Fueling the Business of Nutrition: What will it take to attract more commercial investment into nutritious food value chains?

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The Need for Commercial Investment in Nutritious Food Value Chains

One in every three people around the world today is malnourished, imposing a heavy burden on those individuals, their families, and their societies.

While malnutrition was once narrowly framed as a public health problem, more attention is now being paid to influencing food systems and their role in what consumers eat, as a key part of the solution. In this regard, a number of factors make it hard for consumers to eat sufficient quantities of diverse, nutritious foods. For example:

- Nearly half of all fruits and vegetables produced worldwide currently spoil before they can be consumed, reducing supply and increasing prices.
- Processed foods high in calories, sugars, salt, and harmful fats are cheaper and more convenient than healthier options.
- The food system is also struggling to respond to increasing demand for nutritious food in the face of population growth and natural resource constraints.

In many developing and emerging markets, these challenges present opportunities for businesses, especially small and medium enterprises (SMEs), who along with smallholder farmers, make up the bulk of the food system and have critical roles to play in delivering more nutritious and safe options to consumers. But these SMEs struggle to attract financing.

As investment into the food and agriculture sector grows, there is an opportunity to attract more of these flows into companies that improve access to nutritious and safe foods in developing and emerging markets – including the SMEs that currently struggle the most to obtain it. Filling the gap is likely to require different combinations of donor money and commercial financing, from sources including domestic and international venture capital and private equity funds, commercial lenders, pension funds, sovereign wealth funds, and the capital markets.

To attract commercial investment flows into nutritious food value chains that reach low-income consumers in developing and emerging markets, three building blocks must be in place:

- A clear understanding of the opportunity space, including a definition of “nutritious and safe foods” and a mapping of relevant companies across the value chain;
- Innovative approaches to investment, including harnessing diverse financial instruments, bundling different sources of financing, and applying technical assistance and business development services alongside investment capital;
- An enabling environment, which encompasses consumer demand, supportive public policy, and basic infrastructure.

These building blocks need to be tackled in concert, with a strong role for donors to enhance investor incentives and for ‘system leadership’ to align the efforts of all stakeholders to accelerate the process.
Putting the Building Blocks in Place to Attract More Commercial Investment into SMEs that Improve Access to Nutritious and Safe Foods

Ultimately, the three building blocks are about connecting demand for investment with supply, and a number of actions could be taken to put them in place.

BUILDING A CLEAR UNDERSTANDING OF THE OPPORTUNITY SPACE

- Develop an investor-friendly “nutritious food value chain” framework to identify and categorize companies that are already improving or poised to improve access to nutritious and safe foods. This is critical to defining the opportunity space and answering the first question that most investors will have: “What kinds of companies are we talking about?” This could involve deepening and refining Figure 3 above, using a minimum of technical nutrition or development language.

- Generate market intelligence to interest and inform investors, helping to harness existing investment flows and unlock new ones. This could include information about market conditions and trends in particular sub-sectors along nutritious food value chains, as well as information identifying specific companies. Country platforms like those in the New Vision for Agriculture network and the SUN Business Network could contribute to this research, help communicate the results, and connect companies with investors.

*Technical Assistance and Business Development Services
INCREASING INNOVATIVE APPROACHES TO INVESTMENT IN NUTRITIOUS FOOD VALUE CHAINS

- Develop standard indicators and metrics for assessing companies’ contributions to nutrition. These would help donors justify investing their nutrition dollars in TA, BDS, and blended finance, as opposed to traditional public sector approaches to nutrition, and enable them to compare investments across companies. At the same time, it would streamline monitoring and reporting requirements for investors and their portfolio companies, which will have limited resources to measure social impact and may receive capital from multiple donors. Such metrics could be incorporated into the GIIN Navigating Impact metrics.

- Build a surrogate track record by highlighting existing success stories and mining the portfolios of blended finance facilities and funds in the agri-food sector for deals relevant to nutrition. This would demonstrate that there are attractive investment opportunities in nutritious food value chains, and possibly suggest some patterns in terms of what kind and how to capture them – including the extent to which new financial instruments, TA and BDS, and blending have been needed. This could help pique investor interest and at the same time give donors confidence that their interventions would succeed in mobilizing commercial capital into this space.

- Design and implement a facility dedicated to financing nutritious food value chains. The innovative investment approaches outlined in this section are still being developed, and just starting to be deployed with an eye to nutrition. With the necessary framework conditions in place, such a facility would enable different approaches to be used and tested depending on the market need and opportunity. Investments made would generate data and practical learning that could help attract a broader range of donors and investors in the future.

STRENGTHENING THE ENABLING ENVIRONMENT

- Encourage more public-private collaboration around demand creation. Educating consumers on the importance of good nutrition and driving behavior change are essential for increasing demand for more nutritious foods. Governments consider how to work with the food industry to harness their consumer insights, marketing expertise and communication channels to build public awareness and aspirations around diverse and nutritious diets.

- Create more policy incentives for nutritious foods. Alongside the use of policy “sticks” to encourage companies to invest in making more nutritious and safe foods available and affordable and to discourage the marketing of unhealthy foods, governments also need to consider introducing more policy incentives for businesses. These could include, for example, a reduction in import taxes on nutritious ingredients for use in everyday foods. Governments can also consider subsidizing the use of biofortified seeds, funding extension services for nutritious crops, and using government procurement to create a market for nutritious crops.

- Invest in strengthening government regulation, compliance and monitoring capacity. Governments need long-term financial support to establish effective regulation and credible monitoring and enforcement regimes that create a level playing field for business, ensure nutrition impact, and foster consumer trust and demand. To help SMEs keep up, governments and their donor partners should consider ways to reduce the cost and complexity of regulatory compliance without comprising food safety and quality, and emphasize capacity-building in addition to policing.
Agenda for Action

Action across all three building blocks will be required. Experience attracting commercial investment into other emerging sectors, including micro-finance and off-grid solar, supports the need for a multi-pronged approach and a long time horizon – while recognizing the urgent need for action now if the SDGs are going to be achieved.

When it comes to nutritious food value chains, the onus will be on donors and nutrition organizations to take the lead, but putting the building blocks in place will require many other stakeholders to play their parts. These include entrepreneurs and established companies, governments, civil society groups, and investors with a range of risk-return preferences. As a result, there is also a strong need for nutrition organizations to play a ‘system leadership’ role to help align their efforts, accelerate progress, and ensure that it leads to both improved nutritional and financial outcomes.

The first step for system leaders is to foster dialogue and a common vision. Such dialogue could start by asking if the building blocks are even the right ones, whether there are any missing, how donors, investors, and other stakeholder groups understand the issues, and how to approach them.

By building new alliances and financing models to help fund the growth of small and medium enterprises that deliver nutritious and safe foods to consumers, stakeholders will make a vital contribution to tackling the scale and complexity of malnutrition and to achieving the SDGs.


This executive summary overviews a new discussion paper: Fueling the Business of Nutrition, which asks what is needed to unlock greater commercial investment into value chains that can improve access to nutritious foods among low-income consumers in developing and emerging markets, with a special focus on the small and medium enterprises that currently struggle the most to obtain it.

The full version of the discussion paper can be downloaded at: https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/programs/cri/files/GAIN_2018.pdf

This discussion paper is based on a review of relevant literature and interviews with investors and experts at the intersection of business and nutrition, who are gratefully acknowledged in the full version. The development of the paper was generously supported by the Global Alliance for Improved Nutrition (GAIN).