

Micronesia

RISK & COMPLIANCE REPORT

DATE: March 2018

Executive Summary - Micronesia	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Non - Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>black pepper, tropical fruits and vegetables, coconuts, bananas, cassava (tapioca), sakau (kava), Kosraen citrus, betel nuts, sweet potatoes; pigs, chickens; fish</p> <p>Industries:</p> <p>tourism, construction; fish processing, specialized aquaculture; craft items (from shell, wood, and pearls)</p> <p>Exports - commodities:</p> <p>fish, garments, bananas, black pepper, sakau (kava), betel nuts</p> <p>Imports - commodities:</p> <p>food, manufactured goods, machinery and equipment, beverages</p>	
<p>Investment Restrictions:</p> <p>The Federated States of Micronesia (FSM) continues to be among the lowest ranked countries in the world in its friendliness to foreign investment according to a variety of different organizations.</p> <p>The national law establishes three categories (Red, Amber, and Green) to distinguish between prohibited business, restricted business, and unrestricted business respectively. Businesses that fall into the prohibited Red category are arms manufacture, the minting of</p>	

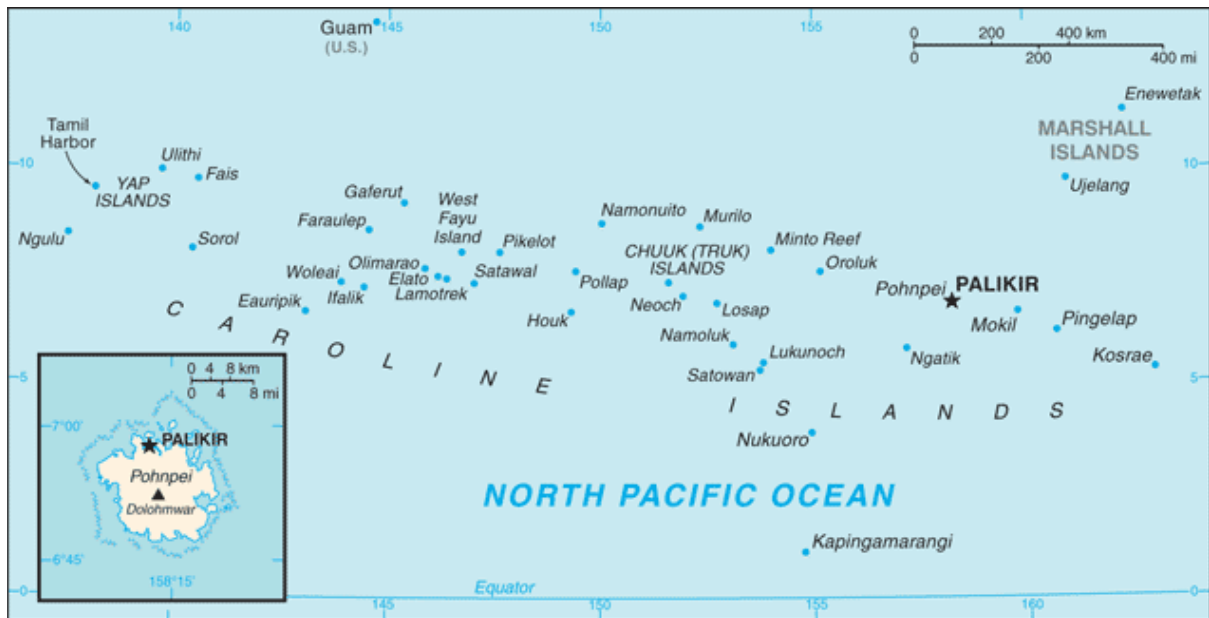
currency, and any business dealing in nuclear power or radioactive goods. The Amber category businesses, although not prohibited, face extra criteria for review before a foreign investment permit can be granted. These include banking services that fall outside of Title 29 of the FSM Code (essentially any non-traditional banking service) and insurance. The Green category includes those businesses for which no special criteria needs to be met for a foreign investment permit to be granted. Banking (according to the definitions described in Title 29), fishing in FSM's Exclusive Economic Zone, international and interstate air transport, and international shipping are all Green category businesses.

Contents

Section 1 - Background	4
Section 2 - Anti – Money Laundering / Terrorist Financing	5
FATF status.....	5
Compliance with FATF Recommendations.....	5
US Department of State Money Laundering assessment (INCSR)	5
Reports.....	8
International Sanctions.....	10
Bribery & Corruption.....	11
Corruption and Government Transparency - Report by US State Department	11
Section 3 - Economy	12
Section 4 - Investment Climate	12
Section 5 - Government	22
Section 6 - Tax	23
Methodology and Sources	24

Section 1 - Background

The Caroline Islands are a widely scattered archipelago in the western Pacific Ocean; they became part of a UN Trust Territory under US administration following World War II. The eastern four island groups adopted a constitution in 1979 and chose to become the Federated States of Micronesia. (The fifth, westernmost island group became Palau.) Independence came in 1986 under a Compact of Free Association with the US, which was amended and renewed in 2004. Present concerns include large-scale unemployment, overfishing, and overdependence on US aid.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Micronesia is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

Micronesia has not yet undertaken a Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards.

US Department of State Money Laundering assessment (INCSR)

Micronesia was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

The Federated States of Micronesia (FSM) has a small population of 100,000 people spread over a million square miles of the western Pacific Ocean. The FSM was part of the U.S. Trust Territory of the Pacific after World War II, and is now associated with the United States by the Amended Compact of Free Association. The FSM uses the dollar as its only currency and has only two commercial banks operating in the country, the domestically-owned Bank of FSM and branches of the Bank of Guam. While the FSM's lack of visibility and ease of moving dollars to and from the United States could potentially make it a back door for nefarious movements of currency, the small scale of its economy and regulatory oversight of the banks by U.S. regulators make the FSM historically a low risk for money laundering, terrorist financing, or smuggling.

Public corruption does exist in the area of public contracting and employment of unqualified companies or persons, but there are no accurate estimates of the proceeds derived from cronyism.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES KYC covered entities: Banks, cash dealers, insurers, bingo parlors, trustees, and money transaction services

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available Number of CTRs received and time frame: Not applicable STR covered entities: Banks

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 1 in 2015

Convictions: 1 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: NO

With other governments/jurisdictions: NO

Micronesia is an observer of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The financial intelligence unit (FIU) of the National Police receives suspicious transaction reports (STRs) from the banks through the Department of Justice (DOJ). The FIU consists of a single police officer, and relies entirely on the DOJ for funding and the National Police for staff. There has been one arrest that led to a prosecution and subsequent conviction in April 2015, for money laundering connected to a human trafficking case. The FSM assisted U.S. law enforcement in another case involving international bank transfers through Guam. The FSM remains highly dependent on U.S. government resources when it encounters issues beyond its limited capacity. The government has not approved the funding to become a full member of the APG.

Only FSM citizens and resident foreigners with valid work permits are allowed to open accounts with the Bank of FSM. Most accounts are small, with only a small number of well-known local families holding accounts of over \$100,000. Large transactions and patterns of unusual behavior are easy to spot.

Money laundering statutes provide for the seizure of "tainted" property, as well as any benefits derived from the commission of a money laundering offense. Authorities have not seized or confiscated any property under this statute. There are no provisions for non-conviction-based forfeiture.

The Government of the Federated States of Micronesia should criminalize terrorist financing and the commission of terrorist acts.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Micronesia does not conform with regard to the following government legislation: -

Record Large Transactions - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Criminalised Financing of Terrorism - The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.

Reports Suspected Terrorist Financing - By law or regulation, banks and/or other covered entities are required to record and report transactions suspected to relate to the financing of terrorists, terrorist groups or terrorist activities to designated authorities.

EU White list of Equivalent Jurisdictions

Micronesia is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Micronesia is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2013 (introduction):

No report available

US State Dept Trafficking in Persons Report 2016 (introduction):

Micronesia is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

The Federated States of Micronesia (FSM) is a source, transit, and, to a limited extent, destination country for men, women, and children subjected to forced labor and sex trafficking. The groups most vulnerable to trafficking in FSM include foreign migrant workers and Micronesian women in prostitution. Girls are allegedly exploited in prostitution by crew members of docked Asian fishing vessels. FSM women recruited with promises of well-paying jobs in the United States and its territories are subsequently forced into prostitution or domestic labor upon arrival. Local authorities claim many sex trafficking cases are unreported due to victims' fear of embarrassment in FSM's insular communities. Foreign migrants from Southeast Asian countries report working in conditions indicative of human trafficking on Asian fishing vessels in FSM or its territorial waters.

The Government of the Federated States of Micronesia does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the reporting period, the FSM government convicted one Micronesian trafficker who victimized eight Micronesian victims in 2009 and initiated three new prosecutions against suspected traffickers. It also continued to coordinate efforts across four states to implement the national plan of action. The government did not, however, identify any trafficking victims, despite evidence of trafficking uncovered during investigations involving minors in commercial sexual activity. It continued to lack a formal system to identify or refer victims to appropriate services. The government did not allocate specific budgetary funding for victim protection, although it provided assistance for eight Chuukese women who testified in court.

US State Dept Terrorism Report 2009

The Micronesian Criminal Code contains no counterterrorism statutes. Should the government ever prosecute someone for terrorist activity it would undoubtedly invoke its laws against murder, attempted murder, and destruction of property. The country's statutes do not outlaw terrorist financing. Law enforcement efforts against terrorism, limited as they are given the region's lack of capacity, fell within the purview of the Transnational Crime Unit (TCU). Reliant on American funding and Australian supervision since its opening in April 2008, the TCU brought officers from other Pacific island nations to Palikir, the Micronesian capital, to share information on such issues as narcotics, human trafficking, and terrorism. The TCU also exchanged information with the FBI and the Australian Federal Police, making it the recipient of relevant terrorist-related intelligence.

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	N/A
World Governance Indicator – Control of Corruption	72

Corruption and Government Transparency - Report by US State Department

The FSM has laws prohibiting corruption and there are penalties for corrupt acts. The National Office of the Public Auditor, with support from the FSM Department of Justice, has been the entity most active in anti-corruption activities. A number of senior ex-FSM Government officials have been convicted of corruption under the FSM Financial Management Act, usually involving procurement fraud. Corruption is not a predicate offense under the money laundering statute. Bribery is punishable by imprisonment for not more than ten years and disqualification from holding any position in the FSM Government. The FSM has not signed or ratified the UN Convention on Corruption. Given that many FSM National, State, and Municipal Government officials also own businesses, there exists significant potential for conflicts of interest. One local NGO, Micronesian Seminar, has prepared an anti-corruption video that has received wide play. The U.S. Embassy is not aware of any other significant anti-corruption efforts. The degree to which government officials accept direct bribes is unknown, however misuse and misappropriation of government funds is widespread.

Section 3 - Economy

Economic activity consists largely of subsistence farming and fishing, and government, which employs two-thirds of the adult working population and receives funding largely - 58% in 2013 – from Compact of Free Association assistance provided by the US. The islands have few commercially valuable mineral deposits. The potential for tourism is limited by isolation, lack of adequate facilities, and limited internal air and water transportation.

Under the terms of the original Compact, the US provided \$1.3 billion in grants and aid from 1986 to 2001. The US and the Federated States of Micronesia (FSM) negotiated a second (amended) Compact agreement in 2002-03 that took effect in 2004. The amended Compact runs for a 20-year period to 2023; during which the US will provide roughly \$2.1 billion to the FSM. The amended Compact also develops a Trust Fund for the FSM that will provide a comparable income stream beyond 2024 when Compact grants end.

The country's medium-term economic outlook appears fragile because of dependence on US assistance and lacklustre performance of its small and stagnant private sector.

Agriculture - products:

taro, yams, coconuts, bananas, cassava (manioc, tapioca), sakau (kava), Kosraen citrus, betel nuts, black pepper, fish, pigs, chickens

Industries:

tourism, construction; specialized aquaculture, craft items (shell and wood)

Exports - commodities:

fish, sakau (kava), betel nuts, black pepper

Imports - commodities:

food, beverages, clothing, computers, household electronics, appliances, manufactured goods, automobiles, machinery and equipment, furniture, tools.

Section 4 - Investment Climate

Executive Summary

The Federated States of Micronesia (FSM) is a lower middle income island nation of 102,000 people on 607 islands with a total land area of 271 square miles and an exclusive economic zone (EEZ) of over one million square miles (2.6 million km²) in a remote area of the Western Pacific Ocean. The nation is composed of formerly unrelated cultures and languages organized into four states and a weaker national government.

The FSM is part of the former U.S.-administered Trust Territory of the Pacific Islands that gained independence in 1986 and continues to use the U.S. dollar as its currency. Since independence it has operated under a Compact of Free Association (Compact) with the United States, receiving more than \$100 million per year in development funding administered mainly by the Department of the Interior (DOI). The World Bank estimates Gross

Domestic Income (GDI 2015) to be \$3,438 per person, showing no growth over the previous 10 years.

The FSM currently has no major exports or domestic industry. Its primary sources of income are the sale of fishing rights (approximately USD47.5 million in 2014) and taxes on offshore corporate registrations for captive insurance (USD46 million in 2014). It is largely a subsistence economy except in larger towns where the economy is centered on government employment and a small commercial sector. The cash economy is primarily fueled by government salaries paid by Compact funds (66 percent of employed adults work in the public sector), and to a much lesser degree by family remittances. Compact funding will change 2023 from the current grants to proceeds from a trust fund developed over 20 years, which is currently estimated to lower government resources by 20-30 percent.

The FSM GDP for 2014 was USD318.1 million, a 3.4 percent decline from 2013 at constant prices. The economy recorded a trade deficit of USD150 million in goods and services for the same year. The FSM government currently has low debt, but the lack of development of revenue to supplement Compact funding, the lowest tax-to-GDP ratio in the Pacific, and looming Compact reductions in 2023, mean that international development banks classify the country as a grant-only client, concerned with the country's ability to repay loans.

Foreign investment is almost nonexistent due to prohibitions on foreign ownership of land and businesses, difficulties in registering business (four states plus national), poor enforcement of contracts, poor protection of minority (foreign) investors, weak courts, and weak settlement of insolvency. Domestic capital formation is very low because the commercial banks are classified as foreign entities, and not allowed to provide mortgages or business financing. The cost of doing business is high due to the region's remoteness and dependence on imported materials and services.

Transportation and shipping are difficult, limited, and expensive due to the country's isolated location off of major trade routes. Pohnpei and Chuuk are serviced three times a week in each direction by the Island Hopper service of United Airlines linking Hawaii and Guam. Kosrae and Yap have only two flights per week. Matson and Showa provide a weekly cargo ship based in Guam and Korea.

Most political power of the nation is delegated to the four states by the constitution, including regulation of foreign investment and restrictions on leases. This means that investors may have to deal with five different sets of regulations and licenses. U.S. citizens are able to live and work in the FSM indefinitely without visas.

There are no political parties. National legislators (senators) are directly elected, and the president and vice-president are selected by the senators from among the four at-large senators. At the state level, all offices are directly elected by the people.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	n/a	transparency.org/cpi2014/results

World Bank's Doing Business Report "Ease of Doing Business"	2015	148 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	n/a	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2014	\$33 million	BEA/Host government
World Bank GNI per capita	2014	\$3200	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of \$4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

The FSM has never qualified for MCC assistance due to lack of reporting to international agencies on several of the indicators.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

While the government of the Federated States of Micronesia (FSM) publicly expresses interest in finding ways to increase foreign investment, there are many structural impediments to foreign investment and economic progress in general that would require constitutional change, which is unlikely in the foreseeable future. Many political leaders at both the state and national level are owners of the largest businesses on the islands, and strongly oppose the needed structural changes that would increase competition. The FSM scores in the lowest quintile in almost all measures of economic activity and the climate for doing business. The most important impediments derive from land and contract issues. Foreign ownership of land is prohibited; most land is owned and passed on within the clan structure, leading to conflicting title claims, the need to negotiate leases with multiple parties, and the possibility of dramatic changes when the original senior lessor dies. There is no system for land title insurance in any of the four states. The combination of these factors placed the FSM at 189 out of 189 in registering property in the World Bank Doing Business report.

Courts eventually support contractual agreements, but enforcement of judicial decisions has been historically weak. Foreign firms doing business in the FSM have had difficulty in collecting debts owed by FSM governments, companies, and individuals, even after obtaining favorable judgments. For these reasons, the World Bank ranks the FSM very low in protecting minority investors (186) and enforcing contracts (181). U.S. companies and individuals considering doing business with parties in the FSM should exercise due diligence and negotiate minimal credit and payment arrangements that fully protect their interests.

Other Investment Policy Reviews

There has been no investment policy review conducted by United Nations Conference on Trade and Development (UNCTAD), World Trade Organization (WTO), or Organization of Economic Cooperation and Development (OECD).

Laws/Regulations on Foreign Direct Investment

The individual states directly regulate all foreign investment, except in the areas of deep ocean fishing, banking, insurance, air travel, and international shipping, which are regulated at the federal level. FSM national and state governments use a traffic light system to regulate businesses, with red for prohibited, amber for restricted, and green for unrestricted. Industry classifications in this system vary from state to state. Thus, a venture planning to operate in more than one state must obtain separate permits in each state, and often follow different regulations as well.

FSM National

Red: Arms manufacture, minting of currency, nuclear power, radioactive goods.

Amber: Increased scrutiny before approval for non-traditional banking services and insurance.

Green: Banking, fishing, air transport, international shipping.

Kosrae State

Red: manufacture of toxic, biohazard materials, gambling, casinos, fishing using sodium/cyanide or compressed air. (Note: There is also currently a ban on all business transactions on Sundays in the capital town.)

Amber: Real estate brokerage, non-ecology-based tourism, trade in reef fish, coral harvesting

Green: Eco-tourism, export of local goods, professional services.

Pohnpei State

Red: None presently defined, determined by board from amber candidates.

Amber: Everything not classified as green.

Green: Businesses with greater than 60% share owned by FSM citizens, initial capitalization of USD250,000 or more, professional services with capitalization of USD50,000 or more, and Special Investment Sector businesses with 51% FSM ownership in retail, trade, exploration, development, and extraction of land or marine based mineral resources or timber.

Chuuk State

Red: Determined by Director, none codified in law.

Amber: Casinos, lotteries, industries that pollute the environment, destroy local culture and tradition, or deplete natural resources.

Green: Eco-tourism, professional services, intra-state airline services, exports of local goods.

Yap State

Red: Manufacture of toxic materials, weapons, ammunition, commercial export of reef fish, activities injurious to the health and welfare of the citizens of Yap.

Amber: None at present

Green: All others

Business Registration

Micronesia lacks a single window for online business registration or information portals providing comprehensive business registration information.

The FSM Department of Resources and Development (R&D) maintains information on trade and investment at their site: www.fsrmrd.fm

Industrial Promotion

There is no government agency tasked with developing an industrial strategy; however the FSM government has made recommendations for growth in all sectors without substantive measures to realize those goals. Telecommunications is opening up in order to meet the World Bank conditions for a new fiber optic cable project. The largest state-owned enterprise, the FSM Petroleum Corporation (FSMPC), is planning to expand into renewable energy technologies like solar power, and coconut oil for export.

Politicians call for expansion of the tourism sector, but have created no tax, licensing, or leasing incentives to encourage investment. Considering the remoteness of the FSM, land ownership prohibitions, business ownership restrictions, and the current lack of hotel facilities and tourism services, tourism is not likely to grow, and has actually fallen in the areas of scuba diving, boating, and fishing. Land issues caused the closure in 2013 of the most successful hotel on Pohnpei. UNESCO is considering accepting a significant archaeological site as a World Heritage Site this year.

Limits on Foreign Control and Right to Private Ownership and Establishment

All of the states have limits on foreign ownership of small- and medium-size businesses. Large projects are assessed on a case-by-case basis. Each state requires a separate application for foreign investment permits. Foreign investment is strictly limited by local ownership requirements (51-60 percent) and residency requirements of more than five years. Financing through bank loans is not possible. Local small- and medium-size businesses are protected from foreign competition, and larger projects in a business sector already owned by public figures will face strong political opposition. The World Bank ranks the FSM low (162 of 189) for starting a business. Large and unrealistic development proposals have been received enthusiastically by politicians, but have not moved forward primarily due to land issues.

Privatization Program

There is no privatization program currently in the FSM.

Screening of FDI

FDI is screened at both the state and federal level. See the above explanation on FDI regulation. Procedures exist for appeals, but have not been used.

Competition Law

There is no law or agency governing competition in the FSM.

2. Conversion and Transfer Policies

Foreign Exchange

The currency of the Federated States of Micronesia is the U.S. dollar. The only two commercial banks operating in the country at present are the Bank of Guam and the Bank of the FSM, both of which are FDIC insured.

Remittance Policies

There are no specific restrictions on repatriating profits from a business, except in Chuuk, where an amount greater than USD50,000 requires approval by the state.

Statistics on family level remittances are difficult to obtain, with various studies reporting from USD3 to USD14 million per year entering the FSM. However, remittances travel freely into and out of the country. Micronesians in US territories send money to their families in the FSM, while Filipino professionals and laborers working in FSM send money to their families in the Philippines.

The FSM status on the Financial Action Task Force (FATF) list of countries is “monitored,” indicating low risk of money laundering.

3. Expropriation and Compensation

There has been no history of expropriation. The FSM Foreign Investment Act of 1997 guarantees that there will be no compulsory acquisition or expropriation of property of any foreign investment for which a Foreign Investment Permit has been issued, except for violation of laws and regulations and in certain extraordinary circumstances. Those extraordinary circumstances include cases in which such action would be consistent with existing FSM eminent domain law, cases in which such action is necessary to serve overriding national interests, or cases in which either the FSM Congress or the FSM Secretary of Resources and Development has initiated expropriation.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts
The FSM follows the U.S. common law system, and uses U.S. cases as precedent. The judiciary is independent, but slow and weak, and lacks the ability to properly enforce judgments.

Bankruptcy

A bankruptcy law has been in existence since 2005, but has been used only three times, generally to avoid taxes.

Investment Disputes

There are no provisions under FSM Federal law for alternative dispute resolution. This is also true of the states, with the exception of Kosrae where an alternative dispute resolution system has taken the place of a small claims court.

International Arbitration

Judgments from foreign jurisdictions are not enforceable in FSM courts.

ICSID Convention and New York Convention

Since 1993, FSM has been a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention). To date there have not been any cases.

Duration of Dispute Resolution – Local Courts

Disputes take years to resolve and still may not produce concrete results. Some cases have been on the docket, with no or little movement, for thirty years or more.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

The FSM is not a member nor does it have observer status in the World Trade Organization (WTO). It also does not adhere to TRIMS.

Investment Incentives

There are currently no government programs or incentives to attract foreign investment.

Research and Development

Information not available.

Performance Requirements

There are currently no defined performance requirements for investments.

Data Storage

Information not available.

6. Protection of Property Rights

Real Property

Foreign nationals, including corporations, cannot own real property.

Intellectual Property Rights

Intellectual property is nominally protected. The FSM is a member state of the World Intellectual Property Organization (WIPO), and the country is not listed on the USTR Special 301 Report for 2015. The Embassy has not received complaints from U.S. firms, and only United Airlines and Matson Shipping currently operate in FSM. The only three U.S. chains present (Ace Hardware, True Value Hardware, and NAPA auto parts) are 100% locally owned franchises. However, a small CD/DVD pirating market exists that the government has taken no action against. U.S. corporations have taken out legal ads in the local paper to protect their trademarks, but the enforcement of IP has not been tested yet.

For additional information about FSM treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

A list of local attorneys is available at: <http://kolonia.usembassy.gov/lawyers.html>

7. Transparency of the Regulatory System

The FSM is not a signatory to any convention on transparency in international investment. Transparency of government actions is typically based more on personalities than on the law. Regulatory bodies sometimes involve themselves in issues beyond their jurisdiction. Conversely, other regulations are not uniformly enforced. It is often difficult to obtain public records, although some states and government organizations do require open meetings. In addition, government audits and statistical reports are not prepared promptly and current data is often not available.

Two websites provide relatively recent (if not comprehensive) data and reports: <http://www.sbec.fm/> and <http://www.fsmopa.fm>. Similarly, it has been reported that obtaining licenses and permits in a timely manner may depend more on the relationship of the investor (or local legal counsel) with the official in charge than any clear procedure or timeline.

8. Efficient Capital Markets and Portfolio Investment

There are no stock or commodities exchanges in the FSM.

Money and Banking System, Hostile Takeovers

The two commercial banks can only make small, short-term unsecured loans because of the prohibition of using land or business as collateral, difficulties inherent in collecting debts, and identifying collateral that could be attached and sold in the event of default. The Bank of FSM is prohibited by its charter from investing in any securities not insured by the U.S. government, so the bulk of its holdings are U.S. Treasury bonds. The Bank of Guam operates as a deposit collector in the FSM, with most of its loans made in Guam.

The Bank of FSM is protected from takeover by a trigger from FDIC that will cancel their insurance status if foreign ownership exceeds 30%. Foreigners are not allowed to open accounts with the bank, unless they can provide local residence and work permits. Since most businesses are family owned, there are no shares that could be acquired for mergers, acquisitions, or hostile takeovers. The FSM enacted a secured transaction law in 2005 and established a filing office in October 2006 primarily to serve the foreign corporate registration market.

9. Competition from State-Owned Enterprises

The FSM established state monopolies in the areas of fuel distribution, telecommunications, and copra production. These companies are the FSM Petroleum Corporation (FSMPC), the FSM Telecommunications Corporation, and the FSM Coconut Development Authority, which was folded into the FSMPC in 2014. Recent legislation opened the telecom market in order to qualify for World Bank funding for a submarine fiber optic cable to Yap and Palau.

OECD Guidelines on Corporate Governance of SOEs

FSM does not currently adhere to the convention on the Organization of Economic Cooperation and Development guidelines on corporate governance of State Owned Enterprises (SOE's).

Sovereign Wealth Funds

The FSM has no sovereign wealth fund, but has created a national trust fund patterned on the Compact Trust Fund to provide additional government income following 2023. That fund is managed by a commercial fund manager.

10. Responsible Business Conduct

There is little awareness or definition of responsible business conduct (RBC) in the FSM. However most local businesses are small and generally responsive to the community in which they operate. The two U.S.-based companies in the FSM generally follow RBC principles.

The host government does not promote RBC or factor it in evaluations for public contracts. FSM does not currently adhere to the convention on OECD guidelines for multinational enterprises.

11. Political Violence

The Federated States of Micronesia enjoy a stable, democratic form of government. Under the Amended Compact of Free Association, the U.S. Government guarantees the FSM's external security. There is no history of political violence in the FSM.

12. Corruption

The FSM has laws prohibiting corruption and there are penalties for corrupt acts. The National Office of the Public Auditor, with support from the FSM Department of Justice, has been the entity most active in anti-corruption activities. A number of senior ex-FSM Government officials have been convicted of corruption under the FSM Financial Management Act, usually involving procurement fraud. Corruption is not a predicate offense under the money laundering statute. Bribery is punishable by imprisonment for not more than ten years and disqualification from holding any position in government. Given that many FSM National, State, and Municipal Government officials also own businesses, there exists significant potential for conflicts of interest.

One local NGO, Micronesian Seminar, prepared an anti-corruption video that received wide play. The U.S. Embassy is not aware of any other significant anti-corruption efforts. The degree to which government officials accept direct bribes is unknown, however misuse and misappropriation of government funds is widespread.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

The FSM has not signed or ratified the UN Convention on Corruption, or the OECD Convention on Combating Bribery.

Resources to Report Corruption

The FSM has no government agency responsible for combatting corruption. The Public Auditor has highlighted irregularities, but with no enforcement capability. The Department of Justice activity in this area has been variable.

13. Bilateral Investment Agreements

No bilateral investment agreement exists between the United States and the FSM. The 2003 Amended Compact of Free Association is the only applicable guidance (www.uscompact.org). Under this treaty, articles from the United States imported into the FSM are guaranteed to receive treatment that is no less favorable than any other foreign country. Articles exported from the FSM to the U.S. are duty exempt, with a few exceptions as listed in Article IV, Section 242 of the Compact.

Bilateral Taxation Treaties

FSM has neither a bilateral investment treaty nor a taxation treaty with the United States.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

There are no Foreign Trade Zones, Free Trade Zones, or Free Ports in the FSM.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy (millions)

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013	\$314	2013	\$316	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	n/a	n/a	2013	\$0	
Host country's FDI in the United States (\$M USD, stock positions)	n/a	n/a	n/a	n/a	n/a
Total inbound stock of FDI as % host GDP	n/a	n/a	n/a	n/a	n/a

*Note: Figures for GDP vary greatly, due to poor collection of statistics. PITI at the Graduate School USA provides economic analysis for the DOI, which oversees the Compact development funding. PITI includes Compact funding from the US of \$111 million per year in its calculations of Gross National Disposable Income (GNDI) of USD453 million.

Table 3: Sources and Destination of FDI

Data not available.

Table 4: Sources of Portfolio Investment

Data not available.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Mixed legal system of common and customary law

International organization participation:

ACP, ADB, AOSIS, FAO, G-77, IBRD, ICAO, ICRM, IDA, IFC, IFRC, IMF, IOC, IOM, IPU, ITSO, ITU, MIGA, OPCW, PIF, Sparteca, SPC, UN, UNCTAD, UNESCO, WHO, WMO

Section 6 - Tax

Exchange control

For more information - <http://www.fsmgov.org/>

Treaty and non-treaty withholding tax rates

For more information - <http://www.fsmgov.org/>

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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