


# Chapter 18

## Case Study on the Sand Dollar CBDC of the Bahamas: Lessons, Challenges, and Insights

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### ABSTRACT

*The chapter delves into the history, practical approaches, and implications of the Central Bank of the Bahamas' Sand Dollar central bank digital currency (CBDC). It highlights the initiative's role in modernizing the Bahamas' financial system, promoting accessibility and inclusivity. The chapter emphasizes the importance of strong infrastructure and clear regulations for successful implementation of CBDCs. It also examines the potential benefits and drawbacks of CBDCs, such as monetary policy, financial stability, cybersecurity, and consumer protection. The chapter highlights the need for careful risk-taking and trade-offs. It also highlights the impact of CBDCs on financial intermediation, cross-border payments, monetary sovereignty, and the digital economy. The chapter offers valuable insights for regulators, policymakers, and market players, providing a comprehensive analysis of CBDCs' role in promoting financial inclusion, innovation, and economic development in the digital era.*

### 1. INTRODUCTION

Experts and novices alike have been engaged in discussions regarding decentralized finance (DeFi) and financial technology (FinTech) in an effort to advance financial innovation in recent years. An issue that has received considerable scrutiny in the field of financial technology (FinTech) is the advent of digital currency and the possibility that it may have regarding financial inclusion. The subject of considerable interest is the notion of a central bank digital currency (CBDC), which has garnered considerable attention due to its potential to improve payment efficacy and diminish dependence on tangible currency.

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## **Case Study on the Sand Dollar CBDC of the Bahamas**

The exploration of a digital version of their domestic currency was reported by nine out of ten central banks (CBs), according to a survey conducted by the Bank for International Settlements (BIS) in 2022 (Kosse & Mattei, 2022). Central banks in various regions are presently engaged in diverse phases of CBDC research and experimentation. As an illustration, the European Central Bank (ECB) is presently undertaking an all-encompassing examination of the prospective advantages and disadvantages of a digital euro, whereas China has initiated extensive trials of its e-CNY since 2014 (Sewall & Luo, 2022). In a similar vein, since 2017 the Swedish Riksbank has investigated the viability of the e-krona (Sveriges Riksbank, 2017).

In the midst of these investigations and trials, The Bahamas distinguishes itself through the complete implementation of its innovative Sand Dollar CBDC as of 2020. The Sand Dollar, which is now fully operational, signifies a momentous achievement in the domain of digital currencies. It is worth mentioning that Jamaica launched its own CBDC, JAM-DEX, in 2022 (Samueal & Singh, 2023). The scarcity of empirical data regarding the potential benefits and drawbacks of CBDCs can be attributed to their novelty. The effective execution of the Sand Dollar provides significant knowledge and insights that may guide the introduction of additional CBDCs on a global scale.

### **1.1. Scope and Purpose of the Chapter**

The primary objective and extent of this chapter are to analyze the development and consequences of the central bank digital currency (CBDC) known as the Sand Dollar. The Sand Dollar initiative signifies an innovative undertaking undertaken by the Central Bank of The Bahamas (CBOB) to implement a digital rendition of the Bahamian dollar. Its primary objectives are to update the nation's financial infrastructure and promote greater financial inclusivity for the general populace.

The fundamental objective of the Sand Dollar CBDC is to enhance access to financial services for businesses and individuals throughout The Bahamas by leveraging digital technology. The CBOB's objective in digitizing the Bahamian dollar is to promote more efficient, affordable, and inclusive financial transactions; consequently, this will diminish dependence on cash and conventional banking channels. The implementation of the Sand Dollar signifies a substantial advancement in The Bahamas' pursuit of a financial system that is both more accessible and streamlined.

The development of the Sand Dollar CBDC is emblematic of more extensive patterns in the worldwide financial sphere, wherein central banks are investigating the feasibility of utilizing digital currencies to tackle a multitude of obstacles and prospects presented by the digital economy. With the global expansion of digital payments, central banks are progressively contemplating the issuance of CBDCs in an effort to modernize payment systems, foster financial inclusion, and improve the efficacy of monetary policy.

This chapter provides a comprehensive examination of the Sand Dollar CBDC, including its implementation strategies, essential characteristics, and the effects it has had on the financial ecosystem and economy of The Bahamas. The technological infrastructure supporting the Sand Dollar initiative is investigated in detail, encompassing the creation of transaction processing systems, digital purses, and regulatory frameworks that govern the operations of CBDCs.

The chapter undertakes an analysis of the prospective advantages and obstacles linked to the implementation of the Sand Dollar CBDC, encompassing monetary policy, cybersecurity, consumer protection, and financial stability, and examines the potential consequences of CBDCs for conventional banking establishments, payment service providers, governmental entities, and individual consumers. It emphasizes the favorable and unfavorable aspects of the shift towards digital currencies.

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