

Micronesia

RISK & COMPLIANCE REPORT

DATE: January 2017

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>	

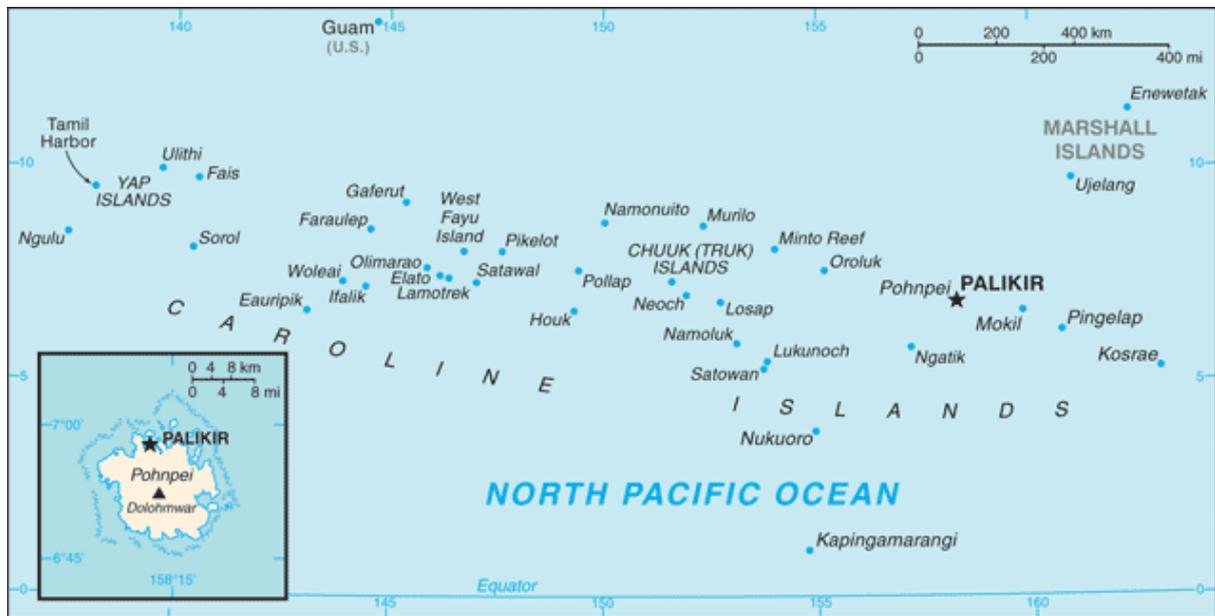
currency, and any business dealing in nuclear power or radioactive goods. The Amber category businesses, although not prohibited, face extra criteria for review before a foreign investment permit can be granted. These include banking services that fall outside of Title 29 of the FSM Code (essentially 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.

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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 2014 (introduction):

Micronesia is classified a Tier 2 (Watch List) 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 and, to a limited extent, a 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 and girls who allegedly engage in prostitution at restaurants frequented by crew members of docked Asian fishing vessels or who are on vessels in FSM's territorial waters. FSM women are recruited with promises of well-paying jobs in the United States and its territories, but 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, many from the Philippines, report working in conditions that are 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 comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the reporting year, the FSM government initiated a prosecution involving one alleged Micronesian offender and eight Micronesian victims. As part of a larger awareness campaign, the president declared a National Trafficking Day and the government implemented a national action plan to combat trafficking. The government did not, however, identify or assist any victims. It continued to lack a formal system to identify or refer victims to appropriate services and did not allocate funding for victim assistance and protection.

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	76

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 of subsistence farming and fishing and government which is funded largely by Compact of Free Association (Compact) assistance provided by the US. The islands have few known mineral deposits worth commercial exploration. The potential for tourism is also limited by isolation, lack of adequate facilities, and limited air and water connections hinder development. Under the terms of the original Compact, the US provided \$1.3 billion in grants and aid in 1986-2001. The US and the Federated States of Micronesia (FSM) negotiated a second (amended) Compact agreement in 2002-2003 that took effect in 2004. The amended Compact runs for a 20-year period to 2024; during which the US will provide roughly \$2.1 billion to the FSM. The amended Compact also includes a Trust Fund for the people of the FSM which is to provide an income stream beyond 2024 when Compact grants are to end. The country's medium-term economic outlook appears fragile because of reduced US assistance and lackluster performance of its small and stagnant private sector.

Agriculture - products:

black pepper, tropical fruits and vegetables, coconuts, bananas, cassava (tapioca), sakau (kava), Kosraen citrus, betel nuts, sweet potatoes; pigs, chickens; fish

Industries:

tourism, construction; fish processing, specialized aquaculture; craft items (from shell, wood, and pearls)

Exports - commodities:

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

Imports - commodities:

food, manufactured goods, machinery and equipment, beverages

Executive Summary

The Federated States of Micronesia (FSM) is a lower middle income island nation of less than 103,000 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 FSM is a former United Nations Trust Territory of the United States that gained independence in 1986. Since then it has operated under a Compact of Free Association (Compact) with the United States, receiving \$80-100 million per year in development funding administered by the Department of the Interior (DOI). The World Bank estimates Gross Domestic Income (GDI) to be \$3,310 per person, but the Pacific Islands Training Initiative (PITI), under a grant from the DOI to monitor the economy for management of the Compact funds, estimates the figure at about \$2,500 per person.

The country currently has no significant exports or domestic industry. It is largely a subsistence economy except in larger towns where the economy is centered on government employment and a small commercial sector. As an isolated Pacific nation, the economy has become dependent on foreign aid and public sector employment. The cash economy is primarily fueled by Compact funds in the form of salaries (more than 50% of employed adults work for the government), and to a much lesser degree by family remittances. Cronyism is common in state and federal employment practices. The cost of doing business is high due to the region's remoteness and dependence on imported goods and services. Most political power of the nation is delegated to the individual states by the constitution, including regulation of foreign investment, restrictions on leases, distribution of federal tax revenue, and access to Compact funds. 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. Most observers agree that state governors are generally more powerful than the president.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude Toward FDI

While the government of the Federated States of Micronesia (FSM) expresses public 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 changes, 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 to their own interests. 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, and much of the 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 nominally 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 companies and individuals, even after obtaining favorable judgments. For these reasons, the World Bank ranks the FSM very low in protecting investors (178), resolving insolvency (168), and enforcing contracts (152). U.S. companies and individuals considering dealing with parties in the FSM should exercise due diligence and negotiate minimal credit and payment arrangements that fully protect their interests. There have been no investment policy reviews conducted by UNCTAD, WTO, or OECD.

Laws/Regulation of FDI

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 governments use a traffic light system to regulate businesses, with red for prohibited, amber for restricted, and green for unrestricted. The definitions for industries in this system vary from state to state. This means that a venture planning to operate in more than one state must obtain separate permits in each state and perhaps follow different regulations as well.

FSM Federal

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: Manufacturing of toxic, biohazard materials, gambling, casinos, fishing using sodium/cyanide compressed air.

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 \$250,000 or more, professional services with capitalization of \$50,000 or more, and "Special Investment Sector" businesses with 51% FSM ownership in retail, trade, and exploration, development, and extraction of land or marine based mineral resources or naturally occurring 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: Manufacturing 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

Industrial Strategy

There is no government agency tasked with developing an industrial strategy; however the 2023 Planning Committee, organized by the president, is tasked with making recommendations for projects to stimulate growth in the private sector. The only significant industry owned by the government, the FSM Petroleum Corporation (FSMPC), organized to fill the gasoline and diesel supply gap when Mobil Oil left the local market, is planning to expand into renewable energy technologies like solar power. Politicians continually call for expansion of the tourism sector, but have created no tax or licensing incentives to encourage investment. Considering the remoteness of the FSM, land ownership prohibitions, and business ownership restrictions, tourism is not likely to grow except in narrow niche markets like scuba diving.

Limits on Foreign Control

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. The states require separate applications for foreign investment permits. Foreign investment is strictly limited by local ownership (51-60%) or a residency requirement of more than five years. Local small- and medium-size businesses are protected from foreign competition, and larger projects in a business sector already owned by political figures will face strong opposition. Large and unrealistic development proposals have been received enthusiastically by politicians, but have not moved forward primarily due to land issues.

Investment Trends

At present, there is little new foreign private investment in the FSM. Recent foreign private investment in the FSM has been limited to very small-scale family businesses funded by remittances from overseas family members, or expatriate marriages to locals with the business registered through local family members.

The FSM maintains a website for the promotion of foreign investment that provides some basic information on the application process: <http://www.fsmgov.org/info/fi.html>. There is also an "Investment Guide" planned for the Department of Resources and Development website at <http://www.fsmrd.fm>. At last check it was not yet operational. No foreign

investment incentives were reported. Individual states also maintain varying information online about doing business in their state.

Table 1 and Table 1B

TABLE 1: International indices and rankings

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	Not ranked	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(153 of 177)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(156 of 189)	http://doingbusiness.org/rankings
Global Innovation Index	2013	Not ranked	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	\$3,230	http://data.worldbank.org/indicator/NY.GNP.

TABLE 1B - Scorecards: 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 2012 per capita gross national income (GNI) or \$4,085 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 at: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>

2. Conversion and Transfer Policies

The currency of the Federates States of Micronesia is the U.S. dollar. The only two banks operating in the country at present are the Bank of Guam and the Bank of the FSM, both of which are FDIC insured. There are no specific restrictions on repatriating profits from a

business, except in Chuuk, where an amount greater than \$50,000 requires approval by the state.

Statistics on family level remittances are difficult to obtain, with various studies reporting from \$3 to \$14 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 send money to their families in the Philippines.

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

The FSM follows the U.S. legal system in theory. The judiciary is independent, but weak, and lacks the ability to enforce decisions. 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. 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. A bankruptcy law exists since 2005, and has been used by a local service provider to evade collection of social security payments for his employees by the national government. Judgments from foreign jurisdictions are not enforceable in FSM courts. Although the FSM signed the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (**ICSID**) on June 24, 1993, there have been no cases so far.

5. Performance Requirements and Investment Incentives

There are currently no defined performance requirements for investments, and no government incentives to attract investment.

6. Right to Private Ownership and Establishment

The rights of private property and establishment are protected for FSM citizens, and to a much lesser degree for foreign nationals who have more than five years residence in the country. The legal system has tended to favor local partners in joint ventures. Under the Compact of Free Association, U.S. citizens do not require visas, residence permits, or work permits to live or work in the FSM, but are severely limited in their ability to register businesses.

7. Protection of Property Rights

Protection of real property is not applicable to foreign nationals. Intellectual property is nominally protected, and 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 2014. However, a small CD/DVD pirating market exists, and local business have used well-known trademarked names for their stores.

8. 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, as there are no Freedom of Information or Sunshine Laws in the FSM, 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.

9. Efficient Capital Markets and Portfolio Investment

There is no stock or commodities exchange. Little credit is available locally. Banks make relatively small and short-term local loans because of the difficulties inherent in collecting debts and obtaining collateral that could be attached and sold in the event of default. As a result, banks move a large share of deposits to U.S. financial markets. Because most businesses are family owned, there are no shares that could be acquired for mergers, acquisitions, or hostile takeovers. A secured transaction law was signed by the FSM President in November 2005 and a filing office is in operation since October 2006.

10. Competition from State-Owned Enterprises

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

11. Corporate Social Responsibility

There is little awareness of corporate responsibility in the FSM, however most local businesses are small and generally responsible in the community in which they operate. There are only a limited number of multi-national companies operating in the FSM and all are foreign-owned. Companies that are U.S.-based do generally follow CSR principals.

12. 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.

13. 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 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.

14. Bilateral Investment Agreements

No bilateral investment agreement exists between the United States and the FSM. The Compact of Free Association, As Amended, is the only applicable guidance. 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 number of exceptions as listed in Article IV, Section 242.

15. OPIC and Other Investment Insurance Programs

The FSM signed a bilateral agreement with OPIC in 1988, but there are no current OPIC financing projects listed for Micronesia on their website: www.opic.gov.

16. Labor

Wages are very low, with minimum wage laws for government employees in all states and the federal government. Only Pohnpei has a minimum wage for the private sector at \$1.75 per hour. Employment in the public sector is preferred because the wages are significantly higher. The minimum hourly wage for employment with the national government is \$2.65. The minimum hourly wage for government workers in the individual states is: Pohnpei \$2.00, Chuuk \$1.25, Kosrae \$1.42, and Yap \$1.60.

There are no laws regulating hours of work (although a 40 hour work week is standard practice) or prescribing standards of occupational safety and health. A federal regulation requires that employers provide a safe workplace. Neither the Department of Health nor the Environmental Protection Agency has enforcement capability, and working conditions vary in practice. There is no law for either the public or private sector that permits workers to remove themselves from dangerous work situations without jeopardy to their continued employment.

There are few FSM citizens with skills to perform tasks of any technical nature. Expatriate workers are typically hired to fulfill these roles. The vast majority of doctors, nurses, accountants, lawyers, engineers, construction foremen, or even construction machine operators are foreign workers.

17. Foreign Trade Zones/Free Ports

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

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	FSM Office of SBOC		World Bank and PITI		Source of data
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (<i>Millions U.S. Dollars</i>)	2010	\$297.5	2012 2012	\$326.2 \$247.4	http://www.worldbank.org FSM/SBOC Pacific Islands Training Initiative
Foreign Direct Investment	Host Country Statistical source*		USG statistical sources		Source of data
U.S. FDI in partner country (<i>Millions U.S. Dollars, stock positions</i>)	No reliable local statistics available	unknown	2012 2012	Not shown \$1	Department of Commerce/Bureau of Economic Analysis Pacific Islands Training Initiative
Host country's FDI in the United States (<i>Millions U.S. Dollars, stock positions</i>)	n/a	unknown		Not listed	Department of Commerce/Bureau of Economic Analysis Insignificant level
Total inbound stock of FDI as % host GDP (<i>calculate</i>)	n/a	n/a	n/a	n/a	

Figures for GDP vary greatly, due to poor collection of statistics. PITI at the Graduate School USA provides economic reporting of the Pacific Islands under a grant from the DOI, which oversees the Compact development funding. Their figures are generally more reliable. Note that the Compact funding from the United States of roughly \$80 million per year is **not classified as foreign aid**, but cover operational costs (salaries), sector development and infrastructure investment and **are included in the GDP**.

TABLE 3: Sources and Destination of FDI

According to IMF data, South Korea reports outbound investment of \$1 million to the FSM as of 2012. The United States reported \$30 million outbound FDI. However, neither of these amounts was reported by the FSM as inbound FDI.

The FSM reports no outbound FDI, although Mauritius reports -\$16 million, Mexico reports \$1 million, and Singapore reports \$13 million in inbound investment from the FSM.

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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