



FinRegLab Report Finds Non-Conventional Data Sources Are Critical to Expanding Credit Access and Growth Among Kenyan Micro and Small Enterprises

WASHINGTON, D.C., March 28, 2024 — A new report by FinRegLab details strategies for improving data sources for credit scoring and underwriting of Kenyan micro and small enterprises (MSEs), finding that tapping multiple non-conventional (or alternative) data sources is particularly important to expanding credit access and growth among women-owned MSEs.

The [Alternative Data and Market Dynamics in MSE Lending in Kenya: Market Context Report](#) reflects input that FinRegLab gathered in 2023 from extensive interviews and deliberations by two working groups including leaders in industry, government, academia, and international nonprofit organizations in Kenya. The report finds that current market conditions may present a unique window to build on substantial interest among industry, advocates, and policymakers in using non-conventional data sources such as digital wallet information and supply chain records for credit scoring and underwriting.

However, because there is no single, readily available source that would provide insight as to all MSEs, the report concludes that assessing multiple individual sources and building a platform to support access to the most promising and cost-efficient data would be more helpful to women-owned MSEs than executing a series of incremental initiatives that may tend to concentrate on larger, more formal businesses. Women-owned MSEs are more likely to be small and unlicensed, and often can only access relatively high-cost, short-term credit that is not reported to credit reference bureaus.

“MSEs are already contributing a quarter of Kenya’s gross domestic product,” said FinRegLab CEO Melissa Koide. “Better data for scoring and underwriting is critical to increasing access to affordable loans that could permit these businesses to grow, particularly for women-owned MSEs.”

Potential Data Initiatives

The research project leverages FinRegLab’s experience in the United States with evaluating the use of non-conventional data for underwriting both consumers and small businesses and with engaging market stakeholders, nonprofits, academics, and regulators about market and policy issues that are shaping data adoption.

The report finds that credit access for Kenyan MSEs can be expanded substantially through a series of targeted initiatives, including aligning regulations to increase the consistency of reporting to credit reference bureaus, taking steps to facilitate access to non-conventional data sources, and clarifying data protection regulations and guidance.



With regard to non-conventional data sources that are not currently reported to credit reference bureaus, the report explains how they can provide a more holistic view of MSE applicants' finances even if they do not have experience with previous loan repayment. The report describes current initiatives from a range of lenders and other stakeholders to use two promising non-conventional sources, invoices and payments data from supply chains and mobile wallet transactions. However, the report also notes current limitations and challenges in making the data more widely available to lenders.

Because there is no broad-based and publicly accessible understanding of the predictive value of individual non-conventional data sources and no universal access mechanisms, the report outlines empirically studying potential data sources as a logical next step toward helping women-owned MSEs. Such research could analyze different data sources both as to their accuracy in predicting loan defaults and the potential costs and challenges of securing access to present an objective assessment of which sources can add the greatest value to the overall ecosystem of credit underwriting for MSEs. As a follow-up to the market context report, FinRegLab is initiating an empirical study in 2024.

The research project is funded by the Bill & Melinda Gates Foundation as part of its focus on financial inclusion and access to credit for women-owned MSEs.

About FinRegLab

FinRegLab is an independent, nonprofit research organization that conducts research and experiments with new technologies and data to drive the financial sector toward a responsible and inclusive marketplace. We also facilitate discourse across the financial ecosystem to inform public policy and market practices. For media and other inquiries about FinRegLab's research, email contact@finreglab.org. To receive periodic updates, please subscribe to FinRegLab's newsletter [here](#).