

Risky Business: Microcredit in Argentina

September 22, 2008

It seems too good to be true.

Free credit—free in the sense that it requires no guarantee, no material collateral, no oppressive mountain of documentation to sign. Free credit, geared toward the poorest of the poor.

In Argentina, the first replica of the Nobel Prize-winning Grameen Bank was launched in 2000. Since then, Grameen Argentina has expanded to more than thirty locations throughout the country. Those who participate in the program—nearly all female—seem to share an overwhelmingly positive experience, with abundant anecdotes of economic improvement and personal accomplishment. Grameen has, without question, given many thousands of women across Argentina the opportunity to lift themselves out of poverty.

But if there is so much to gain—and seemingly nothing to lose—then why aren't more poor Argentines participating in Grameen?

After interviewing dozens of Grameen borrowers and their non-Grameen neighbors, I encountered one predominant obstacle to the proliferation of microcredit in Argentina: distrust. In a country where inflation rates are as absurdly high as they are unpredictable, where citizens would rather store cash under their mattresses than in a bank, where the word *gobierno* is met with indignation, scorn, and disgust, it was unsurprising to see that people placed little faith in lending institutions.

Women who inquire into the possibility of borrowing from Grameen face tremendous opposition—even ridicule—from their friends and neighbors. Well-meaning community members strongly caution against the waste of time and money in yet another money-lending “scheme.” Those who venture into microcapital eventually contend not only with the stringent requirements imposed by Grameen but with an unyielding pressure to justify their choice to their community. Only successful stories of Grameen-funded small businesses occasionally convert naysayers—but even prosperity through microcredit is often dismissed as an unrelated stroke of good fortune.

Besides raising awareness, building trust appears to be the single most important task for microcredit institutions in Argentina. And trust is difficult to secure in a country disillusioned by false promises and bombastic but fruitless speeches from pompous bureaucrats. The motivation to avoid risk-taking behavior is tremendous, even among those who have very little to lose. Even when offered the opportunity to escape from poverty, the poor Argentine is so intensely averse to risk that she will often act against her own self-interest and forgo a meaningful economic benefit.

The Grameen methodology, which relies intensely on group solidarity, has been able to counter some of the apprehension by appealing to a basic, natural trust in one's neighbor rather than demanding faith in government institutions. Any connection to the federal government has the potential to be damning, and microcredit organizations are wise to avoid political ties. While disheartening, the need for such a separation is blatant, and the success of microcredit programs in Argentina seems to depend on it.

HEALY CONSULTANTS

Source: Bloomberg