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Cost and Benefits From a Possible Return of Cuba to the IMF and to the World Bank. Is it Worth Exploring?

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BACKGROUND

Cuba officially became a founding member of the International Monetary Fund (IMF) and the World Bank (WB) in 1946 but was previously one of the 44 countries[1] that participated in 1944 in the Bretton Woods International Conference, whose main purpose was defining the international financial regulatory system for the postwar.

After the success of the Cuban revolution the relationship with these institutions became stressed, and while it is true that Cuba was unable to fulfill its obligations with the Fund, political considerations also had an important weight on this relationship. In 1964, and just before being classified as "Disqualified to Access Resources from the Fund," Cuba decided to withdraw as a member of the Fund after having paid its debts, although as early as 1960 the government had decided to separate the country from the World Bank.

In 1996, the Helms-Burton Act practically closed for Cuba any possibility to return to these institutions. The Act was clear with regards to the United States' opposing the incorporation of Cuba to the International Financial Organizations, including the IMF, the World Bank, and the Inter-American Development Bank.

1 The Cuban delegation was represented by Eduardo I. Montoulieu, J.M. Menocal, Oscar Garcia Montes, Miguel A. Pirez, Ramiro Guerra, Eduardo Durruthy, Luis Machado and Felipe Pazos.

"The Secretary of the Treasury instructed the US executive directors of these international financial institutions to oppose with their voice and vote the admission of Cuba as a member until Cuba had a democratically-elected government. Should an international financial institution were to approve a loan or any other type of assistance to the Cuban government, in direct violation of this directive of the US government, payment to such institution shall be withheld for an amount equivalent to that of such loan or assistance."[2]

It is true that the US has veto power in the IMF and the WB, but it is also true that to become a member of these institutions it is not required to have the favorable vote of 85 percent of the total number of votes. In the case of the IMF, two-thirds of the votes are required, which is the equivalent of 66 percent of the total number of votes. Additionally, the decision regarding new membership requires the favorable vote of the simple majority, which means that the opposition of the US would not necessarily block the access to Cuba[3].

Therefore, there has always been a margin of action to apply for a return to these institutions, but in all fairness both institutions respond to the interests of the US: The IMF is practically an extension of the Department of the Treasury, and it was at the US Department of the Treasury where the signing ceremony of the IMF Bylaws was held and where the original document was deposited. Consequently, attempting to obtain such membership would have required unnecessary effort from Cuba since the political pressure and the continued hostility from the US would not have allowed it.

THE TRANSFORMATION OF THE CUBAN ECONOMIC MODEL AND THE NEW SPACES

The current reform process forces us to reconsider Cuban access to international capital markets. But lately the attention has concentrated on the generation of incentives to channel private funds through Foreign Direct Investment. Not much progress has been made in the area of diversification of bilateral government financing sources, and there seems to be no priority given to multilateral government financing.

At this time, the approximation of Cuba to the International Financial Organizations is not a priority in the Cuban government's agenda, but there is indication that the subject is no longer considered taboo. The issue is now being analyzed in academia with a context that allows for the expansion of dialogue channels between policy makers and academia.

The relevance of this debate is undeniable, and in several occasions Cuba has included in its reports, among the impacts of the embargo, the impossibility of access to financing from the International financing institutions. Therefore, if we assume that the obstacle is caused by the embargo, in case of relaxation of the embargo, or of its eventual elimination, there should be no further obstacle, and it could become a political issue.

The process of normalization of the relationship between Cuba and the US is complex and long, because the differences between both countries are also complex and deep. Although it is true that the blockade is still in effect, it is also true that we are closer to its funeral than its birth. Faced with this new scenario and assuming that the obstacle on Cuba's side really is the embargo, in case of its relaxation it would be wise for the Cuban authorities to get ready to connect to the Institutions included in the Bretton Woods Law as soon as possible.

It is important to determine the advantages and disadvantages of becoming a member in these institutions, the opportunities that they offer, the risks, how to prepare to negotiate with them, and how to address the issue of conditionality. This is a long learning process that requires changing minds and addressing the issue from a pragmatic perspective that legitimizes sovereignty while designing its own development strategy. After so many years without depending on the International Financing Institutions, it is possible to use them in a

2 Title 1. Section 104. "Ley para la libertad y la solidaridad democrática cubana (ley de la libertad) de 1996". March 1, 1996.

3 IMF. Membership Resolution and Vote by Board of Governors. 2014

manner that is functional to the interests of the country without placing the country at the mercy of their political decisions.

There are many reasons that explain the advantages of becoming an International Financial Institutions member:

1. The need to end the economic and financial isolation: The IMF and the World Bank are not exactly the paradigm of multilateral lending organizations needed in the globalized world, but there are no other worldwide institutions that perform a similar role. These institutions include 188 member States and are specialized agencies of the United Nations System, of which Cuba is a member. Although it is true that the politics of these institutions have a clear neoliberal bias, this is an issue of international financing inclusion. Cuba is a founding member of the General Agreement on Tariffs and Trade (GATT) and is a member of the World's Commerce Organization (WCO). For many years it has dealt with the contradictions of the World's Commerce Organization, its growing complexity, asymmetries, and unequal distribution of the supposed benefits derived from the commercial liberalization.
2. The benefit of having a guarantor to access international capital markets and a facilitator in the debt negotiation processes, an activity that is performed by the IMF.
3. The possibility of access to multilateral resources (financial and otherwise) that are less costly than private funds.
4. The convenience of being able to channel compensatory financing to address the inequities in the balance of payments and investment resources.
5. The option to compensate the absence of benefits in terms of the Official Help for Development (OHD). Cuba would not receive funds since it is considered a medium income country.
6. An excellent occasion to incorporate Cuba's international cooperation to other countries[4].
7. The opportunity to participate in social projects in which Cuba has extensive experience and international recognition.

But there are also costs associated with the commitments assumed when entering these institutions, and from the Cuban perspective one could believe that this is affecting the autonomy and integrity of the economic direction of the country, and the most sensible issues in the relationship between Cuba and the International Financing Organizations would be related to:

1. The acceptance of the obligations under the Articles of Agreement of these institutions, in particular those contained in *Article IV: Obligation Related to Changing Regimens*[5], and in *Article VIII: General Obligations of the Member Countries.*
2. The commitment to provide statistical information required to maintain the databases used in studies, investigations, and political designs. The availability of information has always been an issue of high sensitivity for Cuba and the economic statistics; in particular, the monetary and financial statistics are handled with a high level of discretion. The most convincing reason for this has been the embargo and the need to prevent unwanted manipulations, and even under the framework of the World Trade Organization (WTO), Cuba is awarded certain exceptions in this area. It is to be expected that once the embargo is lifted there shall be more flexibility.

4 The Cuban medical and educational assistance has not always been a tradable asset; "….Until 2004, the international cooperation missions were founded by resources provided mainly by Cuba. Therefore, following the methodology used at the time to calculate the OHD, it was estimated that in the '80's Cuba dedicated to this end 0.72 percent of its Gross Domestic Product (GDP) that grew to 2 percent in 2004, significantly higher than the 0,7 percent committed by more developed countries but actually only contributed by a small number of them. Rodríguez, José Luis. Cuba and the international collaboration (I). 11 September, 2014. CUBADEBATE.

5 Indicating the general obligations in the matter of Exchange regimes, their supervision, the issue of parities, and circulating currencies in each territory. FMI. Convenio Constitutivo del Fondo Monetario Internacional 1944. Ed 2011, Washington DC.

3. Allowing the monitoring and supervision by the IMF as part of the Consultation for the fulfilment of the provisions of Article IV. Annually, the Fund directors visit the member countries to assess their economic performance. At the end a report is prepared, which is later submitted to the local government. If there are relevant risks to the country—for the region or for the international financial system—recommendations are made that must be complied by the respective countries. Accepting this intromission in a period of changes, redefinition of politics and strategies is not probable in the short term.
4. The cost of membership. Given the difficulties in measuring the indicators of the Cuban economy due to the existence of an exchange rate that is not based on economic considerations, Cuba's membership costs could surpass its real obligations. Given the limited availability of economic resources, the country could face problems in the handling of its membership. In any case, this issue should be perceived as investment and not as expenditure. Besides, it is to be expected that the process of unification of the currency and the exchange rate shall take place before Cuba makes a decision to seek a membership with the institutions of the Bretton Woods Agreement. (BWA), which shall offer a more accurate calculation of that quota.
5. The conditions of the financing. This is without a doubt the main obstacle to overcome, because it is an issue with high political sensitivity. The IMF has been criticized for the exclusive conditions in its loans and the recommendations of politics of austerity that have proven to have questionable effects and a high social cost.

   Since the first review in 2002, and in spite of attempts to rationalize the financial conditions and direct them to areas of strict jurisdiction of the IMF, they have continued to grow in quantitative as well as qualitative terms. There is a tendency to concentrate in limiting the fiscal space, reducing the power of the governments to make decisions related to the handling of expenditures and income, and continuing to concentrate mainly in sensitive economic areas such as deregulation and privatization. The implementation of adjustment programs requires important political changes that are certainly outside of the original mandate of the IMF and are an exclusive prerogative of the individual governments.

   Nevertheless, it would be a good idea to analyze the legal characteristics of the conditionality to learn how to handle it.

   First, the adjustment program is negotiated with the authorities of the country requesting the financing, so that the position of the government in charge at the time of the negotiations with the IMF is vital. Although the circumstance in which the IMF help is requested is an essential factor, the same country under different circumstances could accept conditions that it would not have accepted under better conditions. It all depends on the need for resources and its access to other alternative sources of financing, but the issue is that there is always a margin for negotiations. This conditionality in real terms has been expressed as a power relationship, which in the end reflects the differences that prevail inside the IMF.

   Paul Volcker said, ""When the Fund consults with a poor and weak country, the country gets in line. When it consults with a big and strong country, the Fund gets in line."[6]

   Second, there are specific guidelines to apply to the conditions, and some of them are overlooked, in particular those related to the need to account for the internal political and social objectives of the member countries, as well as the absence of conditions directed to issues essentially political in nature. The knowledge of what was established and regulated by the IMF with regards to this issue is essential, not only during the negotiating period and adjustment program, but during the entire period of the relationship with the Fund, and it is part of the rights of the members that must be exercised.

6 Buira, Ariel. An analysis of IMF conditionality. Paper prepared for the XVI Technical Group Meeting of the Intergovernmental Group of 24. Port of Spain, Trinidad and Tobago. February 13-14, 2003.

Third, although the letter of intention signed by the countries that receive financing is a legal commitment to the adjustment programs, **technically it is not a legal contract** and there is no legal obligation to fulfill such agreements. The agreement is a unilateral decision by the Fund, and it is not an agreement between the Fund and the Member State[7]. Therefore, the legal consequences associated with the failure or breach of an adjustment program are minimized, and this may be a resource that could be used against the lender.

Therefore, if during the negotiation of the adjustment program the member accepted conditions that can no longer be applied because they asphyxiate the country, or because the goals set were too ambitious for the short and medium term, legally nothing forces the authorities to continue with the program. They may abandon it and choose a restructuring program that could pose other challenges but would be less costly than the adjustment programs. This should be a sovereign decision of the borrower, which as all political decisions is difficult, because Cuba truly needs urgent resources. But it is important to decide what is most beneficial for the country.

A PRAGMATIC PERSPECTIVE COULD BE CONVENIENT

We will make an analysis using two paths: a tactical one, directed to a rapprochement with the Multilateral Development Banks (WB, IDB, and other sub regional institutions[8]); and another, strategically directed at creating the basis for a more direct relationship with the Institutions of the Bretton Woods Agreement in a scenario of relaxation or lifting of the embargo. The second path is complex because it requires profound changes in the Cuba-US relationship, but with the start of the current normalization process the distances could be shortened. For this option it would be useful to define some **starting premises**:

1. The convenience of separating the IMF from the WB. It is obvious that this is not possible because they are twin institutions, and to become a member of the WB it is necessary to be a member of the IMF, but the Fund has been extensively criticized not only for the conditions and effectiveness of its politics, but also for obvious issues of legitimacy, for the quantities and timing of the financing granted (too little or too late), and for its incapacity to foresee and handle critical situations. In a way, in Cuba the WB is less criticized than the FMI, and although there has been a distancing between both institutions since the end of the '90's, strategically it is convenient to focus on the Multilateral Development Banks and this way avoid tying Cuba's relationship with the International Financing Institutions directly with the IMF.
2. The pragmatism of entering the IMF under a bridge criteria that could serve as the entry door to access international capital markets, improve the rating of the loan, and access resources from the WB. This would make a discretional use of the financial resources of the Fund to avoid unwanted results of the conditions and of the accumulation of delays that could translate into the inability to sustain the debt.
3. The opportunity to begin an exploration process with the regional multilateral development banks, in particular those where the US is not a member, such as the Development Bank of Latin America (CAF), Caribbean Development Bank (BDC), and the New BRICS Development Bank (NBD BRICS).
4. Take advantage of the cost benefit. This seems to be the best moment to address the issue from an ample and pragmatic perspective. There are multiple signs perceived from Cuba and abroad that would allow promoting this discussion as soon as possible.

In closing, the purpose is to produce a cost-benefit analysis. This is not the moment to decide, but to explore the possibility of a rapprochement with both institutions as a learning process to distinguish what could be accepted and what should be rejected in a future relationship. It is clear that these are institutions that

7 Leckow, Ross. Conditionality in the International Monetary Fund. Washington DC. May 7, 2002.
8 Corporación Andina de Fomento (CAF), Banco de Desarrollo del Caribe, Banco de Desarrollo de los BRICS, etc.

function with capitalist economies but have also become useful to "socialist economies." Cuba has confirmed that it will continue to build its socialist model, but the model is still under construction, and appears to be a mixed model (planning and markets) with important roles for the government in the strategic decisions of the country, as owner of the country's main companies, and with an economically sustainable social agenda.

Certainly development requires financing, but more than financing is needed for development. The function of the Development Banks is not only the channeling of financial resources—which play a vital role in the channeling of capacities, identification and promotion of investment opportunities, and the transfer of knowledge. Cuba cannot continue to ignore these opportunities—but it is important to adequately articulate its strategic development objectives, priorities, and urgencies in the short term with all of the possibilities offered by the multilateral institutions. It is an unknown that is worth exploring.

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