

Cuban Integrated Financing Framework (CIFFRA)



POLICY NOTE N° 15 RECOMMENDATIONS ON REMITTANCES





The assessment and diagnostic exercises of the Joint Program “Support for the development of an Integrated National Financing Framework for the SDGs in Cuba” (CIFFRA) have drawn attention to the role of family remittances as one of the main, most dynamic and resilient SDG financing sources.

In an environment of domestic savings deficit, deficient real wages and strong access restrictions to international financing sources, it is important to design a policy to attract and channel remittances to productive activities.

As part of CIFFRA activities, the Economic Commission for Latin America and the Caribbean (ECLAC) team prepared a report summarizing and arguing 17 proposed strategies to support national efforts to attract diaspora investment and channel family remittances towards development strategy goals.

These recommendations are based on the experience accumulated by ECLAC in technical cooperation processes with other countries in the region¹ and the valuable inputs from previous CIFFRA exercises in which numerous national and international experts participated, namely: (i) the mapping of financing policies; (ii) the identification of development financing binding constraints; (iii) the innovative financing agenda, reflections for Cuba²; (iv) the report on best international practices for attracting diaspora investment; and (v) the exchange between Cuban officials and central banks in the region on recording and estimating remittances.

The report was presented and discussed with the Cuban authorities in several forums for dialogue and a workshop with top-level government officials, national academics, international experts, and representatives of ECLAC and other United Nations agencies. The main messages of the report are as follows:

- ▶ In the last decade, family remittances to Cuba represented the most dynamic external inflow (7.6% average annual growth³), as well as an equivalent to 19.7% of total exports and the third source of foreign exchange income to the country (see figure 1). It is estimated that in the last five years, in particular, they have been one of the main financing channels for the growing private sector.

¹ See, for example [on-line] <https://www.cepal.org/es/proyectos/cepal-fida-cadenas-valor>.

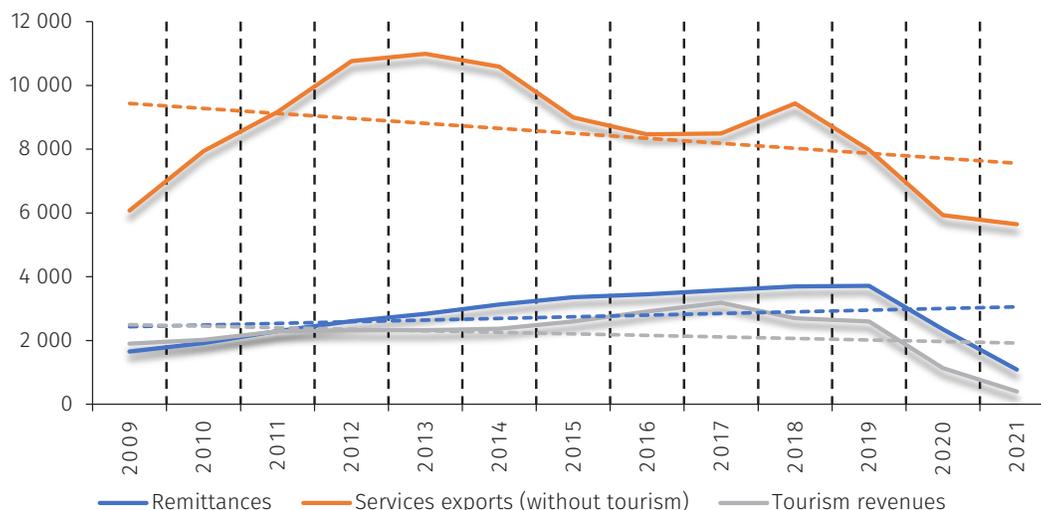
² See CIFFRA Policy Notes 4, 7 and 10 [on-line] <https://www.cepal.org/es/marco-integrado-financiamiento-cuba-ciffra>.

³ It is estimated that in 2020 and 2021 formal remittance flows to Cuba were significantly reduced (37% and 54%, respectively), as a result of the restrictions imposed by the Donald Trump administration on remittances and the effects of the COVID-19 pandemic, in particular the suspension of flights to the island.

- ▶ In 2018, according to estimates by Cuban academics, family remittances could account for up to 35% of the resources to finance the achievement of the Cuban economy's development goals⁴.

Figure 1

Cuba: remesas, exportaciones de servicios e ingresos del turismo, 2000-2021



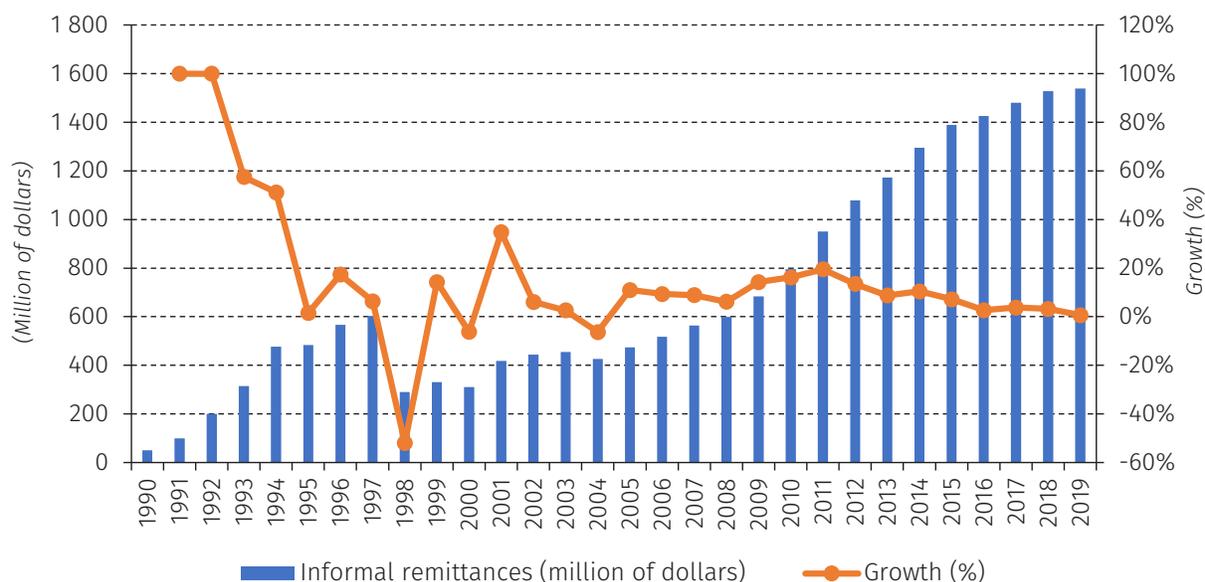
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- ▶ However, family remittances in Cuba operate mainly through informal channels, between 50% and 60% of total remittance flows, according to some authors⁵. The Western Union was the only authorized operator to manage such flows between 1998 and November 2020, when it closed its operations under pressure from the Trump administration. It is estimated that average annual flows of informal remittances were close to US\$1.5 billion between 2015 and 2019, equivalent to 60% of the exports of goods in that period (see figure 2).
- ▶ The high informality of remittances limits the effectiveness of macroeconomic policies, favors financial disintermediation, encourages speculation and volatility, affects the possibilities of accumulating international reserves, reduces the government's import capacity and may affect the price structure of the economy between goods supplied in the domestic market and those of foreign origin.
- ▶ In addition to cash remittances, a growing segment of remittances in kind has emerged, along with the sending of basic products and household goods (through online payments), as well as telephone recharges through the state-owned telecommunications company, ETECSA.
- ▶ In turn, remittance flows operate with high transaction costs of around 20.0%, well above the 6.0% average for the region and the 3.0% target established in the SDG Agenda.
- ▶ The potential multiplier impact of remittances on the productive sector is low, given the existence of restrictions on national production and the domestic market, which encourages a constant transfer of remittance resources abroad, through imports. Informal imports are estimated to be in the range of US\$600 million to US\$1.5 billion per year.

⁴ See CIFFRA Policy Note 2 [on-line] <https://www.cepal.org/es/marco-integrado-financiamiento-cuba-cifra>.

⁵ See Carmona (2020);[on-line] <https://www.bc.gob.cu//storage/investigaciones/December2022/zUCLd73J9tqLBUFELFxb.pdf>.

Figure 2
Cuba: comportamiento de la entrada de remesas informales, 1990-2019



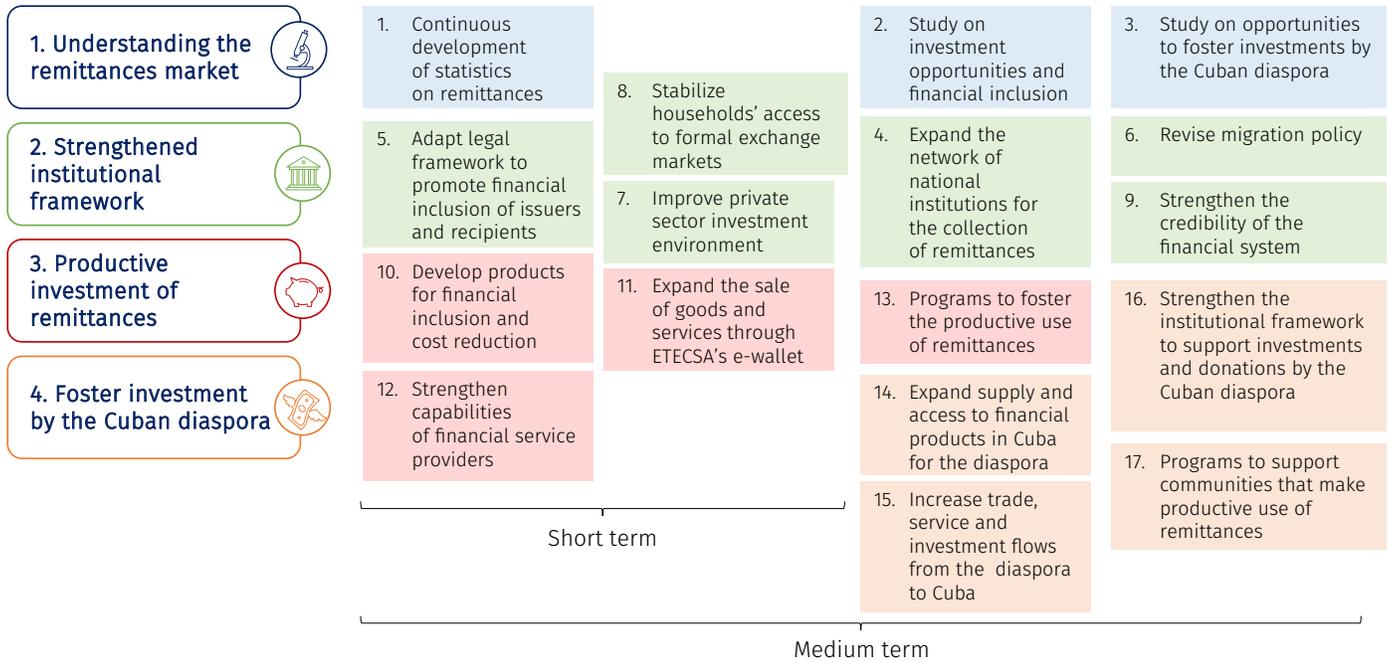
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- ▶ The expansion of self-employment, the authorization of SMEs, the intention to grant greater autonomy to municipalities and strengthen local development, could become an opportunity for using remittances as an investment fund in the coming years.
- ▶ Some studies show that almost 70% of the Cuban population receives remittances in one way or another. Its main source market is the United States, which accounts for about 90% of remittances. Therefore, remittance flows have been very sensitive to changes in U.S. government policies on Cuba and to the income behavior of the Cuban-American community.
- ▶ Despite the serious restrictions imposed by the U.S. blockade on a formal, safe and cheap flow of remittances, there are institutional limitations for managing them through public policies, namely: (i) the absence of a defined policy and a government institution in charge; (ii) weak banking penetration and financial inclusion; (iii) the non-convertibility of the Cuban peso; (iv) restrictions on sales, withdrawals and deposits in U.S. dollars; and (v) the insufficient development, regulation and use of Fintechs.
- ▶ International experiences in Latin American and Caribbean countries, particularly in the Central American sub-region and Mexico, report that initiatives to attract and channel remittances are far from being an easy way to achieve this goal, despite the large volume of resources channeled through these flows. However, there are valuable strategies that can be successfully used to come closer to achieving the expected goals.
- ▶ Based on previous diagnostics and international experience, the ECLAC team proposed 4 programs and 17 strategies for attracting and channeling remittances to productive activities. The analysis carried out for each program and its strategies includes comments related to suggested timeframes, challenges for their implementation, and main stakeholders involved.
- ▶ The four suggested programs cover the priorities of the strategy for attracting and channeling remittances in the Cuban case: (i) deeper understanding of the remittance market in Cuba and its

diaspora; (ii) strengthened institutional framework; (iii) foster productive investment of remittances and the financial inclusion of the recipients of these flows; and (iv) foster the investment of the Cuban diaspora in their communities of origin.

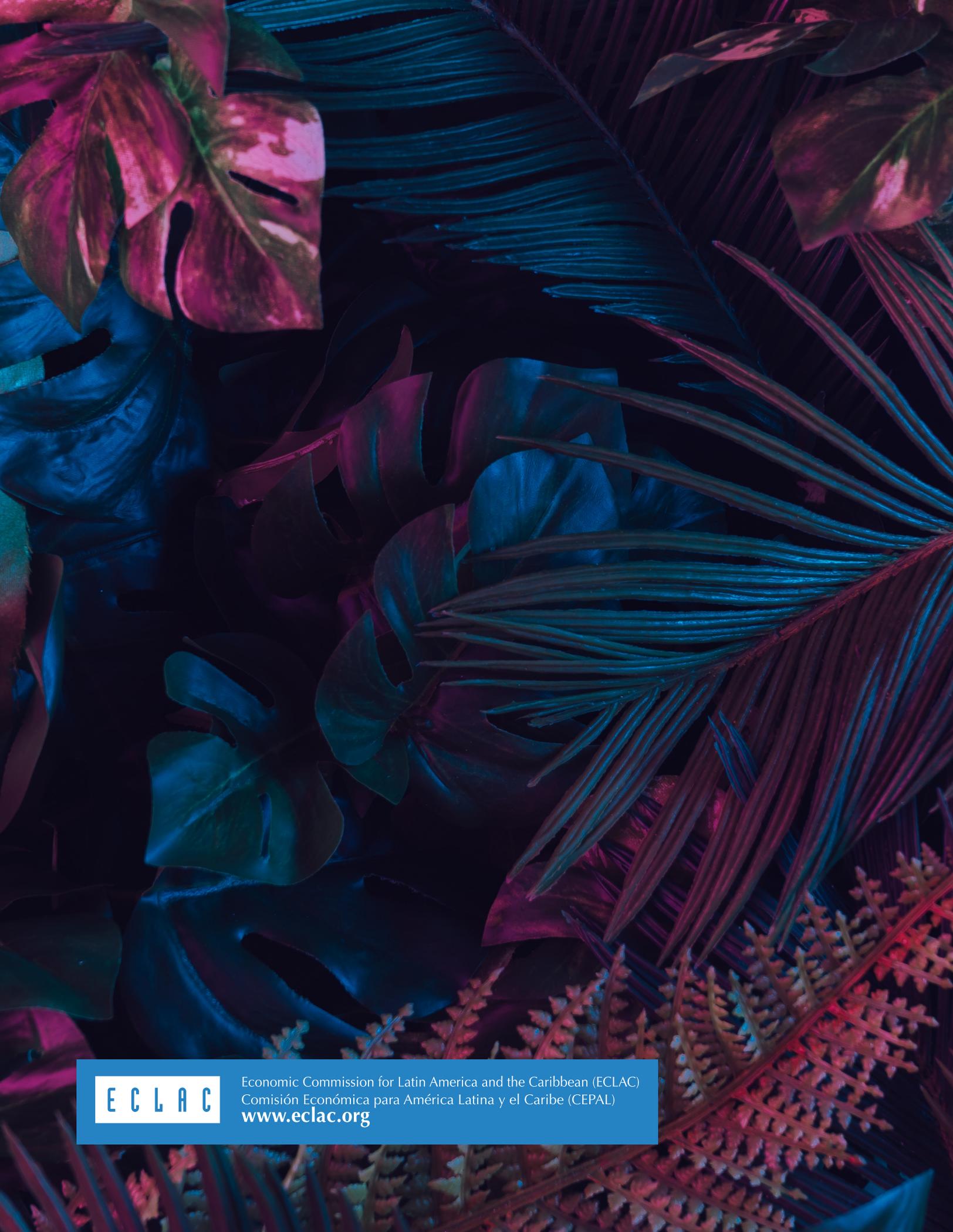
- ▶ Diagram 1 shows the 17 proposed strategies from a time perspective. Their description and rationale, as well as the lines of action for the implementation of the strategies, are detailed in the ECLAC report to the authorities.

Diagram 1
Strategies for attracting and channeling family remittances



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- ▶ Although not always explicitly stated, it is suggested that in all cases the design of strategies and instruments should be gender-sensitive. Arbitration on the feasibility/choice of strategies will have to consider the US-Cuba relations scenarios: status quo vs. normalization.
- ▶ Finally, a prioritization exercise was carried out to facilitate the sequencing and targeting of the proposal. Prioritized actions were defined as those that: (i) can be implemented in the short term; (ii) do not depend on significant political changes, especially in relation to the blockade; and (iii) are necessary /prior steps to the adoption of other actions in the medium or long term.
- ▶ It was considered that the actions of program 1 are the basis for knowing the reality and obtaining the necessary data to act on the other programs. In programs 2 and 3, the fundamental/preliminary actions would be those associated with the discussion and collection of proposals among citizens for strengthening the institutional framework and opportunities for productive investment of remittances, respectively. In program 4, the first steps are considered to be those associated with making the diaspora more aware of the investment possibilities in Cuba and how these could contribute to sustainable development.



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