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Remittances To Cuba: An Evaluation of Cuban and US Government Policy Measures

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Abstract

Since the commencement of hostilities between Cuba and the US in the early 1960s, both governments have repeatedly attempted to influence private family money transfers across borders. This study undertakes a retrospective assessment of Cuban and US government policy on remittances from 1959 to the present. Tracing policy shifts and targeted outcomes, the paper argues that (1) the aggregate flow of remittances and their uses are highly sensitive to macroeconomic, political, and institutional factors in Cuba, the receiving country, and are less sensitive to the policies imposed by the sending country, the United States; (2) Cuban government policy has been successful in attracting remittances and partially successful in channeling these flows toward the State-controlled economy; and (3) Cuban government policies are encouraging the use of these flows for consumption and less so for savings and direct investment.

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List of Abbreviations and Acronyms

ATM	Automatic Teller Machine
BCC	*Banco Central de Cuba*
BFI	*Banco Financiero Internacional*
BNC	*Banco Nacional de Cuba*
BPA	*Banco Popular de Ahorro*
CADECA	*Casas de Cambio S.A.*
CACR	Cuban Assets and Control Regulations
CANF	Cuban-American National Foundation
CEEC	Center for the Study of the Cuban Economy
CIMEX	*Corporación Cimex S.A*.
COMECON	Council for Mutual Economic Cooperation
DACRE	*Dirección de Asuntos de Cubanos Residentes en el Exterior*
ECLAC	United Nations Economic Commission for Latin America
EIU	Economic Intelligence Unit
INIE	*Instituto Nacional de Investigaciones Económicas*
MINFAR	Ministry of the Revolutionary Armed Forces
LIBOR	London Interbank Offered Rate
MINREX	Ministry of Foreign Relations
OFAC	US Treasury Office of Foreign Assets Control
S.W.I.F.T.	Society for Worldwide Interbank Financial Telecommunication
TRD	*Tiendas de Recuperación de Divisas*

Remittances To Cuba: An Evaluation of Cuban and US Government Policy Measures[1]

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I. Introduction

In the 1990s, there were comprehensive changes in policy regulating the receipt and use of dollars in Cuba and a surge in the number of émigrés sending money to their friends and family on the island. Despite significant migration in the last four decades, the economic impact of remittances (the transfer of private income to other households) remained limited for Cuba until very recently. These flows are no longer insignificant. Indeed, today they comprise one of Cuba's largest sources of foreign currency earnings, as important as the country's export income and revenues from tourism.

In absolute terms remittances are as important for Cuba's economy as they are for other countries in the Caribbean, roughly equivalent to those received by the Dominican Republic and twice as high as those received by Haiti. Indeed, a 1998 survey of Latin American immigrants' remittance behavior found that the percentage of Cuban-Americans sending remittances is higher than Mexican-Americans and lower than Dominican-Americans.[3]

In a recent study on remittances and markets, Manuel Orozco (2000) argues that government actors play as crucial a role as do senders and recipients—the players most commonly studied. Orozco's work draws attention to the importance of systematically studying the effect of government policy on remittance behavior. In the case of Cuba, both the migrant-sending and receiving governments have repeatedly attempted to influence remittance flows since the commencement of hostilities in the early 1960s.

Both governments initially blocked remittances. From the early 1960s until 1993, Cuba prohibited the circulation of foreign currency and limited receipt of remittances to in-kind transfers. The United States, the primary destination of Cuban émigrés for the last four decades, has periodically prohibited direct financial transfers to Cuba since imposing an embargo on Cuba in 1962. Over time both governments have relaxed their restrictions. Beginning in 1978 and more dramatically since the legalization of the dollar in 1993, the Cuban government has embarked upon a strategy to increase the flow of dollars being sent by émigrés via official channels. The US, which

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[3] Based on a survey of Latinos on Latino Television Portrayals, DeSipio (2000) reports that 40.4% of Cuban émigrés reported sending remittances to their homeland, an average higher than Mexicans, Puerto Ricans and South Americans and below rates reported for the highest groups in Central America and the Dominican Republic. These probability ratios were further confirmed by logistic regression analysis.

first legalized remittances in 1978, has since then attempted to cap the amount of private funds sent to the island, and from 1994 to 1998 banned the sending of private family transfers altogether.

Following early work to establish a conceptual framework for this study of remittances in the case of Cuba by Monreal (2000) and efforts to document US and Cuban government policy by Díaz Briquets and Pérez- López (1997), the aim of this study is to contribute to the remittance literature and to address the questions raised by case study evidence on remittances to Cuba by undertaking a retrospective assessment of Cuban and US government policy on remittances from 1959 to the present. Section II reviews the literature on the interaction between government policy and remittances. Section III tracks the policy measures introduced by the Cuban government—first to attract remittances, then to influence their domestic uses—and assesses how successful these have been. Section IV maps and evaluates the efficacy of the policies implemented by the United States governing remittance flows to Cuba.

The research material for this paper is based on both primary and secondary sources. Primary data are drawn from interviews conducted by the author during 2000 in the US and Cuba. As part of a collaborative research project on transnational ties, interviews were conducted by the author on a nonrandom snowball sample of 77 residents in Greater Miami Dade County, Florida and Greater Union City Hudson County, New Jersey and 28 residents in Havana, Cuba.[4] In Havana, the author conducted interviews with 28 government officials, researchers, church officials, and/or industry-related representatives. In addition, 6 interviews were conducted with remittance firms in the US, Canada, Spain and the Caribbean. The field interviews with Cuban families on both sides of the Florida Straits, and in particular their references to the Cuban and US governments, were the initial impetus for this paper. Many respondents expressed distrust and fear about whether these interviews would go to "the Government." Similarly, the interviews highlighted the difference between the private behavior of Cuban families and the practices officially permitted by both governments and how these both changed over time. Finally, secondary information including Cuban and US government policy documents, statistical data, as well as studies on migration, remittances, and the Cuban economy were analyzed.

Utilizing this data, this study argues that (1) the aggregate flow of remittances and their uses are highly sensitive to macroeconomic, political, and institutional factors in Cuba, the receiving country, and are less sensitive to the policies imposed by the sending country, the United States; (2) Cuban government policy has been successful in attracting remittances and partially successful in channeling these flows toward the State-controlled economy; and (3) Cuban government policies are encouraging use of these flows for consumption and less so for savings and direct investment.

II. A Review of the Literature on Government Policy Directed at Remittances

To date, most policy analysis studies on remittances have concentrated on what measures governments adopt to attract remittances in the home country (country of origin). Notable progress has been made in an important area of research—how effective "migrant-specific" schemes are in

[4] The author conducted these interviews as part of joint research project with Susan Eckstein aimed at examining social and economic transnational ties. For more information about other aspects of these ties, see Eckstein and Barberia (2001).

attracting remittance flows through official channels, such as the formal banking sector.[5] European governments have concentrated their attempts to attract remittances on specific incentives, such as repatriable foreign currency accounts and foreign-currency denominated bonds. For example, Yugoslavia, Greece and Turkey all instituted foreign currency account schemes (Russell 1986). Governments in developing countries have also adopted measures aimed at maximizing remittance flows through official channels by means of repatriable foreign currency accounts and foreign-currency denominated bonds.[6] In some cases, governments have also instituted mandatory remittance policies.[7]

Yet, studies aimed at evaluating such policy measures report weak evidence regarding their ability to attract remittances. In assessing the impact of Greek, Turkish and Yugoslav government schemes, Swamy (1981) reports that these policy measures had no significant impact on the total flow of remittances.[8] Birks and Sinclair (1979) report similar findings with respect to Arab governments' policy efforts. In his review of remittances in seven Asian economies, Athukorala (1993) found that migrant-specific incentive schemes to attract remittance flows through official channels were less successful when the fundamentals remained distorted and when institutional deficiencies remained unrectified.[9] Consequently, the two countries with the most distorted policy environments, Philippines and Pakistan, had the highest rates of remittances flowing through unofficial channels relative to the other five countries examined, India, Bangladesh, South Korea, Sri Lanka and Thailand. Moreover, as Russell (1986: 691) writes, "there is also a question as to whether or not the volume of remittances which can be influenced by policy measures warrants the administrative and political costs."

Fewer studies have examined how governments have attempted to channel the *uses* of remittances in the home country and the extent to which they are directed toward *socially optimal ends*. This lack of research results in part from the fact that governments, until recently, were less concerned with channeling the uses of remittances within the domestic economy. As Puri and Ritzema (1999:10) write of governments in Asian labor-exporting countries "despite a keen interest to develop policies to attract remittances, they have given much less attention to policies aimed at influencing the pattern of utilization of remittances." An alternate explanation for the lack of government policy on the *uses* of remittances is that, as they are private family transfers, it is difficult for government policy to mandate the uses of these resources and, since they are primarily spent by households on basic needs, housing and social protection, remittances are already

[5] In her extensive review of remittance research, Russell (1986) points out that policy measures by European labor-sending governments aimed at affecting migrant decisions to maximize the flow of remittances back home have been relatively well documented and evaluated.
[6] Foreign currency-denominated bonds allow migrants to invest in their home country using their labor earnings without losses due to foreign exchange differentials.
[7] Most mandatory schemes have been unsuccessful; the exception is South Korea (Puris and Ritzema 1999).
[8] Using data from 1962 to 1979, Swamy (1981) found that the number of migrant workers abroad and their wages together explained over 90% of the variation in the flow of remittances. Neither the relative rates of return on savings in the host or home countries, nor incentive schemes, had a significant impact on total flows.
[9] A wider body of research has examined the effects of indirect determinants such as the political, economic, and institutional environment in the homeland country on remittance flows. Researchers have argued that government policies in the sending country, which affect political and economic conditions in the homeland, may alter a migrant's propensity to remit. For example, Elbadawi and Rocha (1992) and Wahba (1991) argue that government macroeconomic policies that stimulate foreign direct investment flows, such as low black market exchange rate premiums and low rates of inflation, also lead to an increase in remittances.

channeled toward *socially optimal ends*. For example, DeSipio (2000) recounts that Mexican migrants report that nearly three-quarters of these funds will be used for health care.

Those studies that have begun to examine the impact of government policy on the uses of these flows have, thus far, concentrated their attention to the sub-national level. Torres (2001) traces a series of recent Latin American state government policy measures that were adopted in the late 1990s aimed at directing these flows toward productive investment. In cases, such as the state of Guanajuato in Mexico, Torres concludes that state governments have been partially successful in luring substantial flows of remittances toward small-scale entrepreneurial activity and local community development projects. Research on how national policies impact the uses of remittances, however, has remained limited.

In contrast to research on home country remittance policy, the impact of host government policy on remittance flows has been less studied. This is due in part to the fact that few host countries have implemented policies imposing restrictions on the monies that can be sent home by migrants. As a result, the majority of studies in this area have been directed at analyzing the impact of *indirect* host country policies on remittance flows. For example, there has been significant attention to analyzing the interaction between public transfers and private remittances.[10] In the transnational sphere, Taylor's (2000) work examining whether public transfers influence remittances from US households to Mexico is seminal, reporting that households' remittance expenditures increase when they receive non-needs-tested income, such as unemployment insurance and social security.

This paper seeks to improve understanding of how national policies in both the migrant-sending and receiving countries impact the overall flows and uses of remittances by presenting a case study focused on how these flows to Cuba have responded over the last four decades. In order to show how reactive remittances have been to government incentives and disincentives, it utilizes distinct historical periods in the last four decades where significant policy shifts can be observed. Moreover, the study traces the broad range of policies adopted by the Cuban government in order to analyze the responsiveness remittance flows toward specific policies, whether directed at inducing investment or at consumption for recipients.

III. Cuban Remittance Policy: From Prohibition to Leveraging

Over the last four decades, the Cuban government shifted its policy from tight control on remittance flows and their uses domestically in the early decades to the current policy, which attempts to attract and leverage remittances through official channels. The characteristics of Cuban remittance policy during the post-revolutionary period can be separated into three stages. In each stage, there has been a significant policy shift with respect to both monetary and migratory policy that translated into a shift in remittance flows over time. The first and most prohibitive stage transpired from 1959 to 1979; an intermediate stage took place between 1980 and 1992 with partial liberalization; and the third stage took place after the legalization of the dollar in 1993.

[10] Most of the literature aimed at examining private family income transfers in the context of developing countries has been limited to examining interactions that take place between families within a country without reference to their immigrant status. For more work in this area, see Cox and Jimenez (1990); Cox, Eser, and Jimenez (1998); Jensen (1998); and Barberia, Johnson, and Kaufmann (1997). Taylor (2000) provides an overview and assessment of the impact of this research on the role of transnational remittances.

A. Prohibition

The first stage, from 1959 to 1979, can be characterized as the most prohibitive. During this stage, Cuban government policies deterred remittances, and foreign currency remittance flows to the island were virtually non-existent. Following the triumph of the revolution in 1959 and the successive reforms and nationalizations that took place in the 1960s, there was a mass exodus of Cuba's political, economic, and social elites to the US during the 1960s and early 1970s. The Cuban government permitted migration, but began to tightly control departure through a series of measures stipulating that (1) exit from the island was permanent without the possibility of return, even for temporary visits; (2) émigrés would relinquish their rights as citizens, although they would retain Cuban citizenship; and, (3) the property and assets of émigrés would be confiscated (Martín and Pérez 1997:86).

Migration produced not only a physical separation of families, but also in many cases a severance in the relations between those who stayed and those who left. The revolutionary government and its supporters saw those who left as traitors to the Cuban Revolution and its goals. Implicitly and explicitly vis-à-vis the Cuban State's migration policy, Cubans who left understood that they were also choosing to sever their economic and social ties with Cuba. Under the circumstances, those leaving were given little incentive to remit funds to their relatives.

In addition, economic policy measures were instituted that limited private family transfers. In the midst of the failed uprisings in the Escambray mountains in early 1960 by counterrevolutionary forces and the Bay of Pigs invasion in April 1961 by invading brigades of Cuban exiles, and as the massive exodus of Cuba's upper classes accelerated, the Cuban government undertook a series of nationalizations and monetary policy reforms as a political move to wrest control and power from revolutionary foes.[11] As part of this strategy, the Cuban government moved to increase its control over the economy's assets and financial flows by nationalizing farms, foreign-owned and Cuban-owned large and medium scale enterprises, as well as petroleum refineries. In terms of financial assets, US-owned banks were nationalized on September 17th, 1960 and Cuban-owned banks were nationalized on October 13th, 1960.

In August 1961, the government announced the creation of a new Cuban peso. Heads of households were allowed to exchange a maximum of 10,000 old pesos in circulation; bank deposits were automatically converted, but the remaining old pesos outside the banking system were lost. Cuba's National Bank declared that the new official exchange rate would be one new peso per one US dollar, although the value of the peso was worth fractionally less in world capital markets (Domínguez 1978:228). Households that had been hoarding pesos outside the official banking system and those holding their savings in US dollars lost significant portions of their wealth.[12] As a result of these measures and the regulations imposed by the US embargo in 1962, direct

[11] As Jorge I. Domínguez states, "Cuban entrepreneurs had close connections with the United States and because by this time they could certainly be presumed to oppose government policies, the survival of the revolutionary government required that the management of Cuban enterprises be passed to loyal revolutionaries, however bureaucratically incompetent (1978:147)."

[12] The total amount of money in circulation in August 1961 was 1,187 million pesos. A total of 497.6 million pesos or 42% was confiscated (Domínguez 1978:229).

correspondent banking services between the United States and Cuba were interrupted and effectively shutdown.

The government introduced reforms aimed at transforming Cuba's economy into a centrally planned economy. With the socialization of the means of production, the Cuban State replaced market-based distribution with the allocation of goods and services through centrally fixed prices (Mesa Lago 1981: 16). With the introduction of rationing to guarantee distribution of consumer goods and price controls, the value and significance of money in the domestic economy lost much of its importance, and those holding surplus pesos had difficulty spending them in the centrally planned, progressively more rationed economy.[13]

For the next two decades, the Cuban government strongly discouraged contact between island families and their "*gusano*" émigrés.[14] Visits by Cuban émigrés, a common channel for unofficial remittance transfers, were prohibited. Thus, State sanctioned remittances were restricted to in-kind transfers of small-scale packages that contained clothing, medicines, food, and other consumer goods. In-kind transfers surged primarily during the period between 1968 and 1975, when the Cuban economy underwent a period of contraction and bilateral tensions ebbed. Agencies were established in the US and packages were sent on flights between the US and Cuba. Yet, these practices continued to be stigmatized and discouraged as this quote from one of the interviewees for this study testifies:

> Prior to our return, family ties and contact were forbidden by members of the Communist Party. There was basically no communication between my cousin, a university professor, and us [my family in the US] for over 20 years. When I went back to Cuba [in 1979], he opened up a closet filled with the packages my mother had sent with clothing and medicines for the family [during the late 60s and early 70s]. He said, 'please tell her [your mother] not to send any more of these clothes, because we don't want them and we can't wear them.' As university professor, he couldn't wear any of the clothing because it would arouse suspicion and could get him in trouble as evidence of having contact with his family abroad.

In sum, émigrés wanting to help their relatives on the island had limited options for the first two decades after 1960. Direct banking and financial transactions between the US and Cuba were non-existent. The primary channel for sending remittances to the island was through packages containing in-kind and cash transfers. The migration of Cubans with no possibility of return to their homeland, combined with the transformation of Cuba's monetary system and the subsequent collapse in financial transactions between the United States and Cuba, were contributing factors limiting remittances. Even in cases where private family transfers were able to get through the barriers, island recipients were reluctant to accept these items. Although no official statistics or studies reporting transfers for this period were found, it is estimated that remittance flows were minimal.

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[13] According to Mesa-Lago (1981:47), "the monetary surplus steadily increased in the 1960s and in 1970 reached a peak of 86% over the population income; in other words, the total income of the population exceeded by almost twofold the value of available supply."

[14] *Gusano,* which means worm in Spanish, is a pejorative term.

B. Rapprochement

From 1979 to the early 1990s, the Cuban government initiated a strategy to re-establish relations with the émigré community, and government policy toward remittances also shifted. Cuba's policy stance toward remittances during this period can be characterized as being more receptive, but still highly restrictive. During this second stage, significant policy reforms that encouraged remittance flows included a liberalization of émigré travel policies, the opening of foreign currency stores, and introduction of financial transfers. Most importantly, Cuba instituted policies in a way that would attract remittances and ensure that they would be channeled toward the official economy.

By 1980, the number of Cubans residing in the US had reached more than 600,000, or approximately 6.3% of the island's domestic population (see Table 1). In speeches by Cuban government officials, including President Fidel Castro, Cubans living in the US, who had previously been stigmatized as *gusanos*, were now referred as members of the "community" (Martín and Pérez 1997:89). Political discourse not only shifted, so did government policy.

Table 1. Cuba's Domestic and Migrant Population: 1955-98

	Cuban Domestic Population	Cuban Foreign-born Population in US[a]	Ratio of Migrants in US to Domestic Population
1955	6,445,944	--	
1960	7,077,190	79,150	1.1%
1970	8,603,165	439,048	5.1%
1980	9,693,907	607,814	6.3%
1990	10,694,000	736,971	6.9%
1998	11,139,000	833,636	7.5%

Sources: ONE Anuario Estadístico de Cuba 2000; United States Department of Justice, Immigration and Naturalization Service (INS); Statistical Yearbook 1998. Table 2.

a. Cuban citizens legally admitted to the US by the INS.

The Cuban government removed its categorical prohibition on family visits during the December 1978 Dialogue talks between the Cuban government and Cuban émigrés.[15] For the first time, émigrés were allowed to visit their families for two-week periods, provided they stay in State-run hotels charged in US dollars. From 1979 to 1982, an estimated 150,000 Cuban-Americans made the journey (Marazul 2000). Despite moves to improve relations with Cubans living abroad, Cuba's migration policy, however, remained unchanged—migration was considered permanent.

Following this policy change, family visits became a primary vehicle for channeling private financial transfers to families. Remittances, however, were mostly in-kind. Emigrés were permitted to bring goods such as televisions, stereos, and other appliances with them as part of their luggage. A 1979 article in the *Miami Herald* estimates that over $150 million were transferred by April 1979 (Garcia 1996:52). During their stay, Cuban émigrés also brought cash remittances for their families. With dollar transactions illegal for Cuban domestic residents, recipient households had limited options for spending these resources themselves. Visiting émigrés, however, were allowed

[15] For further discussion on travel policy and émigré visits see Eckstein and Barberia (2002).

to purchase luxuries as well as necessities for their island families during their visits in Cuban foreign currency stores.[16] These stores, known as *diplotiendas* and *tecnotiendas,* had first been opened to sell foreign diplomats a wide range of imported goods, as well as fresh and canned foods. Ordinary Cuban citizens were rarely authorized to purchase commodities in these stores.[17] Thus, visiting émigrés converted their US dollars in *diplotiendas*.

As a part of normalization of émigré relations, mechanisms for receiving cash transfers from abroad were also introduced. Through the *Banco Nacional de Cuba* (BNC), Cuban citizens were allowed to receive foreign currency transfers from private parties abroad. The only restriction on receipts was that remittances had to be converted into Cuban pesos at the official one Cuban peso per US dollar exchange rate (Pérez López 1995:50). When a relative received a transfer from abroad, the BNC issued the recipient a transfer certificate that could be used only for purchases at state-operated foreign currency stores.

Despite significant policy shifts, the flow of remittances to Cuba from 1979 to the early 1990s remained limited for five reasons. First, regulations prohibiting the circulation of dollars deterred cash transfers to Cuban families on the island. While the Cuban government relaxed its restrictions on family visits, it tightened the penalties associated with holding foreign currency by codifying the penalties associated with these operations into the nation's criminal code. In 1978, the National Assembly approved a comprehensive criminal code that became effective on November 1, 1979.[18] Section 1 of Article 282 in the Cuban penal code prohibited the exporting of foreign currency, obtaining foreign currency balances in excess of needs, the selling, transferring or buying of foreign currencies, travelers checks, money orders or other instruments denominated in foreign currencies.[19] Individuals violating these laws were subject to incarceration for between one to eight years. Section 2 of article 282 prohibited the holding of foreign currencies or securities and the engagement in financial transactions outside Cuba either personally or through an intermediary. Individuals found to be holding dollars could be incarcerated for between six months and three years, as well as fined between 200 and 500 pesos.

Second, remittance sending depended primarily on those who were traveling to the island. The proportion of Cuban émigrés returning to visit their families diminished significantly as a result of the re-introduction of travel restrictions by both the US and Cuban governments in the early 1980s. Cuban government officials charged that the massive return of émigrés in 1979 incited the unrest that led over 10,000 Cubans to occupy the Peruvian embassy and eventually steered Castro into opening the Mariel port to 125,000 Cubans who left the island. It was Cuban-American/Cuban contact and gifts for recipient families, Cuban officials rationalized, that stirred islander discontent. Scholars also articulated this hypothesis, explaining that the incursion of émigré culture and American goods amounted to Cuba's "Blue Jean Revolution" (Martín and Pérez 1997:52). In response, Havana limited émigré entry, in terms of visitation and correspondence, to prevent

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[16] For more on the introduction of these stores, see Pérez López (1995).

[17] Eventually a select group of Cuban nationals, such as diplomats and artists who earned foreign currency abroad, were also allowed to purchase commodities in these stores. Through *Oro* stores, Cubans could sell their gold jewelry to the State and receive receipts to use for consumption in state dollar stores.

[18] The 1979 Cuban Penal Code replaced the Social Defense Code of 1936. For a detailed discussion, see Pérez López (1995).

[19] The penal code was revised in 1987, but no alterations were made to prohibitions on the holding of foreign currencies.

"another Mariel." In 1985 Castro suspended family visits altogether until 1986 in retaliation for the Radio Martí broadcasts. When émigré visits were once again allowed, the number of visitors was capped at 2,500 per year until 1987 and then 5,000 per year until the early 1990s (Marazul 2000).

Third, Cubans on both sides had mixed reactions to the exchange of cash and goods after two decades of separation. The case of a Havana resident interviewed for this study is illustrative of the ideological conflicts experienced during these re-encounters and the struggle some felt when faced by their returning family's in-kind and cash gifts. Pedro[20] was an eight-year old boy from a middle-class family in the Vedado neighborhood when Fidel Castro took power on January 1st, 1960. In the subsequent decades, Pedro rose to become a loyal Communist Party member with a prominent government position that included travel to foreign countries. Pedro remembers receiving packages from his aunts and his nanny, both of whom had left Cuba in 1960 and established themselves in Miami by the late 1970s:

> When the packages started arriving, I was in my late 20s. I remember thinking "Who do they think we are?" My aunts did not come to visit, even though we had not seen them in nearly 20 years. Instead, they sent packages with the most basic items such as Colgate toothpaste and brand-name shampoo to my mother and their sister, a middle-class housewife with no formal affiliation to the Communist Party or the neighborhood mass organization unit. I was outraged by their lack of understanding. It seemed like an attempt to "colonize" those of us who had remained in Cuba. We didn't fight a revolution for Colgate toothpaste; we fought for more important rights. Moreover, they would never send personal letters telling us about their lives or asking us about ours in Cuba. Eventually, we lost ties with these family members and our relations never warmed.

Fourth, Cuban families' basic needs were largely satisfied, and private investment opportunities were limited to the black market. Cuba had experienced an economic boom with 8.2% annual average per capita growth rates between 1970 and 1974 (Madrid-Aris 1997:217). Although trends were slowing down as a result of a short-term recession and the foreign debt crisis that hit the island's economy in 1976 when world market sugar prices plummeted, the Cuban economy continued to remain dynamic in terms of its macroeconomic indicators.[21] For example, industrial and agricultural output improved, leading Cuba to experience 5.1% annual average per capita growth rates from 1980 to 1984 (ibid). The Cuban government had also initiated several market opening reforms, including the implementation of major wage reform in 1980 [the first since 1963] and the liberalization of private economic activity in the agricultural and State sectors of the economy. As a result, recipient families were not experiencing shortages caused by a severe economic contraction in the early 1990s.

The fifth reason for low remittance volumes, which is further developed in section IV of this paper, is related to US policy. Since the US embargo prohibited direct commerce between US and Cuban banking institutions, Cuban-American émigrés who wanted to send remittances had to utilize alternative third country remittance system routes. In the late 1970s and early 1980s the most

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[20] A pseudonym, as are all other names used when citing interviewees.

[21] During the late 1970s and early 1980s, consumer demand exceeded supply creating a situation of excess liquidity or monetary surplus, but these trends were showing signs of moderate improvement. According to Pérez-Lopez (1995:115), "excess liquidity was equivalent to 35-36% of population income in the mid-1970s and declined to about 29-30% by the mid-1980s."

common mechanisms for third country transfers were via money orders and money transmissions through non-bank financial institutions, mechanisms that Cuba had not developed with other Western economies.

Thus, remittance activity increased moderately during the second stage from 1979 to 1992. Funds were either carried directly by visiting émigrés or sent with those who were traveling to the island. However, private family transfers remained minimal in the 1980s. Under a situation in which holding dollars was illegal and there were limited channels for converting or spending these resources, migrants transferred minimal amounts of currency and goods to their island relatives.

C. Courting Remittances

In the 1990s, Cuba comprehensively shifted its policies to increase and channel the flow of remittances into the official economy. Spurred by a severe contraction in the Cuban economy caused by the abrupt collapse of Soviet aid and trade in 1989, this third stage would prove to be the most far-reaching. The fundamental shift in policy aimed at attracting remittances is best understood within the context of the factors that contributed to the economy's collapse and the constraints faced by the Cuban government, which limited the government's policy options.

The onset of the crisis was sparked by the collapse of Cuba's external trade, which by the late 1980s had become concentrated with its trade partners in the Soviet Union, Eastern Europe and China. By 1989, over 80% of Cuba's trade was with its COMECON partners. Cuba had become highly dependent on imports for basic necessities and primary inputs in industrial production, such as food and fuel. Moreover, with the collapse of Soviet aid, international financing for these costly imports was limited to short-term, costly international borrowing options. As Table 2 indicates, exports decreased from nearly $6 billion in 1989 to under $2 billion by 1993—a 67% decrease in three years. In the same period, Cuba's imports decreased by 73%. As a result of this precipitous shock, the Cuban economy's gross national product shrank by more than 32% between 1990 and 1993.

The crisis then magnified and reverberated in the domestic economy. In the face of continuous declines in production and supply, the prices of dollars and goods in the black market, as well as excess peso circulation, all surged. The black-market peso-dollar exchange rate depreciated at an accelerating rate. At the start of the crisis in 1989, the black-market rate was 7 Cuban pesos per US dollar. By June 1993, Cuban consumers were exchanging 165 pesos for one US dollar (ECLAC 1997:127). Household consumption declined by 33% between 1989 and 1993 (ECLAC 2000:44) As the crisis intensified, dollars and in-kind transfers from émigrés flowed into the economy illegally and unofficially. For example, ECLAC (2000) estimates that roughly $311 million in net transfers entered Cuba between 1990 and 1993.

Table 2. Cuba's Foreign Currency Earnings and Obligations: 1989-2000

(All figures in millions of US dollars)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP[a]	20,795	20,879	17,554	16,382	16,617	20,375	23,025	24,481	24,675	25,863	27,597	29,170
Earnings												
Exports of Goods and Services	5,993	5,940	3,563	2,522	1,968	2,542	2,926	3,707	3,873	4,085	4,288	4,807
Sugar (%)	65%	73%	63%	48%	38%	29%	24%	26%	22%	15%	11%	---
Nickel (%)	8%	7%	6%	8%	7%	6%	11%	11%	11%	8%	9%	---
Tobacco (%)	1%	2%	3%	4%	4%	3%	3%	3%	4%	5%	5%	---
Tourism (and other services) (%)			16%	29%	42%	46%	48%	50%	53%	63%	66%	---
Net Transfers (including remittances)[b]	(48)	(13)	18	43	263	470	646	744	792	813	828	850
Remittances[c]							537	630	670	690	700	720
Donations							109	88	92	95	96	100
Official Transfers (Soviet aid)[d]	3,000	1,000	500	50	50							
Obligations												
Imports of Goods & Services	8,608	8,017	4,702	2,737	2,339	2,849	3,565	4,125	3,987	4,181	4,323	5,587
Imports of Goods	8,140	7,417	4,234	2,315	1,984	2,017	2,883	3,569	3,987	4,181	4,323	4,816
Foreign Debt[e]	7,300	---	---	---	8,785	9,083	10,504	10,465	10,146	11,209	11,078	11,000

Sources: ECLAC (1997, 2000 and 2001), Jatar Hausmann (1999), and Eckstein (1994)

a. ECLAC reports GDP in current pesos. These figures are reported using the official exchange rate, 1 Cuban peso= 1 US$.

b. Net transfers are calculated as "the turnover of dollar shops minus dollar earnings accounted for by official payment of dollars (mainly through incentive schemes)" (Morris 2000).

c. ECLAC estimates that roughly $3 million in remittances entered Cuba between 1989 and 1996 (1997:124). Figures for remittances are based on ECLAC estimates. Since these figures are not based on dollar sales (see note b above), these are only rough estimates.

d. Data on Soviet Aid reported from Jatar Hausmann (1999), p. 84.

e. Foreign Debt is defined as non-Soviet debt. Data for 1989 from Eckstein (1994) p. 222 and from ECLAC (2001) for remaining years.

Recognizing that Cuba had entered a "special period", the Castro Administration adopted stabilization measures to restore fiscal and external balances. Based on an export and foreign direct investment driven growth strategy, the government sought to promote traditional primary commodity exports, such as sugar, nickel, and tobacco, as well as tourism. As part of its macroeconomic stabilization strategy, the government initiated a series of reforms. Beginning with the legalization of the US dollar in 1993, Cuba then developed a coherent plan to maximize the State's capture of these resources, the majority of which derived from tourism and remittances.[22] Indeed, from the onset, President Fidel Castro explained that the intent was not only to "legitimize, but to ensure that [the Cuban government] captures a percentage, through commerce, of these dollars, so that as [Vice President] Lage explained, they can be used to benefit the population as a whole."[23]

During the 1990s, the change in Cuba's remittance policy took place in three phases, with each wave of reforms furthering the State's channeling of these resources into the official economy. Significant shifts were first undertaken in monetary policy. These policies were expanded with a second wave of reforms targeted at increasing the flow of remittances through official channels by the augmentation of consumer spending and investment options in the economy. In a third wave, official remittance transfers schemes were introduced, and return migration was permitted for the first time.

1. The Development of a New Financial Architecture

The legalization of dollar circulation and operation in the domestic economy was the first step in Cuba's monetary policy reform.[24] Fidel Castro announced the de-penalization of foreign currency holding during his July 26, 1993 speech celebrating the anniversary of the Moncada Barracks uprising. During his speech, Castro specifically cited the government's desire to increase the flow of remittances as a critical component in its decision to de-penalize foreign currency operations:

> We must increase our income in convertible foreign exchange… Transfers or remittances of money from abroad is an extremely important source of convertible currency in the country, one of the sources that exist in the country and it circulates in the country—or, to say it better, it is in the people's hands. A system was established for some time: money could be spent in foreign currency and it was collected in dollars in Cuba, but in a special

[22] Initially, these reforms were aimed primarily at short-term stabilization policy responses. Over time, the reform package was consolidated. It should be underscored that the policy measures were primarily stabilization measures. However, this study argues that the secondary aim of these policy measures was to further channel remittance flows into the official economy.
[23] Based on an interview with President Fidel Castro and Vice President Carlos Lage, reproduced in *La Despenalización del dólar* (1993) p.15.
[24] The Cuban government gradually de-penalized the holding of foreign currency in 1993. In June, the government permitted workers employed in the tourist industries to retain their tips earned in foreign currency. Resolution 153 issued by the National Bank of Cuba (BNC) defined ten categories of Cuban citizens that were allowed to own foreign currencies; these included government officials, artists, and athletes who were traveling abroad, airline and fishing vessel crews, as well as international workers posted abroad.

period situation … the peso loses a lot of its value and then no one sends foreign currency to be exchanged for pesos. Other means are sought to send them [dollars]. They enter the country practically in a clandestine way…[25] This is a source of foreign exchange… the idea is that it is no longer a crime to hold foreign currency, to exchange currency that is held, or even to open accounts in foreign currency.[26]

The legalization of the dollar was an important first step because it sanctioned significant flows that had spontaneously begun to increase in response to the crisis. After Castro's July 1993 announcement, both the Cuban Peso and the US Dollar were allowed to circulate freely in the domestic Cuban economy.[27] Cubans could utilize dollars for their purchases in the State's *diplotiendas* and in the black market.

Table 2, above, summarizes Cuba's foreign currency earnings and obligations between 1989 and 2000. The data, compiled by ECLAC's Mexico office in their comprehensive study of the Cuban economy in consultation with Cuba's Central Bank and Ministry of Finance, clearly shows an increase in remittances in response to the government's decision to legalize the dollar in 1993. International balance of payments statistics include remittances in estimates of net transfers. Cuba follows a similar methodology, reporting remittances in its balance of payments statistics. The overall volume of remittances is calculated as "the turnover of dollar shops minus dollar earnings accounted for by official payment of dollars (mainly through incentive schemes)" (Morris 2000). Since these figures are based on an assumption that the majority of remittances are spent by consumers in the State's dollar stores, they are only rough estimates and should be interpreted with caution. Throughout, this study refers to remittances and private transfers interchangeably and uses official data as a benchmark, noting the aforementioned measurement problems and biases. Net transfers, which are almost exclusively remittances, surged with legalization, increasing from $43 million in 1992 to $470 million by 1994, the year after the legalization of the dollar.

While effective in legitimizing and attracting remittance flows to the island, the legalization of dollar holding and circulation soon began to undermine the government's ability to effectively manage its monetary policy and its distribution of resources. Because the State paid all wages and salaries for the overwhelming majority of the population in Cuban pesos, exchange rate stabilization was key to giving peso earners greater buying power in the unofficial economy. Yet, the government had little, if any, control over the unofficial black market

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[25] Other portions of the speech are noteworthy as well. Fidel Castro explains, "but forwarding money is something that is done everywhere. There are many countries in the world where most of the income in convertible foreign exchange is money remittances from abroad. Mexicans, for example, send billions back to their country. Dominicans send plenty as well—another group who migrated for economic reasons… We—precisely due to our conflicts with the United States and conflicts with the worst elements of that emigration, those who used to be politicians—had been very strict regarding all this matter of transferal of money, although it was not prohibited and it was carried out in a normal fashion in specific amounts through the banks."

[26] This excerpt is based on the speech published by LANIC's "Castro Speech" database which contains the full text of English translations of speeches, interviews, and press conferences by Fidel Castro, based upon the records of the Foreign Broadcast Information Service (FBIS), a US government agency.

[27] Resolution 140 passed by the National Assembly in August 1993 officially modified Article 235 of Cuba's Penal Code to permit foreign currency possession, exchange and payments in foreign currencies. The official international fixed exchange rate of one Cuban peso to one US dollar, in effect for more than thirty years, remained unchanged and continued to be used in international trade.

exchange rate. Further, the primary mechanism whereby the government could appreciate the Cuban peso's unofficial exchange rate in the domestic black market, which was by selling dollars the Government itself was trying to obtain for international purchases, ran in opposition to its external balancing needs. The Cuban government therefore had to reconcile domestic needs with its ability to finance the trade deficit and foreign borrowing.

a. The Convertible Peso and the Exchange Rate

By 1995, the Cuban government introduced a solution to these countervailing pressures. The government created domestic convertibility through the introduction of an extra-official exchange rate between Cuban pesos and US dollars and a domestically "convertible peso" that would replace the need for the US dollar in commercial transactions.[28] Concurrent with these measures, the Cuban government opened dollar exchange bureaus, *Casas de Cambio S.A.* (CADECA), where US dollars could be exchanged for convertible pesos at a one to one exchange rate and Cuban pesos at a fluctuating exchange rate.[29]

The Central Bank of Cuba issued "convertible pesos", which were promissory notes equivalent to legal tender for domestic transactions in US dollars and backed 100% by dollar reserves. An extra official exchange rate was introduced by CADECA to allow dollars to be sold for Cuban pesos. Both of these measures gave the Cuban government an enhanced ability to collect scarce dollars in circulation by exchanging them for legal notes and Cuban pesos. The reverse transactions, whereby Cubans would be allowed to purchase dollars with their Cuban pesos, were initially not allowed and when the policy was liberalized in the late 1990s, a cap of $100 was established.

The monetary reforms undertaken in 1995 were confidence-building measures designed to increase consumer confidence in the value of the Cuban peso and its use in domestic transactions, while permitting the government to capture foreign currency in circulation. By December 1995, the Cuban government had opened 16 exchange offices. By 1999, there were 77 CADECA money exchanges operating. According to estimates published by the Center for the Study of the Cuban Economy (CEEC 1997), CADECA collected $10 million emitting a portion of convertible pesos and Cuban pesos equivalent to 225 million pesos in 1996. ECLAC (2000:170) estimates that CADECA are now collecting an average of $20 million annually.

In analyzing these flows, it is important to note that dollar earnings from sectors such as tourism and small-scale enterprise economic activity might be the sources for a portion of these exchange volumes.[30] Nevertheless, a significant portion of this total derives from remittance recipients. With these qualifications in mind, the evidence suggests that in comparison to net transfers, the policy of introducing exchange bureaus has provided the State with a partially effective means for capturing a relatively minor portion of remittance flows.

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[28] For an excellent review of Cuba's dual monetary policy in the 1990s, see Sánchez Egózcue (2000).
[29] Banks had been authorized to conduct currency exchange operations, but had yet to implement these services.
[30] The Ministry of Economics and Planning estimates that Cubans exchange one-fifth of their overall earnings in dollars, however it is not clear if these earnings also include remittances (Instituto Nacional de Investigaciones Económicas (INIE):1999).

Another way that the State profited from these monetary reforms was through seigniorage, commonly defined as the gains derived from the issuing of new monies. [31] The convertible peso was an effective means for the government to increase its borrowing capabilities, exchanging foreign currency for Cuban government paper with a promise that the paper had value equivalent to that of the dollars being collected. Based on these foreign currency earnings, the Central Bank engaged in seigniorage by making short-term loans to government enterprises and private borrowers with interest rates based on LIBOR[32] points at 90-day terms; ECLAC (1997:132) estimates that through this mechanism, the Cuban government is able to gain 1% on dollar circulation.

Finally, the introduction of domestic convertibility stabilized exchange rates. As Table 3 shows, the Cuban peso continued to depreciate against the dollar until 1994. Once monetary reforms were implemented, the peso began to appreciate. After a 66% appreciation 1995, the peso continued to appreciate against the dollar at an average annual rate of 6% per year until 2000.

Table 3. Cuba's Monetary Indicators: 1989-2000

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Official Exchange Rate	1	1	1	1	1	1	1	1	1	1	1	1
Extraofficial Exchange rate (annual average)	5	7	20	35	78	95	32	19.2	23	21	20	21
% Change in Extraofficial Exchange Rate		40%	186%	75%	123%	22%	-66%	-40%	20%	-9%	-5%	5%
Informal Market Exchange Rate[a]	100	--	--	--	1552	1396	739.6	554.7	--	--	--	--
GDP Deflator (1981=100)			95.3	98.7	115.9	141.3	155.8	153.9	151.3	156.5	157.3	157.4
Monetary Overhang (% GDP)[b]	20	23.9	37.4	51	66.5	48.8	40.2	38.9	38.3	37.5	35.9	35.5
Seignorage (as % GDP)[c]	2.5	3.9	9	11	16.1	-5.4	-3	1.2	-0.4	1	--	--

Source:ECLAC (1997, 2000 and 2001)
a. Data reported by ECLAC (2000) p.178.
b. Cumulative excess money in circulation and bank deposits.
c. Data reported by ECLAC (2000) p. 126. The command over societal resources, or the purchasing power obtained by issuing new money, is known as seigniorage. The reduction in value to holders of existing money balances due to the issuance of new money is termed the inflation tax. The sum of the inflation tax and seigniorage is equal to the real (i.e., inflation-adjusted) change in monetary holdings, or real balances. The relationship between them is: Real Balances = Seigniorage + Inflation Tax.

Moreover, Cuba's Minister of Economics and Planning, José Luis Rodríguez, attested to the positive effect remittance flows had on the extra official exchange rate in a January 1999 interview. When questioned about the size and magnitude of these flows in 1998, Rodríguez responded that in his opinion the decrease in the exchange rate from 25 to 20 pesos to the dollar was the most effective proof that remittances had not declined during the year in question (INIE 1999).

[31] The command over societal resources, or the purchasing power obtained by issuing new money, is known as *seigniorage*. The reduction in value to holders of existing money balances due to the issuance of new money is termed the *inflation tax*. The sum of the inflation tax and seigniorage is equal to the real (i.e., inflation-adjusted) change in monetary holdings, or *real balances*. The relationship between them is: Real Balances = Seigniorage + Inflation Tax.
[32] LIBOR (London Interbank Offered Rate) is the rate of interest at which banks borrow funds from other banks in the London interbank market. It is also a widely used benchmark reference rate for short-term interest rates.

b. Banking Reforms

Complementing the de-penalization of dollar holding and reforms in monetary policy, the Cuban banking system was reformed to attract remittance flows by diversifying financial banking instruments and improving trans-national transfer mechanisms. The net effect of these reforms has been to improve the banking and financial infrastructure to ensure that foreign currency transactions, including remittances, are rapid and transparent.

First, Cubans were permitted to open checking and interest-bearing savings accounts. By December 1995, 2,508 savings accounts had been opened and total deposits were equivalent to $4.4 million.[33] One year later, the number of interest-bearing dollar savings accounts had grown to 4,500, and total deposits equaled $9.5 million. Two years later, the number of accounts had grown five-fold. According to the US-Cuba Trade and Economic Council, Inc. (2000a), personal US dollar-denominated deposits were estimated at $50 million in 1998. Confirming this trend, Francisco Soberón, President of the Central Bank of the Republic of Cuba, reported at the end of December 1999 that greater confidence in the banking system had resulted in a 57% increase in US-denominated deposits during that calendar year. As is the case with CADECA, however, the proportion of dollars brought in through this mechanism remained relatively minor.

Second, the State diversified its banking system by creating new State-owned banks and permitting foreign banks to open branches in Cuba. The *Banco Nacional de Cuba* had been the only banking entity allowed to operate from 1960 to 1984. In the late 1980s, Cuba opened its banking sector and allowed newly created State-owned commercial banks to enter the financial market.[34] By 1998, there were at least three new Cuban banks in the financial market—the *Banco Internacional de Comercio* created in 1994, the *Banco Metropolitano S.A*. created in 1996, and *Banco de Crédito y Comercio* created in 1997. These banks, licensed to operate in Cuban pesos and convertible currencies, were created principally in order to increase and modernize banking services for Cubans and foreigners operating commercial transactions in US dollars. Moreover, State-owned banks have modernized themselves, installing ATMs and introducing debit cards in order to promote deposits in foreign currency.

In addition, foreign-owned banks such as the Dutch-owned ING Barings and the Spanish-owned *Banco de Sabadell* have representative offices in Havana, and Caja Madrid, a Spanish savings bank, has opened a non-bank financial institution joint-venture with Cuba's *Banco Popular de Ahorro (BPA)(*Robinson: 2002*)*. In May 1997, with Law No. 172, the government undertook further reform by dividing the *Banco Nacional de Cuba (BNC)*. The *Banco Nacional de Cuba* was split into a regulatory central bank, the *Banco Central de Cuba (BCC)*, and a commercial bank, which retained the bank's original name, BNC. A regulatory structure for commercial banks and non-bank financial institutions was adopted with Law No.173.

Third, Cuba undertook reforms to link its banking and financial institutions directly to international capital markets: In 1990, Cuba joined S.W.I.F.T., a global bank-owned cooperative

[33] See Banco Nacional de Cuba's *Informe Económico 1995*, p.4.

[34] One such bank is the *Banco Popular de Ahorro* (BPA), which was created in 1983 and has 510 branches throughout Cuba. The *Banco Financiero Internacional* (BFI) is a private bank created in 1984. Both allowed savings deposits in dollars in 1995.

supplying secure messaging services and interface software that links 6,766 financial institutions (banks, brokers, investment managers, securities depositories and clearing organizations, and stock exchanges) in 189 countries (including the United States). [35,36] Since then, the government has also authorized new entities to use S.W.I.F.T. For example, the eight State-owned Cuban banks, the *Banco Central de Cuba, Banco Financiero Internacional, S.A., Banco Internacional de Comercio S.A., Banco de Crédito y Comercio, Banco Popular de Ahorro, Banco Metropolitano S.A., Banco Nacional de Cuba*, and *Banco Exterior de Cuba*, all use S.W.I.F.T. for commercial banking transactions.[37]

2. The Liberalization of the Consumer Market

The development of the financial architecture was a necessary and effective first step toward ensuring that private family transfers from abroad would be funneled into the formal economy. Following these efforts, Cuba developed a second wave of reforms targeting consumers. Measures included the creation of spending and investment options at the consumer or household level. Since 1994, the State has developed so-called “dollar stores” and agricultural markets where families can purchase food and household goods. Similarly, the opening of private sector self-employment and housing provides new, albeit limited, investment options for remittance recipients. Cuban tax policy has also been modified to extract earnings from remittance flows, albeit indirectly. When the government introduced the first post-revolutionary income tax system in 1994, remittances were the only dollar earnings that were not taxed. Ad valorem duties in dollar stores and agriculture markets have proven to be effective instruments for indirectly taxing remittance recipients. These policies leverage remittances, while avoiding direct policies that would be disincentives to senders and recipients.

a. Consumer Spending: Dollar Stores and Agriculture Markets

Following the legalization of the dollar in 1993, Cuba revamped foreign currency stores, which had been in operation since the late 1970s, opening them to Cuban consumers. It did so by diversifying the number of stores and state enterprises operating dollar stores, by increasing the stock of Cuban household goods, and by linking these stores to the new financial architecture that was being developed.

As these stores operate in dollars, the majority of consumers using them are those employed in tourism and especially remittance recipients. Cuba diversified ownership and expanded store operation nationwide through various Cuban state enterprises, including firms such as Cimex, TRD-Caribe, Cubalse, and Caracol, each of which owns a particular dollar store

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[35] S.W.I.F.T. is a worldwide community with more than 7,000 financial institutions in 197 countries connected to one another through a proprietary software system. The network provides a mechanism to execute payments, securities, treasury, and trade services among members. According to the US-Cuba Trade and Economic Council, Inc. (2000b), Cuba joined S.W.I.F.T. in 1990, after the government-operated National Bank of Cuba (BNC) obtained approval from S.W.I.F.T. to use computer software compatible with S.W.I.F.T., as the S.W.I.F.T. ST-2OO computer operating system used at the time was manufactured within the United States.

[36] As will be elaborated in Section IV, direct commercial bank transfers are prohibited by US law and strictly regulated by the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury in Washington, D.C.

[37] For further details, see US-Cuba Trade and Economic Council, Inc. (2000b).

chain. For example, the "*Tiendas de Recuperación de Divisas*" (TRD) stores are owned by TRD Caribe, part of the Ministry of the Revolutionary Armed Forces' (MINFAR's) Financial Division. By 2000, this chain had opened over 400 TRD stores throughout the island.[38]

In addition, the stock of goods has changed to better meet consumer needs and preferences.[39] Whereas initially, dollar stores were targeted to foreign tourists and contained luxury items, today they contain a vast array of basic food items, such as eggs, proteins, milk and coffee—goods that are no longer available in sufficient quantity through the State-rationed *libreta*. These well-supplied stores also sell processed foods, such as tomato paste, cooking oil, and fruit juice—goods that are available only in these stores. Finally, some stores also contain sections with clothing, consumer electronics—fans, televisions, air-conditioners—and beauty supplies.

Part of the strategy to cater to consumers has included shifting toward more efficient local suppliers. State enterprises have increased the proportion of domestically produced goods sold in dollar stores. Table 4 presents a summary of total annual dollar store sales from 1993 to 2000, as well as the proportion of these sales that can be attributed to domestic production. In 2000, 48% of goods sold by dollar stores were manufactured in Cuba. Cuban food processing and light manufacturing industries, for example, grossed $137 million and $200 million respectively by 2000 (EIU 2001:22).

Table 4. State-Enterprise Dollar Sales to Cuban Consumers and Tourists: 1993-2000

	Annual Gross Revenue in "dollar stores" (US $millions)	Proportion of Sales from Domestic Suppliers
1993	263	--
1994	220	--
1995	580	18%
1996	640	27%
1997	700	43%
1998	870	46%
1999	--	--
2000	1,250	48%

Source: The data for 1993 to 1998 is from Marquetti Nodarse and Garcia Alvarez (1998:49) and for 2000 is from EIU Cuba Country Report (February 2001:22).

Dollar stores have introduced modernized payment systems, facilitating the link between receiving remittances and consumer spending. Cuban consumers visiting some dollar stores can conveniently use their Transcard electronic debit cards. Western Union has also located its

[38] For further information about MINFAR, see CUBAPOLIDATA's "*Cuban Armed Forces Review*".
[39] This was confirmed by interviews conducted by the author with senior representatives working in dollar store management in Havana.

offices in CIMEX-operated dollar stores. Consumers can pick up remittances sent by a relative at the Western Union desk and seamlessly proceed to purchase a range of commodities from basic household items to nonessentials.

Liberalized in 1994, the purpose of agricultural markets has been to increase the supply, diversity, and availability of food for Cuban households. By 1999, food spending in these markets represented approximately 10% of household expenditures (Peters 2000:13). The majority of sales in agricultural markets go to private farmers, cooperatives, State farms, and intermediaries. However, here too, the State has introduced measures to capture earnings. Similar to the strategy of locating Western Union and CADECA bureaus within or alongside dollar stores, CADECA bureaus have been conveniently located within agriculture markets. However, unlike dollar stores, agricultural markets are required to operate in Cuban pesos.

As mentioned in the previous section, exchange bureaus placed in agriculture markets have been only partially successful in attracting dollars. The strategy to encourage remittance flows through dollar stores, on the other hand, has proven highly successful in several terms. First, dollar stores are sources of State financing. State enterprises operating dollar stores charge an average 240% markup on goods. A small proportion of this markup is reinvested within the State enterprise to finance production and operations. The majority of revenue extracted from dollar store markups is directed toward the State budget. Second, the significance of the magnitudes of dollar store sales relative to Cuba's balance of payments is striking. By 2000, gross annual sales in dollar stores were $1,250 million in comparison to $850 million in net transfers. Finally, the shift to domestic, and mostly State-owned, suppliers has reduced the State's need to finance costly imports, which have to be paid in foreign currency.

b. Investment Options: Formal and Informal Assets

Whereas Cuban government policy has liberalized options for consumer saving and spending that indirectly tap into remittance flows, policies to liberalize small-scale "self-employed" business activity and housing, two common uses of remittances cited in the international literature, have remained limited. The restrictions on private investment are consistent with the State's strategy to limit the productive uses of remittances outside the State sphere of the economy.

Starting in 1993, the Cuban government authorized self-employment and liberalized the small-scale transportation and service sectors of the economy, which require comparatively lower start-up costs and levels of investment.[40] Since then, roughly 3% of the Cuban labor force has maintained licenses to work as *cuenta propistas*, or self-employed workers with private businesses in 170 different occupations. Small-scale private business activity in university-trained professions and in the manufacturing and industrial spheres of the economy were not liberalized.

Several policies have been introduced to limit the growth of the self-employed sector. Workers in these mostly service sector firms must be family members. Self-employed business operators are required to obtain their supplies from State distributors or to prove that the goods were obtained from officially registered, tax paying suppliers. Despite these restrictions, there

[40] For a more detailed discussion, see Ana Julia Jatar Hausmann (1999).

are reasons to presume that remittance flows have entered the private sphere of the economy. Many of these activities, such as *paladares* or family restaurants, have required significant start-up capital and continued investments. These capital requirements far exceed the income available to Cubans through formal jobs. Moreover, the lack of credit markets and sustained economic contraction make it difficult to conceive that these investments are being made exclusively with domestic capital. As Duany (2000) documents, "anecdotal information indicates that many *cuentapropia* workers frequently receive dollars per remittances."

Housing has been cited as the most significant unmet need of Cubans during the 1990s, and significant expenditures are required to undertake rehabilitation and repair. Most of these costs surpass the salaries of peso earners, yet according to Hamberg (2001: 6), 85% of Cubans own their own homes and between two-thirds to three-quarters of all units created since 1959 are "self-built." While scarce and costly food needs took precedence over housing reparations for most Cuban consumers, self-building and rehabilitation continued throughout the decade of the crisis. It is likely that remittances financed these expenditures, as in other countries, where private family transfers have been used to purchase and finance homes. In the case of Cuba, government policy has tightly constrained investments in housing and real estate property exchanges since 1959. Non-transferable property rights have been reinforced by stiff regulations and penalties for illegal housing sales, as well as for self-building in the 1990s. Those choosing to undertake self-building must pay penalties.

3. Fiscal Policy: Income and Sales Taxes

In August 1994, a personal income tax system was introduced as part of tax reform. For the first time since 1959, progressive taxes ranging from 5% to 50% on personal income earned through wages, salaries, interest, dividends, and income derived from currency exchange were collected from Cuban households. Remittances are not considered income and therefore are excluded from income taxes as specified in Ley 73. However, private family household transfers from abroad are indirectly taxed through income and consumption taxes.

As income duties tax all earnings of productive economic activities in the dollar-based economy, remittances targeted toward these areas are indirectly taxed. Recipients depositing their dollars in savings accounts pay taxes on the interest earned. Recipients investing in private self-employment pay income taxes on their profits, as the tax code obliges businesses to pay taxes in the same currency as their earnings. Therefore, self-employed businesses whose sales are in US dollars are required to pay taxes in the same currency. The earnings of those in the self-employed sector, such as *paladares* and room rentals, now comprise two-thirds of total income tax earnings (ECLAC 2001: 68). Nuñez Moreno (1998:8) estimates that *cuentrapropistas* paid income taxes equivalent to 1% of the total State budget in 1998.[41]

Other indirect mechanisms for taxing remittances have been introduced with value-added taxes on final sales conducted in US dollars. These taxes, for example, have been instituted at artisan handicrafts markets where light manufacturing products, such as shoes, are sold. Luxury

[41] Nuñez Moreno (1998:8) details that income taxes paid by 177,436 officially registered self-employed individuals contributed 1% of the 1998 state budget, which totaled 12,502 million pesos (ECLAC 2000). On average, this represents 700 pesos per officially registered self-employed individual in 1998.

taxes have also been instituted on items such as tobacco. Although data on the proportion of fiscal revenues collected in US dollars are not available, total indirect taxes now amount to 45% of fiscal revenue (ECLAC 2001:70).

4. The Official Remittance Transfer System

Whereas the first and second wave of policy reforms focused on domestic infrastructure, the third wave of reforms are targeted toward developing Cuba's external infrastructure by establishing official remittance channels and strengthening relationships with the Cuban émigré community vis-a-vis migration policy. Strategically, Cuba first developed a domestic strategy and shifted toward remittance and migration policy only after in-country channels were in operation and policymakers had had a chance to test their effectiveness in attracting and directing ongoing private flows toward the official economy.

Cuba has created a wide variety of options for remittances to be sent through bank and non-bank channels, which have been developed primarily through the government-owned CIMEX Corporation. Because US policy restricts the amounts and channels for sending remittances through banks, money transmitter companies, and postal services, the Cuban government has made special efforts to create a variety of transfer instruments accessible from the United States via third countries. Table 5 presents a summary of the official remittance transfer system operating in Cuba as of 1999. These six channels are described below.

First, funds can be wired through banks in many European, North American, and Latin American countries, including Mexico, Venezuela, and Spain, which have established cooperation agreements with the Cuban government operated banking system. The bank emitting the transfer charges a fee to the sender and the Cuban bank charges a commission to the recipient. For example, cash transfers can be sent from Banco Exterior de España-Argentaria in Spain to recipients' accounts in the Banco Financiero Internacional (BFI) in Cuba with average wire fees ranging from 2.5 to 5.0%.

Second, remittances can be sent via a direct money transfer service through money transmitters or remittance forwarders. On July 8, 1999, the Cuban government-operated Fincimex S.A., a subsidiary of Corporación Cimex S.A., in cooperation with Western Union Financial Services International began a direct cash remittance service between Cuba and the US. Western Union has opened offices throughout Cuba in CIMEX-operated TRD (*Tiendas de Recaudación de Divisas*) stores, where Cuban recipients can pick up their transfers in US dollars. Western Union requires cash payment and charges $29 per transaction regardless whether the amount is $25 or $300.[42] Transaction fees, which range from 10 to 30%, are charged to senders and split between both firms, with the Cuban firm receiving a proportionately larger share of the total.

[42] As will be detailed in section IV, US regulations limit remittances to $300 per quarter.

Table 5. The Cuban Remittance Transfer System: Institutions and Foreign Partners in 1999

Type of Institution	Foreign Firms[a]	Amount	Transfer Fee (%)	Cuban Partner
Banks	ARGENTARIA, Caja Postal Y Banco Hipotecario S.A. (Spain)	n.a.	2.5-5.0%	Banco Financiero Internacional (BFI)
	Havana International Bank Ltd (UK)	n.a.	n.a.	Cuban Banks
	Ing Barings (Holland)	n.a.	n.a.	Cuban Banks
	Netherlands Caribbean Bank N.V. (Dutch Antilles)	n.a.	n.a.	Cuban Banks
	National Bank Of Canada (Canada)	n.a.	10%+	Cuban Banks
	Banco Bilbao Vizcaya (Spain)	n.a.	n.a.	Cuban Banks
	Banco Sabadell (Spain)	n.a.	n.a.	Cuban Banks
	Fransabank Sal (Lebanon)	n.a.	n.a.	Cuban Banks
	Banco Nacional De Comercio Exterior Snc (Bancomext) (Mexico)	n.a.	n.a.	Cuban Banks
	Caribbean Finance Investments Ltd (UK)	n.a.	n.a.	Cuban Banks
	Caja De Ahorros Y Monte De Piedad De Madrid (Caja Madrid)- (Spain)	n.a.	5% (BPA) + 4.5% (CM)	Banco Popular de Ahorro (BPA)
	Fincomex Ltd. (UK)	n.a.	n.a.	Cuban Banks
Money Transmitters	Western Union	$250,000,000[d]	10-30%	CIMEX
	MoneyGram	n.a.	9-22%	CIMEX
	Caribe Express	n.a.	10-18%	Banco Financiero Internacional (BFI)
	One Money Transfers	n.a.	8.6-26%	CIMEX
	Antillas Express	n.a.	8-7%	CIMEX
Debit cards[b]	Trans$card	$33,000,000[e]	5.5-5.0%	CIMEX
	QuickCash	$650,000[f]	10-20%	Cuba Express and Banco Popular de Ahorro (BPA)
Couriers[c]	American International Service,S.A.	n.a.	4-10%	CIMEX
	DHL	n.a.	$80.40/ 1lb	UTISA[g]
Credit cards	BFI Card	n.a.	n.a.	Banco Financiero Internacional (BFI)
	Banamex	n.a.	n.a.	
Postal Service	Correos de Costa Rica, S.A.	n.a.	9%	Correos de Cuba, S.A.
	ICC Corporation Giro Postal[h]	n.a.	60%-17%	Correos de Cuba, S.A.

Source: Author's calculations, author's confidential interviews with industry reprsentatives, as well as publicly available information released by Antillas Express, Camara de Comercio de Cuba (2002), ECLAC (2000), Caribe Express, ICC Corporation, Moneygram, Quickcash, and Transcard.

a. These are examples and not a complete list.

b. Deposits can be sent via internet.

c. Couriers perform cash delivery service to residents in Cuba.

d. Author's calculations.

e. According to Transcard, there were an estimated 98,000 cardholders in Cuba in 1999.

f. QuickCash data are for 2001; the comparable figure for 1998 was $220,000.

g. UTISA is a Panama-based Cuban firm.

h. Money order amounts are limited to between $15 and $100.

The growth in money transmitter companies who service Cuba has been remarkable. As of June 2002, there were 100 Western Union-CIMEX offices in Havana and 14 provincial offices operating in Cuba. In addition, there are several other money transmitters that wire cash to Cuba throughout Canada, Latin America, and the US. MoneyGram, the second-largest money-transmitting company in the US, opened its operations to Cuba in December 2000.

Third, remittances can be sent to a debit card held by individual Cuban recipients. The debit card, Transcard, is very similar to a check card with respect to appearance and usage. The Cuban government-operated Fincimex S.A., a subsidiary of *Corporación Cimex S.A.*, in cooperation with TransCard, issued by Canada-based TransCard Canada Limited, jointly manages the Transcard remittance service. Senders from anywhere in the world (including the United States) remit funds via a money order, bank wire, or electronic fund to a specified recipient account number in Canada. Transcard Canada then transfers these funds to a debit account in Cuba within three working days. The revenue derived from the service fee, which ranges between 5.0 and 5.5%, is shared between the two firms.

Cuban consumers receive the equivalent dollar sum as a pre-paid credit. Consumers can carry an unlimited amount of funds on a single card that can be used for purchases in a wide variety of stores on the island. As Table 5 shows, there were 98,000 cardholders in Cuba in 1999, equivalent to 1.5% of the working age population. According to Transcard Canada Limited, "over 33 million in US dollars were transferred to Cuba from fund capturing agents in Florida in 1999. ”[43] In October 2000, Transcard Canada modified its remittance forwarding service to comply with US regulations. Prior to this date, remitters in the United States could send an unlimited amount of funds to Cuba via Canada. The new reforms require US remittance senders to use a pre-authorized, US based agent or merchant for deposits. In United States, Transcard has agency agreements in place with Va Cuba Inc. and MoneyGram Payment Services Inc.[44]

Fourth, private family transfers can be sent via couriers. Courier companies, such as DHL and A.I.S. (American International Service), operate door-to-door service from the US to Cuba. DHL, which has operated in Cuba since 1990, sent 80,000 packages to Cuba in 1998 for $81 per pound (US-Cuba Trade and Economic Council 1999). While other courier firms have more competitive prices, this channel remains the most expensive in comparison to the other five options available to remittance senders.

Fifth, relatives living abroad can authorize their families in Cuba to utilize credit cards on which they agree to pay balances. Credit cards accepted in Cuba include Visa credit cards, issued by Visa International’s Mexico subsidiary Banco Confia, and MasterCard credit cards, issued by MasterCard International. In addition, remittance senders can use credit cards issued by Cuba's Banco Financiero Internacional, Argentina’s CabalCard and Mexico's Banamex credit card.[45] According to the US-Cuba Trade and Economic Council (2000a), “the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury in Washington, D.C.,

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[43] Information published in Transcard Canada Limited “Financial Growth” webpage: http://www.transcardinter.com.
[44] MoneyGram is owned by Minneapolis-based Travelers Express Company, Inc.
[45] For more details, see http://www.cubatrade.org/2000hlights.html.

permits individuals not subject to United States law to use Visa credit cards and MasterCard credit cards for transactions within the Republic of Cuba provided that the Visa and MasterCard credit cards are not issued by United States-based financial institutions."

Sixth, Cuba has entered agreements to facilitate transfers via postal money orders in Latin America and the Caribbean, as well as Europe. In June 1999, *Correos de Costa Rica, S.A*. signed an agreement with *Correos de Cuba* to transfer remittances electronically between the two countries. A maximum of $500 can be transferred per day; a 9% commission fee is split between the companies. According to an interview reported in the press, the Costa Rican Postal Services Director cited the significantly higher commissions charged by other services in the Cuban remittance market as a primary motivation for becoming involved in this business venture. According to Director Ricardo Toledo, "Costa Rica views this as a labor on humanitarian grounds (*La Prensa* 11 June 1999)."

Although data on total official flows were not available for all six channels, it is reasonable to expect that the majority of official remittances are sent either through money transmitters or debit cards. The quantity and value of the remaining channels, which include banks, courier, credit cards, and postal service transactions, can be expected to be at relatively low levels within Cuba, as the majority of transactions are in specie, rather than financial instruments. As Table 5 presents, an estimated $283,650 million were sent through official channels in 1999. Based on official ECLAC estimates of remittances in the same year, roughly 40% of the total volume of remittances would have been sent through official channels.

5. Migration Policy

With a worsening economic crisis during the 1990s, Cuban émigrés increasingly left for economic reasons, rather than as part of a political exodus, as had occurred during the early years of the revolution. Indeed, a 1993 University of Havana study of 188 rafters whom the Cuban government intercepted at sea found 83% to be seeking refuge in the States to help island family in need. (Martinez, et al. 1996). Recognizing a shift from political to economically driven migration among émigrés, especially those who left the island after 1980, Cuba undertook significant policy reform to improve relations with émigrés and, for the first time in five decades, to facilitate temporary migration.

Since 1994, the Ministry of Foreign Relations has maintained a special office, *Dirección de Asuntos de Cubanos Residentes en el Exterior* (DACRE), dedicated to émigrés relations. The office sponsored two conferences on the Nation and Migration, and published a quarterly magazine. Travel policies for émigrés returning to visit their families have eased with the introduction of a multiple entry permit in 1996 and, for the first time any émigré over the age of 60 can return permanently to Cuba.[46] Political discourse has advanced as well, with senior government officials referring to émigrés as members of the "community", as well as "compatriots living in the United States" (Martín and Pérez 1997:114).

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[46] Although Cuban émigrés are considered Cuban citizens, those who emigrated after 1970 are required to enter the country with a Cuban passport and visa.

Policies have also been instituted to expand citizenship rights for émigrés. For example, the Cuban government has even extended investment and bank account privileges to émigrés. Émigrés, according to the 1993 Foreign Investment Law, enjoy private property and investment rights denied to remaining islanders (although the US embargo prohibits Cuban-Americans from taking advantage of the government opening). They also may now open dollar bank accounts in Cuba. Meanwhile, during the second Nation and Migration Conference in Cuba, Cuban-Americans gave testimony to the National Assembly on the effect of a new citizenship law, making recommendations on how changes could be incorporated to address émigrés "trans-national" character.

Finally, Cubans who legally leave the island are no longer required to consider migration as permanent. The government has gradually lowered the age for those seeking to visit their relatives abroad, a common exit route for migration. Whereas previously only men over the age of 55 and women over the age of 50 were allowed to visit their relatives abroad, by 1994 any Cuban over the age of 18 could apply for an exit permit (Martín and Pérez 1997: 4). For the first time, the Cuban government also liberalized migration policy to permit temporary departure. Those who obtain legal permission, *Permisos de Residencia en el Exterior*, may reside outside of Cuba for up to 11 months with full citizenship rights and privileges, as long as they pay a fee for each additional month after the first month they reside abroad. Fees vary across countries by income level. Whereas émigrés living in the US or Europe pay $175 per month, those living in Mexico or the Dominican Republic pay $30 per month.[47] Migration scholars estimate that 10,000 such permits have been granted.[48] Those who choose to leave illegally, such as the estimated 45,000 Cubans who left between 1990 and 1994 during the *balsero* crisis, are excluded from these terms.[49]

In sum, private family transfers from abroad, mainly from US-based senders, surged dramatically in the 1990s. The legalization of the dollar in 1993 was a critical first step, but the development of a domestic and external financial architecture for remittances has been crucial in establishing a long-term strategy to sustain their continued flow. In 1999, net transfers were reported to have increased to $828 million. Throughout the decade, official data show that remittances grew at an average rate of 44% per year. Yet, official data also show that growth rates declined from the peak rates in the early 1990s immediately following dollar legalization. However, official data on net transfers, the majority of which are remittances, confirm that the Cuban government strategy has been moderately successful in attracting remittance flows via official channels, through the wide-ranging set of financial instruments it developed in the 1990s.

IV. US Policy: From Prohibition to Controlling

The case of US policy toward the sending of money to Cuba is important to understanding how host countries affect the flow of remittances. Since 1963, US law has imposed tight restrictions on the transfer of remittances, as well as on direct to travel to Cuba and visitor expenditures on the island. Prohibitions and controls on private transfers to island

[47] Confirmed by MINREX's webiste, see section on "Servicios Consulares" for further discussion.
[48] Confidential interview conducted by the author.
[49] The Cuban Penal Code still makes "illegal exit" a crime punishable by up to three years' imprisonment, if the attempt to leave is non-violent, or up to eight years if it involves violence or intimidation.

relatives were a result of an overall US strategy to restrict Cuba's access to dollars as a means of fomenting economic hardship and domestic discontent with the Castro regime. These policies were briefly loosened between 1978 and 1982, when the US first permitted remittances to be sent to Cuba. Since then, US policy has attempted to tighten controls by issuing regulations, restrictions, and caps on the amount of remittances that can be sent to Cubans on the island and for a brief four-year period, between 1994 in 1998, discontinued official transfers altogether. In "regulating" remittances, the US has utilized restrictions as a punitive measure and as an instrument of its foreign policy toward the island.

A. Prohibition

Following the successful overthrow of the US-backed Batista dictatorship in 1959, relations between the US and Cuba's revolutionary government gradually eroded. As Washington's fears of the populist, and possibly Communist, ideological orientation of the Cuban government increased, US policymakers began to employ overt and covert tactics to destabilize the emerging anti-capitalist regime in the economic, as well as political, sphere. In the following decade, Washington established a global economic blockade strategy toward export-dependent Cuba aimed at cutting off the island's access to foreign currency by severing its own economic ties with the island, as well as those of Cuba's major trading and borrowing partners in the West.[50] On the international front, the US pressured its allies into following similar policies by cutting off ties between Cuban and international banking institutions.[51]

Although reliable estimates are not available, remittances were sent by Cuban arrivals to the US in the early 1960s, but these were primarily sent to facilitate migration (Garcia 1996:17). Dollars were transferred via postal money orders, the primary channel for sending funds to Cuba at that time. When direct mail between Cuba and the US was suspended in 1962, this channel ceased to be an option (Sullivan and Morales 2002:10).

As part of its strategy to issue comprehensive sanctions, the US Treasury Department's Office of Foreign Assets Control (OFAC) issued the Cuban Assets Control Regulations (CACR) on July 8, 1963 under the authority of the Trading with the Enemy Act codifying and further tightening the trade embargo that had been issued by President Kennedy in 1962. [52,53] Under the original regulations, any transfer of property, including cash and other specie, were prohibited.

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[50] Following the nationalization of US-owned banks on September 17th, 1960 and Cuban-owned banks on October 13th, 1960, President Eisenhower issued a comprehensive embargo on Cuban exports under the general authority of the 1949 Export Control Act on October 20 (Morley 1987:121). According to Morley, the decision to invoke this act, rather than the Trading with the Enemy Act that would be invoked in 1962, allowed overseas subsidiaries of US multinationals to escape compliance with US policy.

[51] For example, the Eisenhower administration was involved in a campaign to prevent Cuba from receiving loans and credits from Western and Canadian institutions (Morley 1987:88).

[52] For more detailed information, see Code of Federal Regulations, Title 31, Chapter V, Part 515 (1963).

[53] Under authorization from the Trading with the Enemy Act of 1917, the President of the United States has the power to prohibit financial transactions in time of war. The Cuban Import Regulations of February 1962, which banned the importation of Cuban-origin goods, allowed US subsidiaries to continue to trade with Cuba. The Cuban Assets Control Regulations strengthened the blockade by supplanting the 1962 Cuban Import Regulations with a categoric prohibition on all trade with Cuba by US entities.

Section 515.201 of the 1963 CACR regulations prohibited US citizens, residents, and corporations from engaging in "(1) all transfers of credit and all payments…; (2) all transactions in foreign exchange by any person within the United States; and, (3) the exportation or withdrawal from the United States of gold or silver coin or bullion, currency or securities by any person within the United States " with Cuba and its nationals.

From 1963 to 1978, US policy outlawing transfers reinforced Cuba's de facto policies inhibiting family ties and remittance flows. Since direct commercial bank transfers were prohibited by US law and strictly regulated by OFAC, any currency or in-kind transfers that took place during this period required a triangular payment system through a third country.

B. Partial Lifting on the Sending of Remittances

Under President Carter, the US sought to achieve the normalization of diplomatic and economic relations with Cuba. Easing travel and remittances were top items on the Administration's agenda. In March 1977, the Carter Administration announced several modifications to the CACR designed to liberalize travel and remittances from the US to Cuba. Section 515.563 of the CACR amended the original regulations to provide for "a general authorization for family remittances for the support of close relatives in Cuba." Under the new regulations, family remittances were not to exceed a maximum $500 per quarter to close relatives in Cuba (Kaplowitz 1998: 97).

In 1978 the Office of Foreign Assets Control implemented revised CACR instructions permitting remittances to be transferred to Cuba through licensed family remittance forwarders or US banks. Since US policy continued to prohibit direct financial transfers, there were two alternate routes for getting funds to families in Cuba. Transfers either had to be hand carried by remittance forwarding institutions from the US to Cuba in specie, or the authorized entity in the US was required to transfer funds to a third-country financial institution from which the Cuban-based entities would then obtain the funds. Thus, although transfers were permitted, regulations imposed significant transaction costs on companies engaged in sending remittances to Cuba.

Carter Administration policy resulted in the first allowance of legally authorized remittances since officially sanctioned flows had ceased with the prohibition of financial transactions and travel in 1962. The explanation for the policy shift on Cuban remittances can best be understood as part of US immigration policy toward Cuba in the context of the Cold War. Since 1959, US policy was based on the premise that migration was caused by a political exodus of Cubans fleeing from communism. Upon arrival in the US, Cuban exiles were given preferential treatment, with benefits including automatic qualification for citizenship after one year and one day of residency in the US and the possibility to participate in re-settlement programs (Eckstein and Barberia 2001: 3).

By allowing private remittances to flow to families, President Carter sought to support those Cubans remaining on the island, who were viewed as victims of communism. An additional feature of the Carter Administration's policy on remittances corroborates this proposition. In addition to allowing $500 in remittances to be sent to families on the island per quarter, the new 1978 CACR regulations added an additional $500 remittance that could be sent

for relatives who were emigrating to the US (Kaplowitz 1998: 97). Interestingly, despite the numerous revisions to the CACR, the amount and clause on the sending of funds to assist those trying to leave the island has remained intact since 1978.

Moreover, the Carter Administration pursued this strategy not only by liberalizing remittance flows, but also by entering into secret negotiations with the Cuban government aimed at securing the release of 3,000 political prisoners to the US and the improvement of relations with émigrés through the relaxation of Cuban government restrictions on travel, remittances, and migration. Although inter-governmental negotiations were publicly replaced by the first negotiations between the Cuban government and a small group of 75 émigrés in the 1978 National Dialogue talks, the Carter Administration is recognized as having been the "architect" behind the scenes and in line with its human rights promotion agenda (Garcia 1996:48).

C. Attempts to Control and Cap Remittance Flows

The US liberalization of remittances to Cuba initiated in 1978 lasted until 1980. However, the gateway that had been opened regularizing family ties was abruptly closed in 1980 by actions of both governments. Cuba, partly in reaction to the 1980 Mariel Boatlift exodus of over 125,000 Cubans from the island, limited émigré family visits. The Reagan Administration set out to return to the US's traditional approach of a comprehensive embargo on Cuba. In 1982, the Reagan Administration announced the revocation of general travel authorization, but maintained the modifications introduced by the Carter Administration allowing émigrés to return to the island to visit close relatives under the rubric of the general license (Kaplowitz 1998:123).

The sending of remittances, left untouched in the CACR's revisions conducted in 1982, were restricted four years later in 1986 (Kaplowitz 1998:124). Further tightening occurred in 1988 when OFAC announced the institution of a licensing system for travel service providers and remittance forwarding agencies involved in Cuba-related transactions. Specifically, a new paragraph was introduced to Section 515.563 of the CACR regulations requiring that:

> Persons subject to US jurisdiction, including persons who provide payment forwarding services and non-commercial organizations acting on behalf of donors, who wish to provide services in connection with the collection or forwarding of remittances authorized pursuant to this section must obtain a specific license from the Office of Foreign Assets Control (OFAC 1988).

By 1992, over 31 remittance forwarders had received OFAC approval for sending transfers to Cuba, 24 of which were located in the Miami-Dade County (OFAC 1992).

As the economic impact of the collapse of trade and aid with the Soviet Union hit Cuba, US policy sought to reinforce these impacts by furthering economic sanctions to speed Castro's demise. The US pursued a similar policy with respect to remittances. First, official remittance flows were reduced. In 1991 OFAC announced an amendment to Section 515.563 whereby the limits of $500 per quarter would be reduced to $300 per quarter, reducing the annual amount of remittances that could be sent to the island by $800 or 40% (OFAC 1991). Although remittances

for island families were reduced, the clause permitting a onetime $500 remittance allowance for migration, as stipulated since 1978, was left intact.

Three years later, President Clinton went one step further, banning family remittances altogether—except under extreme humanitarian emergencies—from August 1994 until 1998. Once again, the US reacted to Cuba's shattered economy and the triggering of a massive inflow of Cuban rafters in the August 1994 *Balsero* Crisis by restoring US policy to those standards that had initially been established at the onset of the breakdown in bilateral relations in the early 1960s. President Clinton revoked the general license clause in the CACR and announced that OFAC would require case-by-case specific licensing for family remittances. Under the new instructions, close relatives in the US could send remittances to Cuba for severe medical emergencies and/or terminal illness. For those fortunate enough to receive permission to migrate officially, the onetime $500 remittance benefit could be sent (OFAC 1995:7).

Precipitated by the August 1994 *balsero* crisis, the decision to ban remittances reflected a shift in US migration policy toward Cuba. For the first time, the US reversed its policy of granting preferential treatment to refugees from Cuba, a policy that had been in place for over 30 years. Instead of receiving the automatic asylum granted to Cuban refugees by the US since 1959, over 25,000 rafters were detained at the US-operated Guantanamo Naval Base. President Clinton denounced the *balsero* crisis and justified US policy on the following grounds: “the real problem is the stubborn refusal of the Castro regime to have an open democracy and an open economy, and I think the policies we are following will hasten the day when that occurs” (Smith 1996: 302). This shift in US policy had been loudly advocated by the Cuban-American National Foundation (CANF), which firmly opposed Castro's government and was convinced that starvation and depravity were the most effective means of toppling the regime. Lisandro Pérez reports that in meetings that took place with President Clinton in the aftermath of the *balsero* crisis, CANF President Jorge Mas Canosa “insisted that the President [Clinton] stop remittances entirely. The President agreed to do it” (cited in Azcri 2000: 11).

During the mid-1990s, Congressional legislation was enacted calling for the Executive Branch to implement further controls on remittance flows to the island. Indeed, both key pieces of US legislation passed in the 1990s focused on tightening sanctions and included a section on “restricted” family remittances to Cuba. The 1992 Cuban Democracy Act—commonly referred to as the Torricelli Act— primarily directed at strengthening sanctions by banning US subsidiary trade with Cuba and deterring shipping trade to Cuban ports—also called for tightening remittances. Section 1706 of Title XVII of the Act states that “the President shall establish strict limits on remittances to Cuba by United States persons for the purpose of financing the travel of Cubans to the United States, in order to ensure that such remittances reflect only the reasonable costs associated with such travel, and are not used by the government of Cuba as a means of gaining access to United States currency.”

Similarly, Title I, Section 112 of the Cuban Liberty and Democratic Solidarity Act of 1996, commonly referred to as Helms Burton, directs that the President of the United States should,

> before considering the reinstitution of general licenses for family remittances to Cuba, insist that, prior to such reinstitution, the Cuban government permit the unfettered operation of small businesses fully empowered with the right to hire others to whom they may pay wages and to buy materials necessary in the operation of the businesses, and with such other authority and freedom as are required to foster the operation of small businesses throughout Cuba; and (b) if licenses described in subparagraph (a) are reinstituted, require a specific license for remittances described in subparagraph (a) in amounts of more than $500; and (2) before considering the reinstitution of general licenses for travel to Cuba by individual residents in the United States who are family members of Cuban nationals who are resident in Cuba, insist on such actions by the Cuban government as abrogation of the sanction for departure from Cuba by refugees, release of political prisoners, recognition of the right of association, and other fundamental freedoms.

In 1998, the Clinton Administration lifted its ban on the transfer of remittances to Cuba. After restricting remittances in the four-year period from 1994 to 1998, US policy in the latter part of the decade moved toward once again legalizing remittance flows, although maintaining tight controls on transfers. In March 1998, the President announced resumption of family remittances to Cuba at pre-August 1994 levels. Following the Pope's Visit to Cuba in January 1998, OFAC re-authorized individuals subject to United States law who have relatives residing within Cuba to send up to $300 every four months, or $1,200 annually, under a general license. Remittance policy was liberalized further the following year. In January 1999, President Clinton announced his decision to expand legal remittances by permitting any US citizens, regardless of whether or not they had close Cuban family members on the island, and non-governmental organizations to send cash remittances to Cuba. The only limits on such transfers stipulated by the regulations were that funds not go to finance senior-level officials of the Communist Party or senior-level officials of the Cuban Government. Non-governmental organizations would be licensed, on a case-by-case basis, to send larger remittances to independent nongovernmental entities in Cuba.

Following the resumption of remittances in 1998, Cuban émigrés sending private money to their families using licensed OFAC remittance agencies in the US were required to sign a remittance affidavit certifying their knowledge about US remittance policy and to provide data on the US remitter and the Cuban recipient household. Although the decision to re-authorize remittances represented a step toward loosening restrictions on official transfers, the requirement of a remittance affidavit for Cuban remittances sent an alternative message to Cuban émigrés. Given the historical context and political environment in the Cuban-American community with respect to trans-border family ties, OFAC licensing requirements represented a significant deterrent. Hard-line opponents in the Cuban-American community viewed travel and the sending of remittances as treasonous acts in support of the Castro regime that had forced their exile. Bombings and threats to remittance service providers and travel agencies engaged in "trade with the enemy" had been common occurrences during the late 1970s and early 1980s when Cuban travel agencies and remittance businesses were first opened. Since OFAC regulations

required “going public,” they provided a disincentive for remittance senders to use official channels for sending private transfers to their families in Cuba.[54]

Table 6 presents a summary, based on data released by the Office of Foreign Assets Control and reported by the US-Cuba Trade and Economic Council (2001), of the number of licenses authorizing travel, carrier and remittance forwarding services for transactions with Cuba in 2001. By 2001, OFAC had issued 273 travel-related and service-related licenses to 115 United States-based companies including American Airlines, Western Union Financial Services, and Moneygram Payment Systems. The number of remittance forwarders rose from 31 in 1992 to 96 by 2001. With the majority of these companies located in the Miami-Dade Country, there were 66 companies authorized in Florida.

Table 6. US Official Transfers to Cuba: Number of OFAC Licenses in 2001

State	Travel Service Provider	Courier Service Provider	Remittance Forwarder	Total
California	21	1	12	34
Colorado			1	1
Florida	99	21	66	186
Georgia		1		1
Illinois	2	1	1	4
Louisiana	3	1	2	6
Massachusetts	1			1
Minnesota			1	1
Nevada	1			1
New Jersey	9	1	7	17
New York	3		2	5
Puerto Rico	3		3	6
Tennessee	1			1
Texas	1	1		2
Virginia	1			1
Washington	1			1
Washington, D.C.	3	1	1	5
Total	149	28	96	

Source: US-Cuba Trade and Economic, Inc. (2001)

Citing a similar rationale and motivations used to justify previous decisions on migration and remittance policy, the US continued to hope its “pressure cooker” approach would yield results.[55] The purpose of expanding the sending of remittances to Cuban families on the island, a senior official in the State Department explained, was “intended to strengthen support for the Cuban people," to allow them "some elbow room" and "some modicum of independence” (*New York Times*: 5 January 1999). It is important to note, however, that the US did not choose to

[54] As mentioned in the introduction, the issue of “going public” and government knowledge about private activity was repeatedly raised as an issue of concern during the interviews with Cuban émigrés conducted for this study.

[55] With the death of Jorge Mas Canosa in 1997, the Cuban-American National Foundation also supported these policy changes. As quoted in the *New York Times*: “Reacting to the news in Miami, the Cuban American National Foundation, a conservative exile group, issued a statement on Monday saying that most of the measures to be announced are consistent with current policy and praised the Administration for refusing to re-evaluate US policy toward Cuba (ibid).”

liberalize flows altogether. Instead, caps on amounts were maintained and individuals sending remittances were still required to sign remittance affidavits.

US policy tightened and controlled remittances in the 1990s. Yet, officially reported flows suggest that these measures were not as successful as intended. In the period from 1994 to 1998 when the US banned remittances altogether, reported private family transfers to Cuba continued to rise, albeit at declining rates. Following re-authorization in 1998, net transfers increased by only 3%. Thus, neither the tightening nor the loosening of US policy appears to have had significant impact on the overall volume of official flows.

V. Conclusion

Since the commencement of hostilities between Cuba and the US in the early 1960s, both governments have repeatedly attempted to influence private family transfers. Initially, both governments tightly controlled these transactions, implementing restrictive policies primarily directed at domestic monetary policy, in the case of Cuba, and bilateral financial transactions, in the case of the US. However, as economic and political dynamics evolved, Cuba's policy shifted more radically from overall prohibition to leveraging remittances. The US, on the other hand, has largely continued its initial policy approach of limiting remittance flows, although there has been a loosening relative to earlier regulations governing the amounts and channels that could be used by Cuban émigrés to send funds to their families.

This paper has attempted to show that Cuba has been partially successful in attracting and channeling remittances toward the State-controlled economy. The aggregate flow of remittances and their uses are highly sensitive to macroeconomic, political, and institutional factors. In terms of the political context, remittances remained at minimal levels during periods when the Cuban government actively discouraged contact with the Cuban émigré community. In macroeconomic terms, dollar legalization in 1993 was a critical first step in shifting remittance patterns. Institutional factors were decisive in ensuring that a significant majority of the resources flowed through official channels, both directly, through development of a dollarized financial architecture and indirectly, through the creation of consumer dollar stores.

However, not all policy tools utilized by Cuba to encourage remittance flows through official channels have been effective. Only a small proportion of net transfers have been channeled to interest-bearing dollar checking and saving accounts or currency exchange bureaus. In contrast, the government has been largely successful in two areas: official transfer mechanisms and consumer spending. The opening of State-run consumer markets for food and other goods has proven to be an effective means of attracting remittance flows to the official economy. In terms of magnitude, annual dollar sales have surpassed official remittance flows. Based on official data, a higher proportion of remittances are being sent through official channels, reaching at least 40% of total officially reported flows.

Nearly a decade after reforms were initiated, however, a sizable portion of remittances are still sent through non-official channels and circulate in the extra-official economy. Based on the Cuban government's own reporting of the amount of net transfers, more than half of these total flows are still being sent through unofficial channels. Similarly, significant flows are not

being spent in the State-run economy. Finally, once these resources enter the domestic economy they create impacts, many of which are unanticipated or exert countervailing pressures to the policy goals targeted by the government. A case in point is Cuba's extra-official exchange rate with the convertible peso. As Cuba moves toward a unified exchange rate, the appreciation pressures exerted by remittance flows run counter to the country's export and tourist-oriented development strategy.

US policy toward private family transfers to Cuban relatives on the island has shifted from prohibition of these transactions to capped allowances under tightly regulated procedures. Since the early 1960s, US policy has continued to maintain Cuba's international economic isolation, but it has become less effective over time. Because Cuba has expanded its trade and monetary relations with Western and Latin American countries, it has developed direct financial transactions mechanisms that provide viable third country channels for émigrés in the US to send funds. In light of the crisis sparked by the collapse of the Soviet Union, tightening measures instituted by the US have been largely ineffective in limiting the flow of remittances to Cuba. Indeed, during the US ban on remittances from 1994 to 1998, such flows continued and even grew.

While this paper has provided evidence and assessed the effectiveness of Cuban and US government policies on the pattern of remittance flows to Cuba, there remains a need for further analysis. First, this analysis is based largely on official estimates of the volume of remittance flows to Cuba. Yet, given the significant portion of family transfers that are sent through unofficial channels, further studies need to be undertaken on the overall magnitudes and the share transmitted through unofficial channels. Second, the evaluation of the effectiveness of Cuban government policy would be improved with a cost benefit analysis examining whether the gains in official remittance flows and uses outweigh the administrative and potential political costs for the Cuban government. Finally, further research needs to be conducted on understanding the motivations of Cuban émigré senders as well as the uses of remittances at the household level within Cuba.

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