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## **EXECUTIVE BRIEF: Impacts of food aid rice distribution in Haiti on the rice market and production**

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**April 2010**

*Food aid distributions can have both beneficial and detrimental impacts on local agricultural production, prices for consumers and producers, and the structure and performance of markets. This brief looks at possible impacts of food aid rice distributions in Haiti on domestic production, imports, prices, and demand for locally produced and imported commodities.*

### **Key messages**

- **Thus far, FEWS NET observations and analysis suggest that food aid rice distributions have not had a major impact on rice prices in Haiti.**
- **Although large-scale distributions of food aid not procured in Haiti would have significant negative impacts in the medium and long term, these impacts are not expected to take place given the assumption that food aid rice distributions will decline significantly in coming months.**
- **Due to poor transportation infrastructure, markets are not perfectly integrated across Haiti and lower prices in an area receiving more food aid would neither immediately nor completely be transmitted to other markets.**

### **Background and Assumptions**

Rice is one of the main urban staple foods in Haiti, although domestic production is limited. In recent years, commercial imports have met up to 80 percent of national demand, with the remaining 20 percent coming from domestic production. In 2008, Haiti imported about 26,000 metric tons (MT) of rice per month on average, with more than 75 percent of imports shipped to Port-au-Prince.

The January 12 earthquake resulted in a disruption of the rice supply chain. Demand dropped, port infrastructure was damaged, the main market in Port au Prince was affected by civil insecurity, and overall economic activity slowed. Infrastructure damage and civil insecurity translated into higher handling and storage costs for importers and higher marketing costs for wholesalers, leading to a contraction in rice supplies and an increase in rice prices in Port-au-Prince and other cities dependent on Port-au-Prince imports.

WFP distributed about 12,500 MT of rice in Port-au-Prince in February and continued rice distributions in March. While the volume of rice distributions is expected to decline in favor of other commodities, specific quantities are not currently known. This brief assumes that food aid rice distributions over the coming months will be significantly reduced, as general food distributions in the earthquake-affected areas will be phased out and replaced by more targeted food-for-work programs and distributions to vulnerable populations. Furthermore, it is assumed that current plans for development and emergency PVO food assistance, consisting of 68,000 MT of mixed commodities (no rice), will be implemented. Compared to the WFP and MYAP distributions, aid distributed by other food aid partners is assumed to remain relatively small.

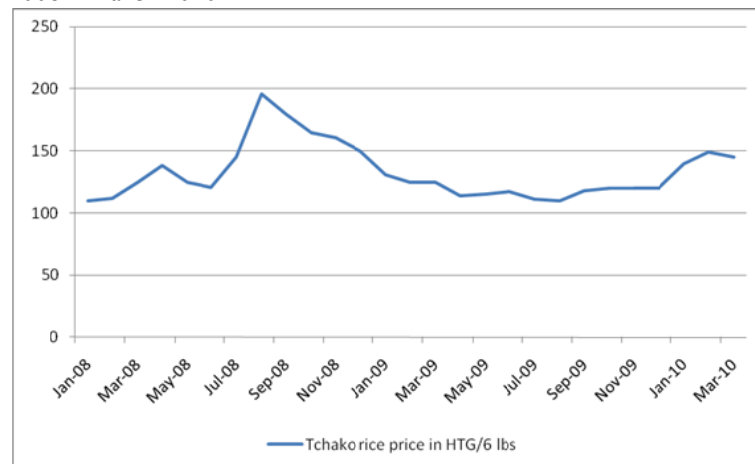
### **Impacts of food aid on prices**

Relief distribution of a food commodity can lead to a decrease in demand from recipients who would normally buy from the market, and/or cause an increase in supply when aid is sold on the market, thereby lowering prices. In addition, a decrease in demand for commercial commodities due to households receiving more food aid than needed would lead to a decrease in quantity traded on markets and possibly less traders. Small-scale traders with higher per-unit operating costs would tend to exit the market first.

In Haiti, food aid rice competes both with commercially imported rice, because it is a close substitute for food aid rice in terms of quality, and with the locally produced rice. Food aid rice also competes indirectly through substitution by consumers for close substitutes for rice (e.g., locally produced maize or sorghum). Households that receive rice for free are likely to reduce purchases of cereals on the market. Since imported rice and other cereals that are close substitutes are staple foods (and therefore household demand varies little with prices), their price is most likely to decrease significantly if there is an increase in supply. There has been evidence of food aid rice being sold on markets especially amidst the massive food aid distribution phases in February and March 2010.

Despite large quantities of food aid rice distributed in February and March in Port-au-Prince and other areas, nominal rice prices have remained relatively high. As of mid-April, the price of imported rice (Tchako brand) on major markets in Haiti was still about 13 percent higher in Port-au-Prince than before the earthquake. Nonetheless, current price levels remain much lower than during the 2008 food price crisis (Figure 1). The price of the local, luxury Sheila rice (considered of higher quality than the imported rice) decreased after the earthquake due to the large decline in purchasing power (due to loss of income as a result of earthquake damages). However, since imports were significantly reduced after the earthquake and prices of imported rice increased, the decline in the price of the Sheila rice was not as significant as expected. The price of the Sheila price seems to be rebounding, with some variation, in the recent market survey in Port-au-Prince. Prices for substitute foods such as maize and sorghum have also increased (for maize by as much as 35 percent from the day before the quake to March 15, at national average, though at 17 percent in Port-au-Prince), contrary to what would have been expected.

**Figure 1. Tchako (Imported) Rice Prices in Port-au-Prince, January 2008 – March 2010**



Source: FEWS NET

The high prices of imported rice have been driven by a combination of factors including increased marketing costs (due for example to insecurity-related expenses), and increased land and sea transportation costs. Reduced competition among traders has also been reported, though it is difficult to verify. In the absence of food aid distributions, post-earthquake retail prices would have been higher, as more people would have been competing for limited market supplies. However, it is difficult to determine to what extent food aid distributions after the earthquake have affected prices, as other factors such as loss of purchasing power and increased transaction costs (due to insecurity, disruption of port activity in Port-au-Prince or increased sea transportation costs to some departments) were also simultaneously playing out.

In February and March, humanitarian assistance institutions bought large quantities of commercially imported rice from importers or wholesalers to rapidly respond to humanitarian needs. This made the distinction between food aid rice and regular commercial rice difficult to ascertain when food aid rice was re-sold on the market. This also allowed traders to avoid government restrictions on the sale of food aid rice on the market. More small traders were able to sell food aid rice in the open as well because the authorities suspended tracking and eviction of vendors without licenses. The food aid rice sold on the market came from households in the internally displaced people (IDP) areas, as some reportedly managed to obtain more rice than allocated or needed for their household consumption. Some corrupt local officials also reportedly received a disproportionate share of the food aid distributions.

### Impact of food aid on local production

The impact of food aid rice distributions on producers is expected to be small, though food aid distributions during the March/April and June-August rice harvests could have a negative impact on the next season's production, as lower prices may cause farmers to reduce acreage or use of inputs (unless these inputs are subsidized further). However, prices will be more influenced by U.S. and international rice price trends (which have been slightly declining in recent months) than food aid. Furthermore, producers often recognize that factors affecting yields (e.g., availability of irrigation water and fertilizers, input prices) have an even greater impact on farm revenue than prices alone. The Ministry of Agriculture, the U.N. Food

and Agriculture Organization (FAO), and other agencies are supporting the incoming agricultural season with free supplies of inputs, particularly seeds, and highly subsidized tractor services; however the actual supply of those inputs or services has been delayed.

Moreover, the local rice (both the long grain, luxury Sheila rice and the more widely cultivated and more accessible smaller grain rice) is preferred by consumers who are willing to pay premiums for it. Thus, although food aid rice distributions that occurred at harvest time could have some effect on local production, this effect is expected to be minimal in the immediate aftermath of the earthquake. Any food aid-related impact that does occur will primarily affect producers of lower quality rice (of which food aid rice is a close substitute). In the medium and long term, large volumes of food aid would affect production as they would lower prices and thus reduce local production incentives.

#### **Impact of food aid on market intermediaries (importers, wholesalers, and retailers)**

Large food aid distributions in Port-au-Prince, or uncertainty about the size of these distributions, caused some importers to reduce import volumes. Although there is anecdotal evidence of this happening immediately after the earthquake, it seems this behavior did not continue in March and April. The real incidence of that uncertainty is difficult to estimate, as private importers were also deterred from importing due to problems unrelated to increased food aid (e.g., reduced handling capacity at the port). Also, as importers or wholesalers were able to sell their rice to humanitarian organizations, even before it even reached the port, their revenues were not negatively affected by market price fluctuations. In the medium and long term, food aid rice not procured in Haiti—from imported and local rice commodity chains—would have significant negative impacts. Non-local food aid procurement would reduce import volumes and competition, disrupt or displace some players in the commodity chains, and reduce incentives for local producers. Large volumes of food aid rice, loosely targeted to vulnerable populations, would result in low prices for consumers, but this would not be sustainable over time as international prices will again be the main driver of domestic price trends. However, FEWS NET assumes that large-scale food aid rice distributions will be phased out in the coming months.

Of the three major importers interviewed by FEWS NET in March 2010, two expressed concerns about the impact of massive food aid distributions on prices, even though some humanitarian organizations had been procuring food aid from them or from wholesalers. Shipping companies have also been reluctant to bring commercial goods to Port-au-Prince because of over-crowding at the port due to infrastructure damage and of the priority given to humanitarian imports after the earthquake.

#### **Impacts of food aid across locations**

Any potential adverse effects of food aid on markets would first develop in Port-au-Prince given the scale of food aid interventions in the metropolitan area. Due to poor transportation infrastructure, markets are not perfectly integrated across Haiti and lower prices in an area receiving more food aid would neither immediately nor completely be transmitted to other markets. However, due to geographical proximity and active trade networks, markets in the Artibonite Valley are better integrated with the Port-au-Prince market than other markets and any adverse impacts of food aid (e.g., depressed prices, significant displacement of small-scale traders in the private sector) are likely to have been felt by local producers of the Artibonite more so than in other departments.