

# Analysis of the Effects of Microfinance Banks Loans on the Livelihood of Small-Holder Farmers in Delta State, Nigeria

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## ABSTRACT

The paper assessed farmer's perception of the effects of microfinance banks loans on their livelihood using both primary and secondary data. A multi-stage random sampling technique was used in drawing a sample size of 750 respondent farmers and 15 microfinance banks. Data were analyzed using tables, frequencies, percentages, means, financial ratio and chi-square. The results show that microfinance banks have distributed different sizes of loans to farmers irrespective of their socio-economic characteristics and those farmers' beneficiaries have been positively influenced by microfinance banks loans thereby improving their living standards. The repayment rate of 79% was relatively good. The major problem of loan administration includes high interest rate, collateral requirement, difficulty in accessing credit, distance, transportation cost and late granting of loans among others. For optimum benefit it is suggested that micro finance banks should work with other integrated rural development agencies that are geared towards improving the wellbeing of the rural small-holder farmers.

**Keywords:** Analysis, effects, microfinance bank, livelihood, small-holder

Agriculture has traditionally been acknowledged as the mainstay of the Nigerian economy. The primary place it occupies in providing food and fibre for the people has made it the most single factor in influencing

the standard of living of many people in developing countries, particularly Nigeria (Chigbu, 2005). In terms of employment. Agriculture is by far the most important in the Nigerian economy because it engages about 70% of the labour force (Okuneye, 2008).

Its performance in the development process in the 1960s was very commendable. According to Lawal and Ette (2006), the sector accounted for well over 80% of the export earnings and about 50% of government revenue during this period. Unfortunately, over the

Access this article online	
<b>Publisher</b>	Website: <a href="http://www.ndpublisher.in">http://www.ndpublisher.in</a>
	DOI: 10.5958/0976-4666.2016.00049.8

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years, the sector has witnessed tremendous decline in its contribution to the national output.

It was widely believed that the civil war (which took place between 1967 and 1970) and the emergence of petroleum in the early 1970s, among other things had scuttled the production foundation of agriculture (Okuneye, 2008). Despite the fact that Nigeria is blessed with abundant human and natural resources which are favourable for agricultural development, agriculture in Nigeria is dominated by resource poor farmers who are responsible for about 90% of the total production (Enimu, Igiri and Uduma 2015). These farmers are characterized by low farm incomes and low technological inputs.

To stem the tide, several efforts have been made by successive government. Some of which include; the introduction of the National Accelerated Food Production Project (NAFPP) in 1970, the Nigeria Agricultural and Cooperative Bank (NACB) in 1973, Operation Feed the Nation (OFN) in 1976, Agricultural Credit Guarantee scheme Fund (ACGSF) in 1979, Green Revolution (GR) Programme in 1980, the financial reform of the Structural Adjustment Programme (SAP) in 1986, Agricultural development Programme (ADP) in 1986, Peoples' bank (PB) in 1988, Nigerian Bank of Commerce and Industry (NBCI) in 1993, National Seed Service (NSS) in 1995, National Economic Empowerment Development Strategies (NEEDS), in 1999, the Rural Banking Scheme in 2002. In all these policy issues, there is little consensus with respect to the most appropriate strategy for securing increase farm output and productivity in an under-developed agriculture like that of Nigeria. It is however noted that whatever the programme package, or technological innovation introduced to improve agriculture, its adoption and use will to a large extent be implicitly or explicitly dependent on agricultural production and on farmers ability to finance such innovation (Olajubode 1980).

In recognition of this fact, the Nigeria government institutionized the Community banking System by Decree No. 46 of 1992 with the primary objective of promoting grassroots self-reliant economic development through the provision of finance and other banking services at the local level. Its primary purpose is to mobilize deposits and provide credit and other financial services to its

customers largely on the basis of their self-recognition and trustworthiness (NBCB, 1993)

By 2005, the Central Bank of Nigeria (CBN) under the other financial services department carried out a restructuring of the financial sector, this restructuring lead to the change of name from Community Banks (CBs) to Micro-finance Banks (MFBs) with a recapitalization base of N20 million.

The Micro-finance Banks (MFBs) since their inceptions have functioned for over ten (10) years in Nigeria. However, report by NBCBs and CBN in their various publications and annual reports over the years see the impact of MFBs from the point of view of geographical spread, growth in the number of established banks, total deposit mobilized, total loans/advances given out and growth to the total assets of operating MFBs. At present, there is no information on farmers beneficiaries of such loans and the implications of such loans on the economic life of the farmers and agricultural development. In view of this therefore, it becomes pertinent to critically assess the performance of Micro-finance Banks in financing the activities of small-holder farmers in Delta State.

### ***Statement of Problem***

There is no doubt that micro finance providers increase access to credit for many farmers however, there are clear indications that some of these programmes have had limited source (Nweze, 1995). For example, World Bank (2000) estimates that NACB, PBN and CBs could only reach less than 10% of the rural population for the total period they have existed. Yet social cost of these institutions is enormous and continues to increase. Supported by government through loan refinancing, the institutions are encumbered with serious problems of loan arrears and institutional non-viability. These could be seen from the persistence of problems and issues that led to the establishment of the programmes, such as low-level of rural savings mobilization, inadequate use of conventional banking services and lack of credit for rural small holder farmers (Okafor, 2000, Eyo and Enimu, 2015).

Therefore, the present study attempts to fill this knowledge gap by providing answers to he following research questions.

- (i) What happened to the rural deposit mobilized?
- (ii) Who are the beneficiaries of the loans/advances reported?
- (iii) Are the loans/advances given of any implication(s) on the small-holder farmers and rural economy?
- (iv) Are the outstanding gaps in meeting the credit needs of small-holder farmers in Nigeria closing up?

### ***Objectives of the Study***

Specifically, the study sought to:

- (i) Assess and analyze the socio-economic characteristics of small-holder farmer;
- (ii) Determine small-holder farmers level of perception of the effects of Microfinance banks loans/credit on their economic activities;
- (iii) Determine loan repayment frequency of small-holder farmers;
- (iv) Identify factors militating against funding of small-holder farmers by MFBs in the study area.

### ***Hypothesis***

Microfinance banks loans has no effects on the economic activities of small-holder farmers.

### ***Theoretical Framework***

The theoretical framework adopted for the paper included the capital accumulation theory, the bank capital channel theory, the pecking order theory and the agency theory that attempts to explain small holder farmer's financial structure.

#### ***(i) Capital Accumulation Theory***

The crucial role of capital in economic growth and development process has been recognized since the pre-Keynesian era when the classical ideology monopolized economic thinking and policy formulation. From the standpoint of development economists, it is generally believed that capital formation (accumulation) is the

springboard for the escape of low level equilibrium trap involving a vicious cycle of poverty.

According to Nitzan and Bichler (2000), the accumulation of capital refers simply to the gathering or amassment of objects of value; the increase in wealth; or the creation of wealth. Capital can generally be defined as assets invested with the expectation that their value will increase, usually because there is the expectation of profit, rent, interest, royalties, capital gain or some kind of return. This is suggestive of the resource constraint poor farmers striving to create wealth. Ruby, (2003), emphasizes that the ability to transform resources into desired goods and services represents the true source of a nation's wealth. In other words, physical and human capital represents the true source of wealth. Non-financial and financial capital accumulation is usually needed for economic growth, since additional production usually requires additional funds to enlarge the scale of production (Eyo and Enimu, 2015).

The process of capital accumulation involves three steps (a) it increases the volume of real savings (b) mobilizes savings through financial and credit institutions and (c) investment of savings (Nitzan and Bichler, 2000). Thus the problem of capital accumulation in underdeveloped countries becomes two fold, one, how to increase the propensity of the people in the lower income group to save and two, how to utilize current savings for capital accumulation. This leads to the sources of capital accumulation which are classified as domestic and external as it affects small-holder farmers.

#### ***(ii) The Bank Capital Channel Theory***

This theory considers the lending behaviours of banks to farmers which are affected by a capital adequacy requirement. According to Obamuyi (2007), "The bank capital channel views a change in interest rate as affecting lending through bank's capital, particularly when banks' lending is constrained by a capital adequacy requirement. Thus, an increase in interest rates will raise the cost of banks' external funding, but reduce banks' profits and capital. The tendency is for the banks to reduce their supply of loan if the capital constraint becomes binding. However, banks could also

become more willing to lend during certain periods because of an improvement in their underlying financial condition". In Nigeria, banks are expected to maintain a minimum of 40% liquidity ratio of total deposits. Thus, the ability of banks to grant loans is constrained by the amount of financial resources at their command, based on the capital requirements. This condition as purported by this theory, is clearly seen in the relationship between banks and resource constrained small holder farmers as they suffer a lack of financial assistance as a result of this backward phenomenon.

### **(iii) The Pecking Order Theory**

The Pecking Order theory as propagated by Meyers (1984) states that firms finance their needs in a hierarchical order, first by using internally generated funds, followed by debt and finally, external equity. This practice is more common among small holder farmers which indicates the negative relationship between profitability and external borrowing by farmers. The farmers that are constrained by inadequate collateral requirements depends solely on the little savings they earn from their subsistence farming, they progress further to generating funds from family members then friends before moving to high interest rate ravaging money lenders. The least of external funding which are the banks are not readily available or accessible.

### **(iv) The Agency Cost Theory**

The agency theory is concerned with how agency affects the form of the contract and the way they are minimized, particularly, when contracting parties are asymmetrically informed. This theory places emphasis on transaction cost, contracting analysis, it points to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing etc. between farmers and external providers of funds, thereby subjecting farmers to the risk of asset substitution which in practice means a change in farm's asset structure. Fundamentally, the problem arises because lenders are imperfectly informed about the characteristics of potential borrowers, and it may be impossible, for lenders to distinguish between good

borrowers and bad ones (Fraser, 2004). For farmers' asset substitution may well take place between the farm and the household. As described in the report by South African Reserve Bank (2004), the presence of these problems in small firms may explain the greater use of collateral lending to small firms as a way of dealing with these agency problems. Lenders' strategies of dealing with these problems also add significantly to the cost of dealing with the sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of an (audited) set of financial statements and supporting documentation provided by the applicant, while for small firms the assessment frequently has to go far beyond this, implying a substantially higher transaction cost.

Theories of financial intermediation explaining financial needs of resource constraint small holder farmers are largely diverse and differ from country to country.

## **Methodology**

### **(a) Study Area**

Delta State is the study area. The State was created in August 27, 1991 out of the former Bendel State. The State comprises of twenty-five (25) Local Government Areas, lying between longitude 5° 00' and 6° 45' East and latitude 5° 00' and 6° 30' North. It is bounded on the north by Edo State on the northwest by Ondo State, Anambra State on the East and Bayelsa State on the South East. On its Southern flank is the Bight of Benin, which covers approximately 160 kilometers of the State's Coastline (FOS, 1996).

The State has a tropical climate marked by two distinct seasons; the dry and rainy seasons: The dry season occurs between November and April, while the raining season begins April and last till October. There exist a brief dry spell in August commonly referred to as 'August Break'. The average annual rainfall is about 2667mm in the coastal areas and 1905mm in the Northern areas. Rainfall is heaviest in July. Delta State has a high temperature ranging between 29°C and 44 °C with an average of 30 °C. (Delta State main fact, 2014). The vegetation varies from the mangrove swamp along the coast, to the rain forest in the middle and Savannah in the North, which

favour agricultural activities. The nature of the state encourages fish farming, crop production and livestock rearing with the majority of the farming population being small-holder farmers. The 2006 population census put the population of Delta State at 4,098,391 which is made up of 2,074,306 males and 2,024,085 females, with a land area of 17,011sq kilometers (NPC, 2006, FOS, 1996).

**(b) Sources of Data**

Primary and secondary data were used in the study. Primary data were obtained by using two set of well-structured questionnaires. One set of the structured questionnaires was administered to clients/farmers beneficiaries of the micro finance banks to elicit information on the loans/credit usage, procedures and problems and the other set was administrated to the senior staff/credit officers of the micro finance banks to elicit data on loan procedures, administration and repayment. Secondary data were obtained from published and unpublished relevant materials.

**(c) Sampling Technique**

A multi-stage random sampling technique was adopted in the selection of rural communities/microfinance banks and farmers beneficiaries for the study using the list obtained from (CBN) and the State Ministry of finance.

**Stage 1** - A purposive selection of the three agricultural zones in Delta state namely, Delta South agricultural zone, Delta Central agricultural zone and Delta North agricultural zone was carried out.

**Stage 2** – A random sampling of five (5) Local Government Areas (LGAs) from each of the agricultural zones was done and this gave up fifteen (15) LGA

**Stage 3** - A random sampling of fifty (50) farmer beneficiaries was done. This gave a total of seven hundred and fifty (750) farmers beneficiaries.

**Stage 4** – The stage involved the selection and interview of a credit officer of each micro finance bank to investigate the banks. This gave a total of Fifteen (15) micro finance banks.

**(d) Method of Data Analysis**

Data obtained were analyzed using tables, frequency, percentages, means, chi-square and financial ratios.

**Model Specification**

(i) The contingency table was used to analyze the perception of farmers on the effects of the microfinance bank loan on their farming/economic activities. The perception of rural farmers was essentially highlighted using a 4 × 5 contingency table for a two-way classification of data as shown in the Table 1:

**Table 1:** Contingency table showing observed levels of perception of effects of micro finance banks loans farmers on economic condition of farmers

Occupational area	Highly Improved	Improved	No Effect	Worse- ned	Highly Worsened	Total
Agribusiness						ΣA1
Livestock						ΣA2
Fisher Folks						ΣA3
Crop Farmers						ΣA4
Total	ΣB1	ΣB2	ΣB3	ΣB4	ΣB5	ΣΣ

**Results and Discussion**

This study involved sole proprietors of farms and agribusiness owners. A total of seven hundred and fifty (750) respondent farmers beneficiaries of micro finance banks loans and fifteen (15) microfinance credit officers were used for the study.

**(a) Social-Economic Characteristics of Small-Holder Farmers**

Table 1 showed the socio-economic characteristics of the small holder farmers. The majority of the small-holder farmers were male, married and in their active. They had a mean age of 41 years. The eldest respondent was 69 years of age and the youngest was 26 years old. However, table 1 also shows that respondents in the agribusiness sub-sector had the highest mean age of 48 years whereas respondents in the livestock production sub-sector had the lowest mean age of 38 years. Comparatively agribusiness owners were relatively older, followed by the crop farmers, the fisher folks and

livestock farmers respectively. This result, buttresses the labour intensive nature (drudgery) of the various sub-sector thereby subjecting younger people to more strenuous job compared to the older respondent who prefer to trade on agricultural produce. The respondents had an average of 16 years of on-the-job experience. The mean years of experience were lowest for the fishing subs-sector and highest for the agribusiness owners. Table 1 shows that the most experienced respondents had 38 years of on- the – job experience whereas the lest experienced respondent had only 1.5 year of experience. However, the agribusiness owners had a means years of on-the-job experience of 21 years, livestock farmers had a mean of 18 years of on-the-job experience, fisher folks had a mean of 16 years experience and the crop farmers had an average of 20 years of on-the-job experience.

The mean educational level of respondents stood at 12.9 years of schooling, with the maximum schooling year standing at 18 years and the minimum was 4 years. The result confirms the fact that all the respondents had a level of education that will enable them to understand loan contractual agreement and be able to fill loan application forms.

The mean annual income of the respondents was N280,700. The respondent with the highest annual income had N355,600, while the respondent with the lowest annual income had N150,500. The mean annual

income of the sub-sector put livestock farmers on the highest with a mean annual income of N320,200, while the lowest N211,800 mean annual incomes was earned by the crop farmers. The respondents had an average household size of 9 persons, the mean number of household size was lowest for the agribusiness owners and highest for the crop farmers. Table 1 show that the respondent with the highest household size had 15 persons, while the respondent with the lowest household size had 3 persons.

The mean distance traveled in kilometer to source of loan was 11km. The respondent with the longest distance had 22 km to travel, while the respondent with the shortest distance had 2 km to travel. The table also shows that livestock farmer had the longest mean distance of 11.5 km to travel while agribusiness owners had the shortest mean distance of 5.8 km to travel. Literatures had stated that longer distances discourages farmers from collecting loan thereby affecting agricultural production negatively (Enimu, Igiri and Uduma, 2015). The respondents had a mean loan duration of 7 months, the respondent with the highest loan duration had 12 months, while the respondent with the lowest loan duration had 3 months. On sub-sector basis, the crop farmers had a mean loan duration of 11 months, livestock farmers had 9 months, fisher folks had 8.5 month and the agribusiness owners had a mean loan

**Table 1:** Socio-economic characteristics of small holder farmer respondents

Characteristics	Mean	Maximum	Minimum	Sub-Sector	Means		
				Agribusiness	Livestock Farmers	Fisher Folks	Crop Farmer
Age (years)	41	67	26	48	38	42	45
Experience (years)	16	38	1.5	21	18	16	20
Education Level (Years)	12.9	18	4	13.7	12.6	11	12.4
Income N'000'	280.7	355.6	150.5	201.8	320.2	215.4	211.8
Household Size	9	15	3	7	8	8	9
Distance to Loan Source (KM)	11	22	2	5.8	11.5	12	10.9
Loan Duration (Months)	7	12	4	7	9	8.5	11
Amount Received N'000'	290.5	560.5	25.6	240.4	290.6	180.1	158.3
Supervision (visits)	12	24	6	14	9.5	11.6	8.3

Source: Field Survey, 2014

duration of 7 months. The mean amount received as loan by the respondent was N290,500. The respondent with the highest amount of loan had N560, 580, while the respondent with the lowest amount of loan had N25, 600.

Table 1 shows that the livestock farmers had the highest mean amount of loan at N290,600, while N240,400, N180,100 and N158,300 was the mean amount of loan received by agribusiness owners, fisher folks and crop farmers respectively. The mean loan supervision by a credit officer was 12 times/visits. The maximum visitation was 24 times, while the minimum visitation by a credit officers was 6 times. It has been emphasized that frequent visit by credit officers help to improve loan repayment by loan beneficiaries.

**(b) Farmers’ perception of the Effects of MFBs Loans on their Economic Activities:**

Microfinance banks since inception have existed for more than 10 years in Nigeria, hence, they have exerted some effects on the economic activities of the rural small holder farmers in the study area. The contingency table below shows the number and percentage of small-holder farmer’s level of perception of effects of microfinance banks loans on their economic activities.

Table 2 shows the numbers and percentages of farmer respondents based on their major occupational areas and the effect of microfinance bank loans on their economic conditions. The table shows that 273 respondents had agribusiness such as trading, artisanal as their major

occupation with 86.07% agreeing that MFBs loans have improved their economic activities, 10.25% said it has worsened their economic activities, while 3.66% said that MFBs loans had no effects on their economic activities. Out of the 189 livestock farmers respondents 79.36% agreed that MFBs loans have improved their economic conditions, 12.17% agreed that MFBs loans had worsened their economic condition while 8.46% of livestock farmers agreed that MFBs loans had no effect on their economic activities. Among the 152 fisher folks respondents, 80.26% agreed that MFBS loans had improved their economic condition, 13.16% agreed that it had worsened their conditions while 6.58% agreed that MFBs loan had no effect on their economic activities. On crop farmers respondent out of the 136, 80.26% agreed that MFBs loan had improved their economic conditions, 13.16% disagreed while 6.58% agreed that MFBs loans has no effect on their economic activities.

Summary of the significant tests for farmer’ level of perception of MFBs loans is showed below:

**Decision Rule:** If the  $\chi^2$  cal value is greater that the  $\chi^2$  tab value reject null hypothesis. If  $\chi^2$  cal. Value is lesser than the  $\chi^2$  tab value accept null hypothesis.

The results were presented using agribusiness, livestock rearing, fishing and crop production as the major occupation of the MFBs farmer beneficiaries. From table 3 the chi-square test showed that agribusiness small holders economic conditions are significantly improved by MFBs loans  $\chi^2_t > \chi^2_{cal}$  (13.28 > 284.46) at 1% confidence

**Table 2:** Effects of MFBs Operation on the Economic Activities of Small Holder Farmers

Occupation Area	Highly Improved		Improved		No Effect		Worsened		Highly Worsened		Total
	No	%	No	%	No	%	No	%	No	%	
	Agribusiness Owners	83	30.4	152	55.67	10	3.66	15	5.49	13	
Livestock Farmers	44	23.28	106	56.08	16	8.46	12	6.35	11	5.82	189
Fisher Folks	32	21.05	90	59.21	10	6.58	13	8.55	7	1.61	152
Crop Farmers	32	23.53	77	56.62	3	2.21	13	9.56	11	8.17	136
<b>Total</b>	<b>191</b>		<b>425</b>		<b>39</b>		<b>53</b>		<b>42</b>		<b>750</b>

Source: Field Survey, 2014.

interval. Livestock rearing received the second most significant area with a chi-square that showed improved economic activities due to MFBS loans  $\chi^2_t > \chi^2_{cal}$  (13.28 > 173.25). Fisher folks follow livestock rearing with  $\chi^2_t > \chi^2_{cal}$  (13.28 > 158.59) while crop production was significant also with  $\chi^2_t > \chi^2_{cal}$ . (13.28 > 130.62).

Based on the chi-square result it is concluded that the various respondents groups agreed that microfinance bank loans had improved their economic activities and thereby improve their standard of living. It suffices to say, that MFBS loans had a positive effect on the economic activities and well being of small holder farmers in the study area.

**(c) Loan Repayment Rate**

This financial ratio measures the rate at which loans are being repaid (i.e. accumulated past due and present past due loans). The loan repayment rate is calculated as follows:

$$\text{Repayment Rate (Y)} = \frac{\text{Amount Repaid}}{\text{Amount Disbursed}} \times \frac{100}{1}$$

$$\frac{713,787,960}{902,847,000} \times \frac{100}{1} = 79.1\%$$

The loan repayment rate of 79.1% by the small-holder farmers is relatively good compared to recorded

**Table 3:** Level of Significance of Perception of MFBS Loans by Small Holder Farmers

Occupational Area	R	DF	LS	X <sup>2</sup> tab	X <sup>2</sup> cal	Conclusion
Agribusiness (Trading/Artisan)	1st	4	0.01	13.28	248.46	Significant
Livestock Farmer	2nd	4	0.01	13.28	174.25	Significant
Fisher Folks	3rd	4	0.01	13.28	158.59	Significant
Crop Farmers	4th	4	0.01	13.28	130.62	Significant

Source: Calculation from field data, 2014

DF = Degree of freedom; LS = Level of significance; R = Ranking by order of significance

**Table 4:** Problems of MFBS Small Holder Farmers Loans Beneficiaries

Problems	No Affected	Percentage
Late granting of loans	521	69.5
Distances/transportation cost	610	81.3
Collateral requirement	750	100
High Interest rate	750	100
Much filling of farms	315	42
Poor education about loan	116	15.5
Little or no supervision	429	57.2
Difficulty in accessing credit	721	96.1
Maximum responding Unit	750*	

Source: Field Survey, 2014.

(Multiple Choice Response Recorded)\*

repayment rate in the literature using individual lending methods Olomola (2000) reported a high repayment rate of 96% among savings and contributory association members in Ondo State, Nigeria. Some loosed nut needs to be tightened in order to achieve 100% or close to loan repayment rate which is a high order to achieve.

**(d) Problems Faced by Small Holder Farmers in Accessing Micro finance Banks Loans:** There are problems in most human endeavors. Loan administration is not left out. Small-holder farmers beneficiaries of micro finance banks' faced a number of problems in their loan acquisition and management. Table 4 show the problems faced by small holder farmers in the quest to secure external funds.

Table 4 shows that the problem of high interest rate and collateral requirement are the most serious major problems faced by small-holder farmer beneficiaries of micro finance banks at 100%. This was closely followed by difficulty in accessing loans, at 96.1% while distance to source of loans and transportation cost was 81.3%. The problem of late granting of loans which is essential for timely operation was 69.5%, while little or no supervision of loan was 57.2%. The problem of much filling of forms and poor loan education stood at 42% and 15.5% respectively.

## Conclusion

This study focused on the perception analysis of the affects of microfinance banks loans on the livelihood of small-holder farmers. Using random selection of 750 farmer respondents and 15 officers of the micro finance banks. Structured questionnaire was the main instrument of data collection and data were analyzed using descriptive statistics.

The microfinance banks were found to have distributed different sizes of loans to farmers irrespective of their socio-economic characteristics. Small-holder farmers beneficiaries have been positively influenced by MFBs loans as their perceptions of effects of MFBs loans on their economic conditions/livelihoods proved significant at 1% level of significance with an average of 88% of the farmers respondents that agreed on the view, that MFBs loans has improve their economic activities

and standard of living. It is thereby concluded that MFBs working with other integrated rural development agencies will make farming and agribusiness which is the major economic activities of the rural inhabitant bring economic growth and sustainable development to Delta State, its rural small-holder farmers and the entire nation in general.

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