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FEATURED Q&A

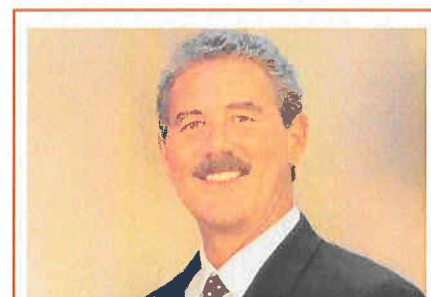
What Would Be the Effects of Lifting Cuba Remittance Restrictions?

Q During her US Senate confirmation hearing last month, US Secretary of State Hillary Clinton said it was a goal of the Obama administration to lift the restrictions on sending remittances to Cuba. How would lifting the restrictions affect competition within the money-transfer industry? Would it put informal couriers ("mulas") out of business? Would lifting the restrictions significantly change the quality of life for Cubans who receive remittances from the US?

A **Board Comment: Manuel Orozco:** "Lifting restrictions on remitting is an important US foreign policy decision. Based on a recent study by the Inter-American Dialogue, the impact of the restrictions on remittances to Cuba has been felt at various levels. First, from 2005 to 2009 informal fund transfers increased from 22 percent to 42 percent. Second, 47 percent of Cuban immigrants remitting to Cuba say the restrictions affect their ability to help their families due to the limitations to send to only some immediate relatives and the cap on the amounts sent. Third, the cost of remitting has not only increased (\$25-\$29 to send \$200, the highest in Latin America and the Caribbean) but also 73 percent of Cuban remitters see cost being the major problem they face when sending money. Within this context, lifting the restrictions would reduce costs of remitting and

increase competition. The number of competitors making transfers decreased after 2004 as a result of the restrictions because licenses to transfer to Cuba were not issued and some companies couldn't continue offering the services. The end result has been a significant concentration of the market on few companies and a trend of the use of informal networks. Cubans feel significantly pressured by the restrictions, not only because of the US regulations but also by the response of the Cuban government, which imposed a tax on remittances and forced recipients to

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Head of Stanford Financial Accused of 'Massive' Fraud

R. Allen Stanford was charged with orchestrating a fraud connected to the sale of \$8 billion worth of certificates of deposit. Last week, Stanford told employees he would "uphold our good name." See story on page 2.

File Photo: Stanford Financial Group.

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convert the transfer into the local Cuban convertible peso. Remittance recipients have faced increasing costs of living and

“Lifting the restrictions would reduce costs of remitting and increase competition.”

— *Manuel Orozco*

reversing the regulation would no doubt help them cope with those costs. Moreover, these recipients have started to accumulate savings, which is becoming an important source of asset building in the long term, a condition that in turn will allow them to be prepared for a future regime transition.”

A **Guest Comment: Juan C. Villa:** “President Obama's proposal to remove restrictions on remittances to Cuba raises the old question: who will benefit the most, the Cuban people or the regime? There is no doubt that in today's economic cli-

“Regardless of a change in policy on the existing money transfer limitations to Cuba, the [underground] market may continue”

— *Juan C. Villa*

mate, those who can still afford to send money to their relatives will provide them with some relief. As long as only a few privileged companies are able to provide money remittance services to the island and keep a quasi-monopoly, there will be a significant number of under-

ground 'mules' who every week bring millions into the island. Because the Cuban regime imposes a penalty for the use of American currency, other currencies are favored by the exchange rate such as the Euro and Canadian dollar, and this may be a determining factor that influences the continuation of the underground money transfer trade through mules even if restrictions are removed. This penalization of the US dollar has created an underground market for foreign currency which is usually imported into the US to be carried by mules to their final destination in Cuba. It is therefore evident that regardless of a change in policy on the existing money transfer limitations to Cuba, the market may continue, perhaps marginally affected by the ongoing recession.”

A **Board Comment: Richard Child:** “Formal money-transfer channels are more efficient and predictable and would likely raise the standard of living in two key ways. Efficiencies can be passed on to end consumers through better prices, transparent fee structures and the possibility of enjoying a broader range of financial services. More predictable services are likely to have a compounding effect on the volume of funds sent to the country. Making these services accessible through familiar and trusted channels is critical to success in any market, which suggests *mulas* may still have a role to play.”

Manuel Orozco is a member of the Financial Services Advisor board and Director of the Remittances and Development Program at the Inter-American Dialogue.

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