

Working Paper No. 69, 2014

**The Role and Impact of Remittances on
Small Business Development during
Cuba's Current Economic Reforms**

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Hansing, Katrin and Orozco, Manuel 2014: "The Role and Impact of Remittances on Small Business Development during Cuba's Current Economic Reforms", **desiguALdades.net Working Paper Series** 69, Berlin: **desiguALdades.net** International Research Network on Interdependent Inequalities in Latin America.

The paper was produced by Katrin Hansing and Manuel Orozco during Katrin Hansing's fellowship at **desiguALdades.net** from 04/2013 to 11/2013.

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Abstract

This paper explores the extent to which Cuban remittance recipients are responding to the Cuban government's current economic reforms which seek to incentivize entrepreneurial activities as an economic growth strategy and state liberalization policy. In so doing we hope to make some preliminary observations and recommendations about the potential role and impact of remittances in Cuba's socio-economic development. It is based on an original survey conducted in Cuba in 2012.

Keywords: remittances | development | Cuba

Biographical Notes

Katrin Hansing is Associate Professor of Sociology and Anthropology at City University New York (CUNY). Prior to her appointment at CUNY she was Associate Director of the Cuban Research Institute at Florida International University in Miami. As an anthropologist she has spent the last sixteen years conducting research in Latin America and the Caribbean (especially Cuba). Her main areas of interest and expertise include: "race"/ethnicity, migration, religion, and civil society. From April to November 2013 she was Fellow at desiguALdades.net in Research Dimension II: Socio-political Inequalities. Currently she is conducting research on contemporary Cuban youth as well as co-editing a new book on socialist migrations during the Cold War period (Palgrave). She received her Ph.D. from the Institute of Social and Cultural Anthropology at the University of Oxford and is the author of numerous scholarly and policy publications including the book *Rasta, Race, and Revolution: The Emergence and Development of the Rastafari Movement in Socialist Cuba* (LIT 2006). She has been the recipient of prestigious grants and awards, is an advisor to think tanks and policy institutes, and is often quoted in the media. In 2010 she completed the documentary film: "Freddy Ilanga: Che's Swahili Translator", which has been shown at many international film festivals and won numerous prizes.

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development worldwide. His work has led to international policy and business initiatives leveraging these flows to build assets among families and migrants, and strengthen market competition. Dr. Orozco is also Chair of Central America and the Caribbean at the U.S. Foreign Service Institute at the U.S. Department of State. He also teaches at American, Georgetown and George Washington University. He has testified before Congress and has spoken before the United Nations. He holds a Ph.D. in political science from the University of Texas at Austin, M.A. in public administration and Latin American studies, and a B.A. in international relations from the National University of Costa Rica. He has published widely on remittances, Latin America, globalization, democracy, migration, conflict in war torn societies, and minority politics. His publications include studies about the intersection between remittances and finances, financial literacy and development, and assessed competitiveness in the money transfer industry. He has analyzed and designed development strategies linked to remittances. His books include *Migrant Remittances and Development in the Global Economy* (Lynne Rienner, 2013), *América Latina y el Caribe: migración, remesas y desarrollo* (FLACSO, 2012), *Remittances: Global Opportunities for International Person-to-Person Money Transfers* (London: Lafferty Group, 2005) and *International Norms and Mobilization for Democracy* (London: Ashgate Publishers, 2002).

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1. Introduction

More than 50 years after the triumph of the Cuban Revolution and especially since the stark economic crisis following the fall of the Soviet Union in the early 1990s, Cuba has been undergoing fundamental transformations. The Revolution's celebrated achievements of relative socio-economic equality, full scale public employment, high quality, universal education, health care, and other social benefits are a thing of the past. Today, the island is largely marked by rising levels of poverty and inequality (Espina Prieto 2004; Hansing 2011; Mesa Lago 2010), dwindling social services, a booming black market and widespread corruption.

To save Cuba's moribund economy and ensure that the Revolution and Communist Party outlive him and his brother, President Raúl Castro has introduced a sweeping set of economic, social and, to a lesser extent, political reforms, known as *Los Lineamientos de la Política Económica y Social* (Outline of Economic and Social Policy, hereafter *lineamientos*). These reforms include massive state worker lay-offs, cuts in social benefits, the expansion of the private sector, agricultural reforms and the legalization of the sale/purchase of private homes and cars between individuals. Also, the much criticized *tarjeta blanca* (Cuban exit visa) was eliminated in January 2013, giving most Cubans the possibility to travel or leave Cuba more easily.

The reforms are having a huge impact on the lives of ordinary Cubans. After decades of rigid economic centralization and travel restrictions, the government is giving people more economic freedom as well as freedom of movement and travel. These are important and exciting developments. The *lineamientos* are however, also creating new socio-economic challenges including unemployment, poverty and social inequalities. This is largely because in its efforts to encourage small business entrepreneurship as a means of promoting economic growth and decreasing unemployment, the Cuban government has so far failed to provide its people with the necessary loans and microcredits as well as wholesale markets with which to develop small businesses successfully. This means that only people with alternative forms of access to capital and goods can truly take advantage of the current economic opening. These tend to be Cubans with savings or with family abroad who send remittances.

This article explores the extent to which Cuban remittance recipients are responding to the Cuban government's economic reforms which seek to incentivize entrepreneurial activities as an economic growth strategy and state liberalization policy. In so doing we hope to make some preliminary observations and recommendations about the potential role and impact of remittances in Cuba's socio-economic development. The

analysis is based on fieldwork and a confidential survey that was conducted under the direction of the author in Cuba among 300 remittance recipients between 2012 and 2013 (see the Appendix for details).

Our findings show that remittances continue to play an important role in the economic survival of Cubans, with money coming from the U.S. and other parts of the world. We find that a large share of remittance recipients who want to own a business and another group have already established one. In both cases, the businesses are geared toward the service sector and led by micro-enterprises aimed at achieving self-subsistence rather than the creation of wealth.

However, in light of the reforms introduced by the Cuban government, there seems to be a mismatch between government policies and people's needs and interests. Many of the economic activities that recipients would like to undertake through a small business are not within the scope of the new reforms. Moreover, these policies alone may not be sufficient to enable an amenable environment for business development. In light of these shortcomings, there is an expectation among remittance recipients willing to set up a business that remittances and families abroad will help them finance business development. However, given the global recession and particular socio-economic situation of many Cuban remitters, these inflows do not constitute a sufficient formal mechanism for small business development, and can only function as a complement to future policy and development incentives for business development. Given the precarious position of existing and potential businesses and reforms that would provide limited incentives for growth, it is important to consider implementing further reforms with strategies that respond to the prevailing conditions of these enterprises, such as microcredits, wholesale markets, technical advice on business development and financial training.

2. Current Trends in Remittances to Cuba

Remittances have continued to flow into Cuba with transfers predominantly from the United States, but also from Europe and more recently Latin America, Venezuela in particular. Four main aspects characterize these flows. First, transfers continue to be predominantly from the U.S., but with less presence than in earlier periods; Europe and Latin America have taken an increasingly important role. Second, despite the 2009 changes in U.S remittance policy to Cuba, few remittance transfer operators have entered the market and the use of informal transfer mechanisms continues. Third, the amount received has remained the same or declined, most likely as a symptom of the lingering aftermath of the 2008 recession. Fourth, remittances continue to represent

at least one half of total income and recipients are able to save, though they tend to do so informally.

In the first case, 68% of remittance recipients interviewed received money from relatives in the United States, 13% received from Europe (primarily Spain) and 19% received remittances from Latin America and other developing countries, of which 8% were from Cuban workers in Venezuela. This last observation can be explained by the stronger relations between Cuba and Venezuela, including labor contracts to bring doctors and nurses to Venezuela.

A second relevant issue is that informal networks continue to be prevalent. Although policy changes in the U.S. have liberalized previous restrictions set in 2005, few businesses have entered the remittance market to offer transfers to Cuba. Note however that informal transfers from the U.S. are lower than those from Latin America, where most recipients said they still rely on friends or *mulas*¹ to receive money.

Third, transfers to Cuba have not increased despite the economic recovery and relaxed restrictions. In fact, the average amount of remittances has not changed substantially in relation to previous years. A major reason is that the cities from which flows emanate are places where economic recovery has been the slowest; this includes southern Florida, Madrid and Barcelona. Moreover, though remittances from Latin America have been growing in volume, they typically exhibit lower amounts remitted, further reducing the averages. However, the annual sending frequency has increased to eight times per year as opposed to six in 2005.

Table 1: Remittance Transfers to Cuba, Some Characteristics²

	2005	2012/2013
Received from the U.S.	81%	68%
Received from Spain	12%	7%
Number of years received	4	9
Average amount received per month	\$ 150	\$ 125
Frequency received per year	6	9
Received from parents	18%	20%
Received from siblings	22%	35%
Received via money transfer operator	44%	47%
Received via <i>mula</i> , informal	54%	50%

1 *Mulas*: literally means mules and refers to people who informally transport money or goods across borders.

2 All tables and data in this article are based on responses to our survey.

Fourth, recipients own few assets that could serve as resources in productive or commercial activities and most do not possess bank accounts (87%). However, all of the respondents acknowledge they save utilizing various methods, most of which are informal. While their assets are limited, they have accumulated liquid assets in the form of cash savings amounting to a reserve or stock of nearly US \$900.

Table 2: Asset Ownerships among Remittance Recipients

Asset type	(%)
Land	6.3
Machinery and equipment	23.3
Computers	51.5
Furniture and office supplies	5.8
Cars	18.0
Cell phone	81.6

Table 3: Traditional Savings Methods Used by Remittance Recipients and Stock of Amount Saved³

	(%)	(US \$)
I put money aside from what is left over at the end of the month	57	\$ 827
I invest it on a business	2	\$ 2,000
I work extra hours	3	\$ 1,900
I take advantage of special sales	36	\$ 758
I buy durable goods	3	\$ 2,600

These features suggest that the characteristics of remittance recipients have not changed substantially despite policy reforms in the U.S. Informality would have been expected to decrease and the amount sent to increase as a result of the initiatives in the Obama administration. However, changes and adaptation to U.S. policies toward Cuba are slow and it may take longer for Cuban migrants to change their practices, particularly given the slow economic recovery.

Another important point to highlight is that income dependence on remittances invariably remains below 60%. Cuban remittance recipient earnings are on average under \$100 a month. This figure is important in that it points to a few broader issues that relate to

³ Note: stock of amount saved refers to the amount of money one has accumulated in savings at the moment of the interview. A stock is what one has on reserve as opposed to what one does to save yearly, for example.

the size of the Cuban economy. Specifically, remittance recipients earn above average incomes, but if we use the reported average as a reference for the entire population, it would imply that national income is less than US \$25 billion as opposed to the officially recorded US \$40 billion. Earnings among remittance recipients also hint at the extent of the size of their financial stock; typically, remittance recipients save more than non-recipients and in amounts between US \$1,000 and US \$2,000. Together with other assets, these funds constitute a basis for potential business investment.

3. Cuban Reforms and Small Business Operations

The effort of the Cuban government to reform its economy by encouraging small business entrepreneurship among its population has brought attention to the potential role of remittances and their recipients in triggering business development (Goldstein 2011). Before exploring that role, this section offers a brief overview of the economic strategies and reforms approved by the Cuban Communist Party's Sixth Party Congress.

The goals in the liberalization process can be summarized as follows:

- (1) Increase government revenue through taxation of newly formalized small businesses;
- (2) Free up government payrolls by reducing government employment and promoting the absorption of laid-off government workers into an emerging SME private sector;
- (3) Boost exports, strengthen the currency, and increase wages through increased output and productivity.

In the small business sector, the reforms authorize the establishment of business enterprises for 178 economic activities within the Cuban economy. The activities generally fall into the categories of manual labor, services, artisanship and performance, the last two of which could be considered part of Cuba's important tourist industry.⁴ It should be noted that the list of legal economic activities includes very few opportunities for professionals. Small businesses are to be taxed at a 25% rate, while businesses with employees may be taxed at a rate of up to 50%. Guidelines for salary levels for employees stipulate that wages must increase as the number of employees increase,

4 The musical group "Los Mambises" and dance duo "Amor" both mentioned by name in the list of permitted activities are examples of the surprising specificity of the regulations within the performance category (*Juventud Rebelde*, 2010).

such that minimum salary for employees working at a firm with 15 or more workers is three times the median monthly salary (Espinosa Chepe 2011).

4. Remittance Recipients' Interest in Establishing Microenterprises or Small Businesses

Given the changing context for small businesses and the assumption that remittance recipients may be more prone to invest in a business, this section explores the extent to which these recipients decide to engage in a business activity. The results show that there are three distinct groups: those who are not planning to establish a business, those who are and those who already own a business. 43% of recipients expressed they would not form a business in Cuba, whereas 34% were planning to do so, and 23% said that they already had a business. Here we focus on those who are interested in setting up a business as well as those who already have a business. However, it is important to mention that the large number of people who said that they would not create a business stated as the following as their main reasons for not doing so: lack of resources, lack of entrepreneurial know how, and an undependable/risky economic/political context. In other words, it is not that this group is per se uninterested in starting small businesses but rather that its members' current situations and the wider context make it unviable for them to do so.

Moreover, among those planning to establish a business and those who already have one, we find that, given their economic position, this is a population whose potential and actual businesses are limited to subsistence enterprises. Those interested in establishing a business are primarily men (67%) and suggest they would invest predominantly in a commercial activity involving food or clothing while about one-fifth would be interested in a manufacturing activity. In fact, the activities listed as their potential line of business included the sale of food, clothing, or CDs/DVDs. These activities are a partial fit into the list of businesses that the Cuban government advertised as those that could be allowed by the state.

Table 4: Economic Activities of Interest for Business Start Up

Activities	(%)
Sell food	19
Sell or repair clothes	15
Construction and carpentry	11
Artisan crafts	10
CD/DVD sales	8
Agriculture	7
Rent rooms	5
<i>Paladar</i> (private restaurant)	5
Teach languages	4
Rent technology equipment	3
Driver	3
Other	11

When asked about the purpose of that business, the majority expressed that it follows as a complement to their current job or as a survival strategy after losing their current job. Only a small group (9%) stated they wanted to own a business as a matter of interest. These responses are important in that they set the cues as to the direction of a possible entrepreneurial activity. Those who engage in a business out of necessity due to job loss or to add to their income are less likely to grow their enterprise substantially after achieving self-subsistence. Moreover, if the business is unable to obtain financing and strengthen its marketability through additional training its competitive edge decreases.

Table 5: Purpose to Set Up a Business among Remittance Recipients

	(%)
Start a new job after having lost the current one	44
Complement my current income	38
To own my own business, I like to do business	9
Support my family	8
Other	1

When thinking about the position of a business in the market, a successful enterprise is the result of various factors, such as access to capital, linkages to the value chain, entrepreneurial skill and support from the regulatory environment. Even when a business is created out of necessity, getting access to financing, being competitive or enjoying government support or incentives can help these businesses to grow and accumulate wealth. In turn, enterprises are able to reinvest in jobs, machinery, or accumulate personal wealth.

A closer look at these remittance recipients shows important features that characterize their potential for engagement and performance in the business environment as it pertains to available resources, access to financing, and expertise in the trade. Overall, 95% of those interested in setting up their own business consider that their investment would involve less than US \$5,000 and most likely under US \$1,000.⁵ Moreover, when asked about what resources they had available to start the business, one quarter affirmed they already had sufficient savings, whereas 30% said that they had a locale to operate, and 16% had working capital. Those with cash on hand and working capital held a stock of savings worth up to US \$1,600.

Table 6: Available Resources and Stock of Savings per Type of Resource Held

	(%)	Stock of Savings (US \$)
Locale	30	\$ 1,117
Merchandise and other material	27	\$ 765
Cash	25	\$ 186
Working capital	16	\$ 1,608
Other	1	\$ 250
None	2	\$ 400

In addition to their existing investment stock, remittance recipients were asked about sources of financing that could complement their initial investment, business upkeep, and available guarantees. Just over a quarter stated that their own resources served as their additional financing source, and nearly two thirds responded that they would seek financing from relatives living abroad. This dependency or expectation of support from relatives abroad confirms similar expectations in the media about the role of the Cuban community in the United States in particular. Moreover, no one considered institutional support to finance their business, and for the most part they saw their savings or the relative abroad themselves as a guarantee of financing.

Table 7: Resources Available to Start Business

	(%)
From financing from friends and family living abroad	62
From my own resources	27
From financing from friends and family in Cuba	11
Other	1

⁵ US \$1,000 is less than the average saved and would represent the minimum start-up investment, plus the resources they said they would use to establish the business.

Despite their financial weakness and lack of formal financial access, most of these individuals have some experience in the trade in which they plan to engage. Such condition would give them an edge were they to compete in the market, unless it is already saturated.

Table 8: Experience or Training in the Trade

	(%)
I used to have a similar business before starting this one	48
I have experience and was trained in this trade	46
I have been told this business is profitable	5

These responses point to individuals seeking to form relatively small, subsistence operations, for which they will depend on support from families living abroad and that may be outside the scope of government support. In turn, they will have a limited impact on economic growth and business development.

5. About Current Businesses among Remittance Recipients

Those who already owned a business (23%) share similar characteristics to those who want to start a new one, except that 60% of such owners are women (compared to 33% among those interested in setting up a new business). These entrepreneurs work predominantly in services and sales, in many cases on activities similar to those who want to start an enterprise. 22% sell food and 4% own a *paladar* (private restaurant). 70% of these businesses include the owner himself/herself as the employee, and only the rest have only one additional employee. Also, most of these businesses (62%) have a license to operate, except for those in street sales and other trades that operate informally (38%). In order to keep the business running, 63% fund their operations from business sales, and 27% use remittances to subsidize the business. The entrepreneurs typically have their business operating at their place of residence (80%), or are street vendors (12%).

The average value of monthly sales is US \$200, an amount that may add little to their total income. Because more than half of their income is coming from remittances, these entrepreneurial activities may complement their earnings from additional work but may not represent half of all income unless 40% of their sales go into salaries.

Table 9: Economic Activities of Entrepreneurs and Sales per Month

	(%)	(US \$)
Food sales	22	\$ 123
Beauty parlor (manicure), hair dresser	19	\$ 60
Sell, repair garments	8	\$ 95
Rent rooms	4	\$ 1,400
Rent and sell videos	7	\$ 40
Artisan crafts	4	\$ 233
<i>Paladar</i> (private restaurant)	4	\$ 500
Agriculture	3	\$ 75
Child care	3	\$ 110
Import/export	3	\$ 550
Teacher	3	\$ 100
<i>Ponchero</i> (tire repair)	3	\$ 200
Other	15	\$ 200

Table 10: Means to Finance Business Operations

Means of financing	(%)
With revenue from sales	63
Remittances	27
With my own or my family savings	9
Loan from families and friends	1

6. Preliminary Conclusions

The results of this survey show that Cuban remittance recipients continue to rely on their remittances to manage their day-to-day survival. Moreover, there are indications that those interested in setting up a business or who already have one are predominantly operating at a subsistence level and are not able to generate additional wealth. As these reforms are put into place it is important to consider the issues that may contribute to the development of small businesses in Cuba. It is also important to understand the correspondence between the type of enterprise emerging in the Cuban context, resources needed to strengthen and develop these into successful enterprises and their short and long-term impacts.

In any society small businesses are faced with striking a balance between achieving success and overcoming challenges. The issues facing each business may vary depending on its type. Business success depends on achieving increasing profit

margins, maintaining financial liquidity, covering labor costs, seeking innovation, and consistently selling quality goods or services. They also are confronted with various other challenges, some inherent to a business (capital access, linkages to the value chain), and still others associated with the global economy (managerial and commercial competitiveness) and the motivations for entrepreneurship. Because current Cuban entrepreneurs are predominantly subsistence enterprises, what is critical for business success is to identify the instruments that can enable these businesses to develop and grow into enterprises that can generate wealth. This may mean looking at the development of their business capabilities, their insertion into global and domestic value chains, access to financial resources to function and expand, as well as the incentives needed to operate in a formalized environment.

First, relying on remittances or savings accrued as a primary means to invest is not an ideal situation as such resources are typically fungible and can be used for various other activities. Savings can serve as part of a financial guarantee for a loan but not as the primary financing source: if they are depleted before the business fully develops, the enterprise can fail and the entrepreneur is left worse off.

Second, the role of microfinance is pivotal as it can help put these businesses in a better position to expand their activities and become sustainable. Moreover, microfinance would give non-remittance recipients the potential opportunity to gain access to credit and enter the emerging small business sector. Because operating businesses do not have annual revenues over US \$3,000, projecting the right amount of financing needed to help a business grow is part of a financing strategy. On that basis and assuming about 100,000 small and micro enterprise operations are opened following these reforms, the credit portfolio may need to be at least US \$300 million.

Third, training to orient interested entrepreneurs towards activities that are competitive, are directly connected to commercial value chains, and exhibit the potential to achieve economies of scale is important. Many of the respondents were interested in setting up businesses or activities that may not be competitive, or are in a saturated market. Thus, assessing the marketplace for commercial and productive activities can coincide with technical advice to businesses on where to invest and establish their enterprise, and how to go about it.

Fourth, at the moment there are no wholesale markets in Cuba. In order to make it worthwhile for people to seriously contemplate creating a small business the Cuban State would do well to sell goods and materials at wholesale prices. Fifth, the current regulatory environment is not entirely friendly to entrepreneurs. The tax quotas

imposed on these individuals will strangle their capacity to operate and reinvest in business growth; such an environment will not prolong subsistence-level businesses. Exempting new businesses from paying taxes during a certain period and gradually introducing them into the tax structure can help them grow in the short term. Finally, because these are relatively small business operations run by the owner himself/herself, providing financial advising about money management in a household with at least two or three sources of income would be an important strategy. Small subsistence businesses typically keep poor accounting procedures of their business activities and mix revenues with other sources of income, making it difficult to ascertain how the business performs.

In short, relying on remittances as a source of capital for small business development is neither a sustainable strategy nor solution for Cuba's economic growth and development. Loans, microfinance, technical training, wholesale markets and a fair tax system need to be introduced. This would allow all Cubans to take advantage of Cuba's current economic opening and hopefully keep the island's growing inequalities at bay.

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8. Appendix

The survey in Cuba was conducted in various cities across the country. Researchers worked on reaching a representative sample of the population’s social, demographic, ethnic, regional, and social strata. However, given the Cuban political context, researchers did not do random street interviewing but instead the sample units relied on the snowball procedure among people that could be interviewed confidentially. The sample size was 300 remittance recipients.

Table A1: Survey Responses Categorized by Intent to Set Up Business

		Recipient's interest in setting up a business in Cuba		
		Not interested	Interested	I already own a business
Age		46	42	46
Internet access	None	60.00%	55.90%	72.10%
	Public places	16.20%	17.60%	10.30%
	At home	23.80%	26.50%	17.60%
Sex	Male	39.20%	66.70%	39.70%
	Female	60.80%	33.30%	60.30%
Education	University	76.20%	44.10%	42.60%
	Some University	17.70%	37.30%	42.60%
	High school	6.20%	18.60%	14.70%
Status	Married	24.60%	37.30%	47.10%
	Living together	30.00%	30.40%	26.50%
	Single	25.40%	27.50%	7.40%
	Divorced	14.60%	3.90%	19.10%
	Widowed	5.40%	1.00%	0.00%
Number of people living in the household	1	2.30%	1.00%	0.00%
	2	23.10%	28.40%	14.70%
	3	51.50%	31.40%	61.80%
	4	20.80%	37.30%	19.10%
	5	1.50%	0.00%	4.40%
	6	0.80%	2.00%	0.00%
Were you affected by the massive layoffs?	No	96.90%	70.60%	97.10%
	Yes	3.10%	29.40%	2.90%
Do you think that you or someone in your family will be affected by the layoffs?	No	11.50%	8.80%	5.90%
	Yes	88.50%	91.20%	94.10%
Ethnicity	Afro-Caribbean	20.80%	33.30%	19.10%
	White	79.20%	66.70%	80.90%

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