

Cuban Integrated Financing Framework (CIFIIRA)



POLICY NOTE No. 7 IDENTIFICATION OF BINDING CONSTRAINTS





Identification of binding constraints

As part of the activities under the Joint Program “Support for the development of an Integrated National Financing Framework for SDGs in Cuba” (CIFIIRA), the ECLAC team made a diagnostic of binding constraints, using as a methodological basis, the step-by-step guidance for SDG Fund¹ programs, and as input, the institutional gaps identified during the Policy Mapping exercise (see *Policy Note No. 4*)

The binding constraints diagnostic stems from the notion that addressing or mitigating all the limitations that hinder development financing at once is not possible; therefore, prioritizing is imperative. On that basis, the exercise seeks to identify a small number of key constraints, thus allowing authorities to focus their efforts. Binding constraints are those institutional bottlenecks that, if removed or addressed, would have a significant impact and a ripple effect on the realization of the development financing strategy in Cuba.

The following methodology was used for binding constraints identification:

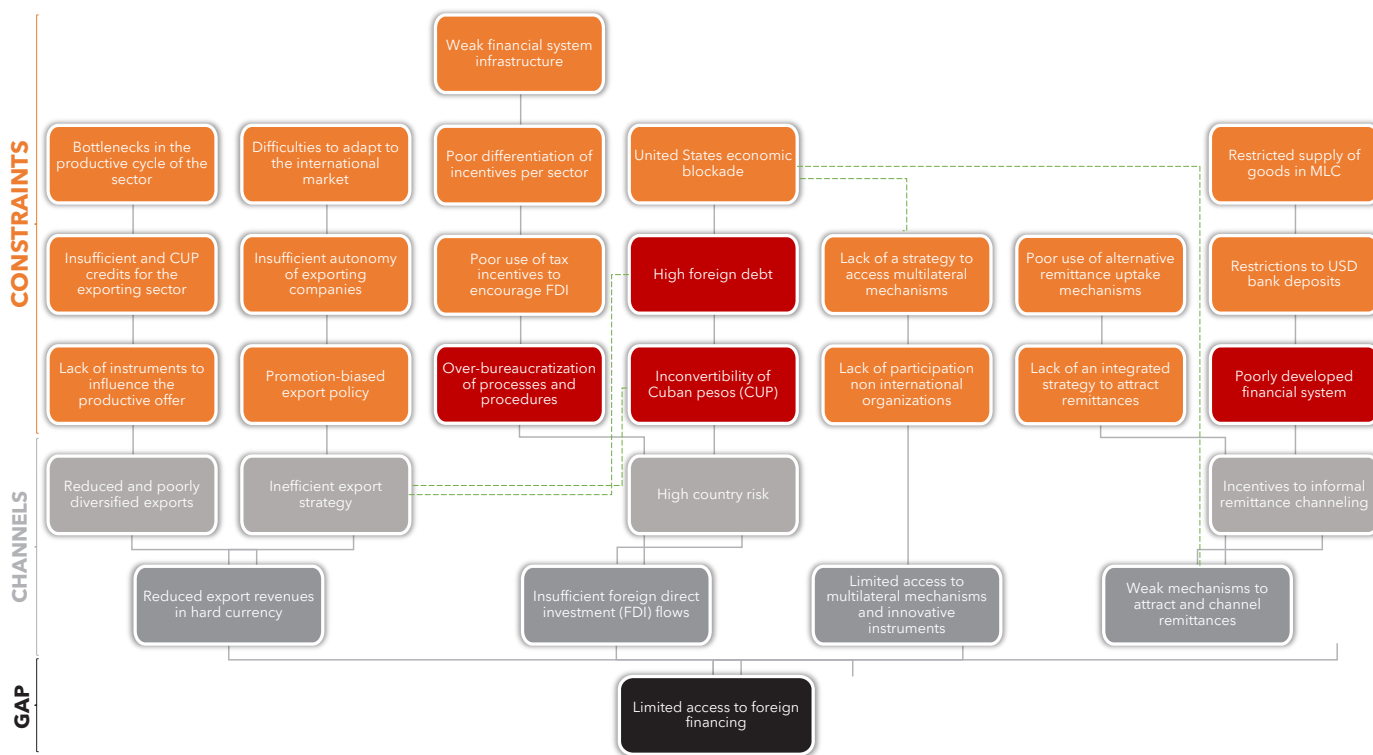
- **Major gaps.** Four major development financing gaps in Cuba were selected, on the basis of results of the Financing Policy Mapping exercise: (i) reduced foreign financing; (ii) limitations of the State Budget as planning tool; (iii) limited role of the financial system in resource allocation; and (iv) weak productive transformation financing.
- **Constraint decision tree.** On the basis of Financing Policy Mapping inputs, the ECLAC team identified 83 constraints related to these four major gaps. Cause and effect relations and the channels between gaps and constraints are represented in four constraint decision trees. The initial draft supporting the set of constraints in each decision tree and their linkages was reviewed by national and ECLAC experts that had taken part in the Financing Policy Mapping exercise.
- **Binding constraints.** In order to determine binding constraints, experts assessed the 83 identified constraints on the basis of three criteria: (i) relevance (degree in which the constraint explains major gaps); (ii) systemic nature (capacity of the constraint to influence other constraints); and (iii) endogenous nature (level in which the constraint is explained by domestic economic, political or social variables). Constraints were ordered depending on the average of these three criteria. Constraints with a higher score are binding constraints, that if removed or addressed could have a greater impact of development financing issues.

¹ Assessment and diagnostics: Binding constraints (INFF, 2021) [online] <https://inff.org/resource/assessment-and-diagnostics-binding-constraints>.

In addition to this classification, the 83 constraints were assessed on the basis of: (i) cost (volume or resources required to address or remove said constraint); and (ii) timing (time required to address or remove said constraint). This complementary assessment informed other analyses of the exercise.

Diagram 1 shows, as an example, the constraint decision tree of one of the major gaps: reduced access to foreign financing. Red boxes list binding constraints, while orange boxes show other relevant constraints, that do not have a binding nature. Gray boxes, on the other hand, represent channels through which constraints impact on the four major gaps (black boxes).

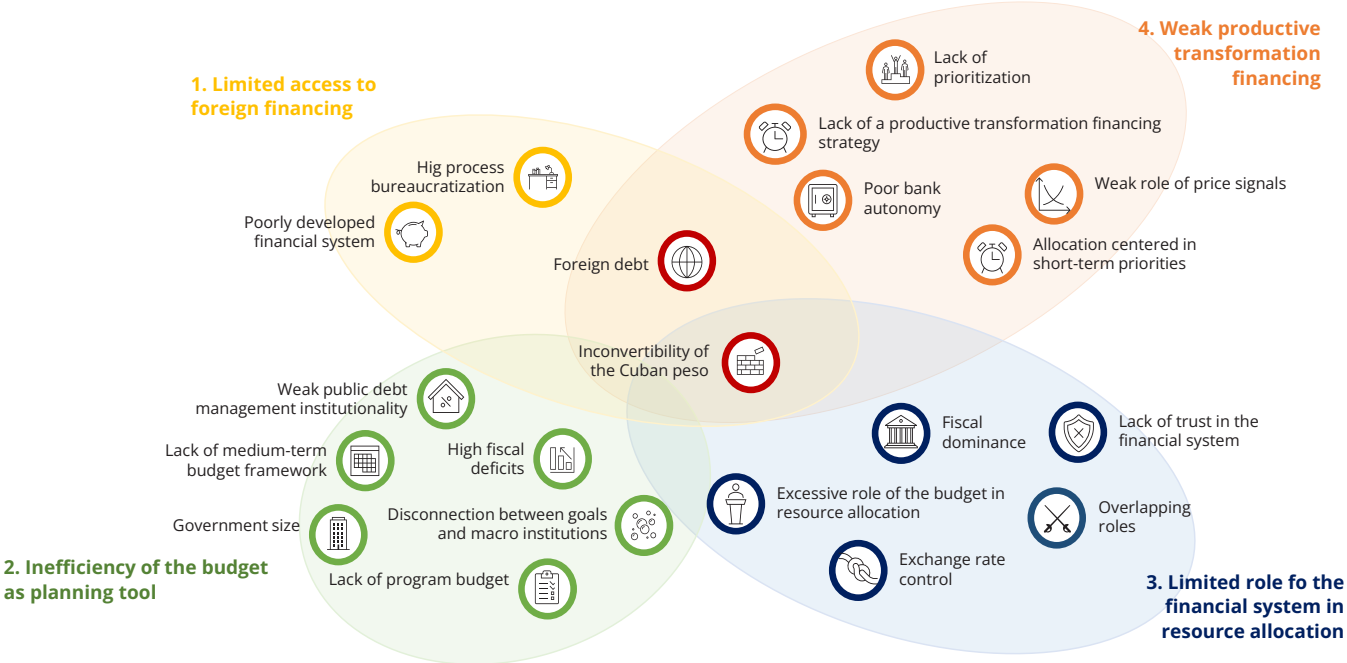
Diagram 1
Cuba: constraint decision tree - limited access to foreign financing



Source: Authors.

As a result of the exercise, in a further prioritization effort, the flower of binding constraints to development financing in Cuba (see diagram 2), combines the results of the four major gaps studied. The joint exercise allows for the identification of 20 binding constraints that could mark a line of priorities in the financing strategy of the 2030 Agenda-aligned PNDES.

Diagrama 2
Cuba: flower of binding constraints



Source: Authors.

The flower of binding constraints makes it possible to note that, on the one hand, two of the binding constraints cut across the various gaps analyzed. Thus, their ability to limit the scope and effectiveness of the development financing strategy from various viewpoint was highlighted, namely: the inconvertibility of the Cuban peso and the high foreign debt. On the other hand, nearly half of the binding constraints are directly or indirectly linked to the role of the Budget as planning tool, which suggests it is necessary to prioritize the update of public finance management and planning systems.

The assessment of the 83 constraints in terms of cost and timeliness showed that 44 (53%) of them could be resolved with little investment, mainly through policy redesign, institutional consensus-building and training. However, only 12 could be resolved in the short term (one year or less), and the main time constraint was technical capacity-building of agencies responsible for public policy implementation. On the other hand, eight of the 20 binding constraints could be addressed with fairly low cost; but none in the short term.

The identification of binding constraints provides inputs, in addition to the results of Policy Mapping and other CIFFRA diagnostics, for the proposal of public policy design and tool solutions and alternatives for development financing in Cuba.

In this regard, the exercise suggests four key messages: (i) 20 binding constraints make it possible to advise on development financing strategy priorities in Cuba; (ii) the inconvertibility of the Cuban peso and the high foreign debt are major constraints (their removal is vital and urgent); (iii) public finance and development planning update is crucial for improved management of scarce resources and the identification

of new financing opportunities; and (iv) the removal of a considerable number of constraints depends on policy design and institutional consensus-building; therefore they could be implemented at low cost and in shorter terms, as technical capacity-building and training are increased.

The exercise concluded with the creation of a “menu” of policy recommendations, which focuses in finding general and specific solutions to the 20 binding constraints, particularly those that are more relevant and crosscutting. The menu of policy recommendations was drawn up during discussions with experts in the closing workshop of the CIFFRA Assessment and Diagnostic phase.

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