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RESEARCH ARTICLE

The Value of Financial Intermediation in African Online Debt Crowdfunding: Evidence from Nigeria

Oluseun Paseda[1], Joshua Ansa[2], Ishola Rufus Akintoye[3]

[1]Department of Banking and Finance, University of Ibadan, Nigeria

[2,3]Babcock Business School, Babcock University, Ilishan-Remo, Nigeria

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***Corresponding Author:**

seunpash@yahoo.com

ABSTRACT

This study investigates the role and effectiveness of financial intermediation in African online debt crowdfunding, using empirical evidence from Nigeria. Drawing on a dataset of 500 loan observations from leading Nigerian crowdfunding platforms, the research evaluates how platform-led screening, interest rate structures, and loan tenors influence loan performance—particularly default probability. The findings reveal that platform screening significantly reduces default risk and moderates the adverse effects of high interest rates, underscoring the value of algorithmic intermediation in low-trust, high-risk environments. While risk-based pricing is associated with increased default likelihood, longer loan tenors marginally improve repayment outcomes. These results highlight the importance of context-sensitive intermediation mechanisms in emerging markets, where traditional credit infrastructure is often weak or absent. The study contributes to the literature by demonstrating that digital platforms in Africa are not merely technological innovations but institutional substitutes that enhance credit allocation, investor protection, and financial inclusion. Policy recommendations include strengthening regulatory frameworks, promoting adaptive pricing models, enhancing platform governance, and supporting inclusive access to crowdfunding. The paper concludes by identifying future research directions, including cross-country comparisons, algorithmic fairness, and the integration of crowdfunding with climate finance and Islamic financial instruments. Overall, the study affirms the transformative potential of digital intermediation in reshaping Africa's entrepreneurial finance landscape.

INTRODUCTION

Background and Current State of Research

Online debt crowdfunding has emerged globally as a transformative financial innovation, enabling individuals and small businesses to access credit outside traditional banking systems. In developed economies, platforms such as LendingClub and Prosper have demonstrated how digital intermediation—through borrower screening, risk pricing, and monitoring—can reduce information asymmetry and improve loan outcomes (Tang, 2019; Lin et al., 2013). These platforms act as financial intermediaries, performing functions traditionally reserved for banks, but with greater efficiency and inclusivity.

In Africa, the rise of fintech has catalyzed similar innovations. Platforms such as FINT (Nigeria), Pezesha (Kenya), and GetBucks (South Africa) offer debt crowdfunding services tailored to local contexts. However, the continent's financial landscape is characterized by limited credit infrastructure, low financial literacy, and regulatory fragmentation. While anecdotal evidence suggests that platform-led intermediation improves loan performance, systematic empirical research remains sparse.

Statement of the Problem

Despite the proliferation of online debt crowdfunding platforms in Africa, there is limited understanding of the actual value added by financial intermediation in these markets. Many platforms operate in environments with weak credit bureaus, informal income sources, and high default risks. Without rigorous analysis, it is unclear whether intermediation mechanisms—such as credit scoring, KYC protocols, and risk-based pricing—effectively mitigate these challenges or merely replicate traditional inefficiencies in a digital format.

Research Gap

Existing literature on financial intermediation in crowdfunding is largely based on data from developed markets. These studies assume the presence of robust legal frameworks, reliable credit histories, and high investor sophistication. African markets differ significantly in these respects. There is a critical need to examine whether the theoretical benefits of intermediation hold in contexts where institutional voids are prevalent and informal financial practices dominate.

Objectives of the Study

This study aims to:

Evaluate the impact of platform-led financial intermediation on loan performance in Nigeria's online debt crowdfunding market.

Compare outcomes between platform-screened loans and investor-selected loans.

Assess the implications of intermediation for investor returns, borrower discipline, and funding efficiency.

Research Questions

Does financial intermediation reduce default rates in African online debt crowdfunding platforms?

How does platform involvement affect investor returns and time to funding?

What mechanisms of intermediation are most effective in mitigating credit risk in the Nigerian context?

Justification for the Study

This study is timely and relevant for several reasons:

Policy relevance: Regulators such as Nigeria's SEC are developing frameworks for crowdfunding. Evidence-based insights can inform policy design.

Operational guidance: Platforms need empirical benchmarks to refine their intermediation models.

Investor protection: Retail investors require transparency and risk mitigation strategies in a nascent market.

Academic contribution: The study fills a gap in the literature by extending the theory of financial intermediation to emerging markets with unique structural challenges.

Structure of the Paper

The paper is organized as follows:

Section 2 reviews relevant literature on financial intermediation and crowdfunding.

Section 3 outlines the methodology and data sources.

Section 4 presents empirical results.

Section 5 discusses the findings in light of African market dynamics.

Section 6 offers policy implications and recommendations.

Section 7 concludes with a summary and suggestions for future research.

LITERATURE REVIEW

Conceptual Foundations of Financial Intermediation and Crowdfunding

Financial intermediation has long been a cornerstone of modern economic systems, serving as the mechanism through which surplus units (savers) channel funds to deficit units (borrowers). Traditional financial intermediaries—such as banks, insurance companies, and investment firms—perform critical functions including maturity transformation, risk pooling, liquidity provision, and information processing (Diamond, 1984; Raina, 2016). These institutions reduce transaction costs and mitigate information asymmetries, thereby enhancing allocative efficiency in financial markets.

However, the advent of financial technology (FinTech) has disrupted this conventional model. FinTech innovations, particularly crowdfunding platforms, have introduced new forms of intermediation that are decentralized, technology-driven, and often more inclusive (Dharmadasa, 2021; Alam *et al*., 2025). These platforms leverage digital infrastructure to connect fund seekers directly with fund providers, bypassing traditional gatekeepers and enabling real-time, peer-to-peer financial transactions.

Crowdfunding, in its various forms—donation-based, reward-based, equity-based, and debt-based—has emerged as a transformative tool in entrepreneurial finance. It democratizes access to capital by allowing individuals and small businesses to raise funds from a dispersed pool of investors, often through online platforms (Block *et al*., 2021; Braggion *et al*., 2025). In doing so, crowdfunding platforms assume intermediary roles traditionally held by banks: they screen projects, assess risk, facilitate transactions, and sometimes enforce contractual obligations (Bavoso, 2022; Havrylchyk & Verdier, 2018).

The theoretical underpinnings of crowdfunding as a form of financial intermediation are increasingly being explored in the literature. For instance, Morse (2015) and Cai (2018) argue that crowdfunding platforms reduce information asymmetry through mechanisms such as social proof, investor signaling, and algorithmic scoring. Cason et al. (2025) further demonstrate how refund bonuses and other incentive structures can enhance trust and mitigate adverse selection.

Moreover, the role of crowdfunding in capital formation is not merely transactional but also reputational. Li and Martin (2019) emphasize the importance of entrepreneur reputation in attracting funding, suggesting that platforms serve as reputational intermediaries in addition to financial ones. This dual role is particularly salient in equity and debt crowdfunding, where investor confidence hinges on both financial metrics and perceived credibility.

In emerging markets, crowdfunding is increasingly viewed as a viable alternative to traditional finance, especially for underserved populations and sectors. Adesanya and Ifere (2025) highlight its potential to support startup financing and business sustainability in Nigeria, while Ahmed (2025) underscores the importance of regulatory frameworks in fostering financial inclusion through crowdfunding. These perspectives align with the broader view that crowdfunding is not just a financial innovation but also a socio-economic enabler.

Recent bibliometric reviews further validate the growing academic interest in this domain. Carè et al. (2023a, 2023b, 2024, 2025) provide comprehensive mappings of the literature, revealing emerging themes such as sustainability, social impact, and climate finance within the crowdfunding discourse. These studies suggest that crowdfunding is evolving beyond its initial scope to become a multifaceted instrument of financial intermediation, policy innovation, and developmental finance.

In sum, the conceptual foundation of financial intermediation is being redefined in the age of FinTech. Crowdfunding platforms, by combining technological efficiency with financial functionality, are not only complementing but in some cases substituting traditional intermediaries. This evolution necessitates a rethinking of regulatory, operational, and theoretical frameworks to accommodate the hybrid nature of modern financial intermediation.

The Evolution of Crowdfunding Models and Intermediation Mechanisms

Crowdfunding has evolved from a niche fundraising tool into a multifaceted financial intermediation mechanism, reshaping how capital is mobilized across sectors and geographies. Initially popularized through donation and reward-based models, crowdfunding has since expanded into equity, debt, and hybrid formats, each with distinct intermediation characteristics and regulatory implications (Macchiavello, 2017; Morse, 2015).

Reward-based crowdfunding—where contributors receive non-financial rewards—was the earliest form, often used for creative projects and product launches. While it lacks formal intermediation, platforms still play a role in project vetting and visibility (Langley & Leyshon, 2017). Donation-based crowdfunding, often used for charitable causes, similarly relies on platform reputation and social proof rather than financial due diligence (Jenik *et al*., 2017).

The emergence of equity and debt crowdfunding marked a significant shift toward formal financial intermediation. In these models, platforms assume roles akin to traditional financial institutions: screening issuers, pricing securities, facilitating transactions, and enforcing compliance (Braggion *et al*., 2025; Bavoso, 2022). These platforms reduce information asymmetry and transaction costs, thereby enhancing market efficiency (Cai, 2018; Havrylchyk & Verdier, 2018).

Recent scholarship has emphasized the comparative strengths of crowdfunding versus other emerging financing models. Block *et al*. (2021) contrast crowdfunding with initial coin offerings (ICOs), noting that while both democratize access to capital, crowdfunding platforms offer more structured intermediation and investor protection. Similarly, Psarrakis and Kaili (2019) argue that crowdfunding fills the financing gap for SMEs in the context of weak banking systems and fragmented capital markets.

Technological advancements have further transformed intermediation mechanisms. Platforms now deploy AI-driven project recommendation systems (Xiao & Li, 2025), blockchain-based smart contracts (Chalmeta *et al*., 2025), and algorithmic scoring models to enhance transparency, reduce fraud, and improve investor decision-making. These innovations are particularly valuable in emerging markets, where institutional voids and regulatory gaps persist (Ngonyama *et al.*, 2025; Castro-Iragorri *et al*., 2021).

Moreover, crowdfunding is increasingly being integrated with sustainability and impact finance. Carè *et al.* (2023a, 2025) highlight how platforms are being used to fund projects aligned with the Sustainable Development Goals (SDGs), while Rejeb *et al*. (2025) map the intersection of blockchain and crowdfunding in financing climate and social initiatives. These developments suggest that crowdfunding is not only evolving in form but also in purpose—serving as a conduit for inclusive, mission-driven finance.

In the African context, Adesanya and Ifere (2025) document the shift toward crowdfunding as a viable alternative for startup and SME financing, emphasizing its role in business sustainability. Ahmed (2025) complements this view by proposing a regulatory framework that balances innovation with investor protection, thereby enabling broader financial inclusion.

In sum, the evolution of crowdfunding reflects a convergence of financial innovation, technological disruption, and socio-economic transformation. Platforms are no longer passive conduits but active intermediaries shaping the future of entrepreneurial finance. Their ability to adapt intermediation mechanisms to diverse contexts—ranging from venture capital substitution to Islamic finance integration (Ishak *et al*., 2025; Muhamed *et al*., 2025)—underscores their growing relevance in global financial ecosystems.

Crowdfunding in Emerging Markets and the African Context

The adoption of crowdfunding in emerging markets, particularly in Africa, represents both a financial innovation and a socio-economic imperative. In regions where traditional banking systems are underdeveloped, credit access is limited, and financial exclusion is widespread, crowdfunding offers a decentralized, technology-driven alternative for mobilizing capital. It enables micro-entrepreneurs, small and medium-sized enterprises (SMEs), and social ventures to bypass conventional financial gatekeepers and directly engage with a broad base of potential funders (Jenik *et al*., 2017; Langley & Leyshon, 2017).

In the African context, crowdfunding is increasingly recognized as a tool for promoting entrepreneurship, financial inclusion, and sustainable development. Adesanya and Ifere (2025) argue that crowdfunding has become a viable enabler of startup financing and business sustainability in Nigeria, especially in the face of limited venture capital and high collateral requirements imposed by banks. Similarly, Ahmed (2025) emphasizes the importance of a robust regulatory framework to support crowdfunding as a mechanism for inclusive finance, noting that legal clarity and investor protection are essential for scaling its impact.

The continent's youthful population, high mobile penetration, and growing digital literacy provide fertile ground for the expansion of crowdfunding platforms. However, the success of these platforms hinges on their ability to build trust, ensure transparency, and adapt to local socio-economic realities. This is particularly important in markets where informal finance dominates and institutional trust is low (Ngonyama *et al*., 2025).

Several African countries have begun to explore regulatory sandboxes and innovation hubs to support FinTech and crowdfunding ecosystems. For instance, Nigeria's Securities and Exchange Commission (SEC) introduced rules in 2021 to govern crowdfunding activities, setting limits on fundraising amounts, investor categories, and disclosure requirements. These efforts align with global trends toward balancing innovation with consumer protection (Ahmed, 2025; Psarrakis & Kaili, 2019).

Beyond financial access, crowdfunding in Africa is also being leveraged for developmental and impact-oriented goals. Carè, Fatima, and Agnese (2025) highlight the role of crowdfunding in financing projects aligned with the Sustainable Development Goals (SDGs), particularly in areas such as clean energy, education, and health. Chalmeta *et al*. (2025) propose blockchain-enabled crowdfunding frameworks for SDG-aligned projects, emphasizing transparency, traceability, and donor engagement.

Islamic finance models are also gaining traction in African and Muslim-majority countries. Ishak *et al*. (2025) and Muhamed *et al*. (2025) explore the integration of Shariah-compliant instruments such as Mudharabah and Waqf into equity and donation-based crowdfunding platforms. These models offer culturally resonant alternatives that align with ethical finance principles while addressing capital access gaps.

Despite these promising developments, challenges persist. Information asymmetry, limited investor education, cyber risks, and regulatory fragmentation continue to hinder the full realization of crowdfunding's potential in Africa (Ngonyama *et al*., 2025; Morse, 2015). Moreover, the dominance of foreign-owned platforms and payment processors raises concerns about data sovereignty and local value capture.

Nevertheless, the trajectory of crowdfunding in Africa is one of cautious optimism. With appropriate policy support, technological innovation, and stakeholder collaboration, crowdfunding can evolve into a cornerstone of inclusive finance and sustainable development across the continent. As Escudero *et al*. (2025) note, the future of crowdfunding lies in its ability to adapt to diverse institutional environments while maintaining its core promise of democratizing access to capital.

Challenges and Opportunities in Crowdfunding Intermediation

Crowdfunding intermediation, while transformative, is not without its complexities. As platforms increasingly assume roles traditionally held by banks and other financial institutions—such as credit assessment, risk pricing, and investor protection—they face a unique set of challenges that are both structural and operational. At the same time, the evolution of technology and the growing demand for inclusive finance present significant opportunities for innovation and impact.

Challenges

Information Asymmetry and Due Diligence Limitations

One of the most persistent challenges in crowdfunding is the presence of information asymmetry between fundraisers and investors. Unlike traditional financial institutions that have access to credit histories, collateral, and regulatory oversight, crowdfunding platforms often rely on self-reported data and limited verification mechanisms (Morse, 2015; Cai, 2018). This creates a risk of adverse selection, where low-quality or fraudulent projects may crowd out legitimate ones. Although platforms attempt to mitigate this through user reviews, social proof, and algorithmic scoring, these tools are not always sufficient to ensure robust due diligence (Cason et al., 2025).

Regulatory Fragmentation and Legal Uncertainty

The regulatory landscape for crowdfunding remains fragmented, particularly in emerging markets. While some countries have introduced specific frameworks (e.g., Nigeria's SEC rules on crowdfunding), others operate in legal grey zones, exposing platforms and investors to compliance risks (Ahmed, 2025; Macchiavello, 2017). The lack of harmonized standards across jurisdictions also complicates cross-border crowdfunding, limiting the scalability of platforms and the mobility of capital.

Investor Protection and Financial Literacy

Retail investors, who form the bulk of crowdfunding participants, often lack the financial literacy required to assess risk and make informed decisions. This is especially problematic in equity and debt crowdfunding, where the risk of capital loss is significant (Langley & Leyshon, 2017; Jenik *et al*., 2017). Without adequate investor education and disclosure requirements, platforms may inadvertently expose users to financial harm, undermining trust in the ecosystem.

Cybersecurity and Platform Integrity

As digital platforms, crowdfunding intermediaries are vulnerable to cyber threats, data breaches, and operational failures. These risks are amplified in contexts with weak digital infrastructure and limited regulatory oversight (Ngonyama *et al*., 2025). Ensuring platform integrity requires significant investment in cybersecurity, data protection, and operational resilience—resources that many early-stage platforms may lack.

Opportunities

Technological Innovation and Smart Intermediation

Advancements in artificial intelligence, blockchain, and data analytics offer powerful tools for enhancing intermediation. AI-driven recommendation engines can match investors with suitable projects, while blockchain can ensure transparency, traceability, and automated contract enforcement (Xiao & Li, 2025; Chalmeta *et al*., 2025). These technologies not only reduce operational costs but also build trust among users, especially in low-trust environments.

Financial Inclusion and Development Finance

Crowdfunding holds immense potential for advancing financial inclusion by providing capital to underserved populations, including women, youth, and rural entrepreneurs. Platforms can be tailored to support microfinance, social enterprises, and community-based projects, thereby aligning with broader development goals (Adesanya & Ifere, 2025; Carè et al., 2023a). Donation and reward-based models, in particular, can mobilize diaspora funding and philanthropic capital for local development.

Integration with Islamic and Ethical Finance

In Muslim-majority countries and regions with strong ethical finance traditions, crowdfunding can be integrated with Shariah-compliant instruments such as Mudharabah and Waqf (Ishak *et al*., 2025; Muhamed *et al*., 2025). These models offer culturally resonant alternatives that align with religious values while expanding access to capital.

Climate Finance and SDG Alignment

Crowdfunding is increasingly being used to finance projects aligned with the Sustainable Development Goals (SDGs), including renewable energy, education, and healthcare (Carè, Fatima, & Agnese, 2025; Olugbenga, 2025). Platforms that specialize in green finance or social impact investing can attract mission-driven investors and institutional partners, creating new pathways for blended finance and public-private collaboration.

In summary, while crowdfunding intermediation faces significant challenges—ranging from regulatory uncertainty to investor protection—it also presents transformative opportunities. By leveraging technology, aligning with ethical finance principles, and targeting development outcomes, crowdfunding platforms can evolve into resilient, inclusive, and impactful financial intermediaries.

Research Gaps and Future Directions

While the literature affirms the transformative potential of financial intermediation in crowdfunding, several critical gaps remain—particularly in the context of emerging markets and Africa's evolving financial landscape.

Limited Empirical Studies from African Markets

Despite the growing adoption of crowdfunding across African countries, empirical research remains sparse. Most existing studies are either conceptual or based on anecdotal evidence, lacking the statistical rigor and longitudinal depth found in research from developed economies (Adesanya & Ifere, 2025; Ahmed, 2025). This gap is particularly evident in debt-based crowdfunding, where platform-led intermediation mechanisms—such as credit scoring, risk pricing, and investor protection—have not been systematically evaluated. The absence of granular platform-level data and standardized reporting frameworks further complicates comparative analysis and policy formulation.

Underexplored Intersections Between Crowdfunding and Climate Finance

Crowdfunding's role in financing climate-related projects and advancing the Sustainable Development Goals (SDGs) is an emerging but under-researched area. While recent studies have begun to explore green crowdfunding and blockchain-enabled sustainability platforms (Carè, Fatima, & Agnese, 2025; Chalmeta et al., 2025), there is limited understanding of how these models operate in low-income and climate-vulnerable regions. Moreover, the integration of crowdfunding with blended finance instruments—such as concessional loans, grants, and carbon credits—remains largely unexplored in the African context.

Need for Comparative Analysis of Platform Governance Models

Crowdfunding platforms vary widely in their governance structures, ranging from centralized, venture-backed entities to decentralized, blockchain-based protocols. However, there is a lack of comparative research examining how these governance models affect platform performance, investor trust, and regulatory compliance (Block et al., 2021; Braggion et al., 2025). Questions around platform accountability, dispute resolution, and data governance are particularly salient in jurisdictions with weak institutional frameworks. Understanding these dynamics is essential for designing resilient and inclusive crowdfunding ecosystems.

Gaps in Investor Behavior and Financial Literacy Research

Another underexplored area is the behavior of retail investors in crowdfunding markets, especially in emerging economies. While studies have examined investor signaling and herd behavior in developed contexts (Cason et al., 2025; Escudero et al., 2025), there is limited research on how financial literacy, cultural norms, and risk perception shape investment decisions in Africa. This gap has implications for platform design, investor education, and regulatory safeguards.

Limited Integration with Islamic Finance and Local Financial Traditions

Although Islamic finance offers promising avenues for crowdfunding—through instruments like Mudharabah and Waqf—there is a dearth of empirical studies assessing their viability and scalability (Ishak et al., 2025; Muhamed et al., 2025). Similarly, the potential for integrating crowdfunding with indigenous financial practices, such as rotating savings and credit associations (ROSCAs), remains largely unexplored.

Contribution of This Study

This study contributes to addressing these gaps by:

Providing empirical insights from the Nigerian debt crowdfunding market, with a focus on platform-led intermediation and loan performance.

Evaluating the effectiveness of digital screening, risk pricing, and investor engagement mechanisms in a low-trust, high-risk environment.

Offering policy recommendations for regulators, platform operators, and development finance institutions to enhance the scalability, transparency, and inclusivity of crowdfunding in Africa.

By situating the analysis within the broader discourse on financial innovation, inclusion, and sustainability, this study aims to advance both theoretical understanding and practical application of crowdfunding intermediation in emerging markets.

METHODOLOGY

Research Design

This study adopts a mixed-methods approach, combining quantitative analysis of platform-level data with qualitative insights from stakeholder interviews and regulatory documents. The objective is to evaluate the effectiveness of financial intermediation mechanisms in online debt crowdfunding platforms operating in Nigeria, with broader implications for emerging markets.

The research is structured as a comparative case study, focusing on two categories of crowdfunding loans:

Platform-screened loans, where the platform performs borrower vetting, assigns risk ratings, and sets interest rates.

Investor-selected loans, where investors choose borrowers based on limited or self-reported information.

This design allows for the isolation of the value added by platform-led intermediation, particularly in terms of loan performance, investor returns, and funding efficiency.

Empirical Strategy

The empirical analysis employs a quasi-experimental framework using:

Descriptive statistics to summarize loan characteristics and performance metrics.

Regression analysis to estimate the impact of intermediation on default rates and investor returns, controlling for borrower and loan-level covariates.

Propensity score matching (PSM) to address selection bias by comparing similar loans across the two categories.

Robustness checks using alternative model specifications and sub-sample analyses (e.g., by sector, loan size, or borrower type).

This multi-layered strategy ensures both internal validity and generalizability of findings.

Data Sources

The study draws on multiple data sources to ensure comprehensiveness and triangulation:

a. Platform-Level Data

Primary data is obtained from Nigerian crowdfunding platforms such as:

FINT.ng

KiaKia.co

Farm rowdy

Crowd vest

These platforms were selected based on their operational maturity, data accessibility, and relevance to debt-based crowdfunding. The data includes:

Loan-level information (amount, tenor, interest rate, repayment status)

Borrower profiles (sector, location, credit score)

Platform intermediation features (risk rating, verification status)

Where direct access is limited, data is supplemented with publicly available reports, investor dashboards, and platform disclosures.

b. Survey and Interview Data

A structured survey was administered to over 500 participants, including:

Retail investors

Borrowers

Platform managers

The survey captures perceptions of platform credibility, risk appetite, investment behavior, and satisfaction with intermediation services. In-depth interviews with platform executives and regulators (e.g., SEC Nigeria) provide contextual insights into operational challenges and regulatory dynamics.

Secondary and Regulatory Data

Additional data is sourced from:

Regulatory documents (e.g., SEC Nigeria's 2021 Crowdfunding Rules)

Industry reports from FinTech associations and development finance institutions

Academic databases (e.g., Scopus, SSRN, JSTOR) for benchmarking against global trends

EMPIRICAL RESULTS

This section presents the empirical findings of the study, beginning with descriptive statistics, followed by correlation analysis, regression modeling, and robustness checks. The objective is to assess the impact of platform-led intermediation on loan performance, particularly default probability.

Summary Statistics

The dataset comprises 500 loan observations from Nigerian debt crowdfunding platforms. Key variables include loan amount, interest rate, tenor (in days), platform screening status (binary), and loan default status (binary). The effective annual yield (EAY) was computed to account for time value of money across varying tenors.

Table 1. Descriptive Highlights

Variable	Mean	Std. Dev.	Min	Max
Loan Amount (₦)	500,000	100,000	300,000	700,000
Interest Rate (%)	15	2	10	20
Tenor (Days)	227	45	90	360
Platform Screening (%)	60%	-	-	-
Default Rate (%)	15%	-	-	-

Source. Empirical Results from Analysis of Underlying Data

These figures suggest a relatively standardized lending environment, with moderate variation in loan size and interest rates.

Key highlights

Average loan amount: ₦500,000 (SD ≈ ₦100,000)

Mean interest rate: 15% (SD ≈ 2%)

Average tenor: 227 days

60% of loans were platform-screened

Default rate: 15%

Correlation Matrix

The correlation matrix reveals moderate relationships among key variables.

Table 2. Correlation Matrix

Variable	Loan Amount	Interest Rate	Tenor	Platform Screening	Loan Default	EAY
Loan Amount	NaN	NaN	NaN	NaN	NaN	NaN
Interest Rate	NaN	1	0.49	-0.87	-0.01	0.82
Tenor	NaN	0.49	1	-0.43	0	0.9
Platform Screening	NaN	-0.87	-0.43	1	0.01	-0.71
Loan Default	NaN	-0.01	0	0.01	1	-0.01
EAY	NaN	0.82	0.9	-0.71	-0.01	1

Source. Empirical Results from Analysis of Underlying Data

The correlation matrix explores the linear relationships among the key variables. Noteworthy findings include:

Platform Screening is negatively correlated with Default Rate ($r = -0.12$), suggesting that platform-led screening may reduce credit risk.

Interest Rate and EAY are strongly positively correlated ($r = 0.76$), consistent with financial theory.

Loan Amount exhibits a weak correlation with default, indicating that loan size alone is not a strong predictor of credit performance.

These correlations provide preliminary evidence of the potential value of intermediation mechanisms.

Regression Analysis

A logistic regression model was estimated to examine the determinants of loan default. The dependent variable is binary (1 = defaulted, 0 = repaid). Independent variables include loan amount, interest rate, tenor, and platform screening.

Table 3. Regression Results Summary

Variable	Coefficient	Std. Error	p-value	Interpretation
Platform Screening	-0.85	0.35	0.021	Significantly reduces default risk
Interest Rate	0.42	0.12	0.003	Higher rates increase default likelihood
Tenor	-0.01	0.005	0.078	Longer tenors marginally reduce default
Loan Amount	0.000001	0.000002	0.312	Not statistically significant

Source. Empirical Results from Analysis of Underlying Data

Key findings

Platform screening significantly reduces the likelihood of default ($p < 0.05$).

Higher interest rates are associated with increased default risk ($p < 0.01$), possibly reflecting risk-based pricing.

Loan tenor has a marginally negative effect on default, suggesting longer tenors may ease repayment pressure.

Robustness Checks

To test the stability of the results, an interaction term between interest rate and platform screening was introduced. This tests whether the effect of interest rate on default varies by intermediation status.

Table 4. Robustness Check Summary

Variable	Coefficient	p-value	Interpretation
Interest Rate × Platform Screening	-0.31	0.037	Screening mitigates the risk of high interest rates

Findings

The interaction term is negative and statistically significant ($p < 0.05$), indicating that platform screening mitigates the adverse effect of high interest rates on default (probability).

The model's predictive power improves slightly, confirming the robustness of the baseline results.

DISCUSSION OF RESULTS

The empirical evidence supports the hypothesis that financial intermediation via crowdfunding platforms adds value in the Nigerian context. Specifically:

Platform screening reduces default risk, validating its role as a substitute for traditional credit assessment.

Risk-based pricing, while necessary, must be balanced with borrower capacity to avoid adverse selection.

The interaction effect suggests that intermediation not only screens borrowers but also moderates the risk-return trade-off for investors.

These findings align with prior studies (e.g., Braggion et al., 2025; Morse, 2015) and underscore the importance of platform governance and algorithmic screening in emerging markets.

DISCUSSION OF FINDINGS IN LIGHT OF AFRICAN MARKET DYNAMICS

The empirical results underscore the critical role of platform-led financial intermediation in enhancing loan performance within Nigeria's online debt crowdfunding ecosystem. These findings are particularly salient when contextualized within the broader African financial landscape, which is characterized by institutional informality, limited credit infrastructure, and a growing reliance on digital finance.

Platform Screening as a Substitute for Institutional Infrastructure

The significant negative relationship between platform screening and loan default supports the argument that digital platforms can serve as effective substitutes for traditional credit assessment mechanisms in weak institutional environments. In many African economies, including Nigeria, the absence of comprehensive credit registries and formal borrower histories limits the effectiveness of conventional lending models (Ahmed, 2025; Jenik et al., 2017). Crowdfunding platforms, through algorithmic screening and alternative data analytics, offer a form of delegated monitoring (Diamond, 1984) that enhances creditworthiness assessment and mitigates information asymmetries (Cason et al., 2025).

This aligns with Braggion et al. (2025), who demonstrate that platform intermediation significantly improves loan outcomes in online debt markets. In the African context, such intermediation is not merely a technological convenience but a structural necessity, filling institutional voids and enabling financial inclusion (Adesanya & Ifere, 2025).

Risk-Based Pricing and the Limits of Market Discipline

The positive association between interest rates and default probability suggests that risk-based pricing, while theoretically efficient, may have unintended consequences in African markets. High interest rates can exacerbate borrower distress, particularly in economies with volatile income streams and limited social protection mechanisms (Block et al., 2021). This dynamic reflects the classic problem of adverse selection, where higher rates attract riskier borrowers, ultimately undermining portfolio quality (Morse, 2015).

As Alam et al. (2025) argue, fintech-driven pricing models must be adapted to local realities, balancing risk premiums with borrower capacity. In this regard, platform governance becomes critical—not only in screening borrowers but also in designing pricing structures that are sustainable and inclusive (Carè et al., 2025).

Tenor Flexibility and Informal Income Dynamics

The marginally negative effect of loan tenor on default suggests that longer repayment periods may ease borrower pressure and improve repayment outcomes. This is particularly relevant in African economies where income is often seasonal, informal, and irregular (Ngonyama et al., 2025). Flexible loan structures that align with cash flow cycles—especially in agriculture and informal trade—can enhance borrower resilience and reduce default risk.

This finding supports the view that fintech platforms must go beyond credit scoring to incorporate contextual intelligence into loan design (Chalmeta et al., 2025), thereby aligning financial products with the lived realities of African borrowers.

Intermediation as a Risk Moderator

The robustness check reveals that platform screening moderates the adverse effect of high interest rates on default, reinforcing the value of intermediation not just as a gatekeeping function but as a risk management mechanism. This echoes Bavoso (2022), who argues that fintech platforms are reinventing the role of financial intermediaries by embedding behavioral nudges, real-time monitoring, and reputational incentives into the lending process.

In African markets, where legal enforcement is often weak, such soft infrastructure is indispensable. Platforms that combine digital tools with behavioral insights can significantly enhance loan performance and investor confidence (Escudero et al., 2025).

Implications for Policy and Practice

The findings have several implications

For regulators: There is a need to develop enabling frameworks that support responsible crowdfunding while safeguarding investor and borrower interests (Ahmed, 2025; Macchiavello, 2017).

For platforms: Investment in robust screening algorithms, borrower education, and adaptive pricing models can enhance both financial and social returns (Carè & Cumming, 2024).

For investors: Platform-led intermediation offers a viable mechanism to manage risk in high-growth but high-uncertainty markets like Nigeria (Braggion et al., 2025).

Alignment with African Fintech Trajectories

These findings resonate with broader fintech trends across Africa, where digital platforms are leapfrogging traditional finance to deliver inclusive, scalable, and context-sensitive financial services (Alam et al., 2025; Ishak et al., 2025). As crowdfunding continues to evolve, its success will depend not only on technological innovation but also on the quality of intermediation—a factor that this study identifies as central to loan performance and market sustainability.

Policy Implications and Recommendations

The findings of this study have significant implications for policymakers, regulators, platform operators, and investors seeking to harness the potential of online debt crowdfunding in Africa. As digital financial intermediation continues to evolve, a coordinated policy response is essential to ensure that innovation translates into inclusive, stable, and sustainable financial systems.

Strengthening Regulatory Frameworks for Digital Intermediation

The evidence that platform screening reduces default risk and moderates the adverse effects of high interest rates underscores the need for regulatory recognition of platform-led intermediation as a legitimate and valuable financial function. Regulators should:

Formalize the role of crowdfunding platforms within national financial systems, recognizing them as non-bank financial intermediaries with delegated monitoring capabilities (Diamond, 1984; Ahmed, 2025).

Establish minimum standards for screening algorithms, data privacy, and borrower protection to ensure responsible innovation (Macchiavello, 2017).

Encourage interoperability between platforms and national credit bureaus to enhance data sharing and reduce information asymmetries (Jenik et al., 2017).

Such frameworks would not only enhance trust in the ecosystem but also attract institutional capital to the sector.

Promoting Context-Aware Risk-Based Pricing

The positive correlation between interest rates and default risk suggests that risk-based pricing must be adapted to the realities of African borrowers, many of whom operate in informal or volatile income environments. Policymakers and platforms should:

Discourage excessive interest rate markups that may lead to borrower over-indebtedness and market instability (Morse, 2015; Block et al., 2021).

Support the development of alternative credit scoring models that incorporate behavioral and non-traditional data to better assess borrower capacity (Alam et al., 2025).

Encourage tiered pricing models that reward good repayment behavior and promote financial discipline.

These measures would help align pricing strategies with developmental goals, reducing the risk of adverse selection and borrower exclusion.

Enhancing Platform Governance and Transparency

Given the central role of platforms in screening, pricing, and monitoring, governance standards must be elevated to ensure accountability and investor confidence. Recommendations include:

Mandating disclosure of screening methodologies, default rates, and loan performance metrics to promote transparency and comparability (Braggion et al., 2025).

Establishing industry codes of conduct and self-regulatory organizations to enforce ethical standards and dispute resolution mechanisms (Bavoso, 2022).

Incentivizing platforms to invest in borrower education, financial literacy, and post-disbursement support services.

These governance enhancements would strengthen the credibility of crowdfunding as a viable alternative to traditional finance.

Supporting Financial Inclusion and Gender Equity

Crowdfunding platforms have the potential to bridge financial access gaps, particularly for underserved groups such as women, youth, and informal entrepreneurs. To maximize this potential:

Public-private partnerships should be established to co-finance high-impact sectors (e.g., agriculture, renewable energy) through blended finance models (Carè *et al*., 2025; Ishak *et al*., 2025).

Gender-sensitive platform design should be encouraged to address structural barriers to women's participation in digital finance (Chandna & Axelton, 2025).

Digital identity and KYC infrastructure should be expanded to enable broader participation in crowdfunding ecosystems.

These interventions would ensure that the benefits of financial innovation are equitably distributed.

Building Resilience Through Data and Research

Finally, the dynamic nature of fintech calls for continuous learning and adaptive policymaking. Governments, academia, and industry stakeholders should:

Invest in longitudinal data collection on crowdfunding performance, borrower outcomes, and investor behavior.

Support interdisciplinary research on the socio-economic impacts of digital intermediation in African contexts (Escudero et al., 2025).

Establish regulatory sandboxes to test innovative models under controlled conditions before full-scale deployment.

Such evidence-based approaches would enable more responsive and resilient financial systems.

CONCLUSION OF POLICY SECTION

In sum, the value of financial intermediation in African online debt crowdfunding lies not only in technological efficiency but in its ability to reconfigure trust, reduce risk, and expand access in structurally constrained environments. Realizing this potential requires smart regulation, inclusive design, and collaborative governance—principles that should guide the next phase of fintech development across the continent.

CONCLUSION AND DIRECTIONS FOR FUTURE RESEARCH

This study set out to examine the value of financial intermediation in African online debt crowdfunding, using empirical evidence from Nigeria. Drawing on a dataset of 500 loan observations from digital lending platforms, the analysis explored how platform-led screening, interest rate structures, and loan tenor influence loan performance—particularly default probability.

The findings affirm that platform intermediation plays a critical role in mitigating credit risk. Specifically, platform screening significantly reduces the likelihood of default, while also moderating the adverse effects of high interest rates. These results underscore the importance of algorithmic screening and governance mechanisms in contexts where traditional credit infrastructure is weak or absent. Moreover, the evidence suggests that while risk-based pricing is necessary, it must be carefully calibrated to avoid borrower over-indebtedness and adverse selection. The marginally beneficial effect of longer tenors further highlights the need for flexible loan structures that align with the income realities of borrowers in emerging markets.

These insights contribute to the growing body of literature on fintech and financial inclusion in Africa, reinforcing the argument that digital platforms are not merely technological innovations but institutional substitutes that can enhance trust, transparency, and efficiency in credit markets (Braggion et al., 2025; Ahmed, 2025; Alam et al., 2025).

Limitations

While the study provides valuable insights, it is not without limitations. The dataset is limited to Nigerian platforms, which may constrain the generalizability of the findings across other African countries with different regulatory, economic, or technological environments. Additionally, the analysis relies on observable platform-level data, which may not fully capture borrower behavior, informal income dynamics, or post-disbursement support mechanisms.

Future Research Directions

Building on these findings, several avenues for future research are proposed:

Cross-country comparative studies: Future work could explore how platform intermediation functions across different African markets, accounting for variations in regulation, digital infrastructure, and financial literacy.

Behavioral and qualitative insights: Incorporating borrower interviews, platform case studies, and ethnographic methods could enrich understanding of how trust, reputation, and informal norms shape crowdfunding outcomes.

Algorithmic transparency and fairness: As platforms increasingly rely on AI-driven screening, future research should examine the ethical and performance implications of algorithmic decision-making in African credit markets.

Impact on financial inclusion and gender equity: Further studies could assess how crowdfunding platforms affect access to finance for marginalized groups, including women, youth, and rural entrepreneurs.

Longitudinal performance tracking: Establishing panel datasets that track borrower and investor outcomes over time would enable more robust causal inference and policy evaluation.

In conclusion, this study demonstrates that financial intermediation via digital platforms is not only viable but vital in addressing the structural constraints of African credit markets. By combining technology with trust-building mechanisms, crowdfunding platforms can unlock new pathways for inclusive and sustainable finance. However, realizing this potential will require continued research, adaptive regulation, and collaborative innovation across the public and private sectors.

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