FEDERATED STATES OF MICRONESIA NATIONAL OCEANIC FISHERIES INVESTMENT POLICY 2024 - 2029

A Policy for Maximizing Value of Participatory Rights (Access) under the Vessel Day Schemes (VDS)

NATIONAL GOVERNMENT OF THE FEDERATED STATES OF MICRONESIA IN COLLABORATION WITH STATE GOVERNMENTS



Contents

Acknowledgement 3

Foreword 4

Preface 6

Abbreviations 7

Executive Summary 8

Introduction 9

Background 9

Constraints, Issues and Challenges 10

The FSM National Oceanic Fisheries Investment Policy 13

Policy vision, mission, and guiding principles 14

Strategic Policy Objectives 16

Strategic Actions 17

SPO 1: Maintain and enhance resource sustainability 17

SPO 2: Secure and strengthen fisheries contribution to Government finance and Economic Growth 17

Strategic action 2: Maximize the value of FSM's Party Allowable Effort 17

SPO 3: Encourage and promote tradable export of fish in processed and value-added form 18

Strategic action 4: Establishment of FSM's Competent Authority 18

SPO 4: Facilitate and support growth of the fisheries private sector 19

SPO 5: Safeguard profitability of offshore fishery 20

SPO 6: Encourage effective collaboration and partnership between the National and State Governments 20

SPO 7: Identify and secure capital to stimulate investment in targeted economic development infrastructure and commercial projects 22

SPO 8: Leverage FSM Party Allowable Effort (PAE) to encourage development of domestic tuna industry 22

SPO 9: Encourage and attract Foreign Direct Investment (FDI) to drive commercial development 23

SPO 10: Encourage and promote policies and reforms underpinning conducive investment environment 23

SPO 11: Build human resource capital to effectively facilitate growth impacts of investment capital flows 24

Implementation and funding of the Policy 25

Monitoring & Evaluation 26

Annex 1: Implementation Framework for the FSM National Oceanic Fisheries Investment Policy (2024 - 2029) 27

Annex 2: Key Considerations 38

Acknowledgement

Foreword

I am pleased to present to the people of the FSM our country's National Oceanic Fisheries Investment Policy 2024 – 2029: A Policy for Maximizing Value of Participatory Rights (Access) under the Parties to the Nauru (PNA) Agreement Vessel Day Schemes (VDS).

This policy document aims to align Fisheries Policy to support Economic Growth in the FSM. It is both timely and crucial as the country prepares for the economic challenges that lay ahead. Whilst the FSM acknowledged the challenges of the forthcoming expiry of the Amended Compact in 2023 and its fiscal implications, the ultimate goal of growing the economy and being self-reliant remains the priority on FSM's national economic development agenda, hence the development of this Fisheries Investment Policy.

The 2023 Framework and Action plan provided a road map to achieve this goal, whereby strategies and measures were presented and highlighted to address the economic development of the FSM. The focus has been on the productive sectors guided by specific sectoral development plans, State development plans and sector-specific policies, addressing impediments to growth and recognising the need to adopt and implement several reforms.

In 2016, at the 9th State National Leaders Conference (SNLC), the country's leadership acknowledged that it has not been easy to grow the economy. Part of the reason was attributed to the five governmental structures of the Federation that include the four States and the National Government. From the President, three specific directives were highlighted as the way forward for the FSM, and these comprised:

(i) redevise the policy decisions to help the FSM economy grow better by reinvesting government revenue in the improvement of major infrastructure and projects;

(ii) ensure that foreign aid is geared toward implementing plans developed by, and projects identified by, State and National Governments; and,

(iii) formulate a plan to transition from government-driven economic growth to one driven by project yields or wealth-generating activities from fisheries resources, tourism development, and products from the land.

The President acknowledged that to achieve the above directives, it would require substantial investment through mobilisation of domestic investment and joint ventures between domestic and foreign investors without jeopardising the interests of domestic businesses. The President also identified the immediate need to revisit existing economic development plans to reflect current development challenges and policy strategies in an Economic Development Roadmap, which was the subject of a nationwide consultation process.

This policy document: Federated States of Micronesia National Oceanic Fisheries Investment Policy, 2024 - 2029, aligns with the President's call on the way forward for the FSM. The push for the policy was initiated in the same year (2016) through a national fisheries seminar co-hosted by the National Oceanic Resources Management Authority (NORMA) and the Department of Natural Resources & Development (R&D).

Though it took time to put this policy together, I am indeed delighted with the tireless efforts of NORMA and R&D, including our regional partners, in the delivery of this important fisheries policy.

We now have the policy to guide how FSM can make the best use of its valuable Vessel Day Scheme (VDS) days to achieve higher economic growth.

I expect that implementing this policy will enable FSM to maximize the value of Participatory Rights under the PNA VDS to realize a transformational impact on the national budget. It would generate increased returns to the nation, and at the same time, create more significant investment opportunities in the fisheries sector for the benefit of our people.

Roger Arnold

Chairman of the Board of Directors

National Oceanic Resources Management Authority

Preface

The National Oceanic Resources Management Authority (NORMA) has set its mission to manage oceanic resources effectively, generate maximum value and return from these resources, and promote investments to create economic benefits for the FSM people. In line with this mission, NORMA welcomes the FSM National Oceanic Fisheries Investment Policy, 2024 - 2029: A Policy for Maximizing Value of Participatory Rights (Access) under the Vessel Day Scheme (VDS).

This policy intends to be sector-specific and align to support economic growth in the FSM. It stems from the 2016 directives of the FSM Leadership to help the FSM economy grow by providing policy guidance to enable the fisheries sector to contribute to FSM's efforts to transition from government-driven economic growth to driven by project yields or income from its assets; FSM's abundant tuna resources being one, if not the most valuable and natural resource we have.

The challenge in realigning fisheries policy to support economic growth underpins the change in focus to generate revenue through VDS fees and use the value of participatory rights (access) under the VDS to leverage broader economic benefits. Specifically, the challenge is to utilize the substantial increase from the sale of VDS to facilitate the overall growth of the FSM economy. It means the 300% increase in revenue through the sale of VDS days since the VDS inception in 2010 will have to be translated into benefits such as the creation of employment, foreign exchange receipts, and taxes, amongst others, without discounting ongoing transformational impacts of fisheries revenue on the national budget.

Since 2016, policy discussions emanating from the State and National Leaders Conference (SNLC) outcomes with regards to fisheries have been held. The discussions have been facilitated through consultations, symposiums, and conferences with relevant State and National Government stakeholders, including the private and civil society.
It has taken over 48 months to finally agree to a type of policy that captures the FSM's aspirations through their State and National Government representatives. While welcoming this policy, challenges remain in agreeing to proposed reforms and structural policies aimed at helping FSM cope with inevitable reductions in US funding assistance come 2023 and beyond, let alone giving full effect to the implementation of this fisheries policy.

However, the success of this policy is premised on collaboration between all stakeholders, most notably the State Governments, effective coordination and cooperation between the respective Governments, and networking and collaboration across all sectors and jurisdictions with the Federation. It will also benefit from streamlining policies and regulation that promote investment and trade and public utilities to bolster a private sector-driven economy.

NORMA stands ready to implement this policy with support from R&D and all relevant State and National Government stakeholders and private sector and development partners over the next five years.

Eugene Pangelinan

Executive Director

National Oceanic Resources Management Authority

Abbreviations

CA	Competent Authority
CMM	Conservation and Management Measure
CTF	Federated States of Micronesia Compact Trust Fund
DoJ	Department of Justice
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
FFA	Forum Fisheries Agency
FSM	Federated States of Micronesia
FSMA	Federated States of Micronesia Arrangement
GDP	Gross Domestic Product
IUU	Illegal, Unreported and Unregulated
JCRP	Joint Committee on Compact Review and Planning
JEMCO	Joint Economic Management Committee
LTFEF	Long term fiscal and economic framework
MCS	Monitoring, Controlling and Surveillance
NORMA	National Oceanic Resources Management Authority
ODA	Overseas Development Assistance
PAE	Party Allowable Effort
PNA	Parties to the Nauru Agreement
PNAO	Parties to the Nauru Agreement Office
R&D	Resource and Development
RoO	Rules of Origin
SNLC	State and National Leaders Conference
SPC	South Pacific Commission
TAE	Total Allowable Effort
UNCLOS	United Nation Convention on the Law of the Sea
VDS	Vessel Days Scheme
WCPFC	Western and Central Pacific Fisheries Commission

Executive Summary

The FSM National Oceanic Fisheries Investment Policy, 2021-2026: A policy for Maximizing Participatory Rights (Access) under the Vessel Day Schemes (VDS) signals a shift in focus for FSM to get its priority sectors, such as fisheries, to generate more economic activities that can contribute to economic growth. Whilst this policy aligns with FSM's growth strategies as outlined in the FSM Strategic Development Plan 2004-2023, and 2023 Action plan, it recognizes the crucial role offshore fisheries plays towards generating much needed revenue for the National Government.

The policy emphasis is to ensure revenue generated predominantly from the purse seine fishery is not affected significantly, whilst encouraging the efforts to expand the productive capacity of the fisheries sector through private sector investment. This gives rise to the challenge of managing conflicting policy priorities in strengthening FSM's fiscal sustainability goals, against the need to translate fisheries revenue to creating employment, promote and expand export of tradable processed tuna products from the FSM, and create businesses for support industries and the service sector.

The strategies outlined in this policy consider potential conflict in policy priorities, competing interests, including outstanding structural policy and regulatory reforms that are still the subject of much deliberation by the FSM leadership. Due to this, and other factors, it has not been easy to promote and encourage economic development in the FSM.

Notwithstanding the challenges, and the recognition by FSM leadership of the need to improve regulatory environment in attracting investment, it is broadly acknowledged that all stakeholders, especially the National and State Governments must work together to register better results for the people of the FSM.

Therefore, premised on collaboration, cooperation and partnership, the policy has set its vision to seek greater social and economic benefits from wealth-generated capitalization of FSM's tuna resources. A structured approach in the capitalization of FSM's PAE, which is recognized as FSM's most valuable asset, forms the fundamental investment enabler underpinning this policy.

This structured approach will entail the leveraging of FSM's PAE through a preference based and concessional allocation of fishing days under the VDS schemes. Rights based management of the offshore fishery is maintained to secure and enhance value of FSM's PAE, and measures to assume more control of fishing efforts and to further add value to FSM's EEZ protects and promotes FSM's interest as supported by this policy.

Introduction

The aim of the Federated States of Micronesia (FSM) National Oceanic Fisheries Investment Policy 2021 – 2026: A policy to Maximize Value of Participatory Rights under the Vessel Day Scheme (VDS) is to align fisheries policy to contribute to the overall economic growth of FSM. It recognizes the need for FSM's offshore fishery to be developed so that revenue generated from access fees through the selling of its valuable VDS days can also be translated into generating broad economic benefits for the FSM.

The policy carves out an investment strategy where opportunities to expand the productive capacity of the offshore fishery sector are identified, and sources of investment capital are proposed. The important roles of both State and National Government are identified and clearly stated, amongst other Strategic Policy Objectives (SPO). The need to work together for better results takes prominence under existing laws and legislation where the EEZ falls under the National Government's jurisdiction, whilst development and management of fisheries and marine resource within 12 miles are responsible for by the State Governments. The offshore fishery is expected to be a pivotal contributor to FSM's fiscal sustainability and economic growth. With this expectation comes the urgency for all stakeholders to cooperate and collaborate in a concerted manner to implement the Strategic Policy Objectives and the specific Strategic Actions over the five (5) year life of this policy.

Background

FSM's Exclusive Economic Zone (EEZ) of 1.15million sq. miles (2,978,000 sq. km) is the country's most valuable natural endowment. It is the third largest and one of the most productive tuna fishing grounds in the Western and Central Pacific (WCP) region. Over the years, FSM has been able to generate much needed government revenue from selling fishing licenses and charging access fees. It does this through giving participatory fishing rights to distant water fishing fleets, domestic and locally based foreign fleets who fish under bilateral, multilateral (US Treaty) and the Federated States of Micronesia Arrangements (FSMA). These fleets use FSM ports for transhipment activities, and periodically over the years have ventured into shore-based activities such as fish landing, onshore processing and local sales of by-catches.

The country has derived returns in the form of direct revenue and economic benefits from activities of these tuna fishing fleets in its EEZ. This has contributed to government budget, FSM's GDP and the country's ability to sustain growth and development of its economy. The FSM leadership is confident the country can generate even more benefits from its valuable tuna resources noting that value of FSM's catching sector alone is around US$330million, based on the 2016 ex vessel price for all fishing fleets and techniques in FSM's EEZ. Over 70% of this value is taken by foreign fleets that the FSM licenses to gain participatory rights in the harvest of tuna resources in its EEZ.

These participatory rights are expressed through the allocation of the number of fishing days FSM provide to both foreign and domestic tuna fishing fleets. The amount of fishing days FSM can allocate is based on the level of its Party Allowable Effort (PAE) for the purse seine and longline fisheries under the VDS schemes.

FSM's PAE is its most valuable asset - where it can generate more than US$70million per year. Noting that FSM is one of the largest and most productive fishing grounds in the region, the demand for its VDS days is high and so is its value. This has placed FSM in a very strong position to leverage its VDS days to not only generate revenue but also promote the development of its tuna industry.

Since 2010, FSM has generated considerable revenue from selling its VDS days through its PAE allocation to purse seine fishing fleets. There however, remains the opportunity to further leverage its valuable fishing days to capture the wider economic benefits associated with such development through priority allocations and concessional pricing of its VDS days. Allocation and value options for PAE underpins FSM's response to changes in the operational environment of offshore tuna fishery that is directly impacted by the implementation of the VDS Schemes.

Constraints, Issues and Challenges

The FSM will be faced with a fiscal short fall when the Amended Compact comes to an end in 2023.[1] Though other programs and initiatives will continue after 2023, a notable impact on Government budget and subsequent allocations to States will be the cessation of the US$80million Compact Sector Grant component. As noted in the FSM FY2016 Economic Brief (August, 2017), this will result in a fiscal gap of US$45million.

The drawdown of funds from the CTF, which is meant to sustain government budget by FY2024 onwards will not be able to replace the Compact Sector Grant of US$80million. This is because the CTF which has been generating annualized rate of return at 5.91% against the preferred rate of 14.9%, will only deliver a projected US$30million on a sustainable basis annually. This will have a telling budgetary effect on allocation especially to State Governments and the general expenditure into the economy that supports growth.

In view of this backdrop, FSM leadership has encouraged all key sectors to have in place policies and strategies to contribute to addressing the fiscal gap and contribute to a GDP growth target of 2% annually. The fundamental challenge for fisheries is to translate its revenue generation efforts into creating broad economic benefits within the fisheries sector. This means it has to create employment opportunities, increase government tax income, bring in more foreign exchange, and basically expand the productive capacity of the domestic fishing industry to encourage increased domestic value add to the local economy.

Stemming from the need to realign fisheries policy to contribute to economic growth, the challenge for both National and State Governments is to streamline regulatory requirements, processes and procedures so as to improve efficiency in service delivery to potential investors, development partners and the private sector.

Further, prolonged delays in agreeing to important reforms such as a single investment framework and uniform tax regime amongst other cross cutting issues that are aimed at necessitating a shift from a government driven and Compact dependent economy to one that is private sector driven will remain a challenge, unless this can be attended to as soon as practicable.

Notwithstanding the above, it is incumbent upon both National and State Governments to work together, collaborate and cooperate to achieve better results for the people of FSM. In consideration of this approach, the policy considers strategic issues, risks, opportunities and builds on FSM's strengths going forward to 2023. These are summarized as key Considerations in ***Annex 2,*** with key challenges and constraints considered below.

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[1] It should be noted that there is a renewed Compact III and it will be reviewed during the mid-review of this policy in 2026 to reflect any new changes.

Absence of a fisheries policy that aligns with Economic Development Priorities of FSM	FSM leadership has directed for economic sectors, including fisheries to realign policies that can contribute to fiscal sustainability and economic growth.
Projected short fall in Government finances	Projected fiscal gap due to short fall in FSM CTF contribution by 2024 requires FSM to consider alternative revenue sources, when the Amended Compact Sector Grant ceases in 2023. Now with Article IX Section(m) of the Constitution in effect, the revenue sources coming from the fishing fees generated will now be equally shared (50/50) between the National Government and the State Governments.
Lack of available Investment Capital	Investment capital is required to expand the productive capacity of the offshore tuna fishery, away from the harvest sector – without placing too much pressure on Government's limited funding resources.
Inadequate development in promoting fish exports in forms other than frozen whole fish	Fish export is predominantly confined to trade of frozen whole fish from the catching sector. Expanding fisheries trade to develop other value adding product forms is necessary to generate broad economic benefits such as foreign exchange and employment amongst others.
High cost of doing business	Growth and expansion of the domestic tuna industry is hampered by high costs of doing business in the FSM. Enhancing competitiveness of the domestic industry is necessary if the FSM's domestic tuna industry aspirations are to be achieved.
Danger of Increasing capacity and effort limits	Long term sustainability of the tuna resource will not be compromised for short term gains, as fishing technology improves against drop in catch rates.
Threat to long term profitability of the offshore fishery	Profitability is closely tied to the tuna resource being managed sustainably so that catch per unit effort is not reduced.
Lack of clarity on the roles of State and National Government in tuna sector development	With each State having its own Constitutions, Laws, and Regulations, it gives rise to competing interests in investment, tax and revenue derived from the country's common resources, such as tuna.

Lack of targeted investment capital for fisheries development infrastructure and projects	Investment capital identified and secured requires a targeted approach.
Decline in the growth of tuna longline fishery	New approaches are required to rejuvenate this important fishery under the current operational environment of the fishery.
Restricted economic benefits of the purse seine sector	Under the current operational environment of the purse seine fishery, efforts are required to broaden its benefits to the FSM economy.
Streamlining of structural policies and reforms slow	Lack of complementary policy measures and reforms that can consolidate growth of commercial fishing activities in all jurisdictions within Federation.
Lack of State Governments participation and support	State Governments seek to have more meaningful inputs as well as derive direct benefits from FSM's offshore fishery which is currently under the jurisdiction of National Government.
Government departments and agencies not properly structured to drive project-based approach to development	Lack of necessary business management and project supervisory skill to effectively implement infrastructure and investment development projects.
Limited and expensive domestic credit.	Risk attached to fishing businesses and investments is reflected in the absence of, or limited and expensive, provision of domestic credit.

The FSM National Oceanic Fisheries Investment Policy

The offshore fishery is a dynamic sector that continues to undergo change in the way it is managed, utilized and controlled, guided by the United Nations Convention on the Law of the Sea (UNCLOS) and UN Fish Stocks Agreement. The recognition by International Law of coastal states sovereignty, and sovereign rights over both the territorial waters and the EEZ, has provided coastal states with the leverage to make important decisions on how they would like fisheries and marine resources, found within this body of water, to be managed and developed.

In 2010, this leverage was further strengthened to the advantage of coastal states that comprise the Parties to the Nauru Agreement (PNA). The operation of the PNA VDS Scheme afforded zone-based control over fishing rights to FSM and other PNA countries. This heralded a significant milestone for PNA countries as they assumed total control over the level of fishing effort in their respective EEZ's through the allocation of VDS days based on their respective Party Allowable Efforts (PAE). Hence, participatory rights for the purse seine fishery are now firmly in the control of coastal states. Largely due to the advent of VDS, FSM can make important decisions including investment decisions on who can participate in the harvest of its tuna resources, in line with its own development aspirations.

Capitalization of FSM's PAE forms the fundamental investment enabler underpinning this policy. Using this as the basis, the policy is geared at expanding the productive capacity of FSM's offshore tuna resource sector. It specifically takes on a structured approach to maximizing participatory rights under the VDS geared towards serving two fundamental aims: namely economic growth and fiscal stability. Reflective of these objectives, the policy adopts a balanced view in providing guidance through strategic policy objectives and actions to translating significant revenue gains from VDS access fees to realizing the full potential benefits it can generate from the sustainable harvest and utilization of its tuna resources.

The aims of this policy, and the approach it takes, underscores FSM's leadership directive for all economic sectors to realign policies that can drive wealth generated capitalization of FSM assets, in this case – FSM's Party Allowable Effort (PAE) that affords tuna industry players the participatory rights to harvest and utilize tuna caught in its EEZ.

The policy takes into account enabling Laws and Legislations, including objectives and priorities of other related fisheries strategic documents, and should be read along with the following documents:

- Title 24
- The Federated States of Micronesia Investment Guide (2015 edition)
- NORMA Strategic Plan (2018 – 2023),
- FSM National Strategic Plan (2004 – 2023),
- Tuna Management Plan (2015)
- Strategic Plan 2018-2023 (May 2018)
- Tuna Management Plan (2015)
- State Development Plans
- FSM Trade Policy
- Proposed Bill to amend FSM Foreign Investment Act 1997
- Overseas Development Assistance Policy (ODA- 2015)
- Infrastructure Development Plan (IDP 2016 – 2023)
- VDS and concessional pricing as an incentive for investment, (Reid & Movick, 2016)
- Revenue sharing from Fishing Fees: Article IX of the FSM Constitution

Policy development process

This policy was first initiated in 2016 at a purse seine workshop co-hosted by the Department of R&D and NORMA. A key outcome emanating from this workshop was the need to have a fisheries policy that would provide guidance in translating the considerable increase in access revenue to other broad economic benefits.

This coincided with the 9th SNLC where it was acknowledged that it has not been an easy task to grow the economy. This was partly attributed to the five governmental structures of the Federation that includes the four States and the National Government. From the President, three specific determinants were highlighted as the way forward for the FSM, and these included:

(i) redevise the policy decisions to help the FSM economy grow better by reinvesting government revenue in the improvement of major infrastructure and projects;

(ii) ensure that foreign aid is geared toward implementing plans developed and projects identified by State and National Governments; and,

(iii) formulate a plan to transition from a government driven economic growth to one driven by project yields or wealth-generated capitalization of fisheries resources, tourism development, and products from the land.

The President acknowledged that in order to achieve the above determinants, substantial investments would be required through mobilization of domestic investment and joint ventures between domestic investors and sound foreign investors, without jeopardizing the interests of domestic businesses. The President also identified the immediate need to revisit existing economic development plans to reflect current development challenges and policy strategies in an Economic Development Roadmap, which was to be the subject of a nationwide consultation process.

Following the 2016 purse seine workshop, a number of workshops, consultations and conferences were held to seek views from all stakeholders, most importantly, those from the States. It is however noted that a number of strategic considerations on structural policies and regulatory reforms such as the proposed amendment to FSM National Investment Act 1997 are yet to be endorsed by Congress. Notwithstanding this, State and National Government Stakeholders at the most recent Department of Resources and Development conference, held in August 2018, resolved that all stakeholders will need to work together to achieve better results for the people of FSM.

Policy vision, mission, and guiding principles

Vision

To seek greater social and economic benefits from wealth-generated capitalization of fisheries resources.

Mission

To contribute to increased economic growth and maintain a strong fiscal position of government through a structured approach that maximizes value of participatory rights (access), underpinned by wealth generated capitalization of FSM's Party Allowable Efforts (PAEs).

Guiding principles for investment

The FSM will be guided by the following investment principles in the implementation of this policy, which forms the basis for making investment decisions:

1. There will always be the element of risk in all investment portfolios, therefore diversification of the sector amongst other efforts to spread risk is recognized
2. Balancing economic growth with safeguarding the environment and ecosystem health is critical to the long-term sustainable management of the tuna resource is recognized as a key investment enabler that secures long term economic viability and profitability of FSM's offshore fishery and domestic tuna industry.
3. Protection of the value of tuna resources including risk management are fundamental to securing gains derived from investment in the offshore tuna fishery
4. Eligibility of investment as per relevant State and National Laws and Regulations is to be strictly adhered to
5. Transparency, predictability, and non-discriminatory principles in promoting investment to be observed at all levels
6. Encourage and strengthen both FSM VDS and private enterprise balance sheets so as to maintain the value of VDS fishing days, and operational efficiencies of industry participants
7. Recognition is given to the safety and protection of investment and investors in facilitating and promoting flow of investment capital
8. Development of the tuna longline industry to be driven at the State level, backed by appropriate concessions and infrastructure funding support
9. Purse seine generated revenue is to be prioritized, with economic and financially viable shore-based investment to be supported by both State and National Government
10. A structured approach to be employed in the allocation and value options for FSM's Party Allowable Efforts (PAEs) as the key investment enabler, and this to be preference based
11. Both State and National Government public investment commitment is only encouraged if it is based on sound financial and economic assessment, clearly showing positive returns on investment.
12. An inclusive framework around concessions that balance the trade-off between government revenue and economic development developed by NORMA in consultation with the Department of Finance & Administration and Department of Resources & Development.
13. Foreign Aid, and external funding with minimum cost to Government, is preferred in financing fisheries infrastructure, whilst foreign direct investment (FDI) is encouraged in driving private sector growth in the tuna industry.
14. FDI that provides appropriate levels of employment, foreign exchange, tax revenue, fees & charges, training & capacity building, including expanding FSM's fisheries export base without affecting domestic businesses, is encouraged.
15. Links between industrial-scale fishing and processing, and small-scale community fishing are encouraged

Strategic Policy Objectives

This policy is structured around eleven (11) Strategic Policy Objectives (SPO), each of which is underpinned by more specific actions and policy directives.

1. **Maintain and enhance resource sustainability**	Health of tuna stocks is a key investment enabler that underpins an attractive investment environment for a natural resource sector, such as fisheries.
2. **Secure and strengthen fisheries contribution to Government finance and Economic Growth**	Fisheries revenue from VDS Access fees is a critical alternative revenue source that is expected to contribute to projected fiscal gaps
3. **Encourage and promote tradable export of fish in processed and value-added form**	FSM would need to diversify its tradable fish export base to cushion effects of fish price volatility of whole fish, and support establishment of shore based commercial developments and employment.
4. **Facilitate and support growth of fisheries private sector**	FSM economic growth is to be private sector driven and so must include development of commercial activities in the offshore fishery
5. **Safeguard profitability of offshore fishery**	Ongoing monitoring of economic indicators within the fishery to ensure long term sustainability and future profitability.
6. **Encourage effective collaboration and partnership between the National and State Governments**	An effective collaboration and partnership are contingent on recognizing and appreciating Governments roles and the expectations of State and National Governments.
7. **Identify and secure capital to stimulate investment in targeted economic development infrastructure and commercial projects**	A shift from social to economic funded infrastructure to support private sector growth is encouraged; however, with no debt commitments and borrowing against future gains preferred.
8. **Leverage FSM Party Allowable Effort (PAE) to encourage development of domestic tuna industry**	FSM's PAE is its most valuable asset that has generated considerable revenue for the National Government. A structured approach to leveraging access to broader economic benefits through preference based VDS allocation must be encouraged.
9. **Encourage and attract Foreign Direct Investment (FDI) to drive commercial development**	FDI remains the largest and most constant external source of funding commercial development globally, and its importance is set to continue to rise. Whilst this is encouraged, it must complement and not threaten FSM businesses.
10. **Promote policies and reforms underpinning conducive investment environment**	Collaboration, cooperation and partnership between State Governments, National Government, the private sector, and development partners, including the civil society

	is fundamental to overcoming competing interests, and to encourage structural policy and regulatory reforms to improve efficiencies in service delivery, and an improved environment to invest and do business.
11. **Build human resource capital to effectively facilitate growth impacts of investment capital flows**	Build necessary capacity and skill sets to support project-based approach within relevant government agencies, including transaction facilitation and advisory support

Strategic Actions

The following strategic policy actions and directives address the key challenges and constraints faced by FSM as set out in earlier sections of this policy. The strategic actions and policy directives are laid out under eleven (11) Strategic Policy Objectives (SPO).

SPO 1: Maintain and enhance resource sustainability

Strategic action 1: Maintain Rights based and Precautionary Approach in support of the management and development of offshore fisheries resources consistent with the need to safeguard and conserve marine resources, specifically including the FSM's commitment to achieve full protection of at least 30% of the FSM's marine waters.

Policy directives

1. Long term sustainability of the tuna resource will be the primary consideration and will not be compromised for short term gains.

2. The health status of targeted species will guide the investment decision making process as an important enabler for investment in FSM's offshore fishery.

SPO 2: Secure and strengthen fisheries contribution to Government finance and Economic Growth

Strategic action 2: Maximize the value of FSM's Party Allowable Effort

Policy directives

3. Ensure FSM secures and maintains the maximum possible PAE under the VDS Schemes while maintaining their integrity and function.

4. Negotiate and sell purse seine and longline VDS days for a price that reflects the value and importance of the FSM EEZ taking into account future market prices and undertake appropriate analysis to establish guidance on these.

5. Maintain a PAE value options framework on fishing days allocated to all purse seine and longline fishing fleets that fish under bilateral, domestic, multilateral (UST), FSM Arrangement (FSMA), sub-regional pool including by flag with special preference for vessels that are linked directly or indirectly to onshore investments.

6. Have risk mitigation measures in place against the loss of revenue and economic benefits by periodically reviewing the approved structural approach to VDS allocation & value options; limiting the number of days provided with concessions and extending the duration of allocations, and monitoring price concessions and providing justification for any revenue forgone.

Strategic action 3: A structured approach to allocation of fishing days under the VDS scheme

Policy directives

7. Concessional VDS days will be offered to domestic fleets and locally based foreign fleets, including those that are committed to offloading at port and in support of shore-based investments and that generated economic and social benefits that are greater or equal to the concessions granted.
8. Consider establishing a quota for concessional VDS days and options for benchmarking prices for the VDS days.

9. Offshore fisheries revenue contribution from access fees to fiscal stability and FSM's Gross Domestic Product (GDP) will be prioritized until such time gains from capital inflow specifically from foreign direct investment (FDI) is realized.

10. Cost benefit analysis and other appropriate analytical tools to be used to inform the level of concessions to be granted.

11. VDS concessions will include priority allocation, extended duration of fishing agreement, concessional pricing, and/or discounts.

12. Clear eligibility criteria are to be established for fishing companies to qualify for concessional pricing or discounts. The criteria will apply to local fishing vessels, locally based fishing vessels, and foreign vessels that are linked to onshore investments.

SPO 3: Encourage and promote tradable export of fish in processed and value-added form

Strategic action 4: Establishment of FSM's Competent Authority

Policy directives

13. Ongoing work in collaboration with regional partners and others in setting up a Competent Authority for FSM must be supported and with any outstanding tasks expediently attended to.

14. All relevant Government departments and agencies are to collaborate and provide effective input to the establishment of the CA, in particular, NORMA, DoJ, and Health.

15. Build expertise and capacity in CA operational requirements through training and capacity building programs, using external support where available.

Strategic action 5: Improve trade and marketing of tradable FSM fish exports

Policy directives

16. Review FSM's Trade Policy, including trade agreements to identify and promote market access opportunities for FSM's tuna products.

17. Encourage product development and diversification of tradable tuna products in line with demand emanating from major fresh, frozen, canned tuna, tuna loins and other value-added export markets.

18. Encourage export capable companies to take advantage of trade preferences that FSM does qualify under such as the trade preferences under the Compact, including regional trade arrangements.

19. Prioritize investment development partners with well established distribution networks and secured markets for tradable tuna products that can be exported out of the FSM.

20. Diversify and utilize catch from artisanal tuna fishermen to strengthen and improve post-harvest sector activities.

SPO 4: Facilitate and support growth of the fisheries private sector

Strategic action 6: Facilitate and support greater private sector participation in the fisheries sector

Policy directives

21. Provide access and incentives to encourage growth of commercially viable FSM national purse seine and longline fishing fleets, which generate net economic benefits for FSM's economy.

22. Improve government service delivery efficiencies with regards to turn-around time in issuing permits and clearances to operations of fishing enterprises.

23. Encourage provision of affordable public utilities, labor, and land for commercial development purposes.

24. Identify impediments to private sector growth and encourage a concerted whole of government approach in addressing them.

25. Explore other economic opportunities in the tuna sector to provide other socio-economic activities.

Strategic action 7: Improve and refurbish port and relevant fisheries infrastructure and facilities.

Policy directives

26. A targeted approach will be employed in improving and refurbishing port infrastructure and facilities as determined by throughput or private sector demand

Strategic action 8: Improve FSM's offshore fisheries competitiveness

Policy directives

27. Maintain economical fee rates and charges for services rendered to fishing enterprises for the use of ports and public utilities.

28. Work with relevant government agencies to improve and support a stable regulatory environment to minimize uncertainties and promote business and investor confidence.

SPO 5: Safeguard profitability of offshore fishery

Strategic action 9: Control effort limits

Policy directives

29. Effort in the High Seas by licensed longline vessels will need to be controlled.

30. Identify what trade-offs can be made between purse seine and longline domestic development as one fishing technique (purse seine) can impinge on catch rates, market value of target tuna stock and profitability of the other (longline) due to high incidences of purse seine caught juvenile bigeye and yellow fin tuna.
31. Restrict effort to levels that maintain catch rates at sustainable levels.

SPO 6: Encourage effective collaboration and partnership between the National and State Governments

Strategic action 10: Longline fishery development to be facilitated at the State level

Policy directives

32. Provide discount and concessional VDS days to domestic and foreign flag longline vessels that are linked to shore-based investments in infrastructure, and facilities, including support services.

33. Actively encourage State Governments to make available land for development purposes and facilitate foreign direct investment with support from the National Government

34. Actively encourage State Governments to create a conducive business and investment environment in promoting fisheries private sector growth by improving business efficiencies and addressing cost of doing business.

Strategic action 11: Information, data and knowledge sharing and networking

Policy directives

35. Market information, offshore fisheries economic conditions, trade news and investment opportunities will be provided and shared on a regular basis.

36. The National Government will provide periodic updates on stock status and other relevant scientific data, Conservation & Management Measures (CMM) and resolutions. Also include Monitoring, Controlling and Surveillance (MCS) initiatives and any programs that require State Government support.

37. Enhance Public-Private Sector Dialogue, with a view to incorporate private sector's contribution and participation to the Nation's economic development efforts.

38. Make readily available information on new and revised policies and regulation that affects fisheries private sector participants.

Strategic action 12: Collaborate in protecting the value of FSM's tuna resources (NORMA)

Policy directives

39. Unsustainable fishing practices and IUU activities that undermine sustainability, threaten the value of tuna resources, and potential benefits, will be reported and attended to expediently.

40. Strengthening coordination and collaboration on the Monitoring, Controlling and Surveillance activities.

Strategic action 13: Provision of support to genuine investment leading to development

Policy directives

41. Include state and national government agencies or representatives in discussions with investors with the intention to achieve whole of government decision making.

42. Use cooperative or joint venture arrangements as a vehicle to support state-based development.

Strategic action 14: Promotion and facilitation of Foreign Direct Investment

Policy directives

43. Until such time the proposed Bill to amend FSM Foreign Investment Act of 1997, the National Government will put in place appropriate regulations to:

    a. Guarantee that revenue currently collected by the State Governments from issuance of foreign investment permits are not forgone; and,

    b. Enhance the role of State Government in investment promotion and facilitation as well as providing "after care" support once the businesses are established in the country.

44. The State Governments will determine the economic sectors that they want to open to foreign investors, with technical support to be provided by the National Government.

45. The State Governments have the power and full authority to regulate the operations of businesses that are granted a foreign investment permit within their jurisdiction.

46. Both the National and State Governments will support efforts to harmonize policies and improve the climate for investment through uniformity and consistency on foreign investment and also reviewing and screening of foreign investment applications under a one-stop-shop concept.

SPO 7: Identify and secure capital to stimulate investment in targeted economic development infrastructure and commercial projects

Strategic action 15: Encourage and attract capital flows with minimum cost to Government

Policy directives

47. Encourage foreign direct investment as the primary form of capital inflow to finance commercial fisheries projects.

48. Seek external grant funding to finance important port infrastructure and facilities.

49. Both State and National Government to identify and secure domestic funding under Compact Sector Grant for infrastructure support leading to 2023.

50. Consideration of a certain percentage of access revenue to fund infrastructure and commercially viable projects identified by States under a benefit sharing agreement.

SPO 8: Leverage FSM Party Allowable Effort (PAE) to encourage development of domestic tuna industry

Strategic action 16: Promote development of domestic fisheries sector

Policy directives

51. VDS concessions will include priority allocation, extended duration of allocation, and concessional pricing or discounts.

52. Allocation of VDS days will prioritize in favor of domestic vessels and domestically based foreign vessels whose owning companies demonstrate long-term, strong, and genuine commitment establishing and developing the domestic industry.

Strategic action 17: Concessional pricing of VDS days

Policy directives

53. Assess current and future economic benefits generated to the FSM by each company seeking an allocation of VDS days.

54. Concessions on VDS days will be determined and provided, based on delivery of quantifiable economic benefits that equal or surpass foregone revenue.

55. Ensure that the concessions and allocation of VDS days granted to a company do not result in the level of economic benefits generated to FSM's economy from the allocation, being lower that an alternative allocation, for example, through selling the days to a foreign vessel at the market rate.

SPO 9: Encourage and attract Foreign Direct Investment (FDI) to drive commercial development

Strategic action 18: Increase Foreign Direct Investment flow to FSM's offshore fishery

Policy directives

56. In consultation with National Government and State Governments review investment proposal in the pipeline and ensure facilitation of these investments are done expediently based on sound assessments and due diligence.

57. Whilst FDI is encouraged, it must complement and not threaten FSM local businesses.

58. State and National Government are to collaborate in providing land for development, port upgrades, improve road access and ensure accessibility to public utilities like water, and power are attended.

59. The National Government will provide the necessary VDS concessions and discounts and will support State Governments in providing technical support where necessary in the promotion and facilitation of commercial scale fisheries investment projects.

60. State Governments will ensure provision of competitive rates and charges in attracting and promoting FDIs.

61. Government services in facilitating processing and clearance at both State and National levels will be responsive and investor friendly.

SPO 10: Promote policies and reforms underpinning conducive investment environment

Strategic action 19: Encourage efforts toward streamlining government regulatory processes and procedures

Policy directives

62. State Governments and National Government to harmonize policies and procedures in order to streamline licensing, issuance of business permits, and contractual requirements on the usage of public infrastructure and utilities.

63. Support other government agencies in aligning regulatory requirements to structural policy reforms for purposes of improving efficiencies in service delivery and facilitate an environment conducive to business and investment.

SPO 11: Build human resource capital to effectively facilitate growth impacts of investment capital flows

Strategic action 20: Encourage public sector training and capacity building to improve project-based approach to development

Policy directives

64. Provide training in investment appraisal and facilitation, including project management and supervision.

Strategic action 21: Encourage private sector training into vessel management and operations, including business development

Policy directives

65. Encourage business training in profitability structure of different business models.

66. Encourage and promote technology transfer and managerial skills to build and enhance local content from foreign investment driven commercial projects.

Implementation and funding of the Policy

The implementation of this policy requires the collaboration, cooperation, and partnership between a wide range of implementing partners including the National and State Governments, sub-regional & regional partners, Public Utilities Bodies and service providers, fisheries private enterprises, investors, civil society, and people of FSM. The impetus that drives this is the recognition of the need to work together for better results for the people of FSM.

The Department of Resources and Development (R&D) provides overall oversight and the coordinating role in facilitating active contribution from implementing partners whose mandated responsibilities are critical to achieving outcomes of the policy expressed as strategic objectives. Along with R&D at the national level, NORMA, the Department of Finance & Administration, Department of Environment Protection, the Attorney General's Office, and Health, and related State departments and agencies (Chuuk, Division of Commerce and Industry; Kosrae, Department of Resources and Economic Affairs; Pohnpei, Department of Resources and Development; Yap, Department of Resources and Development) will lead the implementing of actionable policy directives, in line with their respective mandated responsibilities. These are outlined in detail in the Implementation Framework of the policy in ***Annex 1.***

The recognition to work together for better results is embraced as the single most important mitigation measure against risks that will fundamentally cause this policy not to achieve its vision - To seek greater social and economic benefits from wealth-generated capitalization of fisheries resources. It is being noted that whilst outstanding structural policy and regulatory reforms (tax, public finance management, public administration, foreign investment, long term fiscal and economic framework) are still being deliberated on, all stakeholders must work together in the interim to work around challenges, and competing interests that emanates from these outstanding reforms.

Linking strategies to funding sources

Given the projected short fall in FSM government finances and limited and expensive domestic capital to finance economic infrastructures and private sector investments, potential funding sources will have to be identified and capital secured to finance this policy. The following funding sources are being noted, and are linked to strategies contained in this policy under the auspices of FSM's Strategic Development Plan, 2004 – 2023, *Strategy Goal 3: Improve the environment for direct investment and expand entrepreneurial and business development support services*

- **Investment Development Fund:** FSM's 2023 Action Plan considered a 2023 Investment Development fund. As stated in the Action Plan, the fund's primary purpose is to provide equity capital to private sector investments that have potential to create employment opportunities for FSM citizens and generate new inflow of revenue to the FSM economy. The FSM Congress appropriated US$5million in 2014, with a commitment of US$15million to be spent annually through the fund by targeting fisheries and other three (3) priority sectors.

- **Compact Infrastructure Grant:** A total of US$140.8million in arrears exists for the FSM to spend on key infrastructures, with construction management and procurement procedures being managed by the US Army Corps of engineers.

- **Domestically generated capital**: The revenue generated from the fishery sector plays a crucial role in funding this policy. In light of the 50/50 revenue sharing constitutional amendment, it is recommended that State governments allocate their portion of fisheries revenue to support the activities outlined in the policy. This will ensure effective implementation at the State level within their respective jurisdictions.

As directed by the FSM leadership, apart from domestically generated investment capital, FSM will need to also seek external funding sources to fund its development priorities.

A number of important committees that have been set up to prepare FSM for post Amended Compact 2023, and the disbursement of Amended Compact Sector Grants will also be dependent upon to provide guidance and support in the implementation of this policy. These committees include The Joint Committee on Compact Review and Planning (JCRP) and the Joint Economic Management Committee (JEMCO)

Monitoring & Evaluation

Annual review and updates will be provided by the Department of Resources and Development in line with scheduled meetings of the FSM leadership (State and National Leaders Conference). NORMA and the implementing partners will inform the M&E process by providing baseline information and data on indicators for measuring achievement against targets/outcomes of the policy. Feedback from the FSM leadership through the SNLC process will determine measures and recommendations on the way going forward in the implementation of the policy.

Annex 1: Implementation Framework for the FSM National Oceanic Fisheries Investment Policy (2024 – 2029)

Strategic Objective 1: Maintain and enhance resource sustainability					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
1: Maintain Rights based and precautionary approach in support of the management and development of offshore fisheries resources	Maintain zone-based rights. Ensure the long-term sustainable management and development of the fishery.	i) Periodic target species assessments ii) Limit effort in accordance with the adjusted PAE iii) Active participation in the WCPFC decision making process.	Status of tuna stocks Majuro Plot	SPC WCPFC	SPC (i) PNA (ii) FFA (ii) State Governments (ii) NORMA (ii) (iii)

Strategic Objective 2: Secure and strengthen fisheries contribution to Government finance and Economic Growth					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
2: Maximize the value of FSM's Party Allowable Effort	Maximum PAE under the VDS. Maximize the returns from the VDS	i) Bilateral negotiations ii) Market analysis	Price of Purse Seine VDS day PAE Net benefit generated Contribution to GDP	NORMA	State Governments (i) (ii) NORMA (i) FFA (ii) SPC (ii) PNAO (ii)
3: A structured approach to allocation of fishing days under the VDS scheme	Economic benefits exceed concessions granted	i) Cost benefit analysis	Percentage of catch offloaded in FSM ports. No of employees engaged in fisheries. Contribution to GDP.	NORMA	State Governments (i) NORMA (i) FFA (i)

Strategic Objective 3: Encourage and promote tradable export of fish in processed and value-added form					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
4: Establishment of FSM's Competent Authority (CA)	Accreditation by DG Santé and EU market access.	i.) Establish Competent Authority ii) Complete verification by EU (DG Santé)	Degree of State Government involvement. Achievement of agreed milestones to achieve EU accreditation. Satisfactory CA Audit. Volume of tuna exports to EU.	FFA PEUMP	• State Governments (i) Dept. of Health (i) • DoJ • NORMA (i) (ii) • FFA (i) (ii)
5: Improve trade and marketing of tradable FSM fish exports	Identify market access opportunities. Export new value-added products. Identify preferred development partners/investors Increase sustainable certifications. Improve awareness of market preferences.	i.) Review of Trade Policy by R&D ii) Export market development iii) Investment promotion	Number of market access opportunities identified Improving market preferences. Number of new products developed. Number of investors expressing interest to invest in FSM.	ADB/EU/IFC – trade policy review. FFA/PTI FFA	State Governments (i – iii) Department of Trade & Commerce (i-iii) R&D (i-iii) ODAs (ii) Tuna processing companies (ii) FFA (ii) (iii)

Strategic Objective 4: Facilitate and support growth of the fisheries private sector					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
6: Facilitate and support greater private sector participation in the fisheries sector	Two private sector investments initiated by y/e 2022. Identify impediments to private sector growth and encourage a whole of government approach to address them.	i) Establish a fisheries investment working group with stakeholder representatives from key agencies, states and private sector. ii) Develop the concept of an Investment Promotion Agency specific to fisheries. iii) Develop project concepts to 'roadshow' to potential investors. vi. Consider start-up capital to support and develop businesses in the fisheries sector.	Number of private sector investments % of fisheries production	R&D FFA	• State Governments (i) • R&D (i) (ii) • NORMA (i) (ii) • Private sector (i) (ii)FFA (iii)
7: Improve and refurbish port and relevant fisheries infrastructure and facilities.	Identification of future port infrastructure requirements to service the fishing industry. Develop implementation plan with financing options.	i) Consultation with State Governments to undertake ports infrastructure review and demand study. ii) Determine capital costs, consider financing options and a develop an implementation plan.	Report to stakeholders clearly identifying fishing industry infrastructure requirements, capital costs and funding options.	Amended Compact Infrastructure Grant FFA SPC PIF	• State Governments (i) • Joint Economic Management Committee (i) • TC&I (i) • FFA (ii) • ODA (ii)

8: Improve FSM's offshore fisheries competitiveness	Maximize demand for vessel days Maximize PAE Improved environment for doing business Leveraging FSM's competitive advantages	i) Bilateral negotiations ii) Monitor fees and charges for services to vessels, including the use of ports and public utilities. iii) Promotion of voluntary compliance strategy iv) Develop more efficient and effective trading mechanisms.	Full utilisation of the VDS VDS price Number of VDS days sold Improved trading mechanisms	PNAO NORMA	• National and State Governments (i) • NORMA (i) • PNAO (i) • R&D (iii) • DoJ (iv)

Strategic Objective 5: Safeguard profitability of offshore fishery					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
9: Control effort limits	Maintain catch rates/effort limits at sustainable levels	i) Monitor and control fishing effort	Catch rates PAE expenditure within the PAE	PNA FFA	NORMA PNA FFA SPC

Strategic Objective 6: Encourage effective collaboration and partnership between the National and State Governments					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
10: Longline fishery development to be facilitated at the State level	Improve the capacity at state government level to directly facilitate investment Access to land and ports for development	i) Regular stakeholder engagement ii) Information sharing Onshore development linked LL activity iii) Training and capacity building iv) State participation in fisheries infrastructure review	100% long line offloading/transhipment in FSM ports Investments made Land availed for development	FSM Government NORMA ODA Private sector FFA	All of Government State Governments (i-iv) FFA (iii)
11: Information, data, and knowledge sharing and networking	Capacity building, knowledge and data sharing	i) IMS development ii) Regular dialogue with stakeholders iii) Regular updates on key data and developments	Quarterly updates. Periodic stakeholder forums	PROP R&D NORMA	PROP (i) NORMA (i-iii) FFA (ii) National and State Governments (ii) (iii)
12: Collaborate in protecting the value of FSM's tuna resources	Eliminate IUU	i) Collaborate with responsible agencies in MCS and regional operations ii) Implementing Port State Measures Implementing of Electronic Monitoring	Compliance Index Post operation reviews	FFA QUAD PEUMP DoJ NORMA PNAO WCPFC	QUAD (i) National and State Governments (i –ii) FFA (i-ii) PEUMP (i-ii) NORMA (i-ii) DoJ (ii) WCPFC (ii)
13: Provision of support to genuine investment leading to development	Investment projects secured	i) Investment promotion ii) Collaboration with state governments and other stakeholders	Number of investment projects Expressions of interest from potential investors	R&D FFA	National and State Governments (i) FFA (i) R&D (i-ii)

14: Promote and facilitate of Foreign Direct Investment	Establish an Investment Promotion Agency Increase in FDI	i. Collaboration with relevant government agencies and key stakeholders ii. Investment promotion and facilitation	Investment Promotion Agency Number of investments projects	FSM Government	State and National Government NORMA R & D

Strategic Objective 7: Identify and secure capital to stimulate investment in targeted economic development infrastructure and commercial projects

Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
15: Encourage and attract capital flows with minimum cost to Government	Secure ODA funding to finance key fisheries infrastructure and facilities Secure domestic funding under the Compact Sector Grant for Infrastructure Support. Creation of a Fisheries Investment Development Fund	i) Identify key infrastructure requirements ii) Collaborate with State Governments to access Compact Infrastructure funding. iii) Develop a business case to establish a fisheries investment development fund utilising a percentage of annual access revenue.	Report identifying fisheries infrastructure requirements, capital cost and funding options Access to Compact Funds Government support for a fisheries investment fund	ODA's Compact Grants Committee	FFA (i) TC&I (i) National and State Governments (ii) NORMA (i) (iii) R&D (iii)

Strategic Objective 8: Leverage FSM Party Allowable Effort (PAE) to encourage development of domestic tuna industry					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
16: Promote development of domestic fisheries sector	Leveraging access to promote fisheries and non-fisheries related investment	i) Review of investment proposals ii) Bilateral negotiations iii) Market analysis	Number of investment proposals received Number of investments secured Contribution to GDP	NORMA FFA	R&D (i) NORMA (i-iii) National and State Government (ii) FFA (iii)
17: Concessional pricing of VDS days	Aligning the objectives/rationale for granting concessions to targeted outcomes Economic benefit exceeds concessions granted	i) Document the framework to confer granting of concessions ii) Cost benefit analysis	Periodic report of concessions granted Percentage of catch offloaded in FSM ports. No of employees engaged in fisheries. Contribution to GDP.	NORMA FFA	National and State Government (i) NORMA (i-ii) FFA (ii)

Strategic Objective 9: Encourage and attract Foreign Direct Investment (FDI) to drive commercial development					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
18: Increase Foreign Direct Investment flow to FSM's offshore fishery	Increase investment in FSM's offshore fishery and non-fishery related investment Establish an online investment portal to facilitate applications for foreign investment permits, disseminate information on foreign investments. Improve awareness on secured transaction website	i) Investment promotion ii) Collaboration with State and National Governments to facilitate inputs for investment. iii) Development of project proposals to promote to potential investors iv) Capacity building at State and National level to conduct due diligence, assess and facilitate investment proposals v) Hire contractor(s) to develop the online tools and launch on R&D website	Number of investment proposals received Number of investment proposals approved Number of investment proposals developed Online investment portal being built and launched.	R&D FFA	R&D (i-v) National and State Governments (ii-iv) NORMA (iii) FFA (iv)

Strategic Objective 10: Promote polices and reforms underpinning conducive investment environment					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
19: Encourage efforts toward streamlining government regulatory processes and procedures	Improve the ease of doing business in FSM Harmonization of State and National policies Centralized national laws and policies affecting investment in the FSM	i) Identify constraints to investments and coordinate resolutions ii) Support other government agencies to improve efficiency in service delivery iii) Establishment of an Investment Promotion Authority (IPA) within R&D	WB doing business indicators Establishment of IPA Passage of proposed bill by FSM Congress	R&D ODAs	National and State Governments (i) (ii) Private sector (i) (ii) NGOs and local communities R &D (i – iii)

Strategic Objective 11: Build human resource capital to effectively facilitate growth impacts of investment capital flows					
Strategic Policy Actions	Target/Outcomes	Proposed activities/directives	Indicators	Potential funding source	Partners
20: Encourage public sector training and capacity building to improve project-based approach to development	Improved capacity of State and National government in investment appraisals	i) Provide training and investment appraisal in facilitation, including project management and supervision. ii) Collaborate with educational institutions to develop technical fisheries with accreditation standards. iii) Provide support to scholarships and internships for fisheries programs.	Number of personnel trained.	FFA R&D	National and State Governments FFA NORMA
21. Encourage private sector training into vessel management and operations, including business development	Capacity development and skills transfer to domestic private sector	i) Conduct a Needs analysis to identify areas where knowledge and skills transfer may benefit the private sector. ii) Develop training plan to address these needs.	Needs analysis completed Training plan completed	FFA	National and State Governments (i-ii)

Annex 2: Key Considerations

1. Challenges and Constraints

• **Absence of a fisheries policy that aligns with Economic Development Priorities of FSM**	Due to the lack of such a policy, FSM leadership has directed for economic sectors, including fisheries to redevise policies that can contribute to fiscal sustainability and economic growth.
• **Projected short fall in Government finances**	Fiscal gap due to short fall in FSM TF contribution by 2024 requires FSM to consider alternative revenue sources, when the Amended Compact Sector Grant ceases in 2023. Existing revenue sources, including access fees generated from sale of fishing days under the VDS will require clear risk management measures to protect this critical Government revenue source. Revenue from access fees will be able to cushion this effect for the National Government, except for State Governments.
• **Lack of available Investment Capital**	Investment capital is required to expand the productive capacity of the offshore tuna fishery, away from the harvest sector – without placing too much pressure on Government limited funding resources.
• **Inadequate development in promoting fish exports in forms other than frozen whole fish**	Fish exports is predominantly confined to trade of frozen whole fish from the catching sector. Expanding fisheries trade to develop other value adding product forms is necessary to generate broad economic benefits encompassing foreign exchange and employment amongst others.
• **High cost of doing business**	The growth and expansion of domestic tuna industry is hampered by high cost of doing business in the FSM. Enhancing competitiveness of the domestic industry is necessary if the FSM's domestic tuna industry aspirations are to be achieved.
• **Danger of Increasing capacity and effort limits**	Long term sustainability of the tuna resource will not be compromised for short term gains, as fishing technology improves against drop in catch rates.

• **Threat to long term profitability of the offshore fishery**	Profitability is closely tied to the tuna resource being managed sustainably so that little effort can be employed to catch fish.
• **Lack of clarify on the roles of State and National Government on tuna sector development**	With each State having its own Constitutions, Laws, and Regulations, it gives rise to competing interests in investment, tax and revenue derived from the country's common resources, such as tuna.
• **Lack of targeted investment capital for fisheries development infrastructure and projects**	Investment capital identified and secured requires a targeted approach.
• **Decline in the growth of tuna longline fishery**	New approaches are required to rejuvenate this important fishery under the current operational environment of the fishery.
• **Confined benefits of the purse seine sector**	Under the current operational environment of the purse seine fishery, efforts are required broaden its benefits to the FSM economy.
• **Streamlining of structural policies and reforms slow**	Lack of complimentary policy measures and reforms that can consolidate growth of commercial fishing activities in all jurisdictions within Federation.
• **Lack of State Governments Participation and support**	State Governments seek to have more meaningful input as well as derive direct benefits from FSM's offshore fishery which is currently under the jurisdiction of National Government.
• **Training and technology transfer in vessel management & Business Development**	Lack of necessary business management and project supervisory skills to effectively implement infrastructure and investment development projects.
• **Limited lending facility and expensive domestic credit.**	There are limited lending facilities and domestic credit is expensive in the FSM to support participation of domestic enterprises.

2. Strategic Issues

• **Zone based control**	Leverage is maintained and enhanced through having more control over the offshore tuna resources as it relates to participatory (fishing) rights. This has already been achieved under the PNA VDS scheme for the purse seine fishery. A similar VDS scheme however for tropical

	longline fishery is being advocated and supported by FSM and the PNA member countries.
• **PNA LLVDS Western and Central Pacific Fishery Commission (WCPFC) strategy**	Strategies advocating control of the tropical longline fishery at the WCPFC is an on-going issue for FSM and the PNA members, and strategies are to be strengthened to ensure participatory rights are zone based.
• **High Seas Longline fishing**	Efforts in the High Seas by licensed longline vessels will need to be controlled.
• **Sub-regional collaboration and partnership**	Largely due to common management measures to control effort in regional offshore fishery, and similarities in coastal state development priorities for their respective domestic tuna fisheries, collaboration and partnership is important
• **Comparative competitiveness with neighboring countries**	FSM must ensure it can competitively develop its domestic tuna fishery. This requires offering the best investment development environment over other countries with similar comparative advantages.
• **Precautionary Approach**	Whilst it is good to be optimistic about prospects for expanding the productive capacity of FSM's offshore fishery, a precautionary approach that takes into account acceptable risk tolerance levels must be exercised diligently.
• **Purse seine and longline fishery trade-offs**	Juvenile yellow fin tuna is also caught by purse seiners, which directly impact longline catch rates and market value of longline targeted stocks. It important to identify what trade-offs can be made in developing FSM's domestic tuna industry.
• **Roles of States and National Government and their expectations**	FSM's EEZ comes under the jurisdiction of the National Government, whilst waters within the 12mile zone is the responsibility of the State Governments. Roles and expectations of the respective governments must clearly outlined with regards, management, development, and benefits derived.
• **Fisheries infrastructure development funding support**	Infrastructure plays a fundamental role in supporting efforts to expand the productive capacity of the sector. It is important to decide on the source of capital investment necessary as not to repeat experiences of the past.
• **Longline fishery development to be facilitated at the State level**	In considering longline fishery to be facilitated at the State level. State, National Governments and private enterprises must know their respective roles in facilitating this approach.

• **Concession and discount to encourage shore-based development**	Government must decide on how it can forgo in access fee revenue in efforts to promote onshore investments, based on sound assessments.
• **Multi-year fishing agreements tied to shore base investments**	It is with little doubt that concessions and relevant incentives are required to promote investment and increase commercial activities in the offshore fishery. Offering multi-year fishing agreements encourages investor confidence, and to some extent address high level of perceived risk for credit purposes.
• **Utilization of FSM PAE**	FSM's PAE under the respective PNA VDS Schemes for purse seine and longline are its most valuable asset. It must, at all costs, secure and enhance its value, and leverage it effectively to maximize returns.
• **Economic sustainability of the fishery**	For the offshore fishery to be profitable and to generate much needed economic benefits for the long term, catch rates must not be affected due to over-capacity and unsustainable tolerance of fishing effort levels. FSM must be mindful to constrain effort limit and improve catch rates. It must consider replacing effort, instead of increasing it.
• **Profitability structure & business model**	Limited or lack of appreciation of profitability structures and business model of enterprise operating in FSM's offshoring fishery in the past led to losses, and negative return on investments, as reported.
• **Market Access**	As FSM looks to diversify its fish export base, it needs to both take advantage of preferential trade arrangements, and at the same time build domestic capacity to meet importing countries health, food safety, rules of origin (RoO), Illegal, Unreported and Unregulated (IUU) including other export market requirements.

3. Potential Risks

Concentration	
Market	This is mostly associated with volatility in fish price. Therefore, price would need to be monitored diligently as it has direct impact on the level of revenue that can generated, including the sector's contribution to the economy
Regulatory	Licenses, permits, VDS allocation et. PNA LLVDS currently not recognized at WCPFC. Lack of standardized implementation of LLVDS
Financial	Loss of access fee revenue which may not contribute to fiscal sustainability and stability of

	government finances, in line with expectations. Inability to secure new and available investment capital
Cost of doing business	High cost of basic utilities to support development. Fuel prices from bunkering at port not competitive. Additional costs to overall cost structure of LL vessel operations can cause vessels to move elsewhere. Unfriendly and non-conducive operational and economic environments in the States
Transparency and Governance	Transparency, predictability and non-discriminatory
Security	Threat of IUU on fish stock. Security concerns influence vessels not to call into certain ports
Resource sustainability	Uncontrolled and high concentration of fishing efforts on the high seas.Purse seine operations impacting juvenile LL target species High effort levels affect catch rates which can future economic sustainability of the fishery
FSM PAE	Non-utilization and loss of FSM's PAE to support and sustain development. Existing LL flag-based management of the fishery remaining unchanged at WCPFC
Political	Change in management and development priorities including lack of political will, can influence effective implementation of policy
Competition	Being less competitive to other neighboring countries with similar LL development priorities. Additional costs to the overall cost structure of LL vessel operations can cause vessels to move elsewhere. Lack of adequate port infrastructure and limited support services
Social	Promulgation of health concerns with regards to prostitution, and venereal diseases, including HIV/AIDS. Infringement on local customs, traditions including general social wellbeing of locals
Environment and Climate change	Introduction of invasive species that could affect local fish population and rise food security concerns

4. Strengths/Opportunities

Productive and large fishing ground	○ Sufficient supply of fish ○ Opportunities for growth in investments in onshore processing ○ Longline processing for export to Japan's sashimi market ○ Support services for tuna transhipment

Multiple ports to support fishing operations and development	○ Fuel bunkering at port ○ Cold storage and onshore processing ○ Increase unloading at port and transhipment ○ Relocation of Palau LL vessels to Yap
Anticipated growth of service industry	○ Air freight –Chuuk-Tokyo (Air Niugini) ○ Regular airline and shipping services ○ Slipway and dock yard ○ Net mending ○ Stevedoring /port services ○ Training and capacity building
Adequate supplies (provisions/food) available to service vessels	○ High demand for provisioning due to transhipment operations by both PS and LL vessels
Adequate water sources and land area for development	○ Development of tuna processing and value-added sector
Concession offered to domestic based vessel	○ Development of FSM National fleet
Additional discount for catch unloaded at port	○ Increase fish landing
Available Labor pool (except for Kosrae State)	○ Employment generation
Leveraging FSM PAE to generate revenue and broad economic benefits	○ Sufficient VDS days to be allocated to promote development ○ Third largest PAE under VDS Schemes ○ Purse seine under control of PNA LL: 19% of PNA VDS TAE secured (30,928 VDS days). Second highest behind Kiribati PS
Multi-year fishing agreement offered to operations tied to onshore investments	○ Onshore investments
Health of tuna stick improving	○ BEY showing signs of improvement
Available capital and Benefits sharing	○ Infrastructure development funding support ○ Benefits sharing (cargo space / VDS fees) ○
Longline investment development Opportunities	○ Increasing LL fresh & frozen Chinese market ○ Increasing demand for provisions to supply vessels ○ Liancheng providing the impetus for LL development
Purse seine investment development Opportunities	○ Onshore processing and shore base investment
Overview of incentives	○ Access to rich tuna fishing grounds, 50,000-250,000mt catch annually ○ Concessional access to FSM EEZ as well as subregional fisheries ○ No taxes on fisheries export products ○ Import duty drawback scheme, which allows for refund of taxes paid on materials and goods used in producing processed fish for export ○ Flexible labor market with young labor force ○ Longer term for land lease

- Processed tuna originating from FSM is granted duty-free access in the US market, and tariff reduction in the EU market

To advance the formal adoption and implementation of the FSM National Oceanic Fisheries Investment Policy, 2024-2029: A policy for Maximizing Participatory Rights (Access) under the Vessel Day Scheme (VDS), our government share a commitment to collaborate where appropriate to achieve the objectives of this policy.

Signature

H.E. Wesley W. Simina
President, FSM

08/16/24
Date

T.H. Alexander R. Narruhn
Governor of Chuuk

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Date

T.H. Tulensa W. Palik
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Date

T.H. Stevenson A. Joseph
Governor Of Pohnpei

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T.H Charles S. Chieng
Governor of Yap

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