



Can Fair Digital Lending Drive Economic Development? Evidence from Consumer Protection and Regulation in Kenya

Jared Mosoti & Michael Mungoma

Mount Kenya University, Kenya

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Abstract

Digital financing offers innovation, inclusion, and efficiency opportunities that have transformed the financial services landscape in Kenya and the world. These services are however encountering several challenges such as infrastructure, regulation, cybersecurity, and consumer education. Central Bank of Kenya (Digital Credit Providers) Regulations, 2022 set the regulatory framework for digital financing. The FinAccess Household Survey of 2021-2022, showed that the key concerns raised by borrowers included unexpected charges, pushy messages to social networks, and negative listing or lowering of credit ratings. This showed that digital lenders still use unfair practices that negatively affect vulnerable consumers. Empirical evidence indicates that digital financial services can expand financial inclusion and contribute to economic development when supported by appropriate regulatory and consumer protection frameworks. The World Bank (2025) reports that mobile technology has contributed to increased access to formal financial services, including savings and payments, particularly in developing economies. Similarly, GSMA (2025) examines the economic contribution of mobile money and its role in expanding access to financial services among underserved populations. More recent GSMA research also provides country-level evidence on the relationship between mobile money adoption and economic growth, including in Kenya (GSMA, 2025). These findings suggest that well-regulated digital financial services can support economic participation and productive activities, although their benefits depend on effective regulation, consumer protection, and responsible use of financial services. The study aimed to identify unfair digital lending practices from the consumer's perspective, suggest policy and regulatory framework for addressing them, and develop a digital platform for interacting with consumers, digital service providers, and regulators. The study used questionnaires, focus groups, and secondary data to identify the following challenges faced by consumers: High interest rates, unfair contract terms, lack of transparency, aggressive debt collection techniques, and unsolicited messages. To address the problems, the study recommended the development of a digital Fintech consumer education platform for enhancing financial literacy. Consumer advocacy groups raise awareness about borrowers' rights and empower individuals to make informed financial decisions. Involve consumer groups and consumers in

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policy development. Digital lenders adopt responsible lending practices, improve transparency, and prioritize borrowers' financial well-being to build a more sustainable and inclusive lending ecosystem in Kenya.

Introduction

Digital financing has revolutionized the financial sector globally, offering new opportunities for financial inclusion, economic development, and poverty alleviation. The proliferation of mobile technology has made financial services more accessible, particularly in developing countries where traditional banking infrastructure is often lacking. Klapper et al. (2025) report that digital technologies, particularly mobile phones and mobile money platforms, are expanding access to financial services worldwide, enabling individuals to make payments, save, and access credit. Nevertheless, approximately 1.3 billion adults worldwide remained without a financial account in 2024, highlighting the continuing need to expand financial inclusion. The World Bank further notes that mobile technology presents an opportunity to reach underserved populations, particularly in developing economies, where digital financial services can facilitate access to formal financial services and economic opportunities (Klapper et al., 2025).

This underscored the need for the expansion of financial inclusion in developing regions since traditional banking services were limited. Further, digital finance enables users to perform financial transactions quickly and efficiently, reducing the need for physical bank branches and lowering transaction costs. This contributed positively to economic development.

Digital wallets and mobile money platforms have become increasingly important in facilitating digital transactions and supporting economic activity worldwide. According to GSMA (2026), mobile money services processed more than US\$2 trillion in transactions in 2025, reflecting their growing role in financial services and economic participation. In Asia, platforms like WeChat Pay and Alipay have revolutionized payments, while in Latin America, platforms such as Mercado Pago have facilitated online transactions and financial inclusion. However, these advancements come with their own set of challenges.

The rapid adoption of digital financial services has heightened concerns about data privacy and cybersecurity. Cyber-attacks and fraud have become more prevalent, necessitating robust security measures and regulatory frameworks to protect consumers.

The expansion of digital financial services has heightened concerns about cybersecurity threats and financial fraud, exposing consumers to risks such as unauthorized transactions, identity theft, and misuse of personal information. Frost et al. (2026) highlights the growing risks of scams and fraud associated with digital financial services, emphasizing the importance of effective regulatory and supervisory frameworks to protect consumers and promote responsible financial innovation.

Another critical aspect of digital finance is the role of fintech companies, which have driven innovation in the financial sector. These companies often operate with less regulatory oversight compared to traditional banks, posing challenges for regulators. A balanced regulatory approach is essential to foster innovation while ensuring financial stability and consumer protection.

Collaborative efforts among governments, financial regulators, financial institutions, and fintech companies are essential for developing effective regulatory frameworks that address the risks associated with digital financial services while promoting innovation, financial inclusion, and consumer protection (Basel Committee on Banking Supervision, 2026; World Bank).



Collaborative efforts between governments, financial institutions, and fintech companies are necessary to develop effective regulations that address these challenges (Demirgüç-Kunt et al., 2025).

Digital Financing has been a critical driver of financial inclusion and economic growth in Africa. Countries like Nigeria, South Africa, and Ghana have seen significant advancements in mobile banking and digital lending. A study by Ouma et al. (2020) highlighted those digital financial services have improved access to credit for small and medium-sized enterprises (SMEs), fostering entrepreneurship and job creation across the continent. Digital financial services have also facilitated remittances, becoming a significant source of income for many families in Africa. Mobile money platforms have simplified the sending and receiving of money, making it more convenient and cost-effective. This has positively impacted incomes and the economic activities of many households in many African countries (Ouma et al., 2020).

However, the study also noted challenges such as high interest rates, inadequate consumer protection, and a lack of transparency in lending practices (Ouma et al., 2020). The high cost of digital loans is a significant concern, as it can lead to over-indebtedness and financial distress among borrowers. Additionally, the lack of clear regulations and oversight can result in unfair practices by digital lenders, undermining the benefits of financial inclusion. Efforts to address these challenges are underway in various African countries. Regulatory bodies are working to develop frameworks that promote fair lending practices and protect consumers. For example, the Central Bank of Nigeria has introduced guidelines for mobile money operators to ensure transparency and consumer protection. Similarly, South Africa's National Credit Regulator monitors digital lending activities to safeguard borrowers' interests (Ouma et al., 2020).

Kenya has been at the forefront of the digital finance revolution in Africa, with mobile money platforms like M-Pesa transforming the financial landscape. Digital lending has emerged as a significant sector, offering quick and convenient access to credit for many Kenyans. According to Njuguna and Otsola (2022), the penetration of digital lending services has increased substantially, contributing to higher financial inclusion rates. M-Pesa, launched by Safaricom, has been a game-changer in Kenya's financial sector. It allows users to transfer money, pay bills, and access loans through their mobile phones. This has greatly enhanced financial access, particularly for individuals in rural areas who lack access to traditional banking services. The success of M-Pesa has inspired similar initiatives in other African countries and beyond (Njuguna & Otsola, 2022).

However, the rapid growth of digital lending in Kenya has also led to several consumer protection issues. Njuguna and Otsola (2022) identified challenges such as unexpected charges, aggressive debt collection practices, and negative impacts on credit ratings. These issues have raised concerns about the ethical practices of some digital lenders and the need for stronger regulatory oversight. The Central Bank of Kenya's (CBK) Digital Credit Providers Regulations, 2022, aims to address these challenges by establishing a regulatory framework for fair digital lending practices. These regulations include provisions for transparency in loan terms, responsible lending practices, and mechanisms for addressing consumer complaints. The CBK also requires digital lenders to disclose their interest rates and fees clearly to borrowers (CBK, 2022).

Despite the regulatory efforts by the Central Bank of Kenya (CBK), digital lenders in Kenya continue to engage in practices that disadvantage consumers, particularly the vulnerable segments of the population. The FinAccess Household Survey (2021-2022) highlighted several consumer protection issues, including unexpected charges, aggressive debt collection practices, and the negative impact on credit ratings (Njuguna & Otsola, 2022). These issues have persisted despite the introduction of the



CBK's Digital Credit Providers Regulations which was introduced in 2022 to provide a regulatory framework for fair digital lending practices (CBK, 2022).

Unfair practices by digital lenders, such as hidden fees and lack of transparency in loan terms, continue to undermine consumer trust and financial stability. For instance, borrowers often face unexpected charges that were not disclosed before borrowing, leading to people in financial distress and a cycle of debt (Njuguna & Otsola, 2022). Moreover, aggressive debt collection practices, including harassment and public shaming through social networks, exacerbate the already heavy financial, and psychological burden on borrowers (Wainaina, 2022).

These practices are not only harmful to the consumers but also pose significant barriers to Kenya's achievement of broader financial inclusion and economic development goals. There is a clear need to identify these unfair practices comprehensively, assess their impact on consumers, and propose effective policies and regulatory measures to mitigate them. Additionally, there is a need to develop a digital platform that can facilitate interaction between consumers, digital service providers, and regulators, thereby enhancing transparency, accountability, and consumer education.

Theory of Financial Inclusion

The study is grounded in the Theory of Financial Inclusion, which posits that access to financial services can reduce poverty and promote economic development. This theory is primarily attributed to economists and researchers such as Demirgüç-Kunt and Klapper, who have extensively studied the impact of financial services on economic growth and poverty alleviation (Demirgüç-Kunt & Klapper, 2018). According to this theory, financial inclusion facilitates wealth creation and improves economic participation by providing the unbanked and underbanked populations with access to credit, savings, and insurance.

The Theory of Financial Inclusion provides a relevant theoretical foundation for examining the relationship between fair digital lending and economic development in Kenya. Financial inclusion emphasizes the availability, accessibility, affordability, and appropriate use of financial services by individuals and enterprises, particularly those traditionally underserved by formal financial institutions. In the context of digital lending, the theory suggests that expanding access to credit can contribute to economic development when financial products are affordable, transparent, responsibly provided, and suited to borrowers' needs.

In the context of digital lending, the Theory of Financial Inclusion underscores the importance of fair and transparent lending practices to maximize the benefits of financial inclusion. When digital lenders adhere to fair practices, they enhance the trust and participation of consumers in the financial system, leading to broader economic benefits. As digital lending becomes more prevalent, ensuring consumer protection and regulatory compliance becomes essential to sustain financial inclusion efforts (Ouma et al., 2020). Furthermore, this theory emphasizes the role of technology in expanding financial access. Digital platforms, such as mobile banking and digital lending apps, have the potential to reach remote and underserved populations, thereby bridging the gap in financial services (Demirgüç-Kunt et al., 2018). However, for this potential to be fully realized, the regulatory framework must protect consumers from exploitation while fostering innovation and efficiency in the digital lending market.

The theory is relevant to the study because the availability of digital credit does not necessarily guarantee positive economic outcomes. Although digital lending platforms can reduce geographical and administrative barriers to accessing credit, unfair practices such as undisclosed charges, misleading loan terms, irresponsible lending, abusive debt collection, and misuse of personal information may expose borrowers to financial distress. Such practices can undermine the potential



benefits of financial inclusion by reducing disposable income, increasing indebtedness, and limiting the capacity of households and enterprises to undertake productive investments.

The theory therefore provides a basis for examining how fair digital lending practices influence economic development through improved access to appropriate credit, responsible borrowing, productive investment, business performance, employment creation, and household welfare. It also highlights the importance of consumer protection and effective regulatory oversight in ensuring that the expansion of digital credit generates beneficial economic outcomes. Accordingly, the study applies the Theory of Financial Inclusion to assess whether fair digital lending practices contribute to economic development in Kenya and whether unfair practices constrain the realisation of these benefits.

Effective financial inclusion also requires financial literacy and consumer education to empower individuals to make informed financial decisions. Consumer education platforms can potentially enhance financial literacy and help consumers understand their rights and the terms of digital lending products (Wainaina, 2022). By aligning with the principles of the Theory of Financial Inclusion this study aims to propose a regulatory and policy framework that promotes responsible digital lending practices, protects consumers, and contributes to sustainable economic development in Kenya.

Literature Review

Globally, the proliferation of digital lending has been recognized for its potential to enhance financial inclusion by providing easier access to credit, especially for underserved and unbanked populations. Research by Dorsey and Schuessler (2021) from the United States emphasizes that digital finance tools are pivotal in reducing barriers to financial services, thereby enhancing global economic growth. They highlight that digital lending platforms can bridge the gap between traditional financial institutions and consumers, providing quick and convenient access to loans without extensive paperwork or credit history verification. However, these advancements come with significant challenges. There is a growing concern over the lack of regulatory frameworks that can adequately protect consumers from predatory lending practices and ensure the security of digital transactions. Issues like data privacy, cyber threats, and the potential for over-indebtedness among consumers are critical points of discussion in the global literature on digital lending (Dorsey & Schuessler, 2021).

In a comprehensive study on digital financial inclusion, Demirgüç-Kunt et al. (2018) from the World Bank noted that while digital lending can significantly enhance access to finance, it must be complemented by strong regulatory measures to protect consumers and maintain financial stability. Their research highlighted the importance of creating a balanced regulatory environment that fosters innovation while mitigating risks associated with digital financial services. This includes developing standards for digital credit assessments, ensuring transparency in loan terms, and implementing robust consumer protection mechanisms. Furthermore, the study pointed out the necessity of international cooperation among regulators to address cross-border digital lending challenges and to harmonize regulatory approaches (Demirgüç-Kunt et al., 2018).

The role of fintech companies in the global digital finance landscape is also crucial. These companies, often operating with less regulatory oversight compared to traditional banks, have driven innovation by offering new financial products and services. For instance, companies like Lending Club and Prosper in the United States have pioneered peer-to-peer lending platforms that connect borrowers directly with investors. While these platforms have increased access to credit, they also pose new risks related to investor protection and the stability of financial systems. Research by Jagtiani and Lemieux (2018) suggests that the rapid growth of fintech requires regulators to develop adaptive frameworks that can evolve with technological advancements while safeguarding consumer interests.



In Europe, the digital lending landscape has also seen significant growth. Platforms such as Funding Circle in the UK and Kreditech in Germany have expanded rapidly, providing loans to SMEs and consumers. According to Navaretti et al. (2017), the European digital finance sector benefits from a relatively harmonized regulatory environment due to the efforts of the European Banking Authority (EBA). However, the study emphasizes the need for continuous updates to regulatory frameworks to keep pace with technological changes and to address emerging risks such as data breaches and the misuse of consumer data.

In Africa, the impact of digital lending has been particularly pronounced, with rapid expansion in countries like Nigeria, South Africa, and Kenya. Studies such as Adeola and Evans (2019) in Nigeria have documented the transformative effect of digital lending on providing capital to small businesses and entrepreneurs who traditionally lacked access to banking services. They observed that digital lending platforms have been instrumental in promoting financial inclusion and economic development, especially in rural and underserved areas. However, the study also addresses the flip side, noting that the absence of clear regulatory policies can lead to exploitation, with high interest rates and opaque loan conditions being prevalent. These issues underscore the urgent need for tailored regulatory interventions that can nurture the growth of digital lending while protecting consumers from potential abuses (Adeola & Evans, 2019).

In South Africa, a study by Moyo and Mafukidze (2020) explored the impact of digital lending on consumer behavior and financial health. They found that while digital lending has improved access to credit, it has also led to increased levels of indebtedness among consumers who may not fully understand the terms and conditions of their loans. The study calls for increased financial literacy and stronger regulatory oversight to ensure that consumers can make informed decisions and avoid falling into debt traps. This highlights a common theme across the African continent – the need for a balanced approach that promotes innovation in financial services while safeguarding consumer interests (Moyo & Mafukidze, 2020).

In Ghana, digital lending platforms have played a significant role in extending credit to SMEs and individuals who are often excluded from traditional banking services. According to Asiedu and Boateng (2021), these platforms have enabled many Ghanaians to access loans for business expansion, education, and emergencies. However, the authors also point out the challenges associated with high interest rates and the lack of comprehensive credit information systems, which can lead to over-indebtedness and financial instability. The study suggests that establishing a credit bureau system and implementing consumer protection regulations are essential steps to ensure the sustainable growth of digital lending in Ghana.

Focusing on Kenya, the scenario presents both opportunities and challenges. Mwangi and Rono (2021) explore how digital lending platforms like M-Pesa have dramatically increased financial inclusion in Kenya, making financial services accessible to many who were previously excluded. The study highlights that digital lending has enabled individuals and small businesses to access credit quickly and conveniently, thereby supporting economic activities and improving livelihoods. However, Mwangi and Rono (2021) also criticize the lack of transparency and consumer protection in digital lending. They cite issues such as non-disclosed fees, high interest rates, and aggressive recovery practices, which have led to public outcry and calls for stricter regulations.



The FinAccess Household Survey (2021-2022) provides further insights into the impact of digital lending in Kenya. The survey revealed that while digital lending has grown significantly, it has also brought challenges related to consumer protection. Borrowers often face unexpected charges and aggressive debt collection practices, which can negatively impact their financial well-being and credit ratings. This has prompted the Kenyan government to introduce the Digital Credit Providers Regulations, 2022, by the Central Bank of Kenya (CBK), which aims to establish a regulatory framework for fair digital lending practices. These regulations are designed to enhance transparency, protect consumers from unfair practices, and promote responsible lending (Njuguna & Otsola, 2022).

Kim and Duvendack (2025), in their study titled *Fintech for the poor? Regulating the Kenyan digital credit market and its impact on borrowers*, investigated consumer protection risks in Kenya's digital credit market using qualitative interviews with 30 digital credit borrowers from Kibera, Soweto, Mukuru and Mathare in Nairobi, supplemented by documentary analysis of regulatory and policy documents. The findings revealed that borrowers experienced several unfair digital lending practices, including high interest rates, aggressive debt collection, credit blacklisting, deceptive marketing and violations of data privacy. Specifically, 80% of the respondents reported late repayment, while approximately 43.3% reported having failed to repay a digital loan. The study further identified weaknesses in transparency, complaint resolution and the regulatory framework, highlighting the need for stronger consumer protection enforcement and improved financial literacy. These findings suggest that unfair digital lending practices may undermine the potential contribution of digital credit to inclusive economic development by increasing borrowers' financial vulnerability and potentially restricting access to productive finance. However, the study focused primarily on consumer protection experiences and did not directly estimate the effects of unfair lending practices on macroeconomic development, household income growth or MSME performance. The present study therefore seeks to extend this body of knowledge by empirically examining the relationship between unfair digital lending practices and economic development in Kenya.

Despite these regulatory efforts, consumer complaints persist, indicating the need for continuous monitoring and adaptation of these regulations to keep pace with the evolving digital lending landscape. A study by Wainaina (2022) emphasizes the importance of consumer education and advocacy in addressing these challenges. Wainaina argues that enhancing financial literacy and involving consumer groups in policy development can empower borrowers to make informed financial decisions and protect their rights. This approach can help build a more sustainable and inclusive digital lending ecosystem in Kenya.

Furthermore, digital lending has had a notable impact on Micro, Small, and Medium Enterprises (MSMEs) in Kenya. According to Karanja and Munga (2022), digital lending platforms have provided crucial financial support to MSMEs, enabling them to expand their operations and increase productivity. However, the study also highlights the high cost of digital loans as a major barrier for many businesses. The authors suggest that reducing interest rates and offering more flexible repayment terms could enhance the positive impact of digital lending on MSMEs and the broader economy.

The role of technology in enhancing financial inclusion in Kenya cannot be overstated. Innovations such as mobile money and digital lending platforms have bridged the gap between formal financial institutions and the unbanked population. A study by Kamau and Were (2021) found that mobile technology has significantly increased access to financial services in rural areas, where traditional banking infrastructure is often lacking. The study recommends leveraging technology to develop more inclusive financial products and services that cater to the diverse needs of people.



Digital lending has also influenced consumer behavior in Kenya. Research by Wambua and Omondi (2022) indicates that the convenience and accessibility of digital loans have changed how consumers approach borrowing. People prefer digital loans due to quick approval processes and minimal documentation requirements. The study however warns of the risks associated with impulsive borrowings, and the lack of financial discipline among some consumers. The authors advocate for comprehensive financial literacy programs that educate consumers on borrowing responsibly, and money management to mitigate these risks.

Empirical studies such as Dorsey and Schuessler (2021, Asiedu and Boateng (2021) and others have shown that digital finance have reduced barriers to financial services. Further studies in Europe and America showed a well-established regulatory framework that have reduced unfair practices and contributed significantly to economic developed.

In developing economies such as Kenya, the regulatory framework is still evolving and leaves a lacuna that is easily exploited by digital lender through unfair practices. Further, there is a need to look at how fair practices by digital lenders influence the consumers' ability to borrow and contribute to economic development in less developed countries. This study aimed at filling this gap by exploring how fair digital lending facilitated sustainable economic development in Kenya.

Conceptual Framework

The relationship between the variables of the study is represented in the conceptual framework shown in Figure 1 below.

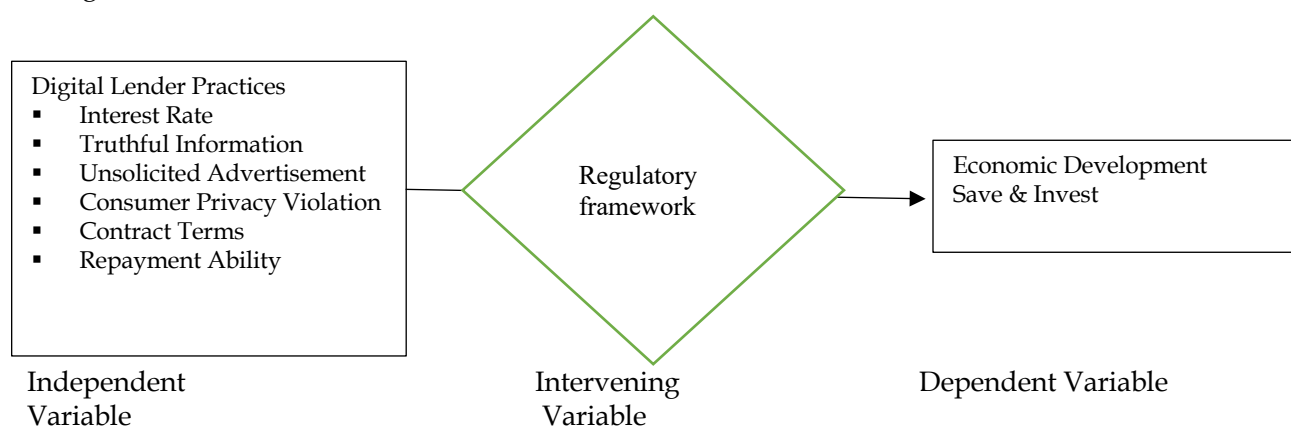


Figure 1: Conceptual Framework

In Figure 1 above, the digital lender practices influence customers' decision to borrow. If the practices are unfair, they have negative effect on the quality of decision the borrowers make. The practices include interest rates, disclosure or non-disclosure of accurate information at the time of borrowing, violation of consumer rights, unfair contract terms, and the inability to consider the borrower's ability to repay the loan before extending the facility. The straight arrow shows the direct effect of digital lenders practices on economic development, represented by the ability to save and invest. The intervening variable is the government policies and regulations on digital lending practices. If these are put in place, they will check the digital lenders unfair practices. This in turn will lead to better decisions when borrowing, thus fostering higher savings and investment by digital credit users. If this is sustainable over time it will eventually lead to economic development.



Methodology

This section presents the research methods and procedures adopted in conducting the study. It describes the research design, target population, sampling techniques, data collection instruments, validity and reliability procedures, and data analysis methods used to achieve the study objectives. The methodology provides a framework for ensuring that the research process is systematic, objective, and capable of producing reliable and valid findings. The section also defines the statistical techniques used. These techniques were descriptive statistics, inferential statistics that used the regression analysis. The qualitative analysis included the thematic analysis, and interpretation procedures.

Research Design

This study employed a mixed descriptive research design to explore consumer perspectives on digital lending practices in Kenya. A descriptive research design is suitable for this study as it allows for a comprehensive understanding of the issues faced by consumers and the identification of specific unfair practices in the digital lending sector (Kothari, 2014). A mixed research design is suitable in situations where it is desirable to embrace qualitative and quantitative data. Further, descriptive research accurately depicts the characteristics of individuals, situations, or groups and helps to discover the association between variables (Saunders et al 2016).

Target Population and Sample

The study targeted the users of digital lending platforms (borrowers). A survey was conducted through qualitative and quantitative methods. These included one-on-one telephone interviews and online questionnaires with a respondent who borrowed or had access to digital finance services. Participants were selected from diverse demographics and locations to ensure representation across various socio-economic backgrounds. A sample size of 168 consumers of digital loans was randomly picked from diverse locations in Nairobi city and its environment. The researcher randomly asked residents in various estates in Nairobi if they are consumers of digital credit. If they had not used the digital platforms, they were excluded from the study. This ensured that only those affected by digital credit were selected for the study. Further, if a responder was not willing to be involved in the study, he or she was excluded from the study. The study was conducted between 2nd October and 9th October 2023.

Research Instruments

The study incorporates qualitative and quantitative methods, utilizing questionnaires, focus groups, and secondary data analysis. Questionnaires are a common data collection tool in descriptive research due to their ability to gather large amounts of data from a sizeable population efficiently and in a relatively short time (Kothari, 2014). The questionnaire was used to collect quantitative data on consumer experiences with digital lending, including instances of unexpected charges, transparency of loan terms, and debt collection practices. The study used the focus group to collect qualitative data. This was used to provide deeper insights into the personal experience and perception of consumers on digital lending practices, (Krueger & Casey, 2015). Secondary data analysis involved reviewing of existing literature, reports, and surveys related to digital lending and consumer protection. This provided a broader context and supported the primary data collected through questionnaires and focus groups (Saunders, Lewis, & Thornhill, 2016).

Data Analysis

The data collected through the questionnaires was analyzed using statistical methods to identify patterns and relationships between variables. Descriptive statistics, such as frequencies, percentages, and mean scores, were used to summarize the data (Field, 2017). Qualitative data from focus groups



was analysed thematically, identifying common themes and patterns in the responses obtained through the various instruments which in turn helps in obtaining harmonized results (Braun & Clarke, 2013).

The regression model for the study was:

$$y = a + \beta X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 \dots (1)$$

where:

Y = Ability to Save

X₁ = High Interest Rates and Fees

X₂ = Violation of Consumer Privacy

X₃ = Use of unfair Contract Terms

X₄ = Provision of Truthful information

X₅ = Misleading advertisements

X₆ = Digital lenders Ignoring borrowers' inability to repay

To measure the composite effect of the digital lender's unfair practices, the following model was used

$$y = a + \beta X \dots (2)$$

Results and Discussion

The results and discussion are shown in the following two sections, 4.1 and 4.3 below.

Respondent Profile

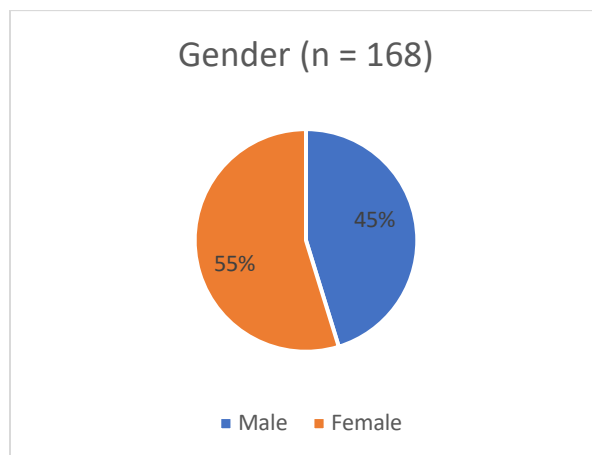


Figure 2: Gender of Respondents

Source: Field Survey 2023

Figure 1 above shows that the majority of the respondents with 55% of the respondents being male and 45% being female. This resonates with the Financial Sector Deepening (FSD report 2019) by Gubbins, as adopted from FinAccess 2019, which showed that the majority of digital borrowers were male at 60%.

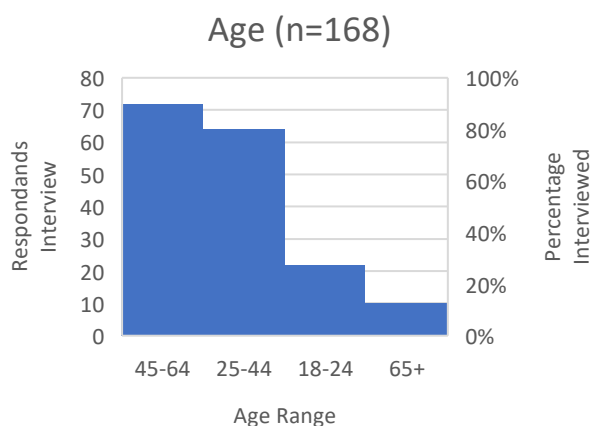


Figure 3: Age of Respondents
Source: Field Survey 2023

Figure 2 above shows that the majority of respondents were young to middle-aged people between the ages of 25 to 64. These findings are corroborated by the FSD survey of 2019, which showed that the majority of borrowers (62%), were below the age of 35 years.

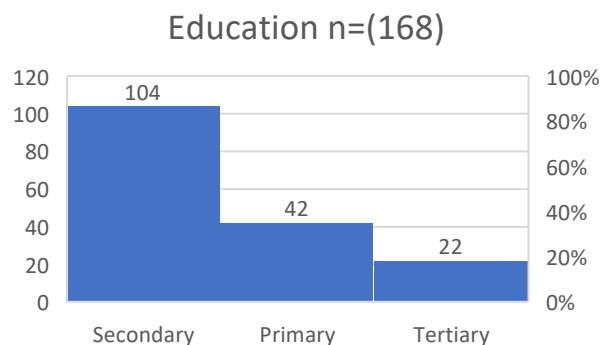


Figure 4: Education of Respondents
Source: Field Survey 2023

Figure 3 above shows that the majority of respondents 80%, had secondary education. This report resonates with the Adult Education and Development (AED) survey for 2022 contained in the Kenya Literacy (1960-2024), which showed that 82.88% of the adult population in Kenya were literate or educated.

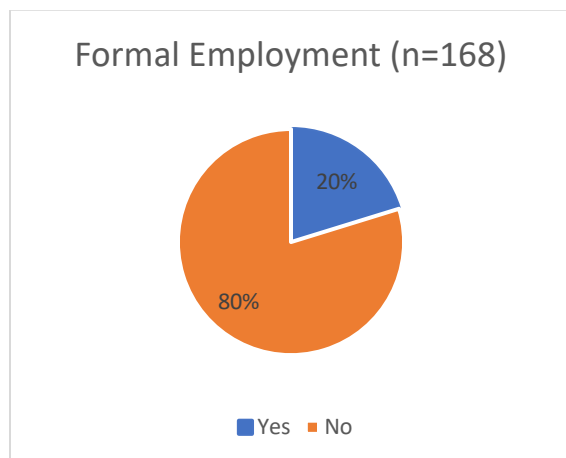


Figure 5: Employment History of Respondents
Source: Field Survey 2023

Figure 4 above shows that the majority of respondents (80%) were in informal employment. This resonates with the Financial Kenya economic survey of 2023 which showed that 83.44% of Kenyans are employed in the informal sector while 16.56% are employed in the formal sector.

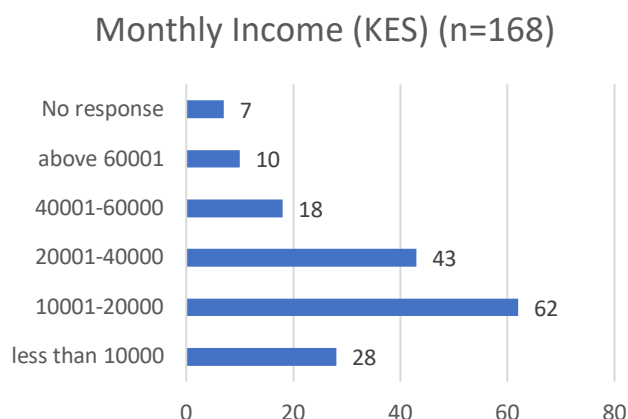


Figure 6: Monthly Income of Respondents
Source: Field Survey 2023

Figure 5 above shows that most respondents (133) representing 79% earned below Kshs 40,000 per month. This resonates with the national average salary of Kshs 30,000 (Economic Survey 2024).

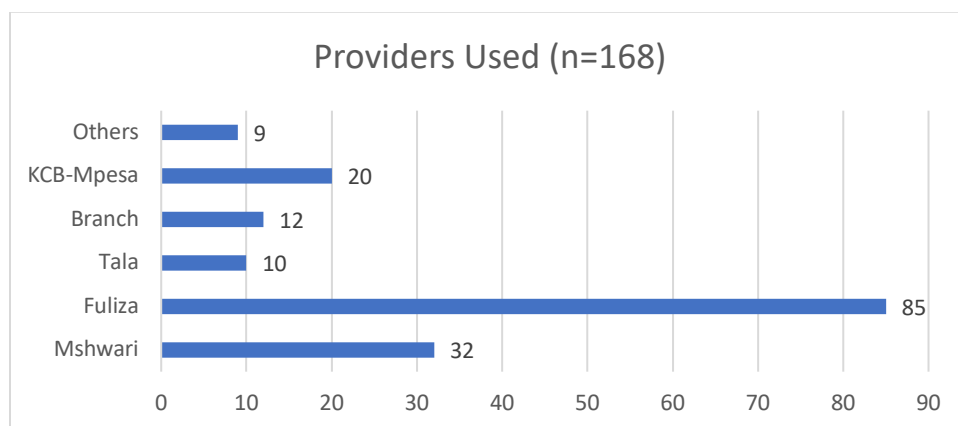


Figure 7: Providers used by Respondents

Source: Field Survey 2023

Figure 6 above shows that most borrowers (50.1%) borrowed through Fuliza, followed by Mshwari at 19% and KCB-Mpesa at 12%. This shows that these are the most popular lenders under the digital platform. These are the oldest digital lenders in the country and the most readily accessible because of their link to the mobile service provider Safaricom.

Correlation Analysis

Table 1: Correlation

		High Interest and Rates Fees	Provision of truthful information	Violation of consumers' privacy	Misleading adverts	Unfair contract terms	ability to repay	Ability to Save
High Interest Rates and Fees	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	168						
Provision of truthful information	Pearson Correlation	.067	1					
	Sig. (2-tailed)	.385						
	N	168	168					
Violation of consumers' privacy	Pearson Correlation	.047	.044	1				
	Sig. (2-tailed)	.544	.571					
	N	168	168	168				
Misleading advertisements	Pearson Correlation	-.035	-.066	.077	1			
	Sig. (2-tailed)	.656	.393	.319				
	N	168	168	168	168			
Unfair contract terms	Pearson Correlation	.031	.192*	-.023	-.127	1		
	Sig. (2-tailed)	.692	.012	.768	.100			
	N	168	168	168	168	168		
Ability to repay	Pearson Correlation	.060	.402**	-.091	-.070	.271**	1	
	Sig. (2-tailed)	.442	.000	.243	.364	.000		
	N	168	168	168	168	168	168	
Ability to save	Pearson Correlation	.021	.177*	.019	.133	.361**	.412**	1
	Sig. (2-tailed)	.790	.022	.810	.086	.000	.000	
	N	168	168	168	168	168	168	168

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher 2024



Table 1 above shows a positive correlation between the factors used in the study and the reduction in the respondent's ability to save. This therefore showed that if the unfair practices by digital lenders are controlled, the ability of borrowers to save and invest will be improved, which will lead to economic development.

X_6 = Digital lenders Ignoring borrowers' inability to repay

Regression

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.403 ^a	.163	.158	.80505

a. Predictors: (Constant), COMPUNFAIRPRA

Source: Researcher 2024

Table 2 above shows that R^2 is 0.163 or 16.3%. This shows that 16.3% of the reduction in the borrower's inability to save is explained by digital borrowing as a result of unfair practices by digital lenders. The result is consistent with the Kenya National Bureau of Statistics and the Central Bank of Kenya statistics of 2023, which showed that the gross domestic saving to the gross domestic product (GDP) is around 10-15% in the country. The FinAccess survey of 2019 showed that savings through digital channels increased from 10.7% in 2016 to 41.2 % in 2019. This makes it one of the most important mediums for measuring Kenyans' ability to save and invest. The results corroborate the findings of Ng'ang'a (2023), who found a significant correlation between digital money services and savings.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.890	1	20.890	32.233	.000 ^b
	Residual	107.586	166	.648		
	Total	128.476	167			

a. Dependent Variable: The unfair practices of digital lenders have reduced my ability to save

b. Predictors: (Constant), COMPUNFAIRPRA

Source: Researcher 2024

Table 3 above shows the analysis of variance (ANOVA) for the variables. The F statistics of 32.233 was higher than the 1.96 critical value and the p-value of $0.000 < 0.05$, meant that the model was statistically significant and therefore fit to predict the values of y.

Table 4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.038	.659		.058	.954
	COMPUNFAIRPRA	.980	.173	.403	5.677	.000

a. Dependent Variable: The unfair practices of digital lenders have reduced my ability to save

Source: Researcher 2024

The study findings showed that the unfair practices by digital lenders significantly and negatively affected the ability of borrowers to save. Table 4 above shows the predictive model for determining the ability to save Y given the unfair practices of digital lenders X. The resulting regression model is



$Y = 0.38 + 0.980X$. Thus, an increase of 1 shilling borrowed from a digital lender will increase the borrower's savings by 16.3% or 0.163 shillings.

Keynesian Model of National Income

The study used the Keynesian model of national income to link savings determined above to investments. According to the Keynesian model, the equilibrium national income is attained when the injections to the economy (J) equals the withdrawals from the economy (W). This is represented by the model $J=W$. At this point, the Aggregate Demand (AD) equals the Aggregate Supply (AS).

The model for aggregate demand for a three-sector economy is given as:

$AD=C+I+G+X-M$, where: Aggregate Demand=Consumption +Investment+ Government Spending + Export – Import. The national income model is therefore given as $Y=C+S+T$

National Income=Consumption + Savings + Taxes. This represents the Aggregate Demand (AD)

$$Y=C+S+T$$

On the other hand, the Aggregate Supply is represented by $Y= C+I+G$, which means, National Income=Consumption + Investment + Government Spending. For equilibrium to prevail, $AD=Y$ must equal AS. This means $C+I+G+X-M=C+S+T$. when we remove C from both sides, the resulting model is $I+G+X=S+T+M$, where $I+G+X$ is the Injections (J) and the Government spending, Investments, and Exports $S+T+M$ are withdrawals (w). In this equation, savings (S) equals Investment (I).

Conclusions

From the above findings, the study concluded that the unfair practices by digital lenders lead to a reduction in the borrower's ability to take up productive loans which translates into higher income and higher savings. Further, the study used the Keynesian model of national income to link savings to investment. This led to the conclusion that curbing unfair practices by digital lenders increases investment leading to economic growth and development.

The study findings link to the theory of financial inclusion. The study asserts that access to credit alone does not guarantee meaningful financial inclusion. Digital lending is more likely to contribute to economic development when consumers can access credit on fair terms, understand their obligations, exercise their rights and use borrowed funds without being exposed to harmful lending practices. This study links well to the theory of Financial Inclusion which asserts that for digital lending to contribute to financial inclusion, there must be access of the digital credit to consumers, borrowers must afford it, and there is Consumer protection from unfair lending practices.

These findings corroborate the studies by Kim and Duvendack (2025), who found that unfair digital lending practices undermined the potential contribution of digital credit to inclusive economic development by increasing borrowers' financial vulnerability and potentially restricting access to productive finance. The study identified aggressive debt correction practices, CRB blacklisting, excessive interest rate and processing costs, misuse of borrower's information, deceptive marketing and inadequate transparency as some of the unfair practices by digital lenders.

In response to the findings, the study made several policy recommendations as follows: first, the government should formulate policies that take care of the consumer interest such as requiring digital lenders to provide all material information to the borrowers at the time of taking loans, and punishing lenders who use misleading advertisements to lure borrowers and educate the borrowers on good debts and bad debts.



Secondly, the study recommends that the Central Bank of Kenya and other regulators in the finance sector and the communication authority create a digital platform that brings together the lenders and borrowers to share information. Information sharing between the two parties is critical for effective decision-making by the borrowers.

Thirdly, the study recommends that financial institutions do customer credit ratings to determine the ability of borrowers to repay loans before lending to them. Further, the lenders should seek to know the exact use of the borrowed funds to determine the amount they should avail to the borrowers.

Lastly, the study recommends that the regulators and borrowers develop platforms for constant engagement and real-time relay of complaints on unfair practices by digital lenders.

This study focused on the demand side of digital lending which is the consumers' perspective. The study recommends that future researchers carry out studies to look at the supply side, that is Fostering Economic Development Through Policies and Regulations for Fair Digital Lending in Kenya: Supplier's Perspective.

Despite the findings, the conclusions and recommendations, it is important to take cognizant of the limitations of this study.

First and foremost, the study used cross-sectional research design, which means that it was not able to capture changes in lending practices, regulatory effectiveness and economic development over time. Therefore, the findings may establish associations but may not conclusively demonstrate that fair digital lending causes economic development over time.

Further, the study was confined to Nairobi region, the findings of this study may not represent borrowers in rural areas and other parts of Kenya, where access to financial services, digital infrastructure, income levels and lending practices may differ.

Additionally, Economic development is multidimensional and extends beyond access to credit. The study measured it using household welfare, business performance, savings or employment, these indicators may not fully capture broader outcomes such as poverty reduction, productivity growth, income distribution and national economic growth.

Finally, digital lending technologies, market practices and regulatory frameworks continue to evolve. The findings of this study should be interpreted in the context of the period in which the data were collected. Future studies could address these limitations through longitudinal research, broader geographical coverage, objective financial indicators and comparative assessments of regulatory enforcement across different categories of digital lenders.

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