

Wheat markets, food aid and food security in Afghanistan

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Abstract

In Afghanistan, after two decades of civil strife and successive droughts from 1998 to 2002, large inflows of food aid, distributed mainly to returning refugees and through food for work programs, have helped offset production shortfalls of wheat, the country's major staple. At the same time, private international trade from neighboring countries, especially Pakistan, has also played a major role in augmenting wheat supply and stabilizing prices.

This paper presents an analysis of wheat prices and market flows in Afghanistan based on results of surveys of wheat traders and millers, and econometric analysis of price movements in major markets in Afghanistan and Pakistan. In spite of food aid imports, domestic prices were not lowered below import parity levels in most major Afghan markets. Thus, the price evidence suggests that large-scale inflows of food aid, which benefited the country by providing resources for targeted food for work and other programs, did not have major price disincentive effects on domestic production, at least through mid-2003. However, following the 2003 bumper harvest, the analysis suggests that continued food aid inflows may have depressed producer prices by as much as about 15%. Moreover, given substantial prospects for rehabilitation of irrigation infrastructure, there is ample scope for increasing domestic production of wheat and decreasing import demand, so price disincentive effects of food aid remain a possibility in the future, as well.

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Introduction

Ensuring adequate availability of food and household food security is a major challenge for most developing countries. In order to achieve these goals, many governments, particularly in Asia, where rice and wheat are dominant staples, have long intervened heavily in grain markets (Tyagi, 1990; Alderman and Garcia, 1993; Ahmed et al., 2000; Dawe, 2001; Rahman et al., 2005). Part of the rationale for these policies is a deep mistrust of private traders and private markets, deemed to work against the best interests of consumers and producers. In addition, government management of supply through controls on external trade, domestic purchases and releases of stocks have often been used in an effort to promote price stability and thereby enhance food security for poor consumers (Islam and Thomas, 1996; Timmer et al., 1983; Timmer, 1989).¹

In Afghanistan, however, two decades of civil strife and political upheaval, mountainous terrain, weak road and communication infrastructure, and financially-strapped government institutions severely limited the ability of successive governments to intervene in food markets. In this context of severe social unrest and insecurity, successive droughts from 1998 to 2002 sharply reduced harvests of wheat (the major staple of Afghanistan) and livestock populations. Large inflows of food aid, distributed mainly to returning refugees and through food for work programs, helped offset wheat production shortfalls. Of even greater magnitude, however, have been private sector imports of wheat from Pakistan and central Asia that have supplemented food aid flows and effectively supplied major markets in most of the country, especially since 2001.

This paper examines the role of private sector imports, food aid and the domestic wheat trade in Afghanistan markets at a national and to a lesser extent, at a regional level, drawing lessons for other low income countries with limited infrastructure and government administrative capacity. We also examine the links of Afghanistan to regional markets (Pakistan and Central Asia), discussing the extent of integration of Afghanistan domestic grain markets with other markets within the country and with international markets. Finally, this paper provides a case study of a country, where large-scale food aid inflows did not lead to major price disincentives for domestic production, a contentious issue in the food aid debate (Clay and Stokke, 1991; Barrett and Maxwell, 2005).²

The wheat production, trade and consumption section of this paper begins with an overview of the conflicting secondary and national survey data on wheat production, availability and consumption in Afghanistan. We also compare changes in reported annual production and availability from these data sources with price movements in an effort to arrive at an internally consistent description of developments in the wheat market over time. Data on the country's wheat consumption and trade in the context of the south and central Asia region is also reviewed. The structure of Afghanistan's wheat markets is discussed in the international trade and total availability section, drawing on the results of the trader and miller surveys conducted in major wheat markets in 2004. Production

¹ One major exception to this general pattern has been Bangladesh, where since the early 1990s private sector imports of rice from India and wheat (mainly from the broader international market) have helped to stabilize grain prices following domestic production shortfalls (Dorosh, 2001).

² See also the recent econometric analyses of household level data from rural Ethiopia, and of cross-country national level data on production and trade flows by Abdulai et al. (2005) that finds no evidence that food aid creates disincentive effects among recipient households or on food production.

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