

## **Agricultural Finance in Tonga**

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## **1. Introduction.**

**Thank you Mr Chairman for your kind words and welcome.**

**Thank you also to the Organizers for inviting and accepting me to address you here today from the farmers' perspective on this rather important issue. I am honoured and humbled by your consideration.**

**Greetings from the Kingdom of Tonga and from the members of the Growers Federation – the organization I am here to represent.**

**I find it quite amusing that most, if not all of the things I intended and prepared to speak on have been covered efficiently by my fellow preceding speakers from the financiers, government and donors side. So I am quite convinced that my task now is to portray to you how those issues , now widely covered, are affecting us farmers, and how we farmers think of them. Remember that farmers are not thinking within the same context as most of you on the tertiary industries do.**

**On a personal note, I wish to admit that being here at the workshop saves me from the pain of wearing my farm boots and having to work in the heat of the sun on the field for a few days. For few days I am saved from the pain of having to constantly telling my 2 farm hands on a daily basis that I don't smoke – they consistently ask me for cigarettes. That is on top of paying them of course. Instead, I am here for a few days, dressed up nicely for a change, enjoy the air-conditioned surrounding of this conference and speak to you, a group of high calibre well educated and well informed audience. So I already have my prize!**

**Kindly please don't try looking at the screen behind me as you won't find anything there. As a farmer I don't do Power-point. But I promise you, like good old farmers normally do, that written copies of my presentation will be made available in the same manner as the other presentations' power-point material.**

**There are only 4 parts I will cover on this presentation. And I have just done the first in this introduction.**



## 2. Farmers' needs in the area of agricultural finance.

There is only one thing from this workshop that I need you all, from whatever discipline you are from, to know:

**“Farmers need Easy Access to Capital - to Finance!”**

Needless to say, the current situation is that we farmers have very difficult tasks of obtaining finance.

There completes the second part.

### 3. Main difficulties currently encountered by farmers in access to agricultural/rural finance.

- Availability (or more accurately, non-availability) of financing options.  
In the Tonga case where the SPBD Microfinancing is still in infancy and targeting only women's groups, TDB is the sole provider of finances to agricultural sector. That is, of course, if you are lucky to be given a loan. (We have just seen the statistics of TDB from the previous speakers on how high and good the liquidity is in Tonga, yet the number of loans granted is very low!) So farmers do not have many options to turn to as far as financing goes.
- Uncertainty surrounding loan repayment, as we have repeatedly heard from previous speakers, created the current Collateral Framework – a system which we farmers regard as very unrealistic, very complicated, very unfair and totally ineffective. Let me enlighten you a bit:
  - In the current system the financiers insists on farmers providing collateral equivalent to **several** times the value of the loan, thereby raising the risk of borrowing as well. Most farmers do not possess much assets acceptable for collateral.
  - Complicated issue surrounding real estate as preferred collateral. Most farmers do not own lands. There have many cases where financiers persist on farmers using their lands as security only to be turned when the Ministry of Lands vetoes the transaction for various land complications.
  - agreed term regardless of the natural disasters, political instability and uncontrolled situation.
  - Statutes and Laws (and Lack of them):
    - Land Act prohibits the mortgaging of crops. In countries with flourishing agricultural sectors, crop mortgages are a major source of financing for farmers. So for a country whose Agricultural sector accounts for 28% of GDP and the potential to expand, you couldn't ask for a more counter development Law.
    - Financial Institutions Act 2004 inhibits the establishment of a credit bureau which is an important part of modern financial system. A credit bureau connected to countries where Tongans migrate to should work in favour of low interest and expand financing to creditworthy farmers. Again, lack of credit information raises the risks of lending.
    - There is also the notion that Migration Laws should cater for movement of borrowers who move to other countries in the hope of not having to repay the loans they already have. The current trend of Tongans (not necessarily all of them farmers!) moving with ease between Tonga and other countries therefore generally turn down applications that are not secured by collateral.

Basically, what we as farmers are saying is this:

**“The current Collateral Framework in place is NOT working for us. It makes Financing too restrictive and un-accessible to the farming sector. Most farmers fail the first accessibility test for lack of collaterals well before the game starts. It is “Game Over” well before it even started. We are struggling with it because it is foreign to our standards and our mentality. It is too Western and too individualistically oriented in a Pacific environment. We are too concerned with risks, in case they might happen, and the financiers are not repaid as a result. So it seems that the approach we are struggling with in this context tends to be more from the “glass half empty” approach rather than from the “glass half full” context of things.”**

That leads me to the 4<sup>th</sup> and last part of my presentation:

#### 4. What do farmers expect banks, microfinance institutions and donors to do to improve on area of financing?

- The current problematic Collateral Framework in place, as we have repeatedly hear throughout today's presentations, does not even provide lenders with confidence that they can repossess and sell pledged assets in the event of defaults. So often we have seen repossessed homes after repossession left to deteriorate in physical state for years because the financiers could not sell them to realize their losses from default repayment. So why do we bother keep on adopting it if it does not work?
- Echoing President Reagan's challenge at the Berlin Wall in 1989: "...Gorbachev, tear down this wall..." we place this similar challenge in front of you today:
  - **"Reform the current Collateral Framework for the Agricultural sector!"**
    - Identify a specifically suitable package for the Agricultural sector only whereby the process of pledging assets as security for loans will be simplified and modernised or even abolished altogether.
    - Establish a model that is uniquely Pacifican in nature that still delivers the required repayment of the financiers while the farmers still retains their happy Pacific lifestyle.
    - Investigate the feasibility of adopting the concepts of SPBD microfinance pilot scheme. Perhaps sourcing and setting up of a "Sinking-turning-Revolving Fund" to cater for the collateral requirements for "qualified" farmers. We are not asking for unrealistic handouts. Rather, we asking for an alternative to Collateral which have been an **impediment** to our access to Finance, hence Development.
    - Simply, do something to alleviate the problems we face with this Western Individualistic non Pacific framework. (We as farmers don't have the silver bullet for the issue - You are supposed to be the educated experts).

So in closing this presentation I humbly wish to leave this with you:

**The farmers have already possessed the other resources for production: Land, Labour and the Willingness to make a difference in our respective economies. What we need as farmers is for you financiers and policy makers to come up with a more realistic Pacific Collateral Framework. We are not a Western individualistic society driven by profit or money. We are instead a Pacific community-based society who value success by the benefits being realized for the maximum possible members of the community. Let us all be equal partners in a Pacific Agricultural Finance model where we share equally in the glories of the success as well as equally in the demise that has been inherent in our Pacific experience. Let this gathering be the beginning of the historical achievement the Pacific Agricultural family has been waiting for all these time. Malo 'aupito!**