

Solution Exchange – Bhutan Consolidated Reply



Query: Innovation on Subsidies to Farmers - Advice; Experiences

Compiled by [Mamta Katwal](#), Resource Person
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From [Tshewang T.](#), Department of Livestock, Ministry of Agriculture, Sarpang
Posted 23 November 2009

Bhutan is predominantly an agrarian economy with more than 79 percent of the population deriving their livelihood from subsistence agriculture. The Ministry of Agriculture has provided different forms of subsidy to farmers, such as subsidies on fertilizers and pesticides, agricultural machineries, livestock inputs, free veterinary medicines and vaccines as well as subsidies on agriculture seeds and seedlings, fodder and pasture seeds.

These subsidies have enhanced domestic production for domestic market but have not been able to encourage rural farmers to enhance productivity in order to support growth-oriented enterprise. Most agriculture and livestock development activities are livelihood oriented and not oriented towards enterprise development. In addition, there are other limitations as well:

- Many farmers as cannot differentiate between subsidies and other services provided by the government. For example, the Department of Livestock supplies hundreds of piglets to farmers on a highly subsidized rate. These piglets should breed so that there is no need for further supply by the department. However, this is not happening. In fact, the demand for piglets is growing every year since farmers are of the notion that it is cheaper to buy them from the department. Largely, farmers do not consider subsidy as an opportunity to develop with its use, rather as their right, which the government should provide.
- Too much attention on production and less focus on other actors in the production chain, like processors, wholesalers and retailers, who play an important role in sustainable production and marketing.
- Short-lived markets for Bhutanese farmers, for example, the shortage of eggs and poultry meat in the country has urged farmers to invest heavily in these areas of shortage. Should the avian flu in India come under control, Bhutanese farmers will lose their current market. There is no safety net for farmers who will face challenges with cheap imports.

Innovation on subsidies and their implementation will surely develop our farmers. Hence, I would like members to please share their thoughts on the following:

- What can be done to make the current approach to providing and implementing subsidies more innovative?
- What measures can be undertaken to encourage farmers to progress into larger ventures?
- In addition, please also share any successful stories from other countries and regions.

Your invaluable contributions will be immensely helpful on building strategies on how should subsidies be provided which will reach the poor and contribute in enterprise building. The immediate use of your inputs will be in the implementation of OGTP (One Geog Three Product) strategy of the Ministry of Agriculture. The Department of Livestock will be encouraging contract pullet and piglet production program with farmers. The innovation to subsidy from members will be very useful in designing a model for contract livestock input production in Bhutan, which is sustainable.

Responses were received, with thanks, from

1. [Lekey Wangdi](#), Dzongkhag Administration, Haa
2. [Hans Van Noord](#), National Soil Services Centre (NSSC), Ministry of Agriculture, Simtokha, Thimphu
3. [Purna Chhetri](#), Renewable Natural Resource –Research Center (RNR-RC), Mongar
4. [Tshewang T](#), Department of Livestock, Ministry of Agriculture, Sarpang
5. [Tshering Dorji](#), University of Thai Chamber of Commerce, Thailand
6. [Shiriin Barakzai](#), Kier Construction, United Kingdom
7. [Ngawang Chopel](#), Dzongkhag Administration, Tsirang
8. [William Thorpe](#), Consultant, United Kingdom
9. [Sonam Yeshey](#), National Pension and Provident Fund, Thimphu
10. [Tshewang T](#), Department of Livestock, Ministry of Agriculture, Sarpang
11. [Yeshey Dorji](#), Photographer, Thimphu
12. [Peter Kurt Hansen](#), Ministry of Agriculture and Rural Development, Hanoi, Vietnam

Further contributions are welcome!

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Summary of Responses

The Ministry of Agriculture has provided different forms of subsidies to farmers; however, farmers have not been able to use them to enhance productivity towards support growth-oriented enterprise. In an effort to address this issue, the query poser requested members to discuss innovation and implementation of agricultural subsidies and ways to help rural farmers to enhance productivity to enable growth-oriented enterprise.

Some discussants urged the government to reduce **subsidy on agriculture inputs** and focus more on subsidy on marketing/market information and technical support. On the other hand, members also noted that if the government improved certain agricultural inputs, such as assisting in the creation of good water management and irrigation system, making breeding seeds readily available, and training farmers on integrated pest management, this would improve productivity. Referencing a cost benefit analysis of land management interventions, respondents pointed out that numerous sustainable land management interventions and incentives had provided farmers with long-term lasting benefits including requiring less labour, increasing yields, and improving the environment in terms of reduced soil erosion, improved soil moisture, better workability of the land, etc.

On similar lines, members raised concerns regarding sustainable use of the environment for agriculture. Subsidized paddy field expansion, irrigation and mechanization can negatively affect the environment. Therefore, the focus of subsidies, respondents argued must not just be on agriculture and productivity but also on environmental and cultural management. They felt that farmers must be involved in preserving the environment and cultural landscapes. Members shared an experience from [Switzerland](#) where the government paid the farmers for caring for the landscape and conserving the country's biodiversity.

A related concern highlighted the issue of rural-urban migration, and specifically the need to keep the farmers on their land to protect the environment. Increased rural-urban migration means less helping hands for the farmers and inundation of wildlife due to fallow farmlands abandoned by migrants. Curbing rural-urban migration is essential, discussants felt for agricultural subsidy to achieve the intended results.

Though the members felt the government's support to Bhutanese farmers as compared to other countries is minimal, they felt it is still important to inculcate a sense of responsibility regarding the "use of subsidies" among farmers. Taking into consideration **farmers' outlook on subsidies** and the **absence of formal criteria**, discussants suggested that a typical criterion should assess the minimum input to output ratio, include certain considerations for environment conservation, animal welfare issues and include some kind of payment to the Department of Livestock (DOL).

To advance **from subsistence to commercial production**, respondents explained it is essential to have a clear idea why and for what reason the government is providing subsidy. If the intention of subsidies is to make farmers self-sufficient market linkages do not need improving, but if the intention is to achieve national food security, a good national market and means of transport and storage of produce are necessary. Thus, the transition from subsistence to commercial farming requires a strong market demand for local produce. This necessitates proper information on structure and nature of demand, such as whether the demand is seasonal or year round or whether the demand is for local products. Members also felt to enable farmers to compete with the price of high demand imports in local markets; they must have competitive production costs and marketing techniques. The above are essential steps to reduce constraints place on farmers, and to enhance opportunities of local production.

In this context, members were of the opinion that it is essential to study the Indian market and its effect on local markets or even increase taxes on imported products to make local products more attractive, as a trial for increasing commercial production. On the other hand, members expressed the importance of enhancing and improving local production to meet local demand.

Additionally, discussants recommended distributing subsidized inputs to groups or associations of farmers in order to increase productivity and sustainability. On the other hand, members were also anxious that subsidies to associations of farmers might just benefit affluent farmers without out any value added production.

Another suggestion was to introduce export subsidy to encourage farmers to be more productive and competitive. Government could also buy products at the farm side as a way of indirect incentives of reduced/transportation costs. Other ideas included substituting traditional crops with new crops, which are cost-effective in terms of higher yield and labor, encouraging basic mechanization of farming and developing a Monitoring and Evaluation process to assess the effectiveness of subsidies.

With regard to **distribution of subsidized piglets**, members opinioned this strategy would result in inhibiting the production of piglets for sale by traditional backyard producers. A better option would be to provide subsidies aimed at building capacity of these backyard producers.

Respondents also shared various [publications and studies](#) on the issue of agricultural subsidies and cited **experiences from other countries** with agricultural subsidies. Specially, the experiences shared

describe a sustainable approach to managing the environment, agricultural market reforms, and creating a common agricultural policy.

Finally, members expressed the view that there was no clear approach to make farmers understand what subsidies are for and there existed no formal criterion for giving and receiving subsidies. Bhutan, they argued must find its own reasons and means for subsidizing agriculture. Being innovative with subsidies involves considering a wide range of activities such as the market for local products, technical support available, accessibility to markets, storage, as well as making farmers responsible for proper utilization of subsidy and subsequent increase in productivity.

Comparative Experiences

India

Indian Government Reforms Agriculture Extension Service to Improve Yields (from [Shirin Barakzai](#), Kier Construction, United Kingdom)

To realize agricultural potential and increase yields, the Indian agriculture extension service starting in the late 1990s engaged in major conceptual, structural and institutional changes. The changes involve decentralization of the service to the local level, adoption of pluralistic service provision and capacity training of farmers. The reforms have increased yields, and shown that improving agricultural productivity requires demand-driven, farmer-accountable and need specific extension services. Read [more](#)

From [Hans Van Noord](#), National Soil Services Centre (NSSC), Ministry of Agriculture, Simtokha, Thimphu

Switzerland

Management of Dry-Grasslands Preserve the Environment

Since Switzerland has a rich heritage of dry grasslands, instruments and regulations are in place by the Swiss Agency for Environment, Forests and Landscape for the preservation of dry, species-rich grasslands. The main instrument they have employed is a contribution of financial incentives for land management and ecological goals based on contracts with farmers. This has allowed for sustainable farming together with the preservation of environment and biodiversity. Read [more](#)

United Kingdom

Campaign to Protect Rural England (CPRE) and the National Farmers' Union (NFU) Promoting Sustainable Farming Practices, England

CPRE has campaigned to protect the unique character of English landscapes, which are highly valued by visitors, residents, and those working in the countryside. The NFU promotes traditional British farming practices. CPRE and NFU are working together to integrate agricultural production with natural beauty and wildlife. They are also working with farmers, because they feel farmers have a leading role to play in securing a sustainable future for England's beauty and diverse countryside. Read [more](#)

Africa

Reforming Agricultural Markets (from [Shirin Barakzai](#), Kier Construction, United Kingdom)

Since the early 1980s, almost all African governments have embarked on economic reforms programs to reduce state intervention in economy and to allow markets to play a larger role. In the agricultural sector these programs were designed to eliminate price control on commodities, reduce heavy taxation of agricultural exports, phase out subsidies on fertilizers and other inputs, and allow greater competition in agricultural markets. However, these measures have been highly controversial. Read [more](#)

Related Resources

Recommended Documentation

From [Shirrin Barakzai](#), Kier Construction, United Kingdom

Reforming the Agricultural Extension System in India

Discussion Paper; by Katharina Raabe; International Food Policy Research Institute (IFPRI), Development Strategy and Governance Division; July 2008

Available at <http://www.ifpri.org/sites/default/files/publications/ifpridp00775.pdf> (PDF; Size: 480 KB)

Discusses on the demand-driven and supply driven agricultural extension services in India and contains information on what works where and why, including subsidies

Reforming Agricultural Markets in Africa-Achievements and Challenges

Book; by Kherallah, Mylene and *et. al*; International Food Policy Research Institute (IFPRI); 2002

Available to order at <http://www.ifpri.org/sites/default/files/publications/fps38.pdf> (PDF, Size: 112 KB)

Evaluates the degree to which the reforms have actually been implemented, their impact on agricultural production and prices and the net effect on the well-being the people

Fertilizer Subsidy in Africa-Are Vouchers the Answers?

Case Study; by Nicholas Minot and Todd Benson; International Food Policy Research Institute (IFPRI); July 2009

Available at <http://www.ifpri.org/sites/default/files/publications/ib60.pdf> (PDF; Size: 213 KB)

Reflects the controversial issues surrounding the provision of a fertilizer subsidy, and urges the government to implement smart subsidies to avoid past mistakes

Sustaining Linkages to High Value Markets through Collective Action in Uganda

Paper; Collective Action and Property Rights (CAPRI); March 2008

Available at <http://www.ifpri.org/sites/default/files/publications/capriwp75.pdf> (PDF; Size: 360 KB)

Outlines how the use of collective and an iterative market-led learning process enabled a smallholder farmer's association to supply a perishable crop to a modern food outlet market

Development Strategies that Work: Countries Experiences Presented at the ECOSOC Annual Ministerial Meeting

Report; Economic and Social Council (ECOSOC)

Available at <http://webapps01.un.org/nvp/frontend!polCat.action?id=104>

Presents policies, related goals, lessons and good practices by Ghana, Bangladesh, Ethiopia, Tanzania to improve agricultural productivity for reducing poverty and stress on environment

From [Hans Van Noord](#), National Soil Services Centre (NSSC), Ministry of Agriculture, Simtokha, Thimphu

Cost Benefit Analysis of SLM (Sustainable Land Management) Interventions

Study; by Pema Wangdi National Soil Service Center, Ministry of Agriculture, Simtokha, Thimphu; 2009

Available at www.moa.gov.bt/nssc (As of 21/12/2009 - document will be uploaded under SLMP publications)

Study indicating the lasting benefits farmers receive in terms of livelihood and environment resulting from a number of specific sustainable land management interventions

The Management of Dry Grass Land - A Swiss Federal Program and its Local Practical Application

Article; by Guido Mase; Biotechnol-Agron-Soc-Environ (BASE); 2005

Available at <http://www.bib.fsagx.ac.be/library/base/text/v9n2/133.pdf> (PDF; Size: 248 KB)

Strategies by Swiss Agency for Environment Forests and Landscapes to preserve environment by basic payments by farmers for maintenance of land and financial incentives for ecological goals

Living Landscapes: Hidden Costs of Managing the Countryside

Report; Campaign to Protect of Rural England (CPRE) and National Farmers' Union (NFU); July 2006

Available at <http://www.nfonline.com/documents/NFU%20and%20CPRE%20report.pdf> (PDF; Size: 1.52 MB)

Studies English farmers and their landscape maintenance work, also shares information on funding and farming support payments to farmers for future landscape management

The Common Agricultural Policy (CAP) Explained (from [Purna Chhetri](#), RNR-RC, Mongar)

Report; European Commission Agriculture and Rural Development

Available at http://ec.europa.eu/agriculture/publi/capexplained/cap_en.pdf (PDF; Size: 460 KB)

Explains the features of the European Union's CAP that aims to support farmers' in producing high quality products and seeking new development opportunities

From [Mamta Katwal](#), Resource Person

Reforming Agricultural Subsidies- "No Regrets" Policies for Livelihoods and the Environment

White Paper; by Antonio La Vina , *et. al*; World Resource Institute (WRI); 2006

Available at http://pdf.wri.org/reforming_ag_subsidies.pdf (PDF; Size: 482 KB)

Outlines reforms on agricultural subsidies that have had a positive impact on farmers in developing countries; identifies areas to be addressed by policy-makers and funded by donors

Agricultural Subsidy and Environmental Change

Paper; by John Lingard; University of New Castle upon Tyne; United Kingdom

Available at

<http://www.wiley.co.uk/egec/pdf/GB403-W.PDF#search=%22agricultural%20subsidies%22> (PDF; Size: 38.7 KB)

Analyses the impact of agricultural subsidies on environment in that agriculture subsidy encourage wasteful use of materials, energy, natural resources and encourage over-production

Recommended Organizations and Programmes

From [Tshewang T](#), Department of Livestock, Ministry of Agriculture, Sarpang

Ministry of Agriculture, Royal Government of Bhutan, Thimphu

P.B. 252, Thimphu; Tel: +975-2-323765; Fax: +975-2-324520;

<http://www.moa.gov.bt/moa/main/index.php>

Ensures sustainable social and economic well-being of the Bhutanese people by providing adequate access to food and natural resources, including offering subsidies

Department of Livestock, Ministry of Agriculture, Royal Government of Bhutan, Thimphu

P.B. 252, Thimphu; Tel: +975-2-321142; Fax: +975-2-324520;

http://www.moa.gov.bt/moa/agency/agprofile_detail.php?id=3&agname=Department+of+Livestock

Promotes livestock rearing integrated with crop production. Produces inputs for distribution and sales to farmers for livestock and agriculture development

National Soil Services Center (NSSC), Ministry of Agriculture, Simtokha, Thimphu (from [Hans Van Noord](#), National Soil Services Centre (NSSC), Ministry of Agriculture, Simtokha, Thimphu)

P.B. 907, Thimphu; Tel: +975-2-351037; Fax: +975-2-351038; nssc@druknet.bt;

<http://www.moa.gov.bt/nssc>

Coordinates soil/land management research; and have two projects in Bhutan "Sustainable Land Management Project" and "Building Capacity and Mainstreaming Sustainable Land Management

Recommended Portals and Information Bases

From [Shiriin Barakzai](#), Kier Construction, United Kingdom

South Asia Pro-Poor Livestock Policy Program (PPLPP)

<http://sapplpp.org/aboutus/aboutsapplpp>

Develops programmes to identify good practices in livestock development, builds documentation capacity, and uses simple tools to sensitize communities, includes Bhutan in its geographic area

International Food Policy Research Institute (IFPRI)-South Asia Initiative

<http://www.ifpri.org/book-49/ourwork/program/south-asia-initiative>

Analyses emerging challenges to agriculture in this region such as trade-market reforms, agricultural diversification, institutional and pricing reforms, and sustainable use of resources

The Consultative Group on International Agricultural Research (CGIAR)

<http://www.cgiar.org/who/index.html>

Conducts research in agriculture, forestry, fishery and its priority areas include promoting economic development through agricultural diversification, and sustaining agricultural biodiversity

Global Subsidy Initiative (GSI) (from [Mamta Katwal](#), Resource Person)

<http://www.globalsubsidies.org/en/resources>

Provides information and tools on global subsidies, features a searchable database that relates to subsidies in the agriculture fisheries sectors

Related Consolidated Replies

Issues of Rural-Urban Migration, from Elizabeth Allison, Ministry of Works and Human Settlement, Thimphu (Experiences). Solution Exchange Bhutan, Issued 8 April 2008

Available at <http://www.solutionexchange-un.net.bt/ConsolidatedReports/cr-se-bhutan-08040801.pdf> (PDF, Size: 102 KB)

Explores challenges faced by rural-urban migrants and contains excerpts of detrimental effects of rural-urban migration rural farm lands

Producing High-Value Low Volume Agriculture and Forest Products, from Daniel Gustafson, FAO, New Delhi, India (Experiences). Solution Exchange Bhutan and Food and Nutrition Security Community, Solution Exchange India, Issued 28 May 2007

Available at <http://www.solutionexchange-un.net.bt/ConsolidatedReports/cr-se-bhutan-27040701.pdf> (PDF, Size: 196 KB)

Shares experiences and lessons learnt from initiatives and programmes in Bhutan in the production of high-value low volume agriculture and forest products

Responses in Full

[Lekey Wangdi](#), Dzongkhag Administration, Haa

Here are some suggestions and recommendations:

- The subsidy on the input should be reduced and more focus should be provided to subsidy on marketing. Input based subsidy should evolve into a Marketing based subsidy.

- Many people feel that the government is obliged to provide them subsidies. This mindset needs to change. People need to be encouraged to work toward economic production than just subsistence farming.
- For the last ten years, Ministry of Agriculture has been providing subsidy. But the benefit derived from it is very minimal. I will not say the programme has completely failed but it has not been a complete success too. More research is needed in this area to make it a success.
- Already initiated, the Ministry of Agriculture should continue providing subsidies to co-operatives and groups rather than individual ventures.
- The Bhutanese market totally depends on neighbouring countries. Sometimes due to low prices for locally produced commodities, farmers do not even recover the cost of production. This leads to reduced production. This has to be regulated and farmers should be given nominal profit all the time for long-term local production. In the initial stages, the government should be able to buy whatever the farmers produce and later explore ways to privatize this.

Hans Van Noord, National Soil Services Centre (NSSC), Ministry of Agriculture, Simtokha, Thimphu

I was glad to read Tshewang's query on subsidies to our farmers and ideas for innovation.

In addition to the subsidies named by Tshewang, the Ministry of Agriculture has supported farmers in the past to improve their land by giving incentives for each acre of steep land converted into terraced dry land or terraced wetland (chhuzhing). Large areas of paddy complex had been created in the Fifth and Sixth Five Year Plans (FYPs). The Sustainable Land Management Project (SLMP) of the Department of Agriculture hosted at the National Soil Services Centre (NSSC) has over the last three years given incentives to farmers to convert their land into a more sustainable form (e.g. from slash-and-burn rotation practice (ex-tsheri) to terraced dry land or for the establishment of hedgerows and stone walls to mitigate soil erosion).

It is true that these kinds of financial support to compensate for the arduous labour involved not always have a direct impact on cash income and do not directly contribute to "enterprise development". A recent study on cost benefit analysis of a number of specific sustainable land management SLM interventions shows that the benefits to the farmers are real and lasting and include both environmental impacts (reduced soil erosion, improved soil moisture, better workability of the land etc.) and livelihood impacts (less labour requirement because of fodder source close to homestead (hedgerows), improved yields, improved food security etc.).

Most SLM interventions are long-term and last over time and incentives for these are often labour intensive activities are therefore in my opinion justified.

Tshewang is right that farmers have grown accustomed to a system in which many inputs are provided to them at reduced price or even free. This can create a dependency syndrome referred to as "spoon feeding culture". One has to think more broadly regarding support to farmers through subsidies and incentives. One should encourage them to raise their production and grasps opportunities to increase their cash income and be more business-oriented, especially with all the access provided and market accessibility improvements of the last years.

At the same time, our farmers fulfill other crucial functions. They are stewards of our cultural landscapes; they manage to a large extent land and forests, provide many environmental services and feed a large portion of our population. Support to them for these crucial functions

has not reached our farmers, or only recently. This will be necessary to keep many of our farmers "on the land" and stop the rural-urban migration trend.

In countries with somewhat comparable landscapes as Austria and Switzerland (<http://www.bib.fsagx.ac.be/library/base/text/v9n2/133.pdf>) (PDF; Size: 248 KB), farmers are paid for contributing to landscape conservation and biodiversity support. In my native Holland, with a complete different landscape setting, many farmers are paid for their services to nature and biodiversity conservation. The European Union has large incentive schemes to farmers for "managing the country side" and "contributing to a more sustainable landscape."

Although the newly formed Watershed Management Division of the Department of Forest is just exploring the payments for environmental services in Bhutan, they could become instrumental for some of our farmers to continue to do what they always have been doing. Potential buyers identified are our hydropower facilities, tourism industry and drinking water consumers.

It is also important to note that the relative size of support to our farmers is minimal if we compare to most other countries where agricultural commodities are largely subsidized and farmers are often banking on fixed minimal rates for their produce (think of the infamous butter mountains and milk lakes the EU created through these subsidies). In other words, yes, we do spoon feed, but our spoons are rather small...

My response has been broader than the focus Tshewang has put on productivity, OGTP and enterprise development, but I think that the broader picture should be looked at when we discuss subsidies and incentives to our farmers.

Purna Chhetri, Renewable Natural Resource –Research Center (RNR-RC), Mongar

If we compare the Common Agricultural Policies (CAP) of European Union (EU), (http://ec.europa.eu/agriculture/publi/capexplained/cap_en.pdf) (PDF, Size: 460 KB), the subsidy provided to our farmers is minimal. We need to have a consistent planning of agricultural development in our country.

Agricultural inputs need improvement such as:

1. We need a good water management and irrigation system – I would suggest using pipe irrigation with galvanized iron (GI) pipes and the system should be looked after by water user groups
2. Breeding seeds should be readily available
3. Integrated pest management is a good option

Markets for agricultural products will improve if we have good production system in place.

Tshewang T., Department of Livestock, Ministry of Agriculture, Sarpang

I think the core issue in this discussion is making the subsidy component more innovative and efficient in the development process be it in Bhutan or in any other underdeveloped country.

Bhutan follows a policy which strives to balance economic development with spiritual well being of the people. The philosophy of Gross National Happiness is the main development mantra which is being practised in the country. The development strategies are simple, protect the natural environment for future, preserve the cultural identity, institute a good governance system

and implement a balance development in the country. These are the four pillars of Gross National Happiness.

Activities taken up for development are not different than any other developing countries; the only difference is the way how it is being implemented. In Bhutan the wellbeing of the poor people is taken as a priority in any development plans.

The innovation on subsidy is not only relevant to Department of Livestock (DoL); it has wider application on all three important departments under Ministry of Agriculture (MoA). Thus, my discussion is not restricted only to livestock development.

The question on self sustainability or national food security or international export, has not much to do with farmers and the subsidy at present. For me, it is not farmers who are confused rather it is the implementers who are confused with subsidy. The intention of subsidy is often not understood by the policy makers, which has confused farmers as their rights. In my view, many departments under MoA do not have a clear approach to make farmers understand what the subsidies are for; although many activities implemented gear towards similar goals of self sufficiency, food security and international export at the later stage.

DoL has subsidized the production cost on almost all the inputs which are being supplied to farmers. For example, if farmers are to develop pasture land, the department supplies free pasture seed, fodder seedlings and sometimes barb wire for fencing. To have higher milk production the department supplies free breeding bulls of exotic blood for cross breeding with local cows, supplies free veterinary medicines, supplies highly subsidised piglets and pullets so that farmers can produce pork and eggs.

Till now there is no formal criterion for receiving subsidy. Farmers with request and interest to rear animals or grow crops are provided with subsidies.

The DoL is trying to achieve self sufficiency in livestock products. At present niche market approach has long way to go. It requires special kind of strategy, and resources. It would be very nice to have an organic product chain which ends in global market. But the fact remains that we are not yet ready for such development. Over production and environmental issues as cited will not become a problem in Bhutan. The net consumer base inside the country is very small and competing in global market will only be possible on special products with low volume and high quality.

National food security should be looked from two angles, the food stock for urban dwellers who are the net consumers and the rural people who produce in subsistence for themselves. Even with subsidies on the home grown food it will be difficult to have food security. We have limited production capacity over the real potential that we possess. Imposing heavy tariff and tax will lead to more difficult situation, as we know that Bhutanese market for neighbouring country does not make a dent in their business.

Thus, I would like to request this forum to share ideas on ways to maximize production from the real potential that the Bhutanese farmers have in order to achieve our goal of food self sufficiency, security and international export.

[Tshering Dorji](#), University of Thai Chamber of Commerce, Thailand

A study of the market is necessary for farmers to extend beyond one's own arms. For instance, in my village, I have seen my relatives owning just a cow or two, which gave very little milk. In fact, the cost of maintaining the cows was higher than the returns.

If the demand for products is known, there will be a positive outcome. Market information is one of the most important elements that we should look at both in terms of demand and in terms of products on demand. Information regarding the market for dairy products and the assistance that farmers can get from the Ministry in marketing these products can be of help to farmers in setting up larger ventures.

If one starts a successful business, it does not take much time for other people to follow suit. Technical support is another area where the Government can help farmers.

Shiriin Barakzai, Kier Construction, United Kingdom

Further to [Tshewang's](#) clarification it seems that the issue of 'why' we provide subsidy has to be agreed by the decision makers. In some ways this may seem like a lot of effort when the aim of all activities is to reduce poverty, but unless all are clear on the goal – specific and not general programmes and activities may send confusing message to farmers.

Subsidy works towards more than one goal, but the 'design' of subsidy – how it is paid, who is eligible, how we will control the results – these need to be tailored towards desired outcome. Similarly, services which are currently provided free (100% subsidy) should be recognised and reviewed as to whether in fact this is the best approach (e.g. livestock insurance).

If the intention is only to make farmers self sufficient, then there is no need to improve market linkages. But if we want national food security then we need not only good national market network, but also means of transport and storage. If Ministry of Agriculture (MoA) is looking for full international market, then the work in finding and securing those markets becomes more important. Hence, there is a need to be clear of the ultimate goal so that resources can be allocated and collaboration between Ministries on formal basis be strengthened.

For some examples of experience from other countries refer to:

<http://www.ifpri.org/sites/default/files/publications/ifpridp00775.pdf> (PDF, Size: 480 KB) for India's reform to extension services and <http://www.ifpri.org/publication/reforming-agricultural-markets-africa> for Africa's reforms to agricultural markets. Any subsidy programme must obviously work hand in hand with other extension activities, as well as market access and technical interventions. The documents rarely talk about 'subsidy' as such or the detailed mechanisms of subsidy, but rather the various approaches to increasing access to inputs.

Ultimately, subsidies are not healthy for farmers or the economy and eat into government budget. See case study on phasing out subsidy in Africa, <http://www.ifpri.org/sites/default/files/publications/ib60.pdf> (PDF, Size: 213 KB).

However, some alternative solution needs to take its place such as microfinance. Even though this is not a core activity of the Department of Livestock (DoL), its success is one key factor to support or replace subsidy. This link provides a study on private sector support to fertiliser use in Kenya <http://www.ifpri.org/publication/private-sector-responses-public-investments-and-policy-reforms>.

With regard to market and trade policy, India's policies affect Bhutan when it comes to import/export tax, trade tariff, stabilising prices etc. We must fully understand India's position and policy if we want to consider subsidising goods for export. Conversely, if we want our home grown products to do well, then the government may need to restrict imported (and maybe subsidised) products or increase taxes so that our own products are more attractive whilst also raising money for increased investment and development in related activities. Hence, there is a

need to really understand our neighbour's view and potential consequences if we were to trial such an idea.

Bhutan has already considered the issue of High Value products, as it is very difficult for us to compete with India and Bangladesh on mainstream products. Although this does not directly relate to subsidies, it does focus attention on products where we can 'add value', but they require consistent quality and quantity which we are not yet able to achieve on wide scale. Also such products are usually only for outside consumption and so would not assist in achieving goal for national food security. <http://www.ifpri.org/publication/sustaining-linkages-high-value-markets-through-collective-action-uganda>.

For most of these documents and many others – see IFPRI website – the International food Policy Research Institute www.ifpri.org

UN livestock farming lessons learnt show heavily that microfinance is a huge factor <http://webapps01.un.org/nvp/frontend!polCat.action?id=107&tab=lesson>

For other ideas, Food and Agriculture Organization (FAO) website has a pro-poor livestock policy programme where amongst the usual support to cooperatives, and trying to improve market linkages they support protection from subsidised imports, implementing national quality standards. However, there are few cases where they explicitly cite subsidy approaches, usually considering a range of activities to achieve the stated aim; policy briefs and working papers are downloadable from each page.

However, I note that Tshewang said that currently farmers do not have to fulfil any criteria to be eligible, and maybe this is one of the problems we have at the moment. We are providing all benefits but no responsibilities. Typical criteria are: minimum output/input ratio, environmental management and protection, animal welfare issues, subsidy level dependant on which products, requirement to give back 1 replacement animal at end of year to DoL.

Tshewang notes that environmental issues and overproduction will not become an issue – maybe not on the same scale as for developed countries – but farmers are one of the custodians of the country and we already have many threats to the environment from erosion and climate change, as well as other development activities like road and town construction. Management of the environment as whole must be included as part of the criteria when giving subsidy as noted by Hans in his response.

Other useful links are mentioned below:

Pro-poor policies in rural Peru for example- no tax on home produced dried meat http://www.fao.org/ag/AGInfo/programmes/en/pplpi/docarc/pb_wp32.html

Livestock Policies and Poverty Reduction in Africa, Asia and Latin America http://www.fao.org/ag/AGInfo/programmes/en/pplpi/docarc/pb_wp27.html

Priorities and Challenges for Pro-Poor Livestock Policy http://www.fao.org/ag/AGInfo/programmes/en/pplpi/docarc/pb_ipalpsenegal.html

Please also see p. 48 of the FAO document http://www.fao.org/ag/AGInfo/programmes/en/pplpi/docarc/pb_wp10.html

Ngawang Chopel, Dzongkhag Administration, Tsirang

I would like to supplement to what [Lekey](#) has mentioned about a need to change the mindset of the people. Instead of considering subsidy as a fundamental right, farmers need to utilize the subsidy diligently into increasing their production.

When distribution of inputs are made to individuals, they tend to produce less or just enough for self-consumption due to scarcity of resources such as land, labor and other factors like differences in the implementing capacity of individuals.

In this regard, I would like to reiterate the point already suggested in one response: it would be better if subsidized inputs are distributed to groups or associations of farmers. These groups can not only increase productivity but also be able to further distribute the inputs. Groups/associations can be the best solution for sustainability.

[William Thorpe](#), Consultant, United Kingdom

The question raised about the value and targeting of subsidies to agricultural production in Bhutan is challenging, particularly given the market environment in Bhutan.

As the commentator in his "supplementary information" points out, an important step will be better defining what the Ministry of Agriculture (MoA) is expecting to achieve through the subsidies.

Are the subsidies targeted at alleviating poverty or, as seems more probable from the way the subsidies are currently implemented by MoA, supporting the move from subsistence to commercial production? Of course the latter, as shown in many countries, tends to subsidize producers with more resources (those more able to take risks) and to penalize the resource-poor households who, because of their circumstances, are more risk-averse.

The case of distributing subsidized piglets (produced by Government farms) is mentioned: an obvious consequence will be inhibiting the production of piglets for sale by traditional backyard producers. Targeting subsidies at building capacity amongst backyard pig breeders would seem more appropriate.

To successfully support the change from subsistence to commercial production will require that there is a strong market demand and that the demand can be met profitably by local production. Knowing the structure and nature of the demand will be key: e.g. is the demand for locally-slaughtered fresh meat, or can the demand be met by imported meat, which is often available more cheaply? And is the demand seasonal or year-round etc.?

Carefully working out the local costs of production and marketing and relating these to the cost in local markets of the competing imports (e.g. beef, chicken and pig meat and chicken eggs from India) will be key to identifying both the constraints that limit local competitiveness and the opportunities for improving the productivity and profitability of local production. In many cases it appears that this information is not available. Note that here, costs of production and marketing relate not just to financial costs (including accessing labour and other inputs) but also to "hassle" factors and to the risks inherent in supplying distant markets.

A related key step is developing a participatory Monitoring & Evaluation (M&E) process to critically assess the effectiveness of any subsidies. Having community-based M&E addressing a specific value-chain (e.g. the production and marketing of pork), will help highlight what are a community's needs and how the community can work effectively with the public and private sectors to address their needs.

In summary, therefore, I would suggest that the challenge is to, first, state clearly the objective being sought through the provision of subsidies, second, ensure that any subsidy programme is well-founded in market principles and, third, have the programme's M&E in the hands of the intended beneficiaries.

Sonam Yeshey, National Pension and Provident Fund, Thimphu

The Ministry of Agriculture has played an important role to uplift the livelihood of rural farmers by providing subsidy. On the other hand, Subsidies can also have certain damaging effects:

1. Subsidy can benefit many affluent farmers without much value added production in the economy. Subsidy to farmers' associations will have similar effects.
2. Most farmers have started to trade in local markets. Yet, many farmers suffer from prices far below the cost of production, lost market shares and competition. As a result, they lose the motivation to continue production after few years.

Taking the above points into consideration, I have mentioned certain steps below to make agricultural policy viable and beneficial:

1. Poverty reduction and food security in line with the 10th Five Year Plan should be the main focus
 2. There is a need to streamline support to needy farmers to improve their livelihood rather than to large-scale corporate farmers
 3. Pursue a strategy to increase competition by a combination of export subsidies (this will encourage farmers to produce, sell and be competitive)
 4. Market-price support and farm payment for products can be more beneficial. Government could buy commodities at the farm side. This would provide indirect incentives to farmers in the form of free/reduced transportation cost.
-

Tshewang T., Department of Livestock, Ministry of Agriculture, Sarpang

The recent development in Bhutan on poultry egg and chicken production has taken the egg and chicken lovers by surprise. Due to ban on import of poultry products from India after the avian flu outbreak, market for locally produced egg, has soared up with high demand.

The twist in the farming system and overnight change in the attitude of farmers towards higher demand for pullets and broiler day old chick from government farm is surprising. In the past, the department of livestock had difficulty in motivating farmers to take up poultry farming. Today most farmers want to rear poultry birds for egg and meat production forcing the Department of Livestock to increase its capacity to supply subsidized inputs at higher level.

My point in this brief situational analysis about booming up poultry farming in rural Bhutan is to make the readers aware that farmers ***are motivated by market not by the value of subsidy*** they receive on cost of birds.

However, the market created due to ban on import from India is temporary. Farmers are now losing money on cost of production when import of poultry products from India is being lifted recently. Local produce cannot compete with the cheap import.

What will happen to the investment made by farmers on poultry farms, investment made by government on higher input production?

Therefore, I strongly believe that the biggest subsidy should be on market positioning to upscale local production regardless of competition from cheap imports. Many high-end institutional consumers (hotel, resorts etc) are out of reach to small producers. Bhutan has enough market for local production; the small producers need more attention from government to correct the mismatch in production, volume, quality, time and price.

As pointed out by members, the government should study market, and build a strong market institution, which can channelize the local produce to end consumer making the producer feel the minimum hassle of production and earn a fair margin.

Yeshey Dorji, Photographer, Thimphu

I know that there are many reasons why the government must provide subsidy. To me, two of the most important considerations must override all other reasons and those being:

- At the top should be to thwart rural-urban migration. This problem is getting very severe and needs to be controlled
- To make farming lucrative, a means of earning a dignified livelihood and generating employment. We need to re-define farm work

Increasingly, rural-urban migration is becoming a serious problem. We are fully aware of the problems associated with mass movement of rural people to urban centers. I still hold the view that being prepared for the population shift is not the way to go - but finding ways and means to make living in the rural areas attractive and worthwhile so that people do not migrate to urban centers.

The Ministry of Agriculture, all by itself, is not going to be able to tackle this problem. The provision of subsidies is not going to be very effective if the rural population is not going to continue to inhabit their rural homes and lands. In my view, the Ministry of Education and Ministry of Trade should play a role in this too. It is important to remember that the subsidy will have mass appeal only when the mass remains in the rural areas. As long as we do not check rural-urban migration, the subsidy program will fail to achieve the intended results.

We are still very traditional in the way we do our farming. Unlike in the past, all the able-bodied children and youth are now enrolled into schools and colleges. This has left the farmers without any farm hand to help them do their farming. Over the years, farming has lost appeal not only because of the shortage of labor but also because income derived from farming is not commensurate with the effort that goes into it. Additionally, the rural population has developed the misconception that the urban centers offer activities that are more lucrative than farming. This rural-urban migration has thrown up another problem for the farmers - inundation by wildlife - because of the adjoining farms being left fallow by migrant owners.

Therefore, two things need to be done:

- Float the idea of substituting their traditional crops with something new and different, something that has higher yield and value and need less manpower.
- Encourage basic mechanization of farm activity - but not too much.

Let us completely rule out the prospect of Bhutanese farm produces ever becoming competitive against competing producers - such as our extended home market - India. We have been trying this since the mid 70's. We can never hope to achieve scales of economy given our volume. This

is not to say that we cannot find a market for our farm produces in India. What I am saying is that large-scale commercial production where we base export market as our primary market - has to be ruled out, at least for the present. Therefore, providing subsidy to encourage such a production base is the wrong approach and must not be considered. What has to be considered is how best to encourage production to meet the local demand which is very substantial.

One of the things that we need to remain totally focused (for the time being at least) is that - we are not into the business of creating mega producers. We must attempt to create satisfied and happy farmers all across the country – in every village and Gewog and Dzongkhag. The idea is to keep the farmers doing brisk business producing farm produces in their villages and not overcrowding the urban centers. Buying commodities at the farm side was tested before and it did not work out positively.

At the policy level, there is a need for the government to formulate rules and regulation that will facilitate and encourage dynamism and creativity.

Peter Kurt Hansen, Ministry of Agriculture and Rural Development, Hanoi, Vietnam

Bhutan ought to find its own reasons and means of subsidizing farming. For many years, RNR subsidies have followed conventional strategies of supporting production and productivity increases, but farmers have nevertheless been unable to substantially change their circumstances.

Moreover, subsidized paddy field expansion, irrigation systems, mechanization, farm roads, and agrochemicals have had a detrimental effect on the environment, while culturally based landscapes, food and materials are disappearing. Farm subsidies would be better spent on measures that take a more inclusive view on agricultural, environmental and cultural management.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange Bhutan at se-bhutan@solutionexchange-un.net.bt with the subject heading "Re: Query: Innovation on Subsidies to Farmers- Advice; Experiences. Additional Reply."

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