

THE CUBAN TRANSITION IN THE LIGHT OF THE LESSONS OF TEN YEARS OF EXPERIENCE IN THE FORMER SOVIET BLOC

Ernesto F. Betancourt¹

This paper is on the assistance that may be required from various international organizations to support the Cuban transition after Castro's demise in the light of the experience accumulated by these organizations in the last decade. Therefore, it is assumed that a Transition Government has replaced the present regime. Furthermore, it is also assumed that this Transition Government is committed to restore democratic rule and a market economy and that it has attained the minimum legitimacy required to rule the country in pursuit of such objectives. In making these assumptions, it is also recognized that there are other possible contextual situations for the transition. It is just impossible to approach this task under a multiplicity of scenarios. Therefore, the paper is written as mere suggestions to be submitted to whatever transitional authority emerges to provide a starting point or agenda to define the assistance required from international organizations for the transition.

One point made by Anders Aslund on the Soviet bloc transitions is critical to keep in mind throughout the paper:

The central drama of postcommunist economic transformation has been an intense struggle between liber-

al reformers, who wanted to build a normal democracy and market economy, and rent seeking businessmen and officials, who desired to make money at the expense of the state and society in transition.²

The truth is that the transition in Cuba will have to face such a struggle. Because the Special Period started after the collapse of the Soviet Union constitutes in itself a transition from the old Stalinist system that prevailed in Cuba at that time, mostly in relation to how the economy is managed, while retaining a single party system. As will be seen later on, insiders within the *nomenklatura* have taken advantage of the Special Period to create a rent seeking managerial oligarchy that controls state enterprises under decentralized management and in partnership with foreign investors in mixed ownership enterprises. This insider oligarchy will resist any effort to move towards a free market economy, not to mention democratic rule.

Surprisingly, these regime insiders count with the support of a group of retired U.S. generals who support a succession, rather than a transition, under the leadership of Raúl Castro. Fortunately, they may not prevail. For the dissidence has taken advantage of some hesitation in repression, as well as increasing in-

1. This paper is based on *International Organizations and Post-Castro Cuba*, prepared for the Cuba Transition Project, University of Miami. I wish to express my gratitude to José Alvarez, Rolando Castañeda, Armando Linde, Joaquín Pujol and Carlos Quijano for their comments and suggestions, as well as to Eugenio Pons for providing the data on the U.S. Bureau of the Census survey of Cuban American business. Needless to say, I am fully responsible for the contents in this paper.

2. Aslund, Anders. *Building Capitalism: The Transformation of the Former Soviet Bloc* (Cambridge: Cambridge University Press, 2002), p. 4.

The Cuban Transition in the Light of Experience in the Former Soviet Bloc

ternational recognition and support, to expand from the initial human rights groups into independent journalists, libraries, professional associations, agricultural cooperatives and labor unions. This, despite being denied freedom of expression and rights of assembly and association. Cuba's emergent civil society cannot be ignored. It is a force to be reckoned with in Cuba's future.

Fortunately, as the research for this paper was starting, the World Bank released its comprehensive report on a decade of experience with transition in the former Soviet Bloc.³ The lessons of those transitions are most relevant to the Cuban situation, although requiring adaptation to its peculiarities. In fact, they offer a rationale to address one important peculiarity of the Cuban context: the existence of a Cuban diaspora that owns 30,000 U.S. enterprises with yearly sales of US\$24 billion, and, with Castro still in power, has become the most important net source of foreign exchange for the island. A situation not faced by any of the other former members of the Soviet Bloc, perhaps with the exception of Armenia.⁴

The World Bank found that the most successful approach to attain economic success was to privatize while encouraging competitive new enterprises and discouraging continuation of former state enterprises, prone to corruption, asset stripping, tunneling and rent seeking practices. Such an approach requires privatization combined with financial discipline and encouragement of new enterprises. This approach provided a solid base for the rule of competitive democracies in Eastern Europe. It also provides the transition model for Cuba.

In the first section of this paper, the findings of the World Bank report are summarized and reinforced, where relevant, with findings from other sources. In the second section, an attempt is made to fit the Cuban situation into the paradigm resulting from the

lessons of ten years of transition in the former Soviet Bloc. Finally, in the third section, the assistance program that will be required from various international organizations is outlined and then summarized in a matrix linking its elements with potential international aid sources.

It is assumed that a Consultative Group on Cuba will be formed. In view of The World Bank's rich experience in assisting systemic transitions, it is also assumed that this agency will be entrusted with the basic responsibility for coordinating the assistance effort through the Consultative Group. Since Cuba is not a member of the International Monetary Fund (IMF), the World Bank or the Inter-American Development Bank (IDB), it is suggested that preparatory work be started before the actual transition starts to cut the time lag in securing access to urgent financial resources for Cuba's reconstruction.

LESSONS FROM SOVIET BLOC TRANSITIONS

Parallel Political/Economic Transitions

Transition processes are grouped in the mentioned World Bank report, according to the political systems under which they were undertaken, under four categories:⁵

- **Competitive democracies**, that have maintained a high level of political rights to compete in multiparty democratic elections and an extensive range of civil liberties.
- **Concentrated political regimes**, conduct multiparty elections, but for some period they have either curtailed full rights or limited political competition through constraints on civil liberties.
- **Non-competitive political regimes**, constraint entry of potential opposition parties into the political process and sharply restrict political participation, having few limitations on their executives branches.

3. The World Bank, *Transition: The First Ten Years, Analysis and Lessons for Eastern Europe and the Former Soviet Union* (Washington, 2002).

4. Freinkman, Lev M. "Role of the Diasporas in Transition Economies: Lessons from Armenia." In *Cuba in Transition—Volume 11* (Washington: Association for the Study of the Cuban Economy, 2001), pp. 332-342.

5. The World Bank, *Transition: The First Ten Years*, p. 97.

- **War-torn regimes**, these countries had to face internal or external violence during the transition period, causing severe strains on the respective states.

Recognizing that no two countries are identical, in this paper we will consider mostly experiences related to **competitive democracies**, a group that includes the Czech Republic, Slovenia, Hungary, Poland, Lithuania, Estonia and Latvia. This is the most desirable group to consider as a model under which to undertake the post-Castro transition from the political point of view; and, it is also the one that includes the countries most successful in their economic transitions. In the post-Castro transition, it is a given that political rights must prevail, that a multiparty democratic system is imperative and that civil liberties must be guaranteed under the rule of law. One characteristic of the competitive democracies is that they generate substantial contestability and a high government turnover and, contrary to usual assumptions, this has not prevented them from attaining significant systemic reform and high rates of economic growth. Therefore, as a group, they offer a model that is most consistent with the desired outcome of the Cuban transition.

However, it can be argued that the reform that has taken place in Cuba under the so-called Special Period falls broadly under the third group of non-competitive political regimes. In Cuba, the Communist Party retains a monopoly of political activity and the executive branch reigns supreme over the other two branches of government. In the absence of any competition and transparency, there is a continuation of rule by an oligarchy of insiders from the *nomenklatura* who have taken over control of state enterprises or state representation in mixed joint ventures with foreign investors. The regime has already arranged for a succession of this system under Raúl Castro with the support of retired American generals.⁶ A situation that the experience of the former Soviet Bloc

states has shown is conducive to lack of competition and corruption, resulting in asset stripping, tunneling, increasing economic inequality and economic stagnation. This option competes with the one being advanced in this paper.

Role of New Enterprises vs. Control by Oligarchs and Insiders

Central to the synergy between the political systems and economic reform and growth in the competitive democracies has been the creation of new enterprises. In a circular effect, the resulting broader inclusion of stakeholders in society reinforces the bases of democratic rule and provides a form of insurance against a return to past statist practices.

By opening access to new entrants into the economic and, therefore, the political system, there is a tendency to wean enterprise management coming from the previous regime's oligarchy from rent seeking arrangements to which they became addicted under state interventionism. A key factor pushing for this competitive enterprise environment has been "the pull of European accession" that strengthened the need to attain both democratic rule and market competition.⁷ A similar pull, but with much smaller economic benefits, will be generated in the case of Cuba by the possibility of access to the Free Trade Area of the Americas (FTAA), with its contingent demand for democratic rule explicitly required in the Democratic Charter approved on September 11, 2001, in Lima, Peru. This will entail a substantial effort for Cuban enterprises, since the country is not a full member of any of the sub-regional integration agreements already existing in the Hemisphere and their plants are still saddled with obsolete Soviet technology.

This brings us to the key finding in this report on the lessons learned from transition in the former Soviet Bloc: not only is it necessary to pursue policies that encourage the privatization of state enterprises, but

6. Strategic Forecasting, *Succession Plan in Place for a Post-Castro Cuba*, in Center for Defense Information (CDI) Webpage, www.us-cubasecurity.org, 2/28/02. This succession option has been advocated by some retired U.S. generals, such as Wilhelm, Asketon and McCaffrey, all associated with the CDI, who have traveled on various occasions to meet with the Castro brothers.

7. The World Bank, *Transition: The First Ten Years*, p. 107.

also to encourage the emergence of new small enterprises until they cross a critical threshold set, on an empirical basis, at 40 percent in employment and value added.⁸ There is ample evidence of a correlation between reliance on small and medium enterprises, instead of state enterprises, whether restructured or not, in attaining higher levels of growth.

During the initial decline in output that resulted from the systemic transition, the countries in South-eastern Europe and the Baltics (CSB), which include all the **competitive democracies**, showed a smaller cumulative output decline (22.6%) and a shorter duration of the recession (3.8 years) than the countries of the Commonwealth of Independent States (CIS), in which the other political modalities prevailed, with a larger (50.5%) average decline in output and a longer average duration of the recession (6.5 years). Obviously, the policies pursued in the CSB countries resulted in a shorter and more moderate initial recession.⁹ They also behaved better than other groups with regard to the growth of the private sector's share of economic activity and growth of exports, factors essential to success in a transition effort. As Cuba has undertaken some economic reforms already, mostly to decentralize enterprise management and reduce budgetary subsidies, the transition recession may be even milder and shorter and the recovery start sooner. However, if chaos and conflict prevail, it may be deeper and last longer. Cuba may fall under the **wartorn** category of transitions.

Accepting that intact transfers of experiences are not feasible among countries, whoever is in charge of the Cuban transition in the post-Castro era should look at the **competitive democracies** for the model to follow, with the pertinent adaptations. How was it done? What are the policies involved and what are the institutional changes required? It is evident that there is a lot more involved than a mere change in macroeconomic policy or lip service statements about the changed role of the state. A very complicated car-

penry, including societal and bureaucratic attitudes, has to be dismantled and a new carpentry has to be designed and installed.

This is a complex task, requiring not only external assistance from international organizations, but, more so, a sense of ownership from an understanding and committed domestic leadership. This cannot be an international organization led effort but one that emerges from the conviction of national leaders who realize that such a transformation is essential to meet the needs and aspirations of the Cuban people.

Transition Policy Environment: Pursuit of Financial Discipline and Encouragement of Small Enterprise Development

According to the broad consensus that emerges from a decade of World Bank transition experience, it is agreed that, with adaptations to individual circumstances, reforms should include:¹⁰

- Macroeconomic stabilization;
- Price and trade liberalization;
- Imposition of hard budget constraints on banks and enterprises;
- Enabling environment for private sector development;
- Reform of the tax system and restructuring of public expenditure;
- Legal and judicial reform; and
- Reform of public sector institutions.

This is quite a tall order to fill. Decisions on sequencing are flexible to a certain extent but there is no question that one of the first tasks of the national counterpart will be to work out with the Consultative Group a timetable for these multiple reforms, some of which will have to precede others or at least be undertaken in a well coordinated parallel effort. The preparatory task force, discussed in greater detail below, could assume the task of preparing a tentative scheduling sequence to be submitted for review and

8. The World Bank, *Transition: The First Ten Years*, p. 42.

9. The World Bank, *Transition: The First Ten Years*, p. 6.

10. The World Bank, *Transition: The First Ten Years*, p. 14.

approval to transition authorities. This will require a multi-week joint planning session using a computerized PERT program to manage implementation coordination and monitoring.

Success in the transition, according to the lessons learned, is measured in terms of being able to generate economic growth and this success, in turn, is dependent on creating an environment conducive to creating new enterprises, not only in a process of privatization of state enterprises. This requires the pursuit of policies of financial discipline in dealing with old enterprises, privatized or not, and of encouragement of the entry of new enterprises to create a competitive market. This goal is more complex than a mere privatization effort and the time dimension is crucial for its success.

There are no magic formulas offering instant reforms. And regressive forces within the system may be at work to undermine, for selfish reasons, the required discipline. Old regime insiders, in control of former state enterprises, whether restructured or not, as well as even some newcomers, can be expected to resist being deprived of the rents and subsidies that prevailed in the previous regime.

Within the group of **competitive democracies**, in countries like the Czech Republic, Hungary, Lithuania and Poland, the growth of total employment and value added contributed by small enterprises, which are considered a proxy of new enterprises, was higher. They now account for more than 50% of employment and for between 55 and 65% of value added. Meanwhile, in **concentrated** or in **non-competitive political regimes**, like Russia, Kazakhstan and Ukraine, the share of new enterprise employment has stayed below 20% and value added between 20 and 30%.¹¹

This is the result of differences in financial discipline and encouragement policies pursued, as well as in the political origin of the respective transition regimes.

Political institutions in **competitive democracies** “emerged” from round table negotiations among broadly representative popular fronts and a wide range of other organized interests. This, together with the links with Western and Northern Europe and the pull of potential access to the European Union, produced a combination of endogenous and exogenous variables creating the climate for the consensus on the reforms needed. It is this paper’s assumption that a similar combination of variables will prevail during the Cuban transition. The process of interaction between political system and economic policies and institutions is too complex to discuss in this brief paper, the reader is referred to the full World Bank report for that discussion and to my book, *De la Patria de Uno a la Patria de Todos*,¹² for a discussion of political, legal and institutional changes required in Cuba during the transition.

Suffice it to say that financial discipline involves “imposing hard budget constraints on enterprises, providing exit mechanisms for insolvent enterprises, monitoring and influencing managerial behavior to reward efficient stewardship of assets and to discourage tunneling and theft, increasing product market competition, transferring social assets from enterprises to local governments, and using the social safety net as a cushion for displaced workers and other losers from reform.” Of these, only the transfer of social assets does not apply in general, since in Cuba social services have remained basically a state responsibility at the national or local level, although some enterprises—such as the Canadian company Sherritt International—have assumed some responsibilities for those services. As to encouragement, it involves creating a favorable investment climate for domestic and foreign investors, including: “establishing secure property and contract rights and providing basic infrastructure, reducing excessive marginal tax rates, simplifying regulatory and licensing procedures, and developing a competitive and efficient banking system.”¹³ In the Cuban case, encouragement may also

11. The World Bank, *Transition: The First Ten Years*, p. xviii.

12. Betancourt, Ernesto F. *De la Patria de Uno a la Patria de Todos* (Miami: Ediciones Universal, 2001).

13. The World Bank, *Transition: The First Ten years*, Annex 1. pp xxix-xxxi.

The Cuban Transition in the Light of Experience in the Former Soviet Bloc

require specific consideration of the unique situation resulting from the existence of an overseas Cuban community that is already the largest source of net foreign exchange revenues and could make a significant contribution to the process of establishing new small and medium enterprises.

Lessons from Political Transition in Eastern Europe

The process of political transition in Eastern Europe offers interesting lessons that apply to the post-Castro transition in Cuba. Here it is feasible only to present a broad outline. Studies made of those transitions have revealed that they really started ahead of the collapse of the Soviet Bloc and that the factors influencing the shape they took can be expected also to be present in the case of Cuba.¹⁴ It was established that three factors influenced that process: (1) the history of each country; (2) the communist political system; and (3) the conjuncture that resulted in the transition. Of these, history and conjuncture led to variations in outcomes, while the communist system promoted commonality of outcomes due to its impact on the behavior of political elites.

Two important common factors to consider in terms of the political system are: (1) that resulting from the application of Leninist principles of political rule, autonomous political associations were weak mostly because people became accustomed to receiving orders from the *nomenklatura* in the party apparatus and there was an atrophy of the initiative to seek protection for group's interests through advocacy associations; and (2) that the party, through the *nomenklatura* and the monopoly of power granted by the system, was the only organization with capacity to act. Waller concludes that these factors explain, among other things, the continuation of the role of the party beyond the end of its monopoly power.¹⁵ These two characteristics are also present in Cuba and it is likely they will lead to similar outcomes.

In terms of the phases of the process, in the already-quoted Waller paper, a distinction is made of three phases: (1) the heroic phase of defying the monopoly of the party; (2) the actual moment of transfer of power, when the Soviet Bloc collapsed; and (3) the period beyond the first election.¹⁶ For purposes of this paper we will consider only the first two.

In East Germany, autonomous groups emerged around issues related to the environment and with the support of churches; in Poland, the issues were related mostly to nationalist responses to the Soviet presence and labor issues promoted by Solidarity and the Catholic Church; and, in Czechoslovakia, to a general challenge to the system by intellectuals under the Prague Spring movement that was crushed by the Soviet invasion of 1968. In Hungary, the roots went back to the 1956 uprising. In general, these were initiatives, outside the control of the party monopoly, that somehow were tolerated, although in the face of various degrees of repressive actions. A similar situation is presented by the Cuban dissidence since 1990 and the beginning of the Special Period, with results similar to those in Eastern Europe.

Another source of ideas outside the formal authority of the parties, although subordinated to them in diverse ways, was research centers that enjoyed some autonomy in developing ideas and proposals related to national problems and possible reforms to solve them. A similar emergence of research centers has taken place in Cuba, leading to incidents such as Raúl Castro's 1996 attack on the Center for the Study of the Americas (CEA), which ended in CEA's eventual dissolution, or the dismissal and harassment of Dr. Miriam Grass of the Political Science Group at the School of History and Philosophy at Havana University for her monograph *El Sistema de Gobierno Cubano: Control vs Autonomía*.

In the second phase of the Eastern European transition, the work of the more autonomous groups that

14. Waller, Michael, "Groups, parties and political change in Eastern Europe from 1977." In Pridham, Geoffrey and Vanhanen, Tatu, *Democratization in Eastern Europe* (London: Routledge, 1994), pp. 38-61.

15. Waller, "Groups, parties ...," p. 45.

16. Waller, "Groups, parties ...," pp. 45-58.

had been leading a precarious existence suddenly acquired legitimacy and provided the seeds for political parties and political leaders such as Walesa in Poland and Havel in Czechoslovakia. The communist party was able to survive in most cases under a diversity of names and without the monopoly of power it had enjoyed up to that time. And the managing of the transition itself was undertaken by ad-hoc temporary institutional arrangements in so-called round tables in which the previous dissident groups, elements from the party and, in some cases, from the military, agreed on the steps to be taken to facilitate an orderly and peaceful transition. In most cases, the resulting transition governments incorporated representatives of the groups composing the round tables until elections brought to power authorities elected by the people.

The outcome of these round tables in general fell under four categories:

1. The negotiation of the transfer;
2. The formal abolition of the party's monopoly power;
3. The passing of laws legalizing political associations; and,
4. The establishment of an electoral process and the holding of a free election.¹⁷

This is in a nutshell the best analogy available to the political process that would be faced in Cuba during the first phase of the post-Castro transition.

The Role of Labor Unions

One would think that labor unions would enjoy a privileged status and significant power in a system that is supposed to be based on the working class. However, this is not so. The main reason is the political domination of society by the party and the setting of policy from above. Labor unions in capitalist societies emerged in response to the need to represent the working class in the defense of their interests against employers. In Communist societies, the role

of the labor unions is to act as a conveyor belt for transmission of party directives to the working class. They are just another mass mobilization instrument of the party. The notion of autonomous labor unions representing the interests of the working class and demanding their rights is anathema for the *nomenklatura*. Labor leaders learn to behave accordingly.

The experience of the Eastern European countries in the atrophy of this representational role of the interests of workers is very revealing. With the exception of Solidarity in Poland, which as was mentioned above emerged in response to nationalist anti-Soviet feelings more than exclusively labor issues, the labor unions in most of these countries came down as part of the collapse of the Communist regimes. The various unions enjoyed a significant membership but did not seem to have acquired the more aggressive behavioral stance of unions in traditional capitalistic societies. Therefore, with the exception of Poland and Yugoslavia, workers have not played a significant role in gaining ownership shares in privatized enterprises. Neither have they played a decisive role in the political process. In fact, even Solidarity in Poland has seen its political influence decline. It is expected that with the passage of time this will change. A new leadership will emerge free of the behavioral atrophy caused by the overpowering domination the party exerted on the previous labor leadership.¹⁸

In the case of Cuba, the situation is quite different. Labor unions were very prominent and influential in the vigorous civic society that prevailed before Castro. Cuban labor union membership was equal to that of Brazil in absolute numbers, while Cuba had 10% of Brazil's population. The leadership of Cuba's unions included many members of the old communist party, the Partido Socialista Popular (PSP), which had been granted control of labor unions by Batista in 1940 in exchange for their support of his presidential candidacy. Afterwards, they were displaced by anti-communist leaders under the presidencies of Ramón Grau San Martín and Carlos Prío

17. Waller, "Groups, parties..." p. 53.

18. Waller, "Groups, parties..." p. 42 and 58-59.

The Cuban Transition in the Light of Experience in the Former Soviet Bloc

Socarrás. Castro restored control of the labor federation to the old PSP as part of his alliance with the Soviet Union. However, PSP labor leaders were used to represent labor before employers and their patterns of behavior were totally different from what the traditional communist party in power expected from its union leaders. With the passage of time the old leaders have retired or passed away and today the Cuban labor unions are as submissive as were those of Eastern Europe, with the exception of Poland, of course. In a survey of Cuban public opinion among recent arrivals it was found that a whopping 97% reported that being a member of a labor union did not provide them any benefits.¹⁹ It will be interesting to see if, in the absence of party control, behavior consistent with the culture of previous labor leaders in defense of workers demands and interests will reappear earlier in Cuba's transition than in Eastern Europe.

Privatization as the Central Process of the Transition

The above-described lessons from the transitions in the former Soviet Bloc also include those related to the various privatization processes. One significant finding from the political process is that behavior of party *nomenklatura* is not expected to change until there is a change in property relations.²⁰ As to the lessons from the various privatization efforts, experiences are not clustered so clearly as in relation to other issues. Learning from those experiences will require a very precise matching of context and objectives.

The mentioned World Bank report reaches conclusions less favorable to the use of voucher systems and so-called Mass Privatization Programs (MPP) than earlier studies of the Eastern Bloc experience in privatization. However, it recognizes that these methods could be considered in the context of additional cri-

teria beyond economic growth. In fact, the change in perception of the success of privatization efforts from the mid-1990s to date led the World Bank to commission an evaluation of those efforts with special emphasis on Russia, Poland and the Czech Republic. Evaluation findings are less categorical than some privatization critics have posited, first, because of the lack of workable alternatives offered by the critics and, second, because the initial objective of mass privatization was to depoliticize enterprise management and improved corporate governance was added as an objective ex-post facto. Two important lessons emerge, though: (1) it is necessary to create an institutional framework to protect the public interest before a mass privatization is undertaken; and (2) the quality of the resulting corporate governance must be taken into account as one of the objectives of privatization.²¹

Therefore, although mass privatization should be designed taking precautions in the light of the experiences in Eastern Europe and the Soviet Bloc, it is still worth considering as an option in view of the lack of valid alternatives, but blending it with other approaches. Privatization was an answer to a two-fold situation. First, although enterprises were state-owned, their control was in the hands of managers or, in the case of Poland the workers, leading to asset stripping and tunneling; and, second, that it was necessary to quickly depoliticize the enterprise sector.²² These conditions are likely to be present in Cuba.

Therefore, it is advisable to consider MPPs as a privatization option, taking into account the relevance to Cuba of the three basic objectives they pursue:

- to get the population in general involved in the process of economic transformation;

19. Roberts, Churchill; Betancourt, Ernesto; Grenier, Guillermo; and Schaeffer, Richard. *Measuring Cuban Public Opinion: Project Report* (Gainesville: University of Florida, September, 1999), Table 74, p. 98.

20. Waller, "Groups, parties ...," p. 45.

21. Nellis, John. *The World Bank, Privatization and Enterprise Reform in Transition Economies: A Retrospective Analysis* (Washington: Center for Global Development, The World Bank, 2002).

22. Hare, Paul; Batt, Judy; and Estrin, Saul, Editors. *Reconstituting the Market: The Political Economy of Microeconomic Transformation* (Amsterdam, The Netherlands: Overseas Publishers Association, 1999), pp. 14-15.

- to attain some degree of distributive equity by making everybody an owner of part of the national productive capacity; and
- to quickly privatize a large number of firms and productive assets to deepen the roots of market forces and competition in the economic environment.²³

Of course, based on the experience of countries like Russia, Poland, Hungary, the Czech Republic and Lithuania in undertaking a voucher process or MPP, measures should be included to avoid the difficulties experienced by those countries.

The lessons learned in relation to privatization indicate that success in the next phase—that is, pursuing economic growth—is very much contingent on the quality of the corporate governance that prevails under the new ownership.²⁴ And that quality is heavily influenced by whether ownership is diffuse or concentrated and whether the selection of investors was made by auctions or transparent tenders instead of through purely administrative actions, which make insider deals more feasible. It was also found that selection of foreign investors to take over related industries is the formula providing the most favorable results, although this is applicable in limited instances and may generate resistance and some negative political repercussions due to nationalistic feelings. This is a factor of great weight in Cuba.

One aspect that becomes evident is that institutional capacity to oversee enterprises in the privatization stage is essential to avoid asset stripping and tunneling that depletes their assets to the detriment of minority stockholders. Also, the experience with workers taking over enterprise management has resulted much too frequently in depletion of assets through pay and benefit increases rather than increasing the investment capacity of the enterprise. The use of investment funds in the mass privatization scheme in the Czech Republic failed to attain its objectives in

some cases due to lack of managerial competence and also interlocking relationships with the banks that held the enterprises' debts.

Finally, a comment is necessary on the issue of restitution, which is closely related to privatization. In Aslund's analysis, restitution is discussed in the case of East Germany and it reveals that the impact on economic growth was extremely negative. The main reason was that a very legalistic notion of justice prevailed, while economic growth was given a lower priority. As a result of very complicated legal issues going back to Nazi Germany, "some two million claims were presented, clogging the courts for years and stopping thousands of construction projects and enterprises because of uncertain legal claims."²⁵ Besides the moral and justice motivations that justify including restitution in a privatization effort, a key point to keep in mind is that the process should be designed so that it does not interfere with the ability to restore production and economic growth. This will be critical in the case of Cuba.

In summary, without excluding the Mass Privatization option, the following agenda is suggested for the Cuban case by the experiences documented by the World Bank:

- Privatization should be part of an overall strategy of discipline and encouragement.
- Small enterprises should be sold quickly and directly to new owners;
- Medium-size and large enterprises should be targeted for possible sale to strategic outside investors. In doing this, due consideration should be given to the many mixed enterprises already established with foreign partners by the present regime.
- Investor protection should be enshrined in the legal system and enforced, covering rules to protect minority stockholders; rules against insider dealings and conflicts of interest; creditor surveil-

23. Betancourt, Ernesto F. *De la Patria de Uno a la Patria de Todos*, p. 21.

24. The World Bank, *Transition: The First Ten years* This discussion draws on pp. 71-72.

25. Aslund, *Building Capitalism*, p. 259.

The Cuban Transition in the Light of Experience in the Former Soviet Bloc

lance, accounting, auditing, and disclosure standards; and takeover, insolvency and collateral legislation.

- Privatization should be accompanied by increasing competition and enforcement of competition policy.
- The cash flow and property rights of the state should be clarified when the state continues as partial owner.
- Divesting enterprises in natural monopoly or oligopoly sectors should include provisions for regulatory supervision.²⁶

APPLYING TRANSITION LESSONS TO CUBA

The transition started in Cuba before the collapse of the Soviet Bloc and was given a tremendous push by the Special Period caused by that collapse. As far back as the 1980 Mariel exodus, the regime was forced to introduce economic reforms which were the start of an economic opening. And the dissident movement, started in the mid and late seventies, is the seed of the political opening feeding an incipient civil society. *Glasnost* and *Perestroika* challenged Castro's Stalinism, which had already regressed into harsher totalitarian rule in response to the initial threat poised by the dissidence and the farmers' markets of the early eighties.

The Special Period in the early nineties forced an initial economic opening that Castro started to brake as soon as the worst of the economic collapse passed around 1996. But Cuba's Special Period was not a transition into a competitive democracy situation with a free market. Instead, the regime moved to a non-competitive political regime, insisting on perpetuating one party rule under Castro, with the most significant economic change being legalization of tenure of dollars, while maintaining a *dirigiste* economy along with an opening to foreign investment and decentralized management of state enterprises.

In order to make itself more attractive to foreign investment, and perhaps even to gain access to eco-

nomical assistance from the European Union, the regime kept repression at a low level, reducing harassment of opponents and harsh reprisals and imprisonment. The result has been that opposition to the regime has expanded with the dissidence movement blooming from human rights denunciation to independent journalists, libraries, professional associations, labor unions and agricultural cooperatives. This, despite denial of universal rights of assembly and association, which are formally recognized in the Cuban Constitution. But the result in political terms is similar to the World Bank experience reported mostly in the former Soviet Bloc in the case of the CIS: a **non-competitive political regime**.

Moving to the economic side of the reforms introduced during the Special Period in Cuba, the results have also been similar to those found by the World Bank in the CIS. An oligarchy from within the Cuban *nomenklatura* has emerged as rent-seeking insiders who control state enterprises under decentralized management and in partnership with foreign investors. Perhaps the largest and most influential, but certainly not the only one, GAESA, is centered in the Ministry of the Armed Forces (MINFAR) and is headed by General Julio Casas Regueiro, with Raúl Castro's son-in-law as general manager. Basic Industries Minister, Marcos Portal, married to a niece of Raúl and Fidel Castro, is described as a power to be dealt with in the succession promoted by the regime.²⁷

These rent-seeking managers are trying to increase internal enterprise efficiency with the introduction of modern management methods in a nationwide effort called "Perfeccionamiento Empresarial." A pointless exercise, because economic efficiency at the micro or enterprise level, besides being hindered by external diseconomies, is made meaningless at the macro level by a context in which prices are set administratively, there is no free access of new entrepreneurs and no market allocation of capital to investment to ensure a competitive market environment. This is precisely

26. The World Bank, *Transition: The First Ten Years ...* , Chapter 7, pp. 79-80.

27. Strategic Forecasting, *Succession Plan* .

the type of situation that led Aslund to reach the conclusion that a privatization effort is essential to ensure a successful transition to a market economy.²⁸

Needless to say that the insiders' oligarchy within Cuba's current regime with access to dollars shows manifestations of the same corrupt practices identified within the **non-competitive political regimes** in the CIS, such as asset stripping, tunneling and blocking of reforms that may threaten their privileged status. The regime even established a new Ministry of Audit and Control in 2001 to cope with fraud. In Cuba, accounting systems were severely hurt by Castro's high-handed decision against the practice of the profession, including banning it for years from university curricula. In the last few years, there has been an effort to restore it as an integral part of enterprise management, but with limited success. In fact, it is the main reason why the majority of enterprises have not qualified for the process of "Perfeccionamiento Empresarial." At the annual meeting to assess its accomplishments for 2001, the Ministry of Finance and Prices reported that only 180 out of 382 accounting and internal control systems submitted for approval under the "Perfeccionamiento Empresarial" program were considered satisfactory, with 202 rejected.²⁹ Insider managers are not interested in improving accounting records that could reveal asset stripping and tunneling actions related to their corrupt practices.

The Cuban Political Transition

At some point in the Cuban transition process, there will emerge the need to create a forum similar to the round tables that emerged in Eastern Europe. There is no way to predict the dynamics of the process that will generate the need for such an instrument. It could be some health problem faced by Castro or even his passing away. It could be a policy split between insiders favoring more economic liberalization to calm popular unrest and hardliners advocating harsher repression to deter that unrest. It could be a

coup d'etat by younger unknown elements in the armed forces.

A Round Table in Cuba will have to include representatives of the four groups of stakeholders mentioned above. In the Cuba case, the main difference will be the presence of representatives of overseas Cubans. The agenda would be similar to the one mentioned earlier under the subsection "Lessons from political transition in Eastern Europe."

However, it will have to address issues such as the freeing of political prisoners and the abolition of mass organizations, like the Committees for the Defense of the Revolution, that have become associated with regime repression. In the survey of Cuban public opinion undertaken in 1999 by the University of Florida, based on interviews of over one thousand recent arrivals, it was found that the Communist Party had a most hated rating of 77% and the Committees for the Defense of the Revolution of 71%.³⁰ The repressive agencies are equally unpopular and the problem of their abolition will have to be contemplated under the light of the public order situation at the time. Such levels of unpopularity with the opposition will have to be taken into account at the time of transition by the Round Table, not only in the determination of its composition, but also in the priorities of its agenda for action. The Organization of American States (OAS), through its Inter-American Commissions on Human Rights and the regional body of jurists could provide assistance, with ample participation of overseas and national Cuban lawyers, to deal with the actions required from the round table in restoring the rule of law.

Then, there is the issue of calling for elections. The International Federation of Electoral Systems (IFES) could be asked by the U.S. Agency for International Development (USAID) to update a study they prepared for them years ago with suggestions on the Cuban electoral system. The OAS has ample experience

28. Aslund, *Building Capitalism ...*, p. 261.

29. "Balance Anual del Ministerio de Finanzas y Precios," *Granma* (March 16, 2002).

30. Roberts, Betancourt, Grenier, and Scheaffer, *Measuring Cuban Public Opinion: Project Report*.

in supervising elections, so it could be called to provide technical assistance in this respect.

As to the overall creation of the Round Table itself, the experience of countries such as the Czech Republic and Poland, could be extremely useful in this respect. They themselves benefitted from the lessons of the Spanish transition at the time of Franco's death. When transitions were taking place in Eastern Europe, "Madrid became the Mecca for transition actors from Eastern Europe with visits by figures such as Havel, Roman, Mazowiecki and Yeltsin to talk to Spanish political leaders."³¹ The European Union or the respective national assistance programs would certainly be happy, when the time comes, to facilitate access to Cuban round table leaders to the experiences of those who worked in European transitions, including, of course, the Spanish.

Privatization as the Central Transition Process

Therefore, the transition to a post-Castro regime should be defined as a process of moving from a **non-competitive political** regime into a **competitive political** regime, centered in a process of privatization that allows for the emergence of new enterprises as quickly as possible to provide the overwhelming majority of employment and value added. As stakeholders in the post-Castro's Cuba, the following groups should be represented in the Round Table and Transition Government, which means their interest and aspirations should be recognized:

- All Cuban citizens residing in the island;
- Insiders from the *nomenklatura* of the current regime and its supporters who are willing to accept the end of the party monopoly of power;
- Dissidents, victims of regime repression and oppositionists in general; and
- Overseas Cubans willing to continue engaged in Cuba, particularly in the reconstruction of Cuba's economy.

It is suggested that the Round Table or the Transition Government request advice from the World

Bank on how to set up a privatization scheme to attain in as short a period of time as possible the transfer of ownership of the productive capacity of the nation to private owners. The scheme will have to satisfy certain criteria. Citizens should be able to acquire a share of their places of work in the case of small enterprises. The agricultural cooperatives (UB-PC and others) should be sold to their members, offering special credit facilities if necessary. Medium size enterprises should be placed in the market to be acquired by management and workers or sold to the highest bidder. Large enterprises, already in joint ventures, should be privatized following transparent bidding processes. But nothing should be given for free.

Consideration should be given to allotting additional rights for acquisition of enterprises to those: (1) whose properties were confiscated without compensation; (2) who were victims of regime repression; and, (3) who were sent to fight overseas by the regime and did not get any assistance in reintegrating to Cuban society at the end of their internationalist service.

In view of the Eastern Europe experience, how to do that should be left to the technical expertise of the advisory team. It is evident that a preparatory phase will be required: (1) to strengthen the ability of the banking system to provide effective lending and supervision for new and restructured enterprises; (2) to establish open access procedures for the creation of new enterprises; and, (3) to enforce hard financial discipline to eliminate rents and subsidies.

As the Eastern European experience suggests, privatization should be the central process of the transition effort in Cuba. Substantial technical and financial assistance will be required to undertake the design and implementation of such privatization effort. That effort should include transitory measures to reinforce governmental institutional capacity to avoid, to the extent possible, asset stripping and tunneling. In order to ensure that production is activated and not paralyzed by the complex process involved, enterprise

31. Pridham, Geoffrey, "Democratic Transitions in Theory and Practice," in Pridham and Vanhanen, *Democratization ...*, p. 29.

governance should be included as a specific objective of the privatization effort. It is suggested that the steps enumerated at the end of the earlier subsection titled "Privatization as the Central Process of the Transition" be considered as the starting agenda for adaptation to Cuban conditions. This, in turn, should be considered in the agenda for assistance from international organizations as a priority topic. If at all possible, work should be started by the suggested preparatory work task force or working group.

Assistance to Reform National Policies

As discussed above, Cuba will require massive technical assistance to transform the present **non-competitive political regime** economic policies and institutions into those of a **competitive democracy**. This will involve changes in macroeconomic, monetary, banking, and fiscal policies. Learning from the experience of previous transitions,³² attention will have to be paid to the parallel changes required in institutions, in sociological and organizational terms, as well as in the training of cadres from the new public administration that is required and of the emerging private sector, who will need to change their behaviors in order to work in the new competitive environment.

This effort will involve the largest component of international organization: assistance Cuba will require. This will be more so as the assistance is directed at sectors such as private banking, trade and services, not to mention agriculture and small and medium enterprise, all of which face serious market distortions in the current Cuban economic environment. The assistance for fiscal and monetary policy and stabilization will have to be requested from the International Monetary Fund. The assistance for other policies related to what is called structural adjustment, as well as other sectoral efforts is usually split among the World Bank, IDB, the European Community and country efforts. This will have to be

one of the first assignments for the joint staff working in preparation for the convening of the Consultative Group.

It is in this respect that the role of overseas Cubans could become critical to transition success thanks to a felicitous convergence of the Eastern Europe experience and unique conditions peculiar to the Cuban situation. As mentioned before, one of the lessons from the successful transitions linked new enterprises with the attainment of the highest levels of economic growth, while shortening the recession caused by the initial systemic changes. Cuba has access to a very rich source of entrepreneurs for small and medium enterprises, which usually are ignored by the multinational corporations, yet have been found to be the biggest source of employment and value added.

This is reflected in the impact of remittances within Cuba's current balance of payments. Writing in the journal *Encuentro*, Cuban economist Pedro Monreal estimates the flow of remittances to be around \$500 million per year and suggests that encouraging investments by overseas Cubans "could be one of the most efficient ways of obtaining access to investment resources."³³

But overseas Cubans can be more than a mere source of investment capital, important as that is: they can also be a very significant source of entrepreneurship, technological, managerial and marketing know-how. To realize the magnitude of that potential, it is worth considering the summary information from the 1997 U.S. Economic Census.³⁴ It must be kept in mind that this refers only to domestic U.S. enterprises and does not include the many Cuban-owned enterprises in countries such as Venezuela, Spain, Mexico, South and Central America, nor the thousands of Cuban managers and technical staffers working throughout the world in multinational corporations.

32. Nunberg, Barbara. *The State After Communism: Administrative Transition in Central and Eastern Europe* (Washington: The World Bank, 1999).

33. Monreal, Pedro, "Las remesas familiares en la economía cubana," *Encuentro*, Issue 14 (Fall 1999), p. 61.

34. U.S. Bureau of the Census. *1997 Economic Census: Minority - and Women-owned Businesses*, <http://www.census.gov/csd/mwbl/>

The Cuban Transition in the Light of Experience in the Former Soviet Bloc

According to the 1997 U.S. Economic Census, there were 125,273 Cuban-owned firms in the United States, of which 89,682 (around 70%) were located in Florida. For purposes of our study, we will limit ourselves to firms with paid employees, of which there were 30,203 nationally, 21,033 (again around 70%) located in Florida. If only a fraction of the owners of these firms can be encouraged to enter into partnerships with relatives or friends in Cuba with some experience as self-employed entrepreneurs, or make direct investments in totally new enterprises, Cuba could experience a much more significant recovery than if they are ignored, or, even worse, discouraged from participating in the transition. Overseas Cuban entrepreneurs represent a most powerful source of know-how and resources that, if encouraged properly to participate in the Cuban reconstruction, could make the Cuban case an exceptional transition success story.

OUTLINE OF INTERNATIONAL ASSISTANCE PROGRAM

The assistance program required from international agencies in the Cuban transition should be started in the pre-transition period. This has already been commented in a previous paper.³⁵ In essence, what is suggested is that the U.S. Government, as the largest contributor to the IMF, the World Bank and the IDB, request from these agencies the formation of a preparatory working group or task force to start formulating a tentative program of assistance to Cuba during the transition. This request must be made by the U.S. Treasury and the related costs financed through a grant from USAID. Since the present Cuban Government is not an active member of any of these organizations, there can be no formal objection from them to such a request.

At present, the Inter-American Dialogue is promoting cooperation between these agencies and the present Cuban Government, with a grant from the

Ford Foundation. This cooperation is heavily influenced by the whims of the present Cuban Government, that allows or denies representatives from these agencies entrance to Cuba depending on the willingness of the Dialogue to submit to Cuban vetoes on who they may contact in other activities. For example, the project was suspended when the Dialogue invited Cuban American National Foundation (CANF) President Jorge Mas Santos to address one of its meetings. Under such a coercive atmosphere, it is unlikely that any serious research work can be undertaken. Much less related to a post-Castro Cuba.

But, even worse, there is a basic philosophical disagreement with the World Bank and the IMF that was clearly expressed by Castro himself during his speech at the Monterrey Summit on March 22, 2002, when he accused these organizations of promoting genocidal policies and added that “their prestige is below zero.” The fact is that Castro rejects both neo-liberalism and globalization, two basic tenets of the policies of these agencies. Therefore, under present unofficial arrangements, the staffers from these agencies going to Cuba end up being mere props for Cuban propaganda efforts. Or, if they do any planning for assistance, they may have to renounce the principles that guide the stabilization and structural adjustment efforts of their agencies. In either case, what they are doing does not advance one iota the preparation for transition assistance.

Pre-Transition Assistance

Even under expedited procedures, it takes easily a year from the moment a country decides to apply for membership in the international financial institutions to the moment disbursements start.³⁶ Therefore, it would be advisable to consider other organizational options for these institutions to start the preparatory work required so that the time frame is collapsed as much as is feasible. The Helms-Burton legislation, under Section 202 (e) provides the basis

35. Betancourt, Ernesto F., “Selected Technical Assistance Needs for Democratic and Institutional Transformation during the Cuban Transition,” *Studies in Comparative International Development*, Vol. 34, No. 4 (Winter 2000), pp. 60-61.

36. Quijano, Carlos N. “The Role of International Organizations in Cuba’s Transition,” paper presented at the Cuba Transition Workshop, sponsored jointly by Shaw, Pittman, Potts, and Trowbridge and the Association for the Study of the Cuban Economy (January 1994), p. 5. This section will draw at large from this paper.

for the U.S. Government, through its directors at these agencies, to request that planning for assistance to a Transition Government in Cuba be started by creating a joint preparatory working group or task force. If the statutes or policies of these agencies forbid using their financial resources in any work related to non-member countries, USAID can provide a grant to sustain such efforts.

The results of the preparatory work should be tentative plans contingent on the decisions to be made, at the proper time, by the authorities that emerge in a Transition Government in Cuba. The setting up of a flexible roll-over plan, properly sequenced in a computerized PERT system, should be one of the basic outputs of the preparatory stage.

Emergency Assistance

The first task that will require attention is the emergency assistance that will be needed to restore, from whatever is their deteriorated state, ports, highways, railroads, bridges, and telecommunications and power generation systems. At this stage, supplies of food, medicines and spare parts to compensate for shortages in domestic output or imports will also be required.³⁷ The World Food Program may also have to be involved but, since Cuba is a UN member and at present a recipient of food assistance, it is not feasible for that agency to participate before an actual transition starts. Depending on how much progress is attained in preparatory work, USAID and other country donors are likely to have to provide financing for initial emergency assistance. The World Bank could schedule rapid disbursement balance of payment adjustment loans to reach effectiveness, or disbursement stage, as early as possible and emergency social fund programs to alleviate poverty and generate employment. The IDB would also need to schedule emergency program loans, preferably jointly with the World Bank and other donors for early disbursement. The Transition Government should proceed to finalize access to the Cotonú Agreement and to es-

tablish a Framework Agreement for cooperation with the European Union, if they are still pending at the moment of the transition.

Assistance will be required in setting up the Round Table for transition preparation. This aid could be requested from the European Union, at the proper time, or from the Czech, Hungarian, or Polish Governments, as well as from Spain. If at all feasible, this should start during the preparatory stage. Cuba will also need assistance from the OAS in meeting democracy and human rights requirements as demanded by the Democratic Charter approved on September 11, 2001 in Lima, Perú.

Monetary Stabilization

In these endeavors, the main focus will be on necessary changes in monetary and fiscal policies to move to a market economy, as well as to secure the financial assistance necessary to ensure currency and price stability, while undertaking structural reforms. The IMF is the leading agency in such efforts, and membership in this organization is also a pre-requisite for being a member of the World Bank. The IMF is the source of financing for stabilization agreements and also provides assistance in the formulation and administration of fiscal policies, including tax, customs and budget, and of monetary policies, including the setting of an independent central bank, as well as bank supervision regulations and agency. It also assists in restructuring foreign debt; developing policies and procedures for conducting transparent open market operations; organizing an efficient payments clearance system among commercial banks; and, regulating the operations of the exchange market.

The Paris Club could play a role in helping the Transition Government deal with the foreign debt. Cuba's debt with the West (except with the United States, which has none thanks to the embargo) has been reported by Carmelo Mesa-Lago to have reached US\$11 billion by the end of 2001.³⁸ Cuba also has a very large debt with the former Soviet

37. Betancourt, "Selected Technical Assistance," p. 49 provides a discussion and recommendations on this matter.

38. Mesa-Lago, Carmelo. "The Cuban Economy in 1999-2001: Evaluation of Performance and Debate on the Future." In *Cuba in Transition—Volume 11* (Washington: Associations for the Study of the Cuban Economy, 2001), Table 3, p. 4.

Union that was surrogated to Russia and which Cuba has rejected. Failure to solve this disagreement is one of the factors preventing progress in Cuba's efforts to reach an agreement with the Paris Club.

Parallel to these efforts, and complementing them to attain sound macro-economic management, would be those related to structural adjustment. The World Bank is usually the leading institution providing the policy and financial assistance related to the structural adjustment of an economy at the macro-economic level. An effort which, in the case of Cuba, will have enormous ramifications. The IDB, as the leading source of international financial assistance in the Hemisphere, should share this effort with the World Bank. This means that Cuba will also have to join this agency, of which it has never been a member, and IDB membership requires the country to be a member of the OAS, from which Cuba's present government is suspended. So, the Transition Government will have to apply first to be reinstated at the OAS.

Structural Adjustment

In line with the lessons of transition in Eastern Europe, the central focus of the structural adjustment program will be attainment of a successful privatization that provides the framework for encouraging the emergence of a competitive market in which new enterprises flourish. It must satisfy the aspirations of all stakeholders previously identified in the future of Cuba: the people at large, those around Castro at present willing to join the future, the dissidence, and the overseas Cubans. This will be the central issue around which to build a Cuba for all.

Structural adjustment will also require the enactment of new policies to ensure financial and market discipline and encouragement of entrance of new enterprises as discussed in the first section of this paper. In targeting poverty pockets and unemployment, the creation of a social emergency fund and complementary loans to it would be necessary. Assistance to social emergency funds usually involves other sources

of financial assistance beyond the international lending organizations, and it might include the European Union and country programs.

Productive and Social Sectors

At this stage, there will be some overlapping of assistance. Structural adjustment efforts will require, depending on the situation prevailing in the country at that time, that assistance be provided to cope with both productive and sectoral sector problems facing the country. The IDB and the World Bank have developed many joint efforts in these areas in the hemisphere and their joint experience will have to be drawn upon by the Transition Government. Therefore, both the World Bank and the IDB would be the leading lending institutions providing both, technical assistance for policy guidance and financing, for sectoral, productive and social rehabilitations or restructuring necessary to attain the required goals.

State Reform

Learning from the experience of the transitions in Eastern Europe, parallel to the policy changes there will have to be a massive reorganization of the public sector, as well as of the legislative and judicial apparatus, along with retraining of cadres in both the public and private sector. The organizational culture associated with the present regime will have to be replaced by a new one, as happened in Singapore after independence, and was discussed in the previous study on selected technical assistance needs.³⁹

A meeting of a Consultative Group should be convened to mobilize resources from external donors willing to participate in assisting the country, as well as private sector international banks. Cuba would be likely to attract many donors interested in participating in its reconstruction. As mentioned before, the World Bank, due to the wealth of experience it has accumulated on systemic transitions, would be the logical agency to prepare and manage the Consultative Group. However, the IDB, as the largest source of financial assistance in the hemisphere, may be preferred by the Transition Government.

39. Betancourt, "Selected Technical Assistance," p. 70.

To provide a map of all potential participants in the provision of assistance to the Transition Government in this extraordinary undertaking, a matrix attached to this paper has been prepared indicating the outline of the reform effort required in the Transitional Assistance Program and the potential role of the various international actors. Taking advantage of the lessons learned, institutional assistance for state reform, as well as training activities, should be scheduled parallel or preceding the proposed assistance for policy reforms. This will ensure that organizational structure and culture change along with the desired policy changes.

The Role of the Cuban Nation

In the end, all the international assistance here identified, and much more that has not been covered, must be complementary to the national effort. It is upon the shoulders of the Cuban people and its Transition Government that will fall the responsibility for the future of Cuba.

The proposals in this paper represent a synthesis of the lessons learned by others in similar efforts at systemic transitions from command economies and totalitarian rule into market economies and democratic rule. These examples cannot be transferred intact: they merely provide guidance, very useful indeed, about the experience of other nations facing similar challenges. It will be up to Cuban society to free the creative capacity of its citizens, organized in a vigorous civil society and with an effective and committed state leadership, to ensure success. International agency assistance is a necessary but not sufficient condition for success.

The potential is there but it will require a new spirit to ensure that in this new century, Cuba learns from the lessons of the past two centuries and takes the road of tolerance and hard work that will provide its people with the freedom, peace and prosperity it hopes for and deserves.

ATTACHMENT

Potential International Actors in a Cuban Transition and their Roles

Transition Assistance Program Element	IMF	World Bank	IDB	OAS	UN	European Union	Country Agencies
EMERGENCY AID							
Pre-transition planning	Participates	Leads task force	Participates				US requests, AID finances
Infrastructure rebuilding and food, drugs and parts needs		Loan/ Rapid disbursement	Loan/ Rapid disbursement		World Food Program	May participate	AID/FEMA
Round Table	Cuba rejoins	Cuba rejoins, requires IMF membership	Cuba applies to join, requires OAS membership	Cuba rejoins, assists on Democratic Charter		Cuba joins Cotonú and framework	Czech, Poland Hungary, Spain may help set Round Table
STABILIZATION							
Monetary and fiscal policy revamping consistent w/ market economy and macro-economic stability and Paris Club debt restructuring as well as reorganization of banking system	Leads policy and management reform T/A advice/provide short term financing/ debt rescheduling w/ Paris Club	Participates and may provide loans for financial system restructuring	Participates and may provide loans for financial system restructuring				
STRUCTURAL ADJUSTMENT							
Advice on privatization policy, discipline and encouragement	Participates in reference to issues related to stability	Leads advice work based on transition experience and provides structural adjustment loans	May share with the World Bank advice work and structural lending		UNDP or CEPAL may participate in advice work	May participate under Cotonú or Framework Agreements	Czech, Hungary Lithuania, Estonia may share their privatization experience
Social emergency fund created		Leads or shares design advice and financing	Leads or shares design advice and financing			May participate	European countries may participate
PRODUCTIVE SECTORS							
Assistance in restructuring under a privatized market economy, including advice and lending, for infrastructure, agriculture, small and medium enterprises, mining, domestic and foreign trade, etc.	May provide advice on banking reorganization and regulation	Provides sectoral adjustment loans, alone or jointly with IDB, Others	Provides sectoral loans, alone or jointly with World Bank and others		May provide assistance through UNDP, CEPAL or UN agencies	May provide assistance under Cotonú or Framework Agreements	Each country agency will select areas for their participation
SOCIAL SECTORS							
Assistance in restructuring, in accordance with a market economy, provision of health, education, housing, etc.		Similar role to the one on productive sector reform	Similar role to the one on productive sector reform		Similar role to the one on productive sector reform	Similar role to the one on productive sector reform	Similar role to the one on productive sector reform
STATE REFORM							
Consistent with above policy revamping, assistance for a massive change in public sector organizational structure and culture, including executive, legislative and judicial branches	May provide assistance in fiscal policy formulation and management	Assistance in modernization of the state and the judiciary	May take lead in assistance f/ modernization of the state, the legislature and the judiciary	May provide assistance in human rights, legal reform, w/ Democratic Charter and elections	May provide assistance through UNDP and CEPAL	May provide assistance through the Cotonú or Framework Agreements	AID can provide assistance for electoral system. Others, according to their priorities
Organization of Consultative Group Meeting to ensure effort coordination and pledges of resources.	Shall participate	Should lead due to transition experience	Shall participate, lead alternative	Shall participate	Shall participate	Shall participate	Shall participate as required, including private banks and ONGs