

# Policy options for improved food security in the Republic of Marshall Islands



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## Acronyms and Abbreviations

ADB	Asian Development Bank
CIF	Cash Insurance Freight
CPI	Consumer Price Index
CTF	Compact Trust Fund
EPPSO	Economic Policy, Planning and Statistics Office
FY	Financial Year
HS	Harmonized System
GDP	Gross Domestic Product
GRT	Gross Receipts Tax
ILF	Import Levy Fund
IMF	International Monetary Fund
MFED	Ministry of Finance and Economic Development (Kiribati)
MIA	Ministry of Internal Affairs
MICT	Marshall Islands Consumption Tax
MIET	Marshall Islands Excise Tax
MISC	Marshall Islands Shipping Corporation
NCD	Non Communicable Disease
Oz.	Ounce
PICs	Pacific Island Countries
PNA	Parties to the Nauru Agreement
R&D	Ministry of Resources and Development
RMI	Republic of Marshall Islands
SOE	State Owned Enterprise
SPC	Secretariat of the Pacific Community
TCPA	Tobolar Copra Processing Authority
TRAM	Tax and Revenue Reform and Modernization program
US	United States
VDS	Vessel Day Scheme

## Executive Summary

The lack of domestic food production capacity and high-level of food import dependence in the Republic of Marshall Islands (RMI), poses some significant challenges to national food security. This has led the Government of RMI to request assistance from the Food and Agriculture Organization (FAO) to undertake a review of the policies and other interventions affecting food prices in the Republic, and to develop an action plan for reducing national food import dependence. This report presents a number of policy options aimed at stimulating local food production and import substitution: through the provision of price incentives for the consumption of nutritious, local foods, at the expense of foods known to contribute to Non-Communicable Diseases (NCDs); by reducing the impact of transport costs on the competitiveness of domestic agricultural production; and by introducing an improved school feeding program designed to offer improved market opportunities for domestic producers, and result in better nutrition outcomes for the population. As such, it is designed to assist the RMI to successfully achieve the objectives of its National Food Security Policy.

Food imports currently represent about 30% of the total value of the RMI's national import bill. The high level of RMI's food import dependence increases the exposure of households, as well as national foreign exchange reserves, to the risks associated with fluctuations in global commodity prices. In addition, a historical shift in diet away from locally sourced staples and fish to imported processed food products high in fat and salt has contributed to a rising level of obesity and diet related NCDs such as diabetes, which has seen an increase in mortality, morbidity, and health care costs. This has led national policy-makers to identify improving the capacity of the agriculture sector to supply domestic markets with nutritious and affordable food products, as a key strategy for improving food security.

Restructuring national price policies and exploiting synergies between the health, education and agriculture sectors to promote local production and consumption of nutritious local foods will play a critical part in the battle against NCDs. Such preventive NCD measures would result in significant cost savings to individuals, the health budget and the economy, thereby constituting a fiscally responsible investment of public resources.

Given that the price and availability of food products shapes consumption choices and the incidence rate of NCDs associated with poor nutrition (such as diabetes), then efforts to incentivize the consumption of nutritious food through appropriate pricing policies should improve nutrition outcomes in the Marshall Islands. Further, policies which stimulate local production of nutritious foods through the introduction of public interventions aimed at eliminating the transport costs which undermine domestic market opportunities, will improve income opportunities for the primary sector.

The current price policy settings in RMI, however, have worked to facilitate improved access to and increased consumption of cheaper imported food commodities, including many which are linked to rising obesity levels and NCDs. The imposition of price monitoring and controls for a wide range of imported food products laudably aims to ensure more access to affordable food in the outer islands. However this policy also makes certain foods associated with NCDs more accessible with at least six products deemed to be high in sugar, salt or fat included in the monitoring program. Products which are recognized to contribute to NCDs should be removed from the price control program in order to reduce

the price incentives they introduce for the consumption habits which result in poor dietary and health outcomes.

Furthermore, the absence tariff preferences for healthier alternative food commodities such as wholegrain or fortified rice and flour, has reduced consumption of these products.

The scheduled Tax and Revenue Reform and Modernization (TRAM) program proposes eliminating all import duties and implementing a uniform 10% consumption tax; as well as the introduction of an additional excise tax on 'sin' products such as cigarettes and alcohol, and on motor vehicles depending on their engine size. The tax reform program could be taken as an opportunity to expand the use of 'sin' excises on food and beverage products that are linked to negative health outcomes, and use additional revenue generated to make local nutritious food more available and affordable.

In addition, the proposed outer island sea freight fund should be targeted in such a way that it provides a price incentive to the more healthy food alternatives. It should also explicitly make available funds to subsidize the transportation of local fresh produce (farm and fisheries) from the outer islands to the urban centers. This would provide a strong market incentive for local food production.

Finally, an outstanding win-win opportunity exists to strengthen food security and boost local food production by explicitly linking agricultural development to enhancing the faltering school feeding program. Full implementation of the school feeding program could be financed by potential revenue collected from 'health' excises imposed on products deemed high in sugar, salt or fat. A daily lunch plate served for 10,500 school children over 180 days of the school year with regulated minimum local food content would provide a substantial predictable and structured market demand for local food produce; thus making it easier, less risky and more profitable for producers to invest in upgrading their farm technology to increase productivity. The use of the structured demand to supply the school feeding program would therefore provide an attractive avenue through which to kick start a process of agricultural transformation in RMI as well as promoting the delivery of priority education and health policy outcomes.

Therefore the recommendations of this policy plan are:

- **Recommendation 1:** The Ministry of Health together with the Ministry of Resources and Development (R&D) should lead the consultation with the Ministry of Finance for the implementation of a 'health excise' on food (& beverage) products with a negative impact on NCDs, and the identification of priority programmes for facilitating improved access to healthier substitute products.
- **Recommendation 2:** Prescribed goods under the Price Monitoring Program should be reviewed and products which are recognized to contribute to NCDs should be removed from the price control program in order to reduce the price incentives they introduce for the consumption habits which result in poor dietary and health outcomes.
- **Recommendation 3:** The draft Bill for the Outer Islands Sea Freight Fund should specifically make available a designated portion of the Fund to subsidize the transportation of locally produced fresh food produce (farm and fisheries) from the outer islands to the urban centers.

- **Recommendation 4:** MIMRA should work together with R&D to coordinate fish and farm produce transportation to the urban markets and where necessary utilize resources from the proposed 'Outer Islands Sea Freight Fund' to subsidize transportation costs.
- **Recommendation 5:** The R&D together with the Ministry of Education and the Ministry of Health should advocate for an amendment to the Public Law 1991-125 such that a regulated proportion of local food content is included in the school feeding program.
- **Recommendation 6:** The Ministry of Education together with R&D and the Ministry of Health should review the school lunch program and provide a healthier menu choice including more local fresh produce (fruits and vegetables) and redesign the procurement and distribution system for the food to facilitate increased purchasing from local farmers and fishers. The enhanced school feeding program could be a 'flagship' program under the National Food Security Policy.
- **Recommendation 7:** The Ministry of Resources and Development should join with the Ministries of Finance, Health and Education to facilitate the establishment of Food Policy Council with mandate to design and implement whole of government policy measures to address the strategic issues common to food production and consumption trends in RMI; and to enhance co-operation between the public and private sectors to ensure a sustainable, healthy and equitable food system.

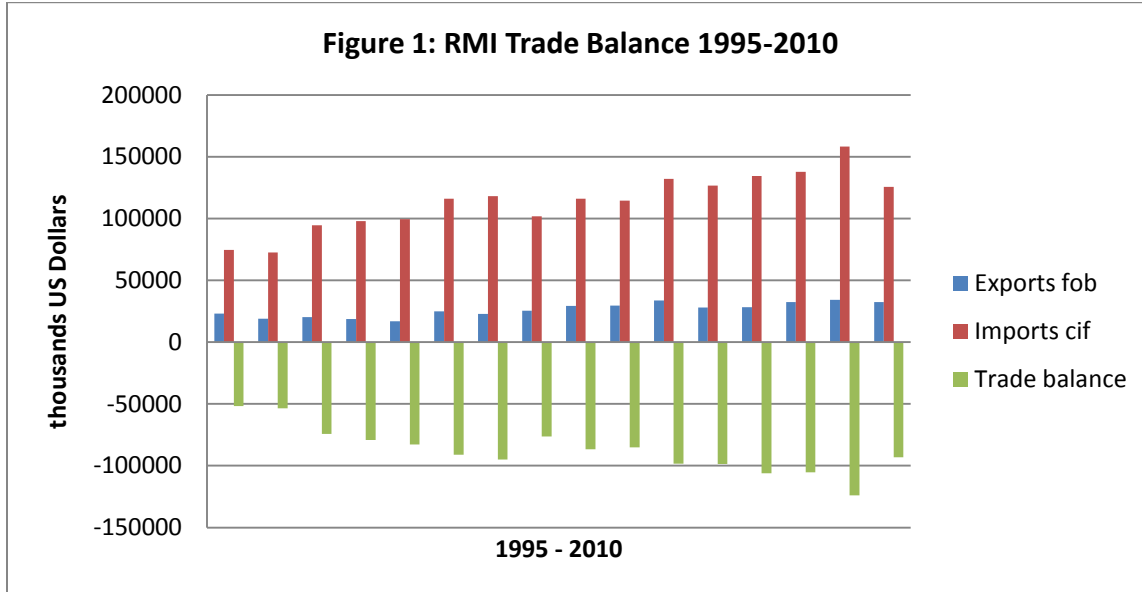
## 1. Introduction

The Republic of Marshall Islands (RMI) is an archipelago nation of five islands and 29 atolls, spread over 1.9 million square kilometers of ocean. At the time of the 2011 Census 74% of the population of 53, 840 were living in Majuro and Kwajalein; and the rest inhabited 25 of the outer islands. The country's land resources are limited to just 181 square kilometers, and characterized by relative infertile soil and poor growing conditions.

Fishing plays a most important role in national food security, and the primary sector economy. In 2012 fishing activities contributed 1.2 percentage points to real GDP growth and accounted for about 10 percent of total employment, providing the largest private sector source of employment. Fish is also by far the largest export commodity, constituting nearly 90 percent of total exports and fishing license fees are an important source of government revenue which has increased considerably following the implementation of the Vessel Day Scheme (VDS) under the Partners to the Nauru Agreement (PNA)<sup>1</sup>.

In contrast, agricultural production remains relatively small and generally comprises of traditional food crops, small livestock and one cash crop, copra. Local food production is constrained by poor soil growing conditions, lack of investment and adoption of appropriate technology, difficult transportation and market access.

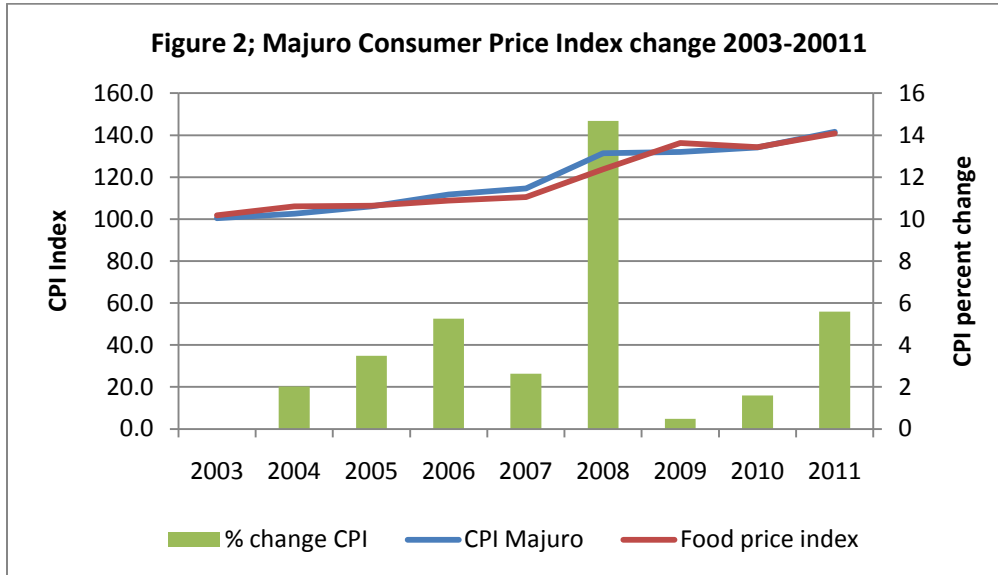
Lack of domestic food production capacity has seen growth in imports that have increasingly outstripped exports (Figure 1). However, over the last decade commercialized vegetable farming has increased significantly in Laura on Majuro Atoll to supply a growing proximate urban market demand.



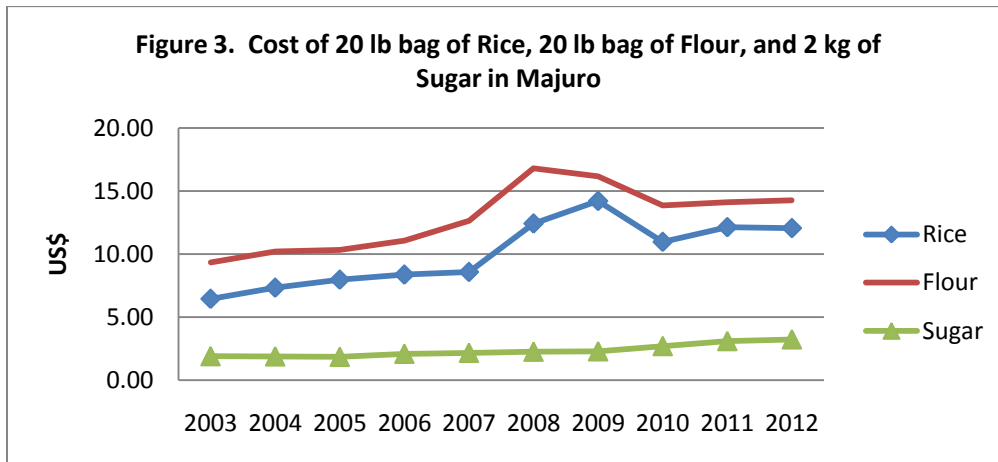
Source: ADB Key Indicators for Asia & Pacific 2013

<sup>1</sup> International Monetary Fund (2013) Republic of the Marshall Islands Staff Report for the 2013 Article IV Consultation. IMF Country Report No. 14/26

The RMI economy runs a deep trade deficit, which is covered by inflows on income and transfer accounts, especially Compact grants<sup>2</sup> and payments associated with US military base at Kwajalein Atoll. The national import bill is largely dominated by fuel, food and beverages with foodstuff imports accounting for about 30% of the import bill in 2010<sup>3</sup>.



Source: ADB Key Indicators for Asia & Pacific 2013; index 1<sup>st</sup> Quarter 2003 = 100



Source: RMI Economic Policy, Planning and Statistics Office (EPPSO) CPI Data

The economy's high import dependence poses a substantial risk to real incomes and food security from fluctuations in global commodity prices. The Majuro Consumer Price Index (CPI) witnessed an unprecedented dramatic increase of over 14% in 2008 during the spike in global commodity prices; food and utility groups were largely responsible for the increase, reflecting soaring global prices for food and

<sup>2</sup> Under the renewed Compact Agreement with the US, the RMI will continue to receive annually declining grants averaging US\$45 million (26 percent of GDP as of FY2012) until FY2023. A Compact Trust Fund (CTF) is being built up to provide funding from FY2024 onwards.

<sup>3</sup> Government of the Republic of Marshall Islands (2012) Trade Policy of the Republic of Marshall Islands, Ministry of Resources and Development, Trade and Investment Division.

oil (Figures 2 & 3). In response the government reduced the import duty on some basic food items (rice, flour, sugar, milk, tin fish) from 5% to zero.

A constant flow of people moving from rural outer islands to Majuro and Kwajalein in search of jobs and better services has resulted in very densely populated urban settlements with large-scale youth unemployment and associated social problems. The influx and consumption of less nutritious imported food have induced prevalent health problems such as diabetes, hypertension, obesity, and gout. Indeed, diabetes related diseases remain the leading cause of death in 2012 with over 20% of deaths due to diabetes related diseases such as the End Stage Renal Failure, Uremia, and Septicemia<sup>4</sup>.

The RMI has a young population with a median age of 20.6 years and 40 percent of the population is under the age of 15 years (Population Census, 2011). The main risk factors for NCDs being laid down now in younger life, including smoking, poor nutrition, alcohol and physical inactivity, overweight and obesity is feeding a pipeline of NCDs which will mean overwhelming pressures for future health-care expenditures and also for the overall development of the nation.

Meanwhile, the RMI faces persistent strain on the budget with a large public sector wage bill and risks from poorly performing state owned enterprises (SOEs) that continue to claim substantial public subsidies and capital transfers to extend often limited services to the dispersed population. While budgeted current expenditure has been contained relative to GDP in recent years, volatile domestic revenue, declining foreign grants, and occasional off-budget spending by ad-hoc directives pose constant threats to maintaining fiscal surpluses. Going forward, debt service obligations, a tendency to continue to fund the SOEs and declines in real Compact flows will contribute to a tightening fiscal environment. With the expiry of Compact grants looming in FY2023, achieving long-term budgetary self-reliance and sustained growth is becoming an even more urgent task for the RMI<sup>5</sup>. Paradoxically, public spending represents a vital source of demand in Marshall Islands with public sector employment and procurement supporting local businesses. Indeed, RMI private sector activity and economy-wide output is driven by and strongly correlated with public spending<sup>6</sup>. Unfortunately, when the budget is under stress delivery of important social service programs may suffer, for example a \$700,000 cut in the Education budget in FY2010 necessitated the closure of the school feeding program for Majuro schools which negatively impacts school attendance and academic attainment<sup>7</sup>.

Recognizing the vulnerability of the nation's food security the Government recently adopted a national Food Security Policy which emphasizes increasing and stabilizing domestic production, processing and preservation of local nutritious food as well as strengthening local markets and food distribution systems. The policy also acknowledges the importance of a thriving coconut industry for rural livelihoods, the economy and thus food security in RMI - particularly in the outer-islands where few other economic opportunities avail. In addition, the Policy also proposes an investigation of price policy

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<sup>4</sup> Government of the Republic of Marshall Islands (2012) The FY2012 Annual Health Data report, Table 31.5 page 39

<sup>5</sup> International Monetary Fund (2013) Republic of the Marshall Islands Staff Report for the 2013 Article IV Consultation. IMF Country Report No. 14/26

<sup>6</sup> Asian Development Bank (2014) ADB Pacific Economic Monitor, July 2014.

<sup>7</sup> Personal communication Kanchia Hosia, Assistant Secretary for Schools.

measures which promote healthy food choices, such as: preferential tariffs for inputs important to improving agricultural productivity and ‘sin food’-taxes on alcohol, “junk food” and soft drinks known to be high in sugars, saturated and trans-fats, and / or high salt content.

To further the implementation of the Food Security Policy the Food and Agriculture Organization was requested to provide technical support to the Government of the RMI to prepare a policy action plan for strengthening food security by reducing food import dependence and improving domestic market opportunities for local agricultural products. This report provides an overview of the pricing policy and regulatory reforms which, when supported by strategic interventions, will effectively increase the opportunities for local producers to supply the domestic market, and improve competitiveness of local producers in the targeted markets.

## Implementation of the RMI’s Food Security Policy

The recently approved national Food Security Policy identifies 38 strategic actions to deliver the following five priority development outcomes:

1. *Local food production increased and producers better linked to consumers*
2. *Strengthened access to nutritious foods for vulnerable households and individuals*
3. *A better informed and knowledgeable public about food security and nutrition and increased home gardening*
4. *More efficient food distribution channels*
5. *Enhanced safety, quality and resilience in food supply and production*

Implementation of these strategies will require multi-sector actions which are well coordinated. The Policy recommends that the strategic actions can be broken down into a number of mutually supporting priority programs designed to deliver the five food security development outcomes. This report presents specific proposals for implementing 7 of the Strategies outlined in the Policy. These include:

**Strategy 1.5:** *Adopt a supply chain approach to facilitate and support the establishment of viable production and marketing chains from input supplies, through farm (& fisheries) production to end markets*

**Strategy 1.6:** *Give high priority to development of robust domestic food supply chains*

**Strategy 1.11:** *Introduce local purchasing policies regulating use of local produce in all government catering purchases*

**Strategy 2.6:** *Maintain and enhance the school feeding program*

**Strategy 3.2:** *Investigate possible market/price and regulatory measures (e.g. preferential tariffs, ‘sin food’ tax, content regulations, fortification etc.) which promote healthy food choices*

**Strategy 3.3:** *Consideration will particularly be given to increasing taxes on alcohol, “junk food” and soft drinks known to be high in sugars, saturated and trans-fats and/ or high salt content*

**Strategy 4.3:** *Explore the feasibility of targeted ‘smart’ freight subsidies for local producers/traders in fresh produce*

Following this introduction the report is divided into four sections. Section 2 examines how price policy can be applied to promote food security goals and presents some specific price policy instruments which could be used to promote Food Security in RMI. Section 3 provides an overview of inter-island shipping services and a discrete set of recommendations to improve the competitiveness of local food producers on the domestic market. Section 4 provides an outline of a program of multi-sector policy actions centered on an enhanced school feeding program to improve nutrition outcomes, reduce food import dependence and provide domestic market opportunities to farmers and fishers in RMI. Finally, Section 5 presents some conclusions and identifies some next steps for co-ordinating the policy interventions identified in this plan.

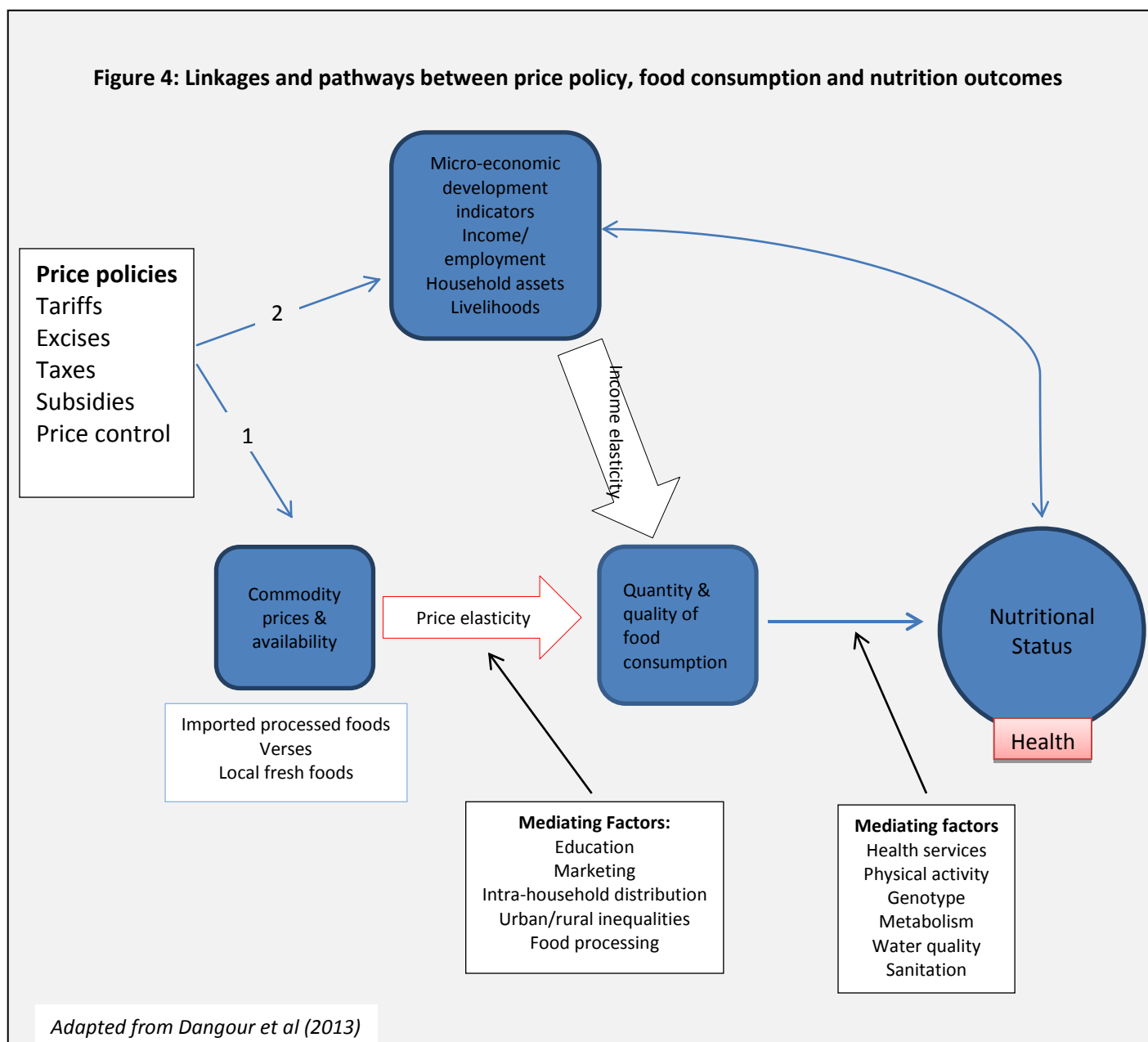
## **2. Promoting food security goals through price policy**

The price and availability of food products shapes the Marshallese people's diets, which are a key driver of the burden of NCD related diseases. Incentivizing local food production and making it more available and affordable through appropriate price policy could improve nutrition outcomes.

A schematic exploring the pathways between price policy and nutrition outcomes is shown in Figure 4. Price policies can have direct effects on food consumption via food prices (pathway 1) or indirect effects through income generation (pathway 2).

Changes in food prices have impacts on the quantity and quality of food consumption depending on the responsiveness of demand to price (price elasticity) which will be mediated by a range of factors such as income level, urban or rural residence, education of household head and women’s control of income. In addition, the relative price of commodities has an impact on the composition of processed foods, whose consumption can be further influenced by marketing strategies. The impacts of changes in food consumption on nutrition status and health depend on a number of complementary inputs such as access to clean water, sanitation and hygiene, child care provision, health services and opportunities for physical activity in addition to biological factors such as individual genotype and metabolism.<sup>8</sup>

**Figure 4: Linkages and pathways between price policy, food consumption and nutrition outcomes**



Agriculture price policy is used to alter prices of agricultural outputs or inputs. Price policy instruments include: quotas, tariffs, or subsidies on imports; quotas, taxes or subsidies on exports; and consumption taxes or subsidies for domestic products. These policy instruments aim to directly decrease or increase domestic prices, and raise government revenue. They also act to increase or decrease the volume of products supplied from local sources, and the incomes of local producers, by increasing their price competitiveness relative to imports.

The ongoing global commodity price fluctuations have significantly intensified political interest in agriculture price policies. In the RMI the majority of households are net food buyers of largely imported products. Increases in global food prices make net food buyers worse off, in the absence of compensating policies. Similarly, increasing the price for some of the imported food products upon which consumers depend will also have a negative impact on households, without a corresponding decrease in the price for alternative food products. Thus, policies which increase income opportunities for farming households but result in a net increase in the price of food will leave consumers worse off. As a result, pricing policies aimed at improving food security must be nuanced and strike a balance between increasing rural incomes, stabilizing net food prices, and ensuring that households are incentivized to consume food products that contribute to positive, rather than negative, health outcomes.

In most Pacific Island Countries (PICs), the thrust of agricultural price policy over the last two decades has been towards reduction of government interventions. This deregulation aimed to increase prices to farmers by reducing the share of the price retained by Government, and thus stimulate greater output in the short run and investment in the medium term. The process of deregulation was combined with trade liberalization, with the result that domestic producers were asked to compete on price with products from more efficient overseas markets. This has resulted in a reduction in prices for consumers, as well as for farmers. Farmers have unfortunately failed to supply the domestic market at the lower international price, which has resulted in an increasing dependence upon imported food products. While food prices have been on the whole lower, PICs like RMI have found themselves exposed to periodic food price spikes (such as in 2007 and 2008), as a result of sharp increases in the price of international agricultural commodities. This has led to some concern about the level of dependence upon imported food products, and the potential for future price spikes to reduce access to food among lower income households in RMI.

### **Review of import tariffs and taxes to prioritize food security**

RMI has a fairly liberal trade import tariff regime (Table 2 below). Over 66% of RMI imports originate from the US, including Guam and Hawaii.<sup>9</sup> Most food items are subject to 5% import duty, but some selected basic food items are exempt from import duty. Most other 'non-food' items are subject to an 8% tariff. The relatively low rate of tariff applied by RMI aims to facilitate improved access to imported food at affordable prices. However, this policy has also resulted in the application of relatively higher tariffs on agricultural inputs critical to increasing the efficiency of local production. For example, under the current trade regime imported tin fish is subject to zero duty whilst inputs for agriculture production

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<sup>9</sup> RMI Customs Office, Ministry of Finance

(e.g. copra sacks, livestock feed) are generally subject to an 8% duty levy. Higher duty is also levied on some 'sin' products such as alcohol, tobacco, soft drinks and fuel, as well as on luxury items like motor vehicles, with the dual purpose of deterring consumption and collecting additional revenue.

**Table1: RMI's Tariff Structure**

RMI's Tariff structure	
1. Foodstuffs.....	5% (basics e.g. rice, flour, tin fish, milk, poultry meats are at 0%)
2. Gasoline.....	0.25 cents per gallon
3. Jet A-1.....	0.08 cents per gallon
4. Diesel.....	0.08 cents per gallon
5. Motor Vehicles (whose values can be determined in the Kelly's Blue Book)...	15% of value stated in the Kelly's Blue Book or of accompanying invoice, whichever is higher, provided that in no case shall the duty assessed be less than \$1,500.00.
6. Motor Vehicles (whose value cannot be determined in the Kelly's Blue Book).....	New Motor Vehicles - \$2,500.00..... Used Motor Vehicles - \$1,500.00
7. Public Transport.....	5%
8. Tobacco, and cigarettes .....	\$1.00 per pack of 20 rolls
9. Cigars.....	151%
10. Other tobacco (Copenhagen) .....	\$2.75 per 34.2 grams or 1.2 oz.
11. Beer.....	\$0.50 cents per can or 12 oz. unit
12. Wine.....	\$2.75 per gallon
13. Spirits.....	\$12.00 per gallon
14. Mixed drink.....	26%
15. Soft drinks - carbonated beverages.....	0.01666 per 1 oz. – about 20 cents on 12 oz. can of coke
non-carbonated and artificially flavored beverages.....	10%
16. Non-foodstuff general.....	8%

Corporate profits are not subject to income tax in the RMI. However, the Government imposes a gross receipts tax (GRT) of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, the Copra Processing Authority and fishing and fish products are specifically exempt from this tax in order to improve the competitiveness of these products on the global market.

The proposed TRAM program, which is currently under consideration by the Nitijela (parliament), would see all import duties removed as well as local government sales and services taxes. These would be replaced by a uniform 10% Marshall Islands Consumption Tax (MICT) on all imports and domestic

supplies (of goods and services) with minimum exemptions<sup>10</sup>. Compulsory registration for MICT will apply if taxable sales by an enterprise in any twelve month period will be \$100,000 or greater. Effectively MICT is a value added tax.

Additionally, under the TRAM program it is proposed to introduce a Marshall Islands Excise Tax (MIET). The excise tax will replace the special national import duties and local government sales taxes currently imposed on alcohol, tobacco products, petroleum products, soft drinks and motor vehicles.

**Table 2 (First Schedule) Excisable Goods and Rates of MIET**

<b>Excisable Goods</b>	<b>MIET Rate</b>			
<b>Gasoline</b>	\$0.45 per gallon			
<b>Jet A-1</b>	\$0.28 per gallon			
<b>Diesel</b>	\$0.28 per gallon			
<b>Motor Vehicles</b>	<b>Engine Capacity</b>		<b>Vehicle Type</b>	
	from	to	new	used
	zero cc	1000 cc	\$2,000	\$1,000
	1001 cc	2000 cc	\$2,500	\$1,250
	2001 cc	3000 cc	\$3,000	\$1,500
	3001 cc	4000 cc	\$4,000	\$2,000
	Greater than 4000 cc		\$5,000	\$2,500
<b>Public Transport</b>	12% of excisable value			
<b>Tobacco &amp; Cigarettes</b>	\$2.00 per pack of 20 rolls			
<b>Cigars</b>	151% of excisable value			
<b>Other Tobacco</b>	\$3.70 per 34.02 grams			
<b>Beer</b>	\$0.50 per 12 oz. can			
<b>Wine</b>	\$10.00 per gallon			
<b>Spirits</b>	\$25 per gallon			
<b>Mixed Drink</b>	60% of excisable value			
<b>Soft Drinks Carbonated beverages</b>	\$0.55 per 12 oz. can			
<b>Soft Drink Non-carbonated and artificially -flavored beverages</b>	15% of excisable value			
<b>Betel nut</b>	\$1.00 per pound			

Source: <sup>1</sup> Bill No: 15 - Draft Bill for an Act to amend Title 48 of MIRC, in order to provide for the imposition of the Marshall Islands Excise Tax

These products are subject to additional taxation to offset the negative effects that consumption can have on health or the environment. <sup>11</sup> The proposed excise rates to be levied are shown in Table 2. Goods subject to excise tax will be exempt from MICT. In recognition of the adverse health issues the excise rate on tobacco and cigarettes has been set at \$2.00 per pack of 20 rolls, which is higher than the existing combined national and local government average tax rate of \$1.35. The excise on

<sup>10</sup> Bill No: 11 - A Bill for an Act to amend Title 48 Chapter 1 of MIRC, in order to provide for the imposition of the Marshall Islands Consumption Tax and for matters connected therewith.

<sup>11</sup> Bill No: 15 - A Bill for an Act to amend Title 48 of MIRC, in order to provide for the imposition of the Marshall Islands Excise Tax and for matters connected therewith.

carbonated soft drinks has increased from the current duty rate of \$0.20 to \$0.55 per 12 oz. can to take account of local government taxes currently levied on these products.

The current price policy settings in RMI have worked to facilitate access to and encourage increased consumption of cheaper imported food commodities including many food and beverage products which are linked to rising obesity levels and NCDs. The current tariff structure provides no price incentives for local food producers (farmers and fishers). Furthermore there is no tariff preference given to healthy alternatives such as wholegrain or fortified rice and flour – the ‘good’ and the ‘bad’ are both subject to the same zero duty levy. Going forward the Tax and Revenue Reform and Modernization (TRAM) program proposes eliminating all import duties and implementing a uniform 10% consumption tax and introduction of an excise tax on ‘sin’ products and motor vehicle engine size. The tax reform program could be taken as an opportunity to expand the use of excises on other food products that are linked to negative health outcomes and use any additional revenue generated to make local nutritious food more available and affordable.

### Application of ‘sin’ tariffs on food and beverages contributing to NCDs

Price policy may be used to help shift the balance on food choice away from less healthy foods (and beverages) and towards more nutritious foods. Research into the links between poor diet, obesity and increased risk of developing Non-Communicable Diseases over the last three decades, has led a number of constituencies to introduce levies on foods and beverages with high sugar, salt and fat content<sup>12</sup>. The result of these levies indicates that the best way to encourage healthy eating is to use revenue collected from public health taxes to make healthy substitute products cheaper, or more available<sup>13</sup>. Furthermore, research has found that the price of a product would need to be increase by at least 20% in order to make an impact on consumption volumes<sup>14</sup>.

The Marshall Islands Excise Tax proposed in the TRAM program would implement an excise on carbonated soft drinks (high in sugar content) at the rate of \$0.55 per 12 ounce can. Using 2009 Custom’s import data (the only detailed data that could be currently accessed) we have calculated below the potential additional revenue collected through the new excise rate.

In 2009 the value of imported carbonated soft drinks (HS220210) was \$1,339,424 and the duty collected was **\$931,769**. At the current import duty rate of \$0.20 per 12 ounce can (Table 1) then 4,658,845 cans must have been imported. If the proposed new excise rate of \$0.55 was applied to these imports the revenue collected would be **\$2,562,365**. This implies that an additional amount of around **\$1.6m** could be collected and potentially available to make healthy substitute products cheaper or more available.

Health taxes may also be considered for other food products high in salt and fat. Below in Table 3, we present evidence of the potential revenue raised by an ad valorem excise levied at the rate of 20 and 30 percent on imports of a sample of 4 food products deemed to be very high in salt and/or saturated fat by nutritionists (see Annex 1 for full details). This example demonstrates that if a tariff of 20 percent was

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<sup>12</sup> Thow et al., 2010

<sup>13</sup> Horgen, K.B., Brownell, K.D., 2002

<sup>14</sup> Myton et al., 2012

applied to just these 4 food products – canned beef; spam; hot dog franks; instant noodles it would be sufficient to collect annually around US\$320,000 for programs to fight obesity, and improve the health of the nation. If the levy was raised to 30 percent then this would generate revenue almost US\$478,000 that could be used for such worthwhile programs.

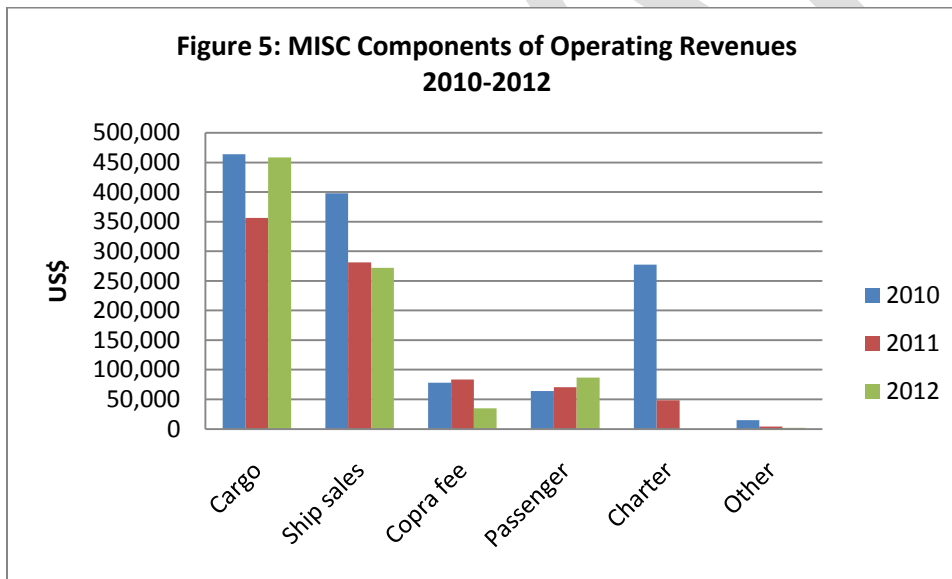
**Table 3: Potential excise revenue collected from 4 food products deemed to be high in salt or fat**

Product	HS Code	Value (CIF) 2009 US\$	Revenue from 20% excise US\$	Revenue from 30% excise US\$
Canned beef	1602.50.00	634,414	126,882	190,324
Spam	1602.40.00	375,586	75,117	112,675
Franks/sausage	1601.00.00	328,955	65,791	98,687
Instant noodle	1902.30.00	254,147	50,828	76,243
<b>Total Revenue</b>			<b>318,618</b>	<b>477,929</b>

**Recommendation 1: The Ministry of Health together with the Ministry of Resources and Development (R&D) should lead the consultation with the Ministry of Finance for the implementation of a ‘health excise’ on food (& beverage) products with a negative impact on NCDs, and the identification of priority programmes for facilitating improved access to healthier substitute products.**

### 3. Improved transport linkages for facilitating domestic market opportunities

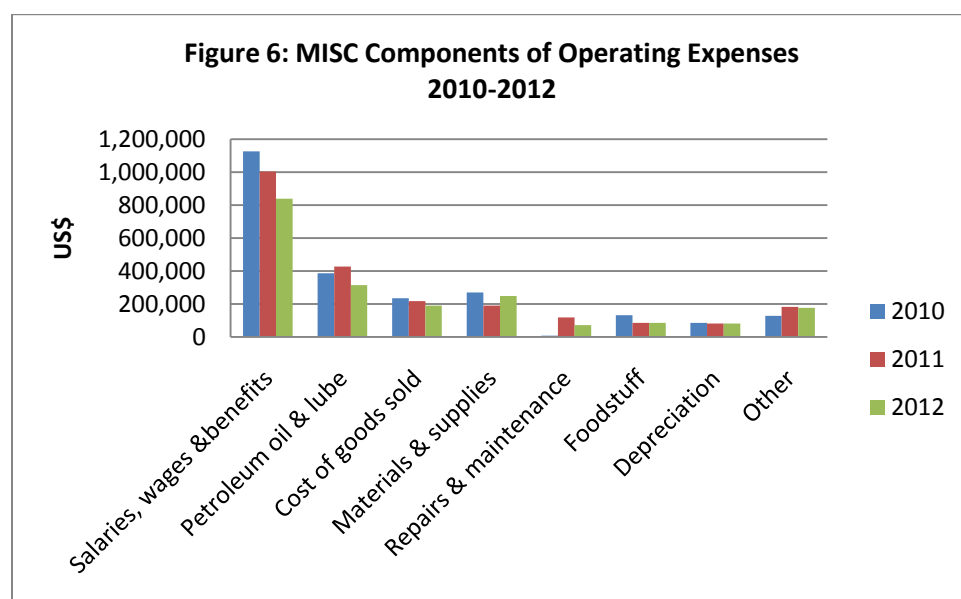
Domestic shipping has a fundamental and vital service role in the Marshall Islands with a population dispersed over many islands. The Government currently owns and operates most shipping services within the country. The Marshall Islands Shipping Corporation (MISC) is responsible for providing services between Majuro and outer-islands for both cargo and passengers. MISC was established in FY2007 under Public Law 2005-41: the Marshall Islands Shipping Corporation Act, 2004. MISC was established to manage and operate RMI's shipping vessels. It is tasked to provide regular fieldtrip services from Majuro to the Outer Islands, with a target of visiting each island at least once every 3 months<sup>15</sup>. MISC plays a key role in the collection and transportation of copra from the islands to the processing mill in Majuro. Prior to 2011 MISC operated five ships including one landing craft. However, in January 2011 its landing craft, the Jeljelat AE, sank. With the deterioration of the condition of its other ships, fieldtrip services were significantly reduced from 43 in 2010 to 25 in 2011, whilst ships were dry docked in Fiji for maintenance and repairs (Table 5). The establishment of the Shipping Vessel Repairs and Maintenance Act in 2011 has now decreed that sufficient funds are available to undertake necessary repairs and maintenance on a regular basis. With the addition of two new ships (including a new landing craft) provided by the government of Japan and completion of dry dock repairs of the remainder of MISC's fleet, five cargo/passenger vessels and one landing craft were in operation in 2014.



Source: Source: Marshall Islands Shipping Corporation Notes and Financial Statements (Years ending September 30<sup>th</sup>, 2012 and 2011). Deloitte & Touche LLP, Tamuning, Guam.

<sup>15</sup> Personal Communication Wally Milne MISC General Manager

MISC's main operating revenues are from cargo, ship sales<sup>16</sup>, and charter. The steep fall in revenue from charter in 2011 and 2012 reflect the loss of the landing craft which was their main charter vessel (Figure 7). MISC's main expenses are staff costs (salaries, wages and benefits) and fuel costs (Figure 8).



Source: Marshall Islands Shipping Corporation Notes and Financial Statements (Years ending September 30<sup>th</sup>, 2012 and 2011). Deloitte & Touche LLP, Tamuning, Guam.

Historically, the operating revenue generated by MISC has never been sufficient to cover related expenses necessary to operate the shipping vessels and to provide sea-transportation services.

**Table 4: Marshall Islands Shipping Corporation Financial Outcomes FY2008-FY2012**

	2012 (\$)	2011 (\$)	2010 (\$)	2009 (\$)	2008 (\$)
Total operating revenues	841,608	844,307	1,296,317	1,269,407	1,500,688
Total operating expenses	2,007,138	2,305,581	2,368,189	2,600,523	2,682,755
Operating loss	(1,165,530)	(1,461,274)	(1,071,872)	(1,331,116)	(1,182,067)
Operating subsidy	1,396,335*	1,142,446*	969,150	1,091,847	1,008,150
Loss disposal of equipment		(25,303)			
<b>Change in Net Assets</b>	<b>230,805</b>	<b>(344,131)</b>	<b>(102,722)</b>	<b>(239,269)</b>	<b>(173,917)</b>
Net Assets at beginning of year	(320,849)	23,282	126,044	365,273	539,190
Net Assets (deficiency) at end of year	(90,044)	(320,849)	23,282	126,004	365,273
Number of fieldtrips	28	25	43		

\*The subsidy in 2012 includes \$550,889 solely for the purpose of the Shipping Vessel Repairs & Maintenance Act and only \$845,466 for operating subsidy; in 2011 \$297,000 was solely for the Shipping Repairs and Maintenance Act and \$845,466 subsidy. Source: Marshall Islands Shipping Corporation Notes and Financial Statements (Years ending September 30<sup>th</sup>, 2009 and 2008 & 2012 and 2011). Deloitte & Touche LLP, Tamuning, Guam.

<sup>16</sup> Since 2009 MISC has operated onboard retail sales of goods on its fieldtrips which has become an important revenue earner

Over the period 2008 to 2012 MISC had operating losses averaging \$1.24 million per year. With government real operating subsidies averaging \$952,000 annually, it has continued to show a declining trend in Net Assets (Table 5). MISC has managed a gradual small reduction in operating expenses, in part due to efficiency improvements, but also because of reduced fieldtrip services delivered in 2011 and 2012, and reduction in staff after the loss of the Jeljelat AE. However, MISC continues to be unable to achieve a positive financial outcome.

Current freight and passenger tariffs – established at the same rate first set in 1982 - are charged per voyage and fixed for unlimited miles. The freight rate is charged at \$56.50 per ton and the passenger fee is \$2 per trip, regardless of distance; and therefore the same amount is charged on a trip to Arno (30 miles) or a trip to Enewetak (595 miles). The current fixed voyage tariff used by MISC indicates rates of \$1.88 per freight ton mile for the shortest journey to Arno and \$0.09 per freight mile for the longest voyage to Enewetak. MISCs Strategic Plan 2012-2015 states that: “for financial sustainability freight income needs to be doubled, assuming a fleet of 4 adequate vessels. And freight rates and Community Service Obligations (CSO) annual payments need to be equivalent of 4 times current freight rate income level to achieve overall MISC Operational Surplus and 5 times to achieve operation surplus, provide adequate maintenance expenditure and provide modest return on MISC assets at current values”.

Despite MISC petitioning government to increase tariff rates, this has not been agreed. Clearly government recognizes the important community service affordable shipping provides and with a tendency for migration from the outer islands, maintaining a low and uniform tariff rate across the nation is seen as crucial to support viable island communities. In the absence of subsidized freight rates food and other living costs in the islands would increase significantly leading to reduced food security and an increase in migration to urban centers. However if tariff rates are not increased, MISCs capacity to provide affordable sea-transport services to the people will be dependent on an increase in the subsidy amounts provided to MISC. Additionally, it may be possible to better target subsidies only to essential cargo items and on voyages to remote destinations which would always demand a community service obligation. This could also encourage greater private sector participation on viable routes.

The acquisition of a ship by Tobolar Copra Processing Authority (TCPA) to collect copra which is targeting the largest copra producing islands within a 215 mile zone from Majuro (this distance being the freight cost break-even limit) could further challenge MISCs operating revenues as copra is the main cargo carried on return voyages from outer islands. The current Tobolar ship has cargo capacity to carry 150 tons of copra, and at 75% load and assuming 2 trips a month, it could bring in about 2,700 tons of copra a year – about 40-55% of annual production. It has been suggested that Taiwan may provide a further 2 vessels to TCPA based on the performance of the first vessel<sup>17</sup>. Careful coordination between MISC and TCPA will be essential as MISC stands to lose valuable return cargo. Financial viability of the two SOEs will only be improved by exploiting synergies and not through direct competition.

### **Outer Islands Sea Freight Fund and Price Monitoring**

The Ministry of Internal Affairs (MIA) has prepared a draft Bill for an Act that would see the introduction of a freight levy on cargo imported into RMI. This Bill proposes to incorporate under Title 11, Chapter 15

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<sup>17</sup> Tobolar Copra Processing Authority Strategic Reform Plan, October 2012 – September 2016, pg. 18

of the MIRC, imposition of 1.385% tariff on the value of imported goods excluding certain items in order to fund the subsidization of the transportation of goods to and from the outer islands and atolls.

The justification for the ordinance is that prices of essential goods on the outer islands are up to 65-85% higher than in Majuro and Ebeye. By subsidizing the shipping cost, it is anticipated that the cost of goods will be reduced and thus improve living standards in the outer islands. It is estimated that such a levy, on current imports, would collect revenue of around \$1.5 million.<sup>18</sup>

Government have also legislated to control the mark up price of prescribes goods to be no more than plus 25% of the Majuro wholesale price plus freight costs (the base price), in order to reduce price inflation in the outer islands. The Retail Price Monitoring Office is responsible for enforcing this regulation. The initial list of goods to be monitored includes 38 items, mostly food and beverages. Included in the food items selected for price control are processed canned foods high in salt and fat and other products high in sugar content which are linked to diet related NCDs. In line with the national Food Security Policy and current health policy the price signal from such products should work to deter excessive consumption rather than encourage it.

The proposed draft Bill does mention subsidizing the transportation of goods from the outer islands, though the only product mentioned specifically is copra. Subsidizing the transportation of local food produce from the outer islands to Majuro and Kwajalein centers would improve market access opportunity for farmers on the outer islands and facilitate better availability of local food produce on the urban markets. A similar freight levy scheme has been used for many years in Kiribati to subsidize transportation of food goods including fresh produce from the outer islands to the urban market in Tarawa (Box 1)

#### **Box 1: Kiribati Freight Levy Fund**

In order to ensure equal access to basic goods, including food, at the same price for most of the country, the Kiribati Government controls the price of basic goods (defined to include rice, wheat flour, sugar, corned beef, bar soap, kerosene, and twist tobacco) and subsidizes transport costs of all goods from the port of entry (Tarawa) to all islands except South Tarawa through its Import Levy Fund (ILF). This program has been operating since before independence. Without the transport subsidy program food costs would be significantly higher on the outer islands and malnutrition and urbanization would likely increase.

The ILF was created by an Ordinance in June 1972 which has been amended from time to time, the last being in 1993 when a provision to provide subsidized support to the transport of some local agricultural produce from the outer islands to Tarawa was included. The ILF is financed by an import levy on all goods imported into Tarawa for commercial purposes. The levy is additional to other import duties. The current levy is set at AU\$ 30 per cubic meter or per 875 kg of goods imported regardless of value. The Customs Department of the Ministry of Finance and Economic Development (MFED) assesses and collects the levy to be paid by importers together with other duties and charges as part of the Bill of Entry.

Funds from the ILF are used to subsidize the costs of transporting goods, imported or locally sourced, from South Tarawa to the outer islands. Payments are made from the ILF to wholesalers as (i) reimbursement of actual freight costs (not exceeding the approved freight rates set by the Kiribati Shipping Company Ltd; and (ii) reimbursement of actual freight costs (not exceeding the approved freight rates set by the Kiribati Shipping Company Ltd) of selected agricultural produce from the outer islands to South Tarawa. Reimbursement is limited to freight costs and does not include land transport, loading and other wharfage charges. The Accounts Department of the MFED manages the ILF and makes the payments according to the schedule set out in the Ordinance against proof of payment (receipts) of freight costs from the shipping companies. The accounts of the ILF are included within the accounts of the MFED and are reported and audited as part of the Kiribati Government's Annual Account.

Together with the Price Control Ordinance, the ILF is one of the main mechanisms through which the Government of Kiribati is able to reduce the cost of living in the Outer Islands and improve the affordability of major food items.

*Source: World Bank*



MIMRA boat docked in Majuro

Currently MIMRA, operate a fleet of five vessels that travel inter-island to collect reef fish from the various fishermen as well as provide transportation of the fish collected at their outlet fish bases located in the Arno, Namu, Alinglalap and Likiep Atolls to their fish markets in Majuro and Ebeye. The boats visit several outer islands at least once per week and journey time back to Majuro on most voyages is less than 24 hours. Whilst the primary purpose of this service is for fish marketing the boats also have some opportunity to carry a small amount of additional fresh produce cargo. Current

cargo rate is \$0.17 per lb. As the fishermen utilizing this service to market their fish in Majuro and Kwajalein are also farmers on the outer islands, linking these two activities to deliver fish and farm produce to supply the school lunch programs in Majuro and Kwajalein would seem to be opportune.

Untargeted shipping subsidies and price monitoring with control on prices for a wide range of imported food products laudably aims to ensure more access to affordable food in the outer islands. But it also makes certain foods associated with NCDs more accessible (Annex 2 shows the list of products to be monitored which includes at least six products deemed to be high in sugar, salt or fat). The proposed outer island sea freight fund should be targeted in such a way that it provides a price incentive to the more healthy food alternatives. It should also explicitly make available funds to subsidize the transportation of local fresh produce (farm and fisheries) from the outer islands to the urban centers. This would provide a strong market incentive for local food production.

**Recommendation 2: Prescribed goods under the Price Monitoring Program should be reviewed and products which are recognized to contribute to NCDs should be removed from the price control program in order to reduce the price incentives they introduce for the consumption habits which result in poor dietary and health outcomes.**

**Recommendation 3: The draft Bill for the Outer Islands Sea Freight Fund should specifically make available a designated portion of the Fund to subsidize the transportation of locally produced fresh food produce (farm and fisheries) from the outer islands to the urban centers**

**Recommendation 4: MIMRA should work together with R&D to coordinate fish and farm produce transportation to the urban markets and where necessary utilize resources from the proposed 'Outer Islands Sea Freight Fund' to subsidize transportation costs.**

## 4. Enhanced school feeding program

Nutritional and health status are powerful influences on a child's learning and on how well a child performs in school. Poor nutrition among school-age children diminish their cognitive development



either through physiological changes or by reducing their ability to participate in learning experiences - or both. The extra demands on school-age children (to perform chores, for example, or walk long distances to school) create a need for energy that is much greater than that of younger children. Research and program experience shows that improving nutrition and health can lead to better performance, fewer repeated grades and reduced dropout rate<sup>19</sup>.

The evidence around the education and health benefits of school feeding programs is well understood. School feeding programs can help to get children into school and help keep them there, through enhancing enrolment and reducing absenteeism; and once the children are in school, the programs can contribute to their learning, through avoiding hunger and enhancing cognitive abilities.<sup>20 21</sup> One of the motivations for establishing school feeding programs is to provide targeted families and their children, including girls, an incentive to attend school. However, in recent years, the idea of using school feeding programs as a vehicle for agricultural development has also gained momentum. The rationale behind school feeding programs based on the use of locally-produced food is that they can provide a regular market opportunity and a reliable source of income for smallholder farmers.<sup>22</sup>

School feeding programs can thus be a powerful instrument for achieving many multi-sector benefits – education, gender equality, food security, poverty reduction, nutrition and health, and agricultural development. The recent food, fuel and financial crises have highlighted the importance of the provision of supplementary food, such as through school feeding programs. Such programs act as both a social safety net for children living in poverty and food insecurity, and as a tool for stimulating local agricultural production and economic opportunities in rural communities.<sup>23</sup>

The RMI's school feeding programs are enshrined in Public Law 1991-125 (with 2008 revision) to ensure that school children have access to nutritious food required for productive learning and healthy living. However, budgetary constraints have seen significant cut-back in delivery and quality of the school feeding program<sup>24</sup>. Reinstating and enhancing the school feeding program with appropriate nutritional guidelines for the lunch menu and with regulated local food content inclusion ( $\geq 50\%$ ) would bring multiple benefits including; improved nutrition for vulnerable children, increased school attendance and academic attainment whilst also creating a substantial market demand for locally produced food and

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<sup>19</sup> Del Rosso, 1999

<sup>20</sup> Bundy et al, 2009

<sup>21</sup> Adelman et al, 2008

<sup>22</sup> Sumberg and Sabates-Wheeler, 2011

<sup>23</sup> Demek et al (2014)

<sup>24</sup> Personal Communication Kanchia Hosia, Assistant Secretary for Schools.

thus foster local economic development. Providing school children with a well-balanced meal rich in local food content, would also be a powerful awareness raising tool to influence improved dietary choices early in life.

In full attendance, the public school role including kindergarten (5 years) primary (6-14 years) and secondary (15-18) is around 10,500 children. In school year 2013/14, only kindergarten and the public boarding schools are fully receiving the entitled free school lunch. The current allowance for the preparation of a school lunch plate is around \$1.50 and lunches need to be provided for 180 days in a school year. Therefore the cost of fully delivering the program would be in excess of \$2.8 million. The potential revenue collected from health excise (levied on beverages and food deemed high in sugar, salt, or fat) was estimated at around \$3.0 million and thus would provide substantial revenue to support the school feeding program. Purchasing greater than 50% of the lunch content from locally sourced food would provide a substantial market for local farmer's produce and local fish (including by-catch). Local women's groups or other private sector suppliers could be contracted to prepare and supply the meals in accordance with the regulated lunch menus.

The Education Department already has two in-house health and nutrition specialists who could supervise appropriate menu choices. The elementary school curriculum covers nutrition in grades 1 through 8 with the intention that students are able to demonstrate good knowledge of nutrition and have the ability to make healthy food choices for themselves. A curriculum benchmark expectation is that students will be able to apply their knowledge of food groups and good nutrition to plan healthy meals. A possible awareness raising opportunity to launch a revamped school feeding program could be a national school competition to design the nutritious school lunch menus which include at least 50% local food content.

A key driver for increasing local agricultural production through the adoption of improved production methods will be establishing a strong and sustainable market for local farm products with efficient and supply chains from farm to market, including affordable sea transportation where necessary. As the school feeding program runs for a fixed 180 days a year and would require a pre-determined food basket, it would provide a real opportunity to benefit small farmers by generating a stable, structured, and predictable demand for their products. A well-established market and robust supply chain would also help to build the enabling systems to support sustainability (e.g. subsidized freight rates on shipping, 'soft' loan finance for agriculture development, business support services and technical support for new farming technology and practices). This in turn should also have broader impacts on the local economy. Jobs and profits may be created not only for farmers, but for those involved in the transportation, processing, and preparation of food along the school feeding supply chain.

### **Capacity of local food producers to supply the school feeding program**

The highest school populations are in Majuro and Ebeye. There are eight elementary schools in Majuro, four in the urban center which enroll around 500 or more children in each school and four in the rural areas which enroll between 100-500 children. Ebeye Elementary school in Kwajelein Atoll is the largest school in the country with more than 1,000 students. There are a further 67 elementary schools spread throughout the outer islands which generally have between 50 and 100 students, although a few

schools enroll up to 200 children. The public secondary schools have about 2,000 students enrolled in 6 schools, three in Majuro, one in Kwajalein and two boarding schools located in Jaluit and Wotje.<sup>25</sup>The largest quantity of farm produce will be required to provide local food content for the school lunch program in Majuro and Kwajalein.

Attention should focus initially on this demand by building robust domestic supply chains. The Laura farms already have significant capacity for production and currently service several market outlets in Majuro including the Majuro farmers market, some hotels/restaurants, some supermarkets and the fishing boats. Scarce data exists on total production capacity and potential to increase this. However records kept by the Taiwan project and R&D indicate that vegetable produce (including papaya and pumpkin) supplied by Laura farmers and sold in the Majuro markets amounted to some 21,604 lb. valued at \$26,906 in 2013<sup>26</sup>. These production figures do not include breadfruit, taro, banana, pandanus and limes. A group of up to 69 farmers are involved in this production and marketing. However, according to the 2011 Census there are some 188 households in Laura and Woja/Arrak areas which are growing crops for the market<sup>27</sup>. Whilst there is still likely to be some capacity to increase production from these areas to supply a predictable demand from the school feeding program for Majuro schools, additional supply would also be required from other outer islands. Supply from outer island would also be needed for the Ebeye schools as there is very limited capacity for crop production on Kwajalein Atoll. Supply for the two boarding schools located on Jaluit and Wotje could primarily be sourced from local producers on these atolls.

A number of outer islands should have potential to participate in a coordinated supply chain for the school feeding program providing that regular ship transportation is available with affordable (subsidized if necessary) cargo rates and capacity to carry the requisite amounts of produce.

Arno Atoll would be a prime choice to kick-start a program for increased crop production for the school feeding program with its relatively good growing environment and close proximity to Majuro with frequent ship services and voyage length of less than two hours. According to the 2011 Census there were 126 households growing crops for income. Until recently farmers in Arno were regularly marketing some of their food produce in Majuro. There are at least six boat trips between Arno and Majuro each week and a basket (or copra sack) full of fresh produce is subject to a freight charge of \$1 between Arno and Majuro. Arno farmers would have excellent potential to increase production of breadfruit, pumpkin and papaya as well as other vegetables. Other atolls such as Jaluit and Ebon have good growing conditions and potentially could produce surplus to add to the school feeding program supply chain.

### **Credit and business and technical services**

The structured demand from the school feeding program would provide the incentive for smallholder farmers to improve quantity and quality of production through investment in better inputs and technology. The assured market would reduce risk and thus allow the Bank of Marshall Islands to extend more small loans to farmers (currently offered at 7% and available in Majuro and at outer island

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<sup>25</sup> RMI Ministry of Education (undated)

<sup>26</sup> Data provided from the Taiwan-RMI Agricultural Production and Development Project Fund

<sup>27</sup> RMI 2011 Census of Population and Housing Report, pg. 454

branches). The RMI Small Business Development Center is available to help farmers prepare loan applications and provide training to upgrade business skills. Technical assistance can be provided to help farmers improve production through the R&D's agriculture program supported by their development partners such as Taiwan Technical Mission, FAO and SPC.

**Recommendation 5: The R&D together with the Ministry of Education and the Ministry of Health should advocate for an amendment to the Public Law 1991-125 such that a regulated proportion of local food content is included in the school feeding program.**

**Recommendation 6: The Ministry of Education together with R&D and the Ministry of Health should review the school lunch program and provide a healthier menu choice including more local fresh produce (fruits and vegetables) and redesign the procurement and distribution system for the food to facilitate increased purchasing from local farmers and fishers. The enhanced school feeding program could be a 'flagship' program under the National Food Security Policy.**

## 5. Co-ordination of policy and regulatory reform

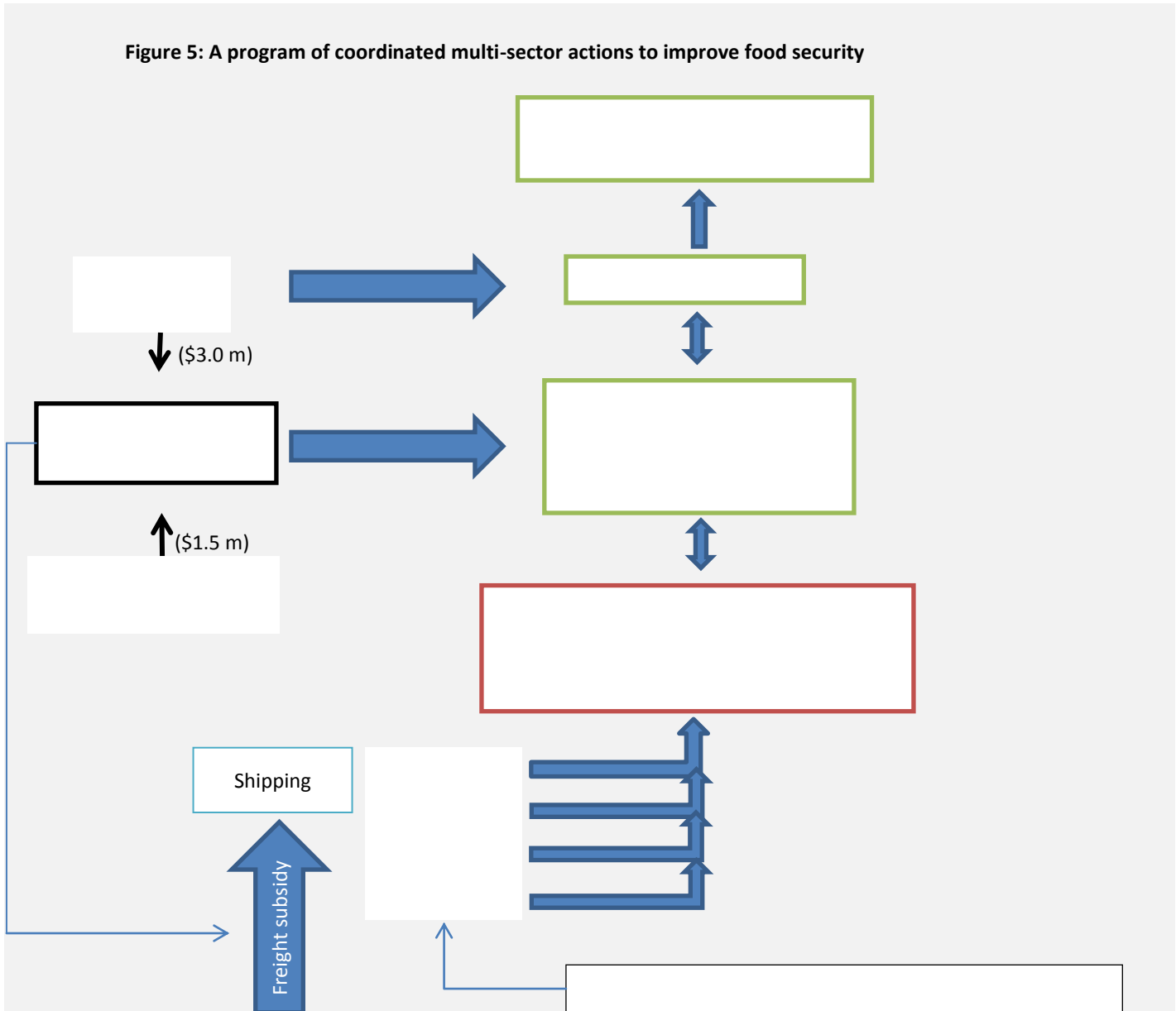
Simple dietary changes can save lives and money. Policies that change the prices of foods at a national level can influence food choices and thus have an effect on population-level nutrition and health outcomes. Restructuring price policy and agriculture policy to promote production and consumption of nutritious local foods to help mitigate the grim effects of NCDs is long overdue. Such preventive NCD measures would result in significant cost savings to individuals, the health budget and the economy, thereby constituting a fiscally responsible investment of public resources.

Excise taxes and import tariffs together with freight subsidies have the potential to alter the relative prices of imported processed food and local fresh foods making local foods more competitive and accessible. Revitalizing and enhancing the school feeding program to include a regulated amount of local nutritious food content would provide a structured and sustainable market demand for local food produce thus making it easier, less risky and more profitable for producers to invest in upgrading their farm technology to increase productivity. The use of the structured demand to supply the school feeding program would therefore provide an attractive avenue through which to kick start a process of agricultural and livelihood transformation in RMI as well as promoting the delivery of priority education and health policy outcomes.

Strengthening food security in the RMI will be dependent on coordinated multi-sector interventions, improved policy coherence and the ability to resolve conflicts of interest. This will require a forum such as a “Food Policy Council” that can bring together a diverse range of stakeholders united in their interest to transform the food system through collaborative policy making.

Establishing the policy and regulatory settings and institutional service provision necessary to reduce RMI’s heavy dependence on food imports and strengthen food security, will require a coordinated effort reaching across many areas of government responsibility. It will also need to include a strong voice from the private sector (farmers, fishers, traders, retailers, processors, food service and transportation etc.) and civil society. Therefore, there is a critical need for the establishment a formal forum where key stakeholders from government, the private sector and civil society can come together to identify and lobby for the policy and regulatory reforms which are necessary for tackling the NCD health crisis, achieving import substitution, encouraging local agri-business development and protecting the sustainability and equity of RMI’s food system. The R&D previously coordinated a food security committee, whilst the Ministry of Health leads a nutrition committee, uniting these committees under one formal body such as a Food Policy Council would lift their political profile and enhance their credibility across multiple disciplines enabling them to form coalitions to develop a coherent set of policy and regulatory reforms necessary to strengthen food security in RMI. A Food Policy Council could thus play a critical role in galvanizing multi-sector support for enhancing the school feeding program and revitalizing local food production

The Food Policy Council would be responsible for overseeing the implementation of the priority integrated food security programs proposed in the Food security Policy. Figure 5 below, provides a schematic of the proposed integrated Food Security plan focused on the use of pricing policy interventions in order to improve dietary intake, and provide capital for implementing an enhanced school feeding program utilizing locally grown food.



**Recommendation 7: The Ministry of Resources and Development should join with the Ministries of Finance, Health and Education to facilitate the establishment of Food Policy Council with mandate to design and implement whole of government policy measures to address the strategic issues common to food production and consumption trends in RMI; and to enhance co-operation between the public and private sectors to ensure a sustainable, healthy and equitable food system.**

## Annex 1: Model for a health tax based on fat and salt content

### What foods should a 'health tax' target?

According to the Australian and New Zealand Food Standard Code (FSC), a balanced diet (8700 kilojoules) for an average adult should include no more than the following levels of daily intake of saturated fat, sugar and sodium (<http://www.foodstandards.gov.au/code/Pages/default.aspx>):

- Sodium – 2300 milligrams
- Saturated Fat – 24 grams
- Sugar – 90 grams

Health authorities (USDA) considers that a serving of any food item which contains more than 20% of the recommended maximum daily intake of that ingredient, is considered to contain a high-level of that ingredient, and should be consumed only in moderation. However there are a large number of foods containing far more than this rate, and their consumption could therefore beneficially be reduced through the use of a tax.

Research into the impact of fat taxes shows that the price of a product would need to increase by at least 20% in order to make an impact on consumption volumes (Myton et al 2012). In this example we look at the revenue raising impact of the introduction of a tax that results in a 20% and a 30% increase in the price of a sample of food products deemed to very high in salt or saturated fat by nutritionists. For the purposes of this study we have selected 4 products commonly consumed and available in RMI stores: tinned corned beef (Palm); tinned ham product (Spam); Hot Dog Franks (Bar-S); instant noodles (Maggi). A full description of the nutritional content of each of these products is included at the end of this Annex.

In order to compare the contents of each product, we select 100g as a sample serving size. While many products display a serving size that is lower than 100g, this often obscures the serving sizes being consumed in the Pacific Islands and their real impact on health. Thus we used 100g as the standard size in order to provide a comparison between products. We highlight in the table below any product for which a 100g serve contains more than a third (33%) of recommended daily intake (RDI) of salt or saturated fat. Three of the four products - canned corned beef; canned spam; and hot dog franks– pass the threshold for saturated fat content, and three products –canned spam, hot dog franks and noodles– pass the threshold for salt. Therefore all four products have been selected to be subject to a health tax.

<b>Table: Contents of 100g serve of select food items</b>				
<b>Food item</b>	<b>Saturated Fat content</b>		<b>Sodium Content</b>	
	Grams	% DRI	Milligrams	% DRI
tinned corned beef	<b>8.4</b>	<b>35</b>	630	27
tinned ham product	<b>10.5</b>	<b>53</b>	<b>1383</b>	<b>60</b>
Hot dog franks	<b>8.4</b>	<b>35</b>	<b>904</b>	<b>39</b>
Instant noodles	7.5	31	<b>1188</b>	<b>60</b>

Using 2013 official national import data, providing the total volume and FOB value of each of these products that was imported into the country that year, we can investigate what revenue would be raised by applying a 20% & 30% ad valorem excise tax to imports of these products. The results are presented in Table 6 in the main body of the report and copied in the table below.

Product	HS Code	Value (CIF) 2009 US\$	Revenue from 20% excise US\$	Revenue from 30% excise US\$
Canned beef	1602.50.00	634,414	126,882	190,324
Spam	1602.40.00	375,586	75,117	112,675
Franks/sausage	1601.00.00	328,955	65,791	98,687
Instant noodle	1902.30.00	254,147	50,828	76,243
<b>Total Revenue</b>			<b>318,618</b>	<b>477,929</b>

# Corned Beef Nutrition Facts

Per serving size 100 grams



## Amount Per Serving

Calories from Fat 142

**Calories 248**



	% Daily Values*
<b>Total Fat</b> 16g	22%
Saturated Fat 8.4g	<b>35%</b>
<b>Cholesterol</b> 63mg	21%
<b>Sodium</b> 630mg	27%
<b>Total Carbohydrate</b> 0g	0%
Dietary Fiber 0g	0%
Sugars 0g	

**Protein** 14g



Vitamin A -                      ■ Vitamin C -

Calcium -                        ■ Iron 6%

\* Percent Daily Values are based on a 2000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.

# Spam Nutrition Facts

Per serving size 100g



## Amount Per Serving

Calories from Fat 245

**Calories 315**



	% Daily Values*
<b>Total Fat</b> 28g	38%
Saturated Fat 10.5g	53%
Trans Fat 0g	
<b>Cholesterol</b> 123mg	41%
<b>Sodium</b> 1383mg	60%
<b>Total Carbohydrate</b> 3.5g	0%
Dietary Fiber 0g	0%
Sugars 0g	
<b>Protein</b> 12.25g	
Vitamin A 0%      ● Vitamin C 0%	
Calcium 0%      ● Iron 2%	

\* Percent Daily Values are based on a 2000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.

# Hot Dog Franks Nutrition Facts

Serving Size 100 g

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## Amount Per Serving

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Calories from Fat 214

**Calories** 286

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	% Daily Values*
<b>Total Fat</b> 23.81g	38%
Saturated Fat 8.4g	35%
<b>Cholesterol</b> 85.3mg	28.6%
<b>Sodium</b> 904mg	<b>39%</b>
<b>Total Carbohydrate</b> 4g	2.4%
Dietary Fiber 0g	0%
Sugars 4.8g	

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**Protein** 7.1g

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Vitamin A 0%      ● Vitamin C 0%

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Calcium 9%      ● Iron 5%

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\* Percent Daily Values are based on a 2000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.

Nutrition Values are based on USDA Nutrient Database SR18

# Instant Noodles Nutrition Facts

Serving Size 100g



## Amount Per Serving

Calories from Fat 163

**Calories 450**



	% Daily Values*
<b>Total Fat</b> 17g	23%
Saturated Fat 7.5g	31%
Trans Fat 0g	
<b>Cholesterol</b> 0mg	0%
<b>Sodium</b> 1188mg	52%
<b>Total Carbohydrate</b> 59g	20%
Dietary Fiber 2.5g	10%
Sugars 3g	

## Protein 7g



Vitamin A 0%      ● Vitamin C 0%

Calcium 10%      ● Iron 2%

\* Percent Daily Values are based on a 2000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.

## Annex 2: Items included in the food monitoring program

<b>FLOUR</b>	<b>TEA</b>
Gem #27	<b>COFFEE INSTANT</b>
Hawaiian Baker 25#	<b>COFFEE MATE</b>
Island Enriched 24#	<b>GROUND COFFEE</b>
Taiwan Baker 25#	<b>TUNA</b>
PFM Flour 25#	<b>MACKEREL</b>
PMF Fiji Flour 22#	<b>CORNED BEEF</b>
Punji Fiji Flour 22#	<b>LUNCHEON MEAT</b>
Aus Baker's Flour	<b>SPAM</b>
FMF Baker's Flour 25#	<b>SAUSAGE</b>
Island Pacific Flour	<b>CORNED BEEF HASH</b>
<b>RICE</b>	<b>BEEF STEW</b>
SunWhite Rice 20#	<b>SOY SAUCE</b>
Pearl Rice	<b>KETCHUP</b>
Is. Sun Calrose Rice 20#	<b>MIXED VEGETABLE</b>
Guam Rice 20#	<b>CORN</b>
Homai Rice 20#	<b>TOILET TISSUE</b>
Yokwe Rice 20#	<b>TOOTH PASTE</b>
California Select 20#	<b>MOSQUITO- COIL</b>
Micronesia State Rice 15#	<b>MATCHES</b>
<b>SUGAR</b>	<b>ZORIES/SLIPPERS</b>
<b>BISCUIT</b>	<b>BATTERIES</b>
<b>INFANT FORMULA</b>	<b>NOTE BOOK</b>
<b>SHORTENING</b>	<b>COMPOSITION BOOK</b>
<b>BAKING POWDER</b>	<b>BUTANE GAS CAN</b>
<b>BAKING SODA</b>	<b>OUTBOARD ENGINE OIL</b>
<b>YEAST</b>	<b>GASOLINE 53 gal/drum</b>
<b>EVAPORATED MILK</b>	<b>DILES 53 gal/drum</b>
<b>PUNCH</b>	<b>KEROSENE 53gal/drum</b>
<b>POWDERED DRINKS</b>	

### Annex 3: List of people consulted

Name	Position
Alton Riklon	Price Monitoring Officer, MOIA
Amando Reyes	Food & Beverages Manager, Marshall Islands Resort
Anel N. Philimon	Service Center Director, SBDC, MOR&D
Carl Hacker	Director College of Marshall Islands
Casten Nemra	Chief Secretary
Bruce Loeak	Microfinance, Bank of Marshall Islands
Dahlia Kaneko	Monitoring & Evaluation/Aid Coordination, EPPSO
Daniel Timothy	Chief, Customs , MOF
Eonmita Rakinmefo	Health Curriculum Specialist, MOE
Florence Edwards	Principal Officer Oceanic Fisheries, MIMRA
Fred deBrum	Director, EPPSO
Glorina Harris	Health (& nutrition)Specialist Ministry of Education
Henry Capelle	Chief Agriculture Ministry of Resources and Development
Itibo Tofinga	Chief of Taxation & Revenue Ministry of Finance
Jemi Nasho	General Manager Tobolar Copra Processing Authority
Julia Alfred	Secretary Ministry of Health
Kanchi Hosia	Assistant Secretary, Ministry of Education
Karness Kusto	Assistant Chief of Agriculture, MOR&D
Kato Rubon	Chief, Price Monitoring Office, MOIA
Patrick Chen	President/CEO Bank of Marshall Islands
Phil Philippo	Secretary, Ministry of Transport & Communications
Radika Kumar	National Trade Adviser, MOR&D
Rebecca Lorennij	Secretary, MOR&D
Wally Milne	General Manage Marshall Islands Shipping Corporation

#### Participants attending the R&D/FAO roundtable consultation meeting 30 July 2014.

Name	Position
Alton Riklon	Price Monitoring Officer, MOIA
Anel N. Philimon	Service Center Director, SBDC, MOR&D
Bruce Loeak	Microfinance, Bank of Marshall Islands
Dahlia Kaneko	Monitoring & Evaluation/Aid Coordination, EPPSO
Daniel Timothy	Chief, Customs , MOF
Emma Kabua	Policy Officer, MIMRA
Eonmita Rakinmefo	Health Curriculum Specialist, MOE
Florence Edwards	Oceanic Fisheries, MIMRA
Fred deBrum	Director, EPPSO
Karness Kusto	Asistant Chief of Agriculture, MOR&D
Kato Rubon	Chief, Price Monitoring Office, MOIA
Phil Philippo	Secretary, Ministry of Transport & Communications
Radika Kumar	National Trade Adviser, MOR&D
Rebecca Lorennij	Secretary, MOR&D

## Annex 4: References

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