**SPECIAL REPORT: Cuba's little capitalists are ready to rumba (Reuters)**

Fri May 4, 2012 3:30pm IST

By Jeff Franks

HAVANA May 2 (Reuters) - When Ojacy Curbello and her husband opened a restaurant at their home in Havana in late December, not a single customer showed up.

It was a disheartening debut for Bollywood, the first Indian restaurant in the Cuban capital. Curbello worried that their dream of cashing in on recent reforms in this Communist-run country would collapse.

The next day customers began trickling in. As word spread, the trickle became a flood. Many nights the couple had to turn people away or serve them at the family dining table and call in extra help. Today they are planning to increase the 22-seat capacity by expanding their 1950s home and putting tables and a bar in what is now their bedroom.

"It has been amazing how quickly it has taken off," said Curbello, still looking slightly stunned. She sat with her husband, Cedric Fernandez, a Londoner of Sri Lankan descent, in the main dining area, hung with prints of Indian figures.

Bollywood's story is an example of how life is slowly changing in Cuba since President Raul Castro launched a string of limited economic reforms in 2010.

After his ailing older brother, Fidel, stepped down as president four years ago, Raul Castro began to encourage self-employment. He initiated changes in sectors previously restricted to the state or which had operated illegally in Cuba's vast black market.

He has given Cubans the right, with some restrictions, to buy and sell homes and cars for the first time since the early days of the 1959 revolution, led by Fidel.

Would-be farmers can lease land from the government. New small entrepreneurs are being allowed to enter into contracts with state companies and local governments.

As a result, more Cubans are setting up their own businesses as the cash-strapped government moves to cut spending and boost tax revenue.

The self-employed, known on the Caribbean island as "cuenta propistas," literally "on their own account," are selling food, services and assorted goods out of their homes or off sidewalk tables. Private restaurants are opening, and the cries of street vendors, common before the revolution, again echo through neighborhoods.

Havana says more than 371,000 Cubans are self-employed, up from 157,000 before President Castro announced his private-enterprise measures in September 2010. Economy Minister Adel Yzquierdo Rodriguez has said as many as 240,000 more nonstate jobs will be added in 2012.

More such change may be in the works. In April, a senior Communist Party official, Estaban Lazo Hernandez, said in a speech that Cuba will move nearly 50 percent of the country's economic activity to the "nonstate" sector in the coming five years, up from 5 percent now.

This is not capitalism for capitalism's sake, however - and political reform is not part of the program.

The goal is to keep the Communist Party in power by nurturing a larger private sector and a smaller, more efficient state bureaucracy. Cuba says it is developing its own model, but think China 30 years ago, on a far more modest scale.

Whether it will work is one of the great unknowns about Cuba's future.

Interviews with a wide range of cuenta propistas found a mixed record of success and failure, with most doing well enough to keep going but only moderately improving their lives.

A few said they are succeeding hugely. Others have already quit or are thinking about it. Roughly 25 percent of the new businesses have failed, local economists say.

Cuba needs the budding private sector to thrive because in the future the government will no longer offer what essentially has been guaranteed employment.

The state employs about 85 percent of its 5.2 million workers. The plan is to cut a million jobs by 2015, with the hope that many of those laid off will go to work for themselves.

CONSERVING POWER

Some observers believe Castro is opening a Pandora's box with his reforms. Allowing a little capitalism could lead to a desire for more and perhaps pose a threat to the future of communism he envisions. Others think that if Cubans become less dependent on the government, they will be less accepting of its social and political control.

For that reason, said Marifeli Perez-Stable, a Cuban-American professor of sociology at Florida International University in Miami, Castro is proceeding cautiously.

"Raul is going slowly because he knows what he faces," she said. "They are being conservative because they want to conserve power."

Cubans seem generally pleased that economic change is afoot. Some like the idea they can strike out on their own, with an opportunity to earn more than the paltry state wages. The average Cuban salary rose slightly in 2011 to the equivalent of $19 a month.

While most Cubans say change is needed, they also worry about losing their social safety net if there is too big a dose of capitalism. They get low-cost or free housing, a heavily subsidized monthly food ration, and free health care and education.

Cuba, which nationalized all businesses in the years after the revolution, allowed a brief blush of private enterprise in the mid-1990s following the collapse of Havana's patron, the Soviet Union. When that grim time -- known in Cuba as the "special period" - began to ease, the government put the brakes on the low-level capitalism that had bloomed and used onerous regulations to run many cuenta propistas out of business.

This time, government leaders have said the reforms are not temporary.

"We are not applying patches or improvising, but looking for permanent solutions to old problems," 81-year-old Vice President Jose Ramon Machado Ventura said in a speech in central Ciego de Avila last July.

"It's deeper, the scope is much bigger, and the objective is larger," says Philip Peters, a Cuba expert at the Lexington Institute in Virginia. "In the 1990s the goal was to make a few adjustments to the model to get their heads back above water. ... This time they are making changes to the model."

Cuba's new entrepreneurs face challenges common everywhere, as well as some peculiar to a country where private enterprise has been largely prohibited for a half century. Many lack startup capital and experience, and their customers have limited purchasing power.

A vice minister in Cuba's Labor Ministry recently said the self-employed are heavily concentrated in the making and selling of food, transporting cargo and passengers, and working as contract laborers.

Two-thirds were not working when they started their businesses, he said. A state television report said 16 percent are pensioners.

Former agriculture worker Oscar Oquendo is 78 years old. A tall man with wispy gray hair and a withered face, he walks along a crumbling central Havana street selling pastries he makes at home.

Like many of his generation, he says he is loyal to the Castros and communism, but needs money to supplement his monthly pension, equivalent to $10.

4 CENTS APIECE

Oquendo, 78, sells his pastries for one Cuban peso, or 4 cents, apiece. Without a word, he pulls a pastry from his bag, holds it up to a potential customer's startled face, looks him in the eye and waits for a response.

It works - he says he is earning $33 a month.

"I'm very happy with that. I'm helping myself and my country," Oquendo said as he prepared to confront another passerby.

Success has been more elusive for Rafael Barrios, who sells plumbing items from a stand on 10 de Octubre Avenue, where dust swirls past century-old buildings.

At 42, he wonders if he should have left his job at a state warehouse. The insecurity and the long hours needed to earn a little more money are wearing on him.

"At least there I didn't have to work very hard and I got paid every month," he grumbles from behind a table he set up in between abandoned buildings.

But with the government cutting jobs, there is no turning back for him. He is scouting new locations.

Leather goods salesman Arle Toro Perez, 58, faced the same dilemma as Barrios, glumly sitting on a folding chair in a gravel-strewn driveway with few customers to buy the few belts, key chains and wallets he hung from a stand.

He was making about three times more than the $13 a month he earned at the state job he had quit, but still just scraping by. Taxes were high and business slower than he hoped. Some days he sold nothing at all.

He later moved to a new location across from the Havana Libre hotel, which opened in 1958 as the Havana Hilton, and things picked up. There were more tourists and more sales. Today he has a much bigger inventory and a smile on his face.

"Some days I'm making twice as much as I did at the old location. I can take better care of my family," he said.

Some of the new entrepreneurs are stretching the limits set out by the government and doing well.

Alex, who spoke on condition that his last name not be used, was an architect before he discovered the profitability of "pirateria." Today he sells counterfeit DVDs from a dingy, makeshift storefront in central Havana.

He moves between shoppers examining his movie selection, heavy on the latest Hollywood features. One customer looks over a copy of "Killer Elite," starring Robert De Niro and Clive Owen, then hands it back.

Alex has had the business for years, but before the reforms the store was illegal, though not the copyright violations. In Cuba, copyright laws are ignored and state television and movie theaters routinely show pirated movies.

Now, his feel for capitalism unleashed, Alex is diversifying, expanding and, by Cuban standards, making a bundle of money - about $80 a day.

"I have two other stands like this one, and with the money I've accumulated I'm getting into the food business," he said. "I've got a big house with four bedrooms and I've got two cars."

TOURISM TROVE

Much of the entrepreneurship is aimed at the lucrative tourist trade. In the colonial city of Trinidad, 175 miles (285 km) southeast of Havana, Osmary and Alberto jumped into the business out of necessity.

In late 2010, shortly after Raul Castro announced the opening for the self-employed, the restaurant where Alberto worked closed. They painted their home bright orange and turned it into a guest house, renting rooms to tourists.

One of the first guests praised it on the travel website TripAdvisor.com, and it has been mostly full ever since. The couple began with two rooms, expanded to four and now want to add another and perhaps a pool. A chef now cooks for guests.

"We are more comfortable," Alberto says, declining to divulge numbers. He praised the reforms for giving Cubans a chance to do better. "The people have many ideas."

As a group, the splashiest new businesses are home-grown restaurants, or "paladares" as they are known in Cuba, which have exploded in number in the past year. ("Paladar" means "palate" in English and was the name given to a chain of restaurants opened by a small-time vendor in a popular Brazilian soap opera.)

Expatriates and visitors used to complain that there were too few good places to eat in Havana. Now they have trouble keeping track of all the new ones.

An Internet list showed 93 paladares in Havana districts where foreign residents and tourists are centered. Some date back to the 1990s, but the latest have popped up so quickly they are not yet cited.

The eastern province of Santiago de Cuba had four such eateries before the reforms; now there are 104. In the same period, the total number of self-employed in the province jumped from 8,000 to 25,800.

Many of the new paladares are upscale, with names like Le Chansonnier, El Partenon and Cafe Laurent. They are usually in nicely renovated homes, with fancy decor and hefty prices. Filet mignon with pepper sauce, grilled lobster, roast duck, and fish with white wine replace the usual Cuban fare of rice, beans and pork.

Some owners complain that business has not lived up to expectations and taxes are high. The self-employed must pay 10 percent sales tax every month, a monthly license fee that varies according to profession, and a yearly income tax that also varies but is 50 percent for paladares.

The government says it keeps taxes high because it needs money and doesn't want its reforms to lead to wide class differences, with some people accumulating great wealth.

RAMPANT REAL ESTATE SALES

But the housing market, which the government has opened, could be a major source of capital for Cubans, with the potential to boost living standards and infuse money into the economy. Cuba has billions of dollars worth of real estate that could be turned into liquid assets, and prices are already rising.

"Home ownership is very high in Cuba, about 85-90 percent," says Antonio Zamora, a Cuban-American lawyer who visits Cuba regularly and has studied its investment laws.

Cubans who stayed after the revolution were allowed to keep their homes. Over the years, through laws designed to do away with the for-profit real estate market, renters were also able to earn title to the places where they live. Selling homes was not permitted, and instead a home-exchange system was introduced.

"The net value of Cubans and the country as a whole is going to go through the roof," Zamora said.

Interest in buying and selling homes is running high. A recent check showed 11,025 listings on revolico.com, an Internet marketplace for Cubans, with prices ranging from a few thousand dollars for cramped apartments to several hundred thousand for spacious homes built before the revolution.

On Paseo del Prado, a main Havana avenue, unlicensed sales agents say the market for less expensive properties in better neighborhoods has been so brisk that stock is running low. The Cuban government says the country needs another 600,000 homes. Foreigners are still largely barred from buying Cuban property.

Retired government worker Jose Leon said he turned down an offer equal to $100,000 from a European buyer with a Cuban wife for his 1950s three-bedroom apartment in Havana's once-exclusive Miramar neighborhood. He did not want to pay the 10 percent fee the agents charge and thinks prices will go up.

Many believe that as long as keeping communism afloat is Castro's goal, he will not go far enough to make much of a difference to their lives. Others think he will, but slowly. Castro has said his reforms will take five years to implement because the leadership wants to avoid making mistakes.

Skeptics point out that the government still tells people how many homes they can own and how many chairs they can have in their restaurants. It has set out 181 jobs in which self-employment is allowed - but everyone must be licensed for their jobs.

Alex, the seller of pirated DVDs, nonetheless argues that the changes have put Cuba on an irreversible path. "Three years ago we didn't even think about having cell phones, now we have cell phones," he says. "For years we couldn't sell houses, now we can sell houses. For years, we couldn't buy a car, now we can buy a car.

"And now we can have a business. They are small, they are micro-businesses. But it's yours, and it depends on your ability, your effort, your tenacity."