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# Global Food Stamps: An Idea Worth Considering?

**By Tim Josling** Senior Fellow, Freeman Spogli Institute for International Studies, Stanford University



International Centre for Trade and Sustainable Development

Issue Paper No. 36

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#### Published by

International Centre for Trade and Sustainable Development (ICTSD)International Environment House 27 Chemin de Balexert, 1219 Geneva, SwitzerlandTel: +41 22 917 8492Fax: +41 22 917 8093E-mail: ictsd@ictsd.orgInternet: www.ictsd.orgChief Executive:Ricardo Meléndez-OrtizProgrammes Director:Christophe BellmannProgramme Team:Jonathan Hepburn, Ammad Bahalim and Malena Sell

#### Acknowledgments

This paper has been produced under the ICTSD Programme on Agricultural Trade and Sustainable Development. ICTSD wishes gratefully to acknowledge the support of its core and thematic donors, including: the UK Department for International Development (DFID); the Swedish International Development Cooperation Agency (SIDA); the Netherlands Directorate-General of Development Cooperation (DGIS); the Ministry of Foreign Affairs of Denmark (DANIDA); the Ministry of Foreign Affairs of Finland; the Ministry of Foreign Affairs of Norway; AusAID; and Oxfam Novib.

ICTSD and the author are extremely grateful to all those who read and reviewed an initial draft of this paper. Particular thanks are due to Prof. Peter Timmer (Freeman Spogli Institute, Stanford); Kostas Stamoulis, Terri Raney and David Dawe at the FAO; Nupur Kukrety and Haley Bowcock at Oxfam GB; as well as staff at the WFP who also very kindly offered comments. ICTSD would also like to thank all the participants who expressed views and made suggestions at an ICTSD-FAO policy dialogue on 27 May 2011.

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Citation: Josling, T (2011), "Global Food Stamps: An Idea Worth Considering?". ICTSD Programme on Agricultural Trade and Sustainable Development, International Centre for Trade and Sustainable Development, Geneva, Switzerland.

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The views expressed in this publication are those of the author(s) and do not necessarily reflect the views of ICTSD or the funding institutions.

ISSN 1817 356X

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# FOREWORD

It has been estimated that the number of hungry people in the world rose from 820 million in 2007 to more than a billion in 2009, following a spike in food prices; and that while this figure may since have dropped to about 900 million, about 16 percent of the world's population remains chronically undernourished even during periods when prices are relatively normal and price volatility is low.

Government policies in a number of areas can be linked with the persistence of hunger and malnutrition, with policies on trade amongst these. These include, in particular, the long-term impact that developed countries' trade-distorting support may have on investment incentives and hence productivity in developing countries; the effects of high market access barriers in developed countries on developing country exports; biofuel policies; export restrictions; and a number of other measures that have been analysed and discussed in detail elsewhere.

While efforts to overcome hunger have mostly focused on the production side, with analysts highlighting the need to ensure that production quantities and the distribution of food is adequate, such initiatives are only likely to achieve success if they are also accompanied by measures ensuring that consumers can easily access food as well. Currently, the low levels of purchasing power of poor consumers in many developing countries remains a substantial and persistent obstacle to efforts to ensure food security.

WTO subsidy rules currently allow countries to provide domestic food aid to sections of their populations that are in need (under paragraph 4 of Annex 2 to the Agreement on Agriculture - the 'green box'). The US food stamp programme, which is notified to the WTO under this provision, represents the largest component of US green box spending, and also the largest such programme of any WTO member.

An international scheme establishing a framework through which consumer subsidies could be provided, targeted to the poorest consumers in developing countries, could conceivably represent a practical tool for policy-makers to enhance access to food at the global level. Such a scheme could provide some common elements in national policies in return for assistance with finance, and could link elements of technical assistance, monitoring and assessment of programmes.

A scheme of this sort was in fact proposed by the World Food Council in June 1980, as part of a broader initiative to eradicate hunger. The scheme, which was to be called an "International Food Entitlement Scheme", was to have been designed as "an instrument for sponsoring food subsidy and distribution programmes clearly targeted to those at present unable to afford an adequate diet in developing countries, with a fundamental element being that of ration cards or food coupons redeemable against the purchase of basic foodstuffs".

This paper seeks to provide policy-makers and other stakeholders with an assessment of the extent to which an international scheme for targeted consumer food subsidies (akin to those provided under the US domestic 'food stamp' programme) could represent a practical contribution to overcoming food insecurity in developing countries, taking into account any implications such a scheme could have for trade flows and trade policies. While the paper does not purport to be a comprehensive study of the economic effect of food stamps, nor of the institutional and administrative questions that would have to be addressed in adopting a global food stamp scheme, it nonetheless sets out some of the issues that a global food stamps program would raise, and therefore represents a valuable contribution to the ongoing policy debate on how best to overcome food insecurity.

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Ricardo Meléndez-Ortiz Chief Executive, ICTSD

# **EXECUTIVE SUMMARY**

Programs that directly target consumers who lack the income to purchase food have been tried in several countries. The largest of such programs has operated in the US since the 1960s. The Food Stamp Program (now called the Supplemental Nutrition Assistance Program) has an extensive clientele and a large budget. Attempts to introduce similar schemes in developing countries have had less success. One of the notable developing country programs was introduced in Sri Lanka in 1979 as a way of avoiding the costs and lack of focus of the general food subsidy programs that had been in place. The program lasted ten years and demonstrated some critical lessons on program implementation, Mexico introduced such food stamps for some basic staples and again learned much about the ways in which to target vulnerable groups. Several countries in Latin America and the Caribbean introduced food stamps in the period of structural adjustment as governments abandoned expensive general food subsidy programs.

The notion of getting purchasing power directly to poor consumers has many attractions and is superior to more indirect ways of dealing with poor nutrition such as rationing or price controls. It stimulates the local economy and adds to the demand for local and regional produce. But where such local suppliers are not available it encourages imports. It is thus in keeping with the attempt to open up food markets to allow trade to alleviate shortages. Food stamps do not need a government food distribution scheme (such as those in operation in India and Pakistan) and the administrative burdens have mainly to do with identifying the intended recipients and arranging for a transfer of funds.

At a time when food security has become a major concern for developing countries, the question arises as to whether food stamps or other methods of distribution of purchasing power directly to consumers might fit into the range of international programs under consideration. Moreover, in times of price volatility, the existence of a scheme to alleviate hardship among vulnerable groups in developing countries may give an additional mechanism for an international response to the increased hardship that price increases bestow on the poor.

Targeting certain categories of consumers and issuing them with cash with which to buy food is easy to explain to donor countries, is beneficial to both producers and consumers, and is more easily monitored. But the details of such a scheme need to be considered with care, in particular the identification of the problem to be addressed, the nature of the target group, the instruments used to distribute and administer the cash-vouchers, the financing of such schemes from international sources, the monitoring of the distribution and the vouchers, the accountability of the program to the donors and its political attraction as a way of helping consumers without detracting from the market for local produce.

Precedents exist for such a program. In 1980 such a scheme was explored briefly by the (now defunct) World Food Council. That body included the proposal on its agenda for discussion but was unable to attract donor countries. More recently, the World Food Program has begun to experiment with the allocation of cash and vouchers in its distribution of food aid. This has been supported by several governments as a part of their aid programs. So an exploration into the feasibility and desirability of a global approach to direct consumer food subsidies is timely. It may be possible to use these as the basis for a coordinated program that would be ready for the next time that the prices of basic foodstuffs spike.

A scheme of this nature could be devised that would be linked to the particular problems faced by the elderly and by women with young children in situations of food insecurity to increase their access to basic foods. Linking eligibility and distribution with other social programs addressing the needs of these groups (health and education for example) could help in the identification of recipients and the monitoring of effects. Some leakage (to those not eligible) is inevitable, but careful program design could minimize this. Accountability for funds disbursed is imperative if such a program is to garner international support. Modern methods of electronic payment could assist in this respect.

# 1. INTRODUCTION

It may be ironic that one of the richest countries in the world has the most expensive system of consumer food subsidies. These subsidies, operating for many years under the heading of the Food Stamp Program, have provided lowincome consumers with vouchers that they can spend on (most) foodstuffs at regular retail outlets. While the considerable payments made to farmers in the US has been the focus of much international attention, the expenditure on food subsidies exceeds by far the cost of farmer subsidies in that country. Developing countries also have various programs that assist low-income consumers to buy food. But even the most extensive of such programs, such as the Public Distribution System run by the government of India, has a more modest outlay than the US scheme, though it reaches more consumers.<sup>1</sup>

At a time when food security has become a major concern for developing countries, the question arises as to whether food stamps or other methods of distribution of purchasing power directly to consumers might fit into the range of international programs under consideration? In 1980 such a scheme was explored briefly by the (now defunct) World Food Council. That body included the proposal on its agenda for discussion but was unable to attract donor countries. More recently, the World Food Program has begun to experiment with the allocation of vouchers in its distribution of food aid. This has been supported by several governments as a part of their aid programs. So an exploration into the feasibility and desirability of a global approach to direct consumer food subsidies is timely.

This paper reviews briefly the analytical argument for addressing problems of hunger and food insecurity through food stamps or vouchers distributed to poor consumers.<sup>2</sup> It then looks at some of the national programs of this nature that are or have been tried. The paper continues with a discussion as to how those national programs in developing countries might be supported by international assistance, and considers some of the practical problems of financing and administration that could arise. The paper ends with some modest suggestions for moving forward with a global food stamp scheme. The intention of the paper is to raise the issue of the possible role of food stamps at a policy level. It does not purport to be a comprehensive study of the economic effect of food stamps nor of the institutional and administrative questions that would have to be addressed in adopting a global food stamp scheme.<sup>3</sup> Such a study would be essential before a scheme of this nature could be plausibly considered.

# 2. CONSUMER SUBSIDIES FOR VULNERABLE GROUPS

Food consumers go hungry when they do not have the income to purchase food. This is exacerbated in times of high food prices whether those prices are the result of inadequate domestic supply or of world market conditions. Vulnerable consumers can be helped in several indirect ways. The government can keep the price of food down, allowing the same income to buy more; the government can increase supplies available by subsidizing farmers to encourage production; they can arrange for more imports on commercial or concessionary terms (food aid); they can release stocks to lower prices; they can set up alternative distribution channels to sell directly to the poor; and they can ration supplies for those not considered vulnerable. But they can also help in more direct ways, by giving the target consumers vouchers or other valuable instruments that can be exchanged for food products.

Each of the ways of reaching poor consumers brings with it a different set of problems and challenges. This section compares the main food subsidy instruments and identifies the particular problems to be overcome. The main points are summarized in Table 1.

#### 2.1 Price Controls

Perhaps the most widespread method of assisting poor consumers at times of high world

prices is for the government to put a cap on the price levels themselves. This has an immediate impact on the market and is often a response to political pressures. The government is seen to be doing something and can point to the "success" of keeping prices under control. Price setting is easier when the government already controls or has a significant presence in the food distribution system, as is the case in China. Unfortunately, this type of policy has several undesirable consequences. It sends the wrong signals to domestic producers, who will be disadvantaged by the price controls. More fundamentally, it keeps prices down for all consumers (unless combined with another subsidy instrument). It encourages illegal trade on a "black market" whereby those who can afford it can procure supplies by paying a premium. And, from a political point of view, it is very difficult to undo the policy at a later date: consumers will not be happy to see the prices increased directly by the government. The authorities are often only able to extricate themselves from the expectation of continued low prices if uncontrolled market prices fall below those administered by the price regime.

Examples abound of the difficulties of removing price ceilings. One case with particular salience at present is that of Egypt. The extensive food subsidy system in that country has since its inception taken a high proportion of the government budget. Between 1970 and 1981

Instrument	Advantages	Disadvantages
Price Controls	Direct and Visible	Disincentive to producers; difficult to
		reverse
Production stimulus	Encourages investment	Slow and untargeted
Import	Quick and effective	Disincentive to producers
Encouragement		
Stock Release	Quick and effective	Stocks costly to hold; release decision
		difficult
Fair Price Shops	Widespread distribution	Duplicates private market activity
Rationing Programs	Minimum nutrition achieved	Market allocation disrupted
Food Stamps	Purchasing power to consumers	Administrative burden

Table 1: Summary of Main Types of Consumer Subsidy Programs

Egypt spent 25 percent of its annual budget on food subsidies (Kramer, 1990). The problem continued through the 1990s (Ahmed, *et al*, 2002). When prices spiked in 2008 the burden was acute. A part of the ongoing political change in the area has been attributed to the rise in food prices (Ciezadlo, 2011). But the situation demonstrates the problems that arise when food prices have been kept low over a long period of time.

#### 2.2 Production Stimulus

Expanding domestic production has its place in food policy, in particular if the constraints on production are the result of inadequate infrastructure or poor access to productive inputs. But as a response to consumer price increases the stimulus to domestic production is likely to be slow and ambiguous. Any stimulus given through higher administered prices for farmers will require further intervention in the market to ensure that consumers do not bear the brunt of such stimulus measures. If the subsidies are given directly from the budget, this can be avoided, but the distribution of such subsidies brings its own problems. Subsidies that reduce the price of electricity, water, fertilizer and other inputs into farming have been widely tried, and have advantages over price supports. But they do not address hunger and poverty issues directly. The extra production will be purchased by those that have the necessary income. Any benefit to poor consumers will come as a result of lower prices on domestic markets. But the government may have to discourage exports to avoid the additional production flowing on to world markets. In other words, under conditions of relatively open markets (normally good for consumers) the subsidization of domestic production has less impact on domestic consumer prices.

#### 2.3 Import Encouragement

The quickest and most effective way of increasing food supplies on the local market and reducing prices is to remove any barriers

to imports. This has been a common reaction during the two recent price spikes, and emphasizes the value of trade in relieving shortages. But the remedy has its own challenges. In particular it works best where tariffs are high, so that the improved market access can have an immediate effect. In some cases, the infrastructure may not be in place to increase imports and to move imported supplies to inland areas. Thus cities may be better fed but the rural poor may get little benefit. In fact, if they are producing food for the cities the extra imports may well exacerbate income problems in rural areas. In effect the benefits of high world prices are not being transmitted to the rural areas. As part of a longer-term strategy to improve the agricultural and food markets the removal of border protection is desirable, but to soften the impact on domestic producers may take additional policy instruments.

Food aid is also a short-term remedy that can alleviate a food crisis arising from high prices. How effective this is will depend critically on the infrastructure in place and the distribution of the supplies. The coordination of food aid through agencies such as the World Food Program (WFP) has a long history. But provision of in-kind food aid is seen as tying such aid to available "surpluses" in the developed countries. This may not be flexible enough to bring relief quickly. And in particular, at times of high food prices, limited food aid budgets can buy less in the way of supplies.

#### 2.4 Stock Release

There has been a revival of interest in the role of buffer stocks in recent years. The high cost of storing grain and other staples, particularly in hot climates, has always been a concern. To the extent that the government engages in reserve stock holding the incentives for the private sector to do so diminishes. And the decision as to when to release stocks becomes a politically charged issue. Some action to assure markets that there are supplies available may be part of a food policy, but reliance on stocks to alleviate the burden of high food prices on the poor has high costs and limited effectiveness.

#### 2.5 Fair Price Shops

Direct involvement in the marketing of food supplies is a relatively common form of assuring access to food by low-income consumers. The most extensive of such programs have operated in India. The Indian Public Distribution System (PDS) consists of many thousand outlets for key commodities (rice, wheat, sugar and kerosene) deemed important for poor families. Such "fair price" shops act as a control on the prices charged by private retailers and seek to guarantee a minimum ration of the foodstuffs and cooking fuel to the poor. The Food Corporation of India overseas much of the distribution of basic foods from producers to the marketplace. The administration of the PDS is shared between the States and the Federal Government, and has generally improved over the years. However the usefulness of this type of system for meeting the challenges of high world food prices is circumscribed. As with price controls, high external prices imply a higher level of subsidy needed for the state distribution system. Unless tied to public storage system or an import policy based on food aid the distribution of food in competition with a private retail sector can rapidly become expensive. And the notion of a state distribution system that operates only at times of high prices seems infeasible.

#### 2.6 Rationing Programs

Rationing programs can assure access to food up to a certain amount and restrictions on purchases in excess of those quantities. They can be administered through fair price shops or through the normal private channels. Such rations typically use a card or a ration book that keeps track of purchases, and the prices of those products are likely to be lower than in the unregulated market. From an analytical perspective there is an important distinction between a ration that assures consumers a minimum level of purchases and those that restrict purchases to that amount. In the former case, the intent is to raise consumption by those that would otherwise be unable to afford food: in the latter it is to limit (i.e. ration) scarce supplies and by implication to reduce and redistribute consumption. Pakistan provides a good example of a rationing system operated through ration shops (privately owned but government licensed). Consumers receive a ration card that enables families to purchase particular amounts of food at subsidized prices. The system survived in part as an acceptable way of achieving distributional as well as nutritional aims.

Permissive ration systems that use ration books or cards to give access to minimum quantities are a form of voucher program, similar in impact to a voucher or food stamp program when no limits are put on purchases. The main difference is that ration systems are usually tied in with government controlled retail outlets. This has on occasions been accompanied by limited choice and lack of a viable food retail system.<sup>4</sup> By contrast, restrictive rations are a way of limiting consumption either to the population as a whole or to particular groups. If targeted, the ration cards can offset to some extent the impact of higher prices on food consumption: the poor are sheltered in part from competition in the marketplace from those with more income. But this type of ration system breeds fraud and avoidance: black markets are likely to spring up which exacerbate the differences in purchasing power between rich and poor.

#### 2.7 Food Stamps

Food stamps, or vouchers that can be used for the purchase of food, are a direct way to get purchasing power to those targeted groups without the need to build or use a public distribution system. They can encourage dietary diversity as they are not linked to particular foods. They can help both the consumer and the producer, and can be expanded or phased out as the need arises. The main problems with food stamps arise from the difficulty of targeting the needy families and the need to have sound administration to prevent gross abuse. The essence of the programs in this category is that they transfer purchasing power (rather than actual commodities) to the eligible consumer.<sup>5</sup> There are three types of problems: eligible consumers may not know of the program; ineligible consumers may get hold of the cash; and some of the cash may be "lost" in the system and not reach the consumer. Each of these problems has partial solutions, but the difficulties remain that are associated with any cash transfer system. A brief examination of the experience with some of the food stamp programs that have been in operation may help in illustrating these problems and their solutions.

### **3 EXAMPLES OF NATIONAL FOOD STAMP PROGRAMS**

There have been relatively few long-lasting examples of food stamp programs. Interest in these programs has wavered over the years. The high prices of the 1970s led to the introduction of several schemes in developing countries. Reports by international agencies contain several examples of schemes designed to shield poor consumers from the high world prices that obtained in the 1970s (WFC 1980a; WB 1982). Together with more recent information, these reports allow an historical perspective on the shifting popularity and acceptability of food stamps over the following three decades (Kramer, 1990; WFP 2008; Pinstrup-Anderson, 1988).

#### 3.1 US Food Stamps

The US Food Stamp program (FSP) started in the 1960s, as a reaction to the revelation that even in a country that had emerged as the unrivalled economic power in the postwar period there were many families that had difficulty in purchasing adequate food.6 A pilot scheme was activated by President Kennedy in 1961 and proved to be popular. The first year's budget outlay was \$75 million. The 1964 Food Stamp Act put the program on a more permanent footing and established a powerful coalition between urban and rural Congressmen that has endured to the present. The Food Stamp program supporters have allowed the farm programs to continue in exchange for the agricultural lobby backing the food stamp legislation. The authorization for food stamps became tied in with the Farm Bill and the administration of the program came under the US Department of Agriculture.

The nature of the food stamp program has changed somewhat over the years, even as the objectives have stayed fairly constant. Individuals or families are eligible for subsidized foods supported with funds from the Federal government. Originally the recipients had to purchase the food stamps (that resembled large postage stamps) with the funds that they would have spent on food, but received a greater value of food when handing over the stamps to the food retailer designed to be enough to maintain an adequate diet. The retailer would then redeem the stamps for the value of the food sold. A major overhaul of the FSP took place in 1977, when concerns over accountability and effectiveness were addressed. The purchase requirement was eliminated, avoiding the problem that a family had to have money in order to buy stamps. By the 1980s the administration of the subsidy had progressed to a point where electronic transfers had replaced stamps or coupons. Currently, the cards are credited with the appropriate amount of funds each month and are then used by the family much like a debit card. The name of the program was changed in 2008 to the Supplemental Nutrition Assistance Program (SNAP).

The administration of the FSP is undertaken by the individual States though the financing of the food subsidies themselves is borne by the Federal government. This shared administration leads to some differences in the eligibility criteria for different parts of the country. Common to all States are the income and expense limits for eligibility. For a family or individual the gross monthly income must not exceed 130 percent of the poverty line, and the net income must be no more than 100 percent of the poverty line. Assets (excepting a house and a modest car) are also subject to limits and face-to-face interviews are conducted. The electronic card is also common to all, and purchases can be made in any State. The purchases made with the card can include any food with the exception of hot food, pet food, tobacco products and alcoholic beverages. Soft drinks, candy and ice-cream are acceptable foods. Retailers need to get approval to accept SNAP purchases, but in reality most stores are included in the system. Administrative costs are considered low, and fraud, while it exists, has been reduced by the move to electronic payments.

#### 3.2 The Sri Lanka Food Stamp Program

Among developing countries most the prominent food stamp scheme has been that introduced in Sri Lanka in 1979 (described fully in Edirisinghe, 1987). This program is unusual for its key role in extricating the government from an expensive and somewhat ineffectual program of food subsidies through the maintenance of low prices that had existed since the 1940s. These food subsidies, operated through ration coupons, were not targeted. By contrast the food stamp scheme was only available to those families earning below US\$20 (in 1979) and had initial success. Within a decade it had reached about one half of the population. It eventually was phased out in the early 1990s as a result of rising costs and inaccurate targeting. Though eligible products included rice, flour, bread, sugar and milk products, the bulk of the stamps went to the purchase of rice.

The Sri Lankan experience illustrated the difficulty at that time in effectively targeting the policy. Many of those making use of the stamps were not among the poor: it suffered from the fact that others had been accustomed to low-price food under the previous policy. The expense of allowing non-eligible consumers to take advantage of the stamps prevented the government from raising the value of the stamps along with inflation. As the purchasing power of the stamps dropped, the value of the program declined. Participation rates among the targeted families were also unsatisfactory and the impact on reducing hunger was deemed to be marginal. More accurate targeting proved to be beyond the ability of the government (for political not technical reasons), but at least the cost was much less than the general food subsidy scheme that preceded it. In effect, Sri Lanka had provided a valuable example of the practical problems of running a food stamp scheme over a period of fifteen years.

#### 3.3 Jamaican Food Stamp Program

As a part of the policy package stimulated by structural adjustment the Jamaican government first experimented with a food stamp program in the mid-1980s. The program was intended to compensate "those who were expected to be disadvantaged by structural adjustment measures, including currency devaluation and the end of general food subsidies" (Kramer, 1990, page 6). The program was specifically targeted at children and pregnant and nursing mothers, as well as the poor and elderly. About 7.5 percent of the population was enrolled by 1997. Identification of the eligible individuals was aided by coordination with the health and social security services (Ezemenari and Subbarao, 1999).

The significance of the program, as in the case of Sri Lanka, was diminished by the denomination of the stamps in nominal terms. Inflation rapidly eroded their value, and governments under pressure to restrict spending could not compensate. The choice of food products available under the scheme was limited to those deemed to be the most nutritious. These included cornmeal, rice, wheat flour and skimmed milk powder. Importantly, the donor community contributed to the programs through in-kind assistance. Among the donors were the US (under PL 480), Canada, and the World Food Program.

#### 3.4 Mexican Food Stamp Programs

Mexico had, until the 1980s, an extensive program of direct distribution of food and subsidized retail prices. In part as a reaction to the increasing cost of these general food subsidies (and in particular the subsidy for maize) that had been operated through state marketing agencies such as CONASUPO, it was decided in 1984 to create a more targeted subsidy for low-income consumers. The food stamps were used to buy tortillas (a staple food of the poor) and became known as "tortibonos". Low-income families were given a card and could buy tortillas at half price, and 2.5 million families reportedly took advantage of the program. Beneficiaries were identified by means of proxy indicators, such as housing quality. In 1990 the program was replaced by another type of voucher ("tortivales") that allowed eligible families to obtain free of charge one kilo of tortillas (tortillas sin costo).<sup>7</sup> By 1997 the government had integrated the tortilla subsidy into a more wide-ranging anti-poverty program (PROGRESA) with a food stamp component. Families were provided with an income transfer (by check) that could be spent on any food item. The program is also closely tied to health and educational objectives, and recipients are required to participate in certain programs in those areas. Mexico has also used ration cards for milk purchases for children (Gunderson, et al, 2000).

#### 3.5 Other Programs

A number of voucher programs have been tried in Latin America. One early example is that of Colombia, which introduced food coupons in 1975 as a part of a World Bank project on nutritional improvement. The stamps were available to poor mothers and small children to buy particular processed foods with high nutritional content. The program apparently lost political support and was abandoned in 1981.

In Venezuela a food stamp program was introduced in the early 1990s when general subsidies were reduced. The program (Beca Alimentaria) was limited to families with primary school aged children, and the vouchers were distributed at the schools. The products eligible were flour and rice along with a coupon that could be spent on other goods. But the benefits were not restricted to the poor, and so costs were excessive. The future of such consumer subsidies is again under discussion in Venezuela, as the government attempts to keep down the burden of high food prices.

Food stamps have also been introduced in Trinidad and Tobago and in Chile, as a way of reducing food costs to poor consumers (Kramer, 1990). Also introducing food stamp programs were other countries in Latin America that were rethinking their social safety net programs in the light of structural adjustment. Honduras introduced food stamps in 1990, including one for primary schoolchildren (Bon Escolar). Other programs targeted coupons to particular household needs (eg: the Bono Madre Jefe de Familia, and the Bono Materno Infantil). Although most of these subsidies can be spent on any good, evidence suggests that most of the additional spending goes on food. Grosh gives these programs credit for improving nutritional status among vulnerable groups (Grosh, 1995).

Few examples exist of food stamps in Asia or Africa. In Asia the main reason is probably that control of the food marketing system and of consumer prices has been a more common way of providing affordable food. India, with an extensive public distribution system has been considering adapting its method of delivery in the direction of food stamps or the similar food debit cards. Russia has recently been reported to be considering the possibility of a food stamp scheme, and China apparently uses vouchers as a means of distributing food supplies to poor households. But the "pure" food stamp scheme whereby valuable assets such as stamps or vouchers are distributed to vulnerable groups for their own purchase of foods at market prices from private retailers is not common. The next section discusses whether such a scheme, even if not in widespread use at present, could not provide a useful entry point for foreign assistance aimed at improving food security.

# 4. EXTERNAL SUPPORT FOR NATIONAL PROGRAMS

Many if not most countries have programs that are aimed at increasing the availability of food to vulnerable groups. These also help to reduce the impact of high prices on poor consumers. International programs generally work through these national schemes, providing financial and other support.<sup>8</sup> The World Food Program (WFP) is a leading agency in this area, and hence would be a part of any discussion of a more general food stamp program.<sup>9</sup> Though traditionally focused on in-kind transfers (such as food aid) it has in recent years experimented with cash and voucher transfers as a part of its activities in the area of nutrition and hunger-alleviation (WFP, 2008). This provides an opportunity to revisit the issues of whether support for national food stamp programs may be an appropriate weapon in the arsenal of international assistance. Could a Global Food Stamp (GFS) which coordinated support for national schemes be a constructive and effective way to deal with acute hunger and malnutrition including those occasioned by price spikes? The conditions under which such a scheme might work are considered in this section.

#### 4.1 An Earlier Proposal

One variant of this type of program was suggested by the World Food Council in 1980.<sup>10</sup> The proposed program was called the International Food Entitlement Scheme (IFES). The argumentation was as follows:

Eradicating hunger ... will require a major commitment by the international community to support national foodsubsidy and direct-distribution schemes on a significant scale. Targeted schemes providing a food entitlement, such as rationing and coupons, are most suited to international assistance. ... Coupons would be supported by cash contributions from international sources. An IFES would essentially be an instrument for sponsoring food-subsidy and distribution programs clearly targeted to those at present unable to afford an adequate diet in developing countries, with a fundamental element being to that of ration cards or food coupons redeemable against the purchase of basic foodstuffs (WFC, 1980b, page 7).

It was suggested that the scheme also include technical assistance in the development and administration of these programs; assistance to governments in monitoring the effectiveness of the schemes; and a regular assessment of developing countries' assistance requirements for food entitlement programs and the rate of international support. And, the IFES "would offer an identifiable initiative to which could be harnessed the good will of those concerned with world hunger but frustrated at the slow progress in alleviating it (op cit, page 8).

The proposal was discussed at the WFC Ministerial meeting in 1980, along with a broader agenda of ways to reduce hunger. The Council welcomed the "increased recognition of the need for food strategies, plans or systems to focus and integrate national efforts and to mobilize international support in favor of coordinated policies and programmes for the resolution of food problems in the areas of greatest need." But there was no endorsement of the specific IFES suggestion.<sup>11</sup> The WFC Secretariat had by then developed a plan for a Developing-country Owned Reserve of basic cereals, and this proved more attractive to the Ministers. By the 1982 meeting of the WFC the specific IFES proposal had been dropped, though it was implicit in the emphasis on support for food strategies. And the attention of the meeting had by that time turned to production issues, such as agrarian reform and rural development, as well as small-farmer incentives.

The WFC proposal was never fleshed out in the various documents that went to the Ministers. The Secretariat had made some estimates of the cost of such a scheme. Allowing for the distribution of 50 kg of wheat for 100 million recipients would have cost about \$1 billion at

1980 prices. Adding administrative costs of 30 percent would bring the bill to \$1.3 billion, a relatively small sum in terms of the magnitude of the problem. The developed countries would be able to devote food aid to meet the needs of the program. The program itself would be phased out in five or more years, to be taken up by the recipient countries themselves.

The WFC proposal was introduced in the context of nutritional assistance for vulnerable groups. The main target group was women with young children. Prices on world markets had receded from their peaks of the 1970s but the problems of hunger and poverty were still atop the international food policy agenda. The idea, that international finance for national food programs was a constructive way of helping the poor, has remained over the past thirty years. So the reconsideration of food stamp schemes in the context of current problems of food insecurity may be not so radical after all.

#### 4.2 How a GFS Program Might Work

Any food assistance program needs certain decisions to be made before program design can take place. The decision to introduce a voucher-based food assistance program in a country would need to be based upon a clear formulation of the objective of the program; an agreed definition of the target group or groups; the alternative ways in which the targeting can be achieved; the practical problems of administration and prevention of fraud; and the budget and resource cost of the program.<sup>12</sup> International assistance requires additional criteria including the international accountability, the choice of country eligibility, the extent to which the program enjoys support abroad, and the sensitivities in the target country to forms of assistance.

With these considerations in mind, one possible model for a GFS would be as described below and summarized in Table 2. A suitable

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Objective	Contribute to food security by transferring purchasing power to vulnerable
	groups of consumers, particularly in times of high prices for basic foods.
Target Groups	Elderly, Poor, Pregnant women and families with young and school-aged
	children
Method	Distribution of cash cards that can be used for the purchase of foods. Cards
	linked to individual accounts.
Administration	Electronic transfer of credit monthly to these accounts. No restriction on
	types of food purchased. Existing commercial and public distributional
	channels used.
Finance	Payments through subscription from national governments in developed and
	emerging countries. Scale of payments could be linked to production or
	export status of donor countries and level of world prices.
Effectiveness	Additional food consumption would be sampled to check for effectiveness.
	Participation rates would be monitored. Leakage to non-eligible groups
	would be estimated.
Accountability	Recipient country would give accounts of payments and disbursements.
Acceptability	Donors have clear objectives and ways to monitor achievements. Recipient
	countries have financial support for programs that are designed to be
	effective in their situations.

Table 2: Summary of a Project for Alleviating Malnutrition through Transfers of Purchasing Power

Source: Author

objective in the current environment of unstable commodity prices could be to shelter particularly vulnerable groups who are unable to afford adequate nutrition for their families. The international contributions to the program could be tied to changes in the price of various staple commodities, wheat, corn and rice being the obvious candidates. The prices in question could be monitored at the international level to avoid local political considerations and possible price manipulation.

The target group could include the elderly, the poor and families with small and school aged children. Obviously the wider the target group the more costly (or limited) the program would become. For nutritional reasons the food intake of pregnant and nursing mothers and young children is vital: many existing programs target such groups. There is no reason to doubt that older children and male adults would not get some indirect benefits from the program: distribution of food within a household is not easy to control (even if one wanted to do so). Distributing vouchers to women seems to have been a successful way of ensuring that a large proportion of the value of food stamps is spent on food.

The method of distribution of food stamps has changed radically with technology. Advanced systems (such as the US SNAP) use electronic transfers directly into accounts that can be drawn on for purchases. In countries where such technology is not widely available, resort to paper vouchers or stamps could be necessary. But the technology need be no more complex than a retail gift card, where the remaining credit can be read by the store accepting the payment. This type of technology is being explored in the broader context of social protection (Devereux and Vincent, 2010).

The administration of the program would be in the hands of local officials, with assistance where necessary from international agencies. The ease of administration is tied to the method of distribution. Electronic transfers make the cost of distributing the cash to the targeted groups less costly. But the programs could attract fraud, and the magnitude of that abuse could be greater than with vouchers. Administration is made more feasible if the program were run in conjunction with other forms of social services. Successful targeting is likely to involve creative links with heath and educational institutions.<sup>13</sup>

The program as suggested here would not specify any particular types or quantities of foodstuffs that can be purchased with the credit in the cards. This would avoid the temptation to buy with the card and sell to those that were not eligible for that "ration". The purchases would be made in regular retail outlets, and the owners would have to present the total credit "used" by the cardholders to the authorities for compensation. The success of the scheme may rely on making it easy (and quick) enough for the retailer to be reimbursed, so as to avoid the incentive to sell only to those who do not have cards. The extra business should be enough of a benefit if the payment system is efficient.<sup>14</sup>

Another problem noted in food stamp schemes is the erosion of the value of such stamps when prices rise. Offsetting the effect of inflation on the purchasing power of the voucher is important not only for the consumers themselves but also for the traders and retailers. This argues for flexibility on the budget process in the country concerned: the purchasing power of the stamps must take priority over the stability of the budget. This problem is common to any form of social assistance, but might be particularly serious in the case of food, where prices are volatile.

The international finance could come from pledges by national aid agencies, as an addition to or a redirection of their aid budgets. The fact that the WFP initiative to make more use of cash-transfers and vouchers is being launched suggests that there is some merit seen by donors in the direct approach to food assistance.<sup>15</sup> How far one could go in matching the gains for exporters from the high food prices with the cost to consumers is one of the tricky political calculations. But in principle one could devise a payment system that matched the windfall benefits to producers in rich countries with the costs to poor consumers in developing countries.

To the extent that such a scheme resulted in increased flows of international assistance there will be an incentive for developing countries to participate. Donors should be attracted by the benefits of targeting the assistance and supporting local agriculture. But several food stamp programs have in the past been abandoned because of poor performance. Careful monitoring would be necessary to ensure effectiveness. Such monitoring is relatively straightforward when it comes to programs that aim to increase consumption. More difficult would be to link this with nutritional status, which requires more intrusive testing, and with leakage through the participation of ineligible consumers.<sup>16</sup> Nevertheless accountability would be reasonably high, with statistics of disbursement made easier by the nature of the recorded transactions under the program.

A part of the question of international accountability would revolve around the possible international trade impacts of such a scheme. The transfer of funds among countries to support food stamps would not give rise to any conflicts with WTO trade rules, though the schemes themselves would need to be consistent with country obligations. As the programs require subsidies the question of compatibility with international trade rules is relevant. Such subsidies would not generally be covered by the Agreement on Subsidies and Countervailing Measures (ASCM) as they would not confer benefits to particular firms or sectors. Agricultural subsidies have to be notified to the WTO Committee on Agriculture to demonstrate compliance with the restraints agreed in the Uruguay Round. Green Box support is not subject to limits but still has to be notified. Food subsidy programs are also reflected in notifications under the heading "public stockholding for food security purposes", though this heading would cover the losses of state food distribution systems.

The US has consistently notified the expenditure on Food Stamps to the WTO as a Green Box subsidy that benefits agriculture. The Green Box has a category of "domestic food aid" which is taken to include food stamps. The domestic food aid programs account for 30 percent of all green box notifications, though that number masks the fact that 96 percent of the food subsidy notifications are of US programs (Anton, 2009). India notified the expenditure of the India Food Corporation, the parastatal that buys and distributes the food through the Public Distribution System, of about \$2 billion in 1997/98: an update of that number has been estimated at \$9.5 billion in 2008/09 (Gopinath, 2011). In practice it is unlikely that a subsidy scheme of the type discussed here would raise any problems. However, in so far as it changes the way in which food aid is distributed it could run into opposition in countries (particularly the US) where commodity-based aid has been preferred over cash-based assistance.17

The choice of which national plans to support raises a different range of problems. Should such a plan be limited to food-deficit, lowincome countries? That would seem to be sensible, but poverty exists in countries with significant exports of food. The concept of providing purchasing power to poor consumers is unrelated to the trade balance of the country as a whole. The existence of the US Food Stamp scheme shows that even exporting countries can make use of such policies. Some countries, perhaps India and China, might find themselves unable to benefit from international finance for their food distribution and consumer price programs because they do not operate primarily with food stamps. But that is the nature of such a voluntary framework: where other methods of hunger alleviation are used the food stamps become less necessary (though they still could be more efficient). More problematic is the question of whether countries without the basic level of governance to administer a food stamp scheme to the satisfaction of donors would be excluded. Over time, one would hope that the attraction of international funds would help to establish financial infrastructure, but prior to that time other methods of poverty and hunger reduction may be required.

Would such a scheme be acceptable to door countries? It would have the advantage of creating a direct link between the level of world food prices and the alleviation of the consequences on hungry families. The fact that the WFP has been moving towards making more use of cash-transfers and vouchers suggests that donors see some merit in the direct approach to food assistance. Indeed, one could add that the direct-payment program for consumers is in tune with modifications to food aid rules that emphasize the provision of cash rather than in-kind contributions. And, as important, the interests of farmers and consumers in developing countries would coincide, perhaps reproducing in other countries the coalition that has kept support for food stamps in the US alive for fifty years.

# 5. CONCLUSION

For more than thirty years the international community has been discussing ways to alleviate the problem of poverty and hunger in developing countries. The recent increase in world prices for basic foods has magnified these problems and refocused attention on the role of international assistance. The question is how to develop an efficient and transparent mechanism to enable governments in donor countries to respond to these needs with the support of their constituencies. The search for feasible measures in this area continues.

One such measure discussed in this paper is to establish a framework for the direct distribution of food vouchers or similar forms of credit to vulnerable low-income consumers. The core would be the separate national food stamp schemes, voluntarily established but being subject to common rules. These rules would cover the objectives and the criteria for eligibility, and include a mechanism for evaluation and effectiveness. But the management of the programs themselves would be in the hands of the recipient country. Such a framework of "approved" food stamp schemes would be of benefit even in times of low international prices, but it would also provide the means of increasing international assistance in times of high prices and scarce supplies. And if it helped to increase the demand for local farm products it would contribute to the goal of improving the ability of developing country agriculture to meet the challenges of the future.

At the least the idea deserves some discussion.

# **ENDNOTES**

- 1 The US program is currently costing about \$65 billion a year: the participation in the program has increased from 20 million in 2000 to 45 million in April 2011 (*Economist*, 2011). The Indian "Targeted Public Distribution Scheme" reaches some 65 million consumers designated as "below the poverty line". Costs are distributed among the states and the Central Government but the Planning Commission estimates put the burden for the Central government at about \$4.8 billion (Rs. 21.200 crore), or 5 percent of total central government expenditure.
- 2 The term "food stamps" is used in this paper to denote a voucher (or electronic equivalent such as a food credit card) that can be used to purchase food from any retailer. It is to be distinguished from cash transfers that can be used for any purchase and from ration books that specify particular quantities of certain foods that can be purchased at reduced prices. Food stamps can be distributed on conditional terms (enrollment of children in a school, for instance) or unconditionally.
- 3 A comprehensive review of the literature on the effectiveness of various types of food assistance programs is found in Barrett (2002). The more general literature on social protection is discussed in Cook and Kabeer (2008).
- 4 Cuba has an extensive rationing system for basic foods, based on government run stores. The recent introduction of ration cards in Venezuela has been criticized as a way of increasing the role of state retail outlets in food distribution.
- 5 The most direct way of helping poor consumers to access food is to give cash. This will help with maintaining food consumption to the extent to which the consumer wishes to use the cash in that way. The advantage of linking the transfer to the purchase of food is in part one of public perception: it creates the impression that improving access to food leads to increased food consumption. In reality, this "food effect" is probably quite weak for families that can afford other consumption items. For those who spend most of their income on food, the link may be more substantial. Obviously these transfers do not replace the need for investment in the means of providing food.
- 6 A smaller program operated from 1939 to 1943 in which surplus commodities were provided to those on unemployment relief.
- 7 A pilot project was introduced in the State of Campeche in 1996 that broadened the tortibono scheme to include a basket of goods. Of interest in this program is the introduction of smart electronic cards for recipients.
- 8 The case for international agricultural policy to be operated through national programs was established in the 1980s (Josling, 1985).
- 9 For a comprehensive discussion of the activities of the WFP see D. John Shaw (2011).
- 10 The World Food Council (WFC) was established by the World Food Conference of 1974 as a ministerial-level body that could coordinate the activities of the various agencies that had responsibilities in the area of food and agriculture. The WFC had 36 members and held annual meetings to review the progress in implementing the results of the World Food Conference. It ceased operations in 1995, after an attempt to revise and refocus its agenda failed to gain endorsement. It remains among the few UN bodies that have been discontinued. For a full account see Shaw, 2010.
- 11 The United Nations General Assembly, at its 35th Session in December 1980, endorsed the

WFC Report that advocated the advancement of food entitlement programs in developing countries with support from richer nations (A/RES/35/68, 1980). The WFC Executive Director at that time put the need to address hunger in the broader context of the recession of the early 1980s (Williams, 1982).

- 12 More fundamental issues may arise in the setting up of these programs, such as the existence of a universal "right to food" as opposed to the more pragmatic view of the social benefits that arise from an alleviation of hunger and malnutrition (see for instance Kracht and Huq, 1996). A food stamp program should be able to exist in both environments.
- 13 There is growing interest among development economists and officials in social assistance payments as a way of achieving multiple objectives. A food stamp program could fit in to such a broader agenda. But in the present context it is considered as a stand-alone program specifically aimed at allowing for the purchase of food.
- 14 Problems might arise in situations, common in Africa, where purchases of food are made from roadside vendors or directly from farmers. In such cases cash transfers could be the only practicable way of assisting consumers. But the vouchers could help to create a marketing infrastructure that would improve food distribution and better be able to respond to supply shocks.
- 15 The WFP currently allocates about 10 percent of its portfolio by means of cash and vouchers. NGOs have urged an increase in this proportion. Other institutions are also involved in the provision of social protection tied to employment (the International Labor Organization coordinates such assistance) and the World Bank, through its social risk management programs (Cook and Kabeer, 2008).
- 16 It is still a matter of debate as to how much consumer assistance can improve nutritional balance, as opposed to the availability and affordability of calories. One recent study has noted that the "wealth effect" of lower consumer prices for staples may cause an increase in the consumption of less healthy foods (Jensen and Miller, 2011).
- 17 Food aid in the form of cash allows recipient countries to purchase needed supplies from local sources of from other suppliers. Commodity aid can often be sold by the recipient government (monetization) and the proceeds be used for development assistance. Strong political support for commodity aid has slowed down the transition towards the more flexible and effective cash food aid model.

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