

Alternative Data Is Making (Credit) History in Sub-Saharan Africa

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In yet another example of how **mobile technology** is revolutionizing service delivery in **Sub-Saharan Africa**, application developers, data mining companies and financial institutions are using mobile usage data and social media activity to determine the credit risk of potential borrowers. These efforts are helping to surmount one of the most significant obstacles to extending credit in developing markets.

In developing markets, conducting the due diligence needed to assess a borrower's credit risk is a challenge for two main reasons: geographic inaccessibility and little to no information as to the person's credit history. First, financial institutions typically have established in cities to be closer to the higher concentration of people and capital found in urban centers. These institutions have shied away from engaging rural populations because of high transaction costs due to poor infrastructure and a widely dispersed client base. Second, a dearth of financial as well as vital records creates a significant impediment to assessing the person's credit risk regardless of whether that person lives in an urban or rural area. Considering that Africa is home to the world's fastest growing middle class, this is a significant missed opportunity.

Some of the ways in which modern sources of data are being used to tackle these challenges in assessing creditworthiness include:

- In partnership with the *Commercial Bank of Africa*, **Kenyan** mobile network operator Safaricom created **M-Shwari**. An outgrowth of M-PESA, M-Shwari allows **M-PESA** users to save and borrow money through their mobile phones. Prospective borrowers can qualify for loans if they “save regularly on M-Shwari and continuously use other Safaricom services such as Voice, DATA and M-PESA.”
- **Cignifi** uses mobile phone usage to assess not only a person’s credit risk but also the probability that a person will use a particular financial service or product. The company is working with partners in **Uganda** and **Ghana** to expand the use of mobile financial products and services in the countries. In addition to using mobile data, **First Access** analyzes additional financial information (such as the individual’s water, utilities and educational payments history) to assess a person’s credit risk. The company has a field office and subsidiary in Tanzania and is in the process of expanding its presence across the region.
- **Lenddo** offers loans and free financial education to individuals based on their LenddoScore, a creditworthiness rating that the company generates through analysis of the prospective borrower’s social media activity and related data sources. Following the group accountability model used by community-based microfinanciers, the LenddoScore also is impacted by the LenddoScores of the individual’s network of family and friends.

Importantly, these services allow an individual to prove their creditworthiness in a matter of weeks rather than years. By both accelerating and innovating how financial institutions determine creditworthiness, these companies and others are promoting financial inclusion and spurring economic development in Sub-Saharan Africa.

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