

Microfinancing and Microloans for Cuba

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A “credit culture” has barely been developed in Cuba over the past fifty years, and has primarily been focused on state enterprises and, to a much lesser extent, private farmers and agricultural cooperatives. As of in 2007, 70% of financing had been concentrated in state enterprises, while private farmers received only about 1.5% of the total financing.

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Micro finance and microloan institutions have been widely used throughout the world but not in Cuba, which has recently begun to embrace them. In Cuba, this type of financing is generally identified with financial products and services primarily geared toward micro and small businesses, their owners and employees.¹

DIFFERENCES WITH LATIN AMERICA

Although different from the characteristics of a typical microlending institution in Latin America, from conceptualization to mode of operation, in Cuba such an institution is created by the state, which follows and is framed in a process of “relative acceptance” of market forces, under a state-owned banking system and where possible defaults by loans recipients would be assumed by the state.

Table 1. Characteristics of microloans. Comparison Cuba-Latin America

	Rate of Interests	Guarantees	Amount of the Loan
Latin America	Up to 195% ²	More than 50% of the amount	Open
Cuba	4.25% and 9%	More than 80% of the amount for loans higher than 5 000 CUP	3000 CUP— Undetermined ceiling

Source: Own. Based on data from the Microfinance Information Exchange Market and Banco Metropolitano de Cuba.

¹ These are generally: microloans, micro-savings, micro-health and life insurance, money transfers and solidarity group lending requirements, pre-loan savings, micro-leasing, new and modern instruments and payment systems. Microloans in very small amounts (less than 100 USD) without legal commitments to be returned to individuals mostly women micro-entrepreneurs.

² Rate used by Banco Compartamos, in México.

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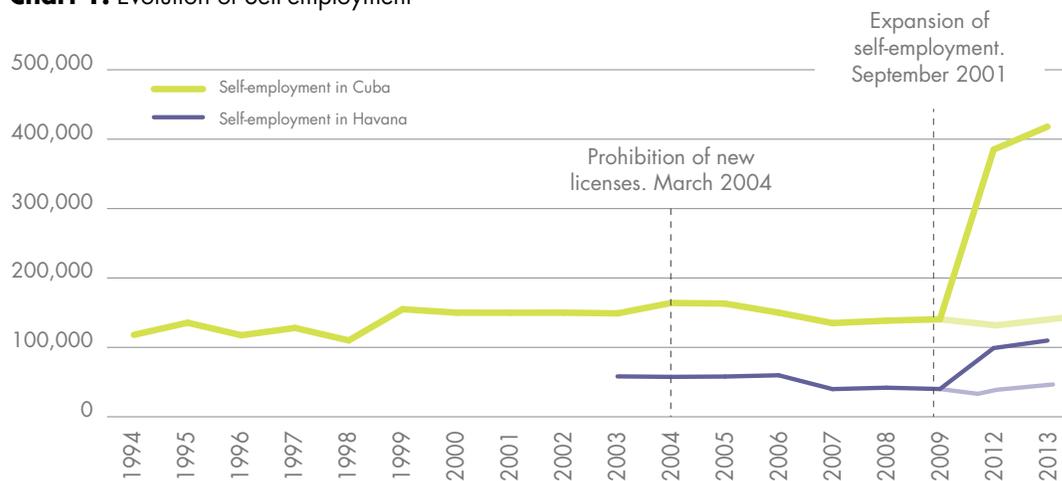
The most evident differences are those of different interest rates and guarantees. In fact, the differences in interest rates which seem to favor Cuba, might suggest a rapid expansion of the loan portfolio. There are also institutional differences (in Cuba only the banking sector is involved, but in Latin America, the state and non-government and non-regulated institutions participate).

Due to the absence of specialized microfinance institutions on the island, such activities are carried out solely by the Banco Central de Cuba (BCC) through two of its subordinate units, Banco Metropolitano (BANMET) for clients from the capital city of Havana, and Banco de Desarrollo (BANDES) for customers from the rest of the country.

THE “SUBJECTS” OF MICROLOANS IN CUBA

The expansion and evolution of self-employment, which has already reached over 400,000 participants, suggests that this is a relatively consolidated process. Although limited by several reasons, from conceptual issues related to their possible impact on the actual macroeconomic performance of the country as a whole (which is starting to clear in terms of its ability to provide employment opportunities), to the real obstacles associated with logistical weaknesses and restrictions that hinder its own greater dynamism.

Chart 1. Evolution of Self-employment



Source: ONEI, AEC 2011.

It is also true that we are facing an institutional learning process and there have been regulatory changes and “incremental upgrades” of the legal framework (for example, transactions between state companies and the self-employed) that consolidate the guarantees for the future of the sector and stimulate individual growth of these new businesses.

There has also been some degree of “sophistication” of the services generated by the private sector, and the growth of business in this sector, along with emerging service and product chains—also private—mainly in the nation’s capital, but not just limited to it.

We should also add the recently born real estate market, which last year recorded more than 45,000 home sales with prices ranging from 5,000 to half a million CUC, and the used car market, with a high demand for cars to be used as “taxis,” and the high rate of return of such “small businesses.”

Finally, the recently announced decision to create a non-agricultural cooperative sector should also contribute to new business, even if that creation process is still limited in number. The creation of 220 non-agricultural

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cooperatives was announced with the first 126 already created, 110 of which are agricultural markets that have become cooperatives, five are transport cooperatives, and the rest are cooperatives for construction and remodeling.

This combination of new realities is a factor that should increase “demand” for products and microfinancing services, of which microloans have been the first to appear in the national economy, hand in hand with the new transformations being made.

THE FACTS

It is unquestionable that the microfinancing initiative in the Cuban economy is a step in the development of financial institutions in the country, and above all a very positive step to promote the private sector, given its growing needs.

The results of these first steps, however, are far removed from the expectations. Less than a hundred loans for small businesses, for working capital or investment in equipment, have been awarded across the country.

While it is true that the credit culture is weak, and that there are difficulties in obtaining guarantees and for these to be accepted by the banks, the fact remains that there is a surprising low demand for credit in Cuba, even more if we consider that the average income of the Cuban population (in pesos) is significantly low. The country’s capital offers the best example.

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Chart 2. Microloans in the Province of Havana.

Behavior of Financing in the province of Havana.	April 2012	January 2013
Total applications received by banking institutions	1235	1812
Including: from independent workers	7	13
Approved by Loan Committees	933	1015
Including: from independent workers	2	3
Loans under execution by independent workers	2	3

What are the reasons for this low preference for financing, under significantly favorable conditions such as those offered currently by the banking system to independent workers?

Research carried out in the city of Habana, home to 25% (about 110,000 microentrepreneurs) of all self-employed individuals across the country, reveals several shortcomings.

Institutional: underdevelopment of microfinancing services and inadequacy of the institutional structure, which are reasons undeniably linked to the “youth” of the sector.

Associated to the underdevelopment of the credit culture: polls show that more than 85% of members of the the self-employed sector are not aware of the existence of microloans, while the rest of the industry that could have information related to financing, completely ignores the requirements and conditions to be met to request credit.

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The lack of an economic culture within the population results in over 90% of the independent workers in Havana having no intention of submitting their financial statements to the banking authorities, although this could also be due to the fact that some of the products needed to carry out activities are provided by the informal market.

Monetary distortion problems: the loans offered by the banks are only granted in CUP and up to 5,000 CUP without collateral, while most of the supplies needed to carry out most activities related to food and many others must be purchased legally in CUC. Therefore, given that the current exchange rate is 24 CUP to 1 CUC, businesses with costs higher than 200 CUC would need to present collateral backed loans, increasing the cost of loans for the self-employed. It should be noted that 95% of the sector has to apply for credit guarantees.

A macroeconomic analysis would find other reasons, and not just for the country's capital.

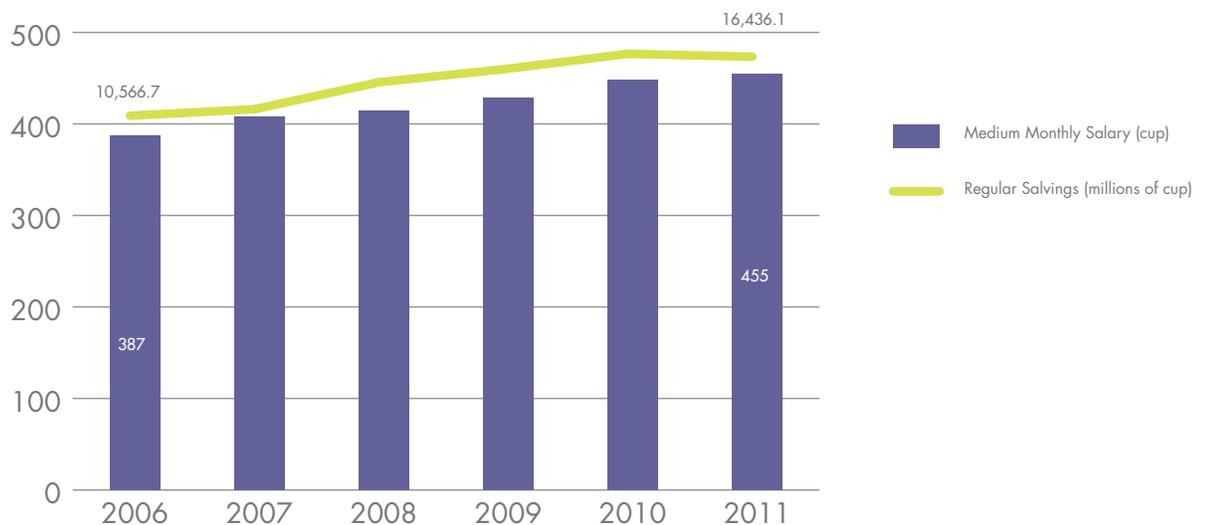
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GROWING PROCESS OF CONCENTRATION OF WEALTH:

The average salary in 2011 amounted to 455 Cuban pesos (CUP). However, even if it seems contradictory, there has been a substantial increase in deposits to savings accounts.

Chart 3. Evolution of salary and savings.



Source: ONEI, AEC 2011.

While the average salary grew by only 17% in the last five years, savings accounts have increased by 55%, which indicates a growing process of wealth concentration in the country.

To this we must add “foreign” funding. The Havana Consulting Group estimates total remittances received in Cuba during 2012 at \$2.605 billion in cash, an increase of 13.5% over 2012. Add revenues from shipments of packages and food, medicines, appliances and other inputs from abroad (remittances in kind), and the total is estimated at \$5.105 billion. Beyond the accuracy of the figures, it is a fact that some of the financing of

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new businesses (in cash or in kind) comes from outside sources (migrant or not), at a lower cost than those offered by the Cuban banking system or very lower collateral requirements, since they are part of a “family survival strategy.”

Relatively low capital requirements “investments:” basically associated with the “quality” of the authorized business, which except for certain cases will not require a considerable investment.

This combination of factors would explain why more than 16 months after Cuba launched its microloan program, “demand” has been significantly low.

A larger aperture to this sector, an increase in “jobs” and the emergence of a true sector of small and medium enterprises that occupies a significant place in production chains, in combination with state enterprises, could substantially change the demand for loans.

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JUAN TRIANA

Juan Publio Triana Cordoví (1954), Professor of the *Centro de Estudios de la Economía Cubana*, Master in Cuban and Latin American Studies and PhD in Economics. Obtained undergraduate degree in Economics in 1977. Has taught at the School of Economics of the University of Habana since 1977.

From 1995 to 2004 he was Director of the Center for Studies on the Cuban Economy .

Dr. Triana has written more than twenty books as author and co-author on issues related to the Cuban Economy and Economic thought. He has published more than 40 articles in books and magazines edited in Cuba and abroad and he has participated in numerous national and international events related to the Economic Development of the Cuban Economy. He has been travelling professor and US, Canada, British universities, as well as in other countries in Europe.

He has received the following recognitions for his scientific work:

National prize in Social Sciences in 1996 from the *Ministerio de Ciencias, Tecnología y Medio Ambiente de Cuba*, as co-author.

National prize in Economics “Raúl León Torras” 2002, *Asociación Nacional de Economistas de Cuba*.