cases shared a desire to operate entirely within the bounds of legality, aiming to avoid the uncertainty associated with LUEAs.

Oniel Díaz emphasized that AUGE simply needs to "become legalized, that's it. I could discuss macroeconomic problems, issues with regulations that don't allow this or that, but all that is secondary, minor compared to the possibility of finally being able to say yes, we are a consultancy, and being able to knock on doors and provide services without a headache, directly to state-owned companies, to larger companies, to the local government, to authorities."²³⁷

Adriana Heredia of Beyond Roots advocated for "greater clarity in the regulatory framework. So, I can focus my energy on how to make things better rather than worrying about when the door will close. I could make riskier investments, scale the business, and apply more enticing investment models. We need a regulatory framework without uncertainties."²³⁸ She also highlighted the challenges posed by the forced exchange rate, noting that it leads many companies to operate ambiguously when acquiring foreign currency.

Regarding whether the "ends" justified the "means," all four study cases appeared to agree, although distinctions emerged between non-professional self-employed individuals (cases 1 and 2) and professional cases (cases 3 and 4). Mario and Carlos cited economic factors as the primary drivers behind their ventures and associated LUEAs. Meanwhile Oniel (AUGE) and Adriana (Beyond Roots) found professional fulfillment in their endeavors and took pride in providing services recognized nationally and internationally. Additionally, Oniel and Adriana expressed dissatisfaction with engaging in LUEAs.

²³⁷ Díaz Castellanos, interview.

²³⁸ Heredia Sánchez, interview.

The contrasting outcomes between cases that continued as self-employment (non-professional) and those that transitioned to different legal structures and expanded their businesses (professional cases) also underscored the distinction between necessity and opportunity entrepreneurship.²³⁹ The non-professional self-employment cases belonged to the former category, whereas the professional activities, operating under the MSMES and PDL figures, aligned with the latter. Their distinctive attitudes and motivations towards LUEAs also corresponded with growth expectations and legal structures, indicating that non-professional self-employed individuals had a greater propensity to engage in LUEAs than MSMEs engaged in professional services.

Finally, a remaining question was about why the population was inclined to consume goods and services in the informal economy, thus giving legitimacy to these practices. In response, professor Díaz Fernández pointed out that over the span of six decades, Cuba has largely operated within the underground and informal economy. She emphasized that scarcity has been a defining feature of the economic landscape, with intermittent periods of relief like those experienced in the 80s. The overall environment has been characterized by limitations, leading the population to adapt by acquiring whatever goods and services they could, whenever possible. In the past, particularly during the 90s, informality wasn't a matter of legality. With less formalization, individuals could carry out tasks like appliance repair without the burden of tax obligations or formal employment status. However, as the landscape evolved, the introduction of formalization and licensing requirements for such activities altered the dynamics. Despite these shifts, the population has remained deeply involved in informal consumption practices.²⁴⁰

²³⁹ Margolis, "By choice and by necessity."

²⁴⁰ Díaz Fernández, interview.

CHAPTER VI. CONCLUSIONS

During the period spanning from 1993 to 2023, the regulatory framework has exerted direct and indirect influence on the evolution of legitimate underground economic activities (LUEAs) undertaken by the private sector in Cuba. Regulations for self-employment had a direct and dual impact on underground entrepreneurial practices. On the one hand, these practices evolved and diminished, and LUEAs adapted to specific socioeconomic contexts and fluctuations in public policies. Therefore, there was a correlation between the uptrend openness of the regulatory framework, which enabled more opportunities for self-employment, and the downtrend of LUEAs. Significant milestones included the legalization of certain occupations in the 1990s; the expansion of self-employment, the approval of workforce hiring, and the holding of multiple licenses in the 2010s; the establishment of MSMEs and the substitution of licensable occupations with a list of prohibited activities in 2021. These regulatory changes facilitated a gradual transit of underground businesses to the formal economy.

On the other hand, LUEAs have persisted since the government's "eradication" of self-employment and private businesses in the late 60s until recent regulatory updates. The constraining regulatory environment drove many Cuban entrepreneurs and potential tax revenue towards the black market and the informal economy. Contributing factors included license constraints that limited the number and scope of self-employment activities and the prohibition of professional activities. Consequently, entrepreneurs often engaged in the most common LUEAs: obtaining a license for legal status but engaging in unauthorized or unregulated activities, underreporting taxes, and operating in the black market.

Furthermore, the regulatory framework indirectly influenced LUEAs. The changes in the regulations in the three periods (1993-2010, 2010-2021, and 2021-2023) were always triggered by economic crises or recessions, with short-sighted measures towards entrepreneurship. Therefore, the susceptibility of public policies to socioeconomic and political contexts was notable, and every period showed a significant asymmetry between the aims of the regulations and the outcomes achieved. This asymmetry stemmed from the responsive nature of public policies to crisis scenarios. The crisis-tackling policies also prevented the implementation of long-term strategies to foster private micro-enterprises.

This contributed to the erosion of trust in the government with each successive cycle of changes in the regulatory framework. The erosion became visible while noticing that countermeasures and the halting of the reform processes consistently followed every period of change and openness to self-employment. After each wave of reform, there were intervals of policy stagnation and constraints imposed on the private sector, indicative of cycles oscillating between idealist (antimarket) and pragmatic (market-oriented) policies.

The government strategies can be understood due to its prevailing bias against entrepreneurship. While legal self-employment steadily grew over the last three decades and brought various socio-economic benefits, the institutional environment constrained the development of the private sector. The Cuban government saw self-employment as a stop-gap solution, a "necessary evil" with significant socio-political implications for a socialist nation. Moreover, the associated income disparities among citizens triggered by higher incomes in the private sector, and the broadening of opportunities for entrepreneurship, have challenged the state's economic and ideological monopoly.

Another noticeable factor for the continuation of LUEAs is the dichotomy between what is legally sanctioned by formal institutions, such as laws and regulations, and what is deemed morally acceptable by society, as outlined by informal institutions like social norms and customs. This divide creates a space for a range of opportunities within the informal economy, between what is legally permitted and what is socially acceptable. This dynamic further entrenched the presence of LUEAs in Cuba, as entrepreneurs navigated the space between formal regulations and informal societal expectations.

The evolution of LUEAs in Cuba is also closely tied to the government's economic strategies and outcomes. Flawed economic policies and unsatisfactory results created an environment where underground economic activities could flourish. Economic crisis and hardship periods forced the population to turn to the informal economy to meet their needs. This adaptation to economic adversity legitimized the black market and informal economic activities, making them an integral part of the Cuban economy.

Upon comparison of the entrepreneurial journey of the case studies with the general evolution of LUEAs, distinctive results emerged. Case 1, involving Mario, witnessed a transition to the formal economy in 2017 following regulatory changes that allowed the legal operation of his

rental business. However, over two decades, he consistently engaged in LUEAs to support his family, indicating a willingness to continue if regulations remained unchanged. In contrast, case 2, involving Carlos, maintained his borderline position between the formal and informal economy due to ongoing challenges related to supply shortages and legal constraints. This led him to change licenses and underreport taxes, thus foregoing any transition to the formal economy.

Similarly, cases 3, AUGE, and 4, Beyond Roots, also remained static on the edge of the formal and informal economy. AUGE was hindered by restrictions on professional activities, preventing a shift to the formal economy. Meanwhile, Beyond Roots faced economic and currency exchange challenges, leading them to engage in LUEAs. Despite these differences, both cases shared a desire to operate entirely within legal boundaries, aiming to avoid the uncertainty associated with the LUEAs.

The case studies, with different proportions, engaged in the most common LUEAs observed between 1993 and 2023: operations not under the required license, tax underreporting, and operations in the black market. However, the contrasting outcomes between the motivations and causes of LUEAs among the case studies underscored the distinction between necessity and opportunity entrepreneurship. The non-professional self-employed individuals who remained in this status across the different periods, aligned with features of necessity entrepreneurship. Whereas the professional activities that evolved into MSMEs and PDL legal figures, aligned with characteristics of opportunity entrepreneurship. Their differing attitudes towards LUEAs also corresponded with growth expectations and legal structures, indicating that non-professional self-employed individuals had a greater propensity to engage in LUEAs than MSMEs providing professional services.

Finally, this MA dissertation inserted into a broader academic debate about entrepreneurship in the informal economy. The research confirmed previous studies such as Webb et. al's dichotomy between legality and legitimacy, Margolis' work on necessity vs. opportunity entrepreneurship in the informal economy of developing countries, and Díaz Fernández's studies of entrepreneurship in Cuba.

This dissertation also filled several critical gaps in the literature by providing an updated analysis of Cuba's regulatory framework and its impact on entrepreneurship and LUEAs. This

updated case study approach examined the evolution of LUEAs from 1993 to 2023, offering a contemporary understanding of the motivations and consequences for both the state and the entrepreneurs. Additionally, the research innovatively combined North's institutional framework, Ritter and Henken's definition of LUEAs, and Webb et al.'s theorization of illegal but legitimate informal entrepreneurship. This integrated approach offered a unique criterion for analyzing case studies, contributing to a more comprehensive understanding of the LUEAs in Cuba.

Additionally, the research provided valuable insights into the complexities of Cuba's entrepreneurial sector, public policy, and informal economy. By exploring the evolution of LUEAs, this research filled a critical gap in the literature on entrepreneurship within the informal economy. It also updated the foundational work of Ritter and Henken, offering an analysis of the current dynamics of formal and informal entrepreneurship in Cuba.

Additionally, by examining Cuba as a case study, the thesis contributed significantly to the understanding of entrepreneurship within socialist contexts, an area under-explored in existing literature.

Moreover, this research addressed the decline in scholarly attention to Cuba's underground economy post-1990s, particularly considering the regulatory changes introduced in 2021. The up-to-date analysis continued previous studies and presented a fresh perspective on the LUEAs in Cuba. Furthermore, the study contributed to the debate on Cuba's regulatory framework by providing a balanced analysis that incorporates diverse perspectives from both international and Cuban academics. By intertwining various themes, the dissertation offered a nuanced understanding of the role of public policy in shaping entrepreneurial activities, highlighting both the challenges and opportunities offered by the regulatory environment.

Finally, several limitations of this research must be acknowledged. First, the analysis was constrained by the limited number of case studies and economic activities examined, which may not fully capture the diversity and complexity of the subject. The limited research time further exacerbated this issue, restricting the depth and breadth of the analysis. Additionally, there may have been bias in the selection of the cases, potentially limiting the generalizability of the findings. The study also underscored the need for more comprehensive quantitative studies to provide more robust and statistically significant conclusions. Furthermore, while the focus was on the influence of the regulatory framework on the evolution of LUEAs in

Cuba, other influential factors such as social, cultural, and economic considerations were not extensively explored. Addressing these limitations in future research could provide a more holistic understanding of the legitimate underground entrepreneurial practices in Cuba.

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