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Press Release: As Digital Credit Surges, New Research Shows Need for Greater Consumer Protection in Poor Countries



A report from leading anti-poverty research organizations provides new insights into the relationship between the digitization of credit and economic development in an era of overlapping crises.

BERKELEY, CA (23 Jan. 2024) - As the world struggles to return to stable financial footing, fend off inflation, and fuel renewed growth in poor countries, new research shows that digital credit must be reimaged to be an effective tool in this effort. Digitization has made credit accessible to more people in recent years, but many countries lack institutional protections for their most vulnerable citizens, who are most susceptible to fraud and exploitation. With billions of dollars of credit being disbursed to consumers in low- and middle-income countries (LMICs), the need for more evidence-informed safeguards is clear.

Mobile Instant Credit: Impacts, Challenges, and Lessons for Consumer Protection is a collaborative report from the Center for Effective Global Action (CEGA) at UC Berkeley and Innovations for Poverty Action (IPA) that contributes to a common understanding, shared vocabulary, and conceptual framework to advance knowledge of the relationship between global development and the digitization of credit. Specifically, the report focuses on Mobile Instant Credit (MIC)—small digital loans that are primarily marketed and used for consumption purposes—as there is now a sufficient body of research to inform policy decisions.

The report delivers three key insights for policymakers:

1. The current evidence reveals that Mobile Instant Credit does not have consistent impacts on consumption, resilience, or asset ownership, but leads to modest improvements in subjective well-being.
2. Mobile Instant Credit did not impact the average consumer's financial health, ability to save, or total spending, but the growth of digital loans in LMICs poses an increased risk

of misconduct, including overcharging, fraud, and predatory collection practices.

3. Several new methods for collecting and analyzing data have shown promise to improve regulatory oversight and empower individuals, but more evidence is needed to understand whether these promising approaches can protect at-risk consumers.

As providers increasingly offer a wider variety of products and services, digital credit has the potential to improve lives by reducing costs, accelerating the loan process, and enabling better information on prospective borrowers that may lead to more suitable and sustainable products.

However, the effectiveness of many forms of digital credit remains unstudied, even while regulatory frameworks are lacking in many poor countries.

“More research is needed to understand who benefits from digital credit products and why,” said Paul Adams, Director of Consumer Protection and Financial Inclusion at IPA. “At the same time, we need to equip regulators with the data, tools, and frameworks to be able to supervise this fast moving market, and to minimize potential risks.”

While the average consumer may experience mixed benefits from digital credit, there is clear evidence that vulnerable communities are most susceptible to fraud and exploitation. More consumer protection research is needed to inform the design of better products and to understand the regulatory structures that are most effective at protecting consumers.

Despite what remains unknown, there are reasons for optimism. Although predatory lending, fraud, and privacy infringement exist, the report documents that a growing number of digital credit interventions have shown a positive impact, including approaches to mitigating gender bias and reductions in default rates.

“The way digital credit is provided has tremendous implications for low-income users,” said Carson Christiano, Executive Director of CEGA. “We want our research to shed light on how products can be improved to both protect and benefit under-served communities.”

Supported by the Bill & Melinda Gates Foundation, the report primarily draws on evidence produced by CEGA’s [Digital Credit Observatory \(DCO\)](#) and IPA’s [Consumer Protection Research Initiative \(CPRI\)](#). Both initiatives support extensive research on digital credit and how to better protect consumers and support their financial health.

Notes to the Editor

About CEGA

The Center for Effective Global Action ([CEGA](#)) is a hub for research, training, and innovation headquartered at the University of California, Berkeley. CEGA generates insights that leaders can use to improve policies, programs, and people’s lives. Its academic network includes more than 160 faculty, 65 scholars from low- and middle-income countries, and hundreds of graduate students—from diverse academic disciplines across the globe—that produce



rigorous evidence about what works to expand education, health, and economic opportunities for people living in poverty.

About IPA

Innovations for Poverty Action is a research and policy nonprofit that discovers and advances what works to improve the lives of people living in poverty. IPA brings together researchers and decision-makers to design, rigorously evaluate, and refine these solutions and their applications, to ensure that the evidence we create leads to tangible impact on the world. Since its founding in 2002, IPA has worked with over 600 leading academics to conduct over 900 evaluations in 52 countries. This research has informed hundreds of successful programs that now impact millions of individuals worldwide.

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