

SLATE

What Happened When a 3,000-Person Village in El Salvador Became “Bitcoin Beach”

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Last week, El Salvador’s legislature voted to become the first country in the world to adopt Bitcoin as legal tender. While the U.S. dollar will still be El Salvador’s official currency, all businesses in the country will have to start accepting Bitcoin barring extenuating circumstances (like lack of technological resources), and citizens will be able to pay their taxes and debts with the cryptocurrency.

The government is hoping that this futuristic economic policy will attract investment from cryptocurrency businesses, provide transformative financial resources for the 70 percent of El Salvadorans who are unbanked, and facilitate remittances, which amount to about 20 percent of the country’s gross domestic product. And, true to the madcap spirit of the Bitcoin community, El Salvador’s President Nayib Bukele has already directed a state-owned geothermal electric firm to start constructing Bitcoin mining facilities that will be powered by heat from the country’s volcanoes.

At the same time, critics have pointed out that the plan is very light on details and that Bitcoin is notoriously difficult to use as a day-to-day currency partly due to its volatility. In addition, there’s a good chance that a large swath of businesses in the country won’t even be able to feasibly accept the cryptocurrency; El Salvador has lowest rates of internet penetration in Latin America. Bukele, however, has been pointing to a small Salvadoran beach town called El Zonte where residents have been using Bitcoin for nearly two years as evidence that the cryptocurrency could help power the economy nationwide.

El Zonte is a village on the Pacific coast that has a population of about 3,000 people and is popular for surfing and fishing. While a beach town might sound affluent, El Zonte is not: According to Reuters, “El Zonte is visibly poor, with dirt roads and a faulty drainage system,” In 2019, an anonymous donor in the U.S. reportedly began sending Bitcoin to nonprofits in the area with the aim of finding ways to build a sustainable cryptocurrency ecosystem in the community. Then nonprofit workers in El Zonte, in consultation with the donor, launched Bitcoin Beach, an

initiative that injected the cryptocurrency into the local economy, set people up with digital wallets, and helped businesses set up systems to accept Bitcoin payments.

Residents use a Venmo-like app payment system for exchanging Bitcoin, which was developed by a tech company in California called Galoy Money. Using the app, people can see which businesses accept Bitcoin and look one another up by username. “This was just the perfect laboratory,” said Chris Hunter, co-founder of Galoy, of El Zonte. Hunter says El Zonte was a prime location for test-driving a Bitcoin payment system because of the lack of regulatory and tax burdens, the fact that most merchants and people don’t have credit cards, and dollarization of El Salvador’s economy. (El Salvador is one of around a dozen countries and territories that use the U.S. dollar as their official currency.) He admits, though, that trying to get cryptocurrency systems up and running for an entire country is going to be exponentially more difficult than doing so for a 3,000-person village, and expressed skepticism that the government will meet its goal of getting the infrastructure in place by early September. “To support millions of people not just holding Bitcoin but spending it too, it’s certainly technically feasible. But to figure that out in 90 days is a pretty tight timeline,” Hunter said.

Although there has been some success in integrating Bitcoin into El Zonte’s economy—about 90 percent of families in the town have made a crypto transaction, according to Bitcoin Beach, to pay for things like groceries, utilities, and medical care—the project has not been without its obstacles. Reports indicate that some residents have struggled to access the payment system because of limited data plans and lack of access to more advanced smartphones. Hunter claims that most people in the town seem to have lower-end Android phones that can support Bitcoin transactions, though he admits developers did run into some issues with getting the lower-resolution cameras on the devices to detect QR codes at local businesses. He also said that the local cell network in El Zonte is good enough for transactions.

But the reasons why crypto investors were drawn to El Zonte do not hold true throughout the country. Only 45 percent of the population in El Salvador has internet access. It remains to be seen how exactly the national government thinks it will improve connectivity, particularly in rural areas, and get powerful enough devices into peoples’ hands to support a bitcoin economy. Bukele has floated the idea of building a network of satellites to improve coverage, but that obviously would take quite a while to implement.

Volatility remains a concern as well. In May, Bitcoin prices took a 30 percent dive after China implemented new digital currency restrictions and Tesla announced that it would no longer be accepting the cryptocurrency as payment. Around that time, Hunter says there was a corresponding decrease in the number of Bitcoin transactions in El Zonte. By all appearances, people were waiting for the value to go up again before using it. Steve Hanke, professor of applied economics at Johns Hopkins University and director of the Cato institute’s Troubled Currencies Project, worries that average consumers and business owners won’t want to constantly engage in this sort of speculation when deciding whether to use their money. “Businesses tend to unload Bitcoin as fast as they can because of the fluctuating exchange rate. If you receive it in the morning, it could easily be down 5 or 10 percent by the close of business,” said Hanke. “Are you running a business in which you’re speculating in Bitcoin, or are you running a business where you’re selling clothes or shoes?”

Bukele has said that the government will set up a \$150 million fund so that people can immediately cash out their Bitcoin for dollars, thus shielding them from some of the volatility. The details of this part of the plan are also scant, however, and Hanke notes that there's a danger in El Salvador establishing itself as a country with permissive financial regulations that's willing to exchange dollars for Bitcoin at any time. For criminals who are in possession of large amounts of Bitcoin, El Salvador could be an attractive place to cash out. In the worst-case scenario, Hanke says, "You could essentially have Bitcoin holders who want greenbacks that are in a position to basically vacuum up all of the greenbacks that exist in El Salvador, and the place would collapse without it."