

**BARRIERS AND PROSPECTS OF AGRIBUSINESS  
FINANCING IN SUB-SAHARAN AFRICA:  
A REVIEW OF LITERATURE**

**Admkew Haile**

College of Agriculture and Environmental Science,  
School of Agricultural Economics and Agribusiness,  
Haramaya University

ISSN 2277-7733  
Volume 11 Issue 4,  
March 2023

**Abstract**

*The reviewed literature articles are studies related to sub-Saharan African agribusiness, finance and value chain financing published since 2016–2022 to provide insights and information on barriers and prospects of agribusiness financing in sub-Saharan Africa. The review is concerned on identifying and understanding the barriers faced by the agribusiness firm, who seek financing for agribusiness activities, who would provide it, and who would invest in agribusiness. It also identifies prospects for addressing critical barriers that can help close the financing gap in agribusiness. Agriculture and agribusiness are identified as a potential and turning points for African economic transformations and developments. Agribusiness in Africa is suffering from financial access and service despite its economic contributions to the regions. Despite, the significant need for working and investment capital, many value chain actors faced difficulties getting access to financing from formal sources, and the few who do find it mostly inadequate. Difficulties accessing finance and financial services are prevalent, with lending to agribusiness and affordable access to other financial services lagging far behind other sectors of the economy. The reliance on collateral and number of documents required discriminates against many small and medium agribusiness firms, who may have viable businesses but do not have the assets. The restrictions on access to finance for agribusiness, banks and some other financing institutions are starting to grow their agribusiness investment and their number of branches to rural areas where such needs are high is considered as a positive prospect for agribusiness finance accessibilities. The growing of urban food markets driven mainly by income growth and rapid urbanization are creating need for high-value agribusiness products, new supply chains, and supporting services in the agribusiness industry. The new jobs and income prospects created by this growth can significantly contribute to Africa's economic transformation and development. However, to take advantage of these growth opportunities, Sub-Saharan Africa needs to close the agribusiness financing gap.*

**Keywords:** *Agribusiness, Finance Access, Barriers, Financing, Prospects, Sub-Saharan Africa*

Agribusiness plays a significant and backbone role in Africa's economic transformation, providing jobs opportunities, basic livelihoods for millions, and income prospect through agro-processing industries and value additions (Woldemichael, et al.;2017). These business functions and actions inspire agricultural productivity, commercial agriculture and investment on agriculture, and development and enhancement of agribusiness chain actors. Agribusiness provide an essential pathway to job creation, livelihood improvement and economic development in Africa (Figueroa, et al.;2018). Agribusiness face many challenges, particularly with regard to affordable

## ***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

and access to finance. Commercial banks and other financial institutions have been reluctant to finance agribusiness (Capacio, et al.;2018). This happened in many African countries because of its perceived risks, transaction costs, and institutional capacity in financing (Adenle, et al.;2017).

Currently, strong market demand, focus on production potential and risk management, and an improved policy environment have increased the finance sectors need for agribusiness financing (Kim, et al.;2020). A positive change and improvement have been made by different African countries on agricultural productivity and agribusiness. This circumstance contributes a positive change in risk perceptions and the projected bright prospects for agribusiness (Adenle, et al.;2017). Some African countries like Ethiopia and Rwanda are turning this untapped industry into a potentially demanded market opportunity to enhance their agribusiness (Woldemichael, et al.;2017). Financial institutions are perceiving that agribusiness prospects in Sub-Saharan Africa outweigh the risks in the sectors (Adenle, et al.;2017). Banks and other financial institutions are also expanding their investments and financial services. However, many of these services are for non-agribusiness and concentrated in urban areas, and still low access to rural areas of agribusiness (Saghir, and Hoogeveen, 2016). An increased interest by a number of banks and other financial institutions, the emerging prospects for agribusiness are attracting great interest from different private business sectors (Jayne, et al.;2021). Banks and other financial institutions as well as private firms are increasingly observing greater returns from agribusiness in Sub-Saharan Africa (Alao, and Oluwakemi, 2020). Agribusiness firms required strong and sustainable finance access relationships, which will be beneficial for developing local agro-value chains (Gramzow, et al.;2018). Most banks and other financial institutions are looking for efficiency and profitability in their lending operations for agribusiness firms. Size also seems to matter in lending decisions because banks tend to disproportionately screen smaller agribusiness firms out of credit access (Watts, and Scales, 2020). Growth prospects offered by the bright prospects for the agribusiness industry in Sub-Saharan Africa led to renewed private sector interest in financing agribusiness. Developments in the financial sector in the Sub-Saharan Africa are important for exploiting emerging and growth prospects in agribusiness (Jayne, et al.;2021). The review of literature on agribusiness finance, extensive internet searches of relevant documents on the operations of agribusiness in Africa in general and in Sub-Saharan Africa in particular were done. The review of literature is mainly on barriers and prospect of agribusiness financing, for agribusiness perspectives since 2016 that has been in Africa, especially in sub-Saharan Africa. This is therefore, the objective is to review barriers and prospects of agribusiness financing in Sub-Saharan Africa.

**Barriers of Agribusiness Financing**

Agribusiness industry are facing a financing challenge globally. Estimates of the global demand for smallholder agriculture finance are high (Capacio, et al.;2018). Within Sub-Saharan Africa, 65 billion dollars of investments are needed each year to achieve the desired expansion of agricultural output in the region. But the actual allocations are extremely below the required amount of money. (Gaffney, et al.; 2019). Furthermore, financing is required agribusiness value chain activities to link the productivities with the market where it is demanded. These investment requirements are substantially less than the volume of current agribusiness financing (Abraham, and Pingali,2020).

However, limited access to affordable finance remains one of the greatest barriers to the growth of agribusiness. Banking and other financial institutions in many African countries experienced a booming in recent years. Financial access initiatives and innovations enhanced access to financial services to formerly underserved areas of agriculture and agribusiness value chain (Kim, et al.;2020). Even though, developments in financial systems are impressive, the flow of finance to the agribusiness firms continues to lag, with the agribusiness sector not able to fill the financing gap. In some few cases where financing is available, the cost of finance is usually prohibitive with high interest rates. Agribusiness finance is limited and expensive (Onyiriuba, et al.;2020).

The risks within agriculture value chains, market price volatility, logistics barriers, legal and the high costs of reaching them with financial services are the primary cause for limited access and availability for agribusiness (German, et al.;2020). In addition, most agribusinesses are engaged in activities such as a farm operation, input supply, trade and processing those banks and other financial institutions consider too risky (Adenle, et al.;2017). Low profit margins associated with agriculture and agricultural related activities discouraged investment, as did the opportunity cost of sacrificing market share in other fast-growing and profitable banking and other financial prospect in urban markets. Many banks and other financial institutions expertise and experience in agricultural value chains is too low to provide effective financing services to agribusiness (Onyiriuba, et al.;2020).

From this review of literature; agriculture and agribusiness are identified as a potential and turning points for African economic transformations and developments. Agribusiness in Africa is suffering from financial access and service despite its economic contributions to the regions. These literatures also showed that there are agricultural policy and its finance improvements to enhance the agribusiness.

**Prospects of Agribusiness Financing**

Agribusiness demands sustainable financing to unlock its potential in African economic transformation and development. Prospects arises from demand and supply side opportunities (Martin, 2019). Growing agro-

## ***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

product markets give rise to demand for high value and processed agricultural products, and for development of new value chains that need supporting services, such as finance and logistics. There are also good prospects for expansion of regional markets of Sub-Saharan Africa trade (Shishodia, and Babu, 2017).

There are significant potentials to boost agricultural product supply to meet the increasing food demands of the rising population in Africa (Losch, 2016). There are good prospects for increasing production per hectares, increase irrigation potential arable land, and close the yield gap, which is a small segment of its potential (Fischer, and Connor, 2018). In addition, the region can build on the momentum of strong private sector interest from local, foreign direct investment, and investment funds to increase the private sector share in agribusiness (Ittersum, 2016).

The role of agribusiness in economic transformations and development increases with rising incomes from agribusiness and value chain activities. Across developing countries, agribusiness accounts for a large and rising share of gross domestic product for African countries (Gramzow, et al.;2018). From this literature, the growing market demand for agro-processed and high value product in urban areas increased, which needs high financial access and support. This creates a momentum of strong relationship of private and financial institutions to exploit the agro-processed and high value products demand and supply. This paves the way to finance the agribusiness and is creating positive prospective for agribusiness financing.

### **Finance Need for Agribusiness**

Finance for working capital was a priority need to meet production costs in agribusiness firms of all sizes across all value chains. In farm operations, financing of working capital was crucial for purchasing inputs such as seeds, fertilizer, and agro-chemicals, and for hiring labor and farm equipment (Christiaensen,2017, Effiong, et al.;2017). On the other hand, businesses required finance for working capital to purchase inputs and meet expenses for post-harvest storage, electricity, water, logistics, and transportation to support different agribusiness and value chain activities (Bumb, et al.; 2021). Financing also required primarily for non-land assets and industrial construction. At farm level, farmers and agribusiness in farm assets, storage and warehousing facilities, and irrigation as priorities for investment financing (Bjornlund, et al.;2018). Financing of assets, such as equipment, transportation, and industrial property such as, storage and warehouse facilities and processing plants, were identified as priorities for finance needs (Blandford, 2019). Value chain actors and other agribusiness increasingly require financing for midstream segments, such as wholesale and processing, and downstream segments (Bjornlund, et al.;2018).

The most recent value chain studies in sub-Saharan Africa, show that financing of midstream and downstream segments of value chains are just as important as financing farm production. Costs formed after the farm

## ***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

gate, at midstream and downstream segments of value chains, ranges from 50 - 70 percent of the total costs and value in supply chains in developing countries of Africa (Reardon, and Minten, 2021). Since processed and perishable foods make up a greater share of consumption, there becomes a greater need for midstream, processors, collectors, logistics and downstream retail activities. This creates enormous prospects for finance across the entire value chain (Reardon, et al.;2019).

The need for working capital demonstrated that financing requirements reflect peculiarities that are specific to value chains. Informal sources of finance are the most important sources for financing working capital for farm and other agribusiness activities (Watts, and Scales, 2020). Credit from input suppliers, once an important source of financing for farmers and other value chain actors, appeared to be a declining source of financing (Odhong', et al.;2019). Input suppliers and traders, who were traditionally major sources of farm credit in rural areas, are important sources of finance in sub-Saharan Africa (Sims, and Kienzle, 2017). Reliance on trader finance was more common in the export-oriented value chain, where many village traders provided production credit to farmers and exporters pre-financed wholesalers to purchase crops from farmers and other aggregators (Kahlmann, et al.; 2018). Financing for inputs and crop purchase is becoming less important for financing value chain activities (Kahlmann, et al.;2018). Agribusiness value chain actors stated greater commercial financing prospects and much less reliance on traditional finance for midstream and downstream segments of value chains (Ambler, et al.; 2022).

This suggests that, as formal sources of finance became more important, financing from input suppliers and credit from input suppliers, once an important source of financing for farmers and other value chain actors, appeared to be a declining source of financing at both farm and agro process. Input suppliers and traders, who were traditionally major sources of farm credit in rural areas, were important sources of finance only by small-scale farmers and input suppliers.

Finance was more common in the export-oriented cashew value chain, where many village traders provided production credit to farmers and exporters pre-financed wholesalers to purchase crops from farmers and other aggregators (Chengappa, 2018). However, such trader financing for inputs and crop purchase is becoming less important for financing value chain activities mainly because of growing self-finance from crop sales and non-farm income at the farm level (Kahlmann, et al.;2018). Off-farm, value chain actors reported greater commercial financing prospects and much less reliance on traditional trader finance for midstream and downstream segments of value chains (Allen, et al.;2018). This suggests that, as formal sources of finance became more important, financing from input suppliers and traders at village level declined across all value chain segments.

## ***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

Credit from commercial banks is becoming an increasingly important source of financing, particularly among medium- and large-scale farms and cooperatives at the farm level, and for input suppliers, processors, and marketing and distribution actors (Ambler, et al.; 2022). Aggregating farmers into cooperatives helps to reduce the transaction costs associated with lending to smallholder farmers, making it easier and more attractive for commercial banks to lend to them (Onyiriuba, et al.; 2020). However, many farmer cooperatives and companies that supported farmer cooperatives reported facing significant barriers getting access to financial services from commercial banks (Liverpool, et al.;2020).

Generally speaking, despite the significant need for working and investment capital, many value chain actors faced difficulties getting access to financing from formal sources, and the few who do find it mostly inadequate. Difficulties accessing finance and financial services are prevalent, with lending to agribusiness and affordable access to other financial services lagging far behind other sectors of the economy.

### **Finance access for Agribusiness**

Overall, commercial lending to agriculture and agribusiness is relatively insignificant in Africa countries. Agribusinesses is considered as the high cost of financing as a major factor limiting access to finance (Ströh de Martínez, et al.;2016). The sub-Saharan African countries are charging the highest interest rates on agribusiness loans (Baurzhan, and Jenkins, 2016). Few banks and some other micro finance institutions provided subsidized lending to agribusiness. It is difficult for agribusinesses to get loans because the banks and other financial institutions loan processing required documents, and loan processing typically required physical collateral, financial statements and business plans (Adenle, et al.; 2017). However, there is an increasing perception of profitability of agribusiness, which is driving banks and other financial institutions to increase their agribusiness lending and financial accessibilities (Amadhila, 2020).

From these literature review, the reliance on collateral and number of documents required discriminates against many small and medium agribusiness firms, who may have viable businesses but do not have the assets. Contempt these restrictions on access of finance for agribusiness, banks and some other financing institutions are starting to grow their agribusiness investment and their number of branches to rural areas where such demands are high is considered as a positive prospect for agribusiness finance accessibilities.

### **Conclusion**

To transform and enhance the economic development in Sub-Saharan Africa must address the finance and financing gap by placing a high priority on financing for agribusiness. Finance is crucial to meeting processing and production costs of agribusiness actors operating in different value chain. Amongst other things, agribusiness and value chain actors identified the

## ***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

cost of credit as a major barrier for access to finance. A number of actors exists at each stage of agribusiness value chains, and each of these actors faces varying barriers in accessing finance from the finance industry. The barriers in securing agribusiness financing prevent the business actors in the collection, distribution, and processing. Agribusiness firm, who cannot access long-term finance are prevented to have incentives to invest in productive practices, technologies, and infrastructure that would help them grow more, enhance their resilience. A shortage of agribusiness finance of value chains translates into limited investment in quality agribusiness facilities, which results in the current high levels of agricultural product losses and waste. The assessment of constraints and potential solutions from the perspectives of borrowers and financial service providers is useful for designing development interventions. However, efforts aimed at increasing access to financial services need to go further to consider the actual access for different actors. There are good prospects to expand financing to commercially oriented value chain actors, but factors such as productivity and capabilities that affect potential profitability are important in considering their creditworthiness. Instead of assuming that all agribusiness is creditworthy, interventions should focus on the features that do not make some actors creditworthy and the actions that are required to enhance their credit status. Strategy and policy actions to address such gaps may include productivity enhancing interventions that lead to greater output agribusiness, as well as those that improve firm productivity and skills development. Understanding of actual or potential borrowers would help development finance officer better understand target beneficiaries for financial inclusion and those that could benefit most from technical assistance that would improve their creditworthiness. In the interventions aimed at increasing agribusiness competitiveness focused mainly on the value chains. Strong producer or cooperative organizations seem to facilitate smallholder access to financing, suggesting important pathways through which development organizations can focus their efforts to increase their reach in financing agribusiness. Financing needs at different segments of value chains and providing targeted solutions can drive competitiveness and industrial development, as well as create jobs.

### **References**

- Abraham, M., & Pingali, P. (2020). Transforming smallholder agriculture to achieve the SDGs. In *The role of smallholder farms in food and nutrition security* (pp. 173-209). Springer, Cham.
- Ambler, K., de Brauw, A., Herskowitz, S., & Pulido, C. (2022). Finance needs of the agricultural midstream and the prospects for digital financial services (Vol. 2122). *Intl Food Policy Res Inst.*
- Adenle, A. A., Manning, L., & Azadi, H. (2017). Agribusiness innovation: A pathway to sustainable economic growth in Africa. *Trends in food science & technology*, 59, 88-104.

## ***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

- Alao, E. M., & Oluwakemi, K. (2020). Money deposit banks and the effect of interest rate on agribusiness.
- Allen, T., Heinrigs, P., & Heo, I. (2018). Agriculture, food and jobs in West Africa.
- Amadhila, B. (2020). The challenges faced by small and medium enterprises in accessing credit in Namibia (Master's thesis, Faculty of Commerce).
- Baurzhan, S., & Jenkins, G. P. (2016). Off-grid solar PV: Is it an affordable or appropriate solution for rural electrification in Sub-Saharan African countries? *Renewable and Sustainable Energy Reviews*, 60, 1405-1418.
- Blandford, D. (2019). Meeting Future Food Needs in Sub-Saharan Africa. In *Global Challenges for Future Food and Agricultural Policies* (pp. 105-123).
- Bjornlund, H., Parry, K., Pittock, J., Stirzaker, R., Van Rooyen, A. F., Moyo, M., ... & Ramshaw, P. (2018). Transforming smallholder irrigation into profitable and self-sustaining systems in southern Africa.
- Bumb, B. L., Ariga, J., Anand, M., Cameron, A., & Nkonya, N. M. (2021). Assessment of the fertilizer market and bulk procurement system in the United Republic of Tanzania: Policy report. Food & Agriculture Org.
- Capacio, J. L., De Dios, E., & van Tulder, R. (2018). Breaking barriers in agriculture financing: Enhancing the inclusiveness and sustainability of agriculture value chains.
- Chengappa, P. G. (2018). Development of agriculture value chains as a strategy for enhancing farmers' income. *Agricultural Economics Research Review*, 31(347-2018-3185), 1-12.
- Christiaensen, L. (2017). Agriculture in Africa—Telling myths from facts: A synthesis. *Food Policy*, 67, 1-11.
- Effiong, E. O., Idiong, C. I., & Emem, D. (2017). Analysis of farm size and resource use efficiency in selected arable crop production in Uruan Local Government Area of Akwa Ibom State, Nigeria. *Agro-Science*, 16(2), 1-8.
- Figuroa, J. L., Mahmoud, M., & El-Enbaby, H. (2018). The role of agriculture and agro-processing for development in Tunisia (Vol. 9). Intl Food Policy Res Inst.
- Fischer, R. A., & Connor, D. J. (2018). Issues for cropping and agricultural science in the next 20 years. *Field Crops Research*, 222, 121-142.
- Gaffney, J., Challender, M., Califf, K., & Harden, K. (2019). Building bridges between agribusiness innovation and smallholder farmers: A review. *Global food security*, 20, 60-65.
- German, L. A., Bonanno, A. M., Foster, L. C., & Cotula, L. (2020). "Inclusive business" in agriculture: Evidence from the evolution of agricultural value chains. *World Development*, 134, 105018.



## ***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

- Gramzow, A., Batt, P. J., Afari-Sefa, V., Petrick, M., & Roothaert, R. (2018). Linking smallholder vegetable producers to markets-A comparison of a vegetable producer group and a contract-farming arrangement in the Lushoto District of Tanzania. *Journal of Rural Studies*, 63, 168-179.
- Jayne, T. S., Fox, L. O. U. I. S. E., Fuglie, K. E. I. T. H., & Adelaja, A. D. E. S. O. J. I. (2021). Agricultural productivity growth, resilience, and economic transformation in sub-Saharan Africa. Association of Public and Land-grant Universities (APLU).
- Kahlmann, K., Africa, W., & Kohn, M. (2018). USDA/FAS Food for Progress LIFFT-Cashew.
- Kim, J., Shah, P., Gaskell, J. C., & Prasann, A. (2020). Scaling up disruptive agricultural technologies in Africa. World Bank Publications.
- Liverpool-Tasie, L. S. O., Wineman, A., Young, S., Tambo, J., Vargas, C., Reardon, T., ... & Celestin, A. (2020). A scoping review of market links between value chain actors and small-scale producers in developing regions. *Nature Sustainability*, 3(10), 799-808.
- Losch, B. (2016). Structural transformation to boost youth labour demand in sub-Saharan Africa: The role of agriculture, rural areas and territorial development.
- Martin, W. (2019). Economic growth, convergence, and agricultural economics. *Agricultural Economics*, 50, 7-27.
- Odhong', C., Wilkes, A., van Dijk, S., Vorlaufer, M., Ndonga, S., Sing'ora, B., & Kenyanito, L. (2019). Financing large-scale mitigation by smallholder farmers: what roles for public climate finance? *Frontiers in Sustainable Food Systems*, 3, 3.
- Onyiriuba, L., Okoro, E. O., & Ibe, G. I. (2020). Strategic government policies on agricultural financing in African emerging markets. *Agricultural Finance Review*, 80(4), 563-588.
- Reardon, T., & Minten, B. (2021). Food value chain transformation in developing regions. *Agricultural development: New perspectives in a changing world*, 397-437.
- Reardon, T., Echeverria, R., Berdegú, J., Minten, B., Liverpool-Tasie, S., Tschirley, D., & Zilberman, D. (2019). Rapid transformation of food systems in developing regions: Highlighting the role of agricultural research & innovations. *Agricultural systems*, 172, 47-59.
- Saghir, J., & Hoogeveen, H. (2016). Transforming Sub Saharan Africa Agriculture. *Research to Practice Policy*.
- Shishodia, M., & Babu, S. C. (2017). Agribusiness competitiveness: Applying analytics, typology, and measurements to Africa (Vol. 1648). Intl Food Policy Res Inst.
- Sims, B., & Kienzle, J. (2017). Sustainable agricultural mechanization for smallholders: what is it and how can we implement it? *Agriculture*, 7(6), 50.

***BARRIERS AND PROSPECTS OF AGRIBUSINESS FINANCING***

- Ströh de Martínez, C., Feddersen, M., & Speicher, A. (2016). Food security in sub-Saharan Africa: a fresh look on agricultural mechanization. How adapted financial solutions can make a difference (No. 91). Studies.
- Van Ittersum, M. K., Van Bussel, L. G., Wolf, J., Grassini, P., Van Wart, J., Guilpart, N., ... & Cassman, K. G. (2016). Can sub-Saharan Africa feed itself? *Proceedings of the National Academy of Sciences*, 113(52), 14964-14969.
- Watts, N., & Scales, I. R. (2020). Social impact investing, agriculture, and the financialization of development: Insights from sub-Saharan Africa. *World Development*, 130, 104918.
- Woldemichael, A., Salami, A., Mukasa, A., Simpasa, A., & Shimeles, A. (2017). Transforming Africa's agriculture through agro-industrialization. *Africa Economic Brief*, 8(7), 1-12.