

VALID Nutrition – Annual Review 2013





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1. Introduction and Background

The purpose of this document is to provide our supporters and the general public with a candid review of VALID's activities and developments during 2013, including a brief overview of our plans for the year ahead.

VALID Nutrition is currently governed by a seven-member board. Four of the members – Dr. Steve **Collins**, Dr. Alistair **Hallam**, Howard **Dalzell** and Roger **Yates** – are non-executive directors with the authority to manage VALID Nutrition. Day-to-day management is handled by the CEO, Paul **Murphy** and a small management team.

Auditors:	KPMG, 1 Stokes Place, St. Stephen's Green, Dublin 2.
Banking Services:	Allied Irish Bank (Irl), Barclays (UK) and Northern Trust (USA).
Head Office:	Bantry, Co. Cork, Ireland – “virtual office”: Our structure is designed to harness modern technology and progressive work practices, thereby reducing costs and enabling smarter, more efficient work methods.
No. of Employees:	25 worldwide
Turnover:	€1,305,269 (for year ending 31 st March 2013, our financial year)

Despite all the amazing advances made in the last 30 years, lack of access to appropriate affordable nutrition still affects one third of all children in developing countries. This means that they are denied the opportunity to ever reach their full potential – both mentally and physically.

The solution is possible and the prize is absolutely enormous, not just for the children concerned, but also their societies and the global economy. By regarding malnourished children as customers and by empowering mothers together with an innovative evidence-based approach, Valid aims to unleash a disruptive change in how this problem is addressed – and in so doing, be a catalyst for an enterprise driven sustainable solution.

VALID's Mission is to pioneer innovative and sustainable change in the way malnutrition is addressed globally, making nutritious food accessible and affordable to consumers at the base of the pyramid. We are committed to using an evidence-based

and enterprise led approach that crucially, involves both public and private sector collaboration.

VALID's Vision has always been to drive evidence-based change that benefits the poor. We believe that major change is desperately needed as, at present, despite the billions of dollars spent over the past few decades, over one third of all children in the developing world (some 200 million children), continue to have their lives permanently blighted by malnutrition. As such, the current system of aid, despite best efforts, has proven to have neither the reach, nor the capacity (while acting alone), to address even a small percentage of this vast problem. VALID's model of Community-based Management of Acute Malnutrition (CMAM) adopted by the UN in 2007, and combined with Ready-to-Use Food products, has already made a massive improvement in the numbers of children treated for acute malnutrition. In 2012 alone, over 2.5 million children were treated using this model, and thousands of lives saved. At the same time, the most prevalent form of malnutrition – Chronic Malnutrition – remains largely un-tackled. This is a condition that if not prevented at a young age, irreversibly damages the bodies, brains and lives of children. It is to this that we must now turn our attention.

VALID Nutrition was established in 2005 as an English incorporated not for profit company. It was subsequently re-established as an Irish charity in 2008 and later as an Irish company limited by guarantee in 2009. The company designs, develops and distributes nutritional food products at an affordable price for the treatment of acute malnutrition (starvation) and the prevention of chronic malnutrition (hidden hunger). Products are manufactured in developing countries using regionally sourced ingredients to ensure an ethical and sustainable supply chain that boosts local economies.

VALID Nutrition has registered Charity status in the UK, Ireland and the USA. VALID Nutrition is unique as a charity model, in that, it is run as a social impact business with the intention of generating a surplus, which is then solely redistributed to grow the business model and achieve scalable and sustainable, long term social impact.

The company has an operational factory producing nutritious products in Malawi and an active R&D programme managed out of our office in Kenya. It has developed and undertaken large scale field trials of several new products. It has won awards for innovation and has relationships with several large humanitarian organisations, research institutes, commercial companies and State governments in India. VALID Nutrition has produced close to 20 million life-saving sachets in recent years, and it is estimated that over 200,000 children were treated, with several thousand lives saved.

2. VALID Nutrition – Country Operations

Malawi: In 2013, VALID Nutrition Malawi secured a new strategic business partner – Exagris Africa (EAA) – and this arrangement is now starting to have a positive impact in terms of product output and future expansion plans. This, coupled with a Grant received from DfID Malawi in May 2013, has enabled VALID to finally scale up production to meet local demand. Procurement of quality raw materials locally does however remain a challenge and we are continuing to work with our suppliers on improving quality.

In parallel, VALID is working with EAA to encourage small farmers to produce commercial grade groundnuts for use in RUTF production. In addition, to co-ordinating groundnut purchasing, EAA assists local farmers to improve yields and product quality, especially by reducing aflatoxin contamination. VALID in turn, has recently completed a

four year study, supported by Irish Aid (Malawi), to measure the impact of these arrangements, on local livelihoods. The research was carried out in conjunction with the Department of Food Business and Development in University College Cork (UCC). The Centre for Agricultural Research and Development (CARD), Bunda College of Agriculture in Malawi (Bunda) has been contracted to carry out research on groundnut production and marketing in Malawi in order to develop the context for policy recommendations suggested by the farmer survey research outputs.

We have also been extremely well supported by the Irish Dairy Board who have put together a new supply arrangement that has allowed us to secure top quality Kerrygold milk powder with much more attractive terms than we have been used to from other sources.

India: Both programmatic work on a planned CMAM trial and a local manufacturing collaboration arrangement, engaged a significant portion of our effort and resources during 2013.

We have now achieved confirmation from DfID for a CMAM Pilot in Odisha to proceed. This is a very important development in our opinion. India accounts for approximately 40% of all Severe Acute Malnutrition globally, circa 8 million cases.

Following the announcement at the *Nutrition for Growth* event hosted by David Cameron in advance of the G8 Summit in June, we are in discussion with the relevant stakeholders on our proposed manufacturing collaboration and are hopeful that this will materialize in 2014.

Ethiopia: In August, we reluctantly had to terminate our relationship, with VALSEK for the planned manufacture of RUTF locally, and are now engaged in discussions on a new local collaboration in this important region.

Kenya: Positive dialogue is continuing with our intended Kenyan collaborator with regard to our plans for the VALID Nutrition brand to re-enter the East Africa market. [We were previously present in 2010 and 2011 in a collaboration with a different local manufacturer].

Nigeria: We have identified a potential manufacturing partner locally and have been developing a Business Case with them. UNICEF Nigeria is actively seeking a local producer for this very important country. A Memorandum of Understanding is in place with our proposed partner and a timeline for negotiations and completion has been agreed.

3. VALID's Investment Proposal for the Nutrition Sector

We have had very encouraging discussions with influential individuals and Funds throughout 2013, and significant support has been received and progress made with regard to our investment proposal for creating a genuine and scalable social impact opportunity within the Nutrition Sector.

VALID has confirmed interest from a US based Social Impact Fund and we are now seeking additional sources of funding to help achieve our longer term aim of driving change in how chronic malnutrition is addressed - by opening up new markets through our specialist expertise in evidence based research, business led demand

generation, and market analytics at the base of the pyramid.

2014 involves advancing discussions with potential new sources of finance, arising from pitches made last year, as well as follow through on applications submitted to some niche funds that may be an ideal fit for our proposition.

4. Research & Development

The new generation Ready-to-use Therapeutic Food (RUTF) trial in the DRC (funded by Irish Aid and the PRANA Foundation) continues on course; with completion of fieldwork due by end February. We anticipate that significant work will subsequently be required to enable actual commercialization of this “game-changing” product, and are now preparing for this. It is extremely encouraging that at their Annual International Suppliers Meeting in Copenhagen in September, UNICEF stated publicly their need for alternative lower cost formulations - so we remain confident that acceptance will be relatively swift.

We have a commitment and agreement in principle from a leading Japanese multinational, for a three-year R&D collaboration, (covering three areas) and the project is due to start early this year.

During the year we successfully completed an Acceptability Trial of our Chickpea and Sesame based Ready-to-use-Supplementary Food (RUSF) in Ethiopia. This was funded by the PepsiCo Foundation. We are now seeking new funding for an Efficacy Trial.

Efforts on securing funding for trialing our other new innovative recipes for various target market segments continue.

As mentioned above, the fieldwork for our Small Holder Farmer Research Programme (financed by Irish Aid Malawi and operated by University College Cork, and the Centre for Agricultural Research and Development at Bunda College) took place from 2010 to 2013, and the four-year results are currently being analysed.

The underlying purpose of the research has been to develop evidence that small farmers can produce high quality groundnuts in an economically viable system, thus improving their livelihoods and food security; and that VALID can use these nuts to produce Ready-to-Use Therapeutic Food (RUTF) to international standards, locally in Malawi.

The full academic results will be ready for dissemination early in the second quarter of 2014 and we intend to hold a dissemination event in Lilongwe. The purpose will be to publish the results and make policy recommendations. We are hopeful the evidence will influence policy on the sourcing of RUTF in favour of developing countries. The policy issues raised are very relevant not only to VALID in Malawi, but also to the Malawian export trade in groundnuts, and hence to foreign exchange earnings and the substitution of tobacco as a cash crop.

5. PR and Marketing

In 2013, VALID Nutrition re-launched our social media presence and we are now very active on each of Facebook, LinkedIn and Twitter.

VALID's recent win in the **ASHOKA Nutrients for All** international competition was very encouraging, especially as our entry was based on our strategy to open up the market for affordable products to prevent Chronic Malnutrition – and consequently fully aligned with our investment proposal. Our win was featured on **Forbes.com**: <http://www.forbes.com/sites/ashoka/2013/09/18/fight-chronic-disease-boost-economies-4-growing-opportunities-in-nutrition/>

In July, we had an important Opinion article published on the website of the UK's **The Guardian Newspaper**: <http://www.theguardian.com/global-development-professionals-network/2013/jul/18/hunger-csr-malnutrition-charity>

The VALID Nutrition **Website** will be upgraded in 2014, and aside from more user friendly design features, the content management system will move to a new platform that will enable us to more easily update material – and to save money.

6. Funding and Finance

Despite the very successful Charity Auction Fundraising event held at Christie's London in June 2013, the fact remains that we cannot achieve the scale needed until we find a way to remove the restraints imposed by a lack of capital. We cannot continue to have to spend precious effort and resources in fundraising instead of focusing on increasing the number and output of our manufacturing collaborations, extending our purchasing networks to more farmers; and deepening our research into more products and better distribution. We have to increase our scale to a level where our production is profitable and can generate the revenue we require to drive our research and innovative delivery.

To achieve this, we have taken steps to potentially reform VALID Nutrition into a structure that can align our existing charitable entities with equity investors and with VALID International, our sister company. If successful, our proposal will raise ethical investment and will lead to a restructuring of VALID's social business model. This will allow VALID to finally reach scale, thereby creating a viable, self-sustaining, social impact model. Once at scale we will be able to implement the interventions required to provoke real change and to demonstrate to the world that providing effective nutrition at the base of the pyramid, can align social impact and revenue generation, and be commercially viable.

At the time of publication, this proposed change process is on-going. Although complex and often difficult, we believe this approach is essential, and look forward to the continued support of our donors for our exciting and unashamedly disruptive plans to change the way malnutrition is addressed.

Actual Summary Figures

Year Ended 31 March 2013	
Total income	1,305,269
Total resources expended	(1,364,971)
Deficit in ordinary activities	(59,702)
Other recognised gains & losses	62,625
Surplus for year ended 31 March 2013	2,923

For the current financial year and calendar years, we are projecting a significant increase in income.

7. Looking Ahead

In 2001, when we developed our new community-based approach to treating severe acute malnutrition (CMAM), it was considered revolutionary and was opposed by many. VALID's approach turned the traditional supply driven, medical treatment model for acute malnutrition on its head, empowering mothers and communities to take responsibility for their own malnourished children instead of forcing them to rely on doctors, nurses and hospitals. Giving control of treatment to mothers and weakening the grip of the medical profession was controversial and opposed by some international NGOs and UN agencies. However through rigorous operational research and with the help of a few key allies such as Concern Worldwide and Irish Aid, we succeeded in pioneering the change necessary, and within 5 years, had established CMAM at the center of international policy to address Severe Acute Malnutrition.

Furthermore, having pioneered the concept of manufacture of ready-to-use foods exclusively in developing countries and regions, to maximize the developmental and economic impact, we are pleased to note that UNICEF are now procuring around 50% of their requirement of RUTF in Asia and Africa.

VALID is now turning its attention to tackling chronic malnutrition, by demonstrating to the aid and food industries alike, that there is a viable market providing people with the missing nutrients their children need and, in doing so, we can reduce and eventually eliminate this scourge. By harnessing the private sector, this new approach can bring vast new resources to bear on this age old problem, and these resources are essential additions if we are to reach and prevent malnutrition in over 200 million children each year.

VALID Nutrition
February 2014