

“Doing Business” in Cuba: A Primer for U.S. Social Entrepreneurs, Impact Investors and Non-Profit Organizations

Prepared by members of the
*Socially Responsible Enterprise and Local Development in Cuba Project**
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Since the December 17, 2014 joint announcement by Cuba and the U.S.A. that the two nations intended to reestablish diplomatic relations, there has been an upsurge in interest among Americans regarding business relations with the island nation. Business opportunities between Americans and Cubans will most certainly be plentiful, especially in the long-term. However, the media frenzy has overlooked the inconvenient truth that working in Cuba is still extremely difficult for foreigners, and will remain so for a long time to come, especially for Americans. In an attempt to shorten their learning curve and make their experience on the island more rewarding and fruitful, we have developed this Primer. This guide provides newcomers wishing to establish business links in Cuba – whether for profit, not for profit, hybrids, or as social entrepreneurs - with realistic, practical and up-to-date information.

This Primer has been prepared by the members of the *Socially Responsible Enterprise and Local Development in Cuba* project, an international collaboration of experts on Cuban enterprises and development. Though it is probable that the majority of U.S.-Cuba entrepreneurial activity will be for-profit, Cuba’s national commitment to the social and environmental well-being of its citizens will, nevertheless, require that *all* business activity be undertaken with sensitivity and accountability over its social and environmental impact. Above all, it is important to remember that engagement with Cuba should be done in a mutually respectful fashion that helps Cubans preserve and enhance the achievements of their Revolution, while minimizing risk and safeguarding the goodwill and limited capital of inspired American entrepreneurs.

ON THE U.S. SIDE

Cuba and the U.S. are currently only discussing the reestablishment of diplomatic relations. But the complete normalization of relations may take years to achieve and, in a number of fundamental business-related areas, may require congressional approval in the U.S. Moreover, the U.S. government has not yet approved general tourist travel to Cuba. This means that the financial and commercial embargos, as well as portions of the ban on travel by U.S. citizens, with all of their negative consequences, are still very much in place. Fortunately, there have been two Congressional Delegations to Cuba recently (January and February 2015), signaling a broad support for, and interest in, normalizing business relations and opening a path towards the entry of American business interests into the island.

While the U.S. has made some progressive adjustments to a number of pre- December 17 regulations, including increasing approved travel categories and support for humanitarian efforts, a clear interpretation of what these changes actually mean in practice is not yet fully defined. The changes are being rolled out over time. Therefore, it is important to continually analyze the regulatory framework for approved commercial transactions and for travel before embarking on any potential business opportunity. As of this writing, it may be possible to engage in some areas of trade and philanthropy, but there are no investment opportunities available for US citizens and institutions.

ON THE CUBAN SIDE

While it is true that the Cuban government is in the process of implementing important economic reforms that will create new business opportunities, those seeking to profit from them must realize that *Cuba is fully committed to remaining a socialist state* and it is not broadening its business opportunities as a precursor to embracing capitalism. The overall aim of reform is achieving a “prosperous and sustainable socialism”, not adopting free-wheeling capitalism. Business people that

want to do business in Cuba must respect the tenets of socialism, be able to conduct business within the parameters of the state's political ideology, and adapt to the quantity of state control over business transactions that exist in Cuba today. Those things are not likely change any time soon.

Mutual mistrust must also be overcome. In the U.S.A. there are powerful pockets of support for sanction against Cuba, and in Cuba, some remain highly suspicious and mistrustful of American motives. For example, some Cubans on the island interpret President Obama's recent changes to U.S.-Cuba regulations as an extension of the U.S.'s historical covert operations seeking 'regime change', one of which landed contractor Alan Gross in a Cuban prison for 5 years. Both sides have good reason to be suspicious, given decades of spy vs. spy shenanigans, and business people can expect a certain amount of wariness when they first explore potential business opportunities.

All business deals between Cubans and foreigners, as well as any formal business deals between Cubans themselves, are made with the explicit knowledge and approval of the Cuban government. Moreover, normal business inputs such as local capital, updated plant and equipment and broad access to fast speed internet are not readily available for foreign projects. However, Cuba's highly qualified human resources, more often than not approved and facilitated by the state, are plentiful and eager to work. Be prepared to invest more than the normal time you usually schedule for permits because of the extended time necessary to receive appropriate bureaucratic approvals and access to necessary infrastructure and supplies.

The Cuban government is not interested in attracting foreign business for the sake of making money. On the island, there is neither a consumer sovereignty traditions, nor an affluent consumer society with buying power. Enterprises must have clear positive impacts on the population, the environment, and on the economy, *as defined by state entities*, not private enterprises. Corruption, though present, is seriously frowned upon and punished with severe jail terms for local and international partners alike.

The Cuban government is looking for large investments, not small efforts. Projects valued at under several million dollars will have a very difficult time getting reviewed. Keep in mind that the government bureaucracy that approves projects is very small and highly centralized. You will need local assistance just to get to the doorstep of the right government official. Even then, entry into his/her office may never happen due to understaffing. Also, it is also extremely difficult for Non-Governmental Organizations (NGO's) to establish a physical presence in Cuba, even after investing large sums of resources in building relationships with local Cubans.

Entrepreneurs are generally self-confident "go get 'em" types. However, when scouting out entrepreneurial opportunities in Cuba, entrepreneurs will come to understand the depths of a popular and ubiquitous Cuban expression – "No es facil / it's not easy." For their own health: financial, physical and mental, American entrepreneurs in Cuba should check their egos, and their preconceptions, at the airport gate, and be prepared to learn a whole new way of doing things "a la Cubana," the Cuban way.

CRITICAL DO'S AND DON'TS

- Do your homework before you plan your visit. Given the U.S.'s fifty-five year embargo, many myths and falsehoods exist about Cuba. There is a lot of reading you need to do, starting with a careful scrutiny of the current U.S. government regulations for U.S. citizens and residents travelling to Cuba, as well as any pending legal claim by U.S. citizens (including Cuban-Americans) on the property or sector you wish to enter.
- Americans have not been able to do business on the island for over five decades, but the Canadians, Europeans, Latin Americans, Israelis and Chinese, among others, have. Learn from their experiences and be aware that they will fight tooth and nail to protect their business interests. Moreover, Cuban officials already know them, and more often than not, trust them.

American newcomers are not going into ‘virgin territory’; there will be tough competition when they arrive.

- There are many informative publications about current economic conditions and policies being implemented in Cuba, on U.S. regulations, and on legal claims. There is also literature on the business interests of foreign partners on the island. And of course you will never go wrong by brushing up on Cuban history in your effort to understand this truly singular society. A suggested bibliography is listed at the end of this guide.
- Make sure your business concept truly meets local social and economic needs as defined by the priorities of the Cuban government.
- Don’t assume the Cubans will be interested in your project, no matter how obviously good and relevant it seems to you. They operate under many constraints that are difficult for Americans to understand. It is crucial to listen carefully to what the Cubans actually want, and not impose what you think they should want.
- To start a project, it is imperative to first establish a relationship with a Cuban counterpart organization vetted by the government to work with foreigners. Don’t show up in Cuba without previous research and pre-established contacts with individuals and/or institutions.
- How to find a counterpart? Go to Cuba to visit, learn, and explore. Seek out and participate in a Cuban conference in your area or sector of interest. Such travel should be much easier under the adjusted U.S. travel regulations. In this way you can make initial contacts and check out the local state of knowledge of your intended business in a manner that is cost effective. Often, there is more transparency in a conference setting, especially when sponsored by a university or an academic association.
- After the initial exploratory visit on a tourist visa, and in order to establish a formal business relationship, you will need to travel to Cuba again under a business visa. Make sure you get the

appropriate visa. In many cases government officials will not talk to you if you only have a tourist visa.

- Don't think you will somehow figure out how to get around the rules of the game set forth by the Cuban government. You may do so temporarily, but never for long.
- Don't, *under any circumstance*, accept funding from USAID or any of its contractors. In Cuba such support is tantamount to announcing you are working for regime change. Your venture will end right there.
- By all means enjoy the beauty, history, and uniqueness of the place. Get to know the warm, humorous, proud and well-educated Cuban people. Take the time to smell the gardenias in what may well be a once-in-a-lifetime experience at an unprecedented time in history. Increase your tolerance for contradictions and don't forget to have fun.

* Socially Responsible Enterprise and Local Development in Cuba Project (SRELDC) - Launched in 2008 with support from the Christopher Reynolds Foundation, SRELDC's principal objective is to understand and assist Cuban efforts to preserve the social achievements of the Revolution while creating a prosperous and sustainable economy. Over time, with crucial support from the Avina Foundation, the initiative has expanded into an international Consortium of participants. This group is comprised primarily of organizations and individuals from Argentina, Brazil, Canada, Chile, Columbia, Ecuador, Mexico and Spain. During the same period, the Consortium has developed strong relations with a variety of institutions in Cuba including universities, government agencies, and non-profit organizations. Without such partnerships, successful programs would not be feasible. In the U.S., SRELDC operates in affiliation with the Green Cities Fund, a 501(c)(3) organization focused on international development issues. No funding has been accepted, nor will be sought, from the U.S. government or its subcontractors.

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SUGGESTED RESOURCES ON THE CUBAN ECONOMY AND U.S. REGULATIONS

WEBSITES

U.S. Treasury Department:

Sanctions:

<http://www.treasury.gov/resource-center/sanctions/Programs/pages/cuba.aspx> as of 3/11/2015

Sanctions FAQ:

http://www.treasury.gov/resource-center/sanctions/Programs/Pages/cuba.aspx#cuba_new as of 3/11/2015

Cuba FAQ:

http://www.treasury.gov/resource-center/sanctions/Programs/Documents/cuba_faqs_new.pdf as of 3/11/2015

Embargo FAQ:

<http://www.treasury.gov/resource-center/sanctions/Documents/tab4.pdf> as of 3/11/2015

Travel Restrictions:

<http://www.treasury.gov/resource-center/sanctions/Programs/Documents/testimonycubatravel.pdf> as of 3/11/2015

U.S. Commerce Department:

<http://www.bis.doc.gov/index.php/> as of 3/11/2015

SOL Economics: <http://soleconomics.com/cuba/> as of 3/11/2015

The Cuban Economy: <http://thecubaneconomy.com/> as of 3/11/2015

Cuba News: <http://www.cubanews.com/> as of 3/11/2015

Cuban News Agency: <http://www.cubanews.ain.cu/> as of 3/11/2015

Cubadebate: <http://www.cubadebate.cu/> as of 3/11/2015

NEWSLETTERS

Center for the Study of Democracy in the Americas <http://www.democracyinamericas.org/about-cda/subscribe-to-the-cuba-central-news-blast/> as of 3/11/2015

Cuba page <http://www.democracyinamericas.org/cuba/> as of 3/11/2015

ARTICLES

Betancourt, Rafael and Pérez Villanueva, Omar Everleny. “Analysis of the Portfolio of Opportunities for Foreign investment in Cuba”, Cuba Study Group, and fromtheisland.org:

http://www.cubastudygroup.org/index.cfm/files/serve?File_id=dcd5881c-b5ed-4bd6-954b-694f392e8bd4 as of 3/11/2015

Feinberg, Richard– Series on Cuban Economy

<http://www.brookings.edu/search?start=1&q=Richard+Feinberg> as of 3/11/2015

Sagebien, Julia & Spadoni, Paolo “Dealing with the New Cuba”, Ivey Business Journal, Jan.- Feb. 2015 <http://iveybusinessjournal.com/dealing-with-the-new-cuba/> as of 3/11/2015

Sagebien, Julia & Leenson, Eric. “Cuban Remix”, Stanford Social Innovation Review, Winter 2015

http://www.ssireview.org/articles/entry/cuban_remix as of 3/11/2015

https://eleenson.files.wordpress.com/2015/03/winter_2015_cuban_remix-3.pdf as of 3/18/2015

BOOKS

Spadoni, Paolo. “Cuba’s Socialist Economy Today: Navigating Challenges and Change” (2014) Lynne Rienner Publishers

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