

# **CENTRE FOR CIVIL SOCIETY**

## **Food Stamps: A Model for India**

*Discussion Paper*

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## OVERVIEW

One of the innovative proposals in the Union Budget is the use of food stamps to provide food security. The Finance Minister P Chidambaram has proposed to experiment with food stamps in a cluster of districts of a few states to judge the viability of the scheme. Food stamps are used in many countries all over the world. They are proven to be the most cost effective means to assure right quantity and quality of food for all.

Each food stamp specifies the money amount that can be used to purchase approved food items from any regular or approved shops in the market. The shopkeeper presents the food stamps collected from the holders to the government to get the equivalent amount of money. With technological developments, countries have replaced paper food stamps with smart cards or debit cards, drastically reducing transaction costs, pilferage and corruption.

Currently India uses the public distribution system to ensure provision of foodstuff to poor families at 'fair' prices. It was during the Second World War that the then British Government introduced the first structured public distribution of cereals in India through the rationing system. Abolished after the War, it was reintroduced in 1950 in the face of renewed inflationary pressures in the economy. In the first five-year plan, the system was essentially urban till it was extended to rural areas suffering from chronic food shortages.

About 4.5 lakh fair price shops sell 10-20 lakh tons of rice and wheat at the subsidized rate per month. Various state governments also include iodized salt, sugar, palm oil, candles, cloth, kerosene. The rice and wheat are provided by the Food Corporation of India at the central issue price to states. The prices and the amounts vary depending on the schemes, which are designed by the union government but implemented by state governments. For the above poverty line (APL) card holders, the central issue price is Rs 6.10 per kg of wheat and Rs 8.30 per kg of rice. For BPL families, the price is Rs 4.15 and 5.65, and for Antodaya Anna Yojana (the poorest of the poor) Rs 2 and Rs 3 per kg of wheat and rice. State governments generally charge higher to cover the costs of delivery. The Delhi government price for wheat and rice is Rs 6.60 and Rs 8.80 for APL and Rs 4.65 and Rs 6.55 for BPL families.

The fair price shopkeepers are normally paid 35 paise per kg of grain and 7 paise per liter of kerosene sold. This payment is so low that all shops sell a large proportion of the ration in the open market. According to a former Union Minister of Agriculture, less than 25 percent of the grain that leaves government godowns reaches the targeted poor.

Majority of the ration shops are in urban areas, they are hardly ever open and only a lucky few are able to get their ration. Further, the ration card is valid only for the shop specified on the card, thereby making the shops tyrant monopolies. Foodstuff is reported to be of poor quality.

The other perversity is that the Food Corporation of India collects grains from around the country, stores them in silos and open-air godowns where much gets rotten and eaten by rats, and then redistributes to ration shops. Without FCI, most of the grains would remain where most of our people are—in rural area. We would save a ton in storage and transport cost. Moreover, since states have to cover the transport cost of FCI grains, many of them routinely fail to collect their allotted quota of subsidized grains. From the allotted 28.63 lakh tons of rice in April 2004, the offtake was only 9.70 lakh tons, about 34 percent. For wheat, the offtake was even worse, merely 25 percent, 7.87 out of 31.24 lakh tons. The total stocks of rice and wheat held by FCI and State agencies as on 1st October, 2004 was 203.15 lakh tonnes comprising 60.92 lakh tonnes rice and 142.23 lakh tonnes of wheat. The offtake of rice under all schemes including open sales during the month of September, 2004 was 17.26 lakh tonnes. In respect of wheat, the total offtake was 16.18 lakh tonnes<sup>1</sup>.

Food stamps provide an alternative to this PDS to ensure supply of food to the poor and the needy. Instead of putting grains in ration shops under the PDS, food stamps put purchasing power directly in the hands of the poor. The problem of foodstuff being sold in the black market would disappear because first, no separate ration shops need to be created since the food stamps can be accepted by regular approved shops, and second the shopkeeper would be able to collect food stamps only after giving the ration to the people. Food stamps offer better guarantee that the ration would reach the poor.

<sup>1</sup> September 2004. *Highlights*. Ministry of Food and Consumer Affairs. Accessed on December 6 2004 at <http://fcamin.nic.in/b-1%20HIGHLIGHTS.htm>

The main concern regarding food stamps is that they can be redeemed for cash with the connivance of the grocer and used to buy other things like alcohol. First, no system run by humans is going to be perfect; food stamps are not completely immune from abuse. However, the poor today can buy the ration at a PDS shop, sell it in the market at the higher price, and with that money buy his drink. The PDS grains are equally likely to get converted into alcohol. It seems that we trust the poor at the ballot box but not in the market place. He definitely could not be using that money to buy medicines, could he?

In addition, poor targeting, excessive procurement, storage and distribution costs, and leakages or illegal diversions of subsidised grains are grave ills of PDS. The FCI's role would be only to provide emergency buffer stock, the PDS part of its function could be eliminated. Getting rid of this whole system would result in vast savings, which can be delivered to the poor through the better-targeted food stamp system. Food stamps are not perfect but are by far the best means of achieving food security for all. They are tried and tested in several countries and have shown to be the most cost effective. The Finance Minister has proposed an innovative and efficient system, now Sharad Pawar should take the lead.

## INTRODUCTION

Food security has always been one of the most pressing issues in India. Debates largely concern themselves about which method to employ to ensure availability of food to those who can't afford it. With this aim, the flagship effort has been the Public Distribution System (PDS) and its variant, the targeted public Distribution System (TPDS). The grains are procured from farmers, are stored and managed and eventually distributed to the targeted population through the public distribution system- the PDS- or other welfare schemes.

### Public Distribution System

During the Second World War the British Government introduced the first structured public distribution of cereals in India through the rationing system in Bombay and later extended it to six cities and regions. Abolished after the War, it was reintroduced in the face of renewed inflationary pressures in the economy. In 1965, the Agricultural Price Commission was instituted to set up support prices for agricultural prices. The FCI was also started and its duties were to store, transport and distribute the procured grains. Along with this, the PDS was made a universal welfare programme, whereby all households were entitled to buy specific quantities of selected commodities including rice and wheat at subsidised prices through a network of fair price shops. One important feature of the system is that while the supply of grain and the associated subsidy were from the Central Government, the actual implementation including issue of ration cards, fixation of entitlements and determination of retail prices were the responsibility of State governments.

The PDS turned out to be a colossal failure. In the 1980s and 1990s, it came under attack for mainly two reasons. One was that the PDS policies were too costly and imposed a heavy burden of subsidy and secondly, that they distorted prices and hence the functioning of private markets. As a result, the government introduced the targeted PDS. There is ample evidence to show that targeted PDS has been an even bigger failure than the PDS.

A glance at the table below gives an idea of the food subsidy of the central government.

*Table 1: Food Subsidy of Central Government<sup>2</sup>*

Year	Amount (Rs. Crore)	%of total (government expenditure)
1990-91	2450	2.33
1991-92	2850	2.56
1992-93	2785	2.27
1993-94	5537	3.9
1994-95	4509	2.8
1995-96	4960	2.78
1996-97	5166	2.46
1997-98	7500	3.23
1998-99	8700	3.11
1999-2000	9200	3.03
2000-01	12125	3.61
2001-02	17612	4.83
2002-03	21200	5.17

<sup>2</sup> Virmani Arvind,P.V. Rajeev. May 2002 Excess Food Stocks, PDS and Procurement Policy. Written for Planning Commission, Working Paper No5/2002-PC: Page 6.

### **Targeted Public Distribution System**

Adopted in 1997, TPDS introduced the objective of income redistribution by providing food cheaper to the poor than to the non-poor. The size of the Below Poverty Line (BPL) population and the entitlements for the BPL population are decided by the central government. And the allocations for Above Poverty Line (APL) populations or additional allocations for BPL and APL populations are decided somewhat arbitrarily based on past utilization and demands from states and, according to the targeted PDS guidelines, are meant to be transitory. This policy is in place to date. TPDS has increased scope for distortion and leakage, and also left out many families that should have been covered. The same shopkeeper has to sell the same grain to different classes of consumers at different prices and is thus open to corruption. The supply of grain and the associated subsidy are still from the Central Government, the actual implementation left to the state governments.

Currently, about 4.6<sup>3</sup> lakh fair price shops sell 10-20 lakh tons of rice and wheat at the subsidized rate per month. Various state governments also include iodized salt, sugar, palm oil, candles, cloth, and kerosene. Rice and wheat are provided by the Food Corporation of India at the central issue prices to states. The prices and the amounts vary depending on the schemes, which are designed by the union government but implemented by state governments. For the above poverty line (APL) card holders, the central issue price is Rs 6.10 per kg of wheat and Rs 8.30 per kg of rice. For BPL families, the price is Rs 4.15 and 5.65, and for Antodaya Anna Yojana (the poorest of the poor) Rs 2 and Rs 3 per kg of wheat and rice. State governments generally charge higher to cover the costs of delivery. The fair price shopkeepers are normally paid 35 paise per kg of grain and 7 paise per liter of kerosene sold. This payment is so low that all shops sell a large proportion of the ration in the open market. According to a former Union Minister of Agriculture, less than 25 percent of the grain that leaves government godowns reaches the targeted poor. In fact it is estimated that targeted Public Distribution System is missing the poor by miles delivering them only Rs 3.70 out of every Rs 100 it spends!<sup>4</sup>

Experts point out that TPDS has penalised states with relatively low incidence of income poverty but relatively high incidence of calorie deficiency. PDS had done relatively well in southern India and to some extent in western India. With the TPDS differentiating people on the basis of income, the south and the west have lost out since they are relatively rich states with lower incidence of poverty, but are grain deficient with the lowest per capita consumption of different grains. TPDS is in conflict with an original objective of PDS to move from areas of relative surplus to areas of relative deficit where the prices of foodgrains are higher. That is, what TPDS does, as compared to universal PDS, is to increase food prices in the south and the west and reduce prices in the north, where there are surpluses and poor people. At the same time, TDPS did not reach the poor in states where the PDS was weak prior to its introduction.

Excluding a large number of needy persons from the BPL, reducing the entitlement of BPL families and removing the subsidy on prices for all other consumers led to a sharp fall in the purchase of grain from the PDS (see Tables 1 and 2) From a peak distribution of 21 million tonnes in 1991, distribution of grain through the PDS fell to 17 million tonnes in 1999, and further to 13 million tonnes in 2000 and 11 million tonnes in 2001.

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<sup>3</sup> Dev, S. Mahendra, C. Ravi, Brinda Viswanathan, Ashok Gulati, Sangamitra Ramachander. May 2004. Economic Liberalisation, Targeted Programmes and Household Food Security: A Case study of India. MTDI Discussion Paper No.68: Page 52.

<sup>4</sup> Panagariya, Arvind. 2002, Stamping in nutrition. *Economic Times*, Wed 28 April. Accessed on 8 October 2004 at <http://economictimes.indiatimes.com/articleshow/7790521.cms>

Table 2: Availability, procurement and public distribution of food grain, India, 1975 to 2002<sup>5</sup>  
All quantities are in million tonnes.

Year	Net Production	Net imports	Net Availability (NA)	Procurement	Public distribution (PD)	PD/NA (%)
1975	87.4	7.5	89.3	9.6	11.3	12.6
1976	105.9	0.7	95.8	12.8	9.2	9.6
1977	97.3	0.1	99.0	9.9	11.7	11.8
1978	110.6	-0.6	110.2	11.1	10.2	9.2
1979	115.4	-0.2	114.9	13.8	11.7	10.2
1980	96.0	-0.3	101.4	11.2	15.0	14.8
1981	113.4	0.7	114.3	13.0	13.0	11.4
1982	116.6	1.6	116.9	15.4	14.8	12.6
1983	113.3	4.1	114.7	15.6	16.2	14.1
1984	133.3	2.4	128.6	18.7	13.3	10.4
1985	127.4	-0.4	124.3	20.1	15.8	12.7
1986	131.6	0.5	133.8	19.7	17.3	12.9
1987	125.5	-0.2	134.8	15.7	18.7	13.8
1988	122.8	3.8	130.8	14.1	18.6	14.2
1989	148.7	1.2	147.2	18.9	16.4	11.1
1990	149.7	1.3	144.8	24.0	16.0	11.0
1991	154.3	-0.1	158.6	19.6	20.8	13.1
1992	147.3	-0.4	148.4	17.9	18.8	12.7
1993	157.5	3.1	149.8	28.1	16.4	10.9
1994	161.2	1.1	154.8	26.0	14.0	9.1
1995	167.6	-2.6	166.7	22.6	15.3	9.0
1996	157.9	-3.1	163.3	19.8	18.3	11.2
1997	174.5	-0.1	176.2	23.6	17.8	10.1
1998	168.2	-2.5	159.6	26.3	18.6	11.1
1999	178.2	-1.3	169.4	30.8	17.7	9.9
2000	182.8	-1.4	167.5	35.5	12.8	7.0
2001	171.6	-2.7	156.3	42.2	11.3	6.6

Table 3: Offtake of food grain through the PDS, 1993-94 to 2001-2002 (in million tonnes)<sup>6</sup>

Year	Rice	Wheat	Total
1993-94	9.10	6.09	15.19
1994-95	8.01	5.11	13.12
1995-96	9.75	5.80	15.55
1996-97	11.14	8.52	19.66
1997-98	7.79	5.59	13.38
1998-99	10.74	7.95	18.69
1999-2000	11.31	5.76	17.07
2000-01	7.74	3.97	11.71
2001-02	7.97	5.10	13.08

<sup>5</sup> Government of India. 2002. *Economic Survey 2001-02*. Department of Economic Affairs, Ministry Finance

<sup>6</sup> Swaminathan, Madhura. *Liberalisation And Policies of Food Security: The Indian Experience*. 2003. ISI, Kolkotta,

While the PDS was being dismantled, procurement was continuing and, in fact, increased substantially from 1999 onwards (from 24 million tonnes in 1997 to 30 million tonnes in 1999, 35 million tonnes in 2000 and 42 million tonnes in 2001). This has led to the rapid accumulation of stocks and to today's crisis – a situation where the Government of India has excess of grain (rice and wheat) as stocks (Table 3)

Table 4: Stocks of food grain in the central pool, India, 1991 to 2002 (in million tonnes)<sup>7</sup>

Year	Total stocks of rice and wheat	Buffer norms	Excess stocks
1991	15.8	14.5	1.3
1992	11.1	14.5	-3.4
1993	12.6	14.5	-1.8
1994	20.5	14.5	6.0
1995	26.8	14.5	12.3
1996	22.1	14.5	7.6
1997	16.4	14.5	1.9
1998	18.1	14.5	3.6
1999	21.8	15.8	6.0
2000	28.9	15.8	13.1
2001	44.6	15.8	28.8
2002 (P)	50.9	15.8	35.1

#### **PERFORMANCE OF FOOD CORPORATION OF INDIA**

The costs of FCI's operations fall into two groups:

(a) Costs which are determined by Government decisions on minimum support price, central issue price, quantities procured and issued, specifications of grain, norms of buffer and operational stock, specifications of packing material, railway freight, procurement incidentals and interest rates. These costs which are usually referred to as "policy induced costs" account for 69 % of the economic cost.

(b) Costs which are affected by FCI's operational efficiency in procurement, distribution and storage and by the efficacy of its internal controls, for instance, in checking transit and storage losses and in maintaining quality control

The responsibility for procurement is currently shared between the FCI and State government agencies. FCI's share in procurement has declined over the years. The average procurement in FCI centres is markedly lower than State run centres because the FCI has been loaded, year after year, with a large number of centres which are opened not so much for procurement as for preventing distress sales.

In 2003, the FCI held stocks of about 65 million tonnes of grain, when the required buffer stock was 16-24 million tonnes. In April 2004, from the allotted 28.63 lakh tons of rice, the offtake was only 9.70 lakh tons, about 34 percent. For wheat, the offtake was even worse, merely 25 percent, 7.87 out of 31.24 lakh tons. Every year the FCI procures about 15% of the wheat and rice production. Major contributors of these grains are Andhra, UP, Haryana and Punjab.

<sup>7</sup> Government of India. Different Years. *Economic Survey*. Department of Economic Affairs, Ministry Finance

Table 5: Costs of FCI

ITEM	COST
Total carrying cost of food grain stocks in 2002-03	Rs 14,000 crore
The operational cost (procurement, storage, transport) of wheat per quintal in 2003-04 <sup>8</sup>	Rs. 952 per quintal
The operational cost (procurement, storage, transport) of rice per quintal in 2003-04 <sup>9</sup>	Rs. 1254 per quintal
Subsidy per tonne of wheat procured <sup>10</sup>	Rs 357 per quintal
Subsidy per tonne of rice procured <sup>11</sup>	Rs 482 per quintal
The transit loss percentage <sup>12</sup>	0.5% of the sale purchase turnover
Cost of transferring a rupee to the poor through the PDS <sup>13</sup>	Rs. 6.68
% of the grains actually reaching the poorest 40% <sup>14</sup>	25%
Administrative costs <sup>15</sup>	85% of total expenditure
% increase in administrative costs between 1957-90 <sup>16</sup>	274%
Distribution subsidy under TPDS in 1996-97 <sup>17</sup>	Rs. 47 billion
Distribution subsidy under TPDS in 2002-03 <sup>18</sup>	Rs 109 billion

During the 1990's FCI has been involved in price support operations for jowar, maize and bajra. The quantities are becoming larger year after year and storage losses have been heavy because of limited shelf life. It has proved to be difficult to sell these coarse grains through the PDS and the bulk of the procurement has been sold, at heavy loss, as cattle feed.

The system is thus characterised by excessive procurement. In addition, poor storage conditions, and lack of proper distribution system have made matters worse. The godowns are filled with grains over and above the required buffer stock. Since states have to cover the transport cost of FCI grains, many of them routinely fail to collect their allotted quotas of subsidized grains. The total carrying cost of food grain stocks exceeded Rs 14,000 crore. The operational cost (procurement, storage, transport) of wheat per quintal in 2003-04 for the FCI was a whopping Rs. 952 per quintal. For rice, it was an even higher Rs. 1254 per quintal. The subsidy per tonne of wheat procured, doled out by the government was to the tune of Rs 357 per quintal and for rice, it was Rs 482 per quintal. The transit loss percentage is 0.5% of the sale purchase turnover. On subsidy, the official figures indicate that the government released a sum of Rs 25,160 crore to the Food Corporation of India (FCI) as on March, 15, '04. The carrying cost of buffer foodgrains for '03-04 was budgeted at Rs 339.3 crore<sup>19</sup>.

It has been estimated that the cost of transferring a rupee to the poor through the PDS is Rs. 6.68<sup>20</sup>. Government studies of the PDS suggest that only 25% of the grains actually reaches the poor and that administrative costs account for 85% of the total expenditure. Between 1957-90, the that administrative costs increased by 274%.

<sup>8</sup> Jagannathan, Prabha. 2004. McKinsey to script FCI spending. *Economic Times*, Saturday 26 June. Accessed on October 8, 2004 at [www.economicstimes.indiatimes.com/articleshow/754543.cms](http://www.economicstimes.indiatimes.com/articleshow/754543.cms)

<sup>9</sup> ibid

<sup>10</sup> ibid

<sup>11</sup> ibid

<sup>12</sup> ibid

<sup>13</sup> Dev, S. Mahendra, C. Ravi, Brinda Viswanathan, Ashok Gulati, Sangamitra Ramachander. May 2004. *Economic Liberalisation, Targeted Programmes and Household Food Security: A Case study of India*. MTDI Discussion Paper No.68:Page 78.

<sup>14</sup> Government of India. 2003. *Economic Survey 2003-04*. Department of Economic Affairs, Ministry of Finance. Accessed on October 7 at <http://indiabudget.nic.in/es2003-04/chapt2004/chap114.pdf>

<sup>15</sup> ibid

<sup>16</sup> Swaminathan, Madhura. 1997. Dangers of narrow targeting. *Frontline*, October 18-31, Vol. 14, No. 21: Accessed on October 7, 2004 at <http://www.frontlineonnet.com/fl1421/14210120.htm>

<sup>17</sup> Ramaswami, Bharat. January 2004. *Reforming Food Policies: The Costs and Impacts of Food Subsidies*. India Development Foundation, Gurgaon and Indian Statistical Institute, Delhi: Page 7

<sup>18</sup> ibid

<sup>19</sup> Wheat and rice offtake scripts a 31% growth, *Economic Times*, Monday, 19 April, 2004. Accessed on 8 October at <http://economicstimes.indiatimes.com/articleshow/624451.cms>

<sup>20</sup> Dev and Evenson 2003

The FCI collects grains from around the country, stores them in silos and open-air godowns where much gets rotten and eaten by rats, and then redistributes to ration shops. 50 kg capacity jute bags are used for packing the procured grain. The FCI spends about Rs. 650 crore a year on buying jute bags and it was estimated in the year 2000 that more than Rs. 120 crore were lost in terms of grain because of the poor texture of the gunnies<sup>21</sup>. Without FCI, most of the grains would remain where most of our people are—in rural area. We would save a ton in storage and transport cost. Moreover, since states have to cover the transport cost of FCI grains, many of them routinely fail to collect their allotted quota of subsidized grains. From the allotted 28.63 lakh tons of rice in April 2004, the offtake was only 9.70 lakh tons, about 34 percent. For wheat, the offtake was even worse, merely 25 percent, 7.87 out of 31.24 lakh tons.

Thus the PDS and its variant the TPDS have not been able to achieve the objectives that they were set up for. The PDS proved to be a huge drain and the amount of subsidies were unsustainable. The TPDS has penalised states that have lower incidence of poverty, but are grain deficient with the lowest per capita consumption of different grains. This is in conflict with the basic role of PDS, which is to physically make food available from regions of surplus to regions of deficit. In fact TPDS has increased distribution subsidy from Rs. 47 billion in 1996-97 to Rs. 109 billion in 2002-03.

## **WHAT IS A FOOD STAMP?**

A food stamp is direct income support that is given to selected beneficiaries for purchase of foodstuff in the market places at market prices. Other sets of direct income transfers include food coupons, vouchers, cash

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<sup>21</sup> Government of India. July 2002. *Report of the High Level Committee on Long-Term Grain Policy*. Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution.

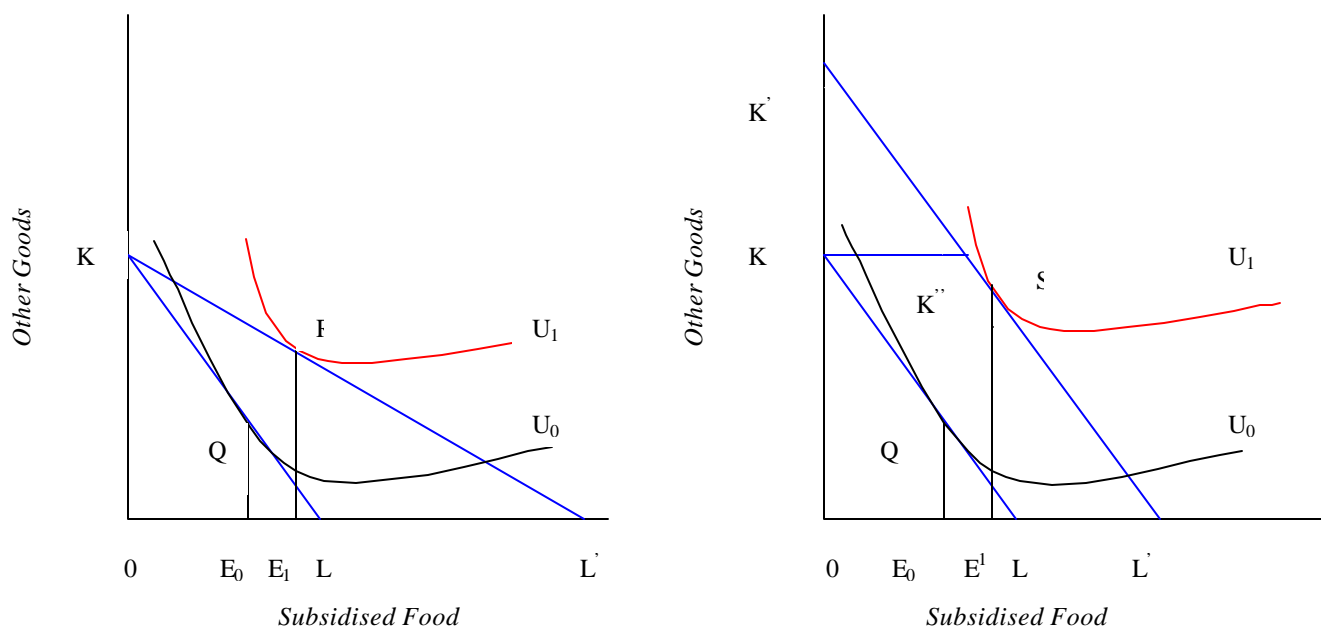
transfers, electronic card transfers and in kind food transfers. The difference between the instruments is the following:

Stamps can be designed in many ways. One of the ways is specifying only money amounts: The stamps then are pieces of paper issued on "secure paper" of a certain value. Recipients are free to decide how they want to spend the money. Alternatively, stamps can take the form of a coupon that would permit purchase of a short list of specified items at discounted prices. The quantities are also stipulated that is, the element of choice is less. Alternatively, the kind of quantities could be specified, with no specifications related to quantities so as to provide more freedom within the limited range of purchases. There could also be stamps that specify the kind of commodity, the quantity and the maximum price per unit permissible. Thus it is possible to devise a food stamp system specifying only money values, money and quantity values, qualities of foods and combinations of these parameters.

### HOW DO SUCH SCHEMES WORK: A MICROECONOMIC ANALYSIS

This analysis is from the point of view of the consumer of the food grains. Consider the current PDS that essentially gives a price subsidy to sugar, wheat, rice, edible oil and kerosene. Let these goods be represented by a complex good 'E' on the X-axis and all other goods outside the PDS by a complex good 'K' on the Y-axis. Let KL be the initial budget line. Let  $U_0$  and  $U_1$  be the two indifference curves, utility on  $U_1$  is higher than that on  $U_0$ .

Figure 1: Price Subsidy versus Voucher



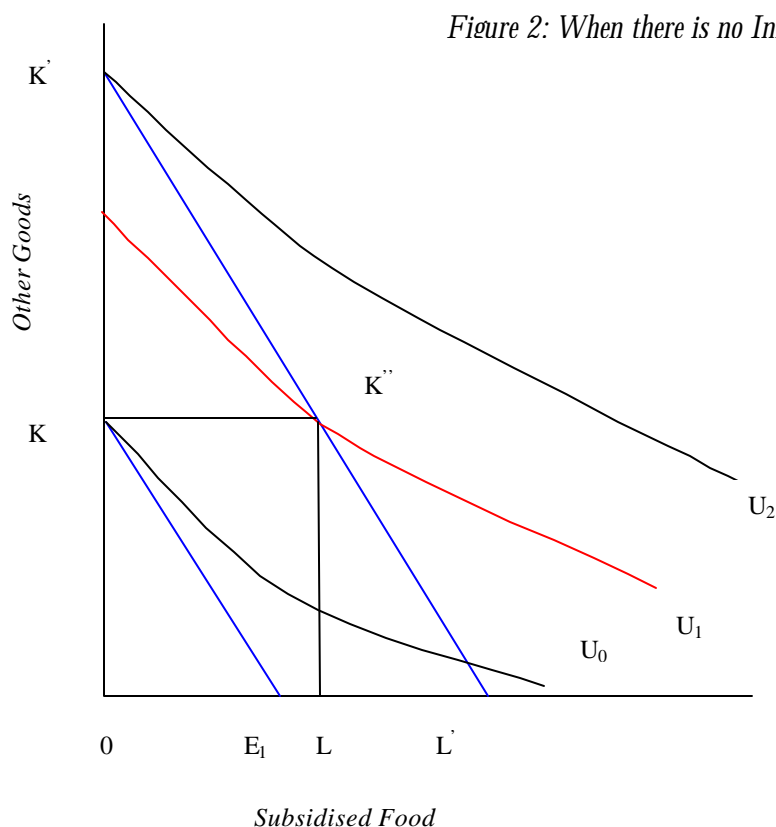
Panel A: Effect of a Price Subsidy

Panel B: Effect of a Voucher

Panel A shows the effect of a subsidy. The original tangency optimum is at Q on the indifference curve  $U_0$ . A subsidy acts like a price reduction, rotating the budget line from KL to K'L. The new optimum is at R on indifference curve  $U_1$ . The amount consumed of both E and K has increased.

Panel B shows the effect of a voucher. The initial position Q on the indifference curve  $U_0$  is the same as before. **The voucher is a gift of income spendable only on the specified commodity E (type of commodity and total value specified).** The distance KK' represents the amount of the gift, so that the consumer's budget line shifts outward from KL to K'L. But this increase in income can only be used on E. Thus the consumer cannot reach the dashed part of the budget line between K' and K''. Therefore the new budget line for the consumer is the kinked line K'K''L. The new optimum is at S on  $U_1$ . The voucher will increase purchase of commodity E, whenever E has a positive income effect.

While it appears that there may be no great difference between the two, the stamp/voucher has a very special power in the case where the consumer normally has very little or none of the commodity.



In the above figure, the individual is initially at a corner solution. The optimum is at point  $K$  on the indifference curve  $U_0$ , where he/ she is consuming zero amount of food that is potentially going to be subsidised. Even a fairly substantial price subsidy, which would rotate the budget line, might have little or no effect on consumption of the food. But the voucher displaces the entire budget line to  $K'L'$ , of which only the range  $K'L$  is effective. The new optimum will be at  $K''$ , where the individual would have spent the entire voucher amount on the purchase of  $E_1$ , and is spending the same amount on other goods as before. Thus the voucher becomes extremely effective in raising the consumption levels of food among the poorest of the poor, who don't get enough to eat.

A consumer is a rational utility maximiser who maximises his consumption of food and non-food items subject to his budget constraint. Food stamps make changes to the budget constraint. Under these conditions a consumer arrives at an optimal bundle of food and non-food items to consume over the concerned time period. The effects of food stamp on consumption of food depends on whether the consumer spends more on food than the value of stamps prior to receipt of stamps, or less.

If the consumer purchases more food than the face value of stamps, then consumers are expected to spend more on food and non-food items as a result of the transfer in food stamps. Then not all increase in income from food stamps is directed to additional food consumption, because consumers reduce expenditure they were making on food with their own income before they were given the stamps, to purchase non-food items. Thus the food stamps are completely used to buy food, freeing up other income for purchase of non-food items.

The case is different when consumer's normal purchase of food is less than the face value of the food stamps. This means that the consumers have to buy a greater amount of food than their optimal value. Thus consumers have to spend all their food stamp allocation on food. In such a case, there is an incentive for consumers to illegally sell their stamps in order to convert the stamps into money for the purpose of non-food

expenditures. However, if these consumers are consuming very low quantities of the grains, then a food stamp would definitely lead to a full increase in consumption, as was shown in Figure 2<sup>22</sup>.

Keeping this in mind, a scheme can be designed. The scheme would be such that the grains given out through the stamps are below an APL person's full requirements and are definitely above the BPL person's current consumption. Thus for APL families, the amount transferred through food stamps is lesser than the pre-stamp food consumption. This would minimise the incentives for APL families to sell their stamps and convert them to cash. For example, an APL family consumes 30 kilograms of rice a month. Let the stamp be designed such that it enables the family to get 20 kilograms of rice. The stamp can be exchanged only for the purchase of rice. This means that in order to retain its original consumption of food, the family has to spend on only 10 kilograms. The money earlier spent on the 20 kilograms can now be used to increase rice consumption, other food consumption or even non-food consumption. Thus some part of their money income that they were initially spending on rice can now be diverted to other goods or, the family would be able to eat more than before. Either way, the welfare of the family increases. Food consumption cannot fall. It can only increase, or remain the same.

In the case of BPL families, the stamps would transfer an amount of food that is definitely more than what they were consuming under the initial system. Since the BPL families are consuming very little or even none, the consumption of food under the stamp scheme would definitely increase.

## **COUNTRY EXPERIENCE**

### **A) Sri Lanka:**<sup>23</sup>

Sri Lanka was one of the first developing countries to introduce a well-designed food stamp program, at the end of 1979. The program was designed to replace expensive general food price subsidies and subsequently

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<sup>22</sup> Castaneda, T. (1999). *The design, implementation and impact of food stamp programs in Developing Countries*. World Bank, Human Development Network. Washington DC: Page 6, 7. Accessed on October 6 at [http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/\\$FILE/Castan.doc](http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/$FILE/Castan.doc)

<sup>23</sup> Castaneda, T. (1999). *The design, implementation and impact of food stamp programs in Developing countries*. World Bank, Human Development Network. Washington DC: Page 9. Accessed on October 6 at [http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/\\$FILE/Castan.doc](http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/$FILE/Castan.doc)

ration coupons, which had existed since the 1940s, with a lower cost direct subsidy program targeted to needy beneficiaries. By 1989, about 50% of the population was participating in the program. Eligible people were selected on the basis of family income (SR\$300 or US \$ 20 dollars, in 1979, when the program started). This limit was adjusted several times, although by much less than inflation, until the food stamp program was phased out in the early 1990s.

Beneficiaries were restricted in their choice of foods. Qualifying foods included rice, paddy, flour, bread, sugar, milk products and locally produced pulses, but, in practice, beneficiaries purchased many other food items with stamps, according to studies of purchase patterns. However, the bulk of food stamp purchases, some 75%, were rice, the main staple food.

Program operations were affected by a number of issues from the beginning. The first was the rapid erosion of stamp values. By 1981/82, only two years after program initiation, the real value of stamps was little more than 50% of the original value. The second was the government's inability to achieve its stated objectives of targeting subsidies to the needy and vulnerable. According to government calculations, needy groups comprised only 20-25% of the overall population, or about 3.5 million in 1989, yet there were some 8.0 million beneficiaries. Consequently, in order to contain program expenditures, the government allowed food stamp values to be eroded by inflation. If program subsidies had been directed only to the poor, a substantial nominal increase in the value of food stamps for this population could have been made.

One of the ground problems in the program was targeting. In the 1980-82 consumption survey, nearly 30% of the poorest quintile did not participate in the program, while 45% of the fourth and 20% of the fifth quintiles were participating in the program. Program participants in most quintiles received similar per capita transfers with the exception of the richest quintile, which received a per capita transfer about 9% larger than the rest. Some of the reasons for exclusion of poor families and inclusion of the rich include misclassification of income and the absence of recourse for appeals and reclassifications. Once initial classifications were made, beneficiary rolls were closed for some years.

The impact of the food stamp program on nutrition indicators appears to have been modest. According to consumer surveys, food stamps covered only 20-25% of food needs for a family of four. Food consumption behaviour in Sri Lanka indicated, however, that when food was scarce, adult-working members ate first, to be able to work, with women and children last. Thus, as is the case in other countries, food stamps need to be complemented with special programs, such as nutrition education, designed for women and children and other vulnerable groups, to have a significant nutritional impact. Of course, if food stamps were targeted to only the poorest of the poor, say the poorest 20%, given the same overall public budget, food transfers would have been larger covering a larger share of family food needs. Reducing the number of beneficiaries further to target only the neediest population, however, was politically difficult in Sri Lanka.

Despite these problems the food stamp program did result in a significant reduction in the fiscal cost of food assistance programs in the country. In 1978-79, prior to the food stamp program, food subsidies in the form of universal price subsidies and food rations were estimated at 5% of GDP and 15% of government expenditures, contributing to significant macroeconomic imbalances. By 1984, costs of the food stamp program represented approximately 1.3% of GDP and 3% of government expenditures. The reductions occurred, in part, because the beneficiary population was reduced to 50% - down from 100% when price subsidies were in place - one year before the food stamp program was introduced, and, in part, because of the rapid erosion in value of stamps with inflation. Because of the government's inability to reduce the beneficiary population, it was reluctant to adjust nominal values of stamps in line with inflation when the program was in operation.

Critics of food stamps point out the Sri Lankan experience as an example of the dangers of using food stamps. Sri Lanka introduced food stamps in 1979, in the face of macroeconomic crisis to reduce administrative machinery and hence generate substantial saving. The literature on Sri Lanka does not distinguish between impacts of changes in subsidy levels and the new targeting schemes from the efficiency gains in transferring food distribution to the private sector. Also the biggest reason why the program failed was the Sri Lanka could not (or did not) index the food stamps to the inflation rate. There was no mechanism in place to do a cost-of-living adjustment in order to preserve the real value of the stamps. The flaw was not in the program, but in the way policy makers implemented it by not keeping such adjustments in mind.

## **B) Jamaica:**<sup>24</sup>

Jamaica introduced food stamps in 1984 in response to major macroeconomic reform, to protect vulnerable groups from the full impact of exchange rate movements and reduced public spending. An additional longer-term program objective was to combat hunger and malnutrition among the poorest and most vulnerable groups in the population. By 1997, about 7.5% of the population were benefiting from the program. The targeted population consisted of pregnant and lactating mothers and children under the age of 6. These groups are identified and registered at health clinics and centres and are required to have regular health check ups before receiving food stamps. Other beneficiaries include the elderly poor and disabled people, and single and multiple member households whose annual incomes are below an established threshold level.

Beneficiary food stamp purchases are limited to specific food items selected on the basis of nutritional content, customary consumption by the population, and in-kind food assistance provided by international donors. Food stamps can be used to purchase rice, cornmeal, skimmed milk and wheat flour. These foods were chosen because they are important for the poor, representing 12.5% and 10.0% of food budgets of the first and second lowest income quintiles of the population, in the Survey of Living Conditions in 1988. Cornmeal, flour and rice, in that order, were also found to be the most efficient providers of calories per dollar of food purchase, in nutrition studies.

There are several issues that have affected program operations since 1984. The first is the rapid erosion in real stamp values, as these were not been adjusted in line with inflation. From 1990 to 1996, stamp values dropped by over 40%, affecting primarily the value of stamps provided to children less than 6 years of age and mothers. The value of stamps provided to the elderly poor and disabled dropped by a smaller percentage, in those years. Overall, as a percentage of the cost of a low-income basket calculated by the government, the value of stamp subsidies declined from 7.2% in 1991 to 2.8% in 1996. Another problem with the program was that there were many difficulties in program management difficulties owing to the lack of a functional management information system.

Although a general subsidy had wider coverage, targeting through food stamps had a larger impact on the incomes of the poor, and about half the cost. Administrative costs were kept low by using existing government networks. Unfortunately, the lack of political will and lack of coordination between the Ministry of Health clinics and centres and the Food Stamp Program Administration in both identifying and registering malnourished children, and designing the self-selection element incorporated in the registration process did not allow the system to continue too long. However the impact of the stamps was quite impressive. As against the previously existing universal subsidy, they brought down the cost of the system as a share of government expenditure from 3% to 1.6%. The stamps also resulted in a greater proportion of the transfer going to the poorest quintile, that is the stamps redistributed the transfer of grains to the poorest. It also brought down the proportion of rich households that were being covered from 100% to 6%.

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<sup>24</sup> Castaneda, T. (1999). *The design, implementation and impact of food stamp programs in Developing Countries*. World Bank, Human Development Network. Washington DC: Page 7, 8. Accessed on October 6 at [http://wbi0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/\\$FILE/Castan.doc](http://wbi0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/$FILE/Castan.doc)

Table 6: General and targeted subsidies, Jamaica, 1988<sup>25</sup>

ITEM	GENERAL SUBSIDY	FOOD STAMP
<b>Cost as share of government expenditure</b>	<b>3.0</b>	<b>1.6</b>
<b>Proportion of transfer going to</b>		
Poorest quintile	<b>14.0</b>	<b>31.0</b>
Richest quintile	<b>26.0</b>	<b>8.00</b>
<b>Proportion of households covered</b>		
Poorest quintile	<b>100</b>	<b>51</b>
Richest quintile	<b>100</b>	<b>6</b>

### C) Mexico:<sup>26</sup>

Three interesting programs have been introduced in Mexico to date. Since the 1980s there has been a lot of experimentation with ways of improving food assistance to the poor and vulnerable groups.

The first system was the Tortibono- food coupon program that was introduced in the late 1980s and provided free of charge one kilogram of tortilla per day per family. This replaced general price subsidies on maize with direct subsidies to the targeted poor. A coded card was given to the people selected that could be read at any authorised food store in selected areas. However, little is known about the impact of the program on food consumption and nutritional impact.

The second program was the integrated food support and health and nutrition program introduced as a pilot project in Campeche State in 1995-96. This replaced the tortibono subsidy with a cash transfer to buy a food basket. This program served 32,000 families in three urban localities of the state and was definitely an improvement over the previous program. It allowed greater variety of food to be purchased and increased choice. It linked food assistance to health and nutritional intervention for pregnant and lactating mothers and small children. The program provided a monthly cash allowance of 125 pesos for a family, irrespective of the size, programmed in a smart card given to beneficiary women for purchase of selected food items at authorised stores. Cards were recharged when the beneficiaries had certified that they had fulfilled the required health monitoring every month. Evaluations show that the program was a success in all spheres.

The third program is the Progresa program introduced in mid 1997. This was an integrated package that tackled education, health, and food. In education, it provides money to purchase food and school supplies for young children attending from the third grade in primary school to the third grade in secondary school (equivalent to eighth grade). In health, a basic health care package is provided to enrolled poor families. With respect to family food subsidies, it provides an income transfer in the form of a check or wire transfer where no banks are nearby to complement family income. An accompanying program on nutrition education with community participation has also been put into place. In order to receive this support, the families are required to show that they have attended health centres and clinics for the required health check ups for all family members. All assistance is given to the women every two months.

<sup>25</sup> Selowsky, Marcelo. December 1991. Protecting nutrition status in adjustment programmes: Recent World Bank activities and projects in Latin America. Food and Nutrition Bulletin. Volume 13, number 14. Accessed on October 6 at <http://www.unu.edu/unupress/food/8F134e/8F134E05.htm>

<sup>26</sup> Castaneda, T. (1999). *The design, implementation and impact of food stamp programs in Developing Countries*. World Bank, Human Development Network. Washington DC: Page 10. Accessed on October 6 at [http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/\\$FILE/Castan.doc](http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/$FILE/Castan.doc)

#### **D) Andhra Pradesh:**<sup>27</sup>

Nearer home, the food stamps experience in Andhra Pradesh bore encouraging results, despite not being a food stamp program in the real sense of the word. A food coupon system for distribution of rice and kerosene through PDS was introduced in during 1998-1999. The system allowed food stamps to be redeemed only at the Food Price Shops currently used by the poor consumer.

Under the scheme mere possession of card was not adequate to draw PDS rice, wheat or kerosene. Physical presence of the cardholder whose photo was affixed on the card was insisted upon for obtaining the coupons. The scheme aimed to improve the delivery system of kerosene and rice. Coupons were issues once a year and the coupon holders were entitled to redeem them on a monthly basis.

To facilitate the coupon holder to draw rice and kerosene in easy instalments in a month, coupons were distributed for denominations like 4 Kg, 8 Kg etc. Under coupon system, coupon holder/ beneficiary was aware of his entitlement. The State Government felt that this system had largely eliminated the scope of cheating of the beneficiary by dealers to deliver lesser quantity than entitlement.

The coupon guaranteed the stakeholder his right to draw the specific quantity every month. Unless coupon was produced, rice or kerosene was not released. This facilitated proper accounting of actual quantity distributed in the month as it was reckoned based on the quantity covered by coupons produced by the beneficiaries. Quantity distributed vis-à-vis the coupons produced could be verified every month by the officials of the Civil Supplies/Revenue Department. This has reduced the scope of diversion of rice and kerosene to a great extent, if not totally eliminated it.

*Table 7: Performance of Stamps in Andhra Pradesh*<sup>28</sup>

Reduction on the number of bogus/ ineligible cards	800,000
Kerosene saved every month	7100 kilo litres
Rice saved every month	20,000 tonnes
Value of rice saved every month	Rs. 9 crore
Value of kerosene saved every month	Rs. 5.67 crore

Introduction of coupon system also resulted in reduction of number of cards by approximately 8 lakh, which were either bogus or with ineligible families. A quantity of about 20,000 tonnes of rice and 7,100 kilo litres of kerosene was saved due to this system every month. In financial terms, an amount of Rs. 9 crore per month on rice and Rs. 5.67 crore per month on kerosene was being saved in subsidy. Coupon system could have been made more effective if the list of beneficiaries had been computerized fair-price shop wise so that duplicate names, if any, could be identified and eliminated. This step would also reduce the cost of PDS substantially.

This system was abandoned due to the fact that since AP is one of biggest grain surplus states, a shift to food stamps undercuts the power of PDS officials to extract rents from administrative prices. Since procurement price is way above market prices, and the PDS price below, this gave PDS officials great opportunities to extract rents from these price differences, particularly since this is a grain surplus state, under the old PDS.

<sup>27</sup> Virmani Arvind,P.V. Rajeev. May 2002 Excess Food Stocks, PDS and Procurement Policy. Written for Planning Commission, Working Paper No5/2002-PC: Pages 8, 9, 10

<sup>28</sup> Virmani Arvind,P.V. Rajeev. May 2002 Excess Food Stocks, PDS and Procurement Policy. Written for Planning Commission, Working Paper No5/2002-PC: Page 10

## **BELOW ARE LISTED SOME OF THE KEY POINTS TO KEEP IN MIND WHILE DESIGNING A FOOD STAMP PROGRAM:<sup>29</sup>**

- **Establishing Clear Program Objectives:** This is important, given their critical role in determining target groups and targeting mechanisms. Food stamps can be used in 2 fundamental ways- 1) to combat structural hunger and malnutrition and 2) as a means of transferring income, tied to food purchases, to beneficiaries adversely affected by the potential impact of structural adjustment on food prices or incomes. Thus the objective needs to be specified.
- **Assuring a high degree of political commitment:** This means that policy makers must be aware of all aspects of the program including risks and benefits, potential problems with key activities like selection of beneficiaries, size of the transfer, and use of the vouchers. Policymakers must be able to address problems as they arise, and garner public support through information dissemination.
- **Building the Institutional Capacity:** Food stamp programs can be complex in terms of design and implementation and require good institutional capacity, particularly when tied into delivery of other services. Building institutional capacity should not, however, be regarded as equivalent to creating or strengthening government institutions to design and run the program. Rather, it should be regarded as creating a set of rules for participation of different government and non-government agencies, including the private sector and beneficiary communities. Most critical activities for food stamp programs can be executed by different agencies in parallel or sequentially. Communication technology, outsourcing trends, and better information channels for beneficiaries and the public should be kept in mind while designing the program. Such institutional comparative advantage can and should be used.
- **Decisions regarding beneficiaries, targeting mechanisms, planning for automatic exit mechanisms, commodity coverage, type of subsidy, size of transfer:**
  - Once the objectives have been determined, identification of who the beneficiaries are is critical to project design, along with the determination of eligibility criteria and the means to reach those people
  - Once target populations have been decided upon, there are several ways in which those target populations can be identified and reached.

Geographic targeting consists of selecting all those who reside in a geographic area based on nutrition maps, poverty maps and other such objectives. The advantages are reduction in costs of preparing beneficiary lists, distributing benefits, and reducing stigma attached to the program, if any. However, it is possible that there are people who are included, but who don't really need the stamps. Withdrawing such a program may also be a problem.

Age/ gender targeting is useful when the objective of the program is to reduce malnutrition, in which case the groups at risk like children below the age of 6, pregnant and lactating mothers can be targeted. The advantage of this is that the stamps would be delivered to these people only after they have obtained health check ups in the primary care centres. However, where there is lack of health services, such a mechanism would not be very effective.

Combined mechanisms consist of many types. One is to combine geographical targeting and age gender characteristics- providing benefits to certain age groups in specified areas.

- Self-selection Versus Proactive Searching for Beneficiaries: there is the issue of how beneficiaries are registered or included in the program. One is through self-selection or desk-based registration in which prospective applicants go to government offices and apply for the program. The other is field registration in which government officials search for prospective beneficiaries and register them. While the former saves on administrative costs, the latter

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<sup>29</sup> Castaneda, T. (1999). *The design, implementation and impact of food stamp programs in Developing Countries*. World Bank, Human Development Network. Washington DC: Page 18-26. Accessed on October 6 at [http://wbi0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/\\$FILE/Castan.doc](http://wbi0018.worldbank.org/lac/lacinfoclient.nsf/0/cdf987707f1fe59c852567fa007a0132/$FILE/Castan.doc)

would be more helpful in a country where the poorest of the poor may not self-select or register because of ignorance, lack of time and resources (transport) ill health or fear of cumbersome bureaucratic procedures.

- Planning for Automatic Exit Mechanisms: Food stamps should support families when they need support and stop support when it is no longer needed. This requires periodic evaluation of eligibility criteria and the establishment of rules for entrance and exit. This is easy in certain conditions, like when the beneficiaries are in the form of pregnant mothers, or children under the age of 6. In other cases, timely updating of beneficiaries has to be carried out.
- Commodity Coverage: Food stamps are money certificates to buy specified (or non-specified) foods. Most programs include a limited list of food items, which have both high consumption propensities by beneficiaries (poor households or women and children) and are good calorie and protein sources. The question of commodity coverage used to be the subject of great debate among nutritionists, agricultural producers and policy makers. Nowadays, there is less concern about commodity baskets, and food stamp programs are more flexible, allowing by design or in practice, purchase of a greater number of foods.
- Type of Subsidy: The following methods are available:

Distributing cash for food subsidies is generally controversial in most countries. There is the perception that people use cash subsidies for other non-food purposes, including alcohol, and that the marginal propensity to consume food out of cash income is much lower than that of income in the form of stamps or in-kind benefits. An advantage of cash over food stamps is reduction in administrative costs of issuing stamps, controlling retailers, redeeming and destroying stamps, losses and forgery. Administrative costs can be reduced if the food stamp money is sent using existing channels to distribute other cash programs. Issuing checks can be troublesome because errors in names can not be corrected in the field when checks are distributed, and have to be returned for re-issuing. Cash is also the most fungible and verifying that it is spent of food is close to impossible.

Food stamps are specially designed paper currency good only for food purchase. Security elements have to be included to avoid fraud and forgery. Stamps are less secure than checks because they, unlike checks, do not have to be signed by beneficiaries for the food purchase. Food stamps impose greater administrative costs (issuing of stamps on security paper, finding secure storage and distribution, redemption and final destruction). Food stamps are a popular means because they appear to induce greater food consumption than that expected theoretically from an equal value income transfer. Food stamps are especially useful when the program is large and registration systems are underdeveloped.. One additional advantage of stamps over checks is that they can be printed in lower denominations and distributed in batches so that beneficiaries can spread purchases over time and retailers, avoiding the problem of having large sums of change in local currency.

Technological advances have provided new means for transferring purchasing power to beneficiaries of food subsidies. One such means, which is beginning to be introduced in the USA, is the Electronic Transfer Card which allows selected beneficiaries to pay for allowed food items in selected stores. It was also introduced in Mexico in the Tortibono, the Campeche Pilot and Progresa programs, reviewed in the country case studies. ETCs are recharged at some pre-determined frequency, generally monthly, with the sum of benefits provided. The ETC system allows close monitoring of purchases of foods permitted and reduces fraud. A major disadvantage is relatively high cost, compared to other alternatives, since stores need to have high cost (\$ 300-400) reading machines that also require electricity. It is expected, however, that further technological improvements can reduce those costs, substantially.

- Assuring Adequate Funding: Food stamp programs are usually designed to be temporary, lasting from three to five years. Adequate resources need to be budgeted for the program. One important consideration is preservation of food stamp values in the presence of inflation. Another important consideration is allowance for administrative costs. Policy makers, faced with acute budget

constraints, are tempted to over reduce administrative expenditures. Unduly low administrative costs (below 4-5%) will result in problems in management and updating of beneficiary rolls, delays, queues (lines), lack of monitoring and supervision, and other problems that will adversely affect program implementation and success.

## **ANSWERS TO SOME GENERAL CRITICISM**

A general criticism of food stamps is to point out that they have been a means of narrow targeting and have been used to reduce the cover of food distribution. But this is not because of the inherent nature of food

stamps, but the use to which they have been put. Having identifies who the recipient population will be; the stamps can be handed over to those families.

1. An extremely important concern about food stamps is that it is a means of **reducing the real value of subsidy**. Since food stamps entitle households to generally a fixed value of purchase and not a fixed quantity, the criticism is that with inflation, the real value in terms of grain that can be purchased by the consumer falls. However, the solution to this is very simple- the food stamps can be indexed to the inflation rate. COLA (Cost of Living Adjustment) should be carried out using a consumer price index so as to preserve the real value of purchase of food grains and promote food security.
2. There is a fear the stamps will be **sold** and the money used to buy other things. A related concern is the issue of **black marketing**. But there isn't much to stop a person from selling PDS grains to earn some money. After all, the shopkeepers have been doing that for so many years and selling the goods in the black market. In order to keep this risk at minimum it is necessary to ensure proper targeting of food stamps. Another way to reduce this risk is to not make denominations of stamps very big. With big denominations, beneficiaries wanting to space purchases over time or to purchase in different stores will need to cash food stamps. Also, if the storeowners can redeem stamps very easily and obtain cash, discount prices on stamps will be very low, thus reducing the risk.
3. Another concern relates to **forgery and fraud**. Introducing adequate security elements with regard to stamps and informing beneficiaries and food suppliers those security elements are in place, although not necessarily the means of security can reduce this problem. Introduction of rewards for detection of forged stamps can also help. Food stamps should also be dated in terms of redemption, which stops circulation for long periods, even beyond budget execution time limits. Security paper, which makes stamp forgery more difficult, can be found in most central banks in developing countries, supplied by international secure paper providers. Printing houses are also available in Central Banks or other private or public offices.
4. One of the most difficult questions in the design of food stamps or other subsidy programs is how to provide assistance **without destroying the incentives for self-reliant efforts**. To reduce these effects, food stamp programs should be temporary, as an interim measure to protect certain groups from the adverse effects of macroeconomic or sector adjustment on food prices.
5. The **cost** to consumers of picking up the stamps can be minimised by asking the targeted population to pick them up at the local post office/ health centre. Similarly, they can also be redeemed at the local post office/ bank.

**FOR THE PURPOSE OF INDIA, THE FOLLOWING SHOULD BE KEPT IN MIND:**

- In all states of India, the APL and BPL families have been identified. Hence, it makes it easier for policy makers to identify which sections need support.
- Once this has been done, the stamps should be distributed to the concerned people. One of the ways the distribution of the stamps to the beneficiaries can be done is by using post offices as the centre to collect and renew the stamps.
- Since post offices deal with money orders, this would also be a convenient place for shopkeepers to redeem the coupons that they have got on a monthly basis. The redemption can also be done by depositing the stamps in bank accounts.
- It would be more efficient to issue the stamps to the women of the household. The female head of the family should be the one to whom the stamps are issued. Her photograph could be put on the card that enables her to collect the vouchers from the post office.
- The stamps could cover the same range of items- rice, wheat, sugar, kerosene and edible oils. The only difference is that they could be picked by from anywhere in instalments that the family prefers. This would also reduce incentive for the family to convert the stamps to cash.
- Dating food stamps in terms of redemption would also help in controlling fraud and forgery. Thus an 'expiry date' should be put on the stamps.
- There needs to be regular updating of lists of beneficiaries. This should be taken seriously, and would not involve any additional costs, just as the updating of PDS lists has been provided for.
- While it is true that the smaller denominations would make things better for the consumer, it may increase cost of redeeming for the shopkeepers. In order to make this easier, it should be the case that the coupons can be deposited in post offices/ banks. Also a nominal payment can be made to the shop keepers so as to give them an incentive to accept the stamps and incur costs of redeeming them.

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