The Fiscal Responsibility Mechanism of St. Vincent & the Grenadines

2022 Report

November 2022

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ABBREVIATIONS AND ACRONYMS

CPI	- Consumer Price Index
DSSI	- Debt Service Suspension Initiative
EC$	- Eastern Caribbean dollar
ECCB	- Eastern Caribbean Central Bank
ECCU	- Eastern Caribbean Currency Union
FRF	- Fiscal Responsibility Framework
FRM	- Fiscal Responsibility Mechanism
GDP	- Gross Domestic Product
GoSVG	- Government of St. Vincent and the Grenadines
IMF	- International Monetary Fund
MoF	- Ministry of Finance
MTDM	- Medium Term Debt Management
MTEFO	- Medium Term Economic and Fiscal Outlook
MTFF	- Medium Term Fiscal Framework
NIS	- National Insurance Services
PRYME	- Promoting Youth Micro Enterprise
PSIP	- Public Sector Investment Programme
SVG	- St. Vincent and the Grenadines
US$	- United States dollar

GLOSSARY

In this framework —

"**Annual budget**" means the annual estimates of revenues and expenditures and other annual budget documents submitted to House of Assembly;

"**Committee**" means the Standing Committee on Finance established by section 61(1) of the Standing Orders of the House of Assembly;

"**Constitution**" means the Constitution of St. Vincent and the Grenadines;

"**Fiscal balance**" means unless otherwise explicitly stated, the balance of revenues and expenditure;

"**Fiscal Responsibility Mechanism**" means the mechanism established pursuant to Article 9 of the Fiscal Responsibility Framework;

"**Fiscal policy**" means decisions or actions undertaken by public authorities regarding public revenue, expenditure, assets and liabilities to influence the economy and achieve public policy objectives;

"**Fiscal responsibility principles**" means the specific principles of responsible fiscal management in Article 4 of the Fiscal Responsibility Framework;

"**Fiscal risks**" means the exposure of the Government to short -term and medium-term deviations in fiscal variables compared to what was anticipated in the budget, the financial accounts, the fiscal strategy report or other statements or projections of public finances;

"**Fiscal rules**" means the measurable fiscal indicators for the fiscal policy to achieve the fiscal responsibility principles formulated in accordance with the First Schedule and stated in the Medium-Term Economic and Fiscal Outlook report;

"**Fiscal sustainability**" means the ability to conduct a given fiscal policy for a significant period of time in a manner that does not breach the general principles in Article 2 and specific principles of responsible fiscal management in Article 3 of the Fiscal Responsibility Act;

"**Medium-term**" means a period of three consecutive financial years;

"**Minister**" means the minister with responsibility for finance;

"**Primary balance**" means overall fiscal balance excluding interest expenses;

"**Primary expenditure**" means total expenditure excluding interest expenses;

"**Public debt**" means all liabilities that require payments of interest or principal by the public sector to a resident or non-resident creditor, currently or in the future;

"**Published**" means published —

(1) on an official website of the Government for a minimum period of five years; and

(2) making the document available for inspection in print form in a readily accessible place;

"**Total expenditure**" means the sum of recurrent and capital expenditure less debt principal repayment and acquisition of financial assets; and

"**Wage bill**" means the aggregate of current expenditure on wages, salaries and allowances paid to employees of the central Government in any fiscal year.

LETTER OF TRANSMITTAL

November 14, 2022

Ms Kattian Barnwell
Cabinet Secretary
Administrative Centre
Kingstown

Dear Ms Barnwell,

Report of the Fiscal Responsibility Mechanism

Pursuant to the provisions of the Fiscal Responsibility Framework, and on behalf of the Fiscal Responsibility Mechanism ("the FRM"), it is my pleasure to submit for consideration of Cabinet, the FRM's report for 2022.

We draw your attention to Article 9 (3) of the Fiscal Responsibility Framework which requires this Report to be submitted to the Finance Committee, and form part of the Finance Committee's report to the House of Assembly.

Thank you for your kind cooperation.

Yours faithfully

Brian A Glasgow
Chairman

Members: Maurice Edwards Brian Glasgow Linton Lewis Shafia London Justin Robinson

INTRODUCTION

Purpose of Report

This report assesses the budget of the current year (2022) of the Government of St. Vincent and the Grenadines ("GoSVG" or "the Government") against general principles, fiscal responsibility principles and fiscal rules.

In an effort to enhance the long-term fiscal resilience, stability and sustainability of St. Vincent and the Grenadines and to foster broad based economic growth and development, the Government in January 2020 adopted a Fiscal Responsibility Resolution which introduced a Fiscal Responsibility Framework ("FRF") to facilitate effective parliamentary oversight and public scrutiny of the fiscal performance of the Government.

An integral component of the FRF is the Fiscal Responsibility Mechanism ("FRM") which is imposed with the overarching or primary responsibility for assessing compliance with the general principles, fiscal responsibility principles, and fiscal rules and to advise on fiscal and budgetary matters of the Government. The FRM is akin to the Independent Fiscal Responsibility Commissions ("IFCs") that have been established in several countries and which, by the year 2021, had increased to 50, more than triple since the global financial crisis. During the recent Covid-19 pandemic, many IFCs played an active role, providing analysis on budget and macroeconomic forecasts, monitoring the activation of escape clauses, and conducting the costing of Covid-19 measures. (David et al., 2021).

Reporting Obligations

To assist the FRM in discharging its responsibilities effectively, efficiently and economically the FRF has identified the functions that the FRM should perform and the reports that should be prepared and submitted to the Cabinet and the Finance Committee in a timely manner. Amongst those reports which are listed under Article 9(3) of the FRF is an assessment of the budget of the current year of the Government against general principles, fiscal responsibility principles and fiscal rules. The FRM, which was established pursuant to Article 9(2) of the FRF and comprises a five-member team as required under the Fifth Schedule of the FRF, was appointed in August 2021. Having conducted the relevant review of the budgetary process and the budget of the Government against the fiscal responsibility principles and fiscal rules the FRM is now presenting this document as its first report.

Executive Summary

The Covid-19 pandemic, the eruption of La Soufrière and the unsatisfactory post-eruption conditions had a catastrophic effect on the economy, and we acknowledge that the budget cannot be assessed in isolation from these considerations. The scale of the country's fiscal measures in a challenging economic environment necessitate a multifaceted, innovative , disciplined and sustained approach. To this end, the Government must identify a comprehensive package of reforms that will support the fiscal responsibility principles of:

a) **achieving and maintaining a sustainable fiscal balance;**
b) **achieving and maintaining prudent levels of public debt;**
c) **prudently managing fiscal risks; and**
d) **promoting prudence and enterprise in fiscal management.**

On the expenditure side, where the Government has the greatest control, it must lead comprehensive cultural change to improve the integrity of the budget process and hold the Ministries accountable for the financial performance of their respective portfolios and agencies. These required changes to longstanding practices, have been evident for more than a decade, and are fundamental to placing the country on a path to fiscal sustainability.

Improvements on the revenue side should be driven by growth in the economy as the net gain from additional measures will depend on levels of tax buoyancy. While we applaud the efforts of the Government to stimulate the economy, facilitate economic growth, enhance public investments, and shield the vulnerable, we are of the view that it is essential for the Government to recognize that Government stimuli and social interventions must be supported by robust private investment. The country urgently needs a concerted effort to attract additional private investment to expedite major projects and stimulate economic growth to support and advance the innovative and worthy efforts being undertaken by the state. This will have the dual benefit of providing sustainable jobs and supporting budget repair through increased revenues and reduced pressure for economic stimulus expenditure. Given the risk of a business-as-usual approach, it is essential that the GoSVG grasps this opportunity for reform for the benefit of current and future generations.

In developing this report, a number of previous reviews and reports lessons from other jurisdictions were considered and the recommendations will, with a firm commitment from the Government, enable the budget to meet its objectives in a more sustainable manner over the medium term.

Summary of Recommendations

This summary of our recommendations is based on our **Review and Analysis** of the Annual Budget for 2022. The recommendations anticipate a full commitment to and compliance by the Government to the Fiscal Responsibility Framework and the expectation that the Government will engage the capacity of the **Fiscal Responsibility Mechanism** through frequent dialogue.

Details of these recommendations are included in the **Recommendations and Conclusions** section of this report.

Fiscal Policy and Strategy

We recommend that the Government:

- Exercise the required discipline needed to manage Expenditure in conformity with the established Targets and Guidelines;
- Continue to implement global best practices in fiscal planning and revenue and expenditure management so as to improve the Public Financial Management System;
- Promote prudence and enterprise in Fiscal Management; and
- Adopt a Medium to Long Term Approach to Fiscal Policy.

Debt to GDP Ratio

We recommend that the Government prepare a detailed Debt Management Plan to 2035, with defined annual targets; to include inter alia, expected new borrowings, anticipated debt and interest reduction, amortization rescheduling, as well as debt to equity conversion plans consistent with the Debt to GDP target set by the Government.

Debt Swaps & Private, Public Partnerships

We propose that the Government consider opportunities for debt swaps such as debt for nature swaps with Multilateral Agencies and Social Impact Investors and debt for equity swaps as potential avenues to reduce public debt where appropriate. The Government should also explore the use of private/public partnerships as a means of facilitating the provision of societally important and positively impactful goods and services, while containing public debt.

Pension Reform

We recommend that the Government accelerate its plans for integration of the NIS and Government pension plans.

Summary of Recommendations (Cont'd)

Health Sector Revenue

We recommend that the Government review user fees for health services to ensure that users who can afford to pay, or are covered by health insurance plans contribute more equitably to the overall costs. A system of means testing should be actively explored as a means of managing the critical health care budget.

Develop Skilled Workers

We recommend that the Government embark on development strategies, including skills alignment, focused training and certification, that target increasing the pool of skilled labour to reduce employment, drive economic growth and contribute to a prosperous environment.

Small and Micro Enterprises

We recommend that the Government apply more resources to developing a sustainable and structured approach to SME development including improved access to finance, ICT support and other technical assistance.

Agricultural Sector

We recommend that the Government guide the post-volcanic recovery of this sector, and support crop diversification measures to satisfy local demand and the anticipated growth in the hospitality and tourism sector.

OBJECTIVES AND PRINCIPLES OF THE FISCAL FRAMEWORK

The Government of St.Vincent and the Grenadines (GoSVG) recently adopted a fiscal responsibility framework of fiscal balance, expenditure, wage bill, and debt targets. The objectives of this framework are:

a) **to establish the principles, procedures and mechanisms for a rules-based fiscal responsibility framework;**
b) **to guide the formulation and implementation of fiscal rules;**
c) **to guide and anchor fiscal policy during the annual budget process within a medium term macro-fiscal framework; and**
d) **to facilitate further parliamentary oversight and public scrutiny of the fiscal management of the Government.**

The general principles of responsible fiscal management are:

a) **accountability, which means the Prime Minister, the Minister and all other Ministers are accountable to the House of Assembly and the public for the manner in which the Government discharges its responsibilities with respect to the management of the economy and fiscal policies;**
b) **sustainability, which means the long-term fiscal and debt sustainability objectives shall underpin the framing of the medium term economic and fiscal report and the annual budget, including the management of fiscal risks;**
c) **stability, which means fiscal policy shall be conducted in a manner that does not cause destabilizing changes in the macroeconomic and fiscal indicators; and**
d) **transparency, which means timely disclosure and wide publication of information on macroeconomic and fiscal policy matters to permit further public scrutiny and Parliamentary oversight.**

THEORETICAL FRAMEWORK OF SUSTAINABLE FISCAL BALANCE

According to Wong et al (2002) of the International Monetary Fund, "true" fiscal balance—does not exist. Indeed, the notion of any summary indicator capable of unequivocally and clearly gauging fiscal equilibrium is fraught with difficulty. Measurement of fiscal balance raises three different types of issues: the basis of measurement, the definition of the public sector to be covered, and the relevant time horizon. Depending on which concepts are selected, the quantitative measure of the fiscal balance changes accordingly.

While it is common practice to calculate the fiscal balance as the net result of nonfinancial public sector operations over a 365-day period, it is widely acknowledged that a more comprehensive assessment of Government behavior necessitates switching from an annual to an intertemporal framework. Focusing solely on annual revenue and expenditure changes implies that a Government's consumption pattern is solely decided by current income considerations. Clearly, to establish the long-term viability of Government consumption, one must account for the long-term effects on the public sector's net value of factors not reflected in traditional Government accounting.

When this overall balance is stated as a ratio to GDP, developments in the balance should provide an indication of the impact the budget is making over time on the economy. A growing deficit or a declining surplus suggests an expansionary fiscal stance. More precisely, the negative impact of taxes and other revenue on aggregate demand is increasingly being more than offset by the positive effects of Government spending. Conversely, a declining deficit or a growing surplus indicates a contractionary fiscal stance, and the positive effects of Government spending are being more than offset by the negative impact of revenue collection.

The current balance, which excludes capital spending from the calculation, is often used as a measure of Government saving. The domestic balance is obtained by assigning nonzero weights only to those elements that directly affect the domestic economy, the rationale being that, in a small, open economy, the full impact of some Government transactions may not be fully felt on domestic demand.

The limitation on use of the overall balance arises from the fact that this balance is an endogenous variable, reflecting not only the impact of fiscal policy on the economy but also, in turn, the impact of the economy on the Government budget. For example, tax revenue tends to rise when economic activity expands and to fall when it contracts. In addition, some expenditures, such as unemployment compensation, are sensitive to the business cycle, rising during recessions and falling during expansions.

Therefore, a large overall deficit is not always the result of expansionary policies; it may instead reflect the fact that the economy is in a downturn.

THEORETICAL FRAMEWORK OF SUSTAINABLE FISCAL BALANCE (CONT'D)

Another important feedback from the economy to the budget is through rising inflation, which, other things being equal, typically increases the overall deficit as a percentage of GDP. High inflation reduces real revenue because of time lags in revenue collection (the so-called Tanzi

effect) and through its effects on the real value of Government assets and liabilities. Also, a rising inflation rate tends to push up nominal interest rates, which, in turn, result in higher interest payments on Government debt and, consequently, in a larger overall deficit. This can happen even if the initial inflationary pressure was not caused by an expansionary fiscal policy stance.

Fiscal sustainability "involves determining whether the Government can continue to pursue indefinitely its set of budgetary policies" (Horne, 1991, p. 8). Government may be able to maintain a fiscal imbalance by placing securities with domestic private and external creditors, but it cannot indefinitely accumulate domestic and foreign debt, because it is subject to an intertemporal budget constraint. Private consumption theories explain that consumers do not finance all of their spending out of current income. As economists have long recognized, this applies even more forcefully to the public sector, which is generally less liquidity-constrained than households or businesses. However, as the international debt crisis of the 1980s showed, even Governments are constrained in their borrowing by the size of their permanent income. Indeed, private investors perceive that there are clear limits on the extent to which a Government can "borrow" from future generations to finance its present consumption.

In carrying out this task, it must also be kept in mind that domestic or external shocks that affect income growth and interest rates may affect the ability or the willingness of the Government to undertake fiscal consolidation in order to satisfy its intertemporal budget constraint.

Blanchard (1990) has proposed the use of what he calls the primary gap indicator. This is defined simply as the level of primary surplus required to stabilize the debt-to-GDP ratio, given the projected paths of the primary balance, the real interest rate, and output growth. The gap is given by the difference between the present value of future primary deficits required to stabilize the debt-to-GDP ratio and the current balance. An alternative indicator also proposed by Blanchard—the tax gap—measures the required adjustment in the tax-to-GDP ratio needed to stabilize the ratio of outstanding debt to GDP. Here the gap is given by the difference between the present value of this calculated tax ratio and its current value. Applying these two indicators requires relatively little information—the initial debt-to-GDP ratio, real interest rates, the real growth rate, and, in the case of the tax gap measure, an assumption about the future noninterest expenditure path. Both, however, are very crude measures subject to the criticisms raised earlier in relation to the measure proposed by Buiter.

An approach recently proposed by Drudi and Prati (1999) to capture the endogenous link between fiscal consolidation and the credit rating component of interest rates may be helpful in gaining an insight into which fiscal variables signal debt sustainability. One result of their study is that credit ratings are positively related to a country's primary balance and negatively related to its debt-to-GDP ratio. This explains why countries experiencing large primary deficits but low debt ratios enjoy high credit ratings, whereas countries with high debt ratios are required to run sizable primary surpluses to obtain similar ratings. This suggests that an "ideal" measure of fiscal sustainability should be based on some weighted average of these two variables.

THEORETICAL FRAMEWORK OF SUSTAINABLE FISCAL BALANCE (CONT'D)

When using the summary measures as a guide to the design of the policy package required for fiscal sustainability, any explicit (or implicit) assumptions regarding the feedback from non-fiscal macroeconomic variables should be carefully spelled out.

(a) Although a given set of Government policies might be regarded as sustainable because the economy is growing at a rate above the real interest rate, thus justifying a particular level of the primary deficit, the resulting increase in debt may eventually push up real interest rates and lead to an unsustainable increase in debt (see Masson, 1985).

(b) Government solvency requires that the debt-to-GDP ratio be stabilized but does not set limits on its magnitude. The liquidity of the debt may also affect these variables: as its average maturity shortens, bondholders are likely to require higher real interest rates to roll over public debt.

(c) Similarly, the pursuit (or postponement) of fiscal consolidation programs may influence interest rates and economic growth through, for example, interactions between public debt stocks and risk premiums, and through the impact of the composition of public expenditure and taxes on economic growth.

YEAR TO DATE FISCAL RESULTS

In this section, we take a look at the actual results from January to September 2022, compared to the budget for the same period. The variances are mostly positive which is laudable and the Government must be commended on its fiscal management in difficult circumstances. However, a portion of the revenue increases represent a windfall from inflationary conditions and this may not be sustained. In addition, there is often the risk of a surge in expenditure later in the year. Hence, there remains an urgent need for continued fiscal discipline and vigilance to sustain the undeniable fiscal gains to date.

Expenditure on social assistance is in excess of budget. While this is likely related to providing much needed relief due to the extraordinary inflationary conditions, the Government is urged to ensure that such relief is targeted to those most in need.

	Year to end-September 2022		
	Budget EC$m	**Actual** EC$m	**Variance** %
REVENUE			
Current Revenue			
Taxes on income and profits	111.375	109.248	-2%
Taxes on property	27.995	24.418	-13%
Taxes on goods and services	146.395	146.571	0%
Taxes on international trade	115.225	133.201	16%
Other taxes and contributions	2.512	2.792	11%
Property Income	6.906	4.241	-39%
Sale of goods and services	53.740	60.642	13%
Fines and penalties	1.211	1.483	22%
Other revenue	5.549	3.939	-29%
Total Current Revenue	470.908	486.534	
Total Capital Revenue	29.193	30.354	4%
TOTAL REVENUE	500.100	516.888	
EXPENDITURE			
Current Expenditure			
Wages and salaries	262.385	245.952	6%
Goods and services	79.205	71.306	10%
Interest	54.001	38.660	28%
Transfers	146.579	140.737	4%
Total Current Expenditure	542.169	496.654	
Total Capital Expenditure	180.774	121.513	33%
TOTAL EXPENDITURE	722.943	618.167	
Deficit - Current Account	-71.261	-10.120	
Total Deficit before amortisation	-222.843	-101.280	
Amortisation	9.638	10.560	
TOTAL DEFICIT	-213.205	-90.719	

Capital expenditure is 33% below budget which is not necessarily a positive as it may point to project execution challenges, and capital expenditure is what drives growth.

REVIEW AND ANALYSIS

In this section, we list the fiscal targets and financial guidelines, and assess the budget in relation to these benchmarks.

Targets and Guidelines

Debt to GDP Ratio

- Ratio of 60% by 2035

Primary Balance Rule

- Deficit of no more than 1.2% of GDP between 2021 and 2023
- Surplus of at least 2.7% of GDP frrom 2024

Compliance Margin

- Shall not exceed 0.55% of GDP in any year

Expenditure

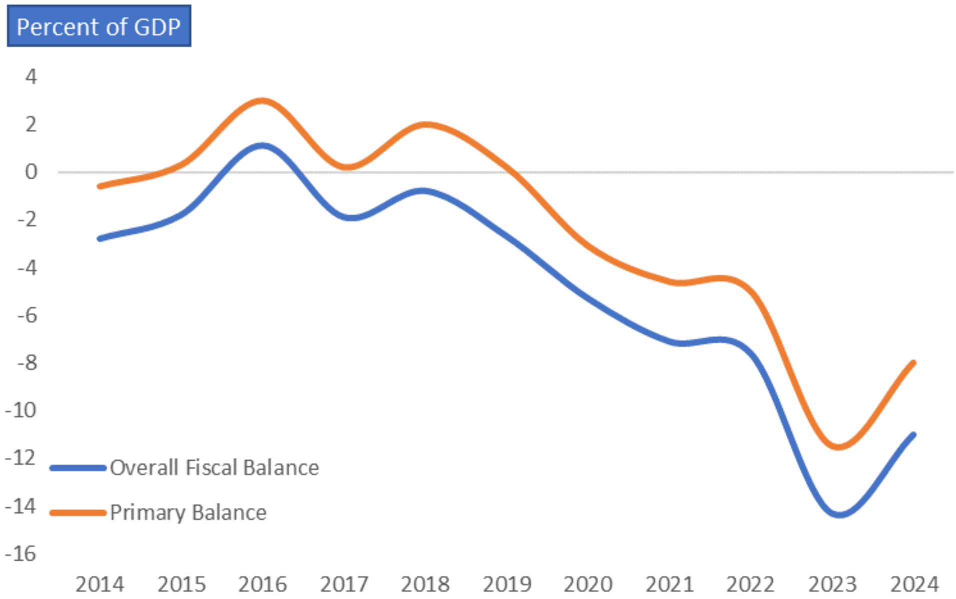
- Growth in nominal current expenditure must not exceed growth in nominal GDP in any year
- Expenditure on wage bill not to exceed 13% in 2021, and 12.5% from 2022 onwards

Fiscal Balance

Over the period 2014 to 2021 the GoSVG generated relatively modest fiscal balances of between 2% and -2% of GDP per annum, with a significant dip post 2019, broadly consistent with the Covid-19 and post-global financial crisis path. The current projections are for negative fiscal and primary balances up to 2024. The shocks in 2020/2021 have been major and the fiscal slippage is expected in such conditions. However, the Government should adopt a fiscal program which arrests primary deficits as early as possible so as to avoid the undesirable and unsustainable position of borrowing to fund recurrent activities and interest costs.

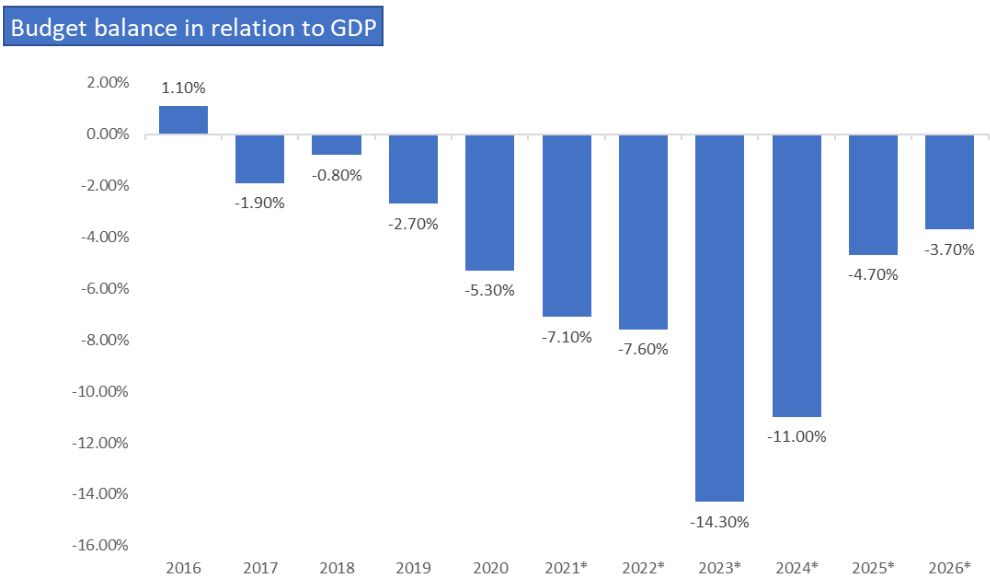
REVIEW AND ANALYSIS (CONT'D)

Graph 1: Fiscal Balance of SVG 2014- 2024



Source: MoF

Graph 2: SVG Budget balance in relation to GDP



Source: MoF

The Government has identified that in the period 2021-2024, it will be implementing a Port Modernisation Project which approximates 20.7 percent of GDP. It has indicated that given the nature of this investment it is anticipated that the primary balance rule will not be achieved during the period 2021 to 2023. An assessment was done where the value of the Port Modernization project was excluded from total expenditure.

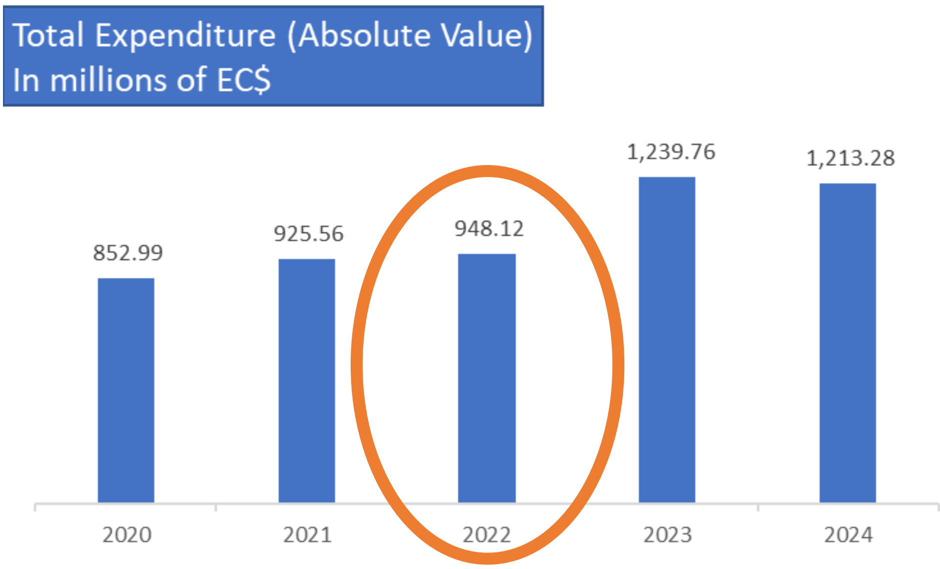
REVIEW AND ANALYSIS (CONT'D)

Table 1: SVG Revenue vs expenditure 2020-2024

	Expressed in millions of EC$				
	2020	2021	2022	2023	2024
Total revenue	715.68	740.43	734.35	818.97	864.57
Revenue growth		3%	-1%	10%	5%
Total expenditure	852.99	925.56	948.12	1,239.76	1,213.28
Expenditure growth		8%	2%	24%	-2%
Total expenditure less Port	852.99	919.98	827.49	974.45	959.73
Expenditure growth less Port		7%	-11%	15%	-2%

Even outside the scope of the port project, expenditure projections persistently exceed revenue. This is mainly due to increases in wages, as well as use of goods and services, and other costs related to economic and infrastructure stimulus. If this path continues the country risks finding itself in a structural deficit (that is, there is a fundamental imbalance between receipts and expenditures that is not related to cyclical or short-term factors) situation which is not sustainable. As we move beyond the shocks of the recent years, the Government is urged to adopt a fiscal stance that avoids such an eventuality.

Graph 3: SVG Total expenditure real and projected



Government gross financing needs include official external financing and some recourse to domestic financing. In 2021, the drivers of the Government's revenue include value added taxes on goods and services, taxes on individual income and international trade. In 2022, while those sources remain key drivers and show significant increases, it will be important to obtain further explanations on the portion of the increases that are attributable to increased economic activity and imported inflation respectively.

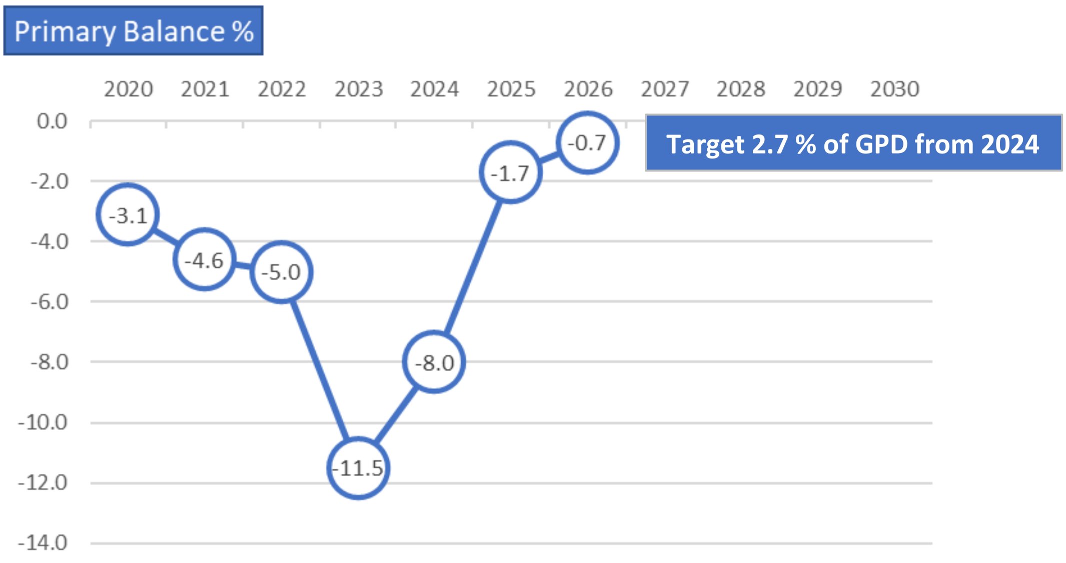
REVIEW AND ANALYSIS (CONT'D)

The Government has a relatively limited own-source base due to the size and composition of the economy in comparison to its service delivery needs. As a result, the fiscal position is particularly sensitive to changes in revenue of those drivers. Growth in those suggest economic growth reflected in increase spending and increased employment.

Primary Balance Rule

From 2024 onwards, the fiscal rule for the primary balance is to target an improvement in the primary balance to a surplus of 2.7 percent of GDP from 2024 onwards. The overall objectives of the current fiscal strategy remain sound, however, due to the two significant shocks of Covid-19 and the volcanic eruptions, the credibility of this fiscal target has diminished following significant, successive, and ongoing reductions in primary balance since 2020. A corrective fiscal stance is required to restore credibility.

Graph 4: SVG Primary balance percentage



During the period 2021-2024, the Government will be implementing a Port Modernization Project which approximates 20.7 percent of GDP.

Table 2: Capital to GDP Ratio

	Expressed in millions of EC$				
	2020	2021	2022	2023	2024
Capital	211.18	231.56	250.19	493.86	441.34
Real GDP	2,269.97	2,322.08	2,461.43	2,611.67	2,738.85
%	9%	10%	10%	19%	16%

Given the nature of this investment there will be temporary departure from the primary balance rule for the period 2021-2023. During this period the Government is expected to sustain primary deficits of on average 1.2 percent of GDP annually.

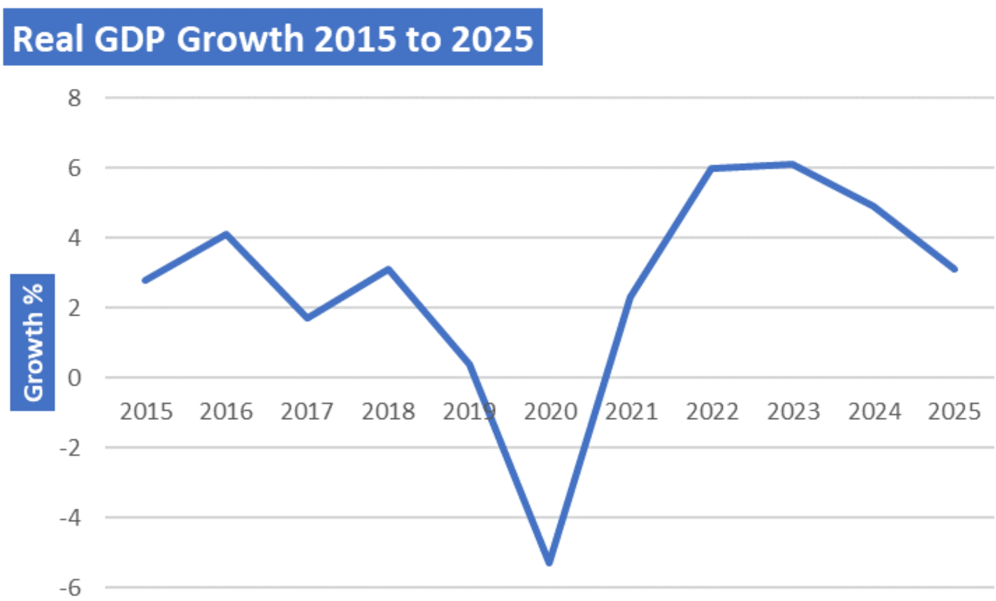
Fiscal Rules for Debt

The long-term debt fiscal rule is to reduce public debt from to no more than 60 percent of GDP by 2035. Given the anticipated level of expenditure and the current economic environment the long term debt fiscal rule is very ambitious and will be a challenging milestone to achieve within the designated time frame. While this fiscal challenge may be daunting, it nonetheless encourages innovation and presents a great opportunity to implement systematic reforms to increase revenue and/or constrain expenditure requirements to acceptable levels.

GDP Growth trends

The following chart illustrates actual and projected GDP growth rates from 2015 to 2025. The projected rebound in growth is consistent with the expected post-Covid bounce and is consistent with forecasts from the International Monetary Fund (IMF). In light of the downside risks to the global economy the Government is encouraged to engage in scenario planning and to build a fiscal program around achieving the fiscal targets under different scenarios.

Graph 5: SVG Real GDP Growth medium term



Source: IMF Data mapper, October 2021/MoF

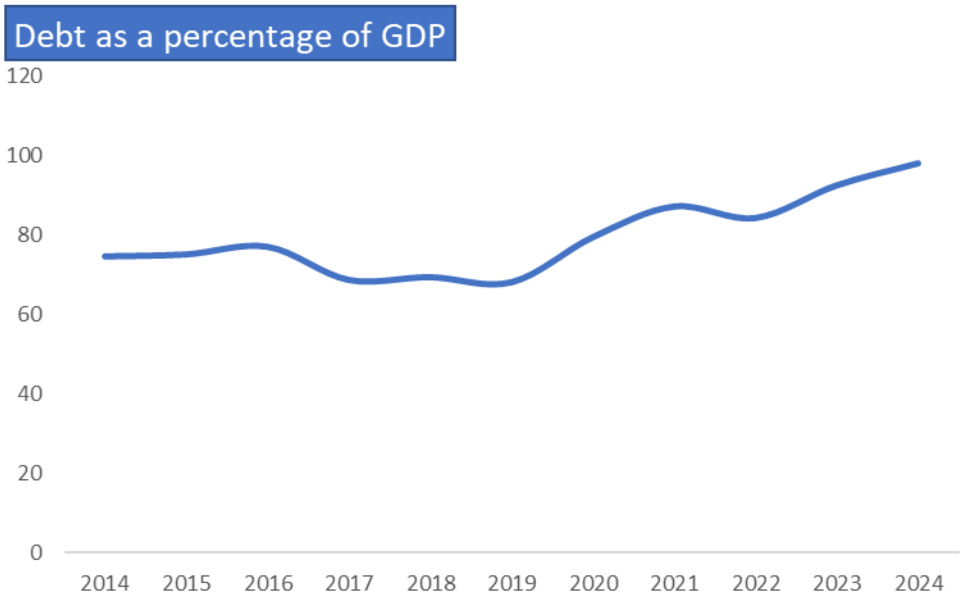
REVIEW AND ANALYSIS (CONT'D)

Achieving and Maintaining Prudent Levels of Public Debt

The debt burden remains high and SVG remains at a high risk of debt distress. Public debt rose to 87.1 percent of GDP in 2021, of which external debt is 74.4 percent of GDP. This debt level is currently assessed by the World Bank and the IMF as "high risk for debt distress", but sustainable into the medium term.

The growth of the debt ratio in the past few years raises concerns, in which rising interest payments require rising tax ratios or symmetrical contractions in non-interest spending to stabilize the debt ratio.

Graph 6: SVG Debt as a percent of GDP



In the absence of a debt restructuring exercise, bringing down the Debt to GDP ratio will require a combination of primary surpluses and positive economic growth. The Government is currently running a primary deficit and this must be managed or the debt ratio will continue to rise. This will only change if the growth rate of the economy significantly exceeds the real interest rate. This means that, for the Government to meet its intertemporal budget constraint, today's primary deficit will need to be offset by future surpluses. The alternative would be to continue to borrow to repay the debt, which would force the debt ratio to rise without bound. Delaying fiscal adjustment, therefore, will require a stronger effort in the future (that is, fiscal surpluses will need to be larger), because at that time the debt ratio will be much higher.

Although sustainability indicators do not offer specific guidance about the appropriate level of the debt-to-GDP ratio (as opposed to its growth rate), even when the Government's commitment is taken at face value, the large debt raises questions about the feasibility of any debt-reduction plan. In addition, a large debt not only complicates the management of monetary policy but also makes public finances extremely vulnerable to increases in international interest rates. This is mitigated by the fact that over 80% of the debt is a fixed rate.

REVIEW AND ANALYSIS (CONT'D)

For these reasons, a fiscal consolidation effort that is fully credible might reduce risk premiums and real interest rates sufficiently to limit (or even more than offset) the direct contractionary effects on the level of activity brought about by the reduction of net noninterest expenditure (Giavazzi and Pagano, 1990). At a minimum, a large primary surplus, by sending a strong signal about policy commitment, can enhance the chances of successful stabilization.

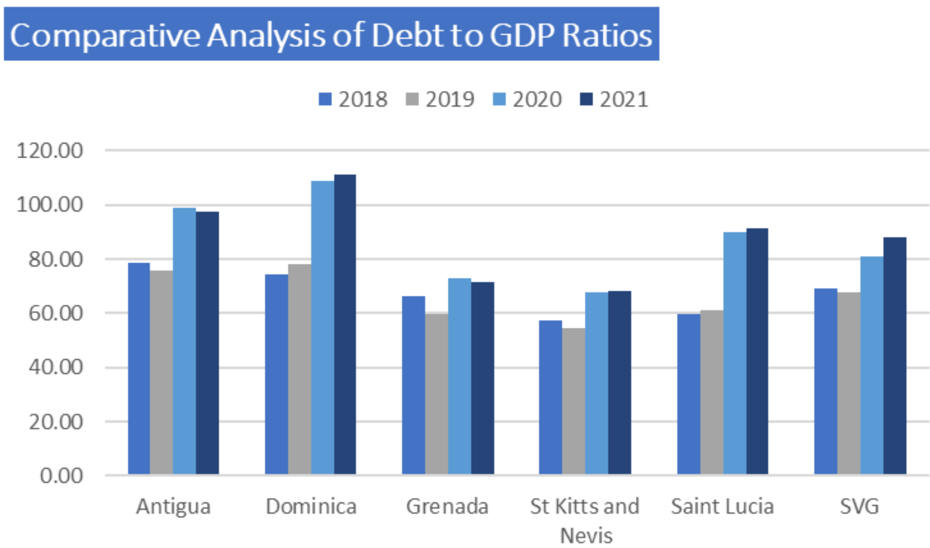
The converse can also happen: if a Government is already nearly insolvent, an expansionary fiscal policy stance—or even a package of measures perceived as inadequate—may lead to a collapse of confidence, with contractionary rather than expansionary effects on aggregate demand.

The risk is that in the absence of an urgent and sustained program of restraint in expenditure growth and debt and a means of generating significant revenue growth, there will be a growing burden on the society to where a growing share of current expenditure will fund higher interest costs with interest expenses approaching $78 million per annum, or around 12 per cent of total expenditure by 2024. Such funds are preferably spent on social and developmental programs.

A report by the East Caribbean Central Bank reveals the country's relative position in the OECS during the period 2018-2021. It should be noted though, that this comparison assumes that all countries have full coverage of their debts, which is not the case. SVG, however, includes all debt in its public debt figures.

Graph 9: Comparative analysis of OECS countries (Except Anguilla and Montserrat) Debt to GDP Ratios.

Graph 7: ECCU member countries Debt to GDP ratios



Source: https://www.eccb-centralbank.org/

REVIEW AND ANALYSIS (CONT'D)

SVG participates in the Debt Service Suspension Initiative ("DSSI"), but only US$4 million of the country's debt is covered under this initiative, and the risk associated with accumulated suspended debt is relatively low. In the long run, growing SVGs economy will increase the Government's own-source revenue and reduce its reliance on debt. In the interim, the fiscal challenge remains. To avoid unsustainable growth in debt and interest costs, the Government, the public service, industry, and the community must be prepared to work together to achieve the desired fiscal objectives.

Prudently Managing Fiscal Risks

St. Vincent and the Grenadines (SVG) is a small island developing state ("SIDS") with an economy driven largely by tourism and agriculture. Based on the last available data from 2008, the poverty rate was 30.2 percent using the national poverty line of EC$5,523 or US$2,046 per annum per adult. It is particularly vulnerable to climate change, external economic shocks, and natural disasters such as those experienced recently with the volcanic eruption and the Covid-19 pandemic.

The fall in tourism following the Covid-19 pandemic resulted in a GDP contraction of -5.3 percent in 2020. The volcanic eruption, which displaced about 20 percent of the population, compounded the impact of the Covid-19 shock. Heavy ashfall, critical utility interruptions, increased food insecurity, and the subsequent flooding and mudslides are expected to have had a significant poverty and welfare impact which is difficult to quantify. This contributed to a significant loss in income and has depressed domestic demand. Electricity and water services were interrupted. Education was severely disrupted as schools throughout the country were used as shelters, although teachers continued to be paid.

The overall fiscal deficit widened to 4.2 percent of GDP in 2021, largely in response to the fiscal demands imposed by the volcanic eruption. The fiscal deficit is forecast to increase to 5.3 percent of GDP in 2022 and 6.3 percent in 2023 as the public investment program is implemented and volcano reconstruction efforts continue. The Government implemented direct fiscal spending measures totaling 7.1 percent of GDP to address the immediate post-volcano humanitarian crisis.

In terms of external vulnerabilities, there was a current account deficit of EC$35.5 million in 2020 following the double trauma of Covid-19 and the volcanic eruption. The current account and deficit in 2021 was EC$12.6 million, and a deficit of EC$EC15.7 million is expected in 2022. The Government has indicated that it implemented direct fiscal spending measures totaling 7.1 percent of GDP to address the immediate post-volcano humanitarian crisis. Additional spending will be needed for reconstruction and recovery efforts.

Growth is forecast to accelerate to 6.0 percent in 2022 and 6.1 percent in 2023 as tourism continues to rebound and is expected to return to levels approaching 80 percent of pre-Covid-19 levels by 2023. Tourism growth over the medium term is expected to be facilitated by the new airport, additional hotel infrastructure, and increased economic efficiency following port modernization.

REVIEW AND ANALYSIS (CONT'D)

The growth forecasts must be balanced against the downside risks in the global economy from inflationary pressures, contractionary monetary policy by major central banks and ongoing geo-political uncertainty.

In an environment of relatively low historical growth, high unemployment rates are expected to continue. Considering the impact on the informal sector, poverty rates are likely to have increased. Economic stimulus measures in response to the pandemic expanded social protection measures, and volcano-related humanitarian efforts have helped mitigate the impacts on poverty, though not eliminate them. A sizeable private sector investment pipeline would be necessary to contribute to growth over the short term

Continued fiscal reforms are necessary to build fiscal buffers and to ensure public debt returns to a downward trajectory. To accomplish these fiscal consolidation measures have been adopted, including: containing nominal growth of the wage bill over the medium term; limiting public investment by focusing on reconstruction and port modernization; scaling back non-port projects; increasing the customs service charge; enhancing taxpayer compliance; limiting import duty and VAT exemptions; strengthening SOE governance; and exploring measures to reform the Government workers' pension system.

Limiting the deficit given the uncertain global economic environment will require careful management of the ambitious public investment program. Balances in the contingency fund, which had been accessed to address Covid-19 and volcano needs, are expected to be replenished and then continue to grow, which bodes well for future fiscal resilience.

Primary fiscal surpluses approaching 3.0 percent of GDP should facilitate a reduction in public debt levels over the medium term as soon as Covid-19 impacts dissipate, reconstruction activities are addressed, and the port modernization is complete.

Table 3: SVG Macro poverty outlook indicators (excerpts)

St. Vincent and the Grenadines / Macro poverty outlook indicators vvv (annual percent change unless indicated otherwise)

	2019	2020	2021	2022	2023	2024
GDP Sector Growth						
Agriculture	-1.6	1.6	-22.7	13.5	10.4	-3.8
Industry	-5.5	-7.8	3.9	4.0	1.9	1.1
Services	1.8	-6.1	-2.4	3.6	8.2	5.4
Inflation (Consumer Price Index)	0.9	-0.6	1.6	4.8	2.9	2.2
Current Account Balance (% of GDP)	-8.8	-16.3	-24.1	-16.9	-16.8	-11.8
Fiscal Balance (% of GDP)	0.3	-2.5	-4.2	-5.3	-6.3	-3.8
Debt (% of GDP)	67.9	81.0	87.5	86.7	85.5	85.0
Primary Balance (% of GDP)	2.6	-0.3	-1.9	-3.1	-4.0	-1.6
GHG emissions growth	0.8	-3.3	3.7	13.1	2.1	2.0
Energy related GHG emissions (% of total)	77.6	76.9	77.7	80.2	80.6	81.0

Source: World Bank, Poverty & Equity and Macroecomomics, Trade and Investment Global Practices. Emissions data sources from CAIT and OECD.

RECOMMENDATIONS AND CONCLUSION

No Suspension of Fiscal Rules

Article 5 (2) of the Fiscal Responsibility Framework provides that:

"Subject to the Approval of Cabinet, the Minister may suspend, for a period reasonably required by exigent circumstances, the fiscal rules, quantitative fiscal objectives and other fiscal measures where:

a) A natural disaster has been declared pursuant to section 32 of the National Emergency Management Act; and
b) A public health epidemic has been declared …"

Notwithstanding this provision, and the fact that the country experienced both a National Emergency and a Public Health Epidemic; the Fiscal Rules, Objectives, and Other Fiscal Measures were never officially suspended.

The Government, notwithstanding its apparent inability to comply with the Fiscal Rules, quantitative fiscal objectives relating to sustainability and other fiscal measures due to the covid -19 pandemic and the other natural disasters, including the eruption of the La Soufrière volcano, it is still required in an economically challenging environment to introduce measures that will seek to achieve the fiscal targets mandated by the FRF. Any attempt to suspend the fiscal rules and to introduce a fiscal adjustment plan in order to make them more easily attainable or in recognition of the impact of the shocks in the economy, is only permitted where the compliance margin has been exceeded. Under the First Schedule to the FRF the compliance margin should not exceed 0.55%. The compliance margin is expressed as a percentage of the GDP. Hence, where the fiscal balance is less than 0.55% of the GDP, even if the fiscal rules and principles are not achieved, the Government will be prohibited from suspending the fiscal rules and principles and from introducing an adjustment plan. The GoSVG's actual fiscal performance for the year 2021 and the projections for the years 2022, 2023 and 2024 do not show that there is a compliance margin that is less than 0.55% of the GDP. Accordingly, In spite of the economic challenges within which the GoSVG is required to perform, the country is nonetheless producing an economic performance at a level which does not require the government to suspend the fiscal rules and principles in order to initiate an adjustment plan in accordance with Article 5 and the First Schedule of the FRF.

The FRM is committed to continue monitoring the efficient execution of the FRF to help the country's economy recover from the double effect of a global pandemic and a volcanic eruption.

Promoting Prudence and Enterprise in Fiscal Management

Recurrent expenditure is typically financed from current revenue and grants, and debt and grants have been used to fund infrastructure investment, particularly during contractions in the economic cycle.

Severe austerity measures are not appropriate for SVG at this stage in the economic cycle. Instead, sustained restraint in expenditure growth offers the most suitable balance between managing the economic and financial challenges. Additionally, it should be acknowledged that any reforms proposed would represent large structural and cultural change since meaningful levels and duration of expenditure growth restraint is unprecedented.

Addressing fiscal policy objectives without imposing austerity measures may require the Government to:

1. Operate within its budget and forward estimates allocations (which means virtually no expenditure growth for three years).
2. Limit expenditure growth over the projection period (2022-30) to no more than 3 per cent per annum. Achieving this outcome will require a combination of significant structural reform and prudent budget management to reduce expenditure by around $200 million over 3 years compared with a business-as-usual approach.
3. Build on the existing framework.
4. Adopting a Charter of Budget Discipline and improving the integrity of the budget process.
5. Revising budget settings and making ministers more accountable for operating within budget.
6. Manage the growth in public sector employee numbers and costs.
7. Reorganizing agencies under a single enterprise mindset to reduce duplication and maximize outcomes.
8. Improving the Management Information System.
9. Increasing the use of technology to deliver Government services more efficiently and effectively; and
10. Optimizing revenues, managing public investments in a commercial manner, and developing robust cost recovery policies with a focus on debt reduction. Fundamentally, agencies must operate within their budget and that budget should be set once a year through a robust budget development process. In comparison to other jurisdictions, there is scope to improve the Government’s longstanding approach to policy and budget development, the budget approval process, program monitoring and evaluation, and agency effectiveness and strategic alignment.

Promoting Prudence and Enterprise in Fiscal Management

Several recommendations can be rapidly implemented as part of the 2023 Budget. Others that are more complex and/or require legislative change and stakeholder engagement will require the development of detailed implementation plans, including change management and communication strategies. To support a sustained focus on budget repair across Government, a robust framework will also need to be established to monitor the implementation of the recommendations in this report. The framework will need to be underpinned by a strong governance model with clear lines of accountability.

Public Financial Management System

The Government utilizes budget modification instruments as permitted by the Constitution and the Finance Administration Act. The effectiveness of the fiscal strategy however, remains heavily influenced by Government's ability to follow the expenditure trajectory approved in the budget.

The fiscal responsibility framework requires a properly functioning public finance management system which includes

1. Credible budget formulation and preparation process–
    a) Ministries and Departments shall ensure that their budget submissions accord with the instructions of the Budget Circular, are timely and reflect the policy priorities of the Government.
    b) The Public Sector Investment Projects should be subjected to an effective process of evaluation to determine priorities;
2. Effective and disciplined budget execution – Revenues and expenditures shall be brought to account in a timely manner and budgets should be seen as reasonable and reliable.
3. Reasonably reliable debt, macroeconomic and fiscal forecasts – debt, macroeconomic and fiscal forecasts shall be prepared and updated on a regular basis based on the timelines prescribed in the Budget Calendar.

To improve the integrity of the budget process, the Government should adopt a Charter of Budget Discipline that, barring exceptional circumstances, would limit funding decisions to the annual budget development process.

Public Financial Management System (Cont'd)

The Charter of Budget Discipline would seek to change the current culture of budget management by:

1. Framing the budget around a statement of the Government's strategic priorities for the year ahead
2. Limiting funding requests outside the budget development process to exceptional circumstances and catastrophic events, including:
    a. mandating that all proposals with resource implications be vetted by the Budget Review Subcommittee of Cabinet;
    b. mandating that any submissions with resourcing implications be required to include offsetting savings;
    c. adhering to circulation timeframes for submissions with resource implications to support rigorous analysis;
    d. supporting well-considered policy making through reporting (such as key performance indicators).

Fiscal Strategy

The Government of SVG's current fiscal strategy comprises short and medium-term fiscal targets, with the twin objectives of supporting the economy in the short term and providing a pathway to a more balanced budget and reduced debt levels over the medium term. Given the magnitude of the fiscal challenges facing the country, achieving the fiscal objectives should be identified as the primary objective. The new strategy should adopt a more medium to long-term focus in recognition of the level and duration of reform required. Additionally, the strategy should more explicitly reference Government owned corporations in recognition of their impact on key public sector fiscal targets. The fiscal strategy should underpin resource allocation over the medium term, commencing from the 2023 Budget.

Expenditure

The Minister shall take appropriate measures to ensure that the growth in nominal current expenditure in a fiscal year does not exceed the growth in nominal GDP in that year.

	2020	2021	2022	2023	2024
CE Growth	6.9%	8.1%	0.6%	6.9%	3.5%
GDP growth	-4.2%	3.5%	8.0%	7.9%	6.6%

During 2020 with the Covid-19 pandemic and 2021 with the volcanic eruptions in addition to Covid-19, the GoSVG was unable, as seen in the table above, to comply with this requirement. However, based on existing projections, the Government is on target to comply from 2022.

Wages to GDP Percentage

The Minister shall take appropriate measures to ensure that the ratio of expenditure on the wage bill shall not exceed twelve point five percent (12.5%) of GDP from 2022 onwards.

	2020	2021	2022	2023	2024
Wages to GDP	13.1%	13.2%	12.3%	12.1%	11.6%

The Government projects that this target will be met in 2022.

Debt to GDP Ratio

The member countries of the Eastern Caribbean Currency Union ("the ECCU") have set a target of achieving a Debt to GDP ratio of 60% by 2035. The GoSVG has committed to achieve this goal, have advised the FRM accordingly, and provided us with the Medium Term Debt Management ("MTDM") strategy document covering 2021 t0 2023. In addition the MoF confirms that the borrowing plan for the medium term is heavily focused on external concessional borrowing with long maturity periods and low interest rates. In addition the MTDM document provided only included debt at 2020. As a result, there is insufficient detail to allow us to perform an accurate projection of debt management up to 2035. In this regard, we have asked that Government prepare a detailed Debt Management Plan up to 2035, setting annual targets, and to include expected borrowings, amortization and other transactions.

Debt to Equity Conversion and Debt Swaps

In order to stimulate tourism and encourage international hotel "brands" to operate in SVG, the GoSVG has borrowed for the purpose of investing in infrastructure including hotel plant. As an integral component of the effort to reduce debt, and encourage private sector investment in the tourism and hospitality sector, we propose that the GoSVG consider opportunities to reduce debt, by converting to equity from the public where appropriate.

The GoSVG may also consider exploring opportunities for Debt for Nature swaps with multi-lateral agencies and social impact investors such as The Nature Conservancy (TNC) which have engaged in such swaps with developing countries.

Pension Reform

Government pensions continue to account for a significant portion of annual recurrent expenditure. At the current level, the country cannot support this level of expenditure into the future without compromising expenditure on healthcare and other important areas. The GoSVG has announced plans to integrate the existing Government pension plan into the National Insurance Services pension plan, and we urge that this be performed as soon as practical.

Health Sector Revenue

Revenues collected from the public for the provision of health services are insignificant compared to the cost of providing these services. We recommend that the Government conduct a comprehensive review to identify opportunities to increase revenues. For example, there are a number of users who can afford to pay and there are users who are covered by health and medical insurance plans.

Skilled Workers

Unemployment remains high, but at the same time, there is a shortage of skilled workers, particularly in the construction field. Presently, there is a noticeable amount of building in progress, but certain types of skillsets must be imported. There is an urgent need for an evaluation of the pool of local skills, and the implementation of development strategies, including specialist training in combination with the SVG Community College to address the gap.

Small and Micro Enterprises

The PRYME ("Promoting Youth Micro Enterprise") project has been relatively successful in assisting Small and Micro Enterprise ("SME") development, however the lack of monitoring mechanisms is a concern. With the projected growth in tourism and hospitality, the demand for products and services from small and micro enterprises is expected to increase significantly. We recommend a defined policy and structured approach to SME development to assist this important but vulnerable sector manage the many challenges it faces.

Agricultural Sector

Much of the agricultural sector of SVG was devastated by the volcanic eruptions. Fiscal policies can help to create an enabling framework for a more sustainable agriculture and food production system, complementing other approaches including crop diversification to address local demand, and the needs of the expanding tourism and hospitality sector.

APPENDIX

The report of the Fiscal Responsibility Mechanism for 2022 assesses the Estimates of Revenue and Expenditure for the year 2023 against the general fiscal principles and rules and the Public Financial Management (PFM) framework established by the Government. The document contains recommendations to constrain growth in expenditure, enhance revenue collection and foster economic growth. In general, the Summary of Recommendations put forward by the FRM are largely in line with the existing plans and policies of the Government. The following table provides specific comments on the Summary of Recommendations.

Fiscal Responsibility Mechanism 2022 Report			
Summary of Recommendations with Comments the Government			
No.	**Theme**	**FRM Recommendation**	**Government Comments**
1	**Fiscal Policy and Strategy**	We recommend that the Government: • Exercise the required discipline needed to manage Expenditure in conformity with the established Targets and Guidelines; • Continue to implement global best practices in fiscal planning and revenue and expenditure management so as to improve the Public Financial Management System; • Promote prudence and enterprise in Fiscal Management; and • Adopt a Medium to Long Term Approach to Fiscal Policy.	The Government continues to pursue sound fiscal policy set within a context of a cohesive rolling medium term macro-fiscal framework which is revised annually to guide the medium-term expenditure plan. The public financial management system of Government is underpinned by established expenditure management practices aimed at ensuring prudence at the budget planning and execution phases. In 2023, technical assistance missions aimed at further improving the Tax Policy and Administration were undertaken. These missions provided useful recommendations which will help to enhance the performance of the tax system through policy changes and administrative improvements.
2	**Debt to GDP Ratio**	We recommend that the Government prepare a detailed Debt Management Plan to 2035, with defined annual targets; to include inter alia, expected new borrowings, anticipated debt and interest reduction, amortization rescheduling, as well as debt to equity conversion plans consistent with the Debt to GDP target set by the Government.	To prepare such a detailed budgetary plan for an extended period is not feasible as it requires extensive detailed forward planning in an uncertain environment which decreases the usefulness and effectiveness of the plan. However, the Ministry of Finance prepares, annually, a Medium Term Economic and Fiscal Outlook Report which addresses the broader fiscal policy context including the trajectory of the public debt and the annual primary balance required to achieve the target debt to GDP ratio of 60% by 2035. This allows for greater flexibility in creating policy that best responds to events in the short to medium term.
3	**Debt Swaps & Private, Public Partnerships**	We propose that the Government consider opportunities for debt swaps such as debt for nature swaps with Multilateral Agencies and Social Impact Investors and debt for equity swaps as potential avenues to reduce public debt where appropriate. The Government should also explore the use of private/public partnerships as a means of facilitating the provision of societally important and positively impactful goods and services, while containing public debt.	The Debt Management Unit of the Ministry of Finance aims to minimize the costs and risks of the public debt portfolio by pursuing loans and bonds that are low cost and low risk instruments and initiatives. Where appropriate, debt swaps and other similar measures are considered. It is important to note that most of the external public debt are contracted with multilateral creditors where loan terms are concessional. Debt swaps will not be advantageous in these circumstances. There is, however, scope to pursue debt/equity swaps. To this end, Government has already enunciated a policy to pursue such opportunities.

Fiscal Responsibility Mechanism 2022 Report			
Summary of Recommendations with Comments the Government			
No.	**Theme**	**FRM Recommendation**	**Government Comments**
4	**Pension Reform**	We recommend that the Government accelerate its plans for integration of the NIS and Government pension plans.	Pension reform is a top priority of the Government. The Government's pension reform measures will be further elaborated in Budget 2024.
5	**Health Sector Reform**	We recommend that the Government review user fees for health services to ensure that users who can afford to pay, or are covered by health insurance plans contribute more equitably to the overall costs. A system of means testing should be actively explored as a means of managing the critical health care budget.	The majority of current fees payable in the health sector are dated and have not kept pace with the cost of providing health care or individuals' incomes. The Government agrees that these fees should be reviewed while maintaining targeted support for the economically disadvantaged and elderly segments of the population. In recognition of this, under the World Bank-financed Strengthening Health Sector Resilience Project which provides for the construction of a modern Acute Referral Hospital at Arnos Vale, a comprehensive review of the adequacy of the fees levied within the sector will be undertaken. The results of this consultancy will guide the development of Government's policy in respect of hospital and other fees in the health sector.
6	**Develop Skilled Workers**	We recommend that the Government embark on development strategies, including skills alignment, focused training and certification, that target increasing the pool of skilled labour to reduce employment, drive economic growth and contribute to a prosperous environment.	The Ministry of Education and National Reconciliation, through the National Qualifications Department (NQD), has been making significant strides in the area of Technical and Vocational Education and Training (TVET) in the delivery of Level 1 and Level 2 CVQ certification to a large number of young persons. These efforts were further bolstered by the investments made by Government to upgrade various Technical Institutes in Kingstown and Georgetown, and the provision of additional training equipment for four Technical Institutes and Bequia Community High School. Plans are also in place to increase the training of more persons in areas where there are shortages of skilled personnel, including hospitality.
7	**Small and Micro Enterprises**	We recommend that the Government apply more resources to developing a sustainable and structured approach to SME development including improved access to finance, ICT support and other technical assistance.	Government agrees that the SME sector holds significant promise to increase employment and incomes amongst the youth population. To this end, additional measures to support programmes such as PRYME will be considered for implementation. Under Digital Transformation project funds are allocated to increase adoption of digital technologies, platform and digitally enabled business by the SME sector. The Centre for Enterprise Development and INVESTSVG will be further strengthened to provide support to the sector. Notwithstanding the above measures, government agrees that a comprehensive SME development policy is needed to guide the cohesive development of the sector.
8	**Agricultural Sector**	We recommend that the Government guide the post-volcanic recovery of this sector, and support crop diversification measures to support local demand and the anticipated growth in the hospitality and tourism sector.	Government is currently implementing several measures boost agricultural crop and livestock production and fisheries. Expenditure to enhance food production (crops and livestock) in direct response to the adverse impact of COVID-19 and the volcanic eruptions is currently being undertaken. The sum of US$10 million has been allocated for this purpose. The development of the Arrowroot factory and the fisheries fleet expansion programme are also ongoing. Food terminals for the aggregating of farm produce will be established across the island to facilitate commerce in agricultural commodities, reduce market and credit risks faced by farmers and improve marketability of farm produce.