Cuban Integrated Financing Framework (CIFFRA)

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International Policy Lessons

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As part of the activities of the Joint Program "Support for the development of an Integrated National Financing Framework for SDGs in Cuba" (CIFFRA), a comprehensive review of international policy lessons was carried out in four development financing key areas: (i) export promotion; (ii) attraction and channeling of foreign direct investment (FDI); (iii) promotion of science, technology and innovation (STI); and (iv) governance and public investment.

The studies were carried out by a team of experts led by Simona Iammarino (London School of Economics) and made up by Maria Savona (University of Sussex), Elisabetta Marinelli (independent consultant), M. Adil Sait (London School of Economics) and Guillermo Andrés Alpízar (Centro de Investigaciones de la Economía Mundial, Cuba).

Five reports were drawn up (one on each key area and an integrated report with cross-cutting reflections on the experiences studied) and two compilations with 11 case studies on policies to promote exports and attract FDI. All the documentation was delivered to the Cuban authorities and discussed in two workshops with government officials, national academics and experts from the Economic Commission for Latin America and the Caribbean (ECLAC),

The project was set within Cuba's changing environment. As the country enters a new constitutional and transformation of its economic model phase, with a growing commitment to international openness, decentralization and knowledge-based development, it is useful to reflect on the experiences of other countries that underwent similar transformations in these areas..

The case studies carried out (see, as an example, the summaries of 3 studies in Boxes 1, 2 and 3), based mainly on desk research, provide an overview of relevant policy experiences that can help inspire and uncover important positive and negative lessons to support the updating of the Cuban economic development model. Four main principles can be drawn from the reports by area:

- The design of export promotion policies must begin with a proper understanding of what, where, who and with whom goods and services are exchanged.
- The design of policies to attract FDI must consider the balance between the positive externalities and the disruptive impact it can cause on the local economy, the outcome of which is not necessarily positive (depending on the context and the policies applied).

- Policy design for STI promotion, while promoting innovation and structural change should ensure inclusiveness (bottom-up approaches should complement mission-oriented approaches).
- Multilevel governance for public investment and place-based policies have proven to be effective in balancing the positive and negative impacts of disruptive transformation induced by trade, FDI and innovation.

Table 1
Summary of the Viet Nam case study (STI, international trade, FDI)

During the 1980s Vietnam undertook reforms to move from a centrally planned economy to a market economy, adopting a gradual approach. Key institutions have been the National Council for Science and Technology Policy (NCSTP) and the Ministry of Planning and Investment (MPI), with its implementing arm, the Foreign Investment Agency (FIA), helping to coordinate and implement transition policies.

The transition process was carried out in 3 stages:

- Until 1986: closed economy. Adoption of reform and adjustment policies called ‘pha rao’ (breaking the fence), to create a better domestic political environment.
- After 1986: ‘doi moi’ (renovation), with new laws and policies of openness to investment and trade, coinciding with the end of U.S. government sanctions and the normalization of relations with regional neighbors.
- Since 2007: integration into the world economy with accession to the WTO.

The Vietnamese case illustrates how innovation policies from the 1980s onwards were combined with essential macroeconomic reforms (related to the monetary, price, financial and tax systems), allowing a combined growth between a new “private capitalist” sector (SMEs) and a ‘state capitalist’ sector.

Policies to attract FDI, including reforms to the regulation of multinational companies (tax exemptions and the creation of special economic zones), allowed a gradual evolution from agricultural exports to garments, textiles and new electronics exports. However, geographic proximity to China is an unrepeatable condition, and the significant spillover effects in terms of specialization trap, exclusion and marginalization, both at the individual and spatial level, require careful consideration.

Source: Author’s own elaboration.

Table 2
Costa Rica Case Study Summary (FDI, STI)

After a large investment by technology giant Intel in the late 1990s, the country became highly dependent on this major investor (about one-third of FDI came from the U.S.), which affected long-term resilience.

Despite the success of Costa Rica's FDI agency (CINDE), Intel's divestment in 2014 led to a reassessment of its performance. Costa Rica's FDI-led approach combined with social policies, including education, generated social goods such as the highest literacy rate in Latin America and the Caribbean. Due to prior investment, there was funding for scientific research and education, with an important advisory role for an independent academic consortium (CONARE) and public research organizations.

Despite the benefits of attracting FDI, driven by fiscal and tax incentives, and the creation of special economic zones, there are concerns about the harmful effects on the local economy, including an uneven/adverse playing field for domestic firms and (lack of) knowledge transfer and other spillovers.

A shift in the investment structure from electronic components to medical instrument manufacturing has only recently been observed, so the sustainability of the FDI trajectory has yet to be backed up with evidence.

The varied typology of incentives compared to other LAC countries, on the other hand, highlights sector-specific regulations such as those for ecotourism (e.g., 'community-based rural tourism') and mining (e.g., Mining Code) as positive lessons.

Source: Author's own elaboration.

Table 3
Romania Case study summary (FDI, governance and public investment)

Romania began its long process of economic reform in 1989, culminating in its accession to the European Union in 2007. Like many of its Central and Eastern European neighbors, the country attracted large FDI inflows as its economy moved through transition.

Under the current FDI regime, there are clear procedures and governance, a low tax environment and relatively favorable labor costs and skill levels, which have led to an increase in FDI inflows in recent years.

However, Romania was slow to implement institutional reforms, which led to a loss of its attractiveness for FDI in the 2010s. Significant FDI outflows both for integration into global value chains and relocation to developing economies started in 2015.

A consequence of Romania's FDI focus has been the huge geographic concentration of investment in Bucharest, which severely limits potential benefits, although free trade zone and industrial park policies, with associated incentives, are potentially aimed at correcting widening regional disparities.

Romania's dependence on foreign creditors and currencies has also generated risks to financial and macroeconomic stability, resulting from significant mismatches between debtor companies' revenues (local currency) and debt service (foreign currency).

To address regional disparities, in the 2010s Romania implemented policies to strengthen regional development agencies (RDAs), as part of the program "Targeted Support for Smart Specialization in Romania" (2016-2020), funded by the European Parliament. Key areas included promoting business discovery processes, developing monitoring capacities, supporting governance and coordination between regional and national authorities, and consolidating skills and competencies of RDAs' staff.

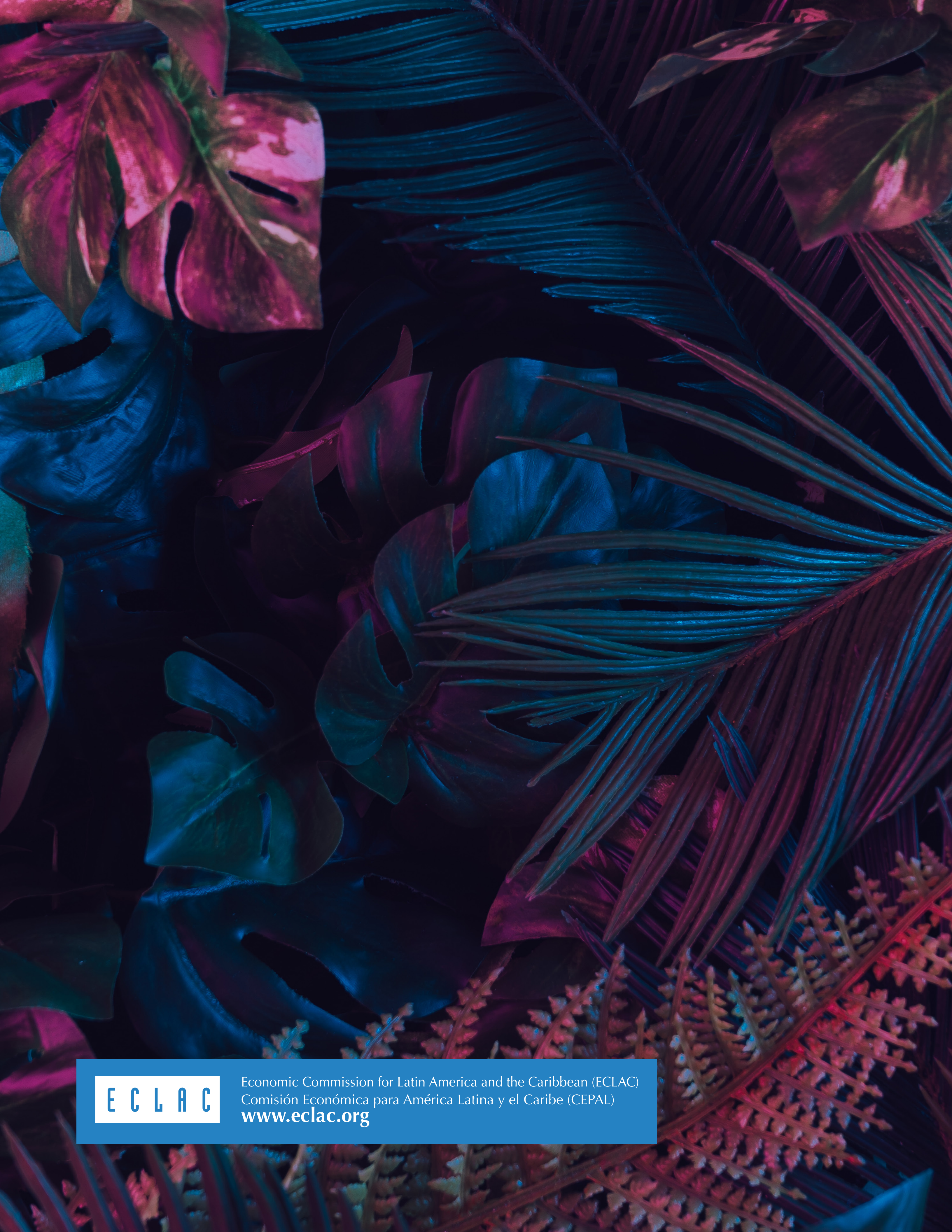
Source: Author's own elaboration.

In the three case studies shown, it is possible to note the wide difference in terms of geography, size, political economy, development trajectory, historical and cultural background, etc. Therefore, the objective of the comparative exercise was to provide a basis for reflection on the four dimensions of the study, rather than to establish specific recommendations. Other CIFFRA exercises have taken these inputs into account in the development of policy proposals..

Taken together, the lessons learned through the literature and case study review suggest a careful combination of development principles and policies that balance the risks and opportunities of opening up to international trade and FDI, and help learn from international partners and experiences, improving productivity and skills, as well as retaining human capital. The main lessons are summarized below:

- Conduct an ex ante assessment of policies that support internationalization, STI and governance for public investment, to map expected outcomes, opportunities and risks: a robust and transparent information base is needed.
- Strengthen policy coordination, starting with the selection of a few priority objectives, with tools that complement and reinforce each other.
- Prioritize both policy design and policy implementation.
- Promote a synergistic vision between innovation, economic development and social policies. Each policy separately would not have the same expected results.
- Preserve the sequencing of reforms, starting with the identification of relevant opportunities for endogenous local innovation, ensuring scalability and persistent transformation (e.g., prioritizing the strengthening of local actors and institutions over premature entry into global value chains).
- Articulate, integrate and clearly communicate scientific, technological and socioeconomic objectives related to investments, internationalization, technology transfer, and sectoral specialization options.
- Identify needs at different geographic scales, focusing on multilevel governance, capacity building and stakeholder participation (accountability to civil society for consensus).
- Understanding the gap between scientific knowledge, training and drainage of human capital (state of the art).
- Create a system of incentives (financial and non-financial) to retain young human capital.
- Provide adequate assistance to private business activity, allowing diverse groups of actors in different cities and regions to be part of the transformation process (e.g., monitoring of remittances, adequate taxation of high profits, etc.)
- Strengthen the rule of law.

CIFFRA Technical Committee – October 31, 2022



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