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### **Rural Banks Can Reduce Poverty: Evidence from 870 Indian Villages**

**Abstract:**

We evaluate how entry of a formal financial institution alters household well-being and economic activity in a village economy, using an at-scale experiment that randomized bank branch placement over 870 villages. Administrative data show that, within two years of branch opening, one in three households in banked villages had taken a formal loan and roughly a quarter had additionally taken up an insurance or savings product. Survey data show a corresponding 10% reduction in informal borrowing levels. Relative to control villages, poverty rates in treatment villages are 8%-9% lower and we observe significant reductions in biomarker-based psychological stress measures. Changes in the financial environment increase occupational diversification and economic activity: households in banked villages are 6% more likely to have a member working outside of agriculture, have 21% higher business income, and 6% higher wage income. Our evidence is consistent with a model of entrepreneurship in which access to cheaper formal credit relaxed financial constraints for better-off households and increased village-wide labor demand.