

Beyond direct benefits: Anchor enterprise models and local economic development in Malawi

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Rural development interventions are often judged by the benefits they deliver directly to participating households. While improving the welfare of those households is an important objective, policymakers are also interested in whether these gains contribute to broader local economic development. Whether they do depends not only on who receives income directly, but also on how that income circulates through the local economy, generating additional production, employment, and earnings for other households in the community.

This note examines these indirect effects using evidence from communities surrounding two anchor enterprises in central and northern Malawi. We find that households directly engaging with the enterprises as outgrowers or workers spend most of their income locally, generating economic gains that extend well beyond those directly linked to the enterprises. However, much of this spending flows through local businesses that primarily source goods and inputs from outside the local economy, limiting the extent to which increased demand translates into growth in local production, services, and employment. The findings therefore suggest that achieving broad-based local economic development requires attention not only to who receives income, but also to how that income is spent and the extent to which local businesses are able to respond to the resulting demand.

Anchor enterprise models provide a useful setting for examining these dynamics. Agribusinesses that contract with smallholder farmers and employ workers inject substantial income into rural areas through crop purchases and wages. Who receives this income, however, is not determined by targeting based on need. Enterprises work with farmers they can source from profitably and employ the workers they require, while households choose whether participation is worthwhile. As a result, direct beneficiaries are not necessarily the poorest or most vulnerable households in a community.

This raises an important question about inclusion. If anchor enterprises engage only a limited number of households directly, can their activities nevertheless generate benefits that reach the wider community, including poorer and more vulnerable households? Understanding both the direct and indirect pathways through which households benefit, and how those benefits are distributed, is therefore central to assessing the contribution of anchor enterprise models to local economic development.

Two anchor enterprises, two local economies

This note draws on data collected in the vicinity of two large agribusinesses – Pyxus Agriculture Malawi Limited's Chilanga Farm in Kasungu and Tropha Estates Limited's Kaweche Estate in Mzimba – that combine production on their own farms with sourcing from smallholder farmers, offering some combination of improved planting material, agronomic advice, and – most importantly – a guaranteed market.

In each area, detailed information was collected in 2025 from 260 local businesses and 1,292 households with and without a direct link to the enterprise, capturing spending patterns and economic linkages to build local economy-wide models (Kagin and Taylor, 2026a, 2026b). The households reached directly – outgrowers and workers – are few and differ from the typical household around them. In both areas, worker households are smaller, younger, and own less land and fewer assets. Outgrowers differ across the schemes. Groundnut outgrowers around Chilanga Farm are markedly larger and better-off farmers than their neighbors, while chili outgrowers near Kaweche Estate are older and more established but cultivate similar areas. Neither scheme, however, engages the smallest landholders. Very few outgrowers cultivate less than half a hectare, whereas about one in four households not linked to the enterprises fall into this category.

Beyond direct beneficiaries

In 2025, Pyxus Agriculture Malawi spent MWK 623 million purchasing groundnuts from some 250 outgrowers around Chilanga Farm – net of the inputs it supplied them on credit – and paying wages to 300–500 workers. Tropha spent MWK 1.28 billion on wages for more than 1,000 workers on contracts of varying length at Kaweche Estate and on chili purchased from nearly 500 farmers.

When households earn additional income, they spend much of it. They buy food, household goods, transport services, construction materials, clothing, communication services, and school supplies, and invest in inputs for their farms or non-farm businesses. The resulting demand creates income for farmers, traders, shopkeepers, transport operators, artisans, service providers, and other households, who in turn spend or invest part of what they earn locally, generating further rounds of economic activity (Taylor and Filipski, 2014).

To the extent that this demand is met locally or enables households to increase their own production, it can expand production, service provision, and employment and generate benefits that are spread widely throughout the local economy.

Box 1: The multiplier at work

Chimwemwe earns MWK 200,000 from chili sales. She uses it to replace her front door, repair her bicycle, buy maize, and invest in a solar panel to start a phone charging business. The story does not end there.

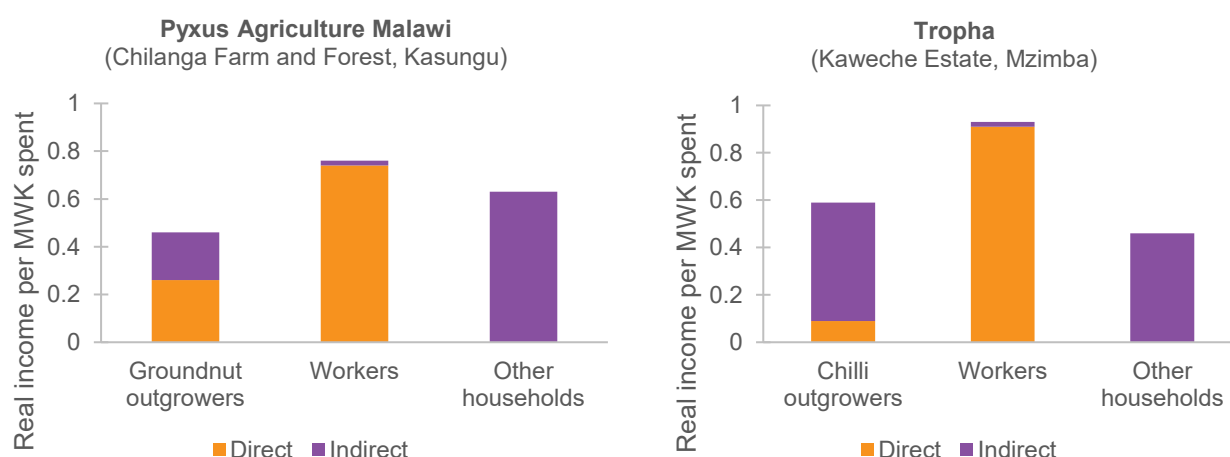
The carpenter who installs the door uses part of his earnings to hire an assistant and buy vegetables from a local farmer. The bicycle mechanic spends some of his earnings at a nearby grocery shop. The maize trader uses part of the proceeds to purchase more grain from local farmers. Chimwemwe's new phone-charging business generates income as well, some of which is spent on food and clothing.

Each round of spending creates income for others, generating a **multiplier effect**. But not all spending stays in the local economy. The carpenter may buy hinges in a nearby city, the mechanic may purchase imported spare parts, and the grocery shop could source goods from wholesalers elsewhere. These leakages reduce the amount of economic activity generated locally.

Where demand is instead met by goods and services sourced from elsewhere, the local economic gains are more limited. The impact of an intervention therefore depends not only on the income it creates directly, but on whether and how that income circulates.

In both study areas, enterprise spending generates substantial additional economic activity. For every kwacha spent by these enterprises, nearly another kwacha of real income is created within the local economy. Much of this reaches households with no direct link to the enterprises. They receive 74 percent of the spillover income generated around Chilanga Farm and 47 percent of that generated around Kaweche Estate.¹ Figure 1 traces the distribution of the real income generated per kwacha of enterprise expenditure. The orange segments show the real income that outgrowers and workers derive directly from the enterprises' payments for groundnut or chili and wages, while the purple segments show the additional real income generated as spending ripples through the local economy. Poorer households also share in these indirect gains, which are spread fairly evenly across income quintiles.²

Figure 1. Real income generated per MWK spent by the anchor enterprises



Source: Kagin and Taylor (2026a, 2026b). Note: Real income accruing to each household group per kwacha spent by the enterprise in 2025, net of local price effects. Direct income is wages and payment for the crop bought from outgrowers; indirect income is generated as that money is spent and re-spent locally.

Strong local demand, but limited local supply

The main reason these effects are large is that households in both areas spend almost everything they earn locally. Across all groups and both sites, only 3 to 5 percent of household spending goes outside the local economy. Most spending takes place in households' own villages or nearby trading centers.

Spending locally is, however, not the same as buying locally produced goods and services. Much of what households buy in local shops – such as sugar or soap – is sourced from elsewhere. Close to 40 percent of all household spending in both areas flows to local retail where around 70 percent of the goods sold are sourced from elsewhere. Some half of every kwacha spent in a local shop therefore leaves the local economy almost immediately. Local services, which account for around 18 percent of spending, leak in much the same way. A maize mill uses imported spare parts, a barber

¹ While households with no direct link to the enterprise receive a substantial share of total spill-over gains, they constitute such a large group. As a result, the average gains per household are modest, averaging about MWK 10,000 around Chilanga Farm and MWK 15,000 around Kaweche Estate. Those averages could, however, mask considerable heterogeneity (Kagin and Taylor, 2026a, 2026b).

² The poorest fifth of households captures 17 to 20 percent of the spillover income, while the richest fifth captures 24 to 28 percent.

shop hair products sourced elsewhere, and a motorcycle taxi runs on fuel. Over 40 percent of spending on local services goes towards inputs sourced from elsewhere.

This is where the multiplier process runs out. Almost nothing leaks at the household stage; a great deal leaks at the business stage. Much of the additional demand is met from outside the area rather than by expanding local production, as local economies seem to lack the productive capacity needed to satisfy that demand. Turnover in local shops and services grows, but the productive base of the local economy does not. Limited local supply also pushes up prices, reducing the real income gains.

Increased local spending, on its own, is therefore unlikely to drive significant structural change or a broad expansion of off-farm economic activity. This matters because expanding opportunities beyond primary agriculture is central to Malawi's development challenge. Many rural households, especially those farming very small plots, cannot generate sufficient livelihoods from farming alone (Benson and De Weerd, 2023).

Overlaying

This points to the value of pairing efforts to raise beneficiary incomes with complementary interventions aimed at strengthening local businesses' capacity to meet the demand those incomes create. Efforts to help businesses source more of what they sell or use from within the area will keep more of each kwacha circulating. Raising their productivity, in turn, helps local supply keep up with demand, generating more income and limiting price rises. The exact form will differ by context. It may involve improving access to finance for local entrepreneurs, supporting small-scale processing and manufacturing, investing in market infrastructure, strengthening local supply chains, or building business and technical skills.

This suggests a more integrated approach to rural development. Rather than viewing income generation, enterprise development, infrastructure, finance, and skills as separate objectives, they can be seen as complementary parts of the same process. One set of demand-side interventions raises purchasing power; another set of supply-side interventions helps local economies translate that purchasing power into jobs, production, and sustained economic growth.

A broader view on targeting

Different households spend additional income in different ways, and those spending patterns determine how widely benefits spread through the local economy. Taking spillovers into account adds a broader development perspective to targeting decisions. Beneficiary welfare remains important, but where the goal is to stimulate local economic activity and expand economic opportunities, the extent to which benefits spread beyond direct recipients also matters.

The contrast between workers and outgrowers in our case studies illustrates this point clearly. Worker households tend to be poorer and have fewer assets. Yet a kwacha paid to them generates less local income than a kwacha reaching outgrowers. Outgrowers direct a much larger share of their spending to locally produced agricultural goods, while workers spend proportionally more through local retail, where much of the value leaves the area with the next order of stock. Targeting the poorest households, in these two cases, results in a smaller local multiplier.

Whereas such dynamics are very context-specific, the key point is that beneficiaries are not only recipients of development assistance. They also serve as conduits through which income enters and circulates through local economies. Considering these wider economic effects provides a useful

complement to more conventional targeting criteria based on income, poverty, or vulnerability. It encourages practitioners to think about targeting not only in terms of who needs support most, but also in terms of how different groups can contribute to broader local development objectives.

Conclusion

Some interventions – such as anchor enterprise models – engage only a small and particular subset of households directly, and not necessarily those a program targeting the poorest or most vulnerable would choose. Judged on that alone, they may look like a weak instrument for inclusive and sustainable development. Yet, our findings suggest that direct income gains should not be viewed as the end of the story. Successful interventions affect far more people than their direct beneficiaries. Through local spending, income gains ripple through villages, trading centers, and local businesses, creating additional income and employment opportunities for others, including some of the poorer households such schemes cannot reach directly.

This perspective suggests a broader way of thinking about rural development interventions. Beyond asking whether an intervention raises beneficiary incomes, practitioners should also ask how beneficiaries' spending of that income contributes to local economic development, and what complementary investments might help local businesses and producers respond to the demand it creates. Interventions are likely to have their greatest long-term impact when they are viewed not as isolated efforts to raise beneficiary incomes, but as part of a broader process through which rising incomes can stimulate local economic development.

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