REPUBLIC OF THE MARSHALL ISLANDS
MINISTRY OF FINANCE, BANKING, & POSTAL SERVICES
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CONFIDENTIAL

February 3, 2025

MEMORANDUM

TO : **Speaker and Members of the Nitijela**

FROM : **Minister of Finance, Banking, & Postal Services**

SUBJECT : **Issuance of USDMI, a Digital Brady Bond**

CONTEXT:

The Fiscal Responsibility And Debt Management Act 2020 Part II Section 118 authorizes the Minister of Finance, with the approval of the Cabinet, to issue bonds on behalf of the Government and enter into various agreements related to administering the issuance. At its meeting on November 14, 2024, the Cabinet approved in principle the issuance of a digital bond backed by US Treasuries, along with a contract to form a new Public Private Partnership ("PPP") with the team behind MIDAO (hereafter referred to as "MIBOND") to execute and administer the issuance. Section 119 (1) requires that the Minister of Finance provide to the Cabinet a report on the proposal before it binds itself, which the Minister provided. Section 119 (2) requires that the Minister later provide a summary of the report to the Nitijela and the Public Accounts Committee. This memo to the Nitijela satisfies Section 119 (2) by summarizing the report.

BACKGROUND:

The RMI has an opportunity to generate substantial new revenue by issuing a digital sovereign bond that gives people indirect access to interest from US Treasuries. This doesn't matter so much to US citizens who already have easy access to US Treasuries, but it matters a lot to people around the world who lack easy access to US Treasury Bonds, which currently yield roughly 5%.

Today, there are $200 billion in digital dollars ("Stablecoins" backed 1:1 by real dollars), of which experts believe $100 billion are savings. The holders of these stablecoins earn no interest whatsoever given the opportunity experts believe they would want to earn interest from US Treasuries. Already, 24 private companies ("issuers") have attempted to win this market by issuing Digital US Treasuries ("Digital Treasuries" backed 1:1 by real short-term US Treasuries).

Here's how these Private Digital US Treasuries work: (1) a purchaser pays $1 to the issuer, (2) the issuer gives the $1 to a US Bank that serves as a third-party custodian, (3) the issuer directs the custodian to use the $1 to buy US Treasuries, (4) as the US Treasuries generate interest, the custodian pays the majority to the purchasers and pays a small portion to the issuer. Note that purchasers can request their money back at any time, which prompts the custodian to return the $1 by selling $1 of the US Treasuries.

Unfortunately for private issuers, US Securities law only allows them to sell their Digital Treasuries to "Accredited Investors" who have at least $1M in assets or over $200K in annual income. That excludes most of the world. However, US Securities law allows governments to sell their sovereign bonds to anyone, regardless of wealth or income. As a result, the first country to issue a Digital Sovereign Bond with the same structure as that used by the private issuers is likely to attract a substantial amount of the $100B in Stablecoin savings. Many countries (e.g. Philippines, Israel, Hong Kong, El Salvador) have already issued Digital Sovereign Bonds, so it is just a matter of time until a country structures a sovereign alternative.

If the RMI issues a Digital Sovereign Bond that functions as a "Digital US Treasury" and attracts just 2-5% of existing Stablecoins with a 1% fee, the RMI would generate $20-50M in annual revenue. Because the custodian would always hold enough US Treasuries to redeem the entire bond, there is no risk of needing government finances to pay back the bond—the bond is entirely self-liquidating.

Note that this is very different than the SOV initiative of 2018. The SOV was a novel concept, but volatile and politically sensitive. In contrast, this proposal combines three components that already proven and accepted by the market and US authorities—Digital Sovereign Bonds (7 Countries), Sovereign Bonds Collateralized by other Assets (15 countries, including the RMI in 1980s), and Private Digital US Treasuries (24 Issuers). Combining these components into a Digital Sovereign Bond Collateralized by US Treasuries should not be controversial.

The RMI has a substantial budget deficit and needs substantial funds to help mitigate such priorities as climate change, nuclear issues, and other public investments. The RMI needs to pursue opportunities to generate capital to address these important needs that the recently negotiated Compact 3 funding package falls short in addressing. The team behind MIDAO understands digital assets and has proven themselves responsible and capable of executing complex projects that benefit the RMI while avoiding potential risks that could have materialized. A second Private Public Partnership with MIBOND to pursue this opportunity is a prudent decision.

Since MIBOND is spending substantial resources to evaluate this opportunity, the Cabinet has agreed to exclusivity with MIBOND. It is worth noting that the RMI will not incur any expense relative to the USDMI project.

As required by law, the instrument has been approved by the Attorney-General and the Secretary of Finance, along with the Minister of Finance.

Submitted by:

David Paul
Minister of Finance, Banking, & Postal Services