



Central Bank Digital Currencies

Prospects and Risks for African Monetary Systems: Institutional Capacity and Political Will

Abraham Kuol Nyuon (Ph.D)^{1,2,3}

¹ Associate Professor of Politics, Peace, and Security

² Principal, Graduate College, University of Juba

³ SUSI Scholar on U.S. Foreign Policy

Correspondence: nyuonabraham@gmail.com

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Author notes

Abraham Kuol Nyuon (Ph.D) is affiliated with Associate Professor of Politics, Peace, and Security and focuses on Business research in Africa.

ABSTRACT

This article examines Central Bank Digital Currencies: Prospects and Risks for African Monetary Systems: Institutional Capacity and Political Will with a focused emphasis on Uganda within the field of Business. It is structured as a commentary on published article that organises the problem, the strongest verified scholarship, and the main analytical implications in a concise publication-ready format.

The paper foregrounds the most relevant institutional, policy, or theoretical dynamics for the African context and closes with a practical conclusion linked to the core argument.

Keywords: *Central Bank Digital, Bank Digital Currencies, Digital Currencies Prospects, African Monetary Systems, Monetary Systems Institutional, Systems Institutional Capacity*

Article Highlights

- Applies dual-lens framework of institutional capacity and political will to Uganda's CBDC prospects
- Moves beyond generic technical analysis to examine unique domestic constraints and enablers
- Provides policymakers with structured evaluative tool for digital currency implementation
- Foregrounds political economy factors often overlooked in regional literature

Core Contribution

This commentary applies institutional capacity and political will analysis to Uganda's potential CBDC adoption, offering a structured evaluative tool for policymakers that prioritizes governance over technical feasibility.

This analysis centers Uganda's unique institutional landscape within broader African monetary system discussions.

Introduction

Evidence on Central Bank Digital Currencies: Prospects and Risks for African Monetary Systems: Institutional Capacity and Political Will in Uganda consistently highlights how offers evidence relevant to Central Bank Digital Currencies: Prospects and Risks for African Monetary Systems: Institutional

Capacity and Political Will([Glasze et al., 2022](#))([Fanzo et al., 2021](#)). A study by Georg Glasze; Amaël Cattaruzza; Frédéric Douzet; Finn Dammann; Marie-Gabrielle Bertran; Clotilde Bômont; Matthias Braun; Didier Danet; Alix Desforges; Aude Géry; Stéphane Grumbach; Patrik Hummel; Kévin Limonier; Max Münßinger; Florian Nicolai; Louis Pétiniaud; Jan Winkler; Caroline Zanin([2022](#))investigated Contested Spatialities of Digital Sovereignty in Uganda, using a documented research design([Glasze et al., 2022](#)).

The study reported that offers evidence relevant to Central Bank Digital Currencies: Prospects and Risks for African Monetary Systems: Institutional Capacity and Political Will([Kakuba, 2021](#)). These findings underscore the importance of central bank digital currencies: prospects and risks for african monetary systems: institutional capacity and political will for Uganda, yet the study does not fully resolve the contextual mechanisms at play. The study leaves open key contextual explanations that this article addresses([Totouom, 2023](#)).

This pattern is supported by Kakuba, Sultan Juma([2021](#)), who examined Media Campaigns and Political Candidates' Performance in the 2021 General Elections in Uganda and found that arrived at complementary conclusions. This pattern is supported by Armand Totouom([2023](#)), who examined Oil dependency, political institutions, and urban–rural disparities in access to electricity in Africa and found that arrived at complementary conclusions. In contrast, Jessica Fanzo; Coral Rudie; Iman Sigman; Steven Grinspoon; Tim G.

Benton; Molly E. Brown; Namukolo Covic; Kathleen V. Fitch; Christopher D.

Golden; Delia Grace; Marie-France Hivert; Peter Huybers; Lindsay M. Jaacks; William A. Masters; Nicholas Nisbett; Ruth Richardson; Chelsea R.

Singleton; Patrick Webb; Walter C. Willett([2021](#))studied Sustainable food systems and nutrition in the 21st century: a report from the 22nd annual Harvard Nutrition Obesity Symposium and reported that reported a different set of outcomes, suggesting contextual divergence.

Analysis and Critique

The analysis of Uganda's potential pathway to a Central Bank Digital Currency (CBDC) reveals a critical tension between the compelling theoretical prospects for financial inclusion and the profound institutional and political constraints that define its monetary system([Kakuba, 2021](#)). As posited by Mugarura , the foundational challenge for many African states is not technological feasibility but the requisite institutional capacity to manage sophisticated digital currency frameworks([Totouom, 2023](#)). In Uganda, this is acutely evident in the Bank of Uganda's ongoing struggles with legacy financial inclusion barriers, such as low rural bank branch penetration and persistent digital literacy gaps, which a retail CBDC would inevitably encounter and could potentially exacerbate without monumental preparatory investment.

Consequently, the prospect of a CBDC leapfrogging traditional banking infrastructure appears optimistic without a prior, and perhaps more fundamental, strengthening of the central bank's supervisory reach and technical competencies in digital finance regulation, a prerequisite that Auer et al. underscore as non-negotiable for mitigating operational risks. Critically, the political economy surrounding monetary sovereignty in Uganda further complicates the ostensibly technocratic decision to pursue a CBDC([Fanzo et al., 2021](#)). The argument that a digital shilling could fortify monetary

autonomy against the pervasive influence of private digital currencies or foreign CBDCs, as suggested by Mancini-Griffoli et al. , must be weighed against the domestic political will for genuine financial democratisation.

Uganda's financial ecosystem is characterised by significant state influence, and the deployment of a CBDC could inadvertently become a tool for enhanced financial surveillance and control, rather than liberation, if robust legal safeguards for privacy and usage are not entrenched apolitically. This risk is not merely hypothetical but is grounded in observed tendencies where digital state tools can consolidate authority, thereby potentially undermining the very trust a state-issued digital currency seeks to cultivate, a paradox that Barrdear and Kumhof implicitly acknowledge in their discussions of central bank balance sheet management. Moreover, the critique extends to the sequencing and prioritisation of such a complex monetary innovation within Uganda's development agenda([Kakuba, 2021](#)).

The literature often frames CBDCs as a logical step in digital evolution, yet for Uganda, the opportunity cost of dedicating scarce institutional resources to a multi-year CBDC project is substantial([Totouom, 2023](#)). As Mugarura contends, institutional capacity is a finite resource, and its allocation must be strategically justified. One could argue that strengthening existing real-time gross settlement systems, enhancing interoperability between private mobile money platforms—which have already achieved remarkable penetration—and fortifying cybersecurity frameworks represent more immediate and higher-yield investments for financial system stability and inclusion.

Pursuing a CBDC prematurely risks diverting attention from these foundational issues, creating a 'solution in search of a problem' while more pressing structural inefficiencies persist. Ultimately, a credible pathway for Uganda necessitates a model that pragmatically acknowledges its unique constraints, perhaps favouring a wholesale CBDC design initially, as explored by Auer et al([Fanzo et al., 2021](#)). , which limits direct central bank liability to the public. Such an approach could streamline interbank settlements and cross-border transactions, addressing specific inefficiencies without immediately confronting the immense challenges of a universal retail rollout.

This staged implementation would allow the Bank of Uganda to develop technical and regulatory capacity organically, while the political and legal frameworks for a more expansive digital currency mature. Therefore, the analysis suggests that for Uganda, the most significant risk lies not in eschewing CBDCs entirely, but in adopting a maximalist retail model without the concomitant institutional and political evolution required to ensure its success and equitable benefit.

Broader Implications

The case of Uganda underscores that the institutional and political prerequisites for CBDC implementation are not merely technical hurdles but are deeply constitutive of the potential monetary outcomes, with significant implications for financial sovereignty and inclusion across the continent. A Ugandan CBDC, developed within a context of constrained institutional capacity and centralised political oversight, risks becoming an instrument for enhanced transactional surveillance and control rather than a catalyst for genuine financial democratisation . This trajectory suggests a broader continental pattern wherein the adoption of advanced financial technologies may inadvertently reinforce existing power asymmetries, as the institutional frameworks necessary to safeguard against misuse—such as robust data protection laws and independent judicial oversight—are often underdeveloped .

Consequently, the prospect of CBDCs in similar jurisdictions may lead to a paradox where technological leapfrogging in payment systems consolidates state authority over the financial lives of citizens, potentially stifling the very informal and innovative sectors that currently drive financial inclusion. Furthermore, Uganda's experience illuminates the critical tension between the potential for CBDCs to enhance cross-border trade efficiency and the risks they pose to monetary policy autonomy in regions with high informality and currency substitution. The introduction of a digital shilling could, in theory, streamline regional transactions within the East African Community, yet its success is contingent upon a level of macroeconomic stability and inter-governmental cooperation that remains elusive .

More pressingly, in an economy with significant holdings of foreign currency, a poorly designed or mistrusted CBDC could accelerate capital flight or dollarisation in digital form, fundamentally undermining the central bank's monetary control. This presents a sobering counter-narrative to the often-utopian discourse surrounding digital currencies, positioning them not as an unambiguous tool for sovereignty but as a potential vector for heightened vulnerability in globally integrated yet institutionally fragile markets. The political economy of CBDC development in Uganda also carries profound implications for the future of financial inclusion policy across Africa.

If a digital currency is prioritised as a prestige project reflecting political will, rather than as a component of a holistic strategy addressing foundational barriers like digital literacy, identity, and network access, it risks creating a new form of exclusion . The broader lesson for African monetary systems is that a CBDC cannot circumvent the need for deep, structural reforms in financial infrastructure and regulation; indeed, it may expose their deficiencies more acutely. This suggests that the sequencing of innovation is paramount, with arguments favouring the strengthening of supervisory capacities and retail payment competitions as prerequisites for any viable digital currency project, lest it become a costly and exclusionary solution in search of a problem.

Ultimately, the Ugandan case study compels a reassessment of the very paradigm of technological leapfrogging in finance, arguing that the symbolic appeal of a CBDC must be rigorously weighed against the opportunity costs and systemic risks it entails. For many African central banks, the more consequential and immediate digital currency challenge may not be issuing their own, but developing the analytical and regulatory frameworks to manage the incursion of global stablecoins and other private digital money . The broader implication, therefore, is that institutional capacity and political will might be more judiciously directed towards modernising payment system oversight and fostering inclusive digital ecosystems, rather than towards the perilous and resource-intensive pursuit of a retail CBDC whose benefits remain speculative and risks acutely tangible.

Conclusion

In conclusion, this commentary has argued that the successful adoption of a Central Bank Digital Currency (CBDC) in Uganda, and by extension in comparable African monetary systems, is fundamentally contingent upon the dual pillars of institutional capacity and political will, with the latter often proving the more decisive and volatile factor. While technical design and infrastructural challenges are substantial, the analysis suggests that they are surmountable with targeted investment and international partnership; however, the requisite political commitment to navigate the profound socio-economic trade-offs and to withstand potential short-term disruptions is far less assured.

The contribution of this work, therefore, lies in reframing the CBDC debate away from a predominantly technocratic discourse and towards a more nuanced political economy analysis, highlighting how the interplay between state capacity and political objectives will ultimately determine whether a digital currency becomes a tool for inclusive development or one of enhanced control and exclusion. The most pressing practical implication for Uganda is that proceeding with a CBDC without a prior, transparent, and legally grounded strengthening of the Bank of Uganda's operational autonomy and regulatory mandate would incur unacceptable risks.

As the discussion on political will indicates, the institutional framework must be robust enough to ensure the CBDC's design prioritises public policy objectives—such as financial inclusion and payment system resilience—over narrower political or fiscal temptations, such as the direct monetisation of government deficit or the arbitrary imposition of transaction controls. Consequently, a tangible next step for Ugandan policymakers must be the commissioning of an independent, public audit of the central bank's technical and supervisory capabilities against the projected requirements of a live retail CBDC, with the findings used to legislate for necessary enhancements in independence, accountability, and oversight before any pilot is greenlit.

Looking forward, the trajectory of CBDC development in Africa will serve as a critical real-world test of the hypothesis that digital currency can be harnessed for developmental leapfrogging within complex governance landscapes. Future research should move beyond speculative modelling and instead adopt comparative case study methodologies to trace the political negotiations and institutional adaptations occurring in early-adopter African nations, providing a richer evidence base for the political economy dynamics theorised here. The ultimate implication for Uganda and its regional peers is that a CBDC is not merely a new payment rail but a profound reconfiguration of the social contract between the state, the central bank, and the citizenry, the governance of which will echo through their monetary systems for decades to come.

Contributions

This commentary makes a distinct contribution by applying the dual-lens framework of institutional capacity and political will to the specific case of Uganda's potential CBDC adoption. It moves beyond generic technical analysis to critically examine the unique domestic constraints and enablers within an African monetary system.

The analysis provides policymakers with a structured evaluative tool, highlighting that technical feasibility is secondary to governance and institutional readiness. Furthermore, it enriches the scholarly discourse on digital currency in emerging economies by foregrounding political economy factors often overlooked in regional literature.

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