

FinTech lending in Sub-Saharan Africa

Lessons from African economies



Foreword

FinTech lending, involving the extension of credit often by platforms and other non-bank financial institutions, has grown rapidly over the past decade and has experienced significant growth in sub-Saharan Africa (SSA). This report examines market trends of FinTech lending in SSA, potential benefits and risks of such models, analyses policy and regulatory developments for such activity in the wider African region and discusses policy considerations.

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Abbreviations and acronyms

AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BBLS	Bounce Back Loan Scheme
BNPL	Buy Now Pay Later
BOT	Bank of Tanzania
CBILS	Coronavirus Business Interruption Loan Scheme
EASRA	East African Securities Regulatory Authorities
FCCPC	Federal Competition and Consumer Protection Commission
FMCG	Fast-Moving Consumer Goods
KDIC	Kenya Deposit Insurance Corporation
ML	Machine Learning
MNOs	Mobile Network Operators
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium-sized Enterprises
NBFIs	Non-banking Financial Institutions
NCA	National Credit Act
CBA	Commercial Bank of Africa
P2P	Peer-to-peer
PPP	Paycheck Protection Program
RSL	Regulatory Sandbox License
SSA	Sub-Saharan Africa
TCRA	Tanzania Communications Regulatory Authority

Executive Summary

FinTech lending, broadly defined as business models in which prospective borrowers can apply for loans via online platforms often operated by non-bank financial institutions, has grown rapidly over the past decade.¹ The growth of the FinTech lending market can be credited to advances in technological innovation (such as increased automation), increased availability and use of alternative data sources, growing demand for digital finance solutions, particularly from micro, small and medium-sized enterprises (MSMEs) that may lack credit history or collateral thus having limited access to traditional bank credit services, and the proliferation of mobile technology.

The accessibility and convenience of such lending platforms, particularly among the unbanked or underbanked parts of the population, has increased interest and adoption of such credit services across the Sub-Saharan African region. These platforms offer an array of benefits, including convenience, speed, and accessibility, making it easier for users to apply for loans, receive funds, and manage repayments entirely through their mobile devices, while also offering tailored products to the specific profiles of borrowers. As of 2020, the market for global FinTech lending reached USD 125 billion, while Big Tech lending has reached USD 637 billion (Feyen, Natarajan and Saal, 2023^[1]).

FinTech lending in Sub-Saharan Africa (SSA) has experienced significant growth over the last decade, particularly in a few countries, including Kenya and Nigeria. Such growth was driven by the widespread adoption of mobile technology and digital payments, which has paved the way for usage of all digital financial services; policymakers' support for innovation (e.g. through policies or with the establishment of innovation facilitators), increased access to capital due to attention from investors, and growing demand from largely unbanked population.

FinTech lending in the African continent is characterized by a diverse number of business models, involving various types of intermediaries such as mobile network operators, smaller FinTech companies, online retailers and traditional incumbent firms. These models have different characteristics and comparative advantages over each other in terms of resources, accessibility and reach to customers, or data availability, and they mainly include payday lenders, telecom players, and 'Buy Now Pay Later' type of models. The nature of payday lending business models includes short-term, high cost and unsecured loans that are due by the next "payday." Their popularity extends from their ease of access and short-term commitments. However, due to exorbitant fees charges by many payday lenders, borrowers often become trapped in cycles of debt (CRL, 2023^[2]). Many potential borrowers that resort to payday loans are often those with limited to no credit; in Africa, this can be inclusive of a high number of people due to limits to building credit history.

Telecommunication companies play a critical role in driving FinTech lending in SSA. Telecom players have an extensive existing infrastructure of mobile networks and a broad user base, allowing them to reach a

¹ For the purposes of this study, FinTech lending includes any type of digitally enabled credit, primarily comprising crowdfunding platforms, peer-to-peer (P2P) lenders, marketplace lenders and other types of platform-based non-bank financial intermediaries but also including digitally enabled credit services provided by traditional banks – depending on the jurisdiction.

large population quickly. This infrastructure facilitates the integration of financial services into their existing platforms, making it more accessible to users, especially in remote areas. They also leverage the ubiquity of mobile phones to deliver financial services directly through mobile platforms.

The 'Buy Now Pay Later' (BNPL) lending model, a form of short-term financing in which consumers can defer payment for goods or services over a period of time, has also become a significant lending trend in Sub-Saharan African countries, particularly among MSMEs and self-employed individuals that may not have access to credit otherwise. BNPL has been extant in the region through informal agreements between wholesalers and retailers or distributors and customers. Presently, the key difference is the scale in which FinTechs are able to offer BNPL and inform lending through customer data.

Over the last decade, there has been a considerable increase in FinTech lending adoption amongst borrowers in SSA, which can be credited to the success of mobile money initiatives in this region. While digital credit usage has increased over the last decade, overall credit penetration in Africa remains low against the backdrop of higher default rates associated with digital lending. Average credit penetration rate of 6% for Kenya and 9% for South Africa is low compared to the global average of 19% (McKinsey, 2022[4]).

FinTech lending offers numerous potential advantages that make it a growing competitor as both a use case within digital finance activity and as an alternative to traditional forms of credit and financing. The potential benefits of FinTech lending, which include improved efficiency, enhanced financial inclusion, and opportunities for data-driven decision making are applicable to the Sub-Saharan African context and could become a catalyst for positive change. FinTech lending can create more financing opportunities for prospective borrowers, while also offering prospective investors a valuable alternative to traditional asset classes in the case of platform lenders (e.g. marketplace lending), a particularly significant development in the context of underdeveloped financial markets in Africa. FinTech lending further facilitates direct investment into the local economy, thereby fostering grassroots economic growth.

Although FinTech lending can offer distinct potential benefits, it concurrently presents specific risks that have been documented by academics and may warrant the attention of policymakers. Most risks of FinTech lending are not significantly different from those in traditional lending models, such as credit and liquidity risks, but can vary in impact. The technological and non-traditional nature of FinTech lending can result in risks such as risks to stability, regulatory arbitrage, and lack of consumer safeguards.

In SSA, many countries offer robust policy frameworks for digitally enabled financial services (e.g. payments); however, policy frameworks for FinTech lending are uneven in comparison. While certain countries, such as Kenya, have launched digital lending-specific regulations, others have yet to release rules or guidance pertaining to such activity, or are in the early stages of developing them. However, it should be noted that existing legislation may also be considered sufficient for regulating FinTech lending depending on the jurisdiction and the business models involved. Certain regulators have aimed to introduce 'light-touch' regulation for market stimulation. Conversely, other regulatory bodies, in reaction to specific risks, have aimed to address ensuing risks by imposing limits on lending volumes and/or confining usage to certain categories of 'sophisticated' or high-net-worth borrowers. Broadly speaking, the existence of a policy framework for P2P lending in particular appears to coincide with increased market activity.

Policy makers have a role in fostering the safe development of the FinTech lending market, aiming to enhance individual and SME access to financing and address any significant financing deficiencies, all the while anticipating and managing risks inherent in these models. While FinTech lending presents potentially significant social and economic benefits to both individual and corporate borrowers, the emerging and opaque nature of FinTech activity and long-term consequences of private credit expansion can create potential risks. As companies continue to bring FinTech lending products, services, and solutions to the African market and regulation evolves in Sub-Saharan African jurisdictions, policymakers have a role to ensure market stability and consumer protection are safeguarded while also supporting innovation and financial inclusion through safe digitally-enabled financial services.

1. Market Trends

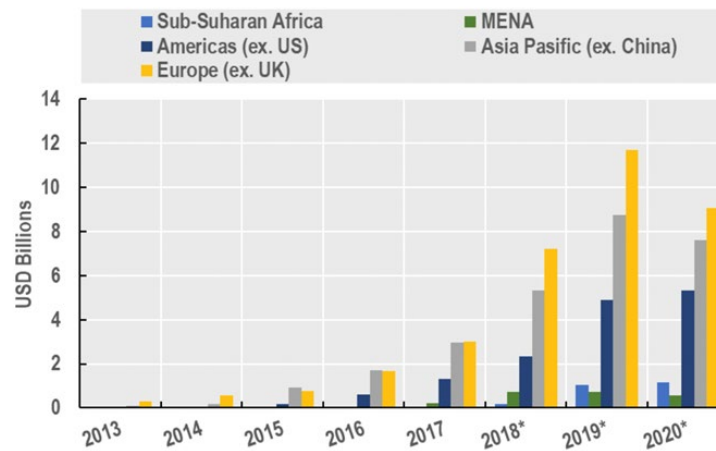
The term “FinTech Lending” encompasses various business models in which prospective borrowers can apply for loans via online platforms often operated by non-bank financial institutions. These business models include, *inter alia*, peer-to-peer (P2P) lending, where individual investors finance loans, and marketplace lending, where loans are funded by institutional investors in addition to individuals (GAO, 2018_[3]). In both these models, the online platform serves as an intermediary between prospective borrowers and prospective creditors, verifies prospective credit information of the borrow, and earns revenue from transaction fees (GAO, 2018_[3]). Non-financial institutions often partner with banks to create loan products. As the FinTech lending market continues to grow, different varieties of business models also continue to emerge.

The growth of the FinTech lending market can be credited to advances in technological innovation (such as increased automation and use of alternative data sources), increases in consumer and business demand, particularly that of SMEs, and possible competitive terms on credit extended by FinTech lenders compared to traditional banks (GAO, 2018_[3]). The market has also seen the entrance of bigger players such as Big Tech companies in more recent times. Such companies engage in FinTech and marketplace lending by offering credit intermediation services through their proprietary platforms, capitalizing on the extensive data they possess about their customer base (OECD, 2022_[4]).

FinTech lending has emerged as a potentially transformative force in the global arena. While it is still behind digital payments in terms of most popular use case, it is quickly developing. While FinTech lending activity is greatest in advanced economies such as Australia, China, Europe, and the United States (Feyen, Natarajan and Saal, 2023_[1]), emerging markets and developing countries in Africa as well as Latin America and Asia are rapidly developing this sector of digital finance activity. As of 2020, the market for global FinTech lending reached USD125 billion, while Big Tech² lending has reached USD637 billion (Feyen, Natarajan and Saal, 2023_[1]). While this is still less than 2% of the total market share for most major FinTech markets (Feyen, Natarajan and Saal, 2023_[1]), it is estimated by the industry that global FinTech lending could reach USD 1.8 trillion by 2032 (Yahoo Finance, 2023_[5]).

² Big Tech, also known as the Tech Giants, are the largest IT companies in the world. The concept of Big Tech is similar to the grouping of dominant companies in other sectors.

Figure 1.1. Yearly FinTech lending flows by region (2013-20)



Source: (OECD, 2022^[4])

In 2020, the predominant online alternative finance model, based on market segmentation, was P2P/Marketplace Consumer Lending, constituting USD 35 billion globally, representing 31% of the total global volume of alternative financing (OECD, 2022^[4]). It was followed by Balance Sheet Business Lending at USD 14 billion, contributing 25% to the total global volume, and P2P/Marketplace Business Lending at USD 15 billion, accounting for 14% of the total global volume. As of 2020, the United States leads overall digital lending volumes at a total USD 72 billion (Figure 1.1. Yearly FinTech lending flows by region (2013-20)).

Crowdfunding has also risen as a popular mechanism for alternative finance and has seen significant diversification and growth during a short period. In 2022, the market for crowdfunding reached USD 13.4 billion (Research and Markets, 2024^[6]). Certain OECD regions have begun to work on overcoming operational hurdles faced by crowdfunding platforms such as varying license requirements across borders and lack of common rules that prevent ability to scale. For instance, the EU adopted the Regulation on European Crowdfunding Service Providers in 2020 to set uniform rules for platforms across EU countries subject to a single authorisation (European Commission, 2024^[7]).

In SSA, FinTech lending has experienced significant growth over the past decade, driven by factors such as the widespread adoption of mobile technology and digital payments, which has paved the way for usage of other digital financial services, regulatory support to innovation, increased access to capital due to attention from investors, and growing demand from largely unbanked population. For example, Nigeria is home to over 250 FinTech companies, half of which provide payment services. Now, 15% of Nigerian FinTechs are focused on SME lending (CGAP, 2022^[8]). In Kenya, digital lending has grown over the past decade such that the Competition Authority of Kenya estimated several hundred lenders operating in the Kenyan market before the COVID-19 pandemic (Putman et al., 2021^[9]). While P2P lending has the largest market in Kenya and South Africa, and increasingly in Nigeria, 90% of online alternative lending comes from companies headquartered outside of Africa (Pervez, 2022^[10]). In southern Africa, new crowdfunding opportunities have emerged through partnerships between global crowdfunding platforms and local FinTechs (Brookings, 2019^[11]).

FinTech lending in the Sub-Saharan region is characterized by a diverse number of models and type of intermediaries, including mobile network operators, smaller FinTech companies and online retailers. These models have different kinds of comparative advantages over each other in terms of resources, access, and data among other things (Bowman, 2017^[12]). The following subsection examines trends in FinTech

lending in the region across payday lenders, incumbent non-bank financial institutions such as telecom companies, and novel forms of lending such as Buy Now Pay Later (BNPL).

1.1. Payday Lenders

Payday lending in SSA has seen significant growth in recent years, driven by a combination of factors including increasing demand for short-term credit, limited access to traditional banking services, and the proliferation of mobile technology. This region has witnessed a surge in the popularity of payday loans due to their accessibility and convenience, particularly among the unbanked population. Mobile-based lending platforms have become especially prevalent, leveraging the widespread adoption of smartphones and mobile money services across the region. These platforms offer an array of potential benefits, including convenience, speed, and accessibility, making it easier for users to apply for loans, receive funds, and manage repayments entirely through their mobile devices.

The nature of payday lending business models includes short-term, high cost and unsecured loans that are due by the next “payday”. Their popularity extends from their ease of access and short-term commitments. However, due to often exorbitant fees charges by many payday lenders, borrowers often become trapped in cycles of debt (CRL, 2023^[2]). Many potential borrowers that resort to payday loans are often those with limited to no credit; in Africa, this can be inclusive of a high number of people due to limits to building credit history.

Non-telecom FinTech lending players have continued to see success in SSA, not limited to payday lenders (McKinsey, 2022^[13]). Indicatively in Kenya, Tala initially launched its mobile application to provide credit and collateral-free loans to consumers and has since disbursed loans totalling more than USD2.7 billion. Although credit remains its primary service, Tala has continued to expand its offerings, now including savings and money management tools, and has extended its operations to other regions such as the Philippines, Mexico, and India. Similarly, FairMoney, which debuted in Nigeria in 2017, followed a comparable trajectory. Originally starting as an online lender offering instant loans and bill payment services, it has since diversified its services to include a bank account with free transfers and a debit card, and has obtained a microfinance bank license from the Central Bank of Nigeria. In 2020 alone, FairMoney disbursed loans worth USD93 million to over 1.3 million users, facilitated through more than 6.5 million loan applications (McKinsey, 2022^[13]).

1.2. Telecom Players and Mobile Network Operators (MNOs)

Telecommunication companies play a critical role in driving FinTech lending in SSA. Telecom players have an extensive existing infrastructure of mobile networks and a broad user base, allowing them to reach a large population quickly. This infrastructure facilitates the integration of financial services into their existing platforms, making it more accessible to users, especially in remote areas. For example, in Africa, Safaricom and Vodafone were already operating large customer bases for cellular users, which allowed them to expand into basic financial services like mobile payments before venturing into more complex services like lending (McKinsey, 2022^[13]). They also leverage the ubiquity of mobile phones to deliver financial services directly through mobile platforms. Services like M-PESA enable users to perform transactions, access credit, and manage finances using their mobile devices and have been well-documented as contributing to financial inclusion in the region.

Such companies also have an advantage in terms of customer data, as they can leverage data from mobile usage patterns, airtime purchases, and other telecommunication activities for credit scoring and risk assessment (CGAP, 2022^[8]). This data integration is unique to telecom players in the African region and provides insights that both commercial banks and smaller FinTech players may not have. Telecom players

similarly are able to integrate their financial services into a broader ecosystem of services, including telecommunications, digital payments, and more.

In OECD countries, many Big Tech companies have entered the lending market, for example by extending credit to their suppliers.³ Similar to telecom companies taking advantage of their existing infrastructure, e-commerce companies can leverage their networks of millions of merchants that sell goods on their platforms to offer them financing options. Such Big Techs also have access to sales analytics of third party sellers, which can serve as information for credit-scoring decisions. Because these sellers already have established accounts, Big Techs can automatically withdraw a fixed percentage of gross sales from the seller's accounts on a monthly basis in order to repay the loan (TechTarget, 2021^[14]). Sellers also benefit from the fact that they spend less time in the qualification process while also being more likely to receive the loan, since traditional lenders like banks view SMEs as less profitable compared to larger clients.

Other Big Tech companies in social media or advertising are also working to embed financial services into their products through local partnerships (Goyal et al., 2023^[15]). As Big Tech continues to occupy more space in the SME lending sphere, their customer bases and amount of customer data provide them with comparative advantages that may support further lending uptake (ESMA, 2020^[16]). However, such activity comes with important risk considerations around antitrust and other implications for the financial sector (BIS, 2023^[17]).

Certain MNOs in the region started offering payment services to their users, and later on expanded to lending services. These companies have the advantage of debt enforcement over commercial banks: Most lending MNOs have direct access to the borrowing merchant's cash flow when processing transactions, allowing them to enforce debt collection by taking a cut from the digital revenue stream of the borrowing merchant (Rishabh et al., 2021^[18]). Doing so also allows MNOs to depend less on more costly, institutional avenues of debt collection and credit contracts that are less efficient in regions such as SSA. The cost of debt enforcement in relation to small credit volumes is another reason why many MSMEs are excluded from traditional lending channels (Feyen, Natarajan and Saal, 2023^[1]). However, such lenders would still have to ensure that borrowers are incentivized against using other payment channels or decreasing payment transaction amounts during the period that credit repayment is due.

Telecom companies, which oftentimes hold licenses to perform financial activities (e.g. telcos holding money remittance provider licenses in Kenya), claim most of the FinTech lending volume and value in countries where they are active in credit intermediation (Putman et al., 2021^[9]). In Kenya, Safaricom lending products such as M-Shwari, Fuliza and KCB M-PESA claim the largest shares after M-Shwari was first introduced in 2012 by Safaricom and the Commercial Bank of Africa. In total, bank and MNO-facilitated products accounted for 97% of digital loans in 2018. This figure is expected to be even higher due to the introduction of Fuliza in 2019 and the closure of smaller FinTech lending companies during the COVID-19 pandemic (Putman et al., 2021^[9]). While other types of FinTech lenders continue to face strong competition from incumbent MNOs, lending services may still be a key growth opportunity for FinTech platforms compared to the even more competitive payment service landscape. For instance, mobile money service YUP shut down operations in Cameroon within five years of launching due to competition from incumbent MNOs MTN and Orange (McKinsey, 2022^[13]).

M-Shwari, a collaborative effort between the Commercial Bank of Africa (now NCBA) and Safaricom's M-PESA service, is an example of a telecom-based lending service that has rapidly gained traction in the Kenyan market. This loan product utilises M-PESA's extensive mobile money infrastructure to provide financial services at scale. M-Shwari, launched in November 2012, has been reported to serve the credit needs of millions of previously unbanked Kenyans (CGAP, 2022^[8]). Operated through a partnership

³ For example, Amazon small- and medium-sized business (SMB) credit services such as Amazon Lending aim to provide business financing to SMBs in the United States through products including term loans, business lines of credit, and merchant cash advances (Amazon Lending, 2024^[40]).

between CBA and Safaricom, M-Shwari is subject to full banking regulations, including oversight by the Kenya Deposit Insurance Corporation (KDIC) (CGAP, 2022^[8]). Deposits and withdrawals are facilitated exclusively through the M-PESA wallet, emphasizing the synergy between the two entities. The product leverages digital information, specifically telecommunication data, for credit-scoring decisions, marking a significant advancement in serving low-income customers (CGAP, 2022^[8]). A survey indicates M-Shwari's significant impact, with 54% of respondents having used digital credit, and 91% of mobile loan users opting for M-Shwari, Fuliza, and KCB M-Pesa (Putman et al., 2021^[9]).

1.3. Buy Now Pay Later (BNPL)

The Buy Now Pay Later (BNPL) lending model, a form of short-term financing in which consumers can pay for goods or services over a period of time, often without paying interest, if repaid on time and in full, has also become a significant lending trend in Sub-Saharan African countries, particularly among MSMEs and self-employed individuals that may not have any alternative access to credit. In Nigeria, for example, BNPL is the largest credit source for micro- and small enterprises as of 2021 because wholesalers are most likely to provide them with BNPL services (CGAP, 2022^[8]). However, while BNPL is seen as a more recent type of a lending model, this model has been extant in the region through informal agreements between wholesalers and retailers or distributors and customers. Presently, the key difference is the scale in which FinTechs are able to offer BNPL and inform lending through customer data.

In Nigeria, there is a range of BNPL models that typically fall into two approaches. The first includes FinTechs that extend to BNPL options to Micro and Small Enterprises (MSEs) for their inventory needs. These typically involve modest loans in the form of inventory, which can be repaid partially or in full over a predetermined period. Additionally, an increasing number of FinTech firms are now providing Business-to-Business (B2B) working capital solutions to MSEs within the Fast-Moving Consumer Goods (FMCG) sector (CGAP, 2022^[8]).

The second main BNPL model involves FinTechs that facilitate BNPL for either productive assets or consumer goods, catering to both MSEs and individuals. This approach relies on straightforward credit assessments based on fundamental customer demographics and data. For returning customers, the evaluation heavily weighs their borrowing and repayment history. In contrast, for first-time customers, models incorporate demographic information and other self-reported data. Among consumers, BNPL options facilitate the purchase of various goods such as groceries, apparel, airtime, and electronic devices like smartphones and gadgets. This model can serve as a valuable tool for MSEs in acquiring essential productive assets necessary for business initiation and expansion (CGAP, 2022^[8]).

1.4. Adoption of FinTech lending

Over the last decade, there has been a considerable increase in FinTech lending adoption amongst borrowers in SSA, which could be attributed to the success of mobile money initiatives in this region. As 33% of adults own a mobile money account, Sub-Saharan Africa is well positioned to harness its strong mobile payment user base to expand the services portfolio to areas such as insurance and investments (World Bank, 2023^[19]). According to a range of household surveys, the number of adult individuals in Kenya borrowing from unregulated digital lenders stand at 2 million as of 2019, compared to 200,000 in 2016. However, this number decreased significantly to 600,000 in 2021, likely due to the impact of the COVID-19 pandemic on income disruptions and loan repayments (Central Bank of Kenya, 2021^[20]).

In 2021, 2% of Kenyan adults use loans from unregulated digital credit providers, compared to 8.6% borrowing from mobile banking-enabled lenders and 16.9% from mobile network operators. Digital credit utilization is more pronounced among young individuals aged 18 to under 35, as well as among urban

dwellers and those with higher levels of education. This pattern indicates a strong correlation between digital credit usage and smartphone adoption among the youth, urban residents, and individuals with advanced educational backgrounds.

At the same time, the higher default rates associated with borrowing indicate the varied success of FinTech lending practices in African jurisdictions. 50.9% of people who borrowed loans through mobile banking apps and 46.3% of people who borrowed from digital app loans reported to have defaulted repayment as of 2021 as well, which are high rates compared to borrowers who had a default rate of 30.8% from microfinance institutions, 22.5% from government credit institutions, 22.1% from banks, 16% from saving and credit cooperatives, and 34.4% from social groups (KIPPRA, 2023^[21]).

While digital credit usage has increased over the last decade, overall credit penetration in Africa remains low. Compared to a global average credit penetration of 19%, it stands at 6% for Kenya and 9% for South Africa (McKinsey, 2022^[13]). Most lenders in Africa lend to lower-risk customers, businesses, infrastructure financing, on-demand access to wages, and buy-now-pay-later (BNPL) credit in partnership with online and offline retail stores. Due to economic barriers to traditional modes of finance and limited ways to prove credit worthiness, access to credit has remained limited in African markets for the most part. The next section of this note will consider how FinTech lending can overcome some of the challenges associated with traditional finance and potentially expand access to credit.

2. Potential benefits of FinTech lending in SSA

FinTech lending offers numerous potential benefits and enjoys comparative advantages that make it a growing competitor both as a use case within digital financial services and as an alternative to traditional forms of financing. The potential benefits apply to both the supply side and demand side and include improved efficiency and streamlined processes, enhanced financial inclusion, improved data-driven decision making, and opportunities for public sector support programme disbursement to unbanked parts of the population.

2.1. Potential for improved efficiency and productivity gains

On the supply side, FinTech-powered lending activities have the potential to provide efficiency, simplicity, transparency, and reduced transaction costs, primarily derived from a lower operating cost base and improved operational efficiencies. Automation replaces the need for physical infrastructure, legacy IT systems, and the staff costs typically incurred by traditional bank lenders (OECD, 2022^[4]), thereby leading to faster response times. FinTech platforms in a range of markets also enjoy the advantage of not being subjected to regulatory capital and liquidity requirements akin to those imposed on banks. This helps avoid distortions caused by risk-weighted capital requirements (OECD, 2022^[4]). Findings from the US mortgage lending sector reveal that shadow-bank lenders, particularly FinTech lenders gaining prominence after the Great Financial Crisis, compensated for reduced banking mortgage lending in regions where banks faced heightened regulatory constraints (OECD, 2022^[4]). In a broader context, empirical evidence suggests that FinTech lenders demonstrate a more flexible adjustment of supply compared to other lenders in response to external demand shocks, thereby mitigating capacity constraints associated with traditional lending (OECD, 2022^[4]).

In terms of improved efficiency for consumers, FinTech lending can provide faster processing, competitive pricing in contrast to specific credit products, and a convenient and user-friendly customer experience, and personalised products. MSMEs can apply for funding outside traditional banking hours, and the availability of flexible funding distribution options with 24/7 online access could cater to time-constrained small business owners (OECD, 2022^[4]). Additionally, the "time to decision" for MSME lending averages three to five weeks for traditional deposit-based institutions but only five minutes for a digitised process (OECD, 2022^[4]).

2.2. Potential for promotion of financial inclusion

FinTech lending can also support the promotion of financial inclusion and increase lending competition by servicing gaps left by traditional banks, where consumers may be underserved or unserved by incumbent financial intermediaries. By extending credit to underbanked segments of the population and being flexible and agile, FinTech lenders can serve customers who may not meet traditional lending criteria, thereby reducing financing gaps left unaddressed by banks. Specifically, they can facilitate the provision of credit

to individuals and MSMEs with no or limited credit history. This also includes businesses with inadequate collateral for a traditional bank loan or those with intangible assets that don't easily secure conventional bank loans (OECD, 2022^[4]). Furthermore, FinTech platforms can extend their reach to remote and/or rural areas without the necessity for physical brick-and-mortar establishments or proximity to customers, enabling them to reach potentially underserved clients. This makes it an attractive business model for developing countries where traditional banking infrastructure or transport infrastructure is limited, such as countries in SSA.

Furthermore, in cases where FinTech lenders operate with lower costs than traditional lenders given increased use of automation, they can provide a greater number of small loans to borrowers than what would be economically feasible for traditional financial institutions (CRS, 2018^[22]). Lower operating costs could also allow FinTechs to offer reduced interest rates and loan fees, thereby also improving the efficiency of financial intermediation (CRS, 2018^[22]). A potential challenge for traditional lenders is that small loans generate proportionally less revenue compared to larger ones, yet the underwriting and processing costs for small loans are the same (CRS, 2018^[22]). FinTech lenders with lower processing and underwriting costs may therefore have another advantage over banks in extending and servicing smaller loans.

Importantly, the involvement of FinTech lenders is even more crucial given that they can support additionality in the credit provision: instead of banks originating loans through a different intermediation channel, non-bank financial institutions can provide additional credit to the real economy and increase the size of the pie instead of just channelling the credit through different routes. Of course, such involvement comes also with risks outlined in this report (see Section 4).

2.3. Opportunities for alternative creditworthiness assessments

Alternative and innovative data sources provide another advantage to FinTech lenders, which are typically ahead of the curve in use of technology and innovation as compared to traditional banks and are increasingly using AI-based models and big data to assess the creditworthiness of prospective borrowers and to make underwriting decisions. In credit scoring, machine learning (ML) models are employed to predict borrower defaults with enhanced forecasting accuracy compared to conventional statistical models, particularly in situations where there is limited information available (OECD, 2022^[4]). Additionally, financial intermediaries utilise artificial intelligence (AI)-based systems for fraud detection and to analyse the level of interconnectedness among borrowers. This enables them to manage their lending portfolio more effectively (OECD, 2022^[4]).

When appropriately tailored, trained, and programmed, these techniques have the potential to decrease the cost of credit underwriting by leveraging automation for efficient data processing. This, in turn, has the potential to enhance the underwriting decision-making process, while also improving the accuracy of creditworthiness assessments compared to traditional methods. Consequently, this can lead to a reduction in credit losses and an overall enhancement in the management of lending portfolios, including improved fraud detection and more precise analysis of the interconnectedness among borrowers. The use of automation, big data and innovative techniques for the assessment of creditworthiness could therefore reduce informational asymmetries that impact prospective borrowers with limited or lack of credit history or lack of collateral, thereby helping stimulate local economies (OECD, 2022^[4]). Expanded data usage in underwriting can further provide more certainty about the likelihood of repayment from prospective borrowers with limited to no credit history (CRS, 2018^[22]). Alternative data can also be used to reduce the risk of fraud by verifying the identity of prospective borrowers (GAO, 2018^[3]).

2.4. Opportunities to support public sector support programme disbursement

FinTech lenders in developed economies have played a valuable role in expediting disbursement of support schemes to individuals or MSMEs without prior banking relationship in some countries in times of crisis. Specifically, during the COVID19 pandemic, the lack of pre-existing relationships with major banks hindered ethnic minorities' access to Paycheck Protection Program (PPP) loans in majority-minority neighborhoods in the United States, especially affecting non-employer companies (OECD, 2022^[4]). Online lenders, particularly FinTech platforms, emerged as an alternative avenue for government-guaranteed credit to reach such businesses. Empirical evidence suggests that FinTechs played a pivotal role in narrowing the gap in loan sizes between minority-owned and non-minority-owned businesses (OECD, 2022^[4]).

This success, however, may be challenging to replicate outside the PPP framework. This difficulty arises not only due to the guarantee provided by the program but also because of the relatively lenient eligibility requirements. Prospective borrowers, during PPP, only had to document their payroll and other expenses, contributing to the effectiveness of FinTech lenders in facilitating faster access to crucial financial support for minority-owned businesses (OECD, 2022^[4]).

Also, the disproportionate share of FinTechs in the disbursement of fraudulent loans in some of the programmes they participated calls for consideration of design options in future schemes, and of the potential trade-off between speed/reach and potential for fraud given lower underwriting standards (OECD, 2022^[4]). Given the higher levels of fraudulent loans, risk management practices of MPL/FinTechs and their recovery capabilities need to be further reinforced. It may also be important to further promote investment in data sharing infrastructure and systems that will allow for the speedy and efficient due diligence of small businesses. This may include inter alia cooperation between the different authorities (e.g. tax authorities, company registration authorities) for the exchange of information in case of emergency and the use of FinTech applications (OECD, 2022^[4]).

Box 2.1. Participation of FinTech lenders in the disbursement of COVID19 government support programmes in the UK and US

The COVID-19 pandemic helped catalyse the uptake of digital financial services across the globe. Amidst the pandemic, traditional elements such as bank branches, face-to-face interactions, and paper documentation have transitioned to digital formats. Consumers have embraced FinTech, particularly contactless and digital payments, online banking, and other digitally facilitated financial services. FinTech lenders also had the opportunity to participate in government support schemes in some countries, as seen in both the United Kingdom, the United States, and some European countries. The United States and the United Kingdom are two notable examples where authorities allowed FinTech lenders to participate in the implementation of government support programs, particularly around government-backed loan schemes and grants (OECD, 2022^[4]).

During the early stages of government support programmes, participation was limited mostly to traditional financial intermediaries. Nevertheless, policymakers in specific economies later authorised the inclusion of marketplace lenders (MPLs) and other FinTech lenders in the disbursement of COVID-19 relief loans and loan guarantee schemes at later stages of programme implementation. This provided FinTech lenders an opportunity to utilise their core strengths and test the benefits and limits of their business models on a broader scale (OECD, 2022^[4]).

In the US, all federally insured depository institutions and federally insured credit unions were qualified to engage in the Paycheck Protection Program (PPP). However, non-bank lenders were required to

obtain pre-approval for participation and only commenced lending in the program's second round. The initial two rounds of the PPP concluded in August 2020, disbursing a total of USD 525 billion in loans. The third round of PPP, which took place between December 2020 and May 2021, saw the approval of an additional USD 278 billion in lending. FinTechs were permitted to join from the second round, which commenced in mid-April 2020, and their proportional involvement grew in the third round. As of May 8, 2020, nineteen FinTech lenders, including several MPLs approved as lenders of guaranteed loans (such as Kabbage, Funding Circle, Lending Club, OnDeck), actively participated in the PPP (OECD, 2022^[4]).

In the United Kingdom, FinTech lenders were given the opportunity to participate in both the Coronavirus Business Interruption Loan Scheme (CBILS) (British Business Bank, 2020^[69]) and the Bounce Back Loan Scheme (BBLs) as accredited lenders. The BBLs scheme recorded the highest lending amount, approving GBP 47.36 billion in loans, followed by CBILS, which approved GBP 26.39 billion, as of October 25, 2021. Approximately one-quarter of all UK businesses received a Bounce Back Loan, with the majority of loans (over 90%, or GBP 39.7 billion) directed towards micro-businesses with an annual turnover below GBP 632,000. Despite the UK boasting one of the world's largest and established alternative lending markets, only 0.3% of the total value of loans distributed through BBLs originated from non-banks, including FinTech lenders (OECD, 2022^[4]).

2.5. Potential benefits of FinTech lending activity in the context of SSA

The benefits of FinTech lending, which include improved efficiency, enhanced financial inclusion, and opportunities for data-driven decision making are applicable to the Sub-Saharan African context and can become a catalyst for positive change. Such activity has the potential to create additional financing opportunities for prospective borrowers, while also providing prospective investors with a valuable alternative to traditional asset classes, which is a particularly significant development in the context of underdeveloped financial markets in Africa (e.g. in case institutional investors fund the balance sheet of FinTech lending platforms or invest in their development). FinTech lending can also further facilitate direct investment into the local economy, thereby fostering grassroots economic growth (Exaloan, 2021^[23]).

Due to the increased efficiency and lower costs of FinTech lending, such activity could also in theory help contribute to the resilience of financial systems in Africa, which often face shocks due to economic challenges, by providing alternative risk allocation within the economy and by diversifying the market for financial intermediation. Lower operating costs associated with FinTech lending could potentially also translate into more affordable financial services for borrowers. In a region like SSA where income levels can vary widely and the average GDP per capita is less than USD 2000 (Feyen, Natarajan and Saal, 2023^[11]), the affordability of FinTech loans increases the likelihood that individuals and businesses can in theory access low amounts of credit without facing prohibitive costs, although this depends really on a case-by-case basis⁴. Moreover, the speed of extension of credit by more nimble FinTech lenders can allow for quicker access to capital, essential for addressing urgent financial needs or opportunities in Africa, possibly serviced faster by the agile nature of FinTech lending as compared to incumbents' processes.

FinTech lending has the ability to potentially support financial inclusion in Africa by extending credit to underserved or underbanked parts of the population. In SSA, 62% of people live in rural areas (FAO, 2024^[24]), which are areas that are harder to reach for traditional banking institutions. Africa also has a dispersed population with a density of 45 people per square kilometre (Pervez, 2022^[10]). This gives

⁴ In practice, FinTech loans with prohibitively high interest rates (e.g. effective APRs as high as 300%) have been recorded in certain sub-Saharan African countries.

FinTech lenders the advantage of having wider reach among rural and remote populations without the need for physical brick and mortar presence (OECD, 2022^[4]).

Furthermore, FinTech lenders possess the flexibility and quick adaptability necessary to cater to MSME clients who may not meet traditional lending criteria. By doing so, they effectively bridge potential financing gaps that conventional banks might be unable to address. In the African context, where MSMEs provide 80% of all jobs, this benefit will be crucial to stimulating economic growth. Nigeria alone is home to about 40 million MSMEs, compared to 32 million in the United States (Goyal et al., 2023^[15]). In particular, FinTech lenders can grant credit to MSMEs with limited to no credit history and allow those with limited collateral or intangible assets to post against bank loans (OECD, 2022^[4]).

What makes the acceptance of MSMEs with otherwise insufficient collateral or credit history possible are opportunities for alternative creditworthiness, which, as indicated in the previous subsection, allow for innovative approaches to risk evaluation (OECD, 2022^[4]). This could be a significant boon in the Sub-Saharan African context, where conventional credit scoring mechanisms may be limited due to a lack of formal credit history. On the other hand, growing mobile internet penetration and mobile money usage could create multiple new avenues for assessing creditworthiness for MSMEs and individuals in SSA. For example, transactional history, mobile money usage, and call history can provide valuable insights into an individual's or business's financial behaviour, offering a more comprehensive picture than traditional credit histories and enabling lenders to make informed decisions about credit. The existence of open finance frameworks can further support alternative creditworthiness assessment methods by allowing for data sharing between incumbent firms and new entrants such as FinTech lenders.

Finally, learning from developed economies during COVID-19, FinTech lenders could also provide critical support to the public sector in African countries during times of crises, such as natural disasters or public health emergencies, by providing quick and efficient access to emergency funds that can be disbursed directly to affected individuals. Even in normal conditions, there is merit in considering FinTech lenders as participants in government support programmes (e.g. grants or guarantees to MSMEs), while taking into account also ensuring risks (e.g. possible increased instances of fraud).

3. Risks of FinTech lending

Although FinTech lending has the potential to offer distinct advantages to MSMEs and individual consumers in the Sub-Saharan African region such as improving financial inclusion, efficiency, and decision making, it concurrently presents well-documented risks that need to be assessed in policy analyses. Most risks of FinTech lending are not significantly different from those in traditional lending models, such as credit and liquidity risks, but can vary in impact (Feyen, Natarajan and Saal, 2023^[1]). The technological and non-traditional nature of FinTech lending can result in risks such as weak stability, regulatory arbitrage, and lack of consumer protections. The following section will explore these main constraints within the sphere of FinTech lending.

3.1. Potential Financial stability implications

FinTech lending, while offering innovative solutions and expanded access to credit, is not immune to possible stability risks depending on the size the activities will reach. For example, in an effort to gain market share, FinTech lenders may relax underwriting standards and rapidly expand their loan originations, which can compromise the asset quality of their lending portfolio (OECD, 2022^[4]). The incentive to do so may stem from the fact that many lenders generate a substantial portion of their revenue from origination and servicing fees, as they often do not hold the loans they make themselves (CRS, 2018^[22]). Focus on customer acquisition and asserting against competitors can further drive up approval rates (OECD, 2022^[4]). Distrust towards smaller platforms amplifies the perceived risk and can drive up funding costs such that it heightens the potential for investors to withdraw funding during periods of stress. This exposes such platforms to the risk of engaging in pro-cyclical behaviour (OECD, 2022^[4]). Depending on the size of the activity within an economy, these risks could translate into wider systemic implications for the domestic market involved.

The lending portfolios of FinTechs are generally higher risk due to such platforms targeting more financially vulnerable individuals and firms and given also possible under-pricing of risks, causing platform-intermediated credit to be cheaper but riskier than bank credit in some instances (OECD, 2022^[4]). As a result, there is a greater chance of FinTech-originated lending portfolios having higher levels of non-performing loans, which may be likelier in Sub-Saharan African countries with higher levels of financial vulnerability.

Furthermore, these lending models and credit assessment methodologies lack validation across a complete credit cycle. As such, many FinTech lending models have not been tested by economic downturns (OECD, 2022^[4]). Due to instable wholesale funding, which poses solvency risks, many such platforms are left susceptible to funding freezes that can risk the loss of capital for participants. Depending on the funding model, such as the originate-to-distribute model, and the jurisdiction's varying risk retention requirements and subsequent financial buffers, there is a risk of misaligned interests and moral hazard (OECD, 2022^[4]). Information asymmetry, limited access to capital markets, and economic instability can exacerbate some of these risks for FinTech lenders in SSA.

In terms of sustainability of their business models, certain lenders also face funding instability and insolvency risks (OECD, 2022^[4]). For example, in the case of marketplace lending, the duration of investor funding is matched by the duration of loans that are extended and thus reduce the liquidity risk of converting

on-demand deposits into longer term loans. However, some MPL platforms allow investors to withdraw funds at any time, potentially by reselling the loan. This exposes both investors and the platform itself to significant risks, including the possibility of loss and solvency risks arising from funding instability, especially for MPLs that utilize leverage. MPLs are particularly susceptible to funding freezes due to their relatively small investor base and fluctuations in investor appetite for credit risk. Such funding freezes can pose risks to end borrowers who may struggle to refinance their loans, a service that many bank borrowers take for granted (OECD, 2022^[41]).

In the last decade, vulnerabilities related to financial leverage, liquidity, and interconnectedness have also begun to be assessed for non-banking financial institutions (NBFIs) given their increasing prevalence (GFSR, 2023^[25]). In particular, liquidity mismatches, where institutions cannot generate enough cash through liquidation of assets or use of credit lines, could present a greater risk to FinTech lending institutions as described above. Interconnectedness, or the increased role of lenders in domestic financing and cross-border capital flows, could have significant benefits but could also make the financial system more complex and potentially amplify financial shocks. Higher interconnectedness has been demonstrated since the last financial crisis, as funding among NBFIs such as some forms of FinTech lenders have increased (GFSR, 2023^[25]).

3.2. Risks of regulatory arbitrage

The evolving nature of FinTech lending results in a possible lag between the arrival of new credit products or lending models and the required regulatory and supervisory frameworks that are used to oversee these activities. Furthermore, there is a significant level of variance in regulatory frameworks for FinTech lenders from jurisdiction to jurisdiction, which can result in regulatory arbitrage (OECD, 2022^[41]). Due to regulatory fragmentation and the rapid pace of technological innovation, many FinTech lenders, especially in SSA remain unregulated and can escape requirements related to interest rates and reporting as faced by traditional banks. In some cases, such lenders are able to charge extraneous fees if not subject to oversight, with obvious negative implications for consumers (Afronomicslaw, 2020^[26]).

Regulatory arbitrage is especially likely for FinTech lenders that use their own balance sheet and may find ways to structure their operations similar to banks based on jurisdiction, thereby allowing them to avoid prudential requirements otherwise faced by banks (FSB, 2017^[27]). For example, BIS observed that there are no regulatory frameworks for FinTechs employing balance-sheet lending in most jurisdictions according to a 2019 survey (OECD, 2022^[41]). In fact, most jurisdictions vary in the rules around risk retention and capital requirements for marketplace lenders specifically, which presents a significant cost advantage when compared to regulated banks that are subject to prudential requirements.

In pure marketplace lending platforms, some operate simply as intermediaries, connecting lenders with borrowers without engaging in maturity transformation, and as a result do not face similar liquidity or credit risks themselves. However, this is not the case for other lending models where the platform's balance sheet is used and are therefore exposed to credit risk. Such platforms are not given the same financial safety mechanisms that banks can access or have other provisions or reserve funds, which creates precarity in the event of financial strain (OECD, 2022^[41]).

Finally, there is a risk of misaligned interest and moral hazard, particularly for lenders offering the originate-to-distribute model, in which the lender does not retain credit risk and can result in conflicts between the platform and funders (OECD, 2022^[41]). As a result, this can reduce the incentives of platforms to conduct sufficient underwriting processes or recover defaulted loans. Minimising these conflicts of interest will require a range of safeguards, such as requiring the platform to retain a portion of the loans originated, invest in the loans themselves, or use their balance sheet to fund loans. Additionally, providers of wholesale funding to the platform, such as banks or institutional investors, may need to monitor both the borrower and the platform and participate in or audit the due diligence conducted by the platform (OECD, 2022^[41]).

Conflicts of interest can also occur when the fee structure of the platform incentivizes maximizing loan volume through origination fees. This situation can create a short-term incentive for the platform to increase loan volume at the expense of loosening credit standards, even at the cost of reputation (OECD, 2022^[4]).

3.3. Consumer protection risks

In light of a possible lack of comprehensive oversight, absence of appropriate disclosure practices, information asymmetries and regulatory arbitrage, FinTech lenders may engage in unsafe or unfair lending practices such as mis-selling of products and services, financial exclusion, data and security breaches, or even abusive behaviour. Some of these risks are higher than others depending on the type of business model, level of regulation and supervision faced by the provider, and degree of user adoption (Feyen, Natarajan and Saal, 2023^[1]). Limited online disclosure of terms and conditions and lack of transparency around lending models have the ability to trap financially vulnerable borrowers in debt due to high interest rates, discretionary charges, and rollover fees (Feyen, Natarajan and Saal, 2023^[1]).

These models for credit extension may also give rise to financial exclusion risks. In cases where lenders were only reporting negative information to credit bureaus, borrowers were taking out loans without any affordability assessment (in case of misaligned lender incentives), resulting in borrower defaults that are recorded at credit bureaus, possibly leading to financial exclusion as these get locked out of accessing other forms of credit based on such records.

The use of AI and big data techniques, while useful in many regards, can also create potential for biased, discriminatory or unfair lending practices by inadvertently generating biases (OECD, 2022^[4]). As such, AI-driven credit rating models can increase the risk of discrimination due to the lack of explainability of their outputs and their dynamic, nonlinear nature. This causes difficulties in relaying the decisions to declined lending applicants (OECD, 2022^[4]). Because digital lending apps require certain permissions upon installation, they also have access to users' private information and behavioural data. While this data is intended for assessment of loan eligibility, predatory lenders could also use it to engage in harmful debt collection practices when borrowers default ,

Particularly in the case of SSA, harmful FinTech lending practices could emerge from the desire of lenders to provide faster and more consumer-friendly services as opposed to managing administrative burdens. For example, in South Africa, lenders have sought to balance the demands of the Affordability Assessment Regulations which is perceived as administratively intensive, and the market demand for fast and seamless service; overly stringent affordability assessments can make it harder for consumers without sufficient financial representation to access these products, while complete disregard for such assessments can place borrowers in financial risk (Bowman, 2017^[12]).

Lack of sufficient information and absence of sufficient disclosure requirements can also drive uninformed lenders to making decisions that are not in their best interest, as not all borrowers fully understand the cost of credit products. Product terms and conditions and extraneous fees may be difficult to find or understand due to varying levels of financial literacy amongst users. Furthermore, this data is sometimes disclosed to borrowers once their financial data has been provided, which creates concern around data privacy. In OECD economies, some policy makers have discussed the use of existing disclosure regimes for FinTech lending. For example, the UK Financial Conduct Authority has proposed enhanced disclosures and marketing restrictions for high-risk lending activity, such as P2P lending and investment-based crowdfunding, in order to improve information around lending risks for large audiences (OECD, 2022^[4]).

The risks of harmful lending practices associated with FinTechs for reasons aforementioned have demonstrated themselves in the Sub-Saharan African region for some time. Much of this is a result of significant lending activity in these jurisdictions. While many loan providers transact low loan amounts, borrowers quickly accumulate debt due to high interest rates, late fees, and other hidden charges. In 2021,

about 65% of credit holders in Kenya defaulted on their mobile loans (Central Bank of Kenya, 2021^[28]). Harmful debt collection tactics and financial vulnerability can push borrowers deeper into cycles of debt. While FinTech lenders may charge fees for default, borrowing cycles in which borrowers receive loans from a range of lending apps all at once and make it difficult for them to obtain new loans in the future.

The possible risk of having relaxed underwriting criteria or the use of credit scoring methodologies that have been untested when compared to traditional practices may result in a high level of loan defaults which, while detrimental to the consumer, also significantly impact lenders and investors. Such practices, in the long term, can result in lower investment into the FinTech lending space and reduce consumer spending. Such risk is higher if the dependence on digital loans is also higher, as may result from both the popularity of mobile money usage and the inability of individuals or MSMEs in the Sub-Saharan African region to secure loans from traditional banks. For example, in 2017, the Kenya Financial Sector Deepening reported that most Kenyans use digital credit to fund individual and business needs (FSD Kenya, 2017^[29]).

When it comes to the use of alternative data, despite the numerous benefits in terms of allowing for credit scoring assessments of 'thin-file' clients, can also present certain risks, such as the risk of bias and discrimination. These can arise, for example, in case of use of social media information to make credit decisions, and in case of lack of transparency to the prospective borrower about what data is being used to make their credit decision and in what manner. The latter risk also makes it harder for borrowers to dispute a decision or the information used (GAO, 2018^[31]). Nevertheless, the techniques associated with alternative data can help mitigate many challenges around underserved customers in the present. As more data and advanced statistical modelling is used, the accuracy of credit assessments can also improve further (CRS, 2018^[22]).

Increasingly, public agencies in SSA have begun to regulate against the prevalence of predatory or risky digital lending practices, as will be discussed in the following section. However, uptake is slow. For instance, in September 2022, only 10 out of 288 digital lenders in Kenya qualified for a license from the Central Bank of Kenya (The Guardian, 2022^[30]).

4. Policy and regulatory trends

4.1. Overview

In most OECD countries, FinTech lending activity is regulated through existing regulatory frameworks. Depending on the specific type of FinTech lender, certain jurisdictions are also adjusting existing frameworks or introducing new policy measures in response to this activity. For example, according to the World Bank, 85 countries have introduced marketplace lending-specific regulation compared with 113 that did not, with a majority of these regulations coming from high-income countries (OECD, 2022^[4]).

Empirical findings indicate that in some cases, the use of tailored regulations can specifically boost lending volume, as is the case with retail crowdfunding (encompassing both debt and equity funding accessible to retail investors via online platforms). This effect is observed to be partly causal. On average, tailored regulatory structures for alternative finance could allow for a broader range of permissible activities compared to pre-existing frameworks, while also establishing clearer obligations. Out of a list of 20 types of requirements, respondents of a survey reported the average bespoke framework for P2P lending encompassed nine, compared to five requirements in pre-existing frameworks (OECD, 2022^[4]).

To date, most legislative actions have targeted P2P lending for regulation rather than balance sheet lending (OECD, 2022^[4]). According to a survey of 31 developed and emerging economies, only 3% of jurisdictions have implemented a specific licensing regime for balance sheet lending, while 42% have established licensing regimes or specific requirements for loan crowdfunding, with an additional 16% currently in progress. Due to its resemblance to traditional lending intermediation, balance sheet lending falls within the scope of existing regulatory frameworks. Countries have also begun to or are seeking to cover crowdfunding platforms in regulation due to their ability to increase access to finance for SMEs and to connect investors with borrowers or corporates (Feyen, Natarajan and Saal, 2023^[1]) (e.g. crowdfunding regulation in the EU).

Due to their significant potential to improve access to finance for MSMEs, countries are increasingly seeking to cover crowdfunding platforms in their legal and regulatory frameworks. These P2P lending platforms help connect investors with borrowers or corporates seeking to raise funds by selling equity or debt. While some countries have adopted a unified framework covering both securities-based crowdfunding and lending crowdfunding (as seen in Mexico), others have chosen separate regulatory regimes (such as Brazil). The latter approach appears more common in countries with a sector-based supervisory model, particularly prevalent in Africa and Latin America, although exceptions exist in countries with a unified regulatory authority (e.g., Indonesia) (Feyen, Natarajan and Saal, 2023^[1]).

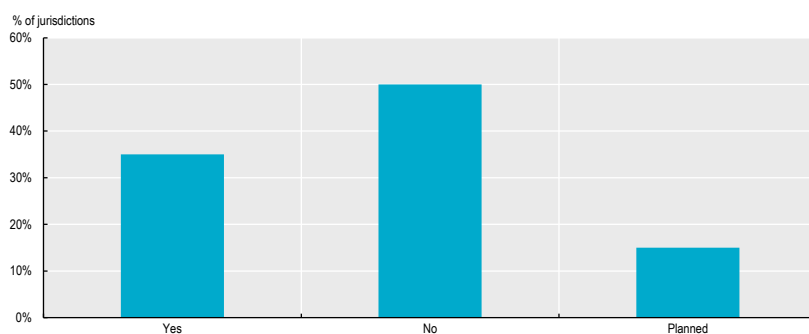
4.2. The case of SSA

In SSA, many countries offer robust regulatory frameworks for digital payments; however, regulations for digital lending are uneven in comparison. While certain countries like Kenya have launched digital lending-specific regulations, other countries have yet to release any such documents or are in the early stages of developing them (AFI, 2023^[31]). However, this is a neutral indicator, as existing legislation may also be

considered sufficient for regulating FinTech lending. Certain regulators have aimed to introduce 'light-touch' regulation for market stimulation. Conversely, other regulatory bodies, in reaction to specific risks, have aimed to curtail the market by imposing limits on lending volumes and/or confining usage to certain categories of 'sophisticated' or high-net-worth borrowers. Generally, however, supportive regulation for P2P lending appears to coincide with increased market activity. Enhanced regulatory clarity may help bolster firms' confidence in developing their propositions (CCAF, 2021^[32]).

According to the Cambridge Centre for Alternative Finance, regulators in SSA are likely more forward-looking (CCAF, 2021^[32]). Fifty-per-cent of the sampled jurisdictions in the region do not have an agency with a mandate to oversee P2P lending activities (Figure 4.1). In comparison, 75% of sampled regulatory bodies in the MENA region do have a mandate for P2P lending. Notably, 15% of sampled jurisdictions intend to adopt a mandate for P2P lending, higher than in other analysed regions analysed. This indicates a trend that in this regard. Countries that do have such a mandate are likely to locate these within central banks, compared to other regions such as the Asia Pacific, where only 21% of central banks had mandates in such cases (CCAF, 2021^[32]). This may be unsurprising in SSA, given the significant involvement of central banks in regulating financial activities.

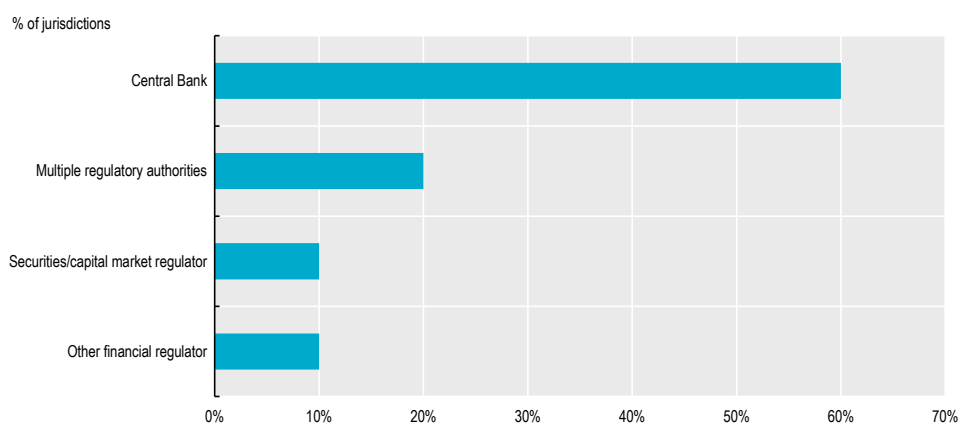
Figure 4.1. Jurisdictions with a mandate for P2P lending in SSA



Note: This figure covers 20 jurisdictions surveyed.

Source: (CCAF, 2021^[32])

Figure 4.2. Regulators with mandate over P2P lending in SSA



Note: This figure covers 10 jurisdictions surveyed.

Source: (CCAF, 2021^[32])

Only 11% of regulatory agencies in sampled Sub-Saharan African countries have specific frameworks in place, a lower rate compared to MENA (50%) or APAC (50%) regions (Figure 4.2. Regulators with mandate over P2P lending in SSA

). However, a significant number (26%) are currently in development. In 21% of agencies, P2P lending regulation falls under existing regulatory frameworks, where it is typically governed by regulations applicable to firms engaged in securities trading, credit, or payments activities (CCAF, 2021^[32]).

Certain licensing requirements are prevalent for authorities that regulate P2P lending. In these jurisdictions, agencies commonly put in place thresholds for firms to meet in order to obtain a licence. These authorities typically establish thresholds that firms must satisfy to obtain a license. For instance, in 66% of jurisdictions, minimum capital requirements are imposed on P2P lending platforms seeking licensing, in contrast to 33% of agencies where no such minimum capital requirements exist. (CCAF, 2021^[32]).

Authorities have implemented various consumer protections to mitigate the risks associated with P2P lending, such as borrowing limits, restrictions on investor types, and interest rate caps. However, this study reveals that borrowing limits for retail borrowers are rare in SSA, with only approximately 23% of sampled jurisdictions imposing restrictions on the total amount individuals can borrow through P2P lending platforms. In contrast, around 30% of agencies sampled in the MENA region have such limits. Similarly, few agencies restrict the total amount that individual P2P lending platforms can lend to borrowers, with only 6% enforcing such caps. Lastly, only 5% of surveyed agencies impose limits on the interest rates charged on P2P loans (CCAF, 2021^[32]).

Some regulators in the region have chosen to establish regulations specifically tailored to digital loan services for each type of financial institution, such as the West African Countries Central Bank (WAEMU), which categorizes any digital credit service as a banking product. Other central banks, like the Bank of Tanzania, maintain a “test and learn” approach that formulates decisions based on the outcomes of DFS products that have already been brought to market, allowing for informed risk-based decisions (AFI, 2023^[31]). The next subsection will consider the role of supporting innovation through regulatory sandboxes.

4.2.1. Regulatory Sandboxes in SSA

The “test and learn” approach as described above has been implemented in various African countries by regulators to facilitate FinTech lending (CCAB, 2018^[33]). By employing regulatory sandboxes, African regulators can oversee and gain insights into a wide array of FinTech activities. According to a survey conducted by the World Bank and the Cambridge Centre for Alternative Finance in 2019, thirty-two percent of regulators in SSA had either implemented or were in the process of developing a regulatory sandbox (Feyen, Natarajan and Saal, 2023^[1]).

In Mauritius, a regulatory sandbox initiative was launched in 2016 through the Investment Promotion Act, with the Board of Investment granted the first Regulatory Sandbox License (RSL) to a crowdfunding platform in 2017 (Pervez, 2022^[10]). While Regulatory Sandbox Licenses (RSLs) are available to all eligible companies investing in innovative projects, not exclusively limited to FinTech activities, specific guidelines apply to FinTech projects (Feyen, Natarajan and Saal, 2023^[1]).

In 2018, the Central Bank of Nigeria and the Nigeria Interbank Settlement System also introduced a regulatory sandbox for developing FinTech regulations (Pervez, 2022^[10]). Additionally, other African markets, including South Uganda, Rwanda, and Mozambique, are exploring the possibility of establishing regulatory sandboxes. The South African Reserve Bank has also launched the Financial Technology Programme to evaluate FinTech innovations and address their regulatory implications. To this end, it has formed an inter-governmental FinTech working group comprising various regulatory bodies such as the Financial Intelligence Centre and the Financial Sector Conduct Authority (Pervez, 2022^[10]). Furthermore,

Sierra Leone introduced its regulatory sandbox in 2018, with a primary objective of promoting financial inclusion, directly aligned with Sierra Leone's National Strategy for Financial Inclusion 2017 – 2020 (Feyen, Natarajan and Saal, 2023^[1]).

Similarly, Kenya's Capital Markets Authority launched a Regulatory Sandbox for FinTech firms that offer innovative products and services in March 2019. By July 2019, three firms were admitted, including an internet-based crowd-funding platform through which investors can provide loan facilities structured as loan notes for SMEs (Feyen, Natarajan and Saal, 2023^[1]). Other African regulators currently operating or in the process of developing regulatory sandboxes include the Central Bank of Mozambique (active since May 2018), the Central Bank of Zambia, the National Bank of Rwanda, the Central Bank of Eswatini, and the Capital Markets Authorities of Tanzania and Uganda. These initiatives in Tanzania and Uganda are being developed under the umbrella of the East African Securities Regulatory Authorities (EASRA) (Feyen, Natarajan and Saal, 2023^[1]).

4.3. Regulatory frameworks in SSA

As stated earlier, FinTech lending regulation in SSA is guided by bespoke policies and regulations or by a combination of regulations that are not specific to FinTech lending (such as microfinance or e-money regulations). The following offers examples of such policies.

4.3.1. Kenya

In 2022, the Central Bank of Kenya published the Central Bank of Kenya (Digital Credit Providers) Regulations, 2022, almost a decade after digital credit was introduced to the country (CBK, 2022^[34]). The regulations require all persons establishing or carrying out digital credit business in Kenya to be licensed by the Bank in accordance with the regulations or to be regulated by any other written law. They also cover the governance of digital credit providers and require providers to disclose both positive and negative credit information on customers to licensed credit reference bureaus, while also allowing them to obtain credit information from licensed credit reference bureaus. The use of this information is limited to forming decisions on transactions concerning a customer, as well as matters concerning employees of credit providers.

In addition to provisions on consumer protection, the Regulations cover requirements for anti-money laundering and combatting the financing of terrorism, reporting and oversight by the Central Bank, enforcement of the Regulations, and review. It is evident from the regulatory framework's contents and the mission of the framework that the Central Bank's main objective for issuing these regulations is to improve consumer protection and prevent fraud by unregulated digital credit lenders, indicating the extent to which the rate of unregulated FinTech lending growth in Kenya may pose risks to consumers and how the majority of regulatory concerns are with regards to reducing these risks.

The regulations limit digital credit providers from inviting or collecting deposit in any form, particularly taking cash collateral as security for loans. They also contain a specific section on Consumer Protection in which digital credit providers are required to issue transaction receipts, establish a complaints redress mechanism in which complaints must be resolved within thirty days of the complaint being filed, and ensure business continuity and system security.

To address existing concerns around abuse of customer information by digital credit providers, the Regulations require providers to only access and collect customer information as needed for a customer's credit appraisal, approval, disbursement and collection. Providers must also disclose accurate information around the service's benefits and risks and ensure financial education on behalf of the consumer. Before receiving loans, customers must also receive appropriate terms and conditions of the loan agreement

including the interest rate, other applicable charges, total cost of credit, information around complaint redressal, and so on.

To prevent fraud, the Central Bank of Kenya prohibits providers from false advertising of services and from changing its pricing model or parameters without prior written approval of the Bank. Providers are also not allowed to increase charges or credit limits or allow variation of the credit terms unless the customer has received and accepted a thirty-days' notice.

4.3.2. Tanzania

As stated above, the Bank of Tanzania (BOT) operates a “mandate and monitor” approach towards FinTech. In collaboration with the Tanzania Communications Regulatory Authority (TCRA), BOT has developed a regulatory framework aimed at fostering innovation and overseeing non-bank Digital Financial Services (DFS) providers. Governance of digital credit is regulated by the same regulatory framework that applies to all financial services providers (AFI, 2023^[31]). In this case, it is the Microfinance (Non-Deposit Taking Microfinance) Regulations 2019 that governs the provision of digital credit and regulates interest rates for digital credit. There is no interest rate cap for digital loans. Tanzania’s Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) regulatory framework also governs AML/CFT for digital credit, with there being no specific rules for digital credit services (AFI, 2023^[31]).

The Microfinance Regulations also emphasise the disclosure of interest rate details in loan agreements. Key items to be disclosed include nominal or stated annual interest rate, all other fees charged, effective annual interest rate, loan repayment, total amount of each instalment, due date of each payment, sum of all payments until the loan is fully paid, interest rate computation method, late payment penalty, debt recovery fee, charges and expenses, and notice of security interest for collateral used to secure the loan. As such, banks and financial institutions are obligated to disclose loan interest rates on a quarterly basis. The information must include the base or prime lending rate, and rate of return, including the maximum spread above the base or prime lending rate for all loan and investment products (AFI, 2023^[31]).

Given that most consumers of digital credit products in Tanzania belong to the low-income bracket and that digital credit products are non-collateralized, providers bear the responsibility of ensuring repayment. In this case, Part XI of Tanzania’s Electronic Money Regulations 2015 become applicable, as they require mobile money issuers to “display and disclose charges and fees for their services to customers and any changes thereof” and “inform consumers of their referral rights on unresolved complaints” (AFI, 2023^[31]).

4.3.3. South Africa

South Africa follows an activities-based regulatory model, with its National Credit Act (NCA) often hailed as the 'gold-standard' across Africa due to its strong focus on consumer protection (NCA, 2024^[35]). The NCA governs all credit providers, including banks, retailers, non-bank financial institutions (NBFIs), and other entities, that extend credit beyond a specified threshold or volume, as well as all consumers.

As per the NCA, credit agreements cannot be enforced by a credit provider, and the obligations of the consumer are disregarded if the agreement is deemed reckless (NCA, 2024^[35]). This includes situations where the credit provider fails to conduct a thorough risk assessment, grants a loan despite the consumer's inability to afford it, or if the consumer lacks understanding of their rights, obligations, or associated costs. The NCA mandates that, prior to entering into a credit agreement, the bank must furnish the consumer with a pre-agreement statement and quotation. The NCA also outlines all credit information that will be retained by the Credit Bureau.

4.3.4. Nigeria

In 2022, Nigeria's Federal Competition and Consumer Protection Commission (FCCPC) issued interim guidelines for the registration of digital lending platforms in Nigeria, known as the Limited Interim Regulatory/Registration Framework and Guidelines. Because the guidelines do not explicitly define digital lending, it can be assumed that all lenders operating via digital platforms are required to be registered with the FCCPC (Akindele and Sameria, 2022^[36]). Similar to the CBK's Digital Credit Provider's Regulations, the FCCPC of Nigeria launched the interim guidelines for the purpose of curbing predatory practices of digital lending platforms, such as risk-based pricing, inflated fees and charges and the use of unethical debt recovery tactics (Akindele and Sameria, 2022^[36]). As of November 2023, 211 digital lenders have been given licenses to operate (Punch, 2023^[37]).

5. Policy considerations

Policy makers in SSA countries may have a role to support the development of the FinTech lending market in a safe manner, when and where this activity is seen as contributing to financial inclusion and additionality in credit extension. Such activity could enhance individual and MSME access to financing and address any significant financing deficiencies, under certain conditions and provided that risks inherent in these models are managed appropriately. While FinTech lending could present significant social and economic benefits to both individual and corporate borrowers, the emerging and opaque nature of some of the FinTech activity could create potential risks. It should be noted that immediate risks to financial stability appear to be limited given the small size of FinTech lending activity in SSA, yet the fast-growing nature of FinTech activities combined with limited regulatory oversight in certain African jurisdictions may require measures to keep existing vulnerabilities contained and prevent wider risk propagation.

As FinTech lenders may be part of the NBFIs sector, depending on the business model used and the jurisdictions, some of the policy considerations associated with NBFIs may be pertinent to part of this market. The IMF (International Monetary Fund) makes three key recommendations for managing liquidity risks in NBFIs, which include temporary, discretionary market-wide operations that target NBFIs where market dislocation and disintermediation could lead to financial instability (GFSR, 2023^[25]). Such operations would be timed based on data-driven metrics that indicate when policymakers should use their discretion to intervene. In addition, granting access to standing lending facilities could mitigate spillovers to the financial system, but stringent criteria should be set to prevent moral hazard. Access should be contingent upon the existence of suitable regulatory and supervisory frameworks tailored to various types of NBFIs, with some potentially ineligible for such access. Also, in the event that a systemic NBFI comes under stress, central banks can discretionally act as lender of last resort, although this action should come at a penal rate, fully collateralized, accompanied by more supervisory oversight, and with a clear timeline for restoring liquidity for the institution.

Liquidity mismatch risks also remain relevant for FinTech lending and private credit. This is due to the fact that despite securities regulators introducing requirements for liquidity management tools to reduce this risk, numerous countries continue to allow open-end structures and frequent redemptions, sometimes on a daily basis, for private credit funds investing in highly illiquid assets. To mitigate this, implementing recommendations that are aligned with those of FSB (Financial Stability Board) and IOSCO (International Organization of Securities Commissions) is key (IMF, 2024^[38]). As per these recommendations, regulators could consider robust requirements to ensure that private credit firms implement effective liquidity management tools (e.g. Basel III), particularly when there is potential for significant liquidity mismatches within their product designs. Securities market regulators could also emphasize the importance of comprehensive and transparent disclosures regarding potential risks and redemption limitations, especially in funds permitting retail participation.

Any action at all by central banks in the region should also be accompanied by clear and comprehensive communication that explains how such actions intend to restore financial stability. All actions to restore stability should also be coordinated with financial sector regulators for efficient management and improved assessment of regulatory deficiencies.

As retail participation increases, conduct supervisors may need to closely monitor conduct risks and strengthen disclosure requirements, particularly concerning conflicts of interest. Regulatory standards for

interactions with retail investors should also be robust, as with other financial services. Supervisors may also wish to ensure that retail investors, encompassing holders of unit-linked products and defined-benefit plans, possess a comprehensive understanding of the elevated credit and liquidity risks associated with private credit investments, as well as the constraints on redemptions (IMF, 2024^[38]).

With regard to consumer protection, African jurisdictions could consider introducing clear and comprehensive regulation that encourages consumer protection and prevents discriminatory or predatory lending practices (as is the case, for example, in Kenya and Nigeria). FinTech lending platforms can be mandated to provide clear and transparent information to consumers about loan terms, fees, interest rates, repayment schedules, and risks associated with borrowing (OECD, 2022^[4]). Standardized disclosure formats can help consumers compare different lending options more easily. Regulators could also consider establishing guidelines or codes of conduct that require FinTech lenders to adhere to fair and ethical lending practices. This may include prohibiting discriminatory practices, deceptive advertising, or predatory lending tactics. It is also imperative to safeguard data protection (including data privacy) while effectively protecting the rights of data subjects. Since the comprehension of such terms and associated risks largely hinges on the financial literacy level of potential borrowers, initiatives to enhance financial education are crucial. This becomes increasingly important, especially considering the potential dissemination of financial products to broad audiences via online platforms, including social media (OECD, 2022^[4]).

Importantly, policy makers in SSA can use instruments and standards such as the OECD Recommendation on Financial Literacy; the G20/OECD High-Level Principles on Financial Consumer Protection and the OECD Recommendation on Consumer Protection in the field of Consumer Credit, which set out measures relating to—among other things—the role of oversight bodies, equitable and fair treatment of borrowers, disclosure requirements, complaints handling, redress and responsible business conduct in the context of consumer credit products (OECD, 2019^[39]). Specifically, it calls upon policymakers to ensure that credit providers and intermediaries have due regard to the best interest of their customers and prohibit practices that may be misleading or abusive. For example, policymakers could establish measures such as responsible lending requirements that prohibit the granting of credit if the credit is clearly not affordable or is likely to have a significant adverse effect on their overall financial situation.

Another potential avenue for policymakers to support innovation in a safe and controlled environment is through the development of innovation facilitators, such as regulatory sandboxes. The number of regulatory sandbox initiatives in various African countries are a welcome step and have already bred new products, solutions, and services. To continue this pace of innovation, regulators could consider expanding such initiatives into innovation hubs and accelerators if tailored to different objectives, legal structures, and levels of financial development (FSB, 2017^[27]). They can also begin to support FinTech lenders beyond regulatory sandboxes by improving access to data, technological infrastructure, and systems that are otherwise held by incumbents (e.g. through open banking/open finance data-sharing frameworks). Collaboration between lending companies, technology companies, and traditional financial institutions can also help spur innovation and address market gaps. As per the G20/OECD report on financial consumer protection and financial inclusion in the context of COVID19, embedding financial inclusion and consumer protection objectives within digital innovation strategies supports responsible and inclusive market development.

Harnessing the power of alternative data has the potential to enhance credit assessment in FinTech lending but also holds significant potential to inform and improve regulatory frameworks and policy development in the FinTech sector through SupTech applications. Monitoring the growth of FinTech lending and its implications for markets can be made easier through the use of enhanced reporting standards and greater collection of data. This could be possible with alternative data and supervisory and regulatory technology by authorities and regulated institutions (FSB, 2017^[27]). Present data gaps make it difficult for regulators and policymakers to monitor FinTech lending growth, leverage, and concerns around the impact of such activity in the markets.

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