The Role of Remittances in Cuba’s Non-State Sector Expansion

How recent changes in remittance policy by the US and Cuba may facilitate small-scale investment to support Cuba’s growing non-state sector

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Abstract:

This study adds to the existing literature on the potential use of remittances for credit in a financially underdeveloped economy, focusing on Cuba, a country for which little is known about the relationship between remittances and investment. In the past, economic and legal conditions in Cuba, in addition to US and Cuban policies on financial transfers have resulted in a large majority of remittances to Cuba being used for basic consumption. The Cuban government’s changing stance on the non-state sector, as well as recent shifts in both US and Cuban policies on remittances have important implications for remittance use in Cuba. This paper assesses the factors affecting remittance use, and makes the case that as a result of the concurrent shifts in US and Cuban remittance policy along with Cuba’s non-state sector expansion initiative, a more significant portion of remittances will be used for productive investment purposes, filling the void left by the underdeveloped financial sector.
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I. Introduction

The question of whether or not remittances can have a productive role in investment and entrepreneurship in Cuba is a new and largely unexplored topic. Although the use of remittances has been examined since the late-1970s, very little has been researched and written on the topic as it applies to Cuba. This is likely explained both by the dearth of public data available for Cuba, as well as by the sensitivity of the topic and the resulting difficulty of conducting surveys and interviews there.

Furthermore, the Cuban government’s asphyxiation of the non-state sector in the past, along with the controls imposed by the US on the financial transfer of funds, together have provided little incentive to investigate a relationship that has been so successfully constrained. It is only within the past two years, since 2009, that new US and Cuban legislative changes have made this topic a more compelling one to research.

In the US, two policy changes were made recently with significant implications for remittance use in Cuba. First, in April 2009, President Obama removed the long-standing restriction limit of $300 per quarter that Cuban Americans can send back to their family. More recently, in January 2011, Obama issued further liberalizing provisions allowing any US citizen to remit up to $500 per quarter to individuals in Cuba, irrespective of family connections. The expanded channel for family remittances, in addition to the new avenue for remittances from non-Cuban Americans, represent a large potential for increasing the productive use of remittances in Cuba through the greater amount of money that Cubans can now receive.

Concurrent with the shift in US policy has been an equally significant change made in Cuba’s domestic policy to revitalize its economy through an expansion of its non-state sector, authorizing new categories for self-employment, and increasing significantly the number of
licenses it provides for work in the non-state sector. These plans were announced in April of 2010, and were soon followed by the announcement several months later in September that at least 500,000 public sector employees were to be laid-off over the next six months, with up to a million layoffs planned over a longer time period.\(^1\) Without any access to formal credit, and given the liquidity constraints of the Cuban economy, remittances can play a valuable role in providing capital for self-employment activities and for small businesses.

This paper focuses primarily on the United States to Cuba remittance corridor. Changes in US policy on remittances to Cuba are of particular importance due to the disproportionately high levels of migratory and remittance flows between the two countries, relative to all other destination countries for Cuban migrants. Approximately 89% of all outward migration from Cuba has gone to the United States.\(^2\) According to the 2009 census, approximately 1.7 million Cuban-Americans live in the US.\(^3\) After the US, the next highest destination countries for Cuban migrants are Spain and Germany. In Spain, the second largest host country for Cuban migrants, the figure still only about one-tenth as large as it is for the US, reaching 104,492 according to the 2010 census in Spain.

Although some research shows that a greater percentage of Cuban migrants are going to Europe now compared to 10 years ago, and the portion of remittances coming from countries other than the US is increasing,\(^4\) the volume of remittances from the US is still considered to be

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larger than the rest of the world combined, at the very least. The disparity in the growth rates of Cuban migration to Europe and Latin America versus the US is simply not high enough to significantly shift the sizable differences in Cuban migrants in the United States versus other countries within the next 5-10 years—the time horizon of interest for this topic.

Even more importantly, evidence suggesting a declining trend in remittance volume from the US relative to other countries was based on data from 2008, when the Bush administration’s inhibitive policies against remittances were still in place. Not only this, but in 2008 the United States was in the middle of its most severe economic recession since the 1930s, which led to a 5.5% global decline in the volume of remittances sent. In a 2008 survey conducted by Manuel Orozco, seventy percent of Cuban Americans who responded to the survey “felt affected in one way or another [by the economic crisis], and twenty percent of them said that they at some point had to stop sending money to their families.” The recession heavily tested the theory of the countercyclicality of remittances, leading many researchers to conclude that while remittances may be countercyclical based on the economy of the home country (Sayan 2006), they are in fact procyclical when based on the host (sending) country (Frankel 2009, Sanket et al. 2010).

Now that Obama has reversed the restrictive policies on remittances, and with the United States’ economy on the rebound, the portion of US remittance flows to Cuba relative to other sending countries is likely to stabilize, if not increase back to its remittance volume share circa

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2000. Although no “official”\textsuperscript{8} data is available yet on the volume of remittances to Cuba since the new legislation was signed by Obama, some experts estimate that due in large part to the changes in US policy, remittance levels to Cuba could reach as high as $2 billion in the near future.\textsuperscript{9} With this greater potential volume of remittances occurring at the same time as the Cuban government seeks to expand its non-state sector, there could be a gradual shift in remittance use away from basic consumption, towards more productive investments.

II. Overview of the literature on the productive use of remittances:

The fungible nature of cash remittances makes it difficult to measure exactly how individuals and households allocate their use of that resource. Literature on this topic has, however, been able to produce some empirical results that estimate the relative division of remittances between consumption and investment.

The first studies on the topic argued that significant portions of remittances were wasted on consumption (Rempen and Lobdell, 1978; Lipton, 1980; Chandavakar, 1980; Stahl and Arnold, 1986; Abassi and Irian, 1986). Some evidence suggested that as much as 90 percent of remittances are used for consumption.\textsuperscript{10} A number of subsequent papers have supported this figure, but have taken a more nuanced look at the type of consumption that remittances fuel, asserting the importance of spending on food, health and education (Asch, 1994; Black et al., 2003; Brown 2006). Additionally, there is an argument that increased consumption in a community can have positive spillover effects through the greater circulation of currency that

\textsuperscript{8} As noted in several sections of this paper, the Cuban government does not report official remittance flows, leaving the work of calculations up to the instruments of researchers. By “official”, I refer to the work of respected researchers on this topic.


\textsuperscript{10} Lipton, Michael. “Migration from rural areas of poor countries: The impact on rural productivity and income distribution.” World Development 8. 1980.
remittances bring to the economy, spurring demand, and ultimately resulting in increased investment as a result.\textsuperscript{11}

More recent literature has found a stronger correlation between remittances, investment, and self-employment than initial research on the topic suggested. One of the earliest examples of this is Funkhouser’s 1992 paper examining the relationship between remittances and self-employment in a credit-constrained Nicaragua, which concluded that remittances did in fact have a positive effect on self-employment of non-migrants.\textsuperscript{12} A review of the literature on this relationship, as examined both from a more general standpoint, as well as in the context of specific remittance corridors, forms a useful comparison for the role that remittances could play in fostering the growth of Cuba’s non-state sector.

An important assumption made in this paper is that remittances, as a fungible resource, can substitute for credit where a country’s financial sector is underdeveloped. From this line of thinking follows the hypothesis that the liberalization of US policies on remittances to Cuba, in conjunction with Cuban policies to vitalize the non-state sector, will result in a larger portion of remittances being used for investments for self-employment activities and small businesses. This question deserves some attention before examining more thoroughly the financial sector in Cuba.

The hypothesis that remittances can effectively substitute for credit in a financially underserved economy is plausible in theory, but had not been tested empirically until Giuliano and Ruiz-Arranz investigated the hypothesis for an IMF Working Paper in 2005. Using cross-section panel data from 73 developing countries for the period 1974-2002, the authors develop a set of variables as a proxy for financial development to explore the possibility that remittances can

provide credit for investment in the absence of a developed financial sector.\textsuperscript{13} Specifically, they look at four indicators, including: “liquid liabilities of the financial system”, the “ability of banks to attract financial savings and provide a liquid store of value”, the “extent to which the private sector relies on banks to finance consumption, working capital, and investment”, and finally, a measure for “how much intermediation is performed by the banking system, including credit to the public and private sectors”.\textsuperscript{14}

In their regression results, Giuliano and Ruiz-Arranz find negative (and statistically significant) coefficient estimates on the interaction variables between the financial development indicators and remittances. This suggests that remittances are more effective in countries with a lower level of financial development; in other words, that remittances can in fact provide a substitute for credit in economies with liquidity constraints. Additionally, there was a positive association between investment and remittances. The authors use these results to conclude that “remittances help alleviate credit constraints on the poor, substituting for the lack of financial development, improving the allocation of capital, and therefore accelerating economic growth.”\textsuperscript{15}

Since Cuba was not one of the countries included in the dataset that Giuliano and Ruiz-Arranz used, it is necessary to question how applicable the results would be for Cuba, in light of its non-market-based economy. In order to assess this, it is useful to look at specific country cases, and then draw comparisons on the environment affecting remittances in those countries, compared to Cuba. Before doing so, however, there are three points to keep in mind from Giuliano and Ruiz-Arranz’s findings.

\textsuperscript{14} Ibid. pp. 8.
\textsuperscript{15} Ibid. pp. 30.
First, it is important to emphasize that the focus here is on the use of remittances to Cuba, not on the impact that that may have on the growth of the non-state sector, which is a separate (though correlated) issue for which we would indeed expect very different results for Cuba in relation to the other countries that Giuliano and Ruiz-Arranz use in their sample. Since the authors do not include institutional aspects in their regressions, any conclusions about growth from remittances would be very hard to argue for in the case of Cuba.

Second, as judged by the indicators the authors use to measure the level of financial development in a country, it is clear that Cuba fits in the category of ‘financially underdeveloped’ countries, for which remittances were found to have a greater effect as a substitute for credit. That said, whether or not the severity of underdevelopment of Cuba’s financial sector relative to some of the other countries used in the data set affects the substitutability of the resource is an important question that will be addressed in the section on Cuba’s financial sector.

Third, the purpose of extrapolating external findings to the situation in Cuba is not to compare the level of potential investment from remittances in Cuba relative to other countries in the region. The correlation between remittances and investment in Cuba is, indeed, likely to be of a lower magnitude than for the majority of the countries in the dataset used by Giuliano and Ruiz-Arranz. Instead, the aim of examining external findings is to understand what type of environment can foster the productive use of remittances. From there, an internal historical comparison can then be made for Cuba, examining how the changing legal environment there, in addition to US policy changes, may shift remittance use in Cuba towards investment for small business and self-employment activities, compared to in the past.
Beyond the somewhat generalized findings of the cross-panel data set analyzed by Giuliano and Ruiz-Arranz, a more specific look at studies conducted in the Philippines, the Dominican Republic and Mexico serve as a starting point for understanding how remittances can play a potential productive role in small business and entrepreneurial investment in Cuba.

**Empirical evidence on the role of remittances in investment in the Philippines, Mexico, and the Dominican Republic:**

Based on the existing literature examining the relationship between remittances and investment in other remittance corridors, there are reasons to believe that remittances could start to play a significant role in investment in entrepreneurial activities in Cuba. Evidence from the Philippines and Mexico suggest a positive correlation between increases in remittance flows to those regions and higher levels of entrepreneurship and investment in business related activities. On the other hand, as discussed in more detail later on, similar results were not replicated in a study on remittance receipts and business ownership in the Dominican Republic, where the relationship was actually *negative* between the two.

**The Philippines:**

Contract migration is a common phenomenon in the Philippines—indeed, since 1974 it has been part of an official policy by the government of the Philippines to support migration through the Philippines Overseas Employment Administration (POEA). Largely as a result of this policy, by 1997 approximately 6 percent of Filipino households had at least one member living overseas.\(^\text{16}\) In terms of the volume of remittances received, the Philippines ranks fourth highest after India, China and Mexico; for countries whose share of remittances is greater than

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5% of their GDP, the Philippines receives the largest volume of remittances, reaching over $18 billion in 2010, approximately 11% of the country’s GDP.\textsuperscript{17} The potential for these cash flows to impact development in the Philippines is therefore quite large, thus playing a motivating factor in the research conducted on remittances to the Philippines.

Dean Yang, Professor of Economics and Public Policy at the University of Michigan’s Gerald R. Ford School of Public Policy, has done extensive research on the potential productive use of remittances in the Philippines. His 2008 paper titled “International Migration, Remittances and Household Investment: Evidence from Philippine Migrants’ Exchange Rate Shocks” sought to answer the question of how remittance use in the Philippines would react to an external shock that raised the average amount received per remittance in a given time-period. Using econometric analysis, Yang measures the effects that the appreciation of Filipino migrant’s currency abroad against the Philippine Peso during the 1998 East Asian financial crisis had on various investment outcomes, including “child schooling, child labour and investment activity.”

Of greatest interest here are the results specifically on self-employment and on capital-intensive entrepreneurial activities that result from an increase in the average amount of money received per remittance. Significantly, Yang found that “more favourable exchange rate shocks are associated with increases in hours worked in self employment.”\textsuperscript{18} Additionally, Yang observed marginal increases in entrepreneurial income and in the percentage of entrepreneurs in the economy as a result of the exchange rate shocks, though these results were not statistically significant. When applied to the Cuban context, where self-employment is mostly synonymous

\textsuperscript{17} Central Bank of Philippines 2010 data, Overseas Filipino’s Remittances: http://www.bsp.gov.ph/statistics/keystat/ofw.htm
with entrepreneurship, these results suggest reasons for optimism about the potential productive use of remittances in Cuba.

Another important factor that Yang discusses is credit markets, and why we expect income shocks from remittances to be more important to investment in an underdeveloped credit market versus one where households face little or no credit and liquidity constraints—as discussed earlier. What is useful from this study to compare to the current Cuban case is that the model Yang develops deals specifically with the effect of an increase in remittance income on investment activity. The recent legislative changes to the US-Cuban corridor is a compelling reason to anticipate a similar income boost in an even more credit-constrained Cuba, and therefore creates the possibility that the outcome of greater investment would be similar to that found by Yang in the Philippines.

_Mexico:_

Remittances to Mexico are the third largest in the world, totaling $22.6 billion in 2010.\(^{19}\) According to the Inter-American Development Bank, approximately 18\% of Mexican adults receive remittances regularly.\(^{20}\) Just as in the case of the Philippines, the aggregate volume of remittances sent annually to Mexico has made it one of the primary focuses for research on remittances. In the particular case of Mexico, its proximity to the United States and the resulting politicized nature of its migration relationship with the US also contributes to the wealth of

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research on this remittance corridor. Finally, the relatively high level of availability of data sets from Mexico is likely correlated as well to the large number of papers published on the topic.\footnote{Stecklov, Guy and Alex Weinreb “Improving the Quality of Data and Impact-Evaluation Studies in Developing Countries”, Inter-American Development Bank, Technical Notes No. IDB-TN-123, May 2010.}

A 2001 study conducted by economists Christopher Woodruff and Rene Zenteno looked at data from surveys of small businesses across 32 Mexican states to assess whether or not receiving remittances (a proxy they use for capital access) results in greater levels of investment in microenterprises. The main findings from their research were that “emigration rates and higher remittance levels [were] generally associated with higher rates of [business] ownership”, and that “access to capital from remittances has a significant effect on the level of invested capital” in small businesses.\footnote{Woodruff, Christopher, and Rene Zenteno. “Remittances and Microenterprises in Mexico.” Working Paper. University of California, San Diego, Graduate School of International Relations and Pacific Studies. 2001. pp. 27.}

An additional finding from Woodruff and Zenteno’s research was that “investments in productive activities may be larger in urban areas” (they attributed nearly 20% of the capital invested in small businesses in their sample in urban Mexico to remittances received), which is significant not only for the highly urbanized Mexico, but for Cuba as well, (where 75% of the population resides in urban centers).\footnote{Oficina Nacional de Estadisticas (ONE), Cuba, 2009 Census.} Despite issues of inadequate controls for state-level economic conditions, and some findings that demonstrated positive relationships but not at a statistically significant level, the broader conclusions of the paper are still useful for hypothesizing about the productive use of remittances in Cuba, where credit markets are virtually non-existent for the non-state sector.

One important distinction to make between the Mexican and Cuban contexts is the ability of Mexican migrants to the US to return back to Mexico. Part of the estimated correlation

\begin{itemize}
\item \footnote{Stecklov, Guy and Alex Weinreb “Improving the Quality of Data and Impact-Evaluation Studies in Developing Countries”, Inter-American Development Bank, Technical Notes No. IDB-TN-123, May 2010.}
\item \footnote{Oficina Nacional de Estadisticas (ONE), Cuba, 2009 Census.}
\end{itemize}
between high migration rates in certain Mexican states and the resulting higher levels of business ownership and microenterprise investment comes from migratory workers in the US who save money and then return to Mexico to start businesses. Woodruff and Zenteno do not attempt to disaggregate between the impact of returned migrant savings on business creation versus impact from remittances, but if we suspect that a large percentage of business formation in the Mexican states they sample was due to returning migrants starting businesses upon return versus from, then we might expect smaller effects of Cuban migration on business formation than Woodruff and Zenteno find in Mexico.  

A second paper on the topic of remittances and business investment titled “International Migration and Business Formation in Mexico”, looks at a similar question as the one posed by Woodruff and Zenteno, but uses a different research methodology involving random household surveys of thirty communities in Mexico, supplemented by nonrandom samples of Mexican migrants in the US. The paper’s authors, Douglas Massey and Emilio Parrado, find similar results as Woodruff and Zenteno, with the conclusion that remittances sent back to Mexico from the United States “contributed in a productive way to the broader process of business formation in Mexico.”

On the individual level, however, the findings were mixed. On the one hand they found that “money repatriated during the head’s absence had no effect on the odds of business formation.” However, they also concluded that for “every unit increase in the log of

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24 One study, for example, by Dustmann Christian and Kirchamp (2002), found that 50% Turkish emigrants returning from Germany started a small business within the first four years of their return. Since the primary research interest for this paper is the direct role that remittances to Cuba can play in facilitating investment, the broader question of the relationship between migration and development is less relevant in Cuba than it is for countries with large diasporas that return, such as Mexico or the Philippines.


26 Ibid. pp. 11.
migadollars that a family has accumulated in past years increases the odds of business formation in the present by around 3 percent.” This implies, not surprisingly, that when families saved more of what they received in remittances, there was a stronger correlation with business formation. One potential cause for bias in this survey is that it only included male-headed households of working age, which could have the effect of underestimating intergenerational and extended family sources of remittances. Their choice of this sample is understandable given the scarce number of female headed households in the Mexican communities, but the exclusion of those sources certainly need to be considered in the Cuban context.

At the community level, Massey and Parrado found more straightforward results, namely that “the arrival of current migadollars increases the likelihood of business formation substantially,” with a one percent increase in the amount of migadollars received increasing “the likelihood of business formation the following year by about 8%.” A similar conclusion was reached by a recent 2008 study conducted by Jose Brambila Macias, whose research focused on Mexico’s informal sector, finding that there was a strong positive (and statistically significant) correlation between currency demand (as a proxy for informal sector activity), and volume of remittances received.

Massey and Parrado point out an important positive spillover effect of remittances on migrants in the community who do not receive remittances: as the demand for goods and services rises with the infusion of new capital into the economy, according to classical Keynesian economic theory, new jobs will be created to match this increase in demand for

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27 *Migadollars* is defined as “remittances and repatriated savings”, as used by Durand, 1988. The authors attempt to control for potential correlations between person characteristics for people who are more inclined to save and may also be more likely to start a business.

28 Ibid. pp. 12

goods. Although much of economic theory can be thrown out the window when discussing Cuba, this is a case where the theory should actually hold, especially with the Cuban government pressing reforms of the informal sector to allow for an expansion of self-employment activities. The important question therefore is whether or not the volume of remittances to Cuba, and more specifically to Havana, are large enough to have the type of impact that Massey and Parrado observe on a smaller community scale. There is some indication that the answer is yes. In 2009, remittances to Cuba were greater than 2% of the country’s GDP—a similar ratio as in Mexico. Additionally, telephone surveys conducted by Sergio-Diaz Briquets found that “remittances are received by Havana households at much higher rates than other regions of Cuba.” Finally, unlike other countries where outward migrants come primarily from more rural areas, in Cuba, Havana “is the current and historical origin of the majority of Cuban outmigration, and is the destination for the majority of remittances received in Cuba.”

**Dominican Republic:**

A 2006 paper co-authored by Catalina Amuedo-Dorantes and Susan Pozo examined the impact of remittances on business ownership and investment in the Dominican Republic—a useful reference point for comparing to the situation in Cuba. The Dominican Republic ostensibly shares many common characteristics with Cuba, as the only two Latin countries in the Caribbean, they are also the two largest economies of the Caribbean and Central America region; both countries experienced massive migrations of its citizens since the 1960s to concentrated

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locations in the United States (52% of Cuban-Americans live in the Miami-Ft. Lauderdale metropolitan area; 52% of Dominican-Americans live in the New York metropolitan area).\textsuperscript{33}

Despite some of these meaningful similarities between the two countries, Cuba’s centrally planned economy is a fundamental difference that makes it more dissimilar to a geographic neighbor like the Dominican Republic than to distant and culturally contrary states like North Korea and Belarus. That said, comparisons between the Dominican Republic and Cuba are still quite relevant, especially in the absence of any substantive information on remittances to North Korea and Belarus (for obvious reasons).

With both the similarities and differences in mind between the Cuban and Dominican contexts, an examination of Amuedo and Pozo’s findings show to be generally unsupportive as evidence of remittances fueling business creation and investment in the Dominican Republic. The results of their model suggest that “remittance receipt does not appear to enhance the household’s likelihood of business ownership”, although they do find evidence of the opposite, that business owners in the Dominican Republic are 20 percent more likely to receive remittances.\textsuperscript{34} One plausible explanation they offer for this is that the presence of an existing business in a migrant’s home country presents a lower risk for that emigrant to invest in while abroad, compared to sending money for a business which is yet to be created. A second, more tenuous reason that Massey and Parrado mention is the income effect of remittances, which they point out, raises the reservation wage of individuals receiving remittances. The problem with this argument, especially in the Cuban context, is that this should actually push low-salaried public


\textsuperscript{34} Amuedo-Dorantes, Catalina and Susan Pozo. “Remittance Receipt and Business Ownership in the Dominican Republic”, \textit{The World Economy}, 2006, pp. 953.
sector employees to seek more lucrative opportunities, which in Cuba often translates to self-employment activities.

*Country comparisons, summing up:*

The research findings on the use of remittances in the Philippines, Mexico and the Dominican Republic provide a useful foundation from which to examine the productive potential of remittances to Cuba. However, it is important not to extrapolate too far beyond those findings, given the unique economic, political and social features of Cuba. Making comparisons between the situations in the Philippines, the Dominican Republic and Mexico to Cuba, demands important qualifications and assumptions be made, and it is difficult to make projections based on this evidence as to what to expect in Cuba. Specifically, differences in the legal environment, the structure of Cuba’s labor force, and the non-existence of loan credit available to entrepreneurs make Cuba unique. A careful analysis of the history of remittances to Cuba and the factors affecting the use of those remittances is instrumental to better understanding what role remittances can play in investment in Cuba’s future.

**III. Investment for what?**

The literature on remittances in developing countries points to several common uses of remittances: basic consumption of food and clothing, spending on health and education, and investment in small-businesses and entrepreneurial activities. The political and economic climates in countries such as the Philippines and Mexico have allowed remittances to facilitate

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35 A commonly used figure for consumption use of remittances is approximately 80% of the overall share of remittances. (Taylor 1999) The results from the interviews I conducted, despite the small sample size, were in line with those broader findings, with 17 of the 22 interviewees using the money they receive predominately for consumption.
investment, providing a form of credit for self-employment and small businesses. Up until recently, for a combination of systemic, political, and pragmatic reasons, remittances to Cuba have had a very limited role in investment, with the vast majority of remittances received being used instead for basic consumption.\(^{36}\)

In the Cuban context, there have historically been four factors that have caused the large majority of remittances to be used for basic consumption, rather than investment. The first factor is that, in regards to consumption on food and clothing versus health and education spending, it is clear that the latter two options are not of the same significance in Cuba as they are elsewhere. The heavy emphasis that the Cuban government has placed on the value of health and education has been met with positive results. Cuba ranked ahead of all but four of its Latin American counterparts on the United Nations’ 2007 Human Development Index (HDI).\(^{37}\) In the World Health Organization’s ranking of healthcare systems, Cuba ranked 39\(^{th}\), only two places behind the United States.\(^{38}\) With the free and universal provision of healthcare and education in Cuba, those receiving remittances do not have the same need for spending on health and education, as they do in other developing countries (Asch, 1994; Black et al., 2003; Brown 2006) where remittances provide a significant source of for health and education spending.

The second factor is the structure of the Cuban economy and the lack of support and motivation (legally, financially, and morally) for entrepreneurs in that environment. Third, the majority of Cuban households live “at the margin”; remittances are therefore used for very basic


necessities that allow Cuban families to eat a sufficient amount of food, and cover basic living costs. Finally, the political antagonism between the US and Cuba has caused both sides to impose heavy restrictions on remittances in the past. As a result, the limited amounts of remittances that have been allowed have been needed to meet the basic consumption needs of the Cuban population.

On their own, each of these factors might not be enough to impede the productive use of remittances in an economy, but as will be shown, in conjunction with one another, these factors have severely stifled the productive possibility of remittances in Cuba up until recently. Though dealt with in separate sections here, these issues are interrelated and reinforce one another. The diminishing influence of each of these factors today relative to the past provides useful insight into the capacity of remittances to function as investment in the present and near future in Cuba.

*Cuba’s “private” sector:*\(^3^9\)

In September of 2010, Cuba’s national trade union, the *Confederación de Trabajadores Cubanos* (CTC), announced the planned layoffs of 500,000 public sector employees in Cuba, scheduled to take place over the following six months.\(^4^0\) With a public sector employee force of approximately 4 million (85% of the overall workforce), these layoffs would represent over 10%

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\(^{39}\) Emma Phillips writes of Cuba’s budding “private” sector during the special period in the mid-1990s, using quotation marks around the word *private* to denote its unique characteristics in the Cuban context (Phillips 2009, 345). She uses the term “loosely to connote self-employment and work for for-profit organizations”, and explains the various nuances in the Cuban context, for example: “technically, Cuban workers working for foreign enterprises are in fact employed by state-operated employment agencies and are not directly employed by the foreign enterprise. Nominally, therefore, they continue to be employed in the state sector.” Here in this paper, the term “non-state sector” is used synonymously to denote the closest thing that Cuba has to a private sector.

of public workers in Cuba.\textsuperscript{41} As a result, public sector workers may look increasingly towards the non-state sector, whether because they have already lost or fear losing their job, or due to the ongoing depreciation of public sector wages.\textsuperscript{42}

The Cuban government recognizes the political sensitivity of laying-off such a large part of its workforce. Therefore, around the same time as the layoffs were announced, as part of the initiative to improve the efficiency of its economy and perhaps in part to offset the news of the layoffs to the public, the Cuban government also announced plans to expand the non-state sector of the economy by increasing the number of legally recognized self-employment activities and scaling-up the provision of licenses for categories of self-employment activities for which the government had not issued licenses in many years.\textsuperscript{43} The government’s recent initiative to expand Cuba’s non-state sector has already resulted in 171,000 new licenses issued to self-employment workers and small businesses.\textsuperscript{44} With more workers soliciting employment in non-state sector activities, there is a greater need for capital, which can potentially be met by the larger supply of remittances available as a result of the new Cuban and US remittance policies.

Reforms giving greater recognition and legal space to Cuba’s non-state sector are not unique to the most recent reforms implemented by Raúl Castro. Therefore it is important to examine how previous reforms differ from current changes to see why remittances can play a larger role in “private” sector investment now compared to in the past. Some form of self-

\textsuperscript{41} Oficina Nacional de Estadísticas (ONE), Cuba, 2008 Occupational Survey.
\textsuperscript{42} Real wages are estimated to have fallen by 37% in the public sector from 1989-2000 in Cuba, while they rose in the private sector. See: Hernández-Cáta, Ernesto. “Institutions to Accompany the Market in Cuba’s Future Economic Transition”, Institute for Cuban and Cuban-American Studies, University of Miami, 2005, pp. 24.
Employment has been allowed in Cuba by law as early as 1978.\textsuperscript{45} The 1978 reforms enacted by the Cuban government included Decree Law 14, which legalized self-employment in Cuba for the first time under Fidel and opened the door to 48 types of self-employment occupations.

In practice, however, the non-state sector enjoyed little freedom, as the Cuban government continued to stifle the sector and even rescinded some of the freedom that it had granted to self-employment activities. “The state strictly controlled the number of licenses issued for private work, and crackdowns such as the trial of a score of artisans in a public square in Santiago de Cuba in June of 1985 for selling jewelry without a license, were common.”\textsuperscript{46} The government forced all “private” sector businesses and self-employment workers to “obtain all materials via a state-issued certificate.”\textsuperscript{47} As a result of the stricter policies, the non-state sector was prevented from growing. By 1988, there were still only 28,000 non-agricultural microenterprises operating with a license,\textsuperscript{48} and wages for private non-agricultural workers actually fell from over 100 million pesos in 1985 to 67.8 million pesos in 1987.\textsuperscript{49}

In 1993, further reforms to the non-state sector were enacted in reaction to the severe economic crisis spawned by the end of Soviet assistance to the island.\textsuperscript{50} The Cuban government passed Decree Law 141, extending the list of permissible self-employment activities to 117 different occupations (for non-professionals, i.e. those without a university degree, and who did

\textsuperscript{46} Ibid, pp. 203.
\textsuperscript{47} Ibid. pp. 206.
not hold management positions with public enterprises). With the success of the non-state businesses threatening state-owned enterprises and the legitimacy of the centrally planned economy, the concessions made to the non-state sector were quickly curtailed. Some of the liberties granted to the non-state sector in 1993 were quickly withdrawn, and in 1994, “the government acted to control the burgeoning sector by striking five occupations from the list of [...] permissible self-employed activities. In the case of Cuba’s famous *paladares* (privately run restaurants), “police raided and closed down over 100 *paladares* in Havana, charging their owners with illicit enrichment despite the fact many did possess the [...] ‘producer of light snacks’ licenses.” In April 1994, the government issued a list of infractions punishable by fines of up to 1,500 pesos, including working in unauthorized activities and hiring middlemen.”

On the one hand, the 1978 and 1993 reforms simply gave legal recognition to what thousands of workers were already doing. However, the implications of the changes, particularly those in 1993 when the Cuban government could no longer rely on support from the Soviet Union, were more complicated. In spite of crackdowns by the Cuban government to limit “private” sector activity, the non-state sector continued to exist both legally and below the ground. As Cuban expert Archibald Ritter noted, following the 1993 reforms, “the expansion and diversification of microentrepreneurial activity was impressive.”

In 1998, as the Cuban economy began to rebound from the subsistence crisis of the 1990s, Ritter saw four possible policy paths that the Cuban government might pursue in addressing the

52 Ibid. pp. 346.
non-state sector.\textsuperscript{55} The first involved an explicit, outright plan to purge the sector, through policies such as re-criminalizing the US dollar, further restrictions on self-employment, and other related measures. The second potential path was a continuation of the current policies at the time, something Ritter described as “asphyxiation”, through which self-employment activities were subtly repressed by a combination of policing of non-state business activities and disproportional support given to state-run businesses. The third policy envisioned by Ritter was one where the Cuban government would gradually allow more private sector activity, which would eventually entail “giving micro-entrepreneurs unrestricted access to markets, credit, foreign exchange, imported and locally produced inputs at the same rates and terms as the state sector, and allowing microenterprises to increase their number of employees and their range and type of legal activities.”\textsuperscript{56} The fourth and final policy was perhaps the least likely of all; an immediate, full-on, rapid embrace of the non-state sector. Up until recently, Cuban government policy on the non-state sector most closely resembled the asphyxiation characterized by the second path Ritter describes. It was not until quite recently, in the last months of 2010, that Cuba finally appeared to be shifting more towards the gradual changes similar to the third policy strategy Ritter discusses.

Unlike in the past when the government gave only \textit{de jure} recognition to self-employment work, but in practice made survival in the sector very difficult, there are signs that the current concessions being made to the sector are more sincere. The recent changes appear to be born out of a true recognition by the Cuban government that self-employment workers and small enterprises can make a positive contribution to the productivity of the economy. There is thus a greater attempt to provide more assistance to the non-state sector, and to deal with the

\textsuperscript{55} These were not \textit{suggestions}, but merely a forecast of what the Cuban government could potentially do in regard to microenterprise in Cuba.

legal and operational obstacles faced by entrepreneurs in Cuba. A reversion to stricter policies on
the non-state sector therefore seems less likely to occur than with the past reforms.

Since assuming power from his brother Fidel in July 2006, Cuban President Raúl Castro
has been at the forefront of Cuba’s economic reforms, earning him the nickname of Raúl el
pragmático. In his first year in office, an amendment was made to Cuba’s labor code to
recognize the link between job performance and wages. In the recent meeting of Cuba’s
congress, this was worded as “work is both a right and an obligation […] and should be
remunerated according to both the quantity and quality of production”.57

The language of the Cuban government and its President has changed, and now reflects
an acknowledgement that the non-state sector is no longer simply a nuisance to be tolerated in
the economy, but rather a potential backbone to its future vibrancy. This is clear when comparing
speeches made by Fidel in the past to the recent words of Raul. In 1986, Fidel labeled self-
employment workers as “corrupt parasites on the public sector.”58 A decade later in 1997, Fidel
had come to begrudgingly accept the temporary role of the non-state sector, while clearly still
hoping that its importance would eventually wane: “[w]e never imagin[ed] that we would have to
learn to live with them for a period of time that is very difficult to predict, and that depends on
many factors.” This stance on the non-state sector is juxtaposed to the recent words of Fidel’s
brother, who, in an address to the 7th Session of Parliament on December 18, 2010, said:

If we have arrived at the conclusion that work in self-employment
constitutes an additional employment alternative for the citizens of
working age, with the goal of raising the supply of goods and
services to the population and freeing the public sector of these

57 Author’s translation of: Clausura Del IX Congreso de la Unión de Jóvenes Comunistas, April 4, 2010.
Association for the Study of the Cuban Economy, University of Texas Press, Austin, 1996, pp. 206.
activities […] then the Party and the Government must first facilitate its operation and not generate stereotypes or prejudice against [those workers].

This willingness to support the non-state sector and level the competition between the public enterprises and the non-state businesses and self-employed is a significant step forward from the reforms of 1978 and 1993. At the 9th Congress of the Young Communist League (UJC) held in April 2010, Cuban President Raúl Castro unveiled the Economic and Social Policy Guidelines for the Party and the Revolution (referred to in Cuba simply as the lineamientos), which included new policies to address some of the impediments to success in the non-state actor. For example, Article 9 of the lineamientos discusses the creation of a wholesale market for the non-state sector, addressing the issue of price disparity mentioned above. The document also acknowledges the lack of available credit for those who seek self-employment and entrepreneurial activities (the implications of which will be discussed in the next section on Cuba’s financial sector).

These differences between the current reforms and those of the past paint clear reasons for optimism regarding the new direction taken with the non-state sector, but there are also causes for concern. The lineamientos, despite expressing a willingness to deal with some of the impediments to growth of the non-state sector, do not give concrete plans for how or when the government intends to address these issues. Furthermore, it is evident that many Cubans are not quick to forget the rapid reversals that followed the 1978 and 1993 reforms.


The psychological factor of trust in the legal system and the effect that has on the level of risk that entrepreneurs are willing to take on should not be understated. Even entrepreneurs with a higher threshold for risk would be less likely to enter into a new business opportunity if they felt that the law would not protect their business. A recent New York Times article brought this issue to attention: “But if winds of change – and it remains to be seen if they will end up being breezes or gusts – are emanating from the convention hall where the Communist Party held its sixth congress over the last three days, Cubans seem ambivalent, even skeptical, that the result will upend the island.”⁶¹ Even the younger generation appears to be somewhat dubious about the recent reforms, as evidenced from a quote in the article of a 22-year old state accountant and part time street vendor, Johan Rodriguez, “We have a way of making changes but keeping everything the same.”⁶²

The influence of trust on decision-making was evident in the 22 interviews I conducted in Havana in January of 2011. Generally, the remittance receivers and the self-employed I spoke with were optimistic about the legislative changes affecting Cuba’s non-state sector, but there were also some individuals whose hesitancy to believe the reforms as genuine has caused them not to consider investing in any self-employment or small business operations. Laura, whom I interviewed, is a public employee who works as a cook in the tourism sector.⁶³ When asked about the possibility of starting her own restaurant or a catering business, she said that she would be afraid that the government would close it for fabricated reasons, if it started doing well. At 42 years, she is considering emigrating because she is tired of working for low wages, and she has lost faith in the system. The level of distrust Laura displayed regarding the (lack of) legitimacy

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⁶² Ibid.
⁶³ The names of the people I interviewed have been altered in this paper out of respect for the identity of the interviewees. No other details about the interviewees have been changed.
of the government’s initiative to expand the non-state sector put her in the minority of those I interviewed. She saw the reforms as purely part of a marketing campaign by the government to compensate for the low wages paid to its public employees. While other interviewees certainly expressed some level of concern and distrust of the new changes, their concern was, in most cases, outweighed by their optimism.

Lizandra, for example, discussed starting a vegetarian *paladar* with the financial assistance from the remittances she receives from her daughter. When asked why she is considering this option now, and why she had not pursued this earlier, she mentioned the friendlier legal environment for non-state businesses today compared to the past. “For example,” she said, “in the past, the *paladares* could only have 12 seats, but now they are allowing 20 seats in these types of restaurants.”

Another woman, Eliza, mentioned to me that she has just started trying to set up a cake business. She has a friend in Spain who has agreed to send her ingredients that she cannot get in Cuba, and she also receives monthly remittances from that friend that give her sufficient capital to start this business. Eliza and Lizandra, though both aware of the 1993 reforms and how quickly they were curtailed, expressed an optimism that was more representative of the majority of the remittance receivers and self-employed workers I interviewed.

The more positive and non-risk adverse individuals who seek to take advantage of the recent reforms can find support in the words of their President. Raúl Castro made an important contribution to the risk that entrepreneurs are willing to take in Cuba by announcing on December 18th, 2010 that the *lineamientos* would be “irreversible”, and that the government
would not take steps backward on their reforms. This has important psychological implications—and reinforces the security in the decisions made by potential entrepreneurs.

Ultimately, however, the legitimacy of these changes will be held not in the words of Cuban politicians, but rather in the actions and tangible outcomes produced by the changes. There is some indication of progress in this area. The 171,000 new self-employment licenses authorized during the six-month period from October 2010 to March 2011 represent a sizable increase in the number of authorized self-employment workers. In fact, the number of licenses issued during that six-month period alone is roughly equal to the total number of licenses in 1996. There are signs that the regulatory framework in Cuba will be more supportive of self-employment activities, for example the clause in the recent lineamientos to strike the long-standing legislation allowing the threat of license removal and confiscation of equipment and products from self-employment workers. Furthermore, the lineamientos have also called for increased limits on hiring employees (and made it possible to hire non-family members as employees in small businesses and paladares).

Another central factor determining whether or not remittances will be increasingly used for investment is a variable that is difficult to measure—entrepreneurial ability and ingenuity. Although there is no qualitative evidence of entrepreneurial ability in Cuba, there have been a

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number of qualitative assessments of this issue. Ritter insightfully points out the ironic effects that socialism and its constraints have had on fostering entrepreneurial activities in Cuba:

Although the intention was to convert Cuba into a “school for socialism,” the reality is that Cuba has also been, in part, a school for market-oriented entrepreneurship. [...] The Nature of Cuba’s planned economy itself has inadvertently promoted widespread entrepreneurial values, attitudes, behavior, and savoir-faire, as citizens of necessity have had to buy and sell, truck and barter, hustle and “network” to improvise solutions to their personal economic problems.68

Rafael, who runs a small “sky-pizza” business from the roof of his home, is the perfect example of the entrepreneurial spirit and capability of Cuban citizens. He started the business ten years ago when he got a license to operate the business with the help of his wife and brother. Using savings from his former career as a pilot with the Cuban Revolutionary Armed Forces, he was able to purchase the materials to construct a large brick oven on his roof. Sales were slow at first for Rafael’s business until a fortuitous accident made him change how the pizzas were delivered. Initially, people would knock on the door and he would come down and take their order; once the pizza was ready it would be delivered to the door.69 However, after suffering a leg injury, Rafael re-evaluated how to deliver the pizzas, and eventually designed a pulley system with a basket that he would lower from his roof to the sidewalk three stories below. Rafael quickly realized the catchy marketing effect of people crowding on the sidewalk across the street from his apartment to shout up orders, and the excitement of the crowd when the basket

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69 Author’s interview with Rafael, conducted on 1/14/2011.
was lowered with the pizzas. Despite recovering from the injury, Rafael has kept the new system in tact for its effective marketing capacity.

In Cuba, beyond entrepreneurial creativity, perchance endowments of important assets such as housing location have also traditionally had important impacts not on only the capacity for entrepreneurs to succeed, but also on their likelihood to consider self-employment or creating a small business as a viable option for employment. In Rafael’s case, his family’s apartment happened to be located on the corner of a busy street in the Vedado neighborhood of Havana, only a few blocks from the University of Havana, attracting hundreds of college students each day. This is a problem that remittances can ameliorate to some degree by creating an opportunity for those with greater access to financial capital to swap locations with a place that might be more profitable for renting out rooms, starting a restaurant, or selling trinkets, artwork and music from. On the other hand, in effect what this process does is redistribute the propensity for entrepreneurial success, giving greater opportunities for entrepreneurship to those who receive remittances. The redistributive effects of remittances have been well documented, and Cuba is no exception in that regard.\(^\text{70}\) On a positive note, the inefficiencies and problems caused by Cuba’s housing system have been recognized by Raúl’s administration, and amendments are included amongst the necessary changes suggested in the lineamientos.\(^\text{71}\) If the government follows through on these plans, it will have positive consequences in limiting (though certainly not eliminating) the redistributive potential of remittances in Cuba.

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**Economic conditions:**

The expectation that the greater remittance threshold in place since 2009 will fuel greater investment in self-employment and small businesses in Cuba is based on another important assumption that without additional sources of income, the average Cuban does not earn enough to save beyond what is necessary for basic consumption. This short section takes a closer look at the micro-economic conditions in Cuba, and concludes that the desperate situation of the average non-remittance receiving Cuban makes saving for investment very difficult and therefore uncommon.

In Cuba, the average income is approximately $20. Such low levels of income are not necessarily a prohibitive factor for investment, as investment has in fact been shown to take place at the margins of poverty (Adams, Page and Cuecuecha, 2008). However, studies such as that conducted by Adams, Page and Cuecuecha tend to examine countries in which the biggest deterrent to investment is income level, rather than a prohibitive legislative environment. Cuban entrepreneurs, on the other hand, have been restrained by both obstacles in the past. It is for this reason that the concurrent amendments to the laws affecting remittances to Cuba and laws giving greater freedom to the non-state sector there, pose such an important potential for the future of investment in self-employment and small businesses in Cuba.

A recent investigation conducted by CEPAL and UNDP Cuba found that the rationing provided to the average Cuban citizen would only last approximately 13 days on a standard caloric diet. The remainder of each month must be paid for by the salaries earned, which is

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73 Author’s interview with Sergio Novas Tejera, Director of the Human Development Program for UNDP Cuba. Interview conducted on January 13, 2011. The idea here is not that rationing is only provided 13 days a month, but that based on the average caloric needs, the amount of food provided by the Cuban government through its rationing program is only sufficient for about 13 days.
somewhere between $15 to $30 per month for the average worker, with $30 representing a high-end salary earned by high-level doctors, lawyers, and other occupations requiring more technical training. For a family of four, with an average household monthly income of $40, this would leave 88 cents per person per day for the 17-day period for which food rations do not suffice.

It is of course in large part due to these low wages that many doctors and lawyers decide to supplement their income with other sources, such as renting out their homes. One family I spoke to consisted of four professionals living together under the same roof—Maria Luisa, one of the leading neurologists in the country, together with her two sons Miguel (a doctor) and Jorge (an architect), and Miguel’s wife Concha (a biomedical engineer). In addition to their combined salaries, they also receive monthly remittances from Maria Luisa’s sister in San Antonio, Texas. Yet in spite of these multiple sources of income, the family felt the need to rent out two rooms in their house to foreign students and tourists.

This family, and many other individuals I spoke to who earn additional incomes outside the public sector, complained of the government’s tax system that prevents the possibility of earning enough for savings. One couple I spoke to who rents bedrooms in their house mentioned having to make monthly payments upwards of $500 to the Cuban government. Archibald Ritter’s detailed account of the problems imposed by the government’s tax regime on micro-enterprises points to issues of lump-sum payments that must be made regardless of income, and marginal tax rates that can exceed 100% on net income. In addition to these formal taxes, there are other informal taxes that are often imposed on the self-employed, such as higher input costs charged by stores and service providers. The recent changes to Cuba’s tax regime on the non-state sector do not resolve these issues, as the government continues to rely heavily on the incomes of the

sector. Small businesses will therefore likely continue to need outside funding to successfully support themselves, as they continue to pay high taxes.

With such low incomes earned in the public sector, and a tax structure that wipes out earnings from the non-state sector, savings are difficult to accumulate for most Cuban families. Maria Luisa and her sons Miguel and Jorge said that they are only able to save money a couple of months each year. When they are able to save any money, they use the additional savings to invest in their house—their primary source of income. The family said that if it were not for the remittances they received, they would not be able to save at all.

Savings are not impossible, of course, for those who do not receive remittances from abroad. Jorge Leon, for example, rents his house out to students and tourists. He started by originally renting it out illegally, and saving up enough money to eventually acquire an official license. He pointed out that for many self-employment activities for which there are licenses (such as shoe repair), remittances are not necessary to fund the operation of that work. Jorge was in the minority, however, of those I spoke to. As Manuel Orozco points out in the presentation of his results from his 2009 survey, “not only do remittance recipients have a higher propensity to save” they also are “able to invest, particularly if done over time.”

Many individuals I interviewed in Cuba echoed the research conducted by Orozco. Victor, for example, is currently in culinary school, and has received money from family in Miami for the past year, since 2010. He discussed the possibility of opening up his own restaurant (where he could earn more money than by working for a state-controlled restaurant), and said that he is trying to save a portion of the money he receives in case he is able to get a

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license that would allow him to start his own restaurant at some point. Another individual, Ándoni, wanted to get the necessary equipment to work as a DJ, and when asked about what the various avenues available to him for credit, offered that the only viable way would be with the financial help of his family in Binghamton, New York. Such cases illustrate that the removal of the cap on remittances sent from the US to Cuba represents such an important turn in how remittances are commonly used in Cuba.

**Credit access in Cuba—what is available?**

*Cuba’s financial sector:*

As previously noted, the Cuban government has recently acknowledged the need to provide credit to its non-state sector through bank lending. Article 51 of the *lineamientos* states that “necessary banking services are to be made available, including the provision of credit to the non-state sector of the economy, to contribute to its proper functioning.” 77 This development has important implications for the role of remittances in Cuba’s economy.

Recalling the study conducted by Giuliano and Ruiz-Arranz, remittances were found to have a large impact on investment in countries with an underdeveloped financial system, and this relationship decreased with higher levels of financial sector development. In addition to this finding was the indication that, taking remittances out of the equation, a more robust financial lending system was correlated with higher rates of investment and growth. This latter result is not surprising given the large body of literature to back it up (Beck, et al., 2004; Rosen, 2003; Claessens and Feijen, 2006), and sheds a positive light on the current initiative by the Cuban

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government to improve its financial system and make credit available to the non-state sector.\textsuperscript{78} How likely this development is to happen, however, and when to expect it to happen by, can be better understood by first looking at Cuba’s reforms to the banking system in the past, and then examining the current plans and the political and economic environment that has induced these changes.

Just as reforms to Cuba’s non-state sector are not unique to the most recent plans by Cuba’s government, the initiative set out in Article 51 of the Lineamientos to expand credit provision in the economy is not the first attempt by the Cuban government to update the financial offerings in their economy. There have been two major periods of reform to the banking and financial sector in Cuba. The first was in 1984 with the introduction of decree law no. 84, establishing a national banking system. That year, the Banco Popular de Ahorro (BPA) was created, along with the Banco Financiero Internacional (BFI). The BPA was established to take deposits, provide reliable savings accounts to the population, and make credit available to private individuals and qualified business entities. The Banco Financiero Internacional, (which only operates in Cuban convertible pesos (CUC) since the currency was introduced 1994), was created to provide financial advice, help prepare pre-financing arrangements for foreign investment, and help raise capital to finance joint venture projects.\textsuperscript{79}

The second round of financial sector reforms began in the mid-1990s, as a reaction to the severe economic hardship that resulted in Cuba following the collapse of the Soviet Union. The government began by decentralizing foreign trade, and legalizing the US dollar in Cuba in 1993.

\textsuperscript{78} For a good summation of empirical findings on the topic, and a clear argument for why financial sector development is important, see “Chapter 4: The Financial Sector’s Contribution to Pro-poor Growth” in “Promoting Pro-Poor Growth: Private Sector Development.” OECD, Paris, France, 2006. Available at: <http://www.oecd.org/dataoecd/24/43/36563686.pdf>

This second round of reforms continued through to 1997 with Decree Law No. 172, which provided the basis for the creation of the Central Bank of Cuba, transforming what was previously a state-controlled Banco Nacional de Cuba, into a more independent Central Bank.

Decree Law No. 173 was passed the same year, in 1993, and focused primarily on “stimulating the development of Cuba’s banking institutions and non-bank financial intermediaries”, by providing “the legal and institutional framework to foster the creation of Cuban-based branches (i.e., subsidiaries and affiliates) of foreign banks interested in doing business in Cuba.” Decree Law No. 173 thereby facilitated the creation of the Banco de Crédito y Comercio (a large commercial bank), the Banco Metropolitano S.A. (established to meet the needs of ex-pats in Cuba), and the Casa de Cambio S.A. (CADECA)—effectively an exchange bureau, instituted to deal with the foreign currencies allowed into the country since the 1993 reforms.

These reforms brought greater liquidity to Cuba’s economy, but the financial liberalization fell well short of its Latin American counterparts over the same period of time. There are reasons to believe that the recent plans for reform may be met with recent shortcomings. As alluded to previously in the section on Cuba’s “private” sector, what are missing from the lineamientos are details on how the Government intends to achieve the listed goals, and a timetable under which they hope to reach them. Though the mere mentioning of the need to address these impediments may be seen as a step in the right direction, there is no explanation of how the government and its banks plan to make credit available, or within what timeframe. In a more recent meeting of the Council of Ministers in March 2011, Raul Castro officially approved the new policy that would allow banks to lend to self-employment workers,

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yet it is unclear whether or not a specific plan exists for this yet, since no details have been made public.\footnote{Puig Meneses, Yaima and Leticia Martínez Hernández. “Aboga Raúl por continuar rescatando la disciplina.” Granma Internacional Digital, March 30, 2011. Available at: \url{http://www.granma.cu/espanol/cuba/30marzo-aboga.html} Accessed March 31, 2011.}

It is possible that further plans and details will be released following the momentous 6\textsuperscript{th} Session of Congress—the first Congressional meeting held in the past 14 years—which began on April 16\textsuperscript{th}, 2011, coinciding with the 50\textsuperscript{th} anniversary of the Communist Party of Cuba. However, even if specific plans and timelines are agreed on at this Congress session, it is unlikely that credit will become widely available in the Cuban economy in the next five years, for a couple of reasons.

First, the infrastructure and capacity of the financial sector are still quite poor. As a result of Cuba’s closed-market financial policies, the necessary financial systems to enable cash-transfers are not in place to the same extent as in other countries in the Latin American region. The process of reform will therefore be a tedious one; public bankers, for example, will need to be trained on credit analysis and loan approval. This is a process that will take time, and is likely to be met with myriad difficulties and setbacks along the way, as evidenced by the transformation and financial liberalization of the Mexican banking system during the 1990s.\footnote{Hernández-Murillo, Rubén. “Experiments in Financial Liberalization: The Mexican Banking Sector.” Federal Reserve Bank of St. Louis Review, September/October 2007, 89(5), pp. 415-32. <http://research.stlouisfed.org/publications/review/07/09/HernandezMurillo.pdf>}

Second, the Cuban economy is currently facing a liquidity crisis, with few options for injecting new capital.\footnote{Vidal-Alejandro, Pavel. “El rompecabezas monetario y financiero cubano.” Real Instituto Elcano, Universidad de Havana, October 15, 2010. Available at: \url{http://www.cubaliberal.org/economia/pdfs/Rompecabezas%20financiero%20cubano.pdf}> Even if the infrastructure were in place to effectively and efficiently distribute capital to the non-state sector, it is unlikely that the necessary amount of capital would be available in the banks to the meet the demand by Cuba’s entrepreneurs. At some point, as the
non-state sector continues to expand and the revenues of small businesses and the self-employed increase, there should be a greater circulation of money in the economy that can be collected by banks to then be made available in the form of loans—but it is unclear to what extent Cuba’s liquidity crisis will be resolved by this growth over the next five years.

Finally, credit provision to its non-state sector is not the primary reform priority for Cuba’s financial system. Greater resources and time will most likely be dedicated to the planned conversion to a single currency and the resulting logistical adjustments necessary for this transition.\textsuperscript{84} During this adjustment phase, until private credit is made available through Cuba’s banking system, Cubans transitioning to the self-employment and small “private” business sector may turn increasingly towards remittances for the capital necessary to operate.

\textit{Microfinance:}

Cuba remains one of the few developing countries where no microfinance institutions (MFIs) operate. There are several obstacles to the economic and financial viability of a microfinance sector in Cuba. The first issue is the absence of market-determined interest rates. According to Cuba’s Central Bank:

“In [1999], interest rate policy for the national currency was modified, fixing ceilings of 5,0 percent for the short-term and of 7,0 percent for the medium- and long-terms. As part of that new policy, banks were given the possibility to move those ceilings to a +/- 2,0 percent, depending on the purpose of the credit, rating of the borrower and other considerations... Accordingly, interest rates for credit granting may range from 3,0 to 9,0 percent..."\textsuperscript{85}

This constraint poses an obvious obstacle to microfinance operations in Cuba. However, there does appear to be a different standard held for loans made in convertible pesos (CUC), as


opposed to the national currency (CUP, to which the interest rate quotes pertain above), as evidenced by the following statement on the Central Bank website: “Interest rates of loans to enterprises in freely convertible currency are at reasonable levels, around 11,0 percent.” Yet even for convertible pesos, there is still an interest rate cap, according to the Banking Regulations Handbook for Cuba, Chapter 3, resolution no. 97, which specifies that rates cannot rise above 12% annually.

Even if an MFI found a way to achieve operational self-sufficiency in Cuba under the 12% interest-rate threshold, there is a further issue in that prices in the convertible peso are significantly higher than in the national currency, so the benefits of having an extra 3% interest under which to operate would be weighed against the loss in purchasing power of that additional capital earned from interest. Effectively, until microfinance institutions are allowed to operate in Cuba with a free-range on interest rates, few organizations will be willing to take on the risks (both financial and political/legal) associated with starting a MFI there. That said, two separate US-based sources that I spoke with, (all of whom wished to remain anonymous), discussed their intentions of working with Cuban based NGOs to set up microlending in Cuba. Their optimism with this possibility comes as a direct result of the changes made by Obama allowing all US citizens to remit up to $500 per year (per Cuban individual).

86 Ibid.
The Significance of US and Cuban remittance policies:

Remittance policies set by the United States and Cuban governments since the 1960s have shaped how remittances have been used in Cuba in the past. By limiting the volume of remittances that could be sent to Cuba from the US, these policies have created an environment in which the large majority of remittances have been used for consumption, fulfilling basic needs, rather than going towards investment. In 2009, this environment fundamentally changed, with Obama removing the limit on how much money could be sent each quarter by Cuban Americans to their families in Cuba. In isolation, these changes might not be expected to have much impact on the use of remittances in Cuba. However, in conjunction with the concurrent changes in the Cuban legal environment facilitating self-employment and small business activities, these amendments to the laws on financial transfers take on greater importance in providing an alternative form of credit in the financially underdeveloped Cuban market.

Remittances to Cuba have traditionally been a relatively small fraction of Cuba’s economy (representing only 3% of its GDP in 2005, in comparison to other Latin American countries such as Honduras (20%), El Salvador (18%), and the Dominican Republic (13%)). There are several potential factors explaining this disparity, for example the logistical issues due to Cuba’s underdeveloped financial sector, but clearly the most significant is the troubled political relationship between the United States (where 90% of the Cuban diaspora live) and Cuba.

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88 For details on the various methodologies employed to measure remittance levels to Cuba, see: Perez-Lopez and Diaz-Briquets. “Remittances to Cuba: A Survey of Methods and Estimates”, University of Austin Press, 2005.
90 Ibid, pp. 165.
Since the beginning of the Cuban revolution, political animosity between the US and Cuba has created legal barriers (by both the US and Cuban governments) to the amount of money that could be remitted and what the remitted money could be used for. In 1960 the Cuban government began to nationalize all banks in the country; circulation of the US dollar was strictly controlled, and eventually prohibited in the late 1970s by the Cuban government. As a result, remittances were primarily limited to in-kind transfers up until 1993 when the severe economic pressure of the special period and the need for hard currency led the Cuban government to legalize possession of the US dollar,\(^91\) while also allowing the pricing and purchase of certain goods in dollars.\(^92\)

Furthermore, although the Cuban government under Castro never made emigration illegal outright, its policies have traditionally made legal migration a difficult and disenfranchising process that has severed the ties of many Cuban immigrants to the US from their families in Cuba. Cuban immigrants to the US surrender their right to return permanently; this is important for reasons discussed previously—in other countries such as Mexico where return migration is common, the ability to return an important incentive for investment, because it allows them to get a direct return from those assets in the future. In addition to the inability to return, migration to the United States from Cuba also forces migrants to give up their rights as citizens, and any property and assets held in Cuba.\(^93\) Although certain provisions allow Cuban migrants to work in countries other than the US for fixed periods of time (for example their “doctors for oil”

\(^93\) Ibid., pp. 400.
agreement with Venezuela), these workers typically do not earn meaningful salaries overseas, and therefore do not represent a significant portion of the overall remittances sent from abroad.

The lack of a return option for Cuban immigrants to the US is an important factor when assessing not only the volume of remittances sent, but also their intended use. The severed connections that Cuban migrants face with their homeland could certainly affect their decision to remit money back home. The effect of the political relationship between the two countries on the psyche of Cuban migrants, and what Cuban expert Sarah Blue calls “political conviction as a deterrent”, has been looked at closely by a number of researchers. Overall, the results on this topic have been somewhat inconclusive. Some researchers such as Sergio-Diaz Briquets and Jorge Perez Lopez argue that political conviction has kept the volume of remittances to Cuba at a low level relative to other countries in Latin America, using data to show that migrants who left Cuba for political motives typically remit less money on average than those who migrated for economic reasons. Sarah Blue, on the other hand, finds no evidence of any significant differences in the amount of money sent between the earlier political migrants and the more recent economic migrants.

Sergio Diaz-Briquets and Jorge Perez-Lopez distinguish pre-1980 Cuban migrants from those who emigrated after, arguing that the earlier migrants (especially those from the first large wave of 250,000 Cuba emigrants that left for the US in first three years after Castro took power in 1959) tended to be more politically motivated and therefore have a lower propensity to remit than the latter group, for whom “family solidarity is likely to take precedence over political considerations.”

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makes a similar argument, concluding that “Cubans who emigrated during the Soviet era, […] perceived themselves as exiles and exiled, and opposed dealings with Cuba under Castro” while “those who moved abroad in the post Soviet era were more inclined to remit money, and to remit more money […] because they, in the main, envisioned themselves as economic immigrants, and because they moved abroad with the mission to help friends and family they left behind.”¹⁹⁶ In further support of these claims are the results of a 2007 survey conducted by the Institute for Public Opinion Research and the Cuban Research Institute (CRI) of Florida International University of a random sample of 1,000 Cuban-Americans living in Miami-Dade County:

Table 1:

<table>
<thead>
<tr>
<th>Remittance sending by generation of Cuban immigrants to the US</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question:</strong> Do you or relatives in Miami send money to relatives in Cuba?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Year immigrated to the US</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 1959</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>1959-1964</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>1965-1973</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>1974-1984</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>1985-1994</td>
<td>76%</td>
<td>23%</td>
</tr>
<tr>
<td>1995-2007</td>
<td>77%</td>
<td>22%</td>
</tr>
<tr>
<td>US Born</td>
<td>47%</td>
<td>51%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>58%</td>
<td>41%</td>
</tr>
</tbody>
</table>


Notable in this table is the upward trend from 1959 to 2007 in the percentage of Cuban immigrants whose family remits money back to relatives in Cuba. Similar random polls conducted in 2008, 2000, and 1997 by CRI all support this general trend. Although there are clearly other factors affecting this disparity, the research by Diaz-Briquets and Perez-Lopez, as well as by Susan Eckstein make a compelling case for how political motivations by earlier waves

of Cuban migrants have limited their financial support to families back in Cuba, and how this has changed with recent generations of more economically-minded migrants.\textsuperscript{97}

As mentioned earlier, not all research on the topic of “political conviction as a deterrent” has reached the same conclusion. There is also some evidence to suggest a much weaker correlation between the year of migration (as a proxy for political ideology) and the volume of remittances sent. A survey conducted in 2000 in Havana by researcher and Cuban expert Sarah Blue found that earlier migrants to the US actually remit a \emph{larger} amount on average compared to post-1980 migrants who likely migrated for economic reasons. One reason that Blue offers to explain this difference is that earlier waves of Cuban migrants tended to be wealthier on average than the economic migrants who left in the 1980s and 1990s.\textsuperscript{98}

While Blue acknowledges that the small (and non-random) sample of 250 Cubans in the 2000 Havana survey cannot be taken as a representative sample of the larger Havana or Cuban population (2.1 million and 11.2 million respectively), the results nonetheless offer a different and interesting perspective on the demographical disparities between the earlier and later generations of Cuban migrants. Unlike the surveys conducted by the Cuba Research Institute in Miami, Blue’s survey captured the receiving end of remittances, which is a potential explanation for the differences in results between her survey and the ones conducted by CRI in Miami-Dade.

By making two assumptions, first that earlier (political) migrants were more likely to send remittances through \emph{informal} channels than later generations (a plausible scenario since the

\textsuperscript{97} The term ‘generation’ is used in this section to refer to the different waves of Cuban immigrants to the US, and should not be confused with age differences between the migrants, which is a separate issue altogether.

\textsuperscript{98} Blue, Sarah. “State Policy, Economic Crisis, Gender, and Family Ties: Determinants of Family Remittances to Cuba”, Vol. 80, No.1, 2004, pp. 75.
Cuban government collects revenue from remittances sent through formal channels), and second, that those surveyed in Miami were more likely to report formal (versus informal) remittances sent, then the results from the CRI surveys would tend to under-represent the percentage of migrants from earlier generations sending money back to Cuba, relative to later generations. Blue’s survey, by capturing the perspective of the receiving end of remittances, potentially avoids this under-reporting. On the other hand, if the respondents to the Havana survey were apprehensive about reporting remittances received through informal channels, then this bias could work in either direction, so it is difficult to determine which survey more accurately depicts the actual situation.

Comparing the two surveys raises interesting questions about how accurately the year of migration can be used as a proxy for political motivations, and income and wealth differences between the different waves of Cuban migrants. More importantly though, irrespective of political motivations deterring remittance sending in the past, researchers on both sides of the debate would likely agree that the political conviction of new migrants is diminishing, and therefore other factors, such as the legislative changes made by the Obama administration, are going to play a much more important role in the volume and impact of remittances on the Cuban economy.

Policies in the US have been similarly restrictive against remittances to Cuba. In 1962, in response to Cuba’s alignment to the Soviet Union, President John F. Kennedy issued an executive order for a trade embargo to be imposed on Cuba. The following year, the Department of the Treasury’s Office of Foreign Assets Control (OFAC) issued the “Cuban Assets Control

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100 Blue, Sarah. “State Policy, Economic Crisis, Gender, and Family Ties: Determinants of Family Remittances to Cuba”, Vol. 80, No.1, 2004, pp. 75.
Regulations”, (31 Code of Federal Regulations part 515), under the “Trading with the Enemy Act” (50 US Code App. 5 et seq.), prohibiting any legal transactions with Cuba from the US. Consequently, any remittances sent to Cuba from the US had to be sent through a third country. These restrictions were eased slightly under legislation passed by the Carter administration in 1977, allowing for “family remittances for the support of close relatives in Cuba.”

Even after the end of the Cold War, anti-Cuban sentiment amongst the leadership of the Cuban émigrés continued. Their lobbying efforts were successful in influencing Congressional and White House policies on Cuba. As a result, US government policies showed little sympathy for the conditions in Cuba during the special period. As sociologist and Cuban expert Susan Eckstein points out, “Washington lawmakers, with political backing from conservative exiles, reacted to the “Special Period” surge of remittances by imposing greater barriers to transactions.”

The barriers comprised of three major pieces of US legislation, beginning with the Cuban Democracy Act signed by President H. W. Bush in 1992, calling for “strict limits on remittances to Cuba by United States persons for the purpose of financing the travel of Cubans to the United States…” This was followed by President Clinton’s outright ban of all in-kind and cash remittances in August of 1994 (an election year), and further intensified by the most controversial of the three legislations, the Cuban Liberty and Democratic Solidarity (Libertad)

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Act, signed by Congress in 1996 (also known as the Helms-Burton Act), which drew international condemnation for strengthening the US embargo against Cuba. No longer facing re-election, Clinton’s policies in 1998 shifted to a more liberal stance on Cuba. The ban on remittances was eventually lifted in 1998, and the restrictions reverted back to the $300 per quarter limit that had been in place previously. In July of 1999, an agreement was reached that allowed Western Union, the largest money transfer company in the world, to begin operating in Cuba, thus opening an important channel for the remittance market in Cuba.

The stringency of US laws on remittance flows to the island during the 1990s was only partially successful in diminishing what was still a significant increase in the volume of remittances to Cuba, which were estimated to have grown at 44% per year on average during the decade—resulting largely from Cuba’s legalization of the US dollar in 1993. This suggests that policies by the host country (in this case the US) may not have as large of an effect on remittance flows as policies set by the home country (Cuba). Indeed, Eckstein points out that according to the Economic Commission for Latin America and the Caribbean (ECLAC), “cross-border people-to-people money transfers […] surged from $50 million in 1990 to over $700 million at

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A 2002 survey administered by Bendixen and Associates found that 42% of Cuban Americans surveyed remit their money through western union.


the decade's end."\textsuperscript{110} This 1,400% increase in the volume of remittances sent through formal channels from 1990 to 2000 to Cuba was five times larger than the regional Latin America average (where they roughly quadrupled) over the same time period,\textsuperscript{111} where more modest increases occurred in countries like the Dominican Republic (186%), Mexico (142%), and El Salvador (382%).\textsuperscript{112} The dramatic increase in remittance volume to Cuba during the 1990s indicates the importance of taking into account both Cuban and US policies affecting remittances.

With the large influx of remittances came a big increase in consumption spending in Cuba. The use of remittances for consumption rather than investment during this period was driven by two factors. First, the desperate economic conditions during the special period in Cuba caused remittance receivers to prioritize basic needs over future potential income opportunities through investment. Second, there was a deliberate policy in place by the Cuban government to encourage consumption. Sarah Blue makes the case that the Cuban government’s policy to promote remittances for consumption during the mid-nineties was motivated by the serious need for dollars. In an effort to solve its balance of payments crisis that followed from the end of Soviet economic support, the Cuban government set up state-run stores that sold higher quality retail goods that could only be purchased in dollars, as part of its strategy to “recuperate dollar remittances that had been circulating on the black market.”\textsuperscript{113}

In the following decade, under the George W. Bush administration, other amendments were made affecting remittance transfers, including the legislation passed in 2004 (another election year), restricting travel and limiting the amount of money that Cuban Americans could bring back to Cuba to only $300 per visit. Additionally, the law stipulated that remittances could only be sent to immediate family (siblings, children, parents, grandparents or grandchildren). The sharp increase in remittances to Cuba from 1993 to 2000 was not matched in the following decade. There are a number of plausible explanations for this, none more compelling than the $1,200 per year cap on remittances that remained until 2009. While estimates vary on what the current volume of remittances is to Cuba, many sources place the figure at around $1 billion.

Several research reports have shown the strong impact of Bush’s 2004 policy on subsequent remittances flows. According to Orozco, these effects included the drop in the volume of transfers, an increase in use of informal channels, higher transfer costs, and a response by the Cuban government to impose a 10% tax on US dollars.\(^{114}\) Most research estimates suggest the decline of remittances to the island were significant, ranging from at least 20%\(^{115}\) to as high as 60%\(^{116}\) within one year of the policy being implemented. In light of how remittance flows to Cuba fell in response to the 2004 policy changes, the importance of the legislation signed by Obama to unilaterally lift the limit on remittances in 2009 cannot be overstated.

On April 13\(^{\text{th}}\), 2009, United States President Barack Obama unilaterally lifted legal restrictions on the amount of money that Cuban-Americans could send from the US back to

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Cuba, breaking with US policy that had been in place for fifty years.\textsuperscript{117} The shift in US policies on Cuba has coincided (arguably by intention) with the significant plans by the Cuban government to revitalize its economy through an expansion of its non-state sector.

In detail, the US legislation signed by Obama in 2009 aims to:

(b) Remove restrictions on remittances to a person's family member in Cuba by:

- Authorizing remittances to individuals within three degrees of family relationship (e.g., second cousins) provided that no remittances shall be authorized to currently prohibited members of the Government of Cuba or currently prohibited members of the Cuban Communist Party;
- Removing limits on frequency of remittances;
- Removing limits on the amount of remittances;
- Authorizing travelers to carry up to $3,000 in remittances; and
- Establishing general license for banks and other depository institutions to forward remittances.\textsuperscript{118}

Further liberalization of US restrictions followed in January 2011, with OFAC authorizing \textit{any} US citizen to “send (up to $500 per quarter) to non-family members in Cuba to support private economic activity,”\textsuperscript{119} as detailed below:

(b) Periodic $500 remittances authorized. Persons subject to the jurisdiction of the United States are authorized to make remittances to Cuban nationals, including, but not limited to, remittances to support the development of private businesses, provided that:

\begin{flushright}
\textsuperscript{118} Ibid.
\end{flushright}
(1) The remitter’s total remittances pursuant to paragraph (b) of this section to any one Cuban national do not exceed $500 in any consecutive three-month period.\textsuperscript{120}

The ability for people in Cuba to receive financial transfers beyond $1,200 per year from family in the United States could have important implications for the potential use of those remittances for investment, if that threshold represents an insufficient (or marginally sufficient) amount necessary to fulfill basic consumption needs, and assuming that Cuban American remitters have the capacity to send amounts beyond $1,200 per annum.

In general, the receivers of remittances who I interviewed were well informed about the policies affecting the transfer of money to them from abroad. In fact, several interviewees had already heard about the change in Obama’s legislation that had passed that same week in January, which would allow them to receive remittances from any US citizen, no longer just immediate family. Most interviewees expressed optimism regarding the potential impact of the changes Obama has made to remittance policy. Marcos, for example, supports himself by buying and selling rare and vintage stamps to collectors abroad. Marcos receives both in-kind remittances in stamps, as well as cash from investors from the US who trust him to find valuable stamps over a certain period of time, and then provide them with the stamps once they are able to visit. With no limit on the amount of money he can receive now, he expects to be able to expand his collection and attract new clients as a result.

The greater ease with which larger sums of money can now be remitted from the United States is an important factor that may contribute to a larger share of remittances being put towards investment. An illustrative example of this came from an interview I did with a couple

who rent their house out to students and tourists, and have even been able to create a website. Jaime and Andrea received 10,000 Euros from their daughter (who works as a model in Italy, and brought the money in cash on a visit to Cuba). Their daughter’s ability to bring this quantity of cash with her to Cuba was due to the lack of restrictions on migration and financial transfers between Europe and Cuba, compared to the United States. This money enabled Jaime and Andrea to swap houses, and as a result, they can rent out five rooms of their house instead of just the one room they had available previously, thereby increasing their monthly income by approximately $1,000 per month. They continue to receive remittances each month that allow them to renovate the house and purchase the extra food necessary to prepare meals for the students and tourists who stay with them.

Remittances through informal channels:

One possible counter-argument to the hypothesis that lifting the quarterly cap of $300 on remittances to Cuba will spur a higher rate of investment from the resulting increase in capital is that remittances through the US-Cuba corridor have always existed in significant amounts in informal channels. Other means of remitting money have included money sent through mulas (agents who transport cash in person, traveling between the US and Cuba), as well as what Eckstein describes as “mini-banks”, which function in a similar way to the hawalas prominent in South Asia and the Middle East.

In Cuba, the portion of money sent informally in the past has been disproportionately high compared to the rest of Latin America. A 2001 survey conducted by the Inter American Development Bank (IADB) found that 46% of the money sent to Cuba goes through mulas, and Manuel Orozco points out that “experts in the field in Cuba (business representatives, academics, and government officials) estimate that the percent flow of remittances to Cuba via informal
mechanisms reaches the much higher amount of 80 percent.”\textsuperscript{121} Additionally, this trend appeared to be increasing recently according to Orozco, who argues that from 2005 to 2009, “Informality in transfers from the U.S. to Cuba has increased after the passing of U.S. and Cuban restrictions.”\textsuperscript{122}

While the informal transfer of remittances do indeed represent a large portion of the overall volume of remittances sent to Cuba, the upward trend noted by Orozco is likely to reverse in reaction to Obama’s favorable legislation allowing for greater freedom in remittance sending. Not only this, but since the Cuban government started to allow Western Union to issue remittances in CUC, and even more recently with the removal of the 10\% surcharge on transfers through Western Union, the amount sent through formal channels will almost certainly increase relative to what is sent informally.

Furthermore, even if we were to suppose that the changes in US policy will not have the effect of promoting a disproportionately larger increase in the volume of remittances sent to Cuba, the recent policy shift by the Cuban government to stimulate self-employment and small-business in the economy could, by itself, drive a shift in what remittance receivers decide to use the financial transfers for. The Cuban government’s changing stance on the non-state sector breeds confidence in those making decisions to exit the public sector and take up self-employment activities or start small businesses. Many such individuals will need capital beyond what their family and friends in Cuba would be able to provide for them, and therefore those with connections abroad are likely to take advantage of the recently liberalized remittance policies as a form of credit.

V. Conclusion:

In 1978, and again in 1993, piecemeal reforms were implemented that created a space for the non-state sector, and increased the flow of remittances to Cuba. Directly following those reforms, however, was a reversion to tighter restrictions by Cuba on its non-state sector, and by the United States on remittance flows. Several aspects set the recent reforms of 2009-2011 apart from those in 1978 and 1993. The depth of the current reforms implemented by the Cuban government are greater, allowing for the largest number of self-employment activities and legal non-state workers in Cuba’s history. The changes on the US-side affecting remittances to Cuba are unprecedented—for although the United States made an important first step in allowing financial transfers to Cuba starting in 1978, the new policies under Obama mark the first time that the United States has lifted completely the quantitative restrictions on the amount of money that could be sent by Cuban-Americans to their families. Not insignificantly, both Cuba and the US are in a much different place than they were in 1978 and 1993, with the Cold War becoming an ever-more distant memory, and the hard-line Cuban exile lobby in Miami shifting in character and diminishing in influence. The direction of the recent reforms is therefore likely to be steadier, indicating a future of more productive Cuban and US policy stances that promote Cuba’s non-state sector and the sending of remittances between the two countries.

What are the implications of all of this? The hope is that, just as Giuliano and Ruiz-Allanz found in the results from their crosspanel data, remittances to Cuba can provide an adequate substitute to financial credit from banks, at least until the plans agreed upon in the 6th Congress are carried out effectively to develop Cuba’s financial sector. Even more optimistically, in essence, by alleviating credit constraints, remittances can help facilitate the creation of small businesses in Cuba, boosting employment in the economy, increasing the
variety of services and products available on the island, providing greater liquidity, and spurring economic growth as a result. This is perhaps not as unreasonable of a goal as it was ten years ago, given the recent direction Raúl has taken for the future of the Cuban economy, the new language being used by senior Cuban government officials, and what appears to be stronger support from the United States through the new legislations passed by President Obama.

That said, there remain causes for concern. Despite the legislative initiatives by the Cuban government to breathe life into the non-state sector, several obstacles may continue to impede the ability for entrepreneurs and small business owners to succeed. Important factors affecting the potential success of the non-state sector include: entrepreneurial ability and the shortage of training available, low wages and the resulting lack of demand for goods, an unfriendly legal environment with high taxes and restrictions on where self-employment workers and non-state businesses can operate, and the disparity of prices paid for inputs by non-state versus public enterprises.

Results from the 2000 survey commissioned by the World Bank titled the “World Business Environment Survey” (WBES) demonstrate that while access to credit was the second most significant constraint to business, the primary constraint was a combination of regulations and taxes. Although regulations are changing in favor of work in the non-state sector, there still remain greater barriers and less protection in the sector compared to public employees, and in respect to taxes, the government is planning to impose even higher taxation on certain categories of self-employment workers.

The subject of remittances and their productive use in Cuba is still quite new, and it is constantly evolving. As has long been the case in Cuba, projections are subject to change, as

numerous changes in US policy and in Cuban legislation on the non-state sector continue to happen. Both United States and Cuban policy affecting this topic continue to evolve, and numerous changes have been announced since I first approached the topic in June 2010. During the primary research and data collection phase for this paper was being conducted in January 2011, Obama announced further reforms to US policy on remittances. Additionally, the Sixth Congress was held in Cuba in April to vote on much of what was discussed in the *lineamientos*. It is crucial that further research continue to be done on these developments, to add to the work of scholars such as Archibald Ritter, Manuel Orozco, Lorena Barberia, Susan Eckstein, and Sarah Blue.
Appendix:

A: Research methodology:

The original research plan involved conducting surveys in Havana, to collect information from as representative a sample as possible. Through a series of discussions with other researchers with experience doing research in Cuba in the past, this original plan was modified, given the sensitivity of the topic, as well as time and funding restraints. Instead, the author conducted a series of 22 informal interviews in Havana over a two-week period in January, 2011. The interviews included a total of 23 remittance receivers, six current self-employment workers, one director from a Cuban bank, three Cuban academics with expertise in economics, migration, and labor (respectively), and a UN official.¹²⁴

Receivers of remittances:
- 12 interviews (14 participants) at the Western Union, Plaza Carlos III branch in Central Havana (Calle 17 y J)
- Five household interviews (8 participants)

Experts and practitioners:
- Sergio Novas Tejera, UNDP Director, Local Human Development Program
- Dr. Omar Everleny Pérez Villanueva, Economista, CEEC
- Several experts from the University of Havana (Centro de Estudios de Migraciones Internacionales, Centro de Estudios de la Economía Cubana, Centro de Investigaciones Económicas Internacionales), who wish to remain anonymous.

¹²⁴ There was overlap between some of the self-employment workers and the receivers of remittances. Five of the interviews involved multiple people. The number of interviewees therefore exceeds the number of interviews conducted.
B: Sample interview questions:

1. Do you have a bank account?
   Yes
   No

2. If you don’t have a bank account, why not?
   Distrust in banks
   No banks located nearby
   It is difficult to open an account
   Bank accounts are expensive
   I do not have any use for a bank account

3. To you have some type of savings or investment?
   Yes
   No

4. If you answered yes to #3, what do you use the savings for? (Okay to mark more than one)
   For special occasions (weddings, birthdays, etc.)
   I keep it for when I retire
   To make large purchases (TVs, furniture, car, etc.)
   For health emergencies
   To invest or cover costs of a family business
   For travel
   Other (please specify)

5. (If yes to #3) Where does the money that you use for that savings or investment come from?
   Interest from savings account
   Work bonuses
   Money left over from paychecks
   I have a second job

6. Approximately how much do you save per year?
   $0 - $250
   $250 - $500
   $500 - $1000
   More than $1000

7. What is the average amount of money you receive per remittance?

8. How often do you receive a remittance?
   2+ times per month
   Once a month
   Once every two months
   Between 2-5 times a year
   Once a year
9. Do you receive remittances regularly on specific days of the month or year, or do you only receive remittances on special occasions and/or emergencies?
Regularly
Special occasions and emergencies

10. Are you aware of the legal reforms on remittances made by President Obama, which now allow an unlimited amount of money to be sent?
Yes
No

11. Do you anticipate an increase in the average amount of money you receive from remittances, as a result of that reform?
Yes
No

12. If you were to receive twice the amount of money in remittances that you currently receive, what would you do with that extra money?
Spend it on everyday needs (food, transportation, bills)
Spend it on housing repairs and renovations
I would invest in a current business I own or help run
I would use the money to start a business that I have an idea for, but don't currently have the money for
Other: (please specify)

13. If you need extra money or a loan for your business, where do you go for it?
Informal loans from friends and family
Bank loan
Money from remittances
Etc.
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