



# Innovative Financing through Food Systems to Improved Diets

## Webinar Transcript

### Susan Cantella

Good morning, good afternoon, good evening everybody. Welcome to our webinar on Innovative Financing through Food Systems for Improved Diets. This webinar is a collaborative effort between the USAID Bureau for Resilience and Food Security, USAID Advancing Nutrition, the Global Alliance for Improved Nutrition and University of California Davis. We will start the webinar off with a brief background in contextual introduction of how innovative finance for nutrition relates to USAID's priority. This session is led by Songbae, who serves as the agricultural finance team lead with USAID's Bureau for Resilience and Food Security. Songbae will also serve as the moderator for the entire webinar.

Next is a presentation on the nutritious food financing facility, which is also known as the N3F. This session is led by Stella Nordhagen who is a senior technical specialist with the Global Alliance for Improved Nutrition also known as GAIN. Then we have Steve Vosti, professor with the department of Agriculture and Resource Economics in the Institute for Global Nutrition with the University of California Davis who will share with us the outcomes of their work of reviewing the N3F theory of change and the related impact pathways. After these presentations, we will have a question and answer session which will be facilitated by Songbae.

However, before we start with these presentations, I would like to hand it over to Yaritza to go over a few zoom housekeeping matters. Yaritza, over to you. Thank you.

### Yaritza Rodriguez

Thank you Susan. Give me one second. So if we go on to the next slide just a few tips as Susan said. If you are unable to hear at any point during today's webinar please make sure you have connected your audio by selecting the headphones icon at the bottom of your zoom window in your zoom controls labeled 'join audio'. Please send a chat message to all panelists and attendees, again all panelists and attendees, to introduce yourself send in your comments or ask for tech support during today's webinar. If you are unable to hear the presenters or see the presentation, please try leaving the meeting and joining it again via the link provided in your registration confirmation email. My name is Yaritza Rodriguez, I am a project officer with USAID Advancing Nutrition and I will be supporting today's webinar. So you can also go ahead and ask for technical support by sending an email to my email address listed on this slide.

Finally, please note that this webinar is being recorded. In terms of questions please use the Q&A feature to send in your questions or comments. They will be answered immediately or during the plenary question and answer session. To ask a question you will just select that Q&A icon at the bottom of your screen in your zoom controls, type your question into the Q&A box and then click send. Now I would like to pass it on to Songbae.

## Songbae Lee

All right. Thanks a lot Yaritza. Just to make sure my video is on. My name is Songae Lee, I am the Agriculture Finance Team Lead in the Center for Agricultural Growth and I have about five minutes to go over two slides providing the context an introduction for this webinar. So first of all thanks to everyone who is joining today and it is really great to see a lot of familiar names participating.

If we can go to the next slide please.

So I work in the ag-bureau which is technically called the Bureau for Resilience and Food Security. They are multiple centers and I work in the ag center, but I also cover other centers including WASH and Nutrition. So I put together this slide just to provide some context for where the funding for these different sectors come from. The sources of information for these different sectors are different so it is not directly comparable but I think you can take away some key points. The first one being in Ag, most of the financing that we are looking for is private capital. So I am looking at mobilizing private capital for agricultural finance. On the other hand, if you look at the nutrition sector, you see the majority of funding is expected to come from donors and governments. So one thing to point out here and probably, folks in the nutrition sector are aware of already, is a lot of that funding is what they call nutrition specific that is going to be delivered in a health setting. But what we are talking about is more nutrition-sensitive activities that are going to be dealing with increasing the availability and affordability of nutritious foods. And that is going to be focused in working with food systems where the private sector is a very large player. So I am going to take a break really quick right now and ask Yaritza to put up a quick poll so we can just get an idea of who is on this call with us today. So please I know these are not going to be probably perfect for anyone, but if you can just select the one that you most identify with, I will give folks a little bit of time.

## Yaritza Rodriguez

Songbae, I just like to note for the audience, if you are not seeing that poll pop up please look in your zoom controls and select the polls icon. That should pull up the poll for you okay.

## Songbae Lee

For me it just popped up and I do not see a poll icon but hopefully enough people were able to see it so do you think you can go ahead and show us the results.

## Yaritza Rodriguez

Yes. So I will end the polling now and I am now sharing the results. Let me know if you can see them.

## Songbae Lee

Okay, great! So the one couple I will highlight, it sounds like the most are from nutrition, followed by 37%, followed by academia 17% and investors 10%. So the other two takeaways, I will just leave this slide with us first. We are not trying to take away any funding from the nutrition sector. This is not about reallocating the slices but expanding the total size of the pie. So that is to the 37% of people from the nutrition community. And then for the 10% who identify as investors, I am guessing that a few, if any of you are focused on nutrition now, but we think you should be and you just don't know it yet.

Can you go on to the next slide please.

So this is what I call my Impact Investing Blended Finance 101 in one slide. So I am going to use some examples and I think it is helpful to use numbers to explain. So on the left hand side and my previous job at Calvert Impact Capital, I recommended investments into microfinance funds. These are funds that made loans to microfinance institutions. So you can see that the average return on that fund to investors is expected to be around four percent. And when I say it's a single class everyone took the same amount of risk. Another type of microfinance fund we invested in would be structured and that means different groups of investors would take different amounts of risks and you expect the people that take the most risk to take at a higher return. And that is why you see the junior tranche gets a higher return whereas

the senior tranche has less risk so they take less return. But to remember, on average, it still gets you to the four percent return for the fund. If you go to the third bar, now we are starting to talk about agri SMEs (small and medium-sized enterprises) and here the first thing you will note is the total return is 2%. Again, this is a list, illustrative, but this does reflect the higher risks and higher costs of making loans to agri-SMEs. And remember these are agri-SMEs today where most of the lending is done that are focused on export crops like cocoa or coffee, which first of all have to deal less with foreign exchange risk because their buyers are paying in U.S dollars and second these crops typically have higher margins than other crops. So we are talking about the last bar chart today and that is going to be agri-SMEs that focus on domestic crops for consumption.

Beyond just focusing on the numbers, the main point I want to make is that when investors in our space broadly called impact investing; make an investment, they are looking for both the financial and social return. And as we try to target markets that are unserved or unbanked, it is typically because there are higher cost and higher risk. So when you are targeting that type of market like we are today, then you need to have a really compelling impact story. And for us it meant developing a theory of change. Not by the fund manager but by the experts in that sector in this case it's GAIN and on top of that making sure that it's validated by a third party. So now I am going to turn it over to Stella Nordhagen from GAIN who developed the theory of change and we'll go over it and then she'll pass it on to Steve Vosti from UC Davis who did a third party review. So with that Stella.

### Stella Nordhagen

Thanks very much Songbae. Next slide Yaritza.

So, I am Stella Nordhagen and thanks to all of you for being here today. I am really excited to be able to tell you about the Nutritious Foods Financing Facility: A new approach, we hope to increase our investment in nutrition.

Next slide please.

So the N3F is basically motivated by a key challenge that we see in food systems today and that is insufficient access to safe nutritious foods in low and middle-income countries in Africa. About 70% of Africans currently cannot afford a healthy diet and only about half of the fruit and vegetable volume needed to meet WHO dietary recommendations is even available on the continent, let alone accessible. Small and Medium-sized Enterprises or SMEs are key actors in addressing this. They deliver about three-quarters of the food that is consumed in Sub-Saharan Africa and they are active throughout the food value chain. Strengthening them has taken on a new urgency during the covid-19 pandemic, which laid their numerous weaknesses and vulnerabilities in both global and local supply chains. Now SMEs require financing to launch and grow but in Africa, they often struggle to access finance on reasonable terms. This is due to high interest rates and high collateral requirements, it is due the fact that Songbae mentioned that most international financing is providing in US dollars, which can expose them to considerable currency risk and also to a lack of information on financing options. Indeed, data from the World Bank indicate that finance is the top cited barrier to growth by SMEs across Africa. At the same time, investors also struggle; they struggle to find viable deals in the region and those who do enter the market focus mostly on export commodities such as coffee, as Songbae also mentioned. This results in most investment funds in Africa being focused on increasing the quantity of food for export markets not the quality of food that is produced for the local markets. The N3F is a first of its kind facility that is aiming to fill this gap.

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The N3F posits a novel theory of change for increasing access to safe and nutritious foods by supporting SMEs throughout domestic value chains. It proposes that if we provide targeted funding and technical assistance for SMEs supporting the supply of nutritious foods for domestic markets in low middle-income countries, those firms will go off and they will invest in technology, staff or training to increase production, improve efficiency or cut loss. They will improve their marketing and strategic consumer

targeting to better reach consumers, they will identify new sales channels and geographies to expand reach, they will undertake research and development to improve products, and invest in processes, training and certifications to improve food quality and safety.

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We expect that these firm actions will result in increased access to nutritious foods through wider distribution improved availability, affordability and desirability, as well as increased supply of nutrients, introduced harmful elements such as sugar or trans fats through product reformulation, increased food safety and reduced environmental impact through decreased food loss. Now all of these direct effects are at the level of the firm and the products that are directly supported by the N3F, but we hope that over time these impacts will add up to larger impacts at the level of the food environment through demonstration effects on other firms and on other funds.

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So how will it actually work; how will the N3F work. The N3F is a collaboration between two organizations - GAIN and INCOFIN investment management. INCOFIN, who are on the call with us today, are a licensed-to-impact investment company. They have over 20 years of experience with private debt and equity investment in emerging markets and about 1 billion euros in committed assets under management. And partnering with INCOFIN has been really crucial to launching the N3F because GAIN as a nutrition organization, we know nutrition but we don't know investment. So, we really need two partners to make this work. Now the N3F consists of three components supported by these two partners. The first is a direct investment fund. This is managed by INCOFIN and it will make senior and junior debt investments into SMEs. It'll be an open-ended debt fund starting with about 10 million US dollars by the end of 2021 and growing to about 60 million. It will use a blended funding structure with different capital tranches. The second component is the technical assistance component. This is expected to be about 10 to 15 percent of the fund. It will provide targeted technical assistance to invest in SMEs. This is going to be grant funded and operated separately from the investment fund and it will be led by GAIN. The final component focuses on learning and influencing the enabling environment. This will be the component that oversees the monitoring, evaluation and learning aspects of fund. It will convene stakeholders to share knowledge on relevant topics related to investment in nutrition. This will be grant funded separately from the fund and led by GAIN.

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Now, considering our target markets, products and farms for the N3F. The N3F is going to focus in Sub-Saharan Africa with a handful of priority countries including Kenya, Tanzania, Mozambique, Nigeria and Rwanda.

The map in the slide here shows where we have screened various candidate farms for potential investment. The N3F will consider investments all across the food value chain; from inputs to retail. But the main focus will be on processing, distribution and marketing of nutritious foods. All companies need to be involved with supporting the production of safe nutritious foods for the local population. Under this, priority will be given to nutrient-dense minimally processed foods. So a couple of examples of companies that we're considering for investment would include a processor of bio-fortified legumes in beans and bean-based products in Kenya, and a fish farm in Mozambique that produces small fish and fish by-products that are affordable to local low-income consumers. The N3F also has a bespoke gender lens investing strategy. This will give priority to women-led companies, those that employ women in high-quality jobs and to products and services that can disproportionately benefit women and girls.

Next slide please.

At the beginning I mentioned that finance is a key barrier to firm growth but it is not the only one, many SME owners and employees in Africa lack formal training in business best practices or food safety and nutrition, limiting their growth potential. Technical assistance will thus be provided to all N3F investees

to support them to improve the quality of their products and services, and become more financially sustainable. This will include types of TA that focus on general business management practices such as business planning and strategy development, as well as those that are more focused specifically on nutrition and food safety such as product formulation and labeling. And through providing this technical assistance, the N3F aims to help SMEs reach their potential and become more effective and efficient. Thereby increasing their ability to serve domestic markets.

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Now, N3F is an impact first fund that aims to improve nutrition. As Songbae mentioned, it is really important to have a strong impact story and nutrition related metrics are essential to that, and they will be integrated throughout the N3F's investment cycle. This will include at the initial screening for inclusion in the pipeline, and then, when the investment decision is being made, we undertake what we call an impact audit, which will assess key criteria along five different dimensions of impact; gender, the environment, employment, suppliers and nutrition. Among these, nutrition is given the most weight and it considers not only the type of food but also how that compares to current gaps in local diets, the target consumers, food safety, marketing and formulation. Then, after the investment is made, ongoing monitoring will examine 25 output indicators where possibilities are aligned to international IRS standards for monitoring and impact investment, and at the same time, the technical assistance will also be monitored for its quality and the extent to which it's meeting the firm's needs. That information will be constantly fed into the N3F to improve its processes over time.

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So these metrics and indicators that we are working on directly fit into the N3F's broader influencing work. Which brings us back to some of the challenges that Songbae described in his opening remarks. Nutrition is arguably the development sector that has the biggest imbalance between the potential for impact and the level of investment. Less than one percent of donor investments in development are in nutrition with a similar figure for impact investment but about 22 percent of all adult deaths are attributable to dietary risks, with an even greater share of child deaths being attributed to under nutrition. More financing for nutrition is thus sorely needed. An impact investment and blended finance mechanism represents a huge potential for increasing investment in nutrition. But, there is currently a lack of agreed-upon metrics to define nutrition as an investment theme. That is to say, whether a given investment is even nutrition sensitive or not. And this limits the level of interest and investment in the sector and it thus limits its growth and potential to serve nutrition. The N3F aims to address this by developing and validating metrics for targeting nutrition-sensitive investments, building consensus around those and supporting standardization so that others can use them. The overall aim is to influence impact investment more broadly, to crowd-in more funding for nutrition and gain more support for the sector. But having this kind of impact at scale and even through the N3F's direct investments really relies critically on us having correctly understood the problems that are holding back local SMEs, and to have designed an appropriate theory of change for how we can address them. This is why we are really delighted at GAIN when we were given the opportunity to work with UC Davis to undertake a critical external analysis of the N3F approach. And I will now pass to Steve Vosti to tell us more about that work, thanks.

[Steve Vosti](#)

Okay, thank you Stella and the next slide please.

There we go, okay, I am Steve Vosti from UC Davis. I am going to report on the first part of the work that we are doing on the review of the theory of change that is implicit in the N3F model. I am speaking on behalf of the UC Davis crew that has been looking into this for the past year or so, and particularly on behalf of Travis Libert in the Econ department who is manning the phones right now for your Q & A. So please make good use of him. And for Reyna Inglestone who is in the department of nutrition at UC Davis and the Institute for Global Nutrition.

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Ours is a three-act show and act number one was basically to take a critical view or review of the N3F program and its theory of change. The next step will be to look more closely at the pathways to scale and dealing with this conformity issue of the food environment. What is this thing? And then finally to work jointly with Stella and the rest of the collaborators to develop the impact evaluation methods and tools because at the end of the day, we want to kind of scientifically, soundly demonstrate the effects that these investments in credit and extending credit and technical assistance will bring about.

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In a nutshell, our mandate was to take a very careful look at the N3F theory of change and the mechanisms that were kind of embedded in it, to evaluate the likelihood of success and most important to make some recommendations that would improve the theory of change or perhaps narrow the theory of change and then, we were given the opportunity to answer the question “should USAID invest in N3F” and I will give you that answer at the end, so just hold tight. In terms of methods, it was important to us to use two lenses. One was the economics lens and the nutrition lens, when thinking conceptually and practically about the theory of change. And as you can imagine, depending on which lens you use you may get very different answers to exactly the same question and we tried to understand what those differences were and to weave them into our suggested improvements to the theory of change. We looked at a lot of literatures, you can imagine how there is not a lot of very specific peer-reviewed literature on SMEs in this particular sector but there are other relevant literatures that we did look at. Also, we used the economic theory of the firm and theories associated with consumer demand and behavior in order to at least book-end some of the directions of change, expected change associated with the impact of N3F and the magnitudes of these changes as well. We consulted with folks who are experts in food systems and in impact investments to get their views on this and we did some of our own dietary intake assessments. I looked at dietary intake data to get a better view of what the points of departure might be.

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As Stella just pointed out, the high-level view of the theory of change is this going from left to right; you have N3F that is going to be providing credit and technical assistance. This is expected to bring about firm level changes both in what they do and how they do it, this will lead to some firm level outputs and eventually those new outputs will enter the marketplace and change the affordability, accessibility and the convenience of foods, hopefully more nutritious foods. Then there is some scale and multiplier effects; the scale effects due perhaps to the SMEs themselves that are being helped or N3F activities. But there also can be some knock-on effects both within and outside SMEs. Then, there is the hope for kind of broader impacts on all the whole food system and the food environment in terms of the availability of more nutritious foods with final impacts on diets and health that Stella was mentioning. I will focus primarily today on the first five of these boxes and we have step two or act two and act three activities and that will address some of the others. But, our point of departure for our assessment were basically two fundamental questions “Why are the hope for investments activities and products not already in the market at scale”, “What are the impediments” and as Stella pointed out, one of the things we need to do is discover this first and then the question becomes what are the levels and types of credit and technical assistance that need to be provided or can be provided to SMEs, that are required to overcome these impediments. So why is not what you see in the market, what you would like to see in the market and what might N3F do to change that.

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One of the things we needed to do as well in association with our review was to get a better understanding of the seas that the N3F ship must navigate. And we broke them into three buckets. The first bucket is the status quo. What are the diets of those at risk of under nutrition in Sub-Saharan Africa specifically but lower middle-income countries in general and what are the structures of the food and

fiber markets that currently exist? The second bucket is heterogeneity. Everywhere you look in these areas, you find a lot of differences in the structure of the supply type firms among these value chains. The food products that would be specifically or potentially targeted by entry vary dramatically; from the animal source foods to basic grains and other kinds of things, packaged foods, processed foods and the like. And there also is tremendous heterogeneity in impact investors. I will talk a little bit more about that in a second. And the third bucket is, the world is changing, the food markets are evolving and value chains that supply them are evolving very quickly and we want to make sure that whatever theory of change is going to be developed, is in a sense forward-looking and takes into consideration these very large changes that could dramatically change the role of SMEs in the food environment. Finally, there are some important changes in dietary intake patterns especially among folks who are moving from rural to open areas.

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There were some stylized facts that emerged that will help both condition and focus some of the elements in the theory of change. First is that, this is a very competitive sector and therefore the margins are very thin and hence, scale economies matter greatly. And this is going to be important both in the kinds of investments that N3F will make but also the firms that it chooses to engage with. We need to remember that the sector is comprised not only of SMEs but also lots and lots of informal players, very small scale sometimes, and international players. And these while the general objective of all of these players is essentially the same, to make money, their foci are different in terms of products and geographies but also their influence in terms of the markets and policy makers in developing countries. N3F is choosing the SMEs as their point of entry and not the other two and the impacts can be both direct as Stella pointed out, but there can be larger indirect impacts on the food environment. But one of the things that we concluded is that it will be difficult to predict the direct and indirect effects especially from a nutritional perspective. There are going to be limits on demand, people only have so much money to spend and there are going to be limits on demand sensitivity to price changes. And so making something more affordable may not translate into huge changes in demand especially among the folks that are at risk of nutritional deficiencies.

Finally, the most nutritious foods may cost more to produce and therefore the prices may go up for these. Now scale can address this and then the real challenge becomes “can the SMEs deal with the increase in scale required to keep costs low and market prices down?”

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The key issues affecting the attractiveness and impacts of N3F. One of the things we discovered early on is that there really is a fundamental market failure here. Is it that the benefits of improved nutrition are undervalued both publicly and privately and also there may be market imperfections that undermine supply. And then the question again is “what can N3F do to address this fundamental market failure?”. There clearly is a need for targeted N3F type credit and technical assistance. It is not that there is not any available out there, there is some, both on credit and in terms of technical assistance, but it is very small compared to the need. The question then becomes “if there is this lingering need, why hasn't it been filled, why hasn't somebody else already invented an N3F and got it up and running?” and our assessment suggests that there are three reasons. One is the profitability, sustainability and the tolerance for risks are fundamental concerns to folks who have considered and are considering this and this will need to be dealt with in the context of the development of the N3F program. The positive impacts on the food environment are not necessarily a given: will these products actually be consumed by the right people in sufficient quantities to actually make a difference in these final outcomes, remains a challenging question. And the fundamental question of the market response is to N3F investments “if the SMEs that are supported by N3F, in fact, are placing new and more nutritious foods in the marketplace. Are they crowding out foods that are already there and potentially equally nutritious?”

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The recommendations for tweaking the theory of change to enhance its attractiveness kind of fall into three categories, if you will. First, above the theory of change, before you even get to that template that we shared earlier, the N3F needs to explain why potentially profitable investments in food nutrition have not already been made. If there is money to make in these activities, why haven't SMEs already figured it out and why haven't the necessary kind of investments taken place? They need to identify the market characteristics and the conditions to target the impactful investment. Since Stella has suggested in her presentation that a framework is already in place to do that and they need to articulate a method for ensuring that once credit and technical assistance actually is provided to these SMEs, that they do be agreed upon tasks. And that has to do with conditionality of loan agreements and the like which can be blended into the structure of the N3F.

The theory of change itself needs a pre-filtering process for selecting SMEs that will make it a more attractive and useful document vis-a-vis interactions with potential donors or investors, introducing a time frame will be important as well. People need to know what the returns on their investment will be, they also need to know what the timeliness of the impacts might be. There are other kind of by-products or co-benefits associated with N3F investments that are included right now in the theory of change, that we recommend be delegated to the area of co-benefits. And these fall into the categories of food losses and food wastes that while important to many investors, may not be the primary outputs that impact investors are actually looking for. And we need to be really clear that not all of these co-benefits are going to be positive. Making foods for example more convenient may include using different wrappers or that sort of thing, and there can be negative environmental consequences associated with some of these investments and modifications to products and product delivery mechanisms.

Finally below, the theory of change after you get beyond the right-hand side of that figure I showed, you need to identify some key food system metrics that we will use to monitor impacts, we need to guarantee that the funds needed are going to be available to actually do the monitoring and evaluation, and the tweaking of the N3F agreements, and we need to link these outcomes specifically to some of the SDGs.

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Some final reflections to help position and prepare the N3F. First is, there's always some tension between kind of a rigorous review of a theory of change by a bunch of academic people who do this for a living and what impact investors really want and require. This is normal tension and what N3F needs to do is to make sure that they can manage that tension between what are the underlying mechanisms of theory of change at a very micro level if you will and how do we use these, how do we translate these into something that impact investors are swayed by. The successful theory change, obviously does the theory of change, what do you intend to do and what do you expect to emerge, but also a successful theory change will lend some guidance as to what should be done before and after. Before is associated with the learning space for understanding the SMEs and how we can improve the food environment via assisting them, and then afterwards how do you manage these things; what sorts of information do you need, and how do you collect and process it and how do you then report it in order to sustain and grow the N3F activity? Impact investors vary widely in terms of their acceptable trade-offs through vis-a-vis impacts and profits, this we know. The degree to which they consider and even want concrete measure varies as well of impacts, and the N3Fs will need to choose and to tailor and perhaps create multiple versions of the theory of change to best meet the needs and the requirements of different impact investors.

And finally the question "what role for USAID. Should USAID put money into this? The answer is YES but in a strategic way. We suggest supporting the continued speed work, the background work, that GAIN and N3F have already begun to do and both in terms of the pre-theory of change team that's working to identify filtering mechanisms for selection of SMEs for example, we need seed money for pilot projects and USAID might be either provided or be instrumental in securing it, and then we need after the theory of change activities, we need resources in order to make sure that we do the proper



monitoring and evaluation and then deliver the results to the various stakeholders. N3F can help reduce risk, this is a big deal as somebody pointed out early on and it needs to be addressed, and N3F and USAID may help be able to do that. And finally, USAID needs to continue to support the private and public investments that directly and indirectly improved food environment and these are not sexy investments. These are paving roads, these are making sure that the electrical grid is actually extended into rural areas so SMEs can actually take advantage of this, it also has to do with making sure that the monitoring and evaluation or the regulatory processes that for example keep an eye on food labeling are actually in place in developing countries and these regulators actually have some sway.

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I think we are done and it is back over to Songbae. Thank you.

### Unknown Speakers

Songbae we are not able to see you.

You are muted Songbae

### Songbae Lee

Sorry, double muted. Thank you very much for those presentations Stella and Steve, and so well, now we'll go into the Q & A and I just want to also mention that some of the questions that are coming in have been answered so you can click on answered and you can see the responses that have come in. So the heads up, I am going to take a couple questions that have come in and asked them first to Stella and then I am going to direct the questions to Steve. Then after that, I think I see Loic from INCOFIN, there is some questions that are more specific about the fund that I will address to him if he is able to comment on them.

So first, Stella, this is a question from Hedwig “what is GAIN’s role in identifying potential investees?” and I'd like to tag on something to that, I know that GAIN has worked with a lot of potential investors over the years. So why now, what's the shift in thinking from just providing direct technical assistance to now understanding this need for finance is the key component.

### Stella Nordhagen

Yeah great, thanks very much for the question Hedwig and also Songbae. To the first question, what is GAIN's role? So the pipeline development process is a collaborative one between GAIN and INCOFIN, and gain leads on two different fronts. First of all, we identify the nutrition requirements that make a company eligible to become an SME, that is based on the food that they are producing, the markets in which they sell it and who are the consumers of that product. We have also leveraged our existing network of SMEs in the agri-food space in Africa to help identify potential investable opportunities. At the same time INCOFIN’s role is also really essential because they analyze the financial potential of the firm and determine the type of investment that is best suited for them. Now going to Songbae’s question, why now for us? So it is a great question, and really I think the N3F is the outcome of an eight or nine yearlong learning process for us within GAIN. We realized as an organization fairly early on that supporting SMEs was a really essential way to strengthen the food systems within low and middle-income countries. And initially we worked on direct technical assistance and on the provision of grant financing, and that led to a lot of positive outcomes. At the same time at a certain point we kind of realized that grant financing for businesses is not a terribly sustainable approach in the long term and it would be better to move towards a type of financing that could be a bit more sustainable in the form of debt or equity. In addition, the topic that Songbae brought up at the very beginning which is the question that there's really a missing population that is not involved in supporting nutrition but that could potentially be involved in supporting nutrition and that's the blended finance and impact investment community. By bringing them in, by creating a fund like this that can be attractive to them, we can really amplify the amount of funding that is available to nutrition in a way that we couldn't with just donor-based grant making projects that provided technical assistance, thanks.

## Songbae Lee

Thanks Stella and I am going to have one follow-up question from the attendees for you as well, from Melissa Earl. She asked “what assumptions and that was that's also key were made about demand for nutritious foods and how did that impact the creation of the theory of change?”

## Stella Nordhagen

That is a really crucial question because just by making food available does not mean that people are actually going to buy it and eat it especially since this is a market-based approach and people really need to put down their money to procure these foods. So, the first thing I'd say is that we don't have an assumption about demand that cuts across all products and all contexts, because demand is really something that's very specific to a given product within a given setting. But within the process of assessing a company and whether they have a viable business model, whether they have something that we would be willing to support, that question of “is there demand?” is something that is really going to be crucial for us to ask and to answer when we are making that assessment. And that critically includes the question of “is there demand at the price point that's being offered?” Because we want these foods to be affordable and we want them to be affordable not only to the highest income consumers within the local population but able to reach to some lower income consumers also. So, with every firm and every product, we will make that kind of assessment of “is this a viable business model? Do they have a market that they can reach? is the story that they're telling about the types of consumers that they can reach one that is plausible and is likely to hold?” In addition, there are some ways in which kind of the support provided by the N3F, in the form of technical assistance, can help to kind of solve this demand puzzle. Because there are certain foods out there whereby the low level of demand could be due to a lack of desirability, a lack of convenience, a lack of appropriate marketing of that product. A classic example would be legumes. They taste great, they are healthy for you, but they take a really long time to cook, they are not super convenient to make. If we have a firm that is pre-cooking legumes so that you can just pop them in a pot, add some sauce and have them ready to eat in five minutes, that can greatly increase the convenience and desirability factor and help to kind of close that demand gap. And some of what we can do through our investment technical assistance is to help to identify those types of opportunities and make it so that firms can seize them to create new market niches and to make firm make these foods more desirable and thereby increase their demand.

## Songbae Lee

Thank you Stella. I want to go over to you now Steve and I think I would like you to get a little bit more specific because I think you have some thoughts about the type of SMEs that the funds should target. I think on one hand we describe the range that they can do and even the definition of SMEs is broad. So within SMEs, are we more interested in the S or the M, the small or the medium? And then we also talked about the entire value chain, everything from production, processing, storage distribution. In your review, is there one of those parts of the value chain that is going to be more important for the fund to focus on.

## Steve Vosti

Yeah. In terms of the S and the M, I think it is pretty clear that the M is what the target is. The small-scale operations um are not going to be the ones that can kind of absorb the kinds of finance and the technical assistance and actually grow exponentially to actually use the N3F, and so I am guessing that this is not going to mom-and-pop activities but rather kind of established medium-sized firms that are going to be identified. Now, where along the value chain? These value chains are moving in, they are changing fairly quickly and there is lots of consolidation on some aspects at some points along the value chain in terms of product distributions, and even production is becoming more consolidated. And so it may well be that there are different, depending on the product, there will be different kind of emerging SME activities that will occur and will be attractive to the N3F crew. So, I think there is not going to be an easy answer to any of this and this is one of the things that theory of change got focused on. We

need a mechanism for actually screening these things and a mechanism that takes special care to look forward to not only what's going on right now, what is likely to happen in production, transportation and food processing. And the likely candidates, as Stella pointed out, are probably going to be in the food processing and distribution. That is really where scale economies can happen and that is often where it is easiest to actually make a nutritional contribution to these things. The truckers are not going to do anything and likely farmers will not either. So, it's really once it's in the hands of folks who are transforming these products, there is where the opportunity we believe will be for improving the nutritional content of these foods.

[Songbae Lee](#)

Thank you Steve and then a lot of questions came in more specific about the fund and Loic, I am hoping you are okay with me putting you on the spot. So first, I just want to make sure that we can hear you, Loic?

[Loic de Canniere](#)

Yes, can you hear me?

[Songbae Lee](#)

Okay, yes, we can hear you. Great! So there I hope you have some paper and pencil and I will give you a little list of some of the questions that came in that hopefully you can touch on. I will also preface by saying, because this is a fund that they are marketing, that there is limits to what they can share in a public setting like this but I think there are some general answers you would be able to give. The first question "is this fund going to be providing debt or equity? Secondly, what kind of size investments do you think that this fund will be targeting? Third, what is the risk of these type of investments? And I guess maybe you can put that relative to the other type of funds that you have that do microfinance more export crop oriented and lastly if you could talk a little bit about investors for this fund. Will this be the type of investors already in agri-SME lending with the focus on nutrition, is it nutrition-focused investors or is this brand new investors that we need to go out there and reach out to?

[Loic de Canniere](#)

All right, so Songbae, in terms of will it be a debt or an equity fund. It is a fund that will only do debt investments and it will include a substantial portion of junior debt to SMEs in Africa. So, not only senior debt but junior debt. The reason being that we also want to crowd in local banks and provide junior loans to local funding that is available. But our funding will be more long-term, will be higher amounts than the type of amounts they can obtain from local banks. Now, in terms of the size of transactions, we are talking about transactions between 300,000 and 3 million US Dollars. The total fund size, we will start with a rather modest fund size between 10 and 15 million but our ambition is to grow over time. It is not a closed-ended structure; it is an open-ended structure, to grow over time to 50 million.

In terms of risk, of course this is a high-risk fund. We are venturing into a new space and as you have been emphasizing during presentation, we will target local SMEs that are producing for domestic markets that are having revenues in local currency. We will also extend local currency loans to these SMEs. There is a substantial currency risk that is also a substantial credit risk, political risk of course combined. So, for us and in our family of funds, this would be a fund with a relatively high-risk profile, higher than we have done so far and that is also why it is an impact first fund. You can definitely qualify it as impact first funds. You had a fourth question, so the idea is to start with a number of founding DFIs and of course including the USAID, DFC, but also others. And over time, when the fund is launched, when we have reached a certain size, when we have deployed portfolio also that attract private investors, that's exactly what we have done with our fair-trade funds, where we were able to attract for instance the pension fund of a European farmers union, a Swiss asset manager who had created the fund for impacts, high net worth individuals foundations, that type of investors.

## Songbae Lee

Great, thank you Loic and I appreciate you letting us put you on the spot like that but I think that was very helpful and informative. I am going to answer one question that came in from Elizabeth Adams on how does the development program active in one of these target countries coordinate with the N3F, would they feed a pipeline of potential borrowers? And so, the short answer is YES. I mean, one reason that USAID is very interested in this program is because it works with existing partners and activities. Like GAIN is a longtime partner of USAID. We have other nutrition programs like AINFP, which works with food processors providing technical assistance, and of course, we would be interested in working with non- USAID supported programs who share the same development goals around increasing access to nutritious food through working with SMEs in Africa. So, I would say, you can reach out to me, we will be sharing these slides after the presentation along with the recording and we will share our contact information as well. And, I think we are at we are at five minutes left and so just to make sure we end on time, I think unfortunately we are going to end it there. I am going to make some quick closing remarks but again we will be sharing our contact information and so if you have follow-up questions, I am sorry if we did not get to all of them, we can try to follow up after the webinar.

So, in the end, just a couple concluding thoughts. The first one is why did we do this webinar? For me, it is really important that we get the word out about what we are doing. Like it has been mentioned by different speakers, this is something that is new and so we want to share with you our thinking and start the discussion and really importantly get your feedback. So, this is something that is very different in the space that we do not believe exists right now and so that goes to the second part. The second point I would like to end with is “why do I care about this so much?” My background is finance, I was hired for Ag and this is nutrition and my version of nutrition before working on this was a frozen pizza with vegetable toppings. So, this is part of my job description of course but I spend way more time on this than would be justified by my job description and that is because I really think this is the type of work exactly that USAID should be doing. Working with partner-experts in the field like Steve from UC Davis, like Stella from GAIN, and developing something that we believe has high impact but would not happen by itself even within the blended finance and impact investing space because we know that there are challenges. Well, like Stella mentioned, this is a space where the impact you can get is the biggest gap with the financing that is being dedicated to it right now. So, this is something that is a high priority for us, it is something we are really excited about and we really hope that you will continue to join us on this journey. So, thank you very much everyone, thank you to all the speakers. And Yaritza, I will turn it back over to you or Susan, I do not know if you have any other technical comments in closing.

## Yaritza Rodriguez

Thank you Songbae, yes, just one note that the webinar recording, the slides and additional answers to questions will be shared with everyone after today's webinar. But in closing, thank you again to all the speakers for joining us today and thank you to all the attendees for your thoughtful questions and participation. I will now go ahead and close the webinar, thanks again everyone and have a great rest of your day.

## Steve Vosti

Thanks everybody, nice job!

## Songbae Lee

Thank you.



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