

Towards Bridging the Gap Between Credit Users and Institutional Lenders for Agribusiness Value Chain Development

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Abstract: The significance of credit to agribusiness value chain actors underscores the need for a complete and strong synergy between credit users and financial institutions. This study investigates strategies for bridging the gap between credit end users and institutional lenders for agribusiness value chain development. Information used was mainly from secondary source obtained through desk review. Findings from the study revealed that institutional lenders constitute a major source of credit for agribusiness value chain development. Gap between credit users and institutional lenders which were considered as barriers to credit access were identified to include high cost and difficulty in accessing credit, credit repayment default rate, among others. To bridge the gap, it is recommended strategies among other measures that lending institutions should be liberal in their lending procedures including the cost of lending to agribusiness actors. In this regard, better credit repayment behavior and a single-digit interest rate are advocated.

Keywords: Gap, Credit Users, Institutional Lenders, Agribusiness, Value Chain.

Introduction

As an engine of socio-economic growth in emerging and developing economies, the agriculture sector is central to development. According to FAO, World Bank data as cited [1], while agriculture currently contributes circa 3% to global Gross Domestic Product (G.D.P) least developed countries (L.D.C.s) the agricultural sector can account for as much as 60% of national G.D.P. In countries with large rural populations, agriculture is critical for domestic food and income security. From the above premise, the business of agriculture which may be tagged agribusiness can play a significant role in Africa's economic transformation, providing jobs and income opportunities through agro-processing and other agricultural businesses. These investments stimulate agricultural productivity, commercial agriculture, and development of upstream and downstream agribusiness activities such as input supply, logistics and trade [4].

The development of such upstream and downstream agribusiness activities as mentioned above requires full mobilization of capital and credit. Hence, the place of credit use in agribusiness value chain cannot be downplayed. Borrowed agricultural funds, which may also be described as agricultural credit is a major pre-requisite for farmers and other agribusiness actors to thrive in the process of agricultural development of a country. According to Nwachukwu, et al [6], credit is an important instrument for improving the welfare of the poor directly through consumption smoothening that reduces their vulnerability to short term income. It also enhances the production capacity of the poor resource farmers through financing investment in their human and physical capital.

As laudable as credit is to survival of agribusiness, a report by world bank [21] on financing agribusiness in Sub-Saharan Africa, revealed that agriculture and the agribusiness industry face many challenges, particularly with regard to affordable access to finance. Yumkella et al [17] and Byerlee et al [9] had penned that commercial banks and financial institutions have been reluctant to finance agribusiness because of perceived sector-specific risks, transactional costs and institutional capacity in financing institutions.

Thus, there is no doubt that there is a gap between credit users and institutional lenders in agribusiness value chain development. Though literature abounds on a plethora of barriers in accessing credit from institutional lenders for agribusiness activities with advanced recommendations, there are still significant gaps existing between credit users and financial institutions as regards the financing of agribusiness value chains. It is therefore the purpose of this study to bridge these gaps.

Methods

The information for the study were obtained through desk review. The results were presented in tables.

Objectives of the Study

The main objective of this paper is 'towards bridging the gap between credit users and institutional lenders for agribusiness value chain development'. The specific objectives are to:

1. Examine the concept of agribusiness and agri-business value chain.
2. Identify institutional lenders involved in advancing credit for agribusiness value chain financing.
3. Ascertain the importance of credit users and institutional lenders.
4. Identify major gaps between credit users and institutional lenders.

Results and Discussion

Conceptual Clarification

Agribusiness: Several definitions of the term agribusiness have emerged over the years as there are authors on the concept. Agribusiness represents all providers of value-added activities in agriculture. It links input providers, producers, processors, and other services to consumers of crops, livestock, and other natural resources. In other words, agribusiness covers all the value-added activities that link raw materials required for agricultural production to products and services that satisfy the demand of end consumers of agricultural products. "Agribusiness refers to the backward and forward business linkages associated with agricultural production, the provision of finance, machinery, fertilizers, seeds, etc., at the input end and the processing and marketing of food/foodstuff at the output end. It is a modern form of agricultural business ventures operated strictly for profit" [2].

According to Times Agriculture [18], agribusiness is a term that refers to the business of agricultural production including farming, processing and distribution of agricultural products. It is an essential part of the global economy, as it provides food and other agricultural product to consumers worldwide. It is a broad industry, that encompasses farming, food processing, agricultural machinery, manufacturing, agricultural inputs, agricultural services, agricultural financing, agricultural insurance agricultural trading and agricultural research and development. Agribusiness, in essence, thus focuses on the business side of agriculture, making it more efficient, profitable and sustainable.

Agribusiness Value Chain: The "value chain" concept has evolved, within academics from a variety of "ideological" schools influencing it along the way [11]. The term "value chain" has been defined in a variety of ways in the literature. The series of actors and activities needed to bring an agricultural product from production to the final consumer is often called a value chain [19] www.usaid.gov. Muiruri [12] defined the term as a set of linked activities that work to add value to a product; it consists of actors and actions that make a product better while linking commodity producers to processors and markets. It embraces the flow of products, knowledge and information, finance, payments and the social capital needed to organize producers and communities. Kaplinsky and Morris [8] referred to value chain as "the entire set of activities necessary to take a product or service from conception to various stages of production, consumer delivery, and final disposal after use.

Agricultural value chain according to Miller and Jones [13] is a sequence of value-adding activities-from production to consumption, through processing and commercialization. Accordingly, it includes the full range of activities and participants involved in moving agricultural products from input suppliers to farmers' field and ultimately to consumers' table. As noted [7], a value chain" in agriculture identifies the set of actors and activities that bring a basic agricultural product from production in the field to final consumption, where at each stage value is added to the product. It can be a vertical linking or a network between various independent business organizations and can involve processing, packing, storage transport and distribution. Moreso, Mofolo [16] refers to Agricultural Value Chain (AVC) as a set of interrelated activities involved in delivering an agricultural product from its production to the final consumer in a manner that support investments, growth and competitiveness of the value chain actors.

The agricultural value chains may vary from country to country and between or among different crops. In a study conducted by World Bank [21] involving the financing needs of value chain actors in four value chains in four countries in West Africa-Cashew in Cote d' Ivoire; Maize in Ghana; Cassava in Nigeria and Rice in Sierra Leone, it was observed that these value chains have differences between them, specifically the value chains for rice, maize and cassava, which are primarily domestic staples, and cashew, which is an export commodity. For example, the lengthening of value chains for export commodity, such as cashew, implies a different marketing structure with greater demand for midstream and downstream services as well as more investment and financing opportunities. The four value chains covered differences in value-added and complexity of agro-processing activities in countries at different stages of financial market development. The report also provided detailed insight into the structure and actors/participants in value chains.

Key Actors/ Participants/Players in Agribusiness Value Chain (AVC)

According to Cueevas and Pagura [10,12], five key actors can be identified in a value chain with input suppliers and providers of agricultural equipment representing the beginning or upstream section, while retail distributors to end consumers are at the tail or downstream part. It is common, in practice to find the same individual firm in more than one role, e.g., a trader/aggregator can be an input supplier; a processor might as well be a wholesaler or exporter. The basic features of each actors are presented below:

Input suppliers: The input suppliers provide farmers with the necessary inputs for production such as seeds, chemicals, fertilizers and equipment, as well as technical assistance.

Producers/Farmers: This encompasses all of those engaged in primary production including farmers their families and seasonal/part-time workers. Majority of farmers in African countries are single cash crop farmers supported by some food production or vice-versa. There are also specialized chain actors, who can produce quality cash crops for the AVC. Others may be multi-activity chain farmers, who are not only involved in the production process but also in other activities of value chain like grading, primary processing and local marketing.

Aggregators, Service Provides, Traders: The aggregators may also be referred to as “off-takers” by agribusiness partners in the value chain. They buy produce from the farmers or cooperatives and bulk it before selling it on. Their success hinges on making their working capital flow as quickly as possible in buying and reselling produce.

Processors: The aggregators may also be referred to as “off-takers” by agribusiness partners in the value chain. They buy produce from the farmers or cooperatives and bulk it before selling it on. Their success hinges on making their working capital flow as quickly as possible in buying and reselling produce.

Retailers, Wholesalers, Exporters: These sell processed product to local and global retailers, supermarkets, and smaller store front retailers, which in turn sell to consumers. Moreso, AVCs rely on numerous services external to it in the form of farm extension, finance, accounting, leasing, market information, identification of end market, and promotion of collective organization, among others. The more efficient the provision of the services to the value chain, the better it can perform and improve the position of the actors in the chain [14].

Sources of Credit for Agribusiness Value Chain Development

Every key player in an agribusiness value chain is a potential credit user, hence the accessibility of credit or fund to finance agribusiness value chain activities becomes a critical issue in AVC development. On the basis of this, the place of institutional lenders in credit market for agribusiness value chain development, becomes very sacrosanct.

Achoja, (2011) [2], reviewed that micro finance user groups should form linkage (synergy) with financial institutions for the purpose of credit mobilization scheme.

An institutional lender, also known as a financial intermediary, is any depository that pools funds of clients and depositors and invest them into real estate loans. As exemplified by Olukosi, et al [15], institutional lenders are sources of credit or capital available to agribusiness from outside the firm but from institutional sources.

According to them, such institutional sources are those recognized institutions which follow standardized procedures of lending. They lend at regulated interest but normally require some collaterals. The credit or loans from these sources are often large compared with those obtained from non-institutional sources.

A cursory look at literature reveals the followings as some important institutional lenders or formal credit sources to agribusiness value chain development:

Government through her various agencies such as the Central Bank of Nigeria (CBN), Anchor Borrowers' Scheme (ABS), the Nigeria Incentive-Based Risk Sharing Agricultural Lending Scheme, the Agricultural Investment Funds in Ghana, Africa, Rural Development Support Initiative (ARUDES) in Uganda, etc.

- Commercial banks
- The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)
- Cooperative Banks
- Cooperative societies
- Insurance companies
- Credit unions
- Microfinance Institutions (MFIs)
- Community Banks
- Non-governmental Organizations (NGOs).
- Bank of Industry (BOI).
- Bank of Agriculture (BOA)
- International Organizations such as the World Bank, IFAD, USAID, the African Rural and Agricultural Credit Association (AFRACA) amongst others.

Importance of Credit to Agribusiness Value-Chain Actors

Achoja [3], justified financial injection into Agribusiness value chain through credit programmers. The result revealed an overall multiplier effect of 72%. He consequently advocated that among others that government and credit institutions should bridge the gap between credit end users and lenders. This could facilitate the delivery of micro credit to agribusiness value chain actors and catalyze the growth and development of agribusiness sub sector. The indispensability of loan to credit users especially value-chain actors can best be appreciated when one considers the impact of lack of access to finance on the value-chain. These are succinctly summarized in Table 1:

Table 1: Impact of lack of Access to Finance on the Value Chain (VC)

	Impact on the Processor	Impact on the Producer	Impact on the Input Provider
Lack of Credit for the processor	• Cannot secure sufficient volumes • Cannot hold stocks in order to operate most efficiently	• Delays in milling and processing resulting in storage costs and potential sales losses.	• Producers cannot create high quality goods, so, lack the incentives to utilize inputs
Lack of credit for the producer	• Volume shortfalls, resulting in running factory inefficiently. • Lack of economies of scale. • Difficulty in obtaining standard grades. • High cost of capital per production unit. • Limited capacity to absorb fixed costs associated with processing.	• Suboptimal production mix • Adopts low risk, low yield production pattern. • Asymmetric price information causes producers to be price takers at the farm gate. • Limited use of inputs lowering yield and quality	• Reduced demand for inputs by producers
Lack of credit for input provider	• Volume short falls resulting in running factory inefficiently. • Lack of economies of sales. • Difficulty in obtaining standard grades. • High cost of capital per production unit.	• Has to buy inputs expensively due to the high costs of inputs, uncertainty regarding sales volume, and high risk associated with selling on credit.	• Provide inputs expensively due to high costs of inputs. • Difficulty maintaining adequate stock, uncertainty regarding quantity to be sold.

Source: Adapted from Rural Finance Innovations; Topic and case studies, 2005, World Bank [20]

Identified Gaps between Credit Users and Institutional Lenders in Agribusiness Value Chain Development

1. Cumbersome bank lending procedures
2. Lack of adequate collateral
3. Limited financial literacy
4. Farm production risks
5. Small size of agribusiness operation
6. Lack of knowledge of rules and regulations,
7. Long distances to sources of credit,
8. Discriminatory attitude of lending institutions
9. High and unfriendly interest rate.

In trying to access credit for agribusiness activities, clear cut gaps between the credit users (value chain actors inclusive) and institutional lenders have been identified in literature. Gaps in this context may be considered as constraints, challenges or barriers to credit access.

The World Bank study on financing agribusiness in Sub-Saharan Africa, revealed that the most important challenges in access to finance for agribusiness were the cost and the ease of accessing credit. According to the report, the cost of accessing finance remains high in most Sub-Saharan African countries with annual interest rates averaging more than 20 percent [21]. Access to credit was further limited by cumbersome bank lending procedures that require numerous documents to process loans, and inadequate convenient points of service such as rural branches, ATMs and mobile payment services. Lack of adequate collateral and limited financial literacy are also identified as other key barriers or challenges that limit access to financial services.

Lack of specialist knowledge of agriculture and agribusiness among bank staff also account for the limited supply of agribusiness finance with adequate tenors. In a survey of some commercial banks in Nigeria, Ghana and Sierra Leone, respondents to the survey noted that their staff did not adequately understand how to analyze and supervise agribusiness investments [21]. In Nigeria, for examples, many credit risk management officers in commercial banks did not have the analytical skills to analyze an agribusiness plan and in few cases where banks had skilled staff they may not have been aware of or known how to analyze innovative financial products and services for agribusiness [21].

Farm production risks is also considered by banks as another major challenge that discourages commercial lending to agribusiness. The perceived high risks involved in agricultural production drive bank lending towards off-farm activities such as processing and trade. The perceived riskiness of farm production is further compounded by the inability of bank staff to adequately assess risks in agribusiness.

The small scale of operation of some agribusiness enterprises do pose as a barrier to credit access. The credit worthiness of such small-scale business is not often guaranteed by institutional lenders and hence reduces their incentives to lend to such agribusiness value chain actors.

Lack of knowledge of rules and regulations, long distances to sources of credit, discriminatory attitude of lending institutions and uncooperative attitude of staff of credit institutions are other barriers to credit access [5].

Strategies for bridging the gap between credit end users and institutional lenders for agribusiness value chain development.

To bridge the identified gaps between the credit users and institutional lenders, the following recommendations are proffered:

Lending institutions should be liberal regarding the cost lending to agribusiness actors. To make credit repayment easy, a single-digit interest rate charge is suggested.

There should be increased attention to development of risk management product such as guarantee schemes, crop/livestock insurance and warehouse receipt systems.

More investments should be made to improve financial literacy for bank clients such as the agribusiness value chain players. Priority should be given to regular training and re-training of financial institution staff to increase awareness and knowledge of the range of financial services and products available to agribusiness clients.

Where key financial infrastructure elements exist they should be continuously strengthened so as to expand financial product and services to agribusiness firms. As much as possible, small scale agribusiness operators should strive to raise their business to medium and large- scale levels. This, no doubt will make their agribusiness enterprises attractive to financial institutions, thus creating the necessary incentive for financial institutions to advance credit to agribusiness firms.

Conclusion

The main thrust of the study is “towards bridging the gap between credit users and institutional lenders for agribusiness value chain development”. Specifically, the concept of agribusiness and agribusiness value chain and the sources of credit for agribusiness value chain development were critically examined. The importance of credit to value chain actors was considered and major gaps between credit users and financial institutions in agribusiness value chain development were also identified. Information used were mainly from secondary source.

The study revealed that institutional lenders (the government, commercial banks, microfinance institutions, etc. constitute a major source of formal credit to agribusiness value chain players such as input providers, processors, processors and marketers. The importance of credit to value chain actors cannot be compromised as lack of credit access impact negatively on the value chain. Gaps between credit users and institutional lenders were considered as either constraints or barriers to credit access and included high cost and ease of accessing credit, cumbersome bank lending procedures, and lack of adequate collaterals among others. Adopting the strategies would significantly bridge the existing gaps in credit system and lead to growth of agribusiness in Nigeria.

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