

## **FAQs about the Maharashtra Food Stamps Program**

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### **1. What is the goal?**

The goal of this program is to ensure food security of poor households in Maharashtra. This will be achieved by a government guarantee of 15 kgs of foodgrains per month to every poor household in the state. The guarantee will be implemented by a subsidy transfer to poor households through food coupons or food stamps. Receptient households will exchange the stamps against foodgrains at registered commercial outlets.

On average, below poverty line (BPL) households consume nearly 60 kgs of grain per month. Thus, the food security program would meet one-fourth of such a household's needs. At current prices of around Rs. 10 per kg of rice or wheat, the required subsidy transfer would amount to approximately Rs. 150.

### **2. How will this be achieved?**

Poor households will be given food stamps that can be exchanged for foodgrains at regular kirana (commercial) stores.

### **3. What is the magnitude of food stamps that we are talking about?**

Assuming Rs 10 per kg of grain, the value of food stamps per poor household will be Rs. 150 in today's prices. In states like Maharashtra, where poor consume great deal of coarse cereals, Rs. 150 will buy more than 15 kgs because the price of coarse cereals is around Rs. 8 per kg. Compared to the income transfer from the public distribution system (PDS), food stamps will offer greater benefits. Yet its aggregate cost will be lower because it is more efficient.

### **4. How much will the program cost?**

Maharashtra has around 20 million households of which 20% i.e., 4 million households are BPL. Therefore, if the food stamp benefit is Rs. 150 then total cost of such a program for the entire state is Rs. 600 million per month or Rs. 7200 million per year.

### **5. How will the program adjust to changing prices?**

The value of food stamps would be indexed to the rate of inflation of food articles (as measured by the consumer price index of agricultural labourers). This revision can be done once a year.

### **6. Who will receive the stamps?**

The beneficiaries in a food guarantee program will be the below poverty line (BPL) population which have been already identified by the existing food security (TPDS) program.

**7. Why cannot we continue to use PDS for food security?**

Food stamps are better than PDS for several reasons. (a) FS operates through the market and is therefore more efficient (b) consumer has choice between retail outlets – which results in better service (c) zero illegal diversions (d) better access – location, timings etc (e) no liquidity problems to hold back the participation of the poor (f) viability of fair price shops is not an issue and (g) the program is scalable – can include other food commodities – coarse cereals, milk etc as well as nonfood items such as kerosene.

**8. How will food stamps be implemented?**

Through regular commercial shops. To start off, the PDS shops could be authorized shops. However, it is important to have competition – so consumers must have choice. The redemption of stamps will happen through banks or post offices.

**9. Will the poor be served by the private marketing network?**

Poor depend overwhelming on markets for their grain supplies as the following tables show.

Table 1: Sources of Grain (Rice and Wheat) Among Poor Households (BPL) in Maharashtra, 1999/00

	Only from PDS	Only from Market	From PDS and Market	Neither Market nor PDS
Rural	14%	38%	44%	4%
Urban	3%	64%	33%	0%

Source: Our computations from NSS consumption expenditure survey, 1999/00

Table 2: Proportion of Grains purchased from PDS by Poor Households (BPL), 1999/00

	Rural	Urban
All India	10%	14%
Maharashtra	12%	9%

Source: Our computations from NSS consumption expenditure survey, 1999/00

**10. Will private shops be interested in accepting food stamps?**

Private shops gain by having higher sales. They will hesitate only if the redemption procedure imposes lots of costs on them. The government must evolve systems that make this trouble free.

#### **10. Will beneficiaries buy things other than grain with food stamps?**

This question is as applicable to PDS as it is to food stamps. Food stamps do exactly the same thing as PDS – both deliver additional purchasing power to the poor that can be used to purchase food as well as other items. In the case of food stamps, it is obvious. But this is also the case with PDS. By purchasing less grain in the market and more on the PDS, the household saves money that could be used to purchase food as well as other items.

For poor food-deprived households, most of the additional purchasing power will be used to buy more food. It is in this sense that we expect a food subsidy program (PDS or food stamps) to increase food consumption. Moreover, unlike the PDS, the food stamps program will also increase the demand for coarse cereals that are favoured by the poor in their consumption basket.

#### **11. Will the distribution of food stamps be hijacked?**

Much will depend on how the beneficiaries are mobilized and made aware of their entitlements and their rights. There are inherent reasons why such mobilization is easier for food stamps than for PDS.

#### **12. Will it not be a hassle for the poor to safely keep food stamps?**

Even for the poor, the value of food stamps will be less than 10% of their earnings. If they can take care of their earnings, they can surely take care of food stamps.

#### **13. Will not food stamps be counterfeited?**

Electronic redemption and monitoring will allow for early detection of abnormal patterns.

#### **14. Will not food stamps be resold?**

Poor food deprived households are unlikely to sell their subsidy. In the US, the single most important source of fraud is food stamp trafficking usually by drug addicts and alcohol addicts. It is important that the distribution of food stamps should involve women.

#### **15. Why do we need a pilot project?**

(a) To understand how the administrative arrangements have to be made (b) to examine and evaluate alternative technologies that can be used in the redemption process (c) to

put in place inspection and surveillance systems and (d) to undertake awareness and mobilization campaigns so that the public fully understands the program and their rights.