Photo made January 16, 2018: Modern highrise office blocks break the skyline above the sprawling Kibera slum in the foreground in the Kenyan capital, Nairobi. AFP PHOTO/Tony KARUMBA

HEALTHCARE

Digital credit improves Kenyans' financial health despite shortfalls

Data shows digital lending has a net positive effect on borrowers' financial wellbeing

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July 14, 2025

Digital loans in Kenya have become a symbol of financial distress, often a last resort for borrowers with nowhere else to turn. Few people actively choose to borrow from digital credit providers, and most do so when all other options have failed.

Valentine Amondi, a trader in Kenya's lakeside town of Homa Bay, says a Ksh10,000 ($77) loan she took from a digital lender in February left her deeply frustrated.

The loan was disbursed Ksh4,000 ($30) short—deducted upfront as interest, equivalent to a 40 percent charge for 30 days. Just days after receiving the funds, she began receiving calls from the lender's agents demanding repayment."The interest was too high, and they call you a lot even before the maturity period. I wouldn't take the loan again even if it's my last option," she said.

Her experience isn't unique. Many Kenyans describe digital lenders as intrusive and punitive, with some providers even contacting borrowers' personal contacts to demand repayment—a practice now outlawed, yet still reportedly in use.

Against this backdrop, it might be hard to imagine that anything good could come from digital loans. But a new academic study titled "Digital lending and financial well-being: Through the lens of mobile phone data" is challenging this narrative.

Published in the Accounting Review journal, the study by four American researchers finds that digital lending has a net positive effect on borrowers' financial wellbeing, particularly for those excluded from formal credit systems and when loans are used for business rather than consumption.

Based on anonymised data from digital lender Tala, the researchers analysed outcomes for 5,023 borrowers who were randomly approved after initial rejection, and compared them with 4,352 applicants whose loans were fully declined. All loans were applied for and disbursed via mobile phone.

Three months later, borrowers who used the loans for business showed notable improvements in financial health, as measured by M-Pesa balances, mobility, and strength of social networks, which are recognised indicators of economic wellbeing. Those who didn't receive loans showed little to no improvement."Specifically, we find that their average transaction amounts, average daily balances, mobility and social networks improved significantly," said Omri Even-Tov, one of the co-authors, during a presentation of the findings in Nairobi last week."People without a credit score actually benefit more from digital loans, compared to those who already have one."The study also found that loan size and purpose influenced the outcome. Larger loans used for income-generating activities had the most positive effects, while smaller or consumption-driven loans delivered little benefit.

Predatory practicesHowever, Prof Even-Tov cautioned that the findings are based solely on one lender’s data and may not be generalisable across the entire digital credit market, noting that some lenders engage in “predatory” practices that could lead to debt traps and undermine borrower wellbeing.“I understand there’s a lot of concern about digital loans. This study shows they do offer real benefits. We’ve seen this in surveys and anecdotes, but this provides broader, data-driven evidence,” he said.

Similar research on M-Shwari in 2021, a Nigerian digital lender in 2022, and Airtel Malawi in 2024 reached comparable conclusions: that digital credit tends to yield positive outcomes for households when used wisely.

Annestella Mumbi, General Manager at Tala Kenya, said the study, though focused on one lender, underscores the sector’s potential to support economic growth.“It tells a larger story on the impact of digital credit in Kenya. We’ve heard multiple stories about impact or lack thereof, and we wanted to quantify a lot of the feedback we receive from customers,” she told this writer.

Both Mumbi and Prof Even-Tov clarified that Tala’s role in the study was limited to sharing anonymised data, with a commitment to publish the results regardless of the outcome.

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