



Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D

## Rural Financial Systems and Economic Development in Akwa Ibom State, Nigeria

Esara Umoh Victor, Ph.D<sup>1</sup>; Mfon Effiong Asuquo, Ph.D<sup>2</sup> & Anthony Francis Edet, Ph.D

<sup>1</sup>Department of Sociology and Anthropology  
Faculty of Social Sciences, University of Uyo, Nigeria.

<sup>2&3</sup>Department of Sociology and Anthropology, Faculty of Social Sciences  
Akwa Ibom State University, Obio Akpa Campus, Nigeria.

+234 8060111898; Umohesara1@gmail.com<sup>1</sup>

+234 7035490011; mfonasuquo@aksu.edu.ng<sup>2</sup>

+234 706 455 1388; aeyikang@gmail.com<sup>3</sup>

DOI: <https://doi.org/10.5281/zenodo.17249488>

**Citation:** Victor, E. U., Asuquo, M. E., & Edet, A. F. (2026). Rural Financial Systems and Economic Development in Akwa Ibom State, Nigeria. *International Journal of Finance, Management and Governance*, 2(1).

### Abstract

*Rural communities are endowed with natural resources and manpower, but their potentials are not properly explored to improve the well-being of the people because of their inability to access loans. This study was conducted to examine rural financial systems and economic development in Akwa Ibom, Nigeria. It is imperative to note that through collective savings, 'Etibe' and 'Ozu,' the rural people have been able to assist themselves financially and also assist the communities through their contributions to rural projects. Survey design was used in this study with secondary data analyzed using descriptive statistics. This study was guided by functionalism theory. Findings from the study have revealed that rural people were able to assist themselves through various financial systems by accessing loans to support their businesses. Findings have further*

---

*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*

---

*shown that through financial support and interest from these financial systems, rural people were able to contribute to rural development across communities. This study suggests, among others, urgent advocacy for the establishment of more rural financial institutions. Government grants should be given to these groups, and more training should be given to their personnel in line with modern financial operations.*

**Keywords:** Financial systems, economic development, loans, poverty reduction, sustainability.

### **Introduction**

Rural communities in Akwa Ibom State and Nigeria in general are faced with difficulties in assessing loans from financial institutions due to a lack of collateral. A rural financial system is an arm of the financial system that consists of traditional credit groups and intermediaries whose operations are mostly in areas where modern financial habits do not exist. They operate in the rural financial markets and communities, engaging in a process of money collection from savers and lending to borrowers within the group or at an individual interest. The informal financial system has proved relatively successful in meeting the credit needs of small enterprises in some rural communities, and this system has been widely attested to by extant literature (Udensi, 2014).

Srinivas (2016) defined informal credit systems as credit institutions that are not regulated or audited by the central bank. These systems typically feature flexible interest rates and require little or no collateral. Additionally, various criteria, such as decision-making processes, ownership structures, and operational areas, can be incorporated to tailor the definition to specific local contexts. The relevance of this definition is its ability to explain the vast variation in the operation of informal credit systems as seen across most countries, especially in the developing world.

The limited resources of small enterprises of rural entrepreneurs restrict the extent to which they can effectively and sustainably satisfy their credit needs for economic purposes. Rural development remains very high, apart from the proven success of Rural Financial Systems (RFSs) in meeting the credit needs of rural

---

*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*

---

dwellers. As a buildup to the foregoing features, the informal credit systems have similar features to the formal and informal financial institutions, relying on lending practices that emphasize loan screening rather than monitoring, which appears to suggest more concern with adverse selection than moral hazard. The informal financial institutions rely more on the character and history of the borrower, particularly on personal knowledge of borrowers with a very low transaction cost (Nwaeze, 2015).

Umebali (2002) categorized informal credit systems to include all classes of credit, saving associations, and markets operating outside the formal financial system guidelines. He observed that due to high interest rates accompanied by collateral embargoes and other conditionality the formal financial institutions attach to the credit facilities they provide, especially to the rural dwellers, rural financial systems have received a considerably high level of patronage and support. Even though researchers (Yelwa, Hussamatu, Yahya, and Awe, 2015; 2011) had variously indicted informal financial institutions of varying inadequacies, these institutions are often made up of heterogeneous savers and lenders, which include local saving schemes, family fund pools, near-home-based married women associations, Mews revolving loan associations, local money lenders, social clubs/age grade associations, town unions, and cooperatives.

Daasi (2014) opined that informal financial institutions contribute a great deal toward rural development, though his position was dependent on capital accumulation, which has a direct contribution to development projects; to him, capital accumulation contributions of informal credit systems are a prerequisite for development. However, this study looked beyond just capital accumulation but also into human resource potentials that are accumulated through the transactions of the informal credit system among rural dwellers.

Rural development is a complex process that involves the interaction of economic, social, political, cultural, technological, and other situational factors. This definition has given a clear reflection of what constitutes the goal of the informal credit system. The informal credit system is sustained when there is commitment and participation aimed at self-sustenance and improvement of the individual patronizing it. Hence, the aftermath of any individual patronizing the informal credit system is

---

*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*

---

economic empowerment, which also has a greater influence on the needed economic change the society yearns for (Enyi, 2014).

### **Statement of the Problem**

Rural communities are endowed with natural resources and manpower, but yet these resources are not properly utilized because of the inability of rural dwellers to access loans for economic activities. It is always very difficult for rural dwellers to access loans from formal financial institutions because of a lack of required collateral and credible guarantors who must be civil servants at least grade level 14 (G.L.14). It is always stipulated that a guarantor must have a landed property within the operational base of that financial institution. However, credit provision is restricted to those who can secure it with tangible collateral.

Some operators of rural financial systems only restrict credit facilities to people within the operational environment to ensure prompt payment. The researcher discovered that some rural financial operators/lenders request collateral such as their borrowers' undergarments like pants, shirts, and trousers, and they may cut their hair and keep it in the custody of the lender to ensure that such customers do not run away with their money. The main challenge faced by rural financial operators is the limited credit availability; they lack sufficient funds to adequately support rural dwellers in carrying out their economic activities. Even though there is a very high quest for financial services in rural areas, formal financial institutions are still reluctant to provide these services to rural dwellers due to the precarious nature of the farming system (Fanta, 2015).

As a result of lack of collateral and guarantors, rural dwellers are deprived of the right to use formal financial systems. Apart from the limited access rural dwellers have to formal financial systems, many rural households, farmers, small entrepreneurs, artisans, and others rely on costly and informal sources to obtain financial services. Most loans from formal sources, especially from banks, are too expensive to be profitable, and debt can lead to enduring reliance of borrowers on money lenders (Zirra, 2017).

### **Objectives of the Study**

The main objective of this study was to examine how rural financial systems contribute to economic development in Nigeria.

- i. To examine the challenges of rural financial systems.
- ii. To investigate the criteria for accessing loans from the rural financial system.
- iii. To examine the interest rate between informal and formal financial institutions.
- iv. To make some policy recommendations to government on the need to support rural financial systems.

### **Research Questions**

The following research questions were formulated for the study:

- i. What are the challenges of rural financial systems?
- ii. What are the criteria for accessing loans from the rural financial system?
- iii. What are the interest rates between informal and formal financial institutions?
- iv. What are the policy recommendations to the government on the need to support rural financial systems?

### **Literature Review**

The quest to develop the rural areas of our society, especially in third-world countries, has been in existence from inception and has also attracted various concerns exercised in various dimensions and approaches. A wealth of relevant literature (Akpan, 2015; Ogberde, 2015; Enyi, 2014; Ayegba and Ikani, 2013; Chigbu, 2013; Nwagboso, 2012; Ocheni and Nwankwo, 2012) has lent credence to issues relating to rural development. As a build-up to the aim of this study, we present the evaluating literature on rural development as it relates to informal credit/financial systems as imperative.

Rural development, according to Nwaeze (2015), is part of the general development that embraces a large segment of those in great need in the rural sector. This need is highly targeted at financial empowerment or access to credit facilities for economic activities. Rural areas have been severely starved and deprived of funds due to the stringent nature of procedures in accessing credit loans, which the formal financial sector has been characterized by. The informal financial systems, therefore, become unavoidable and very necessary to rural dwellers. This system also corroborates the description of rural development as all activities done for improving

---

*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*

---

the socio-economic conditions of all rural people and the environmental conditions of their locality. The socio-economic condition, as noted in the definition, covers improvement in the cultural, economic, political, social, and technological needs of rural people (Chigbu, 2013).

There exists an indispensable relationship between rural development and informal financial systems. The multiplier effect of the activities of informal credit systems has significant implications for rural development occurrences. Rural development is a strategy designed to improve the economic and social life of the people in rural areas (Daasi, 2014). Odunjo, Osawe, and Okoruwa (2018), in their study, evaluated the effect of microcredit on SMEs in Oyo State, Nigeria, and its implications for welfare. The study found that more than two-thirds (69%) of the respondents did not have access to microcredit, while 31% had the ability to secure microcredit. The study also revealed that poverty incidence was higher among respondents that did not use microcredit than those with access. This suggests that incidence of poverty declines with access to microcredit.

Oluwole and Oliwgbemigun (2021) investigated the effect of informal financial institutions on SMEs' performance in Akoko South-West Local Government Areas of Ondo State and reported that credit from family and friends and credit from money lenders had a negative impact on the growth of small- and medium-scale enterprises. The study, however, reported that cooperative credit and credit from business angles had a positive effect on the growth of SMEs. This report of Oluwole and Oluwagbemigun (2021) supports the report of Yusufu, Sulerman, and Saliu (2020) that microfinance banks play a key role in the growth and development of SMEs, especially in the wave of turbulence and hostile business conditions, since they provide short-term facilities to SMEs. Yusufu *et al.* (2020) also observed that repayable loans provided a low interest rate to enhance the development of SMEs.

Bamidele, Ayibiowu, Nwogu, and Attahiru (2019) evaluated the impact of Nigerian financial markets on SMEs in the Gusau metropolis. The study found that financial markets have a significant positive impact on the growth of financial institutions and small- and medium-sized enterprises (SMEs) in Ekiti State. It also highlighted how the availability and distribution of informal financial options vary between rural and urban areas within the state, affecting SME development

---

*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*

---

accordingly. The study found that among the informal financial institutions analyzed, availability of funds from cooperative thrift and credit societies, daily saving schemes, and rotational savings and credit associations tends to be considerably high, while the majority of SMEs in the state do not have access to funds from professional money lenders and professional trade associations.

### **Conceptual Clarification**

**ROSCA (Rotary Saving and Credit Association):** In this system, credit is accessed through a mutual agreement among members who require financial assistance, based on principles of self-help and voluntary contributions, typically organized in a rotating manner.

**FISCA (Fixed Saving and Credit Association):** This categorization of informal credit system is operated on the basis that members make fixed contributions at intervals, agreed upon collectively or on individual ability and pace, which will be drawn over a given period, usually yearly or as agreed upon by the group.

**MBs (Mobile Bankers):** This category of ICS entails individuals who negotiate with the rural dwellers to receive and save cash on either a daily, weekly, monthly, quarterly, or yearly basis based on their negotiation.

**IMLs (Individual Money Lenders):** In the categorization, usually individuals (traders, retired civil servants, and cooperatives) lend money to rural dwellers with some amount of interest attached to the lending based on their negotiation.

### **Theoretical Framework**

This study adopted functionalism theory as propounded by Emile Durkheim in 1893 through his doctoral thesis, published in 1893. This theory sees society as a living organism with interconnected and interrelated parts, all working together to maintain social equilibrium, the interconnected parts designed to meet the biological and social needs of its members.

This theory is germane to this study because it has explained society as a complex system in which the parts are working together for stability. This theory views rural financial systems as crucial to the welfare of rural residents by addressing their

---

*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*

---

financial needs, which subsequently enhances their socio-economic well-being. In rural areas, where access to credit from formal financial institutions is limited, informal financial systems play a vital role in restoring financial stability and meeting the community's financial demands.

Rural financial systems operate effectively in many rural areas where economic development is prioritized through shared beliefs, collective values, and moral norms among community members. These common social principles encourage borrowers to repay loans with interest within the agreed period, thereby fostering trust and motivating financial operators to sustain their activities. Consequently, such practices contribute to social cohesion, stability, and the orderly functioning of rural financial institutions. Rural financial systems are considered essential structures that fulfill the necessary financial needs of the people and contribute to the functioning of the entire society.

### **Findings**

The findings of the study reveal that rural financial systems have played a significant role in meeting the financial needs of rural populations and also fostering economic development. The study further indicates that these systems contribute to improving the welfare of members and reducing poverty by providing access to microcredit facilities.

In addition, the findings show that rural financial systems enhance the socio-economic status of rural dwellers by enabling members to invest in new ventures and purchase agricultural inputs through accessible loans offered at relatively low interest rates. The study also reveals that rural financial systems facilitate the mobilization of savings by channeling surplus funds from members with excess resources to those who require financial support for consumption and investment purposes.

Findings revealed that informal credit institutions help members to mobilize savings from those members that have a surplus to those members that need it for consumption and investment. Findings revealed that informal credit institutions help members to accumulate capital as a result of an increment in income level after pooling money jointly contributed. This money is used to acquire assets by a member who is an entrepreneur. Findings revealed that cooperative societies have invested in new

---

*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*

---

business ventures like hotels, shopping malls, schools, block industries, and so on; their investment in these new businesses has created employment opportunities for unemployed youths in most developing states in Nigeria.

### **Conclusion**

The development of rural financial systems has encouraged serious growth in the socio-economic well-being of the rural people by offering them access to microcredit. Rural financial systems also have their negative side because the operators of these institutions run them as their own and can easily abscond with depositors' money. Most of the operators of these informal financial institutions lack basic knowledge of accounting, bookkeeping, and financial records. However, the rural financial system has contributed to the well-being of the rural people and economic development, especially in meeting the financial needs of the people and creating employment opportunities for the youths.

### **Recommendation**

- i. Government should support informal financial systems with grants for economic advancement of rural dwellers.
- ii. Government should implement laws that would guide the operator of the informal financial system from absconding with customers' money so that rural dwellers can have access to microcredit.
- iii. Government should regulate the interest rate across formal and informal financial institutions to encourage rural people to access loans for economic purposes.
- iv. Community leaders should form a cooperative society in order to secure a grant from the government to support their businesses.

## References

- Akpan, N. S. (2015). Women and rural development in Nigeria: Some critical issues for policy consideration. *Social Sciences*, 4(5), 110–118.
- Ayegba, O., & Ikani, D. I. (2013). An impact assessment of agricultural credit on rural farmers in Nigeria. *Research Journal of Finance and Accounting*, 4(18), 80–89.
- Bamidele, V. O., Ayibiowu, S. I., Nwogu, J. A., & Attahiru, Y. (2019). Impact of Nigeria financial market on small and medium scale enterprises (SMEs) in Nigeria: A survey of some SMEs in Gusau Metropolis. *International Journal of Economic and Financial Management*, 4(4).
- Chigbu, U. E. (2013). *Territorial development: Suggestion for a new approach to rural development in Nigeria* [Doctoral dissertation, Technical University of Munich]. Institute of Geodesy, GIS and Land Management, Centre for Land, Water and Environmental Risk Management.
- Daas, G., & Gibson, L. K. (2014). *Traditional financial institutions and the growth of rural enterprises: Evidence from Rivers State* [Doctoral dissertation, University of Uyo].
- Enyi, J. E. (2014). Rural and community development in Nigeria: An assessment. *Journal of Humanities and Social Sciences*, 19(3), 104–112.
- Fanta, F. B. (2015). Informal finance as an alternative route to SME access to finance: Evidence from Ethiopia. *Journal of Governance and Regulation*, 4(1), 94–102.
- Nwaeze, C. (2025). Impact of rural development programmer on the social and economic welfare of rural dwellers in Nigeria. *The Macrotheme Review*, 4(1), 64–70.
- Nwagboso, I. C. (2012). Rural development as strategy for food security and global peace in the 21st century. *Mediterranean Journal of Social Sciences*, 3(2), 377–390.

---

-----  
*Esara Umoh Victor, Ph.D; Mfon Effiong Asuquo, Ph.D & Anthony Francis Edet, Ph.D*  
-----

- Ocheni, S., & Nwankwo, B. C. (2012). Analysis and critical review of rural development efforts in Nigeria, 1960–2010. *Studies in Sociology of Science*, 3(3), 48–56.
- Odunjo, V. O., Osawe, W. O., & Okoruwa, V. O. (2018). Effect of micro-credit on welfare of small scale entrepreneurs in Nigeria: A case study of Oyo State. *Journal of Sustainable Development Studies*, 1, 69–93.
- Ogebeide, O. A. (2015). An assessment of cooperative society as a strategy for rural development in Edo State of Nigeria. *Research Journal of Rural and Community Development*, 10(1), 94–108.
- Olusola, M. U. (2019). The impact of microfinance banks on entrepreneurship development in Nigeria. *Journal of Business and Economic Development*, 3(2), 51–61.
- Oluwole, F. O., & Oluwagbemigun, O. (2021). Informal financial institutions and small and medium scale enterprises performance in Akoko South-West Local Government, Ondo State. *The International Journal of Business & Management*, 5(4), 2581–3889. <https://doi.org/10.24940/ijbmt/2021/v5/i4/BM2104-11> (assumed; verify if available)
- Udensi, L. O., & Gwambeka, E. J. (2018). Motivation for informal credit systems (ICSs) patronage among rural dwellers in Cross River State. *Uyo Journal of Sustainable Development*, 3(1), 246–255.
- Yelwa, M., Hussainatu, A., Yahya, Z. A., & Awe, E. O. (2015). Socio-economic impact evidence from North central-Nigeria. *Applied Economics and Finance*, 2(4), 124–136.
- Yusufu, O. S., Suleiman, O., & Saliu, H. T. (2020). Effect of micro finance bank on the growth of small and medium enterprises in Nigeria. *KIU Interdisciplinary Journal of Humanities and Social Sciences*, 1(2), 127–142.
- Zirra, C. T. O., & Charles, J. M. I. (2017). The impact of SMEs financing on business growth in Nigeria: A case study of Keffi and Manaraba Metropolis. *International Journal of Innovation and Economic Development*, 3(2), 44–55.