The Impacts of Formal Savings Accounts in Rural Kenya

Researchers:

Pascaline Dupas

Sarah Green

Anthony Keats

Jon Robinson

Sector(s): Finance

J-PAL office: J-PAL Africa

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Access to banking services can help households better manage financial decisions. Yet households may not use the services if they do not trust the institutions, if service quality is poor, or if the services disrupt local financial relationships. Researchers examined the impact of access to banking services for the first time on households in rural Kenya. While savings account and credit usage rates were low overall because of poor service quality and low levels of trust in the institutions, access to the accounts helped some households rely less on family members outside the village and support one another more within the village.

Policy issue

Access to basic banking services in Sub-Saharan Africa remains limited and lags far behind other parts of the developing world. Such limited access could potentially have important repercussions on people's lives. For example, a lack of banking access may make it difficult for people to save up large sums, cope with unexpected emergencies, or obtain credit for start-up costs for a business, agricultural inputs, or even preventative health products like anti-malarial bednets. Over the past decade, there has been a significant push to understand these impacts more fully and to explore strategies to expand access.

Comparatively little attention has been paid to the demand side-- why people may choose to stay out of the formal banking system. Service quality and trust in banking institutions may affect participation. In addition, access to formal banking services may either disrupt or strengthen local financial relationships in which friends and relatives give one another money in times of need.

Context of the evaluation

In western Kenya, large bank branches are located primarily in major towns, often leaving rural villages with very few options. Villages in the study sample had two options: a “village bank”, owned by share-holding villagers and affiliated with a microfinance organization, and a partial-service branch (essentially a sales and information office with an ATM) for a major commercial bank. Both types of banks had substantial minimum balance requirements and withdrawal fees, and the village bank also had an account opening fee. Borrowing options varied across the two institutions, but both required multiple guarantors and either a purchase of shares in the village bank or full collateral for loans offered by the commercial bank.

Villagers often supported one another financially outside of the formal banking system. Two types of household relationships were common. In remittance-type relationships, households received significantly more money than they gave (usually from grown children or siblings outside the village). In give-and-take relationships, households gave out roughly equivalent amounts to what they received (among friends and neighbors within the village.)

Households participating in the study were primarily the recipients of support from family members who lived outside the village. Overall knowledge of banking options was very limited at the beginning of the study: only 60 percent of adults knew of the bank branches in the area and almost no one knew the fee schedule for account opening or the conditions for applying for a loan. 55 percent of the adults in the sample were from dual-headed households and 45 percent were single female heads of household. On average, the single female heads of households were older, had less education, lower income levels, and tended to be on the receiving side of their financial relationships.



A street vendor counting money in Kenya.

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Details of the intervention

To better understand the demand for formal financial services and how expanded access to banking services affected local financial relationships, researchers conducted a randomized evaluation in two phases. In the first phase, 55 percent of the heads of household from the total sample of 989 households were randomly offered a voucher for a free savings account at either of the two local banks. Among dual-headed households, either the husband, wife, both, or neither were randomly selected to receive the voucher.

For those study participants offered vouchers, researchers paid the account opening fees, provided the minimum balance, and arranged for the banks to simplify the account opening procedures for study participants, but did not waive the withdrawal fees. The vouchers were delivered to people in their homes, at which time field officers explained how the bank and the account worked, along with how to redeem the voucher.

Nine months later, among those who had not received the savings account vouchers, half were randomly selected to receive information about local credit opportunities. Trained staff visited these individuals at home and delivered a detailed script explaining the rules and procedures for obtaining a loan from either of the two local institutions. Among those who had received the savings account vouchers previously, half were selected to receive the same financial information script as well as a voucher redeemable for one free share at the Village Bank, thereby removing one of the most significant barriers to getting a loan.

Over the following two years, researchers collected the banks' administrative data and six rounds of survey data, including information on households' income, financial behavior, familiarity with local credit options, and transfers between households.

Results and policy lessons

While savings account and credit usage was low overall, increasing access to savings accounts helped dual-headed households rely less on family members outside the village and support one another more within the village, accruing positive benefits to these other households.

Account take-up and usage: While overall take-up of the savings account was 69 percent, only 15 percent made at least five transactions in the 28-month period following account opening. Similarly, though the vast majority of respondents took the credit vouchers when offered, only 40 percent redeemed them and only 3 percent had even started the process of applying for a loan 6 months later.

These results suggest that entry costs – be it the cost of acquiring information, the opening fees, or the administrative hassle – only partially explain low banking rates. Respondents indicated in qualitative surveys that their most common concerns with the savings accounts were the risk of embezzlement, unreliable services, and transaction fees. When it came to borrowing, respondents reported that their primary deterrent was fear of losing collateral if they could not repay the loan.

Despite the modest take-up, receiving the savings voucher did increase bank usage on average. Households who received the savings intervention were more likely to report having a bank account and more likely to report making a bank deposit and withdrawal within the past 30 days, relative to households that did not receive the voucher. Among the 15 percent most active users, account usage was high: the average amount deposited was US$223 over 28 months, roughly five times worth of monthly expenditures.

Both men and women increased usage of savings accounts if given an account in their own name, though they did not increase usage if only their spouse was given an account. Although all dual-headed households were given the option of opening the account jointly, only 5% did so. Bank usage was higher among dual-headed households where the husband received the account, compared to those in which women received the account.

Relationships between households: Single female-headed households' financial relationships were not affected by access to savings accounts. However, access to the accounts helped dual-headed households become less financially reliant on remittance-type relationships and also helped them become more supportive of other households within the same village. Dual-headed

households that received savings account vouchers were 11 percentage points (20 percent) less likely to report needing to rely on relatives or friends to cope with emergencies, relative to the comparison group.

The number of transfers dual-headed household received from remittance relationships decreased by 9 percentage points (or 13 percent), driven by a significant reduction in the number of remittances received from siblings. The number of transfers given to other households in give-and-take relationships increased by 8 percentage points (21 percent), but the amount received did not change, suggesting that households that received the savings vouchers increased their net contribution to this type of financial partner. These positive spillovers suggest that access to bank accounts can have positive effects that extend beyond the household gaining first-time access to a bank account.

Relationships within households: Though bank usage was higher among dual-headed households in which the male head received an account, these results did not affect other household financial outcomes, such as transfers between spouses or expenditures. These results suggest that the savings intervention did not affect dynamics within the household.

Overall, these results demonstrate that increasing access to savings accounts can decrease some households' reliance on informal networks of family and friends living outside their villages and enable them to contribute more to give-and-take relationships with those within their villages. This suggests that expanding financial access in rural areas can have positive spillover effects even for households that already have access to banking options.

On the other hand, active take-up of the accounts was seen for only a small fraction of the target population. More research is needed to understand how to make formal savings and credit options attractive to the vast majority of the rural population.

Dupas, Pascaline, Sarah Green, Anthony Keats, and Jonathan Robinson. 2016. "Challenges in Banking the Rural Poor: Evidence from Kenya's Western Province." In *African Successes, Volume III: Modernization and Development*, edited by Sebastian Edwards, Simon Johnson, and David N. Weil, 63-101. Chicago: University of Chicago Press.

Dupas, Pascaline, Anthony Keats, and Jonathan Robinson. 2019. "The Effect of Savings Accounts on Interpersonal Financial Relationships: Evidence from a Field Experiment in Rural Kenya." *The Economic Journal 129 (617): 273–310*