BLENDED FINANCE

A NEW AND PROMISING APPROACH TO UNLEASH PRIVATE INVESTMENTS IN NUTRITIOUS FOOD VALUE CHAINS IN FRONTIER MARKETS

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Global Alliance for Improved Nutrition

ABOUT GAIN

The Global Alliance for Improved Nutrition (GAIN) is a Swiss-based foundation launched at the UN in 2002 to tackle the human suffering caused by malnutrition. Working with governments, businesses and civil society, we aim to transform food systems so that they deliver more nutritious food for all people, especially the most vulnerable.

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SUMMARY

Small and medium-sized enterprises (SMEs) are central to low- and middle-income country (LMIC) food systems and have the potential to increase local accessibility (availability and affordability) of nutritious and safe foods. However, lack of access to finance is often a major constraint on the growth of food system SMEs. This paper argues that private capital has considerable potential to fill this financing gap and discusses promising approaches – particularly blended finance – to unlock more investment in and technical support to SMEs working in nutritious food value chains.

First, we summarise the challenges with investing in SMEs within nutritious food value chains and why traditional financing models are unlikely to meet the sector's needs. Next, we discuss different financing models, highlighting blended finance as a promising approach that uses capital from mission-driven investors to mitigate risk and thereby attract more commercial investment in food system SMEs. Capital made available via blended finance mechanisms—combined with technical assistance—has been enabling other sectors to improve impact. It could also help food system SMEs provide more safe and nutritious foods to consumers who need them most. Third, we demonstrate that existing food and agriculture funds rarely target improved nutrition. Finally, we note key actions that need to be undertaken in order to make blended finance for SMEs in nutritious food value chains more common, including creating clear parameters of nutritious foods as an investment 'theme' and metrics to assess the potential impact of investments. We hope that this paper challenges the nutrition community to engage with the financing sector to further explore and develop options for financing to improve nutrition and help define and validate appropriate definitions and metrics.

KEY MESSAGES

- With greater access to financing and technical support, SMEs—which produce the bulk of food consumed in LMICs—can play a larger role in increasing the availability and affordability of safe, nutritious foods.
- However, there is currently a large gap in funding available to support SMEs in nutritious food value chains.
- The growing field of blended finance represents a significant opportunity to leverage public and private financing to incentivise and support these companies to provide more nutritious foods.
- Attracting investors to blended finance mechanisms requires: making the case that nutritious food is a compelling theme for investment; identifying viable investment opportunities with SMEs in nutritious food value chains; and developing metrics that allow investors to select the right SMEs and track the social impact of their investments.

BACKGROUND AND OBJECTIVE

In launching the 2019 progress review of the Sustainable Development Goals (SDGs), United Nations Secretary-General António Guterres stated, 'It is abundantly clear that a much deeper, faster, and more ambitious response is needed to unleash the social and economic transformation needed to achieve our 2030 goals' (1). This is especially true for the SDGs on nutrition: after years of declines, the number and percentage of undernourished people in the world rose from 2014 to 2017. Child stunting rates have fallen, but not fast enough to meet goals (1). Progress addressing anaemia and underweight in women has been slow (2). Meanwhile, the prevalence of overweight is increasing in all age groups (2). No country is on track to meet all three global nutrition targets by the 2025 deadline (2). These trends are worrying, as both undernutrition and overweight/obesity have serious negative consequences for health and wellbeing (3). Indeed, poor diets are responsible for more deaths than any other risk factor (4).

A major underlying cause of this slow progress is that nutritious, safe foods are unavailable or unaffordable to many people worldwide, particularly the poorest. Whilst many factors underly malnutrition – e.g, illness, poor sanitation, and poverty (5) – adequate intake of safe and nutritious food is a prerequisite for a well-nourished population. Food systems – the activities, people, and institutions involved in the production, processing, marketing, consumption, and disposal of food (6) – determine the availability, affordability, convenience, and desirability of food, in turn shaping individuals' diets. Private-sector companies and markets are critically important elements of food systems; even agricultural households in low- and middle-income countries (LMICs) depend heavily on markets to purchase food (7). These food systems are becoming increasingly complex and dependent on longer supply chains, with greater levels of processing, packaging, and marketing (7,8). This transformation creates challenges for nutrition (9,10)—such as the fact that heavily processed non-nutritious foods are often available more cheaply than more nutritious options (11). However, these changes also present opportunities for private-sector actors to drive improvements in diets. This is particularly true for small and medium-sized enterprises (SMEs)[1], which deliver most of the food consumed in LMICs (12).

Improving access to safe and nutritious foods in LMICs requires enabling SMEs to bring such products to market, in a financially viable way and in forms that are appealing and affordable to consumers. To do so, SMEs need appropriate financing and technical assistance. This paper argues that private capital has considerable potential to fill this financing gap and that so-called 'blended finance' is a particularly promising approach for unlocking more investment in SMEs in nutritious food value chains.

We first examine the challenges of financing food system SMEs, explaining why they have been largely overlooked by commercial investors. We then introduce various mechanisms for supporting SMEs better in the future, identifying blended finance as particularly promising. We explain how current funds focused on food and agriculture do not adequately support nutritious foods. Finally, we suggest actions for advancing such financing in the future, with

[1] GAIN uses the International Finance Corporation definition of SMEs, which is based on sales, assets, and number of employees.

the goal of supporting SMEs to help improve access to safe and nutritious foods in LMICs. Key financial terms used in the paper are defined in Appendix 1.

THE ROLE OF SMEs IN INCREASING NUTRITIOUS FOOD ACCESSIBILITY

Food system actors include not only the smallholder farmers (and fishers, and herders) who manage approximately 75% of global agricultural land (13) but also companies that are active at all stages of the food supply chain.[2] Each of these segments offers an opportunity to promote investments that can make food systems more supporting of nutrition, as shown in Figure 1.

	INPUT PROVISION	PRODUCTION	POST-HARVEST STORAGE AND HANDLING	PROCESSING, PACKAGING	DISTRIBUTION	MARKETING AND RETAIL
BUSINESSES INVOLVED	• Suppliers of seeds, fingerlings, chicks, young livestock • Irrigation services and technologies • Ag. equipment	• Farmers, ranchers, fishers	• Farmers, ranchers, fishers • Cold chain services • Storage providers • Warehousing services	• Processors • Ingredients suppliers • Packaging suppliers	• Wholesalers • Transporters • Cold chain services	• Supermarkets, small shops, wet markets, street sellers • Prepared food vendors, restaurants
POSSIBLE RESULTS OF FINANCING	• Use of biofortified seed, improved breeds, nutrient-dense varieties • Increased productivity	• Increased use of recommended practices • Increased production and efficiency • Reduced loss	• Reduced post-harvest losses (in quality and quantity) • Reduced contamination	• Better product formulation • Clearer labelling • More fortification • Longer shelf lives • Less contamination • Package resizing	• Expanded reach to underserved areas • Reduced losses (in quality and quantity) • Reduced contamination	• Expanded reach to underserved areas • More nutritious product mix • Less contamination • Consumer education
FOOD SYSTEM IMPACT POTENTIAL	• Improved food availability and diversity • Increased supply of micronutrients	• Improved food availability, diversity, and affordability	• Improved food availability and affordability • Increased food safety	• Increased affordability, desirability, food safety, and convenience • Improved nutritional content of food	• Increased food access, affordability • Improved food safety	• Increased food access, fewer 'food deserts' • Increased food desirability and convenience • Improved food safety

Figure 1: Business Involvement in Food Value Chains and Support Opportunities Source: Adapted from GAIN-ISF Advisors documents.

SMEs are major players in the food system, providing most of the food consumed worldwide.

In particular, SMEs are major players in the food system, providing the majority of the food consumed worldwide (12,14). Small, informal vendors are highly prevalent within food supply chains in LMICs and are particularly important for low-income consumers (7,15–17). SMEs also make large contributions to economic growth and employment. According to 2010 estimates, there are about 30 million formal SMEs in LMICs, plus over 300 million informal enterprises, and they contribute up to 45% of total employment and 33% of GDP (18).[3]

[2] Large, often multinational corporations also play a large role in food systems worldwide. However, they have less difficulty accessing finance—indeed, 36 of the Fortune 500 are food and beverage companies. As such, the needs of large companies are not addressed here.

[3] This is likely a considerable under-estimate, as it does not include companies that operate informally; in East Africa, for example, it is estimated that SMEs (formal and informal) employ 50-80% of the workforce (19).

FINANCING CHALLENGES FACING SMEs

Among 9 million SMEs, there is an unmet financing need of USD 4.5 trillion per year.

Despite these significant roles, food-sector SMEs face numerous challenges when trying to enter new sectors or grow their companies. Financing is typically the largest barrier for SMEs in all sectors. The International Finance Corporation, using World Bank Enterprise Survey data from 133 LMICs, estimates that among 9 million SMEs, there is an unmet financing need of USD 4.5 trillion per year (20). This constitutes a particularly large barrier for companies in the global South, as shown in Figure 2, which depicts how SMEs in each country rank financing amongst their constraints on growth: in those countries in darkest red, financing is a more important constraint. SMEs are much less likely to have access to finance than larger companies (18), and about half of formal SMEs in LMICs do not have access to needed formal loans or overdrafts.[4] While these figures refer to all sectors, there is no reason to believe that finance is less of a constraint in the nutritious foods sector.

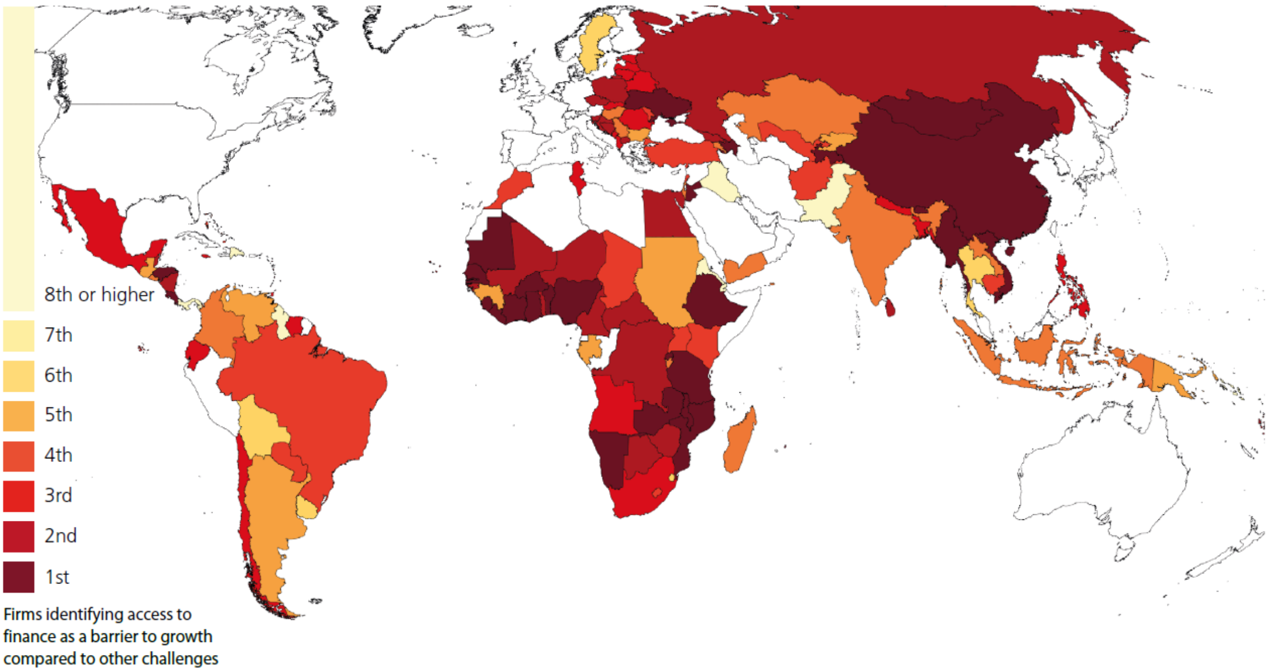

Figure 2: Access to Finance as a Barrier to Growth for companies. Source: World Bank Group Enterprise Surveys (28).

There are many reasons for this financing gap. SMEs in LMICs are seen as challenging to finance due to modest funding needs, limited collateral, short credit histories, unreliable financial accounts, and uncertain growth prospects—all of which increase risk and lower potential returns for investors (29,30). Investing in LMICs is also perceived by investors as risky due to poor infrastructure, low trade capacity, weak legal regimes, political instability, and civil unrest (31–34). For SMEs in agriculture, there is additional real and perceived risk due to historic low productivity and thin profit margins, as well as exposure to climate shocks and changes (34,35).

[4] This financing gap tends to be particularly large for women entrepreneurs (21–24,24–27).

Local banks typically finance larger, more established companies (19) whilst most international investors are unable to finance individual companies with modest funding needs due to the high transaction costs (including due-diligence costs) entailed. International investors that do finance smaller companies focus on those that produce foods for export (36), partly in order to manage their currency risk.[5] For SMEs, banks may be unwilling to offer the long-term loans required to fuel growth and may offer unattractive terms, such as high interest rates (29). Access to financing is particularly difficult for the 'missing middle': companies that are too big for microfinance but too small (and perceived as too risky) to access traditional financing from banks and lacking the growth and return potential sought by venture capitalists (19,37,38). Donors and official development assistance (ODA), meanwhile, have primarily focused their limited nutrition funding on interventions that seek to address specific nutritional deficiencies (e.g, through supplementation, fortification, and other so-called 'nutrition-specific' interventions (37)). Agriculture development assistance has focussed primarily on food security (i.e, main staple foods). Thus ODA has done little to date to improve access to more nutrient-dense foods needed as part of a diverse diet (2). This combination of factors leaves SMEs producing nutritious foods for the local market almost entirely excluded from financing mechanisms.

This financing gap has consequences for food systems: credit is important for growth, especially for small enterprises (31,33). Lack of access to financing could limit an SME's ability to improve the quality and nutritional value of its products (28,38). The limited number of companies (largely SMEs) bringing nutritious foods, such as fruits and vegetables, to market contributes to higher prices (39), and reduced innovation limits the diversity of foods offered and their convenience and desirability to consumers. For companies that already produce nutritious foods, appropriate financing could support them to increase operational efficiency, improve product quality, increase convenience, ensure food safety, and expand their reach to vulnerable populations. For companies that are producing foods that have the potential to be more nutritious, conditional investment combined with technical assistance could help them add more nutritious products or reformulate existing ones. Such improvements could lead to greater production efficiencies or new product niches—and with them, larger margins. This, in turn, could allow companies to reduce prices and expand their outreach to lower-income consumers, their geographical reach, or their number of nutritious product lines.

NEW MODELS FOR FINANCING SMEs IN NUTRITIOUS FOOD VALUE CHAINS

The challenges and opportunities represented by food system SMEs motivate a need to look beyond traditional donors and financing mechanisms. Private investors control hundreds of billions of dollars that could be mobilised to close the SME financing gap and help address the pressing challenges facing food systems (40). An estimated USD 200 trillion in private capital is invested in global financial markets (19), and private capital flows to developing

[5] Local currency depreciation is a significant risk in frontier markets. International investors invest using 'hard' currency, usually US dollars, and need to achieve returns in that currency, so they prefer to focus on companies that serve primarily export markets and are therefore less exposed to local currency fluctuations.

countries are both larger than ODA and growing at a faster rate—approximately 20% a year since 2008 (34).

There is an estimated USD 165-255 billion to be made in meeting the increasing food requirements of those emerging out of extreme poverty.

There is an urgent need to tap into these resources and make nutritious food an investment theme moving forward. To date, similar financing challenges faced by other sectors in LMICs have started to be addressed by blended finance mechanisms, with energy, banking, mining, and communications receiving the largest share of resources (41). Food value chains in LMICs, including SMEs, are a promising arena for investment: food and agriculture represents 10% of global consumer spending (42) and employs one third of the world's population (43). There is an estimated USD 165-255 billion to be made in meeting the increasing food requirements of those emerging out of extreme poverty (44), and LMIC markets offer investors young and growing populations as well as portfolio diversification (45).

There are three main reasons why commercial investments in SMEs in nutritious food value chains in LMICs have not materialised: (1) a lack of investment mechanisms that can lower the risk associated with such investments; (2) no clear definitions and metrics that present nutritious foods as a compelling theme for investment and allow investors to track the social benefits of their investments; and (3) an absence of organisations that identify and broker investable deals[6] with SMEs in nutritious food value chains. The next sections consider these challenges, discussing potential solutions. Key financial terms used (in bold) are defined in Appendix 1.

OPTIONS FOR CATALYSING RELEVANT INVESTMENTS

Several financing mechanisms already exist for SMEs, but they are largely concentrated in developed markets. Early-stage companies in developed markets typically seek investment through **venture capital (VC).** VC enables companies with limited assets, capital, or history to gain financing before being able to raise capital in public markets. **Private equity (PE)** and private debt investment firms usually finance more mature companies that are looking to expand prior to accessing public markets. VC and PE funds have numerous advantages: they typically bring decades of experience undertaking financial due-diligence and growing companies to become efficient and sustainable. Many also aim at **socially responsible investing**, which is increasingly demanded by investors (46).

In general, however, SMEs in LMICs are not strong candidates as investment targets for VC and PE funds for the reasons named above – particularly the high risk, potential lower returns, and relatively small amounts of capital involved. VC and PE firms are heavily weighted to

[6] An investment deal can be defined as an agreement to invest money in a given company, as detailed in a contract stating the rights and responsibilities of the two parties to the investment.

developed markets and typically seek higher returns than those that could be offered by SMEs in LMICs.[7]

Instead, more viable funding sources may be found among those with an explicit mandate of channelling investment to countries and sectors with higher risks. This could include **development finance institutions (DFIs),**[8] which usually benefit from large bases of capital from national or international development funds and may also have government guarantees to ensure their credit-worthiness. They have a higher risk tolerance than commercial investors and typically invest in projects that are unable to obtain funds from traditional commercial lenders (47). Although some DFIs do make direct investments in food and agriculture in **emerging and frontier markets**, they tend to target larger companies and do not focus on nutrition. Further, when they target SMEs, it is typically through investment funds. We believe DFIs have the potential to become more active players in the future by investing in blended finance mechanisms, discussed below, that target SMEs in nutritious food value chains.

Impact investors and funds are another group likely to help unlock financing for nutritious foods, as they may be more willing to accept higher levels of risk in exchange for having positive impacts on social goals. As first-movers, their **catalytic capital** could create a track record of investment success for others to follow, thereby serving to attract more private and eventually commercial investments over time (36). Impact fund managers typically have considerable financial acumen, extensive experience working in emerging or frontier markets, and seek to make investments that will deliver a financial return (as well as a social one). They thus maintain high standards for the financial viability of their investee companies, perhaps paying more attention to these aspects than development donors. This diligence could help ensure that investees develop viable business plans and align to best practices in accounting and reporting. Impact investing has grown rapidly in recent years, now encompassing over 8,000 deals, representing USD 200 billion in total assets (48). However, the agriculture and food sector has represented only 6% of total impact investments to date, as other sectors such as energy and financial inclusion are seen as more compelling themes and deemed less risky for investors.

Impact investing now encompasses over 8,000 deals, representing USD 200 billion in total assets. However, the agriculture and food sector has represented only 6% of total impact investments to date.

[7] As an example, top-tier PE firms Carlyle and Blackstone both have Sub-Saharan Africa-dedicated funds, but these focus mainly on investing in large energy and infrastructure companies.

[8] DFIs include the African Development Bank, European Bank for Reconstruction and Development, Netherlands Development Finance Company, US Overseas Private Investment Corporation, France's Proparco, and the UK's CDC Group.

BLENDED FINANCE AS A SOLUTION FOR CATALYSING INVESTMENT

Indeed, given their small size, modest financing requirements, and exposure to the climate risks inherent in agriculture as well as political and currency risks, food-system SMEs in LMICs may be too risky even for impact investors without a mechanism that can help de-risk the investments, such as by absorbing some losses or providing repayment guarantees (29).

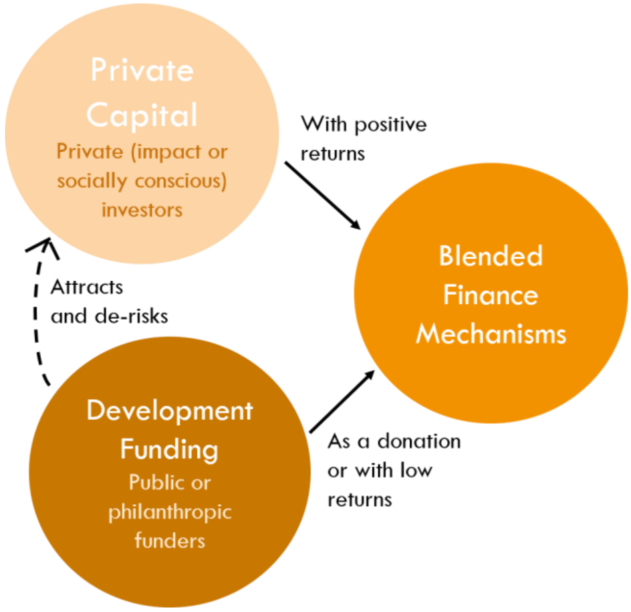

Figure 3: Blended Finance Mechanisms
Adapted from (55)

Blended finance benefits from bringing together these groups with complementary goals: donors are interested in improving nutrition and do not need to make a return on their investment but have limited funds; DFIs have a mandate that allows them higher risk-tolerance; private investors have capital, and may have social goals, but are hesitant about risk. Through blended finance, as illustrated in Fig. 3, development funding can be used to de-risk investments in projects expected to have a positive social impact through first-loss capital (i.e., funding to cover losses from investments) or other guarantees, insurance policies, or securitisation (34). Blended finance can also entail direct investment (either via **debt** or **equity**) in target enterprises, usually using concessional loans or grants, or **tranched financing** that allows other investors to realise higher returns (34). These mechanisms mitigate risk to effectively subsidise the returns offered to private-sector investors, making the investment more attractive to them—and thereby pulling in more capital than could be provided by the development funder alone. Blended finance can also entail results-based financing, such as social impact bonds, in which financing is used as an incentive to guide investee behaviour (34,50). By demonstrating the viability of the sector in question, blended finance arrangements aim to attract more commercially driven investors to the space, eventually making it feasible to reduce or phase-out the concessional element (i.e, the public finance) (45).[9] Blended finance has mobilised about USD 100 billion to date (19), with at least 300 closed blended finance transactions in 2017 (52), and is proposed as a promising solution for both the agriculture and health sectors in LMICs (34,53).

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In addition to the ability to mobilise investment capital, blended finance approaches in LMICs can help spread good practices for investment such as environmental, social, and governance standards for company operations, which are now widely adopted in high-income markets. It can build local capacity for investment and finance

[9] Similar to first-loss capital, though usually at the scale of a company instead of a fund, are **loan guarantees**. These can be used to alleviate SMEs' lack of collateral and perceived risk but are underutilised in many LMICs (51).

by partnering with local banks and sharing knowledge, and it can improve terms for borrowers in LMICs by setting an example or by leveraging the investors' collective bargaining power (50). The development actors within blended finance arrangements can also use their influence and other activities to help improve the investment climate in the target market (50).

Another appeal of blended finance is that it can entail more than just money: blended finance mechanisms often include grant-funded technical assistance or business-development services to help the target companies succeed and scale their operations, improve the quality of their products, strengthen their social impact, and reduce investment risk (19,29,54,55). As SME owners may not be familiar with nutrition concepts, such technical assistance services would be important for supporting SMEs in nutritious food value chains and could focus on improving foods' nutritional content and addressing technical barriers, such as food safety issues or post-harvest loss and food waste.

NUTRITIOUS FOODS AS AN INVESTMENT THEME: DEFINING SCOPE AND IMPACT METRICS

THE NEED FOR A SPECIFIC FOCUS ON NUTRITIOUS FOODS

Blended finance thus appears to be a highly promising option—perhaps to be used alongside impact investing as a source of the private capital—to support SMEs in nutritious food value chains that are otherwise too risky or new for most investors. However, as summarised in Box 1, there has to date been limited focus of blended finance on nutritious foods. The industries that receive the bulk of blended finance are infrastructure, energy, and banking/financial services (55)—indeed, a full 24% of blended finance transactions are in renewable energy (52). Agriculture funds exist and are growing (29,56), but such investments account for only 3% of the capital mobilised from 2000 to 2016 (34).

Agriculture funds exist and are growing (29,56), but such investments account for only 3% of the capital mobilised from 2000 to 2016.

Moreover, the majority of food and agriculture funds do not focus on nutritious foods (36,57). A recent analysis of such funds in sub-Saharan Africa found that few had an explicit nutrition impact mandate, none had clear definitions of how they determined what foods were 'nutritious', and some invested in foods of questionable nutritional value and/or targeted at high-income populations or export markets (36). Only 6% of their investments are invested in Asia-Pacific, and 4% in Africa (57). The SMEs that receive most of the funding are primarily involved in production of non-nutritious foods. For example, almost 60% of the financing provided by the Council on Smallholder Finance, a consortium lending to support smallholder farmers in LMICs, goes into the coffee and cocoa supply chains (58,59). Impact investments in cereals and grains in Sub-Saharan Africa heavily outweigh those in nutrient-dense fruits, vegetables, legumes, nuts, or fish (36). Those funds that specifically target nutrient-rich foods, such as nuts, tend to focus heavily on export commodities, not local markets (36). Indeed, the two dedicated funds for nutrition that exist, run by Blackrock and Pictet, focus on investment in large public (exchange-traded) corporations in the US and Europe, with unclear criteria for defining why an investment contributes to nutrition and no impact mandate (52). Not having a clear target of 'nutritious' foods is particularly problematic for commercial investment because non-nutritious foods are often more profitable than nutritious ones, as they tend to have longer shelf lives and use cheaper ingredients, making supply chains simpler and margins higher; profit-seeking behaviours can thus lead investors and investees to focus on these products instead of more nutritious ones.

BOX 1. THE NEED FOR DEFINING NUTRITIOUS FOOD VALUE CHAINS AS AN INVESTMENT THEME

- Only 10% of impact investment assets are allocated to sub-Saharan Africa and only 10% to food and agriculture.
- But between 2005-2013, the number of funds focused on food and agriculture investments increased from 38 to 446, with USD 73 billion managed.
- Moreover, 54% of impact investors identified strong interest in increasing exposure to food and agriculture.
- However, most funds lack an impact mandate or focus on sustainability or job creation—for example, over 50% of assets go to coffee and cocoa.
- Nutrition is not specifically targeted by any existing large fund.

Sources: (59,64,65,68)

The SMEs that receive most of the funding are primarily involved in production of non-nutritious foods. For example, almost 60% of the financing provided by the Council on Smallholder Finance goes into the coffee and cocoa supply chains.

Existing funds investing in food and agriculture also tend to stem from a historical focus on environmental sustainability within impact investing, leading them to emphasise sectors such as climate-smart agriculture, agroforestry, organic agriculture, and alternative proteins (35,36). Whilst nutrition and environmental challenges are intertwined and must be considered and addressed jointly (60), an environment-first focus may not always be appropriate in LMICs, where addressing malnutrition may require increasing levels of animal-source food consumption and where the threshold for food affordability is low. Investments in sustainable agriculture are thus unlikely to lead to improved nutrition unless a specific nutrition lens is applied, as well.

DEFINITIONS AND METRICS TO DELIMIT AN INVESTMENT THEME

The gap between agricultural investment and nutrition impact makes it clear that leveraging private capital and blended finance to support SMEs working in nutritious food value chains requires clearly defining what those are—in the terminology of impact investment, nutritious foods need to be recognised as an 'investment theme.' No sector can claim to be a viable target for impact investment and/or blended finance if it cannot clearly define its social goal and how progress to achieving that will be measured. Developing standard definitions for impact is recognised as a key step in growing blended finance (50), and Box 2 gives an example of how such definitions helped foster investment in another field. However, a 2019 study made it clear that investors and nutrition experts had unclear, inconsistent definitions of what 'investing in nutrition' would entail (36).

BOX 2. LEARNING FROM CLEAN ENERGY'S SUCCESS

In the early 2000s, environmentally focused philanthropists began blending their capital with investors to support renewable energy. Over time, this developed into a specific investment theme, supported by clear methods and metrics to compare climate impact and calculate CO_2 emissions. Increased awareness of the impacts of climate change encouraged the integration of environmental criteria into investment decisions, steering capital into the space. In November 2015, for example, Goldman Sachs (a multinational investment bank) committed to invest USD 150 billion in clean energy by 2025 (68). All of the increased investment (as well as technological advances) has resulted in a remarkable increase in global renewable energy production (68).

Classifying individual foods as nutritious is not easy for two main reasons. First, we are ultimately interested in individuals' overall diets, not specific foods alone. However, any individual food can only make a small contribution to a healthy diet, and what is needed to achieve a healthy diet varies by age, life stage, and activity level, among other factors. Second, the nutritional value of any food may be altered (improved or reduced) during processing. The same raw ingredient can be nutritious or not in its final form—for example, contrast a fresh apple with a small amount of dried apples added to a high-sugar breakfast cereal, or roasted unsalted hazelnuts compared to those blended into a highly processed, sweetened chocolate-nut spread. No single definition of 'nutritious' can capture this complexity.

Furthermore, acceptable nutritious foods vary across cultures, food choice can be a sensitive topic, and food safety adds another layer of complexity to consider. Similarly, a given company may be producing both nutritious and non-nutritious foods, with capital fungible across product lines. Taking this complexity into account, 'investing in nutrition' could include investing in product reformulation, supporting production of inherently nutritious foods, marketing campaigns on nutrition, supplements for the nutritionally vulnerable, food fortification, development of new seeds or novel cold-chain services, and much more. This lack of clarity makes nutritious foods an uncompelling investment theme and will need to be resolved to attract investors. This can be done by developing clear criteria to classify and prioritise (or exclude) foods and help guide investors.

Defining and measuring impact is also key and will require the creation of agreed-upon metrics and measurement approaches. Such metrics need to be rigorous and sensitive enough to capture changes in the availability, affordability, accessibility, and desirability and perhaps convenience of safe and nutritious foods – whilst reconciling the fact that investment is an intervention inherently far distal to the end consumer. Metrics must also be realistic and feasible: if reporting is too onerous, investees may be unable to comply or disincentivised to participate; if achieving impact on those indicators is too costly in terms of time or money, investors may be discouraged from involvement (50). Developing viable metrics will require balancing norms between the investment community (focused on company outputs) and the public health nutrition community (accustomed to identifying impacts within a population). Finally, metrics should also be harmonised (e.g, through the Global Impact Investing Network), to allow for sector-wide assessments of potential impact and to simplify investees' reporting (29).

Such metrics would set boundaries for investments in nutritious foods and help public donors justify their funding (29).[10] Using these metrics and definitions to better align nutritious food systems with environmentally friendly food systems – i.e, those that mitigate greenhouse gas emissions, retain biodiversity, and provide key ecosystem services – could help further attract funding, as energy and climate represent a large share of current blended finance (52). With such tools and practical definitions in hand, the nutrition community will be able to engage with impact investors and blended finance practitioners to present nutritious foods as a high-impact theme, critical to both human and planetary health. GAIN is currently undertaking work to develop relevant metrics and looks forward to collaborating with other organisations to bring them into widespread use.

NEW FACILITIES FOR IDENTIFYING AND INVESTING IN SMEs IN NUTRITIOUS FOOD VALUE CHAINS

The definitions and metrics discussed above to delimit SMEs in nutritious food value chains as a compelling theme for blended finance in LMICs should be complemented by platforms that identify appropriate investees, channel investment funding towards them, and direct them towards appropriate technical assistance. Indeed, there is a broad need in blended finance for platforms that can connect potential investors with investees (35).

There are a few blended finance mechanisms already established to support nutrition—see examples in Box 3. These initiatives fill important geographic or topical niches, but there are still large gaps in financing for SMEs in nutritious food value chains. One blended finance mechanism recently designed and potentially able to offer a demonstration effect is the Nutritious Foods Financing Facility (N3F): a novel, flexible platform that aims to demonstrate how investment in SMEs can increase the supply and consumption of safe and nutritious

[10] Such metrics could also be applied to public investments into public companies as part of the environmental, social, and governance process used to identify companies with best practices and those doing harm.

foods in Sub-Saharan Africa. The N3F is expected to begin making investments in late 2020 and will support target SMEs by bundling investments with technical assistance to improve financial performance, sustainability, and products' nutritional content. N3F will use donor funds for technical assistance and as first-loss catalytic capital to leverage a targeted USD 50 million of blended sources of capital, including private investment, which will be provided to SMEs as low-interest loans. N3F will target positive, but below-market, returns for impact investors, made possible by the de-risking provided by donors' contributions. Identification of eligible companies and measurement of impact potential will be done via nutrition-focused criteria and tools provided by GAIN.

Blended finance remains fairly new and, while it holds enormous promise, may also face challenges. For example, it may be difficult to engage commercial investors in such arrangements due to low awareness, poor coordination, high transaction and administrative costs, the need for bespoke deal structures, regulatory barriers, and misalignment of expectations between public and private investors (35,61). Blended finance may also have biases towards solutions with longer track records, such as infrastructure, instead of innovative opportunities and may not consider the food system in a holistic manner (34). Increasing the scale and effectiveness of blended finance across sectors (including nutritious foods) will require standardising requirements, reducing administrative costs, building capacity among funders, improving coordination, aggregating capital across development investors, using risk-mitigation tools effectively, and aligning expectations between private and public investors (34,35). No one fund can solve these issues immediately, and they can only be solved by identifying and addressing them in practice. The scale of capital that could potentially be unlocked through blended finance makes it worthwhile to begin tackling these challenges by developing new mechanisms, in the process creating useful tools that further advance the field.

BOX 3. EXAMPLES OF BLENDED FINANCING MECHANISMS FOR NUTRITION

GAIN Premix Facility

The GAIN Premix Facility (GPF), launched in 2009, helps producers and refiners of flour, oil, and salt purchase affordable, quality-certified vitamin and mineral premix and equipment to fortify products in line with national fortification programmes. Companies in LMICs often find it difficult to finance premix purchases: suppliers often require up-front payments for large purchases, but it can take up to two months for premix to be delivered and many more for it to be fully used in food processing—at which point the company recoups the cost. It can also be difficult for producers to undertake due diligence on premix suppliers. GPF addresses both issues by certifying premix suppliers using rigorous standards and offering a procurement facility for buyers to competitively source premix and micronutrients from these certified suppliers. It also offers a credit mechanism, which provides qualifying companies with interest-free credit for up to 120 days, allowing them to purchase premix whilst smoothing cash flows. Over ten years, the GPF has extended over USD 70 million in credit to buyers from 45 countries whilst maintaining a 1% default rate by intense default-risk monitoring. Funding to support the core operations of the GPF is provided by donors.

California FreshWorks

California FreshWorks is a loan and grant programme that provides financing to food enterprises working to increase access to affordable, healthy food in low-income and underserved communities in California, USA (62,63). It supports innovative ideas that are not investment-ready, with the aim of bringing nutritious food retailers to underserved communities that are considered 'food deserts' or lack affordable, fresh foods. It focuses on retailers offering fruits and vegetables, fresh proteins, and whole grains. California FreshWorks was founded by the California Endowment, which remains the anchor funder, and is supported by a combination of banks, impact investors, and private foundations through a tranched debt structure. To date, it has used USD 7.5 million in grants to provide the first-loss capital needed to leverage an additional USD 125 million, which has been provided as loans to investees. This model could be useful in other areas experiencing geographic inequalities in food access—a situation likely to be increasingly common as urbanisation increases in LMICs.

Africa Improved Foods Limited

In 2015, a joint venture by IFC, Royal DSM, the Dutch development bank FMO, and the UK CDC supported Africa Improved Foods Limited to establish a processing plant in Rwanda that will produce fortified blended foods for young children and pregnant and breastfeeding women using locally grown maize and soy. The project mitigated the high risks in the agricultural sector by using blended finance funding from the private-sector window of the Global Agriculture and Food Security Program, a donor fund managed by IFC. The investment was preceded by a programme providing financing and training to farmers' cooperatives to boost production in order to supply the processing plant. It thus aims to both support stable incomes for farmers and eventually feed an estimated one million malnourished children and pregnant and breast-feeding women each year. Though only one deal, not an ongoing mechanism, this example demonstrates the feasibility of using blended finance to improve nutrition through the private sector in LMICs (59).

CONCLUSIONS

In this paper, we have aimed to show the importance of increasing financing to SMEs – the companies that underpin the food systems of LMICs – to enable them to increase availability and affordability of safe and nutritious foods. We argued that much of that funding could come from private and commercial sources and given an overview of different non-grant-based financing options that could be used to fill that gap. In so doing, we focused on blended finance, the strategic use of development finance to unlock private capital, as a particularly promising avenue to ensure sustainability and reduce dependence on donor funding. Blended finance – while not a panacea – has many advantages, particularly in terms of its ability to leverage additional capital whilst mitigating risk.

We noted that blended finance is already working for other sectors but its support to nutritious foods in LMICs is almost non-existent. We presented some challenges to making it work in practice. These included the need for a facility to identify and broker relevant deals, better defining the scope for investing in SMEs in nutritious food value chains, and developing metrics to assess investments' potential impact on nutrition. The nutrition sector has a key role to play in moving that work forward by using its technical expertise to hold investors accountable for delivering on their social goals. Doing so will require engaging in new partnerships, learning new vocabularies, and recognising the importance of financing SMEs to deliver nutritious foods. As we look forward to the 2020 Nutrition for Growth Summit in Tokyo, we urge the nutrition community to consider new financing mechanisms, including but not limited to blended finance, to accelerate progress on reducing malnutrition worldwide.

APPENDIX: KEY TERMS

Emerging markets – Middle-income-country markets with some but not all characteristics of a developed market, usually undergoing institutional transformations and economic opening-up. Examples include China, Brazil, India, and South Africa.

Frontier markets – Low-to-middle-income-country markets that are too small, risky, or illiquid to be 'emerging' but still considered 'investable' (i.e, not among the most instable or lowest-income countries). Examples include Nigeria, Kenya, and Bangladesh.

Commercial investment – All forms of investment capital mobilised through for-profit commercial entities and seeking a market-rate return (62).

Private company – A company that is not listed on public stock exchanges and has private ownership; contrast with a public (or publicly listed) company, which is owned by shareholders and traded on public stock exchanges.

Debt financing – When investors support a company (public or private) by lending it money; the investors (creditors) provide cash in the form of loans and receive a promise from the company that the principal and interest on that debt will be repaid.

Equity financing – When investors support a company (public or private) by buying shares; the investors provide cash and in return receive a share of ownership in the company, which usually entails a share of future profits and a role in company decision-making.

Private equity – Funds and investors that directly invest in private companies, usually for long periods and in pursuit of financial returns, as opposed to social goals.

Venture capital – Private-equity financing provided to early-stage companies that have high growth or high growth potential, but also high risk; financing is usually given in exchange for an ownership stake in the investee company.

Socially responsible investing (SRI) – Investment strategies that consider social, development, and/or environmental benefits (or the avoidance of harms) in addition to financial returns.

Impact investing – A subset of SRI that involves investing (in companies, organisations, or impact funds) with the conscious intent to generate positive social and/or environmental impact alongside financial returns, which may be at or below market rate. Unlike other types of SRI that focus on avoiding harm, impact investing actively targets impact.

Blended finance – The use of development finance from the public or philanthropic sector (at market rates or on concessional terms) to mobilise additional private capital to make investments with social, development, and/or environmental benefits (45).

Catalytic capital – Grants, funding to absorb losses, or other types of concessionary capital provided by an investor or donor who agrees to bear additional risk in a SRI-driven investment in order to encourage the participation of additional investors that would otherwise not have been willing to bear the risk (63). Such capital usually comes from charitable foundations, DFIs, development donors, and high-net-worth individuals.

Development finance institution (DFI) – A specialised bilateral or multilateral development bank, usually majority owned by a national government, that invests on a non-commercial basis in private-sector projects with social goals in LMICs.

Tranched financing – Financing instruments that are split up by risk. Each portion, or 'tranche', is offered at the same time but with varying risks, rewards, and maturities to appeal to a diverse range of investors.

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