This note provides guidance on how to ensure that an agricultural investment generates positive impacts on the local economy by encouraging and supporting opportunities arising for individuals, farmers, businesses, and institutions.

Investments can have a transformative impact on the communities where they are located. Much of this impact can be long term, and go beyond the immediate activities of the investors, through economic linkages and spillover effects.

Positive impacts on the local economy are not automatic; the policies and practices of the investor and the government influence outcomes. Careful management and choice of agricultural investments, and provision of complementary initiatives by investors and by governments, can maximise the benefits arising from economic linkages and spillovers while minimizing the risks.

Large-scale agricultural investments can create direct benefits in the form of higher employment, wages, and government revenue. But indirect impacts (both benefits and risks) also arise. Indirect economic impacts are generally classified as either economic linkages or spillover effects. Economic linkages refer to where individuals or businesses link to the investor through either a customer or supplier relationship (such as purchase of inputs by an investor from local suppliers, or sale of output to local consumers). Spillover effects refer to the broader impact of actions of the investor on opportunities of economic agents (for example, technology transferred by the investor to contracted smallholder farmers may spill over to other farmers in the area, or rising rural incomes due to employment at the investor may be spent in the local area, creating business opportunities for the provision of new goods and services).

Many types of linkages and spillovers are discussed in other notes. For example, Note 3: Outgrower schemes (linkages with smallholder farmers), Note 23: Technology transfer (transfer of knowledge and techniques to farmers), Note 22: Food security and nutrition (food security impacts arising from rising incomes), as well as Note 20: Empowering women and Note 21: Participation of youth (training and empowering such groups has broader economic consequences). This note concentrates on the broader and longer-term impacts on the local economy arising from a range of economic linkages and spillover effects (Golling 2015; UNCTAD 2009; World Bank 2013, 2015a, and 2015b).

Saving and investment of wages. Salaries and income from outgrower schemes create opportunities for people to invest in fixed assets, land improvements, or education, resulting in a transformative effect on the future aspirations and expectations of most rural communities visited in the fieldwork. Investors thus can support the means to invest in capital development (fixed capital, land improvements, and human capital), a critical determinant of economic development. In many cases, employees
of investors also worked on their own farms; a stable job changed their risk assessment and encouraged investment of part of their income to increase production on their own land (including purchasing new land, expanding field size, and hiring tractors from the company or other sources). This generated income from the production and sale of surpluses, sold either locally to other employees, or, in cases where the investor also improved road access, to nearby villages and towns and to traders.

**Local employment and income are significant drivers of economic linkages and spillover benefits.** Large-scale investments create employment and raise rural incomes, attracting people to an area and generating spillover business opportunities for small businesses and suppliers. In interviews at one site, local officials mentioned that the town had transformed dramatically after the arrival of the investor; for instance, one observed that “shops, hotels, and coffee shops opened quickly, one after another.”

**Linkages and spillovers can also negatively affect the local economy.** Negative impacts include pricing that undercuts local prices as a result of greater investment and labor productivity. For example, investors can stifle local competition with low pricing strategies for crops that are also grown locally, driving local producers out of the market and leading to hostile relations with the local community of farmers. In cases where the operation absorbs most or all of the supply of a local raw material for the purpose of export, the consequence is that the product becomes unavailable or restricted on local markets, leaving local sellers and buyers worse off and often driving up local prices for consumers. Spillovers’ impact on local businesses may also be negative when the presence of the investment leads to a rise in local prices, including the price of land near the investment (in one investment in Tanzania, the price of land rose after people from other parts of the country moved to the area) or the price of products in local shops rose, potentially creating a divide in the local community between people whose income has risen compared with others. This can also lead to a negative impact on food security for those not employed by the investment, owing to a reduction in purchasing power. Rising land prices can create winners (land owners) and losers (those seeking access to land) within a community. See Note 11: Respecting land rights and averting land disputes and Note 12: Relocation and resettlement. Governments and investors need to be aware of such risks when designing operations or supporting linkages with the local economy.

**The investor business model is a critical determinant of linkages and spillovers to the local economy.** In particular, inclusive investments with outgrower or ingrower schemes, contract farming operations, or franchised outlets are likely to generate significantly more positive economic spillovers than pure estate business models, because they enable local farmers to produce a commercial crop. In addition, they usually require the investor to provide extension services, input support, and a guaranteed market. See Note 3: Choosing an appropriate business model and Note 4: Outgrower schemes.

**Economic linkages and spillover benefits are affected by the level of host-country development and economic integration.** Benefits from linkages and spillovers are neither automatic nor guaranteed. Large farms created by new investments may source many of their inputs from outside the area or even outside the country, and the impact on local businesses and business infrastructure may be limited. Some investments either exclusively export produce or also import equipment and inputs. Such enclave-type situations may arise from a lack of either local suppliers or purchasing power among local consumers, which make it infeasible to transact locally. In such cases the indirect economic spillovers on local business are severely reduced and it is only a much smaller amount of money spent through wages that circulates locally. Where an economy is more developed and able to provide a range of products required by investors, direct purchases from local and national markets are likely to occur. However, the benefits may accrue to the regional or national economies, rather than to the local area.

**Strengthening of the local business environment through infrastructure.** Infrastructure development can provide significant stimulus to local economies. Investors usually focus on infrastructure development within their properties or immediate

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**Box 1. Infrastructure development by investors**

Notable improvements for the local community can arise from infrastructure development in and around an investment, particularly in remote areas. Infrastructure development associated with an investment, such as building of roads, expansion of telecommunication, access to electricity, building of a police station, or improvement in access to water supply generally have positive impacts on local communities. One investor, for instance, provided financial contributions to the maintenance cost of the irrigation system constructed by the government. In another instance, an investor provided free electricity to support the operation of local businesses where public electricity could be unreliable. The benefits derived are most visible when the investor operates in remote, rural areas.

Infrastructure is typically developed by central or local governments, but at a number of sites visited, it was the investor who engaged directly in infrastructure development. Investment in such infrastructure is recovered by the investor, in most cases because it is essential to the operation (for example, farm-to-market roads).

However, infrastructure can also have an enabling effect on local farmers and businesses, facilitating access to new markets for products, either for products grown to sell or for sales of surpluses. In Cambodia, an investor improved a road, which is also the main road from a village to the city. According to local people interviewed, this was a major contribution to the community because, for instance, it stimulated more commercial activity in the village.

Source: UNCTAD–World Bank Survey of Responsible Agricultural Investment Database.
surrounding areas. These developments may contribute directly and/or indirectly to the local area by improving roads, water supplies, and electricity delivery (box 1). Such benefits may require joint action by investors and governments. For example, one investor provided financial contributions to support the maintenance cost of an irrigation system constructed by the government; in another, an investor's irrigation and related hydropower scheme enabled local communities to access potable water and electricity, for the benefit of households and businesses alike.

**Linkages and spillover impacts evolve over time and should be planned for accordingly.** Positive impacts can be reinforced and evolve if economic activity at the local level increases over time. For example, local food sector businesses may evolve from informal street hawkers into small food stalls and later restaurants; and retail outlets may expand in size and range. The financial services sector can evolve as the local economy transforms from a cash-based society, with no use of banking or transmission services, to greater use of credit and a variety of means of transferring money. In the local agribusiness sector the evolution of input procurement (from other parts of the economy or overseas) is evident from how supplies are sourced, that is, initially from general dealers and later from specialized agricultural input suppliers. Similarly, in the services sector, as an example, informal roadside repairers move into workshops and garages. Overall, the increased capacity of small businesses is an important long-term benefit.

**Linkages and spillover benefits from domestic market orientation.** There is a trend for investors (often local investors) to target expanding domestic urban markets with growing populations. Such investments create job opportunities within processing facilities, transportation, and storage. Again, such jobs may not be located in the area immediately surrounding the investment (box 2).

### Box 2. Stimulating the development of Transport SMEs

Over time, investments can create opportunities for local entrepreneurs to develop medium to large businesses that become customers of or suppliers to the investor. In Tanzania, for example, a domestic family business was involved in farming and small-scale processing prior to the arrival of an investor in the area. The business expanded as it began supplying raw produce to the investors processing plant. Over time, the family invested in additional land, then in plant and equipment. It began offering tractor and transport services to other farmers who were supplying the investor and later to farmers unconnected with the investor. The business has grown to a fleet of nine buses and six haulage vehicles which provide local and regional transportation and logistics services. The presence of the investor thus allowed this business to expand though economic linkages.

Source: UNCTAD–World Bank Survey of Responsible Agricultural Investment Database.

### ✓ ELEMENTS OF GOOD PRACTICE FOR GOVERNMENTS AND INVESTORS

**Planning for local economic development:** The potential to generate economic linkages and spillover benefits should be considered in both investors’ planning and government screening of new investments. This should include an assessment of both the nature of the project and its capacity to generate broader local development, as well as a consideration of measures that might be undertaken to generate broader benefits.

**Contracting for linkages and spillovers.** Contracts with investors may include specific plans for generating potential spillovers in the local communities. These might include commitments to employ a certain percentage of local people, or soft targets for procurement of local suppliers—as well as commitments to facilitate the achievement of these goals, such as the implementation of business development programs and training programs that would enable local businesses and populations to establish relationships with the investment. Commitments to develop infrastructure that would benefit local economic activity—by government or by investors—might also be included (box 1). Such linkages, targets, and plans could be included in a local business development plan. Such targets are especially important because the absence of economic linkages and spillovers and their benefits is most likely in the places and for the populations that are the most deprived.

**Measuring the impact.** Commitments and targets should be measurable and assessed annually by both the investor and the government. Socioeconomic impact reviews carried out by independent researchers are one way to evaluate and communicate impacts to key stakeholders.

**Nurturing local entrepreneurship.** Investors that allow and/or enable employees to pursue business opportunities support the development of local business activities. Employees can use the valuable knowledge acquired while working for the investor after leaving their jobs or on a part-time basis while still employed. Training programs for staff can have spillover effects beyond the investment (see Note 17: Training and integrating local people into the workforce). Although they may lead to a direct loss of resources directed to training in a narrow sense, businesses established by former employees can support the investment—for example, by providing inputs to the investor’s operations.

**Enhancing the competitiveness of local business.** The investor often sets quality and performance standards that push local businesses to higher levels of efficiency and effectiveness, helping such businesses to become more competitive. Incoming investors may require higher-quality standards than those generally needed by local producers and particularly so if outputs
have to comply with the requirements of export markets. As part of the process of facilitating linkages with local businesses, investors should plan for assistance to local businesses to enable them to acquire the necessary knowledge and technology. On the crop procurement side, investors usually establish extension and farmer support programs to benefit outgrowers. Investors’ generally higher efficiency and productivity—the result of the application of improved technologies—can in some cases be transferred to local farmers, through extension services and skills transfer. To develop the requisite capacity, investors may also consider supporting businesses that provide the many other services required by large agricultural production and processing businesses. Efforts by businesses should be complemented by government-supported initiatives in small enterprise development, in microfinance, and in programs that link local companies to broader markets.

**Support for farmer organizations.** Investors generally want to work with the best farmers available and often transfer knowledge to them as part of arrangements associated with outgrower schemes. As important, from the perspective of local economic development, is the transfer of knowledge about farming technologies, skills, standards, and practices to smaller, less efficient farmers. In addition to actions by the investor (see Note 23: Technology transfer), public financial and technical support may be required for smallholders who have less experience or access to finance, particularly poorer ones.

**Sensitivity to market disruptions and issues of enhanced efficiency and productivity.** Investors should be sensitive to the potential impacts of pricing policies and marketing actions on local small businesses. Within reason, investors’ pricing strategies should not unduly disrupt local pricing regimes; if they do, attempts should be made to reduce the impact of sudden large price shocks and to introduce changes incrementally, to allow local markets to adjust gradually.

**Public support for local development.** It is unrealistic to expect businesses to shoulder the full burden of spreading benefits to an area, and particularly so in areas where local business and labor capabilities are poorly developed. In such circumstances, governments need to assess local capabilities and consider where public funds should be allocated to support the development of such capabilities. Governments should prioritize the development of programs that have an impact on poor and marginalized populations. Where businesses might be expected to benefit directly from government support, such as for the development of local suppliers and for the increased availability of local skilled managerial labor, the onus should be on the investor to help create the necessary conditions.

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**REFERENCES AND RESOURCES**

This Note is complementary to the literature and guidance documents to which many organizations have contributed, a selection of which is provided below. Further resources are provided in Note 2: Additional resources.


**Country examples:**


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For more information please visit: [www.worldbank.org/responsibleinvestment](http://www.worldbank.org/responsibleinvestment)