Entrepreneurial Activity in Cuba’s Private Sector

**SEASONAL EMPLOYMENT LICENSES ISSUED**

<table>
<thead>
<tr>
<th>Year</th>
<th>Licenses Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>147</td>
</tr>
<tr>
<td>2011</td>
<td>392</td>
</tr>
<tr>
<td>2012</td>
<td>394</td>
</tr>
<tr>
<td>2013</td>
<td>425</td>
</tr>
<tr>
<td>2014</td>
<td>480</td>
</tr>
<tr>
<td>2015</td>
<td>496</td>
</tr>
<tr>
<td>2016</td>
<td>535</td>
</tr>
</tbody>
</table>

**NON-STATE SECTOR ESTIMATED TO BE 1/3 OF THE LABOR FORCE**

<table>
<thead>
<tr>
<th>Category</th>
<th>Estimated Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensed Entrepreneurs</td>
<td>535,000</td>
</tr>
<tr>
<td>Unlicensed/Part-Time Entrepreneurs</td>
<td>500,000+</td>
</tr>
<tr>
<td>Private Farmers &amp; Cooperatives</td>
<td>575,000*</td>
</tr>
<tr>
<td>Joint Venture Employees</td>
<td>50,000</td>
</tr>
<tr>
<td>Total Estimated Non-State Licensees</td>
<td>1,660,000</td>
</tr>
</tbody>
</table>
| Estimated % of Cuban labor force in private sector | 32%+

**LICENSES ISSUED BY TYPE OF ACTIVITY**

- Room/Other Rentals: 51%
- Telecom Agents: 9%
- Food-Related: 11%
- Transportation: 20%
- Contractors (Majority in Food/Lodging Sectors): 22%
- Other Services: 56%

**MOST IMPORTANT SECTORS BY REVENUES AND EMPLOYMENT**

- Restaurants (“Paladares”):
  - 4,000+ and growing
  - Up to 50 seats each
  - State largely exiting this sector
- Bed & Breakfasts (“Casas Particulares”):
  - 28,000+ rooms (vs 62,000 hotel rooms) and growing
  - Tourism growth is strong and State/Joint Venture hotels are near capacity
- Transportation: Taxi and Private Drivers

**NUMBER OF LEGAL FORMS OF SELF-EMPLOYMENT: 201**

- Only 27% of Licenses are for Skilled Workers & Professional Services

**CO-OPERATIVE SECTOR**

- Co-operatives are legal entities (unlike self-employment), which are self-governing.
- Traditionally in agriculture, non-agricultural co-ops allowed since 2012, but approval process slow
- Restricted to the 201 self-employment categories
- By statute, have access to wholesale markets and can import/export, but not yet in practice
- Agricultural cooperatives (5,500) still dominate, but non-agricultural cooperatives growing faster (498 approved, 329 operational): farmers’ markets, construction, transportation and light manufacturing.
**Opportunities and Challenges Facing Cuba’s Entrepreneurs**

**CUBA HAS THE MOST EDUCATED, LOW COST LABOR FORCE IN THE WORLD...**

<table>
<thead>
<tr>
<th>Cuba</th>
<th>U.S.</th>
<th>Literacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.8%</td>
<td>99.8%</td>
<td></td>
</tr>
<tr>
<td>14 yrs</td>
<td>16 yrs</td>
<td>School Life Expectancy</td>
</tr>
<tr>
<td>6.72</td>
<td>2.45</td>
<td>Doctors Per 1,000 People</td>
</tr>
<tr>
<td>1.17%</td>
<td>0.90%</td>
<td>Public Spend of IT R&amp;D (%GDP)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$20-30 per month</th>
<th>Cuban State Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50-500 per month</td>
<td>Cuban Non-State Wages (estimated)</td>
</tr>
</tbody>
</table>

**BUT PROFESSIONAL SERVICE OPPORTUNITIES FOR THIS WORKFORCE ARE VERY LIMITED**

- **Licensed Professional Services:** Computer programmers, accountants, translators, real estate and insurance brokers, language/music/art tutors
- Medical and educational sectors are state monopolies; not only is no self-employment allowed, no foreign investment is permitted.
- Other professional services (engineers, lawyers, architects) cannot be self-employed, although "creative" use of licenses is common; many professional service cooperatives pending approval.

**DRIVERS OF PRIVATE SECTOR GROWTH ARE ACCELERATING...**

- Rapidly expanding tourism; visitors reached 4 million for 2016, 13% over 2015
- Private restaurants, room rentals, and guides/drivers taking significant market share from State entities
- U.S. citizen and Cuban American visits combined exceeded 500,000 in 2016, second only to Canadians.
- Large remittance flows of cash and merchandise (estimates vary from $3-6 billion)
- Remittances account for an estimated 70-80% of the capital invested in businesses.
- The liberalized real estate market is creating capital as Cubans buy/sell properties; although buyers must legally be residents, foreign capital is flowing in.

**CUBA HAS A LARGE SURPLUS POOL OF COMPUTER SCIENCE TALENT...**

- Graduating 4,000+ IT engineers annually, far in excess of available positions in the State sector
- As a result, many active in start-ups or as contractors
- They excel at "lean" software programming and "off-line" mobile apps.
- Private wages for IT workers increasing, but median monthly pay estimated to still be less than $500
- U.S. regulations now allow contracting of private sector IT and other professionals.

**BUT THERE ARE SEVERE RESTRICTIONS**

- No wholesale markets; all supplies and equipment must be purchased retail, brought in by travelers’/”mules” or sourced from the black market
- State monopoly on exports/imports
- Remittance transfer costs are high (12-18%); when dollars are brought in and exchanged, there is a 13% charge.
- U.S. banking compliance systems lagging new regulation, still blocking/delaying newly allowed transfers
- Onerous taxation of self-employed: sliding scale up to 50% personal tax rates, only 10-40% of costs deductible; tax on every worker after 5. Cooperatives can deduct all costs and pay a 15% tax on profits, so much more attractive
- State banks beginning to lend but still small (est. $15 million in 2016)

**BUT INTERNET ACCESS IS VERY LIMITED**

- Internet penetration is only 5% for global internet; higher, but still small for domestic internet
- Now over 200 public wifi hot-spots, cost of $1.50/hour (expensive for residents); residential access very restricted
- Most e-commerce sites blocked
- There are approximately 3.5 million mobile phones for a population of 11 million, 2G network; smart phones increasingly common; SMS widely used
- Most digital data distributed off-line by flash drive enabled “paquete” system

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