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**Post:** Santo Domingo

# Dominican Republic Governmental Support for the Rice Sector

**Report Categories:**

Grain and Feed

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**Report Highlights:**

Rice is one of the most important agricultural products in the Dominican Republic. The Dominican Government (GoDR) has implemented policies to foster the production and stability of the rice market. Among the most important of those policy measures is the Pignoracion program, established as a mechanism to stabilize rice market prices and supply by underwriting storage costs and allowing producers and millers to pledge stored rice as collateral for interest-free loans.

## 1. The Rice Sector in the Dominican Republic

Rice is one of the most important agricultural products in the Dominican Republic. According to GoDR estimates, the country has approximately 30,500 rice producers, nearly 500,000 people are involved in the production, processing and marketing of rice, and the sector contributes approximately 6% to Agricultural Gross Domestic Product.

For more information regarding the rice sector in the Dominican Republic please access our most recent Grain and Feed Annual Report: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Santo%20Domingo_Dominican%20Republic_4-1-2014.pdf

## 2. The Dominican Rice Sector under the CAFTA-DR agreement

Under the CAFTA-DR, the Dominican Republic negotiated that rice be placed in Basket V, which concedes a longer-term tariff reduction period-- 20 years—as well as establishing a 99% out-of-quota tariff rate. This non-quota tariff rate will remain unchanged during the first 10 years of the Agreement, until 2015. From 2016 to 2020 the non-quota tariff rate will be reduced by 8% annually and from years 2021 to 2025 by 12% annually. Additionally, the DR negotiated a special safeguard with an additional tariff rate. This special safeguard can be applied until the end of the tariff reduction period.

**TARIFF RATE REDUCTION OF RICE (10063000) FOR DOMINICAN REPUBLIC IN CAFTA-DR**

| Year | Tariff rate (%) | Quota free tariff rate (MT) | Safeguard (level of activation, MT) | Tariff rate for the Safeguard (%) |
|---|---|---|---|---|
| 2006 | 99.00 | 8,560 | 11,128 | 99.00 |
| 2007 | 99.00 | 9,120 | 11,856 | 99.00 |
| 2008 | 99.00 | 9,680 | 12,584 | 99.00 |
| 2009 | 99.00 | 10,240 | 13,312 | 99.00 |
| 2010 | 99.00 | 10,800 | 14,040 | 99.00 |
| 2011 | 99.00 | 11,360 | 14,768 | 99.00 |
| 2012 | 99.00 | 11,920 | 15,496 | 99.00 |
| 2013 | 99.00 | 12,480 | 16,224 | 99.00 |
| 2014 | 99.00 | 13,040 | 16,952 | 99.00 |
| 2015 | 99.00 | 13,600 | 17,680 | 99.00 |
| 2016 | 91.08 | 14,160 | 18,408 | 99.00 |
| 2017 | 83.16 | 14,720 | 19,136 | 99.00 |
| 2018 | 75.24 | 15,280 | 19,864 | 99.00 |
| 2019 | 67.32 | 15,840 | 20,592 | 99.00 |
| 2020 | 59.40 | 16,400 | 21,320 | 89.10 |
| 2021 | 47.52 | 16,960 | 22,048 | 86.13 |
| 2022 | 35.64 | 17,520 | 22,776 | 83.16 |
| 2023 | 23.76 | 18,080 | 23,504 | 61.38 |
| 2024 | 11.88 | 18,640 | 24,323 | 55.44 |
| 2025 | 0.00 | 0 | 0 | 0.00 |

*Source: USTR.*

According to estimates by the Ministry of Agriculture of the Dominican Republic (MoA), total consumption of rice in the Dominican Republic for Calendar Year (CY) 2013 was 542,000 MT. The negotiated quota for 2013 represents 2.3% of total consumption.

## 3. Pignoracion Program

### *3.1. Legal framework of the Program*

In the Dominican Republic, rice is produced during two main harvest cycles. The Pignoracion Program was established as a mechanism to stabilize rice market prices and supply, and to limit price fluctuations caused by an influx of rice into the market following harvest. Development of the program began in 2000, though it was not formally established until 2005. The Program was created via Temporary Resolution of the Ministry of Agriculture No. 31-05 dated June 2, 2005. With that resolution the Executive Unit of Pignoracion (UEPI) was created as the management body responsible for implementation. Likewise, under Resolution No. 37-05 dated July 6, 2005 the Government specified the structure and responsibilities of the UEPI. In addition to the provisions in Resolutions 31-05 and 37-05 mentioned previously, the Ministry of Agriculture developed operational documents such as: "Procedures for pledging rice" and "Procedures for redeeming rice."

Several institutions are specifically tasked with management or implementation responsibilities under the Pignoracion Program: MoA, UEPI, the Agricultural Bank of the Dominican Republic (BAGRICOLA), the National Rice Commission (CONA), commercial banks, general deposit storages, insurance companies, producers and processors.

### *3.2. Operation of the Program*

The Pignoracion Program is a financial services program benefiting rice producers and processors. Under the program, processors (factories, cooperatives, etc.) or producers buy or produces rice, then mill and either market the rice or hold it in storage. If held in storage, this rice can be pledged as collateral for loans from commercial or public lending institutions. For participants in the Pignoracion Program the cost of storage, interest and insurance costs are covered by the Government (MoA). According to MoA estimates, the program benefits 30,000 producers and between 140-150 processors annually.

The interest rate of the loans applied by banks is fixed to the average interest rate charged by the local banking system at each credit operation's closure date.

In March of every year, the CONA establishes a reference price band for rice (for paddy rice) based on historic prices, varietals and production estimates. The program requires that the producer price is equal to or greater than the floor price established within the price band. The CONA is also responsible for ensuring a national stock or strategic reserve of rice. These stocks are composed of rice stocks held by producers and processors, pledged rice and rice available in marketing channels.

The program is financed by a Renewable Pignoracion Fund, which is funded by: 1) an annual allocation from the Government and included in the MoA budget (according to post sources, the program implies costs of approximately US$10 million annually to the Government); 2) a contribution from producers and/ or processors of 0.25% of the amount of loans provided through the program; and 3) other contributions and donations. The Fund is managed by the UEPI. In case of surplus funding, the Minister of Agriculture has the authority to use those funds in capacity-building activities benefitting the rice sector. The Dominican Government historically has provided most of the financial resources to operate the program.

The quantity of rice pledged under the program has increased significantly since its inception in 2005; from 87,626 MT in 2005, to nearly 191,000 MT in 2009. For the GoDR the most important cost associated with the program is the cost of loan interest. Interest payments accounted for an 82% of the total program cost between 2005 and 2008.

**QUANTITY OF RICE UNDER THE PIGNORACION PROGRAM AND COSTS ASSOCIATED TO THE PROGRAM (2005-2009)**

| Year | Pledged rice (MT) | Costs (US$) | | | |
|---|---|---|---|---|---|
| | | Interest | Insurance | Storage | TOTAL |
| 2005 | 87,626 | 2,039,777 | 215,566 | 228,815 | 2,484,158 |
| 2006 | 112,298 | 5,531,467 | 535,408 | 753,222 | 6,820,097 |
| 2007 | 143,730 | 6,131,143 | 795,639 | 961,548 | 7,888,330 |
| 2008 | 108,602 | 8,939,919 | 625,819 | 762,971 | 10,328,709 |
| 2009 | 190,909 | NA | NA | NA | 9,293,023 |

*Source: Dominican Central Bank and MoA.*

Banks have also increased their financing portfolio for this program. The *Banco de Reservas* (BANRESERVAS), a Government-funded bank with the largest portfolio assigned for Pignoracion, increased their financing available for the program from US$93 million in 2013 to approximately US$116 million in 2014.

The procedure to pledge rice under the Pignoracion Program is as follows:

a) The producer or processor applies for a pledge authorization from the UEPI. The UEPI analyzes the request and proceeds with authorization, according to their requirements. Almost any producer or company duly registered as a commercial entity can comply with these requirements.

b) The producer or processor provides the authorization to the commercial bank or financial institution of their preference. The bank provides a written notice of the certified storage site at which the rice should be deposited

c) The producer or processor will deposit the quantity of rice to be pledged in the storage facility selected by the bank. The deposit facility will issue a certificate of rice deposit, along with a technical bulletin. This bulletin includes information regarding the management and storage in that specific storage installation.

d) The producer or processor delivers the certificate of rice deposit and the technical bulletin to the bank in support of a loan request under the Pignoracion Program terms.

e) The bank or the deposit facility contracts insurance to guarantee the rice, with coverage equal to the value of that rice. The rice is valued at the floor price of the current price band established by the CONA.

f) The bank provides the producer or processor a loan for an amount up-to 80% of the value of the deposit certificate. The bank will retain an amount equivalent to 0.25% of the loan which is deposited by the Bank to the Renewable Pignoracion Fund.

g) The bank delivers a complete copy of the files corresponding to each one of the pledge operations executed through the Pignoracion Program.

The CONA, through the UEPI and BAGRICOLA, are able to oversee, at their discretion, the rice deposited in any of the storage facilities certified under the program.

The producers and processors will offer pledged rice on a first-in/first-out basis, according to the dates established by the program, so long as the purchase price is equal or greater than the floor price established within the price band. When a producer offers pledged rice in the market, the procedure is as follows:

a) The producer or processor pays the bank the capital owed on the loan.

b) The bank delivers the producer or processor a release certificate of the pledged rice.

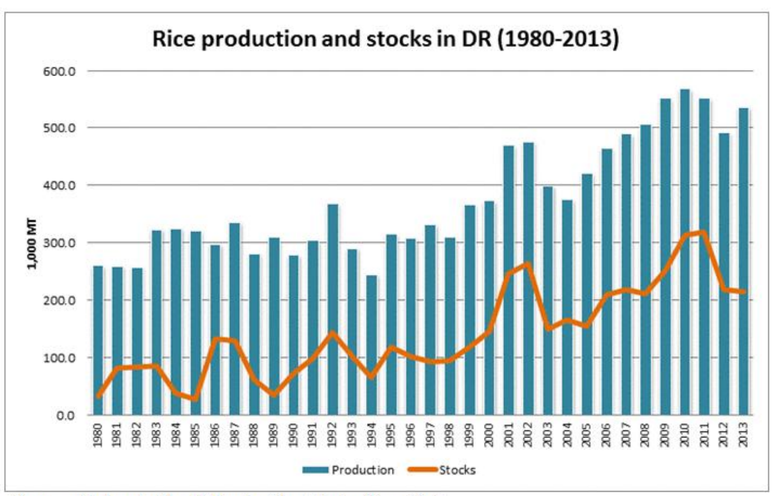
c) The producer or processor delivers the release certificate to the corresponding deposit facility and redeems the rice.

d) If the producer or processor can only partially pay the balance of their loan, their rice will be released in direct proportion to the payments made. The producer or processor will follow the same procedure described above

h) The bank delivers to the UEPI and BAGRICOLA a complete copy of the files corresponding to each one of the release operations executed through the Pignoracion program.

The CONA, through the UEPI and BAGRICOLA, are able to oversee any product release made under the Program.

The MoA is entitled to establish additional Pignoracion Programs for other locally produced crops, following similar procedures. In past years, MoA has implemented programs for beans and garlic, but on a much smaller scale.



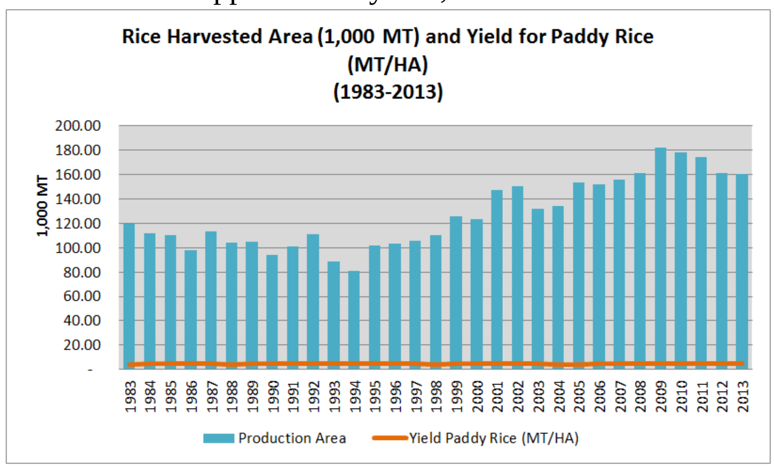
*Source: Elaborated by VMayol with statistics from MoA.*

### *3.3. Impact of the Program*

The Pignoracion Program has supported some key shifts in the Dominican Republic's rice sector:

- **Increases in rice production and stocks:** According to statistics provided by MoA, from 1980 to 2005 the annual average ending stocks of rice (through December 31st) were 107,100 MT, representing an average of 32.77% of annual production. Between 2005 and 2013, annual average end-December stocks skyrocketed to 234,100 MT; or 45.05% of annual production. Rice production has experienced a similar increase since 2005, mainly due to an increase in production area.

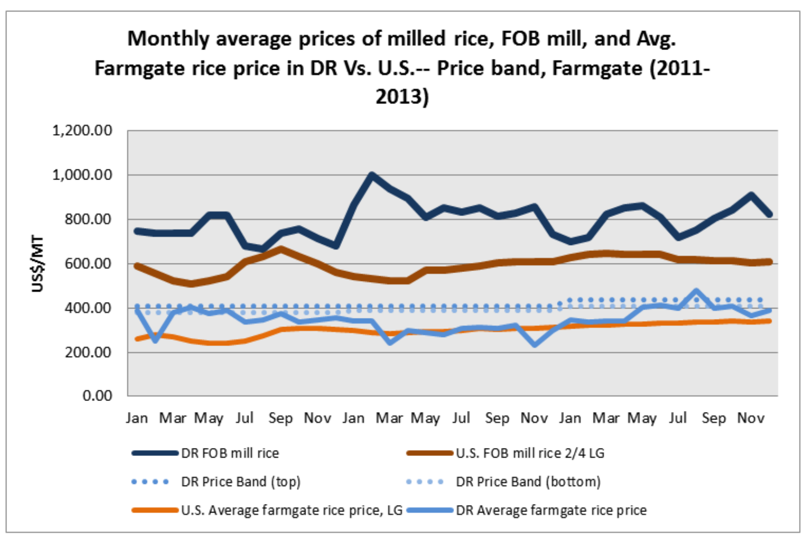
  According to statistics from MoA, harvested area for rice was 160,360 HA in 2013. From 1983 to 2005, the average annual harvest area was approximately 112,310 HA. For 2005 to 2013, the average annual harvest area increased to 164,320 HA, with an all-time high of 182,000 HA in 2009. However, the average yield (paddy rice) has been nearly unchanged from 1983 through 2013, fluctuating between 4-5 MT/HA.



*Source: Elaborated by VMayol with statistics from MoA.*

- **Decreasing rice imports:** According to MoA statistics, from 1980 to 2004 the annual average quantity of rice imports was 33,000 MT. From 2004 to 2013, this annual average fell to 19,100 MT; a reduction of 42%. In 2013 total imports of rice were only 12,000 MT. Approximately 90% of that total was imported from the U.S.

- **Relative stability of local rice prices, at levels significantly higher than foreign market prices:** From January, 2011 through December, 2013, milled rice prices, FOB mill, in the DR averaged aproximately US$800/MT, notwithstanding a significant spike in Febraury, 2012, when the milled price rice increased to US$1,000/MT.



*Source: Elaborated by VMayol with statistics from MoA, Creed Report, USDA and notes from local papers.*

  In the U.S., during the same period, FOB mill prices for US #2/4 long grain (January 2011-

December 2013) posted an average monthly price of US$592/MT.
During the same period, farm gate prices for Dominican paddy rice averaged US$347/MT while farm gate paddy prices in the U.S. averaged US$302/MT.

- **Increased credit available for the rice sector:** The Pignoracion Programs spurred a strong increase in credit availability to the sector. According to statistics from MoA, the BAGRICOLA disbursed agricultural credits for approximately US$315.7 million in 2013; 31% of that total (US$97.7 million) was destined to the rice sector. In 2005, the credit disbursed for the rice sector by the BAGRICOLA was only US$41.4 million.

  Similarly, BANRESERVAS has significantly increased their portfolio of agricultural credits since 2009. In that year, BANRESERVAS disbursed a total of US$88.3 million in agricultural credits; US$69.4 million (80%) of that total was exclusively disbursed via the Pignoracion Program. In 2012, the agricultural credits disbursed increased to approximately US$113.4 million; US$82.8 million (73%) of that total was destined for the Pignoracion Program.

  Even as overall credit availability for the Dominican agricultural sector has increased in recent years, the Pignoracion Program has ensured than increasing share of the lending is destined to rice producers and millers.