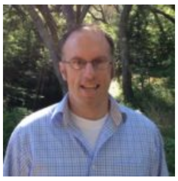
International Growth Centre

Authors

Pascaline Dupas

Associate Professor of Economics

Stanford University



Jonathan Robinson

Associate Professor

University of California - Santa Barbara

Anthony Keats

Assistant Professor of Economics

Wesleyan University

Published on: 7 Feb 2014

Countries: International

Research themes: Firms

Challenges in banking the rural poor: evidence from Kenya's western province

Most people in rural Africa do not have bank accounts. Without a safe place to save up money, it may be very difficult for people to take advantage of high-return investments of many types. Likewise, without a safe place to keep an emergency cash buffer, vulnerability to shocks might be exacerbated. Recognising this, policymakers and international aid organisations have begun to devote attention to expanding access to financial services in developing countries, especially in rural areas where access continues to be extremely limited. However, in Dupas et al. (2012) we investigate whether increasing access is enough.

While much attention has recently been paid to various strategies to expand access, comparatively little attention has been paid to the quality of financial services in very rural areas. If people are not banked (i.e. do not have a bank account) because these services are unreliable or too expensive, then expanding access to such flawed services is unlikely to be appealing. We combine survey and experimental evidence from western Kenya to show that addressing these supply factors is crucial if financial services are to be expanded usefully to unbanked populations.

In the main part of our experiment we waived the fees and reduced other hassles of opening accounts for a random subset of individuals who were initially unbanked. Although 63% of the treated sample opened an account, we find that only 19% made two or more deposits in those accounts in the 18 months thereafter. Survey evidence suggests that the main reasons people did not begin saving in their bank accounts are that (1) they do not trust the bank to keep their money safe, (2) services are unreliable, and (3) withdrawal and other transaction fees are prohibitively expensive. In terms of use of formal credit, when we randomly provided information on local credit options and lowered the eligibility requirements for an initial small loan, we find that only 3% of people initiated the loan application process. Survey evidence suggests that people do not borrow because they do not want to risk losing their collateral.

Of course, there could be demand-side constraints as well: it could be that people in our sample are simply not interested in saving or do not have enough money to deposit into the accounts. Indeed, in surveys many people cited high expenses and low income as barriers to saving. However, when we tested this formally by providing a random subset of individuals with simple lock boxes to store money at home, we find that 91%

simple lock boxes to store money at home, we find that 94% actively store money in the boxes. We also find that individuals assigned lock boxes deposited nearly twice cash as much as those assigned savings accounts over first nine months of usage. This suggests people in our sample are both willing and able to save.

Hence, our analysis generates several areas of focus for effectively expanding financial services to the poor:

1. Trust is an important reason behind people not using current banking services, and so providing stronger consumer protection through tighter regulation and deposit insurance could be very important for take-up.
2. More attention should be paid to cost and convenience of savings products that banks provide to ensure that these are broadly appealing to the poor.
3. Many people are uninformed about banking options, and so better marketing from the banks themselves might be warranted.