

**DRAFT RNR MARKETING POLICY OF
THE KINGDOM OF BHUTAN, 2016**



ROYAL GOVERNMENT OF BHUTAN

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ACRONYMS

DAMC	Department of Agricultural Marketing and Cooperatives
DoA	Department of Agriculture
DoFPS	Department of Forests and Park Services
DoL	Department of Livestock
EDP	Economic Development Policy 2010
FYP	Five-Year Plan
GNH	Gross National Happiness
MoAF	Ministry of Agriculture and Forests
MoEA	Ministry of Economic Affairs
MoF	Ministry of Finance
NGO	Non-Government Organization
RGoB	Royal Government of Bhutan
RNR	Renewable Natural Resource
RNR MP	Renewable Natural Resources Marketing Policy

1. Introduction

The renewable natural resources (RNR) sector in Bhutan comprises agriculture, livestock, and forestry. RNR is a primary sector and provides employment and livelihoods for more than 62% of Bhutan's population. In 2014, it contributed 16.8% of gross domestic product (GDP) (10%, 4%, and 3% from agriculture, livestock, and forestry, respectively) and in 2011, 4.3% of exports. Agriculture and livestock, supplemented by collection and utilization of non-timber forest products (NTFPs), dominate livelihood, employment, and income in the farming community. Thus the RNR sector has an important role to play in achieving the national objective in the 11th Five-Year Plan (2013–2018) of achieving self-reliance through inclusive green socioeconomic development.

Bhutan's two main cereal crops are maize and rice (75,715 t and 75,228 t respectively in 2013), with smaller amounts produced of buckwheat, wheat, barley, and millet. Most cereals are consumed domestically, but domestic production is insufficient and Bhutan imports sizeable amounts of rice (69,885t) and wheat/barley (22,690t) to supplement domestic production. Bhutan also produces fruit such as apples (8,321t), mandarin oranges (33,469t), and arecanut (6250t) and vegetables, especially chilli (7,852t) and potato (50,390 t). Overall, Bhutan is a net exporter of fruit, mainly to India and Bangladesh, with 30,221 t (4,314 t apples, 24,975 t mandarin oranges, 932 t areca nut) of the annual production of 47,752t exported and only 1,905 t imported. Imports of vegetables amount to 8,259 t, mainly during the winter months.

Bhutan's main livestock products are dairy (milk, butter, cheese), eggs, meat (beef, pork, yak, chicken, mutton), fish, and wool. Bhutan is a net importer of most livestock products apart from eggs, indicating that there is a substantial domestic demand that needs to be met before there can be a significant expansion of exports.

The main NTFPs produced are mushrooms, cordyceps, and medicinal plants. Bhutan is essentially a net exporter of these products, with 3t, 1t, and 24 t exported respectively, in 2014.

A Vision for Peace, Prosperity and Happiness (Bhutan 2020) and the Economic Development Policy of Bhutan (2010) recognize the RNR sector as the backbone for socioeconomic development in the country. The emphasis is deepened by the role RNR can play in economic growth, poverty reduction, and import substitution as well as its potential to narrow the trade deficit.

The role and importance of RNR marketing policy is indicated by the recurring global food price spikes which affect most smallholder farmers in developing countries. Such tendencies are on the increase due to rapid global economic integration. Bhutan is a signatory to many regional and international treaties and conventions and RNR marketing

policy seeks to align and position the RNR sector along these changing market and policy dynamics lines.

Bhutan stands to benefit from being a member of regional trade agreements, for example, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the South Asian Free Trade Agreement (SAFTA). A sub-regional cooperation among Bangladesh, Bhutan, India, and Nepal (BBIN) on water resources management, power grid connectivity, multi-modal transport, and freight and trade infrastructure would further help Bhutanese RNR marketing.

The domestic marketing of local RNR products is serviced mainly through roadside market sheds, sales counters, weekly markets, rural and urban markets, and auctions by growers, individuals, vendors, and farmer groups/cooperatives. Exports take place mostly through exporters, individuals, entrepreneurs, and farmer groups, either by road or air.

Unlike in the past when the RNR sector was simply production oriented and the roles and functions of marketing were relatively insignificant, the RNR marketing policy (RNR MP) strives to integrate market-led strategies with public policy to enhance rural livelihoods and poverty alleviation.

The RNR marketing policy covers those areas where the state assumes primary responsibility for providing support to enable smallholder crop, livestock, and NTFP producers to commercialize their production and add value to their primary products. This document spells out the key policy interventions and instruments to be applied by the Royal Government in the marketing of RNR products. Such interventions include the promotion of fair competition and pricing; the formulation and application of tariff policy; the facilitation of access to markets; the provision of marketing information; the provision of RNR marketing infrastructure and logistics; the establishment of RNR marketing cooperatives, commodity associations, and other groups; the building of marketing capacity and skills; and the facilitation of provision of marketing finance for the RNR sector.

2. Rationale

Bhutanese RNR marketing is characterized by market fragmentation and inefficiency leading to a mismatch between supply and demand. At the same time, the growth pattern and changes in the domestic economy underline the need for the RNR sector to be more competitive. The main reasons for preparing this RNR marketing policy can be summarized as follows:

- Improved RNR marketing can enhance Bhutan's ability to utilize its seasonal and agro-climatic comparative advantages in agriculture in general and in some niche RNR products in particular.

- Improved RNR marketing can enable RNR sector to play an important role as an engine of growth and development.
- By stimulating growth and employment opportunities in the rural sector, enhanced RNR marketing can support the process of slowing down the rural-urban migration phenomenon.
- A balanced and carefully targeted RNR marketing policy can enable smallholder farmers to contribute to household and national food security, social stability, and harmony.
- An RNR marketing policy has the potential to generate more balanced national growth and development.
- Livelihood activities in the RNR sector are transforming from a primarily subsistence to a primarily commercial and market orientation, leading to transformational growth and improvements in the rural economy in particular and the national economy in general.

3. Policy Context and Guiding Principles

There are many policy and legislative frameworks that influence the way in which this RNR marketing policy has been formulated and the way in which it will be implemented. Considerations of this overall policy environment are clustered around six areas:

Constitution of the Kingdom of Bhutan and the Development Philosophy of Gross National Happiness (GNH)

The Constitution places an onus on RNR research to become a part of the solution in meeting the obligations of practising sustainable development and the conservation of natural resources. At the same time, RNR marketing can contribute to the aspirations of the four pillars of GNH and specifically to economic development.

The National Five-Year Plan (FYP 2013–2018) and Economic Development Policy (EDP 2010)

These two national medium-term policy documents provide the operational guidelines for initiating development processes in line with the constitutional requirements and the pillars of GNH. Under these, the Department of Agricultural Marketing and Cooperatives (DAMC) prepares a five-year plan for agricultural marketing and cooperative activities. This constitutes a part of the Ministry of Agriculture and Forests (MoAF) sector-wide RNR plan, which is in turn integrated into the national FYP. The EDP provides the framework for economic growth and identification, planning, and implementation of development-oriented programmes and activities.

Policies and legal frameworks of the MoAF

The MoAF has prepared and/or is in the process of preparing policies related to various subjects under its mandate, such as forests, biodiversity, nature conservation, food security, livestock, plants, seeds, pesticides, and research. The RNR marketing policy is designed to be mutually responsive with the other policies of MoAF and the government.

Policies and legal frameworks from other Royal Government of Bhutan (RGoB) sectors

There are a number of policies on subjects such as water, environment, health, trade, intellectual property rights, and foreign direct investment (FDI), which are not under the direct purview of MoAF but need to be taken into account in RNR marketing policies, programmes, and activities.

International declarations, caveats, and conventions

Although Bhutan is not a signatory to World Trade Organization (WTO) protocols, Bhutan has made some other regional and international commitments which the RNR MP should take due consideration.

Cross-cutting issues

The major cross-cutting issues are gender, youth, and the environment. These are important global issues that need to be considered while developing marketing strategies and programmes. The main challenge is ensuring proper coordination and mainstreaming to foster synergies, minimize adverse effects, and capitalize on the positive effects in RNR marketing.

Overall guiding principles for RNR marketing

The overall guiding principles for RNR marketing policy (RNR-MP) are as follows:

- Government interventions should be limited to the correction of market imperfections to promote comparative and competitive advantages in resource allocation and mitigate socially unacceptable practices.
- Government interventions should give preference to targeted non-market instruments rather than direct price interventions.
- The RNR-MP should forge partnerships between government and international non-government organizations (NGOs), the private sector, cooperatives, producer and marketing groups, and individual producers and marketers.
- The RNR-MP should embrace a whole value chain approach to ensure commercialization, specialization, and profitability of operations.

4. Vision, Mission and Objectives

Vision

Within the framework of GNH policies, to build a competitive and efficient marketing system for RNR products.

Mission

- Develop RNR marketing systems to stimulate production plans in consonance with the domestic, regional, and global market dynamics
- Enhance competitiveness and fair pricing of RNR products and protect the Bhutanese RNR sector
- Create conducive environments to promote equal participation and access by all players across the RNR value chain to increase exports and substitute imports
- Contribute to the growth of an entrepreneurial culture in RNR products and agribusinesses

Objectives

RNR sector marketing involves multiple stakeholders. Lack of policy guidance means that coordination among stakeholders in trade and marketing issues has remained weak. A review of agricultural sector issues by the UN Food and Agriculture Organization (FAO) in 2011 noted that public and private institutions have a limited capacity for marketing of RNR commodities.

The RNR MP is intended to

- address legislative and regulative frameworks, synchronize the various policy measures, and liberalize trade, safety nets, and private market solutions to minimize market risks;
- enhance the livelihoods of all actors across the value chains by adopting international good practice in risk management strategies that focus on long-term RNR development to generate gainful employment and equitable distribution of income, and ensure balanced regional development;
- promote the development of RNR products by enhancing the necessary infrastructural and human capacity, ensuring access to finance, and strengthening markets and marketing information; and
- promote RNR commodity marketing to add value to RNR products, taking into account other social, economic, and political factors and mainstreaming gender and environmental components.

5. Policy Objectives and Statements

The overall policy objective is to enhance the competitiveness, efficiency, and effectiveness of the RNR marketing system; to provide improved market access for smallholder farmers, and cottage, small, and medium industry; to provide better quality products to the consumer at a reasonable price; and contribute towards local and national economic development.

The RNR-MP comprises six strategic objectives consistent both with the challenges facing the country and with international good marketing practice:

- Policy objective 1: Strengthen the legislative, macroeconomic, and trading environment
- Policy objective 2: Enhance RNR product value addition
- Policy objective 3: Strengthen RNR marketing infrastructure
- Policy objective 4: Enhance access to RNR marketing finance
- Policy objective 5: Enhance RNR commodity marketing
- Policy objective 6: Strengthen RNR marketing information and risk management

Policy objective 1: Strengthen the legislative, macroeconomic, and trading environment

The process of globalization and trade liberalization is constantly changing the roles and functions of public and private actors. As a developing country with limited technological and economic capability, Bhutan could benefit from these global phenomena by strengthening its limited legislative, macroeconomic, and trading environment. However, these instruments need to be harmonized with the different sectors to ensure fair play among the actors in the value chain and business service providers and to protect consumers' confidence.

The policy objective is to institute legislative, regulative, macroeconomic, and trading frameworks environment to enhance responsible competition and sustainable business acumen, ensure easy entry and exit in businesses, and smoothen trading difficulties.

The RGoB shall

- prepare legislative guidelines and regulatory frameworks related to RNR marketing;
- institute regulatory mechanisms to address coordination among stakeholders with defined roles in RNR marketing across different levels;
- act as a facilitator and enabler in the marketing system rather than as a direct actor, and ensure support towards strengthening service structures, the market environment, and market mechanisms;
- establish and maintain a system to provide policy guidance to government through scientifically sound studies and research on market dynamics and pricing policies and practices on a regular basis; and,
- align application of taxes, tariffs, and duties as an important component in enhancing competitiveness, job creation, promotion of exports, and import substitution.

Policy objective 2: Enhance RNR product value addition

As in many developing countries, Bhutan produces a wide variety of RNR products, but the country has yet to maximize the economic benefits that it can derive from marketing RNR

commodities. This is partly due to inadequate knowledge of appropriate value-adding technologies, coupled with poor infrastructural facilities and the absence of coherent policy support. The result is that the Bhutanese private sector in general, and RNR products in particular, for the most part fail to spark an interest in innovative farming and agri-food processing.

Value addition entails upgrading of functions, processes, and products. This value-addition ladder generates employment at successive stages – a critical necessity given the burgeoning youth population and shrinking absorptive capacity in other sectors.

The policy objective is to build capacity and encourage the adoption of processing technologies and practices that reduce post-harvest losses. The end result will be an improvement in product quality and increased shelf-life, mainstreaming of gender through employment opportunities and ownership of agro-processing entities, environmental mitigation through improved packaging, promotion of niche markets, and diversification of RNR products.

The RGoB shall

- support primary post-harvest storage, processing, and value addition;
- institute special programmes to encourage the private sector in RNR processing, and empower women and youth for increased participation in RNR marketing;
- promote consumption of locally produced RNR products in the domestic market to reduce imports and encourage farmers;
- support investment for research and development into RNR product processing;
- support harmonization and improvement of quality, standards, and grading in collaboration with stakeholders based on market information and research;
- support capacity building for aspiring youth in selected value chains as a part of on-the-job training arrangements;
- provide product certification and accreditation services as per international quality, safety, and sanitary and phyto-sanitary (SPS) norms for RNR products; and,
- ensure that the policy and legal framework for environmental conservation and management is implemented by all stakeholders.

Policy objective 3: Strengthen RNR marketing infrastructure and policy support

Marketing infrastructure –especially roads, water supply, transportation, processing facilities, communications, electricity, and markets for crops, livestock, and fish – is critical in stimulating increased RNR production, marketing, and income generation. However, rural infrastructure in Bhutan is still inadequate to cater to RNR marketing effectively and efficiently. For example, the poor road network in the country is a major stumbling block which hinders farmers' access to markets, increases the time and cost of transport, and often

results in quality deterioration of products. Basic marketing infrastructure is one of the key requirements for better RNR marketing and would help boost and diversify production.

At the same time, even areas that do have basic marketing amenities generally still suffer from a serious lack of storage facilities, poor linkages with processing and production chains, poor market-orientation, and inadequate processing facilities –all of which lead to high levels of postharvest losses. Further, RNR marketing is weakened by inadequate communication facilities in relation to market information, which adds to price uncertainty.

The policy objective is to strengthen RNR marketing infrastructure and institutions, promote an entrepreneurial culture, establish marketing structures, and enhance awareness among farmers and stakeholders.

RGoB shall

- strengthen marketing infrastructure and develop guidelines to address the overall needs of infrastructure and establish capacity across the country;
- specify regulations and utilization modalities of government-owned structures using established guidelines;
- develop strategic RNR marketing infrastructure such as farm shops, collection depots/centres, local market outlets, Sunday market facilities, and cold stores;
- provide support for dedicated sales outlets for niche products in promising markets; and
- provide support to the private sector and communities to build, operate, and maintain RNR marketing infrastructure.

Policy objective 4: Enhance access to RNR investment and marketing finance

Credit facilities provide the backbone for economic growth in a country. However, Bhutan has only one development bank and access to agricultural finance is limited. Even those who deal with rural credit have limited outreach in rural areas. Further, farmers generally do not have acceptable bankable assets to pledge as collateral to financial institutions. Smallholder farmers can pledge land as collateral, but the amount available is limited as rural land has a low value. Low financial literacy among farmers also tends to increase the dependence on borrowing from relatives, friends, and informal money lenders, often at exorbitant interest rates.

The policy objective is to ensure access to agricultural finance, impart financial literacy and understanding of the risks related to finance among farmers and producers, encourage financial institutions to introduce micro-finance and enterprise financing schemes in the RNR sector, and boost private investment in RNR products in the country.

The RGoB shall

- support establishment of a cooperative development fund to strengthen the investment capacity of farmers' groups (FGs) and cooperatives;
- promote and support the establishment of institutions and facilities for financing RNR trade and marketing;
- encourage private and foreign direct investment in the RNR sector;
- provide financial risk management tools in RNR marketing;
- support and strengthen grassroots business development services to support rural RNR entrepreneurial activities; and,
- support micro-finance schemes with easy access for beneficiaries/clients.

Policy objective 5: Enhance RNR commodity marketing

The commodity markets are highly competitive because there are many buyers and sellers of the same basic commodity. Prices at different market locations vary depending on transportation costs and seasonal differences.

Commodity marketing decisions are affected by decisions on timing. Farmers can sell their commodities through private contracts or futures markets and attempt to obtain a price higher than the market price at the time of delivery, or they can store commodities for later sale, with the expectation that market prices will rise more than their costs of storage.

The policy objective is to improve the quality and standard of products; save energy, resources and time; establish efficient bargaining and negotiation skills; and promote traditional and cultural food consumption.

The RGoB shall

- develop strategies to promote RNR commodity marketing at a local, national, and international level;
- facilitate and explore targeted marketing at local and national levels for RNR commodities to encourage consumption of organic, domestic RNR commodities and thus reduce imports;
- promote RNR enterprises and devise various other schemes to enhance RNR commodity marketing;
- formulate and implement pricing guidelines and compensation where necessary through task force bodies;
- monitor food production, availability, and consumption patterns at the regional and dzongkhag levels; coordinate and liaise with producers, handlers, and sellers to facilitate market-driven movement of RNR commodities from food-surplus to food-deficit areas;
- develop and implement 'Brand Bhutan' and support promotion of 'Bhutan Natural' with linkages to encourage and facilitate local producers to meet regional and global demand for organic products;
- organize and host trade missions from abroad on the opportunities and advantages of investing in Bhutan; and

- promote private sector involvement, public-private partnerships, and cooperatives to enhance commercialization, market-led production, and marketing.

Policy objective 6: Strengthen RNR marketing information and risk management

Information, uncertainty, and risk are quintessential features in the RNR sector. The sources are numerous and diverse; ranging from events related to climate and weather conditions, diseases, natural disasters to price changes in products, fertilizers, and other inputs, financial uncertainties, market risks, policies and regulatory risks.

Lack of market information on the price, supply and demand situation, market forecasts and market outlets are some issues that need to be addressed overtime. Agricultural risks are problematic as they are interlinked. A system is needed to manage risk which includes all available instruments, holistic strategies, and policies.

The policy objective is to strengthen RNR marketing information, provide information related to markets and marketing, and develop risk management strategies to create an enabling RNR marketing environment.

The RGoB shall

- identify an institution responsible for risk management in RNR marketing;
- develop a master plan to address the specific capacity needs in information and risk management;
- support capacity development in risk management through inclusion of the subject in vocational training institute curricula;
- strengthen the market information system (MIS) at national and regional level through the use of information and communications technology (ICT) and by involving the private sector;
- promote risk management capacity in value chains by identifying, promoting, and developing market and non-market risk management strategies in RNR marketing; and,
- develop compensation mechanisms or insurance schemes to address risks associated with natural disasters, epidemics, and crop failures.

6 Implementation Mechanism

The MoAF has the mandate to facilitate and promote the marketing of RNR products, while the overall trading mandate lies with the Ministry of Economic Affairs (MoEA), and tariffs with the Ministry of Finance (MoF). Thus RNR marketing is multi-dimensional and issues related to RNR marketing need to be based on a coordinated and harmonized approach involving all the sectors concerned.

As the custodian agency, MoAF shall

- institute the formation of a high level committee comprised of RNR marketing stakeholders with the Hon'ble Minister, MoAF as the Chair. Members will be from the MoAF, Department of Livestock (DoL), Department of Agriculture (DoA), Department of Forests and Park Services (DoFPS), Bhutan Agriculture and Food Regulatory Authority (BAFRA), DAMC (as the Secretariat), MoEA, MoF, Bhutan Chamber of Commerce and Industry/ Bhutan Exporters Association (BCCI/BEA), Food Corporation of Bhutan (FCB), banks, Royal Monetary Authority (RMA), NGOs, Gross National Happiness Commission (GNHC), and others.
- develop the terms of reference for the high level committee; and
- develop roles and responsibilities for DAMC to coordinate the implementation of the RNR Marketing Policy with the DoA, DoL, DoFPS, and other stakeholders.
- The DAMC will institute a monitoring and evaluation system to monitor implementation of the policy.