



**House Foreign Affairs Committee
Tom Lantos Human Rights Commission**

Hearing on
Root Causes of Migration: Food Insecurity and the Right to Food in Central America

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Virtual Via WebEx

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We appreciate the opportunity to contribute on the critical topic of food insecurity in Central America. One Acre Fund is a social enterprise that provides agricultural services to more than one million smallholder farmers; I also serve as the co-chair of the advocacy committee at the Alliance to End Hunger, a diverse coalition of US NGOs, corporations, universities, foundations and individuals who are committed to building the public and political will to end hunger in the US and around the world. Alliance members, including One Acre Fund, have been raising the alarm about the growing hunger crisis in Central America and we are grateful for this commission's attention to this problem.

With a focus on smallholder farmers, US development support can help **build a lasting, sustainable path out of this perennial challenge**. This submission addresses the **market failings** that underpin this crisis, and new tools to empower farmers so they can grow their own way to prosperity, in their own communities, and not feel compelled to migrate.

Smallholder farmers make up about three quarters of all farmers in Central America, often working just a few acres of land, and with upwards of 75% living below the poverty line. Most still eat much of what they grow; one FAO report found that in Guatemala, smallholders only sell one third of their crops.¹ Hunger remains a challenge in many of these communities. In 2021, 8 million people in the region

¹ FAO Fact Sheet, Guatemala; <http://www.fao.org/3/i8357en/I8357EN.pdf>

faced food insecurity, a fourfold increase from 2018.² As climate change makes weather patterns more unpredictable, this food insecurity is getting worse. 32% of smallholder farmers report food insecurity just from damage to their crops after increasingly frequent extreme weather events.³

Humanitarian food aid is essential to mitigating acute hunger needs. I am privileged to have presented alongside my co-witnesses who spoke with such fluency to this critical work. However, we must also acknowledge and **address the system-wide failings** at the heart of rural underdevelopment, that trap smallholder farmers in endless cycles of low yields, and exclude them from functioning markets. There are a number of salient issues:

- Rural populations in the region have limited access to financing. Few banks in the region provide agriculture-related loans.⁴
- Rural populations face infrastructure deficits. Many regional feeder roads are littered with dirt mounds and potholes. A trip from Choluteca to San Pedro Sula, Honduras, should take five hours, but due to the poor road conditions, actually takes thirteen.
- And they are still largely excluded from the information they need to maximize the efficiency of their farms - less than 2% of smallholder households in Guatemala have access to extension services.⁵

Smallholders' inability, especially female smallholders, to access these services, is ultimately a governmental failure to provide reliable markets. In fact, we would argue that the US government's own investments in building functional agricultural markets, both at home and abroad, **has helped establish this "governmental market maintenance" as a global norm.** For example, Title VI of the Farm Bill provides economic development assistance to rural Americans, helping communities with few economic connections become integrated into the international agricultural market; and Title XI builds support for crop insurance markets, ensuring that farmers, their families, and their communities will not go hungry, even when crops fail.

Internationally, Title III of the 2018 Farm Bill supports the Market Access Program, Food for Progress, and the McGovern-Dole Program, all of which seek to provide reliable agricultural markets for smallholders and access to nutritious foods. Through the Global Food Security Act, the US requires

² WFP, "Battered by climate shocks and bruised by economic crisis millions more in Central America face hunger." Feb 23 2021. <https://www.wfp.org/news/battered-climate-shocks-and-bruised-economic-crisis-millions-more-central-america-face-hunger>

³ "Climate change impacts and adaptation among smallholder farmers in Central America"; 2018, Harvey et al; <https://agricultureandfoodsecurity.biomedcentral.com/articles/10.1186/s40066-018-0209-x>

⁴ Advancing Horticulture: Assessment of Constraints to Horticultural Sector Growth in Central America; 2013, UC Davis/USAID; https://pdf.usaid.gov/pdf_docs/PBAAA831.pdf

⁵ FAO Fact Sheet, Guatemala; <http://www.fao.org/3/i8357en/i8357EN.pdf>

partner governments to show a commitment to agricultural investment and policy reform to be selected as a target country.

Governments in Central America are struggling to meet this same responsibility. However, providing reliable markets is not a responsibility that governments must fulfill on their own. As we look to solutions, **we encourage the commission to consider the role of social enterprises** as a still largely underutilized tool - currently receiving a tiny portion of development support and financing - that can be engaged as partners with governments to create more sustainable systems change.

As mission driven organizations, social enterprises commit themselves to advancing public goods, like improving smallholder livelihoods. However, unlike a typical NGO, they work more like a business, earning revenue from beneficiaries, thus reducing the need for donor funding over the long-term. They also bring a unique perspective into why rural markets are failing. By selling products and services, social enterprises are accountable to the clients they serve; if a customer does not value it, he or she won't buy it.

Since 2006, **One Acre Fund** has pioneered a comprehensive, social enterprise model for making smallholders more productive. We are now the largest organization directly serving this population in East and Southern Africa, with over 1.3 million farm families enrolled annually through our core program. Our “market bundle” of products and services provides a complete rural value chain for farmers, equipping them with the tools they need to improve their harvests, including:

- Financing: We extend thousands of tons of high-quality farm inputs on credit and farmers repay us at rates of 97%+, covering ~75% of core costs and reducing our need for donor subsidy.
- Distribution: We deliver these inputs directly to clients' doorsteps, reaching deep rural communities across Kenya, Rwanda, Burundi, Tanzania, Uganda, Malawi, and Zambia.
- Training: Our front-line field officers – recruited directly from the communities we serve – deliver in-field trainings on farming best practices throughout the season, ensuring that clients maximize their yields.
- Market facilitation: At harvest time, we provide farmers with the tools and knowledge to safely store their harvest and sell during the off-season for significant profit.

There are several similar social enterprises to One Acre Fund, serving farmers in Central America, that we would like to highlight to this commission.

Acceso has built in 5 years one of the leading smallholder supply chains in **El Salvador**, providing holistic support to 3000 farmers, farm workers and fishers. They sell their clients inputs, seedlings and fingerlings, have constructed the country's premier aggregation and processing center for domestic and export products (thanks to its partnership with USAID Feed the Future), and have become a

leading provider to some of the largest food buyers in El Salvador, including supermarkets and restaurants chains.

Ultimately, Acceso's goal is to build a resilient local food supply, with all 325,000 smallholder farmers in the country making a profitable livelihood at the center. El Salvador is a net importer of food, despite 75% of land being allocated for agricultural use.⁶ Companies in the food industry that do source from smallholders tend to shortchange them, and the domestic food market is thus severely underdeveloped. Seeing this gap, Acceso has been able to commit to paying a consistent, fair price to farmers across a number of different value chains.

Root Capital has worked in **Guatemala, Honduras and Nicaragua** since their founding in 1999. They provide reliable financing and customized capacity building to early-stage agri-SMEs (Small and Medium Enterprises) serving smallholder farmers. Disbursing more than \$300M to over 100 enterprises in these three countries since their inception. Root Capital utilizes a blended finance approach, deploying investor capital to provide affordable loans to agri-SMEs while raising philanthropic capital that funds wraparound support for enterprises (including advisory services) as well as buffers against elevated lending risk.

Local agri-SMEs and farmer-owned cooperatives provide some of the most stable livelihoods in the region. They connect small-scale farmers with international markets, premium pricing, and training to help them adapt to climate change. Yet these enterprises are vastly underserved by traditional lenders. With Root Capital's support to this sector, farming families can weather shocks that might otherwise force them to migrate in search of opportunities elsewhere. Root Capital's "credit + capacity" model includes working capital financing, tailored to harvest and sales cycles, ensuring that farmers are paid well and on-time, and advisory services to strengthen the management skills and impact of agricultural enterprises. Working hand-in-hand with businesses, Root Capital identifies and addresses their critical capacity gaps—financial management and governance, digital business intelligence, gender inclusion, and opportunities for young people.

More than just having an impact on their direct clients, Root Capital is also blazing the way for other lenders, that previously saw this financing as too risky - such as local commercial banks in Honduras, which have adopted and replicated their approach to financing in the agricultural sector. As they continue to grow in the region, they anticipate continued replication, multiplying their sustainable impact for agricultural businesses and the smallholder farming families that they support.

⁶ CIA Factbook, El Salvador; <https://www.cia.gov/the-world-factbook/countries/el-salvador/#geography>

Semilla Nueva decreases malnutrition and poverty in **Guatemala** by developing, selling, and scaling the use of biofortified maize seeds. Malnutrition is the number one cause of childhood death around the world and remains one of the biggest barriers to overcoming poverty globally. Maize is the primary staple in some of the world's most malnourished countries, but its low levels of key nutrients trap hundreds of millions in malnutrition. Semilla Nueva promotes maize seeds that have been conventionally bred (non-GMO) to have higher levels of the most important missing nutrients: zinc, iron, and protein quality.

Recognizing that rural farming families do not prioritize nutrition, Semilla Nueva sells high yielding seeds at low prices. Semilla Nueva sells seeds directly to farmers while working with the Guatemalan government and national seed companies to scale their use to reach millions of Guatemala's poorest. Semilla Nueva reached over 10,000 farmers directly who produced enough maize to feed over 250,000 people in 2021. The Guatemalan government's programs reached an additional 22,000 families.

Social enterprises like these can help invest in, and catalyze the transformation of markets. They can prove the long-term social and commercial value of serving excluded populations in ways that are scalable and commercially sustainable. However, no path to scale-up is purely commercial. The path to a fully functional market where both smallholders and companies can profit requires complementary investment and policy decisions from governments. Taxes and tariffs need to be set to incentivize local production; roads and processing facilities must be built; security must be provided so farmers don't face extortion; credit models should be built to provide more nimble financial products; and the rule of law must ensure transparency from all companies, officials and individuals profiting in the system.

The US government, through our domestic legislation supporting our own farmers and our international development assistance, has established an important norm around the responsibility of governments to build functional agricultural markets; to catalyze a shared-risk approach to building supportive ecosystems for commerce, trade and inclusive economic development. And to ensure especially that the most vulnerable, excluded farmers - especially women and minorities - have the tools they need to prosper. We strongly encourage this commission to explore how social enterprises can help governments in Central America meet this responsibility.