

Investing in the Freely Associated States

A SME Business Perspective from Yap, Federated States of Micronesia

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I am an American small business owner operating a restaurant and lodging in Yap State, Federated States of Micronesia (FSM). My experience reflects the type of private investment most common in the Freely Associated States (FAS): small and mid-sized enterprises committing local capital and operating long-term. This perspective focuses on FSM and Yap, though similar conditions exist across the FAS. The legal and institutional framework for investment is already in place. The question is how it functions in practice for smaller operators without extensive administrative capacity and capital.

1. Regulatory Environment: *predictability and procedural clarity reduce risk*

In FSM, investment approvals typically involve both national and state authorities. That division reflects constitutional design, but for smaller businesses the challenge lies in navigating sequencing, documentation requirements, and timelines. Requirements are not always consolidated in a single source, and processing timelines are not consistently defined. For operators working with limited capital reserves, uncertainty increases risk more than delay itself. Clear published checklists, defined sequencing of national and state steps, and publicly available processing benchmarks would improve predictability within the existing system without altering institutional authority. Practical implementation of FDI policies and regulations occur on the State government level. Ever changing and increasingly restrictive state-level investment climates add to uncertainty and risk.

2. Access to Financing: *capital constraints limit small business growth*

Access to capital remains the primary constraint for small operators. Commercial lending options are limited, interest rates reflect market size and perceived risk, and collateral requirements are strict. Expansion is often self-financed, slowing growth and limiting reinvestment. Leasehold land arrangements can further complicate collateralization, particularly where documentation is inconsistent. Targeted tools such as credit guarantees, risk-sharing facilities, or development finance partnerships could reduce the lending risk profile for viable small and medium enterprises. Even modest improvements in working capital access would materially affect business stability and expansion in small island markets.

3. Legal Protections and Property Rights: *clarity and enforceability support investor confidence*



Land tenure operates through customary ownership and long-term leasehold arrangements. Investors who operate locally understand and accept this structure. The practical issue arises in documentation consistency, enforceability, and lender confidence. Where commercial lease terms vary in format or clarity, banks hesitate to lend and investors become cautious. Smaller operators are particularly sensitive to perceptions of uneven competitive conditions or unclear dispute-resolution pathways. While expropriation concerns are not common in day-to-day operations, predictability in how commercial conflicts are resolved remains important. Greater consistency in lease documentation, reliable recordkeeping, and clear commercial recourse would strengthen investor confidence without altering underlying ownership systems.

4. Human Resource Limitations: *workforce scale and retention affect continuity*

FSM has capable workers, but the labor pool is small and outward migration remains constant. Businesses frequently invest in training employees who later seek opportunities abroad, creating recurring skill gaps. Vocational and technical training does not always align with the sectors where investment is most likely to occur. At the same time, bringing in short-term specialized expertise can require navigating multiple administrative steps. Better alignment between workforce development programs and realistic growth sectors, along with efficient temporary skilled labor processes, would improve business continuity within the existing framework.

5. Remote Location and Logistics: *geographic isolation raises operating costs*

Yap's geographic isolation means high freight costs, limited shipping frequency, and energy instability. Export scale is constrained, and dependence on imported goods increases operating costs. Severe weather can disrupt shipping and supply chains, compounding these pressures in small markets. While geography cannot be changed, incremental improvements in port efficiency, energy reliability, transportation infrastructure, and digital connectivity have immediate impact on private enterprise. Infrastructure reliability functions as a multiplier for small-scale capital by reducing operating risk and improving planning.

Final Thoughts

Most sustainable investment in FSM and Yap will come from small and mid-sized enterprises rather than large institutional projects. The principal barriers are procedural uncertainty, financing constraints, documentation inconsistency, workforce turnover, and infrastructure reliability. Addressing these within the existing institutional framework would reduce friction and allow more investors to operate sustainably over the long term.

