

December 11, 2023

The Honorable Janet Yellen
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

RE: Economic Crisis in El Salvador and Possibility of an IMF Loan to the Government

Dear Secretary Yellen:

The undersigned write to express our deep concern about the economic and social conditions in El Salvador and the possibility that the IMF will approve a \$1.3 billion Extended Fund Facility loan to President Bukele following the elections in 2024. As you are aware, the financial situation in El Salvador is highly unsustainable due to fiscal vulnerabilities, the adoption of Bitcoin as legal tender, serious accusations of money laundering and corruption, and the lack of transparency. As organizations and professionals with extensive experience in El Salvador, we are also concerned about the rising authoritarianism, repression and human rights violations under President Nayib Bukele. For these reasons, we urge you to direct the U.S. Executive Director to the IMF to demand the following requirements are in place before a vote on an IMF loan to El Salvador:

1. End the state of emergency (condemned by international organizations as unconstitutional), and restore constitutional rights and the rule of law.
2. Re-establish legal frameworks for anti-corruption, including compliance with the United Nations Convention Against Corruption.
3. Investigate cases of corruption and money-laundering of all public officials that occurred during the pandemic.
4. Strengthen the role of the Access to Information Institute in declassifying public information.
5. Re-establish legal frameworks on the procurement processes that follow Open Contracting Partnership and remove secrecy on amounts and recipients of government contracts.
6. Reinstate fiscal transparency standards to pre-pandemic levels.
7. Strengthen the role of the comptroller general, conduct a complete audit over the government's Bitcoin transactions, and make transparent the financial situation of the state-owned Bitcoin-Wallet Chivo.

The reasons we come to this conclusion will not be a surprise to you. In 2022, IMF Directors were reluctant to approve a loan to the Bukele government due to fiscal vulnerabilities such as the high [debt-to-GDP](#) ratio of approximately 86%, creating uncertainty about El Salvador's ability to honor future financial commitments. Last year, El Salvador ranked as the country with the [highest risk of default](#), above Ukraine. Under President Bukele's administration, El Salvador has

annual debt interest payments equivalent to 4.9% of its GDP, which placed the country at the highest risk of defaulting on its sovereign debt. This makes the Central American nation rank as one with the highest vulnerability of sovereign debt due to its high interest expense and total percentage of debt in relation to its Gross Domestic Product (GDP).

The decision to continue utilizing Bitcoin despite warnings from IMF Directors regarding its detrimental impact on financial integrity raises serious concerns. Bukele's administration was urged to revoke Bitcoin's status as legal tender – a suggestion the [government has](#) rejected. Failure to comply with these warnings could exacerbate risks associated with money laundering and financial stability. Particularly alarming is the Bukele government's close ties to cryptocurrency trading platform [Binance](#) and its CEO Chanpeng Zhao, who pled guilty to U.S. federal charges of facilitating illegal transactions to such groups as ISIS and Hamas. In March 2022, Bukele hosted a [visit](#) by Zhao to El Salvador and licensed the company to issue digital assets in El Salvador, after the SEC had publicly accused Binance of engaging in fraud.

Similarly, the U.S. State Department's report also emphasized the Salvadoran government's lack of transparency in the use of Bitcoin because it has not released any fiscal information on the purchase of Bitcoin or expenses related to its development and operation. In addition, the Salvadoran legislature has passed reforms that curtailed the Comptroller's Office's ability to audit state owned enterprises. Bukele had previously removed El Salvador's know-your-client controls to roll out its own cryptocurrency wallet, resulting in theft of public funds.

The Salvadoran government is not transparent in other areas related to the use of public funds apart from Bitcoin. Information on budgets and public procurement is routinely withheld from public scrutiny, especially as relates to security expenditures. The Legislative Assembly approved decrees which allow the government to manage public funds [without adhering](#) to the Law of Acquisitions and Procurement of the Public Administration. The Access to Information Institute has classified most of the public information as confidential. In January 2023, the Legislative Assembly also passed a law that would give government officials wide [discretion](#) over \$1.5 billion in "strategic" construction contracts. Further, the Legislative Assembly is not required to publish draft legislation and opportunities for public engagement are limited. Due to concerns over the lack of transparency of the Bukele government, the Open Government Partnership's (OGP) steering committee removed El Salvador from its list of member countries in March 2023 for failing to create an action plan to meet the minimum requirements in fiscal transparency, access to information, and citizen participation. (El Salvador was a founding member of the OGP, a non-governmental organization designed to promote transparency and accountability, in 2011.) Finally, President Bukele [blocked](#) the release of the IMF's annual report on the Salvadoran economy in March 2023, raising speculation that he blocked it because the report would contradict his public statements on the economic health of the country.

Corruption in the government is coupled with this lack of transparency. According to Transparency International's 2022 [Corruption Perceptions Index](#), public sector corruption reached an all time high, scoring 33 out of 100, where 0 means highly corrupt. The State

Department's [2022 human rights reports](#) states that multiple officials in the executive branch were accused of corrupt acts. For example, in 2021, El Salvador received a \$600m loan from the Central American Bank for Economic Integration (CABEI) to provide relief to small businesses negatively affected by the COVID pandemic. An investigation by the Organized Crime and Corruption Reporting Project found that [Bukele diverted \\$200m](#) of that loan to pay for the adoption of Bitcoin. The State Department's report characterized the impunity for official corruption as endemic and that the Bukele government actively prevented prosecution of those officials unless they were political opponents. In 2021, the National Assembly passed a law that grants immunity to Salvadoran officials accused of mismanaging coronavirus funds.

El Salvador's economic growth projection is also the lowest in the hemisphere, with estimates at 1.9% and with negative foreign direct investment in 2022. Post-pandemic, El Salvador has returned to its 20 year stagnation trend with high unemployment, growing poverty, and increased food insecurity. The Bukele government has no strategic development plan to increase foreign direct investment or increase economic growth. The State Department's 2023 [report](#) on the investment climate in El Salvador echoed concerns of the IMF Directors, highlighting the significant levels of sovereign debt and the lack of transparency as two of the primary weaknesses.

These ongoing financial vulnerabilities and lack of transparency have been identified by the IMF and the State Department, and are among the important reasons for the IMF's refusal of a loan to the Bukele government in 2022. Of equal concern is the democratic backsliding and human rights violations in El Salvador. El Salvador is transitioning to an authoritarian, one-party state. Bukele has used his super-majority in the National Assembly to systematically weaken El Salvador's democratic institutions, remove the attorney general, and replace Supreme Court justices with loyalists.

The forthcoming February 2024 elections in El Salvador are also poised to be contentious, clouded by legal ambiguities. President Bukele's pursuit of re-election, despite constitutional prohibitions, could significantly compromise democratic processes, undermining the credibility of the government, and not complying with the basic tenets of democratic principles and adherence to the rule of law. The Bukele administration's repeated blocking of extradition requests from the U.S. of MS leaders and the release of MS leader Crook from prison along with assisting him to flee to Guatemala, is additional evidence of the government's lack of commitment to the rule of law and cooperation on international law enforcement.

In late March 2022, the Salvadoran government imposed a state of emergency imposed by the Salvadoran government in late March of 2022, has that suspended numerous constitutionally guaranteed rights, including the right to freedom of association and assembly, the right to privacy in communications, the right to know why you have been arrested, and the right to be brought before a judge within 72 hours. The National Assembly also expanded counter-terrorism legislation to allow for the prosecution of children 12 years of age and older, extended administrative detentions from 3 to 15 days, and increased the maximum prison sentence from 5 to 15 years for gang-related offenses. Since the state of emergency went into

effect, over 71,000 people have been detained and imprisoned, including at least 1,979 minors, and nearly 200 people have died while incarcerated under suspicious circumstances.

Among the significant human rights issues documented in the U.S. State Department's 2022 human rights reports for El Salvador are unlawful killings of suspected gang members and others by security forces; forced disappearances by the military; torture and cruel, inhuman, or degrading treatment or punishment by security forces; harsh and life-threatening prison conditions and arbitrary arrests and detentions. It also reports that there are serious problems with judicial independence, grave restrictions on freedom of expression and media, violence or threats of violence against journalists, and substantial interference with the freedom of association.

Given the growing authoritarianism, financial ungovernability and unsustainability, and grave civil and human rights violations, we believe President Bukele should not be awarded with a loan from the IMF or funds disbursed unless his government agrees to and fulfills the requirements listed above. We also believe that approving a loan without these requirements would undermine the Biden administration's Strategy to Address Root Causes of Migration in Central America designed to address economic insecurity, combat corruption, strengthen democratic governance and the rule of law, and respect for human rights and the freedom of the press.

Thank you for your attention to this matter. If you have any questions, please contact Vicki Gass, Executive Director of the Latin America Working Group at 202-415-7226.

Sincerely,

American Jewish World Service
Due Process of Law Foundation
Institute for Policy Studies Global Economy Project
Latin American Working Group
Seattle International Foundation
Washington Office on Latin America

cc:

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