



# Incentive Scheme for Market-led Production of RNR Commodities

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**Department of Agricultural Marketing and Cooperatives**  
**Ministry of Agriculture & Forests**  
**Thimphu, Bhutan**

PABX: +975-2-322909, 335741, 331638 Fax: +975-2-324898  
[www.agrimarket.gov.bt](http://www.agrimarket.gov.bt)

# **Incentive Scheme for Market-led Production of RNR Commodities**

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## **1. Background**

The RNR Marketing Strategy 2021 has identified "promotion of market lead production" as one of the strategies to strengthen the production and marketing of RNR commodities. Towards this, the incentive for production of market lead RNR commodities scheme is being introduced.

The scheme is aimed at incentivizing farmers to promote production of RNR commodities that contribute towards achieving national food security, have better nutritional value, have potential for higher incomes to farmers, and enhance import substitution and export promotion. The scheme will compensate farmers, at a pre-determined price, should there be no demand for RNR commodities produced or the prevailing market price is less than the cost of production.

## **2. Definitions**

The Incentive Scheme for Market-led Production of RNR Commodities is defined as a scheme to compensate farmers producing prioritized RNR Commodities, identified under this scheme, and for which the market price is lower than the cost of production.

RNR commodities will include both agriculture and livestock products.

RNR commodities is defined as those commodities that contribute towards achieving national food security, have better nutritional value, have potential for higher incomes to farmers, and enhance import substitution and export promotion. The commodities will be identified by Task Force.

The Cost of Production is defined as the investment amount made by the producers in producing unit volume of RNR commodity. The Cost of Production shall be determined by the concerned technical department on regular basis following their standard technical procedure. It includes all costs incurred starting from land preparation for sowing till the produce is harvested and made ready for marketing.

### 3. Objective

The Scheme shall be pursued with following objectives

- 3.1 To promote market led production of RNR commodities.
- 3.2 To compensate farmers if the market price of prioritized products is lower than the cost of production.

### 4. Market Lead RNR Commodity Categorization

RNR Commodities as defined under definition section above, is categorized under three categories as follows. The commodities under each category shall be identified by the Task Force, annually.

- 4.1 **Category A:** Under this category, commodities that have shortage of domestic production, requires import, essential in our dietary habit and with nutritional value, shall be considered. RGOB shall consider to offer 10-20 percent higher than cost of production (COP), with exception of winter chili with 200%.
- 4.2 **Category B:** Under this category, commodities with export opportunities, import substitution and that are on promotion by the technical departments for food security, shall be considered. RGOB shall offer buyback price at par with COP.
- 4.3 **Category C:** Under this category, RNR commodities that are commercially grown by farmers as cash crop but not necessarily contribute to import substitution nor essential for dietary habits, shall be considered. RGOB shall offer BBP of 30-50% lower than COP.

### 5. Price and commodity determination

A Task Force led by DAMC and members from FCBL, DoA, DoL and PPD, MOEA, Producers Representative shall identify the commodities for this scheme and determine the annual **price, minimum volume required** and its **quality parameters** in November each year. DAMC shall seek Ministry's approval and endorsement on the commodities and price determined by the Task Force, and shall notify to the public and stakeholder agencies in December each year.

The Task Force shall consider factors including COP, Market Opportunities, Importance of commodity from national food security perspective, nutritional value and import substitution in determining the commodities and its proposed price.

## **6. Implementation modality**

- 6.1 DAMC shall be designated as overall Coordinator and Facilitator, Dzongkhag Administration as Collaborator, and FCBL and/or any identified agency (SOEs/Coops/Associations/ Private entity) as Implementor.
- 6.2 The Dzongkhag Administration shall initiate with formal communication to MoAF justifying the need to invoke this scheme.
- 6.3 DAMC shall review the case and if found valid, propose to issue instruction for application of this Scheme to FCBL and/or any identified agency (SOEs/Coops/Associations/ Private entity), by the ministry
- 6.4 DAMC shall concurrently propose budget requirement (either ODF or dedicated budget maintained by MoF) and release to FCBL and or any identified agency.
- 6.5 FCBL and/or any identified agency, shall identify suitable collection centers, depute required HR, and implement the scheme.
- 6.6 FCBL and/or any identified agency, shall explore and market the produce in the potential markets, both export and domestic markets.
- 6.7 FCBL and/or any identified agency shall submit a comprehensive report of scheme implementation of every commodity to DAMC for onward submission to the government.
- 6.8 DAMC shall monitor the scheme implementation and provide intervention and support to FCBL and/or any identified agency, wherever necessary.
- 6.9 DAMC shall produce the Annual Report of the scheme.
- 6.10 All stakeholders shall make every effort to avoid losses. However, should there be losses due to unavoidable circumstances, DAMC shall make recommendation for loss compensation to be reimbursed by the Government.

## **7. Budget requirement for the Scheme**

RGOB shall arrange budget requirement for this and its related expenditure. It can be either arranged as interest free ODF or maintain an annual dedicated budget with MoF (at least Nu. 100 million considering past budget requirement for buybacks) which can be used as and when buyback is implemented.

## **8. De-risking mechanism**

In order to minimize the losses from this scheme implementation, there is a need to invest in storage facilities, value addition, processing and other post-harvest infrastructure.

Simultaneously, there is also a need to explore alternate markets in other neighboring countries.

## **9. Miscellaneous**

- 9.1 The scheme shall be implemented strictly based on this concept, unless otherwise, there is written directives from the government
- 9.2 Notwithstanding the annual price determined by the Task Force, the ministry can entrust the same task force for price revision as and when the situation demand.
- 9.3 Should there be any profit earned through this scheme in any of the commodities, the loss compensation shall be adjusted in the next budget release for this scheme.

**DAMC**  
**October 2021**