



Commercial Agriculture for Smallholders and Agribusiness

Commercial Pathways for Sustainable Agri-SME Growth in Malawi

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The Commercial Agriculture for Smallholders and Agribusiness (CASA) Programme aims to drive global investment for inclusive climate-resilient agri-food systems that increase the income of smallholder farmers.

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INTRODUCTION

FCDO and International Climate Finance (ICF) funded the Commercial Agriculture for Smallholders and Agribusiness (CASA) Programme to demonstrate the business case for global and national investment in climate-resilient agri-food systems that increase smallholder farmer incomes. Since 2019, the programme has been generating evidence on the commercial and development potential of inclusive business models with smallholder farmer supply chains, facilitating increased agribusiness investment.

To this end, CASA Malawi has implemented catalytic and innovative interventions in the aquaculture and poultry sectors focussed on:

- **Building the commercial viability and investment-readiness** among agri-SMEs as they expanded their smallholder farmer supply chains

- **Strengthening smallholder farmer voices** (particularly women in agribusiness decision-making) and improving their supply chain positions through enhanced offtaking and aggregation arrangements, and
- **Addressing critical information and evidence gaps** that constrain agribusiness investment while communicating learnings to influence future programming.

CASA interventions used a Market Systems Development (MSD) approach to address market failures limiting capital mobilisation for climate-resilient agricultural transformation. The aim was to create demonstration effects that would catalyse wider investment while promoting inclusive development.

SYNOPSIS: AQUACULTURE AND POULTRY VALUE CHAINS

Malawi's aquaculture and poultry agri-SMEs face numerous challenges, regardless of their financial capacity. Many of these enterprises are established and managed by individuals with limited understanding of the sector and core business principles. As a result, they often struggle with internal capacity constraints that hinder their ability to achieve desired business outcomes or compete effectively in the market. Key gaps include weak capacity to effectively engage smallholders as suppliers, poor fiduciary management systems, and inability to strategically invest where it makes more business sense. With adequate introspection, research, and external support, agri-SMEs have demonstrated strong potential for growth, particularly when they invest time in understanding their markets, strengthening internal operations and management systems, and making strategic, evidence-based investment decisions.

CONTEXTUAL ANALYSIS

Agri-SMEs in Malawi face many challenges that prevent them from growing and taking advantage of market opportunities. While out-grower schemes—where businesses work with networks of smallholder farmers—present strong growth potential and help maximise capacity, many agri-SMEs lack the internal skills needed to make these arrangements work effectively and profitably. The problems go beyond not just having enough money. Many agri-SMEs have basic business management and operational weaknesses. They often lack good financial controls, proper business planning skills, and the market knowledge needed to compete effectively. They also struggle with internal technical capacity to produce sufficient volumes and consistently meet demand, maintaining quality standards, and adding value to products, which disables them from accessing better-paying markets. Poor supply chain management creates inefficiencies that reduce profits and limit their ability to serve customers reliably.

Many agri-SMEs also struggle to effectively manage risks related to seasonality, climate variability, and shifting market dynamics. This uncertainty often makes them reluctant to invest in equipment or adopt new business models necessary for successful commercialisation. Without proper risk management systems, businesses remain vulnerable to external shocks that can destroy years of progress. CASA's experience shows that helping agri-SMEs succeed requires addressing all these connected problems through comprehensive support. Businesses require support in technical training, market linkages, financial management, investment readiness, and business planning to unlock their growth potential and build sustainable enterprises. In Malawi, CASA dedicated its efforts towards strengthening the internal business capacities of its agri-SME partners, focusing first on improving or establishing proper governance and financial management systems before rolling out implementation of core activities under the partnerships. This foundation was further reinforced through investment readiness support, which enabled agri-SMEs to conduct business feasibility assessments and develop their strategic business and investment plans.



Agwenda out-grower farmers with starter chickens

KEY LESSONS

1. Out-grower Models as Strategic Business Opportunities

Out-grower schemes are attractive business models for agri-SMEs because they allow companies to expand without investing heavily in land, inputs, or farming equipment. Agri-SMEs can increase production and sales by working with many smallholder farmers while keeping their own costs manageable, which improves profitability. CASA showed that out-grower schemes are an important way for businesses to grow, but most fail because smallholder farmers cannot afford the inputs they need to produce. To succeed, businesses must carefully choose which farmers to work with by studying the market and identifying farmers who have good production skills and want to operate commercially. Key factors for success

include providing farmers with training and on-going technical support to ensure they meet desired quality standards and deliver consistent supplies. Out-grower models create competitive advantages by building reliable supplier networks and reducing the risk of not having enough products to sell, as well as improving capacity of production and economies of scale. These schemes also create opportunities for agri-SMEs to earn additional income by selling inputs to farmers as well as offering financial services and technical advice to the same farmers. This creates a complete agricultural business ecosystem. This inclusive approach has proven effective in reaching rural markets and fostering loyalty among smallholder farmers, both as suppliers and customers, as illustrated by the two CASA case studies presented in the box below.

AMAZON POULTRY AND VIPHYA CHAMBO: OUT-GROWER MODELS AS STRATEGIC GROWTH VECTORS

CASA's poultry interventions through Agwenda, Chema World, and SPRODETA demonstrated that accessible and affordable systems can enable micro-enterprises to successfully integrate financially constrained smallholder farmers who cannot afford high-input production systems. In these cases, the programme worked with partner agribusinesses to co-design out-grower business models that supported smallholder production of indigenous and dual-purpose chicken breeds. These poultry breeds are easy to manage in relatively affordable housing facilities and thrive on a low-cost feeding regimen, unlike hybrid breeds, which require uncompromisingly high-quality housing and commercial feed. At the same time, CASA and its agri-SME partners aimed to exploit the high price premium and the growing demand for indigenous and dual-purpose chicken breeds amongst the upcoming middle class consumers in the urban markets of the country.

As a result, a total of 6,671 (68.3% women) smallholders were able to engage in the commercial production of the targeted poultry breeds under these three partners (3,160 under Agwenda, 2,011 under Chema World, and 1,500 under SPRODETA), launching the out-grower schemes with minimal start-up investment from both the agri-SMEs and the contracted farmers. While not all these farmers achieved full success with their micro-enterprises, the programme's annual outcome assessment conducted in December 2024 found that poultry smallholder farmers engaged in the second cycle of projects — including Agwenda and Chema World — experienced a steady increase in average additional annual income per farmer, rising from £15 in 2022 to £20 in 2023, and reaching £39 in 2024. This represents a 95% year-on-year increase and a 160% overall increase since entry, demonstrating that these models offer a viable pathway for integration into the value chain and for generating additional income, which if properly managed, could be reinvested into higher-input, higher-return production models.

The above cases demonstrate how out-grower schemes can rapidly generate increased capacity, and create competitive advantages by establishing strong forward and backward linkages. Such integrated agribusiness ecosystems reduce procurement risks, foster farmer loyalty, improve market penetration, and support operational efficiency.



Amazon Poultry out-grower farmers; Fingerling production tanks at Viphya Chambo

However, it is essential to incorporate appropriate safeguards in the design of out-grower schemes to harness the mutual benefits for anchor firms and participating farmers, while mitigating the potential risk of disrupting well-established supply networks within the broader market system. Some of the key considerations and their associated safeguards include:

- The need for a full upfront disclosure to out-growers of all inputs advanced and any associated service costs, to prevent misunderstandings and avoid perceptions of unfairness if additional charges are discovered at the point of sale to the agri-SMEs.
- The importance of involving a neutral third party in the drafting and enforcement of out-grower contracts to ensure transparency around all terms and conditions. This helps prevent potential imbalances that may arise from shifting agri-SME priorities, such as a strong focus on rapid profit growth, which could inadvertently disadvantage smallholder suppliers.
- Investing in the empowerment of smallholders to ensure their needs and perspectives are fully considered and integrated, and that they fully understand the price differentials and transaction costs involved vis-a-vis the returns the anchor firm receives in the market.
- In addition to assessing productive capacity and commercial interest, anchor agri-SMEs should also identify and understand other entities operating within the same smallholder communities to avoid overburdening farmers with multiple engagements, which could lead to underperformance or failure to meet contractual obligations.

If well designed and implemented, out-grower models can be scaled through multiple pathways. First, agri-SMEs can introduce graduation programmes or provide incentives for ambitious farmers seeking to expand their production capacity beyond the initial model, while carefully assessing the market's evolving absorption capacity. Second, small producer groups can organise and register as cooperatives. Both approaches offer the advantage of reducing transaction costs by consolidating supply, either by focusing on a few high-capacity producers or by engaging many farmers collectively through a cooperative.

2. Operational Transformation Requirements

To achieve desired business growth potential and ensure that it is sustainable, agri-SMEs must change how they operate to become more business-focused and market-oriented. This means setting up proper business management systems, improving financial controls, and creating business models that can work without ongoing donor or grant funding. Investment readiness programmes provide major benefits even when they do not lead directly to commercial financing. The process helps companies develop better internal systems, including proper accounting, business planning, and management structures that reduce risks. Agri-SMEs gain competitive advantages through clearer value propositions, more efficient operations, and stronger relationships with suppliers and customers. The preparation process itself makes businesses more professional and credible in the market. Investment readiness should be seen as a complete business development tool, not just a way to access funding, because it creates lasting improvements in how agri-SMEs operate and compete.

Some agri-SMEs understand their operational and management transformation can happen without donor support but may take longer for some than others. In this case, some agri-SMEs may still require catalytic donor support targeted towards addressing these capacity challenges and rapidly transform their organisational and operational positions. In the absence donor support, however, agri-SMEs should endeavour to engage a workforce with the varied management or operational skills that the business needs so that they can set up the operating systems required to become competitive. Acknowledging that procurement of these services on the market could be costly, where the internal capacity to engage staff with the relevant skills is limited and no donor support exists, agri-SMEs are advised to opt for partnerships with other businesses who can support the provision of the missing skills. Alternatively, equity investors can be sought who can offer both capital and strategic expertise to strengthen the business. One CASA partner agri-SME, Nkhotakota Steadfast Cooperation Limited, urged all agri-SMEs pursuing sustainable growth to adopt a more grounded approach by investing time in market research to gain critical insights into how to operate as a business (see box). Such a comprehensive understanding of the operating environment by agri-SMEs, ranging from production and marketing compliance requirements to the expectations of financial lending institutions, is essential for achieving long-term success.

NKHOTAKOTA STEADFAST COOPERATION LIMITED: CASA TECHNICAL SUPPORT HELPS AGRI-SME TO PURSUE ORGANISATIONAL AND OPERATIONAL TRANSFORMATION INITIATIVES

Initially registered as a partnership under the name Nkhotakota Steadfast for Youth, this CASA partner leveraged technical assistance provided through the programme to strengthen its financial management systems and address identified fiduciary and governance gaps. Based on this, the business successfully incorporated as a limited company in September 2024 under the name Nkhotakota Steadfast Cooperation Limited. The company has also leveraged CASA's technical assistance to reposition itself and its products in response to evolving market demands. This included redesigning product packaging to align with consumer preferences and pursuing product certification through the Malawi Bureau of Standards and ISO to strengthen market penetration. Although the company has not secured commercial investment through CASA support, these operational and organisational transformation efforts reflect the impact of CASA's technical assistance and the directors' improved understanding of the broader fish value chain and market system in which they operate.

3. Strategic Investment Decision-Making

Agri-SMEs should make investment decisions based on market research, profit potential, and whether they will be able to repay loans. They need to invest time and resources in evaluating whether commercial investments will help grow the business and make money, instead of just waiting for donor grant funding that might delay growth opportunities. This shift in thinking helps agri-SMEs compete in real markets, attract private investors, and grow sustainably. Companies that rely too heavily on grants as a growth strategy often risk limiting growth opportunities and hurt their long-term survival chances, as well as those of the smallholder farmers with whom they engage. Learning to operate as a commercial business is essential for truly integrating into markets and staying competitive in Malawi's agricultural sector. The approach in this case must be to strategically leverage donor-funded technical assistance or grants along the way to accelerate investments that unlock medium- to long-term growth aspirations outlined in the existing agri-SME business strategy.

To make informed investment decisions, it is imperative for businesses to leverage donor funded programmes to better understand their markets through market research and identification of existing gaps, and innovate around those gaps so that investments are in products or services that meet a market need. A lot of information is available in the public domain around various target markets which should be accessed to support one's research. Businesses should demand this information from relevant offices mandated to provide it, for instance the Business Development Service Centres in all district councils and the Small and Medium Enterprises Development Institute (SMEDI). Following this research, businesses should develop costed business plans which should become the guide of where they should go and where to invest first and progressively to grow the business. While not fully experienced during CASA implementation, one of CASA's partners, MlimiPay, has encouraged small agribusinesses to seriously consider investing in digital technologies as a means of achieving long-term operational efficiency, reducing costs, and ultimately increasing profitability.

NYALUWANGA AND TEREK AGRO: MARKET-ORIENTED AND CREATIVE BUSINESS MODELS

Nyaluwanga Farms Limited demonstrated how business planning and market assessments led to its decision to invest in a feed mill. From a cost benefit analysis between continued acquisition of its poultry feed from other suppliers and investing in own feed production, the company was convinced its production costs would lower if they had their own feed mill. The business was also set on becoming vertically integrated to control costs and remain competitive. This came from the understanding that feed production capacity would give them better control over product quality and consistency and allow the company to use economies of scale to their advantage. The feed mill was one of the investments asked from potential investors. However, the business was not satisfied with the cost of borrowing that was offered by MAIIC and resorted to investing in the feed mill using the Directors' own pension fund.

Similarly, Terek Agro, a fish feed manufacturer, is adopting a holistic approach that goes beyond feed production and marketing. The company is investing in innovative digital payment solutions through MlimiPay and establishing demonstration fishponds to equip farmers with practical skills for profitable fish farming, while also showcasing the effectiveness of its feed products to its target clientele. By leveraging the MlimiPay digital payment platform, Terek Agro is mitigating the risks associated with selling feed on credit to smallholder farmers. Simultaneously, its investment in demonstration ponds is expected to expand its customer base by building trust and showcasing product effectiveness. Both the digital payment system and the demonstration model are currently in the pilot phase.

IMPLICATIONS FOR AGRI-SMES

1. Leveraging Out-Grower Models for Growth

- **Out-grower scheme as a strategic pathway for increasing supply volumes:** Agribusinesses should consider investing in inclusive out-grower schemes with carefully selected smallholder out-growers as a strategy to rapidly scale up supply volumes and increase sales revenue, without the need for heavy investment in internal production assets. However, such initiatives must be guided by a clear understanding of the available market size and its quality demands to ensure sustainability and profitability. In addition, the selection of out-growers should be based on a clear assessment of their capacity to produce quality products that meet market requirements.
- **Out-grower model as a pathway for generating additional income through backward linkages:** Agri-SMEs should strategically invest in out-grower schemes involving productive smallholders to unlock additional revenue streams through the supply of production inputs and the provision of financial and technical advisory services to these out-growers. This integrated approach supports the development of a sustainable agribusiness ecosystem, extends reach into rural markets, and fosters loyalty among smallholder farmers, both as suppliers and customers to the anchor agri-SME while also supporting the anchor firm with assured product supply.

2. Adoption of Holistic Operational Transformative Strategies

- **Leverage donor-funded programmes to establish transformative strategies:** While most commercial donor-funded programmes focus on supporting agri-SMEs to become investment-ready and strengthen their engagement with smallholders, agri-SMEs must also leverage these opportunities to improve their organisational and operational efficiency. Given the high cost of developing sound business operational policies, systems, and business or investment strategic plans, it is vital for emerging agri-SMEs to partner with donor-funded programmes to access this support. Leveraging such assistance to implement essential organisational and operational

improvements aligned with industry standards can significantly enhance their competitive edge. Approaching donor support as a catalyst for driving organisational and operational transformation in this way is more sustainable than relying on ongoing grant funding as a growth strategy, which often fails to deliver lasting improvements in the internal functioning of the business.

- **Intentionality on building necessary business management capacity:** Agri-SMEs need to be intentional about identifying the skills required for effective business management and actively pursue ways to acquire them, whether through on-the-job upskilling supported by donor-funded technical assistance, partnering with equity investors who bring relevant expertise in addition to finance, or, as the business grows, hiring personnel with the required skills and expertise.

3. Pursuit of Strategic Investments

- **Leverage donor-funded TA to support informed investment decision making:** Where donor funded programmes exist, agri-SMEs need to leverage these to support carrying out detailed market evaluating and determine the available investment options that would help to grow their business and assess their long-term ability to repay credit finance and/or determine whether such investments can be met with internal revenue. This would enable agri-SMEs to focus more on pursuing growth-oriented investments, competing in real markets, increasing their ability to attract private investors, and achieving sustainable growth, rather than relying on continued donor funding as a growth strategy, as this may result in failure or a delay to exploit available growth opportunities.
- **Strategic investment decision-making:** Agri-SMEs must adopt disciplined capital allocation frameworks based on financial viability assessments. Investment decisions should be grounded in comprehensive market analysis, return-on-investment calculations, and bankability assessments to prevent opportunity costs associated with deferred growth strategies. Where donor support is available, agri-SMEs should align their interventions with these programmes towards developing these essential investment decision-making tools.

- Institutional and business capacity building:** Agri-SMEs must strengthen fiduciary management systems, enhance due diligence capabilities, and develop risk assessment frameworks to access formal and other forms of financial instruments. In addition, this requires establishing performance-based governance frameworks, implementing rigorous financial management systems, and developing investible business models that demonstrate commercial viability even when donor support is not available. In addition, agri-SMEs need to invest in building market intelligence capabilities and establishing relationships with financiers beyond traditional channels. These capacities would either be achieved through catalytic support from donor-funded programmes or gradual investment in qualified personnel as the company's revenue grows.
- Blended financing integration:** Where concessional financing exists, agri-SMEs should strategically utilise these to de-risk commercial investments while maintaining a clear demarcation between grant-funded activities and core commercial operations. This ensures that agri-SMEs maintain a steady business focus, even when some activities are supported by donor funding.

IMPLICATIONS FOR DONORS AND DEVELOPMENT PARTNERS

1. Building Out-Grower Models in Programme Design to Catalyse Commercialisation

- TA support to help offset the initial costs associated with establishing an effective out-grower scheme:** Future development programmes should enhance the provision of technical support to agri-SMEs to help them assess and establish the size and features of available markets and mobilise like-minded smallholders for effective business collaboration under an out-grower arrangement. This is particularly important given that the initial costs associated with these activities do not yield immediate revenue or profit for either party. However, establishing an out-grower scheme based on a clear understanding of market dynamics and partnering with farmers who demonstrate strong productive potential is a critical foundation for building a successful, scalable, and sustainable out-grower model. It is therefore imperative for development programmes to provide this catalytic technical support to existing market actors towards establishing such inclusive models.
- Discreet TA support towards de-risking model design:** Donor-funded programmes should include targeted technical support for agri-SMEs and smallholder farmers towards the design of inclusive out-grower schemes and integration of appropriate safeguards. This support helps to build confidence amongst all parties and ensures that both anchor firms and participating smallholder out-growers can fully benefit from the arrangement. By providing such neutral, professional technical assistance, development programmes can foster trust among parties while promoting fairness and mutually beneficial contractual terms.
- Graduation strategy integration:** Agri-SME support programmes must incorporate clear pathways for scaling out-grower models, either by incentivising ambitious farmers to expand and graduate beyond the initial model or by helping small producer groups organise and register as cooperatives. By allowing a focus on such high-capacity producers or organising farmers collectively, these graduation pathways will allow agri-SMEs to scale production, cut transaction costs, while still delivering better incomes for smallholders.

2. Provision of Nimble Business Development and Institutional Capacity Building Interventions to Agri-SMEs

- **Holistic approach to business development for agri-SMEs:** Future donor-funded commercial programmes in Malawi should adopt a flexible and holistic approach to business development support for agri-SMEs. Beyond specific focus areas such as investment readiness, these programmes should tailor their technical assistance to address the unique capacity gaps of each partner agri-SME. This targeted support should aim to help emerging agribusinesses develop the systems and tools necessary for building robust organisational and operational structures to catalyse establishment of long-term sustainability and resilience of their business operations.
- **Blended finance mechanism design:** Donors should structure interventions using pseudo-loan methodologies and synchronised disbursement frameworks that maintain commercial discipline while de-risking private sector investments, whilst also enabling businesses to see the benefits of commercial finance. To enhance this focus, programming should integrate clear graduation pathways from concessional to commercial financing arrangements, where such concessional financing is availed to agri-SMEs as a growth catalyst.
- **Partnership strategy evolution:** Donors should establish strategic partnerships with commercial financiers, impact investors, and private sector actors to create investible pipelines and reduce overreliance or perpetual reliance on grant-only interventions. Programming must facilitate agri-SME access to formal financial markets while building institutional readiness for commercial engagement.



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