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The Promise and Harms of Digital Credit: What Does the Evidence Say?

The first digital credit loan was made in Kenya in 2012. By 2019, these loans had spread across the globe, with billions of dollars of credit disbursed to consumers in low- and middle-income countries (LMICs). Though the proliferation of quick and easy loans made demand for these products clear, their impact on consumers was uncertain.

While proponents hailed digital credit as a transformative development with the potential to drive financial inclusion and reduce poverty, reports of fraud, exploitation, and over-indebtedness led to concerns that many digital credit users suffered financial harm. Until now, a shortage of rigorous evidence has made it difficult to answer questions about the true impacts of the first wave of digital loans. Even as a sufficient body of evidence has formed to evaluate early digital credit products, rapid evolution in the market and the digitization of new credit products over the past decade has further complicated the challenge of fully understanding the impacts of digital credit today. Insights from early evaluations should be applied to critically assess newer forms of digital credit and focus future support on more productive and impactful products.

A New Synthesis

Supported by the Bill & Melinda Gates Foundation, *Mobile Instant Credit: Impacts, Challenges, and Lessons for Consumer Protection* is a collaborative report from the Center for Effective Global Action (CEGA) and Innovations for Poverty Action (IPA) that contributes to a shared vocabulary, reference base, and conceptual framework to advance discussion on the relationship between the digitization of credit and development. The report draws on evidence mainly from CEGA's Digital Credit Observatory (DCO) and IPA's Consumer Protection Research Initiative (CPRI). Both initiatives have supported extensive research on digital credit and approaches to better protect consumers and support their financial health.

This new report should temper both the fears of critics and optimism of proponents. The current evidence on digital credit suggests the average consumer has not benefited economically, but did see modest improvements in subjective well-being. Causal studies did not find that recipients were harmed by digital loans, but descriptive evidence showed a rise in problems such as debt stress, price shrouding, overcharging, and predatory collection practices. When considered alongside the proliferation of digital credit, these challenges necessitate new consumer protections.

Key Evidence

The report focuses on studies investigating the welfare impacts of digital credit, the forms of misconduct associated with digital credit, and the effectiveness of consumer protection tools. It emphasizes the narrower topic of Mobile Instant Credit (MIC)—small digital loans that are primarily marketed and used for consumption—and airtime loans, which together comprised the first wave of credit digitization. As digital credit continues to evolve with new products like Buy-Now Pay-Later, overdraft facilities, and Pay-As-You-Go schemes, this report synthesizes research on MIC to generate insights that can inform digital credit-related policy more broadly.


A small-business owner can be seen serving patrons in her restaurant in Nkhoma, Malawi. (© Bill & Melinda Gates Foundation/Barbara Kinney)

The report's main findings include:

- **The current evidence on MIC and airtime loans reveals modest improvements in subjective well-being for the average consumer.** Most loans are small—the average loan was less than US$3 in half of the studies on the welfare effects of digital loans—which may limit how large the impacts can be. Although the majority of evidence indicates MIC has not affected financial outcomes, including resilience, consumption, and financial health, studies that examined subjective well-being found a positive impact. One research team speculated—with the caveat that more evidence is needed—that the ability to access resources in times of need can relax constraints that damage mental health, consistent with prior studies.

- **The absence of negative impacts contrasts with robust descriptive evidence on the diverse consumer harms associated with rapidly digitizing credit**, including rising debt stress, price shrouding and overcharging, predatory collections, and fraud. The rapid digitization of finance in many regions of the world has revealed new and growing consumer protection risks. While digital credit does not appear, on average, to harm consumers' financial health, ability to save, or overall spending, descriptive evidence from digital finance and mobile money, which underlies MIC and digital credit, reveals misconduct and other risks.

- **Upgrading consumer protection regimes is imperative given the increasing digitization of finance and credit. Fortunately, there are promising approaches to improve market monitoring and empower consumers.** Despite existing challenges, a handful of causal studies and pilot interventions confirm the effectiveness and feasibility of interventions to address consumer protection concerns. New data sources and collection methods, along with advanced data analytics, suggest that a next-generation approach to market monitoring would enable regulators to move towards preventative interventions. Further, several interventions directly targeting consumer and provider behavior have empowered consumers in early evaluations, and may be effective if scaled up.

Policy Insights

Digital credit is growing and evolving rapidly, with providers increasingly using digital lending to offer more than just small consumer loans and targeting a wider array of sectors, from agricultural finance to e-commerce. The digital credit model has the potential to enable growth as reduced costs, faster underwriting, and better information on prospective borrowers may lead to more suitable and sustainable products, particularly in more productive parts of the economy. Evidence on Mobile Instant Credit and airtime loans is particularly informative for emergent forms of consumer-oriented digital credit, such as Buy-Now Pay-Later and overdraft products. However, the effectiveness of many forms of digital credit, particularly those focused on productive activities, remains unexplored, and regulatory frameworks are still being developed in many countries, leaving consumers at risk. More research is needed to understand who benefits from digital credit, and why.

There are also clear dangers to maintaining the status quo in unregulated or underregulated markets. Although causal studies have not found clear negative impacts of MIC and airtime loans, decision-makers should consider a broader set of evidence. Robust descriptive studies highlight diverse consumer protection challenges associated with digitizing credit, and there is evidence that the most vulnerable people are more susceptible to fraud and exploitation as they enter the formal financial system via digital credit. Though risks have grown, initial research on new market monitoring techniques and interventions to directly support consumers have shown promise and could pave the road to more proactive regulatory approaches.

Despite what remains unknown, there are reasons for optimism. Digitization has catalyzed rapid growth in financial inclusion, and addressing known policy issues now can be instructive for informing management and regulation of digital credit products more broadly, including the potential movement of digital credit into more productive parts of the economy. *Mobile Instant Credit: Impacts, Challenges, and Lessons for Consumer Protection* gathers existing evidence on the relationship between the digitization of credit and development while clarifying the need for further research. Whether the next evolution of digital credit improves upon the first to provide less risky and more transformative solutions will depend on the evolution of commercial product design and public policy to monitor markets and protect consumers.

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