ON REMITTANCES, MARKETS AND THE LAW: THE CUBAN EXPERIENCE IN PRESENT TIMES

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International labor migration has increasingly risen in importance associated to the ways in which the global economy is operating. Countries from all parts 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 on 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. Remittance flows have grown dramatically over the past ten years, as shown in Table 1.

Within this context, 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. Market consolidation continues to be a feature of competition. Currently, there are just over ten remittance service providers in each given corridor (Table 2), which for the most part are money transfer operators. Nevertheless, compared to previous years, the number of companies has declined, reflecting in part consolidation in the industry.[1]

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	3857.307	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	2438.205	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

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

1. Orozco 2006.

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

Countries	2001	2002	2003	2004	2005	2006	2007	2008	Migrants (#)	(% GDP)	Avg. remitted
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
Mexico	8895	10502	13266	16613	20034	23053	26075	25145	5,646,015	2.47	371
Nicaragua	660	759	788	810	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	20,223,04	0.34	280
Growth Rate		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 (Orozco); Remittances: survey data and ECO, 2008.

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	
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: Data compiled by the author.

Another important trend is the continuing price competition in the industry, which benefits consumers. The cost of sending money to Latin America and Caribbean countries has dropped over time, but the decline has slowed significantly over the past three years (see Table 3). 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, remittances to Cuba from the U.S. continue to pose challenges. For example, there are fewer competitors in that corridor than anywhere in the region, and prices are the highest. One of the reasons for this situation is the 2004 U.S. legislation that led to increased informal fund networks and lower competition. Regulations by the Bush administration did have an adverse effect on money transfers to Cuba.

Table 3. Cost of Remitting US$200 to Selected Latin American and Caribbean Countries (as % of amount sent)

	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		

Source: Cost includes fee and commission.

REGULATORY CONTROLS AGAINST CUBA BY THE BUSH ADMINISTRATION

On June 16, 2004, President George W. Bush introduced some of the tightest rules in the last four decades on travel and remittances to the island.[2] The rules focused on five activities related to remittances sending to Cuba from the United States, such as the amount, beneficiary, and required paperwork from the sender.

First, the new regulations capped remittances at US$300 per household per consecutive three-month period.

Second, the policy restricted sending to only the remitter's immediate family (spouse, child, grandchild, parent, grandparent, or sibling).[3] Only US$300 could be sent to a given household, regardless of the number of family members living there. Prior to these changes, people could send remittances to any household in Cuba, 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 remains to this day. Specifically, a "Prohibited official of the Government of Cuba" refers to ministers and vice-ministers, members of the Council of State, and the Council of Ministers; members and employees of the National Assembly of People's Power; members of any provincial assembly; local sector chiefs of the Committees for the Defense of the Revolution; director generals and sub-director generals and higher of all Cuban ministries and state agencies; employees of the Ministry of the Interior; employees of the Ministry of Defense; secretaries and first secretaries of the Confederation of Labor of Cuba and its component unions; chief editors, editors and deputy editors of Cuban state-run media organizations and programs, including newspapers, television, and radio; and members and employees of the Supreme Court. "Prohibited members of the Cuban Communist Party" refers to members of the Politburo; the Central Committee; department heads of the Central Committee; employees of the Central Committee; and secretary and first secretary of the provincial Party central committees.[4]

Third, the 2004 restrictions allowed U.S. 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, and another US$500 after the visa was received to help pay for travel expenses. Licensed travelers could only carry "emigration remittances" to Cuba if their family member had already been issued the visa.

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 (called "remittance-forwarding service providers" by OFAC). On a case-by-base basis, OFAC may issue specific 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,[5] and to individuals in Cuba to facilitate their non-immigrant travel to the U.S. due to humanitarian need, such as illness or medical emergency.[6] Remitters were required to fill out and sign an affidavit certifying that they understand and comply with Cuban Asset Control Regulations (CACR). They 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

2. http://www.treas.gov/offices/enforcement/ofac/actions/20040616.shtml.

3. Sullivan 2009.

4. U.S. Department of Treasury, Office of Foreign Assets Control, page 4.

5. "An estate becomes blocked whenever a Cuban national is an heir or is the deceased; money from a life insurance policy is blocked whenever the deceased is a Cuban resident. The heir of a person who died in Cuba, or the beneficiary of a life insurance policy of a person who died in Cuba, may apply for a specific license from the Office of Foreign Assets Control to unblock the estate or insurance proceeds … authorized remittances may be made from blocked estates," U.S. Department of Treasury, Office of Foreign Assets Control, page 4.

6. U.S. Department of Treasury, Office of Foreign Assets Control, page 4.

affidavits, which are subject to OFAC audits, on file for five years.

Fifth, the 2004 restrictions also limited the amount of money travelers could 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.

IMPLICATIONS OF THE BUSH ADMINISTRATION REGULATIONS ON REMITTANCES TO CUBA

The effect of the 2004 regulations was immediate and impacted various aspects of money transfers to Cuba. 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. 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 information.

Decline in Volume of Remittances from the U.S.

Although the regulations were changed in June 2004, the effects began to take place in 2005 and the bulk of the impact has accumulated over time. Comparing 2005 and 2009 survey data, we see a significant decline in some remittance-related activity.[7] Specifically, because the new rules 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%; by 2009 the number had dropped significantly to 15% (see Table 4). This means that, five years later, 20% of people with extended family in the U.S. were no longer receiving remittances.

Another effect of the new rules was a decline in the volume of money transfers from U.S. residents to the island (see Table 5). Overall remittances to Cuba continued to slightly increase after 2004, but that growth is mostly attributed to transfers from outside of the U.S. Using data developed by the Inter-American Development Bank (IADB) we find that in 2005 remittances were $1.1 billion and $1.2 billion in 2008. Moreover, survey data in 2008 showed that only 53% of remittances recipients in Cuba in 2008 were receiving such remittances from the United States, compared to 81% in 2005. The decline was significant as in 2008 less money was being sent from the U.S.

Table 4. Remittances Received by Beneficiary in Cuba

	2005	2009
Receiving from parents	18%	14%
Receiving from children	26%	36%
Receiving from siblings	22%	34%
Receiving from others	34%	15%

Source: Orozco 2005 and 2008/2009 survey.

Table 5. Characteristics of Transfers to Cuba (in US$)

	2005	2008
Receiving from the U.S.	81%	53%
Volume sent from the U.S.	$770,000,000	$ 288,000,000
Receiving from Spain	12%	23%
Receiving from rest of the world	7%	24%
Total amount received	$1,100,000,000	$1,200,000,000
Amount sent	$150	$200
Frequency sending per year	7	6

Source: Surveys carried out by the author in 2005 and 2008. IADB for total remittances received.

In addition, there is a change in the number of people saying they were remitting less. As Table 6 shows, the percentage of people remitting the same quantities dropped, while those remitting less increased. This result coincides with their frequency in remitting, too.

Informal Funds Transfers and Transfer Costs

Another significant change in the patterns of transfers was an increase in the use of informal mechanisms. Informality of remittances to Cuba has been historically high due to U.S. restrictions in amounts remitted. Most important, informality has grown dramatically

7. To analyze changes in the remittance market the author relied on various surveys of Cuban senders and recipients carried out in 2005 and 2009. See the list of references at the end.

Table 6. Sending Remittances to Cuba from the U.S.

Sending	2005	2009
Sent less than in previous year	21%	36%
Sent more than in previous year	9%	11%
Sent same as in previous year	69%	53%

Source: Orozco 2005 and 2008/2009 survey.

in the last few years since the 2004 restrictions. As shown in Table 7, the percent of transfers through formal money transfer operators (MTOs) in 2005 were 82% and only 18% were done through informal travelers ("mulas"). By 2008, informality grew, as only 56% of flows were through MTOs and 44% through informal mulas.

Table 7. Remittances and the Marketplace — Levels of Informality

	Cost of sending as share of amount remitted (%)	Market share 2008 (%)	Market share 2005 (%)
Money transfer operators	17	56	82
Travelers (incl. mulas)	13	44	18

Source: Bendixen 2005 and 2008–2009 survey data.

Meanwhile, some companies entered into the market between 2001 and 2004 but many had exited by 2005. Table 8 shows a decline in the number of active companies identified as operating in the U.S.-Cuba corridor. Overall, the increase in informal funds transfers is in large part a reaction to the legislation.

Table 8. Number of Licensed Funds Transfer Companies Operating in Cuba

	2001	2002	2003	2004.01	2004.11	2005.12
Cuba	2	12	10	9	7	5

Source: Orozco 2006.

Those wanting to remit to Cuba thus had to find an alternative mechanism that offered more flexible options. The use of *mulas* emerged again as an important mechanism (as shown in Table 7). Accompanying this situation came an increase in costs of remitting to Cuba (see Table 9). The cost in late 2008 was over 16% of the value of the principal remitted.

Table 9. Average Cost of Remitting to Latin America and Cuba (% of amount sent)

	2001	2002	2003	2004.01	2004.11	2005.12	2006	2007	2008
LAC (excl. Cuba)	8.6	7.8	7.7	7.4	6.4	5.6	5.3	5.2	5.0
Cuba	13.0	12.9	12.4	12.1	12.4	12.0	12.4	12.8	16

Source: Orozco 2006 and data collected by the author.

Other Effects: Cuba's Legislation

Another of the many effects of the Bush regulation changes 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 US$ cents to the CUC and banned the use of dollars at local hard currency stores. That situation further affected the U.S.-to-Cuba remittances market. One company affected, among many, 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.[8]

CONCLUSIONS AND PRESENT 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 legislation. As the section above showed, the 2004 Bush Administration policy had an effect on the flows to the island. Overall these changes delayed competition and technology innovation on a population that may be interested in using alternative but legal methods of remitting. Current changes by the Obama Administration might lead to new competition patterns.

Early in 2009, President Obama said he would "remove restrictions on remittances to a person's family member in Cuba,"[9] effectively reversing many of the Bush Administration's 2004 CACR restrictions, but still keeping in place some others. The President's April 13, 2009 policy announcement called for removing limits on the *amount* of money and *frequency* of sending, as well as expanding the circle of family members who can receive remittances. The new policy calls

8. González-Corzo 2006.
9. http://www.whitehouse.gov/the_press_office/Fact-Sheet-Reaching-out-to-the-Cuban-people/

for authorizing 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. President Obama also called for raising the limit on money travelers can carry into Cuba from $300 to $3000.

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