



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

NAMIBIA

Retail Central Bank Digital Currency Exploration and Roadmap

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High-Level Summary Technical Assistance Report
Monetary and Capital Markets Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: At the request of the Bank of Namibia (BoN), an IMF mission team conducted a technical assistance (TA) from January 15 to February 1, 2024. The mission assisted the authorities in establishing the groundwork for a feasibility study of a retail central bank digital currency (rCBDC) and drafting a roadmap for the BoN's CBDC exploration. The mission also reviewed requirements for rCBDC issuance, including institutional capacity, technology, cybersecurity, and legal foundations. The mission recommended the BoN assess how rCBDC can improve the payment systems and financial inclusion in Namibia compared to alternative solutions. The authorities are advised to establish a compelling rationale for rCBDC before embarking on a more resource-intensive undertaking. The mission suggested that the BoN continue developing expertise and capacity in rCBDC across policy, technology, and legal domains, including through continued engagement with stakeholders.

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The contents of this document constitute a high-level summary of technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Namibia in response to their request for capacity development. Unless the authorities specifically objects within 30 business days of its transmittal, the IMF will publish this high-level summary on IMF.org (see [Staff Operational Guidance on the Dissemination of Capacity Development Information](#)).

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Background

Exploring CBDCs has been a subject of interest for central banks in Sub-Saharan Africa. As a member of the Common Monetary Area (CMA), Namibia, along with South Africa, Lesotho, and Eswatini, has been conducting research on CBDCs.¹ Concurrently, the CMA member countries have been individually exploring rCBDC for domestic use cases. The BoN sought to form a view on rCBDC, particularly on the feasibility of rCBDC and a roadmap. Therefore, the BoN requested TA from the International Monetary Fund (IMF).

From January 15 to February 1, 2024, the IMF mission assisted the BoN in establishing the groundwork for a feasibility study of rCBDC and drafting a rCBDC exploration roadmap. The mission assessed value propositions of rCBDC to improve payment systems and financial inclusion and analyzed the implications of rCBDC for monetary policy and financial stability. In addition, the mission reviewed foundational requirements, including institution, technology, cybersecurity, and legal foundations, aiming to identify required resources should the BoN introduce a rCBDC. Lastly, the mission helped the BoN CBDC Working Group create a draft of the rCBDC exploration roadmap, identifying priority actions, timelines, and resources.

Summary of Findings

After making significant progress, the BON still faces challenges in addressing the gaps in the payment systems. The BoN has taken key payment initiatives, such as developing NamPay and Instant Payments Solution (IPS).² However, gaps still exist in the payment systems, such as limited interoperability, restricted access for non-banks, high payment fees, and long payment settlement time.

Financial inclusion has seen notable improvement in Namibia, but challenges remain. Both bank account ownership and digital payment usage in Namibia have experienced positive trends, surpassing the regional average for Sub-Saharan Africa. However, limited accessibility to digital infrastructure in rural areas, high digital transaction costs, strong preference for cash, and low financial literacy continued to be main barriers to financial inclusion in Namibia.

The mission did not find a strong case for issuing rCBDC at present to address the gaps in the payment systems. Initiatives such as IPS have already set out to address affordability and interoperability issues. Major commercial banks, which have committed to these payment initiatives, may not have additional resources available to support a rCBDC project. Meanwhile, rCBDC's potential benefits like offline and programmability rest on technologies yet to mature for a large-scale adoption, which may pose systemic risks if poorly designed and widely adopted.

Similarly, the case for rCBDC to improve financial inclusion will also rest on addressing common root causes for financial exclusion. The features of openness, programmability and offline payments could enable accessibility and affordability to digital financial services. Nevertheless, root causes to financial exclusion, such as inadequate infrastructures and low financial literacy, would still need to be addressed even at the presence of rCBDC.

¹ The CMA countries initiated Project Sunbird in July 2023 with key objectives to assess current challenges in regional cross-border payments and potential solutions including developing multi-currency, cross-border CBDCs for the CMA region. The IMF has engaged with the authorities and will provide technical assistance on the project.

² NamPay is a project to modernize the payment system by enhancing electronic funds transfers and implementing the new international financial messaging standards ISO 20022. Instant Payments Solution (IPS) aims to modernize Namibia's payment system by developing an interoperable mechanism and a real-time 24/7 transaction processing. The BoN has called for vendors to bid for the IPS development project and is finalizing the selection.

rCBDC issuance could have implications for both monetary policy and financial stability but these effects can be attenuated through careful designs of rCBDC and enhancements to monetary operations. For monetary policy, rCBDC could pose challenges to BoN's liquidity management and lead to increased volatility in short-term market rates. Furthermore, rCBDC could complicate the BoN's foreign exchange reserve management if used by non-residents. For financial stability, high degree of substitution from bank deposits for rCBDC could lead to banking disintermediation risk and may necessitate more central bank's interventions.

Summary of Recommendations

The mission recommended that the BoN establish a compelling rationale for rCBDC before embarking on more resource-intensive explorations. The BoN should further assess benefits and risks of both rCBDC and non-CBDC solutions to inform decision-making. Also, continued engagement with stakeholders—banks, non-banks, other policymakers, and the public—is essential to understand their perspectives and evolving needs for digital money and payments. The BoN should be well informed before developing prototypes or pilots. Finally, the current payment shortcomings should be addressed regardless of whether rCBDC is pursued.

The mission recommended that the BoN evaluate the roles of rCBDC and existing payment service solutions in improving financial inclusion. The BoN should assess the extent to which the existing payment systems have addressed key financial inclusion challenges and identify any remaining gaps that could be addressed by rCBDC. Moreover, the BoN could explore unique rCBDC designs with promising solutions to improve financial inclusion, such as offline payments, interoperability and low-to-zero cost of transactions. Also, the non-CBDC solutions such as enhancing consumer protection and financial literacy should be explored in parallel with rCBDC exploration.

The mission recommended that the BoN carefully assess macro-financial implications of rCBDC. The BoN should conduct macro-financial analysis on rCBDC. rCBDC design and other measures could be explored to help mitigate potential macro-financial risks. Also, a close collaboration among the CMA central banks is critical to limit currency substitution risk and safeguard financial stability in the region.

Finally, should the BoN decide to issue a rCBDC, further efforts will be necessary to improve foundational requirements. On institutional capacity, the BoN should continue learning and developing internal expertise in rCBDC and actively participate in CBDC international forums. On resources, the BoN should ensure that the financial and human resources allocated for the rCBDC project would not hinder existing or more urgent reform initiatives. On technology, the BoN should address gaps in the information and communication technology infrastructure by, for example, improving network connectivity, power access, and cybersecurity. On legal foundations, the BoN would need to amend the mandate and monetary law provisions in the BoN Act and review relevant private laws.