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Impact of Microfinance on Poverty Reduction: a Case Study of Rural Communities in Nigeria

Dr Bello, Okanla Fatai[1], Onimajesin, Salihu Isiaka[2]

[1]Department of Economics,Kwara State College of Education, Oro, Kwara State.

[2]School of Government, College of Law, Government and International Studies COLGIS, University Utara Malaysia

ABSTRACT

The role of microfinance in poverty alleviation in rural areas of Nigeria is the research focus in this paper. To actualize this, the study was anchored to evaluate how microfinance services influences income levels and economic activities, while also identifying the factors contributing to the success or failure of microfinance institutions (MFIs) in addressing poverty. This research employed a quantitative approach to data collection and involved questionnaires that were administered on 364 microfinance customers within selected rural Nigerian locations. The result indicates that microfinance services enhance income increases and economic activities for small-scale enterprise. However, there are major setbacks including high interest rate, low financial awareness and less expansion. This paper concludes that microfinance is a useful measure in poverty alleviation; nonetheless, its impact may be boosted if financial literacy is raised, credit accessibility is made easier and clients suitable for microfinance targeted. Policy suggestions are such areas as the adoption of financial education interventions and improved micro finance services that are capable of supporting sustainable economic development of rural women.

KEYWORDS: Microfinance, Poverty Reduction, Rural Communities, Nigeria, Financial Literacy, Financial Inclusion.

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INTRODUCTION

Micro financing is the extension of various financial services like credit, savings, and micro-insurance to the financially excluded and underserved clients (Abdullahi et.al, 2021). This has however received global interest as an instrument for poverty reduction especially in developing countries such as Nigeria. In rural areas, where there is more or less monopolistic control of the financial sector, micro finance institutions (MFIs) play a significant role in fulfilling the credit needs of the excluded sector. Microfinance is useful in eradicating poverty because it provides low-income earners an opportunity to invest in income generating activities, obtain basic needs and other services including health care and education. In Nigeria, MFIs play the role of availing the much needed finance that will enable the rural populace engage in entrepreneurship, enhance small-scale business and agricultural activities, as well as, save for the future and this has greatly promoted economic empowerment coupled with poverty alleviation (Adigun, 2022). However, there is controversy on the extent to which microfinance programmes are useful in eradicating poverty in Nigerian rural communities. While some a study show that it has had positive effectiveness on developing income and employment opportunities the other argument that it has limited overall positive effects due to aspects like high interest rates, low financial education, and the limited services of the micro finance institutions (Cull & Morduch, 2018). Due to these challenges, it is important to know the prospects of microfinance and its function in alleviation of poverty with special references to the rural areas where poverty is deep rooted.

Eradicating poverty in rural localized areas in Nigeria is still a thorny issue up to now as many inhabitants of this area are still struggling in the poverty belt (Ezeudu & Saadu, 2023). Infrastructure and services, especially in the health sector, are lacking in rural areas, excluding that the population itself does not have funds for the purchases necessary to boost economic activities (Amri & Sihotang, 2023). This condition simply creates a cycle of poverty that is very hard to reverse. Microfinance institutions, providing small amount credit products to the poor, have been considered to respond to these problems. Nevertheless, the extent of the success of microfinance in alleviation of poverty in rural Nigeria cannot be ascertained. Some towns have also gained from microcredit but the majority of other towns are lagging in their economic growth. This research aims to find out how microfinance can help in the poverty reduction process in these societies, and evaluate whether MFIs services helped in changing income, employment and the well-being of the society.

Objectives of the Study

The primary objective of this study is to assess the effectiveness of microfinance in reducing poverty in rural Nigerian communities. Specifically, the study will:

i. Evaluate the impact of access to microfinance services on the income levels and economic activities of rural dwellers.
ii. Identify the factors that contribute to the success or failure of microfinance institutions in addressing poverty in these areas.
iii. Examine the role of financial literacy and the availability of complementary services in enhancing the effectiveness of microfinance.

LITERATURE REVIEW

Concept of Microfinance

Microfinance is a range of banking services aimed at the delivery of financial services to less privileged groups and households, including micro loans, savings and credit, and insurance (Adnan & Kumar, 2021). The main goal of microfinance is to fight poverty and provide opportunities to those who cannot become clients of a usual bank and whose incomes are insufficient for overcoming the poverty level (Egharevba et.al, 2016). Micro finance institutions (MFI's) focus on excluded sector, particularly in the rural areas whereby formal banking sector services are not accessible. The services offered by microfinance institutions include; micro-credit which is a small amount of credit to the entrepreneurs for business purposes, micro-savings which enables clients to save small amounts of money in a safe place, and micro-insurance that seeks to offer coverage to clients against risks of such things as illnesses, death or crop failure (Ahamed, 2021).

The academia has come up with a tremendous understanding of microfinance in the last few decades. At onset, Dr. Muhammad Yunus, whereby he gave small loans to poor persons in Bangladesh to overcome the poverty emblems (Adams & Raymond, 2008), developed it. This model received international appreciation, recognition and was awarded the Noble peace prize in the year 2006 to its founder Mohammed Yunus. After this experience, microfinance has emerged as an efficient tool for poverty reduction, development institutions offering micro-financial services to the poor population of the developing countries. Microfinance transformation has also resulted to development of various models including group loan model known as Grameen Bank Model, the individual loan model as well as the cooperative based models under which microfinance institutions target to offer financial services to the low-income earner (Spratt, 2016).

In Nigeria, the idea of micro financing was nationalized in the early 1990s when the government realized the importance of extending financial services to the rural areas where about 70% of the population have no touch with bank. The practice of microfinance banking was officially accredited by the central banking authority of Nigeria, the CBN in the year 2005 in response to its policy formulated for micro financing in the year, 2005. Since then, micro finance, institution has continued to spread throughout the Nigeria today to small farmers, artisans, traders and the rural poor providing financial services, which include loans, savings products and insurance policies. Micro financing has been mentioned to be a crucial tool in the economic development especially in the villages where the facilities of banking institutions are inadequate. In its current state, the sector is still been confronted by some of the following challenges; it has a low level of penetration, high cost for operations, and requires more government policy support for sustainability (Akang, 2023).

Poverty and Poverty Reduction

People under poverty line are not only those who have low income, meanwhile, poverty as Pavlich (2011) qualifies it, involves more of the following. These include; restricted education, disparities in health provision, low-income standards, and limited social mobility (Heifetz & Jaffe, 2023). Income poverty by far is the most widely acknowledged and it defines people or households who fail to earn over a pre-set income level often set at the poverty line (Hagenaars, 2017). But poverty is not just about money; people cannot qualify it as the lack of basic needs and services including education to enable people to better their living standards and health which determines a people's productiveness and longevity. Living conditions however worsen poverty through housing, water and sanitation rigorously limiting or deprivational in quality (Adams et.al, 2020). Hence, poverty is not merely confined within the narrower context of and financial capacity but consists of various interrelated aspects; therefore, any solution should be able to address all those aspects.

Interestingly, poverty reduction paradigms have changed over time from pure economic growth approach to social, economic, and political empowerment of the poor. They include; Financial inclusion: this focuses on offering people better and standard ways on how they can save, get access to credit, insurance and also make payments (Birkenmaier etal., 2019). Financial access is considered instrumental in eradicating poverty since those with a limited income can use the funds to make productive uses, manage consumption risks and engage in buying goods, and investing (Ouechtati, 2020). Many research works exist on the link between financial liberalization and poverty alleviation; especially in the third world countries among which is Nigeria. According to Lal

(2021), microfinance and other efforts at increasing financing accessibility function to help the marginalized to enhance their standard living. However, the literature also shows constraints like high interest rates, the saver's lack of financial literacy, the absence or inefficiency of markets that affects the applicability of financial inclusion in eradicating poverty. Though financial inclusion in its standalone form cannot remove poverty, it is a significant factor in poverty's removal and that it is just one more tool, a component of the grand strategy that also includes education, health, and infrastructure creation and development. Hence, there is need for comprehensive poverty reduction policy interventional strategies that consider multiple pathways to poverty, along with sound financial services that do not exacerbate poverty; especially for vulnerable groups. It is per the above elucidated that education is widely praised as the solution for poverty eradication because it readies the people for changes in their standards of living (Bamidele, 2024).

Microfinance and Poverty Reduction

Microfinance has received credit in fighting poverty especially in the rural areas for which conventional financial institutions cannot underwrite financial services. In the past, many scholars, more specifically on the way MFIs have bridged the credit gap and built sustainable business ventures to promote the income earning capacity of the poor, have investigated the role of microfinance in poverty reduction. Therefore, studies like Hasan, et.al. (2022) and Chikwira, et.al. (2022) seek to establish how microfinance has transformed the poor and uplifted their livelihoods through provision of capital. One of the postulates of micro finance is offering micro credit or micro loans to people who have no access to classical banking system can help them to create their own jobs and increase income once they start their own business and hence eliminate poverty and shield the effected persons from specified shocks. Research has shown that through microfinance, borrowers can achieve better economic returns, better household saving and better economic mobility (Ullah & Khan, 2017 & Demirgüç-Kunt & Singer, 2017).

Capital is most of the time another major challenge when rural people want to upgrade their living standards. Microfinance dispels this barrier by providing small loans, which are usually unobtainable through regular banking institutions, and which, in most cases, do not need collateral. This type of loans assists people to undertake or develop small-scale businesses, which include business in agricultural sector, trade and services, which are considered as leading sources of income in the rural zone. Solomon et.al., (2016) assessed the effect of rural micro finance borrowers in Nigeria and found out that borrowers used the loans to finance agriculture and Micro businesses, and the results showed an increasing income among borrowers thus improving their standards of living. In addition, even more, if designed properly, microfinance helps to access other financial services, including credit and insurance products, such as savings accounts that help families maintain a safety cushion for unexpected health and economic crises. The resource that can be accumulated and easily retrieved through credit improves the financial position of the rural households thus improving their poverty level.

In their path breaking study, Rahman (2017) established that microfinance intervention had positive effects on women of Bangladesh where the most obvious were a consistent improvement in household income and education level of their children. As mentioned previously for example by Sutter etal (2019), this discovery is in line with other research findings which state that micro financial schemes play a positive role in women empowered improvement of the genders as well as improvement of poverty reduction. However, as this paper seeks to establish, the link between micro-finance and poverty alleviation is not without its problems. Research has shown that many microfinance programs fail to bring sustainable poverty reduction especially in rural households. For example, in a work by Rhyne 2009 indicated that even though micro finance has an aspect of increasing the incomes of the various borrowers in the short term, its effectiveness in poverty reduction has not been very effective since the borrowers are in most cases faced with issues of high charges on the micro finance, inadequate sizes of the loans and also lack market for the loans. In addition, there are those that claim that microfinance is not sufficient to solve the root causes of poverty: poor infrastructure, poor education, and lack of markets (Armendariz & Morduch, 2010). Nevertheless microfinance goes on to act a formidable mechanism in encouraging the spirit of enterprise and finance, and can go the extra distance in eradicating poverty provided the support is complemented with financial education, development of infrastructure and fiscal solutions intended to boost market avenues and stability.

Challenges of Microfinance in Nigeria

Despite the ability of microfinance to reduce poverty and increase access to basic financial services, microfinance in Nigeria has several barriers that hamper its functioning in the rural area. Among them, is the high interest rate that microfinance institutions (MFIs) charge on the loans they offer. This is because despite the noble goal of micro finance to as a means for offering affordable credit to the excluded group, the interest rate kept high in Nigeria. Similarly, research has indicated that interest rates for micro finance loans in Nigeria may go from as low as 25% annually to as high as 60% annually depending on the micro finance institution in question and type of loan granted (Oluwatayo & Babalola, 2020). These high rates in most cases act as a hindrance to borrowers' ability to repay the loans, especially the base of the pyramid hence, limiting the effect that micro finance has on poverty alleviation. High interest rates are usually caused by the costs that are operationally incurred by MFIs such as the cost of funds and other administrative costs. However, these MFIs shift their cost burden on borrowers, which does not help them to become less vulnerable financially.

Another strategic problem is operational inefficiency in microfinance institutions in Nigeria. There is also increases operational inefficiencies that are common with most MFIs in ways that may compromise on service delivery and sustainability. Clementina & Gabriel (2015) found out that many microfinance institutions in Nigeria are not well equipped to effectively manage their operations especially in the rural areas. Some of its inefficiencies include record keeping that seems disorganized, little integration of technology into work and career training of staff. In addition, many MFIs provide low coverage to the population requiring their services due to their basic character and lack of capital. These operational problems translate into high costs, slow delivery of loans, and poor customers' satisfaction; this dampens the exercise of micro-finance in the objective of fostering financial access and poverty alleviation.

The last common challenge is, poor outreach mainly in the rural settings that microfinance institutions in Nigeria encounter. Despite this, the intention of micro finance to target these rural people, majority of people in the rural areas cannot access these services due to physical network hindrances. Data from the Central Bank of Nigeria (2021) revealed that while many MFIs have base themselves in the urban areas, few serve the rural areas. These restricted operations indicate that only a few rural people can access microfinance services since majority of them either are poor or have low incomes. Other forms of barriers include physical access, this is a problem since people in the rural regions do not have adequate knowledge on personal financial management to enable them deal with micro financed services. If the target groups do not comprehend the principles of microfinance and the opportunities that microfinance provides, they may not leverage microfinance instruments, or they can misuse the financial products received with negative impact to their well-being. To address these challenges, MOPEPA needs both enhance its investment in communication and development of infrastructure but the improvement of the existing financial education among rural people.

THEORETICAL FRAMEWORK

Theoretical analysis of poverty and microfinance that incorporates knowledge of this type of financial supply as a tool that can assist individuals and advance their financial independence. Therefore, Empowerment theory is applicable for this study and could be utilized to support microfinance. When used in microfinance, empowerment means the ability of an individual and other deprived groups in the society such the women and the rural poor to exercise power over their lives and gain an economic self-sufficiency. Kabeer (2005) defined capability as the process of expanding the choices and decisions one is able to make for the improvement of his/her control of personal and community destinies. Micro finance is useful in that it offers small loans and other services that enable people to start businesses, earn more, and make more of their own decisions as to what they should do in places where standard banking institutions are less present. Among different categories of clients, many microfinance programs have targeted women, as research has demonstrated that client education enhances not only household well-being but also common good in the society (Mayoux, 2001). The theory also aims at demonstrating that access to credit changes power relations within families and communities, allowing persons low income to break the poverty circle and regain their density or power to make decisions.

These theoretical frameworks that underpin the Microfinance and poverty eradication are Empowerment Theory, Financial Inclusion Theory and Sustainable Livelihoods Framework all provide a basing justification that serve to identify how micro finance can help to fight poverty. Duflo's Modules focus on advancing programs that enhance control capabilities of individuals and improvement of financial access as well as the support toward sustainable livelihoods. Microfinance interventions are most efficient in the rural settings since formal finance institutions cannot satisfy the needs of the poor. When applying these theories, researchers and policymakers are able to grasp the different ways in which self-micro- financing could positively impact on poverty alleviation in the shortest time possible in developing Nations like Nigeria.

Empirical Studies

Previous scholarly discourse has established microfinance under the framework of poverty alleviation; especially in rural area in developing countries such as Nigeria. Specifically, several researches have endeavored to assess the impact efficacy of microfinance for poverty reduction with provision of micro credit services. Pitt and Khandker in their research of microcredit in Bangladesh concluded that poverty alleviation was a process that was made possible through better income levels, better means: better access to education and improved health. In the same vein, employment generation, support for micro-business and improved livelihoods through use of low-interest micro-credits have received varied emphases in several ML clients' studies in Nigeria and the NW world over; some of which include Nkamnebe, (2023). Yet, most studies have only demonstrated that there is evidence of micro-finance affecting these stated goals, with the effect being moderated by the context, the micro-finance institution, and the regulatory environment within which it is anchored. Others have argued that, micro-finance once complemented with training, financial education and better micro-economics polices to support small enterprise have better outcomes (Omondi & Jagongo, 2018).

RESEARCH METHODOLOGY

This study employed quantitative research approach to establish the comparative means of assessing the impact of micro finance on poverty by offering statistical information. The target population for this study includes micro finance customers who are within the rural area of operation in Nigeria and who have once borrowed a micro finance product such as loan, opened a micro finance savings account or purchased an insurance with a micro finance firm. Purposive sampling technique was used in selecting 397 microfinance clients and all the selected individuals will be directly relevant to the study since they had firsthand experience dealing with micro finance institutions. The primary data collection technique is through surveys, which was conducted to the selected respondents to elicit their experience and understanding of the impacts of microfinance on income generation, and their livelihoods. In order to analyze the collected data statistical techniques like regression analysis and correlation analysis was used. Through regression analysis, we will be in a position of establishing the degree of impact of micro finance access to poverty impact indicators, while through correlation analysis, strength of relationship between two or more variables, for instance income level with micro finance was established. This research methodology was considered appropriate as it makes it possible to systematically test hypotheses formulated while offering quantitative means of assessing the usefulness of microfinance in the rural areas of Nigeria.

Data Analysis

Demographic Variable	Category	Frequency	Percentage (%)
Age	20-25 Years	99	27.2
	26-30 Years	174	47.8
	31-40 Years	78	21.4
	41 Years and above	13	3.6
Gender	Male	245	67.3
	Female	119	32.7
Education Level	Diploma	67	18.4
	Bachelor's Degree	178	48.9
	Master's Degree	92	25.3
	PhD	17	7.4
Employment Status	Trader	133	36.5
	Artisan	139	38.2
	Others	92	25.3
Marital Status	Single	178	48.9
	Married	186	51.1
Monthly Income	Less than N20,000	190	52.2
	20,000-50,000	114	31.3
	51,000-100,000	60	16.5
Experience with Microfinance	Less than 1 Year	73	20.1
	1-3 Years	218	59.9
	4-6 Years	73	20.1

The results of the demographic analysis outlined below give deeper insights into respondents’ characteristics critical for furthering the microfinance research in rural communities. As apparent from the above results, a slightly more than half of the respondents (47.8%) fall in the age group of 26-30 years, which suggests that the target consumers of microfinance services are relatively young adults who may be in want of funds for owning their financial independence or to set out a business venture. Regarding gender distribution, there are slightly more male respondents, 67.3% while the female population represents 32.7% and this could be so since the gender differences emerge in accessing micro finance services or the kinds of businesses and economic activities that each gender embarks on in the rural areas. Of all the respondents, 48.9% hold a bachelor’s degree, meaning the respondents were relatively educated, which might affect the ability to harness micro finance for business /economic activities. Employment status shows that micro finance services are most used by traders 36.5% and artisans 38.2% this two group is most suit for small loans and saving services to expand business. Marital status is relatively equal with slight tilt to the married, of them 51.1% hence there is an indication that microfinance could be benefiting the households particularly in terms of family economics. Regarding the income level, 52.2% of the respondents revealed low monthly income of ₦20,000 and below, which indicates that a large number of people deal with microfinance organizations in order to raise their income level. According to data gathered from focus group discussions with regard to the microfinance services, the results show that only 39.1% of the respondents have been using the microfinance services for a long time, while only 32.4% of the respondents have been using the microfinance services for less than a year and 28.5% for one to three years so it could only signify that the study is likely to capture the medium-term impact

These demographic patterns are relevant to the study for they offer a clear picture of who the typical microfinance client is in rural Nigeria in terms of education, businesses, and income. They also identify scenarios where microfinances could be more useful for example by fixing its delivery on younger people, gender disproportion, and make microfinances easily available for the poor income population. Additionally, the level of experience with micro finance gives out signals that it is time to look at a number of issues, including; the impact of a long term micro finance in the fight against poverty among the wallets less lucky in the society.

HYPOTHESIS TESTING

HO1: Access to microfinance services does not substantially impact the income levels and economic activities of rural dwellers.

Table 2a: Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.776[a]	.602	.601	1.90366
a. Predictors: (Constant), access to microfinance services				

The model summary demonstrates the post-authorization income levels / economic activities of the rural populace are positively related to the availability of microfinance services with an R value of 0.776. The obtained R square coefficient equal 0.602 shows that analyzed factors of microfinance predict 60.2% of this variation in the specified economic results. Here the R square of 0.601 adjusted shows that while fitting the model should be fortified, standard error 1.90366 indicate extant variation. The results presented here suggest that, microfinance plays large role, yet factors such as local economic environment or education can affect economic performance in rural areas as well.

Table 2b: ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	1984.436	1	1984.436	547.593	.000[b]
	Residual	1311.861	362	3.624		
	Total	3296.297	363			
a. Dependent Variable: income levels and economic activities of rural dwellers						
b. Predictors: (Constant), access to microfinance services						

The ANOVA analysis shows that the model is fit and significant in this study at .000 level. Regression sum of squares gives the result 1984.436 and residual sum of squares gives the result of 1311.861, to get the F-value we divide the regression sum of squares by the residual sum of squares gives F =547.593 < F-table = 0.000, $p < 0.05$ level. This implies that use of microfinance services does impact on the income generation and economic undertakings of people living in rural areas. The total sum of squares is 3296.297 and represent the total variability in the dependent variable. The present study supports these findings that a significant proportion of the variance is accounted for by the model and that access to micro finance is also a determinant of economic status of household's in rural areas.

HO2: Financial literacy does not significantly influence the availability of complementary services in enhancing the effectiveness of microfinance.

Table 3a: Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.911[a]	.830	.830	.96023
a. Predictors: (Constant), financial literacy				

The trends on the model summary are very high: there is a positive and very high correlation between financial illiteracy and complementary services to support the Micro finance effectiveness with an R value of 0.911. The R square of 0.830 show that 83.0% of the variation in the availability of complementary service is accounted for by financial literacy. With an adjusted R square of 0.830, it is also possible to say the model is strong and from the standard error of 0.96023 we are able to see that the level of prediction error is not very high. Such results suggest that decision-makers can significantly impact the efficiency of microfinance by improving clients' level of financial literacy, countering popular misconceptions according to which such effects are virtually negligible.

Table 3b: ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1631.215	1	1631.215	1769.119	.000[b]
	Residual	333.782	362	.922		
	Total	1964.997	363			
a. Dependent Variable: availability of complementary services						
b. Predictors: (Constant), financial literacy						

With respect to this analysis of the findings, ANOVA analysis reveals that, indeed, the degree of financial literacy strongly bears a relationship with the nature of complementary services in framing up the effectiveness of the micro finance. The regression sum of squares (1631.215) is much more than the residual sum of squares (333.782) thus, the F-value is 1769.119, and p- value is 0.000 which means that it is significant at 0.05 level. This has an implication that financial literacy is a strong determinant of complementary services availability. The total sum of squares (1964.997) estimated the extent to which the dependent variable is variable and, thereby, supports the conclusion that financial literacy significantly contributes to the improvement of microfinance management.

DISCUSSION OF FINDINGS

The model summary further shows that there is a significant relationship between the access to microfinance services and income levels and economic activities of rural dwellers as depicted by the R square of 0.602 and $F = 547.593$ at a $p<0.05$. This indicates that MFIs have specific importance for enhancing economic effects in the groundnut producing regions. These findings are consistent with related research done by Hasan et al. (2022) who have established that access to micro finance did enhance the income and living standards in rural developing nations. Likewise, Tarek (2019) found that the microfinance services not only contributed positivity to the HDI of the rural Bangladeshi households but also increases the household income also. On this notion, Bateman (2010) and Morduch (1999) have warned that solving poverty problem through micro finance alone maybe misleading as other factors such as markets, education, and infrastructure are equally important. These intermediate outcomes show that microfinance is a strong weapon though the results depend on other factors and indicate that microfinance should be used in combination with other pots of development. Therefore, findings of this study are in line with arguments by advocates of microfinance, reaching the conclusion that increases in microfinance can notably benefit rural poverty engage economic activities, but it is also true that poverty needs to be attacked on many facets.

More so, the findings of the second hypothesis showed a model summary and ANOVA show the high significance and positive correlation between financial literacy and complementary service accessibility as indicated by R Squared of 0.830, F Value of 1769.119 and p Value of 0.000. This implies that financial knowledge has a vital role to play in increasing efficiency of microfinance through improved availability of correlated products. The present study is in line with the studies of Chauhan et al. (2021) which proved that financial literacy plays very crucial role in efficient utilisation of Micro finance facilities in rural India. Likewise, Okello Candiya Bongomin etal., (2020) discovered that effective financial literacy helped Ugandans to improve management of microfinance loans for extension and emerging other better financial services. On the contrary Atieno (2001) and Bittencourt (2012) established that although financial literacy is vital complementary services are available depending on the infrastructure and policy in area, thus, the variability. These two points of view highlight the conclusion that financial literacy should be combined with the supportive financial frameworks to achieve the best result at microfinance. In this light, this study provides evidence for the hypothesis that financial literacy plays a considerable role in the provision of complementary services while recognizing the context.

CONCLUSION

The conclusions drawn from the study are as follows:

i. **Impact of Microfinance on Income Levels and Economic Activities:** the study shows that utilization of microfinance services leads to increased income levels and economic activities of resident in the rural areas. For microfinance services and especially micro loaning and micro savings, individuals are empowered to engage in income generating activities hence individuals' and therefore households' incomes are boosted socially and economically.

ii. **Role of Financial Literacy:** Since the financial literacy of the microfinance clients has become a significant factor affecting the efficiency of microfinance services. The findings further show that microfinance interventions in rural areas have a higher success rate where borrowers have a higher level of financial literacy since this enables one to effectively handle loans, make right financial decision as well as effectively use complementary services.

iii. **Complementary Services as Key Enablers:** It is obvious that with the provision of other related services like financial literacy, business development services, and market linkages, microfinance services are greatly valued. This is because; rural communities stand to benefit more from extra support measures which the microfinance institutions offer to enhance a sustainable incomes earning.

iv. **Challenges and Barriers:** few drawbacks have been still observed: high interest rate, lack of adequate infrastructure, and the limited geographic coverage of microfinance institutions in the remote rural areas. Such a situation can limit the optimization of microfinance services in poverty reduction.

RECOMMENDATIONS

Based on the conclusions of the study, the following recommendations are made:

i. **Promote Financial Literacy Programs:** It is suggested that microfinance service delivery be complemented with financial education programmes. Such programmes should endeavour to educate the people in the rural areas on how best to manage their finances, set budgets and most importantly how to profitably utilize the micro credit for use in income generating activities. Such would enable people to make right investment decisions and enhance the probability of business success.

ii. **Expand Access to Complementary Services:** MFIs should diversify the kinds of products offered through services for product extension, including business training, market access, and technical assistance. The above services would in a very better way enable borrowers to manage their businesses, improve on productivity hence the need for more resource input in the rural areas for better economic growth.

iii. **Improve Outreach and Accessibility:** MFIs need to spend more on outreach to bring microfinance to targeted underserved rural communities. This involves opening more outlets that are situated in rural areas, the enhancement of the already available mobile banking and online facilities and the penetration of the best relations with local and other non-governmental organizations in the country.

iv. **Review Interest Rates and Loan Terms:** Technical and policy makers in the running of micro finance institution should reconsider the interest rates and the kind of repayment structure assigned to a micro finance loan is sustainable to the rural user. Cutting down the rates of interest and providing sustainable repayment models would enhance the ability of borrowers in repaying a loan and therefore leading to high incidence in a micro finance programs.

v. **Strengthen Government Support and Policy Framework:** Policies that drive the growth and efficiency of the micro finance institutions enough to branch out and empower the rural people should be developed by governments. It may involve subsidization of MFIs through direct grants or exemptions on taxation policies that enhance the demand for MFs, as well as supporting policies and recognizable ventures such as mobile link with banking.

vi. **Integrate Microfinance with Broader Development Strategies:** A lot of people confuse microfinance as a magic panacea for poverty. It must form a part of other development strategies for dealing with other issues facing the rural areas like; education, health provision and physical facilities. Addressing all these areas shall guarantee that microfinance shall provide the intended benefits in poverty reduction for the long-term.

Implications for Policy and Practice

Policymakers in microfinance practice should focus on enhancing the teaching of microfinance practices together with imparting suitable financial education skills with the focus on rural borrowers. This would allow borrowers to act appropriately in the provision of loans and help in increasing a positive impact of microfinance on poverty. Furthermore, message on access and profiling of loan facilities through the extension of more favourable rates, flexibility in terms of loan repayment, and aggressive portable technology that includes mobile banking, or bottom up approach in involving the community through organized networks will ensure that the target groups are well covered by micro-finance services. In addition, there should be a conscious attempt to help microfinance institutions address issues of exclusion and self-exclusion by reaching out to the previously excluded by expanding products packages particularly those availed to women and farmer groups.

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