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The supply card system: Analytical study of some economic and social dimensions

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Abstract

The study deals with the most important stages of the supply card program, and its impact on the economic variables in Iraq via the method of inductive analysis, from partial cases to the overall situation, through the adoption of official data, and many researches related to the supply card system. As a result, it was several scenarios to reform the supply card system, it can be displayed as follows: Scenarios of reform of the supply card system. In conclusion, supply card program formed a psychological stabilizing factor to calm the demand in the local market.

Keywords: Supply Card System, Economic and Social.

El sistema de tarjetas de suministro: estudio analítico de algunas dimensiones económicas y sociales

Resumen

El estudio aborda las etapas más importantes del programa de tarjetas de suministro y su impacto en las variables económicas en Irak a través del método de análisis inductivo, desde casos parciales hasta la situación general, a través de la adopción de datos oficiales, y muchos Investigaciones relacionadas con el sistema de tarjetas de

suministro. Como resultado, se pusieron varios escenarios para reformar el sistema de tarjetas de suministro, y se puede mostrar de la siguiente manera: Escenarios de reforma del sistema de tarjetas de suministros. En conclusión, el programa de tarjetas de suministro formó un factor de estabilización psicológica para calmar la demanda en el mercado local.

Palabras clave: Sistema de Tarjetas de Abastecimiento, Económico y Social.

1. INTRODUCTION

The present study deals with the most important aspects of the life of the wider segment of Iraqi society. These are the low-income groups. This is food and housing, as one of the basic needs of any society, with the specificity of these needs in a country such as Iraq, where there has been turmoil, political, economic and social upheaval for decades, and until now, which has left its effects and profound repercussions on the life and lifestyle of the Iraqi individual, especially those related to his basic needs.

- As for the first aspect of the research on the supply card system and its importance, this system formed the basic food basket for the Iraqi individual in its beginnings, because of the conditions of the economic blockade imposed then, but it became a social security system after the relative increase in income of the Iraqi citizen after 2007, specifically, and after the lifting of economic sanctions in 2003, which is still a factor of reassurance to a large segment of Iraqi society, despite its decline in terms of the nature of the materials contained in it, as well as confusion in the administrative aspects

related to it, in terms of distribution outlets and schedules related to them and the regularity and consistency of distributed materials, yet it is still a stabilizing factor at the macroeconomic level.

Because of its absorption of the demand of the wider segment of society with high marginal propensity to consume, which would have been reflected in the rise in prices of basic commodities without this program, which may constitute an additional pressure factor on the income of the Iraqi citizen burdened with living burdens and others. That the point of transformation in the supply card system is the areas of corruption that have arisen and which have negatively affected its efficiency and usefulness, which necessitated the introduction of alternatives to this system in providing basic needs for the citizen after the importance of the food item fell to less than it was at the same time that emerged other basic needs not is less important than the food aspect, perhaps the most important of which is adequate housing.

2. RESEARCH PROBLEM

The research faced the problem of acute and profound political and economic changes, and their repercussions on the overall situation of the country, and the difficulty of evaluating the role of the supply card program, in light of these changes since its inception so far.

2.1. Research Hypothesis

The research starts from the hypothesis that the supply card program is a treatment for a certain economic situation that has not existed in recent years, and the importance of this program has decreased and is no longer an urgent necessity as it is in its beginnings.

2.2. Research Method

The research adopted the method of inductive analysis, from partial cases to the overall situation, through the adoption of official data, and many types of research related to the supply card system, to reach the basic facts related to macroeconomic variables, such as investment in construction, to achieve the objectives of the process of development and economic and social construction.

2.3. Research Goal

The purpose of the research is to analyze the role of the supplied card, as one of the components of the total supply, to meet the food requirements of the community, and its implications in the general budget.

3. THEORETICAL BACKGROUND ABOUT THE SUPPLY CARD SYSTEM IN IRAQ

The establishment of the supply card system is a tool to address the exceptional circumstances that resulted from the comprehensive embargo imposed on the country following the events of August 1990, specifically since late 1990. As a result of UN and UN Security Council resolutions imposing economic sanctions on Iraq, under which the state provides food at subsidized prices (near zero), compared to the prevailing market price. Despite the problems that hindered its implementation, it soon became the largest distribution system in the world, through which an entire population receives its basic needs, which when the system was implemented constituted the tool that prevented a major famine in Iraq.

Where the food basket (theory) of the supply card system about (2095) calories per person per day, while the individual consumes on the ground about (1000) calories per day provided by the basket supply card, which represents (35.5%) of the total calories, which is available to the individual from different sources, at a nominal cost up to (250) Iraqi dinars, paid by the individual, according to official prices, administered by the Ministry of Commerce, and distributed through (55580) agents are the owners of shops or stores scattered throughout Iraq, according to 2009 data.

The supplied card (1995-2003) does not constitute any burden on the general budget, since it is financed through the so-called

Memorandum of Understanding (MoU), signed by the former regime with the UN Security Council, under resolution 986 of 14/4/1995. In addition to its role (supply card) in reducing inflation throughout the duration of the economic blockade, especially after the relative improvement witnessed by the supplied card during the period (1996 - 2002), it is so large that it directs the movement of food prices in the market.

The shortage in the distribution of one or more card items is reflected in the dramatic rise in the prices of that commodity in the local market, as well as the availability of food in the country has become heavily dependent on this system, and the commitment of the government to provide its items contributed to reducing market prices below the level of general prices in neighboring countries, so we find that the system has achieved stability at food prices in the local markets. The econometric analysis indicates that the higher the price of wheat in global markets by 1%, Iraq will import this inflation, but it will take a period of (10) months to show its effects in the local market, because of the satisfaction of the domestic market with flour, available or funded from previous contracts.

For rice, it will take two months for citizens to feel the impact of higher prices on world markets. As for the period after 2003, despite the fact that the items of supply card planned for the period 2003-2007 remain unchanged, but what was distributed was less than planned, due to the security situation, administrative corruption and supply chain disruption, resulting in less-than-planned household

deliveries, which in turn has affected the rise in food prices in the market. The supplied card is still a burden on the public budget, since its existence still enjoys broad support, but it still has a social justification, especially that there are many groups suffer from low standard of living, high rates of poverty, unemployment and inflation, so should not deal with the future supply card on purely economic considerations, and should not be subject to political considerations.

Therefore, the decision should be based on both economic and political considerations, in addition to the social dimension of the role of this system in helping poor and needy families. A supply card system is a form of social protection, which has historically been associated with a series of measures, taken by developed countries to protect people from falling into poverty and deprivation. These include labor laws, labor protection, subsidies, grants and compensation for unemployed workers. However, the new direction imposed by economic conditions resulting from economic reforms and adaptations by developing countries in their economies is an expansion of the concept of social protection beyond the concepts of social security and social safety nets (1990-2002).

4. ANALYSIS OF THE REALITY OF FINANCIAL ALLOCATIONS TO SUPPORT THE SUPPLY CARD IN IRAQ FOR THE PERIOD FROM 2004 TO 2012

The public distribution system (supply card) is a real dilemma in the Iraqi economy, as it still has the social justification for its existence, there are many groups suffer from low level of living, and high rates of poverty, in light of the existence of many negative phenomena, the most important of them are high rates of inflation and unemployment. It has become clear that the flexibility of the basic materials in the supply card (rice, oil, sugar and flour) remains very high at 1.8%, meaning that the Iraqi consumer still regards these commodities as basic commodities, because of the low level of income, which is not allowed to meet these needs, only through the supplied card, and he finds the ration card system as an effective system of access to the poorest people in Iraq, and raise their purchasing power to (50%).

According to estimates of the World Food Program, where about 25% of the population heavily rely on this system, in addition to (25%) of those who rely on it in part, and that even if the security situation improves, the temporary unemployment and poverty (which are characteristic of the transitional economies) may continue in the medium term, and to know what the supplied card provides to individuals, through the data available from the Ministry of Commerce on the cost of purchasing the supply card items, and the sale revenues of them to citizens during 2004 and 2005, Table 1 illustrates this.

Table 1: The costs of the supply card, and its revenues in Iraq, during 2004 and 2005

Year	Cost of supply card (Billion dinars)	revenue of supply card (Billion dinars)	profit or loss
2004	2487.3	63.1	(2415.2)
2005	811.3	63.4	(747.9)

Source: Republic of Iraq, Ministry of Commerce, General Company for Foodstuff Trade

Table 4 shows the supply card allocations in Iraq for a period of (2004-2012), and it is noted that the supply card allocations in case of a decrease, during that period, as a result of economic reform policies, and requirements to reduce government support. Therefore, we find that the average annual growth rate of financial allocations for the period (2004 - 2012) was (- 36.25 - 32.2), and this is a clear indication of the decrease in allocations supply card (Haider, 2008).

Justice requires the transfer of support units from high-income earners to low-income earners, given the difference in the marginal utility of each. The number of units, obtained by the first category, will differ from the number of units obtained by the second category, but the marginal benefit will be equal, as well as there is no loss resulting from the inclusion of all individuals in the supply card system, i.e., the marginal benefit of spent cash units on the support units is equal, which means also achieved efficiency condition or requirement (Sarmad & Hoda, 2006; Abdulghafoor, 1997).

5. THE EXPENSES OF THE FINANCIAL ALLOCATIONS OF THE RATION SUPPLY ECONOMICALLY AND SOCIALLY POSSIBLE

Votes increased after 2003 to demand reform or cancellation of the supply card system. The reason behind this was the shortcomings that accompanied its application, which is its high cost, which limits the development of educational and health services, noting that the former regime tried to link the card and health services, through the establishment of a health care system, but faced difficulties that led to its failure and cancellation of work, and that this system is facing logistical difficulties in the distribution process, especially in light of the deterioration of the security situation, and the trucks of the Ministry of Commerce are subjected to terrorist operations or acts of looting and looting. (Afaf & Majid, 2004).

It is important to note that specialists have ignored the policy of opening up the Iraqi market to imports of various kinds of materials. The restrictions on imports, such as customs taxes, are almost negligible, as defined by the strategy, set by the Provisional Coalition Authority, under Order No. 49 of 2004, known as the Iraq Reconstruction Tax (IRT) (5%), which greatly affected the increase in commodity supply, and weakened the competition of local products for imported production. Therefore, it was put several scenarios to reform the supply card system, it can be displayed as follows: Scenarios of reform of the supply card system.

The scenarios that have been exposed to the future of the supply card system from a simple assumption, is the abolition of the supply card system fully. Because this alternative does not make sense under the country's conditions, the political content of the system and the people's clinging to it, as the surveys conducted since 2005 show, the scenarios closest to reality are similar to the progressive exclusion of rich groups and targeting of poor and middle-income families. The details of the proposed scenarios can be tracked for adoption in the reform of the supply card system, as options for managing the card system, as follows:

- Option 1: Direct cash transfers:

This option compares the cost-effectiveness of the distribution of the current supply card system with direct cash transfers to the poor beneficiaries (estimated at 6.4 million), which is in line with the recommendations of the reform committee of the supply card system, based on the assumption of the integration of the supply card system with the social protection network. The option can be evaluated by using indifference curves. If we assume that the government has two options to provide support, the first option is the in-kind support, by providing the supplied card to individuals to enable them to obtain food, and other basic commodities, at prices below the equilibrium price in the market. The second option is monetary support, by increasing the cash incomes of individuals, so that they can purchase additional quantities of food and other commodities, at market prices. The economic effects of either of the two options can be guided by the

indifference curves: Assume that you have one consumer and two options: supply card, cash income, as shown in the graph in figure (1).

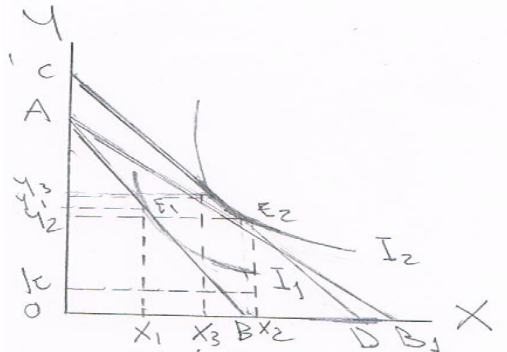


Figure 1: Percentage of expenditure on supply card items, by governorate

In the policy of increasing consumer cash access, the budget line moves from AB to CD, to touch the upper I2 indifference curve, and the equilibrium at point E3 is achieved, where citizens can buy the quantity of OX3 goods, and the amount the government holds is AC. Comparing the effects of either policy, we note that the government's subsidy of the commodity will incur greater costs (Y2K) than the costs incurred in the monetary support policy (CA), but the consumption of food commodities and necessities will be greater when followed the first policy (OX2), while consumption is lower, when the second policy (OX3) is followed. The first or second policy achieves the same level of saturation or satisfaction (same indifference curve I2).

It should be noted that the adoption of either policy depends on the circumstances of the state, and its economic philosophy. In view of the availability of foodstuffs, and the role of the interventionist state in economic and social life, the likelihood that the government will follow the first policy will be likely. While the adoption of the second policy leads to an increase in the amount of currency in circulation, and the possibility of the effects of inflation, in light of the inflexibility of its productive system. Option 2: Distribution of the supply card basket for the population, who fall below the poverty line: This option is aimed at comparing the cost efficiency of the supply card system, by replacing it with the electronic card system. The cost elements of this option can be explained in Table (2).

Table 2: Cost elements of the second option

Electronic Cards	The supply card system	
are estimated, using the national average for domestic prices, as of April 2012	are estimated, using international prices for May 2012	Commodity costs
do not apply	assuming that the average cost is \$ 300 per metric ton	International transport
do not apply	on the assumption that the average cost is \$ 230 per metric ton	Transportation, loading and distribution costs within Iraq
\$ 1,050,000	do not apply	Electronic Card costs *
50,000,000	do not apply	Points of sale for the supply card system **
7% of total costs	7% of total costs	Other costs
\$ 1.16	\$ 1.4	Total system costs

Source: World Food Program, Food Security, Living Conditions and Social Transformation in Iraq, Central Bureau of Statistics, Iraq, p53.

* Preliminary estimates.

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The cost of maintaining the current ration card system for some 6.4 million people is estimated to be about 1.4 billion dollars. In return, the cost of distributing the food basket, itself, using electronic cards, is \$ 1.16 billion, so electronic food cards reduce the cost of distribution (7%), that is, spending on them is more effective than it is under the current supply card system, and will provide about (240) million dollars to the public budget, annually.

Option 3: Targeting the poor, through electronic food cards with alternative food baskets:

Since electronic food cards usually involve greater flexibility in selecting a food basket, the report, under this option, has developed three sub-scenarios in using cards to compare their effectiveness:

Scenario (1): A basket of foodstuffs that maximize the cash value transferred to poor beneficiaries. The distribution of this basket of food to the beneficiaries, through the private sector, using electronic cards will provide about (16.28) dollars per month to the beneficiary, which represents an increase (33%) of the value of food supplies, which amounts to (12.4 dollars), calculated at local market prices. According to the simulation results, targeting the poor, using

electronic food cards in Scenario 1 is more effective (39%), nutritionally, in terms of total cost, compared to the current Public Distribution System (PDS), providing (1041) calories per beneficiary per day (4.6 million). Moreover, if this scenario gives the preference to domestically produced goods, more than \$ 500 million will be spent on these products annually, representing 40.3% of the total value of food purchases.

Scenario (2): A basket of food items that maximize the benefit of the Iraqi economy, through local purchases. This food basket is designed to be distributed to beneficiaries, through the private sector, using electronic food cards to maximize local purchases of food commodities. It pumps more than \$ 616 million, annually, in agriculture and agro-industry, accounting for 59% of the total food required for this basket.

The scenario (2) is more effective (33%), nutritionally, compared to the current supply card system, and provides (1200) calories per poor person a day (Tejeda & Dominguez, 2019).

In addition, the monetary value of the food group in the local markets is \$ 13.45 per month, representing an increase of 10% in the value of the food basket, compared to the value of food supplies, equivalent to \$ 12.4 per month in local market prices.

Scenario (3): A basket of nutrients that reduces total costs. This food basket is designed to be distributed to the beneficiaries, through

the private sector, using electronic food cards, to reduce the total cost associated with the program, which is estimated at (1.1) billion dollars, annually, and about 22% less than the cost of the food basket distributed, under the current supply card system for the same number of people (6.4 million). Scenario 3 is 40% more efficient than the current system and provides 1052 calories per beneficiary per day. Moreover, the monetary value of the food group in local markets is equivalent to \$ 12.53 per month, which is almost equal to the value of the supplied card, and this scenario allocates (53.5%) of the value of foodstuffs to locally produced sources (Jenaabadi & Issazadegan, 2014).

6. CONCLUSIONS

1 - The supplied card system, in its current form, whether in the contract, or in the number of processed materials, and irregular distribution, and the attendant administrative and financial corruption, has become a burden on the state public budget.

2 - During the years of study, and with the increase allocations of the supply card system, it is noted that the low economic efficiency, through the increase in the proportion of administrative costs, associated with transport, storage and distribution, which far outweigh the value of goods distributed.

3 - There are many categories of society increased levels of income significantly after 2003, and the importance of the food item in the consumer goods ladder. Including these categories in the ration card system constitutes a financial and administrative burden on the program, itself, and significantly and clearly reduced from its efficiency.

5- There are still categories of society (increasing or decreasing), depending on the nature of the economic situation, in need of the supply card program to ensure and meet their basic needs.

6 - The supplied card program, in recent years, formed a psychological stabilizing factor to calm the demand in the local market, and, here, we raise the problem of comparison between its social impact, as a social support programs, and its low economic efficiency. The abolition of this program may have negative social and economic effects.

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