

# Microfinance and Discrimination in Lending: What Do We Know ?

Ariane Szafarz

Professor of Finance, Université Libre de Bruxelles (ULB)  
Solvay Brussels School of Economics and Management (SBS-EM)  
and  
Centre for European Research in Microfinance (CERMi)

[aszafarz@ulb.ac.be](mailto:aszafarz@ulb.ac.be)



# Why care about discrimination in MF?

- **Discrimination in lending is well-documented (since 1992)**
  - US: 7 classes protected by Law: race, religion, sex, disability, etc.
  - competition in local banking  $\uparrow \Rightarrow$  discrimination  $\downarrow$
- **Discrimination is also frequent in developing countries**
- **MFIs are generally benevolent institutions**  
**BUT:**
  - Decentralization favor agency problems like favoritism and discrimination
  - Excess demand ease camouflaging discriminatory practices.



# What is Discrimination in Lending?

- **Influence of observable characteristics** independent from the loan attribution criterion:
  - in loan denial
  - in loan conditions (interest rate, loan size, etc.)
- **Three Levels** (Marsden, 1994):
  - Overt discrimination: no transaction at all
  - Disparate treatment: harsher screening
  - Disparate impact: unintentional



# Why Would MFI Agents Discriminate ?

- Lack of “cultural affinity”
- Reluctance to interact

Ex. caste, gender, ethnicity, disability

- Stereotyping

Ex. “women lack entrepreneurial skills”

- Pure prejudice

Ex. racism



# How is Discrimination Assessed ?

- **Large methodological variations:**
  - Surveys
  - individual data on applicants
  - Experiments: Send fictitious applications

Ex. Fay and Williams (1993): gender discrimination for start-up capital (4 major banks in New Zealand)

→ **Main problem: data availability**



# Evidence of Discrimination in MF

- From donors:

- Data from Kiva (Jenq, Pan and Theseira, 2011)
- Donors favor lighter-skinned women and slimmer men.

- From credit officers:

- Survey data from Uganda (Labie, Méon, Mersland and Szafarz, 2010)

*Credit officers acknowledge discrimination against the disabled more than other MFI staff*

- Exhaustive database from MFI in Brazil (Agier and Szafarz, 2010)

*Glass-ceiling effect*



# Gender Discrimination in MF ?

- Against Men or Women ?

Some MFIs serve a vast majority of women

- But women are poorer than men (70 to 80% poverty is female)  
→ in line with poverty-reduction mission

- Women reimburse better  
→ in line with financial sustainability concern

- However, women ask for smaller loans → more costly

- Women are more confined in group lending

→ Need for comparison “all other things equal”

→ Difficult in practice!



## Existing evidence in MF:

- **Women are more credit-rationed than men:**

- In Peru: Buvinic and Berger (1990)
- In Italy: Alesina *et al.* (2008)
- In Paraguay: Fletschner (2009)
- In Brazil: Agier and Szafarz (2011)

... and lending relationship does not help

- **Loans to women approved equally but less disbursed:**

- In Uganda: Abaru *et al.* (2006)

- **No discrimination:**

- In Sub-Saharan Africa (Aterio, Beck and Iacovone, 2011)
- In Bangladesh (Alhindawi, 2010)





## To sum up:

- MFIs are not immune to discrimination
- Very recent research topic
- Still scarce evidence
- Lack of data

→ More work is needed, requires data release

What about discrimination based on race, caste, religion, etc.?



# CONCLUSION

- Discrimination by credit officers might explain why some remain unserved by MFIs (ex. the disabled)
- Gender discrimination is tricky in microfinance:
  - “pro-women” agenda (15 to 40% MFIs)
  - But evidence of abusive credit rationing



# Potential Remedies:

- Target women with ambitious projects
- More transparency on borrowers' individual characteristics
- Governance devices (supervision, incentives, staff selection)
- From donors: Anti-discrimination regulation/recommendation



## Ex. The new “European Code of Good Conduct for Microcredit”

Clause 1.17: “Microcredit Providers will not discriminate on the basis of race, ethnicity, gender, political affiliation, disability, religion, or sexual orientation in the selection and treatment of customers (...)”

Note: “low difficulty” ....



Thank you.

