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

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Abstract

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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