

## **Infrastructure Public Private Partnerships in Cuba: An Overview**

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August 20, 2015

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President Obama's recent initiatives reopening diplomatic ties with Cuba have stimulated considerable business interest, including cautious interest within the infrastructure sector. As a result, the following research note discusses Cuba's infrastructure public-private partnership (P3) market, reviewing P3 institutions, describing existing P3 projects, and discussing Cuba's P3-market prospects.

Following the Soviet Union's collapse and several decades of socialist leadership, the Cuban economy has stagnated, experiencing several economic crises since 2001. In response, the Cuban government has implemented a series of institutional reforms, shrinking the public sector, privatizing certain economic activities, and devolving services to municipalities (Swiss Agency for Development and Cooperation, 2015). Within this context, P3s offer a new mechanism for reforming Cuba's infrastructure sectors and rehabilitating its assets.

The flexible *empresa mixta* (joint venture) model has provided a form of infrastructure P3 in Cuba (Guerra-Pujol, 2009) and many other Latin American nations (Argentina, Colombia, Costa Rica, and Peru), enabling facility divestiture to private entities in brownfield cases, or joint ownership structures for greenfield projects. Depending on the public agency's objectives and the private investor's financial viability, public ownership levels, governance mechanisms, operation and maintenance arrangements, and other project features can vary (PPPIRC). Cuba's foreign investment law permits such *empresa mixta* in all sectors except education and healthcare.

Thus far, Cuba has generated very few P3s; the World Bank's Private Participation in Infrastructure Database lists only six Cuban projects over the last twenty-five years: two telecommunication networks, two power plants, one water facility, and one airport (see Table 1). This project history demonstrates a sporadic, non-systematic approach to P3s across sector and contract types, project date, sponsor, and project size. The country's limited P3 program might result from its historically limited economic opportunities. Empirical literature has consistently found links between a developing economy's size and wealth levels and its P3 projects (Moszoro et al. 2015). Since Cuba's economic reforms remain ongoing, its market may not have developed sufficiently to attract private investment. Alternatively, since Cuba lacks membership in several international organizations that provide capacity development programs (the World Bank and the Inter-American Development Bank), its public agencies may lack the skill sets required to support complex P3 contractual arrangements.

**Table 1: Cuban P3s Reaching Financial Closure**

Name	Year	Sector	Contract	Sponsor	Capacity
<b>Celulares de Cuba</b>	1993	Telecom.	Merchant greenfield	Sherritt Intl' Corp.	100 K connections
<b>Empresa de Telecomunicaciones de Cuba</b>	1994	Telecom.	Partial divestiture	Telecom Italia	6,974 K connections
<b>Varadero Boca de Jaruco Power Plants</b>	1998	Natural Gas Power	BOO	Sherritt Intl' Corp.	913 MW
<b>Genpower Cuba</b>	1999	Diesel Power	BOT	Genpower	N/A
<b>Aguas de la Habana</b>	2000	Water	BROT	Aguas de Barcelona	Population of 2,200 K
<b>Cayo Coco Airport</b>	2002	Airport	Management	Aeropuertos Espanoles y Navegacion Aerea	N/A

Critics have noted several challenges facing U.S. entities looking to invest in the Cuban P3 market. First, countries with established business records in Cuba – Spain, the Netherlands, and Canada – will have substantial advantage over new market entrants. Second, the socialist regime's limited procurement transparency presents a critical risk for entities not accustomed to the country's unique institutional framework (e.g., potential profit repatriation, taxation, investment restriction, labor laws, and dispute resolution) (Napoleon and Vilmenay, 2015; Institute for Public-Private Partnerships, 2015). Government capacity limitations also present risks. Nevertheless, observers agree that Cuba's crumbling infrastructure presents opportunities for private investment and P3 markets if the public and private sectors carefully evaluate these risks and accumulate successful development experiences.

#### **Case Example: Aguas de la Habana**

The state-run National Water Resources Institute (INRH in Spanish) governs water supply and sanitation systems in Cuba, with local municipalities traditionally constructing and operating the systems. However, the INRH reformed the water provision system in 2001, establishing quasi-independent public enterprises including Aguas de la Habana, a public-private joint venture (empresa mixta) between the INRH and Agbar, a Spanish firm. Aguas de la Habana's twenty-five year concession included system operation (water supply, sewage treatment, and maintenance) and infrastructure upgrades, with the assets remaining under public ownership (Guerra-Pujol, 2009).

## References and Further Reading

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