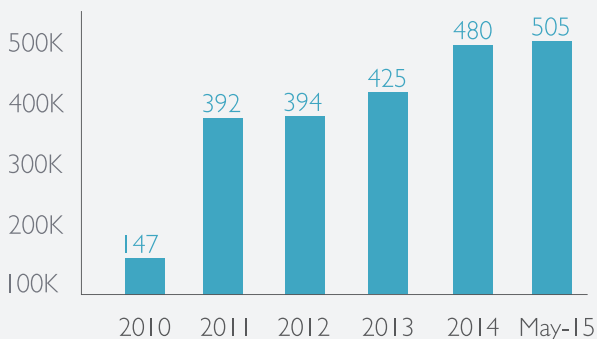


SELF-EMPLOYMENT LICENSES ISSUED



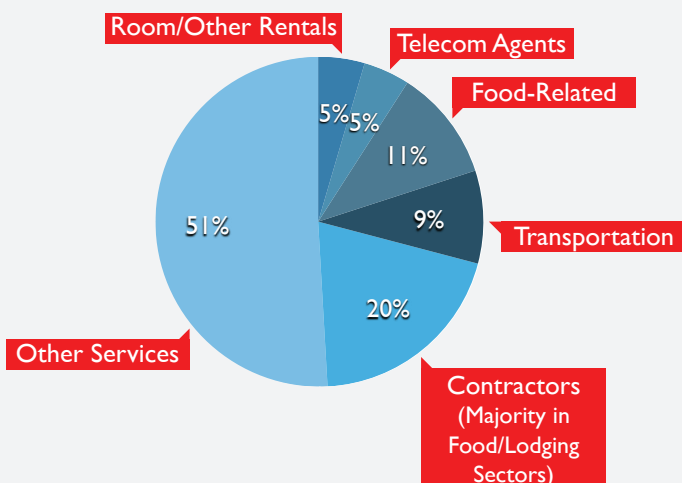
PRIVATE SECTOR ESTIMATED TO BE 1/3 OF THE LABOR FORCE

Total Cuban Labor Force: 5.1 Million

505,000	Licensed Entrepreneurs
600,000+*	Unlicensed/Part-Time Entrepreneurs
575,000*	Private Farmers & Cooperatives
50,000	Joint Venture Employees
<u>1,730,000</u>	
34%+	Estimated % of Cuban labor force in private sector

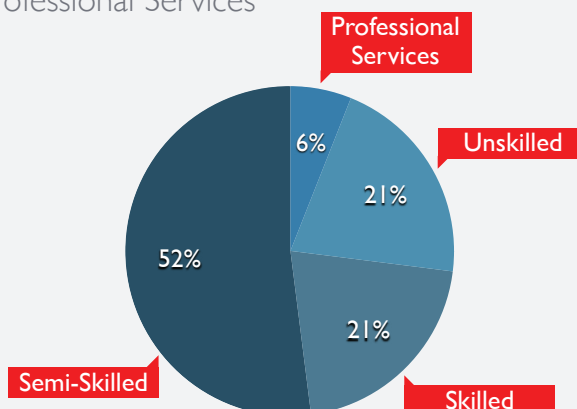
*Brookings Estimate

LICENSES ISSUED BY TYPE OF ACTIVITY



NUMBER OF LEGAL FORMS OF SELF-EMPLOYMENT: 201

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



MOST IMPORTANT SECTORS BY REVENUES AND EMPLOYMENT

Restaurants ("Paladares"):

- 4,000+ and growing
- Up to 50 seats each
- State largely exiting this sector

Bed & Breakfasts ("Casas Particulares"):

- 28,000+ rooms (vs 62,000 hotel rooms) and growing
- Tourism growth is strong and State/Joint Venture hotels are near capacity

Transportation: Taxi and Private Drivers

CO-OPERATIVE SECTOR

- Legal entities (unlike self-employment), which are self-governing
- Traditionally in agriculture, non-agricultural co-ops allowed since 2012
- Restricted to the 201 self-employment categories
- By statute, have access to wholesale markets and can import/export, but not yet in practice
- Agricultural cooperatives (5,500) still dominate, but non-agricultural cooperatives growing faster (498 approved, 329 operational): farmers' markets, construction, transportation and light manufacturing.

Opportunities and Challenges Facing Cuba's Entrepreneurs

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

Cuba	U.S.	
99.8%	99.8%	Literacy
14 yrs	16 yrs	School Life Expectancy
6.72	2.45	Doctors Per 1,000 People
1.17%	0.90%	Public Spend of IT R&D (%GDP)
\$20-30 per month		Cuban State Wages
\$50-500 per month		Cuban Non-State Wages (estimated)

DRIVERS OF PRIVATE SECTOR GROWTH ARE ACCELERATING...

- Rapidly expanding tourism; visitors up 18% YTD and projected to be 3.5 million for 2015, a record
- Private restaurants, room rentals, and guides/drivers taking significant market share from State entities
- U.S. citizen and Cuban American visits combined will approach 500,000 in 2015, up from 350,000 in 2014
- Large remittance flows of cash and merchandise (estimates vary from \$3-6 billion)
- Remittances account for an estimated 70-80% of the capital invested in businesses.
- The liberalized real estate market is creating capital as Cubans buy/sell properties; although buyers must legally be residents, foreign capital is flowing in.

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

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

BUT PROFESSIONAL SERVICE OPPORTUNITIES FOR THIS WORKFORCE ARE VERY LIMITED

Licensed Professional Services: Computer programmers, accountants, translators, real estate and insurance brokers, language/music/art tutors

- Medical and educational sectors are state monopolies; not only is no self-employment allowed, no foreign investment is permitted.
- Other professional services (engineers, lawyers, architects) cannot be self employed, although "creative" use of licenses is common; many professional service cooperatives pending approval

BUT THERE ARE SEVERE RESTRICTIONS

- No wholesale markets; all supplies and equipment must be purchased retail, brought in by travelers/"mules" or sourced from the black market
- State monopoly on exports/imports
- Remittance transfer costs are high (12-20%); when dollars are brought in and exchanged, there is a 13% charge.
- U.S. banking compliance systems lagging new regulation, still blocking/delaying newly allowed transfers
- Onerous taxation of self-employed: sliding scale up to 50% personal tax rates, only 10-40% of costs deductible; tax on every worker after 5. Cooperatives can deduct all costs and pay a 15% tax on profits, so much more attractive.
- State banks beginning to lend but still small (est. \$10 million in 2015)

BUT INTERNET ACCESS VERY LIMITED

- Internet penetration is only 5% for global internet; higher, but still small for domestic intranet
- Only 50 public wifi hot-spots, cost of \$2/hour (expensive for residents); residential access very restricted
- Most e-commerce sites blocked
- There are approximately 3 million mobile phones for a population of 11 million, and very few are smart phones
- Most digital data distributed off-line by flash drive enabled "paquete" system