

Cuban Integrated Financing Framework (CIFFRA)



POLICY NOTE N° 16 RECOMMENDATIONS ON PRODUCTIVE FINANCING





The need to overcome important structural gaps such as high import dependence; loss of competitiveness of the main export goods; decapitalization of the productive base; technological backwardness and insufficient productive linkages, among others, has been recognized since the very beginning of the process to update the Cuban economic model.

Solving these imbalances requires the design of a productive transformation policy to focus efforts on strategic sectors and make changes and adjustments in the model to allow the insertion, participation and specialization of the Cuban economy in the international scenario. Access to financing and the optimal use of available resources are key determinants in this policy.

As part of the activities of the Joint Program “Support for the development of an Integrated National Financing Framework for the SDGs in Cuba” (CIFFRA), the Economic Commission for Latin America and the Caribbean (ECLAC) team prepared a report summarizing and arguing 30 lines of action to support national efforts to finance productive transformation in the agricultural sector¹.

These recommendations are based on ECLAC’s accumulated experience and the valuable inputs from previous CIFFRA exercises involving numerous national and international experts: (i) the mapping of the financial landscape; (ii) the mapping of financing policies; and (iii) the identification of binding constraints for development financing in Cuba².

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:

- ▶ Despite existing basic structural distortions, the lack of a productive transformation financing strategy has limited the impact of policies implemented in recent years to boost strategic sectors.
- ▶ The main limitation lies in the country’s reduced access to foreign capital markets and international financial institutions, as a result of U.S. government sanctions. This is compounded by a complex international scenario, marked by considerable price increase, tightening financing conditions and the prospects of a contraction of the global economy in 2022 and 2023.

¹ Since there is still no national policy for productive transformation, recommendations were focused on the agricultural sector, which is relevant for food sovereignty and import substitution

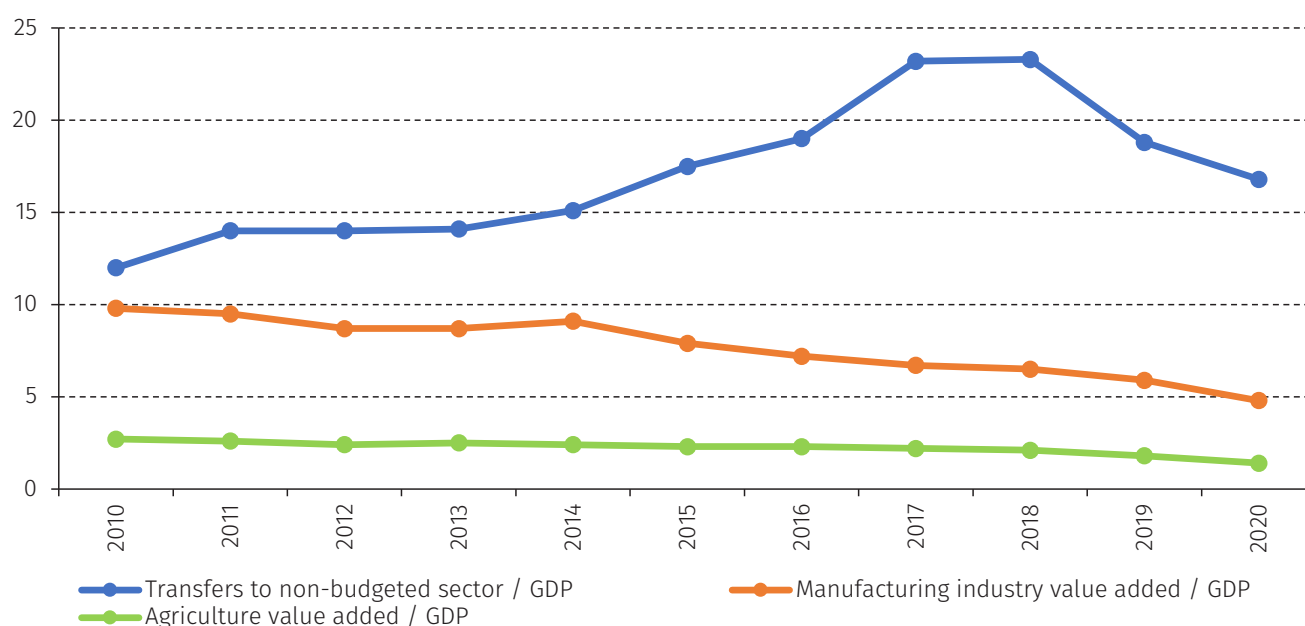
² See CIFFRA Policy Notes 2, 4 and 7 [on-line] <https://www.cepal.org/es/marco-integrado-financiamiento-cuba-ciffra>.

- ▶ However, domestic factors such as macroeconomic instability, unsustainability of the foreign debt trajectory, worsening of the Cuban peso inconvertibility problems and the expansion of the informal economy also create an adverse environment for the design and implementation of financing policies.
- ▶ The aggregate analysis on productive transformation financing shows that: (i) financing sources are scarce and dispersed; (ii) in the allocation of resources for productive development, domestic financing carries the most weight; (iii) there is insufficient mobilization of external resources; and (iv) there is poor correspondence between the level of financing by sector and its impact on growth.
- ▶ Fiscal instruments (the primary source of productive transformation financing) do not generate adequate incentives, as they are applied in a homogeneous, generalized and delayed manner and do not undergo adequate evaluation and monitoring processes. Between 2010 and 2020, fiscal transfers to business activity increased their GDP share by 4.8%. In contrast, the contribution to GDP of manufacturing industry and agriculture (the main destinations of these transfers) during that same period fell by 5.0% and 1.3%, respectively (see figure 1.)

Figure 1

Cuba: transfers to the business sector and sectoral value added/GDP, 2010 to 2020

(In percentages)



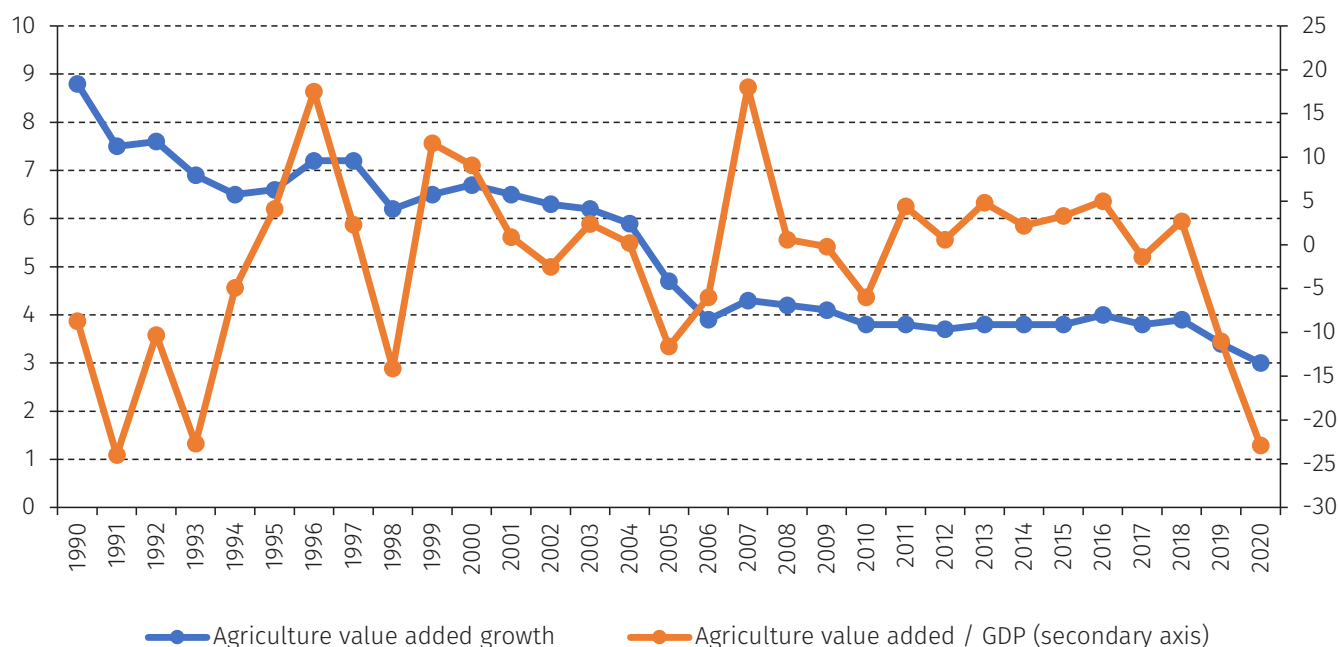
Source: Author's own elaboration, on the basis of the National Office of Statistics and Information (ONEI), various yearbooks.

- ▶ Bank financing (the second source of productive transformation financing) contributes poorly to economic activity. In 2019, most of the credit was concentrated in agriculture (37.3%), the sugar industry (15.7%) and the rest of the manufacturing industry (16.1%), sectors that together decreased by 7.6%.
- ▶ Low financial intermediation is due, among other factors, to: (i) the weight of the public budget in resource allocation mechanisms; (ii) lack of autonomy and weak incentive scheme in the business

sector; (iii) fragile guarantee and contract compliance systems; (iv) lack of a development bank; v) low banking penetration in the non-state sector of the economy; (v) insufficient financial inclusion and education; (vi) the protagonist role of the informal economy, and (vii) the intensification of macroeconomic imbalances.

- ▶ In the specific case of the agricultural sector, its low levels of productivity, competitiveness and contribution to growth (see figure 2) suggest that: (i) problems are not only due to financing issues, but also to structural deficits, and (ii) the design of financing sources does not generate adequate incentives and is not in line with its productive needs.

Figure 2
Cuba: agricultural value-added growth and share of GDP, 1990-2020



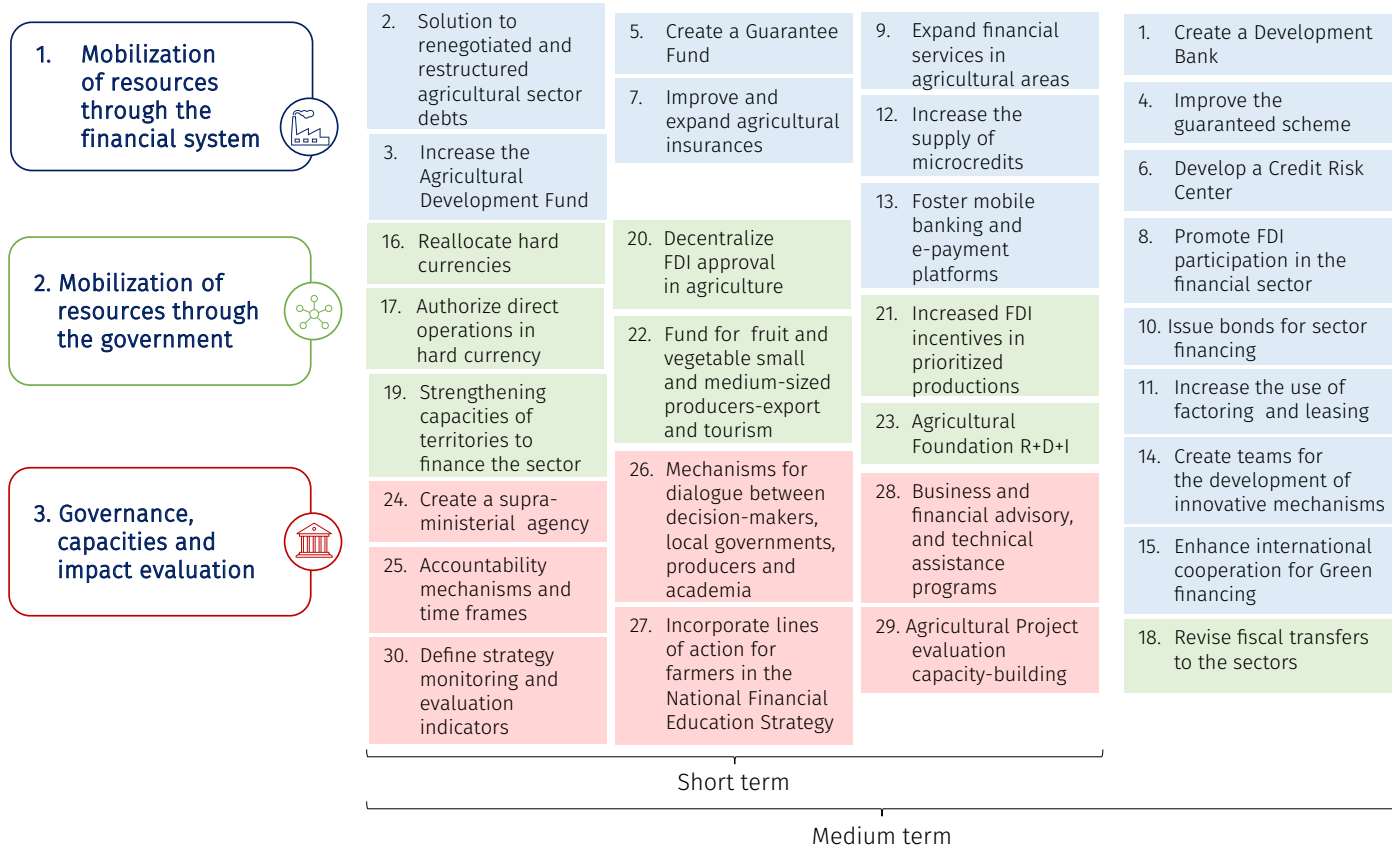
Source: Author's own elaboration, on the basis of the National Office of Statistics and Information (ONEI), various year-books.

- ▶ There is currently no agriculture financing strategy to mobilize and channel resources for development with a systemic, integrated and coordinated approach. This leads to a high degree of dispersion in the use and regulation of existing financing sources and a lack of incentives to promote the use of other sources, such as FDI and international cooperation.
- ▶ The Cuban agricultural sector provides opportunities to be taken into account: i) productive potential (it is estimated that half of the food that is imported could be produced in the country); ii) agriculture is one of the prioritized sectors in the 2030 National Plan for Economic and Social Development (PNDES); iii) recent creation of a Development Fund for agricultural development; iv) recent formation of a Coordination Committee for agricultural financing, and iv) the implementation of several international cooperation projects with favorable results.

- ▶ The financing strategy for productive transformation proposed as part of CIFFRA aims to increase the attraction, channeling, and optimal use of financial resources in the sectors and actors driving structural change, through the design of policies and instruments that will have an impact on supply, demand and the financing environment.
- ▶ The proposal is to design the financing strategy for productive transformation around 3 policy axes: i) mobilization and channeling of resources through the financial system; ii) mobilization and channeling of resources through the government, and iii) governance, capacities and impact evaluation³.
- ▶ In the current context, policy recommendations alone do not guarantee the expected results. They require a comprehensive vision, as well as internal coordination and coordination with other policy areas. Accordingly, a set of general (financing for productive transformation) and specific (financing for the agricultural sector) principles is required.
- ▶ The general principles defined are:
 - ▶ the complex initial context makes it necessary to focus efforts on a few strategic sectors with the capacity to add value and bring about efficiency improvements in the short term;
 - ▶ productive transformation financing should not be conceived as a stand-alone policy, but as part of a much broader productive transformation strategy, and
 - ▶ its scope will be subordinated to the implementation of a macroeconomic stabilization program and the acceleration of the economic model transformations related to the modification of resource allocation schemes, the development of the financial system, the regulation and strengthening of markets, and the promotion of SMEs.
- ▶ The specific principles for the agricultural sector are:
 - ▶ the problems of agriculture in Cuba are not exclusively associated with financing issues, but also with distortions in its productive matrix; therefore, the quality of the financing strategy depends on the structural transformation of the sector,
 - ▶ the high levels of contractual defaults and the accumulation of renegotiated and restructured debts of agriculture with the financial system must be definitively resolved, which requires strengthening and respecting the institutional framework.
- ▶ Diagram 1 shows the 30 lines of action proposed from a time perspective. Their description and rationale are detailed in the ECLAC report to the authorities.

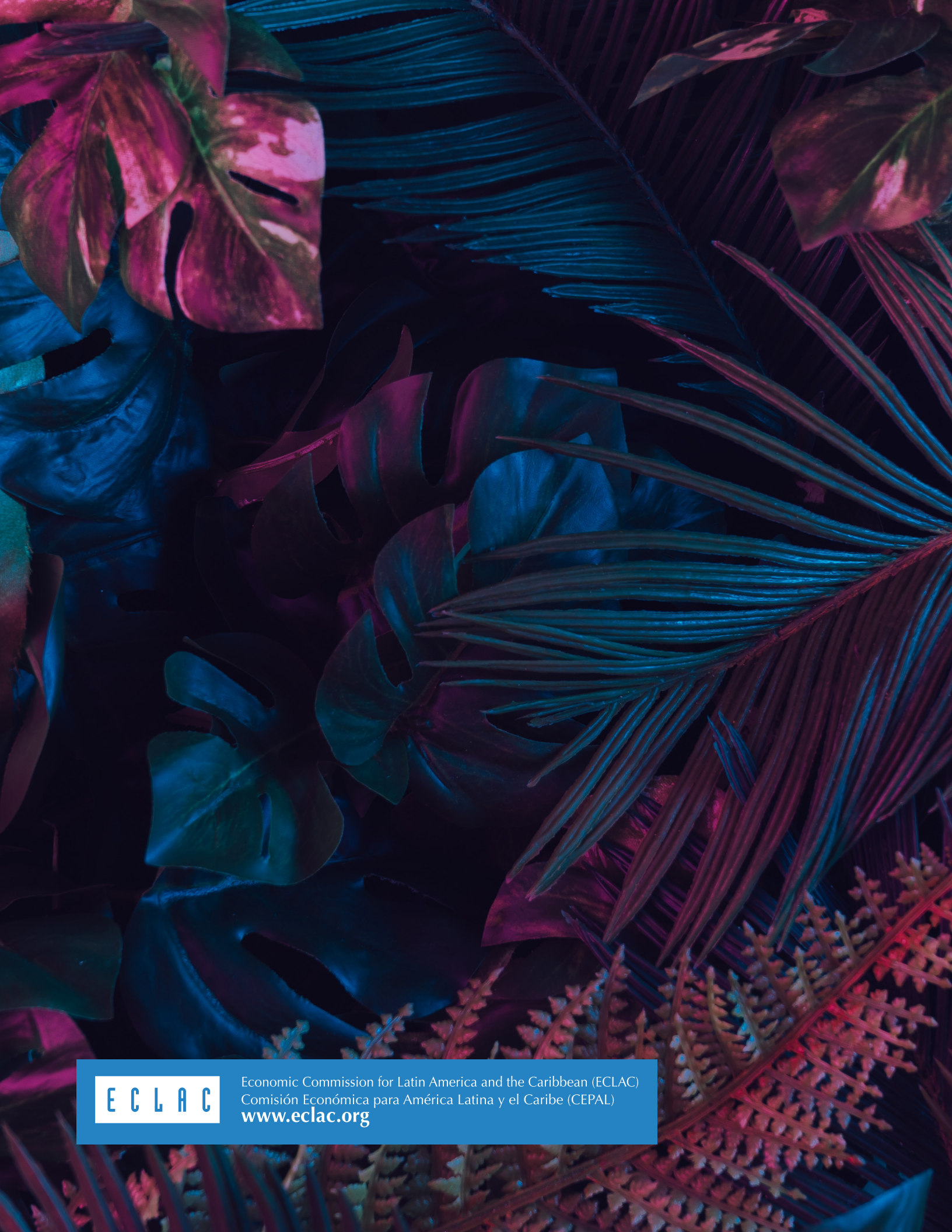
³ In this proposal, emphasis is placed on domestic public financing sources (fiscal transfers and bank financing), taking into account that as part of other CIFFRA exercises, policy recommendations for attracting external resources (remittances, FDI and exports) are submitted.

Diagram 1
Lines of action for financing productive transformation



Source: Author's own elaboration.

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ECLAC

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