



Political Economy of Wheat Prices in Afghanistan

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Pictures Front Page

**View of a wheat market in Khawaja Khar district center,
Takhar province. 7 September 2003**

Pictures Front and Back Cover Pages

**Wheat trader employee weighting grains sold by farmers
for packing in 50 kg bags. Khawaja Khar district center,
Takhar province. 7 September 2003**

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1. Introduction

This paper presents an analysis of wheat price behavior in Afghanistan in the past 8 years, between 1996 and 2004. The analysis is based on market prices collected by WFP, which are the only time series market data available in Afghanistan. Since 1996, WFP have collected wheat retail prices in 6 city *bazaars* in Afghanistan; Kabul, Kandahar, Jalalabad, Herat, Mazar-e Sharif and Faizabad. The work presented in this paper has capitalized on a preliminary analysis conducted by Maletta (2002)¹.

During the reporting period of this document, three different governments have succeeded each other; The Islamic Republic of Afghanistan under President Rabani, The Islamic Emirate of Afghanistan under the Taleban and the Islamic Republic of Afghanistan under President Karzai. The past 8 years were characterized by intense military activity on the ground between various warring factions and the intervention of international forces that followed 9/11.

Cereal production suffered from the worst drought in at least 30 years between 1999 and 2002 which resulted in a record low cereal output but also benefited from exceptionally good rainfall distribution resulting in the highest harvest on record in 2003. The level of humanitarian assistance had equally significant variations. While aid inflow has been extremely low during the unpopular Taleban rule, it has been massive after the change of government in December 2001².

Analyzing wheat prices in the frenzied years between 1996 and 2004 may help understand how market works in Afghanistan. This paper analyses the under-laying factors that caused changes in wheat prices and aims at answering the following question: Have wheat prices in the past 8 years in Afghanistan been correlated to international market prices, local cereal supply, food aid or political/military situation prevailing on the ground?

¹ Maletta, Hector, "Wages of War, Wages of Peace: Food Prices and Unskilled Labor Pay in Afghanistan, 1996-2002", Kabul, Dec 2002. www.fao.org/world/afghanistan/.

² In 2000 the UN appealed for \$ 221 millions and donors contributed with only \$ 107 millions while in 2002, UN appeal for 1.33 billions and donors contribute to 1 billion. See www.reliefweb.int/appeals. The total amount pledged between 2001 and 2003 is \$ 9.74 billion while \$3.7 billion was disbursed (1 to 6 years disbursement period). See O'Hanlon, E. Micheal and Albuquerque, L. Adriana, "Afghanistan Index. Tracking Variables of Reconstruction and Security in Post-Taleban Afghanistan", The Brookings Institutions, 18 January 2005. www.brookings.edu/afghanistanindex

2. Background – Cereal Supply

The table 1 shows that estimated production fell to the lowest on record during the drought years of 2000 and 2001 - with aggregated cereal production estimated at less than 2 million tones – then went up to a record high in 2003 when aggregated production was estimated at 5.37 million tones. The table 1 also shows that in 2000/01 and 2001/02 marketing years, official data estimated an uncovered cereal deficit of more than 1,000 tons. Based on an average annual cereal consumption of 170 kg per capita, this represents an equivalent of 6.1 million people or more than a quarter to the total population who should have been without food! During the drought years (1999 and 2001³), the food security situation has been under serious stress, yet even in the most drought affected areas, the situation did not deteriorate to widespread acute malnutrition or famine with loss of human lives⁴. Therefore, the 6.1 million people equivalents represented by the estimated uncovered deficit have been able to meet their basic food requirements and are still accounted for! Cereal production or cereal imports seem to have been under-estimated.

The extent of production variation can be explained by the erratic

climatic/rainfall conditions⁵ and the “re-discovery” of rural Afghanistan in the past 3 years through various agriculture surveys and field assessments. These surveys have contributed significantly to producing more accurate cereal production estimates. Indeed, official FAO production estimates were, until 2001, based on old baseline data dating back to the late 70s.

The various surveys conducted in 2002 and 2003 provide new baselines for future estimates⁶. In 3 years, irrigated wheat yield estimates have varied from 1.31 MT/Ha in 2001 (drought year), to 2.0 MT/Ha in 2002⁷ and 2.85 MT/Ha in

⁵ Cereal production in Afghanistan is by nature highly erratic as in good years up to ¼ of the total cereal production comes from rain-fed or “*lalmi*” farm land, but in below average years, rain-fed production can also be responsible for the missing 25%. While in 2003, “*lalmi*” wheat produced an estimated 1.35 million tones or 25% of the total cereal production in the country, in 2001, “*Lalmi*” fields produced 0.08 million MT only; 17 times less than 2003 or 4% of the overall cereal production!

⁶ See Maletta, Hector and Favre, Raphy, “*Agriculture and Food Production in Post-war Afghanistan. A Report of the Winter Agriculture Survey 2002-2003*”, FAO, Kabul, August 2003, www.fao.org/world/afghanistan/; Favre, Raphy; Fitzherbert, Anthony; Escobedo, Javier; “*MAAH/MRRD/FAO/WFP National Crop Output Assessment. 10th May to 5th June 2003*”, FAO/FAIT, FAO, Kabul, June 30, 2003. www.fao.org/world/afghanistan/; Favre, Raphy, Sayed Nabi, Sayed Jan, Mohmand, Mohammad Ibrahim, “*MAAH/FAO National Crop Output Assessment. Second Phase. Second Crops in Lowlands and First Crops in Highlands. 27th August to 26th September 2003*”, FAO, 23 October 2003, www.fao.org/world/afghanistan/.

⁷ The 2002 CFSAM mission report noted that “an average yield of 2.0 tons/ha, which given the seed type and fertilizers used noted, may be conservative”. FAO/WFP, “*Crop and Food Supply*

³ 1999-2002 in Southern Afghanistan.

⁴ For background on malnutrition during the drought and the underlying causes, see in particular Assefa, Fitsum, “*Malnutrition and Mortality in Kohistan, Faryab Province*”, JAMA 2001, No 286, p. 2723-2728 and Ministry of Health, “*Public Nutrition Policy and Strategy 2003-2006*”, Transitional Islamic State of Afghanistan, Public Nutrition Department, 2004.

2003. Yield estimates prior to 2002 have certainly been too conservative. The Swedish Committee for Afghanistan (SCA) agriculture survey conducted in the early 90s already indicated that yield level was higher than official estimates⁸.

These data would certainly reflect better realities and events during the past years.

If cereal supply estimates in 2000/01 and 2001/02 had been based on a more realistic average irrigated wheat yield of 2.0 MT (instead of 1.1 and 1.3)⁹, the total production estimates would have increased by about 1 million tons, the commercial import requirements lowered to 1 million tons and the uncovered deficit would have been reduced to nil in 2000 and 0.23 million tons in 2001¹⁰.

Assessment Mission to Afghanistan (CFSAM), 13 August 2003.

⁸ For a discussion on this, see Maletta, Hector and Favre, Raphy, *Agriculture and Food Production in Post-war Afghanistan. A Report of the Winter Agriculture Survey 2002-2003*, FAO, Kabul, August 2003, www.fao.org/world/afghanistan/.

⁹ 2000/01: 1.189 million hectares x 2.0 Mt/Ha = 2.378 million Mt instead of 1.329 million Mt (CFSAM estimated an average irrigated wheat yield of 1.12 Mt/Ha in 2000). The difference would have been 1.049 million Mt.

2001/02: 1.156 million hectares x 2 Mt/Ha = 2.312 million Mt instead of 1.514 million Mt (CFSAM estimated an average irrigated wheat yield of 1.31 Mt/Ha in 2001). The difference would have been 0.8 million Mt.

For 1999/00, the difference in cereal availability would have been 404 Mt. The uncovered deficit after commercial imports and food aid would have been nil. 1.196 million hectares x 2 Mt/Ha = 2.392 million MT instead of 1.988 million Mt (CFSAM estimated and average irrigated yield of 1.66 Mt/Ha in 1999).

¹⁰ Other factors can influence the accuracy of the estimates. Uncertainties over population figures in Afghanistan are rendering total cereal utilization difficult to estimate. Afghanistan is among the very few countries in the world that had no scientific reporting of its population and, as a result, suffers from socio-economic uncertainties that might be expected from such a lack of data. Unofficial wheat imports are also a factor of inaccuracy although they represent a rather small amount. The World Bank 2000 survey indicates that wheat is unofficially imported to Afghanistan, and together with wheat flour, total unofficial imports were about 175,000 tons (worth \$ 37 million) in 2000.

Table 1
Cereal Balance Sheet for the last 8 years in '000 MT. Source: FAO¹¹

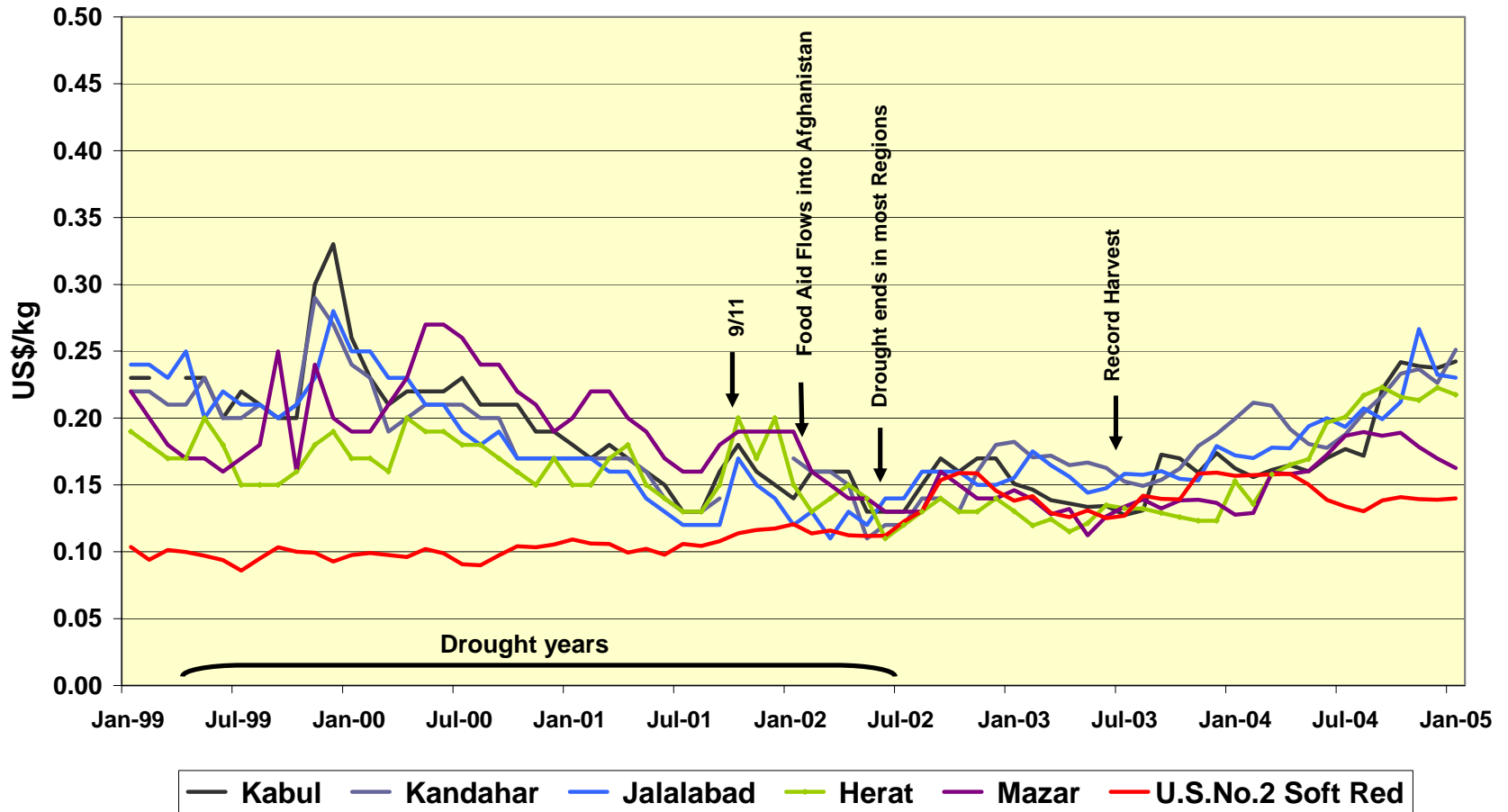
	1997/ 98	1998/ 99	1999/ 00	2000/ 01	2001/ 02	2002/ 03	2003/ 04	2004/ 05	8 years Average
Domestic Availability	3830	3894	3236	1763	1967	3588	5486	3343	3395
Opening Stock	170	190	0	-	0	0	114	200	68
Production	3660	3704	3236	1763	1967	3588	5372	3057	3327
Total Utilization*	4540	4634	4363	4084	4145	4967	5878	5076	4659
Food Used	3120	3140	3393	3504	3556	3878	4073	4068	3523
Animal Feed	369	380	337	89	66	397	510	293	307
Seed and Waste	661	680	633	491	523	692	1095	715	682
Exports	160	170	0	0	0	0	0	0	47
Closing Stocks/Stock buildup	230	264	0	0	0	0	200	0	99
Import Requirements	710	740	1127	2321	2178	1379	392	1733	1264
Commercial	560	600	804	1049	760	911	392	1407	725
Food Aid (planned)	150	140	97	225	386	468	--	86	209
Uncovered Deficit	0	0	226	1047	1032	0	0	326	329
Import Requirements as % of Total Utilization	16	16	26	57	53	28	7	34	27
Food Aid as % of Com. Import	21	19	9	10	18	34	--	--	17
Uncovered Deficit as % of Com. Import	0	0	20	45	47	0	0	23	26
Population equivalent of uncovered Deficit	0	0	1329	6159	6071	0	0	1918	1937

* On the variation of the total cereal utilization estimates, see Annex I

¹¹ FAO/WFP, "Crop and Food Supply Assessment Mission to Afghanistan (CFSAM)", 1997 to 2004.
www.fao.org

Graph 1
Retail wheat prices between 1999 and 2004 in selected cities (WFP/VAM data)

Retail Wheat Prices between 1999 and 2004



3. Unexpected Wheat Prices Trends

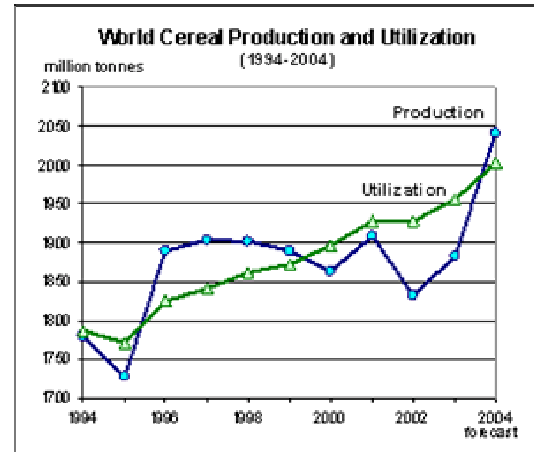
The graph 1 shows that wheat prices in Afghanistan remained remarkably stable considering the internal shocks affecting cereal production in the country. In the years 1999 to 2002, Afghanistan experienced the worst drought in at least 30 years. While, the cereal production in the country plunged and the cereal deficit increased to approximately 1 million MT¹², wheat prices during the drought period continued to drop unexpectedly with little fluctuations until autumn 2001¹³.

In 2002, after the change of government, Afghanistan experienced a massive inflow of food aid, a significant increase in cereal harvest in 2002 and a record harvest in 2003. Cereal production in 2003 reached an historical record of 5.3 million MT while food aid was still pouring in and yet with the exception of North-eastern Afghanistan, this aid was unable to move prices down significantly during that period. On the contrary, since July 2002, the general trend of wheat prices has been upward! Wheat prices in Afghanistan seem to defy common logic. One has to conclude that cereal supply is not affecting wheat prices trends.

The world market prices also seem to have followed different trends than the Afghanistan prices. The figure 1 shows that between 2000 and 2003, the overall estimated world cereal production was lower than the utilization. This seems to have resulted in a slight increase of

world cereal prices between 2001 and early 2004 when the trend reversed.

Figure 1
World cereal production and utilization.
Source: FAO¹⁴



The graph 1, 3 and 4 show that Afghanistan wheat prices trends seem to be correlated to international prices trends¹⁵ only between mid-2002 and early 2004. During this period, the wheat prices in various cities were at a similar level to international prices¹⁶. Given the landlocked situation of Afghanistan such prices levels are not reflecting the additional transportation costs and therefore seems to be lower than what traders could offer. Prices trends during this period shows that while significant increased in food aid and a record harvest did not manage to change

¹⁴ FAO, www.fao.org/documents/show_cdr.asp?url_file=/d/ocrep/007/j3877e/j3877e03.htm

¹⁵ US No2 soft red winter wheat is used as the reference.

¹⁶ For a discussion on wheat prices in Afghanistan after the record harvest in 2003, see Favre, Raphy, "Contribution to Food Aid Policy Development for Afghanistan. Wheat Balance by Region and Province, July 2003-June 2004", FAO, Kabul, 14th August 2003. www.fao.org/world/afghanistan/.

¹² Author own estimates. See previous chapter.

¹³ Maletta, Hector made similar observations in "Wages of War, Wages of Peace: Food Prices and Unskilled Labor Pay in Afghanistan, 1996-2002", Kabul, Dec 2002. www.fao.org/world/afghanistan/.

trends in wheat prices. At best, it succeeded to slightly depress the wheat prices closer to the international prices level. Possible wheat prices subsidies on Pakistani wheat may also have contributed to wheat prices reduction in Afghanistan.

Before mid-2002 and after the end of 2003, wheat prices trends between Afghanistan and the international markets have been going in opposite

directions. It is interesting to note that the prices of wheat in Afghanistan were consistently higher than the international prices during the whole Taleban period. Soon after their capture of Kabul in September 1996 the prices of wheat in Afghanistan increased well above the world market prices while soon after their removal from power at the end of 2001, the wheat prices lowered to the international prices level.

4. Low Wheat Prices in North-Eastern Afghanistan in 2003

Cereal crop surveys conducted in 2003, showed that the North and North-East regions had an estimated surplus of 844 thousand tons of wheat grains, while most regions in Afghanistan had a deficit in local grain production (see graph 2)¹⁷.

The closure for maintenance of the Salang tunnel¹⁸ in summer-autumn 2003 coincided with the highest harvest on record in Afghanistan, and this resulted in a decrease in wheat prices in Northern Afghanistan. When the author visited Northern bazaars in September 2003, most rain-fed wheat had been harvested and wheat was sold as low as \$ 65-75 per ton¹⁹. WFP market surveillance data did not record the drop in price in summer-autumn 2003.

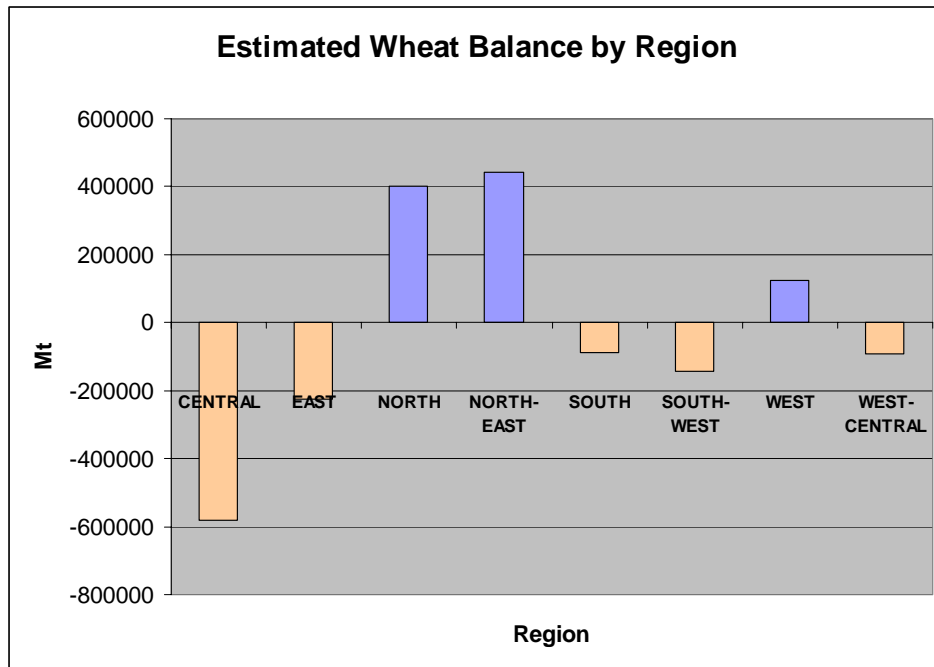
For the first time in 7 years, local wheat production has significantly affected market prices in two regions of Afghanistan. It took a record harvest and disruption of road communications to do so. In other regions of Afghanistan, 2003 wheat prices were higher than previous years.

¹⁷ Favre, Raphy, *op. cit.*, 14th August 2003.

¹⁸ Road linking Northern Afghanistan to Kabul and other cities South of the Hindu-Kush range.

¹⁹ Favre, Raphy, Sayed Nabi, Sayed Jan, Mohmand, Mohammad Ibrahim, "MAAH/FAO National Crop Output Assessment. Second Phase. Second Crops in Lowlands and First Crops in Highlands. 27th August to 26th September 2003", FAO, 23 October 2003, www.fao.org/world/afghanistan/.

Graph 2
Estimated wheat balance by region, based on the CFSAM 2003 forecasts

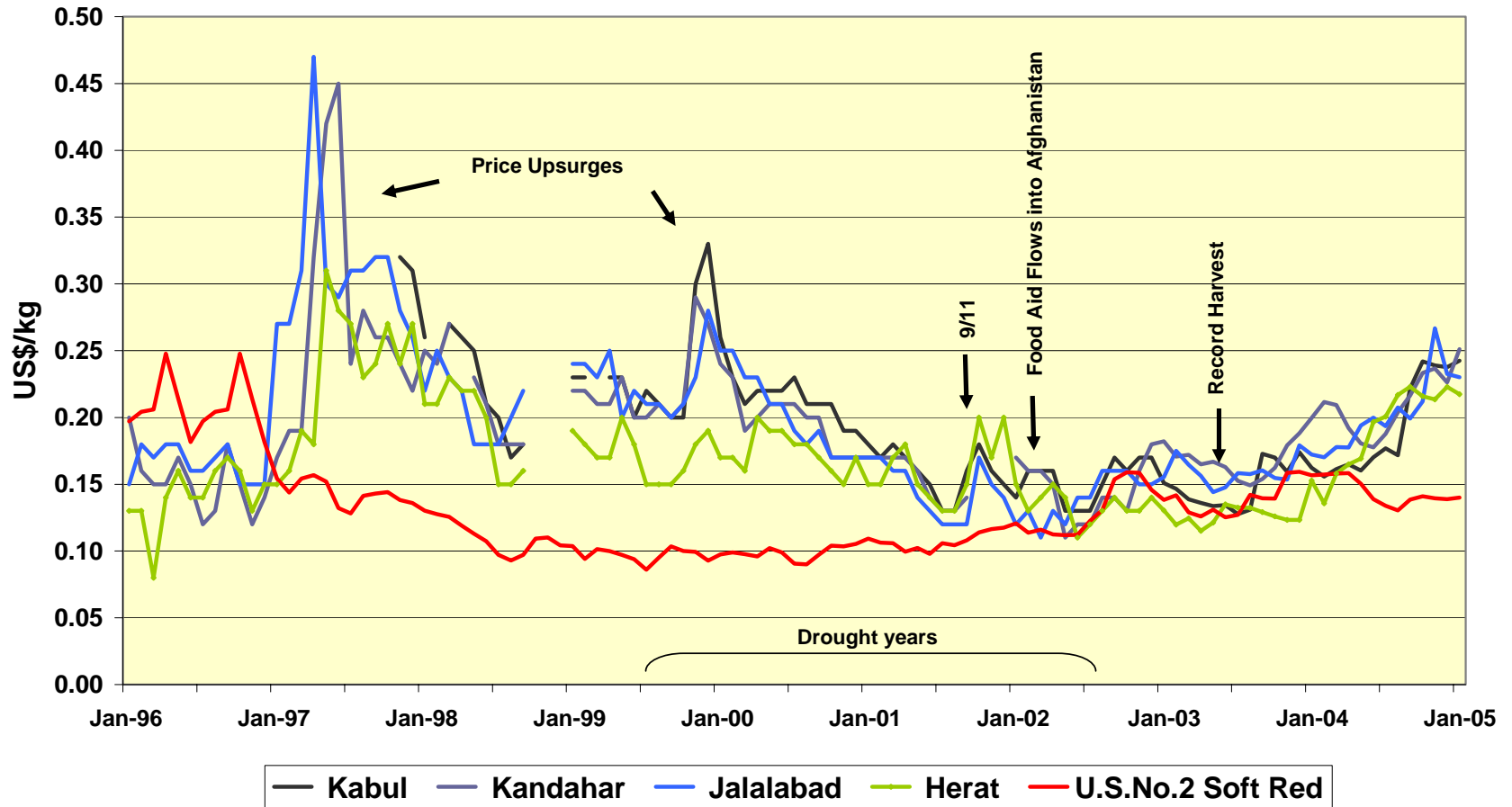


Picture 2
View of rain-fed wheat fields being harvested in Northern Afghanistan. Khawaja Khar district center, Takhar province. 7 September 2003



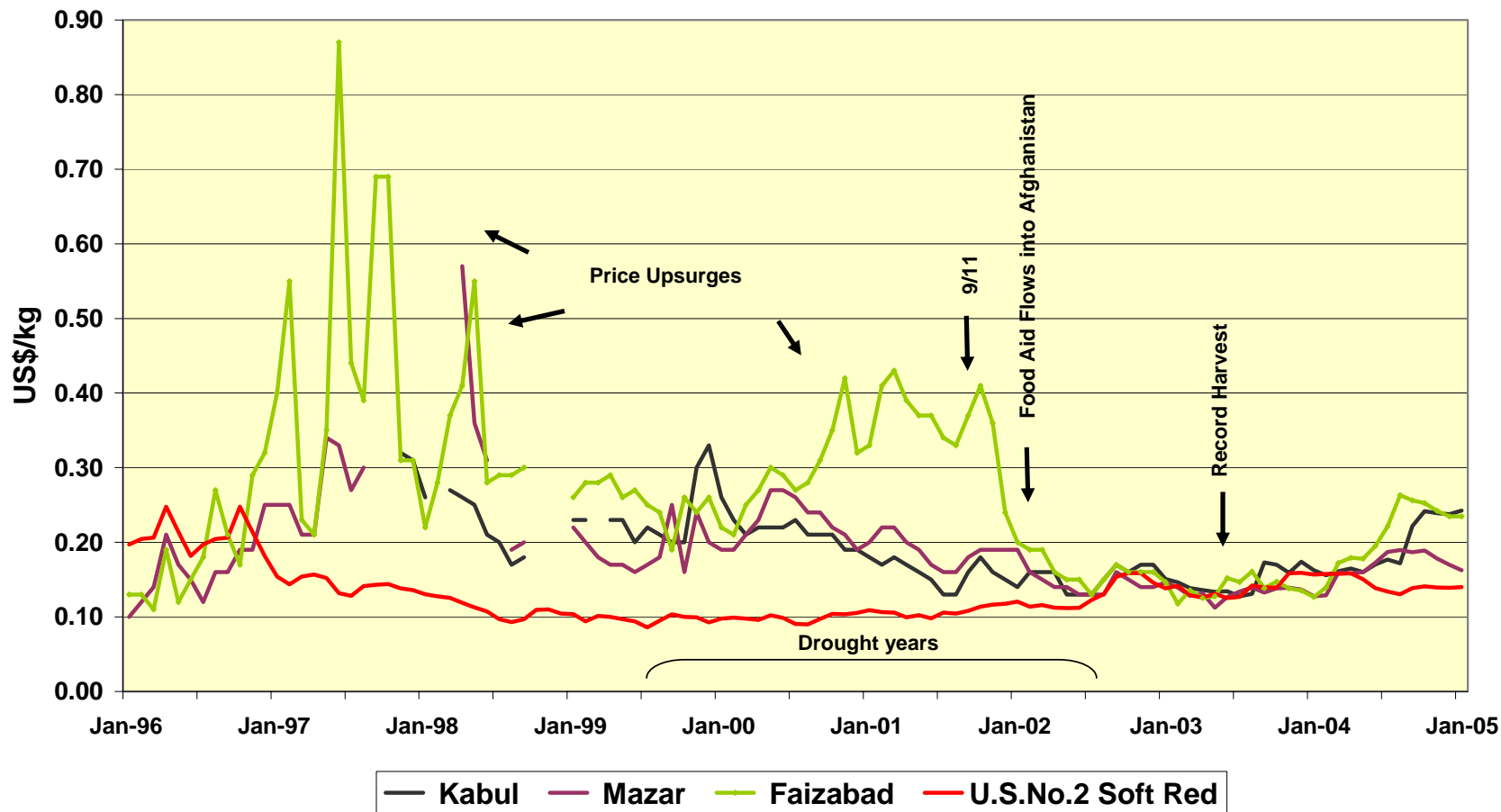
Graph 3
Retail wheat prices in cities south of the Hindu-Kush Mountain range (WFP/VAM data)

Retail Wheat Prices in Cities South of Hindu-Kush Range



Graph 4
Retail wheat prices in cities North of the Hindu-Kush Mountain range (WFP/VAM data)

Retail Wheat Prices in Cities North of Hindu-Kush Range



5. Explaining Wheat Prices Fluctuations over the Past 8 Years

Wheat prices have remained remarkably stable in relation to the vast amplitude of wheat production in the country. Yet, the graphs 3 and 4 show that wheat prices are highly volatile as prices suddenly increased at specific times over the past 8 years. The graphs 3 and 4 show that

these fluctuations happened in September 2001, in late 1999/early 2000 and more significantly in spring 1997. These sudden increases have resulted in higher wheat prices in the market and it was only in 2002, that the wheat prices reached the 1996 level.

5.1 Upsurge of Wheat Prices in Spring 1997

In April/May 1997, the price of wheat increased suddenly. In Kandahar, Herat and Mazar by +0.13 \$/kg, Faizabad by +0.14 \$/kg and Jalalabad by +0.16\$/kg. This upsurge of wheat prices in the Afghan market was the result of the volatile military and political situation in the country that prevailed at that time. The prices slowly decreased until the end of 1999.

While the spring season began in March/April 1997, intense political and military maneuvers took place in Afghanistan. In the North, the feud between Gen. Rashid Dostum and Gen. Malik Pahlawan intensified in April 1997 when Malik called the Taleban for help. The Taleban seized the opportunity to strike an unlikely alliance with Gen. Malik and rapidly pushed Dostum from Herat and Kabul to the northern provinces of Afghanistan. In May 1997 Mazar fell into the hands of the Taliban and Dostum fled to Uzbekistan. However, the population of Mazar-e Sharif refused to be disarmed by Taleban forces and fighting broke out in the town. Unhappy with the deal offered

by the Taleban, Gen. Malik took the opportunity to turn his guns against them and swiftly regain control of the Northern provinces. The Taleban forces were trapped in the North. Massud, seized the opportunity to regain control over Jebul Seraj and pushed his forces toward Kabul, while Hazara regained control over Bamyan and pushed toward Kabul as well. In spring 1997, the Taleban suffered their worst defeat since their emergence.

Mullah Omar gave an urgent call for students in Pakistan to come and help the Taleban. "The Taleban were also forced to recruit increased manpower among Ghilzai Pashtun tribes of Eastern Afghanistan and Pakistan, but they demanded political prices which the Taliban were not prepared to pay. The Ghilzai tribe who had dominated the anti-Soviet war effort was not prepared to be used as cannon fodder by the Taleban without adequate

representation in the Durrani-dominated Taliban Shura”²⁰.

The political and military situation in Afghanistan was highly uncertain and the Taliban rule was vacillating. Traders and business man were not prepared to trade during the intensive conflict period of April-May-June 1997. However, while the military fronts stabilized between July 1997 and August 1998, the political situation remained highly volatile, which resulted in higher than normal transportation costs. Wheat prices hit a ceiling in April-May-June 1997 and slowly reduced until late 1999.

“The arrival of the Taleban in the north had a salutary effect on the four-year-old civil war in Tajikistan as it forced both sides in the conflict to quicken the pace of negotiations. A peace settlement between the Tajik government and the Islamic opposition, brokered by Russia and the UN was reached on 27 June 1997” (Ahmad, 2000). The settlement provided a major boost to Massud as Russia could now re-supply him from bases inside Tajikistan. Massud was able to use the airport of Kuliab in southern Tajikistan to receive supplies. Borders were reopened and official trading could resume and Badakshan was able to reopen an expensive but practicable trading route. This resulted in a reduction of prices in the bazaar.

In summer 1998, “Taleban had persuaded Pakistan and Saudi Arabia to back them in another offensive to take the north”. The offensive came from Herat in July and Mazar fell into the hands of the Taleban on the 8th August 1998. It was the victory that enabled the Taleban to take control over much of Afghanistan and they subsequently consolidated their power until September 11, 2001.

²⁰ Rashid, Ahmad; “*Taleban. Militant Islam, Oil and Fundamentalism in Central Asia*”, Yale University Press, 2000.

5.2 Upsurge of Wheat Prices in Autumn 1999 and Late 2001

Wheat prices steadily decreased until September 2001, except for a short increase of prices in late 1999. Faizabad was a case apart. After the consolidation of the Taleban power in most of the Northern Regions, Badakhshan remained the last significant bastion of the Northern anti-Taleban Alliance. Faizabad was cut off from other Afghan markets and the prices remained in consequence much higher. After the Taleban fall in early 2002, Faizabad was opened up to other markets and prices quickly fell in line with the rest of the country.

In late 1999/early 2000, the wheat prices increased temporarily in the markets closely linked to Pakistani supply routes

(Kabul, Jalabad and Kandahar). In other markets, supplied from Iran or Central Asia (Mazar, Herat and Faizabad), the prices remained stable. This increase of prices is probably related to the military coup in Pakistan on 12 October 1999.

September 11, 2001 affected the wheat prices for a short period of time. Between August and October 2001, prices of wheat increased by 0.06 \$/kg in all markets in Afghanistan (Kandahar was not accessible). Prices increased probably because of the fear of swift and massive American retaliations against the Taleban and against Afghanistan as occurred in 1998 against some training camps in Eastern Afghanistan.

5.3 New Increasing Trends in 2004

In 2004, the prices of wheat steady increased in Afghanistan while international wheat prices remained stable or decreased. This recent upward trend could be a reflection of a stabilization of the wheat prices at a level which is naturally higher than the international market due to the landlocked situation of Afghanistan. Another reason could be that in 2004, a significant amount of wheat was procured on the local market for the emerging milling industry. The demobilization program (DDR) had contracted various government mills (silo enterprises) to produce wheat flour for the national army from locally procured wheat. WFP also procured 10,000 Mt of wheat in Northern

Afghanistan in the same year²¹. Private wheat mills have also been procuring large quantities of wheat from the national markets. Late 2004, the management of the new Kabul flour mill procured 5,000 tons of wheat from Kazakhstan for their own production as there was a supply shortage in the local wheat market.

²¹ Daniel Molla, personal communication.

6. Case Study: Wheat Prices Fluctuation in 2002

6.1 Selection of the Year

In this section, a review of the fluctuation of wheat grain prices in 2002 in 6 main wheat markets is presented. The year 2002 was chosen as reliable data on wheat production and food distributions are available (kindly provided by WFP) and the cereal production was closer to normality than previous years (although the drought was still affecting the Southern part of the country). Also, in 2002 food aid distribution increased significantly and possible impacts on local wheat markets can be assessed.

The years 1999-2001 were drought years, 2003 was an exceptional year with the highest yield on record while in 2004 cereal production figures lack reliability. Indeed, FAO and WFP unfortunately did not conduct pre-harvest crop assessment on that year. A rapid post-harvest review took place in August for the preparation of the annual FAO/WFP CFSAM report. The table 2 presents the monthly retail wheat prices in 6 main markets in Afghanistan for the 2002 cropping season.

Table 2
Retail wheat prices in 6 markets in Afghanistan. The lowest values are marked in bold characters
Prices in US \$. Source: WFP/VAM

	Kabul	Kandahar	Herat	Mazar	Jalalabad	Faizabad
Jan-02	0.14	0.17	0.15	0.19	0.12	0.20
Feb-02	0.16	0.16	0.13	0.16	0.13	0.19
Mar-02	0.16	0.16	0.14	0.15	0.11	0.19
Apr-02	0.16	0.15	0.15	0.14	0.13	0.16
May-02	0.13	0.11	0.14	0.14	0.12	0.15
Jun-02	0.13	0.12	0.11	0.13	0.14	0.15
Jul-02	0.13	0.12	0.12	0.13	0.14	0.13
Aug-02	0.15	0.14	0.13	0.13	0.16	0.15
Sep-02	0.17	0.14	0.14	0.16	0.16	0.17
Oct-02	0.16	0.13	0.13	0.15	0.16	0.16
Nov-02	0.17	0.16	0.13	0.14	0.15	0.16
Dec-02	0.17	0.18	0.14	0.14	0.15	0.16
Average-02	0.16	0.15	0.13	0.15	0.14	0.16

6.2 Tradable Demand and Tradable Supply

Tradable Supply

One limiting factor for quantifying the short term price flexibility with respect to tradable supply changes on the bazaar is that we do not know the amount of tradable wheat supply following a good or bad harvest or food aid distribution. Therefore, the reaction of wheat prices to changes in cereal production and food aid is difficult to quantify. For this reason, most of the analysis presented in this chapter is of quantitative nature.

Agriculture surveys allow defining some trends in tradable wheat supply in Afghanistan. Maletta and Favre (2002)²² showed that only a fraction of Afghan farmers are able to sell wheat, and most of those are only able to sell modest amounts. Of all farms with wheat output, 84.3% had not sold any wheat by the time of the winter survey. The scale of the sales is also modest, mostly below 5 MT, and two thirds of the sellers had sold less than 1 MT. On average only 224 kg of wheat has been sold per household (about 11% of the supply). Another 12% had been paid as land rent or for other obligations. Therefore, 77% of all the wheat produced remained in the households for domestic consumption or for later sale. Also, more than half of the wheat exchanged from the farm is exchanged outside of the markets (sharecropping, land rent and other obligations such as religious taxes). The proportion of wheat produced exchanged through the market is minimal.

²² Maletta, Hector and Favre, Raphy, "Agriculture and Food Production in Post-war Afghanistan. A Report of the Winter Agriculture Survey 2002-2003", FAO, Kabul, August 2003, www.fao.org/world/afghanistan/;

From these observations, one should not conclude that Afghan farmers' strategy is toward achieving self-sufficiency rather than responding to market demands. Field observations have shown that Afghan farmers are quickly responding to market signals²³. If low value crops²⁴ such as wheat are still predominant in Afghanistan it is because farmers do not have market opportunities for other products. Farmer's family consumption is the best valued market for low value staple crops.

²³ See Favre, Raphy; Fitzherbert, Anthony; Escobedo, Javier; "MAAH/MRRD/FAO/WFP National Crop Output Assessment. 10th May to 5th June 2003", FAO/FAIT, FAO, Kabul, June 30, 2003. www.fao.org/world/afghanistan/

²⁴ On cost of production and income of wheat, see Maletta, Hector, "The Grain and the Chaff: The Cost of Production of Wheat in Afghanistan in a Farming System Perspective", FAO, December 2003. www.fao.org/world/afghanistan/

Tradable demand

With the available data, it is possible to estimate the “tradable” demand which is roughly equivalent to the total estimated utilization less the total production and the targeted food aid. It is interesting to note that since food supply estimates have been produced in the early 1960s²⁵, Afghanistan has been a chronically food deficit country. The table 1 summarizes the cereal balance sheet in the past 8 years. The commercial imports are estimated by FAO based on commercial import data provided by Afghanistan neighboring countries.

Maletta and Favre (2002)²⁶ showed that the “total cereal balance of the farm sector is positive (+310,480 MT), but once obligations in kind are deducted the net balance turns out to be negative (-49,660 MT). By the time of the survey, four to six months after the harvest, 69% of all farmers had already purchased some wheat for their families”. Even in 2002²⁷, most of the Afghan farmers had purchased wheat for their families 6 months after the harvest²⁸. The variation of tradable demand is therefore highly sensitive to annual wheat production level.

²⁵ See FAO statistical database www.fao.org. Food self-sufficiency is achieved only in exceptional years when opportunistic rain-fed or “*laim*” wheat production in the North boosts the national cereal production.

²⁶ Maletta, Hector and Favre, Raphy, *Ibid.*, 2003.

²⁷ 2002 wheat production (2.89 million MT) was well above the 30 years (2.01 million MT) and 10 years (2.48 million MT) average wheat production.

²⁸ Maletta and Favre noted that “since few deficit farms have sufficient amounts of cash crops, most of the monetary income used by deficit farmers to purchase wheat is off-farm income, including farm labourer’s wages, wages in non-agricultural occupations such as construction, remittances from relatives living in towns or abroad, and other analogous sources”. Maletta, Hector and Favre, Raphy, *Ibid.*, 2003.

6.3 Regional Wheat Prices Analysis in 2002

Kabul

The price of wheat increased from February to April and then dropped by 0.03 \$/Kg in May, one month before the harvest starts in surrounding areas. Kabul wheat market is well connected to other markets in Afghanistan and Pakistan and thus prices in Kabul are influenced by the beginning of harvest in other regions in May as well as harvesting in Pakistan. On wheat prices in Kabul, Maletta²⁹ notes that “the seasonal post-harvest price drop in the summer of 2001, with an extremely poor harvest, was of similar magnitude than the corresponding drop in 2002, when a much larger output hit the domestic market. In both cases the price dropped in the summer from about \$0.16 to \$0.13, rising again to the previous level during the autumn”. In September, the harvest is finished even in the highest locations surrounding Kabul and the prices stabilize at about 0.17 \$/Kg. In 2002, FAO/WFP estimated that 178'000 tons of wheat was produced in the Central region.

Kandahar

The prices of wheat were higher from February to April and dropped by 0.03 US\$/kg in May, during the wheat harvest in Kandahar and in the fertile neighboring Helmand valley. In 2002, FAO/WFP estimated that 398'000 tons of wheat were harvested in the South-West region, mostly in May. The prices of wheat gradually increased from June onward and reached a maximum in December 2002.

Between June to September WFP wheat distribution increased from 4000 to 6000 tons per month while wheat prices also increased from 0.11 to 0.14 US\$/Kg in the same period. Wheat prices were not affected by WFP wheat distribution.

Mazar-e Sharif

The price of wheat declined constantly between January and June 2002 by a monthly average of about 0.01 US\$/kg. The prices stabilized at 0.13 US\$/Kg from June to August during the harvesting period in the Northern plains and rain-fed hills. In 2002, FAO/WFP estimated that 629'000 tons of wheat were produced in the North region, mostly between June and August. In autumn, the prices increased and stabilized at the spring level.

In Mazar-e Sharif, the variation of WFP wheat quantities distributed coincided with the harvesting period and the impact on wheat market prices is difficult to judge.

²⁹ H. Maletta, *Ibid.*, December 2002.

Herat

The price of wheat increased slightly between February to March and dropped by 0.3 US\$/kg in June during the harvesting period in the Western region. In 2002, FAO/WFP estimated that 528'000 tons of wheat was harvested in the West region, mostly in June. Wheat prices then steadily increased by a monthly 0.01 US\$/kg to stabilize at 0.13/0.14 US\$/kg from August onward, two months after the peak harvesting period.

In Herat, the increase of WFP wheat distribution coincided with the harvesting period and the impact on wheat market prices is difficult to judge. However, a sharp increase of WFP wheat distribution in Herat area (13'000 tons) in September did not result in a decrease of wheat price on the market. In Herat as well, wheat prices were not affected by WFP wheat distribution.

Jalalabad

During 2002, the price of wheat in Jalalabad was subject to slight variations between January and May, with little apparent relation to the harvesting period in May. In 2002, FAO/WFP estimated that 125,000 tons of wheat was produced in the Eastern region. The harvest did not affect the wheat prices in Jalalabad. Moreover, just after the harvest, the price of wheat increased by a monthly average of 0.01 US\$/kg to stabilize at 0.16 US\$/kg in August.

The amount of WFP wheat distributed monthly in Jalalabad was low and stabilized at about 1,000 MT between June and September 2002. The wheat market in Jalalabad is closely related to markets in Pakistan³⁰ and an explanation of the price fluctuations should be sought on the other side of the border.

³⁰ Pakistani Rupee is the common currency used in Jalalabad market.

Faizabad

The prices of wheat in Faizabad constantly decreased from January to July by a monthly average of about 0.01 US\$/kg (from 0.2 US\$/kg in January to 0.13 US\$/kg in June). From July to September, the wheat price increased by 0.02 US\$/kg to reach 0.17 US\$/kg in September. Faizabad region is characterized by a large area of cultivation ranging from the low and fertile valleys up to the highest elevations. Valleys are steep and narrow and between areas separated by only a few kilometers, harvests start in June (lowest part of the valleys) and continue up to September (higher up in the valleys). This results in the markets being supplied regularly over the months when the harvest takes place.

WFP food distribution in Faizabad area sharply decreased between April and August 2002 (from 5,000 to 1,000 tons per month) and this did not influence wheat prices in the market.

The review of the market data in 2002 shows that in general, wheat prices on the market have dropped by 0.03 US\$/kg during the harvesting period. Jalalabad and Faizabad markets have shown their particularities as one is closely linked to the Pakistani wheat markets and the other is located in a particular agriculture environment. The review of the WFP food distribution figures³¹ also shows that food aid had no impact on wheat prices³². Comparison of market prices in Kabul in 2001 (drought year) and 2002 shows that significant changes in local wheat production and massive food aid in the country did not affect, even temporarily, wheat prices on local markets.

³¹ For data and graphs on 2002 food aid distribution in 2002, see Hale, Andy D., "Afghanistan Food Aid Impact Assessment", Chemonics International Inc., December 2002.

³² It may be interesting to note that in 2002 Andy Hale reported opposite findings through the analysis of an inaccurate wheat price data set (April-September 2002). September 2002 wheat prices reported by Chemonics are lower than the original data set by 0.08 to 0.10 \$/Kg in locations where food aid had increased. In Kabul, food aid had actually decreased in September 2002 and the original upward trend in wheat price remained un-changed. These changes led Chemonics' analyst to inaccurately establish an inverse correlation between wheat prices and food aid. However, the actual WFP data shows that in all markets in Afghanistan, wheat prices remained stable (Kandahar and Jalalabad) or significantly increased in September 2002 (see table 2). All the other figures presented by Chemonics graphs matches with WFP wheat market price figures, except for this last month of September. The dataset in Andy Hale report can be compared with the actual WFP data presented in Annex II.

7. Conclusion: a Direct Supply Relationship to Wheat Prices in Afghanistan

The review of the wheat market data in 6 markets in Afghanistan shows that wheat prices are remarkably stable compared to variations of “tradable” demand. Dramatic variations in cereal production and food aid in the past 8 years did not affect wheat prices, apart from an important but specific case in Northern Afghanistan in 2003. Field observations show that food aid is not commonly seen in the market place and therefore it can be deduced that food distributed to the most vulnerable is used or stored for future consumption and not sold to traders.

However, wheat prices proved to be highly volatile to variation of tradable supply as it occurred during intense military and political volatility while traders had reduced or stopped their supplies. These sudden fluctuations bear no relation to international wheat prices, food aid or cereal production in the country. Wheat price analysis over the past 8 years suggests that in Afghanistan wheat price volatility is characterized by a direct tradable supply relationship. Therefore, any intervention that is directly influencing tradable supply of cereals on the market such as road disruption, wheat monetization or local wheat procurements could affect directly market prices. The security improvement in the past years is translating into increased wheat prices stability on the market as trade has no longer been disrupted³³. The upward wheat trend noted in the second part of 2004 is partly related to substantial

wheat procurement on local market for the emerging wheat flour industry³⁴.

As prices have been remarkably stable compared to the demand variation (drought years versus record harvest years) it demonstrates that Afghan traders have the capacity to supply the right quantity of cereal required at the right time without creating large stocks that would result in decreasing prices. However, disruptions of tradable supply (political insecurity or road disruption) are sudden and therefore more difficult to anticipate.

The analysis of the “*hawala*” system in Afghanistan has demonstrated the close proximity between the Afghan Diaspora abroad partly financing the trade system, traders, money exchangers and consumers³⁵. Proximity between protagonists in trade is translated into accurate identification of consumers’ demands. Bazaars development linked through a massive extension of the secondary road network in the past 25 years³⁶ provides the required logistic infrastructures that enable timely food/wheat supply at stable price up to the most remote regions in the country. These systems are extremely important resilience factors for the Afghan population.

Yet, the review on the road network conditions shows that secondary roads linking local bazaars to the ring road are “temporary” and require continuous maintenance. Gravel/dirt roads are

³³ See Favre, Raphy, “*Market Development, Location of Bazaars and Road Network Conditions in Afghanistan*”, 2005, in this issue.

³⁴ This view is shared by wheat millers interviewed by the author.

³⁵ See Favre, Raphy, *Ibid.*, 2005.

³⁶ See Favre, Raphy, *Ibid.*, 2005.

under constant and rapid degradation (rainfall, flood, frost). The analysis on the road network also showed the role of the emergency assistance (WFP food for work) and the military commanders in the expansion of the secondary roads in the past two decades. Therefore, in post-war Afghanistan, it remains to be seen how rural Afghanistan will be able to maintain these vital infrastructures when international aid is moving away from “emergency” assistance toward development and the role of military commanders decrease. The analysis on the interface between State and society underlined the importance of promoting local representative structures at suitable levels where vital public infrastructures maintenance can be addressed³⁷.

³⁷ See Favre, Raphy, *“Interface between State and Society. An Approach for Afghanistan”*, 2005, in this issue.

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ANNEX I –

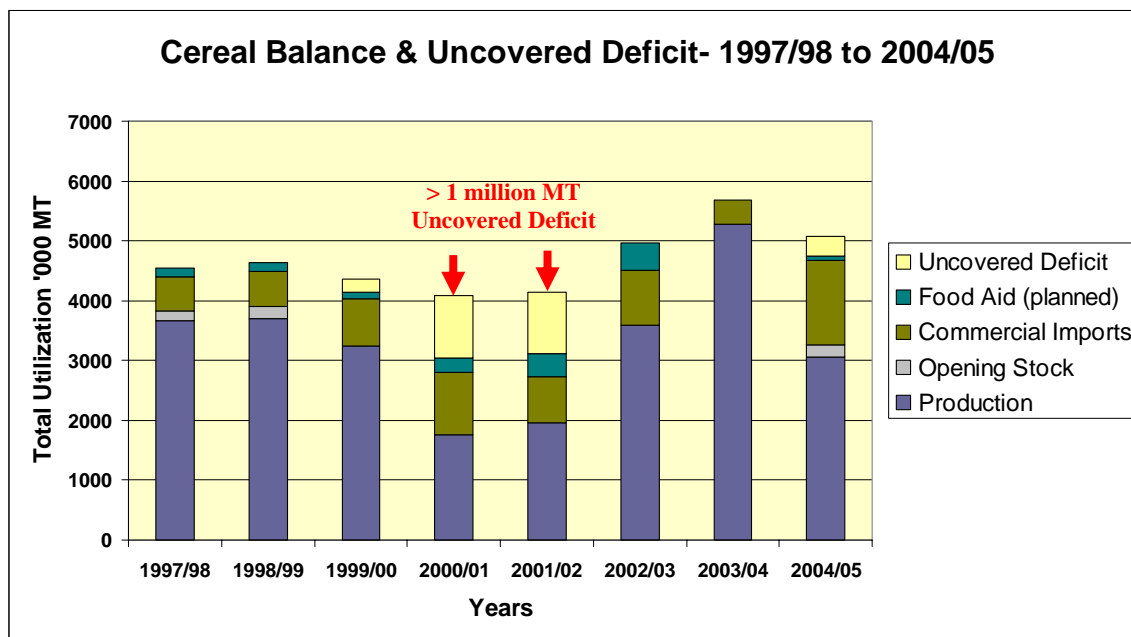
Total Cereal Utilization – Variations between 1997/98 and 2004/05

The graph 5 shows the variation of the total estimated cereal utilization. These variations can be explained by higher cereal consumption per capita in years with higher cereal production, population movements and higher seed

requirements in good years. The annual cereal consumption per capita was estimated at 160 kg for 2000 and 2001, 170 kg for 2002 and 180 kg for 2003 and 2004.

Graph 5

Cereal balance and uncovered deficits between the 1997/98 and 2004/05 marketing seasons. Source: FAO/WFP (see data table 1)



ANNEX – II

Retail Wheat Prices Data in 6 cities of Afghanistan and US No 2 Soft Red Price between January 1996 and January 2005

Table 3
Wheat price data between January 1996 and January 2005

1996-1998	Kabul	Kandahar	Jalalabad	Herat	Mazar	Faizabad	U.S.No.2 Soft Red
Jan 1996		0.20	0.15	0.13	0.10	0.13	0.20
Feb 1996		0.16	0.18	0.13	0.12	0.13	0.20
Mar 1996		0.15	0.17	0.08	0.14	0.11	0.21
Apr 1996		0.15	0.18	0.14	0.21	0.19	0.25
May 1996		0.17	0.18	0.16	0.17	0.12	0.21
Jun 1996		0.15	0.16	0.14	0.15	0.15	0.18
Jul 1996		0.12	0.16	0.14	0.12	0.18	0.20
Aug 1996		0.13	0.17	0.16	0.16	0.27	0.20
Sep 1996		0.18	0.18	0.17	0.16	0.21	0.21
Oct 1996	0.18	0.15	0.15	0.16	0.19	0.17	0.25
Nov 1996		0.12	0.15	0.13	0.19	0.29	0.21
Dec 1996		0.14	0.15	0.15	0.25	0.32	0.18
Jan 1997		0.17	0.27	0.15	0.25	0.40	0.15
Feb 1997		0.19	0.27	0.16	0.25	0.55	0.14
Mar 1997		0.19	0.31	0.19	0.21	0.23	0.15
Apr 1997		0.32	0.47	0.18	0.21	0.21	0.16
May 1997		0.42	0.30	0.31	0.34	0.35	0.15
Jun 1997		0.45	0.29	0.28	0.33	0.87	0.13
Jul 1997		0.24	0.31	0.27	0.27	0.44	0.13
Aug 1997		0.28	0.31	0.23	0.30	0.39	0.14
Sep 1997		0.26	0.32	0.24		0.69	0.14
Oct 1997		0.26	0.32	0.27		0.69	0.14
Nov 1997	0.32	0.24	0.28	0.24		0.31	0.14
Dec 1997	0.31	0.22	0.26	0.27		0.31	0.14
Jan 1998	0.26	0.25	0.22	0.21		0.22	0.13
Feb 1998		0.24	0.25	0.21		0.28	0.13
Mar 1998	0.27	0.27	0.23	0.23		0.37	0.13
Apr 1998	0.26		0.22	0.22	0.57	0.41	0.12
May 1998	0.25	0.23	0.18	0.22	0.36	0.55	0.11
Jun 1998	0.21	0.21	0.18	0.20	0.31	0.28	0.11
Jul 1998	0.20	0.18	0.18	0.15		0.29	0.10
Aug 1998	0.17	0.18	0.20	0.15	0.19	0.29	0.09
Sep 1998	0.18	0.18	0.22	0.16	0.20	0.30	0.10
Oct 1998							0.11
Nov 1998							0.11
Dec 1998							0.10

1999-2001	Kabul	Kandahar	Jalalabad	Herat	Mazar	Faizabad	U.S.No.2 Soft Red
Jan 1999	0.23	0.22	0.24	0.19	0.22	0.26	0.10
Feb 1999	0.23	0.22	0.24	0.18	0.20	0.28	0.09
Mar 1999		0.21	0.23	0.17	0.18	0.28	0.10
Apr 1999	0.23	0.21	0.25	0.17	0.17	0.29	0.10
May 1999	0.23	0.23	0.20	0.20	0.17	0.26	0.10
Jun 1999	0.20	0.20	0.22	0.18	0.16	0.27	0.09
Jul 1999	0.22	0.20	0.21	0.15	0.17	0.25	0.09
Aug 1999	0.21	0.21	0.21	0.15	0.18	0.24	0.10
Sep 1999	0.20	0.20	0.20	0.15	0.25	0.19	0.10
Oct 1999	0.20	0.21	0.21	0.16	0.16	0.26	0.10
Nov 1999	0.30	0.29	0.23	0.18	0.24	0.24	0.10
Dec 1999	0.33	0.27	0.28	0.19	0.20	0.26	0.09
Jan 2000	0.26	0.24	0.25	0.17	0.19	0.22	0.10
Feb 2000	0.23	0.23	0.25	0.17	0.19	0.21	0.10
Mar 2000	0.21	0.19	0.23	0.16	0.21	0.25	0.10
Apr 2000	0.22	0.20	0.23	0.20	0.23	0.27	0.10
May 2000	0.22	0.21	0.21	0.19	0.27	0.30	0.10
Jun 2000	0.22	0.21	0.21	0.19	0.27	0.29	0.10
Jul 2000	0.23	0.21	0.19	0.18	0.26	0.27	0.09
Aug 2000	0.21	0.20	0.18	0.18	0.24	0.28	0.09
Sep 2000	0.21	0.20	0.19	0.17	0.24	0.31	0.10
Oct 2000	0.21	0.17	0.17	0.16	0.22	0.35	0.10
Nov 2000	0.19	0.17	0.17	0.15	0.21	0.42	0.10
Dec 2000	0.19	0.17	0.17	0.17	0.19	0.32	0.11
Jan 2001	0.18	0.17	0.17	0.15	0.20	0.33	0.11
Feb 2001	0.17	0.17	0.17	0.15	0.22	0.41	0.11
Mar 2001	0.18	0.17	0.16	0.17	0.22	0.43	0.11
Apr 2001	0.17	0.17	0.16	0.18	0.20	0.39	0.10
May 2001	0.16	0.16	0.14	0.15	0.19	0.37	0.10
Jun 2001	0.15	0.14	0.13	0.14	0.17	0.37	0.10
Jul 2001	0.13	0.13	0.12	0.13	0.16	0.34	0.11
Aug 2001	0.13	0.13	0.12	0.13	0.16	0.33	0.10
Sep 2001	0.16	0.14	0.12	0.15	0.18	0.37	0.11
Oct 2001	0.18		0.17	0.20	0.19	0.41	0.11
Nov 2001	0.16		0.15	0.17	0.19	0.36	0.12
Dec 2001	0.15		0.14	0.20	0.19	0.24	0.12

2002-2005	Kabul	Kandahar	Jalalabad	Herat	Mazar	Faizabad	U.S.No.2 Soft Red
Jan 2002	0.14	0.17	0.12	0.15	0.19	0.20	0.12
Feb 2002	0.16	0.16	0.13	0.13	0.16	0.19	0.11
Mar 2002	0.16	0.16	0.11	0.14	0.15	0.19	0.12
Apr 2002	0.16	0.15	0.13	0.15	0.14	0.16	0.11
May 2002	0.13	0.11	0.12	0.14	0.14	0.15	0.11
Jun 2002	0.13	0.12	0.14	0.11	0.13	0.15	0.11
Jul 2002	0.13	0.12	0.14	0.12	0.13	0.13	0.12
Aug 2002	0.15	0.14	0.16	0.13	0.13	0.15	0.13
Sep 2002	0.17	0.14	0.16	0.14	0.16	0.17	0.15
Oct 2002	0.16	0.13	0.16	0.13	0.15	0.16	0.16
Nov 2002	0.17	0.16	0.15	0.13	0.14	0.16	0.16
Dec 2002	0.17	0.18	0.15	0.14	0.14	0.16	0.15
Jan 2003	0.15	0.18	0.16	0.13	0.15	0.15	0.14
Feb 2003	0.15	0.17	0.18	0.12	0.14	0.12	0.14
Mar 2003	0.14	0.17	0.16	0.12	0.13	0.14	0.13
Apr 2003	0.14	0.16	0.16	0.12	0.13	0.13	0.13
May 2003	0.13	0.17	0.14	0.12	0.11	0.13	0.13
Jun 2003	0.13	0.16	0.15	0.13	0.13	0.15	0.13
Jul 2003	0.13	0.15	0.16	0.13	0.13	0.15	0.13
Aug 2003	0.13	0.15	0.16	0.13	0.14	0.16	0.14
Sep 2003	0.17	0.15	0.16	0.13	0.13	0.14	0.14
Oct 2003	0.17	0.16	0.15	0.13	0.14	0.15	0.14
Nov 2003	0.16	0.18	0.15	0.12	0.14	0.14	0.16
Dec 2003	0.17	0.19	0.18	0.12	0.14	0.14	0.16
Jan 2004	0.16	0.20	0.17	0.15	0.13	0.13	0.16
Feb 2004	0.16	0.21	0.17	0.14	0.13	0.14	0.16
Mar 2004	0.16	0.21	0.18	0.16	0.16	0.17	0.16
Apr 2004	0.16	0.19	0.18	0.17	0.16	0.18	0.16
May 2004	0.16	0.18	0.19	0.17	0.16	0.18	0.15
Jun 2004	0.17	0.18	0.20	0.20	0.17	0.19	0.14
Jul 2004	0.18	0.19	0.19	0.20	0.19	0.22	0.13
Aug 2004	0.17	0.20	0.21	0.22	0.19	0.26	0.13
Sep 2004	0.22	0.22	0.20	0.22	0.19	0.26	0.14
Oct 2004	0.24	0.23	0.21	0.22	0.19	0.25	0.14
Nov 2004	0.24	0.24	0.27	0.21	0.18	0.24	0.14
Dec 2004	0.24	0.23	0.23	0.22	0.17	0.23	0.14
Jan 2005	0.24	0.25	0.23	0.22	0.16	0.23	0.14

Source: WFP/VAM data and International wheat prices collected by FAO



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