FINCIMEX: Where U.S. Dollars Go to the Military

How Castro's military class appropriates part of remittances income from abroad

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HAVANA, Cuba. – At the Tángana gas station and market in El Vedado, salespersons find it easy to identify a high-ranking military official even if the individual is out of uniform.

That's not because these individuals purchase huge numbers of items, which is unusual for the average Cuban, but because when it comes time to pay, they use a RED Card that looks like any ordinary Cuban pesos (CUC) card, but that once introduced into the POS cashier slot, the system will allow transactions not allowed with any other similar card issued by FINCIMEX, S.A.

The system identifies this type of card as extra ordinary, thus its exchange rate of the Cuban convertible peso (CUC) to the U.S. dollar (USD) is not the one established by Cuba's Central Bank, which is 1 to 25. Instead, it grants an artificial exchange rate of 1 to 1, similar to that granted to state corporations and agencies of the State Central Administration.

As a result, the high-ranking military officer, who receives his monthly salary in CUP like any other state employee, sees the purchasing power of his salary significantly increased every time he performs a commercial transaction at any of the shops, currency exchange stores, ATMs and gas stations authorized for said extra ordinary transactions around the country. That high-ranking officer apparently earns as low a monthly salary as a doctor's –between 1,000 and 3,000 CUP- but in reality, he earns much, much, more.

According to sources that CubaNet consulted that belong to the central level of CIMEX S.A. and to the Ministry of the Armed Forces Corporate Administration Group (GAESA) –to which both CIMEX and its financial intermediary FINCIMEX are incorporated- there are no obstacles like those faced by the owners of regular debit cards, especially those set up to receive remittances from abroad or those used by private drivers for the purchase of fuel.

Since 2002 when they were created, until today, some 2,700 such extra ordinary cards have been issued to some, not all, high-ranking officers at the Ministry of the Interior (MININT) and the Revolutionary Armed Forces (FAR). In that span of time, the cards have been modified so as to strengthen their operational reach.

Two Economies like Parallel Universes

On September 14, 2018, the daily official paper Granma published in its middle pages a reply from FINCIMEX's to the complaints of one Luis Felipe Taylor Rodriguez.

The note makes reference to the man, a resident of Santiago de Cuba, effecting a transaction with his magnetic card at a CADECA branch [the official currency exchange agency], and being asked to wait 30 days for receipt of his cash, the amount of 700 pesos (CUP).

This was supposed to be an instant transaction because a magnetic debit card was used. Instead, the usual thing happened that happens frequently in the commercial network and in FINCIMEX, the sole intermediary financial agency in Cuba.

A lack of cash at the exchange stores; connectivity problems; or implementation of internal instructions to limit daily withdrawals obstructed the transaction.

More recently, when Cuba's Central Bank Resolution 73/2020 went into effect, which established special stores for purchasing only with U.S. dollars through FINCIMEX generated AIS cards, there was evidence of disgruntlement among Cubans on social networks against the government's initiative for its discriminatory practice that favored people who received remittances from abroad and thus undermining the value of state salaries which are considered to be among the lowest in the world, which average the equivalent of US$ 30 per month.

The situations herein described seem to belong to two parallel economic universes, but unfortunately, they belong to one and the same. At the top of the social pyramid that rises over the types of currency that circulate in Cuba today, there is a privileged group of Cubans that is protected by the system itself and its institutions. That group is made up of high-ranking officers of the Armed Forces (FAR) and the Ministry of the Interior (MININT) who have never been harmed by the difficulties and class differences that the system generates.

Since FINCIMEX is part of the financial system of the Armed Forces, even though its financial mechanisms for intermediation are articulated with those of Cuba's Central Bank, it abides by the internal dispositions of the Armed Forces Corporate Administration Group (GAESA) and not by the rules and regulations issued by any other government not belonging to the Armed Forces, nor by the auditing system used by Cuba's General Controller's Office.

Said exceptions and immunities are used under pretext of "national security" and, among other things, it allows military officers to appropriate part of the income derived from remittances from abroad through a series of taxes and commissions in their intermediary function which operates as a monopoly.

Remittances and Fuel

Although it is difficult to offer exact data due to a habitual lack of transparency in Cuban institutions, reinforced by the military character of the economy's strategic sectors and the island's finances, it is possible, however, to surmise how the mechanisms that allow FINCIMEX to issue and provide backing for cards actually works without generating financial losses.

In fact, it is possible to go further and calculate an estimate of just how much money GAESA obtains in profits, to the detriment of the "not-so-special" clients forced to exchange dollars for currency that has no backing, like the CUC and the CUP; to have to resort to the only intermediary agency for said transactions at high rates in addition to the 10% tax on the US dollar which Cuba's Central Bank instituted and recently cancelled due to the crisis worsened by the pandemic.

An officer at FINCIMEX told us the following on condition of anonymity: "For every dollar that comes into the country in remittances, (FINCIMEX) keeps 0.07 cents for itself (…), this is the agency's income, not counting what portion is kept by the Armed Forces (FAR), in addition to other taxes and commissions that it derives from other banks for which it serves as intermediary (…), as a sole intermediary, let's be clear, (…) those 0.07 cents should be subtracted from the total income, as well as the 0.024 cents declared as profit (…), that 0.024 is allegedly the total profit regarded as a handling charge at each entity in the land, which covers internal expenses, salaries, etc. (…), the 0.07 cents, which constitute hundreds of thousands of dollars per year, is what justifies the existence of those special RED cards (…), it's backed currency as long as it's from remittances, and also from some of the fuel cards, but the latter is not too complex a mechanism although it is different, it doesn't come out of the same monies (…) but instead it's related in part to the State Reserve."

According to official documents of the institution itself, quoted in full or in part, and dispersed *via* graduate thesis, some of them accessible on internet or published by the universities themselves, for each dollar that FINCIMEX received, in 2004 alone, in the form of a remittance, it kept 0.20 cents as profit; by 2006 (more recent data has not been published) that amount had increased to 0.32 cents, almost 50% of it to GAESA as commissions, and the rest to Cuba's Central Bank.

A detail to keep in mind: differing from the special FINCIMEX issuance to high-ranking officers, the rest of the debit cards issued as a result of remittances are in CUC, regardless of what currency the sender used to send the remittance.

The sender of a remittance, who lives abroad, must keep in mind the cost of the agency's tariff plus 1.1134, which is added at 8% interest, applied to the total amount of the remittance under Cuba's Central Bank taxation resolution number 80 effective November 4, 2004, in addition to 3% of the currency exchange in which the remittance was made as stated in Central Bank's resolution number 9 effective April 1, 2005.

According to our source, the profit margins in one province alone -Villa Clara- amounted to $435,097.92 for the year 2007, while for the same year in the whole country, profits amounted to $6 million from this same item. This did not take into account profits from institutional sales, or from sales to the citizenry, and the sale of fuel. Those profits, according to inside sources at FINCIMEX, have increased yearly at an average rate of $150,000 since the year 1999, the year that remittances began to reach the island, until today.

“For each dollar that is received in Cuba through FINCIMEX, taking into account intermediary and banking commissions, the sender of a remittance loses today in excess of 0.50 cents, this not counting that the one dollar is retained in full by Cuba’s Central Bank and the Armed Forces network (…), the funds people receive are in CUC without backing, like play money which has no value beyond Cuba’s borders (…), and not taking into account what must be paid to other financial intermediaries like Western Union just for having a presence in Cuba,” explained a FINCIMEX officer we consulted.

Data about Western Union’s payments to FINCIMEX for the transactions of only one of the dozens of branches that the American company operates in the island, could throw some light on just how much GAESA derives from those agreements.

Annually, for each branch it operates in the country, Western Union continues to pay the Armed Forces corporate network around $4,000, which totals around $100,000 per year in operations license charges alone.

According to reports published by the Armed Forces, quoted in graduate thesis and other academic research, in Camagüey alone, Western Union paid in fees for 2005 the amount of $4,155.08, broken down as follows: $68.05 for space rental; $1,021.24 for services provided by FINCIMEX; $982.79 paid to the employment agency for work force; $550 for contributions to social security; plus $1,533 for miscellaneous fees.

Since the agreement between both parties has remained in effect, it is safe to assume that the increase in services, from 2005 to the present, has meant an increase as well in fees paid.

Today They Can Buy Everything

According to a former army officer who was among the first to benefit from the special- card initiative that the Armed Forces and the Ministry of the Interior launched in 2002, “the first cards issued were for purchasing fuel and basic needs products.”

The cards were issued to “some high-ranking officers as a stimulus (…) You couldn’t use it at every gas station, nor could you buy clothes with it, only food products, but buying other things wasn’t a need like it is today because back then all those products were purchased at the military shops, at the military units (…) when I retired, they took it away from me,” according to a retired officer.

Several employees that work at stores and establishments where these cards are accepted as a method of payment have informed us that each year, the range of purchasable products increases, although, for the purchase of fuel, FINCIMEX has issued other cards that are just as extra ordinary, similar to those issued to private drivers except these have a monthly spending limit. The amount is not the same from one month to the next, but the advantage is that they can be acquired in the hard currency market and are payable in national currency.

"Food, automobile spare parts, clothing, shoes, appliances, you can buy everything (…) you swipe the card normally, as you would any other network card (…) the operation is automatic but, for example, if you swipe the card at other stores like the one at the FOCSA building or at Carlos III market, the system will not accept it, or it will calculate the exchange rate at 1 to 25," explains a saleslady at La Puntilla store, where the special cards are accepted in some departments.

"Some ATMs do not accept these cards. Neither can transactions be done at the bank ATMs (…) In none of them. Only since last year can transactions be made in some places, but with limits. It depends on the card (…) some allow you to withdraw up to 100 CUC per day. Others only allow for two or three ATM transactions per month, it depends," an officer at the Ministry of Finances and Prices familiar with this process told us.

FINCIMEX S.A.

Contrary to what the Cuban regime has reiterated over and over again, it was not the collapse of the Soviet bloc in Eastern Europe that forced Fidel Castro to create the intermediary financial entity FINCIMEX, but instead it was the strategy of building an economic infrastructure parallel to the one imposed by the USSR and without regard for the Council for Mutual Economic Assistance (COMECON).

At first, it was charged with minding CIMEX's finances, along with other related activities, and, presumably, also in charge of money laundering through the purchase and sale of gold and jewels. This was justified in that it would allegedly "grant credits for national production", but this is what the USSR was responsible for doing.

In reality, FINCIMEX emerged as a corporate conglomerate located in tax havens, whose profits were to the benefit of the top rank of the Ministry of the Interior first and foremost, and a bit later during the nineties, those of the Armed Forces. This is the time when U.S. intelligence uncovered the connections between the Cuban government and drug trafficking in the Caribbean basin, traffic that was destined for the United States.

Starting with the collapse of the USSR in the 1990s, FINCIMEX began an accelerated growth and transformation process. In October 1992, the only center for processing credit cards in the country was placed under its care. Then in March 1995, it began to issue the first CUPET-CIMEX fuel cards, and in June of the same year, it assumed all emigration collection transactions.

In 1999, it began to function as operations agent for Western Union. A year earlier, it had been licensed by the Central Bank to engage in intermediary financial transactions, further protected under resolution number 109/1999, to arrange and manage family remittances sent to Cuba from abroad.

Founded in Panama in 1984 and incorporated decades later to GAESA, when Fidel Castro transferred power to his brother Raúl –who was until then Minister of the Armed Forces-

FINCIMEX S.A. is the regime's sole financial intermediary, and as such exerts a monopoly on all of the corporation's bank account operations in foreign banks; collection of all international credit cards and remittances; official control of receipt and delivery of family assistance from abroad through the American International Service (A.I.S.); as well as other representation and operations services to cards like VISA, MasterCard, Cabal, and control and processing of pre-paid fuel cards.

Through FINCIMEX services, other important Cuban corporations operate; these also belong to GAESA. Among them we should point out Melfi Marine S.A., the sole transportation entity that fulfills the needs for CIMEX and more than 90% of foreign business interests that operate in Cuba, as well as the needs of the State's Central Administration. This explains how practically everything that is imported and exported in the island is under the control of the military. They are the largest beneficiaries.

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