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Peer Review

Review of: "An Empirical Analysis of Loan Repayment Behavior and Default Rates on Digital Lending Platforms: Evidence from an Emerging Market"

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Strengths

1. **Relevance and Originality**: The study addresses a crucial issue in the digital financial ecosystem, focusing on an emerging market with high mobile penetration. This is timely and adds value to existing literature.
2. **Methodology**: The use of probit regression and marginal effects to analyze determinants of loan defaults is robust and well-aligned with the research objectives.
3. **Contextual Focus**: The paper highlights the unique challenges of digital lending in Kenya, making the findings relevant to stakeholders in similar markets.
4. **Ethical Considerations**: The study rigorously adheres to ethical standards, ensuring data confidentiality and compliance with GDPR.
5. **Actionable Insights**: The recommendations for digital lenders, policymakers, and rural borrowers are practical and well-grounded in the findings.

Suggestions for Improvement

Clarity in Hypothesis Formulation: Rephrase hypotheses to clearly articulate the expected relationships between variables and outcomes, avoiding redundancy (e.g., the repayment term hypothesis is repeated unnecessarily).

Depth in Literature Review:

- Expand the review to include more recent studies on digital lending in other emerging markets, offering a broader comparative perspective.
- Highlight gaps in existing research more explicitly to better position the study's contributions.

Sample Size Justification: Provide a more detailed justification for the sample size of 161 respondents and discuss potential limitations of using a relatively small sample for broad policy recommendations.

Model Specification:

- Clarify the latent variable model equations in Section 3.3.1 to improve accessibility for readers unfamiliar with econometrics.
- Provide more context on why a probit model was preferred over alternatives like logit models.

Interest Rate Findings: Address the counterintuitive finding that interest rates do not significantly affect defaults. Include potential explanations, such as data limitations or borrower psychology prioritizing access over cost.

Incorporate Behavioral Factors: Suggest including behavioral or psychometric variables (e.g., financial literacy, risk tolerance) in future models to better capture borrower decision-making dynamics.

Robustness Checks: While robustness checks are well-explained, consider presenting additional alternative model specifications, such as using interaction terms (e.g., age × rural residence) to uncover nuanced relationships.

Grammar and Style: Avoid repeated phrases (e.g., marginal effect findings are reiterated in multiple places).

Limitations:

- Acknowledge the potential for response bias in self-reported data and explore mitigation strategies.
- Address the limitation of excluding variables like income stability and education level.

Future Research: Clearly outline areas for future studies, such as exploring longitudinal datasets or extending the analysis to other African markets.

Additional References

- Yadav, M., & Banerji, P. (2024, August). Digital financial literacy, saving, and investment behaviour in India. *Journal of Social and Economic Development, 26*(2), 1-19. https://doi.org/10.1007/s40847-024-00367-z
- Yadav, M., & Banerji, P. (2024). Systematic literature review on digital financial literacy. *SN Business & Economics, 4*(142). https://doi.org/10.1007/s43546-024-00738-y
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Declarations

Potential competing interests: No potential competing interests to declare.