



“MICROFINANCE IN CUBA”

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COLLOQUIUM ECONOMIC TRANSFORMATION IN CUBA
THE CUBA PROJECT/BILDNER CENTER

Introduction

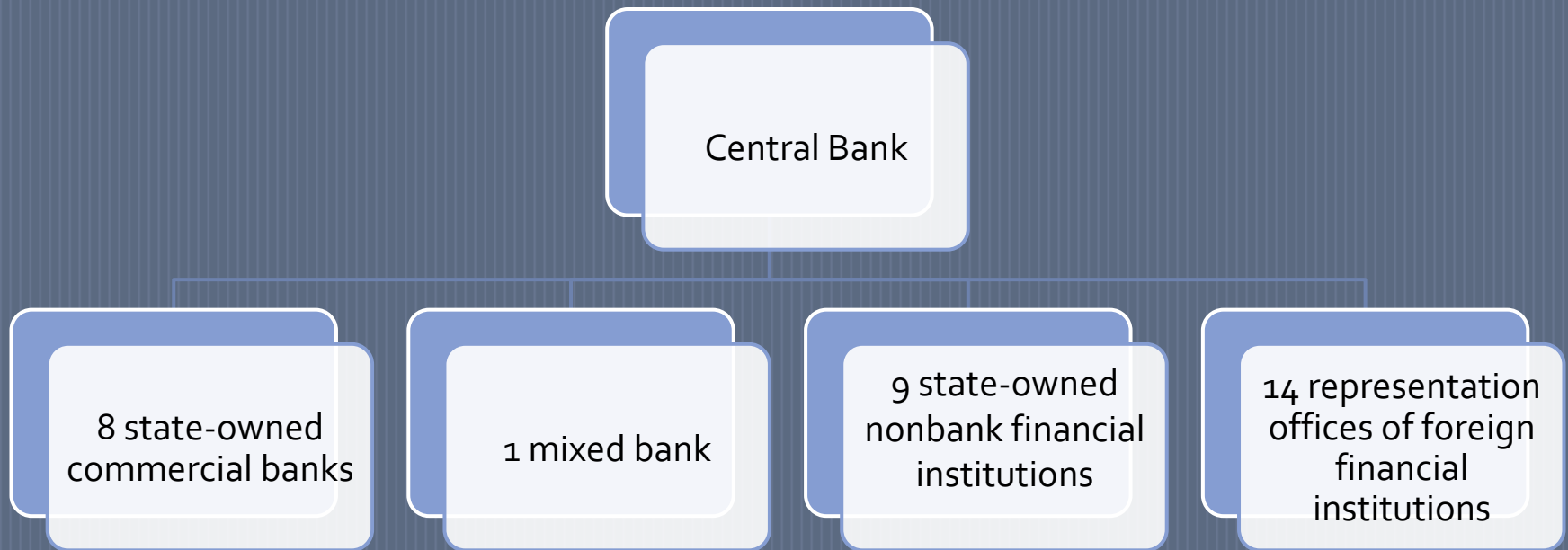
- A central piece of the current reform of the Cuban economic model is the creation of alternative spaces for small-scale private sector and cooperatives, besides the agricultural sector where they already existed.
- Since 2011, there is a new credit policy for those economic actors.

Presentation outline

1. The new credit policy
2. Impacts and challenges

Cuban financial system

- Previous banking reform in the 1990s.

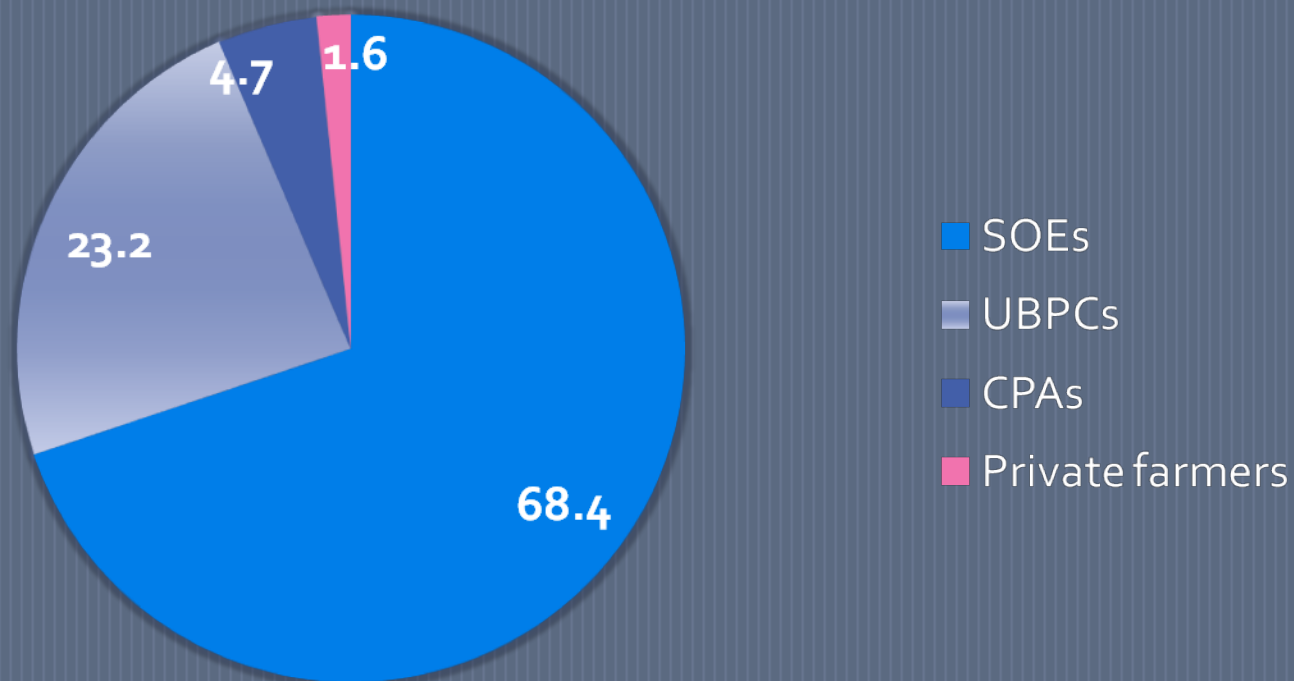


- Since the 1990s banks gained autonomy in the selection of customers, risk management and credit decisions; under certain parameters and general credit policy defined by the Central Bank.

Credit policy in 1990s and 2000s

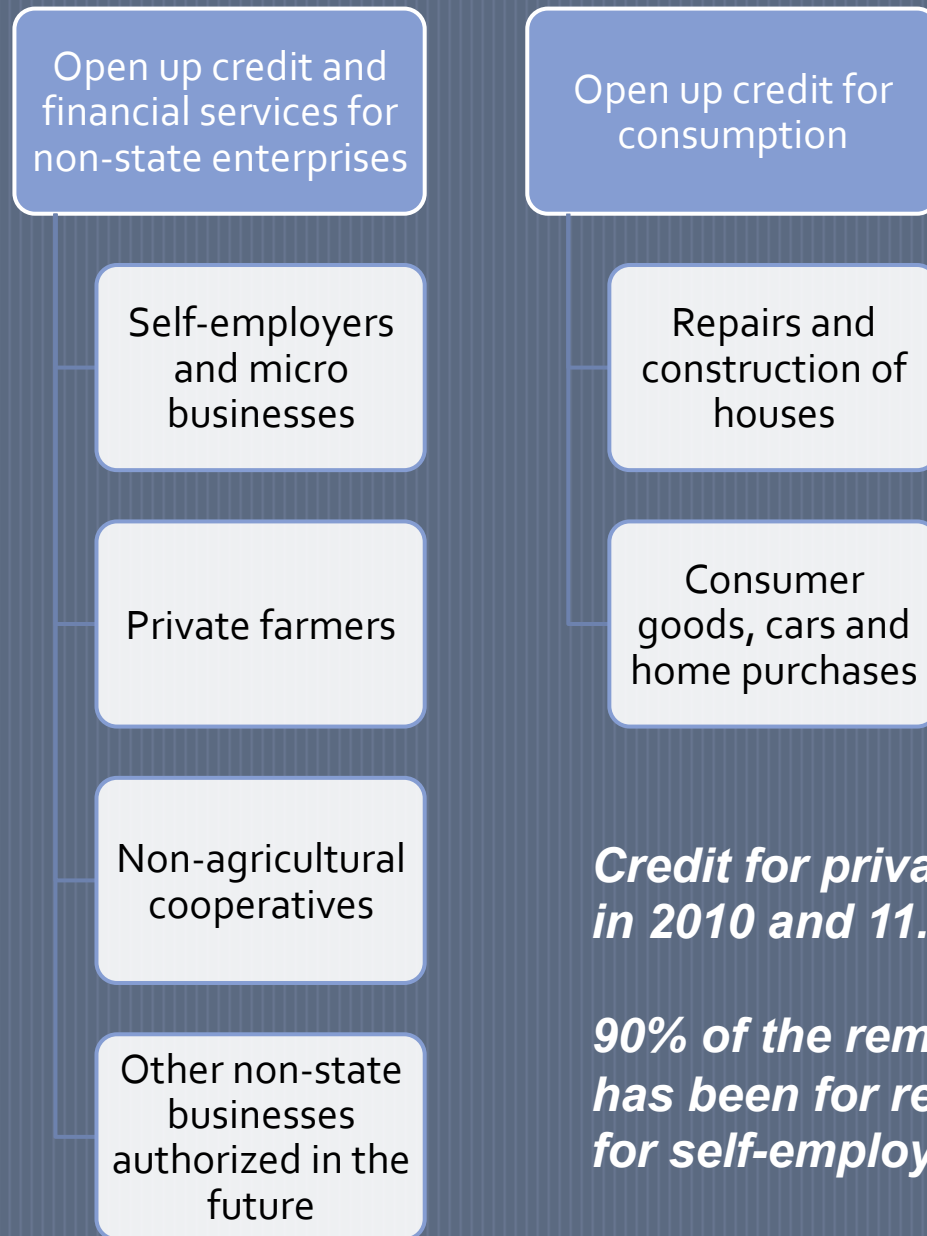
- Self-employed individuals have never had access to credit, and private farmers have had very limited access.

Credit in CUP for businesses, 2007 (%)



- Credit for consumption was very restricted.

New credit policy since 2011



Credit for private farmers increased 84% in 2010 and 11.3% in 2011 (up to March)

90% of the remaining new credit demand has been for repairing homes. Only 10% for self-employers and micro businesses

Characteristics of the new credits

Interest rates

- The Central Bank establishes a range for interest rates depending on credit purpose and term.
- The range goes from 4.25% to 9%.

Amount and terms

- There is no upper limit for the loan amounts, only minimum.
- The maximum term is 5 years.

Collaterals

- Bank deposits of the applicant or of a third party, moveable goods, future incomes, others
- Mortgages of permanent home are not allowed.

Three banks will address these credits: BANDEC, BPA and Banco Metropolitano

Potential positive impacts

- New financial resources for private business.
- A proliferation of informal finance would be avoided.
- Increased efficiency in the allocation of financial resources.
- Reinforce the credit mechanisms and the domestic market as driver of economic growth.
- Reduce operational costs of private businesses and make viable their links with state enterprises.
- Facilitate legal control, particularly fiscal evasion.

The challenges of microfinance

- The new credit policy in Cuba can be classified as an opening in favor of microloans and microfinance.
- International microfinance faces challenges in many aspects:
 - scope
 - cost
 - collateral
 - technology
 - banking supervision
 - the actual goal and sustainability
 - the roll of public banks
 - others
- Cuba will have to deal with some or all of them.

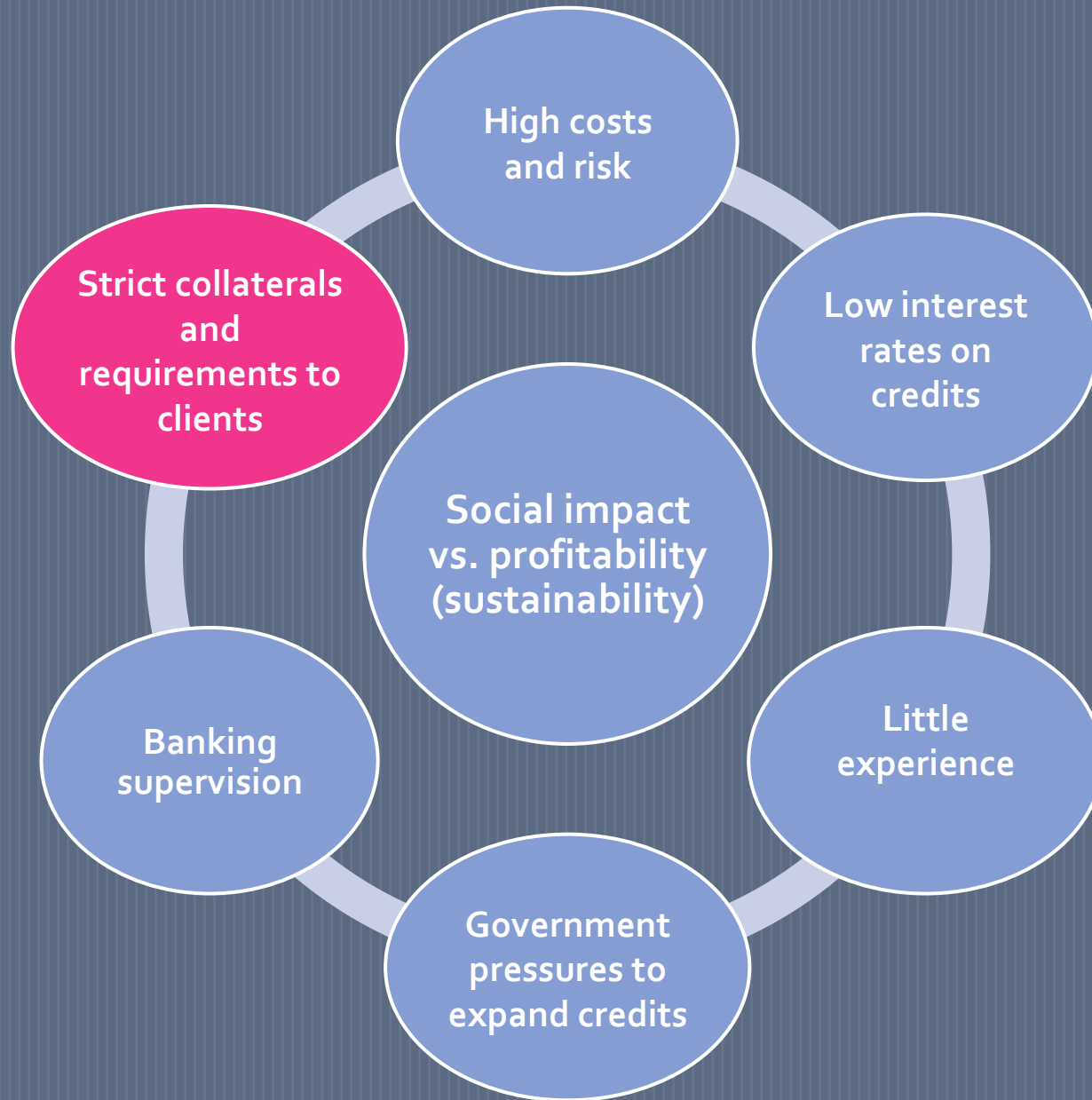
Institutional and structural weaknesses

- Cuban banks have little experience in microfinance. They need new credit scoring and information systems and different types of credit analysis.
- It requires a learning process.
- Existing banking services have limited support for online or telephone banking, magnetic cards and ATM. Delay in the country's telecommunication infrastructure.
- Restrictions on the private sector: little access to a wholesale market for inputs and importation.
- Domestic financial weaknesses.

Strengths to assume microfinance

- Regulated financial institutions will address the microloans. The Central Bank (banking supervision) already established new rules for bank's credits.
- They can provide not only microloans but other microfinance services.
- They can take advantages of the economies of scale.
- The high level of social development in the country.

Microloans: the dilemma of state banks



Complementary policies and supports

- State-owned banks cannot afford to provide microfinance development on their own. Banks need to form alliances with local organizations, NGOs, UN programs, universities, among other entities.
- Entrepreneurs need different kind of support, not only in the financial sphere. Special programs for *start-ups*.
- Financial institutions must build multiple microfinance services: micro-leasing, micro-factoring, remittances-linked services, etc.
- Alternative policy: Establish a microloan bank specialized in that market segment and/or allowed the creation of mixed capital microloan institutions.

Conclusions

- The new credit policy represents a signal of the actual acceptance of new players within the Cuban economic model. It will have a favorable impact in their performance, though modest in the short run.
- The Cuban economic and institutional systems have strengths and weaknesses when it comes to their ability to provide microfinance.
- State-owned banks will probably set strict collateral and financial solvency requirements for their clients to cope with their dilemmas.
- Significant and sustainable expansion of microloans is unlikely without complementary policies and supports.



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