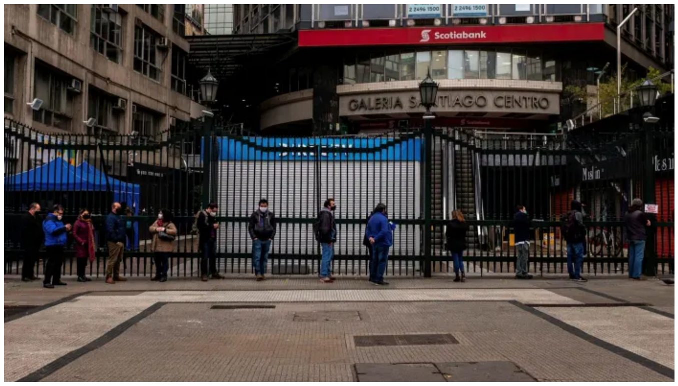
Opinion **Women in business**

Women get no credit in Latin America

This is bad for men, for women and for investors of both sexes

ERIC PARRADO



Research has found that in Chile women are 18 per cent less likely than men to have their loan applications approved © Cristobal Olivares/Bloomberg

Eric Parrado YESTERDAY

The writer is chief economist at the Inter-American Development Bank and former chairman of Chile's banking regulatory agency

During the pandemic, Patricia needed a bank loan to keep her coffee shop going in Chile. Juan, in a similar situation, applied for a loan of the same size. The loan officer at their local bank reviewed their applications. Which one was more likely to get approved?

New evidence from an experimental study that used actors and actresses, and married the results with loan officer surveys, showed that Juan was — and just because he is a man. This finding has profound consequences for female entrepreneurs in a region that ranks among the worst affected by Covid-19, and also for bank profitability and investors. Fortunately, it is a problem with some straightforward solutions.

Latin America and many other emerging markets are renowned, rightly or wrongly, for their culture of machismo. That loan discrimination takes place in Chile is notable. Among emerging market economies, it has a deep and sophisticated financial system, so you would expect loans to be approved on merit alone. Chile has also sought to improve female equality in education and politics. Chile's last president, Michelle Bachelet, was a woman, serving for a second term.

Even so, gender discrimination is rife. Chilean women earn on average 65 per cent less than men with the same level of higher education. And, just as in other countries where the pandemic has disproportionately affected women, so too in Latin America. In a recent survey, two-thirds of female respondents said they were exclusively in charge of household chores. Less than one-quarter of men said the same. Now it is clear that credit provision is also biased towards machismo.

Even though their online applications may have the same wording, our study found that women were 18 per cent less likely to have their loans approved. This also led to lost profits for the banks. The estimated amount of profit forgone due to applications rejected because of gender discrimination had a median amount of $1,785, almost one-quarter of median loan size. Furthermore, women borrowers account for one-third of the country's $159bn total loans; a simple extrapolation from that suggests that credit foregone to Chilean women could amount to $12bn, a significant amount.

Male officers were almost entirely responsible for this discrimination (there were unbiased male loan officers too). One striking finding was that when male loan officers who preferred other men as their clients were told that women are more likely to repay loans, their gender discrimination increased.

This is irrational bias. It is also unaffordable during the pandemic, when financial relief packages are critical to helping female entrepreneurs and small business owners. It is also not unique to Latin America. In the US, surveys have found that the average loan for women-owned businesses is 42 per cent smaller than the average loan for male-owned businesses.

The pandemic is an opportunity to implement some overdue changes. Loan applicants' gender needs to be anonymised. Experiments show that this can reduce bias and result in better outcomes for women. That is even true when musicians apply to symphony orchestras in the US.

Loan officers should also have greater gender diversity. In our Chilean study, banks with more male officers were associated with more discrimination. Last, banks should incentivise higher female loan approval rates. Some lenders have already initiated such programmes. They can also be financed with gender bonds as in Panama, Australia, Turkey and Canada.

Multiple studies show that more gender diversity leads to more innovation, productivity, creativity and better company reputations. But it also boosts profitability. Investors take note: what benefits Patricia also benefits you.