

# **Challenges and Opportunities of Marketing Remittances to Cuba**

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## Introduction

Over the last eight years, Cuba has experienced a significant inflow of foreign currency from Cubans residing in the United States. Cuban Americans both send remittances in cash or in kind and/or visit Cuba as tourists. Official counts suggest that at least three quarters of a billion remittance dollars arrived in Cuba in 2000, 90 percent of it coming from the U.S. Cuban diaspora. In fact, this number is likely to be a significant undercount and the accurate figure is likely to be nearer a billion dollars.

Table 1. Remittances to Cuba, in millions of \$US

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Amount	50	100	200	315	529	537	630	670	700	800	750

Source: Economic Commission for Latin America and the Caribbean.

In the majority of cases, remittances are transferred through a variety of informal or semi-formal mechanisms. This informality poses a challenge to money transfer companies as to how to market remittances to Cuba through their formal channels. One important reason for the reliance on informal and semi-formal means of remitting is current U.S. legislation which restricts company operations and the amounts that may legally be sent by money transfer companies. These laws also create a competitive disadvantage for the U.S. industry compared to formal counterparts such as travel agencies and Canadian firms. The individual remitters are also disadvantaged by this legislation. First, the informal sending mechanisms delay transfers and lower the value of the amount sent. Second, convenience of transfer is hindered by the unreliability of the informal sector and limited competition.

Despite these challenges, remittances have achieved an important economic role and status in Cuba. Writing in *The Washington Post* (June 3, 2002), Mary Speck argues that “the real Cuban underground is not political or intellectual – it is economic . . . Cubans are forging a noncommunist future for themselves. And they are doing so with U.S. dollars – remittances from exiled relatives or cash brought by tourists from Europe, Latin America, Canada and, despite the sanctions, from the United States.”

This report provides an overview and map of the ways and mechanisms by which remittances are sent to Cuba, the players in the market, and opportunities for the money transfer industry to penetrate the market. The first section of this report profiles Cuban American senders of remittances. The second section reviews the informal money transfer groups and offers a general overview of their structure, costs, and operations. The third section addresses the formal money transfer groups. This section reviews a range of companies operating in Cuba from the United States and Canada. The final part offers some strategies to market remittances to Cuba. The report is based on two key sets of sources. The first is an analysis of over forty money transfer companies. Second, interviews were conducted with a range of actors including officials from companies facilitating transfers to Cuba, travel agents, and more than fifteen entrepreneurs involved in the money transfer process (known as *mulas*). Cuban government officials and experts in Cuba were also interviewed for this study.

## A. A profile of money senders

According to the U.S. Census Bureau and other institutions, there are more than one million Cubans in the United States. Two-thirds of these expatriates reside in Florida, with eleven percent in Miami alone (See Table 2a-b below). Cuban Americans are widely considered to be strong supporters of the U.S. trade embargo on Cuba, and therefore could be expected to oppose sending remittances to or visiting Cuba themselves. Contrary to such expectations, however, a significant number of Cubans send remittances to their families in their home country (as well as visiting the island nation).

Table 2a. Cubans in the U.S. (by State)

	Year 2000	%
Florida	874,584	66%
New Jersey	81,011	6%
California	78,724	6%
New York	65,966	5%
Other states	215,061	17%
Total Population	1,315,346	

Table 2b. Cubans in the U.S. (by city)

	Year 2000
Miami, FL	148,272
New York, NY	43,454
Tampa-St. Petersburg-Clearwater, FL	18,977
Los Angeles-Long Beach, CA	15,380
Other	1,089,262

Source: U.S. Census Bureau, and Mumford Institute Source: U.S. Census Bureau, and Mumford Institute

A November 2001 survey carried out by the Inter-American Development Bank of Latin American immigrants residing in the United States showed that 67 percent of Cubans send remittances back home. This rate is similar to those of other Latin American immigrants. There are, however, significant contrasts between the money sending characteristics of Cubans and their Latin American counterparts.

Cubans send less than other Latin Americans based in the United States. Fifty-four percent of Cubans send under \$100 to their relatives whereas less than a third of Latin American remitters send at that level. Nearly half of Latin Americans send remittances between \$101 and \$300, but just over 20 percent of Cubans send in this range (see Table 3). These differentials are particularly interesting considering that Cuban Americans tend to earn far more than other Latinos.

Table 3. How much money do you send?

	Other Latin American Respondents	Cuban Respondents	Total
Under \$100	29.0%	53.6%	30.2%
\$101-200	27.9%	17.9%	27.4%
\$201-300	15.7%	3.6%	15.1%
Over \$301	27.5%	25.0%	27.4%

Source: IADB, Survey of Remittance Senders: U.S. to Latin America, 2001. Dataset in author's possession.

Another striking difference among Cuban senders is that they tend to send money with much less frequency. For example, about half of Latin Americans send remittances every

month and another 20 percent send money every second or third month. The combination of lesser amounts sent and lesser frequency may explain why a diasporic population comparable to that of El Salvador, which last year sent nearly two billion dollars, is sending one billion or less to Cuba.

On the other hand, considering the amount this population sent last year with what it sent ten years ago – an increase from \$50m to at least \$750m from 1990 to 2000, the flow to Cuba has grown at startling speed. This increase is all the more important considering the fact that the number of Cubans in the United States grew by only 300,000 between 1990 and 2000. In contrast, other Latino groups’ increased remitting is usually associated with much larger population shifts into the United States.

No doubt the lower rate and quantity of monies sent to Cuba are in part connected to the legal restrictions. Cuban Americans are allowed to send no more than \$1,200 per year to their families in their country of origin. Connected to the legal impediments, but also likely a factor in its own right, is the presence of a strong informal sector that possesses structural constraints in operating with regularity and efficiency.

Table 4. How often do you send money to your family in Latin America?

	Other Latin Americans	Cubans	Total
Once a month	45.60%	15.00%	43.80%
Four to six times a year	21.60%	25.00%	21.80%
Two to three times a year	9.60%	12.50%	9.80%
At least once a year	8.40%	17.50%	8.90%
Once every few years	8.20%	17.50%	8.80%
Don't know	6.70%	12.50%	7.00%
Total	100.00%	100.00%	100.00%

Source: IADB, Survey of Remittance Senders: U.S. to Latin America, 2001.

The informality of the money transfer process is another distinguishing feature of Cuban senders and one that merits closer scrutiny. Looking at the IADB survey, it is apparent that Latin Americans tend to use a wide range of formal money transfer mechanisms, such as international money transfer companies like Western Union and MoneyGram, to country-oriented companies, as well as smaller so-called ‘ethnic stores.’ Only to a lesser extent do these immigrants use informal mechanisms such as travelers, couriers, or carriers.

The level of formality in transaction processes is influenced by or is partly a function of a number of features. These characteristics include the prevailing infrastructure of the receiving country, the volume and demand for money transfers, and the presence of a regulatory environment that invites (or inhibits) free competition within an industry. Remittances to countries like Haiti and Cuba are usually sent more informally. As the table below shows, nearly half of Cubans tend to send remittances through travelers or *mulas*, as they are known in the country. It is also interesting to note, however, that a

significant percentage of the Cuban Americans sending money said they have used Western Union to transfer remittances.

Table 5. How do you usually send money to your family?

	Other Latin Americans	Cubans	Total
Send money by mail	14.4%	3.6%	13.9%
<b>Send money by WU</b>	<b>30.2%</b>	<b>32.1%</b>	<b>30.3%</b>
Send money by MG	11.1%	-	10.6%
Send money through a bank	14.8%	-	14.0%
Send money through a credit union	5.8%	10.7%	6.1%
<b>Send money with people who are traveling back home</b>	<b>13.3%</b>	<b>46.4%</b>	<b>14.9%</b>
Don't know / No answer	10.4%	7.1%	10.2%

Source: IADB, Survey of Remittance Senders: U.S. to Latin America, 2001.

While the IADB study suggests that 46.4 percent of Cuban Americas send remittances with *mulas*, experts in the field in Cuba (business representatives, academics, and government officials) estimate that the percent flow of remittances to Cuba via informal mechanisms reaches the much higher amount of 80 percent. This estimate has also been corroborated by experts working on the U.S. side who argue that the participation of their companies in the total market of nearly one billion remittances doesn't reach more than 5 percent.<sup>1</sup>

## **B. The informal money transfer process: a family affair**

The money transfer process depends on numerous factors which may vary in different countries and contexts. These factors include the type of technology employed (electronic transfer, fax, e-mail, etc.), the existence of an efficient distribution network (bank, money transfer organization, people), the location where the company operates, prevailing regulations on both ends, and the monetary instrument delivered (cash, money order, checks). In most Latin American countries, at least 70 percent of the money transfers occur electronically (Orozco 2002). These transactions mostly result from money transfer organizations operating in ethnic neighborhoods sending cash under highly scrutinized regulations (see Figure below).<sup>2</sup>

<sup>1</sup> Interview with government officials, Cuban academics, as well as with industry officials in the United States. Officials from Western Union and MoneyGram agree that their participation in the market is very small. Officials at CIMEX maintain that Western Union's main competitor, El Espanol, does not have a larger share than WU.

<sup>2</sup> Interview with head of the National Money Transmitters Association, New Jersey.

Sending institution

Receiving institution

Bank

Bank

70% of transfers are electronic

MTO

Bank

MT agency

Traveler

Delivery person

In contrast, Cuban remittances occur predominantly in an informal context. The majority of Cubans, as reflected in Table 5, choose to send remittances through informal mechanisms, particularly through *mulas*. This section will analyze the informal sector by looking at the profile of the *mula*, the types of services offered, lines of operation, fees and operating costs, distribution process, and estimates of market share.

*Mulas and the services they offer*

*Mulas* are entrepreneurs, men and women, who are Cuban Americans and foreign nationals (Mexicans and Colombians among others) who can and do travel with ease and frequency to the island. They carry both money and packages of goods to Cuba for relatively inexpensive fees to Cuban relatives of the senders. They are known through word of mouth, through the references of relatives, acquaintances, and friends who recommend them as ‘reliable’ people to send packages of any kind.

*Mulas* go to Cuba predominantly as tourists, as they are informal entrepreneurs without a license to operate as a business. However, they have a well established network of contacts from Miami residents and businesses, to customs officials in Cuba, and to the distributors of goods.

There is no single type of *mula* and their numbers may run in the thousands. (Exact numbers of *mulas* cannot be calculated.) Some *mulas* are salaried and employed by a particular entrepreneur who hires them to travel back and forth to Cuba. There are also *mulas* who are sole proprietors of their informal remittance businesses and who work with family networks in the United States and Cuba. Depending on the business size, some of these sole proprietorships have an informal financial infrastructure in Cuba which they utilize to have their distribution operations active at any time. Carrying a significant pool of thousands of dollars, and using a fax machine, these individuals transmit messages to their Cuban counterpart with the coordinates of where to deliver money and to whom. In other cases, the individuals who have less capital available travel with greater frequency and arrange the money to be delivered by their relatives. In general, regular *mulas* tend to travel to Cuba twice a month.

Finally, *mulas* may be sporadic travelers or entrepreneurial travelers. The sporadic traveler is a person who is approached by an entrepreneur to arrange delivery of money. Instead of earning a salary for the operation, their trip is paid for in exchange for carrying money and in-kind remittances. There are many individuals, particularly low income Cubans and the elderly, who find this to be a practical and useful means to enable them to visit their relatives in Cuba. These sporadic or occasional *mulas* may only conduct such operations once a year.

It is also important to stress that many of the formal money transfer businesses make use of the *mulas* as their distribution network in Cuba. The main reason for this is that given the regulatory constraints as well as the capital investment requirements to establish agencies in Cuba, it is more convenient for the licensed business to rely on the *mula* to deliver the money. In this sense, there is a semi-formal money transfer process in place.

Table 6. Types of *mulas* traveling to Cuba

	Salaried	Sole proprietor	Sporadic traveler/Entrepreneurial traveler
Travel agency or MTO	Hundreds, tend to travel twice a month	Hundreds, tend to travel often	---
Sole proprietor	Hundreds, tend to travel twice a month	Less than a hundred, travel twice a month	Thousands, one to two a day travel to Cuba

Central to the existence of *mulas* is trust. People who send remittances to Cuba rely on *mulas* because of their reputation, low cost and relative efficiency in delivering the money within a reasonable amount of time (no more than three days following arrival to the country, unless outside Havana). The popular consensus of the work performed by a *mula* is shared widely in the community, further reinforcing their reputation. *Mulas* as well as sporadic travelers are intertwined in social networks of various kinds, from neighborhood links to work connections to national bonds.

*Lines of operation*

People working in the business of sending remittances to Cuba use various venues from which to travel to the island. Trips to Cuba take place from the United States as well as from third countries. If traveling from the United States, there is a luggage restriction of forty pounds. Many travelers prefer to use a third country to avoid the forty lbs. limitation that airlines require. Three of the most common third countries chosen to travel to Cuba are Jamaica (Montego Bay, using Jamaica Air), Mexico (various destinations), and Bahamas (Nassau, using Bahamas Air and Cubana).

The decision to travel via a particular country depends on how regular the *mula* travels to the island, the amount of goods carried, the relationship with custom agents in Cuba, the number of available weekly flights to Cuba, and the costs of travel. The least expensive

trip is Miami to Havana, which usually costs less than \$300. There are a minimum of twenty-five flights going to Havana from the United States, carrying an average of seventy people per flight. During heavy periods, such as summer and Christmas, the number of trips increases to thirty-eight with a large majority of travelers being Cuban-Americans. *Mulas* generally prefer to travel from Miami, but take into account availability and the above-mentioned factors in making their choice of departure country (and city).

Table 7. Weekly direct flights to Cuba by city and charter company

Route	Number per Week	Charter Company	Miami	NY	LA
Miami-Havana	17	Marazul	3	2	
Miami-Camagüey	2	ABC	4		
Miami-Cienfuegos	2	Wilson	5		
Miami-Santiago	1	Xael	3		
Miami-Holguin	1	Gulfstream	3		
TOTAL MIAMI-CUBA	<b>23</b>	C & T	5		
JFK-Havana	2	CTS			1
LAX-Havana	1	TOTAL	23	2	1
TOTAL US-CUBA	<b>26</b>				

Source: US-Cuba Trade and Economic Council. Note: A member of the American Society of Travel Agents confirmed that there are, in fact, 38 weekly flights US-Cuba in August 2002.

Most of the *mulas* interviewed said that they travel twice every month and their choice of route varies from time to time. Two important issues they stressed as determinant of their choice of travel are the weight restrictions and their relationship with Cuban customs officials. This latter point is important, as the regular entrepreneurs, salaried or sole proprietors, rely on establishing a good relationship with customs agents who facilitate their arrival into the country without penalties charged on the goods brought.

#### *Fees and operating costs*

The fee structures as well as the operating costs are difficult to assess. However, interviews with different individuals suggest that there are certain standard prices and costs involved in money transfers. Fees appear to be fixed among *mulas* but will differ depending on whether they are taking cash or in-kind remittances. In the case of cash, the fee charge is \$10 for \$100 and \$15 for \$200. With regards to in-kind remittances, people charge between \$10 and \$12 per pound of goods.

Cuban entrepreneurs reportedly carry somewhere between \$6,000 and \$10,000 per trip. The table below shows the fees and costs to send \$200.<sup>3</sup> If the amount sent is below \$200, the entrepreneurs would incur a loss, unless the *mula* was carrying more than \$10,000. Moreover, if the trips are made from cities other than Miami, the costs increase significantly. It therefore seems as though *mulas'* profits are derived mostly from the

<sup>3</sup> In contrast, and based on information emerging from interviews, *viajeros* (Salvadoran *mulas*) to El Salvador, carry between \$15,000 and \$20,000. According to the Vice President of El Salvador, there are about 4,000 Salvadoran *viajeros* who work in the non-electronic wire transfer business (Interview with Carlos Quintanilla, Vice President of El Salvador, February 2002).

packages they carry, which in combination with the charge of remitting cash, can produce a decent revenue. This finding is underscored by and is consistent with many *mulas* having pointed out that entrepreneurs offer individuals free tickets in exchange for carrying the goods, further lowering costs (and increasing profits).

Table 8. Fees and cost estimates of cash remittance transfers by mulas from Miami

<b>Aggregate amount carried per trip</b>	<b>\$ 6,000</b>	<b>\$ 7,000</b>	<b>\$10,000</b>	<b>\$10,000</b>
a. Average amount immigrant sends	\$ 200	\$ 200	\$ 200	\$ 100.00
b. Fee per amount sent	\$ 15	\$ 15	\$ 15	\$ 10.00
c. Number of packets	30	35	50	50
d. Sum of fees per trip (b x c)	\$ 450	\$ 525	\$ 750	\$ 500.00
e. Additional payment for local delivery (@\$2 per envío)	\$ 60	\$ 70	\$ 100	\$ 100.00
f. Plane ticket from Miami	\$ 300	\$ 300	\$ 300	\$ 300.00
<i>Profit margin [d-(e+f)]</i>	<i>\$ 90</i>	<i>\$ 155</i>	<i>\$ 350</i>	<i>\$ 100.00</i>

Source: interviews with entrepreneurs, airline contacts.

The tables below summarize the range of charges and the minimum operating costs one informal operator would likely incur in transferring both goods and cash remittances. These are approximations based on calculations of figures provided by individuals interviewed. The charges and revenues would vary depending on the actual combined amounts and pounds of goods carried.

Table 9. Fees charged to cash and carry goods to Cuba

Number of cash deliveries or packets	30	35	50
a. Sum of fees per trip (from Table 8 line 'd')*	\$450	\$525	\$750
b. Pounds carried	40	60	80
c. Fee per pound	\$12	\$12	\$12
d. Total fees for in-kind remittances (b x c)	\$480	\$720	\$960
e. <i>Total fees earned - in cash and in-kind (a + d) but excluding expenses</i>	<i>\$930</i>	<i>\$1,245</i>	<i>\$1,710</i>

Note: \*these charges are assuming the mula is carrying six, seven, or ten thousand dollars. In practical terms there are a range of total fees resulting from the combination of carrying a given quantity and goods. For example, a person carrying 80 pounds but only \$6,000 in cash would make \$1,470.

Table 10. Operating Costs and Revenues to carry goods and cash remittances

Operating costs for x deliveries	30	35	50
a. Plane ticket from Miami	\$300	\$300	\$300
b. Plane ticket from other city	\$550	\$550	\$550
c. Visa to Cuba	50	50	50
d. Exit tax	25	25	25
e. Room and board (during the stay)	30	30	30
f. Distribution network payments (\$2)	\$60	\$70	\$100
g. Other charges	15	15	15
<i>h. Total costs from Miami (a+c..g)</i>	<i>\$480</i>	<i>\$490</i>	<i>\$520</i>
<i>i. Total costs from other ports(b..g)</i>	<i>\$730</i>	<i>\$740</i>	<i>\$770</i>
<b>j. Total revenue -Miami (table 9e – a)</b>	<b>\$450</b>	<b>\$755</b>	<b>\$1,190</b>

<b>k. Total revenue-other ports (table 9e– b))</b>	\$200	\$505	\$940
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Importantly, these charts show that the actual revenue a *mula* can likely obtain in this business is relatively low considering the time, effort, and even risk the person has to expend and incur in order to conduct the operation. There may also be other costs such as possible fines if and when customs officials stop the *mulas*.

*Distribution process: customs, family relations, networks.*

How do *mulas* distribute remittances? The distribution process operates in the articulation of a social network of contacts that starts on the sending side. *Mulas* operate by word of mouth; they announce their next trip to Cuba to neighbors, acquaintances; and to local merchants in corner stores. (The corner stores of Miami’s Cuban neighborhoods are important points of information dissemination.) Thereafter, senders contact the *mulas*, usually by telephone, and the sender visits the *mula* at a given place (their home in the majority of cases, or a business locale or a public venue less often) where the transaction is made.

Once the person has collected the goods and cash, he or she gives this news to their contact in Havana, which in the majority of cases is a relative. The contact receives information about the date of arrival, what goods are being brought, and the length of the *mulas* stay. In some cases, *mulas* also contact a custom officer with whom they are acquainted to help them enter the country without paying duties on the goods carried. This latter method is very similar to most other Latin American countries where informal traders make the same type of arrangements.

Upon arrival, the *mula* and the relatives distribute a list with addresses and names of recipients. The entrepreneur pays the relatives somewhere between \$2 and \$4 per delivery of remittances, both cash and in-kind, which also covers the costs of the taxi or gasoline for transportation. The delivery of goods takes between two to four days from arrival, depending on the volume and quantity of cash and goods carried and the number of deliveries. In some cases, the person receiving remittances arranges with the *mula* to take back to the United States. an *envío* of a small parcel, such as a letter or gift to the sender.

The distribution process is an imperfect one as it is based on informal networks of individuals who participate in the process directly and indirectly. The imperfect nature of this process does not mean that it is completely inefficient, however. Customers feel assured that they can trust the safety of their money and also that it will arrive within a short period of time. Therefore it is considered to be a reliable business: the money arrives, and it reaches the recipient in a relatively timely manner. However, from a business perspective, these are not very profitable and efficient schemes. The net revenue earned is limited and, given the informal nature of the activity, does not allow entrepreneurs to expand beyond their family and acquaintance structures.

### *Market share*

Experts and members of formal and informal remittance businesses believe that there are thousands of people involved in the remittance trips. According to some officials, only 25 percent of remittances go through the regular channels of CIMEX operations.<sup>4</sup> The thousands of additional dollars in cash and goods are in no small part due to the number of sporadic travelers who carry goods in exchange for their travel expenses. The table below looks at the approximate values carried by *mulas* in a given year.

Looking at other countries' experiences with sophisticated formal and informal markets, given the money restrictions on the formal system, and comparing these numbers to the existing information compiled for the Cuban case, the number of people involved in the informal Cuban market as *mulas* may reach at least three thousand. Based on an average carried of \$7,000 per trip, this means this group carries and transmits up to \$400m to \$600m per year. This upper figure is consistent with the CIMEX assessment. It is possible that this figure might overstate the role of the informal remittance sector, because European tourists often send themselves money while vacationing in Cuba.<sup>5</sup>

Table 11. Estimates of amounts carried by the informal sector

Number of mulas by aggregate amount carried per year	1500	2000	3000	4000
\$120,000	\$180,000,000	\$240,000,000	\$360,000,000	\$ 480,000,000
\$140,000	\$210,000,000	\$280,000,000	\$420,000,000	\$ 560,000,000
\$200,000	300,000,000	\$400,000,000	\$600,000,000	\$ 800,000,000

Note: the amounts correspond to the number of trips (20) times the total sum carried per trip (\$6,000; \$7,000 or \$10,000).

### **C. Money Transfer Operators to Cuba: small competition**

Sending remittances through formal mechanisms to Cuba is a recent phenomena. First, U.S. government restrictions prevented Cubans from sending money home. Second, the stressful relationship that has historically existed between the Cuban community in the United States and Cuban society and the state discouraged anyone from sending cash. Third, trust as well as the early existence of *mulas* to provide this service were factors that did not compel the community to demand an alternative money transfer business.

However, three major changes in the past five years have contributed to allow for the development of what now is an incipient money transfer business by formal companies. First, the increasing process of dollarization of the Cuban economy, as part of its coping

<sup>4</sup> Interview with CIMEX officials. CIMEX stands for Corporación Importadora y Exportadora, S.A.

<sup>5</sup> Non-family remittances come from tourists when short of cash. Cuba is a heavily dollarized economy, and increasingly is also accepting the Euro in the streets as foreign exchange, but more importantly, it is an economy that depends on cash for most economic transactions. Credit based transactions, while increasingly dominant, continue to have a much more secondary role in the business process, including in the tourist economy.

with integration into the global economy, has led to a Cuban demand for foreign currency. Second, continued migration from Cuba as well as an increasing development of transnational ties resulting from a reconnection of families and communities through trips, phone calls and remittances, has given more impetus to continued exchange. Third, U.S. government restrictions have eased at the family tie level, allowing for some exchanges such as travel and remittances. The easing of these restrictions has been widely welcomed by the Cuban-American community.

*Type of businesses and fees to send money to Cuba*

U.S. companies that wish to formally transfer money to Cuba are required to have a license conferred by the U.S. Treasury Department. The government maintains a list of companies that legally transfer remittances. This study reviewed these approximately 100 companies listed by the Office of Foreign Assets Control of the Treasury Department. (Among those businesses, a large portion includes travel agencies offering remittance transfers. Like the informal money transfer entrepreneurs, travel agencies rely on local individuals in Cuba who are contracted to deliver the money. These individuals are associated with or employed by the travel agency counterpart in Cuba.) Of these companies, thirty-two were contacted for this study to learn about the fees they charge and how they deliver money in Cuba. (The list of thirty-two companies is presented in the appendix).

According to customers and industry contacts, the most popular companies remitting to Cuba are Western Union (WU), MoneyGram (MG), El Español, and Ria Envía. These companies likely account for no more than 15 percent of the market share. Companies that are strictly Money Transfer Operators (MTOs) employ different types of agents and maintain at least an office. The three most established businesses are WU, MG and El Español.

These companies tend to charge higher fees than the fees charged by informal operators or to other (formal) markets in Latin America (See Figure 1). The average charge reported among all thirty-two companies to send \$200 was \$28.00. National money transfer companies like Western Union and MoneyGram charged lower prices than travel agencies. Table 12 shows the fees charged by the thirty-two businesses. In asking travel agencies about their higher prices, many responded that this was a special service they provided and the higher cost was due to the difficulties of operating the business in Cuba. Table 13 shows that there is a significant fee variation among travel agencies; 40 percent of them charge over \$26. In fact, as Table 12 shows, their variation is large, as shown by the standard deviation of \$8.69.

Table 12. Fees charged by businesses remitting to Cuba

	Mean	Maximum	Minimum	Std Deviation
NMTO (Western Union, MoneyGram)	25.25	27.00	23.00	1.71
Ethnic store/ Travel agent	28.20	50.00	15.00	8.69

Source: Data compiled by the author based on the review of over thirty MTOs.

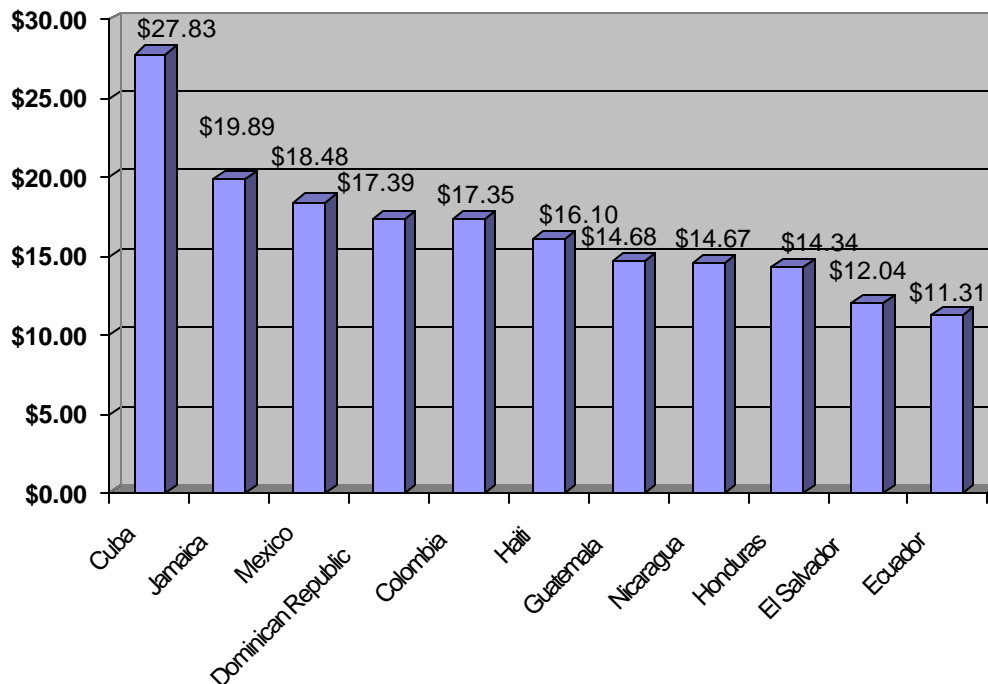
Table 13. Range of fees charged by businesses

	Type		Total
	NMTO	Ethnic store/ Travel agent	
Under \$20		14%	13%
\$21-25	50%	39%	41%
\$26-30	50%	25%	28%
Over \$30		21%	19%
Total	100%	100%	100%

Source: Data compiled by the author.

Although these travel agencies may only represent one-tenth of the total flow of remittances, they are comprised of a relatively large number of businesses and are quite diffuse, and therefore represent a competitive segment in a very imperfect market.

Figure 1. Average total charge to send \$200, June 2002



*Form of operation*

There are an array of different business practices among the various remittance companies in Cuba. Many of the U.S.-based companies (but excluding Western Union, MoneyGram, Uno Money Transfer, and Ria Envía) work with a Cuban government

agency, American International Services (AIS), which operates as a money transfer clearinghouse. After the money is sent through AIS, the agencies each proceed to distribute their own clients' money. Larger companies have many offices throughout Cuba. Like Western Union, Ria Envía has 180 offices in the whole country and offers its services to other companies like the Asociación Yoruba Bantu.

El Español and other similar stores use money orders. In the case of El Español, the money is sent to Cuba once a week and the agent delivers the money every Sunday. In other cases, money is deposited in a bank account which is then withdrawn to deliver the remittance. Some companies like Havana Express and Hernández send the money to a bank from where the customer withdraws it. In other cases such as Antillas Express and Caribe Express, businesses allow senders to pay for the remittance using a credit card, but charge an additional 2 percent to 5 percent fee.

Importantly, not all businesses deliver the money to a house. Fifty percent of businesses offer that service (see Table 14), one-third require customers to pick up the money at the agency or a bank, and one-tenth offer innovative services such as smart cards and withdrawal from ATMs. The home delivery service is significantly more expensive than for other countries in Latin America. In the Dominican Republic, for example, the cost of delivering money to a house is less than \$2.00. In Cuba, home delivery may cost an extra \$10 (for example, Iracuba and Machi Community), and a further \$5 is charged when the money is delivered to the provinces.

Table 14. Methods of remittance delivery

	Mean	Maximum	Minimum	Percent
Pick up at office, bank	25	30	23	33%
Home Delivery	30	50	20	53%
ATM, Debit or Smart Card	23	28	15	10%
Internet-Canada	36	36	36	3%

#### *Innovations*

The Internet and smart cards are two important innovations in remittance transfers to Cuba, and analysts expect that these transfer methods may increase in importance. Some Canadian companies, for example, offer money transfers via the Internet. Cuban Americans are better educated and have greater access to the Internet than their other Latin American counterparts and therefore are likely to feel comfortable sending remittances in that way. U.S. companies like Cash2Cuba or QuickenCash are also offering money transfer services via the internet. These services, however, are among the most expensive in the market.

MoneyGram has partnered with the debit card Transcard which is earning popularity among customers. Its popularity is partly due to its convenience and lower expense than travel agencies. The card functions as an account that allows people to withdraw money at available ATMs, banks, and other stores that honor the debit card in the country.

Overall, the formal remittance transfer industry to Cuba appears highly competitive due to the variety of businesses offering the service, the ways in which the service is offered, and the cost variation. In part, this competition is enabled by the fact that these are generally small businesses that target a particular segment of the Cuban population in Miami and seek to maintain their loyalty. In other words, the businesses focus their activities in specific neighborhoods and suburbs as local ethnic stores. This condition makes it harder for nationally-oriented businesses to compete in those areas already captured by the local markets.

#### **D. Perspectives**

What are the prospects for this market in the near future? The prevailing structure of the remittance market is particularly cumbersome given the presence of a large informal sector and a diffuse formal market. Moreover, family remittances to Cuba continue to be a political issue, both in Cuba and in the United States. In this sense, a preliminary observation would suggest that it is unlikely that opportunities to improve the money transfer business to Cuba will emerge. However, three important processes may suggest otherwise: continuity of exchange, improving connections, and the effect of social networks.

##### *A growing flow of remittances and other goods*

Remittances to Cuba have not declined or slowed. On the contrary, there has been a significant increase in the number of *mulas* and companies transferring remittances to the country. This is partly due to the continued transnational interconnections that have been established between Cuban-Americans and their families in Cuba.

In recent years, the number of Cuban Americans traveling to their home country has increased dramatically, reaching the figure of some 200,000. The large majority of travelers from Miami's 30-plus flights are Cubans going back to their home country. Moreover, learning from the experience of other societies with large emigrant populations and significant levels of linkage, tourism is an important indicator of the interconnection between a diaspora and its homeland. In the Cuban case, it is likely that 20 percent of the tourist population is Cuban American. This tourism is suggestive of a growing demand for other forms of exchange between Cubans in the United States and Cuba. Tourism, transportation, telecommunications, and transfer of remittances are the four most important methods of connectivity. People will continue to send money in increasing numbers and will seek to provide for the acquisition of other, sumptuary items. Remittances will therefore play an important role in supplying that demand.

Cuba is entering the earlier or developing stages of the money transfer business as countries like El Salvador, Guatemala, and the Dominican Republic did ten years ago. At that more initial stage, informal businesses prevail and people tend to send limited amounts as they are not yet familiar with the transfer process. Despite the political and economic constraints Cubans face—U.S. government limitations on amounts that may be

sent and Cuban government controls of the formal transfer process—a critical mass of senders are entering the remittance market. They are very likely to demand more effective and formal transfer mechanisms over time. Moreover, the growth in numbers of senders will likely exhaust the capacity of *mulas* and the demand will increasingly shift into other money transfer regimes. An additional likely change will occur via the growing use of electronic transfers using smart cards.

*Improving connections: regulatory environment and infrastructures*

The Cuban economy is increasingly adopting the dollar and the Euro as their main sources of foreign currency and more importantly as national tenders of exchange. Most goods are purchased or measured in dollars and the state is reluctantly moving towards enabling an environment by which dollar transactions operate more fluidly. To that effect, an electronic infrastructure is being set in motion to facilitate dollar transactions in real time. As the country modernizes its financial infrastructure to attract foreign currency,<sup>6</sup> its diaspora will access those mechanisms to send money to their relatives. The entrance in the market of smart cards and debit cards will likely gain more acceptance among senders and recipients due to their ease and convenience of use.

Furthermore, the legislative debate in the U.S. Congress continues to call for an easing of the embargo (including lifting travel restrictions against ordinary Americans and lifting the cap on remittances), suggests that further pressure will result in reducing some of the U.S. constraints. Although lifting the embargo is unlikely, relaxing the restrictions by increasing the remittance cap may be more possibly.

*Remittances and social networks: a political strategy for a democratic transition*

Remittances are helping to stabilize a society hurt by economic crisis and the inequalities generated by a bureaucratic power structure. Senders are aware of the benefits remittances have and the effect they have on not just individual family members, but the development of social capital. As remittances help people cope with austerity and scarcity, they are also helping contribute to strengthen a market economy that is silently taking shape.

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<sup>6</sup> One illustration of this is the government's attempt to increase its earnings from tourism.

## Appendix

### Companies analyzed in this report

Almacen El Español  
Antillas Express  
Asociación Yoruba Bantu  
Barabara's Enterprises  
Caribe Express  
Caribbean Family & Travel Services  
Cash2Cuba  
Chichy's Envíos  
Cojimar Express Services  
Costa Cuba  
Cuba Envíos Rápidos  
Cuba Express Travel  
Duales  
Español Accounting Service  
Exportaciones Cubanacan  
Havana Express  
Hernández  
Iracuba  
La Palma Envíos  
Machi Community Services  
Mambi International Group  
MoneyGram (Transcard)  
Playa Azul  
Quickcash-Transcard  
R and Family Services  
Ria Finance Service  
Sol del Caribe  
Solexpress  
Tampa Envíos  
Uno Money Transfers  
Va-Cuba  
Western Union