

# Chapter 8

## Making Agriculture a Growth Sector

**Constraint:** *Confusing standards and lack of good advice suppress agricultural output and lower the prosperity of rural areas.*

### A. Recent Agricultural Performance Has Been Poor

Although output and exports from agriculture and fisheries have been in decline for a number of years, they account for 25% of the total output of the Tongan economy and 30% of total employment. The single largest agricultural market is in exports of Tongan squash to Japan. However, competition has eroded the ability of most Tongan farmers to obtain a viable income from selling this product to Japan. There has been market diversification in the form of baby squash exports to Korea and butternut squash exports to the United Kingdom, both of which show promise. More traditional Pacific Island produce (e.g., coconut and root crops) is exported to Australia and New Zealand, where the Tongan expatriate community prizes it.

As a result of low productivity Tonga's agriculture sector is not realizing its potential. Agriculture has the potential to expand exports and to provide jobs and higher incomes to large numbers of rural Tongans. Tonga has a good growing climate and is well placed geographically to serve winter markets in both the southern and northern hemispheres. High world prices for food will add to revenues from these activities and stimulate more agricultural production in Tonga.

All the problems of doing business more generally, as discussed in previous chapters of this report, are present in the agricultural sector, including access to finance, problems with property rights, inadequate infrastructure, and the role of the government. If it is to be productive, agriculture too requires a good

business environment. In this regard, the recent tax reforms, especially the lowering of import duties, should help agriculture by making it cheaper to buy imported inputs.

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### B. Problems Unique to Agriculture

But agriculture also has unique problems that merit special attention. The most important of these are:

#### Opaque Quarantine Regulations in Export Markets

Quarantine regulations in Australia and New Zealand present a major barrier to Tongan exporters: Their phytosanitary (plant disease quarantine) regulations governing agricultural imports are hard to understand and comply with. There are also reports that they are applied inconsistently. One solution would be for funding agencies to be asked for assistance in dealing with phytosanitary standards in Australia and New Zealand. If inspectors from these countries could spend time in Tonga providing hands-on training about compliance, much of the problem could be solved.

#### Poor Agricultural Extension Services

The advice and assistance provided by the Ministry of Agriculture's extension services have been inadequate. Often, agricultural extension officers employed by the Ministry

of Agriculture are not commercially oriented, nor do they have knowledge of the commercial requirements of farming. Often their advice is supply driven. It tends to favor crops the extension service thinks should be grown, whether or not there is a market for it.<sup>32</sup> One solution would be to make agricultural extension market oriented. It could be contracted out, with farmers deciding whether to pay for the services, perhaps on a matching grant basis with the government. This raises a more general problem. There are only a small number of full-time commercial farmers in Tonga. This shows that commercial agriculture is still in its infancy. Subsistence farming is an important food source and provides a safety net, but future expansion of agriculture depends critically on commercialization. To expand agriculture through commercialization, the guiding principle for agricultural policy formation must be that agriculture is the archetypical small enterprise sector. It should not be viewed as something unique because it involves cultivation. Farming as a business requires a well-functioning business environment.

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#### **Limited Access to Finance**

Agriculture is disadvantaged by a lack of access to finance. Crops cannot be pledged as collateral for loans. Reform of the collateral framework will help improve financing for agriculture by allowing equipment and crops to be pledged as security for loans.

#### **Poor Postharvest Facilities**

There is a treatment facility at the airport, but it is not functioning adequately. One solution would be to privatize postharvest facilities, perhaps initially by asking for minimum subsidy bids for providing equipment and services, subject to specific standards being met by operators of the facility.

#### **Government Provision of Farm Supplies**

Government provision of farm supplies is crowding out private sector involvement, while not adequately meeting the needs of farmers. The solution is to privatize the provision of agricultural supplies.

### **C. Summary of Recommendations**

- Contract out agricultural extension and the phytosanitary (plant disease control) processing for exports. At the same time, ask funding agencies for assistance in dealing with Australia and New Zealand's phytosanitary standards and related capacity building.
- Make the guiding principle of agricultural policy formation the idea that agriculture is the archetypical small-enterprise sector. Do not view it as a sort of special case because it involves cultivation. Improve the business environment for agriculture.
- Reform the collateral framework so that it allows equipment to be financed and crops to be pledged as security for loans.
- Privatize the provision of agricultural supplies.
- Privatize postharvest facilities to the extent possible.

<sup>32</sup> This is typical of agricultural extension services elsewhere. See ADB, 2007b. Samoa: *Consolidating Reform for Faster Growth*. Manila.