Innovations for Poverty Action

Authors
Gregory Dobbels
Program Associate

Researchers
Pascaline Dupas
Princeton University

Sarah Green

Anthony Keats
Wesleyan University

Jonathan Robinson
University of California, Santa Cruz

Access to Financial Services: Necessary but not Sufficient for Financial Inclusion

Until recently, the drive towards financial inclusion was commonly framed in terms of access. Yet as the explosion of digital financial services and simplified account opening procedures have begun to make financial services accessible to the poor, it has become apparent that access is only part of the equation. Despite these innovations, account ownership and usage has remained stubbornly low in much of Sub-Saharan Africa. As access expands, new research suggests that similar attention should be paid to improving the quality and affordability of financial services, as well as building trust in financial institutions, if we hope to achieve broader success in banking the poor.

In 2010, a group of researchers worked with Innovations for Poverty Action (IPA) to study the low level of financial inclusion near a set of market centers in rural Kenya. In these early days of Kenya's digital financial revolution, formal savings rates were low. Despite having at least one formal banking option within walking distance, just 20 percent of households had a savings account. Instead, most households relied on informal savings groups and livestock to store their wealth. Formal lending options also went largely unused.

So why were households not taking advantage of the formal banking options available to them? One possible explanation was a lack of knowledge about the services themselves. While 60 percent of respondents knew of the bank branches in the area, almost no one knew basic details about the available accounts, such as the fee schedule. In this setting, the researchers wanted to learn what happens when people understand their options and account set-up costs are removed. To answer this question, the researchers conducted a randomized evaluation of low-cost savings and credit product offers for unbanked households.

Initially, trained IPA staff visited just over half of the unbanked households in the area. They informed them about the local banking options and gave them a voucher that effectively waived the account opening fee and minimum balance for a savings account.

The results were good: 63 percent of people opened an account. But not great: only 18

percent used the account at least twice over the next 12 months. It seems the design of the products and the quality of the services did not meet the needs of potential clients. When the researchers asked recipients why they chose not to use their account, responses tended towards three answers: fear of embezzlement, poor service, and withdrawal fees that made small transactions too expensive.

The researchers found similar results when they informed respondents about credit options and lowered the eligibility requirements for a small, collateralized loan. After six months, only three percent of people had applied for a loan. These numbers appear to be particularly low, since interest rates on the loans were considerably lower than the estimated profit that households could have made with the extra funds. Again the design of the loan did not meet the needs of the study participants, who cited fear of losing their collateral as a major reason for not taking a loan.

Clearly, access to financial services is just one piece to the financial inclusion puzzle. As the reach of formal financial services spread, the quality of services and trust in banking institutions must also improve to achieve broader success. At the same time, more rigorous research is needed to identify effective ways to improve product design to meet the needs of both financial service providers and the poor.

This blogpost is based on the academic study "Challenges in Banking the Rural Poor: Evidence from Kenya's Western Province" (PDF).

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Greg Dobbels, is an Associate with IPA's Global Financial Inclusion Initiative.

About the Study Authors:

Pascaline Dupas is an Associate Professor of Economics at Stanford University
Sarah Green is a Senior Program Officer and Researcher at the High-Level Task Force for the ICPD and previously worked as a Research Manager at Innovations for Poverty Action
Anthony Keats is an Assistant Professor of Economics at Wesleyan University
Jonathan Robinson is an Associate Professor of Economics at the University of California, Santa Cruz.

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