Trust and Financial Inclusion

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Abstract

This paper examines the effect of trust on financial inclusion. First, I document that trust in banks differs from other forms of trust. It is most strongly correlated with trust in other formal and external institutions (i.e., businesses, courts and local government institutions) and less strongly correlated with trust in proximate social relations, and traditional cultural institutions (i.e., relatives, neighbors, traditional leaders, and people from the same ethnic group). Second, I establish how these alternative forms of trust affect financial inclusion. Using ethnic-level exposure to the transatlantic slave trade as an instrument, I find that trust in proximate social networks and traditional institutions may weaken incentives to participate in the formal financial sector and act as a barrier to financial inclusion. (*JEL*: D83, G21, O16)

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