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Research

Evidence from Kenya shows how \$40 digital loans boost income and employment



Featured Researcher

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By

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A street vendor sells snacks to pedestrians in Kenya's capital, Nairobi. (Photo by Donwilson Odhiambo / SOPA Images/Sipa USA)(Sipa via AP Images)

Digital loans are often seen as a blessing and a curse in developing countries: They provide credit to those who lack access to banking but can also burden borrowers with annual interest rates as high as 200%. And there's been little evidence that digital loans improve people's lives—until now.

[New research](#) by Associate Professor [Omri Even-Tov](#) and three colleagues found that randomly approved digital loan borrowers in Kenya saw bigger mobile money balances, higher income, better employment prospects, and expanded social networks from an average loan of just \$36.

The first-of-its-kind study was based on a detailed analysis of anonymized cellphone data from more than 20,000 loan applications. The loan benefits were especially noticeable when they were used for business purposes—the case for 73% of borrowers in the sample and one of the main differentiators from other studies.

“In comparing those who got the loans to those who didn't, we found pretty strong evidence that their financial well-being improved as a result,” says Even-Tov. “We also found that the benefits were stronger for those with limited access to credit, those who take it for a business purpose, and those who obtain more credit.”

The analysis showed that once granted loans, borrowers also spent 15% more per financial transaction, suggesting an economic ripple effect. What's more, the percentage of loans unpaid for one year after their due date was relatively low — about 5%.

Kenya's mobile money ecosystem

The findings are based on data analysis and surveys of digital borrowers received from Tala, a fintech lender that uses information gleaned from mobile phones to determine creditworthiness. In many poorer countries, households lack formal credit scores, bank accounts, and tax returns on which lenders often rely. Borrowers agree to share their mobile phone data, such as GPS, contacts, and messaging, to have a chance at obtaining credit — especially when traditional risk assessment models would have excluded them, Even-Tov says.

Kenya has one of the most developed mobile money ecosystems in emerging markets along with a high adoption of digital financial services. About 3.5 million of Tala's 10 million global borrowers are based in Kenya, where about a quarter of adults had secured a digital loan by 2018.

With digital loans, borrowers apply, get approved, and receive funds electronically within minutes. Lenders directly transfer funds to the borrower's "mobile wallet," and borrowers repay the loans online. This digital process eliminates the need for physical paperwork, accelerates the lending process, and makes lending more accessible — especially for unbanked people.



Even-Tov presented his findings in Nairobi this month. (Photo credit: Jackson Mwangi Photography). The [research was covered by Citizen TV](#) and others.

A complicated fintech database

Even-Tov, who co-authored the study with AJ Yuan Chen of the University of British Columbia, Jung Koo Kang of Harvard Business School, and Regina Wittenberg-Moerman of the Kellogg School of Management, learned that Tala had been working to determine whether it could extend credit to a higher-risk population by randomly approving borrowers who might otherwise have been rejected by its own algorithms.

With permission from Tala, Even-Tov and colleagues analyzed over 20,000 loan applications submitted between 2018 and 2022. These included roughly 5,000 applications that had been approved and nearly 4,400 comparable applications that had been rejected. Even-Tov says the sheer size of the database made the analysis particularly challenging.

“It was a very complex dataset with an overwhelming amount of information—imagine the kind of data your mobile phone collects,” he says.

Wider credit access for business

The results were worth the extra effort, says Even-Tov, whose research often focuses on how financial innovation and policy affect vulnerable populations—such as these very low-income Kenyan borrowers who saw an improvement in their financial well-being.

“Most people in the U.S. can’t even visualize what we’re talking about here. Even a few dollars are very significant for these borrowers,” he says. “I’m happy to see that digital loans do help and that we have a better understanding under which circumstances they help.”

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—Associate Professor Omri Even-Tov

Key to those circumstances are the loans taken to support business purposes—the case for 73% of borrowers in the Tala sample.

“Maybe they’ve had a business shock or need more inventory to grow. Without those loans, they wouldn’t be able to make it happen,” Even-Tov says.

Helping the unbanked everywhere

Already, Even-Tov says Tala is using the findings to expand digital loans in the developing world. And evidence that digital loans can improve financial well-being also raises possibilities for expanding access elsewhere.

For example, 5.6 million people in the United States don’t have a bank account or access to credit, [according to the FDIC](#). Data security concerns in the U.S. have prohibited the methods companies like Tala follow to gather phone data, but with strong protections to ensure data is kept secure and consumers are shielded from abusive lenders, they might hold promise, Even-Tov says.

“This is about helping the unbanked,” he says. “Maybe there’s an opportunity to use this at a larger scale.”

Read the full study:

[Digital Lending and Financial Well-Being: Through the Lens of Mobile Phone Data](#)

By AJ Yuan Chen, Omri Even-Tov, Jung Koo Kang, and Regina Wittenberg-Moerman

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