

Authors Pascaline Dupas **Princeton University**

Sarah Green

Anthony Keats Wesleyan University

Jonathan Robinson University of California, Santa Cruz

> Challenges in Banking the Rural Poor: Evidence from Kenya's Western Province*

Pascaline Dupas¹ Sarah Green¹ Anthony Keata⁴ Jonathan Robinson⁴

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Abstract

Abstract Most people in rural Africa do not have bask accounts. In this paper, we combine exp mental and survey evidence from Western Kewys to document some of the supply and dens factors behind such low levels of financial inclusion. Our experiment had two parts. In the fi-part, we valved the fined out of opening a basic envirgs account at a local bask for a runs where of infividuals who were initially unbashed. While 60% of people opened an account, or 10% activity used its Survey evidence suggests that the main remous people did not begins we in their hank accounts are that: (1) they do not trend the basks (2) service is unreliable, and withdensed lines are probabilistic spectrum. In this second part of the experiment, we provi-information on local credit options and locered the eligibility reguirements for an initial an long. Which the following favority expensive. In this second part of the experiment, we provi-lation in the following favority of periods that is main remote provide spectra periods for instance of powering account opening freed will herefit a minutity. France are also with their collatered. These results suggest that, while instantion due to an account such as a model of size or and the part of the experiment of the experiment of the opening of the instance of the quality of services is simultarisously improved. These are also inder the shared wide, however, More work model to be done to understand what assing a crafit products are best mind for the majority of render knowledge is a crafit products are best mind for the majority of render knowledge is a strained with assing a crafit products.

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in fir Poverty Action, e-mail: agreen/ipoverty-action of Economics, UCLA, e-mail: airute/incla.edu. art of Economics, UCSC, e-mail: jurtwollucsc.edu

Challenges in Banking the Rural Poor: Evidence from Kenya's Western Province

Most people in rural Africa do not have bank accounts. In this paper, we combine experimental and survey evidence from Western Kenya to document some of the supply and demand factors behind such low levels of financial inclusion. Our experiment had two parts. In the first part, we waived the fixed cost of opening a basic savings account at a local bank for a random subset of individuals who were initially unbanked. While 63% of people opened an account, only 18% actively used it. 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, (2) service is unreliable, and (3) withdrawal fees are prohibitively expensive. In the second part of the experiment, we provided information on local credit options and lowered the eligibility requirements for an initial small loan. Within the following 6 months, 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. These results suggest that, while simply expanding access to banking services (for instance by lowering account opening fees) will benefit a minority, broader success may be unobtainable unless the quality of services is simultaneously improved. There are also challenges on the demand side, however. More work needs to be done to understand what savings and credit products are best suited for the majority of rural households.

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