

Remittance recipients and the present and future of micro-entrepreneurship activities in Cuba¹

Introduction

This briefing 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. The analysis is based on fieldwork and a survey of remittance recipients in Cuba.

The 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 an important percent of recipients want to own a business and another group has 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 wealth generation.

In light of the reforms introduced by the Cuban government, there seems to be a mismatch between government policies and people's 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 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 it. However, these inflows do not constitute a formal mechanism for small business development, and rather should function as complement to possible policy and development incentives. Given the precarious position of on-going and potential businesses, and reforms that would provide limited incentives for growth, it is important to consider implementing strategies that respond to the prevailing conditions of these enterprises, such as microcredit or technical advice on business development.

A. 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. Three main aspects characterize these flows. First, the U.S. continues to dominate transfers, but with less presence than in earlier periods; Europe and Latin America have taken an increasingly predominant 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 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.

¹ Manuel Orozco, Inter-American Dialogue, May 2nd, 2011.

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* to receive money.

Third, transfers to Cuba have not increased despite the economic recovery and relaxed restrictions. In fact, amounts have 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, sending frequency has increased to eight times as opposed to six in 2005.

Table 1: Remittances transfers to Cuba, some characteristics

	2005	2010/2011
Receiving from the U.S.	81%	68%
Receiving from the Spain	12%	7%
Number of years receiving	4	9
Amount received	\$150	\$125
Frequency receiving per year	6	9
Receiving from parents	18%	20%
Receiving from siblings	22%	35%
Receives via MTO	44%	47%
Receives via <i>mula</i> , informal	54%	50%

Fourth, recipients own few assets that could serve as resources in productive or commercial activities and most do not own 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 amount saved

	(%)	(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	\$ 2000
I work extra hours	3	\$ 1900
Take advantage of special sales	36	\$ 758
I buy durable goods	3	\$ 2600

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 Cuba policy are slow and 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 range under \$100 a month. This figure is important in that it points to a few broader issues that relate to the Cuban economy. Earnings among remittance recipients 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\$2000. Together with other assets, these funds constitute a basis for potential business investment.

B. 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.² 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:

- Increase government revenue through taxation of newly formalized small businesses,
- Free up government payrolls by reducing government employment and promoting the absorption of laid-off government workers into an emerging SME private sector, and

² Goldstein, Josh, "Cuba & Remittances: Can the 'Money in the Mail' Drive Reform?" Center for Financial Inclusion, <http://centerforfinancialinclusionblog.wordpress.com/2011/02/01/remittances-a-key-driver-of-economic-reform-in-cuba/>

- 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 categories of manual labor, services, artisanship and performance, the last two of which could be considered part of Cuba's important tourist industry.³ 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, such that minimum salary for employees working at a firm with 15 or more workers is three times the median monthly salary.⁴

C. 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 interested in establishing a business, those who are and those who already own a business. Forty three percent of recipients expressed they would not be interested in forming a business in Cuba, whereas 34% did, and 23% said they already had a business. Here we look at those who are interested to set up a business as well as those who already have a business. A general finding shows 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 a fifth would be interested in a manufacturing trade. 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

³ The musical group "Los Mambises" and dance duo "Amor" are examples of the surprising specificity of the regulations within the performance category. "Actividades autorizadas para el ejercicio del trabajo por cuenta propia." *Juventud Rebelde*. September 24, 2010. online.

⁴ Espinosa Chepe, Oscar. *Cambios en Cuba: Pocos, Limitados, y Tardios*. (Havana 2011).

Agriculture	7
Rent rooms	5
“Paladar”	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 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 to have a locale to operate, and 16% had working capital. Those with cash in hand and working capital held savings worth up to US\$1600.

⁵ US\$1000 is less than the average saved and would represent the minimum start-up investment, plus the resources they say they would use to establish the business.

Table 6: Available resources and savings

	(%)	Savings (US\$)
Locale	30	\$ 1117
Merchandize and other material	27	\$ 765
Cash	25	\$ 186
Working capital	16	\$ 1608
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 to financing.

Table 7: Resources available to start business

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

Despite their financial weakness and no 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've 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.

D. 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 sixty percent of owners are women (against 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. Twenty two percent sell food, and 4% own a 'paladar'. Seventy percent 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 the 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

	(%)	(US\$)
Food sales	22	\$ 123
Beauty parlor (manicure), hair dresser	19	\$ 60
Sell, repair garments	8	\$ 95
Rent rooms	4	\$ 1400
Rent and sell videos	7	\$ 40
Artisan crafts	4	\$ 233
"Paladar"	4	\$ 500
Agriculture	3	\$ 75
Childcare	3	\$ 110
Import/export	3	\$ 550
Teacher	3	\$ 100
"Ponchero"	3	\$ 200
Other	15	\$ 200

Table 10: Means to finance the day-to-day business

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

Some conclusions as mode of observation

The results of this survey show that Cuban remittance recipients continue to rely on 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 the short and long-term impacts.

In any society small businesses are faced with striking a balance between achieving success and overcoming challenges. Depending on the type of business, the issues to deal with may vary. 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 challenges, some inherent to a business (capital access, linked to value chain) others associated to the global economy (managerially and commercially competitive) and the motivations of entrepreneurship. Because current Cuban entrepreneurs are predominantly subsistence enterprises, what is critical is to identify the instruments that can enable these businesses to develop and growth as enterprises that can generate wealth. This may mean looking at the development of their business capabilities, their insertion into the global and domestic value chains, the 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. Because on-going businesses do not amount to annual revenues over US\$3,000, projecting the right amount of financing needed to help a business grow is part of a financing strategy. Moreover, on that basis and assuming about 100,000 small and micro enterprise operations are opened following these reforms, credit portfolios may need to represent US\$300 million at least. Third, training to orient interested entrepreneurs towards activities that are competitive, are directly connected to commercial value chains, and exhibit the potential to reach economies of scale is

important. Many of the respondents were interested in setting up businesses or activities that may not be competitive, or may be market saturated. 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, the current regulatory environment is not entirely friendly to entrepreneurs. The imposed tax quotas 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.

Appendix

About the survey methodology

The survey in Cuba was conducted various cities across the country, 50% in Havana by a team of researchers. Researchers worked on 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 snow ball procedure among people that could be interviewed in confidentiality. The sample size was 300 remittance recipients.

	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%