

## I. Investment in Yap State:

The Yap State foreign investment policy has been developed to encourage investment in Yap and ensure that such investment is consistent with the needs of this island community. Therefore, its policy is to welcome foreign investors and invite them to participate in economic development projects in cooperation with the Yap business community. Excellent opportunities for investment in Yap State exist in various sectors of the economy including tourism and leisure, information technology, and financial services. There are also investment opportunities in the agricultural industry for activities in agro-processing and export.

Vast spans of ocean surrounding the islands in its economic zones offer resources for large scale ventures such as commercial fisheries, fish processing, marine culture, and commercial exploration of ocean beds for minerals.

The Yap State Government is fully committed to promoting the development of a healthy private sector and recognizes the importance of private sector investment to achieve sustainable economic growth, employment creation, and development of strategic state and national resources. There has been a rapid, yet careful, move towards deregulation and liberalization. Yap State foreign investment policies have been significantly simplified and streamlined to attract a variety of foreign investors.

## II. Geographical Location and Access:

Yap is one of four states comprising the Federated States of Micronesia. It covers an expansive 78,000 square mile area of the Western Pacific (7 to 10 degrees North and 137 to 140 degrees East). The State of Yap is made up of five volcanically raised islands and eight major atolls. These and other uninhabited islands constitute 46 square miles of land. Yap is reached from the East via Guam, and from the West via Palau. Continental Micronesia offers flights to Yap from both Guam and Palau. Distances to Yap from Guam and from Palau are 500 and 280 miles respectively. Local time is GMT + 10.

## III. Infrastructure:

A. Air Services: Air service to Yap State is provided by Continental Micronesia Airlines. Continental Micronesia provides flights 5 days a week, with service from and to both Guam and Palau. Currently, Wednesday's flight continues on to Manila and back. Pacific Missionary Aviation (PMA) provides inter-island air transportation between Yap Island

and the neighboring island of Ulithi two times a week. Charter flights are also available for flights to Woleai and Fais in the neighboring islands of Yap.

#### B. Shipping:

Two shipping lines regularly serve Yap State. Kyowa Lines provides services from and to Hong Kong and Japan. Palau Shipping Lines provides service from and to Japan and Saipan. Yap State Government owns and operates a field trip ship called the “Hapilmohol” which provides transportation service on a regular basis between Yap Island proper and the Neighboring Islands.

#### C. Telecommunications:

Telecommunication facilities for Yap State are provided by the FSM Telecommunications Corporation (FSMTC). The FSMTC facility in Yap has the capability of supplying 10,000 telephone lines including fax and international direct dialing and also provides access to internet services and cable television facilities. All are available twenty-four hours a day.

#### D. Power & Water:

Power and water are provided through the Yap State Public Service Corporation (YSPSC). Its power plant has a 7.6 megawatts power generation capacity with voltage outputs of 110, 200 and 60Hz. It is estimated that only 32% of this capacity is currently being utilized. YSPSC charges its customers minimal fees depending on usage. These rates are subject to change as they remain highly dependent on the cost of fossil fuel. The Yap power generation plant is considered the most reliable in the FSM.

Most parts of Yap State are served by reliable filtered then treated, potable water systems established and maintained by the Colonia Water System, the Gagil/Tomil System and the Southern Yap Water System. Charges levied for the supply of water from the three main systems are subsidized. The water rates in the Colonia System are \$4.00 for the 1st 5000 gallons with higher rates for more excessive use. There is a \$5.00 minimum charge for use of the systems.

#### E. Banking:

The Bank of the FSM is currently the only commercial bank providing banking service to Yap State. This bank has all the necessary facilities required by business establishments. The Bank of the FSM is FDIC insured.

There is also a non-profit credit union, the Community Ayuw Services, which offers loans to its members and deals similarly with all banking services.

#### F. Currency and Exchange Control Regulations:

The unit of currency used in the FSM is the US Dollar. In the FSM, at present, there are no exchange control laws or regulations in force restricting profit repatriations or currency transfers.

#### G. Postal Service:

The FSM Postal Service, which operates as an agency of the FSM National Government, serves Yap through its post offices located in Colonia, Yap Proper and Falalop, Ulithi, in the neighboring islands. Currently, the FSM Postal Service is linked with the US Postal System, and the Yap zip code, 96943, is considered a domestic U.S. zip code.

IV. Land Ownership and Availability Including Mortgages and Leases: Approximately ninety-eight percent of land in Yap State is privately owned, with the majority of State owned land located in the capital of Colonia in the municipalities of Rull and Weloy. Non-citizens cannot own land in Yap but they can lease land for a maximum of 99 years, including options to renew. Leasing of lands or making landowners partners or shareholders of projects, therefore, is viewed as the most appropriate arrangement for utilization of land. Upon request, the Yap State Government may act as an intermediary in finding suitable land arrangements. The Yap State Mortgage Law provides the necessary legal framework for land mortgages.

#### V. Labor:

A. Labor Force and Experience: The 2001 census revealed that Yap State has a population of 11,241, with 6,466 of those residents being between the ages of 15 and 60 with a median age of 27. As of the 2001 census, 2,527 in this age group were salaried employees in both public and private sectors.

#### B. Wages:

There is currently no minimum wage level stipulated by law that is applicable to workers in the private sector. The Yap State Government is in the process of reforming its wage laws, setting the minimum wage for entry level government employees at \$1.60 per hour.

#### VI. Forms of Business Structure in Yap State:

A. 100% Foreign owned: It is possible to own a business in Yap State on a 100% foreign-owned basis.

However, Yap State prefers that foreign businesses involve local citizens at the ownership level, where possible. The belief is that in the long run, arrangements involving a combination of foreign and local ownership will have the most beneficial impact on the State and will ensure a smooth and continuous operation of such investments.

#### B. Joint Ventures:

Foreign investments on a Joint Venture basis are considered to be the most popular form of arrangement for foreign investment. Particularly in light of the fact that non-citizens cannot own land in Yap, joint venture arrangements (for example, between the local landowner(s) and foreign investor(s) offer a more appropriate basis for such investments.

#### C. Attitudes Toward Foreign Ownership:

The people of Yap State recognize the benefit of foreign investment and the boost such investments and corresponding development provide the State, resulting in an improved, diversified and stable economy, and an increase in jobs. Yap State welcomes foreign investors and encourages those interested in investing in the State to learn and respect Yap's culture and traditions. In addition, Yap State encourages both its citizens and foreign investors to work together to mutually share the responsibilities and benefits of such economic development activities.

#### D. Incorporations and Registration of Corporations:

Foreign corporations wanting to invest in Yap State need to register such corporations with the Yap State Registrar of Corporations. Those foreign investors who wish to invest in Yap must submit their incorporation documents for necessary incorporation and charter to the Yap State Registrar of Corporations.

#### E. Registration and Licenses:

Yap State Foreign Investment Laws require a foreign investor, who acquires ownership interest of a business, to possess a valid Yap State Foreign Investment Permit (FIP). The foreign investor who wishes to invest in Yap State needs to apply for an FIP on a prescribed application form with the application fee of \$250.00, payable to Yap State Treasury. All applications for Yap State Foreign Investment Permits shall be submitted to the office of the Director of Yap State Department of Resources and Development. An application shall not be deemed submitted until the required application fee is paid.

In addition, Yap State Laws governing businesses require all businesses in Yap to obtain a Yap State business license on an annual basis prior to the commencement of business. A prescribed form may be secured from and returned to the Yap State Business Licensing Officer along with a fee of \$25.00 per business activity, payable to the Yap State Treasury.

Furthermore, all businesses involved in importing and exporting must obtain a business license from the FSM Customs and Tax Office, pursuant to FSM laws.

## VII. Taxation:

A. Business Taxes: Currently, there is no tax levied on profits in the FSM. However, there are three kinds of taxes applied to businesses in Yap State. Import taxes and gross receipts taxes are levied and collected by the FSM National Government. In addition, the State imposes an excise tax.

Import taxes are fixed on the basis that essential commodities carry a minimum tax and nonessentials and luxury commodities carry gradually higher taxes. At present, the lowest import tax rate is 3%. Tax is levied on the cost, insurance and freight (c.i.f.) or the total cost, including shipping costs. FSM import tax regulations provide certain incentives for export or transshipment operations. For example, there are no longer taxes on goods imported for the purpose of re-export, or export after processing.

Gross Revenue Tax is collected from businesses whose gross revenue is over \$2,000. The tax is collected on the basis of \$80.00 on the first \$10,000 and thereafter at 3%. State Excise Tax is collected on all imports for resale, processing or direct consumption. The current rate of excise tax ranges from 1% to 10% on free on board (f.o.b.) value of import depending on the item imported.

### B. Individual Income Tax:

The FSM National Government imposes an income tax on wages and salaries. The taxes on wages and salaries are collected at the rates of 6% on the first \$11,000.00 and 10% on any amount thereafter, from the gross annual wages or salaries received by an employee. Each employee whose gross annual wages and salaries do not exceed \$5,000 is allowed a deduction of \$1,000 per year from all wages and salaries subject to tax.

### C. Social Security Tax:

A Social Security Tax of 12% of an employee's total salary base is also imposed by the FSM National Government. Six percent of this tax is withheld as the employee's contribution and the employer contributes the other 6%. This tax is payable by the employer to the FSM Social Security Office on a quarterly basis.

## VII. Financing:

A. Availability of Financing – Both Local and External: Availability of local financing for investments involving substantial amounts is limited. The Bank of the FSM primarily provides financing for general trading activities. The FSM Development Bank (FSMDB), which has a branch in Yap, provides loans on concessionary terms for approved economic development projects. A minimum of 25% local ownership of a project is a requirement to secure a loan under FSMDB's regular lending program. There is no maximum loan limit. Investment on economic development projects in the FSM is encouraged by the Investment Development Fund (IDF), which is also administered by the FSMDB. Under this Fund, \$2 million is reserved under the Yap State Sub-account for economic development projects by the private sector and/or for joint ventures in Yap. There is currently a minimum loan amount under the State sub-account of the IDF of \$25,000.00 per project.

In addition, the FSMDB administers the Private Sector Reserve Account under the IDF, which grants loans exclusively to private sector economic development projects. The current minimum loan amount under the Private Sector Reserve Account of the IDF is \$500,000.00 per project with an interest rate of 5%. A minimum of 25% local ownership of a business is a requirement to qualify for financing facilities from the IDF program.

Guam based Pacific Islands Development Bank (PIDB), a bank established by a group of political entities in the region, including the State of Yap, is expected to be a major regional development bank responsible for mobilizing and arranging for funding for economic development projects in the region. In addition, the FSM, as a member of the Asian Development Bank (ADB), is entitled to certain financial services offered to the private sector of its member nations. The wealth of resources, both technical and financial, available at the ADB's disposal could bring substantial benefits to private sector investments in the FSM and Yap State.

#### VIII. Investment Incentives:

A. From the Government: The Yap State Government and the FSM National Government offer a number of incentives to investors. There are a variety of services the State Government may provide, especially during the formative stage of the project. The State Government may also assist in providing services for project site preparation and making access roads, water, electricity and sewer line connections up to the project site.

#### B. Trade with the United States:

FSM exports enjoy a Generalized System of Preference (GSP) status. The Amended Compact of Free Association between the United States and the FSM, which came into effect in 2003, provides that certain articles imported from the FSM are exempt from

duty. Those articles not specifically exempted from duty pursuant to the Amended Compact are subject to the rates of duty set forth in column numbered I-general of the Harmonized Tariff Schedule of the United States.

#### C. Duty Free Access:

Under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), to which the FSM is also a signatory, the FSM enjoys duty-free access for the products of Forum Island Countries (FIC) to the markets of Australia and New Zealand, subject to “Rules of Origin” regulations. The FSM is also a signatory to the Pacific Island Countries Trade Agreement (PICTA), which aims to establish free trade between all fourteen FICs.

#### IX. Local Market Opportunities:

The limitation of the local market base may not warrant large scale projects intended mainly for this market. However, there are certain investment opportunities that exist due to the unfilled gap between demand and supply in the local market. Nevertheless, the FSM as a whole, with a population of over 107,000, (2007: FSM National Census Report) and total imports of over 120 million dollars annually, provides a market of a considerable size to any investor who has the ability to identify opportunities.

#### X. Desired Investments:

The following are identified as examples of potential areas of foreign investments in Yap State:

- a) tourist hotels and tourism related projects:
- b) fishing and transshipment operations
- c) mariculture (shrimp farms)
- d) agriculture and related areas
- e) fish processing
- f) construction of homes
- g) livestock
- h) coconut based products

#### XI. Government Agencies Assisting Investors:

Assistance is provided to persons interested in investing in Yap State through the

Division of Commerce and Industries of the Department of Resources and Development, Yap State Government. Anyone interested in investing Yap State, Federated States of Micronesia, may contact either of the following people for additional information or assistance:

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Director, Department of Resources and Development

Yap State Government

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