



## FOR IMMEDIATE RELEASE

### CEGA's Digital Credit Observatory Awards \$1.6 million to New Research Projects in Financial Inclusion

**Berkeley, California (November 28, 2017)** – In low-income settings, the rapid proliferation of digital credit products—small loans that can be accessed *instantly, automatically, and remotely*—are gaining popularity as an alternative to traditional microcredit. Digital loans offer borrowers speed, efficiency, relatively low interest rates, and the ability to access capital even without a formal credit history. Nonetheless, in a largely unregulated market, consumers of digital credit face numerous risks including hidden fees, asymmetric information, over-indebtedness, identity theft, leakage and fraud. Very little is known about the impacts (both positive and negative) of digital credit on low-income borrowers, and the effectiveness of measures designed to protect them from associated risks.

The [Center for Effective Global Action](#) (CEGA), a research hub anchored at the University of California, Berkeley, hopes to change this through its [Digital Credit Observatory](#) (DCO). With support from the Bill & Melinda Gates Foundation, the DCO recently awarded \$1.6 million in research funds to eight studies (including three pilots) led by faculty within and outside of the CEGA network. The studies, which will be carried out across Sub-Saharan Africa, Latin America, and South Asia, will use rigorous experimental and quasi-experimental methods to address the following questions:

1. *What are the short- and long-run impacts (both positive and negative) of digital credit in emerging markets?*
2. *To what extent do borrower characteristics (i.e. financial literacy, time preferences, income, and/or gender) affect outcomes?*
3. *How can non-traditional credit-scoring algorithms, regulations, and other consumer protection measures be designed to minimize default, over-indebtedness, leakage, fraud and other risks?*

The DCO launched its public request for proposals (RFP) during the summer of 2017. Of the 23 proposals received (sixteen from researchers in North America and seven from low- and middle-income countries), eight were competitively selected by a committee of expert reviewers. Three of the eight (including studies in the Dominican Republic, Haiti, and India) received DCO seed funding during a spring 2017 pilot round. Ultimately, winning proposals were chosen based on their intellectual contribution, policy relevance, methodological rigor, research team capacity, and commitment of the implementing partner. The DCO expects all studies in its portfolio to conclude by November 1, 2019, with initial results available to the public in 2020.

A summary of the eight studies is below:

#### **KENYA**

##### **Reducing Default and Improving Resilience on Digital Credit**

Tavneet Suri (MIT) will partner with [Tala](#) to test a new lending product that would give borrowers who are close to default the opportunity to extend their loan terms and take out additional small amounts of capital to help them cope with unexpected negative events.

### **PILOT: Digital Credit for Agriculture**

Sarah Janzen (Montana State University), Nicholas Magnan (University of Georgia), and Conner Mullally (University of Florida) will partner with Acre Africa and [TransUnion](#) to understand the short and long-term impacts of digital credit tailored to the needs of smallholder Kenyan agricultural producers.

### **HAITI**

#### **Mobile Financial Services and CDR-Based Credit Scores: A Gateway to Financial Inclusion for Unbanked Haitians?**

Travis Lybbert (UC Davis) will partner with [Digicel](#) to refine the algorithm used to predict credit worthiness of nano-loan borrowers and to understand the impacts of nano-loans on these borrowers.

### **GHANA**

#### **Digital Credit for Farmers in Ghana: A Randomized Field Trial**

Christopher Udry (Northwestern University) will partner with [Farmerline](#) to explore whether and how a digital credit system that provides loans to farmers via mobile phones, can increase investment and influence financial behavior, yields, and profits.

### **MEXICO**

#### **Slowing Down Digital Credit**

Alfredo Burlando (University of Oregon) and Silvia Prina (Case Western Reserve University) will partner with [EFL Global](#) to test the impact of waiting periods on digital credit.

### **DOMINICAN REPUBLIC**

#### **Gender-Differentiated Credit Scoring Algorithms Using Call Detail Records and Machine Learning**

Sean Higgins (UC Berkeley) will partner with [ALNAP](#) (a savings and loan association) to understand whether novel gender-differentiated credit scoring models can increase women's access to formal credit, whether more women would benefit from credit access, and how these benefits compare to the benefits of credit access for women selected by standard models.

### **INDIA**

#### **PILOT: Digital Credit Linked to Digital Payments: Impact on Small Merchants in India**

Ethan Ligon (UC Berkeley) and Ketki Sheth (UC Merced) will partner with [Catalyst](#) to experiment with small inducements to adoption to identify demand for digital devices and associate mobile payment schemes.

### **UGANDA**

#### **PILOT: Milking it for all it's Worth: Digital Credit and Payments in the Dairy Sector**

Alfredo Burlando (University of Oregon), Silvia Prina (Case Western Reserve University), and Jessica Goldberg (University of Maryland) will partner with [MTN Uganda](#) and UNCDF's [Mobile Money For the Poor](#) (MM4P) to assess whether additional access to payments, aside from digital credit, boosts take-up of Mo-Kash (a digital credit product offered by MTN).

To learn more about the Digital Credit Observatory and DCO-funded research, please visit:

<http://www.digitalcreditobservatory.org/dco-research1.html>