

Cuban Integrated Financing Framework (CIFFRA)

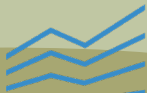


POLICY NOTE No. 4 MAPPING FINANCING POLICIES



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República de Cuba



Mapping financing policies

As part of the Joint Program “Support for the development of an Integrated National Framework for Financing Sustainable Development Goals (SDGs) in Cuba” (CIFFRA), an exercise for Mapping Development Financing Policies was carried out in order to identify financing policies and strategies in Cuba, their goals, instruments, actors, synergies and conflicts, and based on this, their main design and implementation gaps.

First and foremost, this exercise is a key input for the policy recommendation phase of the Joint Program, as it identifies gaps in the design and implementation of the policies currently being implemented by the Government of Cuba to finance development. Secondly, it provides additional diagnoses and lessons learned on the relevance and cross-cutting nature of development financing in the context of the macro programs¹ promoted by the Government.

In this effort, 23 fact sheets were prepared describing how the main development financing policies and programs are implemented in Cuba and which are the key institutional gaps between what these actions are, what they are proposed to be and what they should be. The 23 fact sheets were prepared by an initial group of experts and then submitted for review by third parties, through successive meetings and discussions that culminated in the presentation of results in three workshops. In total, more than 70 experts participated, including representatives of the government, the academic sector and the Economic Commission for Latin America and the Caribbean (ECLAC), which provided methodological support.

The exercise took into account not only policies that seek to increase sources of financing or channel and improve their use, but also those aimed at optimizing public resources and those that due to their systemic nature, guarantee a favorable environment for development financing. Most of the policies identified are explicit, i.e., policies for which there is a government mandate and a responsible and accountable party. However, implicit policies or government actions aimed at attracting financing or channeling or improving its use were also taken into account, even when they do not respond to stated objectives.

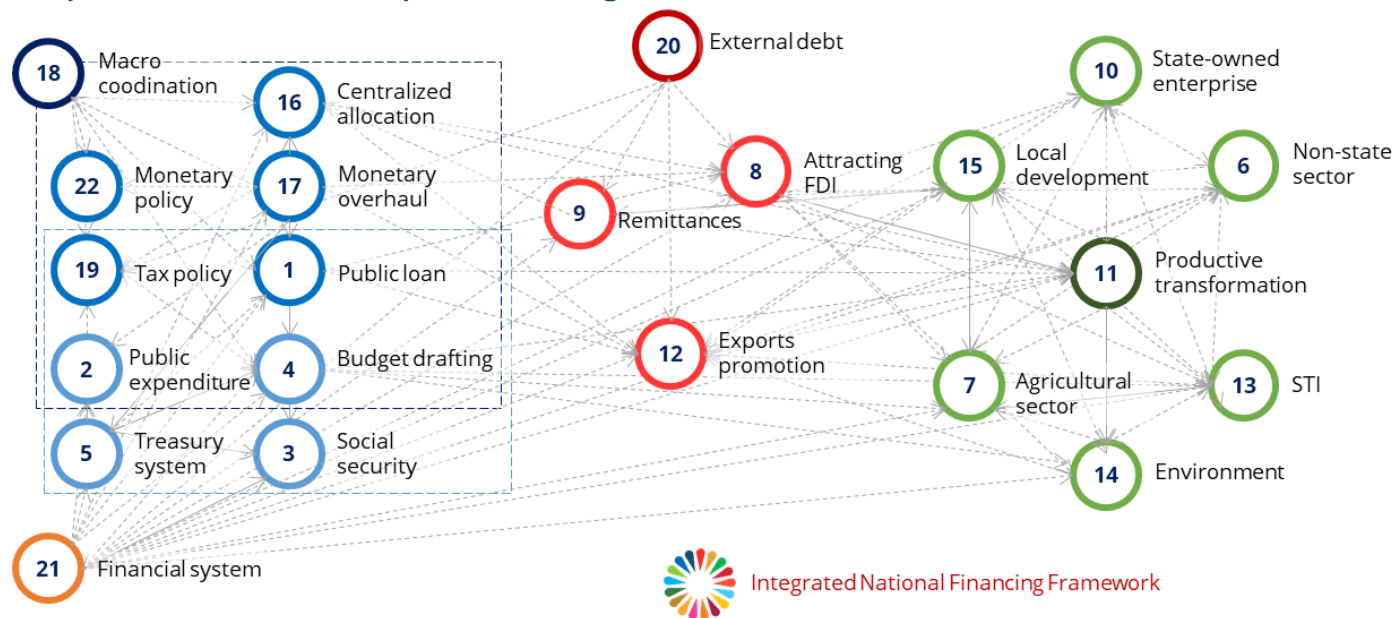
The comprehensive analysis of the 23 policy fact sheets is described in Figure 1 and can be summarized in five key lessons:

- (i) The main constraints to development financing in Cuba are associated with the insufficient attraction of external financing, given its condition of small and open economy, the persistence of macroeconomic imbalances and the high sensitivity to external shocks. In this context, the economic, commercial and financial blockade by the United States is extremely restrictive, generating significant barriers to access international financial markets and multilateral financing

¹ Since the end of 2020, the Government of Cuba has taken important steps to accelerate the implementation of the 2030 National Plan for Economic and Social Development (PNDES). An ambitious work system has been put in place for the implementation of the six strategic axes of the PNDES through six macro-programs, which include programs and projects with the involvement of multiple actors from the government, territories and academia to advance in this direction.

mechanisms. Therefore, policies aimed at attracting external resources are the most relevant ones in the development financing policy landscape. At the current juncture, external debt management is a fundamental bottleneck for attracting external financing.

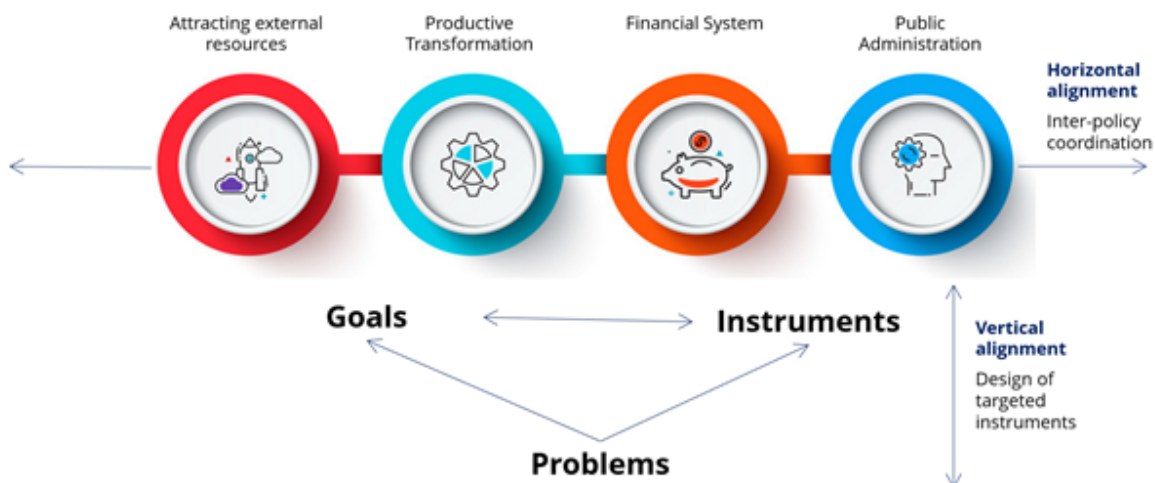
Diagram 1
Policy environment for development financing in Cuba



Source: Author.

- (ii) The institutional environment in which development financing policies operate seriously restricts the effectiveness of its instruments: inconvertibility and loss of functions of the national currency, poor development of monetary-market relations and weak financial intermediation and inclusion. Consequently, the quality of the development financing strategy will be limited by the pace of the process of updating the Cuban economic model and, especially, by the development policy of the financial system.
- (iii) The PNDES financing scheme must achieve a more comprehensive vision in the short, medium and long term. In this regard, there are efficiency reserves that derive from the still weak coordination and comprehensiveness of policies (horizontal alignment), insufficient availability and quality of instruments to meet the PNDES objectives (vertical alignment) and a very short-term financing management whereby urgent objectives compete against strategic objectives (see diagram 2). The implementation of an Integrated National Financing Framework (INFF) could help close these gaps by identifying the best financing alternatives and their best uses, as well as clearly defining the governance, monitoring and evaluation mechanisms of the strategy.

Diagram 2
Policy design and alignment



Source: Author.

- (iv) There is no financing policy for productive transformation aimed at strengthening the supply, demand and institutional environment for financing activities and actors that promote structural change, even though the PNDES includes projects for financing strategic sectors and prioritized activities. Among the key actors in this transformation is the state-owned enterprise, which owns the fundamental means of production and is responsible for the activities with the highest value added. Among the sectors, the agricultural sector stands out for its relevance in food sovereignty and for the historical deformations of its financing scheme.
- (v) Environmental restrictions are reinforced by the predominance of poorly developed macroeconomic policies (insufficient objectives, instruments and institutional framework) and the existence of many policy conflicts that are difficult to resolve through the current macroeconomic coordination mechanisms. Public finance management policies, in particular, are focused on short-term management and are weakly integrated with other public policies or resource allocation mechanisms and the development strategy. It is necessary to move towards the modernization of public finance management, identifying international best practices that can be extrapolated to the Cuban case (fiscal regulations, medium-term budget programming, monitoring and performance indicators, program budgeting, among others).

The mapping exercise was based on fact sheets that from the perspective of the institutional economy standardized the diagnosis for each of the policies studied. Based on this, it was also possible to make an inventory of the most common gaps, namely: (i) policy alignment gaps (insufficient inter-institutional coordination, excessive process bureaucratization and poor use of financial instruments); (ii) design gaps (inconsistencies in accountability mechanisms and the assignment of institutional roles), and (iii) capacity gaps (poor development of the financial system, shortage of specialized agencies for relevant issues and accumulation of problems in infrastructure, training and remuneration in key areas).

As part of the exercise, a matrix of synergies and conflicts between the 23 policies studied was drawn up, a tool that is also available to the authorities. This first version of the matrix allows for readings that confirm some of the diagnoses made in the mapping: (i) the need to align and coordinate the development financing strategy, given the existence of a high volume of synergies (184) and conflicts (43); (ii) the strategic nature of attracting FDI; (iii) the need to consider the development of the whole financial system as a priority (a policy most affected by conflicts with other policies); and (iv) the distortions generated by the current foreign exchange allocation scheme due to the disconnection between flows in Cuban pesos and in dollars (the main source of conflicts with other policies).

Finally, as part of the study, some aspects that could be studied in greater depth due to their impact on the development financing strategy, such as productive saving to increase efficiency and exchange rate policy, among others, were identified. The work system for the mapping exercise led to very fruitful exchanges among officials of the Central State Administration Agencies (OACE, its Spanish acronym), the academia and ECLAC, favoring consensus, and in-depth diagnosis, a look at the problem from new perspectives and the adoption of new methodologies and analytical tools. It also opened up spaces for public-public dialogue to coordinate initiatives among various agencies of the Government of Cuba.

CIFFRA Technical Committee
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Economic Commission for Latin America and the Caribbean (ECLAC)
Comisión Económica para América Latina y el Caribe (CEPAL)
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