

*diffusetap*  
Virtual Event Series

# Bitcoin Runs El Salvador

*Guest Speaker:*



**Esteban de la Peña**  
Chief Business Development  
Officer at IBEX Mercado

*Hosts:*



**Kenny Estes**  
CEO and Founder  
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COO and Co-Founder  
Diffuse



## DiffuseTap: Bitcoin Runs El Salvador

Last time on DiffuseTap, Esteban de la Peña, Chief Business Development Officer of IBEX Mercado, talked to us about El Salvador adopting Bitcoin as its local tender, the impact it's had on local businesses, and the resulting moonshot growth of the Lightning Network in the country.

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### DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) ... straight from your armchair like a boss.

### Meet the Speaker



Esteban de la Peña is a senior marketing and branding strategist with 10+ years' experience in advertising, sales, and marketing in Europe and Central America. He is a founding partner of IBEX Mercado, a Bitcoin services company that aims to grow Bitcoin's share in the Central American market. In 2014, he coordinated the successful launch of a fintech and in 2017, co-founded the open source movement Decentralized Technologies.

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**KENNY ESTES:** Our speaker of the day is Esteban de la Peña Padilla from IBEX. Esteban, do you want to briefly introduce yourself?

**ESTEBAN DE LA PEÑA:** I think that was a great introduction. I'm honored to be here and share with you. My name is Esteban. I live in Guatemala City. If you guys are somewhere in the north, it's probably cold. But over here, it's very warm. Also, we have a live volcano eight kilometers from here. So if you hear a boom in the background, it's probably the volcano. My company is called IBEX. I'm one of the seven founders of this company. We're a Bitcoin services company that is focusing right now in developing the Lightning Network in El Salvador.

**KENNY:** Before we get into the main questions, I just want to jump right on that. Tell me a little bit about El Salvador and your interaction with it. Obviously, it was a big deal two to three months ago when it became the legal tender. Were you one of the only people there? How did that impact your business?

**ESTEBAN:** It happened in June. We were actually in Miami for the Bitcoin Conference with part of the team and with Michael Peterson, a surfer who started this whole Bitcoin Beach movement, which in itself is a very interesting story. We knew something big was coming. We were already doing all the legal work to start operating there, but we didn't really know what it was. So they kept it very, very secret, which was impressive.

And then suddenly, the big news came. I honestly thought this would be happening sometime. Optimistically, I expected it to happen within the next five years. But realistically, I was looking at this on a 10-year scale. But it happened now, and it had to happen in the neighboring economy, which is a big trading partner of Guatemala. That makes it very interesting.

And in a way, it was very clear how they defined it as legal tender. So it really puts things at scale and allows us also as Guatemalans to interact with Bitcoin in a different way. I think we're just seeing the impact because it's barely been six months since this happened, but the growth rate of what we're seeing is impressive. I've never seen anything grow this fast.

**AYLA KREMB:** So for the benefit of the audience, what exactly does your company do? How do you benefit from this massive change in the legal tender of the country?

**ESTEBAN:** We started in 2018 here in Guatemala as a Bitcoin brokerage service. It's a very simple Bitcoin only on-and-off ramp, but we've been growing ever since. And when the news came in Miami, we started thinking about what we can really do better, and where the opportunity is.

And the revelation was, from the personal user perspective, it's very easy to adopt it. You just download an app and you're there. There are some things that you need to understand, like keys for example, but it's not that easy for a merchant. For a business, it's the complete opposite. You need to have a



regulation. You need to think about how you put it into your books. And your accountant, who is literally the person that you pay to do it, will tell you that they don't do this type of thing.

What we started seeing is that they need the tools to understand the asset, understand how it works, and create the path of how to just put your transactions into your books as a company. We were hyper focused on a super work session that lasted three months. I don't know how, but we managed to bring out a payment system that allows you to create Bitcoin payment terminals (that's what we call it) so you can easily charge Bitcoin without holding the Bitcoin in that device.

If you're a restaurant, for example, you can give a Bitcoin payment terminal to all your staff, and you can always have this payment channel open. Your manager doesn't even have to be on site. The interesting part of it is since Bitcoin Lightning Network is an open monetary network, it is easy to interact with any other app. For instance, Salvadorians use Chivo to move their Bitcoin and pay in the establishments with our solutions.

For the merchants, it's pretty much no-brainer. They prefer to use a private solution over a free state solution. That's why we've seen a great growth rate. In three months, we're in over 300 points of sale. And we're just three months in. We're doing around 10,000 transactions daily, and the transaction growth is around 3% daily. It's crazy. There's really nothing to compare it to, in terms of systems that are adopted and grow in scale this fast.

There are many issues with the app that you can read about, and I think that we can talk about those later on. But because Chivo is a private ecosystem that was launched so fast and with so many features, unlike any other app, there will be a lot of challenges. The interesting part we're seeing is that as a use case for Bitcoin Lightning Network, it has proven itself the ideal place.

**KENNY:** That's great. We have gotten feedback that we use too much jargon in these calls. You've talked about this a couple times, but for the audience's benefit, what is Bitcoin Lightning? How is that different from Bitcoin, and why is that important to your business?

**ESTEBAN:** Sure. I think it's a very interesting conversation that everybody who is looking into the crypto space needs to understand. It's been mystified in a lot of ways, as well as a lot of projects that have come out around it. There is a lack of understanding on how the internet of money is built. But as with any internet protocol, you create layers on top of it. A lot of the discussions have been that layer one options, or blockchains like Ethereum not only have to hold the highest security standards, but also the speed of a payment network on the transactional side. That's why you have projects like Litecoin, Bitcoin Cash, and many other different ones that came out looking for that.

But the reality is that, on a system level, you will almost always have a tradeoff. If you increase speed on transaction volume, you have to trade off security. And if you're going to run the entire global monetary network on a digital ecosystem, you want it to be as secure as possible. That's why the basic protocol of Bitcoin needs to be slow. It has a certain size on the block.



What Lightning does is it creates a direct connection. This is not at all technical, just on the concept side. But one way to think about it is, you can put 1,000 Bitcoin lightning transactions into one on-chain transaction. That way, you would share the speed and the cost of that one on-chain transaction within 1,000 transactions. Now, what that creates is super speed transaction processing capacity, and also an almost negligible cost per transaction. You can think of the Lightning layer as the de facto small transactional layer for Bitcoin. Anything under \$10,000 can be transacted immediately at almost zero cost, anywhere in the world.

As fast as this is, and with the liquidity that Bitcoin has, it really enables you to create borderless money. That's the interesting part of it. Because there was no real use case for creating or opening the whole Lightning infrastructure (because it was tedious), you had to run your own channel. And when you get technical, and you start understanding how it works, you will see that it's real Bitcoin because you need to put Bitcoin on a Lightning Network channel for it to work.

That creates interesting mechanics within the Bitcoin ecosystem of adding value. It creates a real Metcalf's Law effect because it means that a lot of Bitcoin needs to be locked up for the Lightning channels to work. And effectively, I think a lightning channel is the way to stake your Bitcoin without giving up custody, which is very, very interesting.

But right now, the fees that you get for running a lightning channel, which is in Satoshis, are very small. So you're doing it for the understanding of how this works, and for growing the network. The interesting part of this is when the law came out six months ago, there were 3,005 or 3,400 Lightning Network channels open. Six months later, we're over 270,000 Lightning Network channels open. It's incomparable. I don't know any other blockchain that has grown this fast.

**AYLA:** Quick question from the audience here that relates to the quick growth within this ecosystem. Do you think that other Latin countries will follow suit? And if yes, which ones?

**ESTEBAN:** Yes, I think that's inevitable. The fact that the El Salvadorian migrant is saying to the Guatemalan migrant "What? You're still paying 30% on your remittance? For me, "it's free" is going to stir up the pot, for sure. Where it's going to start is very difficult to determine because the conditions of El Salvador with the current government are unique to our current times. I mean, the president has the majority of the house, which is why they're calling him a little dictator. But that I think is a conversation for another day. But the point there is that he was able to really speed things up.

Here there are other openings that have been created just because Bitcoin was declared as legal tender. Guatemala has a law that allows for any Guatemalan to trade in any legal tender that there is. So since Bitcoin has been declared legal tender in a country, we can also start pushing our boundaries and start using it even though it's not stated in the law that Bitcoin is Guatemala's legal tender. I think that's why we're seeing very interesting movements around the remittance channel.

You've probably heard about this, but Facebook created a remittance app called Novi, and they're working with a stable coin. Honestly, I'm not sure which blockchain they're running that stable coin. But



they're looking into that, and I think that when they recognize that the Lightning Network as a payment channel is so much more efficient than any other blockchain, they'll start using it as well.

You also have Panama, which we've been hearing a lot of noise about the congressmen there being Bitcoiners, and want to push the Bitcoin law. You also have Costa Rica, which is taking a more nuanced view towards it. They're considering it as an asset and want to charge capital gains on it. That will hinder the transaction side of things, but they're definitely seeing it as a store of value already. I think the conversation is really around, where's the big benefit of seeing it as an asset class, and as a store of value over time? And how are we going to interact with it as a monetary network?

It's different. It really is like digital cash. So, regulations have to be adapted. In El Salvador, I think the law was done very well, and very clearly. But on the implementation side, on the rules of how you can set up a company and implement Bitcoin, that's where they started seeing the protocol more like a credit card network. They were asking for certain things that on a protocol level are not possible, like chargebacks, for example, or blocking certain accounts.

We need just a little more education for the regulators to really see how they can put the regulation in place. Because regulation exists effectively in things like the use of cash. Cash is heavily regulated in our economy. You can't simply take a mountain of cash to the bank because you're a narco. They will automatically and legally close you. Sorry for speaking this bluntly, but it's just the reality of our country. But there are ways to regulate that with crypto too. You can set a certain limit on transactions to mitigate the risk of money laundering.

At the end, the open monetary network needs to connect to the traditional financial system. And that is always more effectively done in a KYC environment. Everything needs to be KYCed, even when there's no reason for it to be. Because in the end, if you launder money, and you already have it into the banking system, then why are you going to use an alternative? You're going to use whatever you're using already, because it's way more efficient. I don't see any real risk in it because it just generates an extra cost and layer to it.

**KENNY:** I'm going to take a question from the chat here, which is about supply and demand. Are the merchants and the point of sale going to be these mom-and-pop type merchants, or is it with big companies like Starbucks and Pizza Hut? And now that they have to facilitate Bitcoin transactions, are you seeing that they're actually building up a solid balance sheet of Bitcoin to create buy-side pressure? And is that something where they want to have the absolute minimum, or are you seeing that mentality change?

**ESTEBAN:** Yeah. Our customers right now are primarily Starbucks, Pizza Hut, Domino's, KFC, Wendy's, and so on. It's mostly because our solution caters more to their needs. But we do have hotels, small restaurants, gas stations, beauty salons, and a lot of different businesses. It just grew so fast because it was very simple. It's very simple to install, and very simple to manage. You can manage it like any other POS system.



You can very easily adjust how many dollars you want, because obviously you don't want everything 100% Bitcoin, or 100% dollars. We put the dollars in your bank account, and our fee is 50% less than the current credit card fees. For the merchants, it's a no brainer. Unfortunately, at the moment, I can say that 90% of our customers are keeping the dollars. They're still struggling to understand the value of saving in Bitcoin. And it's just because you need time to understand something that's so abstract.

It takes many talks, and many internal things that you have to work on because you're geared to think in a fiat standard, like money and cash, and movement. You have to relearn your relationship with wealth in and of itself. It takes time. The corporate structures are also very difficult. As I mentioned at the beginning, the accountant is literally paid to say "no, this is way too risky. What are we doing? How are we going to put it in the balance? And how are we going to re-evaluate its cost every time we do the books?"

In reality, it's actually very easy because it's open data. It's just another Excel. It's not much of a big leap. When you speak to them in their language, and you give them the tools, they eventually will start to see it. They start to relax. They also have to depoliticize the whole aspect. A big sentiment right now is that Bitcoin is Bukele and Bukele is Bitcoin, but in reality they don't have anything to do with one another.

That's also a process that needs to happen on a societal level, and it will take time. It will take time because effectively, if you want to opt out from an oppressive government or dictator, the only way you can do it effectively is with Bitcoin. And everything is legal there. You have the liquidity. Slowly but surely, I think the conservative industry side of El Salvador is starting to see this.

We have opened our OTC desks there. We're seeing a lot of movement with the younger generations. Our contemporary people are just starting to understand it more and seeing the opportunity. But on a very serious note, they're also realizing that if Bukele becomes a dictator (which we've seen happen countless times in history), the only way to take out your wealth is through Bitcoin. You can't go through the traditional monetary systems because obviously, that's the first thing he's going to close.

And that's the interesting part of this whole thing. It has really opened Pandora's box. The game theory on the adoption of a Bitcoin standard on a national level has been set in motion, and I don't see how it will stop. I don't know where it will go, but it definitely won't stop.



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