

The Potential Demand for Microcredit in Argentina

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Abstract

This paper estimates and characterizes the profiles of the potential demand for microcredit in Argentina according to a number of socioeconomic and demographic attributes. Our estimates are based on a survey from 5682 stratified households in Argentina for 2010. We estimate a potential demand of about 966,573 to 1,636,366 potential consumers depending on the poverty line assumptions used. These potential consumers are mostly employees (followed by self-employed) and symmetrically divided into formal and informal, almost half of them within the range of 30 to 49 years, over 60% male, 52% without access to banking services and primarily located in the Southern and Western Greater Buenos Aires and Córdoba.

Résumé

Cet étude estime et caractérise les profils de la demande potentielle de microcrédit en Argentine d'après un certain nombre de catégories socioéconomiques et démographiques. Nos estimations sont basées sur une enquête de ménages stratifiée en Argentine menée en 2010. On estime une demande potentielle d'entre 966,573 et 1,636,366 individus suivant des différentes suppositions sur la ligne de pauvreté utilisée. Ces consommateurs potentiels sont pour la majorité des salariés suivis par des travailleurs indépendants ou temporaires, dont la moitié dans la fourchette de 30 à 49 ans, plus de 60% hommes, 52% sans accès à aucun service financier et notamment localisées dans la banlieue sud et ouest de Buenos Aires et à Cordoba.

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1. Introduction

Microfinance has proven to be an effective mechanism for poverty reduction and a promoter of social inclusion, although not a sufficient condition for achieving those goals (Morduch, 1998; Quibria, 2012). The notion of Microfinance refers to the provision of financial services such as loans, savings, insurance or transfers to low-income households. Following Reed (2011), quoted in www.cgap.org "The story of microfinance is, for most people, synonymous with microcredit. The archetypal credit constrained microentrepreneur has a business where lack of funds is the major blockage to growth and increased revenue. But how many of today's estimated 190 million active microcredit borrowers fit the profile of the archetypal microentrepreneur?"

The answer is that if we compare Argentina's recent experience with other countries in the region where microfinance has blossomed (e.g. Peru or Bolivia), we find that the microfinance sector is underdeveloped and limited to microcredit (The Economist Intelligence Unit, 2010). Moreover, as we show in this paper, microcredit demand is destined for housing/consumption and microenterprise in this order. This is the case because of the existence of certain obstacles to the expansion of the supply and demand which includes, among others, problems of asymmetric information (Zander, 1994), lack of funding, an inadequate tax treatment for microenterprises, relatively high labor costs (Foltz, 2004), little or no regulation of entities operating in the sector (henceforth MFIs), the absence of collateral or guarantees (Boucher et al., 2007), and high operating costs incurred by MFIs when they monitor the loans they make. Furthermore, the Economist Intelligence Unit Microscope report on the Global Environment for Microfinance (2010) in Latin America ranks Argentina as the worst country in terms of business climate for microfinance investments.

The information we have about the size of the microfinance market in Argentina is scant due to limited knowledge of the demand. Other studies have attempted to provide information about it, but the latest dates from 2006 and is limited to the Greater Buenos Aires area (Curat et al, 2006; see section 2). This and previous studies have been discontinued over time and suffer certain shortcomings which we will discuss in Section II. Moreover, it has been shown that in many cases the failure of Argentine MFIs to reach out to potential customers of microcredit was due to the lack of knowledge of potential and actual demand facing them (Grandes et al, 2010).

Apart from the fact that credit may help the poor to improve their welfare, it may also prevent poor people from being outside of the formal financial system. We do not have to forget that such exclusion ranges goes from partial exclusion in developed countries to full or nearly full exclusion in less developed countries (Brau & Woller, 2004). However, the objective of this study is held in the belief that it is necessary to study where and how the microcredit industry could efficiently channel resources to this segment of the population. We are persuaded that to estimate and characterize the profiles of the potential demand for microcredit in Argentina would represent an important step to spur the development of the sector since, once targeted and identified those potential customers, the supply could expand more effectively providing a broader scope of financial services and improving growth opportunities not only for customers but also for the microfinance market in Argentina.

This paper makes a contribution to quantifying and characterizing the potential demand for microcredit in Argentina according to different socioeconomic and demographic attributes using data extracted from the Survey of the Argentinean Social Debt (henceforth EDSA) conducted by the Pontifical Catholic University of Argentina on a yearly basis. In this way, we aim to provide valuable information to MFIs, the public sector, international organizations and donors alike, and academia.

Our paper is divided into six sections. In Section 2 we survey the background literature on the potential demand for microcredit in Argentina and discuss its advantages and disadvantages. Section 3 introduces the methodology of our work. In Section four, we define what is meant by potential demand for microcredit and how to delimit it within the context of EDSA. Section 5 shows the results of the study in terms of number of potential consumers of microcredit and their characteristics. Finally, Section six summarizes our findings and draws some concluding remarks.

2. Survey of the Literature

Several attempts have been made in order to determine the potential demand for microcredit in Argentina or household financial inclusion more widely understood. These attempts include studies done by the United Nations Development Programme (UNDP, 2005), the Inter-American Development Bank (Navajas, S. and Tejerina, L., 2006) and Andares Foundation (Curat, Lupano and Gineste, 2006).

First, the United Nations Development Programme (UNDP, 2005) estimated the potential demand for microfinancial services in Argentina, including microcredit, as well as their satisfaction degree. In particular, covering the microenterprises linked to production from the Permanent Household Survey of Argentina (EPH) conducted by the National Bureau of Statistics and Censuses (INDEC) UNDP (2005) estimated the potential clients for 2001 at 1,305,818; 1,273,082 in 2003 and 1,310,005 in 2004. According to these estimates, the actual average microcredit stood at 1,227 pesos for a total demand of about 1,602 million pesos in 2001, 1,560 million pesos in 2003 and 1,607 million pesos in 2004. However, the figures drawn from this study are inferences or extrapolations from the EPH (assuming a marginal propensity to take out a credit equal to 50%), adopt a strict definition of microcredit, which refers to loan for productive purposes and does not include prospective questions to the target population. In addition, the EPH has been questioned since 2007 due to the intervention of the National Bureau of Statistics and Censuses which resulted in unreliable socioeconomic statistics such as poverty, inflation and unemployment.

Second, the Inter-American Development Bank in an article entitled "Microfinance in Latin America and the Caribbean: Connecting Supply and Demand" (Navajas and Tejerina, 2006) provided updated information on the population's access to financial services in Latin America and the Caribbean, including microentrepreneurs. Its main finding was that about 5.4 million people had access to microfinancial services. However, the authors found a great diversity in how they define and measure microfinance in each country. Moreover, they estimated the potential demand for microcredit Latin America-wide without discerning how many potential microcredits there are in each individual country, including Argentina.

Third, Curat, Lupano and Gineste (2006) estimated the potential demand for microcredit in the Greater Buenos Aires area and the average volume per loan that demand could reach. Among its main findings are that the microfinance market had 24,000 actual customers and a potential demand for productive purposes of about 440,000 individuals. Moreover, the amount of the total potential demand could reach 574 million pesos in 2006 while the supply, at the time of the study, only met 5% of the potential demand. The disadvantages of this survey are its limitation to the Greater Buenos Aires over a single period (the survey was not repeated, and we suspect that the demand has been dynamic since) and using, as the UNDP study, only the strictest definition of microcredit: small scale credit directed to productive purposes.

The foregoing studies are either time-specific and have not been continued or suffer from methodological problems associated with the survey, or pursue different objectives than our work. As discussed in Section 3, our methodology builds on an annual survey based on a stratified sample of the main urban centers of Argentina and includes forward-looking questions about credit access and socioeconomic and demographic characteristics of households to define profiles of potential consumers of microcredit.

3. Methodology

Financial Inclusiveness: New Questionnaire

In this paper we propose a new methodology for the calculation of the potential demand for microcredit and its characterization, based on the information yielded by the Financial Inclusiveness questionnaire within the “Individual Module” of the EDSA 2010, a survey carried out by the Pontifical Catholic University of Argentina.³

The EDSA is held annually since 2004 and represents the country's urban population over 18 years with a stratified, proportional sample⁴. The geographic area covered therein is a representative sample of two types of urban clusters: the Buenos Aires Metropolitan Area and Greater Buenos Aires and the provinces' Metropolitan Areas (e.g. Rosario, Córdoba, Mendoza) with more than 200,000 inhabitants, but also including areas with 80,000 to 200,000 inhabitants from the 2010 wave onward – for a total of 5682 households in 2010. The respondent generally coincides with the household head, though sometimes more than one person per household can be interviewed.

Appendix 1 shows the questions included in the Financial Inclusiveness Questionnaire of EDSA.

Through the new financial inclusiveness questionnaire we can figure out:

- If the respondent has requested a loan in the past 12 months.
- In the event that the respondent has taken a loan in the last 12 months, the origin, destination (productive enterprise, consumer and housing) and amount obtained.

³ Also see Grandes, Martiarena and Fariña (2010) for an introduction of the new methodology. This methodology can be easily replicated in other countries so long as the sample is taken using the same techniques.

⁴ http://www.uca.edu.ar/uca/common/grupo68/files/EDSA_2010.pdf

- The propensity to demand a loan in the following year. Again, a question is included asking what use would be given to such loan: a productive purpose, consumption and/or housing. This question constitutes the cornerstone for the estimation of the potential demand for microcredit in our study because it is prospective, non-biased and it is often asked to a household head.
- If the respondent does not show willingness to apply for a credit, we can unfortunately not find out the reason why (as it was possible in the 2011 survey).

4. Towards the Potential Demand of Microcredit in Argentina

To determine and characterize the potential demand for microcredit it is necessary to: 1) define a microcredit, 2) specify who is the potential customer of microcredit, and 3) set out the steps to calculate and then qualify this potential demand. This section covers precisely these questions.

4.1 What is a microcredit?

Over the years the definition of microcredit has evolved. They typically are small loans supplied to low-income rural or urban microenterprises or the portion of the population excluded from the formal financial sector due to the existence of markets financial incompleteness and other barriers to access. (UNDP, 2005; www.cgap.org FAQs). But in a broader sense, according to the National Commission of Microcredit of the Social Development Ministry of Argentina, a microcredit stands for any loan financing an individual / household that does not exceed 12 minimum wages, but not limited to micro enterprises (Art. 2 Law 26,117). Since certain housing loans end up having an entrepreneurial purpose or the other way around or even some improve household welfare through smoothed consumption (see for example www.cgap.org or Grandes et al, 2010), we have decided to adopt a broad definition of microcredit allowing for microenterprise but also for housing and consumption oriented loans.

4.2 Who makes up the microcredit demand?

Once we obtain the answers to our “Financial Inclusiveness” questionnaire, and before characterizing the respondents’ profiles, we need to define the potential demand for microcredit combining three features: income, occupational status in relation to social security (i.e. formal or informal worker) and the microcredit destination (productive ends versus consumption or housing).

To our work will then be considered relevant those individuals who report:

- 1) To be formal or informal workers in addition to the unemployed workforce. Yet, we will arrive to the conclusion that the half of customers of microcredits is informal, as discussed below in Section 5.
- 2) To earn low wages or revenues. Based on Navajas and Tejerina (2006) who studied the whole Latin American microfinancial market, we consider only those individuals who declare revenues below one or two poverty lines or minimum wages -which were around 2000 pesos / 4000 pesos (recall 1 USD=4,30 pesos at the time of writing this paper), respectively, at the time of writing this paper. The motivation for this

sensitivity analysis is to address the problem of underreporting or overstatement of revenues. That is, for example, an individual who earns 2000 pesos can declare half of his current income, while other individual declaring 4000 pesos may be overestimating by confusing net income with sales.⁵

3) In the case of the unemployed we will only consider those respondents where the household income does not exceed 4000 pesos or two minimum wages in 2010.

4) Willingness to demand a loan with productive, or for consumption or housing. This implies that we have decided to work on the broad definition of microcredit stated by the Argentine authorities (see 4.1 above), which has coincided with that of some civil society organizations or public sector institutions that were consulted informally (for instance, the Argentine Network or Microfinance Institutions, RADIM, www.radim.org). Naturally, a clear distinction in loan use could be questionable on account of the money fungibility problem (Dale and von Pischke, 1980).

4.3 Stages of Identification, characterization and analysis of the potential demand for microcredits

1) We proceeded to distribute the survey's population according to whether the respondent individual requested a loan or not. In particular, we looked at the response of those who got a loan in the last year, with the possibility of asking another in the near future.

2) We determined the degree of access to banking services of credit applicants.

3) We sorted the surveyed population who would ask credit and whose income was below 4000 pesos, according to occupational characteristics (employees, self-employed, employers, etc.).

4) We performed a sensitivity analysis allowing the income received by formal and informal workers to vary from 2000 pesos or less to 4000 pesos or less respectively.

5) We identified the unemployed who claim a family income of less than 4000 pesos (two poverty lines) depending on the type of credit they would take.

6) Then we grouped workers into formal, informal and unemployed workers who would request a loan and meet the income requirements of a microcredit applicant and we built the potential demand for microcredit.

7) Finally, we qualified the potential demand for microcredit characterizing it by: employment status, agglomerates of residence, level of financial inclusion or access to financial services (bank and credit card), gender, age and access to social subsidies (this last attribute is usually viewed a priori as a disincentive to microentrepreneurial activities).

5- Results

This section estimates, qualitatively and quantitatively, the potential demand of microcredit in seven steps, as noted above in Section 4.3. The goal is, starting from the

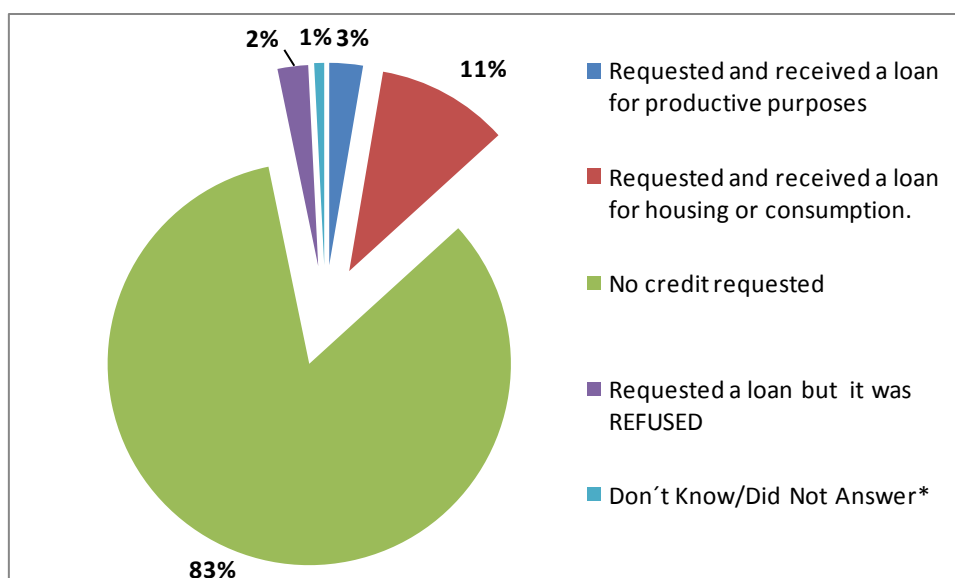
⁵ See World Bank Institute (2005), Ch 5, "Measurement error occurs in all survey data; we know, for instance, that households underreport income and expenditure, which tends to overstate the degree of poverty"

total population surveyed in EDSA, to filter out the subset that is eligible to become a potential microcredit customer (in Argentina, given the infant stage of development of microfinance, as it was discussed in sections 1 and 2, this equates the microfinancial services demand).

First, we show the distribution of the surveyed population according to whether they applied for loan in the last 12 months and their response about whether to apply in the next 12 months. Then we focus in particular on those individuals who applied in the past 12 months and would request a loan again in the following year:

Figure 5.1

Distribution of the surveyed population (5682 individuals) according to their position against credit in the last 12 months (answers to question P.316)

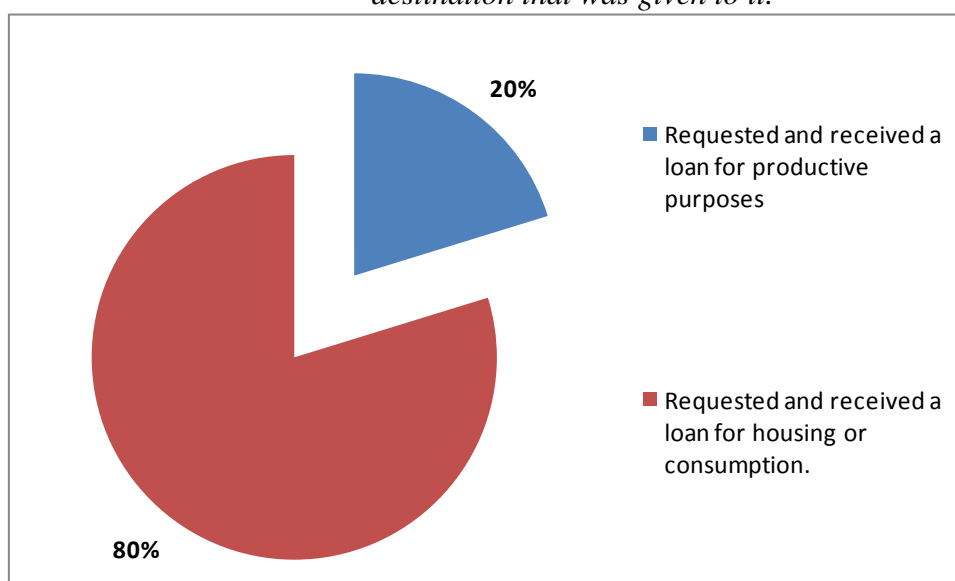


Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

**From now on, DK will stand for "Do not Know/Did Not Answer"*

Figure 5.2.

Distribution of individuals who obtained a loan in the past 12 months according to the destination that was given to it.



Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

In Figures 5.1 and 5.2 we can see that 83% of individuals interviewed by the EDSA (total) did not request a loan in the last 12 months. Unfortunately, in this version of the survey we cannot determine the reasons behind that. We believe that among these reasons would be a lack of interest to get indebted application requirements not consistent with individual creditworthiness, lack of collateral, insufficient lending amounts, and high interest rates. This supports the fact there would not be a self-selection bias because in our 2011 survey people responded separately the reason why they would not borrow in the next 12 months (Carballo and Grandes 2013, forthcoming). Only 14% of respondents obtained a loan, of which 80% turned out to be directed to consumption and/or housing, and nearly 11% to productive enterprises.

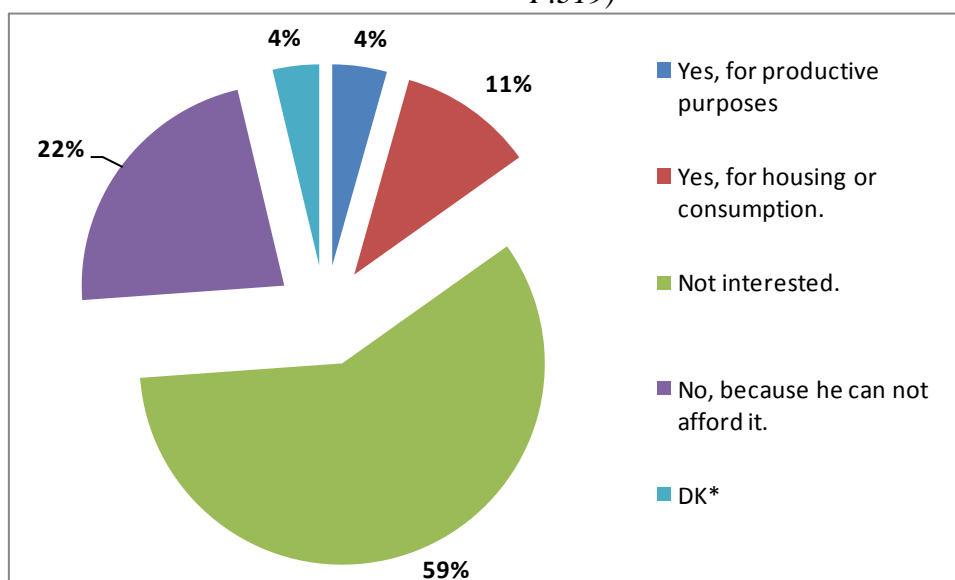
When individuals are asked if they would demand a loan in the next 12 months, 56% of them respond they are not interested (Figure 5.3). Perhaps this lack of interest is hidden in other reasons, for example in their lack of information they tend to think that access to credit is not feasible for their personal finances. Another 24% reply they would not request a loan because they believe that they could not repay it. The latter respondents, along with a portion of those who express disinterest should be the focus of attention for microcredit market analysts and policy makers because it could well be that the uninformed population needed more information or ultimately financial education and, in this way, would get to understand the different credit/loan options facing them. Please note that in our survey households are not asked if they do not want to borrow because they believe they will not be eligible for a loan, hence avoiding a self-selection bias again.

Figure 5.3 also shows that 4% of respondents would request a loan for a productive enterprise, percentage that rises to 11% for consumption and/or housing. We recall that in this EDSA it was not possible to separate consumption from housing or housing renovation. It usually happens that the renovation of housing is destined to improve the

productivity of an enterprise thereby increasing the fraction of potential loans directed to productive ends, or ultimately to bolster a microenterprise.

Figure 5.3

Distribution of the surveyed population (5682) according to their position against the option to apply for a loan in the next 12 months (answers to question P.319)



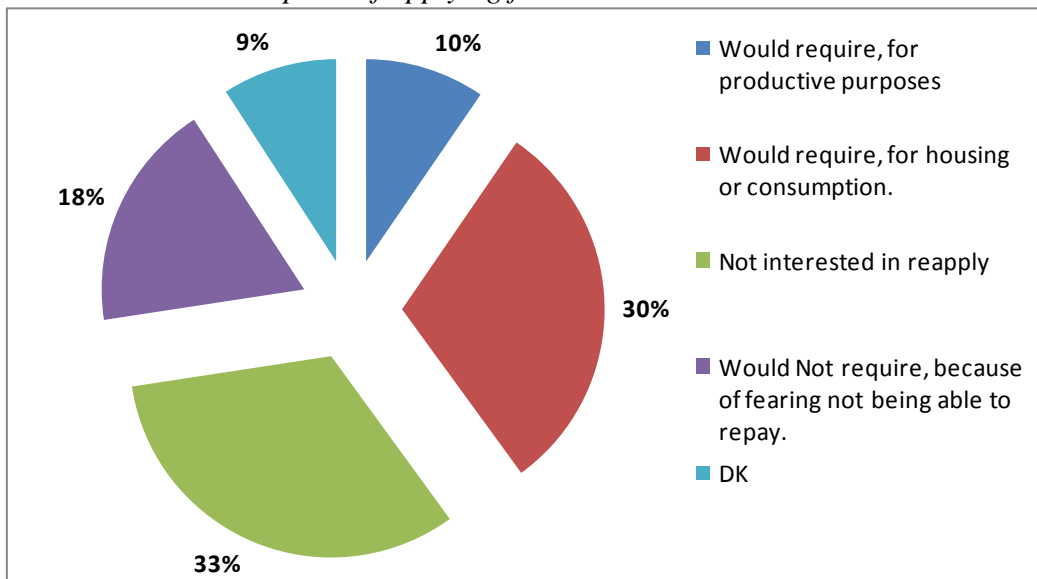
Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

**DK stands for "Do not know"*

Finally, it is worth noting that 40% of those individuals who obtained a loan in the past year, are willing to take another in the next 12 months (10% for productive purposes). Yet 18% of those individuals who obtained a loan before, now respond that they would be unable to repay a new loan. Finally, 33% show disinterest in requesting a future loan.

Figure 5.4.

Distribution of individuals who obtained loan in the past according to their response to the option of applying for a loan in the next 12 months



Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010).

*DK stands for "Do not Know"

Second, we looked at the level of banking services access of the entire surveyed population and in particular of those who obtained a loan in the past 12 months, those who applied but could not afford it, those who would apply for a new loan, and those who would not because they believe they would not be able to repay it. Table 2 summarizes the results.

Table 2

Banking services access of the entire surveyed population according to their position against credit

Full sample	Bank account	Credit card
Has	28%	41%
Does not have	69%	57%

⁶

Full sample	Has bank account	Does not have a bank account
Has credit card	22%	19%
Does not have credit card	7%	52%

Bank account	Obtained a loan in the past 12 months	Requested a loan but did not get it	Would request a loan	Would not request a loan because she thinks she would not be able to repay
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⁶ This does not total 100% because it does not include those cases where respondents answer "I do not know" or there is no answer.

				it
Has	36%	27%	29%	16%
Does not have	64%	73%	71%	84%

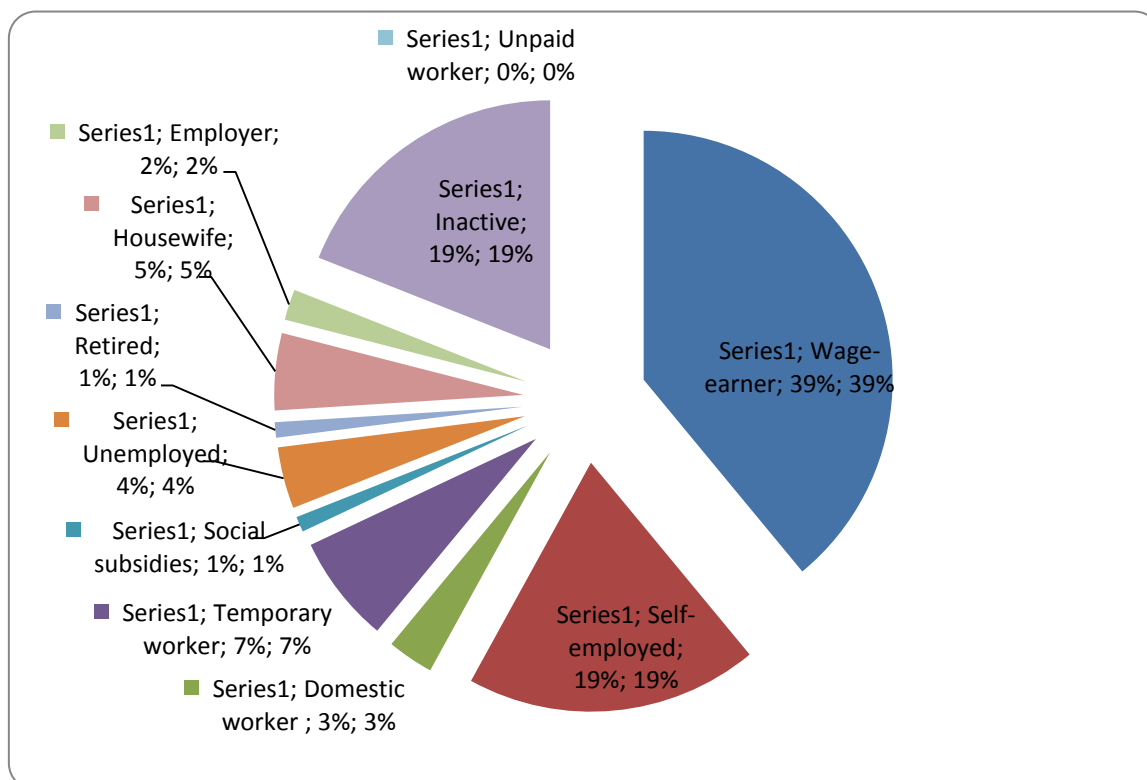
Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

From Table 2 we can notice that 69% of respondents do not have bank accounts, a finding in line with previous surveys that found that only between 30% and 40% of Argentina's population has access to banking services (see Grandes et al, 2010). However, access to credit card services is higher, reaching 41% of respondents, perhaps due to the fact that in Argentina there are credit cards such as “Tarjeta Naranja” which do not require the individual to hold an account at a bank. Combining both financial services we see that only 22% of the full sample survey has access to both a credit card and a bank account. Now, if we focus on those who got a loan in the past twelve months, we see that only 36% have a bank account. In the case of those who applied for a loan and did not get it, only 27% have a bank account, which is logical and correlates well with the failure in obtaining loan facilities and probably with the fact of not having access to a bank at all. Those who wouldn't request a loan because they think they could not repay and possess a bank account represent 16% of total respondents.

On the other hand, 71% of individuals who would request a loan in the next 12 months don't have a bank account. This segment of the population without access to a bank account is very interesting and relevant, because one of the major problems in the expansion of the microfinance supply is the unavailability of the amount of funds needed to support them. Allowing these individuals to save in the form of deposits at an MFI would benefit both the broad public and the development and expansion of the industry.

Third, we analyze the distribution of credit to individuals who would demand credit in the future according to their income level, type of occupation, employment and social security status (formal and informal).

Figure 5.5
Distribution of individuals who would request a loan in the next 12 months, by employment type.



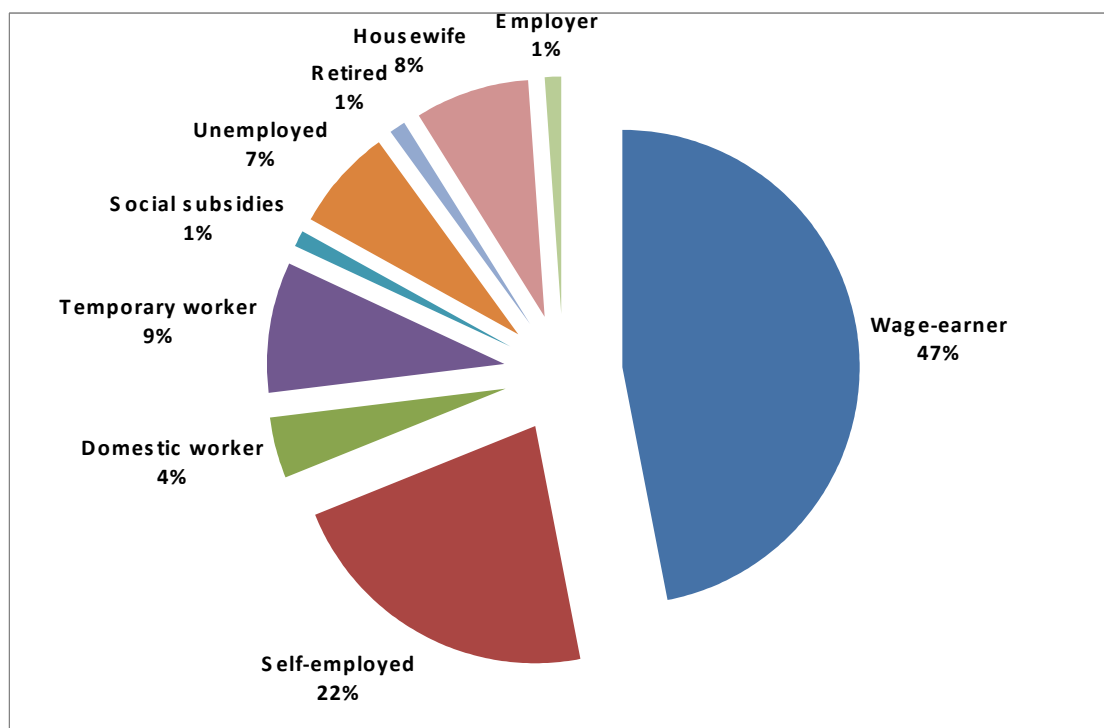
Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

Analyzing the employment status of those who would request a loan in the next 12 months, it follows that the majority group is constituted by wage-earners (39%). This probably reflects the relative stability of their wages and jobs. For their part, inactive and self-employed make up the second largest group. Those inactive people who respond that they would engage in a loan in the coming year could be assumed to destine the loan to consumption because they are part of the population that does not work and does not want either; when we analyze the EDSA database, indeed that's what we find.

Excluding all those individuals who exceed 4000 pesos in individual monthly revenue, we find a distribution by type of employment and income below 4000 pesos as described in Figure 5.6.

Figure 5.6

Distribution of individuals with incomes not exceeding 4000 pesos who would request a loan in the next 12 months, by employment status.

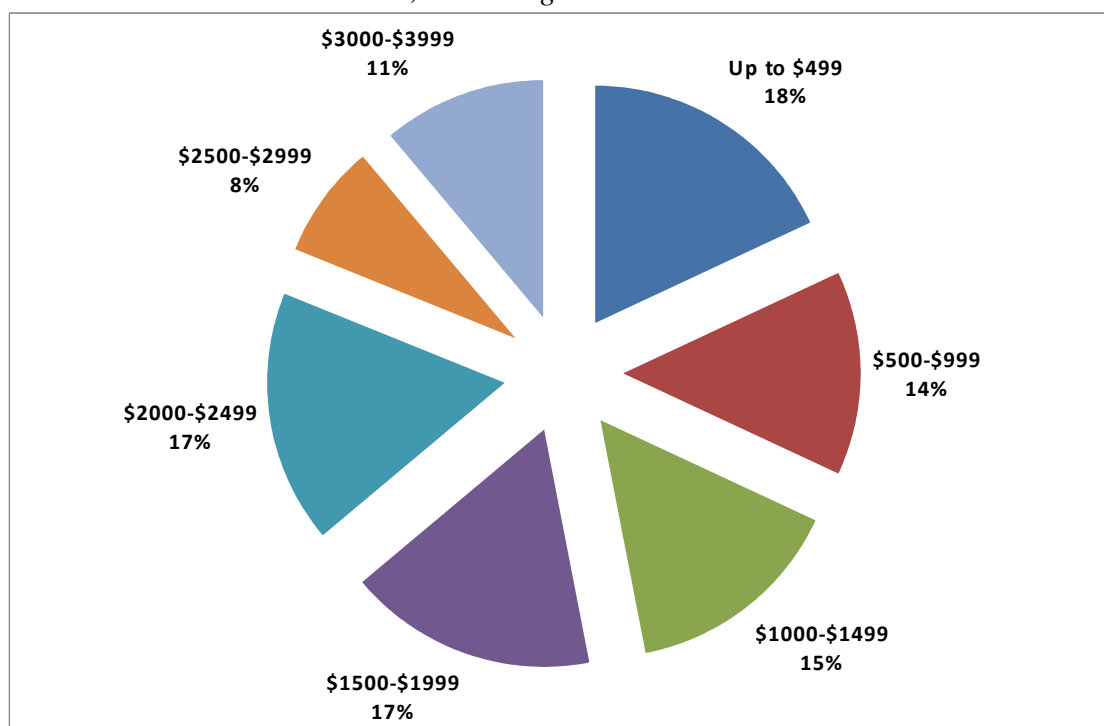


Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

We find that 47% of individuals with incomes at or below 4000 pesos are salaried employees while 22% are self-employed and 9% temporary workers. This brings us closer to the potential demand for microcredit following the poverty line and minimum wage criteria defined in Section 2. In fact, when we decompose the population by income range up to 4000 pesos, we find that 81% of these individuals claim to earn less than 2500 pesos and are unevenly distributed (Figure 5.7), a result which is consistent- to some extent- with a study of the Central Bank of Argentina (2011) which shows that the greater propensity to take out a loan is found, on average, in the population within the low to middle income range, equal to 2500 pesos.

Figure 5.7

Distribution of individuals who earn less than 4000 pesos and would request a loan, according to last month's income.



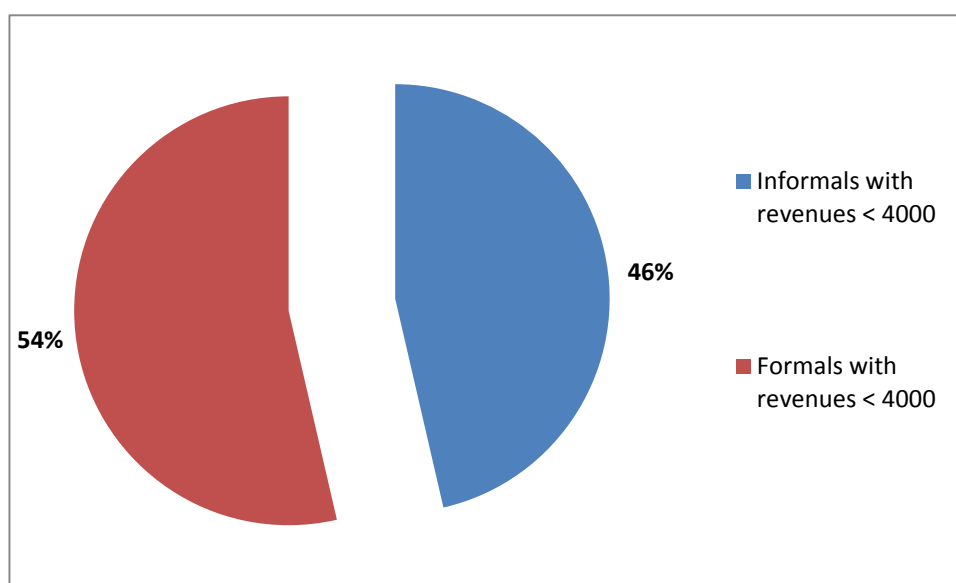
Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

Now, when we decompose the employees earning below 4000 pesos into formal and informal (Figure 5.8), we approach to the population who is potential subject of microcredit. According to the definition of microcredit that we have adopted (small loans to low-income households), the remaining population above \$4000 is not taken into account. We have defined an informal worker as one without payroll contributions or retirement benefits, without health care benefits and without access to unemployment insurance. On the other hand, we define a formal worker as one who indicates having at least one of the three former benefits⁷. Consistent with the UNPD study (2005) the remaining population is not considered as potential microcredit customers, i.e. we only consider formal and informal workers and unemployed. Finally, microcredit might under certain conditions be an effective tool to pull people out of poverty and get them on the formal job market (see Quibria, 2012).

⁷ Those respondents who did not answer any of the three questions were defined as indeterminate being excluded from the analysis. (These do not reach the 1.9% of the total respondents and do not alter the results)

Figure 5.8

Distribution of individuals earning less than 4000 pesos during the last month and that would request a loan, according to their employment status



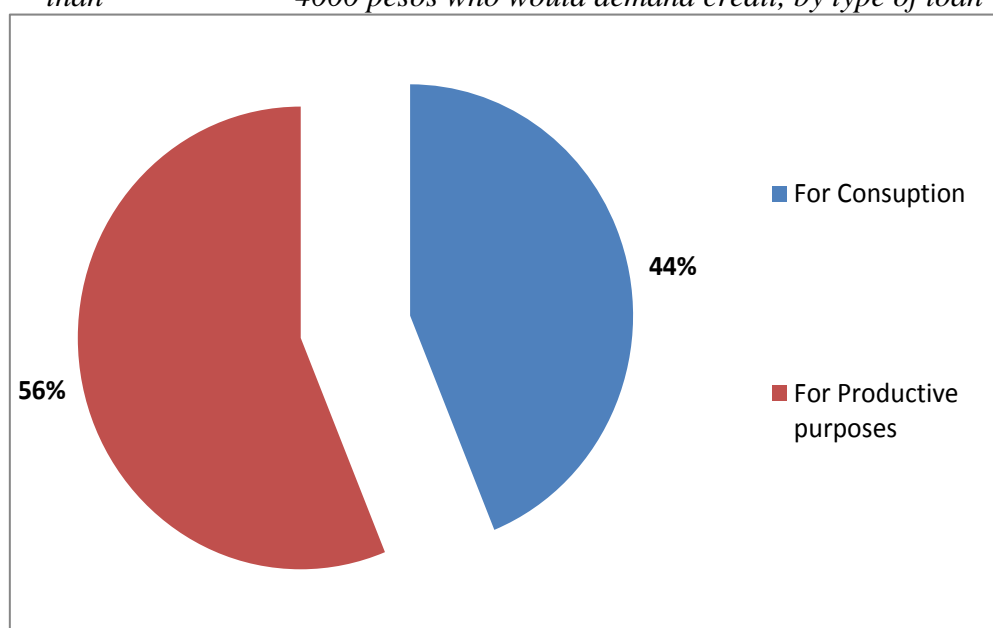
Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

Fourth, we conduct a sensitivity analysis between formal and informal workers letting their revenue vary between 2000 and 4000 pesos. Hence, we build two groups of potential consumers of microcredit: the first considers formal and informal workers that report revenues below 2000 pesos; the second expands the range to 4000 pesos. We observe that 74% of informal workers, who would demand a loan and declared revenues at or below 4000 pesos is located in the range of 0 - 2000 pesos. This percentage drops to 47% in the case of formal workers and it is logical since salaried workers tend to prevail within the upper income range group.

Fifth, we obtain the distribution of unemployed workers who would request a loan and declare household income not exceeding 4000 pesos, depending on the type of credit they would take. This is important and is taken into account by UNDP (2005), as an unemployed person can become a potential employee or self-employed upon return to the workforce and does so typically through a loan for productive ends. Figure 5.9 shows indeed that 56% of all unemployed would demand a loan for entrepreneurial reasons. The ceiling of 4000 pesos per household is subjective but sensitivity analyses available upon request to the authors show that the breakdown by purpose of credit is not significantly modified.

Figure 5.9

Distribution of unemployed workers with household income lower than 4000 pesos who would demand credit, by type of loan



Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010⁸)

As a result of the previous steps we are able to quantify the potential demand for microcredit in Argentina according to the data provided by the EDSA 2010. Some preliminary considerations are necessary before reporting our estimates.

- 1) We find it necessary to weigh each individual in the sample to see its representation at the country level. This weighting expands the sample to the population according to their participation in each region or urban area.
- 2) We estimate the potential demand for microcredit taking into account, first, formal and informal workers employed earning less than 2000 pesos (one poverty line in 2010), and later we relax this constraint by expanding the demand to formal and informal workers earning less than 4000 pesos. This might fix an implicit bias to underreport or overstate income. For example, an individual who declares 2000 pesos could earn, with a certain probability, 4000 pesos. On the other hand, another perceiving 4000 but overestimating her income (because he might have confused net income with sales) could earn, with a certain probability, an income equivalent to half of that. In any case, a more rigorous estimation of the underreporting or overestimation of incomes will follow this study, though we do not expect changes in our results due to the distribution of incomes, i.e most people earn less than 3000 pesos in 2010.⁹
- 3) We assume that only those unemployed workers whose household income is under 4000 pesos are considered relevant for the potential demand, as defined above.

⁸ See Dale and von Pischke (1980) for a discussion about fungibility of loans.

⁹ See World Bank Institute (2005), Ch 5.

Tables 3 and 4 exhibit the potential demand for microcredit in Argentina in 2010 sorted by income. We call "Scenario 1" and "Scenario 2" to our estimates for individuals earning less than 2000 pesos and less than 4000 pesos, respectively. These tables show that the potential demand would range from 966.573 to 1.636.366 individuals. It is worth noting that these figures do not take into account the segment of the population that responds that it would not take out a loan because it does not know whether it may be able to repay. The investigation of this phenomenon will be the subject of a forthcoming research paper.

In both tables we can see that nearly 30% of the potential microcredits would be destined for productive purposes and approximately 70% for consumption and/or housing.

Table 3

Potential demand for microcredit in 2010 with income (Y) less than 2000 pesos per month

Informal with Y <2000 pesos that would request a loan for productive ends	169.834
Informal with Y <2000 pesos that would request a loan for consumption	358.981
Formal with Y <2000 pesos that would request a loan for productive ends	83.226
Formal with Y <2000 that would request a loan for consumption	265.186
Unemployed with household Y<4000 that would request a loan for productive ends	50.183
Unemployed with household Y<4000 that would request a loan for consumption	39.163
Potential demand for microcredits (Scenario 1)	966.573

Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

Table 4

Potential demand for microcredit in 2010 with income (Y) less than 4000 pesos per month.

Informal with Y <4000 pesos that would request a loan for productive ends	248.499
Informal with Y <4000 pesos that would request a loan for consumption	469.084
Formal with Y <4000 pesos that would request a loan for productive ends	162.762
Formal with Y <4000 that would request a loan for consumption	666.675
Unemployed with household Y< 4000 that would request a loan for productive ends	50.183
Unemployed with household Y<4000 that would request a loan for consumption	39.163
Potential demand for microcredits (Scenario 2)	1.636.366

Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

Finally, we present the potential customer of microcredit qualitative profiles estimated under scenario 2 sorted by employment type, place of residence, financial inclusiveness, sex, age and access to social subsidies.

A) Employment type, formal and informal workers

Table 5
Informal workers with income below 4000 pesos who would demand a loan in the next 12 months

Public sector employee	1,81%
Private sector employee	14,99%
Total salaried employees	16,80%
Professional self-employed	2,35%
Non-professional self-employed	39,25%
Total self-employed	41,60%
Domestic worker	12,25%
Temporary worker	25,45%
Non wage-earner employee	0,83%
Social subsidy-receiving workers	3,07%
Total informal workers with Y<\$4000 pesos who would request a loan	100,00%

Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

The largest proportion of informal workers is self-employed, which is completely logical: tax evasion and informal businesses in this sector turn out to be close to the rule.

Table 6
Formal workers with income below 4000 pesos who would demand a loan in the next 12 months

Owner	0,87%
Public sector employee	19,58%
Private sector employee	65,24%
Total salaried employees	84,83%
Professional self-employed	1,44%
Non-professional self-employed	7,92%
Total self-employed	9,36%
Domestic worker	1,61%
Temporary worker	1,72%
Non wage-earner employee	0,00%
Social subsidy-receiving workers	1,62%
Total formal workers with Y<\$4000 pesos who would request a loan	100,00%

Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

As expected, we find that formal potential customers of microcredit are mostly wage-earning employees.

Then, gathering formal and informal workers, we obtain the distribution shown in Table 7. From this table we conclude that the first majority of potential applicants for microcredit are made up of salaried workers, followed by self-employed and temporary workers and domestic workers.

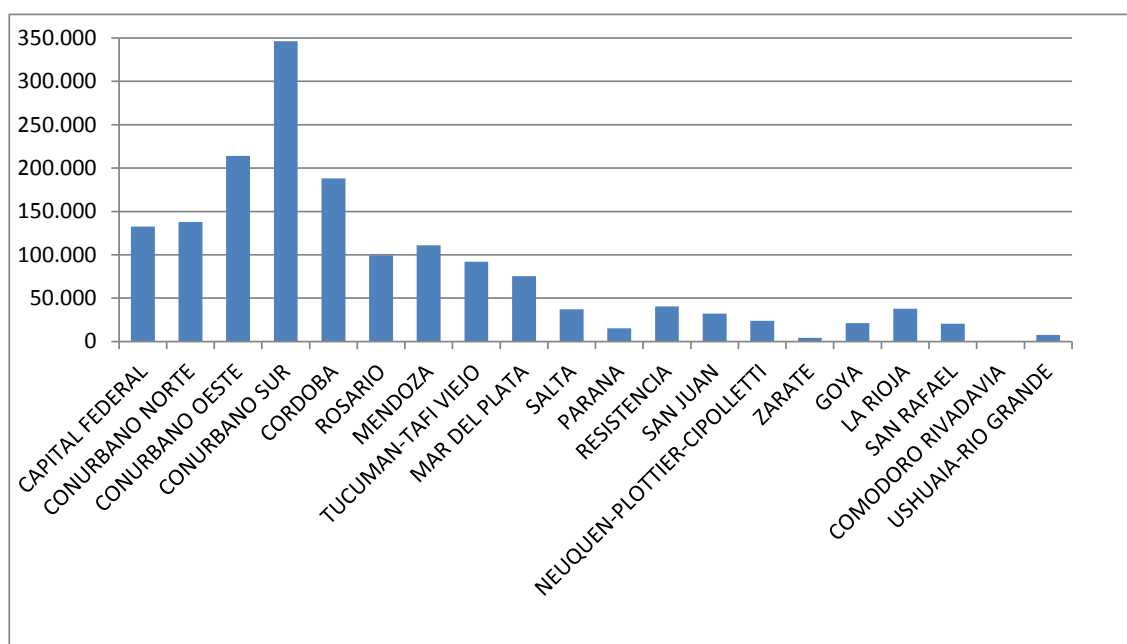
Table 7
Formal and Informal workers with income below 4000 pesos who would demand a loan in the next 12 months

Owner	0,47%
Public sector employee	11,34%
Private sector employee	41,93%
Total salaried employees	53,28%
Professional self-employed	1,86%
Non-professional self-employed	22,45%
Total self-employed	24,31%
Domestic worker	6,55%
Temporary worker	12,73%
Non wage-earner employee	0,39%
Social subsidy-receiving workers	2,29%
Total formal and informal workers with Y<4000 pesos who would request a loan	100,00%

Source: Authors' calculations based on the Survey of the Social Debt of Argentina (2010)

B) Place of residence

Figure 6.1
Distribution of the potential demand for microcredit by urban areas

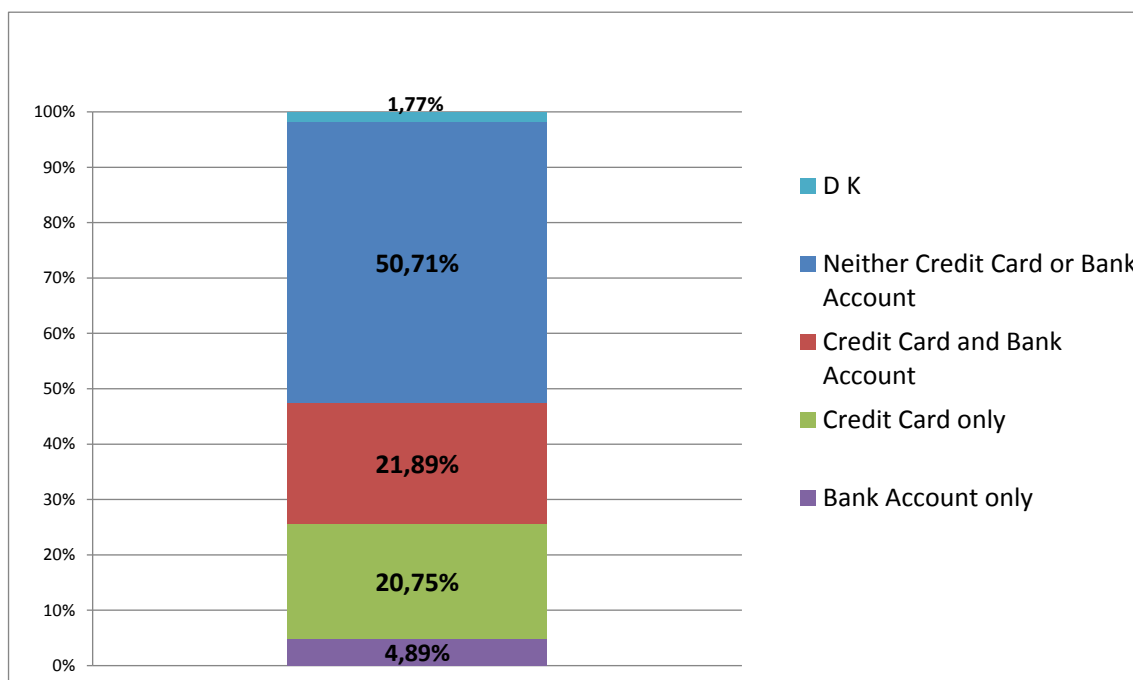


Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

Figure 6.1 reveals that the potential demand for microcredit is concentrated in the Southern Greater Buenos Aires (21.16%), followed by the Western Greater Buenos Aires (13.08%), Cordoba (11.49%), the Northern Greater Buenos Aires (8.42%), the city of Buenos Aires (Capital Federal for its name in Spanish) (8.10%), Mendoza (6.79%) and Rosario (6.08%). The relative importance of the potential demand for microcredit in the urban areas beyond the Greater Buenos Aires suggests the need to broaden the supply nationally and that public policies go in this direction (FONCAP, for its abbreviation in Spanish of “Fondo de Capital Social” and CONAMI, for its abbreviation of “Comisión Nacional de Microcrédito”, are already working in this direction).

C) Financial Inclusiveness

Figure 6.2
Level of Financial Inclusiveness of potential customers of microcredit.



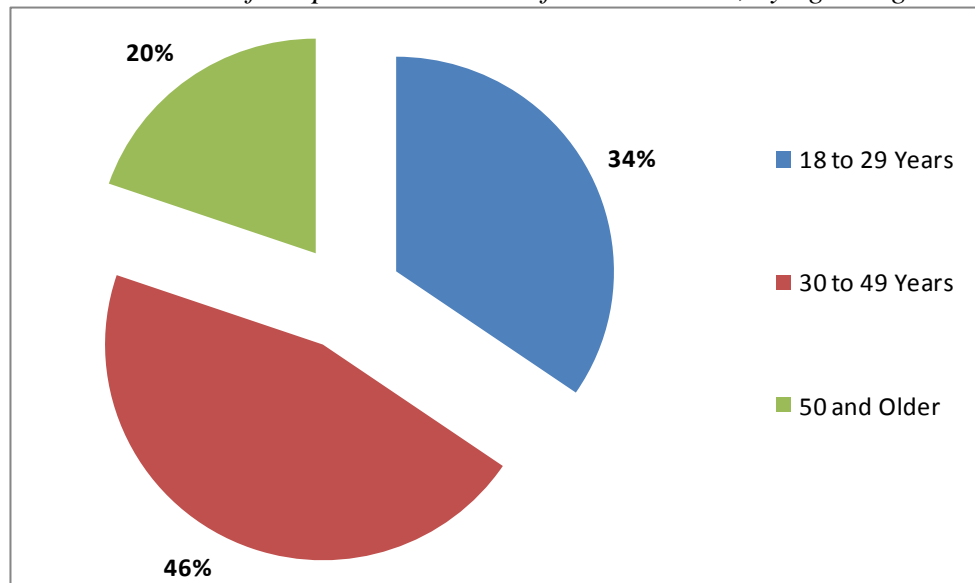
Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

In line with the findings above (see page 12), 50.71% of the individuals who constitute the potential demand for microcredit do not have access to a bank account or, worse, to a credit card. This means that their financial inclusiveness is very low or almost zero, which would justify the existence of the MFIs to fill that gap. Only 21.89% of potential applicants for microcredit have credit card and bank account. Last, only 20.75% have access to a credit card, and 4.89% to a bank account.

D) By age

Figure 6.3

Distribution of the potential demand for microcredit, by age range.



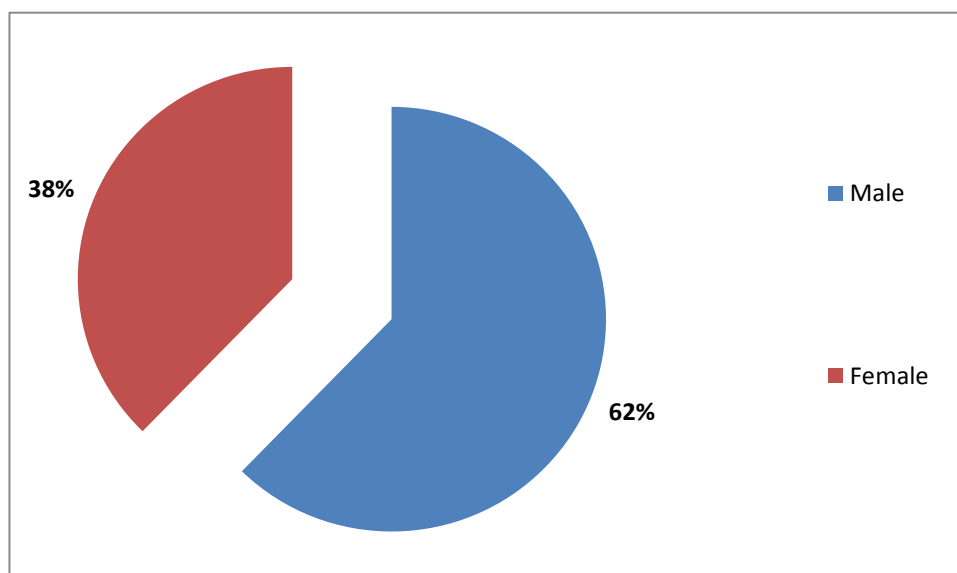
Source: Authors' calculations based on the Survey of Social Debt Argentina (2010)

Almost half of the potential demand for microcredit is in the range of 30-49 years. This is completely expected, as it covers the life period of greatest activity of individuals and greatest propensity to borrow.

E) Gender

Figure 6.4

Distribution of the potential demand for microcredit, by gender



Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

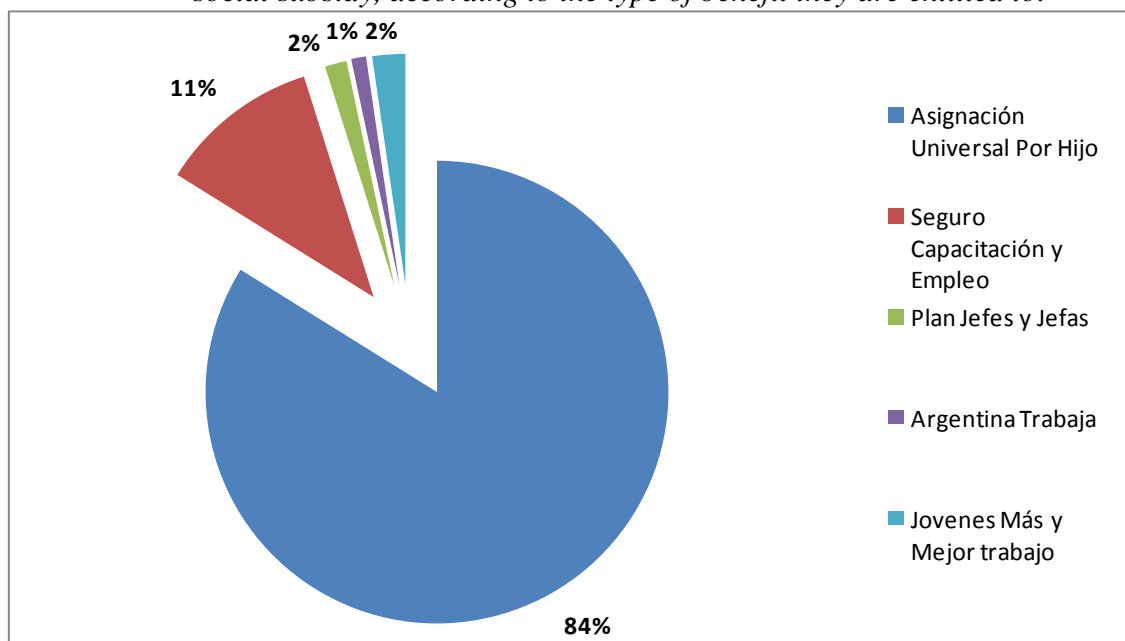
Here we notice that while the potential demand for microcredit is constituted by a majority of men, the role of women as future prospective applicant for this type of

credit is not negligible. This said, our information is consistent with the characteristics of the labor market in Argentina, where nearly 60% of all active workers are men (see “Barómetro de la Deuda Social Argentina”, 2011).

F) Social subsidies

Why do we consider relevant to investigate the surveyed population access to social subsidies and their relationship with the propensity to take out a microcredit in the future? A possible answer is that it is often argued that the granting of social subsidies acts as a disincentive to the development of entrepreneurial capabilities among individuals. In our work, however, we show that only 7.4% of the potential demand for microcredit receives any of these benefits. And among the beneficiaries, i.e. that 7.4%, of relevance is the “Asignacion Universal por Hijo”¹⁰ taking up 84% of the total, as shown in Figure 6.5.

Figure 6.5
Distribution of the potential demand for microcredit that accesses to some social subsidy, according to the type of benefit they are entitled to.



Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

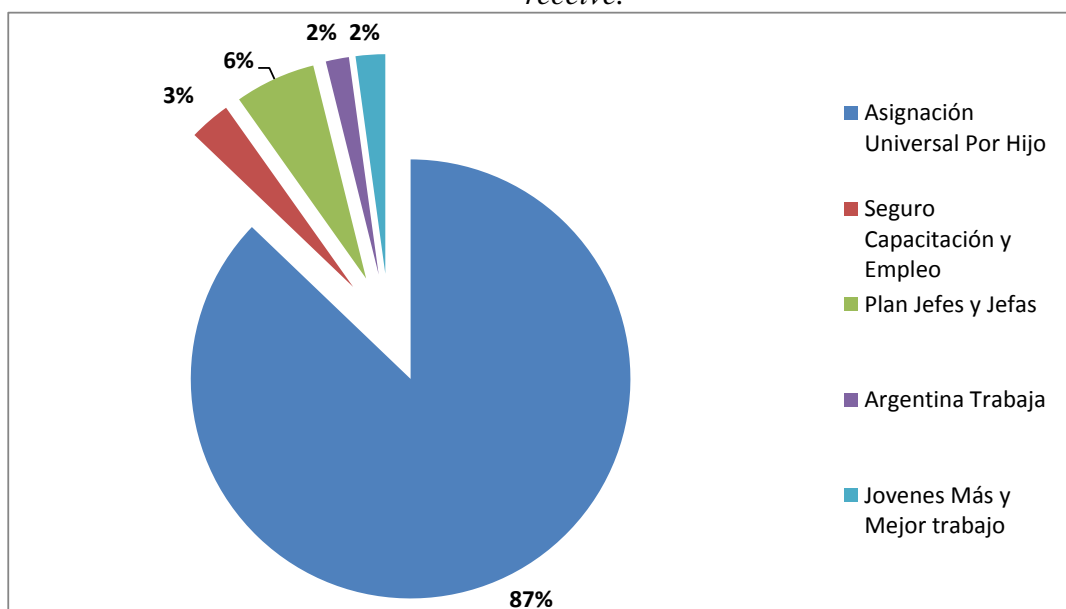
It is also important to analyze whether among the factors because individuals would not be interested in demanding a loan, i.e within the total population, lays the fact of receiving a social subsidy. We can see that of the total number of individuals who responded not to be interested in requesting a loan in the next 12 months, only 11,2% receive any of these social subsidies. And out of this 11,2%, 87% receives the “Asignacion Universal por hijo (AUH)”. Thus the lack of interest or disincentive to request a loan or start up an enterprise must be sought in other factors such as its cost, the barriers to access to credit, or the lack of information about credit markets products.

¹⁰ This is a subsidy received by any household with children at school, and who earn less than a minimum wage.

Moreover, the AUH would be an incentive to borrow and go to the job market, for example through microcredit.

Figure 6.6

Distribution of individuals who would not request a loan because they are not interested and they receive some social subsidy, according to the subsidy they receive.



Source: Authors' calculations based on the Survey of Social Debt of Argentina (2010)

6- Conclusions

According to CGAP (www.cgap.org, FAQs), the term "microfinance," once associated almost exclusively with small-value loans to the poor, is now increasingly used to refer to a broad array of products (including payments, savings, and insurance) tailored to meet the particular needs of low-income individuals. People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks. Poor people usually address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal moneylenders, but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and other mutual savings societies. But these tend to be erratic and somewhat insecure. Traditionally, banks have not considered poor people to be a viable market.

In Argentina microfinance equals microcredit and the industry is at an infant stage and the demand is small compared to other peer countries in Latin America (Navajas and Tejerina, 2006; The Economist Intelligence Unit, 2010), hence the need to understand the potential against the actual, and limited demand for microcredit.

In this paper we quantified the potential demand for microcredit in Argentina and we characterized its profiles according to different qualitative aspects, i.e. socioeconomic and demographic factors. Raising awareness of the potential demand can be of great

value to the sector, MFIs, policy makers and international organizations interested in promoting the sector development in Argentina. As mentioned earlier, microfinance is still underdeveloped in Argentina and the business climate for the sector is not the most propitious.

A majority of the potential demand (1,6 million people under the scenario of two poverty lines) is salaried worker, half formal and half informal, aged between 30 and 49 years old located in the Greater Buenos Aires area, with low access to banking and credit card services and who would request a loan mainly for housing or consumption purposes. Even though money is fungible, this finding would require further investigation and new surveys to check the consistency of this demand pattern.

Finally, our survey can be replicated in other countries introducing some minor adjustments. That would greatly benefit the industry in the Latin American regions, especially in those countries like Argentina where there is little to no awareness of the potential size of the market and its social impact.

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Appendix 1

Table 1
Financial Inclusiveness Questionnaire-EDSA 2010

INCLUSIÓN FINANCIERA					
316. En los últimos 12 meses Ud. solicitó y obtuvo algún préstamo o crédito en efectivo para iniciar o mejorar un emprendimiento productivo o para refaccionar o comprar una vivienda u otro tipo de consumos personales? <div style="text-align: center;">(LEER OPCIONES)</div>					
Si, para un emprendimiento productivo	1	Si, para vivienda u otro consumo personal	2	No solicitó préstamo (PASA A 319)	3
				Solicitó y no obtuvo (PASA A 319)	4
				Ns/Nr (PASA A 319)	9
317. SOLO PARA LOS QUE RECIBIERON PRÉSTAMO O CRÉDITO ¿Quién o qué institución le otorgó el préstamo o el crédito? <div style="text-align: center;">(ESPONTÁNEA)</div>					
Familiar o amigo	1	Banco	2	Asociación civil (ONG) de su barrio o cercanía	
Financiera de su barrio	4	Otros (aclarar)	5	Ns/Nr	
				9	
318. ¿Cuál fue el monto que le otorgaron? Monto otorgado: \$ 99 Ns/Nr					
319. PARA TODOS LOS ENTREVISTADOS ¿Ud. tomaría actualmente algún préstamo o crédito en efectivo para iniciar o mejorar un emprendimiento productivo o para refaccionar o comprar una vivienda u otro tipo de consumos personales? <div style="text-align: center;">(LEER OPCIONES)</div>					
Si, para un emprendimiento productivo	1	Si, para vivienda u otro consumo personal	2	No me interesa	3
				No, porque no puedo pagarlo	4
				Ns/nr	9