FREQUENTLY ASKED QUESTIONS ABOUT THE NUTRITIOUS FOODS FINANCING FACILITY (N3F) PROGRAMME

APRIL 2022

- The **Nutritious Foods Financing Facility (N3F) Programme** is a unique program developed by GAIN that aims to support SMEs that provide nutritious safe foods to local consumers in Sub-Saharan Africa. It includes an impact-first investment fund, technical assistance and a monitoring and learning component. In this document we elaborate upon some commonly asked questions about it.

GENERAL QUESTIONS ABOUT THE NUTRITIOUS FOODS FINANCING FACILITY (N3F) PROGRAMME

What are the different components that make up the Nutritious Foods Financing Facility (N3F) Programme?

The Nutritious Foods Financing Facility (N3F), a programme developed by the Global Alliance for Improved Nutrition (GAIN), includes three components. Firstly, there is the N3F Fund, an *impact-first fund* with consumer nutrition at its core and a blended finance structure, which will provide financing to small- and medium-enterprises (SMEs) providing safe and nutritious foods to local consumers in Sub-Saharan Africa. In addition to the Fund, the N3F programme will provide support beyond financing, through the additional components of t*echnical assistance* and *monitoring, assessment and learning*.

The Fund is managed by Incofin Investment Management (Incofin), with GAIN providing nutrition expertise. The two other components, technical assistance and monitoring, assessment, and learning are managed by GAIN.

The N3F fund is an 'impact first' fund, what does this mean?

An impact-first fund is an investment fund well-suited for investors who want to financially support enterprises or invest in funds that have high-impact potential, seeking social returns in addition to financial returns. Such funds often find it difficult to raise financing because they are either too early-stage or too risky, expected to generate only modest returns, or require a long investment time horizon.

Why set up an investment fund that is mainly focused on nutrition investment?

Existing food and agriculture funds rarely target improved operations of nutrition-focused enterprises, and there is no existing large fund that specifically or primarily targets food crops with a focus on nutritional quality[1]. Rather, existing funds often focus on export crops. Many of these crops have limited nutritional value (e.g. coffee) and are not meant for consumption by people in the lower-income countries where they are produced. With a primary focus on nutrition, the N3F fund thus fills a gap in impact investment. Proof of concept is needed to mobilize additional finance that specifically targets nutrition, by demonstrating that nutrition is investable and drawing lessons to catalyse future nutrition investments.

[1] Nordhagen, S, Condés, S, and Garret GS. Blended finance: A promising approach to unleash private investments in nutritious food value chains in frontier markets. Global Alliance for Improved Nutrition (GAIN). Discussion Paper Series #1. Geneva, Switzerland, 2019. DOI: https://doi.org/10.36072/dp.1

What is the value of the partnership between GAIN and Incofin in the N3F programme?

GAIN and Incofin provide a perfect combination of skills and expertise. On the one hand, GAIN brings nutrition expertise and significant presence in sub-Saharan Africa, having provided targeted technical assistance to over 134 SMEs across the food supply chain and convened and trained over 2,000 businesses in 7 countries between 2013 and 2019. Incofin, on the other hand, is a licensed investment fund manager, with over 20 years' experience in private debt and equity investment in emerging markets and 1 billion euros in assets under management.

N3F'S FUND STRUCTURE AND PIPELINE

What is the geographic focus of the N3F fund?

N3F focuses on small- and medium-enterprises in sub-Saharan Africa (SSA). This includes countries where GAIN has a presence - Tanzania, Kenya, Mozambique and Nigeria – as well as a range of other countries including Rwanda, Burkina Faso, Ivory Coast, Niger, Senegal, Benin, Uganda, Mali, and Ghana.

What criteria will be used for the selection of SMEs that will be part of the N3F's pipeline?

Work is ongoing to develop a promising pipeline of SMEs delivering nutritious safe foods. To define whether the criteria of nutritious and safe foods are met, we use a classification based on the GAIN's definition of nutritious and safe foods. By focusing on nutrition impact for local consumers, we focus on SMEs that provide nutritious safe foods for domestic or regional markets within Sub-Saharan Africa mainly, rather than for export outside SSA. We also examine non-nutrition-specific aspects of impact, such as gender equity and environmental sustainability. As the N3F Fund is a debt fund, we are looking at SMEs that are ready for scale and have unmet capital and technical assistance needs, with operational track-record and ability to repay a loan.

Does N3F provide financial services to SMEs in local currency or otherwise?

The N3F Fund will provide financing to SMEs mainly in local currency, evaluating each SME's ability to repay and not burdening the enterprise with having to repay increasing hard currency loan amounts negatively affected by depreciating local currencies.

What is the N3F's fund structure?

N3F proposes a blended finance structure, providing different capital tranches designed to accommodate for different risk profiles. Such a structure is intended to attract a variety of investors interested to contribute to the nutrition improvement agenda in Sub-Saharan Africa through an impact first investment strategy.

N3F'S REACH AND IMPACT

Why is it important that we support small and medium enterprises to produce nutritious safe foods for low-income consumers in domestic markets?

Small and medium enterprises are the backbone of many food systems and thereby a critical engine of transformation. In Africa, for example, they produce over 80% of animal-source foods, fruits and vegetables, while processing or handling about 65% of food in later stages of the value chain. For low-income consumers SMEs are particularly essential for ensuring access to nutritious, safe foods. Despite their importance, SMEs face significant barriers in obtaining financing and about half of the formal SMEs in low- and middle-income countries do not have access to needed formal loans or overdrafts[2].

How many SMEs does the N3F aim to support?

Depending on the final size of the Fund as well as the average loan size (which will be based on firms' needs and capacity), the N3F aims to support 50-60 SMEs operating in the nutritious safe foods value chain in Sub-Saharan Africa.

What additional support beyond the Fund's support will the N3F provide to SMEs?

Provision of *technical assistance* will focus on 1) general business management practices, to support SMEs to becoming more efficient and financially sustainable, such as business planning and strategy development; and 2) nutrition and food safety, such as product formulation and labelling. Through 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.

How will the N3F's experience stimulate other investors to make nutrition-sensitive investments?

The N3F aims to demonstrate that financing nutritious safe foods through SMEs works and can be scaled sustainably. One barrier to nutrition-sensitive investment happening at present is that investors lack agreed-upon metrics that define nutrition as an investment theme. The N3F will help address this by developing and validating metrics for targeting nutrition-sensitive investments.

Where does N3F fit into rethinking about how to reach and strengthen nutritious food systems via innovative financing?

There is increased awareness across the development finance sector that it is not serving the SME food sector in general, or the policy priorities of many governments to improve diet quality for their populations in particular. N3F is a pathfinder to demonstrate that investment in nutritious safe foods is workable, measurable and profitable. As such its methods of developing the investment pipeline, applying rigorous nutrition metrics, and mobilising finance will provide evidence and be a catalyst for action by financial institutions and governments to reform lending and investment models in support of SDG2.

[2] Nordhagen, S, Condés, S, and Garret GS. Blended finance: A promising approach to unleash private investments in nutritious food value chains in frontier markets. Global Alliance for Improved Nutrition (GAIN). Discussion Paper Series #1. Geneva, Switzerland, 2019. DOI: https://doi.org/10.36072/dp.1