Cuban Integrated Financing Framework (CIFFRA)

Policy Note No. 2
Mapping the Financing Landscape
Cuba has faced the economic and social impact of the COVID-19 pandemic coupled with the stepping up of the economic, commercial and financial blockade by the government of the United States, which put in place more than 130 measures during 2019 and 2020, with an annual detrimental economic impact that in 2021, according to official estimates, exceeded 5 billion dollars for the first time in history. Between April 2019 and December 2020, the value of losses amounted to 9.2 billion dollars.

This scenario led to a set of measures to boost productive development, its efficiency and productivity, with the adoption of the Economic and Social Strategy (ESS) for boosting the economy and addressing the global crisis caused by COVID-19. In the short term, the EES seeks to achieve an enabling environment to promote within the economic plans and development policies, the new actors and practices approved under the Economic and Social Policy Guidelines, the Conceptualization, and the 2030 National Economic and Social Development Plan. However, the country still faces near and long-term challenges. This is a crucial juncture, as it combines a complex macroeconomic scenario with the will of the government to carry out high-impact actions and measures as part of the process of updating the economic model.

Under this scenario, optimizing available resources to finance development and identifying new opportunities is essential. Mapping the Financing Landscape is one of the first activities of the Joint Program “Support for the development of an Integrated National Financing Framework for the SDGs in Cuba” (CIFFRA). It is based on the methodological approach of the Development Finance Assessment Guidebook (UNDP, 2020)\(^1\) and its objective is to analyze the overall picture of the sources for development financing in the country.

Once the first draft was prepared by specialists from the Economic Commission for Latin America and the Caribbean (ECLAC), it underwent multiple revisions with national counterparts and other experts from the United Nations system (UNS) in Cuba. In December 2020, a workshop was held with about 30 representatives of the Cuban government and academic institutions, the output of which was the final version that was approved by the Technical Committee and the CIFFRA Steering Committee.

The exercise concludes that the Cuban financing landscape is marked by unstable, undiversified and poorly sustainable access to sources to finance development (see figure 1). The evolution of the main Cuban macroeconomic variables is marked by three major milestones: the updating of the Cuban economic model since the early 2010s, the resumption of relations with the United States since 2015, and the increased sanctions under the presidency of Donald Trump as of 2017. This reflects the volatility of these flows and their sensitivity to external shocks, particularly relations with the United States.

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In 2018, family remittances and the fiscal deficit represented 79% of the Cuban economy’s financing sources. However, either due to their scope or their sustainability, these do not represent a sustainable alternative from a long-term perspective. The reduced weight of bank financing and foreign direct investment (FDI) is striking, despite the actions carried out by the country to promote these flows and the recognition of their importance in financing the savings-investment gap, without incurring excessive indebtedness (see figure 2).

Figure 1
General financing landscape
(Million of dollars)

Source: Authors, based on official sources.

Figure 2
Cuba: financing sources architecture, 2018
(Percentages)

Source: Economic Comission for Latin America and the Caribbean (ECLAC), based on Oficina Nacional de Estadisticas e Información de la República de Cuba ONEI, 2020; Organisation for Economic Co-operation and Development (OECD), 2020, and author’s estimations.
By reviewing the full range of both domestic and international public and private sources, six fundamental gaps for financing development in Cuba were identified, namely, (i) reservations regarding the efficiency and effectiveness of public spending management, tax collection and public debt (both domestic and foreign); (ii) increasing channeling of national and international flows associated with non-state activity through informal channels; (iii) low levels of banking and financial intermediation that result in a weak role of the financial system in the development strategy; (iv) export structure that favors services, low value added and dependence on few items and markets; (v) insufficient weight of foreign direct investment (FDI) within the sources to finance development; and (vi) limited access to multilateral financing schemes.

Three milestones could partially modify the conclusions of this exercise: (i) the implementation of the monetary overhaul; (ii) the uncertain course of the new US administration's policy on Cuba; and (iii) the country's adaptation to the “new normal”. These three aspects underscore the importance of implementing and strengthening continuous evaluation and feedback mechanisms to adjust the conclusions of the diagnosis.

Based on these three aspects, the mapping of the financing landscape will be updated in accordance with the evolution of the country's macroeconomic environment, in order to identify elements of the “new normal” that cannot be derived from the analysis of the previous decade, as well as to construe flows and trends based on the adjustment of national accounts resulting from the monetary overhaul.

This exercise, in turn, alerts on the need for official statistics with the required timeliness and level of disaggregation, as well as the availability of analytical tools. Within the framework of the Joint Program, actions will be undertaken to build capacities, enhance the development of macroeconomic and financial statistics and adapt quantitative tools for the analysis and formulation of public policies.

CIFFRA Technical Committee
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