REPUBLIC OF THE MARSHALL ISLANDS

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Financial Access and the Path to USDM1

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Part 1: The RMI and the Correspondent Banking Crisis in the Pacific

Introduction

The Republic of the Marshall Islands (RMI) is a sovereign nation and former U.S. territory positioned between Hawai‘i and Australia, with the major economies of East Asia just beyond its western horizon. Its roughly 1,200 islands are spread across nearly two million square kilometers of ocean - an area comparable to the size of Mexico. This vast geography shapes all aspects of life in the RMI, from healthcare and education to trade and financial access. It has also forged traditions of resilience and innovation that have defined the Marshallese identity.

Since independence, the RMI has built modern, rules-based institutions aligned with global standards. The country maintains a unique and long-standing partnership with the United States through successive Compact of Free Association (COFA) agreements, first established in 1986, most recently renewed in 2024 and extending through 2043. The RMI operates entirely on the U.S. dollar standard and is serviced by the U.S. Postal Service. Its commercial statutes are modeled explicitly on Delaware law. Delaware non-statutory law is incorporated by reference for non-resident corporations, and RMI courts look to Delaware precedent. As of 2025, approximately 40 publicly listed NYSE- and NASDAQ-traded companies are domiciled in the RMI.

The RMI ship registry is the second largest in the world after Panama. It covers roughly 15 percent of global commercial shipping capacity, maintains white-list status under both the Paris and Tokyo MOUs, and administers more than 5,000 vessels.

Despite these strong institutional foundations, the RMI's unique geography has been a source of persistent constraints, limiting financial access and raising costs across the region. Against this backdrop, the global retreat of correspondent banking has significantly intensified the country's challenges.

The Correspondent Banking Crisis in the Pacific

A decade ago, Pacific Island Countries maintained approximately 1,200 correspondent banking relationships. Since then, roughly 700 of these relationships have disappeared. Several sovereign nations - including the RMI - now rely on a single correspondent banking partner.

The Cause

Following the 2008 global financial crisis, international banks faced rising compliance burdens and higher capital and operational requirements. Global AML/CFT standards intensified, and penalties for compliance failures became substantial. Between 2012 and 2016 alone, global banks paid tens of billions of dollars in fines, with several individual penalties exceeding $1 billion (making compliance an input into banks' operational capital ratios, as supervisors demanded higher buffers for compliance, operational and reputational risk.)

While these reforms were intended to strengthen global oversight of large financial flows, the fixed costs of compliance were calibrated for high-volume markets. In the Pacific, costs (including capital requirements) rose while transaction volumes remained static. Banks reassessed their risk-return profiles, and many decided maintaining small island nation correspondent banking relationships was no longer economically viable. Despite the region being assessed as low-risk for actual financial crime, banks withdrew and framed their withdrawal as a step in global de-risking.

The Consequences

The impact of losing correspondent banking relationships in the RMI has been severe, with reliance reduced to a single correspondent bank and only a handful of domestic branches. Citizens face the burden of having to take an expensive inter-island flight simply to cash a check. Cross-border settlement channels have dwindled as well, increasing costs for both households and businesses.

These issues have created enduring ripple effects. Remittance fees across Pacific corridors currently average 10 percent - triple the United Nations Sustainable Development Goal target. International USD wires can cost four to five times the global average, with settlement taking up to a week due to correspondent banking constraints. Since domestic transfers rely on the same limited banking infrastructure, inter-atoll payments can face unusually high costs and due-diligence requirements - at times resembling the friction a U.S. family office faces when wiring funds internationally to Switzerland. Digital banking does not resolve these bottlenecks, as it still requires correspondent banks for USD clearing, settlement and access to payment rails.

Merchant infrastructure is similarly constrained. Local networks are not supported by Visa or Mastercard, and the Bank of the Marshall Islands' card system functions as a closed-loop domestic network that cannot accept international cards. This fragmentation contributes to card-transaction costs that exceed global averages by a wide margin.

Cash Dependency

As a result of these issues, households and businesses rely heavily on physical cash. However, this also creates complex dynamics, as the nature of the RMI's geographic dispersion makes accessing physical cash difficult.

In the RMI, physical dollars arrive infrequently - often quarterly - and typically arrive by boat in a shipping container. The country's sole correspondent bank charges for deliveries and caps the amount of physical currency that can be purchased at once. Local banks respond by imposing withdrawal limits on how much cash can be taken out at a time. Even when citizens stay within these limits, ATMs and branches periodically run out of cash faster than anticipated, and restocking can be slow and unpredictable in the interim. In the face of these challenges, many households hoard (rather than spend) excess cash in anticipation of future shortages.

In the 24 atolls home to roughly one-quarter of the RMI's population, banking centers are hundreds of miles away, and in the face of cash constraints informal economies have arisen that are maintained through IOUs and barter.

Studies of cash-constrained economies show currency scarcity often acts as a structural tax on economic activity. Localized shortages reduce output, increase transaction premia and constrain employment. These outcomes can be felt across the RMI.

Inflation

Following the COVID-19 pandemic, when global inflation rose above nine percent, local prices in the RMI increased as well. In 2020, when global supply chains faltered, external inflation in the RMI was amplified further, above 7 percent.

Most countries have mechanisms to address inflation. However, the RMI is a fully dollarized economy, which means it lacks the independent monetary tools available to larger economies with central banks. In times of crisis, like the global shocks felt across the early 2020's, inflation dries up domestic liquidity at an accelerated rate, worsening the impact of price pressures and limiting the economy's capacity to absorb them. As import prices rise, local demand for dollars outpaces supply, liquidity tightens further and every dollar in circulation becomes more expensive.

Coordination Crisis

Multilateral institutions have begun to recognize the Pacific's correspondent banking crisis as a systemic failure requiring coordinated intervention. In 2024, the World Bank approved a $68 million Correspondent Banking Relationships Project to stabilize access in Pacific countries at risk of losing their last foreign banking link.

In the short run, this can help subsidize correspondent banking services. However, subsidizing reluctant banks to provide structurally uneconomical services creates a secondary dependency on external stabilization efforts, leaving the region exposed to the same fragilities that caused the crisis in the first place.

The overall result in the Pacific is a coordination failure, where rational individual bank decisions have created collectively irrational outcomes, and individual nations have been forced to bear the costs of maintaining an architecture designed for economies thousands of times larger than their own.

Context

In discussing the RMI's approach to solving these challenges, it is important to understand its history and context.

Part 2: Expanding Digital Access, Sovereign Wealth and Shared Prosperity

Political System

The RMI joined the United Nations in 1991. Since then, it has aligned its laws and regulations with global standards, strengthened its institutional capacity and worked alongside trusted international and multilateral partners. The RMI votes in the UN General Assembly as a full member. The country has consistently been rated "Free" by Freedom House for its civil liberties and political rights, with a parliamentary system that delivers regular elections, peaceful transfers of power and an independent judiciary.

Fiscal Discipline

Successive government administrations have strengthened fiscal frameworks, built precautionary buffers and undertaken structural reforms designed to withstand shocks. The result - achieved across a challenging geography - is a resilient political and institutional foundation that supports prudent fiscal policy, investment and innovation.

To strengthen its position further, the RMI has enacted a series of reforms constructing the legal and institutional pillars of a modern digital economy. The Fiscal Responsibility and Debt Management Act anchors fiscal discipline, transparency, and investor protections in law. The RMI Banking Act and updated AML/CFT framework are fully aligned with FATF standards, including the latest guidance for virtual-asset service providers. The RMI's electronic-transaction, cybersecurity, and digital-identity frameworks have been strengthened to ensure digital infrastructure can develop within a trusted legal environment.

The establishment of the Marshall Islands Monetary Authority (MIMA) - an independent regulator consolidating oversight of banks, money-service businesses and payment systems - further strengthens these reforms, with a mandate to safeguard financial stability and ensure the RMI's regulatory architecture is aligned with international prudential norms.

Locally-based banks in the country remain well-capitalized and highly liquid. Tier-1 capital ratios stand at approximately 15 percent, and liquid assets account for roughly 75 percent of deposits, far above the statutory 20 percent minimum.

Expanding Digital Access

The RMI is on a path to near-universal smartphone penetration. However, given its geography - spread across nearly two million square kilometers of the Pacific, an area four times the size of California - consistent digital connectivity has been difficult.

In recent years that barrier began to disappear, slowly then rapidly, with national contracts for Starlink deployment and the nationwide rollout of low-Earth-orbit (LEO) satellite internet. In just the last several months the country's digital landscape has effectively been transformed, and even the most remote households are now able to reliably access the internet. By 2026, every inhabited atoll will have high-speed connectivity.

This connectivity expansion represents one of the most significant infrastructure upgrades in the nation's history and lays the foundation for the next generation of digital public services to operate at national scale - accelerating modern service delivery in support of financial inclusion.

Sovereign Wealth

Where distance functions as a structural economic tax on households, ENRA - the RMI's Universal Basic Income program - provides a path to help offset these burdens.

ENRA, symbolizing community, care, and shared prosperity, is the world's first nationwide, long-term Universal Basic Income program, and the most extensive public-enrollment initiative in RMI history. It provides regular, predictable support to households and families across all atolls.

ENRA is funded from the Compact Trust Fund for the People of the Republic of the Marshall Islands. In mid-2025, total trust-fund assets exceeded $1.3 billion, with up to $500 million in additional contributions committed through 2027. The source of these funds is deeply rooted in the RMI's history and its current context.

Between 1946 and 1958, the RMI was a U.S.-administered territory and the site of a major U.S. military base. It became the United States' first large-scale Cold-War nuclear testing ground, and was the focal point of extensive nuclear experimentation. Some tests were conducted on land, some underwater and some on offshore barges. One specific detonation - the Castle Bravo test - had more than 1,000 times the explosive force of Hiroshima, and is the largest and most powerful U.S. nuclear test in history.

In total, the explosive yield of nuclear tests conducted in the RMI equated to the force of 1.6 Hiroshima-sized bombs being dropped every day for 12 years. When the tests ended in 1958, the country faced widespread radiation exposure and many communities experienced forced displacement - impacts that have persisted across generations.

The Marshallese people also face a separate and ongoing displacement threat from rising sea levels. Although the country's highest natural elevation is roughly ten feet, much of its populated land lies only one to two meters above sea level. Sea levels in the region have been rising at more than three millimeters per year, driven by thermal expansion as oceans absorb excess heat and by the melting of land-based ice sheets in Greenland and Antarctica. These pressures compound the challenges faced by all citizens.

Trust Fund for the People of the Republic

The RMI became a fully sovereign nation on October 21, 1986. On this date, it also entered into a Compact of Free Association with the United States, which was amended and re-signed on April 30, 2003. Together, these compacts provided over a billion dollars in grants, trust-fund contributions and support. More recently, on October 16, 2023, the RMI signed a $2.3 billion Compact of Free Association renewal with the United States for another 20-year term extending through 2043.

Under the Compact, the RMI receives nuclear-testing compensation, climate-adaptation support and other benefits, and also hosts ongoing U.S. defense installations that have become critical sites for long-range ballistic-missile testing, missile-intercept development, radar operations, satellite tracking and deep-space surveillance.

Today, the United States military remains one of the largest formal employers in the RMI. The U.S. has long-term land-use rights on Kwajalein Atoll, which is home to U.S. Army Garrison–Kwajalein Atoll and the Ronald Reagan Ballistic Missile Defense Test Site. These agreements extend through 2066, with an option for renewal through 2086, and provide a series of stable and predictable ongoing economic arrangements.

Grants, contributions and support from these arrangements have been used to create the long-term Compact Trust Fund for the People of the Republic of the Marshall Islands. Investments in this fund began over two decades ago and have been growing at an annual rate of roughly 6.9 percent since 2004, alongside additional contributions.

Shared Prosperity

ENRA (Universal Basic Income)

ENRA - the RMI's Universal Basic Income - is a way to ensure the national wealth earned through this fund regularly reaches and benefits every citizen of the RMI, providing support to overcome historical and structural barriers that have impacted the fabric of the nation.

Universal Basic Income has been approved by the RMI's national legislature and is embedded in the country's fiscal architecture. The sovereign wealth fund has been structured so that a limited percentage of its annual investment returns can make regular Universal Basic Income distributions permanently sustainable.

Distributions are intended to be universal and nationwide within the citizen-resident population, unconditional in terms of income or employment, and regular - beginning at the end of 2025 and continuing on a quarterly basis for the next decade or longer. A companion program for higher-need communities, called the Extraordinary Needs Distribution (END), is earmarked for atolls and islands facing exceptional hardship, including support for food, housing repair and other needs from outer islands affected by nuclear testing.

UBI funding is sourced from the interest generated by the Compact Trust Fund within a sustainable four-percent cap, and has been approved by a Trust Fund Committee whose members include both RMI and U.S. representatives. All disbursements occur under external oversight and are aligned with long-term fiscal sustainability.

Part 3: Designing Systems for Inclusion, Stellar Development Foundation

Responsible System Design

The government considered many factors when evaluating approaches to deliver regular ENRA (Universal Basic Income) distributions.

First and foremost, approaches needed to be tailored to the RMI's context and geography, and designed with citizens at the center. The government needed to be able to transfer funds to all citizens - including individuals without bank accounts - on a regular basis, so those who required assistance the most could access funds as quickly as possible. The government also needed to accommodate circumstances on islands where wire transfers are limited by infrastructure gaps, checks can take weeks to arrive and cash deliveries are constrained by weather and transport.

Delivery needed to be low-cost to maximize aid impact and occur with a high degree of transparency and traceability. It also needed to be able to accommodate future policy adaptations and targeting - in case, for example, future administrations elected to index ENRA amounts to inflation, layer additional support for high-need communities in structurally disadvantaged locations, or distribute funds on a more frequent cadence (monthly or weekly, for example, rather than quarterly.)

To this end, the government committed to providing a range of distribution options to receive aid, giving recipients the freedom and dignity to select the format best suited to their personal needs.

Multiple Channels

The RMI executed the first ENRA distributions on November 26, 2025. Distributions included three main channels - paper checks for those who preferred them, direct deposits for those with bank accounts, and blockchain transfers to a custom digital wallet for citizens seeking faster, more reliable access across distances. The blockchain option began through a contained pilot allowing citizens to verify eligibility, enroll to receive ENRA benefits and receive disbursements through a mobile application - the Lomalo digital citizen wallet, designed specifically for the Marshallese people.

Stellar Development Foundation

The government worked with a range of leading global experts and partners in designing its blockchain disbursement option and digital citizen wallet program. This included generous grants and support from the Stellar Development Foundation (SDF).

The Stellar Development Foundation is a mission-driven nonprofit focused on creating equitable access to the global financial system through the growth and development of blockchain technology. SDF supports the Stellar network - one of the world's longest-operating public blockchains - which has successfully processed more than 7 billion transactions over the past decade. Stellar Development Foundation's work centers on emerging markets, underbanked users, fiscal-transfer programs in developing regions and blockchain solutions for financial inclusion including remittances and humanitarian payments. It also has expertise in developing auditable fund disbursements and related systems that help prevent misallocation and fraud.

The RMI government was attracted to working with the Stellar Development Foundation, in particular, on the strength of its previous partnerships. This includes SDF's work with the United Nations Development Programme in Europe and Central Asia focused on accelerating progress toward Sustainable Development Goals, the SDF's work with the International Rescue Committee to distribute aid in crisis zones including digital-disbursement systems in Ukraine, and the SDF's support for the United Nations High Commissioner for Refugees in delivering aid to forcibly displaced communities.

Stellar Development Foundation has also partnered with the United Nations International Computing Center (the UN's technology-solutions provider), supported financial-access applications and remittance corridors in Africa, and worked with leading U.S. banks to expand access to affordable financial services.

In the context of the RMI, Stellar Development Foundation was instrumental in supporting the development of USDM1 and Lomalo, creating value transfer and digital-delivery tools ensuring ENRA disbursements can reach even the most remote communities in the RMI. The RMI also appreciated SDF's historical track-record engaging with regulators at the World Economic Forum, creating templates for NGO, fintech, and public-sector collaborations and publishing specialized resources for central banks and policymakers, alongside their partnership with MoneyGram creating a global network of cash on/off ramps in over 170 countries.

Blockchain Implementation

The decision to work with Stellar Development Foundation - and the government's broader understanding and path toward utilizing blockchain as a distribution method - was a considered one nearly a decade in the making.

Part 4: Blockchain Exploration and Capacity Expansion

The Journey to USDM1 (2015–2025)

The RMI has been closely evaluating blockchains as secure mechanisms for transferring value, and considering their potential to lower the costs of financial access for the Marshallesse people, for many years.

As early as 2015, global public-policy discussions began to consider blockchains as foundational infrastructure. By 2017, governments around the world were testing blockchains as emerging technologies to lower costs and improve public-service delivery. In Sweden, the Netherlands and the United Arab Emirates, land-registry pilots were launched focused on using blockchain platforms to create tamper-proof records, reduce administrative costs and improve access to property rights.

In 2017, as regional correspondent banks began withdrawing from the Pacific, the RMI explored a blockchain-based currency called the SOV as a possible response to emerging financial-access pressures. The government presented the concept to the IMF, World Bank, U.S. Treasury and its banking partners. These institutions cautioned the SOV would function as a free-floating, parallel digital currency in a fully dollarized economy. This had the potential to introduce volatility that could undermine, rather than enhance, financial access.

At that time, regulations governing "virtual assets" relied on dated case law and ad hoc enforcement rather than coherent frameworks, and global AML/CFT standards for digital assets were incomplete.

Given these gaps, the RMI tabled the SOV proposal and repealed related authorizing legislation. However, the initial inquiry and subsequent process highlighted the promise of blockchain technology, broadened administrative understanding of its uses and implementation, and clarified the requirements for responsible future adoption.

Modernization of Regulatory Frameworks

The RMI continued a path of research, institutional development and regulatory alignment as blockchain technology matured. Earlier in the decade, the RMI integrated successive rounds of FATF guidance on virtual assets and virtual-asset service providers into domestic law. Soon after, blockchain-based compliance and supervisory capabilities were added to the Office of the Banking Commissioner and the Financial Intelligence Unit.

Capacity-Building

Drawing on its long-standing expertise in corporate and shipping registration - and supported by its commercial statutes modeled on Delaware law, with Delaware non-statutory law incorporated by reference for non-resident corporations and widely used as persuasive precedent in domestic corporate matters - the RMI entered into a public-private partnership to establish a corporate registry for DAOs. This registry brought entity-governance functions on-chain, replacing paper-based operating agreements with blockchain-based agreements. In subsequent years, related laws and regulations have enabled more than 300 DAO LLCs to register in the RMI. Successful RMI implementation of these initiatives has required technical training alongside adoption and regular use of blockchain-based compliance and supervisory tools.

These operational experiences provided RMI government agencies with practical familiarity and laid a responsible foundation when new opportunities emerged to utilize blockchain for the benefit of the Marshallese people.

Part 5: Corporate Stablecoins, Tokenized Government Bonds and Enhanced Institutional Readiness

Corporate Stablecoins

From the earliest stages of their adoption, the government took note of the evolution and rapid growth of stablecoins - digital instruments designed to maintain a one-to-one peg with fiat currencies like the U.S. dollar. The largest stablecoins were issued by private companies that held U.S. dollars and U.S. Treasuries, alongside other assets, as reserves in traditional financial institutions.

Many of these instruments sought to combine the stability of the U.S. dollar with the technical advantages of blockchain-based infrastructure. These advantages included low-cost distribution with reduced reliance on traditional banking rails as well as strong record-keeping integrity. Blockchain systems maintained assets and transaction histories under a unified, verifiable and immutable standard, enabling low-friction transfers and continuous auditability.

From early 2019 to early 2025, stablecoin market capitalization grew from $1 billion to over $200 billion, demonstrating the ongoing viability of on-chain dollar-denominated assets and their potential to broaden access and expand domestic liquidity.

At the same time, the government noted structural limitations. Corporate stablecoins are not cash equivalents and remain corporate liabilities, often with uncertain legal protections for holders. Reserve composition and disclosure practices vary widely across issuers. As a result, in an issuer insolvency, holders may face lengthy bankruptcy proceedings, unclear claim priority and potential shortfalls in redemption proceeds.

For regulated financial institutions like banks, these and other characteristics create additional challenges. Under Basel III/IV standards, exposures to corporate stablecoins can attract high risk-weighted asset charges reflecting both corporate credit risk and operational risks associated with privately issued digital liabilities. Under prevailing accounting frameworks, corporate stablecoins are typically classified as intangible assets or inventory. Since they are not high-quality liquid assets (HQLA), are not recognized as eligible financial collateral and do not confer capital offsets, banks holding or warehousing stablecoins risk incurring incremental capital and funding costs that compound with use.

These limitations reduced the suitability of corporate stablecoins for use cases like UBI distribution. In regions like the Pacific - where correspondent-banking access is already fragile due to balance-sheet, liquidity and capital considerations - corporate stablecoins' capital inefficiency and negative balance-sheet impact raised the risk of introducing additional points of friction rather than alleviating them. While stablecoins demonstrated strong technological benefits, usability and potential for adoption, their corporate liability structure and regulatory treatment (among other issues) limited their applicability for use as a foundation for inclusive, sovereign-aligned financial infrastructure.

Tokenized Government Bonds

As the government spent more time evaluating options for regular ENRA disbursements, and understanding the opportunities and limitations of stablecoins, it coordinated with leading international advisors. These groups helped refine the government's understanding of feasibility and policy alignment.

This assessment period coincided with global progress toward tokenized sovereign bonds, where blockchain was explored as a modern book-entry layer for traditional securities. In the early 2020s, several governments and official institutions piloted representations of sovereign bonds on distributed ledgers. These experiments demonstrated that blockchain could operate as a modernized registry or settlement rail when the bond remained a security issued through existing legal and custodial infrastructure.

Examples included Hong Kong's 2023 and 2024 tokenized government-bond issuances, which were classic sovereign notes mirrored on a blockchain while custody, settlement and investor protections continued to be governed by traditional law. Singapore's Project Guardian and MAS pilots confirmed tokenized sovereign debt can satisfy prudential, operational and settlement-risk requirements when legal enforceability is anchored in standard trust-law and securities-law structures. The BIS Innovation Hub, World Bank and ADB reached similar conclusions, with a consistent finding that tokenization does not change the legal nature of the obligation.

For the RMI, these developments began to clarify a critical principle - a sovereign bond remains a sovereign bond even when its book-entry system operates on a distributed ledger - provided the instrument is governed by sovereign-debt law, that custody and collateral arrangements remain within

the regulated financial system, that intermediaries remain supervised entities, and that the blockchain is intended to function as the delivery and record-keeping layer.

Tokenized Bank Deposits

In parallel, the government also observed work being done on tokenized bank deposits with commercial banks issuing tokenized representations of traditional deposits on permissioned ledgers. Central banks, including the Federal Reserve, MAS, ECB and Bank of England, noted that when the liability remains a bank deposit under existing banking law, tokenization modernizes transfer and record-keeping but does not create a new monetary instrument or change deposit insurance, risk weighting or supervisory treatment.

This also reinforced the government's view that tokenization can preserve legal substance while enhancing operational characteristics. In both sovereign-debt and bank-deposit pilots, the underlying claim remained unchanged, settlement and custodial controls remained with regulated intermediaries, and blockchain functioned as the book-entry system.

As a broader principle, this reinforced tokenization is a technological upgrade not a financial innovation that alters risk, governance or legal substance. It enhanced confidence that a sovereign bond could be digitized without becoming crypto or a payment token.

Institutional Readiness

These insights encouraged the RMI government to explore directly issuing a fully collateralized sovereign debt instrument that could be used safely and securely in ENRA distributions, reduce liquidity pressures and cash constraints, and avoid the perception or risk of imposing higher costs on correspondent-banking partners.

The RMI discussed the program with domestic stakeholders and multilateral partners at various stages as its understanding, position and approach evolved.

Over a multi-year period, the RMI collaborated with leading international advisors, engaged and retained qualified experts, expanded supervisory capacity and regulatory bandwidth, and ensured approaches operated fully within AML/CFT requirements and the RMI's prudential supervisory perimeter.

As the government prepared for phased pilots and citizen-education initiatives, it upgraded its digital literacy, IT infrastructure, technology governance, risk-management and compliance practices to maintain alignment with global standards. Cybersecurity measures were implemented consistent with international best practices, and institutional checks and balances were reinforced through the application of additional safeguards.

ENRA

The first distribution of ENRA - the RMI's Universal Basic Income - occurred on November 26, 2025 and will continue every quarter thereafter for the next decade or more through both conventional and digital channels.

Blockchain Pilot

The RMI introduced its digital sovereign bond, USDM1, and its citizen UBI wallet, Lomalo, in a limited, phased rollout for qualified ENRA recipients alongside traditional distribution methods. This allowed the RMI to monitor operational performance. The RMI will expand access for future distributions.

Part 6: USDM1, Fiscal Management and Regulatory Alignment

USDM1 — A Digital, Fully Collateralized Sovereign Bond

USDM1 is a digital, fully collateralized, USD-denominated sovereign bond issued directly on-chain. It is not a wrapped instrument. It provides a safe way to transfer value while maintaining contractual rights, collateral structure and legal enforceability.

USDM1 is denominated in, and redeemable at par for, the U.S. dollar. Each unit is backed 1:1 by short-dated U.S. Treasuries, and recorded on a verifiable digital ledger.

The Instrument

USDM1 is not a central bank digital currency, an e-money token or a corporate stablecoin. Where privately issued payment tokens represent claims on private issuers, each unit of USDM1 represents a par-value sovereign obligation with enforceable rights against the sovereign, alongside a secured claim on the U.S. Treasury collateral.

Sovereign Credit

USDM1 aligns with established sovereign-financing practices modernized for contemporary needs. The instrument's indenture is issued under New York law and incorporates a sovereign waiver of immunity. Each unit is fully collateralized by short-dated U.S. Treasuries, held on a segregated basis by a U.S. trust company and pledged to a collateral agent that maintains a first-priority perfected security interest under New York law for the benefit of bondholders. This creates a dual-recourse structure - to the sovereign and to the collateral. Guaranteed par-redemption and liquidation rights are administered by the trustee.

Contractual and legal structures are governed by U.S. securities-law standards following international practices for collateralized sovereign obligations.

The Brady Framework

USDM1 is structured in the lineage of a Brady bond.

Brady bonds were introduced in 1989 under a U.S. Treasury-led initiative championed by Secretary Nicholas Brady. The framework created standardized, transparent sovereign notes collateralized with U.S. Treasury zero-coupon bonds held in escrow, securing repayment of principal and often supported by interest-reserve accounts.

Brady structures became widely endorsed for their full collateralization with risk-free assets, governance under New York law with enforceable investor protections and transparent fiscal-discipline mechanisms.

By the mid-1990s, over $160 billion in Brady bonds had been issued. The RMI adopted the Brady-style structure due to its decades of precedent, strength in emerging-market contexts and strong track record for restoring market access.

USDM1's servicing framework, full collateralization and New-York-law governance with enforceable redemption rights follow the same defining principles as Brady bonds. Historically, principal-collateralized Brady instruments proved resilient even during global financial-stress episodes, with no record of redemption pressures or defaults. Countries issuing Brady bonds experienced more favorable outcomes relative to peers, including stronger reform momentum and lower inflation.

Context

Dollarized Monetary Environment

As the RMI uses the U.S. dollar as its sole legal tender under the Compact of Free Association, issuing USD-denominated sovereign debt is a natural extension of its existing monetary and fiscal arrangements.

USDM1 introduces no new monetary-policy transmission channels, no convertibility or exchange-rate risk, and no need for hedging programs, swap lines or FX-reserve maintenance structures. Government revenues, expenditures, savings and debt servicing already occur within the U.S. dollar framework, so pricing, collateralization and redemption of USDM1 align with the RMI's monetary regime.

While USDM1's representation settles on a digital ledger for efficiency and reach, the obligation remains a conventional USD sovereign bond with rights, servicing and enforcement anchored in established legal and fiscal systems.

Fiscal Management

USDM1 operates within domestic legal requirements, including the Fiscal Responsibility and Debt Management Act of 2020 in the RMI, investor-protection provisions and established sovereign-debt securities-law frameworks under U.S. law. No USDM1 can be created without collateral. Collateral is fully segregated and cannot be used for budget support or recurrent spending. Issuance does not increase the RMI's net-debt position consistent with precedent for collateralized Brady-style obligations. Since supply is constrained by available collateral, USDM1 cannot expand faster than the RMI's sustainable fiscal space.

Technology

USDM1's tokenization provides transparency and efficient distribution without altering the sovereign-credit contract. USDM1 remains a New-York-law sovereign bond, fully collateralized by short-dated U.S. Treasuries and custodied within the traditional financial system. All critical rights and obligations remain anchored in enforceable legal frameworks.

The distributed ledger provides an optional settlement and transfer rail that increases access, reduces delivery friction and supports resilient public-service operations across the RMI's dispersed geography, helping reach households that traditional infrastructure struggles to serve.

USDM1's reliability is aligned with its governance and legal architecture rather than blockchain uptime. Issuance, redemption, custody and distribution all occur inside the AML/CFT supervisory perimeter and through regulated intermediaries. This creates operational redundancy, as collateral is held and

redemption and servicing can occur via traditional financial infrastructure and the blockchain. If digital rails are unavailable, sovereign obligations can continue to be honored.

Supervision and Regulation

USDM1 sits within the RMI's supervisory perimeter. Issuance, collateral management, custody and servicing are carried out by U.S.-licensed trustees, paying agents and custodians operating under sovereign-debt governance, disclosure and reporting practices governed by New York law and RMI fiscal statutes, including the Fiscal Responsibility and Debt Management Act of 2020. Domestically, the initiative functions within established sovereign-debt and securities frameworks.

Custody, redemption and record-keeping are performed by supervised institutions. All stages of USDM1's lifecycle operate within AML/CFT and prudential-supervision frameworks.

Brady Architecture and RMI Legal Alignment

The RMI's legal and institutional architecture is naturally aligned with Brady-style, New-York-law sovereign structures. As previously noted, the RMI operates entirely on the U.S. dollar standard, eliminating FX risk. Its commercial statutes are modeled on Delaware law. Approximately 40 NYSE/NASDAQ-listed companies are domiciled in the RMI, and the ship registry is the world's second largest, covering ~15% of global commercial shipping capacity. This has driven deep integration with U.S. secured-lending and custodial systems, including adoption of UCC Articles 8 and 9, long-standing use of New-York-law contracts and access to bankruptcy safe harbors for securities transactions. Adopting a Brady-style collateralized structure is a continuation of the RMI's long-standing legal and financial integration with U.S. capital-market norms.

USDM1 is issued under a New York–law indenture with explicit waivers of sovereign immunity embedded in the governing documents. Holders benefit from a first-priority, perfected security interest in the underlying U.S. Treasuries perfected by "control" under the Uniform Commercial Code, preserving sovereign look-through with credit exposure to the underlying U.S. Treasuries.

Lomalo and Crossmint

Lomalo provides a secure digital interface through which citizens can receive government disbursements and manage transfers. Embedded wallet technology supplied by Crossmint generates and manages secure user credentials in a user-friendly environment without requiring seed-phrase management or specialized technical knowledge. Transfers occur on the Stellar blockchain, enabling transparent and verifiable settlement while ensuring users retain control over their accounts and transaction history.

The underlying Crossmint infrastructure prioritizes accessibility, security and operational simplicity, creating a modern and reliable channel through which government disbursements can be delivered, accessed and used by citizens across all islands.

Global Advisors

The RMI continues to work closely with qualified experts, global partners and international advisors to improve institutional readiness, strengthen governance, reduce capacity constraints, expand digital infrastructure and implement strong safeguards. Issuance was structured by Cleary Gottlieb, an internationally recognized leader in sovereign debt with deep expertise in collateralized financing frameworks. Tax and accounting guidance was provided by Andersen, a leading global tax and financial

advisory firm. Crossmint provided wallet and compliance-system integration. Surus Trust Company functions as U.S. trustee, custodian and collateral agent. M1X Global provides ongoing program consultation, system-design support and operational coordination. Inca Digital provides advanced data-monitoring, technical tools and risk-analysis. Guidepost Solutions strengthens oversight, compliance and AML controls and support. Additional tools and technology systems were put in place to supervise relevant entities, monitor cybersecurity risks, assess potentially suspicious activity, combat illicit finance and uphold international financial-integrity standards. The Stellar Development Foundation provided grants, technical guidance and best practices for integrating blockchain tools and fiscal disbursement channels, including utilization of the Stellar Disbursement Platform. Transactions on the Stellar blockchain settle in seconds and cost only fractions of a cent, enabling affordable, predictable and efficient digital transfers at any scale.

The involvement of these and other advisors, working alongside elected RMI representatives, dedicated supervisory officials and oversight bodies and guided by carefully enacted policies and legislation, collectively ensure the benefits of responsible innovation can reach remote communities, close longstanding access gaps and reduce logistical burdens while enhancing security, affordability and usability.

International Inquiries

In response to institutional inquiries, the RMI is enabling controlled access to USDM1 for qualified institutional counterparties, providing a digital format for interacting with sovereign debt that enhances transparency and settlement efficiency. Any revenue generated will support long-term development priorities within the RMI's fiscal framework, reflecting the nation’s realities as one of the world’s most climate-vulnerable countries with significant climate-adaptation needs, as one of the most geographically dispersed countries where service delivery and economic inclusion entail exceptionally high structural costs, and as a nation still addressing the meaningful long-term impacts of its nuclear-exposure legacy.

Historically, collateralized sovereign instruments, including Brady bonds, were seen as tools to restore global market access and attract cross-border investment through transparent, rules-based structures. A controlled distribution framework is consistent with global tokenized sovereign pilots in Hong Kong, Singapore, and Europe, and aligns with established sovereign-debt practices, including the issuance, trading and custody arrangements of Brady bonds historically. International standard-setting bodies - including the WEF, BIS, ISDA, FIA and the CFTC - have noted that tokenized government bonds retain their legal character when enforceability, custody and risk controls are preserved, supporting the treatment of USDM1 within institutional sovereign-debt workflows. The WEF has noted sovereign bonds are among the safest and most compliant assets to tokenize. The RMI’s approach reflects established sovereign-debt governance principles and supports its long-term financial-stability objectives.

Part 7: Responsible Innovation, Access to Opportunity

Increasing Dollar Liquidity

ENRA (Universal Basic Income) and USDM1 provide pathways, over time, to expand the supply of accessible dollar liquidity within the RMI. These initiatives reduce reliance on physical cash and allow remote atolls to receive and move value digitally - when they need it, how they need it, and without waiting for quarterly cash shipments.

As citizens transition from scarce physical cash to reliable digital balances, pressure on cash shipments should gradually decline and the premiums attached to physical cash can begin to fall. Historically, dollar scarcity has inhibited local commerce, increased the cost of basic transactions and contributed to elevated consumer prices. Expanded access to digital liquidity can help mitigate these pressures and strengthen economic resilience.

These savings should be felt most by low-income households, for whom small-denomination, cash-based purchases make up the majority of consumption. When households can move value more easily and businesses can operate with fewer constraints, local markets become more stable and dynamic.

Digital balances also offer a way to modernize inter-island trade. Communities can move away from informal IOUs and barter systems - systems that emerged from chronic cash shortages - and adopt reliable, sovereign-backed digital value that functions consistently across atolls.

As an open, trade-reliant economy, the RMI will always experience external inflationary pressures. However, stabilizing liquidity across the domestic economy can reduce the amplification effects of global price shocks and moderate the secondary distortions that arise from local cash scarcity.

Importantly, USDM1 does not replace correspondent-banking relationships, which remain essential for cross-border settlement in the global financial system. However, its design creates a compliant pathway that may reduce dependence on traditional correspondent-banking models for certain domestic and regional flows.

To the extent secure, regulated digital balances can be integrated with bank-compatible channels over time, this can encourage greater participation in the formal economy and provide a credible contribution toward addressing the correspondent-banking crisis roiling the Pacific. Over time, these initiatives could link financial reform to real economic expansion and sustained growth.

The Marshallese Future

The history of the RMI is a story of navigation, innovation and resilience.

Early Marshallese navigators ventured into the unknown, using stick charts to interpret wave patterns and map unseen atolls. Their ingenuity transformed vast ocean distances into safe, well-understood passageways to hundreds of islands. Their hard-won expertise turned isolation into connectivity and created a shared identity built across distance.

Today, the RMI faces physical and modern forms of distance - which manifest as high transaction costs, fragile banking links and limited cash availability. These factors impose a structural economic tax on households and businesses. Just as they've overcome past challenges, the nation and its people are determined to apply their hard-won knowledge to overcoming these barriers.

From Access to Opportunity

The rollout of low-Earth-orbit broadband networks means the RMI's digital transformation is rapidly underway. Support from the Stellar Development Foundation and international partners is helping to ensure connectivity becomes a defining feature of the RMI's economic future. Through the ENRA program, USDM1, the Lomalo wallet and other distribution methods, the RMI is taking responsible steps to deliver services, broaden prosperity and strengthen community across every atoll.

As the RMI continues investing in digital infrastructure, the country is charting a course toward an inclusive future where access defines its economic destiny.

National initiatives like USDM1 are not merely technological upgrades - they are modern extensions of the Marshallese navigational tradition. Through careful, responsible and inclusive innovation, the same infrastructure that improves public-service delivery today strengthens the RMI's position in the global and digital economy tomorrow. In this light, USDM1 transforms distance into opportunity and lays the foundation for a more prosperous and resilient Marshallese future.