HIDDEN BIAS? ACCESS TO CREDIT BY GENDER AND INDIGENOUS STATUS IN GUATEMALA (INTERACTIVE PAPER)

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HIDDEN BIAS? ACCESS TO CREDIT BY GENDER AND INDIGENOUS STATUS IN GUATEMALA

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Principal Topic
Access to financial services by women-owned businesses, especially for ethnic minorities in developing countries, is a critical issue in the development and growth of new and small businesses around the world. According to a report by the International Finance Corporation (IFC), an estimated 70% of women-owned formal sector small and medium enterprises in developing countries are underserved by financial institutions, resulting in a global financing gap of around $285 billion. Prior research findings further suggest that women-owned firms are charged higher interest rates and require greater collateral to meet financing terms, indicating that loan officers interact with female business owners in a discriminatory fashion (Carter, Shaw, Lam, & Wilson, 2007; Coleman, 2000; Fay & Williams, 1993; Buttner & Rosen, 1992). In this study, we compare access to credit for indigenous and non-indigenous, men- and women-owned small businesses in Guatemala. Our main hypothesis was that being female and indigenous lead to different likelihoods and terms of loan awards as well as different perceptions and experiences related to customer service.

Methodology
We adopted a qualitative “mystery shopper” methodology based on a matched-pair research design. This approach allowed us to focus our analysis on “residual” gender differences, like perceptions of hidden bias, by ensuring that key controls were integral to the research design. We recruited 24 participants, or twelve matched pairs of male and female business owners, half indigenous and half non-indigenous, seeking SME loans to support business growth for their new and small businesses. Matching criteria included business size, annual sales, industry, product/service category, and age. All participants were trained in advance on the loan application process. Each participant completed a recruitment screening survey, a questionnaire to assess each bank visit, a final loan decision report, a video interview and submitted a copy of each loan application as well as copies of any collateral material or requests for additional material from the financial institution. Questions included a combination of closed- and open-ended questions to avoid bias and to capture first person narratives. The data collected were coded for key themes and variables of interest and results generated based on bivariate analysis.

Results and Implications
As expected, no significant differences were found among key controls like industry and business size; however, our findings were surprising in a number of important ways. Not only were female and indigenous loan applicants more likely to receive loan awards, but female and indigenous applicants tended to request larger loan amounts and female applicants received larger loan awards and longer terms. No significant differences by gender or indigenous status were found for interest rates or expected use of loan funds. Both indigenous applicants and male applicants were about twice as likely to report requests for additional information from loan officers compared to their non-indigenous and female counterparts. Evidence and perceptions of reverse discrimination among Guatemala loan applicants represents an important finding and is reflected in the politics and culture of Guatemala.

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