

**Harnessing the  
Financial Ecosystem  
to Create and Develop  
Sustainable Businesses  
in Malawi**



# MSMEs account for 50%-60% of jobs in Malawi

Limited job opportunities in the formal sector



Limited business management skills

Lack of access to finance and credit (40%-50% rely on personal finances)

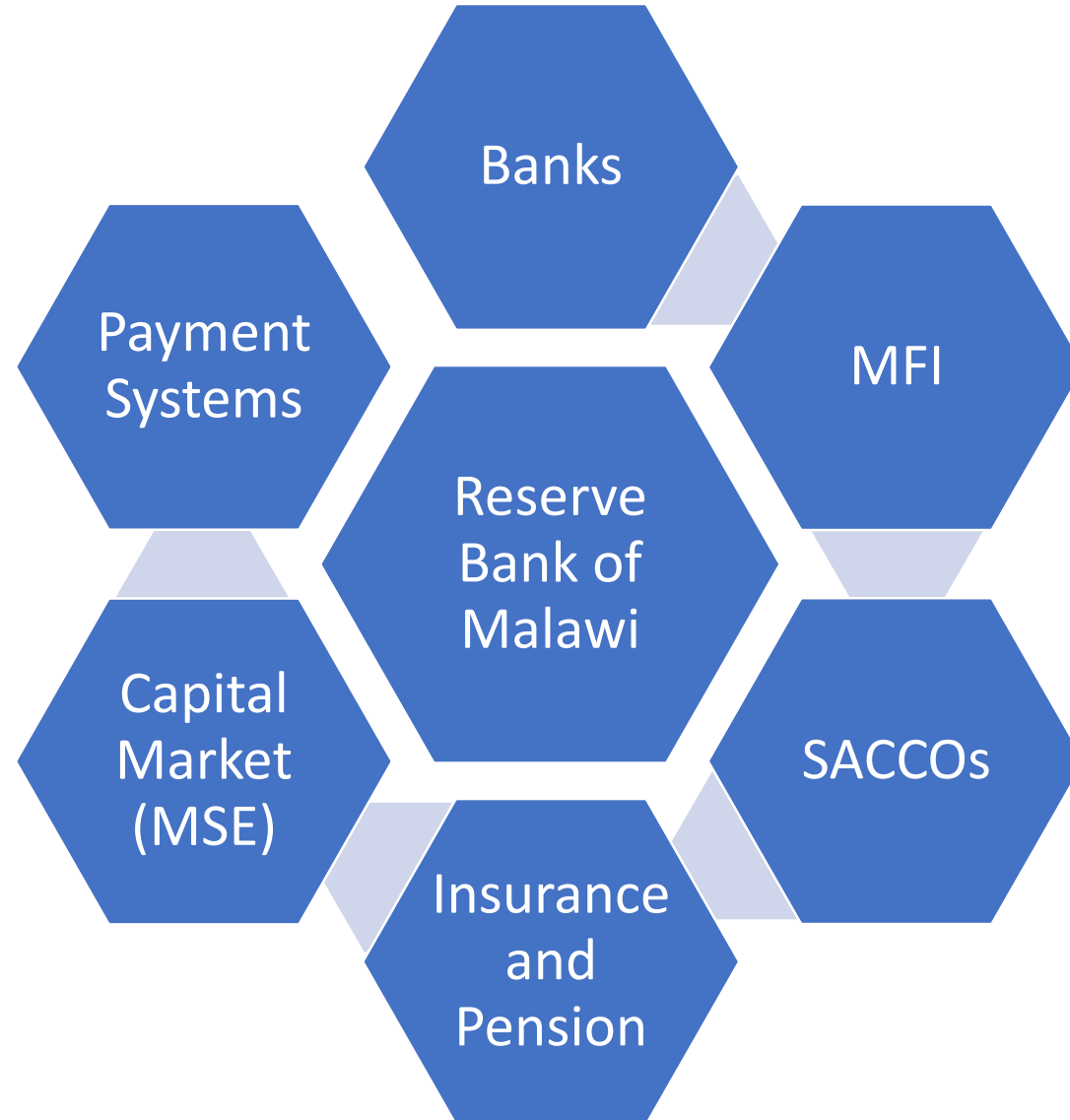


Dependent on agriculture and trading



**IMPERATIVE TO BOOST PRODUCTION AT ALL LEVELS OF THE ECONOMY, TARGETING MSMEs is low hanging fruit**

# The financial ecosystem in Malawi is dominated by banks, MFIs and SACCO, all expensive capital



**To make a real  
impact we need to  
target growth of  
businesses in this  
MSME sector, but  
the biggest  
challenge is access  
to finance**

1. The financial sector is dominated by banks but bank funding to MSMEs is limited due to risk aversion
2. MSMEs have no reliable credit histories and thus financiers must rely on alternative methods to manage credit risk and ensure repayment
3. These alternative methods involve continuous monitoring
4. Therefore MSMEs are served by MFIs who typically have long standing relationships with borrowers which helps overcome problems of information asymmetry and thus risk
5. However, this comes at a cost to the MFIs which is reflected in the high interest rates charged

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**BANKS THUS PREFER TO INVEST IN GOVERNMENT SECURITIES  
AND LEND TO CORPORATE CLIENTS WITH LOWER RISK AND  
BIGGER LOAN SIZES**

# The small and informal businesses have different requirements depending on their **levels of maturity**

Segments are partially disqualified by lenders due to **lack of financial performance and records**

Segments of focus and **intense competition** among lenders - high rates

## Business stage

Seed

Start-up

Growth

Matured

## Financial Requirements

- Requires seed capital to prove the concept

- Requires capital to initiate business operations
- Requires a guarantee to secure a trade

- Requires business loans to expand and grow
- Requires business loans against an invoice/contract

- Requires competitive rates for term loans

## Non-Financial Requirements

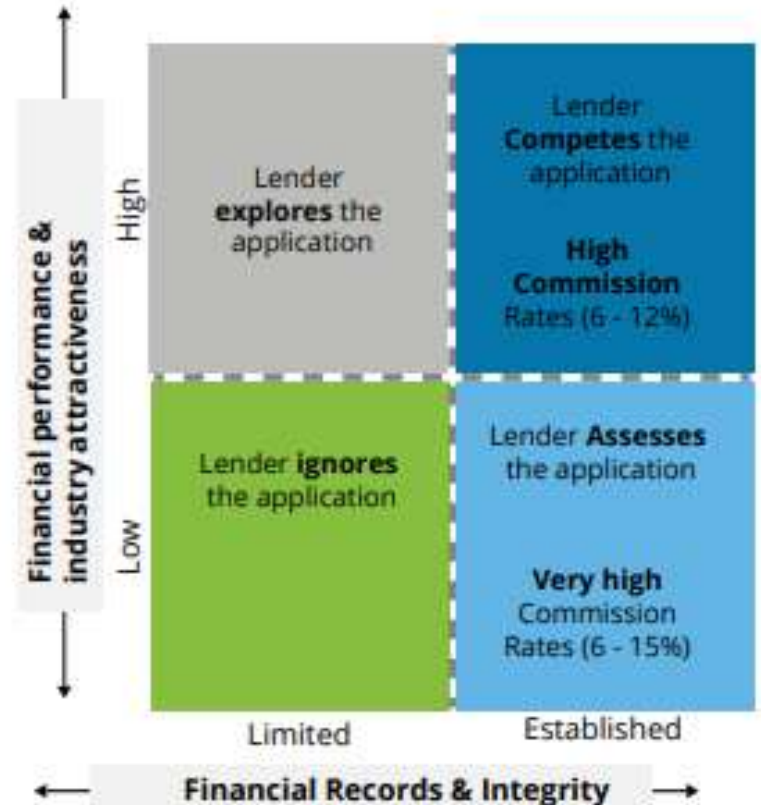
- Business plan support
- Investment package
- Financial modelling
- Legal advice
- Financial literacy

- Financial modeling
- Managing suppliers and payment cycles
- Management and accounting

- Managing growth of customers and invoice processing
- Streamline payroll processes and inventory management

- Customized investment solutions
- Sophisticated data aggregation tools for decision-making
- Investment literacy

## Funding Challenges



# At each level of maturity there is an opportunity for experts who bridge these businesses to pools of capital

Capital Pools

Alternative Capital

Angel investors

Insurance Funds

Pension Funds

DFIs

Donors/  
Foundations

Venture Capital  
Funds

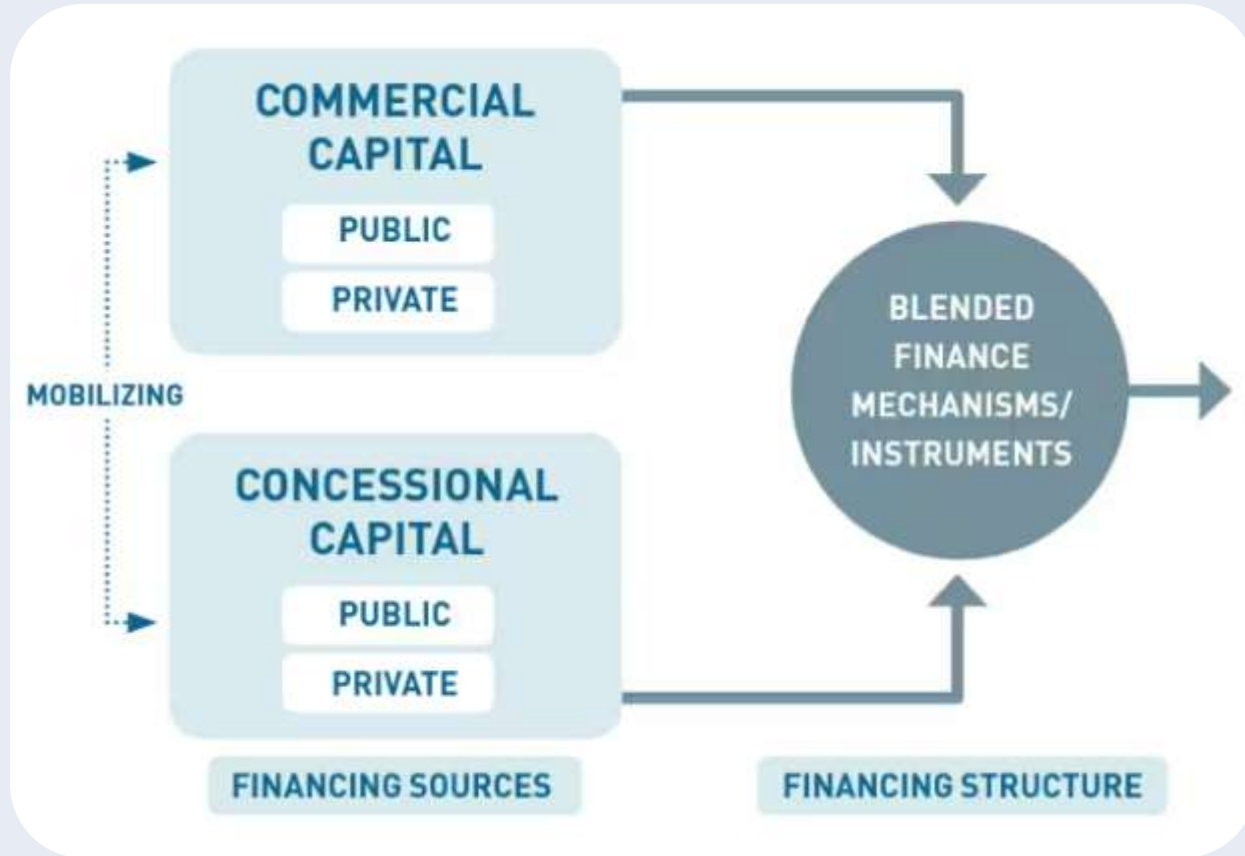
Private Equity  
Funds

Debt Funds

Impact Funds

MSMEs at different  
levels of maturity

# This ecosystem of alternative capital players can lower the cost of credit and tailor it to the needs of the small businesses



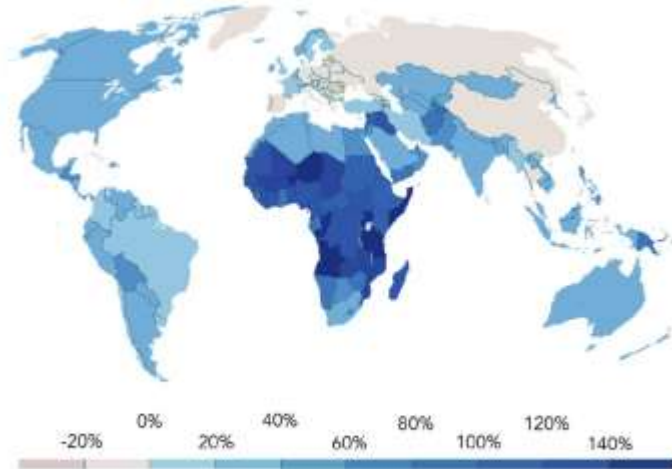
Lower borrowing costs to SMEs while still getting required return for commercial capital

# Case study: Focus on the smallholder farmer



**Sub-Saharan Africa  
is the primary area  
for future  
population growth  
The population is  
expected to rise  
from ~1.2bn to 2.2bn  
by 2050**

Forecast Change in Population, 2017 to 2050 (%)



Source: <https://worldpopulationreview.com/continents/sub-saharan-africa-population>

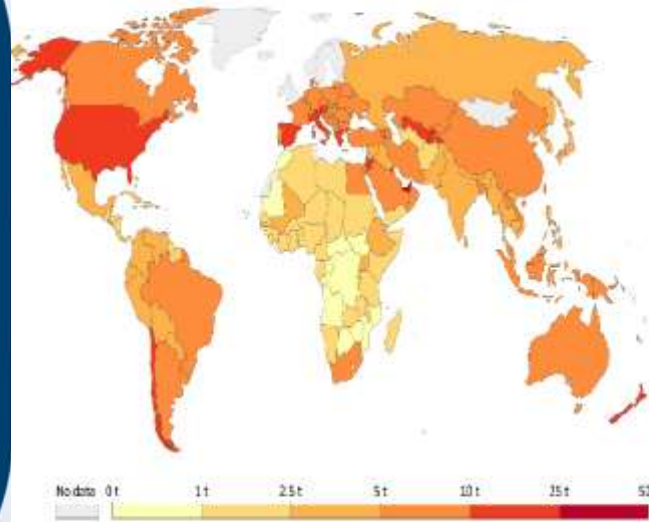
Region	Population Estimates (millions)		
	2021	2050	Change
Sub-Saharan Africa	1,161	2,187	1026
India	1,393	1,639	246
United States	333	379	47
EU	514	497	-17
Japan	126	106	-20
China	1,444	1,402	-42

Source: United Nations World Population Prospects 2019 (Medium variant projection)

**Average crop yields in Sub-Saharan Africa are much lower than global norms despite good growing conditions across much of the continent**

### Maize yields globally, 2018

Average maize yields, tonnes per hectare p.a.



Source: UN Food and Agriculture Organization (FAO)

### Maize yields (t/ha) in 2018

Africa lags substantially



**To raise yields,  
interventions must  
be focused on  
Malawi's  
most numerous and  
important food  
producers:  
smallholder  
farmers**



60% of the population are smallholder farmers, the majority of whom are women



Monocropping low-value subsistence crops

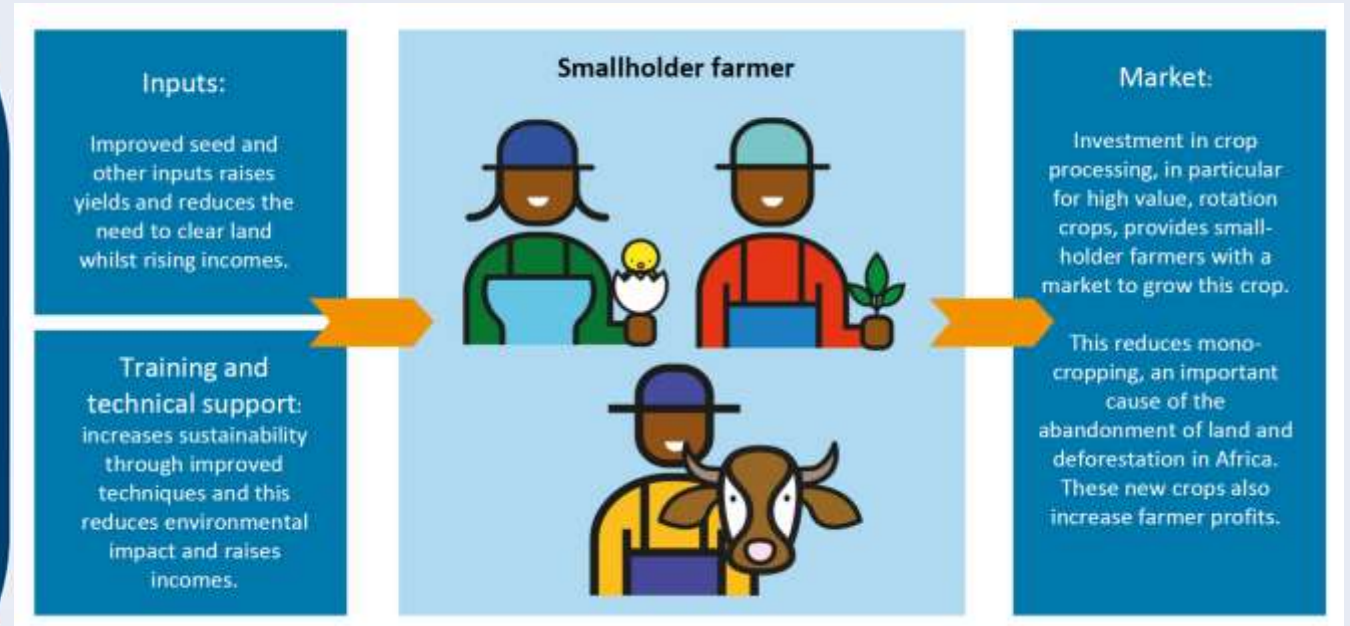


1-2ha farms, using farm-saved seed



Slash-and-burn agriculture

# The three key areas we focus on to raise food production and incomes for smallholder farmers



**Case Study:  
Silverlands Tanzania  
Limited (STL) –  
raising small  
businesses while  
building a sustainable,  
profitable business**

The following case study brings together all the themes discussed above:

1. Setting up a vehicle to be the link between different categories of finance and the SMEs
2. Providing the technical support required for SMEs to succeed, beyond just the financing
3. Being intentional and deliberate about when to intervene for the desired outcomes

# SilverStreet - investing into the African agricultural sector and creating a positive impact

- 1 Established in 2007, we are the largest investor into the African agricultural sector and have a **track record of implementing complex agricultural projects**
- 2 SilverStreet **invest across the agricultural value chain** - historic focus has been primary production, seed sector, feed milling and poultry
- 3 SilverStreet have created a substantial social and environmental **impact by working with smallholder farmers to raise yields, food production and incomes**



## A strong track record of executing complex projects in Africa



Silo storage, Tanzania



Wheat, Zambia



Table grapes, Namibia



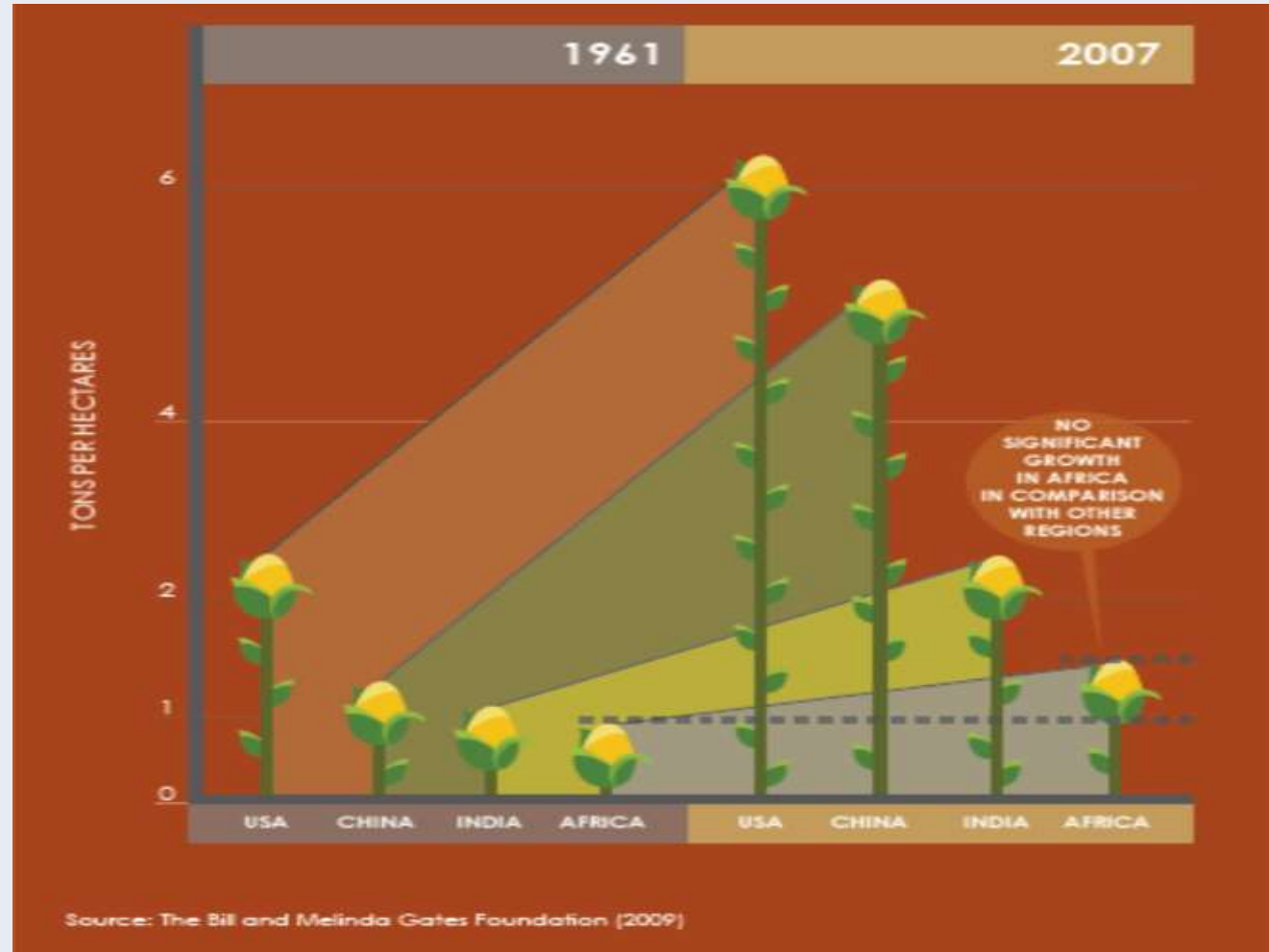
Sugar cane, South Africa

**60% of the  
population live on  
small-holder  
farms**





**Yields well  
below global  
standards**



**Small-holder  
farmers  
typically grow  
low value  
crops**



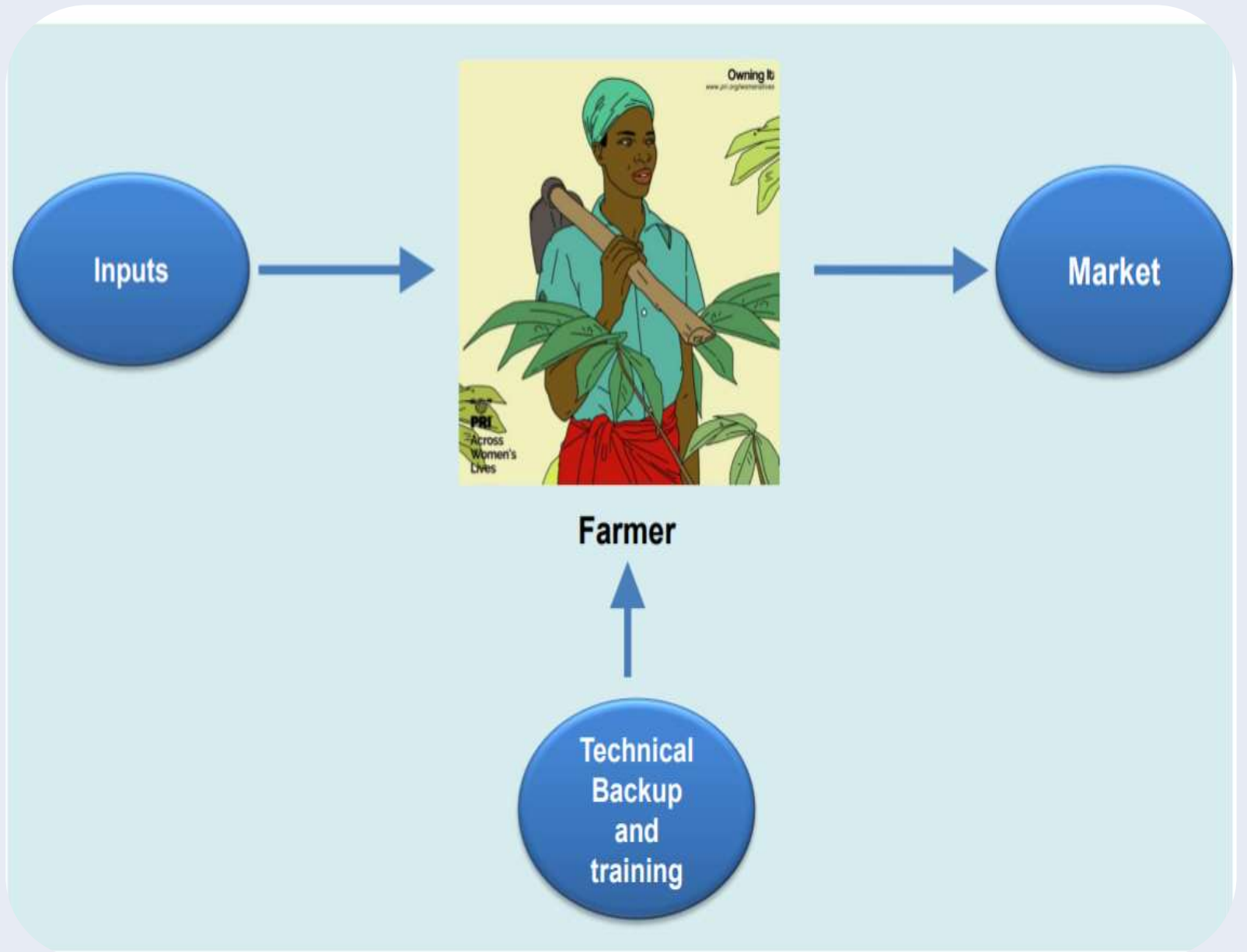
# Access to market

## Inadequate infrastructure and processing capacity.

- Markets needed for higher value crops...
- ...normally a processing plant
- 30% of small-scale crop is lost because of inadequate storage

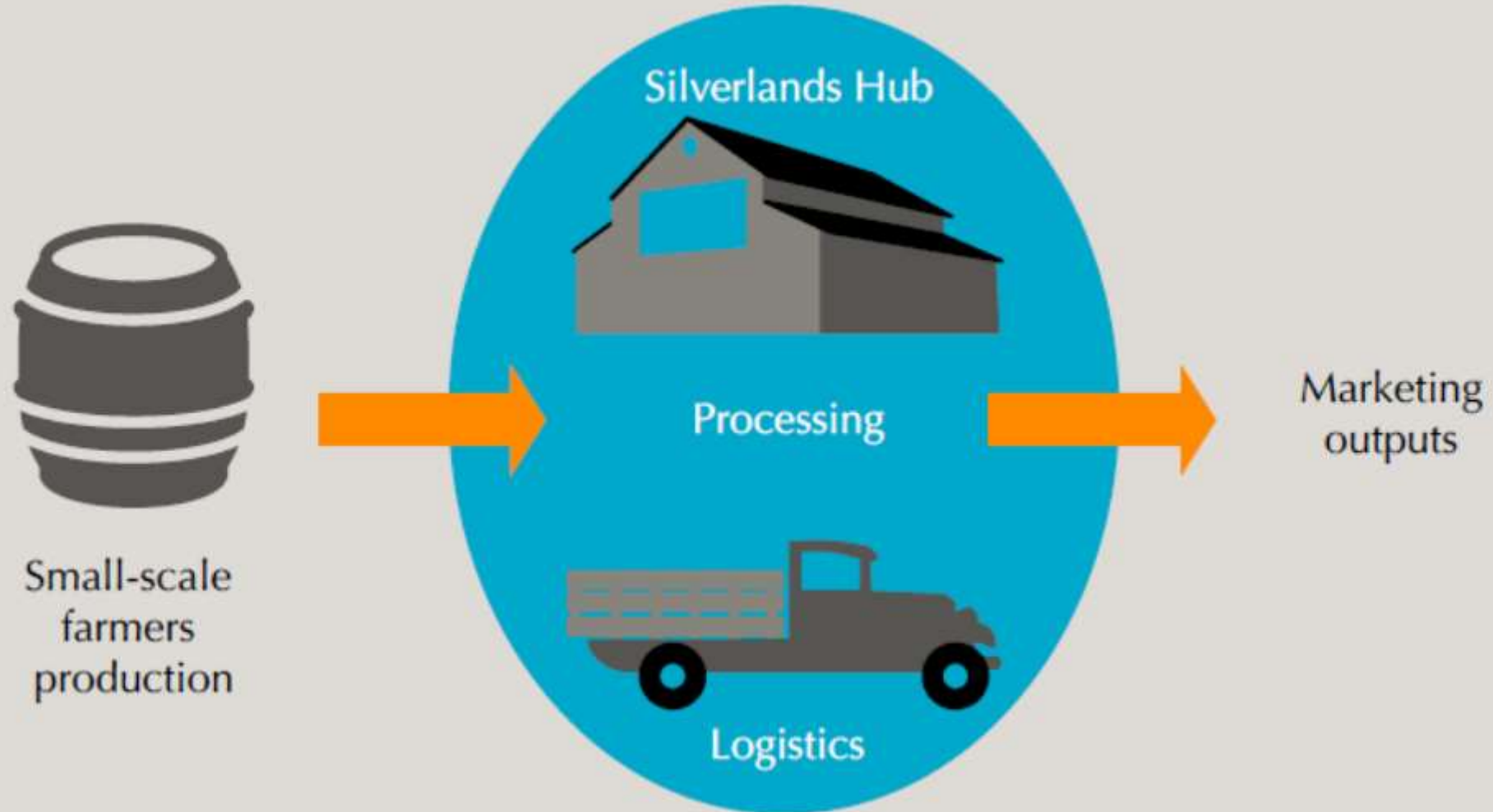


**Three factors  
needed to  
develop the  
small-holder  
sector.**



# STL created a hub, included model farm and processing

Hub Out-grower Model in which Production from Small-scale Farmers is Processed within the Silverlands Commercial Hub



# STL brought high quality soya seed and distributed to smallholder farmers as alternative crop to maize

Higher value crop

Fixes nitrogen  
reducing need for  
artificial fertilisers

More income per  
hectare for  
smallholder farmers



# STL built the first soya processing plant in Tanzania creating a market for soya beans

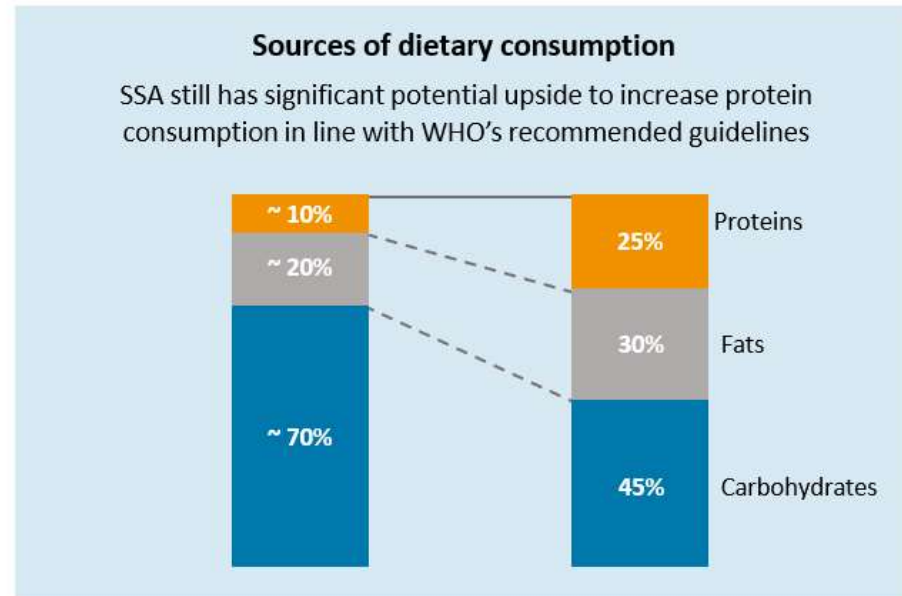
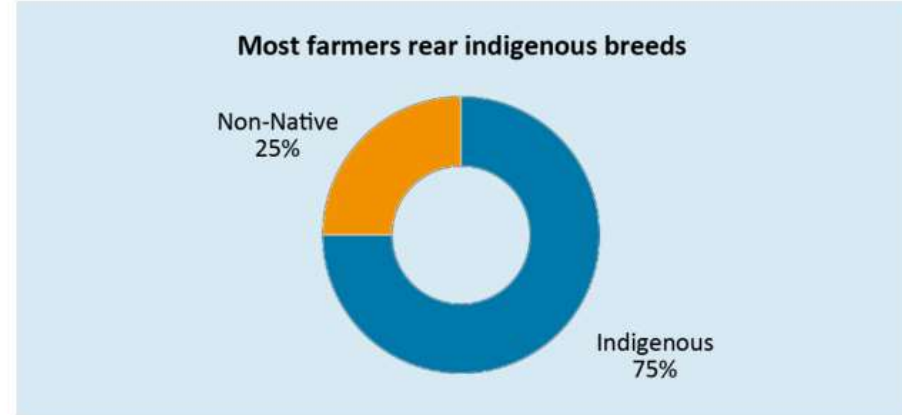
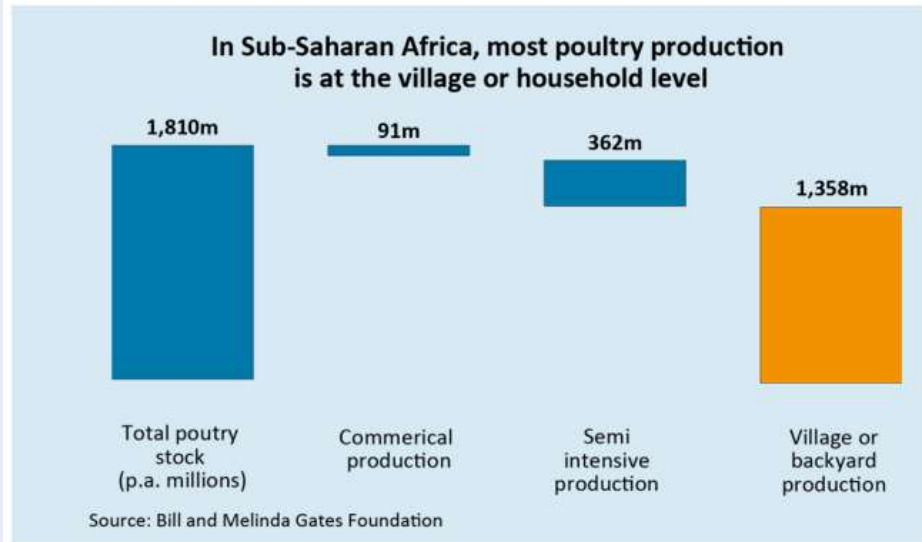


## Why is growing soya good for smallholder farmers?

- **High value crop:** US\$500 vs US\$200 maize
- **Reduce disease pressure:** Rotation with other crops
- **Increase soil fertility:** Soya 'fixes' nitrogen

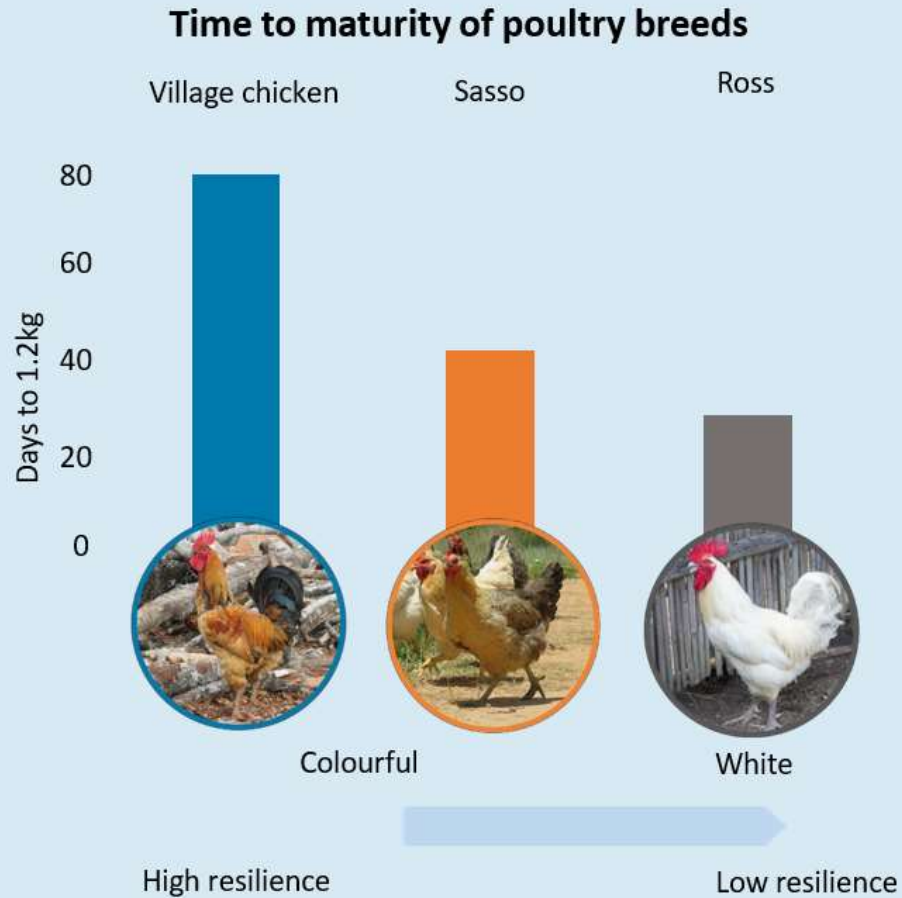


# Most poultry production was at village level utilizing indigenous breeds.



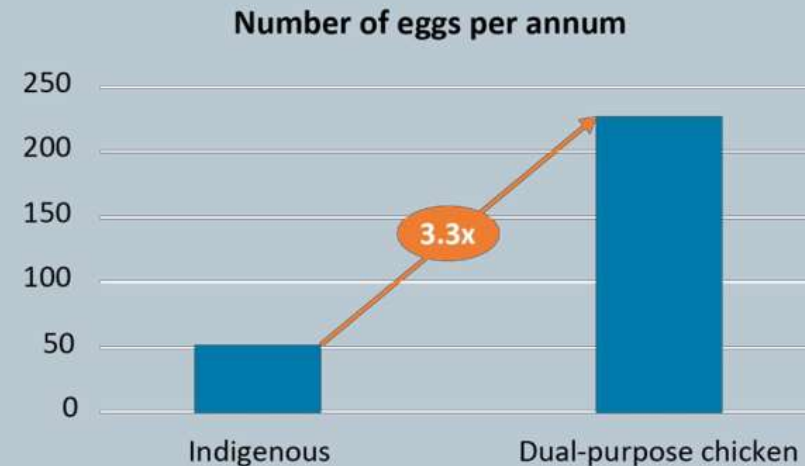


# STL solved this issue by providing high quality feed and by supplying three productive poultry breeds.




The key issue with poultry feeds in Tanzania prior to Silverlands was poor and variable protein content. Silverlands feed resolves this issue and the company introduced the first pelletised feed into Tanzania.

The Sasso breed has proven to be particularly successful because it is well-adapted to the free-range village environment.



Source: Bill and Melinda Gates Foundation

# The Sasso variety in particular fitted well with local preferences but offers superior genetics to village chicken.

Breed	Village Chicken	Sasso	Cobb
			
Days to reach 1.2 kg	80	35	27
Feather colour	Multi-coloured	Multi-coloured	White
Resilience	High	Medium	Low

# STL hub thus produces chicks and feed



*Poultry feed*



*Day-old-chicks*

# The business model was deliberately structured to optimize impact on smallholders



Day-old chicks



High quality feed



Small-scale farmer produces chicken



# Partnered with the Word Poultry Foundation and started Poultry Multiplication initiative Training Facility



Poultry training centre, Tanzania



Training centre poultry houses



Classroom teaching



Training in the poultry houses



Extension officers provide technical support at smallholder poultry operations

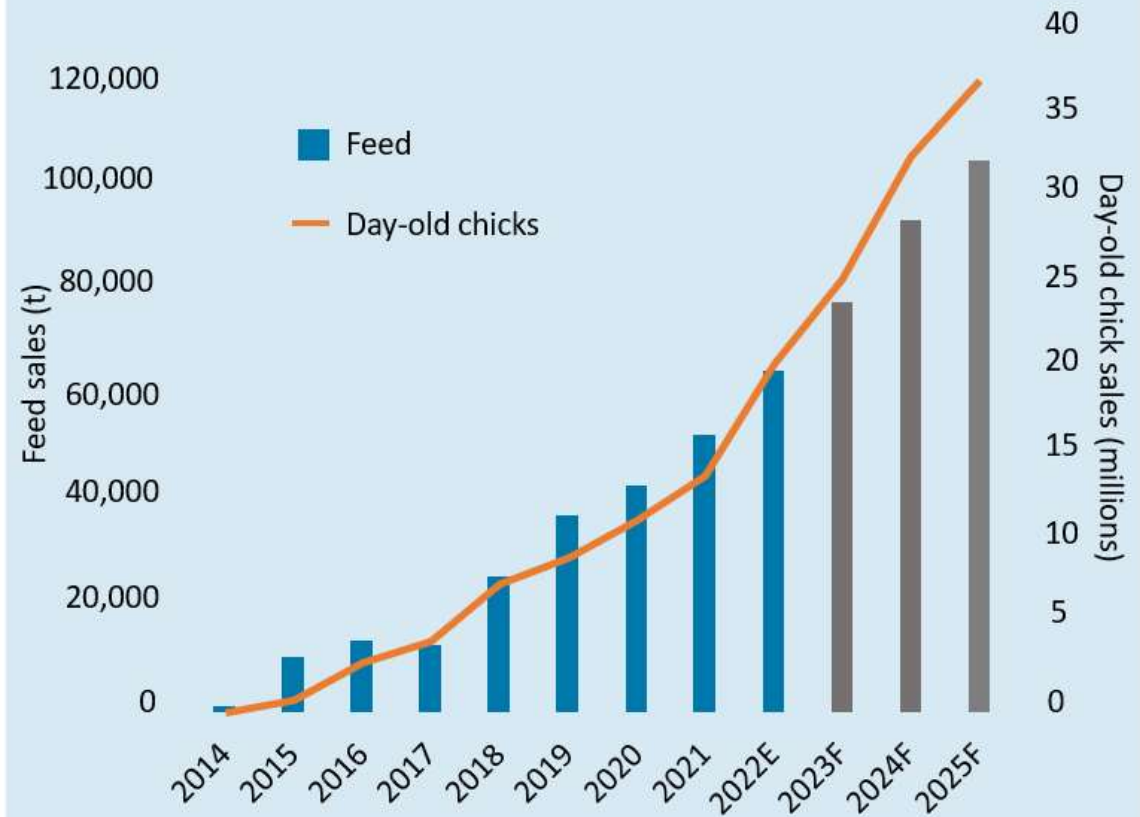
**\$3.6m Grant facility in 2017**

# This project fixed Tanzania's poultry value chain problems while significantly impacting communities

- Silverlands Tanzania started from scratch in 2014 and is now the largest feed producer in Tanzania and the second largest producer of day-old chicks.
- It sold 14 million day-old chicks in 2021, up some 27% on 2020.



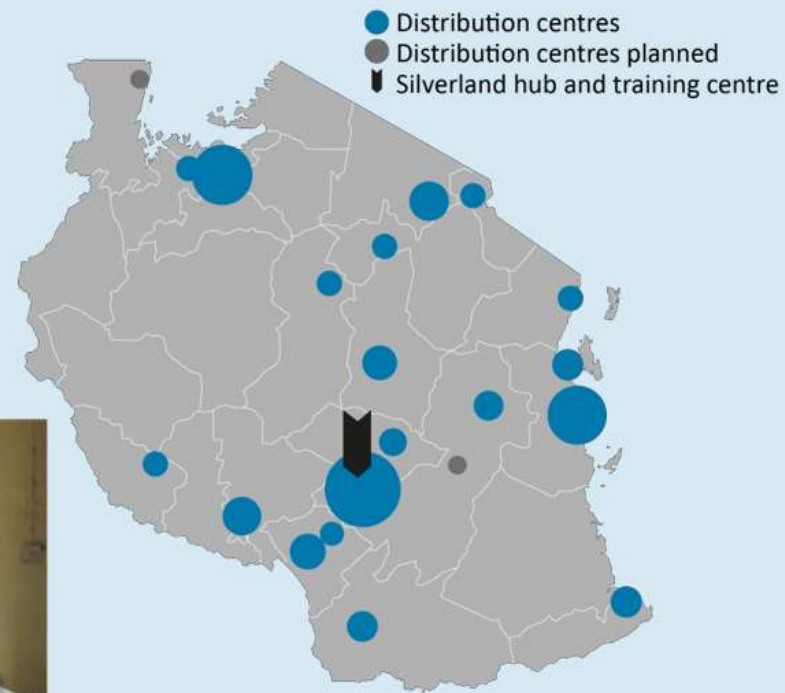
Silverlands Tanzania sales: Feed and day-old chicks



# Now selling day-old chicks and feed to 134,000 poultry farmers across Tanzania..

- 19 distribution centres and sales points
- Over 350 retail shops
- 21 extension officers

Silverlands' distribution centres across Tanzania



19 Distribution Centres

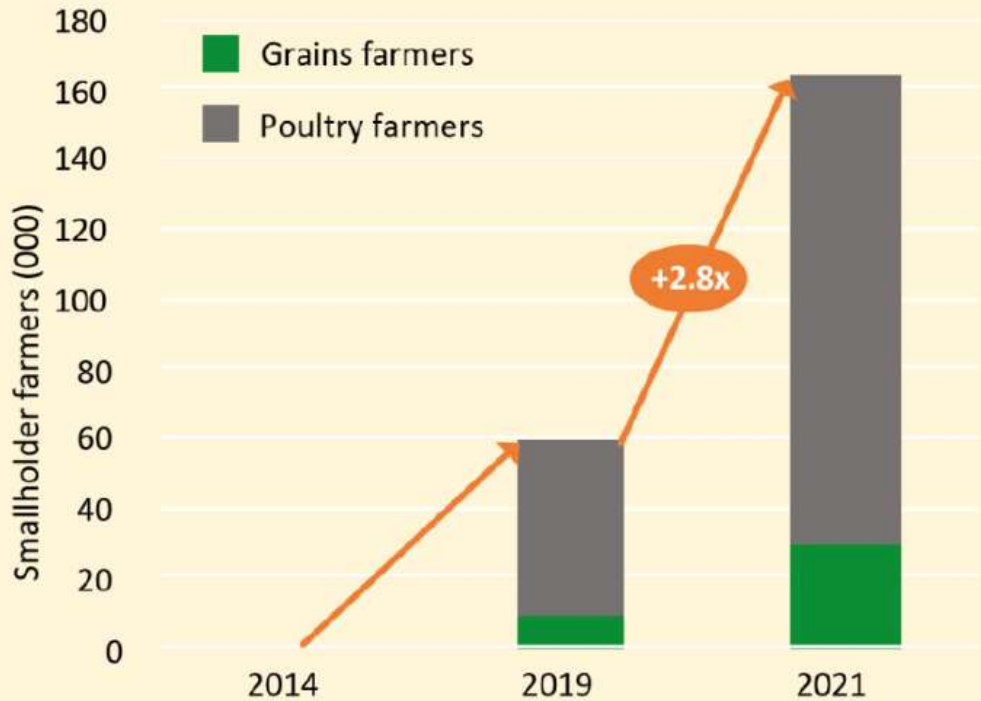


>350 Agents

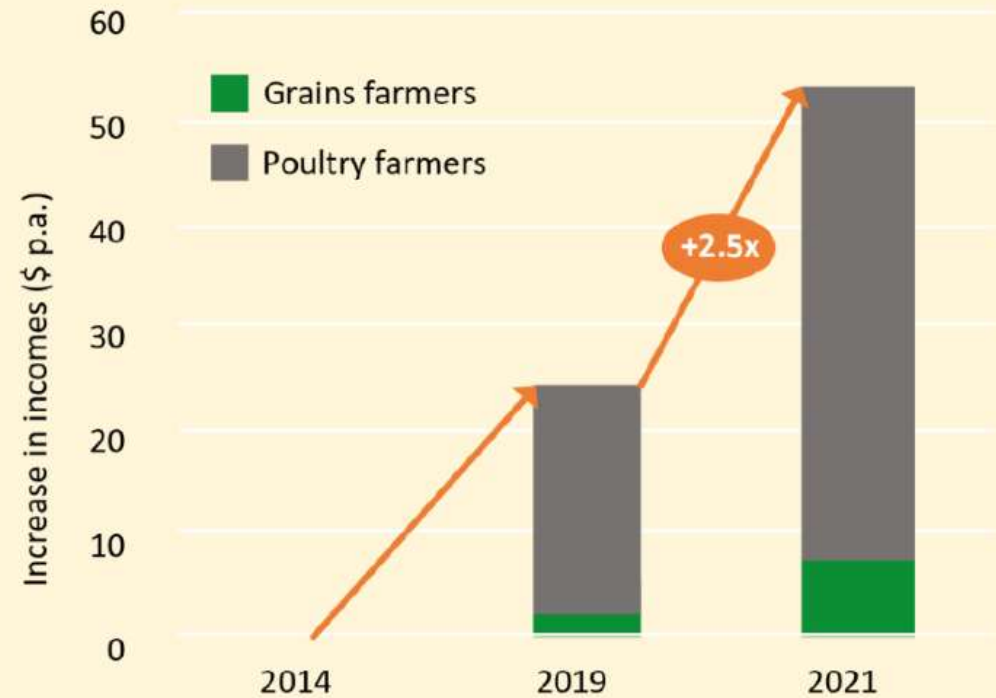
# High social impact and a profitable business

**164,000 smallholder poultry and grains farmers who have seen incomes increasing by 60%, 70-80% of poultry farmers are women...**

164,000 smallholder farmers benefitting



Smallholder farmers incomes increased to \$56m p.a.





# Different forms of finance were required to make model work

## Commercial capital

- Pension funds
- Insurance funds
- Banks

## Impact Focused

- DFIs
- Family offices
- Foundations

## Donor Funds

- NGOs
- Foundations
- Philanthropic HNW

## Hub development

E.g.

- Purchase of hub farm
- Farm infrastructure and equipment
- Construction of storage silos
- Construction of feedmill
- Building of irrigation system
- Administration offices

## Smallholder farmer support

E.g.

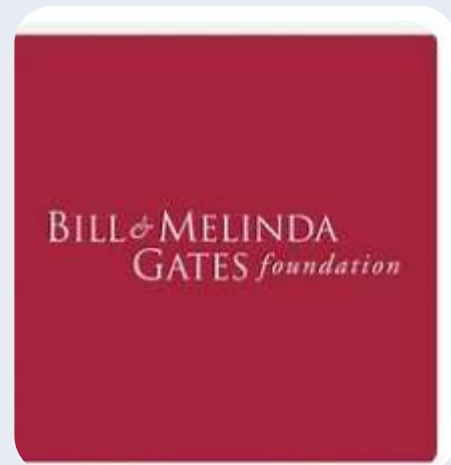
- Smallholder farmer inputs
- Smallholder farmer training
- Extension services

# Who are the partners and investors to make this happen?

- European and North American institutional investors, faith-based institutions and family offices
- UK, Denmark and Finland governments\*
- US government: ~USD100m loan facility\*
- World Bank & US government: political risk insurance\*\*

\*Silverlands I Fund

\*\*Silverlands I: DFC/MIGA (World Bank) cover, Silverlands II: DFC cover





**We can harness the financial ecosystem to build sustainable businesses by lowering funding costs and providing technical support to MSMEs**

1. Accounting for ~60% of employment, MSMEs are low hanging fruit for most impact to build sustainable businesses in Malawi
2. The economy needs a deep alternative capital market to assist the MSMEs not only with the right type of funding, but also business plan support, financial modelling and fixing issues within the value chain.
3. Alternative capital providers will also act as a bridge between pool of capital and MSMEs, providing necessary funding to fuel growth.

**Thank  
You**

