



December 2016

# CUBA

## U.S. Policy Changes Increased Engagement with Private Sector, but Agency Information Collection Is Limited

# GAO Highlights

Highlights of [GAO-17-201](#), a report to congressional requesters

## Why GAO Did This Study

In the more than 50 years since it established an embargo on Cuba, the U.S. government has pursued a policy designed to isolate Cuba's communist regime. In December 2014, the President announced a significant change in U.S. policy. Since then, the U.S. government has restored diplomatic relations with Cuba and modified some aspects of the U.S. embargo. The Cuban government has also implemented economic reforms in recent years to allow for certain private sector activity. While much of Cuba's economy is still state-controlled and the U.S. embargo on Cuba remains in place, developments in recent years have created new opportunities for U.S. economic engagement with Cuba.

This report examines what is known about (1) the size and scope of the Cuban private sector, (2) the effect of changes to U.S. legal and regulatory restrictions on the Cuban private sector and U.S. businesses, and (3) the extent to which the U.S. government has planned and implemented activities to increase U.S. engagement with the Cuban private sector and expand U.S. economic opportunities in Cuba. GAO analyzed U.S. government and other assessments of the Cuban private sector, analyzed Cuban government data, interviewed U.S. federal and nonfederal Cuba experts, and conducted fieldwork in Cuba.

## What GAO Recommends

GAO recommends that State, in consultation with key agencies, take steps to identify and collect information to monitor changes in economic engagement resulting from the shift in U.S. policy. State concurred with the recommendation.

View [GAO-17-201](#). For more information, contact David B. Gootnick at (202) 512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov).

December 2016

## CUBA

# U.S. Policy Changes Increased Engagement with Private Sector, but Agency Information Collection Is Limited

## What GAO Found

The Cuban private sector has grown rapidly since 2008 but remains small compared with other economies and faces various constraints. The Cuban private sector includes (1) self-employed entrepreneurs, (2) agricultural cooperatives and other private farmers, and (3) nonagricultural cooperatives. Cuban government data indicate that the percentage of the Cuban workforce in the private sector has grown from 17 percent in 2008 to 29 percent in 2015. However, the Cuban private sector is smaller than in 16 comparable countries GAO analyzed. It is also still highly constrained by the Cuban government and faces challenges, including a lack of access to needed supplies and equipment.

### Examples of a Cuban Private Sector Restaurant, Bookseller, and Auto Repair Shop



Source: GAO. | GAO-17-201

U.S. regulatory changes have created some new opportunities in Cuba, but economic engagement is still limited. The U.S. government has made six sets of regulatory changes since December 2014 to ease restrictions on travel, remittances, financial services, and trade with Cuba. For example, the Department of Commerce created a new export license exemption to facilitate U.S. exports that support the Cuban people, including the private sector. The regulatory changes have generated U.S. business interest; however, relatively few commercial deals have been completed. In addition, U.S. trade with Cuba has decreased, driven by declining agricultural exports, which have been legal since 2000. Changes in remittance and travel regulations are expected to benefit the Cuban private sector through increased capital and purchases from U.S. visitors. Although the regulatory changes have created some new opportunities for U.S. businesses and the Cuban private sector, embargo restrictions and Cuban government barriers continue to limit U.S.-Cuba economic engagement.

U.S. agencies have conducted a range of activities to support U.S. policy changes; however, embargo restrictions, resource constraints, and Cuban government priorities affect their ability to support U.S. businesses or engage the Cuban private sector. Within these limitations, the Department of State (State) and other U.S. agencies have engaged with the Cuban government, U.S. businesses, and the Cuban private sector. Among other things, they have established memoranda of understanding with the Cuban government, hosted events with Cuban entrepreneurs, and promoted training opportunities. However, U.S. agencies have not collected and documented key information on the Cuban economy, the effects of regulatory changes, and agency activities, in accordance with federal standards for internal control. Without collecting and documenting information, agencies risk being unable to monitor and assess changes over time in economic engagement with Cuba, including with the private sector.

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### Abbreviations

BIS	Bureau of Industry and Security
CACR	Cuban Assets Control Regulations
CDA	Cuban Democracy Act of 1992
Commerce	Department of Commerce
CUC	Cuban convertible peso
CUP	Cuban peso
EAR	Export Administration Regulations
GDP	gross domestic product
ICS	Integrated Country Strategy
ILO	International Labour Organization
LIBERTAD	Cuban Liberty and Democratic Solidarity Act of 1996
MOU	memorandum of understanding
OFAC	Office of Foreign Assets Control
State	Department of State
Treasury	Department of the Treasury
TSRA	Trade Sanctions Reform and Export Enhancement Act of 2000
TWEA	Trading with the Enemy Act of 1917
UMI	upper middle income
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USITC	U.S. International Trade Commission
USTR	U.S. Trade Representative

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December 15, 2016

The Honorable Charles B. Rangel  
Ranking Member  
Subcommittee on Trade  
Committee on Ways and Means  
House of Representatives

The Honorable Tom Emmer  
House of Representatives

On December 17, 2014, President Obama announced a major shift in U.S. policy toward Cuba. For more than 50 years, the U.S. government had primarily pursued a policy designed to isolate Cuba's communist regime politically and economically. Under the new approach, the U.S. government has reestablished diplomatic relations with Cuba; removed Cuba from the list of state sponsors of terrorism; and reduced restrictions on travel, remittances, and commerce. The President also stated his intent to take a number of steps designed to support the Cuban people, including Cuba's emerging private sector, which has grown as the Cuban government has implemented some market-oriented reforms and granted greater economic freedoms to Cuban citizens. However, much of Cuba's economy remains controlled by the state, and information about the Cuban private sector is more limited than for most countries. In addition, many U.S. legal restrictions on economic activity with Cuba remain. As a result, policymakers have raised questions regarding the size and scope of the Cuban private sector and the extent to which the U.S. government and U.S. businesses could effectively engage with Cuba.

You asked us to review U.S. government activities to support the Cuban private sector and facilitate U.S. businesses' economic engagement in Cuba. Specifically, this report examines what is known about (1) the size and scope of the Cuban private sector, (2) the effect of changes to U.S. legal and regulatory restrictions related to Cuba on the Cuban private sector and U.S. businesses, and (3) the extent to which the U.S. government planned and implemented activities designed to increase U.S. engagement with the Cuban private sector and expand U.S. economic opportunities in Cuba.

To address these objectives, we analyzed U.S. government reports; assessments by academics, think tanks, and other relevant organizations; and Cuban government employment data to examine the size and

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composition of the Cuban private sector and how the private sector has changed over time. To assess the reliability of Cuban employment data, we interviewed U.S. officials and Cuba experts familiar with the data and examined how the data had been used in other assessments of the Cuban economy. We determined that the data were sufficiently reliable for the purposes of this report. We also conducted interviews with U.S. officials, experts on Cuba, U.S. business association officials, and representatives from the Cuban embassy in Washington, D.C., to gain additional information on the Cuban private sector, including key factors affecting its development. To examine the effect of changes to U.S. legal and regulatory restrictions related to Cuba on the Cuban private sector and U.S. businesses, we analyzed relevant laws and regulations governing the U.S. embargo on Cuba and interviewed agency officials, U.S. business association officials, and Cuban private sector representatives. In addition, we analyzed U.S. government reports, strategies, and other documents and interviewed U.S. government officials to identify steps agencies have taken to plan and implement activities to increase U.S. engagement with the Cuban private sector and expand U.S. economic opportunities in Cuba. In assessing agencies' efforts to increase economic engagement with the Cuban private sector, we compared their actions with GAO's *Standards for Internal Control in the Federal Government*.<sup>1</sup> Principle 13 of these standards states that agencies should use quality information to achieve their objectives. We also interviewed U.S. agency officials and Cuba experts to determine what is known about the impact U.S. legal and regulatory restrictions have on the U.S. government's ability to directly engage with the private sector or support U.S. businesses' engagement efforts. Finally, we conducted fieldwork in Cuba, including interviews with representatives from the Cuban private sector, to obtain additional information on the Cuban private sector and U.S. activities to support it. Appendix I provides a detailed description of our scope and methodology.

We conducted this performance audit from January 2016 to December 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe

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<sup>1</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

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that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

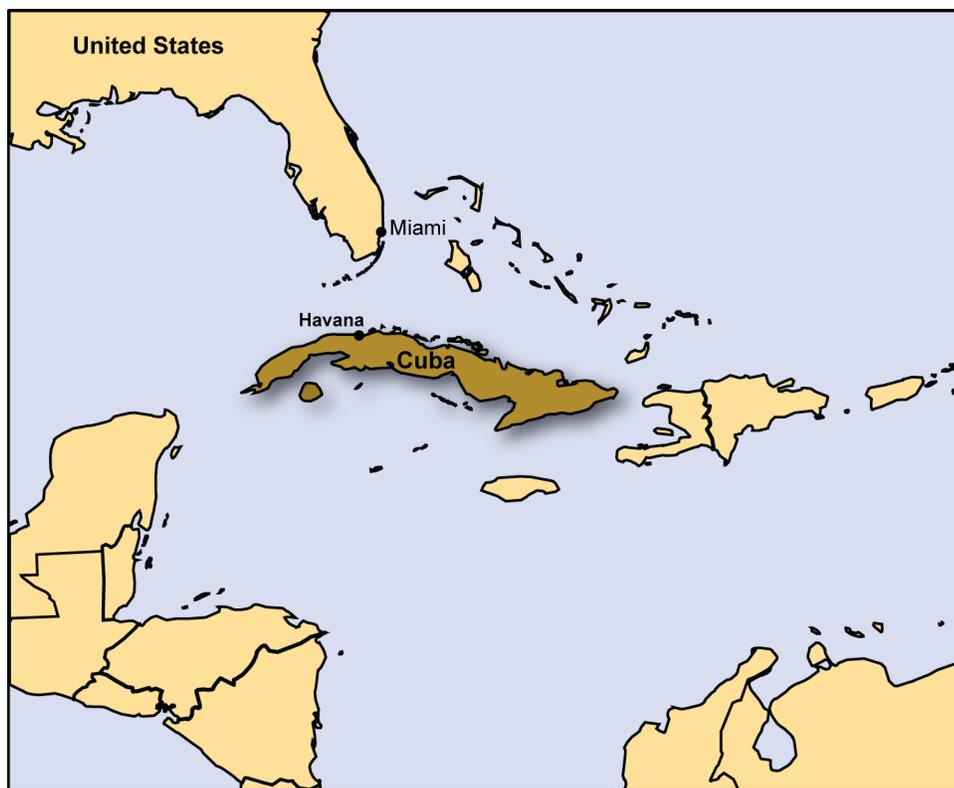
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## Background

### Background on Cuba

Cuba is the largest Caribbean nation, with a population of more than 11 million people and an area of about 111,000 square kilometers (slightly smaller than Pennsylvania). Cuba lies approximately 90 miles south of Key West, Florida. See figure 1 for a map of Cuba.

**Figure 1: Map of Cuba**



Source: GAO; Map Resources (map). | GAO-17-201

### The Cuban Economy

According to the World Bank, Cuba's gross domestic product (GDP) was estimated to be \$77.15 billion in 2013. However, widespread uncertainty exists about the accuracy of data on Cuba's economy, including GDP

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figures. As a nonmarket economy where the government is largely responsible for setting prices and wages, it is challenging to assess Cuba's economic performance using typical economic indicators. Cuba also has a dual-currency system that distorts information on the Cuban economy because multiple exchange rates are used internally within the country, which results in the mispricing of various transactions, among other things.<sup>2</sup> In addition, Cuba is not a member of international financial institutions, such as the World Bank and the International Monetary Fund, and is thus not subject to regular reviews of its economy, including its economic and financial data, as is typical of countries that are members of these organizations.

Cuba's key trading partners are Venezuela, the European Union, and China. Cuba is a net importer of goods. According to reporting by the U.S. International Trade Commission (USITC), Cuba imported a total of \$9.3 billion in goods in 2014.<sup>3</sup> Cuba relies on imports to meet its energy needs. Cuba also imports almost 80 percent of its food. Although Cuba is a net importer of goods, it is a net exporter of services. According to the USITC, Cuba's exports of commercial services were \$12.3 billion in 2014 compared with service imports of \$2.5 billion in that same year, a net surplus of \$9.8 billion. Cuba's largest service exports are medical services and tourism.

The Cuban government has sought to attract additional foreign investment in recent years. In March 2014, the Cuban government passed an updated law governing foreign investment and, in November 2014, published a list of 246 projects for which it was seeking a total of over \$8 billion in foreign investment. In November 2015, the Cuban government published an updated list of 326 projects, for a total of \$8.2

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<sup>2</sup>Cuba has two official currencies: the Cuban peso (CUP) and the Cuban convertible peso (CUC). The CUC is pegged to the U.S. dollar at 1:1. The Cuban government pays workers in CUPs, and the CUP is also used by Cubans to purchase domestically produced goods. Imported goods and most tourism-related services are priced in CUCs. Domestically, there are multiple exchange rates for transacting between Cuba's two currencies. For example, Cuban citizens are able to exchange CUPs for CUCs at the rate of 25:1; however, Cuban government entities and foreign companies use a 1:1 exchange rate between the two currencies. The Cuban government has announced plans to unify the two currencies and move to a single exchange rate but has not set a timetable for doing so. In recent years, the Cuban government has experimented with different exchange rates between Cuban government entities in some sectors.

<sup>3</sup>U.S. International Trade Commission, *Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions* (Washington, D.C.: March 2016).

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billion in foreign investment opportunities. Much of the foreign investment in Cuba is concentrated in the tourism, energy, and mining sectors. For example, Spanish companies have been involved in 19 hotel projects in Cuba since 2003, according to the USITC. As another example, the Canadian firm Sherritt has been involved in a joint venture project in Cuba for more than 20 years, which involves nickel mining as well as oil and power operations.

## Recent Political and Economic History

### Cuba at a Glance



Source: GAO. | GAO-17-201

#### Geography

- 110,860 square kilometers in area
- 150 kilometers south of Key West, Florida
- Capital: Havana
- 15 provinces and one special municipality

#### Population

- 11.2 million (2016)
- < 1 percent population growth rate (2015)
- 29 percent of the population is under 25 years of age
- Net migration rate of -5.3 migrants per 1,000 population (2016 estimate)
- 99.8 percent literacy rate

#### Economy

- \$77.15 billion gross domestic product (2013)
- \$5,880 per capita gross national income (2011)
- Gross domestic product composition by sector: agriculture, 4 percent; industry, 24.6 percent; services, 71.5 percent (2015 estimate)
- Agricultural products: sugar, tobacco, citrus, coffee, rice, potatoes, beans, livestock
- Industries: petroleum, nickel, cobalt, pharmaceuticals, tobacco, construction, steel, cement, agricultural machinery, sugar

#### Independence

- Overthrew Spanish rule in 1898; after a 3 ½-year period of U.S. military rule, became an independent republic in 1902

Sources: World Bank, CIA World Factbook | GAO-17-201

Within 3 years after coming to power in 1959, Fidel Castro consolidated his control over Cuba, establishing a communist state characterized by a one-party political system and a centrally planned economy. Fidel Castro led the country from 1959 until 2006 when he provisionally stepped down due to poor health, and his brother, Raúl Castro, assumed the presidency. Cuba's legislature officially selected Raúl Castro as President in 2008 and reelected him in 2013.

The relationship between the United States and Cuba deteriorated quickly after Fidel Castro came to power as the new Cuban government established an authoritarian communist state and pursued close relations with the Soviet Union. In addition, after coming to power, the Castro government seized \$1.9 billion of U.S. property on the island. In the decades since, the relationship between the two countries has been characterized by mutual antagonism and mistrust. Throughout this period, the U.S. government has repeatedly raised concerns about the lack of political and other freedoms in Cuba and has cited the Cuban government for a range of human rights abuses.

For the first 3 decades after the Castro regime came to power, the Cuban economy was dependent on billions of dollars in annual subsidies from the Soviet Union. However, after the breakup of the Soviet Union in 1991, these subsidies stopped, and Cuba entered a period of significant economic hardship. More recently, the Cuban government has relied heavily on subsidies from Venezuela to support its economy. Among other things, Venezuela has provided Cuba with around 100,000 barrels of oil per day, some of which the Cuban government refines and then sells on the world market to generate hard currency. However, as Venezuela's political and economic situation has deteriorated, these subsidies have reportedly declined. In July 2016, the Cuban government announced the need to prepare for energy shortages and other economic challenges.

The Cuban government controls most sectors of the economy and employs the majority of the Cuban workforce. In the years after the Castro regime came to power, the Cuban government shut down most forms of private sector activity. However, the Cuban government has periodically allowed some private sector activity. For example, in the aftermath of the Soviet Union's collapse, the Cuban government liberalized some private sector activity to combat the severe economic

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recession the country faced; however, as the economy stabilized, the Cuban government reversed many of these reforms.

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## U.S. Embargo Legislation and Associated Regulations

Since the 1960s, the United States has maintained an embargo on Cuba through various laws, regulations, and presidential proclamations that restricts trade, travel, and financial transactions.

Key legislation related to the embargo includes the following:

- **Trading with the Enemy Act of 1917 (TWEA).** TWEA granted the President broad authority to impose embargoes on foreign countries during times of war and was amended in 1933 to also grant this authority during times of a presidentially declared national emergency. The International Emergency Economic Powers Act of 1977 amended section 5(b) of TWEA, again limiting the President's authority to times of war but allowing the President's continued exercise of his national emergency authority with respect to the ongoing Cuba embargo. This act required that the President determine on an annual basis that maintaining the Cuba embargo is in the national interest of the United States.
- **Foreign Assistance Act of 1961.** The Foreign Assistance Act contains provisions barring any assistance to Cuba and authorizing the President to establish and maintain an economic embargo on Cuba. Section 620(a) of the act, codified at 22 U.S.C. § 2370(a), prohibits any U.S. foreign assistance to the "present" government of Cuba and authorizes the President to establish and maintain a total embargo on all trade between the United States and Cuba as a means of carrying out the assistance prohibition.
- **Cuban Democracy Act of 1992 (CDA).** The CDA further restricted U.S. trade with Cuba and called on the President to encourage other countries to limit their trade with Cuba as well as their extension of credit and assistance to Cuba. The law permitted U.S. exports of medicine and medical supplies to Cuba, with certain exceptions. However, such exports must be authorized through specific licenses, and the U.S. government must be able to verify through onsite inspection and other appropriate means that the items are used for their intended purposes and for the benefit and use of the Cuban people. The law also restricted trade with Cuba by foreign subsidiaries of U.S. firms and prohibited any vessel unlicensed by the Department of the Treasury (Treasury) from (1) loading or unloading freight in a U.S. port within 180 days after leaving a Cuban port where it engaged in trade of goods or services or (2) entering a U.S. port while carrying

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goods or passengers to or from Cuba or goods in which Cuba or a Cuban national had an interest.

- **Cuban Liberty and Democratic Solidarity Act of 1996 (LIBERTAD).** Commonly known as the Helms-Burton Act, LIBERTAD defined and codified the embargo as it was in effect on March 1, 1996. LIBERTAD authorizes the President to suspend the embargo only if he or she determines that a transition Cuban government is in power. Furthermore, LIBERTAD requires the President to terminate the embargo if he or she determines that a democratically elected Cuban government is in power. In addition, the law prohibits U.S. persons, permanent resident aliens, and U.S. agencies from knowingly financing any transactions involving property of U.S. nationals confiscated by the Cuban government; permits U.S. nationals to sue in U.S. courts persons trafficking in such confiscated property (this authority has been suspended by the President since enactment); and provides for denying entry into the United States to aliens determined by the Secretary of State to be involved in such trafficking.
- **Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA).** TSRA prohibits the President from imposing new, unilateral agricultural and medical sanctions against any foreign country, including Cuba, unless approved by a congressional joint resolution, and requires termination of existing unilateral agricultural or medical sanctions unless continued by a congressional joint resolution.<sup>4</sup> In addition, TSRA authorizes, pursuant to a 1-year license and other requirements, the export of agricultural commodities (including food) to Cuba, subject to specific conditions. TSRA also prohibits the U.S. government from providing Cuba with foreign assistance, export assistance, and any credit or guarantees for exports. In addition, TSRA prohibits U.S. private financing or payment of agricultural commercial sales to Cuba, except where payment is made with cash in advance, interpreted by Treasury to mean payment before the transfer of title to, and control of, exported agricultural commodities, or where financing is from third-country financial institutions. Finally, TSRA prohibits the licensing of travel to Cuba for tourist activities by persons subject to U.S. jurisdiction.

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<sup>4</sup>According to the Department of Commerce, due to the phrasing of the act, TSRA does not affect medical exports to Cuba under the CDA since it did not amend or supersede the CDA's export licensing requirements. Therefore, medical exports are not eligible for export or reexport to Cuba under TSRA procedures and require licenses authorized under the CDA.

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Key regulations related to the embargo include the following:

- **The Cuban Assets Control Regulations (CACR).** The CACR, which Treasury issued in 1963 under the President's broad authority in section 5(b) of TWEA and the Foreign Assistance Act, prohibit persons subject to U.S. jurisdiction from engaging in transactions involving property in which Cuba or a Cuban national has an interest, including transactions related to travel, remittances, humanitarian assistance, and financial services, without authorization from Treasury.<sup>5</sup>
- **The Export Administration Regulations (EAR).** The Department of Commerce's (Commerce) EAR are issued under the authority of the Export Administration Act of 1979 and the International Emergency Economic Powers Act. U.S. exports and reexports to Cuba subject to the EAR must be authorized by Commerce. Applications for licenses for export to Cuba of items subject to the EAR fall mostly under a general policy of denial, although some items are exempt from this policy.<sup>6</sup>

Over time, the embargo has been modified through legislation and regulatory amendments, which have alternately eased and tightened aspects of the embargo. For example, as noted above, TSRA's passage in 2000 loosened prohibitions on the export of U.S. agricultural commodities, including food, to Cuba. In 2004, the Bush administration made regulatory changes to tighten restrictions on travel, remittances, and gift parcels to Cuba. For example, Treasury reduced the permitted frequency of family visits to Cuba from once every 12 months to once every 3 years. Subsequently, the Obama administration made regulatory changes to loosen certain embargo restrictions in 2009 and 2011. For example, in September 2009, Treasury removed the previously established restrictions on the frequency and duration of travel to Cuba to

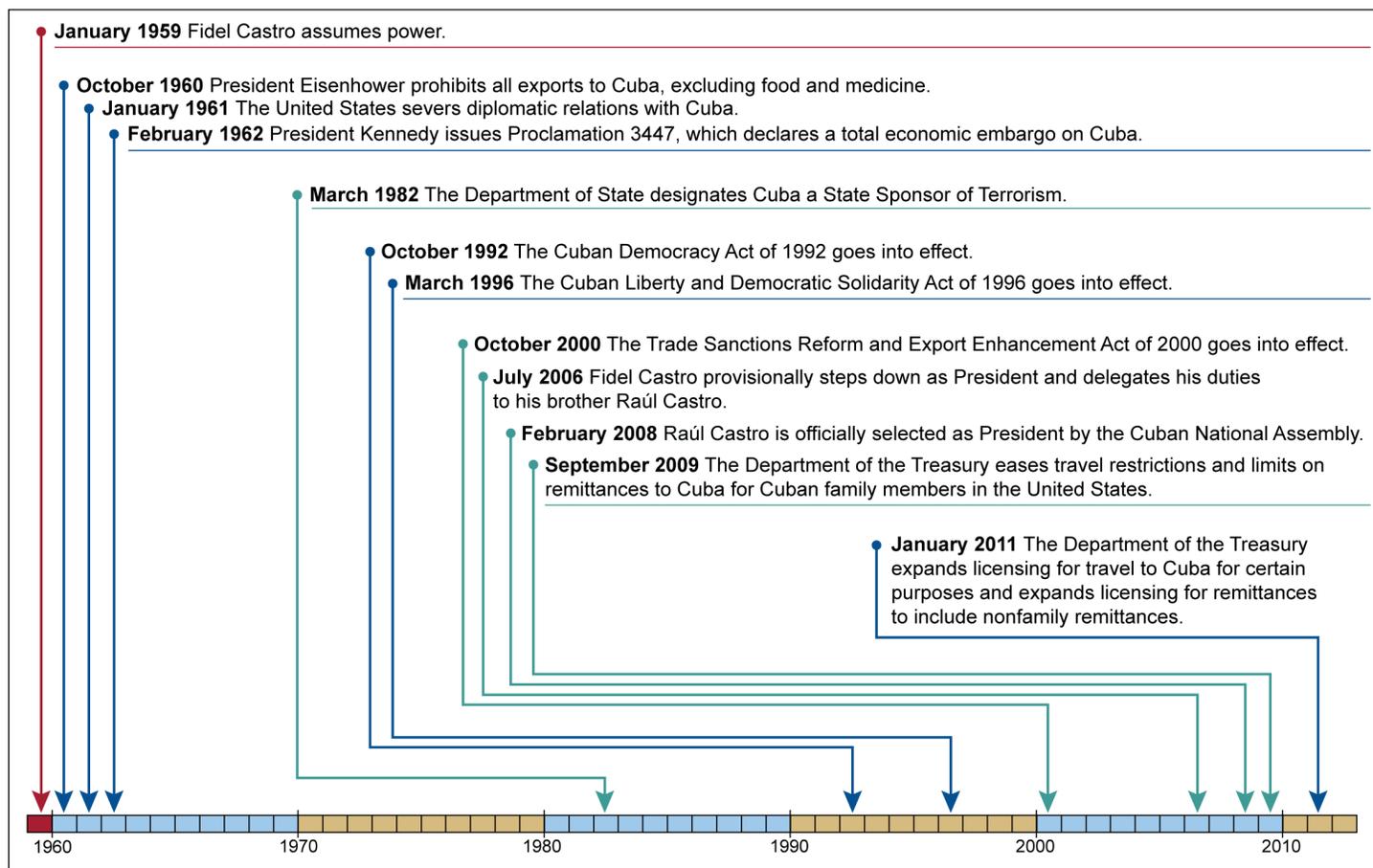
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<sup>5</sup>Treasury's Office of Foreign Assets Control authorizes transactions subject to the CACR through either a specific license or a general license. A specific license is a written document issued by Treasury to a particular individual or entity, authorizing a particular transaction, subject to the CACR, in response to a written license application. A general license constitutes blanket authorization for transactions set forth in the relevant regulations; if all stated conditions are met, the transactions are authorized.

<sup>6</sup>Commerce's Bureau of Industry and Security authorizes exports and reexports subject to the EAR through licenses, license exceptions, or no-license-required status. A license is a grant of authorization issued by Commerce to conduct an export transaction subject to the EAR in response to an application. A license exception is an exception to the license requirements that would otherwise apply to the transaction subject to the EAR. The transaction must meet all of the terms of the license exception.

visit close relatives. Figure 2 provides a timeline of key events in the U.S.-Cuba relationship, including changes in the embargo, up until December 2014.

**Figure 2: Timeline of Key Events in the U.S.-Cuba Relationship Prior to December 2014**



Source: GAO, based on numerous sources. | GAO-17-201

## President Obama's December 2014 Policy Change

On December 17, 2014, President Obama announced a major shift in U.S. policy on Cuba intended to increase engagement between the two countries, among other things. Specifically, the administration's new policy called for

- establishing diplomatic relations with Cuba,

- 
- adjusting regulations to more effectively empower the Cuban people,<sup>7</sup>
  - facilitating an expansion of travel under general licenses for the 12 existing categories of travel to Cuba authorized by law,
  - facilitating remittances to Cuba by U.S. persons,<sup>8</sup>
  - authorizing expanded commercial sales/exports from the United States of certain goods and services,
  - authorizing U.S. citizens to import additional goods from Cuba,
  - facilitating authorized financial transactions between the United States and Cuba,
  - initiating new efforts to increase Cubans' access to communications and their ability to communicate freely,
  - updating the application of Cuba sanctions in third countries,
  - pursuing discussions with the Cuban and Mexican governments to discuss the unresolved maritime boundary in the Gulf of Mexico,
  - initiating a review of Cuba's designation as a State Sponsor of Terrorism, and
  - addressing Cuba's participation in the 2015 Summit of the Americas.<sup>9</sup>

Since December 2014, the U.S. government has undertaken a number of efforts to implement various aspects of the administration's policy. For example, after several rounds of negotiation, the United States and Cuba reestablished diplomatic relations on July 20, 2015, and the two countries' Interests Sections reopened as embassies.

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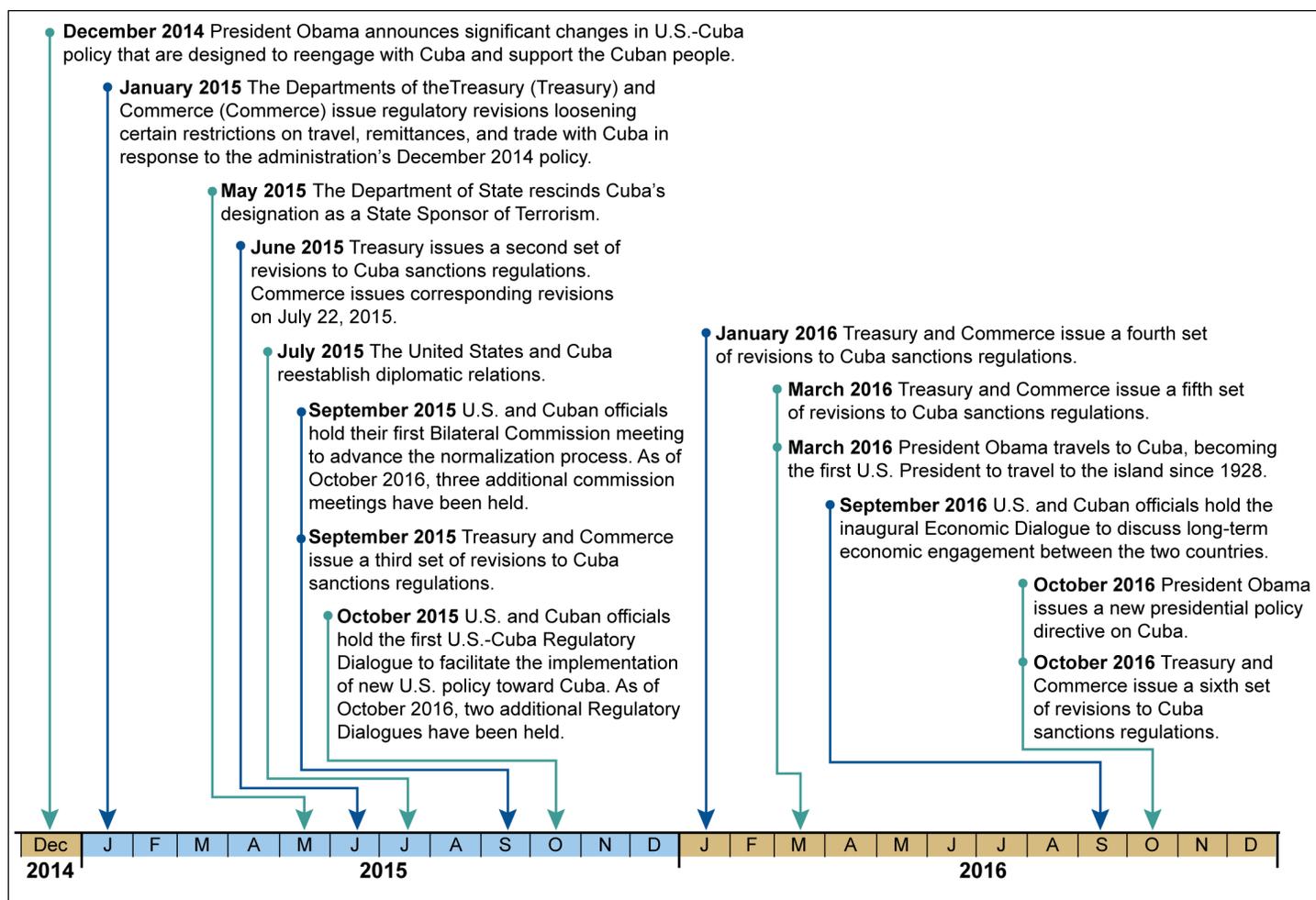
<sup>7</sup>To more effectively empower the Cuban people, the administration's policy sought to increase people-to-people contact, strengthen independent civil society, enhance the free flow of information, and provide additional opportunities for self-employment and private property ownership, among other things.

<sup>8</sup>Remittances are transfers of money or capital sent by migrants or foreign immigrant communities to their home country.

<sup>9</sup>Cuba had not been invited to attend the previous Summit of the Americas in 2012 because the United States and Canada objected to Cuba's participation. Several Latin American countries had announced that they would not attend the 2015 Summit of the Americas if Cuba was not allowed to participate. As part of the December 2014 policy announcement, the President stated that the U.S. government was prepared to have Cuba participate in the 2015 summit. Cuba subsequently attended the summit, which took place in April 2015.

On October 14, 2016, President Obama issued a presidential policy directive on the normalization of relations between the United States and Cuba, which provides additional details on the administration's Cuba policy. Among other things, the policy directive describes the administration's vision for U.S.-Cuba normalization, discusses progress on normalization since December 2014, describes the strategic landscape with respect to Cuba, establishes medium-term objectives for the U.S.-Cuba relationship, and describes the roles and responsibilities of U.S. agencies in implementing the policy. Figure 3 provides a timeline of key events since the policy change in December 2014.

**Figure 3: Timeline of Key Events in the U.S.-Cuba Relationship since December 2014**



Source: GAO, based on numerous sources. | GAO-17-201

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## U.S. Agencies Involved in Implementation of Cuba Policy

A number of U.S. agencies are involved in the implementation of the administration's Cuba policy.

- Treasury's Office of Foreign Assets Control (OFAC) administers the CACR, and Commerce's Bureau of Industry and Security (BIS) administers the EAR. Among other things, OFAC and BIS are responsible for licensing transactions authorized by the regulations.
- The Department of State (State) is responsible for establishing foreign policy related to Cuba, leading diplomatic engagement with the Cuban government, implementing certain democracy assistance programs, and promoting educational and cultural exchanges.
- Other U.S. agencies, including the U.S. Department of Agriculture (USDA), the U.S. Agency for International Development (USAID), and the U.S. Trade Representative (USTR), are also involved in certain activities related to the implementation of the administration's Cuba policy. USDA communicates with U.S. agricultural producers involved in trade with Cuba and coordinates with the Cuban government on agricultural issues of mutual interest. USAID is charged with implementing certain democracy assistance programs in Cuba. USTR serves as an advisor to other U.S. agencies on issues related to trade with Cuba and engages with the Cuban government in multilateral forums, such as the World Trade Organization. In addition, the USITC has reported on issues related to the U.S. embargo on Cuba and trade between the two countries, including in a March 2016 report.

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## The Cuban Private Sector Has Grown Rapidly Since 2008 but Remains Small Compared with Other Economies and Faces Various Constraints

The Cuban private sector has grown rapidly since 2008 but remains small compared with other economies and faces various constraints. Although it continues to control most of the economy, the Cuban government has undertaken several reforms in recent years that have created opportunities for Cubans to engage in additional private sector activity. Currently, the Cuban private sector has three primary components: (1) self-employed entrepreneurs such as restaurant owners and taxi drivers, (2) agricultural cooperatives and other private farmers, and (3) nonagricultural cooperatives involved in activities such as construction and financial services. Cuban government data indicate that the authorized private sector has grown rapidly, with 29 percent of the Cuban labor force in the private sector in 2015 compared to 17 percent in 2008. Although the percentage of the Cuban workforce in the private sector has grown, it is still smaller than in comparable countries, according to our analysis of International Labour Organization (ILO) data. In addition, the Cuban private sector is still highly constrained by the Cuban government and faces challenges including a lack of access to needed inputs.

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## The Cuban Government Continues to Control Most of the Economy but Has Undertaken Reforms to Allow Some Private Sector Activity

Although the majority of the economy continues to be controlled by the state, the Cuban government has undertaken several reforms in recent years that have created opportunities for Cubans to engage in additional private sector activity. Many reforms have taken place since 2008 when Raúl Castro was elected as head of the state by the Cuban National Assembly. Among other things, these reforms have been driven by the Cuban government's stated goal of reducing the number of workers on the state payroll by 1.8 million. The Cuban government has also set the goal of increasing the private sector's contribution to GDP from approximately 5 percent in 2011 to between 40 and 45 percent by 2017, according to State.

Despite the economic reforms taken, the Cuban government remains ambivalent about the private sector, according to U.S. officials and Cuba experts. For example, U.S. officials and experts we interviewed noted that the Cuban government remains wary of allowing the accumulation of wealth among its citizens and thus wants to limit the ability of any one business to grow too large or become too financially successful. Cuban embassy officials we interviewed stated that the Cuban government believes that some private sector activity is necessary to improve the efficiency of the Cuban economy; however, the officials also noted that the government remains committed to its socialist economic model and that key sectors of the economy will remain state owned.

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## The Cuban Private Sector Has Three Primary Components Authorized by the Cuban Government

The Cuban private sector currently includes three primary components that are authorized by the Cuban government: (1) self-employed entrepreneurs known as *cuentapropistas*, (2) agricultural cooperatives and private farmers, and (3) nonagricultural cooperatives.<sup>10</sup> Figure 4 shows examples of private sector activity in Cuba.

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<sup>10</sup>Cooperatives are different from other types of business ownership arrangements, such as sole proprietorships and corporations. Cooperatives are generally comprised of worker/owners who have a voice in decisions and a financial stake in the outcomes.

Figure 4: Examples of a Cuban Private Sector Restaurant, Book Seller, and Auto Repair Shop



Source: GAO. | GAO-17-201

**Cuentapropistas:** Cuba has authorized 201 categories of legal self-employment for individuals. However, many of these categories are highly specific (e.g., “Flower Wreath Arranger” and “Children’s Ride Operator”), and most white collar professions, such as engineers or lawyers, are not among the authorized categories. There were approximately half a million licensed *cuentapropistas* at the end of 2015, according to Cuban government data. According to one analysis, about 80 percent of licensed *cuentapropistas* operate their own businesses, while the remaining 20 percent are contract workers for other *cuentapropistas*.<sup>11</sup> Common *cuentapropista* activities include restaurants, bed and breakfasts, transportation (see fig. 5), and construction. Certain forms of self-employment have been authorized in Cuba since 1993; however, the Cuban government has increased the number of authorized categories in recent years. For example, in 2013, the Cuban government increased the number of authorized categories from 181 to the current 201.

<sup>11</sup>Richard E. Feinberg, *Open for Business: Building the New Cuban Economy* (Washington, D.C.: Brookings Institution Press, 2016).

**Figure 5: Private Taxi in Havana**



Source: GAO. | GAO-17-201

**Agricultural cooperatives and private farmers:** There were approximately 5,200 agricultural cooperatives operating as of the end of 2015, according to State. There are three types of agricultural cooperatives in Cuba. All three types of cooperatives are considered part of the private sector; however, their ownership structure and relationship to the state differ.

- *Credit and Services Cooperatives (Cooperativas de Créditos y Servicios):* These cooperatives, first formed shortly after the Castro regime came to power, provide credit and other services to the cooperative members and are comprised of independent farmers who individually own and farm their land.
- *Agricultural Production Cooperatives (Cooperativas de Producción Agropecuaria):* First formed in the 1970s, these cooperatives involve the nonreversible sale of land and equipment by private farmers to the

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cooperative in exchange for a membership/ownership stake in the cooperative.

- *Basic Units of Cooperative Production (Unidades Básicas de Producción Cooperativa)*: First formed in the 1990s, these cooperatives were formed from farms previously run by the state. Under this cooperative arrangement, the state owns the land; however, the farmers lease the land from the state, and the cooperative members control production on the farms.

There are also some independent private farmers in Cuba who are not associated with a cooperative. According to Cuban government data, the amount of agricultural land held by agricultural cooperatives and private farmers was 70 percent in 2015.

**Nonagricultural cooperatives:** First approved in 2013, 367 nonagricultural cooperatives were operating as of the end of 2015, according to State. Some nonagricultural cooperatives are “self-initiated” while others were formed as a result of the Cuban government’s decision to privatize state companies. According to one analysis, approximately 75 percent of nonagricultural cooperatives are former state-owned enterprises.<sup>12</sup> Unlike with *cuentapropistas*, there is no list of permitted occupations for nonagricultural cooperatives. To date, the majority of nonagricultural cooperatives are involved in service, rather than production activities. The Cuban government has approved nonagricultural cooperatives in construction, transportation, financial services, and automotive repair, among other areas.

## Joint Ventures

Cuba experts and analyses of the Cuban private sector differed as to whether joint ventures, which are partnerships between foreign companies and state enterprises in Cuba, should be considered part of the private sector. According to State, joint ventures in Cuba operate in a limited number of sectors such as hotels, tourism, and mining. Some analyses included joint ventures as part of the private sector; however, some U.S. government officials and experts we interviewed, stated that joint ventures should not be considered part of the private sector given the nature of joint venture arrangements in Cuba. Joint ventures are generally required to be majority owned by Cuban state-owned enterprises. In addition, foreign firms that enter into joint ventures in Cuba

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<sup>12</sup>Vegard Bye, “Political Implications of Recent Economic Reform Trends in Cuba: The 2014 Status.” Association for the Study of the Cuban Economy, *Cuba in Transition*, vol. 24 (2014).

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cannot directly hire Cuban workers and must instead go through a Cuban government staffing agency. These staffing agencies generally take a significant portion of the salary that the foreign firm pays to the workers.<sup>13</sup>

#### Informal Private Sector Activity

In addition to the authorized private sector, there is evidence of significant informal private sector activity in Cuba. For example, El Paquete, an electronic bundling of news and entertainment content, is by some estimates the largest private sector business on the island. Although it is not an authorized form of private sector activity, it is well-known and tolerated by the Cuban government, according to U.S. officials and Cuba experts. Even private sector businesses that are legally authorized may operate in legal grey areas. For example, owners of legal, private restaurants must frequently resort to the black market to get necessary supplies. There are also legal businesses that stretch the terms of their license. For example, one Cuba expert we interviewed noted that some cell phone repair shops will also offer other services, such as loading off-line applications onto cell phones.

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#### The Size of the Formal Cuban Private Sector Has Increased Substantially Since 2008 but Remains Small Relative to Comparable Countries

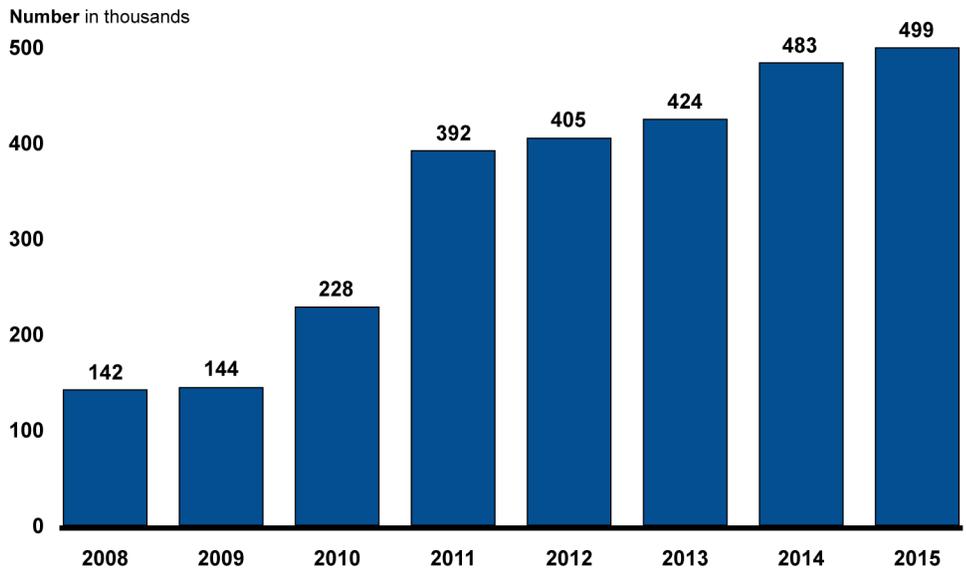
U.S. government and international institution data on the size of the Cuban private sector are limited. In addition, the methodologies the Cuban government uses to produce data on various measures of the Cuban economy are not readily transparent, and certain key data are not publicly reported. For example, the Cuban government does not publish data on the private sector's share of Cuba's GDP. However, the Cuban government does report data on the share of the Cuban workforce in the private sector. Experts we interviewed generally consider official Cuban labor market data to be reliable, and these data have been used in a range of analyses that we reviewed.

According to our analysis of Cuban labor force data, the Cuban private sector has grown rapidly since 2008. For example, as shown in figure 6, the number of licensed *cuentapropista* workers grew from 142,000 in 2008 to approximately 500,000 in 2015, according to Cuban government data.

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<sup>13</sup>One Cuba expert noted that the government staffing agency effectively retains more than 90 percent of a worker's salary by collecting payment from the foreign firm in hard currency and, in turn, compensating the worker in local currency. See Feinberg, *Open for Business*.

**Figure 6: Number of Licensed Self-Employed Workers, 2008 through 2015**

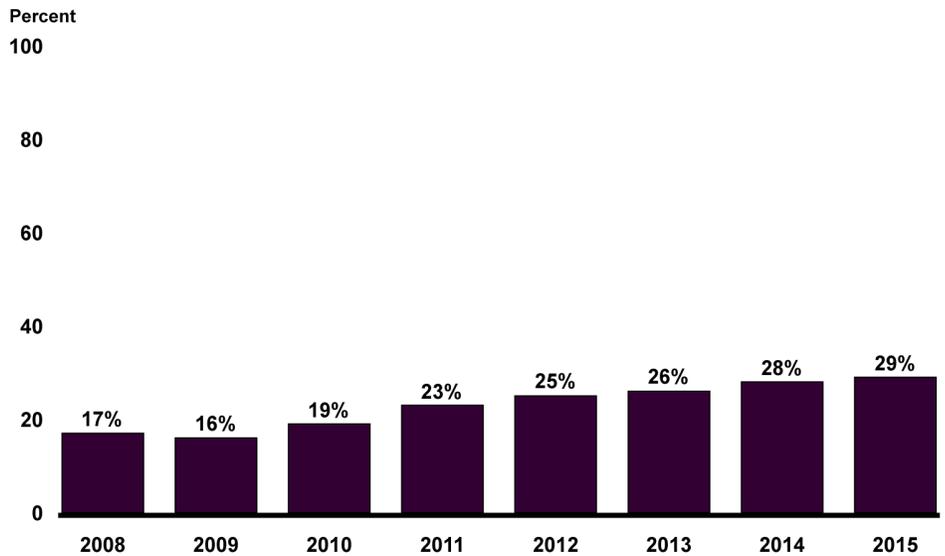


Source: GAO analysis of Cuban government data. | GAO-17-201

As shown in figure 7, Cuban government data indicate that as of 2015, approximately 29 percent of the Cuban workers were employed in the private sector, an increase of approximately 12 percentage points from 2008. Some analyses we reviewed and experts we interviewed indicated that at least some of the growth of the Cuban private sector in recent years has been driven by the formalization of previously unauthorized or informal private sector activity, rather than the creation of new employment.<sup>14</sup>

<sup>14</sup>One analysis, using official Cuban statistics from March 2014, estimated that 18 percent of licensed *cuentapropistas* had been working in the state sector, 14 percent had been retired, and 68 percent had been unemployed. See Archibald Ritter and Ted A. Henken, *Entrepreneurial Cuba: The Changing Policy Landscape* (Boulder, CO: 2014).

**Figure 7: Percentage of the Cuban Workforce in the Private Sector, 2008 through 2015**



Source: GAO analysis of Cuban government data. | GAO-17-201

Although the size of the Cuban private sector has grown since 2008, there are some indications that this growth has slowed recently. For example, according to reporting by the Economist Intelligence Unit, Cuba’s Ministry of Labor and Social Security stated that the number of licensed *cuentapropistas* declined in the second half of 2015 after hitting a high in May 2015. However, the Economist Intelligence Unit reported that the number of licenses subsequently recovered to previous levels in the first quarter of 2016. In addition, U.S. officials and experts we interviewed noted that the Cuban government appears to have slowed down or even stopped the approval of new nonagricultural cooperatives. The Cuban government’s plans to shift some employment to the private sector have also not been fully realized. For example, in 2012, the Cuban government announced plans to privatize almost 13,000 state-run eateries and personal service providers; however, as of 2015, only 108 of these businesses had become operational in the private sector, according to State officials. More recently, in October 2016, news outlets reported that the Havana provincial government announced that it was temporarily halting approvals of new licenses for private restaurants in Havana.

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The U.S. government has not independently analyzed the size and scope of the Cuban private sector; however, some academic studies have developed estimates of the size of the Cuban private sector. These estimates generally found that 25 to 35 percent of the Cuban workforce is in the private sector. There were some differences in the scope of private sector activity included in these estimates. For example, some estimates included joint venture employees in their estimates, while others did not. Some estimates sought to quantify the number of Cubans who work part time or unofficially within the private sector; others did not. For example, one analysis estimated that there are likely between 400,000 to 800,000 Cuban government workers who earn significant private income to supplement their government salaries.<sup>15</sup>

Although increasing, the percentage of Cubans working in the private sector remains small compared to other countries. The ILO maintains a database that collects information on employment by institutional sector—public or private—from national statistical agencies. Based on our analysis of these data, the share of Cuba’s workforce in the private sector is smaller than in all 16 other countries—for which data were available—that fall into the same World Bank income category.<sup>16</sup>

The percentage of Cuba’s workforce in the private sector was approximately 28 percent in 2014 compared to a median of approximately 83 percent for the other 16 countries (see fig. 8). Most countries in this income group had a substantially larger share of employment in the private sector. Of the 16 comparable countries that we reviewed, Belarus had the next lowest percentage of its workforce in the private sector after Cuba, with 61 percent of its workforce in the private sector. The percentage of the Cuban workforce in the private sector was also smaller than Vietnam, the only other communist country for which the ILO had data.<sup>17</sup> As of 2014, approximately 89 percent of Vietnam’s workforce was in the private sector.

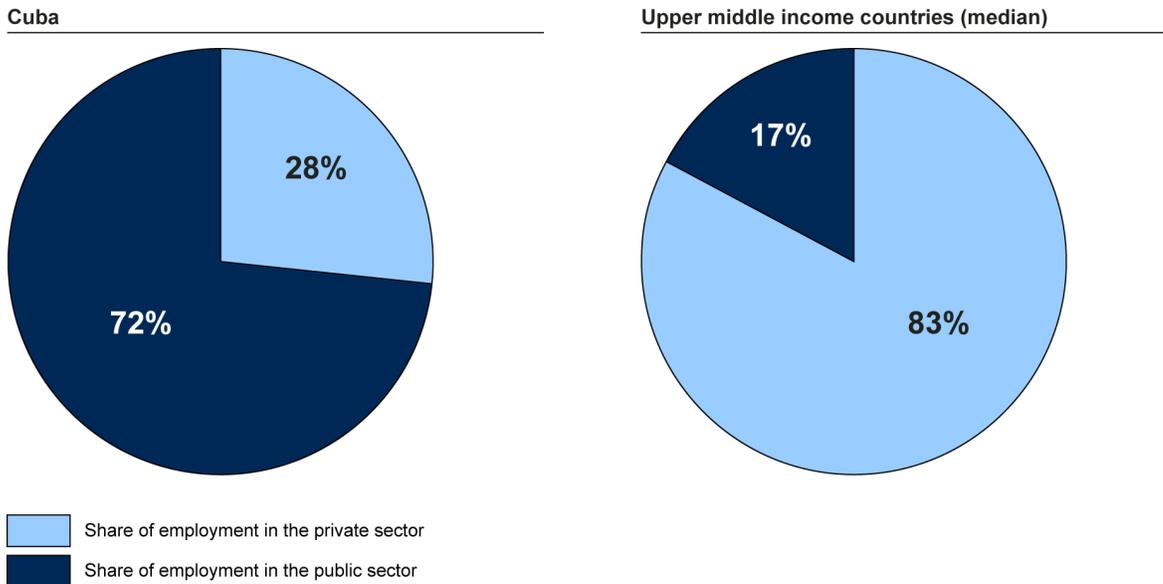
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<sup>15</sup>Feinberg, *Open for Business*.

<sup>16</sup>Cuba is classified as an upper middle income (UMI) country, according to the World Bank. We compared Cuba to 16 other UMI countries for which ILO data were available: Azerbaijan, Belarus, Brazil, Colombia, the Dominican Republic, Ecuador, Iran, Malaysia, Mexico, Mongolia, Panama, Paraguay, Serbia, South Africa, Suriname, and Thailand.

<sup>17</sup>The other three remaining communist countries in the world are China, Laos, and North Korea.

**Figure 8: Private Sector Employment in Cuba Compared with Upper Middle Income Countries, 2014**



Source: GAO analysis of International Labor Organization data. | GAO-17-201

Notes: Cuba is classified as an upper middle income (UMI) country, according to the World Bank. The 16 other UMI countries for which International Labour Organization (ILO) data were available were Azerbaijan, Belarus, Brazil, Colombia, the Dominican Republic, Ecuador, Iran, Malaysia, Mexico, Mongolia, Panama, Paraguay, Serbia, South Africa, Suriname, and Thailand. According to the ILO, public sector employment covers employment in the government sector plus employment in publicly-owned resident enterprises and companies operating at central, state (or regional), and local levels of government. Private sector employment comprises employment in all resident units operated by private enterprises, that is, it excludes enterprises controlled or operated by the government sector.

### The Cuban Private Sector Is Still Highly Constrained and Faces Many Challenges

Although Cuban government reforms in recent years have created additional space for private sector activity, various sources noted that legal private sector activity is still highly constrained and circumscribed by the state. For example, in the 2016 Index of Economic Freedom, compiled by The Heritage Foundation and *The Wall Street Journal*, Cuba ranked 177 out of the 178 countries assessed, with only North Korea rated as less economically free.<sup>18</sup> As described previously, the Cuban government authorizes private sector activity only in certain prescribed areas, with many sectors of the economy exclusively reserved for state-owned enterprises or government ministries. Even within authorized

<sup>18</sup>The Heritage Foundation and *The Wall Street Journal*, 2016 Index of Economic Freedom (Washington, D.C.: Feb. 1, 2016).

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areas, the Cuban private sector faces many limits on its operations and an array of challenges, given the nature of the Cuban economic system. Some experts on Cuba have thus questioned the extent to which it is accurate to consider Cuba's private sector as being truly private.

Based on analyses we reviewed and interviews we conducted with U.S. officials, Cuba experts, and representatives of the Cuban private sector, we identified a number of challenges that the Cuban private sector faces. These include the following, among others:

- **Lack of access to inputs.** According to State and Cuban private sector representatives, the Cuban government monopolizes the country's wholesale distribution system and significantly limits the Cuban private sector's access to it. As a result, the Cuban private sector must frequently purchase inputs in retail rather than wholesale markets. In addition, the Cuban private sector frequently experiences challenges obtaining needed inputs for their operations or finds that the inputs they are able to obtain through official distribution channels are not of sufficient quality. These challenges extend to a range of supplies and equipment. For example, Cuban private restaurant owners have difficulty obtaining a range of items, from fresh produce, to coffee makers, to lighting fixtures. One cooperative representative we interviewed stated that private construction workers face challenges obtaining building materials and construction equipment.
- **Inability to directly import or export.** The Cuban government controls all imports and exports in the country. Thus, the Cuban private sector does not have the ability to directly import or export items. For example, one representative from the Cuban private sector we interviewed noted that her company must go through a specific state trading agency to obtain needed inputs for her business. She said that her overseas suppliers have at times backed out of transactions due to this state trading agency's delays in arranging procurements. Given these restrictions, many in the private sector travel abroad themselves or rely on other individuals to bring back needed items.
- **Limited access to financing.** The Cuban private sector is also challenged by its limited ability to access financing. According to State and USITC reporting and other analyses of the Cuban economy we reviewed, the Cuban government does not allow private banking, and the Cuban private sector does not have access to capital markets to raise funds. As part of reforms announced in 2011, the Cuban government authorized state banks to make loans to private businesses; however, these loans are capped at \$400. In addition, the

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Cuban government prohibits foreign investors from extending loans to private Cuban businesses.

- **Limited legal protection and other legal uncertainties.** The Cuban private sector also faces challenges due to limited legal protections and other legal uncertainties. For example, U.S. officials, Cuba experts, and Cuban private sector representatives we interviewed noted that *cuentapropistas* do not have legal status as companies and are treated as individuals under Cuban law, even if they have multiple employees. The Cuban government also considers nonagricultural cooperatives to be experimental, with approvals for new nonagricultural cooperatives taking place at the highest levels of the state.
- **Unfavorable tax structure.** According to various sources, the Cuban government maintains an onerous tax system that discourages private sector investment and hiring. For example, while *cuentapropistas* are allowed to hire workers, their tax rates increase significantly when hiring more than five workers, which creates disincentives for business growth, according to State reporting and other sources. In addition, Cuba's tax system does not allow *cuentapropistas* to itemize their expenses and instead sets standard deductions depending on the job category, according to U.S. officials and Cuba experts we interviewed.
- **Lack of access to the Internet and other technology.** The Cuban private sector is also challenged by limited access to the Internet, slow Internet connection speeds, and other technology issues. For example, the Brookings Institution has reported that fewer than 5 percent of Cubans have regular access to the Internet.
- **Infrastructure and other capacity issues.** Cuba also faces a range of infrastructure and capacity issues that affect the private sector. For example, Cuba has recently implemented power cuts as electricity demand across the island has surged and fuel supplies from Venezuela have reportedly declined. In addition, Cuba lacks refrigerated storage space and refrigerated trucks, which results in frequent food spoilage.

Despite these challenges, various analyses of the private sector that we reviewed and experts and U.S. officials we interviewed noted that many Cubans in the private sector have successfully created dynamic businesses that have flourished. For example, officials from one nonagricultural cooperative reported that earnings for workers had gone from approximately \$100 a month to \$2,000 a month after transitioning from a state-owned enterprise to a cooperative.

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## U.S. Regulatory Changes Have Created Some New Opportunities in Cuba, but Economic Engagement Is Still Limited by the Embargo and Cuban Government Restrictions

U.S. regulatory changes have created some new opportunities in Cuba, but economic engagement is still limited. Since December 2014, the U.S. government has made six sets of regulatory changes to ease restrictions on travel, remittances, financial services, and trade with Cuba. These regulatory changes have generated interest among U.S. businesses, and some new commercial activities have occurred, particularly related to tourism. However, a relatively limited number of commercial deals have been completed, and U.S. exports to Cuba have continued to decline. The changes in regulations on travel and remittances are also expected to benefit the Cuban private sector through increased remittances and purchases from U.S. visitors, among other things. The remaining embargo restrictions and Cuban government barriers limit additional economic engagement between the two countries.

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## The U.S. Government Has Made a Series of Regulatory Changes since December 2014 to Ease Restrictions on Travel, Remittances, Financial Services, and Trade with Cuba

The U.S. government has made a series of regulatory changes to the CACR and the EAR since the administration announced its new Cuba policy in December 2014. Treasury and Commerce issued the first set of changes in January 2015 followed by additional changes in June and July 2015,<sup>19</sup> September 2015, January 2016, March 2016, and October 2016.<sup>20</sup> These regulatory changes have eased restrictions on travel, remittances, financial services, and trade with Cuba and have also allowed for some limited forms of investment by U.S. companies in Cuba. Key changes include the following:

**Travel.** Treasury has expanded the scope of travel that is allowed under some of the 12 categories of travel authorized by TSRA and has amended the regulations to allow U.S. travelers to use a general license, which requires no advance approval, for all 12 travel categories rather

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<sup>19</sup>For this second set of changes, which were designed to implement aspects of State's decision to remove Cuba from the list of State Sponsors of Terrorism, Treasury issued regulatory revisions in June 2015, and Commerce issued corresponding revisions in July 2015. For the other five sets of regulatory changes, Treasury and Commerce issued their regulatory revisions at the same time.

<sup>20</sup>Treasury's OFAC and Commerce's BIS were responsible for administering these regulatory changes.

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than having to apply for a specific license from Treasury prior to travel.<sup>21</sup> For example, under the revised regulations, U.S. travelers may now travel to Cuba for people-to-people educational activities under a general license and without having to travel under the auspices of an organization that sponsors and organizes such programs. In addition, U.S. travelers may now travel under a general license to provide certain types of training to the Cuban private sector.

**Remittances.** Treasury has made regulatory changes to the CACR that removed caps on remittances to Cuban nationals that had been previously set at \$500 a quarter.<sup>22</sup> There are now no limits on the amount of remittances given as a donation that can be sent to Cuban nationals.<sup>23</sup>

**Financial services.** Treasury has made a number of revisions to the CACR related to financial services. For example, Treasury has modified the CACR to remove financing restrictions on most types of exports and has modified the definition of “cash in advance,” a requirement for exportation of agricultural products, from “cash before shipment” to “cash before transfer of title and control.”<sup>24</sup> In addition, Treasury has allowed credit and debit cards issued by U.S. banks to be used in Cuba. Treasury has also modified the regulations to allow U.S. banking institutions to open and maintain bank accounts in the United States for Cuban nationals in Cuba to use for authorized transactions.

**Trade.** Commerce has revised the EAR to create a new “Support for the Cuban People” export license exception that authorizes exports (1) to improve living conditions and support independent economic activity in Cuba, (2) to strengthen civil society (3) to improve the free flow of information among, and with, the Cuban people, and (4) of items sold directly to individuals in Cuba for their personal use or their immediate

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<sup>21</sup>A general license constitutes a blanket authorization for transactions (such as travel) set forth in the CACR; if all stated conditions are met, the transactions are authorized. Thus, if a person determines that his or her planned travel is authorized pursuant to a general license under 1 of the 12 categories of authorized travel, he or she may proceed with the travel without needing to obtain prior approval from Treasury through a specific license.

<sup>22</sup>Treasury had already removed limits on remittances to close relatives in Cuba in September 2009.

<sup>23</sup>Remittances to certain members of the Cuban government and the Cuban Communist Party continue to be prohibited.

<sup>24</sup>Payment for exports of agricultural commodities may also be financed by banking institutions located in a third country and not subject to U.S. control.

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family's personal use. In addition, Commerce has made regulatory changes to broaden existing license exceptions available for Cuba. For example, Commerce modified the license exception "Consumer Communications Devices" to allow for the commercial sale, lease, or loan of authorized items; previously, items covered by the exception could only be donated.<sup>25</sup> Commerce has also modified its licensing policy to allow for the general approval of export licenses to Cuba for certain items, including telecommunications items and items that will support environmental protection. As part of the regulatory revisions, the U.S. government has also developed a list of items that are allowed for import into the United States from Cuba, if produced by independent Cuban entrepreneurs.<sup>26</sup>

According to various agency officials, the U.S. government has sought to refine the regulations over time to reflect input from U.S. businesses and to reflect the realities of the Cuban system. For example, Treasury officials stated that as part of the third set of regulatory revisions, Treasury modified the CACR to allow U.S. businesses to procure legal services in Cuba after hearing from the U.S. business community that to successfully operate in Cuba they needed to be able to obtain such services.

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**Changes to U.S. Regulations Have Generated Interest among U.S. Businesses, but a Limited Number of Deals Have Been Completed, and U.S. Trade with Cuba Has Continued to Decline**

U.S. regulatory changes have generated a significant amount of interest and exploratory work among U.S. businesses. An official at the U.S. embassy in Havana noted that the number of U.S. companies participating in a major trade fair in Cuba more than doubled from 2014 to 2015. There have also been several state and local U.S. trade missions to Cuba. For example, the Governor of New York led a trade mission to Cuba in April 2015 that included more than a dozen business leaders from the state. The U.S.-Cuba Trade and Economic Council reported that, as of August 2016, more than 500 senior-level representatives of U.S. companies had visited Cuba since the President's policy announcement in December 2014.

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<sup>25</sup>Items eligible for export using the Consumer Communications Devices exception include personal computers, modems, printers, and digital cameras. See 15 C.F.R. § 740.19(b) for a full list of eligible items.

<sup>26</sup>This list of items is known as the Section 515.582 list. State is responsible for determining which items to include on the list.

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Despite the interest among U.S. businesses, U.S. officials, representatives of business associations, and Cuba experts noted that a relatively limited number of new commercial deals have been completed since December 2014.

According to U.S. government and other reporting, many of the successful deals completed to date involve activities related to Cuba's tourism industry.

- Starwood Hotels signed an agreement to manage three hotels in Cuba in March 2016.
- Carnival Corporation began offering cruises to Cuba in May 2016.
- A number of U.S. airlines will be providing regularly scheduled commercial flights to Havana and nine other cities in Cuba. JetBlue completed the first such flight, from Fort Lauderdale, Florida, to Santa Clara, Cuba, in August 2016.
- Airbnb, a U.S.-based company that allows users to list and book accommodations, began operating in Cuba in April 2015 and has over 4,000 listings.

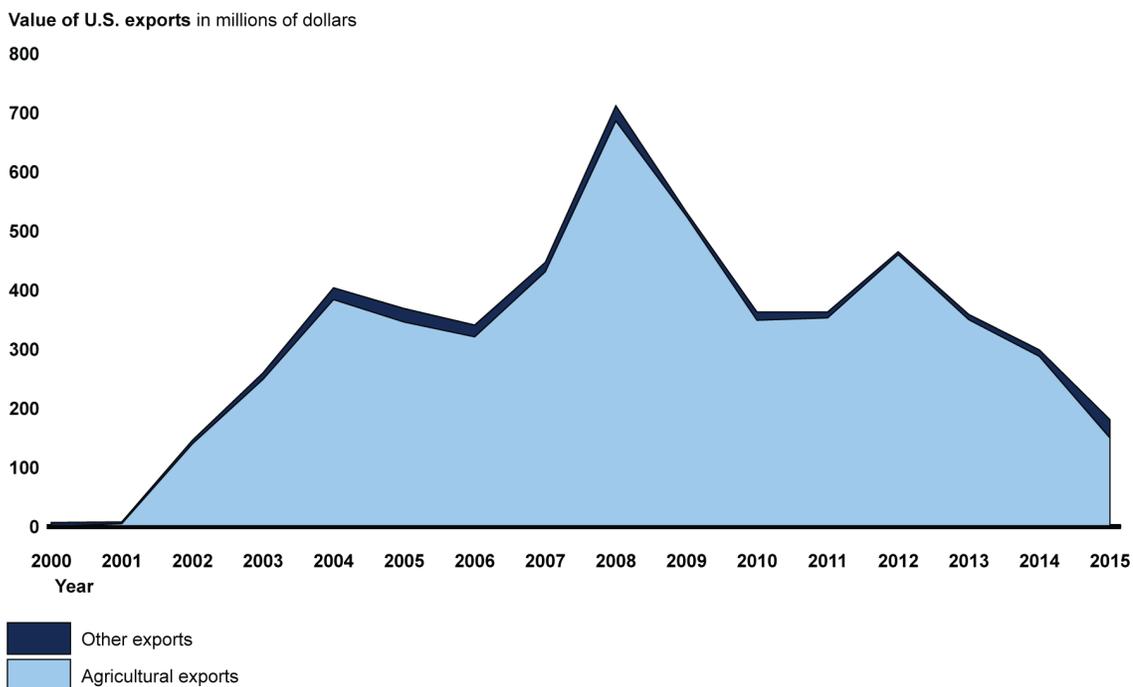
The U.S. government has also highlighted the fact that a number of U.S. telecommunications companies have signed roaming agreements with Cuba's telecom operator as a key development since the administration's policy change in December 2014. With these agreements in place, travelers with U.S. cellular providers can now access roaming voice and data services in Cuba.

The U.S. government has also reported that some other U.S. businesses have taken steps to pursue new opportunities created by the regulatory changes. The Western Union Company, a U.S.-based payments services firm, announced plans to offer global remittance services to Cuba. Additionally, Stonegate Bank has begun to issue MasterCards, which are the first U.S. debit card to be used in Cuba.

Despite the loosening of some embargo restrictions, agency officials and U.S. business representatives stated that the regulatory changes have not created significant new opportunities for agricultural exports, which are the vast majority of U.S. exports to Cuba and have been authorized since the passage of TSRA in 2000. Driven by declining agricultural exports, U.S. trade with Cuba has decreased since the regulatory changes. U.S. exports of goods and services to Cuba declined from \$299 million in 2014 to \$180 million in 2015. As shown in figure 9, this decline

is a continuation of a longer-term downward trend from a high of \$712 million in U.S. exports to Cuba in 2008. Over time, Cuba has increasingly shifted its agricultural purchases to the European Union and other countries such as Brazil, Argentina, and Canada.<sup>27</sup> According to U.S. government analyses and officials, these countries are able to offer more favorable credit terms than U.S. producers given embargo-related restrictions on U.S. credit financing of agricultural exports. In addition, U.S. officials noted that the Cuban government is potentially making a political decision to purchase fewer U.S. exports to push for additional U.S. legal and regulatory changes.

**Figure 9: U.S. Agricultural and Other Exports to Cuba, 2000 through 2015**



Source: GAO analysis of data from the Department of Commerce and Bureau of Economic Analysis. | GAO-17-201

Notes: We identified the types of U.S. exports to Cuba using Bureau of Economic Analysis end-use categories and included 2-digit end-use categories 00 and 10 as agriculture. Other exports include chemicals, medicine and medical equipment, and machinery. The median share of agriculture in annual exports to Cuba from 2000 to 2015 was 96.2 percent.

<sup>27</sup> Although the United States has lost market share to other countries, it continues to be one of the top suppliers of agricultural exports to Cuba.

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While overall exports have declined, U.S. businesses have conducted trade using some of the new authorities provided by the regulatory changes. For example, trade data from the U.S. Census indicate that approximately \$800,000 worth of goods had been exported to Cuba under the Support the Cuban People license exception from January 2015, when the license was created, to March 2016. However, until the most recent changes in October 2016, the regulatory revisions had involved a relatively narrow set of U.S. goods and services that could be newly exported. U.S. officials acknowledged that this has contributed to a relatively limited number of new commercial deals completed since the administration's policy change. With the October 2016 regulatory revisions, U.S. exporters are now generally authorized to sell a variety of consumer goods online or directly through other means to individual Cubans for their personal use or the use of their immediate family.<sup>28</sup>

Even in those areas where the regulatory changes have created new trade opportunities, Commerce officials anticipate that there will likely be lags before any increases in exports are fully realized because exporters need time to become familiar with the new regulations, identify potential trading partners in Cuba, and arrange deals. Commerce export licensing data indicate that there has been an increase in the dollar value of U.S. goods approved for export to Cuba since the administration's policy change in December 2014. For example, Commerce approved \$2.1 billion worth of licenses for exports to Cuba in fiscal year 2015, compared to \$1 billion in fiscal year 2014. As of June 30, 2016, Commerce had already approved \$2 billion in export licenses to Cuba in fiscal year 2016. Export license applications can serve as an indicator of U.S. businesses' interest in exporting to Cuba, but not all items licensed for export will ultimately be exported, according to Commerce officials.

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### Changes in Regulations on Travel and Remittances Are Likely to Benefit the Cuban Private Sector

Authoritative data on travelers from the United States to Cuba are not available; however, Cuban government data indicate that U.S. visitors to Cuba increased by 77 percent from 2014 to 2015.<sup>29</sup> The increase in U.S. visitors to Cuba is expected to benefit the Cuban private sector as it is concentrated in the tourism sector and will affect private restaurants (see

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<sup>28</sup>Such goods cannot be sold to members of Cuba's Council of Ministers, flag officers of Cuba's Revolutionary Armed Forces, or members of the Cuban Politburo.

<sup>29</sup>Cuban government data on visitors from the United States do not include Cuban-Americans who are Cuban citizens.

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fig. 10), bed and breakfasts, and taxi services. For example, Airbnb has reported that more than 13,000 Americans booked rooms in private Cuban homes in April 2015 through March 2016. These private homes, known as *casas particulares*, operate as *cuentapropistas*.

**Figure 10: Private Restaurant in Havana**



Source: GAO. | GAO-17-201

Similarly, authoritative data on remittances from the United States to Cuba are also not available; however, estimates produced by outside groups suggest that remittances increased in 2015 as the U.S. government first increased and then eliminated caps on remittances to Cuba in January 2015 and September 2015, respectively. For example, estimates produced by the Havana Consulting Group indicate that remittances to Cuba were almost \$3.4 billion in 2015, up 7 percent from 2014. A different estimate, produced by the Inter-American Dialogue, suggests that remittances were lower but still increased in 2015. The Inter-American Dialogue estimated that remittances to Cuba were over \$1.3 billion in 2015, a 5-percent increase from 2014. Increases in remittances are expected to benefit the Cuban private sector. As part of the regulatory changes, Treasury specifically allowed remittances to be sent to Cuba to support the development of private businesses. Experts

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and officials we interviewed, as well as analyses we reviewed, indicate that remittances are an important source of capital for the private sector in Cuba.

Other U.S. regulatory changes were also intended to benefit the Cuban private sector. For example, as discussed above, the U.S. government has developed a list of items that are allowed for import into the United States from Cuba, if produced by independent Cuban entrepreneurs. U.S. officials noted that they do not have data on the extent to which such imports have taken place, but U.S. officials we interviewed stated that such imports were likely limited to date. One Cuban private sector representative we spoke with noted that, using this authority, her company has made arrangements to sell certain products onboard Carnival Cruise Line ships traveling to Cuba. In addition, in June 2016, Nespresso announced that it would be importing coffee grown by private Cuban farmers into the United States.

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## Embargo Restrictions and Cuban Government Barriers Continue to Place Significant Limits on Economic Engagement between the United States and Cuba

While the administration has used the President's executive authority to make the six rounds of regulatory revisions since December 2014, Congress has not made statutory changes to modify or end the embargo. In addition, the Cuban government has not taken steps, specified in current U.S. law, that would authorize the President to suspend or terminate the embargo without congressional action. Pursuant to the LIBERTAD Act, the President is authorized to suspend the embargo if he or she determines that a transition Cuban government is in power and is required to terminate the embargo if he or she determines that a democratically elected Cuban government is in power.<sup>30</sup> Consequently,

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<sup>30</sup>For the President to suspend the embargo, such a transition government must have legalized all political activity, released political prisoners, allowed investigations of Cuban prisons by international human rights organizations, dissolved the present Department of State Security in Cuba's Ministry of the Interior, and publically committed to holding free and fair elections. For the President to terminate the embargo, such a democratically elected government must have resulted from free and fair elections; shown respect for the basic civil liberties and human rights of the citizens of Cuba; substantially moved toward a market-oriented economic system based on the right to own and enjoy property; committed to making constitutional changes that would ensure regular free and fair elections and the full enjoyment of basic civil liberties and human rights by the citizens of Cuba; made demonstrable progress in establishing an independent judiciary; and made demonstrable progress in returning to U.S. citizens (and entities that are 50 percent or more beneficially owned by U.S. citizens) property taken by the Cuban Government from such citizens and entities on or after January 1, 1959, or provided full compensation for such property in accordance with international law standards and practice.

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U.S. law still limits U.S. businesses' ability to engage with the Cuban private sector or pursue other economic opportunities in Cuba. For example, as part of its implementation of the embargo, Commerce maintains a general policy of denial on most exports other than those covered by license exceptions or otherwise specifically identified in the EAR. In addition, most U.S. investment in Cuba continues to be prohibited under the CACR. U.S. law also places a number of other restrictions on U.S. citizens. For example, although U.S. businesses may now offer financing on most types of goods authorized for export to Cuba, credit financing of agricultural exports to Cuba remains prohibited under TSRA. Various sources note that this prohibition significantly limits the competitiveness of U.S. agricultural producers given the generous credit terms other countries, such as Vietnam, provide to Cuba. In addition, although the CACR authorizes transactions incident to travel to Cuba for 12 specified categories, U.S. law still prohibits travel for tourist activities.

Cuban government restrictions also affect U.S. businesses' ability to engage with the Cuban private sector or pursue other economic opportunities in Cuba. The effects of a number of the regulatory changes cannot be fully realized until the Cuban government makes corresponding changes. U.S. officials stated that it has been challenging to get the Cuban government to agree to make such changes. One key Cuban government restriction that U.S. officials identified is that all U.S. exports must go through one of Cuba's state trading agencies. For example, according to U.S. government reporting and officials, all U.S. agricultural exports must go through the Cuban state trading agency Alimport. As a result, U.S. businesses cannot trade directly with the Cuban private sector or other state-run companies. In addition, while the January 2015 regulatory revisions allowed for microfinancing to support the growth of the Cuban private sector, the Cuban government continues to prohibit the private sector's access to such financing from foreign investors, according to State reporting. The Cuban government also has not granted approvals to U.S. companies seeking to pursue opportunities in Cuba. Cleber, a U.S.-based manufacturer of small farm and light agricultural equipment, received approval from the U.S. government to set up a tractor assembly facility in Cuba. However, after more than a year of negotiation, the Cuban government rejected Cleber's proposal.

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## U.S. Agencies Have Conducted Activities to Support Economic Engagement with Cuba but Have Not Collected and Documented Key Information

U.S. agencies have conducted a range of activities to support U.S. economic engagement with Cuba's private sector but have limited information on the effects of their efforts. While U.S. regulatory changes have created opportunities for greater economic engagement with Cuba, prohibitions on U.S. assistance, resource constraints, and Cuban government priorities affect U.S. agencies' ability to support U.S. businesses or engage the Cuban private sector. Within these limitations, a number of U.S. agencies have engaged with the Cuban government, U.S. businesses, and the Cuban private sector to enhance understanding of the regulatory changes and increase opportunities for economic engagement. However, agencies have not taken steps to collect and document key information that will enable them to monitor changes in economic engagement resulting from the President's initiative.

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## Prohibitions, Resource Constraints, and Cuban Government Priorities Affect Agencies' Ability to Support the Cuban Private Sector and U.S. Business Activities with Cuba

U.S. law prohibits many forms of assistance that might be able to increase economic engagement with Cuba. In particular, agencies may not provide export assistance or credit or guarantees for exports to Cuba, and foreign assistance for Cuba is subject to legislative restrictions that prohibit most types of assistance other than democracy assistance.<sup>31</sup> In other countries, U.S. agencies can increase economic engagement through a range of programs that are prohibited with respect to Cuba, such as the ones noted below:

- Commerce, through its U.S. Commercial Service, offers a range of export assistance services to U.S. businesses seeking to enter markets in other countries. These services include—among others—basic market research, organizing trade missions, and coordinating one-on-one matchmaking meetings with potential business contacts.
- USDA partners with agricultural trade associations, cooperatives, and other groups to share the costs of overseas marketing to develop commercial export markets for U.S. agricultural goods.
- Several finance agencies, including the Export-Import Bank of the United States and the Overseas Private Investment Corporation,

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<sup>31</sup>GAO has previously published reports on U.S. agency democracy assistance programs in Cuba, most recently in 2013. See *Cuba Democracy Assistance: USAID's Program Is Improved, but State Could Better Monitor Its Implementing Partners*, [GAO-13-285](#) (Washington, D.C.: Jan. 25, 2013). During the 1990s, provisions of CDA and LIBERTAD granted authority to USAID and State to conduct democracy assistance programs. Democracy assistance includes, for example, activities designed to support civil society groups and advance the free flow of information.

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provide credit and other support to U.S. companies doing business overseas.

- As part of foreign assistance efforts, State and USAID conduct economic capacity-building projects and develop financing solutions to support private enterprise in developing countries.

State officials noted that resource constraints limit the ability of the U.S. embassy in Havana to support the Cuban private sector and U.S. economic engagement with Cuba. Embassy officials noted that their workload has increased substantially while their level of staffing has remained the same since the embassy opened in July 2015,<sup>32</sup> after the restoration of diplomatic relations (see fig. 11 below). In particular, they now coordinate a large volume of official visits to Cuba. State officials said that limited staff and financial resources have affected the embassy's ability to provide economic reporting and travel outside of Havana to observe private sector activity. The embassy operates with 51 U.S. direct-hire staff. According to State officials, this is approximately one-third of the staff at embassies in similarly sized countries, such as the Dominican Republic. The U.S. and Cuban governments have agreed to increase caps on the number of permanent positions at their respective embassies to 76 direct-hire staff. However, the embassy has not received funding for additional staff.

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<sup>32</sup>The current embassy had operated previously as the U.S. Interests Section, based on an agreement that was signed with the Cuban government in 1977.

**Figure 11: Embassy of the United States in Havana, Cuba, and Embassy of Cuba in Washington, D.C., Newly Opened after the Restoration of Diplomatic Relations**



Source: GAO. | GAO-17-201

State officials said that the embassy's level of resources affects its ability to accommodate the presence of other U.S agencies that could provide expertise and support on economic diplomacy. The Department of Homeland Security is currently the only other agency with permanent staff at the embassy. Since the embassy reopened, State has not accepted requests from other U.S. agencies for permanent positions in Havana. In November 2015, USDA submitted a request to State to establish an office at the embassy. USDA stated that a permanent in-country presence at the embassy was necessary for the agency to continue to advance relations with the Cuban Ministry of Agriculture and gain firsthand knowledge of Cuba's agricultural challenges and opportunities. However, State did not approve the request, citing the embassy's full workload, aging physical infrastructure with a lack of available workspace, inadequate housing, and the lack of administrative resources needed to

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support other agencies. In lieu of a permanent presence, USDA places one rotating staff member on temporary assignment at the embassy.<sup>33</sup>

The Cuban government's priorities also affect the ability of U.S. agencies to support the Cuban private sector. Agency officials noted that the Cuban government's priorities are not aligned with U.S. government objectives in most cases. For example, the United States made regulatory changes to allow U.S. firms to export certain categories of items to the Cuban private sector, but the Cuban government has not authorized the private sector to import items directly.<sup>34</sup> Even though the Cuban government has authorized increased private sector activity in some areas, its priority is to increase investment and economic opportunities for state-owned enterprises, according to State officials. State officials said that the Cuban government has opposed U.S. government efforts to target the Cuban private sector as the beneficiary of regulatory changes or other initiatives. They stated that the Cuban government declined a proposal to establish a working group on small business. As an alternative to creating specific programs for Cuban entrepreneurs, which the Cuban government may object to, State officials said that they have promoted existing programs that are available to applicants from several countries. For example, State's Women's Entrepreneurship in the Americas program provides training and mentoring to women throughout Latin America and the Caribbean.

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Since the Cuba Policy Changes, U.S. Agencies Have Engaged the Cuban Government, U.S. Businesses, and the Cuban Private Sector

Since the President's December 2014 Cuba policy announcement, a number of U.S. agencies have conducted activities to increase economic engagement with the Cuban private sector and expand U.S. economic opportunities in Cuba (see fig. 12). Agencies have engaged (1) the Cuban government, (2) U.S. businesses and other organizations, and (3) the Cuban private sector. More recently, the President's October 2016 presidential policy directive has provided additional guidance to further

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<sup>33</sup>One staff member from USDA's Foreign Agricultural Service has completed a 2-month rotation at the embassy. As of October 2016, a staff member from USDA's Animal and Plant Health Inspection Service is on temporary assignment in Cuba. USDA also has an Agricultural Trade Office for the Caribbean Basin in Miami, Florida, which works on agricultural issues related to Cuba.

<sup>34</sup>According to Commerce's BIS, Cuban government import agencies and other government-owned, -operated, or -controlled companies and corporations may act as consignees to receive and effect delivery of eligible items to the private sector.

specify the roles and responsibilities of the various U.S. agencies involved in the implementation of the administration's Cuba policy.

**Figure 12: Key Agency Activities to Support Economic Engagement with Cuba**



Source: GAO analysis of agency data. | GAO-17-201

**Engagement with the Cuban government:** U.S. agencies' key activities have included high-level diplomatic events; several rounds of technical discussions; and memoranda of understanding (MOU) covering a range of issues.

In addition to a presidential visit and six cabinet-level visits to Cuba, there have been three key forums for U.S. engagement with the Cuban

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government on economic issues: (1) the Bilateral Commission, (2) the U.S.-Cuba Regulatory Dialogue, and (3) the Economic Dialogue.

- State has conducted five rounds of the Bilateral Commission with Cuba's Ministry of Foreign Affairs. The commission has covered a range of issues, including cooperation on human rights, regulatory issues, agriculture, telecommunications, and civil aviation. State officials said that this is a key forum for establishing a framework for engagement between the two countries.
- Commerce, Treasury, and State have conducted three rounds of the U.S.-Cuba Regulatory Dialogue. The purpose of the dialogue is to increase understanding of the economic systems of both countries. U.S. officials have also used the dialogues to encourage the Cuban government to make corresponding changes to maximize the effect of U.S. regulatory revisions.
- Commerce and State held the inaugural session of the Economic Dialogue with the Cuban government in September 2016 to discuss long-term bilateral engagement on a variety of economic issues. State officials said the two governments agreed to follow up with technical working group meetings on three issues, in particular: (1) renewable energy and energy efficiency, (2) intellectual property rights, and (3) economic cooperation.

The U.S. and Cuban governments have also signed six MOUs, including one signed by the Secretary of Agriculture and the Cuban Agriculture Minister on technical cooperation on agriculture and forestry issues. As a result of the MOU, USDA has developed plans to conduct technical exchanges on a variety of topics, including organic food production and plant and animal health. Other MOUs covered issues including public health, marine protected areas, civil aviation, trade and travel security, and maritime navigation.

**Outreach with U.S. businesses and other organizations:** U.S. agencies' key activities have included providing written guidance on the regulatory changes; conducting informational events and conference calls; and responding to individual inquiries from businesses, trade associations, universities, and other organizations interested in Cuba.

- Since the first set of regulatory changes was announced in January 2015, Treasury and Commerce have published comprehensive fact

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sheets and answers to frequently asked questions to clarify the changes.<sup>35</sup>

- To further explain the changes and respond to questions about the regulations, Treasury and Commerce officials have participated in a number of events with U.S. businesses. Commerce hosted or participated in the following events with U.S. businesses between January 2015 and June 2016:
  - 14 conference calls hosted by Commerce with more than 1,700 participants;
  - 9 calls hosted by other agencies with more than 2,500 participants;
  - 92 meetings with individual companies with more than 380 individual participants; and
  - 29 trade association events with more than 1,260 participants.

Treasury officials stated that, in addition to participating in most of the events hosted by Commerce, they had conducted several events specific to financial institutions. Treasury officials also highlighted two conferences on economic sanctions they hosted that included 750 to 1,000 participants each; they also participated in two banking seminars—in Havana and New York—that included representatives from banks in Cuba, the United States, and other countries.

- Agency officials also reported that they have responded to a high volume of inquiries from businesses, trade associations, universities, and other organizations that are seeking additional information on the regulatory changes. For example, Commerce officials stated that they have responded to almost daily inquiries regarding the regulatory changes since the new Cuba policy was announced in December 2014. Embassy officials stated that they interact frequently with numerous U.S. businesses exploring the Cuban market through meetings, briefings, and explanations of the changing Cuban environment.
- USDA has produced reports on U.S. agricultural trade with Cuba and collected general information from its program partners regarding their business activities with Cuba.<sup>36</sup>

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<sup>35</sup>Treasury's OFAC and Commerce's BIS have administered the regulatory changes and managed the outreach efforts related to the changes.

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- USDA announced in March 2016 that its program partners may use industry funds sourced, for example, through its Research and Promotion programs to conduct cooperative research and information exchanges with Cuba; however, among other restrictions, USDA officials said that program partners may not use funds to offer training in Cuba.<sup>37</sup>

**Outreach with the Cuban private sector:** U.S. agencies' key activities have included meeting with Cuban entrepreneurs, arranging informational meetings for U.S. business delegations, promoting training opportunities, and hosting formal events during official visits to Cuba.

- Embassy officials noted that they learned about the challenges Cuban entrepreneurs face by visiting their places of business and conducting regular outreach.
- According to embassy officials, they regularly coordinate meetings between U.S. business delegations seeking to learn about Cuba's private sector and Cuban entrepreneurs.
- Several Cuban private sector representatives said they had traveled to the United States to take business classes sponsored by U.S. universities or other organizations, which they had learned about through interactions with U.S. officials. They noted that the embassy had provided information regarding these opportunities and facilitated their communication with U.S. universities or other organizations. According to the owners of one private business, the business administration and marketing skills gained through training at a U.S. university led to improvements in their business operations.
- U.S. agency officials have met with Cuban private sector representatives during official visits. For example, the President participated in an entrepreneurship and opportunity event during his visit to Havana in which Cuban entrepreneurs discussed their experiences and the challenges they face. During the third U.S.-Cuba Regulatory Dialogue in Havana in July 2016, Treasury and Commerce officials responded to questions about U.S. regulatory changes during a meeting with Cuban entrepreneurs. Treasury and Commerce officials noted that Cuban entrepreneurs were interested in how they

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<sup>36</sup>USDA officials stated that the agency's reporting is informational and may not highlight specific opportunities for U.S. businesses.

<sup>37</sup>USDA's Research and Promotion programs provide a framework for pooling resources to develop new markets, strengthen existing markets, and conduct research and promotion activities. While USDA provides oversight, the programs are industry funded.

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could pay for U.S. goods and how Cuban entrepreneurs could receive payment for services provided to U.S. firms.

State has also created opportunities for a small number of entrepreneurs through its public diplomacy programs, such as the ones noted below.<sup>38</sup>

- Eight Cuban entrepreneurs were selected to participate in its Young Leaders of the Americas Initiative in fall 2016, which involved internships and skills-building workshops for young leaders from Latin America and the Caribbean, among other activities.
- The embassy's Public Affairs Section highlighted entrepreneurship as one of three top priorities included in its grant opportunities for individuals and organizations to conduct programs in Cuba pertaining to the arts, academia, sports, entrepreneurship, technology, education, and youth. State noted that the embassy had received three applications related to entrepreneurship. Embassy officials explained that one challenge is finding a qualified implementing partner that is not connected to the Cuban government, which is a requirement of the grants.

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## U.S. Agencies Have Not Taken Steps to Collect and Document Key Information on Changes in Economic Engagement

State and other agencies have not taken steps to collect and document key information that would enable them to monitor changes in economic engagement, including with the Cuban private sector, resulting from the President's initiative. Although agencies have communicated frequently with each other regarding their activities, they have not collected or documented key information on (1) the Cuban economy, (2) the effects of U.S. regulatory changes, and (3) agency activities. GAO's *Standards for Internal Control in the Federal Government* states that agencies should use quality information to evaluate performance in achieving key objectives.<sup>39</sup> Without collecting and documenting information, U.S. agencies risk being unable to monitor and assess changes in economic engagement since the December 2014 policy change. This information could also support agencies' implementation of the President's October 2016 directive. The directive stated that the National Security Council will convene interagency meetings to monitor implementation and resolve

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<sup>38</sup>Public diplomacy programs authorized pursuant to the United States Information and Educational Exchange Act of 1948 (act of Jan. 27, 1948, ch. 36, as amended) are not subject to the prohibition against assistance to the present government of Cuba contained in the Foreign Assistance Act (Section 620 of Pub. L. No. 87-195, codified as amended at 22 U.S.C. § 2370).

<sup>39</sup>[GAO-14-704G](#).

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obstacles to progress on the administration's goals and objectives. Collecting and documenting key sources of information may be difficult because of the opacity of the Cuban economy and the lack of typical or authoritative sources of information on private economic activity but will nonetheless be critical to understanding changes in U.S.-Cuba economic engagement.

**Information on the Cuban economy:** Agencies have not collected and documented information on the Cuban economy that they would need to monitor changes in U.S.-Cuba economic engagement.

- Agency officials noted a lack of transparency in how the Cuban government produces data and that there is limited information on the Cuban economy, in part, because Cuba is not a member of—and thus not reporting data to—international financial institutions. As a result, agency officials gather information through meetings with Cuban officials, Cuban entrepreneurs, and Cuba experts; and through monitoring written sources. However, agencies generally have not documented and reported the information they have learned. In a proposal submitted to its Diplomacy Lab—a partnership with researchers from U.S. universities—State noted the need to collect baseline information on the Cuban economy to be able to measure the impact of the easing of bilateral relations.<sup>40</sup> The baseline study would have involved analyzing and assessing the validity of existing data sources on the Cuban economy. However, according to State, the proposal did not generate sufficient interest from the Diplomacy Lab to move forward with the study.
- In addition, the embassy has not documented key information related to the Cuban economy that could benefit other agencies. While recognizing resource constraints at the embassy, U.S. officials from two agencies said that they would benefit from additional economic reporting from the embassy given the general lack of quality information on Cuba's economy. For example, Commerce officials noted that having more knowledge initially regarding Cuba's system for importing and exporting could have been informative to earlier rounds of regulatory changes. USDA officials noted that they would

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<sup>40</sup>State launched the Diplomacy Lab in 2013 as a public-private partnership with students and faculty at colleges and universities across the United States. The purpose of the Diplomacy Lab is to conduct research and foster innovation related to foreign policy challenges.

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benefit from additional information on Cuban rules and regulations related to agriculture.

**Effects of U.S. regulatory changes:** Agencies have not collected data on key activities related to the regulatory changes.

- State has noted the importance of increased travel and remittances to the U.S. government's goal of supporting Cuba's private sector. However, as a result of changes to general licensing for authorized categories of travel, Treasury has limited information regarding U.S. travel to Cuba.<sup>41</sup> Similarly, since caps on remittances have been lifted, Treasury has limited information on U.S. remittances to Cuba.<sup>42</sup> Alternative sources of data on travelers and remittances exist, but U.S. agencies have not determined what additional information, if any, would be required to monitor these regulatory changes or assessed whether existing sources of information would be adequate.
- State officials highlighted the potential benefits for the Cuban private sector of the regulatory changes allowing U.S. entities to import goods and services from independent Cuban entrepreneurs. However, State does not have data or documentation on the extent to which goods or services produced by Cuban entrepreneurs have been imported into the United States using this authority but noted anecdotal evidence suggesting that the authority has been used.
- Even though information regarding the economic effects of the regulatory changes is limited, Treasury officials stated that the easing of restrictions on travel and commerce was a goal of the President that was achieved through the regulatory changes. State and Treasury officials also said that some agencies that might otherwise monitor the economic effects of the regulatory changes have not been as involved because of the legal prohibitions on export assistance.

**Information on agency activities:** Agencies generally have not documented the results of key forums for U.S.-Cuba economic relations. For example, agencies have not produced comprehensive summaries of

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<sup>41</sup>Treasury officials noted that family travel has been permitted under a general license since 2009. Since Cuban family members account for the majority of U.S. travel to Cuba, Treasury officials noted that they did not have information on most U.S. travel to Cuba for several years prior to the December 2014 policy change. They stated that certain other authorized categories of travel also had been generally licensed prior to December 2014.

<sup>42</sup>Treasury officials noted that family remittances account for the majority of U.S. remittances to Cuba and that all restrictions on remittances to family members in Cuba were lifted in 2009.

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the Bilateral Commission meetings or the Economic Dialogue.<sup>43</sup> Although Commerce has summarized key points and next steps from their meetings during the U.S.-Cuba Regulatory Dialogue, these documents summarized the proceedings for internal department purposes. Officials stated that relevant updates are communicated through interagency meetings chaired by the National Security Council and frequent informal communication. However, officials could benefit from additional documentation of key meetings and events. For example, officials from the embassy said that they are not informed regarding some details of discussions when bilateral meetings occur in Washington, D.C. USDA officials also noted that on some occasions they have been asked to provide input in preparation for bilateral events but were not briefed afterward regarding the results of the events.

In addition, agencies have not documented key takeaways or challenges identified as a result of their outreach with U.S. businesses and the Cuban private sector. For example, Treasury and Commerce have not documented information they have learned from U.S. businesses and financial institutions during outreach events. Officials from both agencies noted that they have used information gained from events to make decisions about regulatory changes and shared information with relevant stakeholders during interagency meetings. However, without written documentation of information learned, stakeholders may not be able to monitor the effectiveness of the outreach efforts. For example, they may not be able to determine whether U.S. banking institutions are aware that they may process third-country commercial transactions related to Cuba.<sup>44</sup> Similarly, embassy officials noted that outreach with the Cuban private sector has been a top priority since the restoration of diplomatic relations, but they have not documented information learned from these efforts. Without documentation, it may be unclear whether Cuban entrepreneurs have been able to take advantage of U.S. regulatory changes—for example—whether they have been able to open bank

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<sup>43</sup>State officials noted that, in coordination with relevant interagency partners, they exchange diplomatic correspondence with the Cuban government following bilateral meetings. Officials stated that, while they do not include comprehensive summaries of the discussions, their correspondence includes next steps and action items for both governments.

<sup>44</sup>See 31 C.F.R. § 515.584(d). U.S. banking institutions may process transactions originating and terminating outside of the United States provided that neither the originator nor the beneficiary is a person subject to U.S. jurisdiction.

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accounts in the United States to receive payment for products or services provided to U.S. clients.<sup>45</sup>

The embassy developed an Integrated Country Strategy (ICS) in March 2016 that establishes goals for engagement with the Cuban private sector and identifies indicators for monitoring progress toward these goals.<sup>46</sup> These indicators involve a range of measures related to the Cuban economy and trade. However, embassy officials said that they have not yet started to collect the information needed to assess progress using these indicators. In addition, for several of the indicators, the embassy may need to work with other U.S. agencies to obtain the necessary information; however, officials from other agencies we interviewed stated that they had not been consulted regarding the ICS.

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## Conclusions

President Obama's December 2014 policy announcement marked a significant shift in U.S. policy toward Cuba. After more than 50 years of U.S. policy designed to isolate Cuba's communist government, the President called for a new strategy of engagement. In particular, in setting out his policy, the President stated that the U.S. government would seek to support Cuba's nascent private sector and create new openings for U.S. businesses to engage in Cuba. Since the policy change, agencies have conducted a range of activities to support increased economic engagement. However, there are still significant limits on such engagement. U.S. law prohibits many forms of assistance to Cuba that might be used to support the Cuban private sector or U.S. businesses that want to pursue economic opportunities in Cuba. In addition, agency officials stated that resource constraints at the U.S. embassy in Havana and Cuban government priorities affect the ability of the U.S. government to support the Cuban private sector. U.S. agencies have noted the importance of having quality information to support their efforts, particularly given the opacity of the Cuban economy and a lack of

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<sup>45</sup>Effective March 16, 2016, Treasury's OFAC issued an authorization to allow banking institutions to open and maintain bank accounts in the United States for Cuban nationals in Cuba to receive payments in the United States for transactions authorized pursuant to, or exempt from, the prohibitions of, the CACR and to remit such payments back to Cuba. See 31 C.F.R. § 515.584.

<sup>46</sup>The ICS is a multiyear plan that articulates U.S. government priorities in a given country. The plan includes goals and objectives developed through collaborative planning among State, USAID, and other U.S. agencies operating under the authority of the overseas mission.

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authoritative data sources. However, U.S. agencies have not taken steps to collect or document key information that could be used to monitor changes in economic engagement, including with the private sector, and address obstacles to progress. Without taking steps to collect and document information, agencies are hampered in their efforts to target their activities, assist future administrations in making decisions regarding Cuba, and inform congressional debate related to the embargo.

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## Recommendation for Executive Action

To ensure that all relevant U.S. agencies have information on the effect of changes in U.S. policy related to Cuba, we recommend that the Secretary of State, in consultation with Commerce, Treasury, USDA, and other relevant agencies, take steps to identify and begin to collect the information that would allow them to monitor changes in economic engagement, including with the Cuban private sector.

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## Agency Comments

We provided a draft of the report to Commerce, State, Treasury, USITC, USAID, USDA, and USTR for review and comment. Commerce, State, Treasury, and USAID provided technical comments, which we incorporated as appropriate. State also provided written comments, which are reproduced in appendix II. In its written comments, State concurred with our recommendation. USITC, USDA, and USTR did not provide any comments.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees and the Secretaries of Agriculture, Commerce, State, and Treasury, as well as the USAID Administrator, the Chairman of the U.S. International Trade Commission, and the United States Trade Representative. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found

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on the last page of this report. GAO staff who made contributions to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read "David Gootnick". The signature is written in a cursive style with a large initial "D" and "G".

David B. Gootnick  
Director, International Affairs and Trade

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# Appendix I: Objectives, Scope, and Methodology

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The objectives of this review were to examine what is known about (1) the size and scope of the Cuban private sector, (2) the effect of changes to U.S. legal and regulatory restrictions related to Cuba on the Cuban private sector and U.S. businesses, and (3) the extent to which the U.S. government planned and implemented activities designed to increase U.S. engagement with the Cuban private sector and expand U.S. economic opportunities in Cuba.

To determine what is known about the Cuban private sector, we analyzed U.S. government documentation describing the Cuban private sector. In addition, we conducted interviews with U.S. officials from the Departments of Agriculture (USDA), Commerce (Commerce), State (State), and the Treasury (Treasury); as well as the U.S. Agency for International Development (USAID), the U.S. International Trade Commission (USITC), and the U.S. Trade Representative (USTR) to learn more about the size and composition of the Cuban private sector, how it has changed over time, and key challenges it faces. We also conducted a literature review to identify relevant studies on the Cuban private sector completed by academics, think tanks, and other relevant organizations. To further assess the size of the Cuban private sector and how it has changed over time, we analyzed labor force data for 2008 through 2015 published by the Cuban government's National Statistics Office (Oficina Nacional de Estadísticas de Cuba). To assess the reliability of Cuban employment data, we interviewed U.S. officials and Cuba experts who were familiar with the data. In addition, we examined how the data had been used in a number of other assessments of the Cuban economy, including any relevant limitations that these assessments identified. We determined that the data were sufficiently reliable for the purposes of this report. Using International Labour Organization (ILO) data on employment by institutional sector that it has collected from national statistical agencies, we also compared the relative size of Cuba's public and private sectors to 16 other countries that fell into the same World Bank income category.<sup>1</sup> To assess the reliability of ILO data, we obtained written responses from the ILO regarding its process for compiling data, how it defined employment categories, and other relevant information. We determined that the data were sufficiently reliable for the purposes of this report. To gather further information on

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<sup>1</sup>Cuba is classified as an upper middle income (UMI) country, according to the World Bank. We compared Cuba to 16 other UMI countries for which ILO data were available: Azerbaijan, Belarus, Brazil, Colombia, Dominican Republic, Ecuador, Iran, Malaysia, Mexico, Mongolia, Panama, Paraguay, Serbia, South Africa, Suriname, and Thailand.

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the Cuban private sector, we conducted fieldwork in Havana, Cuba, in July 2016. During our fieldwork, we interviewed officials from the U.S. embassy in Havana, representatives from the Cuban private sector, representatives from Cuban organizations that provide training and other support to the Cuban private sector, and representatives from selected foreign embassies that have established commercial ties with Cuba. In addition, we conducted observations of a range of private Cuban businesses. As part of our fieldwork, we requested meetings with several Cuban ministries and academics at the University of Havana; however, the Cuban government denied our request for all of these meetings. After the completion of our trip, we were able to meet with officials from the Cuban embassy in Washington, D.C. In July 2016, we also attended the annual conference of the Association for the Study of the Cuban Economy in Miami, Florida, to obtain further information from a range of U.S. and Cuban experts on the status of the Cuban economy, recent and planned economic reforms in Cuba, and the size and composition of the Cuban private sector. The information on foreign law in this report is not the product of GAO's original analysis, but is derived from interviews and secondary sources.

To determine what is known about the effect of changes to U.S. legal and regulatory restrictions related to Cuba on the Cuban private sector and U.S. businesses, we reviewed relevant statutes related to the U.S. embargo on Cuba, including the Trading with the Enemy Act of 1917, the Foreign Assistance Act of 1961, the Cuba Democracy Act of 1992, the Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1996, and the Trade Sanctions Reform and Export Enhancement Act of 2000. We also reviewed the two principal sets of regulations pertaining to the embargo: the Cuban Assets Control Regulations (CACR) and the Export Administration Regulations (EAR). In doing so, we assessed what changes U.S. agencies have made to the CACR and the EAR since December 2014, when the Obama administration announced the new U.S. policy on Cuba. To obtain further information on the six sets of regulatory changes that U.S. agencies have made since December 2014, we reviewed documents produced by Commerce and Treasury discussing the regulatory changes, including fact sheets, frequently asked questions documents, and briefings to U.S. companies. In addition, we analyzed USITC, USDA, and other U.S. government reports and documentation to gather information on the results of the regulatory changes since December 2014 and on how remaining statutory and regulatory restrictions affect U.S. businesses' ability to engage with the Cuban private sector or pursue other economic opportunities in Cuba. To gain further information on the changes to the CACR and the EAR, we

interviewed U.S. officials from Commerce, State, Treasury, USDA, USITC, and USTR, as well as officials from the embassy. We also interviewed a nongeneralizable sample of U.S. business association officials, nonfederal Cuba experts, and Cuban private sector representatives to obtain additional perspectives on the effects of the U.S. regulatory changes and how remaining U.S. and Cuban restrictions affect economic engagement between the two countries. In addition, we analyzed data on trade between the United States and Cuba from Commerce's Trade Policy Information System. To assess the reliability of these data, we reviewed Commerce documentation on the Trade Policy Information System, an interface for accessing U.S. Census data on U.S. imports and exports, and prior GAO work using U.S. Census data. We determined that the data were sufficiently reliable for the purposes of this report. Finally, we analyzed Commerce licensing data to assess any trends in license applications to pursue authorized transactions related to Cuba under the EAR. To assess the reliability of these data, we interviewed Commerce officials and reviewed Commerce documentation on its licensing database. We determined that the data were sufficiently reliable for the purposes of this report.

To determine the extent to which the U.S. government has planned and implemented activities to increase U.S. engagement with the Cuban private sector and expand U.S. economic opportunities in Cuba, we interviewed headquarters officials from State, Commerce, Treasury, USDA, USAID, and USTR. We also interviewed officials from the embassy and USDA's Caribbean Basin Agricultural Trade Office in Miami, Florida. We discussed with officials activities they have conducted related to Cuba, their interpretations of key laws related to the embargo, and challenges they experience in conducting activities. We also interviewed a nongeneralizable sample of U.S. business association officials, Cuba experts, and Cuban private sector representatives to obtain their perspectives on U.S. activities related to Cuba. In assessing agencies' efforts to monitor changes in economic engagement, including with the Cuban private sector, we compared their actions with GAO's *Standards for Internal Control in the Federal Government*.<sup>2</sup> Principle 13 of these standards states that agencies should use quality information to achieve their objectives. To examine the extent to which agencies have collected and documented information, we submitted questions and

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<sup>2</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

received written responses regarding agencies' activities related to Cuba and the extent to which, if at all, they had documented their engagement with the Cuban government, U.S. businesses, and the Cuban private sector. We reviewed the embassy's Integrated Country Strategy for Cuba and discussed with State officials the extent to which the embassy received input from other agencies regarding their plan. We also reviewed publicly available agency documents summarizing the results of the changes in the administration's Cuba policy.

We conducted this performance audit from January 2016 to December 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Department of State



United States Department of State

Comptroller

Washington, DC 20520

DEC - 8 2016

Dr. Loren Yager  
Managing Director  
International Affairs and Trade  
Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548-0001

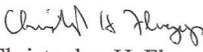
Dear Dr. Yager:

We appreciate the opportunity to review your draft report, "CUBA: U.S. Policy Changes Increased Engagement with Private Sector, but Agency Information Collection Is Limited" GAO Job Code 100581.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Kevin Murakami, Economic Unit Chief, Office to Cuban Affairs, Bureau of Western Hemisphere Affairs at (202) 647-5561.

Sincerely,

  
Christopher H. Flaggs

Enclosure:  
As stated

cc: GAO – David Gootnick  
WHA – John Creamer  
State/OIG - Norman Brown

**Department of State Response to GAO Draft Report**

**CUBA: U.S. Policy Changes Increased Engagement with Private Sector, but  
Agency Information Collection Is Limited**  
**(GAO-17-201, GAO Code 100581)**

The Department of State appreciates the opportunity to respond GAO draft Report, *Cuba: U.S. Policy Changes Increased Engagement with Private Sector, but Agency Information Collection is Limited*. There is one recommendation for the Department of State.

To ensure all relevant U.S. agencies have information on the effect of changes in U.S. policy related to Cuba, GAO recommends that the Secretary of State, in consultation with Commerce, Treasury, USDA, and other relevant agencies, take steps to identify and begin to collect the information that will allow them to monitor changes in economic engagement, including with the Cuban private sector, resulting from the President's initiative.

State concurs with the finding. The Department will work with Congress to secure increased funding for the necessary levels of staffing and resources at U.S. Embassy Havana required to implement this recommendation.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

David B. Gootnick, (202) 512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Adam Cowles (Assistant Director), Ryan Vaughan (Analyst-in-Charge), Justin Gordinas, Michael Hoffman, Mark Dowling, Lynn Cothorn, Jill Lacey, Neil Doherty, and Lilia Chaidez made key contributions to this report.

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