

# On Remittances, Markets and the Law: the Cuban Experience in Present Times

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## Introduction

This brief article discusses the intersection between markets and the law within the Cuban context and shows how regulations can cause negative effects on money transfers that can then affect families. The article shows these consequences manifested in an increase in informality, drop in frequency remitting and less businesses operating during this period. The article is based on various surveys conducted in the United States and Cuba and data collected on money transfers and the industry.

## 1. Current trends of remittances to Latin America and the Caribbean: flows and markets

International labor migration has become an increasingly salient issue, as it is associated with the ways in which the global economy is operating. Countries in different world regions are seeking foreign labor as a way to compete in the global economy. Moreover, the economic activities that foreign laborers perform in their home countries are increasingly having positive effects in their home countries. For example, the relevance of remittances in the development and economic policy contexts has been underscored by the large volumes of money going to Latin America and the Caribbean. This flow of money emerges in particular as a function of greater labor mobility on a global scale. In light of this global context, remittance flows have grown dramatically over the past ten years, as shown in the table below.

**Table 1: Remittances to Latin America and the Caribbean, 2001 – 2008 (selected countries, annual data in \$ millions)**

Countries	2001	2002	2003	2004	2005	2006	2007	2008	Migrants (#)	(% GDP)	Avg. remitted
Argentina	100	184	225	270	780	850	920	955	318,333	0.34	250
Belize			73	77	81	93	100	110	45,833	8.30	200
Bolivia	103	104.2	340	421.6	860	989	1050	1097	507,417	8.06	180
Brazil	2600	4600	5200	5624	5793	7373	7166	7200	750,000	2.29	800
Colombia	1756	2431	3067	3857.30	4126	4200	4521	4842	1,513,095	2.31	267
Costa Rica	80.25	134.82	306	320	400	520	582	624	186,298	2.34	279
Cuba	930	1138.5	1194	1194	1100	1000	1000	1200	583,333	2.29	200
Chile							800	880	333,333	0.52	220
D. Republic	1807	2111.5	2216.55	2438.20	2560	2747	3120	3148	1,204,375	7.47	218
Ecuador	1430	1575	1657	1740	1827	2893	3118	2822	682,030	5.87	345
El Salvador	1911	220	2316.3	2548	2830	3316	3695	3788	878,748	18.35	359
Guatemala	584.3	1690	2106	2680.7	2993	3610	4128	4315	919,578	12.75	391
Guyana	90	119	137	143	260	270	423	415	206,834	36.73	167
Haiti	810	931.5	978	1026	1077	1100	1650	1870	1,277,626	30.01	122
Honduras	460	770	862	1134	1763	2359	2561	2707	930,874	21.60	242
Jamaica	967.5	1229	1426	1497	1651	1770	1860	2034	1,227,754	17.95	138

Countries	2001	2002	2003	2004	2005	2006	2007	2008	Migrants (#)	(% GDP)	Avg. remitted
Mexico	8895	10502	13266	16613	20034	23053	26075	25145	5,646,015	2.47	371
Nicaragua	660	759	787.5	809.55	901	950	960	1056	691,253	18.13	127
Panama			220	231	254	292	340	325	108,333	1.55	250
Paraguay				506	550	650	750	700	191,538	5.68	305
Peru	930	1265	1295	1360	2495	2869	2900	2960	1,469,662	2.56	168
Suriname				50	55	102.3	115	120	40,000	6.16	250
T.& Tobago	40.9	58.5	88	93	97	110	125	130	43,333	0.64	250
Uruguay			42	105	110	115	115	130	43,333	0.51	250
Venezuela	136	235	247	259	272	300	331	832	424,119	0.35	163
LAC	24290	32045	38048	44997	52868	61531	68405	69605	20,223,049	0.34	280
R. Growth		32%	19%	18%	17%	16%	11%	2%			
# Countries	19	19	22	24	24	24	25	25			

Source: Central Banks, and IADB. GDP: ECLAC, Migrants: global migration database; Remittances: survey data and ECO, 2008.

The market for remittance intermediation between the U.S. and Latin America and Caribbean countries continues to show significant dynamism, even in times of recession. For example, market consolidation continues to be a feature of competition. Currently, there are just over ten remittance service providers in each given corridor, which for the most part are money transfer operators. Nevertheless, compared to previous years the number of companies has declined, reflecting in part the consolidation in the industry.<sup>1</sup> Another important trend is the continuing price competition in the industry for the benefit of consumers. The cost of sending money to Latin America and Caribbean countries has dropped over time, but the magnitude has slowed significantly over the past three years. These costs have remained relatively stable, partly because the current business-agent based model of remitting has reached equilibrium between operating costs and revenue needs.

Amid these changes we see that remittances to Cuba from the U.S. continue to pose challenges. For example, there are less competitors in that corridor than anywhere in the region, and prices are the highest. One of the reasons for this situation points to the 2004 legislation that resulted in increased informal fund networks and less competition. Indeed, regulations by the Bush administration did have an adverse effect on money transfers to Cuba.

**Table 2: Number of remittance service providers**

	2001	2002	2003	2004	2005	2009
Bolivia			18	18	14	
Colombia	4	16	37	37	29	13
Cuba	2	12	10	9	5	
Dominican Republic	30	36	34	31	25	15
Ecuador		13	34	18	19	12
El Salvador	21	26	24	29	15	11
Guatemala	22	30	32	30	14	7
Haiti	5	10	18	14	7	

<sup>1</sup> Orozco 2006.

Honduras		16	20	20	12	11
Jamaica	7	7	8	13	6	9
Mexico	25	49	69	51	56	19
Nicaragua	13	14	16	11	6	
Peru			23	24	13	11
Venezuela			18	10	8	

Source: Orozco, Manuel. Data compiled by the author.

**Table 3: Cost of remitting US\$200 to selected Latin American and Caribbean countries**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bolivia			10.1	6.7	5.6	6.1	4.3		
Colombia	10.1	8.7	6	5.9	5	6.8	4.4	5.2	4.4
Cuba	13	12.9	12.4	12.4	12	12.4	12.8		17
Dominican Rep.	9.4	8.4	7.2	7.1	6.4	8.2	8.4	5.9	6
Ecuador		5.7	5.1	4.4	3.9	3.8	3.8	4.2	3.7
El Salvador	6.7	6.2	5.8	5	5.2	4.8	5.2	4.3	4.5
Guatemala	7.4	7.3	7.8	6.3	5.6		6.2	5.8	5.6
Haiti	9	8.1	10.4	7.9	6.7	7.2	7.3	5.2	7
Honduras		6.9	6.9	6.2	5.8	5.8	3.6	4.84	5.7
Jamaica	9.8	10	12.7	8.8	8.2	7.1	7.8	6.4	6.7
LAC	9	8.6	8.2	7.1	6.3	6.5	6.1	5.2	5.3
LAC with out Cuba	8.6	7.8	7.7	6.4	5.6				
Mexico	8.8	9.3	7.5	6.2	6	6.2	5.7	6.6	5.6
Nicaragua	7.5	7.5	7	6.7	5.2	5.2	4.7		
Peru			6.2	6.1	4.6	4.4	3.6	3.8	4
Venezuela			7.4	6.5	5.2		8.2		

Note: cost includes fee and commission.

## 2. Regulatory controls against Cuba by the Bush Administration

During President Bush's administration, he introduced in 2004 some of the tightest rules in the last four decades on travel and remittances to Cuba. First, the new regulations capped remittances at US\$300 per household per consecutive three-month period. Second, they restricted sending to only the remitter's immediate family (spouse, child, grandchild, parent, grandparent, or sibling).<sup>2</sup> Prior to these changes, people could send remittances to anyone in the household, as long as no one in the household was a senior-level Cuban government official or senior-level Communist Party official. The prohibition on sending to government and party officials remained and remains to this day.<sup>3</sup> Third, the restrictions allowed US senders to remit an additional US\$1000 on a one-time basis to enable the recipient to emigrate to the United States. This "emigration remittance" was divided into two parts. A single remittance of up to US\$500 could be sent before the recipient received a U.S. visa or other valid U.S. immigration document,

<sup>2</sup> Sullivan, Mark P. "Cuba: U.S. Restrictions on Travel and Remittances," Congressional Research Service (January 21, 2009).

<sup>3</sup> U.S. Department of Treasury, Office of Foreign Assets Control, page 4.

and another US\$500 after the visa was received to help pay for travel expenses. Fourth, the 2004 changes introduced a stricter licensing system for service providers, eliminating a *general* license and requiring banks and money transfer operators to obtain a *specific* license to send remittances to Cuba. When sending money to Cuba, remitters must use an OFAC-licensed bank or money transfer operator. On a case-by-case basis, OFAC issues special licenses.<sup>4</sup> Remitters are also required to fill out and sign an affidavit certifying that they understand and comply with CACR regulations.<sup>5</sup> Fifth, the 2004 restrictions limited the amount of money travelers can carry to Cuba and placed tighter limits on gift parcels. In 2003, the amount travelers could carry was upped to US\$3000, but in 2004 it was capped at US\$300. The retail value of gift parcels was capped at US\$200 and one parcel per month, which could only be sent to a religious, charitable, or educational organization in Cuba, or to the sender's immediate family.

### **3. Implications of the Bush Administration regulations on remittances to Cuba**

The effects of the 2004 legislation were immediate. First, the volume of transfers dropped. Second, informal funds transfers were used more regularly. Third, transfer costs increased. Fourth, the Cuban government responded to the Bush policy with laws levying a tax on dollar currency exchange and restricting the use of the U.S. dollar on the island. Meanwhile, there were other impacts on the nature of remitting, such as a reduction in the number companies offering to transfer money. Here we review some of these issues relying on surveys and other data collected.

#### *a) Decline in volume from the U.S.*

The effects of the law were felt in 2005 and the bulk of the impact accumulated over time. Comparing 2005 and 2009 survey data, we see a significant decline in some remittance-related activity.<sup>6</sup>

Specifically, because the legislation restricted the type of beneficiaries, the number of recipients dropped. In 2005 the percent of Cubans receiving from relatives in their extended family was 34%, and by 2009 the number had dropped significantly to 15%. This means that, five years later, 20% of people with extended family in the U.S. were no longer receiving. Meanwhile, the percentage of those receiving from children or siblings increased, from 26% to 36% and from 22% to 34% respectively.

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<sup>4</sup> The OFAC issues special licenses to send money to independent NGOs in Cuba, to send more than US\$300 per quarter from blocked accounts to households of Cuban nationals living outside of Cuba, and to individuals in Cuba to facilitate their non-immigrant travel to the US due to humanitarian need, such as illness or medical emergency.

<sup>5</sup> In the affidavit, senders must provide the recipient's name, address, date of birth, and relation to the sender. The sender must provide their own name, address, phone number, mother's maiden name, date of birth, and relation to the recipient. Remittance service providers must keep these affidavits, which are subject to OFAC audits, on file for five years.

<sup>6</sup> To analyze changes in the remittance market the author relies on various surveys of Cuban senders and recipients carried out in 2005 and 2009. See the list of references at the end.

The volume of money transfers from Cubans in the U.S. decline as a consequence, too. Remittances to Cuba continued to increase after 2004, but that growth is mostly attributed to transfers from people outside of the U.S. Using household survey data we found that 41% of Cubans in the United States were remitting a total of USUS\$589,366,984 in 2005.<sup>7</sup> This figure was 81% of the total global flows to the island.<sup>8</sup> Survey data in 2008 showed that remittances from the U.S. were only 53% and amounted to just over one billion dollars, up from seven hundred in 2005. The decline was significant as in 2008 less money was being sent from the U.S.

Meanwhile, companies felt the effects early on. For example, in 2005 alone Western Union's flows dropped by half between 2004 and 2005 (from \$92,752,509 to \$47,257,129).<sup>9</sup> Western Union's transaction volume was less than 20,000 in 2005, and it did not recover to 2004 numbers until 2008.<sup>10</sup>

#### *Informal funds transfers and transfer costs*

Although some companies had entered into the market between 2001 and 2004 seeking to penetrate their presence, their number then declined by 2005 and further dropped later on to only 5 (see Table x above). The increase in informal funds transfers is a reaction to the legislation.<sup>11</sup> People thus had to find an alternative mechanism that offered more flexible options to remit. The use of *mulas* emerged again as an important mechanism.<sup>12</sup> Specifically, 18% of senders used informal travelers to send money to the island in 2005 and in 2008 this percent increased to 44%. Meanwhile, the percent of people using formal money transfer operators dropped from 85% to 56% during that time period.<sup>13</sup> Accompanied to this situation came an increase in costs of remitting to Cuba. The cost in late 2008 was over 16% of the value of the principal remitted, whereas from 2003 to 2005 the cost was on average about 12% of the value of the principal remitted.<sup>14</sup>

#### *b) Other effects: Cuba's legislation*

Another effect of the Bush legislation was that in 2004 the Cuban government levied a 10% fee charge on any dollar conversion into the Cuban convertible peso (CUC), and months later it introduced an official exchange rate of 83 USUS\$ cents to the CUC,

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<sup>7</sup> The estimate is based on the fact that 374,201 Cubans remitted USUS\$150 from the U.S. seven times a year to 1.5 people. It excludes that 13% remitted more than the legal requirement.

<sup>8</sup> Survey of Cuban remittance recipients 2005. This figure is also confirmed by another expert, Emilio Morales, and author. In his chapter 'Remesas y Marcas,' he shows remittances to be 81% from the U.S. Forthcoming publication.

<sup>9</sup> Source: Morales, Emilio. Forthcoming, unpublished manuscript.

<sup>10</sup> Confidential information from WU sources.

<sup>11</sup> Source: Orozco, Manuel. Scorecard 2006.

<sup>12</sup> See Orozco 2003 for a definition of "mulas."

<sup>13</sup> Source: (2005) Bendixen. 2008-2009 survey data.

<sup>14</sup> Source: Orozco, Manuel. Scorecard; pricing data collected by the author.

requiring that dollars not be accepted at local dollar stores. That situation further affected the U.S.-to-Cuba remittances market. One company that was particularly was Western Union because U.S. legislation requires that all transfers to Cuba be paid in U.S. dollars. Cuban senders were also affected by such legislation.<sup>15</sup>

## **Conclusions and future patterns**

Trends in transfers to Cuba have not been positive and rather gone in the opposite direction of other markets despite of interest by senders to have more efficient methods of remitting and changes in the legislation. Current changes in the Obama administration may lead to new competition patterns. An increase in remittances may occur in annual amounts similar to neighboring Caribbean countries which exhibit characteristics relatively similar in quantities and frequency sent.

### *a) Recent changes under the Obama administration*

Early in 2009, President Obama said he would “remove restrictions on remittances to a person’s family member in Cuba,”<sup>16</sup> effectively reversing many of Bush’s 2004 restrictions, but still keeping in place many CACR restrictions. The president’s April 13, 2009 policy announcement called to remove limits on the *amount* of money and *frequency* of sending, as well as expand the circle of family members who can receive remittances.

The new policy calls to authorize remittances to individuals within three degrees of family relationship (such as a second cousin), while it maintains the prohibition on sending money to members of the Cuban government or prohibited members of the Cuban Communist Party.

President Obama’s changes also make the licensing process for money transfer operators less restrictive, reinstating the general OFAC license which had been eliminated by President Bush under the 2004 rules. Obama also called to raise the limit on money travelers can carry into Cuba from \$300 to \$3000.

### *b) Expected results from Obama’s changes*

The administration changes may lead to an increase in remittances because new companies will enter the market to offer transfers, and people will feel motivated to remit higher amounts to meet the needs of the Cuban families. This motivation may emanate from the fact that most Cubans in the U.S. have a relative abroad, because migration to the U.S. is likely to continue not only due to family unification but also because the U.S. may be seen as a labor opportunity.

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<sup>15</sup> See González Corzo, Mario A. *Cuba's De-Dollarization Program: Policy Measures, Main Objectives, and Principal Motivations* in Delaware Review of Latin American Studies, Vol. 7 No. 2 December 30, 2006.

<sup>16</sup> [http://www.whitehouse.gov/the\\_press\\_office/Fact-Sheet-Reaching-out-to-the-Cuban-people/](http://www.whitehouse.gov/the_press_office/Fact-Sheet-Reaching-out-to-the-Cuban-people/)

Among Cubans in the U.S., the large majority (90%) say to have a relative abroad. Half of those report having at least ten relatives living outside Cuba. In addition, 52 percent of those interviewed also knew someone who would emigrate from Cuba, predominantly to the United States. The awareness that Cubans in the U.S. believe that someone from their family or someone who they know may come to the United States confirms the continued flow of migration. The reasons Cubans give for migrating are economic oriented and similar to other nationalities. The most frequent response to the question of reason for migrating was “to improve their life and that of the family.” This reflects the perception that few options exist to improve one’s life in his or her country.

**Table 4: Reasons why relative migrated (%)**

	<i>D .Rep.</i>	<i>Honduras</i>	<i>Nicaragua</i>	<i>Cuba</i>
To improve family’s life	52	23	25	<b>38</b>
Because salaries are too low	11	21	12	<b>26</b>
To send money to family	18	27	10	<b>21</b>
Because of contacts with friends and family living abroad	10	15	11	<b>12</b>
Because it is hard to find a job	8	19	43	<b>9</b>

Source: Survey data (Cuba, 2009 and other countries, 2008).

Moreover, a significant percentage of those interviewed (39%) also expressed the desire to emigrate in the near future. This percentage is among the highest compared to other countries where similar surveys have been conducted, suggesting perhaps both the new patterns of labor migration as well as the relatively unique (political and economic) conditions in this country.<sup>17</sup> The reasons provided, however, differ significantly from those of other countries. For example, unlike other countries, the main reason to migrate, according to the Cubans surveyed, is family reunification. On the other hand, similar to other countries, the high cost of living is ranked higher than lack of jobs as a reason for migrating. The political situation is another very important reason, and it also reflects the conditions in the country. Thus, while foreign labor mobility has gained importance, political motives are not a matter of the past.

**Table 5: Reasons for migrating in the future (%)**

	<i>Honduras</i>	<i>Nicaragua</i>	<i>Dom. Republic</i>	<i>Cuba</i>
Family reunification	15	11	15	38
High cost of living/ one cannot live here	61	23	64	35
Political situation	15	5		23
No jobs	8	56	17	4

Source: Survey data (Cuba, 2009 and other countries, 2008).

<sup>17</sup> In Nicaragua was 24%, Honduras 14%, Dominican Republic 27% and Paraguay 30%.

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