



Commercial Agriculture for Smallholders and Agribusiness

Sustainable Financial Models for Smallholders: Lessons for Investors and Financial Intermediaries from CASA 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

Commercial Agriculture for Smallholders and Agribusiness (CASA) is an FCDO-International Climate Finance (ICF) funded programme driving global investment for inclusive climate-resilient agri-food systems that increase smallholder incomes. The programme has been generating evidence on the commercial and development potential of inclusive business models with smallholder farmer supply chains to facilitate increased agribusiness investment. To this end, CASA has since March 2019 been building the commercial viability and investment readiness of agri-SMEs in Malawi's aquaculture and poultry value chains, while also fostering commercial linkages between these enterprises and smallholder producers.

The programme directly tackled market failures preventing commercial capital mobilisation from the formal financial lending institutions toward climate-

resilient agricultural transformation by piloting alternative financing approaches tailored to Malawi's unique context. CASA Malawi used innovative financing methods such as a Special Purpose Vehicle (SPV) for Yalokolo, Village Savings and Loans Associations (VSLA) in collaboration with the Malawi Union of Savings and Credit Cooperatives (MUSCCO), a Pay-As-You-Grow (PAYG) model with Nkhotakota Steadfast Cooperation Limited (NSCL)¹, and a digital payment system for inputs through MlimiPay/Teren Agro. These approaches demonstrate that tailored financing solutions, designed to address the specific barriers to attracting capital from formal financial institutions into inclusive agricultural business models, can unlock significant investment potential into Malawi's inclusive agribusiness development.



MUSCCO project's Chiyembekezo VSLA group members

1. Formerly, Nkhotakota Steadfast Cooperation for Youth (NS4Y)

CONTEXTUAL ANALYSIS

Malawi has a persistent problem with agricultural financing. Although agriculture employs over 80% of the working population and contributes 30% to the country's economy, the sector gets less than 7% of bank loans. Commercial banks consider agriculture too risky, with returns that are deemed too small, thus excluding agri-SMEs that are crucial for rural economic growth from accessing the necessary finance for investment. Banks typically require land or buildings as collateral, detailed business plans, and proven income records before giving loans. These requirements work against most of Malawi's agri-SMEs, some of which operate informally and have seasonal income patterns from crops like tobacco, maize, and soybeans. This cautious approach by commercial banks keeps many agri-SMEs and smallholder farmers excluded from financing, even though some agricultural businesses have commercially viable business models. It is against this backdrop that, even after receiving robust investment readiness technical assistance from CASA, many agri-SMEs were unable to secure commercial financing. In cases where loans were offered, the terms were often prohibitive, with high interest rates and short repayment periods, rendering them unattractive or financially non-viable to anchor the growth aspirations of their small businesses.

To address this financing challenge, CASA Malawi piloted the alternative funding approaches outlined above, rather than accepting the conventional risk perceptions prevalent within the formal financial sector. These approaches were borne out of the recognition that pooled financial resources within communities can directly support investments in targeted inclusive business models or establish a viable resource base that serves as collateral and a foundation for attracting formal financial institutions to engage in the two sectors. The latter was evident from preliminary discussions with Centenary Bank, which was willing to lend to smallholders organised in VSLAs, provided the groups maintained savings equivalent to at least 30% of the loan value within their portfolio. The former was informed by CASA's experiences with MUSCCO-supported VSLAs, which are graduated into SACCOs based on assessed growth in savings and operational consistency. At that stage, they either transition into standalone SACCOs or are linked to existing ones, gaining the ability to access larger loan facilities from the formal financial institutions.

ALTERNATIVE FINANCING IN AQUACULTURE AND POULTRY VALUE CHAIN

CASA-supported alternative financing approaches often emerged from the frustration with structural barriers or the inability of otherwise investible agri-SMEs to secure financing from formal lending institutions. Determined to overcome the odds, partner agri-SMEs and smallholders in need of financing actively sought alternative solutions to meet their financial requirements. These solutions were not based on the traditional lending frameworks nor collateral. Instead, group members' savings, farm produce, and deposits for inputs were utilised both to finance and to regulate and self-police the financing arrangements. In some cases, CASA partners in both value chains worked with out-growers organized in VSLAs, enabling them to utilise part of their savings or loans to finance poultry and fish production. Similarly, anchor firms are adopting alternative input financing mechanisms for out-growers, while mitigating risk through models such as the Pay-As-You-Grow by NSCL and Teren Agro's digital input payment solution with MlimiPay. Both approaches facilitate smallholder input financing in a more flexible, secure and accessible manner.

KEY LESSONS

1. Pooled Capital Circumvents Collateral Constraints for Smallholder Finance

Smallholder farmers are systematically leveraging VSLAs' collectively pooled funds as a way to circumvent the need for loans sourced from commercial entities. This community-based approach shows that when smallholder farmers pool their money together, it can replace the need for individual collateral while

maintaining repayment discipline through peer pressure and support and allows for community-owned decision-making and investment. CASA successfully piloted three ways to use community-groups pooled funds and was exploring the fourth way, as detailed in the box below.

ALTERNATIVE PATHWAYS FOR LEVERAGING POOLED GROUP FINANCING TO DRIVE INCLUSIVE AGRIBUSINESS INVESTMENT – LESSONS FROM CASA

CASA supported its partner agri-SMEs in exploring and piloting three approaches to leveraging community-pooled funds through VSLAs to invest in mutually beneficial poultry and aquaculture enterprises. First, VSLA members in Mhuj-Rumph collectively invest their pooled funds in a poultry enterprise through a partnership with CASA poultry partner Yalokolo, using a Special Purpose Vehicle (SPV). The joint venture investment, anchored around the SPV, is establishing a hatchery and chicken processing facility for indigenous chicken breeds. This presents a rare opportunity for both parties to commercialise indigenous poultry production and tap into a growing niche market that offers premium prices. This model allows them to minimise individual risk, share profits, and retain ownership of both the investment and the business.

Second, under the MUSCCO partnership, CASA supported smallholder farmers organized in VSLAs to leverage their pooled funds to directly finance member businesses beyond traditional micro-credit limits. Leveraging MUSCCO's extensive experience in establishing and supporting rural VSLAs to transition to formalised entities, CASA's partnership with MUSCCO enabled targeted VSLAs to mobilise and invest their pooled funds into poultry enterprises, both individually and collectively. Through this approach, some supported groups, such as the Chiyembekeza Group in Jenda-Mzimba, successfully established a broiler chicken enterprise which incorporated value addition in their model by selling poultry parts rather than whole chickens, effectively doubling their revenue.

Third, CASA supported creation of three-way agreements among farmers, agri-SMEs, and a Micro-Finance Institution (MFI) where the group guarantees individual loans from the MFI, as demonstrated through the Viphya Chambo-Palm Capital partnership. In this model, smallholder aquaculture producers were required to pool funds covering at least 30% of the total loan value to be contracted from the MFI, Palm Capital, to facilitate the acquisition of high-quality fingerlings and feed. The loans were structured to be repaid through deductions made by Viphya Chambo at the point of fish purchase from the smallholder farmers, in its role as the aggregator, which served to de-risk the arrangement for the MFI.

Fourth, CASA began collaborating with Centenary Bank to support lending to smallholder aquaculture farmers organized in VSLAs under NSCL. Centenary Bank expressed interest in piloting loans for these farmers, on the condition that they deposit 30% of the loan value into accounts held at the bank. However, the process faced delays, as Centenary Bank does not have a branch in Nkhotakota and was still exploring efficient ways to deliver services to the targeted farmers in the area.



Yalokolo and VSLA joint venture registration

The above cases demonstrate that financial intermediaries, agri-SMEs and development partners need to recognise VSLA membership as a positive sign that smallholder farmers can repay loans and develop standard ways to evaluate these group guarantee systems. This approach shows that VSLA-pooled funding can work as an alternative to commercial bank loans. The key lesson is that helping smallholder farmers access finance requires recognising and building on the strengths of existing informal financial systems that farmers already use and trust, rather than trying to replace them.

It is essential to recognise that the success of this alternative financing approach hinges on a shared understanding of the value proposition among all members, as well as the short- and long-term implications of the arrangement. This is precisely the role where development facilitators must invest time and resources through targeted technical assistance, just as was demonstrated by CASA. Through such targeted

technical assistance, all parties involved must: (i) build a shared understanding of the specific group investment arrangement, prioritising collective commercial goals over individual investment preferences; (ii) be willing to relinquish equity to others joining the model, as demonstrated by Yalokolo, which ceded 50% ownership to the VSLAs; and (iii) align on realistic investment ticket sizes, particularly where VSLAs and agri-SMEs are involved, given the potential differences in scale and achievable investment capacity. The advantage with VSLAs is that scale can easily be achieved through numbers, provided there is a shared and well-understood value proposition accepted by all members.

To fully leverage this pathway, it is important to lay a strong foundation by building trust among involved stakeholders and establishing clear rules and terms to guide SMEs working with pooled resources from VSLAs. In addition, there is a need for establishing a clear strategy for structuring the financing partnership, with a strong emphasis on deal-making, which would eventually anchor sustainability and scalability. This may include involving a third party or the development facilitators of a donor-funded programme like CASA to broker a fair resource-pooling and investment arrangement. Equally important is the need for businesses utilising pooled resources to have formal governance structures in place to enhance their credibility and reliability to the VSLAs and other financing providers.



MUSCCO project's Chiyembekezo VSLA group members selling chicken products

2. Investment Readiness Does Not Automatically Translate to Credit Access, but Provides Useful Technical Support for the Business to Thrive

CASA's initial hypothesis was that helping agri-SMEs become better businesses through technical assistance would lead commercial banks to advance commercial finance to them. This assumption was incorrect. Even though CASA successfully helped businesses strengthen their business plans, financial systems, and market linkages, commercial banks either failed to provide the expected credit or offered loans with repayment terms that were unaffordable or non-viable for the businesses. This experience shows that just making the operation and governance of agri-SMEs better is not enough to overcome the structural problems in Malawi's banking sector. Commercial banks continued their cautious lending practices even when presented with well-prepared, investment-ready businesses.

This suggests that the greater challenge lies in banks' overly risk-averse approach and restrictive lending policies toward agriculture, rather than the investment readiness of the businesses themselves. On top of the already high base lending rate, the heightened risk profile assigned to the agriculture sector by local banks makes the cost of finance generally high, rendering bank loans non-viable for supporting profitable small-scale agricultural businesses. It is for this reason that when one development bank extended a credit offer to a CASA partner agri-SME, the company declined because the loan terms were considered too harsh and costly given the tight profit margins typical of highly competitive sectors such as poultry.

These factors have collectively hindered CASA's ability to translate investment readiness support for its partner agribusinesses into successful access to commercial financing from the banking sector. Nonetheless, this investment readiness technical support has proven highly valuable to agri-SMEs in making appropriate decisions, as illustrated in the case examples below.

CASA-SUPPORTED AGRI-SMES STILL BENEFITED FROM THE TA RECEIVED

Although they have been unable to secure third-party commercial investment from formal lending institutions, CASA-supported agribusinesses have found the technical assistance provided to be valuable, as illustrated by the two cases below.

For Nyaluwanga Farms, the investment readiness support proved valuable, as it created the basis for the owners to invest more equity into the business. In this case, the business viability assessment concluded that the company could accelerate its growth by investing in its own feed mill, along with expanding processing and cold chain facilities to anchor the out-grower scheme. The TA prioritised the feed mill investment, based on the rationale that, once operational, it would generate an additional revenue stream for the company through poultry feed sales to its out-growers and other producers in Mzuzu because all the poultry feed was being sourced from Lilongwe or Blantyre, about 300 km and 650 km away, respectively. After declining the commercial loan offer from the bank, the directors decided to invest their own funds in the feed mill to exploit the benefits identified in the business plan developed with support from the CASA-engaged investment readiness TA.

Tac Maz has reported that despite being unable to access commercial credit as initially intended through CASA engaged TA, the investment readiness support provided practical benefits that comprehensively addressed broader business needs beyond financing. Tac Maz gained a clearer understanding of their financial position, better prioritised their investment needs, and became familiar with the processes necessary to attract investment. As a result, they now have a well-defined value proposition and greater confidence in making tailored internal investments or in approaching potential investors. Overall, the investment readiness support is credited with accelerating business growth by helping to structure and clarify their desired growth trajectory.



Feedmill at Nyaluwanga; Nyaluwanga VSLA group contributing towards savings for poultry farming

This lesson highlights the importance of tailoring investment readiness technical assistance to the specific realities of each agribusiness, grounded in a clear understanding of feasible growth pathways within the prevailing macroeconomic environment, rather than the conventional assumption of predicating such support on facilitating third-party investment through banks. Technical assistance creates necessary conditions for financial inclusion but is not sufficient on its own. To succeed, agricultural finance programmes need to work on both sides simultaneously by helping businesses improve while also transforming how the financial sector operates. For Malawi, future programmes should use approaches that address both enterprise development and banking sector transformation. This includes changing institutional lending cultures, improving regulations, and developing better risk assessment

methods alongside business training. Technical support towards investment readiness targeting the formal banking sector in Malawi would only become meaningful when combined with corresponding changes in commercial banks' willingness and ability to deploy capital to agricultural markets.

Another key imperative is that, beyond investment readiness technical support, agri-SMEs that target securing commercial investment financing from local banks should prioritise building long-term relationships with commercial lending institutions. Ongoing engagement helps establish a transparent financial track record, enabling banks to develop a clearer understanding of the business's operations. Beyond business plans and financial projections, actual business performance data, as well as formal agreements and contracts with suppliers and customers, are crucial in assessing eligibility for bank lending. Banks require a comprehensive understanding of the business, not only its current operations and future plans, but also how it fits within the broader market context and how it intends to adapt to emerging market changes. This holistic view enables banks to conduct more accurate risk assessments and make informed lending decisions. Future development programming should, therefore, be more intentional in building within their technical assistance menu the need to support agri-SMEs in initiating this relationship-building with financial lending institutions, if not existent, and establish clear mechanisms to foster sustained relationship-building with financial institutions.

3. Anchor Firm Pre-Financing Commitments are Critical for Inclusive Value Chain Development

CASA aimed to make agri-SMEs more commercially viable and investment-ready while helping them expand their networks of smallholder suppliers. However, the programme faced major problems when anchor firms failed to provide smallholder farmers with essential pre-financing for agricultural inputs. This experience shows that just making businesses investment-ready is not enough to solve the structural financing problems in agricultural supply chains. The lesson reveals a key flaw in how development programmes usually think about value chains, assuming that, once agricultural companies become commercially viable, they will automatically extend credit to their smallholder suppliers

as business models are proven viable. In reality, anchor firms either did not have adequate financial resources themselves or were too worried about risks to finance smallholder farmers, even when their business models succeeded and market opportunities existed. Agribusinesses remained wary of seasonal risks, fluctuating input prices, and smallholder repayment capacity.

This implementation reality demonstrates that inclusive commercialisation requires explicit pre-financing mechanisms within value chain design rather than assuming that anchor firms will naturally extend credit. Development partners must deliberately design

programmes that address working capital problems at multiple levels of the supply chain simultaneously. This means supporting both anchor firms' cash flow needs and smallholder input access through blended financing approaches, guarantee structures, or alternative pre-financing arrangements. Future programmes should include binding commitments for pre-financing within partnership agreements, backed by appropriate risk management tools that allow anchor companies to extend necessary credit while staying commercially viable. Investment-readiness becomes meaningful only when combined with systematic working capital solutions addressing smallholder input financing constraints throughout agricultural seasons.

CASA'S INITIATIVES TO PROMOTE INPUTS FINANCING FOR OUT-GROWER SMALLHOLDERS

CASA sought to address the financing challenge faced by contracted out-growers by promoting contractual pre-financing arrangements in which out-growers contributed a portion of input costs upon receipt of inputs. Some partners, however, opted to sell inputs outrightly at subsidised prices.

Under SPRODETA, for instance, farmers outrightly purchased six-week-old chicks at a subsidised price of MK1,500 while Tac Maz trained its out-growers in VSLAs to enable them to save enough cash and pay for chicks on delivery at the cost of production.

In aquaculture, Teren Agro has partnered with MlimiPay to utilise its digital payment platform, enabling farmers to pay for feed in instalments through their MlimiPay wallets. In this case, Teren Agro delivers the high-quality fish feed to farmers once an agreed payment threshold is met. Similarly, NSCL has introduced a Pay-As-You-Grow input financing model, which enables farmers to acquire inputs gradually without needing to make large upfront payments.



The above cases highlight the importance of collaborative financing between participating out-grower farmers and anchor agri-SMEs in brokering de-risked financing arrangements for inclusive business models. This approach enables both parties to meet halfway and share the risks associated with input financing. It is important to ensure that input pre-financing arrangements are neither too risky nor too costly for both the anchor agri-SME and the out-growers. Where the agri-SME has the capacity to pre-finance, viable models should be designed with binding contractual obligations to safeguard the interests of both parties. In line with lessons already shared above, it is recommended that future programming consider the following factors while facilitating these inputs pre-financing arrangements for out-grower farmers:

MlimiPay digital wallet

- Utilising VSLAs to fund the first production cycle, by subsidising the costs incurred either by farmers or the agri-SME. This can be done individually by farmers or collectively through the VSLA group.
- The agri-SME provides input pre-financing based on an assessment of the farmers' capacity to deliver the minimum viable quantity of produce. This ensures that credit is extended only to farmers who are likely to repay the input costs.
- The anchor firm supplies inputs and accepts in-kind repayments with produce essential to its operations, such as soybeans for Teren Agro's feed production.
- Exploring the integration of insurance into input loans or other credit schemes to cushion anchor firms against total loss.

To successfully achieve the desired outcomes, it is imperative that both farmers and agri-SMEs agree on the importance of ensuring that farmers receive the best value for their money in terms of input quality, as this directly affects productivity levels, product quality and the financial returns for both parties. Development programmes facilitating such arrangements must ensure that robust viability assessments are conducted to demonstrate that the pre-financing model will indeed deliver timely profitability to contracted farmers. This enables farmers to repay inputs credit on time, builds trust, and encourages sustained participation in the model.

IMPLICATIONS FOR FUTURE PROGRAMMING

1. Leveraging Smallholder Group Pooled Funds

- **VSLA Pooled Funding for Value Chain Investments:** Given the prevailing challenges in accessing finance for smallholder farmers, pooled funding through VSLAs can serve as a viable alternative to commercial bank loans. This can take various forms, including direct investment by smallholder groups in a value chain or joint venture arrangements in collaboration with an anchor firm, provided that a clear and shared value proposition is established. Future development programmes should intentionally support smallholders and their anchor firms with tailored technical assistance to develop a feasible and viable value proposition, facilitate buy-in by all parties, determine appropriate investment needs, and design corresponding value chain development models to anchor the investment arrangement.
- **Use of VLSAs to Build Tailored Financial Products for Smallholders:** While largely informal, VSLAs offer a valuable entry point for financial intermediaries and

commercial banks to anchor tailored credit products for smallholder farmers. It is essential for lending institutions to recognise and leverage the strengths of these existing informal financial systems, which are already widely used by farmers, to develop products that would help increase access to credit finance for them.

2. Tailored Investment Readiness Support

- **Targeted Investment Readiness Support:** Given that small-scale agri-SMEs are often unable or unwilling to pursue commercial finance from formal financial institutions, it is important to tailor investment readiness support to focus on alternative growth pathways. In this context, strengthening the internal operations and governance structures of agri-SMEs is essential to enhance their ability to collaborate effectively with other actors. Equally important is supporting the development of viable business and investment plans, which can serve as strategic tools to guide sound investment decisions by the company.

- **Holistic Investment Readiness Support:** For agri-SMEs targeting commercial investment from the formal financial lending institutions, it is important for development programming to intentionally incorporate the establishment and building of long-term relationships between agri-SMEs and commercial banks as a core component of investment readiness support. Such relationships enable commercial banks to gain a comprehensive understanding of the business, not only its current operations and future plans, but also its position within the broader market context and its strategy for adapting to evolving market dynamics. Commercial banks are more likely to extend credit facilities to businesses they understand well and have confidence in.

3. Inputs Pre-financing Solutions for Viable Out-Grower Schemes

- **Building Explicit Pre-Financing within Programmes:** To ensure success of inclusive business models, development partners should intentionally design programmes that address working capital challenges at the SME and smallholder farmer levels of the supply chain. By incorporating the cash flow needs of both anchor firms and smallholder farmers, development

programmes can more effectively address the widespread challenge of smallholders being linked to agri-SMEs but ultimately failing to produce due to lack of working capital.

- **Alternative Financing Arrangements:** In an environment where the formal financial landscape remains unresponsive to the needs of small-scale actors in the agricultural sector, future development programmes should invest more resources toward supporting agri-SMEs and smallholder farmers with viable alternative inputs financing solutions. To enhance the likelihood of success and scalability, it is essential for such models to adopt collaborative pre-financing arrangements between participating out-grower farmers and anchor agri-SMEs, thereby establishing de-risked financing mechanisms. Future development programming seeking to further develop these alternative financing arrangements must ensure that thorough viability assessments are conducted to demonstrate that the pre-financing model can deliver sufficient profitability for farmers for them to repay the loans in a timely manner.



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