World Journal of Advanced Research and Reviews
eISSN: 2581-9615 CODEN (USA): WJARAI
Cross Ref DOI: 10.30574/wjarr
Journal homepage: https://wjarr.com/

(Research Article)

Check for updates

Micro credit scheme and rural development in Osun State, Nigeria

Olanrewaju Victor Sadibo [1,*] and Bukola Josephine Mogaji [2]

[1] Department of Securities and Investment management, Federal University of Technology Akure, Ondo State, Nigeria.
[2] Department of Project Management, Federal University of Technology Akure, Ondo State, Nigeria.

World Journal of Advanced Research and Reviews, 2025, 28(02), 1484–1490

Publication history: Received on 04 October 2025; revised on 11 November 2025; accepted on 14 November 2025

Article DOI: https://doi.org/10.30574/wjarr.2025.28.2.3825

Abstract

Many people agree that microcredit is a useful instrument for advancing financial inclusion and rural economic growth. The effect of microfinance bank loans on rural development in Osun State, Nigeria, is investigated in this study. The study's foundation is the Sustainable Livelihoods Approach (SLA), which highlights how financial access may raise the standard of living for those with low incomes. A case study methodology was used to deliver structured questionnaires to 150 respondents. Chi-square statistical techniques were used to analyze 100 valid responses.

Results show that microcredit greatly boosts general economic activity, revenue production, and business expansion in rural areas. Access to microcredit and rural economic development are strongly positively correlated, according to the results of the chi-square test (χ^2 = 34.738, p = 0.002). More than 90% of those surveyed agreed that microcredit enhanced their financial security and business performance. Notwithstanding its advantages, problems including poor financial literacy and accessibility limitations still exist. In order to address more general poverty-related concerns, the research suggests performing thorough livelihood economic evaluations and offering incentives for microcredit programs to promote savings and investment. According to the findings, microfinance institutions play a critical role in helping farmers, small business owners, and entrepreneurs in rural areas achieve sustainable economic growth.

Keywords: Micro-Credit; Unemployment; Employment; Economic Development; Rural Area

1. Introduction

In order to improve financial intermediation and inclusion in rural communities and fully integrate active, impoverished Nigerians into the financial system, the Federal Government of Nigeria implemented a number of different plans through the private sector-led banking industry. This resulted in the 1982 Rural Banking Program, which mandated that all commercial banks open a specific number of rural branches each year and prioritise lending and advances to small companies and agriculture. The Central Bank of Nigeria (2022) introduced a Microfinance Policy Framework in December to help entrepreneurs and low-income families advance to budgetary administrations that need to expand and modernise their operations in order to support economic development.

All-inclusive development, however, cannot be implemented without enhancing these social segments' access to sound financial services. The term "microfinance" refers to loans, debt, insurance, cash transfers, and other auxiliary non-financial items that are targeted at low-income consumers. Therefore, the features that set microfinance apart from other traditional financial products are the simplicity of microfinance operations, the lack of collateral, and trivial loans and savings. According to Adeniyi and Werigbelegha (2025), Ajah, Asuquo, Agbachom, Ettah, and Eyo (2025), and Edem and Ozigbo (2024), the Nigerian government has established a number of financial institutions and programs as part of its public policy efforts to increase lower-income earners' active access to microcredit. These include the Nigeria Agricultural, Co-operative and Rural Development Bank (1973), which was tasked with providing agricultural and

* Corresponding author: O.V Sadibo; E-mail:ovsadibo@futa.edu.ng

rural-based loans and credits in the country; the Agricultural Credit Guarantee Scheme Fund (1978), which was established to alleviate various forms of agricultural risk that firms are xposed to; and the People's Bank (1989). State initiatives in this area include the National Economic Recovery Fund (NERFUND) and different stages of the Small and Medium-Sized Enterprises Scheme (SMEs).

2. Problem Statement

Prior to the introduction of Microfinance Banks (MFBs) under the Microfinance Policy, individuals who did not receive appropriate support from traditional financial institutions frequently relied on non-governmental microfinancial organisations like as credit unions, moneylenders, friends, and relatives. According to Ojeamwonyi and Obayagbona (2024), the government continues to have considerable issues in establishing sufficient work opportunities for its rising population, with rapid population growth, unemployment, and young unemployment remaining major concerns. Against this context, this study looks into the impact of microfinance bank loans on rural development in Osun State, with a special emphasis on measuring the accessibility of microcredit loans and suggesting measures to increase their availability in the study region.

3. Research Hypothesis

H_0: Micro-credit scheme has no significant effect on rural communities/development in Osun State.

4. Literature review

4.1. Conceptual issues

Microcredit, also known as microfinance, is the process of having control over the use of finances, commodities, and services at the present time in exchange for a promise to pay at a specific date, usually in the future (Miller, 1977). The terms are frequently used interchangeably. Nonetheless, authors and academics have attempted to distinguish between these two concepts in recent years. The provision of loans, savings, insurance, fund transfers, and other financial services targeted at the impoverished and low-income individuals is known as microfinance, according to Ehigiamusoe (2022). Considering that the typical loan amount varies by nation, microcredit refers to the granting of small loans. According to Charisthonenko (2023), microcredit is the provision of small loans to low-income microentrepreneurs who are not qualified for a loan from a conservative bank that is responsible for providing loans to businesses that generate revenue. The three characteristics that set microcredit apart from other financial services are its greater flexibility and informality in meeting the unique needs of rural areas. They are the smallest loans made or funds gathered; they are simple to operate and lack collateral based on assets.

Organisations that provide little amounts of credit and other insignificant financial services to those without access to established banking systems are known as microfinance institutions (Schicks, 2024). A broader variety of organisations committed to providing services, including non-governmental organisations, credit unions, private commercial banks, non-banking financial institutions, and specialised state-owned financial institutions, are referred to as microfinance institutions (Mawa, 2025).

4.2. Theoretical reviews

The Sustainable Livelihood Approach (SLA) provides a strong theoretical foundation for understanding the connection between poverty reduction, microfinance, and rural development. According to Farrington et al. (1999), the SLA serves as a design tool among other instruments of rural development aimed at improving the well-being of the poor through sustainable means. Similarly, Cahn (2002) describes the SLA as a comprehensive way of thinking that supports project planning, improvement, evaluation, and development. The approach is deeply people-centered, focusing on human empowerment and capacity building as a means of sustaining livelihoods and enhancing quality of life. It emphasizes that poverty must be understood from the perspective of those affected and should incorporate multiple dimensions such as economic, social, and environmental that contributes to vulnerability and deprivation.

The SLA highlights the importance of understanding people's needs, priorities, and the multiple ways in which interventions directly and indirectly affect their livelihoods. This framework helps policymakers and development practitioners, including microfinance institutions, to critically reflect on how their programs influence the lives of the poor and to identify opportunities for improving their impacts. According to Carney (1998), Hussein (2002), Farrington (1999), and the Institute of Development Studies (2009), the SLA serves as both a conceptual framework for understanding the complexity of poverty and a guiding principle for implementing actions aimed at alleviating it. The approach positions people most especially the poor at the center of a web of interrelated factors that enable them to build sustainable livelihoods for themselves and their families.

The framework acknowledges that individuals rely on a range of assets and capabilities, including natural resources, technology, skills, health, education, and social networks, to pursue livelihood strategies. Success in these strategies depends not only on these assets but also on vulnerability factors such as shocks, trends, and seasonality, as well as the political, institutional, and power dynamics that shape access to resources. The SLA helps identify both constraints and opportunities encountered by people, reflecting their own perceptions and experiences, and then provides insights into how to overcome challenges or leverage opportunities. It is flexible and adaptive rather than prescriptive which serves as a dynamic analytical tool that can be applied to diverse contexts and projects of different scales.

The approach places significant emphasis on the influence of policies and institutional structures on people's livelihoods, advocating participatory and inclusive development strategies. By placing people at the core of development, the SLA aligns with the principles of empowerment, sustainability, and inclusion—objectives that are consistent with the mission of microfinance in expanding access to financial services for the poor. Recent studies, such as Lusinga-Machikicho and Mutanana (2022), Pasgaard and Fold (2024), and Syakirotin et al. (2025), reaffirm that the SLA remains an effective theoretical lens for assessing socioeconomic outcomes and guiding inclusive rural development in contemporary contexts. Therefore, this study adopts the Sustainable Livelihood Approach as its theoretical foundation, as it provides a people-centered framework for understanding how microfinance initiatives can promote sustainable development and poverty alleviation.

4.3. Empirical review

The majority of studies on microfinance to date are methodologically weak and lack sufficient data because it is challenging to determine the trustworthiness of estimates. Hossain, Mia, and Dalla Pellegrina (2024) tried to determine whether or not the client was involved in economic opportunity and whether there were effects on the client in terms of return to capital, effect on capital stock, effects on profit, effect on fixed asset investment, effects on income, expenditure, and asset accumulation. However, this study did not discover any evidence that microfinance had a significant impact on women's empowerment or other aspects of society. Instead, it suggested that micro-credit makes some people healthier while others make others healthier.

Nevertheless, there is no way to determine or assess whether microfinance institutions achieve their social objectives; as a result, they frequently focus on easily measurable financial outcomes. Since many institutions operate under a kind of double bottom line, financial objectives for sustainability must be accomplished before the microfinance institutions can even start investigating whether their social objectives are being realised. It was suggested that this double bottom line would result in a trade-off between each institution's financial and social objectives **(**Hussain and Ahmed, 2023**).**

To close this gap, researchers have attempted to determine whether there have been any "spatial benefits" from the microfinance institution. A number of studies emphasized the manner in which loan funds were utilized by borrowers. For example, Mata, Shah, Sohail, and Correira (2023) investigated the possibility for an individual to start a business with their loan and identified two important loan usage dimensions for additional research: investing in income-generating opportunities and spending on durables as opposed to non-durables. Sufficient spending on items that will only be used once highlights the same issue as lending to people who are already impoverished. People are less likely to spend money on a business and then increase their future income if they are still trying to meet their basic necessities.

Second, due to criticism that microfinance fails to reach the poorest of the poor, most research on the effectiveness of microfinance also aims to determine whether or not loans are reaching the target population. Sarkodie and Maloma (2025) investigated whether microfinance institutions are truly targeting the problem of poverty in Sub-Saharan Africa. According to the study's findings, only a small percentage of rural poor households actively participated in microcredit programs.

Based on the literature analysis, it can be concluded that the sustainable livelihoods approach facilitates the understanding of the primary factors that affect people's quality of life and aims to make planning and implementation of more efficient development interventions easier. Therefore, by focusing more on people than the technical aspects of development, we can use microcredit programs in rural areas to create sustainable effects on poverty reduction.

5. Methodology

The study employed a case study strategy, which is believed to enable the researcher to gather detailed information utilizing a variety of data-collection tools and techniques throughout an ongoing time period **(**Yin, 2023**).** Additionally, 150 respondents were given well-structured questionnaires with the goal of collecting information about the demographic, sociological, and economic characteristics of entrepreneurs; the role of microcredit institutions in the operations of small and medium-sized businesses; the difficulties encountered in obtaining microcredit; and the rate of credit utilization by small and medium-sized businesses **(**Creswell and Creswell, 2022**).**

5.1. Estimation Techniques

Chi square decision making analysis was used for this research work.

The test statistics is

$$\chi^2 = \frac{(O_{ij} - E_{ij})^2}{E_{ij}} \quad \chi^2_{(r-1)(c-1)}$$

5.2. Decision Rule

Reject H_0

If $\chi^2 \geq \chi^2_\alpha$, where χ^2_α is the upper α point of a chi-square distributed having (r – 1)(c – 1) degrees of freedom. Where O_{ij} = the observed frequency in the ij^{th} cell of the table i.e. the number of items belonging to the i^{th} row and j^{th} column. n_i = the i_{th} row total

n_{ij} =the j_{th} column total, N= the total frequency of all observations

The null hypothesis to be tested is

- H_0: Row (attribute) and column (attribute) are independent
- H_1: The two attributes are dependent.

The expected frequencies E_{ij} are calculated thus;

$$E_{ij} = \frac{n_i * n_j}{N}$$

6. Data presentation and Discussion of findings

Out of the 150 questionnaires administered 100 questionnaires were returned and validated for analysis.

Ho: Micro-credit scheme has no significant relationship on rural communities in Osun state.

Table 1 Pearson Chi-Square Output for Testing the Impact of Micro-Credit on Rural Communities

Chi-Square Tests			
	Value	**df**	**Asymptotic Significance (2-sided)**
Pearson Chi-Square	34.738	1	0.002
Likelihood Ratio	30.348	1	0.001
Linear-by-Linear Association	14.299	1	0.003
N of Valid Cases	100		

As can be seen from the above table, our chi-square results 34.738 at the P-value of 0.002 at 1 Df is less than our alpha value of 0.05. As a result, we reject the null hypothesis, "Micro-criticism has no significant effect on rural communities in Osun State," and accept the alternative hypothesis.

In keeping with our objectives, this research study aims to identify and quantify the impact of micro-credit on rural communities and the extent to which economically active people have access to micro-creidit. Using statistical evidence of p-value of 0.002, the table revealed that the micro-credit system had a substantial impact on the normal deviation in O'sun state. Additionally, it was determined that over 90% of respondents agreed that micro-credit had a beneficial impact on their business and income, which in turn had improved the general well-being of rural residents by increasing economic activity.

7. Conclusion

Overall, the study's findings indicate that the three rural communities have benefited from the microcredit program. Through its ongoing acquisition of micro-credit, the three rural communities have proven to be a source of revenue for many of the small business owners, farmers, and artisans who are no longer using labour. The research findings indicate that micro-credit has positively contributed to the improvement of the standard of living for the majority of small business owners, farmers, and entrepreneurs in terms of access to capital, increased income, access to productive assets, and empowerment of individuals.

Additionally, by providing empirical evidence that microcredit programs in Osun State greatly improve rural development by boosting income production, entrepreneurship, and job prospects, this study adds to the body of current work. It confirms that the Sustainable Livelihood Approach (SLA) is a useful framework for comprehending how rural residents' access to microfinance fosters their long-term economic well-being.

Also, the study results highlight the need by Nigerian government and financial authorities in enhancing financial literacy initiatives, adopt flexible lending guidelines, and implement inclusion-driven incentives in order to fortify the microcredit system. To guarantee that the most vulnerable groups receive microcredit services, policymakers should encourage cooperation between rural cooperatives and microfinance organisations. Additionally, consistent assistance for microcredit programs can improve rural economic stability, lower unemployment, and encourage entrepreneurship.

Recommendations

The micro-credit scheme' should be offered incentives to promote investment and savings among the public. A good incentive could be a bank discount for microcredit programs with recurring debt. For the microcredit schemes to have clarity on the underlying causes of poverty and how rural dwellers cope with it, they should do first comprehensive livelihood economic analysis. It would be better to identify the shortcomings of general quality of life of poor people rather than focusing just on the material and economic effects of microfinance on their quality of life.

The study suggests long-term sustainability of microcredit impacts should be investigated using panel data and mixed-method approaches in future research; comparative studies across different states or regions could offer more comprehensive insights into regional differences in microfinance effectiveness; and researchers should look at the gender aspects of microcredit access and utilisation, as well as the contribution of digital financial innovations to the expansion of rural financial inclusion.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

Statement of ethical approval

This investigation was carried out in compliance with accepted protocols for research ethics. Before data collection started, ethical approval was sought from the relevant departmental review committee. Every procedure used in this study complies with the institution's ethical guidelines. Thus, no conflict of interest is declared by the study.

Statement of informed consent

Respondents were fully informed about the goal of the study prior to filling out the questionnaire, and participation was completely voluntary. Informed consent was obtained from all participants, and they were informed of the confidentiality and anonymity of their responses. The information gathered was only used for academic purposes, and no personally identifiable information was collected. Participants in the study did not suffer any social, psychological, or physical harm..

References

[1] Adeniyi, A. L., and Werigbelegha, P. (2025). Microfinance institutions and financial inclusion in Nigeria. BW Academic Journal, 2. https://bwjournal.org/index.php/bsjournal/article/view/2877

[2] Ajah, E. A., Asuquo, I. A., Agbachom, E. E., Ettah, O. I., and Eyo, E. O. (2025). Microfinance banks utilization of information cues in the prediction of loan default and credit risk in Nigeria: The lens modelling approach. International Journal of Economics and Financial Issues, 15(2), 220–225. https://doi.org/10.32479/ijefi.17171

[3] Cahn, M. (2002). Sustainable livelihoods approach: Concepts and practice. Massey University, Palmerston North, New Zealand.

[4] Carney, D. (1998). Sustainable rural livelihoods: What contribution can we make? London: Department for International Development (DFID).

[5] Central Bank of Nigeria. (2022). Revised National Microfinance Policy Framework for Nigeria. Abuja: Central Bank of Nigeria.

[6] Charisthonenko, S. (2023). Microcredit and financial inclusion: The evolving role of small loans in developing economies. Journal of Development Finance, 19(2), 115–128.

[7] Creswell, J. W., and Creswell, J. D. (2022). Research design: Qualitative, quantitative, and mixed methods approaches (6th ed.). Thousand Oaks, CA: Sage Publications.

[8] Edem, E. G., and Ozigbo, N. C. (2024). Microfinance banks interventions on poverty reduction: A study of selected microfinance banks in Abuja, Nigeria. Abuja Journal of Business and Management, 2(4). https://doi.org/10.7118/b8ajwv16

[9] Ehigiamusoe, G. (2022). Microfinance in Nigeria: Theory and practice. Abuja: Centre for Microfinance Research Publications.

[10] Farrington, J., Carney, D., Ashley, C., and Turton, C. (1999). Sustainable livelihoods in practice: Early applications of concepts in rural areas. London: Overseas Development Institute (ODI).

[11] Hossain, M. I., Mia, M. A., and Dalla Pellegrina, L. A. (2024). A systematic review of gender diversity and its impact on the performance of microfinance institutions. Future Business Journal, 10, 9.

[12] Hussain, M. D., and Ahmed, I. (2023). Governance and the double-bottom-line performance of microfinance institutions: Evidence from Bangladesh. Journal of Islamic Accounting and Business Research, 15(2), 367-383.

[13] Hussein, K. (2002). Livelihoods approaches compared: A multi-agency review of current practice. London: DFID.

[14] Institute of Development Studies. (2009). Sustainable livelihoods guidance sheets. Brighton, UK: IDS.

[15] Lusinga-Machikicho, S., and Mutanana, N. (2022). A critical analysis and review of the Sustainable Livelihoods Approach for rural development. Advances in Social Sciences Research Journal, 9(11), 243–259. https://doi.org/10.14738/assrj.911.13382

[16] Mata, M. N., Shah, S. S. H., Sohail, N., and Correira, A. B. (2023). The effect of financial development and MFI's characteristics on the efficiency and sustainability of micro financial institutions. Economies, 11(3), 78.

[17] Mawa, B. (2025). Microfinance institutions and inclusive growth in sub-Saharan Africa. African Journal of Economics and Sustainable Development, 14(3), 98–112.

[18] Ojeamwonyi, E. E., and Obayagbona, J. (2024). Microfinance banks and economic development in Nigeria: Challenges and prospects. International Journal of Development and Economic Sustainability, 12(1), 45–58. https://www.eajournals.org/journals/international-journal-of-development-and-economic- sustainability-ijdes/

[19] Pasgaard, M., and Fold, N. (2024). How to assess livelihoods? Critical reflections on the use of common indicators to capture socioeconomic outcomes for ecological-restoration workers in South Africa. Social Indicators Research, 175, 49–69. https://doi.org/10.1007/s11205- 024-03433-5

[20] Sarkodie, E. E., and Maloma, I. (2025). Evaluating the impact of microcredit on poverty prevalence in Sub-Saharan Africa. Asian Economic and Financial Review, 15(7).

[21] Schicks, J. (2024). Responsible lending and borrower welfare: Contemporary issues in microfinance institutions. Microfinance Review, 26(1), 34–49.

[22] Syakirotin, M., Sulistyowati, L., Noor, T. I., et al. (2025). Sustainable livelihood strategy approach for farmer households in expansion areas: A bibliometric analysis. Discover Sustainability, 6, 983. https://doi.org/10.1007/s43621-025-01912-4

[23] Yin, R. K. (2023). Case study research and applications: Design and methods (7th ed.). Thousand Oaks, CA: Sage Publication