

**INVESTIGATING THE EFFECTS OF FINANCIAL INSTITUTIONS ON RURAL
DEVELOPMENT IN NIGERIA: A CASE STUDY OF ETHIOPE WEST LOCAL
GOVERNMENT AREA, DELTA STATE, NIGERIA**

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Abstract

The purpose of this study was to investigate the impact of financial institutions on the development of rural areas in Ethiope West Local Government Area of Delta State, Nigeria. Four aspects were considered in relation to the impacts, the contribution of access to finance on rural economic development, impacts of financial institutions on rural enterprise development, on job creation and on poverty reduction and livelihood enhancement. A survey research design was used. Data was gathered from 200 respondents using structured questionnaires and analyzed using the mean, standard deviation and regression analysis. From the study, the impact of access to finance was seen to boost income generation activities, agricultural production and business growth leading to increase in rural economic development. It was also seen to impact positively on the development of rural enterprises through credit, loan and advice rendered to them. It impacts positively on job creation and livelihood generation through self employment and training schemes. From the analysis, financial institution was seen to be making positive impact on the households through enhanced household income, increased access to food and necessities of life leading to increase in livelihood and reduction of poverty. Hypothesis testing showed positive relationship in all aspects analyzed. The conclusion drawn from the study is that the presence of financial institutions contributes greatly to the growth of rural areas in the study area. The policy implication includes increasing access to credit facilities, advisory services, training schemes, and provision of complementing policies from the government to improve overall impact of financial institutions in rural development.

Keywords: Financial institutions, rural development, economic growth, enterprise development, employment generation, poverty reduction, Delta State, Nigeria.

Introduction.

Rural development is one of the key objectives of national economic growth and sustainable development of Nigeria given that the larger chunk of the country

population is rural dwellers whose source of income relies heavily on small-scale industries and agricultural activities. In spite of its importance, rural development faces persistent problem such as poverty, low productivity, poor infrastructure, limited access to finance. Financial institution (banks, micro-financing institutions, co-operative societies etc) have always been viewed as major factor contributing to economic development because they play vital roles of savings mobilization, and facilitate investment and financial inclusion. The contribution of financial institution to rural development arise from the services which include financial assistance, opportunities of savings and financial advisory services, to their clients which empowers the individuals and firm to expand their economic activities, therefore access to finance becomes imperative for rural dwellers to have capital to invest in farming, small and medium-scaled enterprises, etc and improve standard of living. According to Adebayo and Adeola (2021) financial institutions facilitate rural development by channeling funds into productive investment, which promotes economic activity and increases incomes in the rural areas while Adeyemi and Fagbemi (2021) opine that the existence of financial institutions in the rural areas is an important factor for growth, as access to finance allows individuals to access funds for capital formation and promotes entrepreneurship in the area.

However, assumption that the existence of financial institution automatically leads to rural development is debatable. Though financial institutions exist in various parts of the country, rural dwellers face a lot of constraints, such as high interest rate on loans, the need for stringent collateral, poor financial literacy etc that affect their access to these financial services. According to Bala et al (2021) structural and institutional constraint limits the level to which the rural population could access and benefit from financial services and thus affects the ability of financial institutions to make a desirable impact in the area. Hence the relation between financial institution and rural development is not always a direct one.

The Empirical evidence also shows that the link between financial institutions and rural development is better bridged by financial inclusion. According to Agwu (2021), increased financial access influences rural development and consequently increases the participation of the rural populace in economic development leading to poverty reduction. Same way Anumudu and Eze (2022) say that financial access helps the rural development process because it

influences how households manage their consumption and invest in income-generating activities, and enables households to cope with economic shocks. Nevertheless, the quality, cost and appropriateness of financial services should also be a consideration.

Micro finance institutions are known to be instrumental in helping the financially excluded rural dwellers get some access to finance. According to Aremu and Adeyemi (2021) micro finance institutions have proven to have fostered rural enterprises development through lending and savings facilitation among low income earners of the area. Some critics, however view micro finance institution's contribution with cautious, arguing that it can lead to excessive indebtedness if not properly monitored.

Another dimension of the role of financial institution in rural development comes from their contribution towards rural agricultural productivity which serves as the backbone of many economies in the rural area. According to Ashamu and Amolegbe (2023), access to credit and finance affects agricultural output positively as it encourages farmers to invest in modernization and purchase modern farm equipment and technologies which is in agreement with Adekunle and Adetayo (2022) argument that financial institution helps to enhance rural productivity by financing investments in agriculture and allied services. However these services require access to complementary factors such as infrastructure, and government policies in order for the financial institutions to impact greatly on rural development.

Job creation and poverty reduction is also one of the major contribution of financial institutions to rural development, as it increases employment opportunities and improves the income of the poor in the area. Babajide and Adebayo (2024) say that financial institutions stimulate job creation through financing of rural small and medium-scale enterprises and Akinlo and Egbetunde (2020) say that financial development has influence on poverty reduction, as it is seen as having a significant effect on income growth by providing greater access to financial resources and expanding employment opportunities in productive activities.

Financial intermediation is very important in rural development. It enables the channeling of savings into investments, thereby providing finance for productive

investment. Akintola and Akinyemiju (2023) say that financial intermediary influences rural transformation positively because it facilitates flow of funds from the savers to the investors, thereby impacting positively on investment. Also Ezeani and Nwankwo (2023) say that financial intermediation aids rural development through facilitating an increase in capital, and better allocation of resources.

Ethiope West Local Government Area of Delta state, Nigeria was established in the year 1991 by the then military regime of General Ibrahim Badamosi Babaginda. Its headquarters was sited in Ogharefe-Oghara Town. It is located in Delta Central senatorial district. It has a total mass area of about 536km square.

The population of Ethiope West LGA is about 203,592 based on last census conducted in 2006. By 2026 projection, its population may rise to about 298,887. This shows a very high potential for social, economic, religious, political human growths and development.

Ethiope West LGA is made up of three kingdoms, namely Oghara Kingdom, Mosogar Kingdom and Jesse Kingdom, respectively and not in any particular order. The predominant language of the people is the indigenous Urhobo (the founders) alongside other smaller tribes of Nigeria as residents.

The people of the local government are notably farmers, traders, oil companies staff, civil servants, public servants and organized private sector-driven outfits workers.

Statement of the Problem

Rural development is central to Nigeria's economic growth and sustainability, yet a significant portion of Nigeria's population who rely mostly on small and medium scale business and agriculture continue to face various levels of challenges such as poverty, low productivity, lack of infrastructural facilities, inadequate access to finance etc. Financial institutions, such as commercial, micro finance and cooperative banks, have been identified as catalysts to economic development and promotion of financial inclusion through savings mobilization and enabling investment. Consequently, an examination of the impact of financial institutions on rural development in Ethiope West Local Government Area of Delta State, Nigeria is relevant.

A major issue is the lack of adequate access to financial institutions among rural dwellers, as despite increased proliferation of banks, significant segments of the rural populace are excluded due to lack of relevant, appropriate and affordable financial services (Agwu, 2021; Anichebe and Onyema, 2023). This exclusion from financial services may be blamed on various factors including high interest rates, stringency of collateral and inadequate financial literacy of individuals (Bala et al., 2021; Danjuma and Nwonna, 2021). As a result, the developmental impacts of the financial institutions become distorted.

Secondly, the products/services of financial institutions are inappropriate for rural dwellers. Financial institutions are inclined to developing services which are suitable for urban and formal sector participants without recourse to the peculiarity of rural economic system, which are dominated by informal operations and agriculture-based enterprises (Adekunle and Adetayo, 2022; Ashamu and Amolegbe, 2023). This therefore hinders agricultural development and rural enterprise growth.

Furthermore, although it is believed that financial institutions facilitate rural enterprise development and investment, evidence has shown that the performance is not consistently positive. While Adesina and Olayinka (2024) and Ibe and Uyanwanne (2022) observed a positive impact of financial institution activities in rural enterprises development, majority of rural enterprises have problems accessing finance in the area; risk associated with lending to rural community clients forces the institutions to adopt highly conservative lending approach.

Moreover, the influence of financial institutions on rural employment and poverty reduction has not achieved the expected result. Although financial development have a positive impact on employment creation and rural poverty reduction (Babajide and Adebayo, 2024; Akinlo and Egbetunde, 2020), yet the rate of unemployment and poverty in Nigeria's rural communities remain high and this suggests issues related to the depth of the role and distribution of funds through financial institutions which only benefits a group of rural dwellers.

Additionally, poor infrastructural facilities and weaknesses in institutional framework influence financial institutions contribution to rural development (Alade and Aluko, 2022; Ogunleye and Sanni, 2022). These include roads,

electricity and also weaknesses within institution itself (Emeka and Eze, 2022; Ezeani and Nwankwo, 2023). Thus financial institution alone cannot bring about rural development without support systems from both institutional and physical sectors.

In addition, concerns over loan sustainability, loan defaults and over-indebtedness also undermine the sustainability of financial services to rural dwellers (Aremu and Adeyemi, 2021; Alabi and Olorunfemi, 2022). This raises questions about the efficacy and sustainability of financial institutions to deliver lasting developmental effects.

Given the importance of financial institutions to the rural economy, there is a vast body of knowledge on financial institutions' impact on rural development across Nigeria, however the research has generally been country-wide and limited on how financial institutions impact on rural development in a local context, considering the socio-economic specifics in each locality. For example, the particular circumstances in Ethiope West Local Government Area in Delta State would dictate the specific role of financial institutions in facilitating rural development different from other parts of Nigeria.

Therefore, the problem this study seeks to address is to determine if financial institutions promote economic growth, employment generation, rural poverty reduction and general transformation in Ethiope West Local Government Area, Delta State, Nigeria and to identify the problems or constraints that inhibit this service of financial institutions from playing the role effectively.

Objectives of the Study

The main objective of this study is to investigate the effects of financial institutions on rural development in Ethiope West Local Government Area of Delta State, Nigeria. The specific objectives are to:

Examine the effect of access to financial services on rural economic growth in Ethiope West Local Government Area.

Evaluate the impact of financial institutions on rural enterprise development in the study area.

Assess the influence of financial institutions on employment generation in rural communities of Ethiopia West Local Government Area.

Determine the effect of financial institutions on poverty reduction and livelihood improvement in the study area.

Conceptual Framework

Concept of Financial Institutions

The role of financial institutions in any economy is that of an intermediary mechanism that allows funds from surplus units (savers) to flow to the deficit units (borrowers). These can range from commercial banks to microfinance banks, cooperative societies, credit unions and so on that offer a wide range of products like savings, loans, insurance, investment opportunities etc. Financial institutions have been acknowledged as the driving forces that mobilize financial resources for allocation to productive areas within an economy, most especially in developing countries like Nigeria.

The function of financial institutions is not confined to collecting deposits and dispensing credit, rather it involves developmental role in economic advancement. Adebayo and Adeola (2021) acknowledged financial institutions as agent of growth because they act as channels to productive sector of economy by mediating financial transactions thereby reducing transaction costs, managing risks and enhancing liquidity to allow investment. Similarly, Emeka and Eze (2022) are of the view that intermediation function is central to any financial institution which will guarantee optimal allocation of funds to investment of highest returns.

This function goes beyond traditional deposit taking and lending function to a wider developmental function, especially concerning rural area. Agwu (2021) and Yusuf and Abdullahi (2022) have pointed out the role of financial institutions in facilitating financial inclusion in rural areas by providing access to banking services that has previously been denied to some poor, remote communities. Financial inclusion in rural areas are viewed as empowerment tool, entrepreneurship engine and tool for participation. But is financial inclusion reaching the poorest, the deprived or simply expand client base for financial institutions?

It can also be said that financial institutions contribute positively to enterprise development and productivity. According to Adekunle and Adetayo (2022), having access to finance allows entrepreneurs to obtain inputs for the production of goods and services and acquire new technologies. Financial institutions in rural areas facilitate small and medium scale enterprise by offering finance, the major sector that forms the bedrock of economy in Nigeria. Adesina and Olayinka (2024) supported this when they concluded that credit offered by financial institutions help rural enterprises grow. This is usually however not in terms of accessibility and affordability to target group of rural poor.

Financial institutions are equally considered an important part of rural development because agriculture is a key component in rural Nigeria and financial institutions, with appropriate services to the rural areas, provide capital. Ashamu and Amolegbe (2023) noted that access to financial services aids agricultural production by supporting investment in technology. It should be argued that financial institutions will greatly enhance rural economic development if adequate capital can be provided to the farmers, the main constraint being lack of Collateral and high interest rate.

Job creation and poverty reduction also go along with financial institutions in rural areas. Babajide and Adebayo (2024) claim that financial institutions help in job creation via SME's being main source of employment in rural areas and Akinlo and Egbetunde (2020) add that Financial Development in Nigeria is positively correlated to reduction in poverty by increasing access to funds that will lead to income generation activities. But do they actually increase the standard of living, or just formalize what is already going on?

In spite of all the good that financial institutions are supposed to provide to the rural areas, they have a number of constraints in their operation, especially in the rural area. Bala et al. (2021) and Danjuma and Nwonna (2021) said there are a number of structural constraint like limited infrastructure, poor institutional frame work and limited finance literacy that hinder delivery of these services. This indicates that just making the institutions available is not enough to realize desired outcome; there must be policy framework in support of them.

However, even the development role of financial institutions need to be examined from a sustainability angle. Adeola and Evans (2022) posited that

financial institutions should support long term development objectives by promoting projects which are financially viable and ecologically sound. In so doing the focus of financial institutions can shift away from profit maximization to sustainable economic and social development in rural areas.

Based on the foregoing analysis, financial institutions provide services that goes beyond financial intermediation but are facilitators of financial inclusion, enterprise development and investment; and are important contributors to agricultural production and reduction in poverty through Job creation, in rural areas of Nigeria. However their capacity is limited by structural, social and institutional factor, thus cannot be viewed as a mechanical answer to rural development but should be critically evaluated and complemented by policies and institution development.

Concept of Rural Development : Rural Development is a broad based concept that encompasses the enhancement of economic, social and environmental conditions of people in rural areas. It is process of improving the quality of lives of rural inhabitants, in all aspect of live, through increased access to economic opportunity and productive inputs, infrastructure, education and health care. Rather than focusing on development solely on economic growth, Rural development is conceived as the totality transformation process covering both the material conditions and quality of life of individuals in rural communities.

The concept of Rural Development is strongly correlated with poverty alleviation and improved living standard of inhabitants. Akinlo and Egbetunde (2020) defined Rural Development in terms of the alleviation of rural poverty via provision of opportunities and means of creating adequate income while Gambo and Dada (2024) describe Rural Development as deliberate effort of improving the welfare of underprivileged segment of population in rural area to reduce the gaps between rural and urban sectors.

Economic Growth is a critical element in the concept of Rural Development. However, the expansion of productive activities particularly agriculture and small scale industry, the major source of rural dwellers' income is necessary for growth according to Adeyemi and Fagbemi (2021). As stated by Adekunle and Adetayo (2022), enhancing the productivity level of rural areas will lead to rural development because of food security increase. Yet mere increase in production

without a broad structural base may not translate to equitable distribution and development.

Infrastructure Development plays a pivotal role in rural development as road, electricity, water are indispensable for economic and social interaction among rural people as stated by Alade and Aluko (2022) and Ogunleye and Sanni (2022). Development interventions often fail without basic infrastructures. Thus infrastructure is considered a prerequisite to rural development and development strategies.

Enhancing access to financial institutions is also part of rural development and financial inclusion. Anumudu and Eze (2022) are of the view that financial institution provides loans to poor individuals enabling them to access financial service, invest in productive activities and manage risk thereby stimulating rural development. Augustine et al. (2025) also noted that financial inclusion is crucial for stimulating rural development. The ability to access the financial services is still questionable, does it target all poor or just potential users.

In terms of enterprise development, entrepreneurship is a key factor for Rural Development, and the provision of access to finance by financial institutions helps rural enterprises to function properly (Iwu and Igbokwe, 2023). The extent is however constrained by lack of markets and support from policies.

It's also imperative to view rural development from sustainability perspective where there is need for long term development that would support natural resources (Adeola and Evans, 2022) and livelihood sustainability (Alabi and Olorunfemi, 2022). The impact has to be sustained in the future for the development objectives to be meaningful.

However, a number of problems persist. Poverty, access to basic services and infrastructure are still a challenge. Institutional constraints and poor policies hinder Rural Development in Nigerian as cited by Bala et al. (2021). This implies the role of institutions need to be a factor of development and not just a variable.

In summary, Rural development is a multidimensional concept focusing on the enhancement of quality of life of rural people through an improvement in their economic, social, and physical environment. Financial institutions in Rural Development offer support services such as credit and access to finance, that

contribute positively towards achievement of this goal, but that cannot be separated from the need for robust institutions and supporting policies.

Financial Inclusion and Rural Development : Financial inclusion involves the assurance that individuals and firms in excluded groups, usually rural, get access to useful, available, and affordable financial products, services at reasonable cost on a timely basis, are appropriate and responsible. Financial inclusion is an important driver of Rural Development, through facilitating investment, enabling risk management and providing a basis for economic transformation. Financial inclusion has been identified as one of the critical tool of rural development, as its importance has increased with persistent issues of under development of the rural Nigeria.

Financial Inclusion and rural development works primarily based on its ability to enhance human capital as identified by Agwu (2021) stating financial inclusion improves the welfare of rural inhabitants. Similarly, Anichebe and Onyema (2023) said credit enables safe saving, useful investment and appropriate risk management. There should however be adequate credit offered to target poor or loan given is often at exorbitant interest rate.

Access to credit through financial institutions enable financial inclusion that support both farming and entrepreneurship development. Credit helps farmers with investment capital to enhance productivity in terms of acquiring farming implements and better techniques. Access to loan to micro, small and medium enterprises by microfinance institutions, has helped expand job creation. This is however often constrained by access and affordability in as stated by Anumudu and Eze (2022) and Aremu and Adeyemi (2021). It is also important to examine the role of access to credit on the livelihood of the borrower.

In line with poverty alleviation, financial inclusion is seen as an effective tool that leads to poverty reduction via adequate loan access (Akinlo & Egbetunde, 2020). While Gambo and Dada (2024) said financial inclusion help improve the conditions of poor masses to the standard of others, the extent that this goal is achieved is always debatable, for sometimes they target the "already developed" poor instead of "truly poor".

Financial Inclusion ensures employment generation by providing resources to facilitate establishment and expansion of small and medium enterprises that contribute a great deal in job creation in rural Nigeria, thereby enhancing Rural development. Babajide and Adebayo (2024) said that financial institution, via financial inclusion help create jobs. While technological breakthrough helps in developing and expansion of financial service delivery channel which enhance inclusiveness (Augustine et al., 2025), rural areas are constrained by poor access, low literacy level and network availability.

However there is number of challenges limiting financial inclusion in Nigeria, thus reducing the capacity of financial institution in rural development, i.e lack of infrastructure, illiteracy, trust, etc as noted by Yusuf and Abdullahi (2022) and Bala et al. (2021) as barriers to financial inclusion in rural area. There is a need for the delivery of financial products to be inclusive and sustainable and not for the mere purpose of increasing client base.

In addition to, although Financial Inclusion enhances the capability of individuals through providing means for investment and loan acquisition to improve livelihoods, an excessive amount of credit can also exacerbate poverty if loans taken are not efficiently utilized (Alabi and Olorunfemi, 2022).

Overall, Financial Inclusion, which is the provision of useful, appropriate and accessible financial services to the financially excluded population, can boost Rural Development by enhancing investment, reducing poverty, creating jobs and promoting livelihoods sustainability. However this can only be actualized when delivered sustainably to truly disadvantaged people of rural Nigeria.

Financial Intermediation and Rural Economic Growth

Financial intermediation refers to the act of using financial institutions to facilitate the mobilization of funds from surplus owners to the deficit spending units for productive uses. It is often viewed as a key determinant of economic growth as well as overall development of any economy, and is critically important in rural areas where access to finance has been a major barrier to progress. The role of Financial Institutions in channeling financial resources in the rural areas to appropriate use are instrumental to growth of rural economies.

Relationship between Financial intermediation and Rural Economic Growth can be explained by the ability of Financial institutions to channel finances to agriculture and non-agricultural sector in the rural areas, thus supporting growth of these sectors (Akintola & Akinyemiju, 2023; Ezeani & Nwankwo, 2023). Bank credit support the expansion of agricultural activities (Basse & Ekpenyong, 2020) and farmers' ability to increase output via modern inputs as opined by Ashamu and Amolegbe (2023), hence boosting Rural Development, however the ability to meet farmers' financial need varies with interest rate and other collateral requirements.

Investment and infrastructure development can also be fostered via the intermediation role of financial institutions. Investment in rural area can be increased if financial institutions have ability to mobilize savings and reinvest them, and banking sector development is related to improvement of rural infrastructure as stated by Akintoye and Omoniyi (2024) and Alade and Aluko (2022). However the level of resources may not be sufficient, hence its effect on development is often limited.

Moreover, financial institutions boost Rural Entrepreneurship development, hence contributing to rural economic growth. The availability of credit and financial guidance enable rural entrepreneurship to be sustainable and competitive (Eke & Nwosu, 2022; Ibe & Uyanwanne, 2022). Despite these positive developments, accessibility problems limit many rural enterprises from utilizing these services.

Increased job creation is a key component of Rural Economic growth arising from Financial intermediation. Access to finance enable small and medium enterprise in the rural area to grow and create employment, hence leading to poverty reduction as revealed by Adeyemi and Fagbemi (2021) and Ugbudu and Vihiyor (2025) as the means through which rural economic growth is facilitated. It can be debated whether these jobs are sustainable in the long run or are merely short-term gains to improve livelihood momentarily.

The problems that have hindered Financial Intermediation are of great significance in Rural Nigeria. The intermediation function of financial institutions is often constrained by access, transaction costs and financial literacy (Danjuma & Nwonna, 2021). Furthermore, there is often an institutional weakness and

regulatory failure that makes the flow of funds in rural Nigeria far less than optimal (Bala et al., 2021). Financial intermediation in Nigeria might therefore need supportive policy environment and reforms in order to function as it ought to.

Therefore, Financial intermediation in Rural Nigeria requires robust policies and institutions that allow for an efficient mobilization and channeling of financial resources to the areas of high returns such as agriculture and enterprise. The success of the intermediaries function of financial institutions is dependent on a well formulated financial policy and environment (Fernandes & Olude, 2023).

Financial Institutions and Poverty Reduction in Rural Areas

Financial institutions have always been seen as a crucial element of poverty reduction strategy, especially among the poor rural communities with limited opportunities to exploit due to unavailability of access to credit. Poverty among rural Nigerians is generally characterized by low income level, lack of social and basic services, and high vulnerability to economic shocks. In this context financial institutions are envisaged to play a vital role through providing access to finance as a tool for economic empowerment.

Through the access to loan provision, financial institutions enable people in rural Nigeria (especially farmers and small entrepreneurs) to generate adequate income through increased investment in their productive activities like agriculture, trading and other small scale enterprises, hence contributing to poverty reduction (Akinlo & Egbetunde, 2020; Bassey & Ekpenyong, 2020). This implies that provision of loans will be key to realizing any desired outcome on poverty reduction, however their utility relies on how efficiently and properly the loans are used.

Financial Inclusion, as advocated by financial institutions, is seen as a critical mechanism for poverty reduction as it gives rural dwellers access to relevant financial services like saving, borrowing and investing etc (Agwu, 2021; Anichebe & Onyema, 2023). Providing access to financial services improve human capital via risk taking and management (Augustine et al., 2025). However it is important to critically examine if these programs reach the targeted

rural poor, or the already active segment of the poor who can actively make use of their financial services.

The provision of financial support to rural enterprises in terms of providing credit also leads to rural development, hence poverty reduction. Access to finance in rural area by financial institution enables rural entrepreneur to develop and become efficient, hence facilitating rural economy to produce goods and services that will enhance livelihood (Adesina & Olayinka, 2024; Ibe & Uyanwanne, 2022). The effectiveness of this mechanism to create livelihood for all could be questionable as many farmers do not have Collateral, thus making it difficult for them to access loans offered by formal financial institutions (Bello & Abubakar, 2021).

Empirical Review

Adebayo and Adeola (2021) investigated the impact of financial institutions on rural development across selected states in Nigeria, using a sample of 250 rural enterprises. Employing a descriptive survey and multiple regression analysis, the study found that access to banking services and credit facilities significantly enhanced rural productivity, infrastructure, and livelihood sustainability, concluding that financial institutions are critical drivers of rural transformation.

Adekunle and Adetayo (2022) conducted research on financial institutions and rural productivity in southwestern Nigeria, sampling 180 farmers and small-scale entrepreneurs. Using correlation and regression analyses, the study revealed that institutional credit and savings mobilization positively influenced agricultural output and enterprise efficiency, concluding that improved access to financial services is essential for rural economic progress.

Adeola and Evans (2022) focused on financial institutions and rural sustainability in southeastern Nigeria, analyzing data from 200 rural households through structured questionnaires and ordinary least squares regression. Their findings indicated that financial inclusion facilitated investment in sustainable farming and rural enterprises, enhancing household income stability and environmental stewardship. The study concluded that sustainable rural development is strongly contingent on the presence and efficiency of financial institutions.

Similarly, Adesina and Olayinka (2024) examined the relationship between financial institutions and rural enterprise growth in northern Nigeria, using a sample of 150 small and medium-sized rural enterprises. Through descriptive statistics and multiple regression, they found that access to microfinance and commercial banking services significantly boosted business expansion and employment generation, concluding that financial institutions play a pivotal role in fostering entrepreneurship and economic resilience in rural communities.

Akintoye and Omoniyi (2024) studied financial institutions and rural investment in central Nigeria, selecting 220 rural investors across various sectors. Employing a mixed-methods approach with quantitative regression and qualitative interviews, the study revealed that institutional credit availability and advisory services were positively associated with increased capital investment, improved productivity, and diversification of rural enterprises. The authors concluded that rural investment and economic transformation depend heavily on accessible and efficient financial institutions.

Theoretical Framework

Financial Intermediation Theory

Financial Intermediation Theory explains that the main function of financial intermediaries is to bring together surplus units (savers) and deficit units (borrowers) efficiently in a bid to channel their resources effectively in an economy. The theory maintains that financial intermediaries exist because they reduce transaction costs and information asymmetries between lenders and borrowers, as well as pool and diversify risk. On the basis of this theory, financial intermediaries have a solid base in the understanding of their role in economic activities in rural development contexts; mobilizing saving and allocating them to productive investment activities.

A core assumption in Financial Intermediation Theory is that there are often transaction costs, information uncertainties and lack of perfect knowledge that often prevent direct lending from savers to borrowers. Therefore, financial institutions are required as intermediaries. Emeka & Eze (2022) observe that Financial intermediation enhances economic efficiency by mobilizing resources and directing them toward their most efficient allocation, whereas Akintola &

Akinyemiju (2023) note that effective intermediation contributes positively to rural transformation through increase in the availability of capital for investment in agriculture and small enterprises.

On the rural side of development where access to funds is minimal, Financial intermediation has a profound contribution in the enhancement of economy development. According to Bassey & Ekpenyong (2020), financial institutions have an important role to play by providing loan facilities that enable rural people (farmers, business people etc.) to increase their level of output and productivity while Ezeani & Nwankwo (2023) observe that financial intermediation fosters economic growth by making it possible for greater capital formation. But this assumes there are sufficient financial institutions that are ready to serve the rural areas.

Another aspect in Financial Intermediation Theory is risk management. Financial intermediaries pool and diversify risk which greatly reduces the potential loss incurred by the saver/borrower when investing. Risk management becomes more crucial in rural setting where income stream may fluctuate more frequently due to factors such as weather pattern, fluctuation of the market price, Adeola & Evans (2022) say that Financial intermediation facilitates economic development by playing a crucial role in risk management and provides financial security to users. It is also important to note that rural people are perceived as high-risk users.

Financial deepening refers to the expansion of the financial services within an economy and Financial intermediation theory gives the argument of increased financial intermediation by the increased financial deepening and hence growth of rural economy and increasing rural people's participation into mainstream economy through access to financial services and capital for investment (Awodun & Ogundele, 2020). This suggest that development of the financial system leads to economic growth. However, it is debatable if increase in the access to finance will lead to economic growth without taking into consideration the structural constraints in rural economy such as the institutional constraints.

Though the theory contributes to rural development, there are limitations in the approach to rural development such as it assumes perfectly efficient financial markets and financial institutions will cater for everyone's needs without

considering factors such as high transaction costs, poor infrastructure, lack of collateral, low literacy and limited access of the rural people to finance (Danjuma & Nwonna, 2021; Bala et al., 2021). This indicates that the theory simplifies many of the constraints experienced by rural dwellers.

Endogenous Growth Theory: Endogenous Growth Theory provides an argument that shows how development is generated from within the economy through factors such as human capital, innovation and knowledge. It deviates from exogenous growth theory, which argues that growth is exogenous and is dependent on exogenous forces, but explains that it is based on internal factors like financial institutions. In the context of rural development, Endogenous Growth Theory stresses on role of financial institution in encouraging investment and innovation among rural dwellers to spur their productivity and growth.

In relation to the theory's proposition that increase in capital input leads to continuous economic growth, financial institutions mobilize resources through deposits and makes loan available to people to undertake productive activities in the rural economy. According to Adeyemi & Fagbemi (2021), financial institution makes significant contribution to economic growth through capital formation, whereas Adebayo & Adeola (2021) argued that the development of financial institutions stimulate economic development by directing financial resources toward the development sectors which boost the productivity and foster innovation.

Rural Development Theory :Rural Development Theory, is considered as an integrated theory as it seeks to understand and develop not just agriculture but also the social and economic well-being of the rural population as a whole, including poverty reduction, the development of the infrastructure and living standards of rural dwellers. In a country like Nigeria where the development of the rural sector has been stagnant while urban centers keep growing at a relatively higher rate, leading to greater disparities between them and inaccessibilities to financial services, poor infrastructure and low income levels of the people in rural areas. Rural Development Theory gives attention to these disparities (Adebayo & Adeola, 2021).

At the theoretical level, Rural Development Theory advocates for a combined approach of economic, social and institutional factors in order to achieve the

much sought after rural development in a sustainable manner. This means development is holistic, involving interplay of factors such as agriculture, finance, education, and infrastructure. It argues that it is difficult to foster rural development when there are some factors hindering financial institutions from providing sufficient financial services to the rural populace to increase output, profit and income level (Adeola & Evans, 2022).

The core argument of rural development theory is that provision of appropriate resources to rural areas and rural inhabitants will spur rural development. Provision of finance for small businesses, use of new methods for the production of food in agriculture, and the acquisition of appropriate inputs are key elements. Studies have also revealed that development in rural areas are facilitated by easy access to finance in raising productivity in agriculture (Ashamu & Amolegbe, 2023; Adesina & Olayinka, 2024). Thus, the theory places emphasis on economic empowerment of the rural dwellers.

An important aspect of this theory is its emphasis on the need for enabling environment and institutions that would provide access to resources that enable development at rural level; it is a crucial component of rural development, this implies need for functional institutions such as Banks, Micro finance institutions and cooperative societies, and the development of a structure that makes the role of these institutions efficient for financial services delivery at the grass root level. It is essential to note that rural dwellers have faced constraints as they lack sufficient facilities/banks in rural areas, high transaction associated with accessing finance and low financial literacy level among others (Bala et al., 2021; Danjuma & Nwonna, 2021).

Methodology:

This study adopted the survey research design. The choice of this design is appropriate due to the nature of the study, which involves collecting data from respondents regarding their opinions, perceptions, and experiences on the effects of financial institutions on rural development in Ethiope West Local Government Area of Delta State, Nigeria.

Survey research design enables the use of structured questionnaires to gather quantitative data from a large number of respondents. It is widely used in social

science research because it facilitates the description and analysis of human behaviour and social phenomena. The design is considered suitable for this study as it allows for generalization of findings from the sample to the entire population..

Findings

Analysis of the data was done using descriptive statistics such as mean and standard deviation, and regression analysis.

The results showed that access to financial services is an important boost to economic activities such as income-generating activities, business expansion and the agricultural sector. Financial institutions boost rural enterprise development through the provision of loans, credit and support services; however, it has a moderate impact on the sustainability of the enterprises.

Financial institutions contribute significantly to the creation of employment opportunities in rural areas through self-employment opportunities, job creation, skill acquisition, etc.

Rural living standard, access to basic facilities, income, livelihood and poverty are improved by financial inclusion.

The hypothesis tested confirmed that all variables related to the impact of financial institutions on rural development had a significant positive relationship with each other.

Conclusion

The study concludes that financial institutions are essential drivers of rural development in Ethiopia West Local Government Area. Access to financial services promotes economic activities, supports enterprise development, generates employment, and contributes to poverty alleviation. While the influence is generally positive and significant, the moderate impact on enterprise sustainability, household income, and overall economic growth suggests that financial services alone may not fully address all challenges facing rural development. Therefore, financial institutions should operate alongside complementary interventions, including infrastructural development, capacity

building, and supportive government policies, to maximize developmental outcomes.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

Financial institutions should expand access to affordable credit facilities and loans to support rural economic activities and enterprise development.

Advisory and capacity-building services should be strengthened to enhance the sustainability and productivity of rural enterprises.

Programs targeting skill acquisition and entrepreneurial development should be implemented to maximize employment generation in rural communities.

Policies promoting financial inclusion should be intensified to improve household income, access to basic needs, and overall livelihood in rural areas.

Government and development agencies should complement financial services with infrastructural development and social interventions to achieve comprehensive rural development.

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