Rural Banks Can Reduce Poverty: Experimental Evidence from 870 Indian Villages

Abstract

Can the entry of rural banks improve household welfare in rural India? We study a large-scale field experiment that randomized the opening of 50 bank branches. Two years after the branches opened, household income was 8% higher and poverty was 10% lower in treated areas. These gains were driven by a reallocation of economic activity away from seasonal cultivation and toward self-employment. Hair-sample biomarkers also reveal a significant reduction in chronic stress. The effects are concentrated among households that already had formal or informal loans at baseline. Our findings show that
expanding access to rural banks can substantially reduce poverty even when households already have access to other sources of credit.

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