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The U.S. Government's Global Hunger & Food Security Initiative

A photograph of a white truck bed overflowing with fresh produce. In the foreground, several wooden crates are filled with bright red tomatoes. Behind them, large green leafy vegetables, possibly cabbages or collards, are piled high. The truck is parked outdoors, and the background shows a building and some trees.

Innovative Financing Through Food Systems to Improve Diets

July 1, 2021



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USAID ADVANCING NUTRITION
The Agency's Flagship Multi-Sectoral Nutrition Project



Webinar Overview

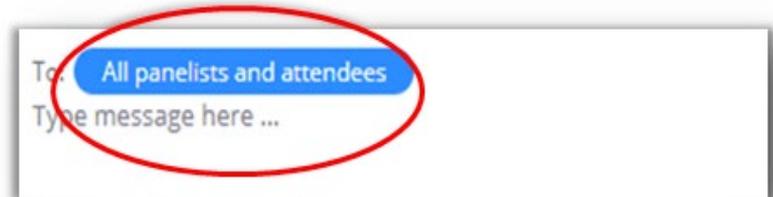
- **Setting the stage**
 - Context of Nutrition & Innovative Finance within USAID's Bureau for Resilience and Food Security
- **Nutritious Food Financing Facility (N3F)**
 - Structure, investment strategy, examples, and theory of change
- **N3F Program Review**
 - Methodology, pathways for impact, considerations and recommendations
- **Q&A**





Zoom Webinar

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- If you're unable to hear the presenters or see the presentation, please try leaving the meeting and joining it again via the link sent to you in your registration confirmation email.
- Technical support can also be requested by contacting: Yaritza Rodriguez at yaritza_rodriguez@jsi.com
- Please note that this Webinar will be recorded.



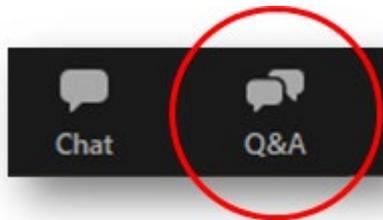


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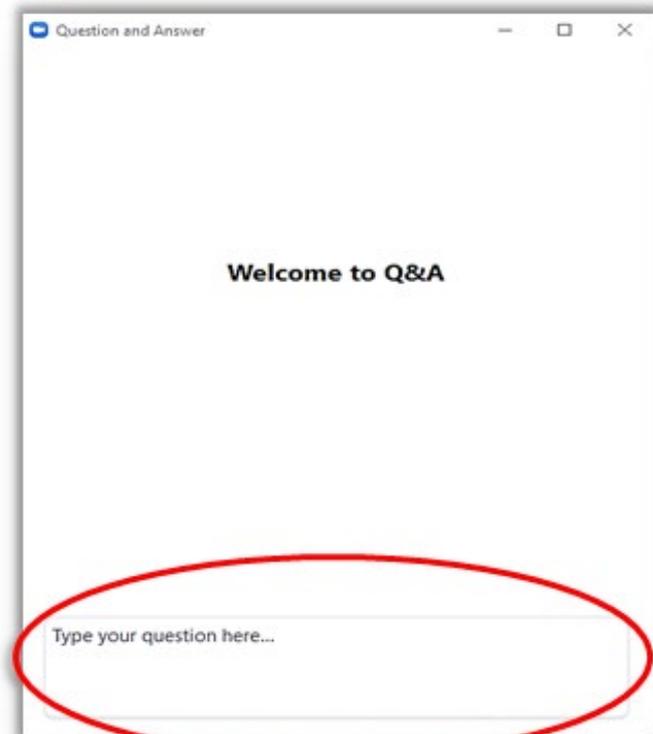
Q&A

Please use the Q&A feature to send in your questions or comments, they will be answered immediately or during the plenary Q&A session.



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Nutrition & Innovative Finance within USAID/RFS



Songbae Lee

Agriculture Finance Team Lead

USAID Bureau for Resilience and Food

Security (RFS)



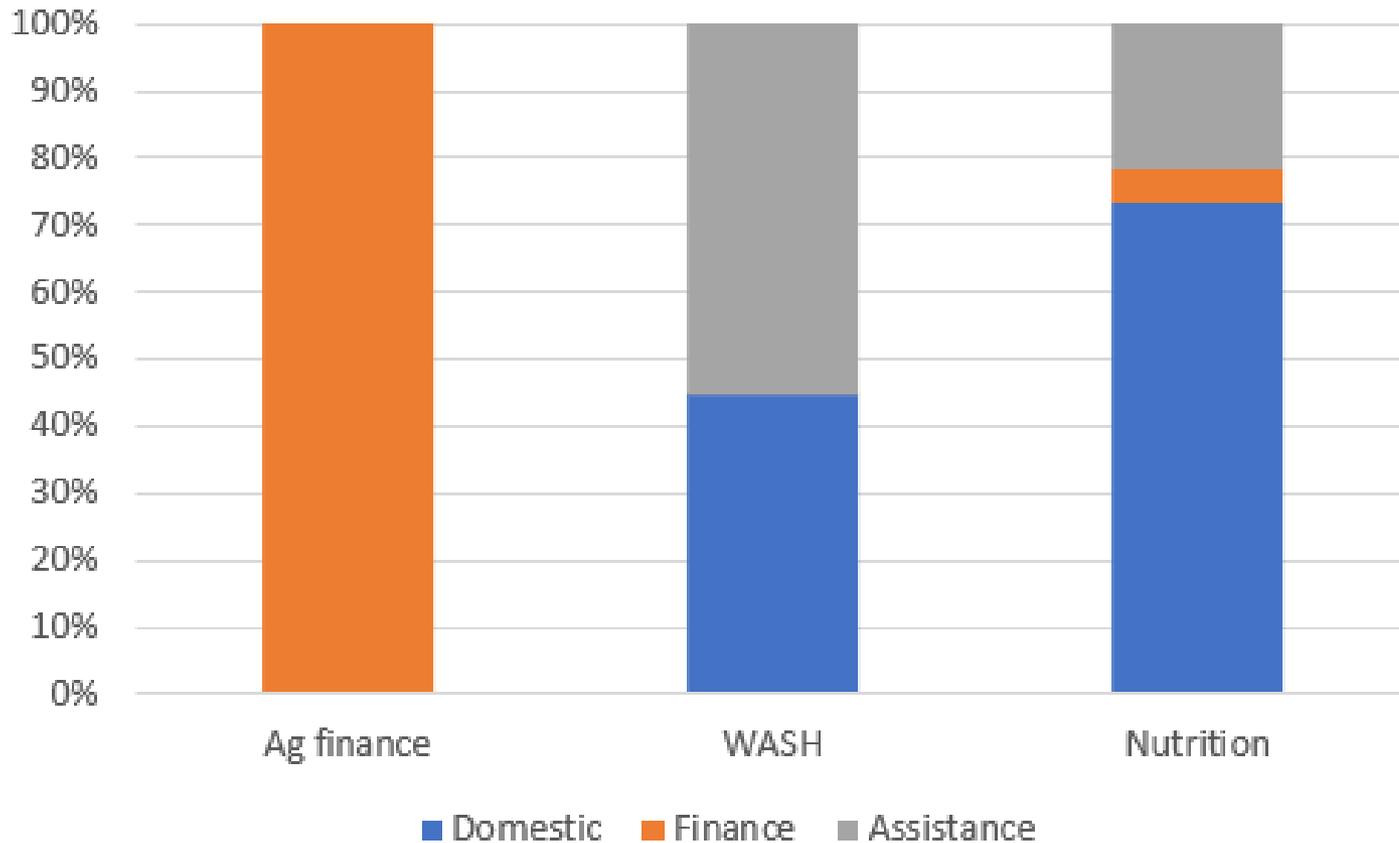
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Who funds these sectors?



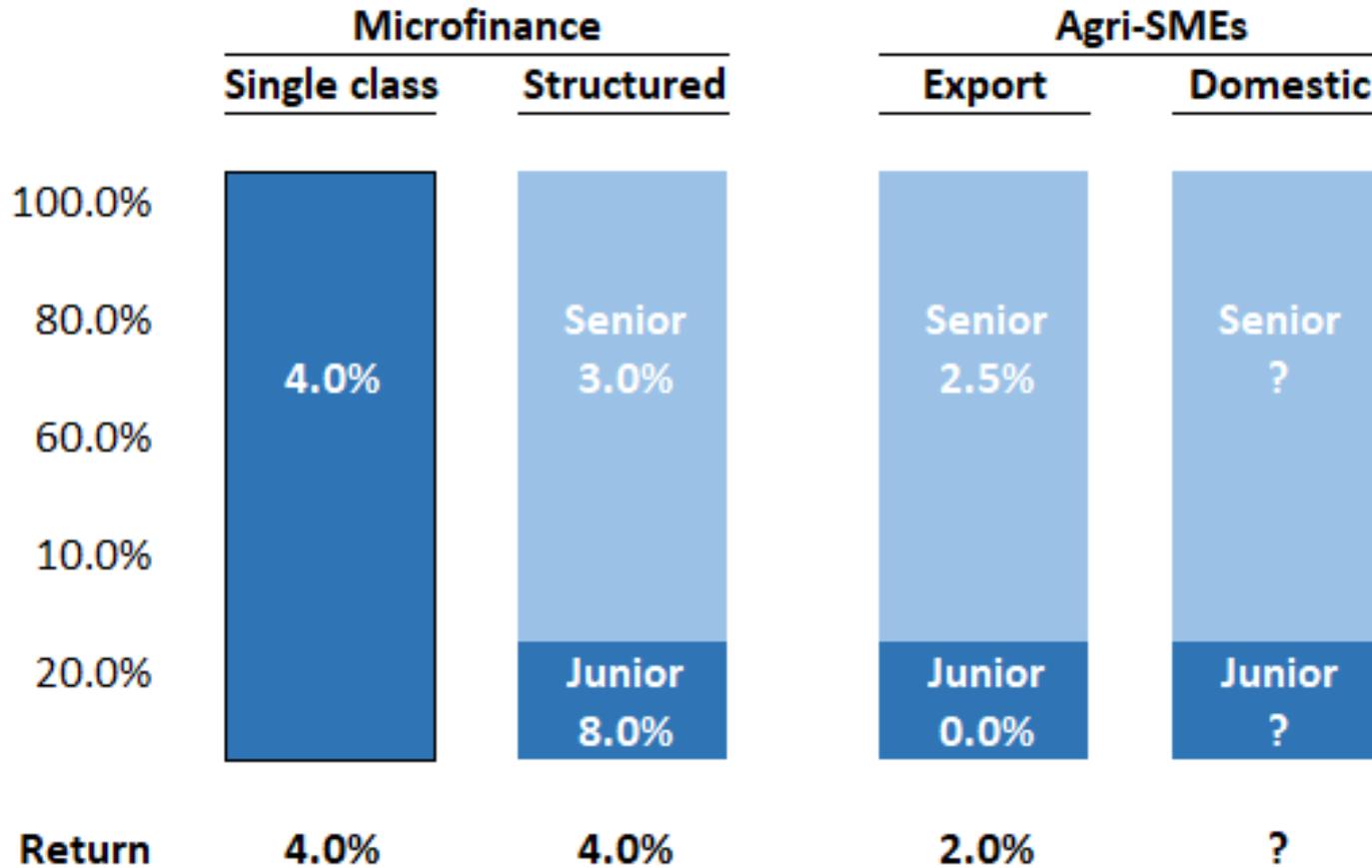
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Example Fund Structures



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Nutritious Food Financing Facility (N3F)



Stella Nordhagen

Senior Technical Specialist

Global Alliance for Improved Nutrition (GAIN)



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Motivation

- Most low-income consumers in LMICs **cannot access** affordable, safe, and nutritious foods
- SMEs are **central** to the food supply in LMICs.
- Most SMEs **lack the financing and technical expertise** to grow their business and the technical expertise and incentives to focus on nutritious foods.





N3F Theory of Change

If we provide targeted funding and technical assistance for SMEs supporting the supply of nutritious, safe foods for domestic, lower-income markets in LMICs, the firms will...

- Invest in technology, staff, or training to increase production, improve efficiency, or cut loss
- Improve marketing and strategic consumer targeting
- Identify new sales channels or geographies
- Undertake research and development
- Invest in processes, training, and certifications to improve food quality and safety





N3F Theory of Change

Which will result in...

- **Increased access to nutritious foods**
- **Increased supply of healthy elements (e.g., vitamins) and reduced harmful ones (e.g., sugar, trans-fats) through reformulation**
- **Increased food safety**
- **Reduced environmental impact through decreased food loss**

Over time, direct firm-level effects may add up to larger impacts through demonstration effects on other firms and other funds.





Structure of the N3F

Direct Investment Fund

- Provide senior and junior debt to SMEs
- Open-ended debt fund with blended funding structure
- Different capital tranches

Technical Assistance (TA)

- Provide targeted technical assistance support to Fund's investee SMEs
- Operate as independent, grant-funded entity

Learning & Influencing the Enabling Environment

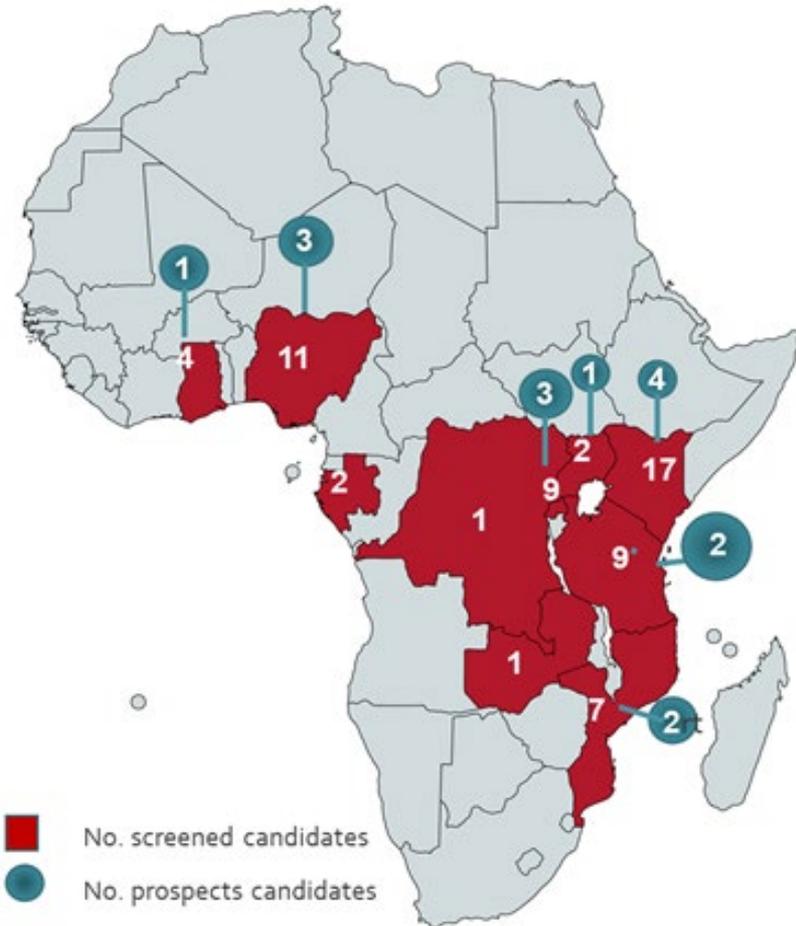
- Support Monitoring, Evaluation and Learning (MEL)
- Convene stakeholders to share knowledge
- Grant-funded separately from the Fund





Target Markets, Products and Firms

- Focus on Sub-Saharan Africa
- N3F will consider investments across the value chain, from inputs to retail
- All companies must be involved in supporting the production of safe, nutritious foods for the domestic population
- Bespoke 'gender lens investing' strategy





Technical Assistance Component

In parallel to the financing, N3F will provide targeted technical assistance to all investees to support them to improve the quality of their products/services and financial sustainability.

Examples:

Business Management

- Business planning, strategy to scale
- Market and consumer research
- Improve management and governance
- Technology adoption and licensing

Nutrition and Food Safety

- Product formulation and development
- Food safety compliance
- Packaging and labelling





Metrics, Monitoring, and Learning

Integrating nutrition-related metrics throughout the investment cycle



- During screening of firms for inclusion in the pipeline: Screen firms for inclusion-based on nutrition criteria
- At investment decision point: Score firms for investment decision-making based on nutrition criteria
- After investment is made: Nutrition-related output monitoring (quarterly/annually)





Strengthening Investment in Nutrition via Influencing

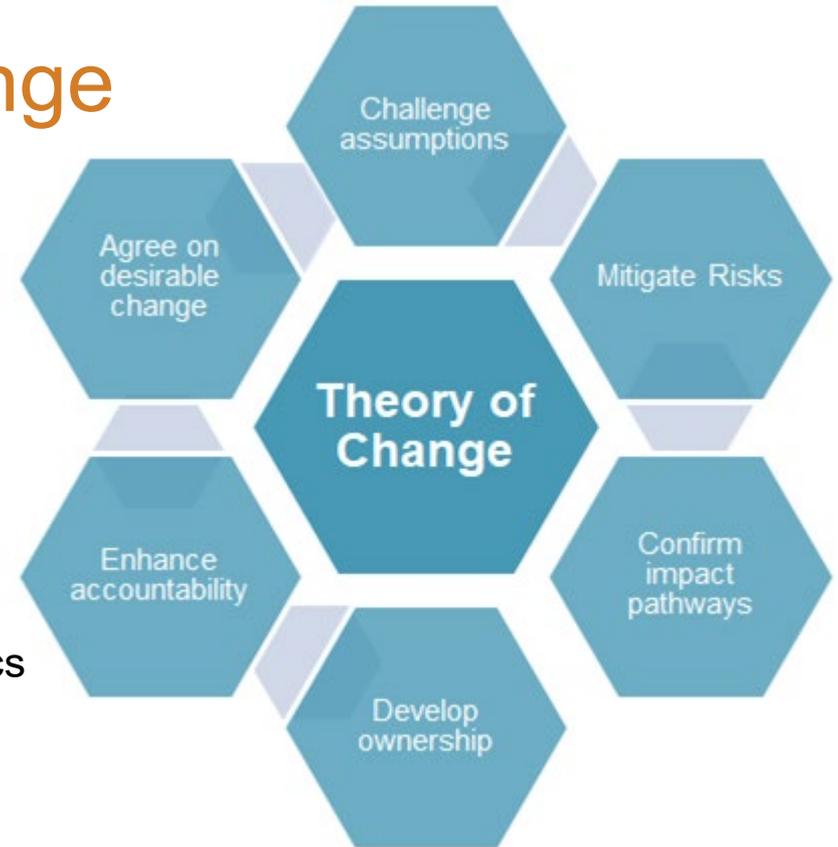
Metrics are central to growing nutrition as an investment theme

- Lack of a clear 'how' poses a barrier to nutrition-sensitive SME investment currently
- N3F aims to develop and validate metrics for targeting nutrition-sensitive investment, build consensus, and support standardization
- Aim: to influence impact investment more broadly to 'crowd in' more funding for nutrition.





Program Review - The N3F Theory of Change



Stephen Vosti

Adjunct Professor

Department of Agricultural & Resource Economics

Institute for Global Nutrition

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Overall Review of the N3F

Commissioned by the USAID Bureau for Resilience & Food Security through the USAID Advancing Nutrition in collaboration with GAIN, UC Davis will conduct the following activities:

- **Act 1:** Critical review of N3F program and Theory of Change (TOC) [Apr 2021]
- **Act 2:** Detailed assessments of pathways to scale and the food environment [Sep 2021]
- **Act 3:** Development of impact evaluation methods and tools [Mar 2022]





Review of the N3F Program

Mandate

- Qualitative assessment of the relevance, uniqueness, consistency and feasibility of the N3F TOC and mechanisms
- Evaluation of likelihood of success
- Recommendations to improve the probability and scale of success
- Should USAID 'invest' in the N3F?

Methods

- Conceptual exploration, using economics and nutrition 'lenses'
- Review of peer-reviewed and gray literatures, and related initiatives
- Economic theory applied to firms and consumer demand
- Perspectives and insights from consultants and key informants
- Selected dietary intake assessments





Point of Departure: Overview of the N3F TOC



Fundamental Questions:

- 1) Why have the hoped-for investments, activities, products not already emerged, at scale, in the marketplace?
- 2) What levels and types of N3F credit and technical assistance, and to which SMEs, will be required to overcome current impediments?





Understanding the 'Seas' that the N3F Ship Must Navigate

- **Status Quo**
 - What are the diets of those at risk of undernutrition?
 - What are the current structures of food/fiber markets in targeted LMICs?
- **Heterogeneity**
 - Structure of supply-side firms along the value chains
 - Food products specifically targeted by N3F
 - Impact investors
- **Background Trends**
 - Evolution of food markets and the supply chains that service them
 - Changes in dietary patterns





Stylized Facts Associated with the N3F and the Supply Side of Food Systems

- Very competitive sector, hence thin margins, hence scale matters greatly
- Sector is comprised of SMEs, informal players, international players
- N3F is choosing SMEs as their entry point
- Impacts can be direct on targeted SMEs
- Impacts can be indirect on the broader food environment
- Difficult to predict the direct/indirect impacts, especially from a nutritional perspective
- There are limits to demand and to demand sensitivity to price changes
- More nutritious foods may cost more in the marketplace





Key Issues Affecting the Attractiveness and Impacts of the N3F

- **Fundamental Market Failure**
 - Benefits of improved nutrition are undervalued, privately and/or publicly, or market imperfections undermine supply
 - What can N3F do to address this?
- **There Is a Need for Targeted N3F-type Credit and Technical Assistance for SMEs**
- **Limited Availability of N3F-type Credit and Technical Assistance (TA)**
- **Why Has the N3F Credit/TA Gap Not Already Been Filled?**
- **Investor Objectives/Concerns**
 - Profitability, sustainability, and tolerable risk
 - Positive impacts on the food environment
 - Market responses to N3F investments





Recommendations for Tweaking the TOC: Enhancing the Attractiveness of N3F Investments & TA

'Above' the TOC

- Explain why potentially profitable investments in nutritious foods have been passed by
- Identify market characteristics and conditions to target for impactful investment opportunities
- Articulate a method for ensuring SME compliance with agreed-upon credit/TA objectives

The TOC Itself

- N3F pre-filtering process for selecting SMEs
- Introduce a timeframe linking investments/TA, with outputs, outcomes, etc.
- Reductions in food losses and food waste, and improvements in food safety are 'co-benefits'
- Be clear that not all co-benefits may be 'positive'

'Below' the TOC

- Identify key SME and food system metrics that will be used to monitor impacts
- Guarantee the funds/personnel needed to undertake monitoring activities
- Link outcomes to specific SDGs





Final Reflections to Help Position and Prepare N3F

- Tension between rigorous TOC review and the way impact investing generally takes place
- A successful TOC (also) effectively bridges what comes 'before' and 'after'
 - Before – learning space for understanding how SMEs can help improve the food environment
 - After – how to manage and enhance these contributions, and effectively report them
- Impact investors vary widely
 - Acceptable trade-offs between impacts and profits
 - The degree to which they consider and want concrete measures of impacts
 - N3F will need to choose, and tailor the TOC to fit that choice set
- What is the role for USAID (and other donors)?
 - Support continued 'spade work' by GAIN/N3F - (1) 'Before' TOC team; (2) Seed money for pilot projects; (3) 'After' TOC activities
 - Help reduce risk
 - Continue to support private and public investments that directly and indirectly improve the food environment (including synergies and interdependencies)





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Audience Q&A

Please enter your questions in the Q&A feature, and specify who your question is for.



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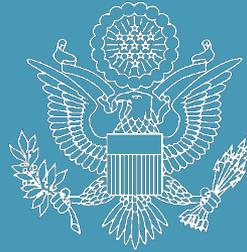


Thank You for Your Participation



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USAID Advancing Nutrition is the Agency's flagship multi-sectoral nutrition project, addressing the root causes of malnutrition to save lives and enhance long-term health and development.

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