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Building Bridges Across Islands: Regional Cooperation for Bundled Solutions for Micronesia

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Highlights

This policy brief explores the complex interplay of progress and vulnerability across the five Micronesian countries—Federated States of Micronesia (FSM), Kiribati, the Marshall Islands, Nauru, and Palau—highlighting their unique geographic, economic, and sociocultural landscapes. It examines the structural challenges faced by small island developing States (SIDS), including climate vulnerability, limited infrastructure, and constrained human capital. The brief analyzes the business environment, investment regimes, and public service delivery while emphasizing the critical role of traditional institutions and labour mobility. A key focus is placed on the potential of bundled project-based initiatives and regional cooperation to overcome shared constraints and advance the Sustainable Development Goals (SDGs). Through examples like the MiCOAST Project and support from the United Nations Multi-Country Office for Micronesia, the brief underscores the importance of harmonized legal frameworks, pooled resources, and coordinated actions in building a more resilient and inclusive future for the region.

Introduction

The five Micronesian countries, Federated States of Micronesia (FSM), Kiribati, the Marshall Islands, Nauru, and Palau, take on a unique position marked by both developmental promise and structural vulnerability. Their remote geographies, small and dispersed populations, and rich cultural heritage shape the opportunities and constraints they face in achieving sustainable and inclusive development. This policy brief examines the interplay between the business environment, public services and utilities, investment frameworks, and skilled labour dynamics across these nations. It also considers the influence of social institutions and traditional practices on development outcomes. As small island developing States (SIDS), these countries share common vulnerabilities including exposure to climate change, limited economies of scale, and dependence on external financing. In this context, regional cooperation emerges as a critical enabler for resilience-building and the effective implementation of bundled development projects. This brief provides analytical insights and strategic recommendations to support coordinated, inclusive, and sustainable development across Micronesia.

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Structural Vulnerability of Small Island Developing States

The vulnerabilities inherent to SIDS are pronounced in Micronesia. These include heightened exposure to natural hazards, climate change impacts, limited resource bases, and high dependency on external aid and remittances. Geographic isolation further increases the cost and complexity of delivering public services, maintaining infrastructure, and participating in international trade. The COVID-19 pandemic and various geopolitical crises exemplified these vulnerabilities with border closures and economic disruptions exerting sizable impacts on small island economies. Regional cooperation and international support remain critical to building resilience and advancing sustainable development.

Economic Landscape and Business Environment

The business environments across the five Micronesian countries are distinctly shaped by their limited market size, fragmented economies, and long distance from markets. These factors result in high operational costs, logistical complexities, and restricted private sector growth. In FSM, for example, regional cooperation is increasingly recognized as a means to create bundled investment opportunities, especially in sectors such as renewable energy, where joint projects can mitigate risk and attract foreign direct investment (FDI) by enhancing economies of scale. In the Marshall Islands, while the government encourages foreign investment in fisheries, tourism, and light manufacturing, significant challenges remain stemming from land tenure laws and the absence of public land which complicate access for non-citizen investors.

Public Service Delivery and Infrastructure Challenges

Provision of public services and utilities in these nations is often constrained by limited infrastructure, small and dispersed populations, and heavy reliance on imported fuels and external assistance. In Kiribati, for instance, government ownership dominates the utilities sector with electricity and water supply systems being heavily dependent on imported petroleum though initiatives have been undertaken to diversify energy sources through solar and biofuel projects. Water supply management is similarly fragmented with groundwater and rainwater harvesting as primary sources. These challenges are similarly observed throughout the region where high per capita costs and logistical hurdles impede the delivery of essential services.

Investment Climate and Regulatory Frameworks

Investment regimes in the Micronesian countries are generally open but complicated by regulatory and structural barriers. The Marshall Islands operate under a foreign investment business license system with restrictions on foreign land ownership and only certain sectors are reserved for citizens. While incentives exist for foreign investors, the process can be cumbersome. And legal disputes, particularly over land, are often protracted due to the interplay of customary and statutory laws. In FSM, harmonizing business laws and streamlining company registration are seen as priorities for improving the investment climate. Regional cooperation, supported by international organizations such as the United Nations, is considered vital for enhancing legal frameworks and investor protections

Human Capital and Labour Mobility

A persistent constraint across all five Micronesian countries is the limited availability of skilled labour (driven by small populations), significant outmigration, and limited access to quality education and training. To address limited revenue sources, Kiribati and Nauru increasingly rely on international labour mobility schemes such as Australia’s Pacific Australia Labour Mobility (PALM) programme and

New Zealand's Recognised Seasonal Employer (RSE) scheme[2]. While these initiatives provide valuable income opportunities for citizens abroad, they can also exacerbate domestic workforce gaps. In addition to labour mobility arrangements with Australia and New Zealand, the Compact of Free Association (COFA) agreements between the United States and FSM, the Marshall Islands, and Palau grant citizens of these countries the right to reside, work, and study in the United States without a visa. While this framework facilitates access to broader economic and educational opportunities and generates remittance flows that support household incomes and national economies, it also contributes to sustained outmigration particularly among working-age and skilled individuals. The shortage of skilled workers often necessitates the importation of foreign expertise for specialized sectors and major infrastructure projects. This dynamic complicates efforts to align local employment objectives with the operational needs of foreign investors and development partners, highlighting the need for integrated strategies that strengthen domestic human capital while managing the impacts of labour migration.

Sociocultural Institutions and Development Dynamics

Traditional cultural and social institutions, along with customary practices, exert a profound influence on governance, land tenure, and business operations across the Micronesian countries. These systems are deeply embedded in community life and continue to shape decision-making processes at both local and national levels. In the Marshall Islands, for example, customary land tenure systems mean that all land is privately owned and governed by traditional authorities. As a result, foreign investors must negotiate directly with local landowners and chiefly lineages, often requiring extensive community engagement and consensus-building to secure land access. In Palau, traditional governance structures, such as the Council of Chiefs, operate alongside modern state institutions, contributing to a hybrid political system that reinforces social cohesion and accountability. Efforts to promote gender equality and social inclusion are also increasingly being mainstreamed into economic development strategies across the region. Governments and development partners are placing greater emphasis on ensuring equitable access to employment, education, and public services—particularly for women, youth and marginalized groups.

Regional Cooperation Through Bundled Projects and Synergistic Cooperation for Achieving the Sustainable Development Goals (SDGs)

Bundled project-based initiatives offer a strategic approach for Micronesian countries to address shared development challenges such as geographic isolation, limited market size, and infrastructure deficits. These initiatives involve grouping multiple, thematically or geographically related projects into tailor-made coordinated packages for foreign businesses to consider investing in. By aligning efforts across sectors like energy, health, education, and infrastructure, bundled projects enable countries to leverage shared resources, harmonize planning, and implement solutions more efficiently. This model is particularly relevant to achieving Sustainable Development Goals (SDGs) such as SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), and SDG 17 (Partnerships for the Goals) while also contributing to broader sustainability and resilience objectives.

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[2] Doan, D., Dornan, M., Doyle, J. and Petrou, K. (2023). *Migration and labor mobility from Pacific Island countries: Background Paper for the World Development Report 2023: Migrants, Refugees, and Societies*, at https://thedocs.worldbank.org/en/doc/511bd7fb799a3379242b5c151b2a14d5-0050062023/original/WDR-Pacific-Islands-case-study-FORMATTED.pdf; and International Labour Organization (ILO) (2021). *Seasonal worker schemes in the Pacific through the lens of international human rights and labour standards: A summary report*. Geneva: ILO.

When implemented regionally, bundled project-based initiatives become a powerful tool for regional cooperation. This form of cooperation involves multiple countries jointly designing, financing, and executing interrelated projects based on shared priorities or geographic proximity. It allows participating nations to: pool financial, technical, and institutional resources; harmonize policies; and achieve economies of scale. Regional cooperation through bundled initiatives also fosters mutual learning, strengthens institutional capacity, and promotes long-term integration. For SIDS, where individual capacity may be limited, collective actions through such initiatives can yield transformative and sustainable outcomes.

A prominent example is MiCOAST project, which is a regional initiative under the Kiwa Initiative[3]. It is a multi-donor programme that aims to strengthen the climate resilience of Pacific Island ecosystems, communities, and economies by funding and supporting Nature-based Solutions (NbS) such as protecting, sustainably managing, and restoring biodiversity. The project involves the Marshall Islands, Nauru, Palau, and FSM (Kosrae, Pohnpei and Yap), and it focuses on strengthening community-based fisheries management and promoting NbS to climate change, aligning local priorities with global sustainability goals. Beyond Micronesia, similar models exist and include the ASEAN Power Grid which aims to integrate South-East Asia's electricity networks with the Pacific Region Infrastructure Facility (PRIF). This entails the coordination of infrastructure investments across Pacific Island countries. These examples demonstrate how bundled initiatives can drive regional resilience, economic development, and environmental sustainability.

Several regional cooperation frameworks serve as critical functions supporting bundled project-based initiatives across Micronesia. The Pacific Islands Forum (PIF) provides high-level political coordination and advocacy promoting the formation of more robust regional unity alongside fostering shared development goals among Pacific Island countries. The Pacific Community (SPC) offers technical expertise and implementation support, particularly in areas such as fisheries, health, and climate resilience as evident in its involvement in the MiCOAST project. The Micronesia Islands Forum (MIF), a Micronesian platform, facilitates dialogue and collaboration specifically among Micronesian states aligning local priorities with broader regional strategies. Additionally, initiatives such as the Micronesia Challenge 2030 and the Kiwa Initiative demonstrate how these frameworks can converge to support bundled, cross-sectoral projects that address shared vulnerabilities while creating new opportunities. These institutions not only provide coordination and capacity-building prowess but they also serve as conduits for mobilization of international funding and harmonization of policy frameworks. These serve as critical enablers for the success of bundled project-based initiatives across the region.

Finally, to ensure the success of such regional initiatives, strong legal and institutional frameworks are essential. The United Nations Multi-Country Office (UN MCO) for Micronesia plays a critical role in this regard. It provides technical assistance, facilitates stakeholder dialogue, and supports policy harmonization across participating countries. The UN MCO also helps establish virtual coordination platforms, streamline regulatory frameworks, and attract foreign direct investment (FDI). By enabling more effective collaboration and implementation, the UN MCO reinforces the institutional foundation for sustainable development and regional integration in Micronesia.

Policy Implications and Conclusions

The shared development trajectory of FSM, Kiribati, the Marshall Islands, Nauru, and Palau underscores the urgent need for coordinated policy responses that address both structural vulnerabilities and emerging opportunities. Policymakers must prioritize regional cooperation mechanisms that facilitate bundled project-based initiatives, enabling countries to pool together

[3] Visit: https://www.ilo.org/publications/seasonal-worker-schemes-pacific-through-lens-international-human-rights-and-0.

resources, harmonize legal and regulatory frameworks, and jointly attract FDI. Strengthening public service delivery, improving infrastructure, and enhancing the investment climate would require reforms which could balance between traditional governance systems and modern institutional practices. Additionally, targeted investments in human capital through education, vocational training, and labour mobility schemes are essential to address skills shortages and support inclusive economic growth. International partnerships, particularly with multilateral organizations, should be leveraged to provide technical assistance, policy coherence, and financial support for the region's sustainable development.

As Micronesian countries address the multifaceted challenges of sustainable development, the pursuit of synergy and solidarity emerges as a central strategy for overcoming the limitations of scale alongside isolation and resources constraints. The region's unique blend of promises and fragility calls for integrated solutions that respect cultural contexts while advancing economic and social resilience. Bundled project-based initiatives, supported by strong regional institutions and international cooperation, offer a viable path forward. By embracing collective actions and aligning national priorities with regional and global goals, Micronesian states can build a more inclusive, resilient, and prosperous future. One that not only addresses immediate development needs but also establishes the groundwork for long-term sustainability and achievement of the SDGs.

The United Nations Micronesia Policy Brief Series aims to generate a forward-looking discussion among policymakers, researchers, practitioners, and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. The Policy Brief Series are issued without formal editing. For more information, please contact Masato Abe at abem@un.org.

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