



Impact of Microfinance Institutions' Micro-credit Program on Poverty Alleviation through Agricultural Finance Intermediation to Maize Farmers in Niger State, Nigeria

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Abstract

The study examined the impact of micro-credit facility of MFIs on Maize farmers in Niger State, Nigeria. To achieve the stated objectives of the study, 144 maize farmers who are beneficiaries of MFIs credit facility were drawn through multi-stage sampling technique. Both primary and secondary data were used in the study. The primary data was collected using well structured questionnaires accompanied with interview schedules. Information were collected on socio-economics, types of cropping system, inputs usage and output obtained during the 2009/2010 farming season. Data were analysed using descriptive statistics like the percentages, frequency tables means, etc. The result of the analysis shows that most of the maize farmers who are MFI clients were mostly women (67.4%) and of middle - age (41.12years). They have family sizes averaging 8 people. Most of the beneficiaries had modern education (70%). On the impact of micro-credit loan, the facility has had a positive impact on the beneficiaries in terms of increased income, better nutrition and health status, empowerment of women etc. Some of the constraints faced by the MFBs in the area include poor rural infrastructure, limited capital to increase volume of coverage, lack of trained manpower etc. To enhance performance of MFIs in the study area, it was recommended that more of these financial institutions be established in the area, more infrastructural facilities should be provided among others.

Key words: Microfinance Institutions, Poverty, Finance Intermediation.

Introduction

One factor inhibiting the attainment of development goals in less developed economies is the inability to access factors of production, especially finance. This limits the entrepreneurial ability of the people especially the poor. Potential employment opportunities and household prospects for creating wealth and improving income are lost. Nigerian farmers including maize growers are engulfed in the vicious cycle of small holdings, low income, low savings and low capital investment. Agricultural development in Nigeria no doubt requires some capital injection from both formal and informal financial sector, if the vicious cycle is to be broken, as credit in the hands of farmers will enable them reap the economies of scale, discover new and better products, create demand where none existed, introduction of supplementary enterprises that could increase

labour utilization and promote steady flow, and provide utilities to satisfy a widening market (Ijere, 2007). Microcredit has been one frame work adopted to address this problem. Its evolution reflects acknowledgement of credit market failures especially in the formal financial sector. Therefore, there has been, a shift from the formal financial sector to microfinance which incorporates both savings and credit. This suggests that savings services and not simply loans, can help to improve the welfare of the poor (Vonderlack and Schreiner, 2001).

Microfinance Institutions (MFIs) are those institutions which provide micro-credit, savings and other services to the productive poor. MFIs have emerged in many countries as a response to address the failure of the state-led and mainstream formal financial system to reach the poor who are not seen as bankable clients due to information asymmetry and risk perceptions.

It is widely accepted that MFI programs can compensate for some of the weakness in developing capital markets and can help low income entrepreneurs to improve their enterprises and raise their standards of living (AIMS, 1997).

In Nigeria, microfinance activities are rooted in the culture of the people and come in various forms. Non-governmental Organization (NGOs) activities in micro financing have also emerged. In 2005, a microfinance framework was initiated by the Nigerian Government (CBN, 2005). One of the targets of the policy is to eliminate gender disparity in access to financial services. It also provided credit to the poor who are vulnerable to income fluctuations in terms of need, thereby permitting "consumption soothing" (Weiss and Montgomery, 2004).

Poverty is insufficiency of means relative to human needs (UN, 2005). It is estimated that about 70 percent of Nigeria's population was poor in 2001 and most of them lived in rural areas. Nigeria ranks as one of the 25 poorest countries in the world, having ranked 148 out of 173 countries surveyed (UNDP, 2002). It is no surprise therefore, that one of the most important economic problems, which are currently engaging most of the attention of economists, other social scientists and governments, especially of developing countries (Nigeria inclusive), is the problem of poverty and underdevelopment (Idehai and Omene, 1991).

Over the past decades, the macro-economic objectives of the government had been geared to ensure economic growth, reduction of unemployment and poverty, among others provision of credit facilities to the rural sector whose main occupation is agriculture and farming (Baba, 2004; Personal communications), and contributing 95% of Nigeria's food crops and livestock under favourable conditions. The inability of this sector to realize its full potentials could be traced to the existing financial gap between the demand for, and supply of credits for economic activities.

In an effort to facilitate credit flow to farmers, small and medium enterprises and rural economies, the Federal Government of Nigeria (FGN) introduced Agricultural credit and Agricultural Financial Intermediation Policies to Agricultural Entrepreneurs as an intervention measures to direct the growth and development

of agriculture. The Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) was established in 1978, as well as Rural (Commercial) Banks to provide credit for agricultural purposes and other rural ventures (Ogunsumi, 2007). However, Adekunle (1998) and Manyong *et al.* (2005) in their separated studies revealed that most of these credit schemes, despite their general acceptance and a wide appreciation for agricultural transformation/modernization have failed at various times and places to yield the expected and significant results.

Furthermore, the CBN (2005) notes that the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. These 65% are often served by the informal sector through NGO-MFIs, friends, relatives and credit unions. This financial gap has been partly attributed to the inadequacy in the distribution of formal institutions bank branches in Nigeria (one bank to 60,000 clients, and in terms of territorial coverage of about 920,000 square kilometer (km^2) (one branch per 420 km^2). The focus now, is to build a new generation of MFIs that have transparent track records and solid institutional and financial performance, such as NGO-MFIs, Self-Help Groups (SHGs), Esusu etc. Furthermore, in addition to the inadequacy of distribution of formal financial institutions in Nigeria and the study area in particular, is the critical problem of low repayment rates associated with the different agricultural credit institutions/schemes. This is considered unsatisfactory and calls for urgent attention to redress the situation. It therefore has become imperative to address the problem since many of the loan schemes are recycling in nature and their consequence may result in capital rationing by these institutions. This will definitely deny many farmers and other micro-entrepreneurs the opportunity of benefiting from these loan schemes.

The study therefore seeks to provide answers to the following research questions. What are the socio-economic peculiarities of credit beneficiaries (maize farmers) from MFIs in the study area? Has credit access from MFIs made any significant impact of improving the income levels and poverty alleviation of maize farmers in the study area?

Do maize farmers encounter problems in acquiring credit facilities from MFIs for their production activities? The study was therefore designed to highlight the socio-economics of MFI clients that cultivates maize, determine their farm characteristics and to determine the impact of micro-credit program of MFIs on maize farmers in the study area.

The study is a timely one since maize is one of the major staple foods that can remedy food insecurity in the tropics (FAO, 2000), and food security is of the focal points of the transformation agenda of the FGN. It is known that the major problem affecting the poor standard of living of the rural dwellers including maize farmers is the low purchasing power of the local farmers. This is as a result of Nigeria's Agriculture being carried out at a subsistence level by low income earners with little access to fund when required. Expansion and modernization of farms depend on a large extent on capital investment and its good management. To obtain capital, they must of necessity, seek credit from formal financial institutions whose terms or conditions of loan are more often than not better than those of the informal institutions. In addition, even those farmers that new about the available fund often do not have the security required in securing the loans. This has made it imperative to determine the factors that militate against easy and available access to such funds with the general aim of economic progression.

Methodology

Study area

The study data was collected between May, 2009 and March, 2010. Niger State has a population of 3,954,772 people (N.P.C, 2006). The climate is characterized by a district dry and wet seasons with annual rainfall varying from 1,100mm in the North to 1,600mm in the south (NGSG Diary, 2003). The maximum temperatures, which do not exceed 37°C, are between March and June with the lowest minimal temperatures of usually in December and January. The seasonal variations of air temperature are constant. The duration of the wet season ranges from 150days between months of May to September in the Northern part of the state and about 210 days in the southern part of the state between the months of April to October. The climate, soil and hydrology permits the cultivation of most Nigerian State crops and still leaves ample scope for grazing and forestry, and

freshwater for fishing. The dry season commences in October and the relative humidity could be as low as 1400mm between December and January (NSADP, 1997).

Maize cultivation in Niger State is practiced in both upland and low valley areas that are usually water logged during the raining season. Credit is one of the critical inputs of production which they use for investing in other inputs such as improved seeds, chemical fertilizers and pesticides among others. Maize is a predominant crop in Niger State. The crop constitute an important source of income, employment generation as well as a risk integrating mechanism, in that they serve as complement food in years of poor rainfall (especially when grown under *fadama* or supplementary irrigation).

Sampling technique and data collection

The target population for the study is the maize farmers that were beneficiaries of the MFIs in Niger State. Multi-stage Random sampling (MRS) technique was employed in the selection of the Institutions and Respondents. The sample frame was provided by the CBN for the list of formal, CBs and informal MFIs. In stage one of the sampling procedure, two (2) out of the three (3) agro-ecological zones were purposively selected in consonance with the Niger State Agricultural Development Projects' (NSADP) activities of 25 Local Government Areas (LGAs) in consonance with ecological characteristics and cultural practices. The zones selected were zone 1 and 3. The Local Government Areas in the two zones selected include: Agaie, Agwara, Bida, Borgu, Edati, Gbako, Katcha, Kontagora, Lapai, Lavun, Magama, Mariga, Mashegu, Mokwa, Rijau and Wushishi.

In stage 2 of the sampling procedure, MFIs which are stratified into formal, semi-formal and informal were selected. From each stratum, 6 institutions were selected, using stratified random sampling thus giving a total of 18 MFIs per zone and 36 MFIs for the state. Two executive members of each of the selected institutions were interviewed. In the final selection stage, 6 respondents/beneficiaries from each of the 12 MFIs in a zone were randomly selected, using sampling random sampling technique thus giving a total of 42 beneficiaries per zone and 144 beneficiaries for the entire state.

This represents 72 percent coverage of the total number of LGAs in the state. The Data for the study were from a combination of both primary and secondary sources, but mainly through the former. The later was obtained from records and documents of the UNDP, World Bank – CGAP (Consultative Group to Assist the Poor) and their websites from the internet, periodicals, magazines, journals, textbooks, annual accounts and returns from banks, etc. Additional documents came from official documents of the States' Agency for Economic Empowerments as well as special programmes targeted at rural developments. Primary data were obtained using two sets of structured and pre-tested questionnaires. One was for the selected institutions and their key officials who completed them. The second set of questionnaires was for the loan beneficiaries. Essentially, it was corroborative of the information in the first questionnaire and helped in determining the workability and constraints of each scheme. Other data gathered were those on the socio-economic characteristics of the respondents, such as those on types of crops grown/farming systems, farm size, age, household size etc. Other information gathered were those on the production resources and farm output during the 2009/2010 production season.

Analytical technique

Descriptive statistics such as means, tabulations, frequency distribution and percentages were employed in the analysis of data to achieve the stated objectives.

Results and Discussion

Socio-economic characteristics of respondents

Table 1 presents the socio-economics of MFI clients. Majority (67.4%) of the beneficiaries of MFIs were females and males constituted only 32.6%. This means that loan beneficiaries of MFIs in the study area was mostly dominated by females. This is contrary to the popular belief about the study area that agribusinesses activities like maize farming are dominated by the male folks. Also, Table 1 shows that majority (55%) of the respondents were of middle age with about 45% being youths. The mean age of the respondents was 41.12 years and the modal age group was 41 – 50 years. The small percentage of the young beneficiaries of the MFIs in the area could be due to the migration of able-bodied youths from the rural areas to the urban centres in search of

white collar jobs and the quest for formal education training. However, the implication of the prime age of most respondents is that most beneficiaries are within the active labour age of productivity and might likely utilize credit obtained for high production. Furthermore, because farming and other agribusiness are surrounded by risks and uncertainties, such as flooding, pests/diseases infestation etc; it therefore requires people who are able and willing to take risks in expectation of the profit.

Family size of the respondents is another socio-economic characteristic presented in Table 1. The family size of respondents on average was 8 people. The large family size could imply a probable more family labour and a consequent greater output for the farmers. The importance of large family size especially in traditional agriculture was also expressed by Olufe (1988), in his study of resource productivity in food-crop production in Kwara State of Nigeria. According to the author, family labour accounted for a significant proportion of the total labour force used in traditional agriculture, thereby enabling the cultivation of large hectareage of farmlands and reducing the cost of hiring labour for farm operations. However, Baba and Wando (1998) explained that the implication of the large family sizes is that family expenditure tends to draw more on family income so that only a meager sum is saved and invested eventually on farming.

Agriculture and other agriculture – related businesses served as beneficiaries to major enterprises with most clients (70%) having 11 years and above of farming experience. As posited by Osuntogun and Oludimu (1981), several factors are known to affect the credit needs of farmers, prominent among these factors are due to their past experience. Most of the beneficiaries of MFIs (70%) were literate with one form of education or the other; having gone through at least primary school education. This suggested that the majority of the clients can read and write and by implication can easily be educated on skills' acquisition to improve on their performance which could translate to increase productivity and income (Binswanger, *et al.*, 1993). In spite of high level of literacy (which is predominantly due to modern education stiches), maize farmers have little or no record kept.

However, about 30 percent of the respondents in the study area had acquired no form of formal education. These findings on the literacy level did not concur with Adewumi *et al.* (2005) that although farmers are educated with one form of education or the other, majority of them do not have primary education.

Table 1: Socio-economics of MFIs clients – Maize farmers

Characteristics	Frequency	Percentage (%)
Age group (Years):		1.4
10 – 20	2	4.9
21 – 30	7	38.9
31 – 40	56	47.2
41 – 50	68	6.2
61 – 70	9	1.4
	Mean (\bar{X}) = 41.12 yeas	
	Modal = 41 – 50 years	
Gender:	47	32.6
Male	97	67.4
Female		
Family Size:		29.2
1 – 4	42	49.3
5 – 8	71	15.3
9 – 12	22	6.2
13 – 16	9	
	(\bar{X}) = 8	
	SD = 4.6	
Farming Experience (years):		
1 – 5		
6 – 10	17	11.8
11 – 15	25	17.4
16 – 20	61	42.4
21 – 25	22	15.3
Above 25	15	10.4
	4	2.7
	\bar{X} = 11.4 years	
	SD = 8.2 years	
Highest Educational attained:		
No. formal education	43	29.9
Primary Education	31	21.5
Secondary Education	24	16.7
Tertiary Education	46	31.9

Source: Field survey, 2009/2010

The analysis of farmer's land use in Table 2 reveals that respondents farmland averaged 1.94 hectares (ha) with about half of the farmers having above the average. The average farm size is in consonance with the report made by CBN/NISER (1992), whose average farm size per farmer was put at 2ha. Most of the farmers farmed majorly with family

labour, which again confirms why the respondents have large family sizes in the area. About half of the maize lands (especially those under *fadama*) (47.2%) were community owned. The farmers' communities were reported to give lands to prospective farmers only on a short-term basis pending the time the land will be needed by the community.

Crops cultivated by the respondents were majorly maize-based cropping systems, i.e maize intercropped with other crops like cassava (15.3%), yam (46.5%), Cowpea (12.5%), Melon (8.3%). Few of the farmers (17.4%) practiced irrigation by constructing earth bounds to trap rains and river while the remaining (82.6%) do not.

Table 2: Farm Characteristics of Respondents (N=144)

Characteristics	Frequency	Percentage (%)
Source of Farmland:		
Family	47	32.6
Purchase	8	5.6
Gift	12	8.3
Community land	68	47.2
Rented	7	4.9
Borrowed	2	1.4
Farm size (Ha):		
0.1 – 2.0	78	54.2
0.2 – 4.0	36	25.0
0.3 – 6.0	18	12.5
> 6.0	12	8.3
Crop Mixtures:		
Maize only	25	17.4
Maize and cassava	32	15.3
Maize and yam	67	46.5
Maize and Cowpea	18	12.5
Maize and Melon	12	8.3
Irrigation:		
Irrigate	25	17.4
No Irrigation	119	82.6
Type of labour:		
Family labour	92	63.9
Hired labour	7	4.9
Communal labour	18	12.5
Family & Hired labour	27	18.7

Source: Field Survey, 2009/2010

Impact of MFI credit facility on poverty alleviation of maize farmers

According to the beneficiaries of these MFIs who were into maize farming enterprise, microcredit from these institutions has had positive impacts on their businesses and family lives. Many of them have been able to expand their businesses, since they no longer have to buy goods on credit, thereby avoiding interest payments, and this has increased their profits. At

a family level, the clients can make more of a contribution to the up-keep of the family. They also eat better food as well as pay children school fees regularly and with less stress unlike in the past. Tables 3, 4, 5 and 6 reveal the influence of MFIs micro-credit facility on maize farmers through its impact on income levels, nutritional and health status, improved welfare and empowerment of women and alleviation of poor out of poverty respectively.

Table 3: Distribution of respondents according to their income levels before and after micro-credit facility from the MFIs

Income Distribution levels (K)/Months	Before accessing micro-credit facility from MFIS Frequency (%)	After accessing micro-credit facility from MFIS Frequency (%)
1,000.00 – 24,000.00	72 (50.00)	6 (4.17)
25,000.00 – 50,000	4.5 (13.19)	15 (10.42)
51,000.00 - 75,000.00	19 (13.19)	22 (15.28)
75,000.00 – 100,000.00	8 (5.56)	101 (70.13)
Mean/Average Income	#38,401.04	#83,329.21

Source: Field Survey Data, 2009/2010

Table 3 indicates that the estimated monthly income before accessing MFIs loan facility were mostly less than #25,000.00 for 50 percent of the respondents, while the respondents estimated monthly income resulting from MFIs facility as evident in table 3, is that over 70 percent were within the income group of #76,000.00 - #100,000.00. The mean monthly of the respondents before and after micro-credit facility were #38,401.04 and #84,329.21 respectively. This suggests an increase of 46.08%. The phenomenal increase in income is also in line with Joseph and Benjamin (2006) who reported 46% income rise among borrowers of MFIs.

Impact of MFIs Micro-credit facility on Nutrition and Health of maize farmers

Micro-credit facility from MFIs has substantial effect on the nutrition and health of the poor; thanks to the increase in the income of the clients. Though MFIs in the area were not known for their direct involvement in nutrition and provisions of health facilities however, they indirectly have a positive influence on the nutrition and health because increased income through access to micro-credit facility invariably

Similarly, Marcus *et al.* (1999) in their study on "Save the children foundation in London also confirms a 50 percent increase in household income of Microfinance clients. Furthermore, the study also confirms that MFIs clients like the maize farmers in the study area have better coping capacities especially in lean seasons and these increased with amount of credit received. Overall, the evidence from this research is overwhelmingly in favour of MFIs as a tool to increase respondents' income, smooth consumption and to rise above the poverty line and is therefore an effective method of poverty alleviation among the maize farmers of the area.

had lead to higher nutrition (through greater intake of protein, vitamins and mineral diets) and greater access to health care. In fact, some of the clients revealed that increase in income from higher investment opportunities has enabled them to acquire mosquito treated nets, and has reduced the incidence of malaria, especially for children. Table 4 shows the distribution of respondents based on nutritional and health status before and after MFIs loan facility.

Table 4: Distribution of Respondents based on Nutritional and Health status before and after MFIs loan facility

Nutritional and Health characteristics status	Before facility from MFIs Frequency (%)	After MFIs Frequency (%)
Frequency of consuming Beef/Mutton/Fish/egg per week.	3:104 (72.22)	8:125 (80.81)
Use of Mosquito treated Nets (Prevention of Malaria)	28 (19.44)	87 (60.42)
Infant Mortality Rate: Age 1 – 6 years in the last 6 months	33 (22.92)	6 (4.17)

Source: Field Survey, 2009/2010

Table 4 reveals that micro credit facility from MFIs in the area had positive impact on the realization of the United Nations' Millennium

Development Goals, the first of which is to eradicate extreme poverty and hunger.

The findings were that 72.22% of the respondents consume dietary animal protein (beef, mutton, fish and eggs) 3 times per week before MFIs loan. However, 86.81% of the respondents consumed the same diet 8 times per week. The use of mosquito treated nets to prevent malaria attack from the bite of mosquitoes also increased from 19.44% of respondents (before the loan) to 60.42% after the loan. However, mortality rate (children 6 years) in the last 6 months have also dropped from 22.92% before the loan to as low as 4.17%. This finding therefore, shows that microfinance can significantly increase the income of poor clients, which translates into better nutrition and health for impoverished families. The nutritional benefits are particularly felt by children of maize farmers in the study area. The remunerations from increase in the income of the maize farmers and better nutrition spill over into many other areas in which the poor are certainly in need of help. The holistic impact of microfinance facility for maize farmers in the area can create a deep and lasting impact on poverty alleviation, most

especially for the rural communities where farming and other agribusiness related ventures is essentially their main activity.

Impact of MFIs micro-credit facility on women empowerment

On Women's Empowerment, Microfinance loan facility has significant potential for contributing to women's economic, social and political empowerment (Mayoux, 2002). Access to savings and credit from MFIs can initiate or strengthen a series of interlinked and mutually reinforcing "Virtual spirals of Empowerment". Evidence has shown that contributions to women's empowerment by microfinance in the number of and expansion of financially self-sustainable programs cannot be said to be over-emphasized (Arunachalam, 2007; Mayoux, 2002; Norwood, 2005). The results in Table 5 revealed that "running a successful business not only contributes to women's improved welfare but also contributes both directly and indirectly to their empowerment and greater control over their businesses and lives".

Table 5: Distributions of Respondents according to improved welfare and empowerment of women clients (maize farmers) of MFIs (n = 97)

Item	Frequency	Percentage
Increased of farm size	12	12.34
Establishment of new farms	9	9.28
Use of improved farming inputs	18	18.56
Expansion of trading volume	14	14.43
Processing of farm output	10	10.31
Increased income generation	17	17.53
Ability to take over more household responsibilities	7	7.22
Acquiring more assets	10	10.31

Source: Field Survey, 2009/2010

The Table reveals that all the female respondents (97) had improvement in one activity or the other which leads to their empowerment. However, most respondents (18.56%) were able to acquire more improved farm inputs which lead to increased farm productivity, which ultimately will lead to increased income and alleviate poverty.

In the general overview, microfinance facility alleviate poverty especially in the rural economies through its contribution to greater economic stability and well-being of poor

families – increase income, health, nutrition, education, empowerment and improvement in the standard of living of its clients. In the study area, comparison was made on the economic situation of clients before and after borrowing (micro-credit). Upon joining the micro-credit program of MFIs, 75 percent of clients were classified as "very poor" and 25 percent as moderately poor". The result of the study (Table 6) (after 9 months of participation in the loan scheme) reveals a remarkable improvement in the poverty level of clients.

Table 6: Distribution of respondents based on economic situation before and after microcredit facility from MFIs

Economic situation	Before accessing micro-credit facility from MFIS Frequency (%)	After accessing micro-credit facility from MFIS Frequency (%)
Very poor	08 (75)	10 (6.94)
Moderately poor	38 (25)	18 (12.50)
No longer poor	0 (0)	116 (80.56)

Source: Field Survey, 209/2010

From Table 6, it can be inferred, that micro-credit from the MFIs in the study area has improved the economic fortunes among maize farmers in the area. In June, 2010, 6.94% of clients were still classified as "very poor", 12.50% as "moderately poor", and 80.56% were no longer poor. This entails that the micro-credit from MFIs in the area was able to lift most of their clients above the poverty line. This finding corroborates those of Simanowitz and Walter (2002). The revelation from this research is mounting to show that MFIs micro-credit facility can be used as a means not only to increase household income, but to completely lift poor families like the maize farmers in the study area out of poverty.

Also, contrary to the believe that children and adolescents from poor families cannot attend school because of the economic background of parents, clients of MFIs in the study area revealed that they could now afford to send their children to school as they are now economically empowered i.e. they can now afford to procure the cost of educational materials, transport cost etc. The income generated and the stability in income from MFIs enabled them to keep their children in school. Some of the clients also added that access to education, especially for the girls is a sure way of alleviating poverty and that they have accomplish over the years.

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Conclusion and Recommendations

The study reveals that MFI clients that are maize entrepreneurs in the study area have small land holdings which were rented. Family labour accounts for a higher proportion of labour requirements in production. The study also revealed a positive impact to MFI clients in terms of increased income and income sustainability, better nutrition and better health care management, lift above the poverty level, improved education of children, improved welfare and empowerment of women clients, etc. However, though they are literate due to modern education stitches, they don't keep farm records.

Therefore, to enhance better performance and utilization of credit from the MFIs, in the study area, there is urgent need to improve on the educational status of the beneficiaries, especially extension education, more MFIs should be establish in the study area, improvement of rural and social infrastructures like schools, electricity, hospitals, etc; importantly, MFIs should design farmer specific credit regimes rather than the present stencil-type which all farmers are expected to fit into, and put policy that will ensure farmers improve their productive capacity in such a way that farmers are food-secure and income stable throughout the season.

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