

## Questions from the Q&A box

### *Innovative Financing through Food Systems to Improve Diets*

Virtual Webinar Event

10:00-11:00 a.m. EDT on July 1, 2021

**The following questions were asked as part of this webinar. While a number of questions were answered during the webinar, webinar panelists provided these responses to questions that were unanswered due to time limitations. Please refer to the [webinar recording](#) for answers provided during the webinar.**

**Q1:** What are examples of private sector (or agric investors) that could become interested to be supportive to nutrition-sensitive agriculture that benefit marginalised 'vulnerable' producers and have an impact on better diets.

**A1:** GAIN/Incofin will start with a number of founder-shareholders (mainly DFIs) and then - once we have reached a certain size - attract private investors. At Incofin, we have done the same with our Fairtrade Access Fund. We were able to attract a large Farmers' Union Pension Fund, Foundations, HNWI's and a Swiss Asset Manager.

**Q2:** How does a development program active in one of these target countries coordinate with the N3F? Would they feed a pipeline of potential borrowers?

**A2:** *[Answered during webinar.]*

**Q3:** Who is responsible for after investment monitoring? Does it include govt regulatory bodies?

**A3:** Monitoring of small- and medium-enterprise (SME) investments and activities will fall to [Nutritious Food Financing Facility](#) (N3F) partners (GAIN and Incofin), bringing in outside organizations as needed. There could be regulatory angles as well (e.g., labeling, product formulation) that might invoke government bodies, but most monitoring will be private, as the investment activities are private transactions. All investment decisions and technical assistance (TA) recommendations will be made in line with local government regulations.

**Q4:** What deal size is the fund targeting? and what company size (turnover in USD?) What is GAIN's role in identifying potential investees?

**A4:** *[Answered during webinar.]*

**Q5:** What is the dollar amount of the Fund? And what is the expected ROI for Incofin?

**A5:** This will be an open-ended fund seeking to invest USD 50-60 mil during the lifetime of the facility. That is just for the fund. The Technical Assistance Component will use another 10-15% of the fund's

size. Information on Incofin is not public at the moment. On the Fund's expected return: this is an impact-first fund with a modest overall USD return of 3%-4%.

**Q6:** Do you consider the way food is produced in terms of reducing harm to farmers and eaters in terms of pesticides and chemical fertilizers that damage soils and water quality by prioritizing agroecological production systems? Also how do you prioritize local species, especially in terms of neglected crops?

**A6:** Yes. The environmental dimension of the N3F impact audit will look at the firm's (e.g. SME) internal environmental policies, including topics like chemical usage and sustainable water use; GAIN will also consider whether they have processes to reduce resource use, cut carbon footprint, and use renewable energy. With regards to firms that produce local species / neglected crops or products based on them, such firms would be very welcome, assuming their products were highly nutritious (which many neglected species are) and be supported by a viable business model for reaching local consumers.

**Q7:** Are the investments primarily debt financing or are equity investments also included? If yes, what is the exit strategy? If debt, what is the expected range for defaults/bad debt?

**A7:** *[Answered during webinar.]*

**Q8:** What assumptions were made about demand for these nutritious foods and how did this impact the creation of your Theory of Change (TOC)?

**A8:** *[Answered during webinar.]*

**Q9:** What linkages will there be with Agriculture and Nutrition coordination structures in the process?

**A9:** There is not expected to be a formal coordination between the fund and existing in-country coordination structures, per se. There is likely coordination with Sun Business Network group(s) in-country, if present, particularly at the initiation of the fund. But because the purpose of the fund is to identify SMEs across local food systems that are in need of additional financial support, and are those that have potential to improve aspects of the local diet. As such, there is not necessarily a formal intent to link back to small holder farmers as a primary objective, though that is likely to be a secondary or tertiary outcome of some of the investments if those companies are viable and are able to scale locally.

**Q10:** Will there be environmental considerations for packaging? I'd love to see this work push the envelope of underutilized indigenous species and improve the supply of biodegradable packaging.

**A10:** Yes. The environmental dimension of the impact audit looks at the firm's (e.g. SMEs) internal environmental policies, including specifically whether the firm has a policy/program to reduce the use

of plastics and other packaging pollution. Monitoring indicators also track firm efforts at waste reduction and recycling, which would include through sustainable packaging.

**Q11:** The heterogeneity of investors was mentioned. Could you please elaborate further on the differences found in the investment community and in particular their risk tolerance levels.

**A11:** The differences we (e.g. GAIN/Incofin) have found between potential investors are significant, which is why we have developed a blended capital fund, to cater to these differences. The main organisations that GAIN has approached in the initial stages are those that have impact as a greater priority, such as private foundations, public development organisations, and Development Finance Institutions.

**Q12:** Where does a Farmer Organization or cooperative fit? Are they considered an SME and thereby also being linked to investments? Or are the SMEs mostly at the aggregation and processor level?

**A12:** Yes, if otherwise eligible based on both financial and impact-related criteria, a farmer organisation/cooperative would be eligible for funding. The expectation is however for most investments to be in the mid to latter stages of the value chain, due to both firm size and the existing gap in support provided to such firms.

**Q13:** Does N3F plan to influence customer behaviours (i.e willingness to pay) or is that expected to be addressed through individual SME marketing/promotions?

**A13:** Influencing consumer behaviour would take place at the level of the individual SME, through their product design, packaging, labelling, marketing, and promotion. The N3F technical assistance and funding could help the firm to undertake such activities.

**Q14:** What size of investment are you considering? How big does an SME need to be?

**A14:** *[Answered during webinar.]*

**Q15:** Is it correct to say that the specific approach to nutrition impact of N3F is to focus on getting more nutritious foods produced or marketed especially by SMEs, rather than strengthening access to finance for SMEs who, by virtue of their business model, can impact positively on nutrition more broadly (e.g. through the provision of technologies or services improving food quality or safety or shelf life and so forth)? If so, is this not a choice that in a sense limits the universe of investable opportunities and also makes investor interest likely to be more limited? Thanks.

**A15:** The primary focus and priority will be on firms that are directly involved with supplying nutritious foods -- e.g., as primary producers, processors, aggregators, handlers or retailers. However, the N3F will also consider investments in supporting services, such as cold chain services and other supporting technologies. These supporting services are essential for having functional value chains, but because

they are often supporting multiple foods and even non-food products, verifying their link to nutritious foods (and thus their potential impact) is more challenging.

**Q16:** What impact do we expect the facility to have on the agri-SME funding landscape - longer term (beyond the life of the facility)? How are we thinking about the role of local financing partners and actors e.g. banks, state-led de-risking initiatives; and how do we expect the facility to influence - if at all - the SME-financing policy in the target countries?

**A16:** GAIN hopes that the N3F will be a catalysis for more nutrition-focused impact investing. Beyond the life of the facility, GAIN hopes the metrics, findings and learnings will give a guidemap to investors of how to source, identify and measure the nutritional impact of agri-food investments. A key component of the facility is our Measurement, Evaluation and Learning (MEL) programme that will cover all the M&E activities of the fund. Once the facility is up and running and the first round of metrics have been created, GAIN hopes to work with international and domestic service providers (including commercial banks if possible) to help them identify the SMEs with positive nutritional impact and assess their business needs in terms of the financing they require to grow and expand.

**Q17:** Is the fund open for application and how do SMEs apply for funding?

**A17:** The fund has not been launched yet, but the pipeline development work is underway to identify potential investees. The focus has been on both GAIN and Incofin's networks and working through partner organisations such as the United Nations World Food Programme to identify SMEs. GAIN has also carried out scoping exercises to identify investees and presented on different forums attended by SMEs. If you know of potential investees, please reach out to me at [gquiros@gainhealth.org](mailto:gquiros@gainhealth.org)

**Q18:** How much of the \$60M has been sourced so far? When do you expect to start making investments? Will it be in local currency or hard currency (US or Euro)?

**A18:** GAIN is currently fundraising and therefore the exact amount that has been sourced so far is not publicly available. The expected time frame to start making investments is towards the end of this year and have our formal launch in September 2021. The investments will be available in local currency for all investees, given the emphasis on domestic markets. GAIN is fundraising for a currency hedge facility to mitigate the risk and costs of lending in domestic currency.

**Q19:** What if this competes with the informal sector and kills their small businesses? Like marketeers?

**A19:** Good question. Among the many potential indirect effects are some that are positive (crowding in of additional finance, etc.) and others that are negative (crowding out like this). These are very competitive markets, and N3F investments are likely to change competitive forces in ways that could affect other producers, retailers and consumers. However, it is important to note that informal sector businesses and SMEs are not necessarily in competition: informal sector businesses often depend on SMEs either before or after them in the value chain. For example, a smallholder farmer might sell to

an SME aggregator or processor, and products processed by an SME might end up being retailed by an informal retailer. Thus, strengthening SMEs can also help to support the informal sector.

**Q20:** To what extent do you expect COVID to be a hindrance to impact for N3F? In what ways are you working around this?

**A20:** COVID has certainly brought challenges for the launch of the N3F, particularly in terms of building a pipeline of viable investable firms and in bringing attention to the topic amid so many other pressing concerns. At the same time, COVID has also highlighted many of the weaknesses in global and local supply chains and, for many, emphasized the importance of strengthening local food systems. It is thus both a challenge and an opportunity.