

Six months in, El Salvador's bitcoin gamble is crumbling

3/15/22; <https://restofworld.org/2022/el-salvador-bitcoin/>

When El Salvador officially made Bitcoin legal tender in September 2021, José Bonilla was one of the first citizens to sign up for a government-backed digital wallet that lets anyone use the cryptocurrency. The 23-year-old Salvadoran, who runs a shoe store with his family in the tourist town of Concepción de Ataco, was looking forward to trying out the technology. He'd heard that it would reduce costs and speed up payments.

After a few days of overcoming technical glitches, Bonilla was up and running and accepting payments in Bitcoin from customers.

But the shine soon wore off. By February 2022, Bonilla's list of complaints about Bitcoin was long: the only available Bitcoin ATM was too far away, the government helpline was slow, and the price was too volatile. One day, he lost a \$25 transaction from a customer to technical issues and never heard back from the digital wallet's customer service team. "I decided not to use it any more," he said.

He's not the only one. Six months since El Salvador's Bitcoin Law came into effect, adoption of the cryptocurrency remains patchy. Even on "Bitcoin Beach," a rugged strip of Salvadoran coastline that has become a mecca for crypto disciples, the transition has been challenging. When *Rest of World* visited shortly after the law came into force, some were still unsure about Bitcoin. Coconut vendor Dina Ponce said she was able to make more sales by expanding to accept digital payments for the first time, but she didn't fully understand the technology, and the value of Bitcoin hadn't risen enough to give her the savings she'd hoped for.

Other businesses around Bitcoin Beach said they'd given up on Bitcoin and reverted to accepting only cash. "We were losing money because of the way the currency loses value," said 21-year-old Axel Medina, who helps his family run a surf school and restaurant. "It was difficult to maintain our business like that."

When President Nayib Bukele first announced the Bitcoin law in June 2021, he made a grand promise to his citizens. Adopting Bitcoin, he said, would digitize the economy, decrease dependence on the U.S. dollar, lower remittance fees — which account for about 20% of the country's gross domestic product — and drive investment. El Salvador could become the first country to prove the transformative power of cryptocurrency on a national scale.

It is difficult to get a full picture of the scope of Bitcoin adoption in the country. In January, the government endorsed a [report](#) that at least 4 million users — nearly the country's entire population — had been verified as authentic users of the government's wallet over the past several weeks. But in March, a survey [released](#) by the Chamber of Commerce and Industry of El

Salvador reported that 86% of the businesses contacted said they had never conducted a transaction using Bitcoin.

[...]

Bitcoin adoption over the last six months has not gone smoothly.

For one, El Salvador is a country where cash is still king; [almost 70%](#) of the population is unbanked. Critics say the country's Bitcoin transition leaves behind those who don't have a smartphone — mainly older Salvadorans — and those without internet access. In 2019, about [50%](#) of the population was not online.

Furthermore, many Salvadorans were clueless about Bitcoin when they found out their country planned to make it legal tender; one [poll](#) of around 1,300 Salvadorans by the Central American University leading up to the rollout showed only about 10% of respondents fully understood cryptocurrency. Alejandro Molins, who works at Athena Bitcoin and whose job it is to get merchants in El Salvador to download and use the Chivo Wallet, told *Rest of World* that his own mother has yet to sign up for her Chivo Wallet.

Some of those who have signed up have complained of technical issues with the Chivo app, including accounts created through identity fraud, lost transactions, and receiving error codes when trying to make payments.

[...]

But the Bitcoin mecca didn't quite live up to his expectations. He [American Dagart Allison] had tried to rent a surfboard from a stand in El Tunco with Bitcoin, and they told him they didn't accept it. He asked if they had Chivo. They said yes, but they didn't know how to use it with other wallets — the functionality was hidden behind a confusing array of buttons.

“From a Bitcoin perspective, it's amazing — it's so groundbreaking and beautiful and, in my mind, looks like perfection,” he said about El Salvador. “And then you come here, and you realize that on the ground, it's a different ordeal. It's a struggle.”

Craig Toennies, a cheerful émigré from the United States who ran a hostel in El Zonte before leaving during the pandemic, said that the Bitcoin Week preparations made it seem much more catered around the cryptocurrency than it actually was. “It had a very Potemkin village vibe,” he said. Since he returned in November, he said, the only people he's seen carry out transactions with Bitcoin have been tourists.

To Make a Bad Problem Worse: **The world's first crypto bond**

[The Economist](#), 3/22

When El Salvador made bitcoin [legal tender](#) in September last year, it became the first country in the world to do so. Soon it will chalk up another first when it issues a \$1bn ten-year bond backed by the cryptocurrency. [Nayib Bukele](#), the president, will use half the money to buy more bitcoin and the rest to build “Bitcoin City”, a planned settlement on the slopes of a volcano, where the cryptocurrency would be mined.



Source: Refinitiv Datastream

The plan has the crypto community abuzz, but not everyone is excited. The IMF has criticised El Salvador’s adoption of a cryptocurrency and appears to have halted negotiations for a \$1.3bn loan. Few Salvadorans have shifted from using colones, which are pegged to the dollar, and the value of the government’s bitcoin holdings has plunged since last year. Mr Bukele, a millennial leader who masks his [authoritarian tendencies](#) with flashy policies, wants to prove he does not need traditional institutions. His wager may yet fail.