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Government Intervention in Agriculture Market Management

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ABSTRACT

This review critically examines government intervention in agriculture through policies and bilateral agreements, focusing on mechanisms such as the Minimum Support Price (MSP), input subsidies, crop insurance, extension services, and market regulations. A review of existing literature reveals that although these interventions aim to support farmers and stabilize the agricultural economy, their implementation is often flawed. Key findings highlight systemic gaps: M SP programs face delays and insufficient procurement; input subsidies suffer from targeting inefficiencies and elite capture; crop insurance adoption remains limited due to accessibility barriers; and the federalization of extension services has led to institutional fragmentation. The study has deduced that, despite considerable effort by the government, its efficacy and accessibility to common farmers remain far-fetched, and it is confronted with several technical and infrastructure shortcomings.

Keywords: Crop Insurance, Government Intervention, Input Subsidies, Minimum Support Price (MSP)

INTRODUCTION

In a winter morning in rural Nepal, a poor farmer stands alongside a load of freshly harvested cauliflower, his hand hardened through years of fieldwork, yet a look on his face is not one of pride, but of worry. Despite a good harvest, farmers in Nepal are frequently left vulnerable to price fluctuations and unfair trading practices. With a lack of proper cold storage facilities and no transport to reach bigger markets across the country, he is compelled to sell his crops at a loss, or in extreme cases, as seen in Kalimati, farmers were forced to throw their harvest onto the roads, unable to secure a fair price.

This is not a story of a single farmer, but rather a reflection of the broader challenges faced, especially by smallholder farmers across Nepal and many developing nations. While agriculture continues to be the pillar of the economy, the markets where the farmers of our country rely are often ineffective and unregulated. In such a fragile ecosystem, the government needs to step out and intervene to support these issues. Although, Nepalese government has suggested various kinds of solutions to address these issues through Minimum Support Price (MSP), input subsidies, cooperative structure, online marketplaces, supply chain efficiency, more market transparency, and bring out favorable policies, its efficacy is frequently questioned.

Farming in Nepal has always been a gamble; it is a profession of uncertainty. A single hailstorm can wipe out months of labor, a delayed monsoon can leave fields thirsty, and unpredictable market prices can turn a season's earning into losses overnight. In Nepal, where agriculture is a backbone of the country's economy, these types of risks not only pose a threat to the livelihood of individuals but also to overall national food security. While government intervention is intended to stabilize agricultural markets and support farmers, does it truly serve its purpose, or are farmers trapped?

GOVERNMENT INTERVENTION IN NEPAL'S AGRICULTURE MARKET

The debate over government involvement in regulating the agricultural market has persisted for many years. Given that Nepal is a primarily agrarian country, its agricultural and food security system highly depends upon effective price policies. The need for government intervention in the price policy of agricultural commodities was realized long ago, and some of the mechanisms are in place (Bhattarai & GC, 2020). The government of Nepal historically played an active role in agricultural markets by implementing policies and programs aimed at price stabilization and farmer support.

Minimum support price

Minimum Support Price (MSP) is one of the most commonly used tools by governments to ensure income security for farmers despite the loss caused by several external effects. It aims to provide farmers with assured support prices and ensures the accessibility to get the commodities at a reasonable rate (Parikh & Singh, 2007). In the context of Nepal, the introduction of MSP came in 1975, it was introduced during the fifth five-year plan (1975-1980), when agriculture was put as top priority to enhance the productivity and creation of diversified products from the point of view of industrial demands and usage (Joshi & Chaulagai, 2024). Since then, the MSP has served as a crucial approach to stabilize prices and incentivize agricultural production and encourage farmers to produce.

In the global scenario, this approach has been applied in order to control the agricultural market and to enhance the agricultural market (Lyu & Li, 2019; Guda et al., 2019; Marcus & Modest, 1986; Rasmussen & Baker, 1979). In the context of Nepal, the MSP policy was introduced during the Seventh Five-Year Plan**,** initially covering key crops such as paddy, wheat, and sugarcane**.** The primary objectives are:

1. Protection of farmers from market fluctuation that is very common in countries like Nepal.
2. Procurement of food grains for buffer stocks and public distribution.
3. Reduction of middle-men interference from price setting view point, middlemen are highly active players in the market channel of Nepalese agricultural scenario, causing high price levels of the agricultural commodities compared to the field level prices which distorts the agricultural market; thus, MSP was imposed to combat this issue (Jha & Srinivasan, 2006).

Despite these objectives, the MSP policy has been highly criticized by both farmers and free trade supporters. Farmers consistently call for a significant hike in the Minimum Support Price (MSP), while supporters of free agricultural trade argue that MSP often does not align with global market prices or the domestic supply and demand conditions. These differences lead to distortions and inefficiencies in production patterns (Singh et al., 1986). The policy was stopped in the fiscal year 1997/98. Although MSP was occasionally announced until 1999, it had little impact due to inconsistent declarations and unclear vision. Proposals to reinstate MSP were previously rejected by the Finance Ministry, but in 2012, the government decided to resume the policy following concerns about middlemen controlling market prices. In 2016, MSP was reintroduced, setting the price of common paddy at Rs. 2,230 per quintal and "Mota Dhan" at Rs. 2,070, with a government guarantee to purchase at these rates.

According to the MoALD (Government of Nepal, 2024), the Minimum Support Prices (MSP) for key crops in Fiscal Year 2024/25 have been increased, with common paddy set at NPR 3580.62 and Mota Dhan (Coarse Paddy) at NPR 3410.51–both reflecting an increment of up to 6.5% from the previous year.

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Similarly, sugarcane received a moderate price increase, now fixed at NPR 585. These revisions indicate the government's continued commitment to stabilizing farm incomes and incentivizing crop production. Singh et al. (1986) argued that agricultural price policies like MSP have worsened farm income inequalities and that MSP has become more of a political instrument than an economic tool. Therefore, it is crucial to assess MSP's effectiveness across Nepal's diverse regions and evaluate its contribution to agricultural growth. For instance, research in Kanchanpur district found that poor implementation and inadequate procurement under MSP left many paddy farmers vulnerable to market fluctuations, limiting the policy's intended benefits (Joshi & Chaulagai, 2024). This example clearly highlights the scenario of Nepal from MSP view point.

Input subsidies

Government intervention in agricultural market management often includes input subsidies aimed at reducing production costs and boosting productivity. Recognizing the critical role of agriculture in improving rural livelihoods and driving national economic growth, the Government of Nepal has placed high priority on agricultural development (Chaudhary, 2018). Hence, it has formulated different agricultural policies and implemented them as farmer support programs. Despite the global arguments and criticism on the efficiency of subsidy program, Nepal's agriculture policies have prioritized subsidy programs (Paudel & Crago, 2017). Minister for Agriculture and Livestock Development, Ramnath Adhikari, stated that Rs 107.66 billion has been provided in agricultural subsidies over the past five years. The subsidies were distributed to cooperatives, groups, and firms from fiscal year 2019/20 to 2024/25. Despite the amount spent, many literatures have claimed of being inefficient, corrupt and unmanaged. Presently, there has been a drastic increase in the agricultural budget that support farmers through the provision of providing production inputs, extension services and financial assistance through grants and subsidized bank loans. Farmers are directly benefited from these subsidized inputs such as chemical fertilizers, improved seeds, machinery, and equipment, along with technical assistance provided. Moreover, the low interest agricultural loans and insurance premium subsidies are also handy tools for the farmers (MoF, 2023). As per Proceedings of the National Symposium on Major Agricultural Inputs Supply and Subsidy Mechanism in Nepal fertilizer has been increased tremendously which hindered the import of fertilizer in Nepal in spite of increasing the fertilizer subsidy budget during recent years. The inputs like Fertilizers, Seed and Irrigation are fundamental inputs for agricultural production. Thapa et al. (2024) conducted research in Makwanpur and Dhading districts, found that the accessibility of the agricultural subsidies is influenced by social factors like ethnicity, membership level in the cooperative or farmer group. It pinpoints the disparity among the various farmers due to these factors. The study highlights that farmers who are actively engaged in such networks and services are more likely to benefit from subsidy programs. It recommends strengthening cooperative participation and improving extension services to enhance farmer's access to subsidies effectively. A study conducted by Bharati et al. (2024) in Kavrepalanchowk District revealed that 72% of households received less than NPR 15,000 annually in agricultural subsidies. Some common inputs are enlisted below:

Extension services

Agricultural extension plays a pivotal role in bridging the scientific wisdom in the brains of a farmer and vice versa. Extension services are directly responsible for providing valuable information to the farmers that have been proven by science and research. It is responsible for disseminating farmers with knowledge about improved technologies, input use, and market opportunities. Agricultural extension generally refers to the process of applying new knowledge and scientific research to farming practices by educating and informing farmers (Hossain et al., 2014). Agricultural development relies heavily on an effective agriculture extension system. According to the Constitution of Nepal (2015), the country is composed of three tiers of government: one federal government, seven provincial governments, and 753 local governments. Federalization has paved opportunities to formulate and enhance efficacies of agricultural policies at the provincial and local levels, promoting a bottom-up approach to development (Kyle & Resnick, 2016). Under the new federal system, many extension functions previously managed by the Ministry of Agriculture Development (MoAD) and its central and district-level units have been devolved to provincial and local governments. With the implementation of federal system, most of the extension functions that were previously under the MoAD and its central and district level units have been now placed in the provincial and local levels.

Crop insurance and risk management

Agriculture Insurance is a tool designed to mitigate risk; it provides cushions for the shock of crop loss by assuring the farmers protection against various risks that are beyond the control of a farmer (Dandekar, 1976; Benami & Carter, 2021; Karki et al., 2024). It can be taken as an equitable transfer of risk from one entity to the other to prevent large devastating loss (Iturrioz, 2009). The entity that provides insurance is known as an insurer and the entity that buys is termed as the insured (Bhattarai, 2024). In recent times, the Government of Nepal has focused greatly in the development and extension of agriculture insurance services to the farmers to reduce vulnerability. In the context of Nepal, agricultural insurance was formally introduced on 14 January 2013 (Insurance board, 2017). The government has prioritized agriculture insurance in its national policies, plans, programs, and budgets. During 2014-2022, the government allotted almost Rs 4 billion as a subsidy to agriculture insurance (MoF, 2022).

Public- Private Partnerships (PPP)

The concept of PPP in Nepal began to flourish in the early 2000s, as it was the outcome of government recognition that the private sector had to be made part for the countries holistic development specially from the point of view of infrastructure development. Initially, the focus of PPP concept was based around sectors like Transportation, telecommunication, and energy (Rai, 2021). The relevancy of the PPP model in agriculture is relatively new as pinpointed by Rai, 2021. The model began to be the subject of discussion during the late 2000s. In response to greater agricultural inefficiencies such as low productivity, poor market access and lack of post-harvest facilities in the country (Ghimire, 2017). Major policy framework such as Agribusiness Promotion Policy (2006) and ADS (2015-2035) laid foundation for integration of PPPs specially in the agricultural scenario. These policies focused the importance of collaboration among various private sectors to improve agricultural commercialization, strengthen value chains, and support the development of agro-processing industries (MOAD, 2015). One of the major examples of PPP model in agriculture is the collaboration between Nepal Agricultural Research Council (NARC), Non- governmental organizations (NGOs), and Private seed companies for the production of hybrid tomato seeds. This collaboration involved direct interaction of NARC with the farmers cooperative along with the private companies supplying the inbred lines, this collaboration proved to be holistic and well thought as all of the concerned stakeholders were under a common umbrella that was to produce hybrid seed for tomato (Nepal Horticulture Society, 2016).

Market regulations

Market regulation plays an important role in maintaining the productivity and fair pricing systems for the farmers, if we talk in the context of agriculture. However, market regulation is a far-fetched reality due to various technical inefficiencies in our country. Most of the causative factors include poor governance, fragmented institution and weak enforcement. Several government bodies are responsible for the regulation of agricultural market, the Agricultural Marketing Promotion Development Directorate (AMPDD) plays a crucial role in enhancing market infrastructure, providing market information, and bonding links between the farmers and the market. The Food Management and Trading Company (FMTC) is given responsibility to buy essential food items and managing their prices to ensure food security and to maintain an equilibrium in the market. The agricultural supply chain of Nepal is hindered by multiple inefficiencies, including inadequate infrastructure, limitation in storage capacities and the lacking of cold chain services. These constraints collectively contribute to significant losses in post-harvest, and reduced market inefficiencies (FAO, 2020). The export performance of Nepal during the first five month of the fiscal year of 2024/25 present a mixed scene, some of the commodities showed a steady spike while some are confronted with strong setbacks demanding urgent fixing. Nepal lacks the standardized quality controls and certification and thus we struggle to compete with other globally produced products and our commodities don't get enough recognition and importance from an export point of view (IFPRI, 2021). By implementing targeted strategies, the country can work toward achieving a more stable and diversified export portfolio in the coming years.

POLICIES STRATEGIES FOR AGRICULTURE DEVELOPMENT

Although Nepal in its early phase towards strengthening trade policies, aims to enhance economic growth, ensure food security and expand domestic product outside of country. In order to reduce trade deficit, Government of Nepal has diligently worked towards establishment of numerous strategies and international agreements, which also contributes towards supporting farmers and the modernization of agriculture sector. Through the establishment of trade policies, it further plays a pivotal role which helps in regulation of import and export of agricultural products, stabilize country's made product, meaning to keep local economy protected, take care of local farmers and ensure overall food security. On the other hand, international trade has its own role in shaping the country's development towards economic growth. Import and export are two key indices when it comes to international trade (Breinlich and Criscuolo, 2011). In past decades, Tibet and India were the only countries Nepal traded goods with. After 1951, Nepal further expanded mutual trade with many other countries that included the likes of Japan, Germany, the USA, and Malaysia. Despite these trade relationships, country continuously faces trade deficits, due to higher number of imports and lesser exports, which limits economic growth of our country. Below is Nepal's Trade Policy 2015, which aimed to stabilize country's economy via multilateral and bilateral mechanisms.

International trade agreements and Nepal

Nepal obtained observer status in the General Agreement on Tariffs and Trade (GATT) in 1989, marking the beginning of its gradual integration into the global trading system and laying the foundation for its eventual accession to the World Trade Organization (WTO). GATT, which aimed to reduce tariffs and trade barriers, served as a preparatory platform for Nepal to engage in multilateral trade diplomacy and begin aligning its domestic trade policies with international norms (Shrestha, 2013). However, as a developing country with structural economic constraints, Nepal struggled to fully benefit from GATT during this period. The transition to WTO membership highlighted these challenges, as Nepal encountered difficulties in aligning its trade commitments with national development objectives due to limited negotiation capacity and technical expertise (Adhikari & Yamamoto, 2006). These institutional limitations became especially evident during its WTO accession process, which formally concluded in 2004 when Nepal became the first Least Developed Country (LDC) to join the WTO through full working party negotiations, an effort rooted in the groundwork laid during its GATT involvement.

The Agreement on Agriculture (AoA), part of the WTO since 1995, aims to make agricultural trade fairer through three pillars: market access, domestic support, and export subsidies. For Nepal, a least Developed Country, the AoA offers special treatment but with limited benefits. Nepal's market access gains remain minimal due to poor infrastructure and low export capacity (Shrestha, 2010). Although allowed to provide subsidies up to 10% of its agricultural output, Nepal lacks the financial resources to do so, it doesn't offer export subsidies, so that pillar has little effect. Critics argue the AoA favors rich nations that continue supporting their farmers under permitted "green box" subsidies, leaving countries like Nepal at a disadvantage despite formal equal rules (Adhikari & Dahal, 2006). World Trade Organization (WTO) Agreements on Agriculture are as follows:

1. **Market Access**: Although global markets opened, Nepal's exports remain low due to weak infrastructure, low productivity, and non-tariff barriers (Shrestha, 2010).

2. **Domestic Support**: Nepal can legally offer subsidies up to 10% of its agricultural output, but provides far less due to budget constraints, limiting support to farmers (Adhikari & Dahal, 2006).
3. **Export Subsidies**: Nepal doesn't use export subsidies. Though developed countries' subsidy cuts were expected to help, Nepal saw little benefit due to trade imbalances and logistical issues.

WTO membership gives Nepal chances to grow its exports and join global markets, but it also limits some domestic policies. Nepal needs to modernize its agriculture, follow international standards, reduce trade barriers, and build stronger trade institutions. Complex WTO rules are hard for small farmers to follow. Although Nepal has aligned many policies with WTO and GATT, trade deficits and weak capacity remain problems.

Regional and bilateral trade agreements

Nepal became a member of the **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)** in February 2004. This regional organization aims to foster deeper economic cooperation by establishing a comprehensive free trade area covering trade in goods, services, and investment, thereby strengthening ties between South and Southeast Asia. Nepal is also a member of the **South Asian Free Trade Area (SAFTA)**, which was established in 2006 with the goal of reducing customs duties and enhancing trade among South Asian countries. However, Nepal has not fully liberalized its tariffs under SAFTA, limiting its ability to fully benefit from the agreement (Kharel et al., 2021).

Nepal Trade Integration Strategy (NTIS)

The first trade strategy created by the Nepali government was called NTIS 2010. Nineteen priority export goods and services were identified. It featured six services and thirteen goods with the goal of bringing Nepal into the international market and using trade to combat poverty. Additionally, the strategy identifies high-growth potential priority export sectors, including manufacturing and craft goods, tourism, BPO, IT, and forest and agricultural products. The Nepal Trade Integration Strategy (NTIS) 2016 recognized agriculture as a critical industry for increasing export potential and promoting inclusive economic growth, according to the FNCCI (2016). Four main agricultural products were the focus of the strategy:

- **Large Cardamom**: Aimed to increase production from 5,750 metric tons in 2012/13 to 6,500 metric tons by 2020. The goal was also to raise the export price to 75% of India's by enhancing value addition.

Table 1. NTIS and Agricultural Commodities at a glance

Category	NTIS 2010	NTIS 2016	NTIS 2023
Agricultural Product	• Ginger • Cardamom • Tea • MAPs • Fruits and Vegetables	• Cardamom • Ginger • Tea • MAPs	• Lentils • Jute • Vegetables • Fruits • Spices • Coffee
Industry Category	• Wool Products • Instant Noodles • Readymade Garments • Silver Jewelry	• All Fabrics, Textiles, Yarn, and rope • Leather goods • Footwear • Chyangra Pashmina • Knotted Carpets	• Jewelry • Pasta • Himalayan Spring water • Honey • Dog chew products • Felt
Services	• Tourism Services • Information Technology services • Business processing Outsourcing	• Skilled and Semi-skilled professionals • Information Technology and Business Process Outsourcing • Tourism Services (leisure, business, education, medical)	• Electricity
Forestry			• Handmade lokta paper • Rosin and turpentine • Fragrant oil • Textiles made from long fiber

Source: NTIS, 2023

- **Ginger**: Targeted a production increase to at least 300,000 metric tons, with 70% exported. The strategy aimed to increase the export price to 75% of China's by enhancing processing and value addition.

- **Tea (Orthodox)**: Set a goal to boost exports from approximately US$2.7 million in 2013 to US$6 million by 2020, with production rising from 3,000 to 4,500 metric tons.
- **Medicinal and Aromatic Plants (MAPs)**: Focused on increasing export value from US$14 million in 2013 to US$20 million by 2020. This included establishing modern processing industries to enhance value addition.

Through the creation of a master plan for the construction and improvement of trade infrastructure, the Nepal Trade Integration Strategy (NTIS) 2023 presents a thorough policy framework intended to increase the nation's trade capacity. The strategy places a strong emphasis on establishing standards for the expansion of trade infrastructure, enhancing digital trade through the training of logistics service providers, and developing both physical and IT transportation infrastructure to enable more seamless cross-border trade. Acknowledging the revolutionary potential of new technologies, NTIS 2023 promotes the use of tools from the fourth and fifth industrial revolutions to increase global trade, emphasizing the use of digital platforms like B2B, B2C, C2C, and C2B models to increase productivity and cost-effectiveness. Additionally, social inclusion is given top priority in the strategy, with an emphasis on boosting women's involvement in the trade labor force. In addition to suggesting research projects to address the difficulties faced by women in trade, it calls for the creation of a Women Empowerment and Social Inclusion Unit within the NTIS department, which will be backed by the gathering of gender-disaggregated data. Furthermore, NTIS 2023 broadens the scope of export priorities by including industrial goods like iron and steel, cement, and ready-made clothing alongside products like lentils, jute, fruits, spices, coffee, handmade paper, rosin, turpentine, aromatic oils, and long fiber textiles.

Agriculture development strategy

Nepal's agriculture sector has played a crucial role in shaping overall country's national economy, providing helping hand to local farmers (training, subsidies, extension services, etc.), employment facilities, and enhancing rural livelihoods. Despite its economic significance, challenges such as climate vulnerability, farming at subsistence level, limited market reach, low outputs persist (MOAD, 2015). To solve these ongoing issues, Government of Nepal introduced long term agricultural plan called Agriculture Development Strategy (ADS) 2015–2035. This plan was introduced just after Agricultural Perspective Plan (APP) 1995–

2015 commenced, which fell short to achieve many of its desired goals (MOAD, 2015; ACIAR, 2022).

The ADS was formulated as a long term (20 Years) strategic plan to bring out significant changes into Nepal's Agriculture Sector and make it more competitive. Its main role is to enhance food and nutrition security, provide employment, and support local economic growth, assist local farmers (MOALD, 2015). ADS further brings out themes related to gender equity, social inclusion, environmental sustainability, and climate resilience (LEAP, 2015; ACIAR, 2022).

CONCLUSION

In Nepal government intervention in agricultural market management is not only a matter of policy but also a necessity. To stabilize markets and safeguard farmers, Nepal has implemented a number of policies over the years, including the Minimum Support Price (MSP), subsidies, and cooperative structures. Many farmers continue to struggle against unstable markets, unjust pricing, and restricted access to adequate storage or transportation, even with government efforts. These efforts have frequently failed due to a lack of access to trustworthy market systems, limited crop coverage, and delays in the implementation of policies. Many farmers continue to bear the burden of a system that does not adequately support them, as this review has demonstrated. Government policies can contribute to the development of a more stable and just agricultural market—one in which farmers not only survive but flourish—with improved planning, prompt action, and local adaptation. The way forward is to ensure that no farmer is left behind in the marketplace and to pay attention to those who work the land. In order to transform the agricultural market into a just and sustainable system, Nepal will need to take a comprehensive, farmer-centric strategy that incorporates infrastructure development, policy reform, and market transparency.

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