



Banco
Centroamericano
de Integración
Económica

BCIE

COUNTRY STRATEGY CUBA 2019-2024





BCIE

2019-2024 CUBA COUNTRY STRATEGY

COVER



This document is an operational instrument for linking 2015-2019 institutional strategic planning with the development priorities of Cuba. The approaches drawn up have the overall objective of providing a strategic vision for the Bank's operations in the country by promoting interventions that stimulate economic growth, social development and environmental sustainability. It also aims to create a market presence and relevance as a strategic development ally in accordance with the foundations of the National Development Plan and the Vision towards 2030. The strategy is a flexible instrument that permits adjustments to changes in the environment so that planning will be subject to updating in response to unforeseen requirements and specific requests from the authorities of the Cuban countries.

The development of the Cuba Country Strategy involved contributions from government officials to whom the Bank is grateful for their availability and valuable collaboration; it also appreciates the input received from some of the cooperation agencies with a presence in the country. Special recognition is extended to the authorities of the Cuban Central Bank who were key actors in structuring and coordinating the exchange of information.

This document was prepared based on official information from the National Office of Statistics and Information of the Republic of Cuba

2019-2024 Cuba Country Strategy

Annex DI-125/2019

Central American Bank for Economic Integration

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TABLE OF CONTENTS

I	INTRODUCTION	06
II	CONTEXT AND OUTLOOK	08
III	STRATEGIC PLANNING FOR CUBA, 2019-2024 PERIOD	14
IV	IMPLEMENTATION MECHANISMS	20
V	RISKS Y MITIGANTS	24
	REFERENCE NOTES	26
	ABBREVIATIONS, SYMBOLS AND ACRONYMS	27



SECTION

I

INTRODUCTION

In an effort to expand the scope of its impact on development and regional integration under a broader and more diverse concept, the Central American Bank for Economic Integration (CABEI) accepted the request to incorporate the Republic of Cuba as an extra-regional member¹. Both parties agreed that the incorporation of Cuba into CABEI would constitute an important step for expanding relations with the countries of the region under a scheme of open regionalism to foster and expand trade, investment and integration between the Central American region and the Caribbean. Likewise, the relationship would boost support for development projects financed by the Bank. In that sense, the formalization of the agreement provides an additional space for regional cooperation and economic and commercial integration, complementary to joint participation in forums in which countries of the Central American Integration System (SICA) participate, such as that of the Association of Caribbean States (ACS) and the Community of Latin American and Caribbean States (CELAC).

Having fulfilled all the requirements to acquire the status of extra-regional member pursuant to CABEI regulations, the Republic of Cuba officially became a full member as of July 11, 2018. In this context, a roadmap is needed to guide the relationship and the approach to financing development interventions. In that sense, the Cuba Country Strategy is constituted as a management instrument that links CABEI's institutional mission to the conceptual foundations specified by

HAVING FULFILLED ALL THE REQUIREMENTS TO ACQUIRE THE STATUS OF EXTRA-REGIONAL MEMBER PURSUANT TO CABEI REGULATIONS, THE REPUBLIC OF CUBA OFFICIALLY BECAME A FULL MEMBER AS OF JULY 11, 2018.

the Cuban economic and social model. The approaches drawn up are intended to provide a strategic vision to the Bank's intervention mechanisms to stimulate sustainable development and foster the progressive improvement of the well-being and prosperity of the Cuban people with equity and social justice. This approach is strictly consistent with the impacts sought by the Cuban authorities through the National Vision, thematic axes and strategic sectors established in the National Development Plan².

The country strategy proposes a series of indicative aspects that allow us to characterize CABI's offer for Cuba. On one hand, it presents a vision regarding the role that the Bank wishes to play in the process of attention to the development needs and priorities of the island. On the other hand, it defines a sector approach and a profile of the initiatives that could be addressed according to the prioritization suggested by government authorities. Additionally, it evaluates the Bank's financial scope in view of the conditions of Cuba's participation in the share capital, suggests possible mechanisms for resource mobilization, and identifies some institutions of interest for the development of strategic alliances. Finally, the document raises general issues about the degree of alignment with the World Development Agenda and the Bank's strategic planning instruments, as well as the management of the risks associated with its implementation.





CONTEXT AND

SECTION

II

OUTLOOK

The Republic of Cuba is a socialist economy that is undergoing dynamic transformations in order to face several cyclical and structural challenges.

The economy is based on public ownership of the means of production and the planned direction of the economy, which considers, regulates and controls the market based on the interests of society. Historical events in the external scenario³ had a limiting influence on the economy's growth and potential, generating, among other aspects, productive investment and competitiveness gaps, which are reflected in various macroeconomic imbalances. In recent years, Cuba has promoted a dynamic international relations agenda to foster a gradual opening of its economy and the consequent attraction of trade, tourism and investment flows. This spirit is reflected most palpably in the promulgation of a new Constitution in April 2019, which includes provisions aimed at favoring foreign investment, as well as the participation of joint ventures and other production units, such as self-employment, cooperative production, agricultural markets, and delivery of land in usufruct⁴. This process will be gradual and subject to the development goals of Cuba, as well as its socialist ideals.

Human capital and natural resources are the main strengths of Cuba. The country has the highest rates of literacy, life expectancy, average years of schooling⁵ and health coverage in Latin America. These aspects are reflected in the results of international measurements, such as the human development index (0.78), which places it in the group of countries with high human development⁶; it also ranks first among the countries of Latin America and the Caribbean in the index for the development of education for all undertaken by the United Nations Educational, Scientific and Cultural Organization (UNESCO)⁷. In the field of health⁸, through 2017 life expectancy at birth is 79.9 years⁹, while the maternal mortality rate is 38.3 per one hundred thousand live births, and the rates of infant and child mortality in children under 5 are 4.0 and 5.5 per thousand live births, respectively. In the field of environment, its geographic location and broad base of natural resources and their sustainable exploitation are a strength and potential for development. The country is positioned 8 in Latin America and 55 in the world in terms of environmental performance according to the 2018 environmental development index¹⁰, highlighting its biodiversity and habitat, good air quality, and availability and coverage of water and sanitation, among others. On the other hand,

the country presents vulnerabilities associated with the occurrence of adverse climatic events, such as hurricanes, which, between 2008 and 2017 caused the country economic losses amounting to 32.34 billion pesos¹¹.

The coverage of basic services is high, and there are areas for improvement in diversifying the energy matrix. The proportion of the total population with access to drinking water and sanitation was 95.6% and 97% in 2017, respectively. For its part, the level of electrification, which represents the percentage of users with electricity regardless of the access route, reached 99.7% nationwide, although there is an awareness of the challenge and the need to streamline the energy matrix, in which 96.5% of energy generated was oil-based in 2018.

Recent economic performance has been led by services. The GDP grew at an average rate of 2.2% in the period 2012-2017¹², higher than the 1.3% observed in Latin America and the Caribbean (LAC). Services represented 73.1% of nominal GDP, led by exports of health services and activities related to tourism. The secondary sector contributed 23.1% of nominal GDP, highlighting production in construction, energy, nickel and cobalt extraction, cigars, spirits, information technology and biotechnology. Likewise, the agriculture, livestock and fishing sector contributed an average of 3.9% of nominal GDP and 18% of the population employed in 2017, with sugar, tobacco, fishing and aquaculture the most significant goods, which are linked to the main export items of the country.

Aggregate demand is concentrated on consumption, and there are imbalances in the exchange of goods and in the fiscal result. On the other hand, final consumption represented 87.2% of GDP, and around 70.0% of the food consumed by the population in that period was imported¹³. The average rate of investment to GDP was 9.2%, which is low compared to other emerging economies that show faster growth paths and was the lowest of all LAC countries in this period. The balance of payments showed a surplus from 2012 to 2015, characterized by a deficit in the balance of goods that was more than offset by a surplus in the balance of

services, reflecting the importance of this item in the economy. On the other hand, the growing social spending requirements have led to an average fiscal deficit of 4.7%, which has increased in this period to stand at 8.6% in 2017; the main source of financing has been the issuance of bonds of up to 20 years that are placed in the state banking system.

In recent years, the low registered unemployment rate has been produced by a greater decrease in the active population in search of employment versus the employed population.

In this sense, the average unemployment rate was 2.6% in the period 2012-2017, with a decreasing trajectory to reach 1.7% in 2017; however, there was an 8.7% decrease in persons employed in 2017 compared to 2012 (427.4 thousand workers less). In 2017, the average monthly salary was set at 767 pesos (3.6% higher than the previous year), which is equivalent to almost 32 dollars at the exchange rate of pesos per convertible peso. It should be noted that the final effective consumption of Cuban households is greater than what they can acquire with salaries, when considering the social benefit transfers made by the government for free health, education and culture and the subsidies still enjoyed by consumer basket products and water and electricity services, which together accounted for about 32% of total state expenditures in 2017.



THE COUNTRY HAS THE HIGHEST RATES OF LITERACY, LIFE EXPECTANCY, AVERAGE YEARS OF SCHOOLING¹ AND HEALTH COVERAGE IN LATIN AMERICA. THESE ASPECTS ARE REFLECTED IN THE RESULTS OF INTERNATIONAL MEASUREMENTS, SUCH AS THE HUMAN DEVELOPMENT INDEX

¹ Currently, the third streamlining of the National Education System is being carried out.

TABLE 1. SUMMARY OF CUBAN ECONOMIC INDICATORS

CONCEPTS	2012	2013	2014	2015	2016	2017
CONCEPTS	-GROWTH RATES-					
Gross domestic product at constant prices	3.0	2.7	1.0	4.4	0.5	1.8
Final consumption	1.9	3.7	2.8	5.1	2.9	1.6
General government	(0.6)	0.8	(1.0)	0.0	(0.2)	2.2
Homes	3.3	5.2	4.6	7.4	4.1	1.3
Gross capital formation	7.2	4.0	(4.9)	18.3	7.5	1.3
Goods and Services Exports	0.4	1.7	(2.8)	(0.1)	(19.7)	0.0
Goods and Services Imports	(2.1)	6.1	(1.5)	10.1	(10.6)	(1.6)
CONCEPTS	-% GDP-					
Final consumption	86.3	86.7	87.5	87.9	87.7	86.9
Gross capital formation	8.6	9.4	7.6	9.4	9.6	10.3
Current account	3.3	2.4	3.9	1.6	n.d	n.d
Balance of goods and services	5.2	3.9	4.9	2.7	n.d	n.d
Total external debt	17.1	15.4	18.9	18.2	n.d	n.d
Total net income of the state	66.5	60.1	58.2	57.1	55.9	57.4
Total state expenditure	70.1	64.6	60.8	63.4	63.3	66.0
Financial result (fiscal balance)	(3.7)	(1.3)	(2.2)	(5.8)	(6.6)	(8.6)
MEMORANDUM						
GDP (thousands of millions of pesos)	73,141	77,148	80,656	87,133	91,370	96,851
GDP per capita (pesos per habitant)	6,543	6,900	7,207	7,763	8,130	8,617
Population (thousand habitants)	11,173	11,120	11,238	11,239	11,239	11,221
Exchange rate (US dollar for convertible peso) ^{1/}	1.0	1.0	1.0	1.0	1.0	1.0
Exchange rate CADECA (peso for convertible peso) ^{2/}	24.0	24.0	24.0	24.0	24.0	24.0
Inflation (%)	2.0	0.6	2.1	2.8	(2.9)	0.6
Unemployment Rate (%)	3.5	3.3	2.7	2.5	2.0	1.7
Habitants per doctor	137	133	130	128	125	122
Maternal mortality (per every 100,000 born alive)	33.4	38.9	35.1	41.6	41.9	38.3
Infant mortality rate (per every 1,000 born alive)	4.6	4.2	4.2	4.3	4.3	4.0

Notas: 1/ In both markets, corporative and population

2/ Stock exchange market, CADECA – Exchange Houses

Infant mortality rate (per every 1,000 born alive)

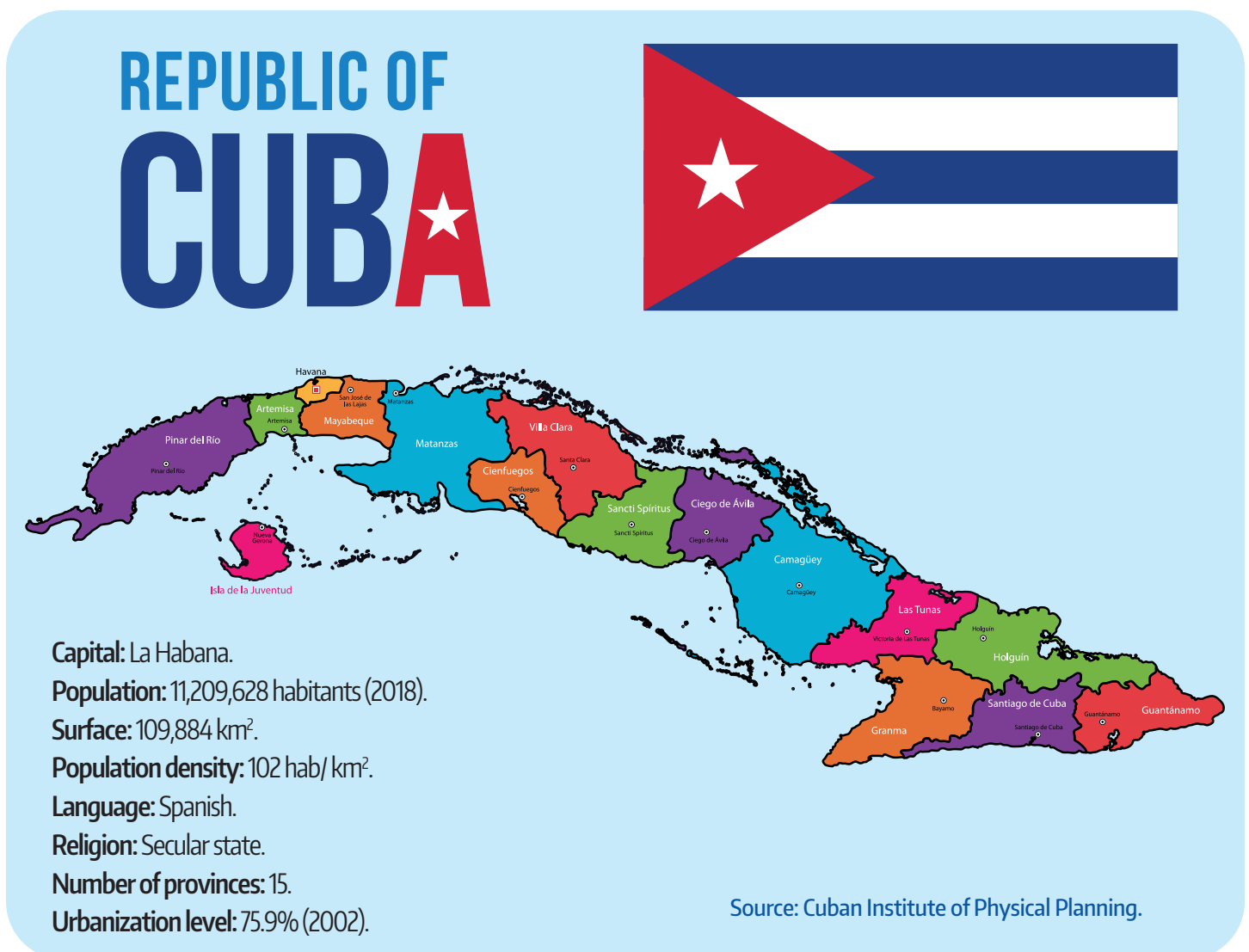
The continuity of the economic transformation agenda may contribute to the long-term growth potential, but in the short term, external factors pose challenges for the authorities.

Cuba could improve its growth profile to the degree that its transformations lead to an increase in investment which, through greater use of its natural resources and human capital would generate technological and competitiveness-related transfers, as other socialist countries like Vietnam have achieved¹⁴. However, it could be affected by the evolution of external situations that could affect investment flows, family remittances and tourism¹⁵. Also, a lower contribution from key partners, such as Venezuela and Brazil could influence fiscal and external imbalances¹⁶. These factors would be added to internal situations, such as the difficulty of updating production technology in the main industries to increase efficiency and competitiveness so that the Cuban economy could register growth similar to or lower than the average of 2.2% recorded in the period 2012 -2017¹⁷.

Cuban structural and short-term challenges require it to continue promoting the agenda of long-term transformations and implement short-term transition mechanisms.

The magnitude of the challenges Cuba is facing, requires accelerating measures aimed at strengthening the competitiveness, diversification and structural transformation of the economy. It also requires having strategic mechanisms and allies that contribute to providing sustainability to the country's development process. In the face of this situation, government authorities have prepared a *National Plan for Economic and Social Development until 2030 (PND)*, which seeks to address the main challenges identified in order to move towards greater economic and social development.

FIGURE 1. POLITICAL-ADMINISTRATIVE DIVISION OF THE REPUBLIC OF CUBA



SYNTHESIS OF THE NATIONAL DEVELOPMENT AND VISION PLAN UNTIL 2030

Planning is an important tool for the conduct of Cuba's development. Planning is the fundamental element of Cuba's economic and social management system, over different time horizons. This process has evolved to incorporate novel approaches to different challenges that have arisen as a result of the dynamic environment affecting the country. In that context, in 2011 preparation of the PND was begun, constituting the main tool for achieving the objectives of the Cuban economic and social model, as well as, for guiding the conduct of development efforts; it provides a comprehensive planning approach that is able to resolve the structural imbalances of the economy, ensuring a coherent interrelation between the different planning horizons (temporal and territorial).

It constitutes the guiding document of the National Planning System and its nature has required a methodology of gradual development. This document contains the strategies, objectives and general actions in economic, social and political matters, conceived in an integral and coherent manner. Given its participatory, territorial and integral nature, its development methodologically and sequentially interrelates a set of activities that have been divided into two stages. In the first, the fundamental conceptual elements were established, highlighting among them, the diagnosis, guiding principles, vision, strategic axes, and strategic sectors for productive transformation¹⁸. In the second stage, the different programs and lines of action will be validated and integrated, the rankings will be established, and the elements necessary for implementation, monitoring and evaluation will be structured; such as the definition of goals and indicators, budgetary estimates, and democratic, systematic and public mechanisms for monitoring, control, evaluation and accountability, which will allow structuring results-oriented management models.

It synthesizes the historical aspirations of the Cuban people and a holistic conception of development. The vision of the Cuban nation for the year 2030 is defined as sovereign, independent, socialist, democratic, prosperous and sustainable. This vision reflects the historical aspirations of the nation; at the same time, it presents challenges of both a structural nature and

those related to the international situation in various areas, which, taken together, cover all issues relevant to development. The PND is structured around 6 strategic axes that synthesize the proposal of economic and social development and are derived from 22 general objectives and 106 specific objectives.

- **A socialist government that is effective, efficient and fosters social integration.** This refers to the strengthening of state institutions in all areas. In this sense, it covers topics such as territorial articulation, efficiency in public management, transparency and accountability, macroeconomic stability, and a financial system that stimulates the intermediation and sustainability of the structural transformation process, among others.
- **Productive transformation and international insertion.** Through this axis, the aim is to raise economic growth and employment in a sustained manner by focusing production on activities that are more knowledge and technology intensive. This is expected to provide an effective response to the demands of the domestic market, while promoting competitive and diversified participation in international markets. As part of this effort, transformations in priority sectors are expected.
- **Infrastructure.** This axis raises guidelines to maximize the contribution of infrastructure to long-term economic and social development. This implies stimulating investment, mainly in strategic sectors, and perfecting the role of the State in its promotion, regulation and control roles.
- **Human potential, science, technology and innovation.** Through this axis, it is sought to take advantage of the country's wide endowment of human capital in order to enhance growth and development. Likewise, the impact of science, technology and innovation on development will be strengthened by streamlining the institutional framework underlying these issues, promoting, among other things, the assimilation of technologies and an enabling environment for the country to move towards technological sovereignty.
- **Natural resources and environment.** This axis is oriented to the protection and rational use of natural resources and the environment and to raising environmental quality. It also seeks to reduce the country's vulnerability to the effects of climate change, as well as carbon-intensive economic development activity.

- **Human development, equity and social justice.** The guidelines of this axis seek to promote the integral and complete development of people, guaranteeing the progressive and sustainable growth of the level and quality of life. Likewise, it guarantees a regime of constitutional rights and duties and a progressive reduction of economic inequality among territories.

ROLE OF INTERNATIONAL COOPERATION AGENCIES AND ORGANIZATIONS

Cooperation resources come mainly from bilateral cooperation¹⁹. Disbursements of bilateral cooperation²⁰ amounted to US\$ 312.1 million in 2017, of which, about 75.0% came from France, Italy and Japan. In a complementary fashion, disbursements by multilateral organizations reached US\$ 21.8

TABLE 2. APPROVALS OF BILATERAL COOPERATION BY DESTINATION IN 2017
(millions of dollars)

CONCEPTS	2017	PARTICIPATION
Social Infrastructure and services	54.2	14.9%
Education	8.6	2.4%
Health and population	0.9	0.2%
Water and sanitation	11.1	3.1%
Others	33.6.2	9.2%
Economic infrastructure and services	5.2	1.4%
Energy	2.6	0.7%
Transport and communications	0.7	0.2%
Others	1.9	0.5%
Productive sectors	51.8	14.3%
Agriculture, forests and fishing	48.6	13.4%
Industry, mining and construction	2.4	0.7%
Commerce and tourism	0.8	0.2%
Multisectoral	5.3	1.5%
Assistance Programs	1.9	0.5%
Food aid	1.9	0.5%
Actions linked to debt	232.8	64%
Humanitarian aid	7.9	2.2%
Other destinations not specified	4.3	1.2%
Total	363.4	100%

million mainly from different agencies of the United Nations and the European Union. Bilateral approvals amounted to US\$ 363.4 million in 2017, with debt management notable (64.1%) among the different destinations. The second most important destination was infrastructure and social services (14.9%), mainly education, water and sanitation. Likewise, the allocation for productive sectors involved 14.3% of the amount, highlighting agriculture, forestry and fishing, and to a lesser extent trade and tourism.

Cuba has developed a broad framework of relations with governments and organizations in various fields. The country is a member of important international organizations²¹, in addition to maintaining bilateral relations with a significant number of countries. In this context, relations with the European Union (EU) stand out, with whom it signed an Agreement for Political Dialogue and Cooperation in 2016; and in 2018, another cooperation agreement that includes support for renewable energy. It should be noted that the EU is Cuba's first trading partner, representing about 27.0% of trade flows. In the area of fiscal policy, significant efforts were made to achieve medium and long-term debt restructuring, including the agreement reached within the framework of the Paris Club in 2015, which allowed restructuring the medium and long-term debt, forgiving more than three quarters in an annual cadence scheme until 2033²².

In the commercial sphere, Cuba is a founding member of the General Agreement on Trade and Tariffs (GATT) and a member of the World Trade Organization (WTO), which could contribute to the country's trade policy to the degree that export promotion policies advance; it was a previously a beneficiary of the Generalized System of Preferences, but left this agreement after exceeding the per capita income limit in 2014. In the area of health, Cuba is an important service provider, with participation in Venezuela, Uruguay, Ecuador, Bolivia, Nicaragua and Haiti.

Source: Geographical Distribution of Financial Flows to Developing Countries 2019. OCDE



STRATEGIC PLANNING

SECTION
III

CUBA

PERIOD 2019-2024

CABEI recognizes the important role that multilateral banks and cooperation agencies can play as participants in the transformation process that is currently taking place in the Republic of Cuba, considering the financing required to make it viable. The express interest of Cuban authorities to integrate into international financial markets and its progress in debt normalization make it possible to incorporate it into these institutions, which facilitates joint work and therefore results in reciprocal benefits among the parties.

In that line, CABEI's strategic offer proposes to take advantage of the opportunities and benefits identified in the analysis prior to Cuba's incorporation into the Bank, and whose scope transcends the national objectives of the country, CABEI's institutional focus and the regional integration aspirations of the SICA member countries. In that sense, the formalization of the partnership between CABEI and Cuba is expected to strengthen trade and investment ties between Central America and the country and promote alignment with the interests of all Bank members, while leading to a consolidation of the Bank's relevance as the main provider of multilateral resources in the region, expanding its regional impact towards the Caribbean and strengthening its institutionality.



STRATEGIC APPROACH

CABEI's proposal aims to broaden the scope of its impact on development through the open integration of Central America and the Caribbean by meeting the objective set by the SICA member countries in the Declaration of Santo Domingo²³. Additionally, the Bank will provide Cuba with access to the medium and long-term financing required to carry out the reforms established in the PND, improving the international perception regarding the investment climate and access to international financing sources; and facilitating a closer approach to SICA institutions and member countries in pursuit of a greater commercial and investment relationship.

In line with CABEI's mission to its members, the efforts derived from this planning will be oriented towards the main axes that define its operations. On one hand, the Bank recognizes the importance of closing the quality and coverage gaps of the significant aspects of

social development as a way of generating well-being and raising the quality of life of societies. On the other hand, based on the experience accumulated over almost six decades, it seeks to support the factors related to **competitiveness** as means to guarantee sustainable economic growth and promote spillover effects towards the most vulnerable groups found at the base of society. Likewise, part of its essence as a regional integration organism spurs it to broaden the scope of its impact on development through open regionalism as a means of shaping a Central American-Caribbean economic bloc. Finally, the transversal incorporation of issues, such as **environmental sustainability** and **gender equality** are relevant in that they aim to ensure that the impacts generated are environmentally friendly and inclusive.

AREAS OF INTERVENTION



RURAL DEVELOPMENT AND THE ENVIRONMENT

CABEI's interventions will aim to provide resources to contribute to the Cuban state's efforts to develop and improve the productivity levels of the agricultural sector, elevate the population's quality of life, food and nutritional security, and promote the adaptation of productive systems to climate variability and change, as well as the sustainable management of natural resources. To that end, it is planned to generate new roles and opportunities for existing human and social capital, capable of fostering integration between actors involved in the development of the agricultural sector and the rural environment, mainly with the aim of improving availability and access to food and the nutritional situation in rural households in the areas identified and prioritized by the authorities.

The Bank will promote projects that increase the adaptation capacity and resilience of rural families through the diversification of production, in order to reduce negative impacts of a climatic or economic nature and improve food and nutritional security. Some of the

strategic interventions that may be funded include:

- Projects that propose to increase the production and productivity of the main crops of the Cuban food diet (corn and beans) and improve the living conditions of families.
- Projects that contribute to the sustainable development of the livestock sector (pig and cattle), increasing the production and sales of meat and milk produced, thereby promoting the establishment of agroforestry and agro-silvo-pastoral production systems.
- Projects to improve the well-being and food and nutritional security of beneficiary families, increasing sales of agroforestry products, diversifying their production and reducing their vulnerability to climatic and economic impacts.
- Diversification projects that reactivate the production of main crops in the national economy such as sugar cane, banana, citrus fruits (sweet orange, grapefruit and lemon), mango, guava, coffee, cocoa, henequen, tubers and roots (potato, sweet potato, malanga), vegetables (tomato, onion, pepper), cereals (rice, corn), legumes (beans) and tobacco.
- Projects of productive competitiveness that promote the transformation of raw materials through science, innovation, technology in order to access local, regional and international markets with the purpose of generating jobs in the Cuban rural environment.
- Projects that promote processes of productive chains and strengthening of the most competitive value chains and their articulation with agribusiness.





HUMAN DEVELOPMENT AND SOCIAL INFRASTRUCTURE

CABEI's support will focus on the provision of resources to enhance human development and sustainable well-being through social inclusion, resilience, raising the quality of life of the population, and strengthening human capital. To achieve this task, the Bank will join the efforts of the Cuban authorities to promote the development and improvement of the water and sanitation sectors in order to improve the quality of life of its citizens.

CABEI interventions will focus on providing resources to increase the coverage of drinking water and sanitation, including treatment, as well as improving the environmental, technical, social and institutional sustainability of water and sanitation interventions, especially contributing to the reduction of uncounted and non-revenue water. Some of the interventions that the Bank could finance include:

- Infrastructure and equipment projects in urban, peri-urban and rural areas for the improvement and expansion of systems for the provision of quality drinking water.
- Infrastructure and equipment projects in urban, peri-urban and rural areas for the improvement and expansion of sanitation systems, including collector systems, treatment plants and home connections and any other type of more complex wastewater treatment systems such as underwater emissaries.
- Infrastructure projects, equipment, technology and actions that promote the technical sustainability of water and sanitation systems with operational improvements in information systems and technical capabilities, all with a view to improving water quality.
- Infrastructure projects, equipment, technology and actions that promote the financial sustainability of water and sanitation systems with energy efficiency and the timely identification of non-revenue water.
- Infrastructure, equipment, technology and actions projects that promote the social sustainability of water and sanitation systems with community support at the local level, an efficient regulatory framework and environmental sustainability through territorial and urban planning processes and watershed and micro basin management.
- Infrastructure projects, equipment, technology and actions that improve the collection, treatment or reuse of solid waste.



ENERGY

CABEI interventions will aim to provide resources that contribute to closing the electricity service gaps by increasing efficiency in energy service supply and demand, as well as the use of renewable energy sources with reliable and sustainable access.

In that context, the provision of an efficient and safe service becomes relevant, keeping harmony with the environment and impacting on the levels of competitiveness and wellbeing of its inhabitants and the sustainable development of the country in the short, medium and long term.

The Bank will promote the implementation of initiatives that ensure an adequate, reliable, diversified and modern energy supply for all the inhabitants of the country, through a greater participation of renewable energy sources in the national energy matrix, reliable and sustainable access to energy and efficient use of energy resources, which will contribute to reducing greenhouse gas generation, mitigating climate change and promoting less carbon intensive economic development. Noteworthy main strategic interventions to be promoted include:

- Electricity generation from the use of renewable resources. Interventions that can be addressed include infrastructure and equipment for the generation of energy from hydraulic, wind, solar, geothermal, tidal and wave sources and power generation from biofuels.
- Energy efficiency and cleaner production through the strengthening of interventions that make energy matrices more efficient, making it possible to reduce costs in their generation systems and minimize their environmental footprints, thereby contributing to the application of climate change mitigation and adaptation measures. The projects that are funded must have the purpose of preparing energy diagnoses, replacing equipment and implementing measures for efficient energy use, access to sustainable energy supply alternatives, investment of technologies that produce savings in energy consumption and incorporation of cleaner power generation processes prioritizing the use of local and renewable resources that contribute to the reduction of greenhouse gases (GHG).
- Efficiency of energy matrices through the diversification of energy sources, thereby avoiding excessive reliance on particular resources that may compromise energy security. The Interventions may be linked to projects involving expansion, repowering and strengthening of existing electrical infrastructures or those planned to be built, incorporating innovative technologies that will make the most efficient use of the resources available to generate energy.
- Energy management, transmission and distribution through projects that improve access, supply, storage and quality of energy service, rural electrification, infrastructure and equipment for supply, distribution, transmission and electrical interconnection, as well as distributed generation projects through the use





of local resources, and that meet needs in particular geographical areas, thus reducing the impact that this type of project has on the environment, as well as eliminating the expansion needs of interconnected national systems.

- Reduction of fossil fuel consumption in the public transportation service through the use and development of electric vehicles.
- Development of the necessary infrastructure that allows efficient operation of electric vehicles in the country.

THE BANK WILL PROMOTE THE IMPLEMENTATION OF INITIATIVES THAT ENSURE AN ADEQUATE, RELIABLE, DIVERSIFIED AND MODERN ENERGY SUPPLY FOR ALL THE INHABITANTS OF THE COUNTRY



IMPLEMENTATION

SECTION
IV

MECHANISM

PRIMARY COORDINATION

CABEI has been legally recognized before by the Cuban authorities under the figure of Multilateral Organization, so under that status the Central Bank of Cuba (BCC) has been designated as the main link to manage communications and relations with the country's institutions. In that context, the BCC will be the entity in charge of managing financing requests before CABEI and of notifying the Bank of the adjustments or updates that are required to the Cuba Country Strategy and/or any intervention that can be carried out jointly. Furthermore, within CABEI, the initiatives must be addressed through the business area, a unit that will serve as a focal point to coordinate the activities of the rest of the divisions and staff offices involved in the processes related to the CABEI Project Cycle. Likewise, this unit will have the power to propose preinvestment products in order to provide technical viability to initiatives that can be financed under the CABEI operations eligibility criteria.

FINANCIAL ASPECTS²⁴

The **Financial programming** will be defined through an interactive dynamic between CABEI and the Cuban authorities. To achieve such task, the mechanism will take into account the fulfillment of the schedule of capital contributions agreed in the accession process, the flow of formal loan applications requiring the assistance of CABEI for the development of specific initiatives, and the prioritized distribution of the interventions that will make up the Bank's annual operating plan.

CABEI's capital subscribed by the Republic of Cuba will amount to an equivalent of US\$50.0 million, of which 25.0% corresponds to capital payable in cash (US\$12.5 million) and the remaining 75.0% would be payable capital. The number of series B shares to subscribe will be 5,000 units. In accordance with the procedure established between the parties, the subscribed capital payable in cash will be paid in euros, in the equivalent in dollars of the United States of America up to four annual, equal and consecutive installments or in accordance with the terms and conditions that the Board of Governors has approved to this effect.

Taking into account the above, as a result of said subscription and under a scenario in which payments are received in four annual installments, an equivalent of US\$3.13 billion per year would be received. Considering the level of total capital

subscription and in accordance with the conditions of access to credit established in the Regulations for the Admission of Extra-Regional Members, the potential loan quota would amount to US\$234.4 million; these resources will be available in euros or in any currency other than the US dollar.

FUNDRAISING MECHANISMS

Taking into account that Cuba needs resources to conduct feasibility studies for operations, and that its financing needs are greater than the maximum loan quota that it has access to pursuant to the level of subscribed capital, the challenge is to find mechanisms that allow CABEL to provide non-reimbursable pre-investment and investment resources, as well as the mobilization of additional reimbursable resources without using the Bank's balance sheet.

Furthermore, there are several funders interested in working together with CABEL to channel non-reimbursable and reimbursable financial resources to the country. In this context, the Bank has the opportunity to become a financial agent for Cuba through the channeling of funds from other sources, thereby leveraging the total available amount of the Bank's own funds to invest in Cuba. In this respect, a number of actions that the Bank will develop are discussed below.

Mobilize non-reimbursable financing for preinvestment studies. The mobilization of these resources will be carried out as follows:

- Establishment of specific facilities administered by CABEL. This means that the Bank must formalize an agreement with a funder to establish a facility that can finance the operations' preinvestment studies. An example of this is access to resources for studies through the Study Funds and Private Sector Assistance (FASEP), which is currently operational and has been extended to Cuba. Likewise, the establishment of a similar facility with other funders such as the European Union's Latin America Investment Facility (LAIF), Mexico, Korea and the Japan International Cooperation Agency (JICA), among others, will be explored.
- Access to facilities already established and not managed by CABEL. This means that they are accessed by each individual operation. Some options are the project preparation facility (PPF) of the Green Climate Fund (GCF), the Cuba-Spain Debt Conversion Fund, the Cuba-France Fund, and the Infrastructure Fund for Mesoamerican and Caribbean Countries (FIMCA) of the Republic of Mexico, among others.

Mobilize non-reimbursable funds for the financing of operations.

Taking into account relations with funders, CABEL will manage non-refundable financing to complement investments of CABEL and other funders. Options of non-reimbursable financing sources for operations in Cuba include the Green Climate Fund, the Adaptation Fund, the European Union and the World Environment Fund, among others.

Mobilize reimbursable funds for the financing of operations. This can be achieved in several ways.

CABEL HAS BEEN LEGALLY RECOGNIZED BEFORE BY THE CUBAN AUTHORITIES UNDER THE FIGURE OF MULTILATERAL ORGANIZATION, SO UNDER THAT STATUS THE CENTRAL BANK OF CUBA (BCC) HAS BEEN DESIGNATED AS THE MAIN LINK TO MANAGE COMMUNICATIONS AND RELATIONS WITH THE COUNTRY'S INSTITUTIONS



- **Parallel Co-financing:** Consists of programs that involve one or more sources of funds. In a parallel case, each lender has direct rights with respect to the borrower. The general conditions of the operation are defined in a common condition's agreement between the co-lenders and the borrower. Likewise, each co-lender may have specific conditions, which are usually established in a complementary agreement with the borrower. Finally, there is an agreement between creditors that governs the relationship between the lenders. To date, there are opportunities with the French Agency for Development (AFD), OPEC Fund for International Development (OFID) and International Fund for Agricultural Development (IFAD), among others.
- **Management Facility:** Involves the management of resources from different sources to create a mixture of funds. The Fund is managed by CABEL out of its balance sheet, acting as a lender of record, making all the arrangements with the beneficiaries and transferring the benefits of the financing. There is an

important array of work possibilities with the Green Climate Fund, the Japan International Cooperation Agency, Korea Ministry of Economy and Finance, Korea-Eximbank, among others.

- **Streamlined support:** Schemes in which the country is a beneficiary of a zero-coupon bond, which leverages the principal of the loan granted by the Bank with its present value; An example is the current CABEL streamlined support system with the Infrastructure Fund for Mesoamerican and Caribbean Countries (FIMCA) of the Republic of Mexico.

For the development and implementation of these financial mechanisms, the Bank will make use of the accreditations it currently has to channel resources. The Bank is accredited with the Green Climate Fund, the Adaptation Fund and the European Union.

TECHNICAL COOPERATION

The Bank will strengthen the development of projects under the framework of the National Economic and Social Development Plan for the Republic of Cuba through the placement of technical cooperation resources that seek to strengthen the formulation of projects susceptible to financing by the Bank, by means of the development of pre-feasibility studies and technical and economic feasibility of projects that are of national priority and that fall under the framework of CABEL's focus areas. The cooperation resources will be aligned with the pipeline of projects for the country to jointly identify with the country's authorities, new operations that generate social and economic impact.

STRATEGIC ALIGNMENT

The CABEL value offer for the Republic of Cuba is consistent and adequately aligned with the rest of the Bank's strategic management instruments.

First, it corresponds to the guidelines, approach and business model established by CABEL in its five-year planning. Likewise, the scope of the programmatic offer and the mechanisms to finance development interventions are consistent with the existing definitions and the sector management instruments. Finally, the implementation will be carried out according to the operational programming approved by CABEL through its annual operational plans.

SPECIALIZED SERVICE MECHANISM

The implementation of operations with the Republic of Cuba involves certain special work characteristics compared to those used by CABEL, derived mainly from the conditions of the economic, commercial and financial blockade that the United States maintains over the country.

The aforementioned requires the establishment of safeguards that allow maintaining sustainable bilateral relations between the Bank and the Republic of Cuba over time, guaranteeing the normal development of the attention to the interests of the country as a full member. These controls will be materialized through a specialized service mechanism aligned with the Bank's internal regulations, which allows safeguarding the involvement of the jurisdiction of the United States in operations with the country.

FOR THE DEVELOPMENT AND IMPLEMENTATION OF THESE FINANCIAL MECHANISMS, THE BANK WILL MAKE USE OF THE ACCREDITATIONS IT CURRENTLY HAS TO CHANNEL RESOURCES. THE BANK IS ACCREDITED WITH THE GREEN CLIMATE FUND, THE ADAPTATION FUND AND THE EUROPEAN UNION.





RISKS AND

SECTION V

MITIGANTS

The execution is exposed to risks that can generate deviations in the implementation of the strategic approach, affecting the normal development of approvals, disbursements, project execution and expected impact on development interventions, among other effects. Listed below are the main risks both from the international context, internal to the country and inherent to CABEL.

EXTERNAL RISKS

Deterioration of conditions in the international economic context. The current commercial tension and poor performance of some advanced economies, especially in Europe, increase the likelihood of a recession in the world economy. The impacts of this may affect CABEL's fundraising capacities, as well as the country's income and payment capacity.

Natural disasters and/or effects of climate change. Due to its geographical situation, Cuba is a country exposed to the occurrence of natural events, which could have negative impacts. These can be amplified to the extent that they are interrelated with social effects that increase the vulnerability of certain population groups. The country's reaction to these events can directly or indirectly affect the Bank's operations as a result in

changes in government priorities, for example, delaying or suppressing investment projects.

INTERNAL RISKS

Delays in the processes of formalization and execution of operations by the corresponding instances. Events that generate delays in the different activities leading to obtaining the approvals necessary for the implementation of development interventions, as well as in the different phases of their execution.

EXTERNAL AND INTERNAL RISK MITIGANTS

To mitigate the potential impact of external and internal risks, the Bank will constantly monitor the most relevant variables of the national situation, assessing the impact that their evolution may have on operations with the country, allowing for timely prevention measures. Likewise, the Bank will also maintain continuous communication mechanisms with the country's authorities and may provide technical support to promote improvements in the management capacity of the executing units.

CABEI RISKS AND MITIGANTS

Delays in the preparation of contracts. Refers to the fact that there may be discrepancies in the standards used at the time of preparing contracts, which may cause unexpected delays in the formalization of operations. **Mitigants:** Identify applicable law and jurisdiction on issues related to compliance and arbitration, among others, that are consistent with CABEI standards and local legislation.

Delays in the project approval process. Refers to problems that may arise due to a lack of definition regarding the operation of technical cooperations and credits, among others.

Mitigants: Preparation of an approval's manual defining guidelines for submitting the proposed projects for analysis and evaluation.

Delays in the execution of procurement and contracting processes. Lack of experience applying CABEI procurement policy procedures by Cuban executing units. **Mitigants:** i) Continuous training and support regarding CABEI procurement aimed at specialized executing units; ii) Implement a detailed planning of each operation to be financed and; iii) Agree on mechanisms for continuous and periodic monitoring (portfolio review).

Operational Failures in the projects. Refers to risks arising from starting operations in a new country related to issues of team building, which can implement, monitor and evaluate projects, as well as the creation and/or procurement of new systems for the operation. **Mitigants:** Establish a specific mechanism to protect operational risks related to the start of operations in a new country, identifying the main requirements in the organizational structure necessary for the operation and the solutions to the gaps in the bank's systems, as well as issues related to legislation, contracts and procurement, among others.

Deterioration in credit risk ratings. This could limit access to resources and increase financial conditions that CABEI obtains in capital markets. **Mitigants:** Strengthening share capital, geographical diversification of sovereign exposure and profit generation.

THE EXECUTION IS EXPOSED TO RISKS THAT CAN GENERATE DEVIATIONS IN THE IMPLEMENTATION OF THE STRATEGIC APPROACH, AFFECTING THE NORMAL DEVELOPMENT OF APPROVALS, DISBURSEMENTS, PROJECT EXECUTION AND EXPECTED IMPACT ON DEVELOPMENT INTERVENTIONS, AMONG OTHER EFFECTS



REFERENCE NOTES

SECTION I

¹ Approved by the Board of Governors through Resolution No. AG-08/2017 of April 27, 2017.

² Bases of the National Economic and Social Development Plan until 2030: Vision of the Nation, Axes and Strategic Sectors.

SECTION III

³ Among its challenges are the disintegration of the Soviet Union and the economic, commercial and financial blockade of the United States.

⁴ Constitution of the Republic Official Gazette of the Republic of Cuba, April 10, 2019.

⁵ Currently, the third streamlining of the National Education System is being carried out.

⁶ Human Development Index 2018. United Nations Development Program.

⁷ Global Education Monitoring Report. UNESCO.

⁸ This section uses the official statistics of Cuba published by the National Bureau of Statistics and Information, except in cases where explicit reference is made to another source.

⁹ World Development Indicators. The World Bank.

¹⁰ Yale Center for Environmental Law & Policy, Yale University. Global metrics for the environment.

¹¹ Statistical Yearbook of Cuba (2017).

¹² This will be the period of analysis of macroeconomic statistics, unless another date is explicitly stated.

¹³ Economic and Commercial Report of Cuba. Economic and Commercial Office of Spain in Havana. March 2019

¹⁴ Cuba Country Risk Report. Fitch Solutions Macro Research, Fitch Solutions Group Ltd.

¹⁵ According to analyses published by Fitch Solutions, such effects would come from a more restrictive approach to US foreign policy.

¹⁶ A reduced flow of oil from Venezuela would increase the deficit of the balance of goods, coupled with the slowdown that could be experienced by lower external demand for medical services by Brazil and Venezuela.

¹⁷ Cuba Country Risk Q3 2019. Fitch Solutions Macro Research, Fitch Solutions Group Ltd.

¹⁸ "Bases of the National Economic and Social Development Plan until 2030: Vision of the Nation, Axes and Strategic Sectors." Document from the 7th Party Congress approved by the III Plenary Session of the Central Committee of the Communist Party of Cuba on May 18, 2017 and endorsed by the National Assembly of Popular Power on June 1, 2017.

¹⁹ OECD 2019. Geographical distribution of financial flows to developing countries.

²⁰ Considers the cooperation of the countries of the Development Assistance Committee (DAC).

²¹ These included the UN, WTO, UNCTAD, IATA, FAO, UNIDO, OLADE, UNDP, WHO, ACS, UNESCO, IAEA, ILO.

²² Ministry of Foreign Affairs and Cooperation of Spain - Office of Diplomatic Information. "Country File of the Republic of Cuba". May 2018

²³ This aims to create a space for integration in the Caribbean Sea area in order to unite the countries of the region in an unprecedented integral partnership that would provide tangible benefits for the development of these nations.

SECTION IV

²⁴ The financial relations between CABEL and the Republic of Cuba will be effective in euros or in any currency other than the US dollar. In this context, for comparative purposes of this document, the figures have been illustrated in dollars, assuming that, at the time of its application, they will be modified to euros at the current exchange rate.

ABBREVIATIONS, SYMBOLS AND ACRONYMS

ACS	Association of Caribbean States
AFD	French Development Agency
AG	CABEI Board of Governors
BCC	Central Bank of Cuba
CABEI	Central American Bank for Economic Integration
CELAC	Community of Latin American and Caribbean States
DAC	Development Assistance Committee
EU	European Union
FAO	United Nations Food and Agriculture Organization
FASEP	Study Funds and Private Sector Assistance
FIMCA	Infrastructure Fund for Countries of Mesoamerica and the Caribbean
GATT	General Agreement on Trade and Tariffs
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEI	Greenhouse Gases
IAEA	International Atomic Energy Agency
IATA	International Air Transport Association
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
JICA	Japan International Cooperation Agency
LAC	Latin America and the Caribbean
LAIF	Latin American Investment Facility
NDP	National Economic and Social Development Plan through 2030
OFID	OPEC Fund for International Development
OLADE	Latin American Energy Organization
OPEC	Organization of Petroleum Exporting Countries
PPF	Project Preparation Facility
SICA	Central American Integration Systems
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization
WTO	World Trade Organization



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CUBA

COUNTRY STRATEGY