Financial Innovations Labs® bring together researchers, policymakers, and business, financial, and professional practitioners to create market-based solutions to business and public-policy challenges. Using real and simulated case studies, participants consider and design alternative capital structures and then apply appropriate financial technologies to them.

Acknowledgments

This Financial Innovations Lab was supported by the Children’s Investment Fund Foundation. We are grateful to those who participated in the Financial Innovations Lab for their contributions to the ideas and recommendations summarized in this report. We would especially like to thank the members of the Steering Committee on Catalytic Finance. We would also like to thank Milken Institute colleagues Erin Tanenbaum and Karen Giles and editor Dinah McNichols for their work on the project. This report was prepared by Caitlin MacLean.

About the Milken Institute

A nonprofit, nonpartisan economic think tank, the Milken Institute believes in the power of finance to shape the future. The Milken Institute produces rigorous, independent economic research—and maximizes its impact by convening global leaders from the worlds of business, finance, policy, academia, and philanthropy. By fostering collaboration between the public and private sectors, we transform great ideas into action.
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Foreword

This report presents conclusions from a two-day Financial Innovations Lab® on catalytic financing for nutrition facilitated by the Milken Institute in May 2013. Participants included a broad mix of government representatives from countries that have been affected by undernutrition, as well as bilateral and multilateral donors, foundations, representatives of private businesses, and finance and nutrition experts. The Lab reviewed proposals emerging from the Steering Committee on Catalytic Finance established under the auspices of the Scaling Up Nutrition (SUN) Donor Network, an informal group of existing donors in nutrition.

In June 2013, the pre-G8 Nutrition for Growth summit saw leaders from high-burden, emerging, and industrialized countries’ governments, international organizations, industry, and civil society come together in London to place nutrition at the center of the development agenda. At this meeting, 94 stakeholders signed the Global Nutrition for Growth Compact, including 26 governments engaged in addressing undernutrition. Fifteen of these governments have made significant commitments to increase domestic resources for nutrition.

Building on the momentum created by the work of the Steering Committee and the ideas discussed at the Financial Innovations Lab, the Children’s Investment Fund Foundation, the UBS Optimus Foundation, and the U.K.’s Department for International Development announced at the Nutrition for Growth summit their intention to join together as partners in developing a new catalytic financing facility for nutrition. By pooling funds with other donors, the new vehicle will partner with countries to accelerate measurable improvements in childhood nutrition.
“An investment in nutrition is an investment in a country’s future.”

—Emorn Wasantwisut, Institute of Nutrition, Mahidol University
Introduction

Undernutrition, or the inadequate dietary intake of essential nutrients and insufficient consumption of calories, is now the largest single contributor to child mortality worldwide. It is believed to be the underlying cause of a staggering 45 percent of all deaths among children under age 5, as well as stunting the development of 165 million children of the same age.¹

Increasingly, across developing and developed countries, there is an acceptance that addressing undernutrition is not only an investment in health; it is an investment in long-term economic growth. Responsible for billions of dollars in health-care expenditures and lost productivity, the combined effects of undernutrition can cost affected countries up to 11 percent of GDP, encumbering growth as well as health.² Yet this health threat remains one of the least funded and most under-prioritized issues in the global aid landscape, and suffers an estimated $10.3 billion annual funding gap for preventive and treatment measures.³

These funding gaps, however, have propelled creativity and produced innovations in the design and implementation of evidence-based, cost-effective interventions. Through national nutrition plans, governments are helping to facilitate new momentum around undernutrition as they grow increasingly aware of the social and economic impact on society, and the potential to overcome these challenges. Yet even these proven efforts will need consistent and diversified sources of funding to achieve broader scalability.

To accelerate action, innovations in funding mechanisms will be needed. Funding for current programs comes from bilateral and multilateral donors providing direct development aid, from private foundations, and increasingly from local governments. However, the long-term, sustainable scale-up of country nutrition programs will need to be led by the countries affected by undernutrition.

Toward this end, a steering committee was formed in early 2013 at the request of the Scaling Up Nutrition (SUN) Donor Network, an informal group of existing donors, with a mandate to develop proposals for a catalytic financing facility that can attract new capital to accelerate results and bridge the gap between current funding and longer-term, country-led financial support.

As part of this effort, the Milken Institute convened a two-day Financial Innovations Lab in London, May 7-8, 2013, to determine whether there is a need for a catalytic facility of this kind, and to debate the options around its goals, activities, and structure. Participants in this process included a broad mix of government representatives from countries most affected by undernutrition; bilateral and multilateral donors; foundations; representatives of private businesses; and finance and nutrition experts. They agreed that an important opportunity exists to invest in high-impact areas of the nutrition value chain and maximize the return on results by attracting, allocating, and overseeing new resources.
THE SOCIAL AND FINANCIAL CASE FOR INVESTMENT IN NUTRITION

Undernutrition is one of the world’s greatest public health and development challenges. It is defined by insufficient food intake and repeated infections resulting from three factors: a lack of access to adequate foods at the household level, poor hygiene or environment and inadequate access to health services, and inadequate child-care practices. It is manifested in many forms, from being underweight for one’s age, too short for one’s age (stunted), dangerously thin for one’s height (wasted), and deficient in vitamins and minerals (micronutrient malnutrition). Globally, stunting affects 165 million children, or one in four under age 5, and 52 million suffer from moderate to severe wasting. At least 80 percent of these children live in 14 high-burden countries.

The effects of undernutrition are insidious. It can cause diminished cognitive ability and a dramatic weakening of a child’s immune system, resulting in a heightened susceptibility to illness. While undernutrition is rarely an immediate cause of death, children who are severely wasted, for example, are nine times more likely to die than well-nourished children. At the same time, the latest research estimates that undernutrition is a cause of 3.1 million child deaths per year.

The cycle of deficiency can start in pregnancy and often continues through the first two years of a child’s life. Stunted mothers are three times more likely to give birth to and rear malnourished children. The first 1,000 days—from the beginning of pregnancy to age 2—are the most critical for the prevention and treatment of undernutrition; during this time, the foundation is set for the child’s physical and mental growth.

Undernutrition can affect generations, resulting in significant and long-term negative impacts on a country’s social and economic growth. As seen in figure 1, investing in nutrition can generate tremendous results. When undernutrition is eliminated, children are 33 percent more likely to escape the poverty of adulthood, and disability in children younger than 4 is cut in half. Children’s educational attainment rates and productivity into adulthood improve, which could raise wage rates from 5 percent to 50 percent.
On a macroeconomic regional level, undernutrition has been estimated to cause up to an 11 percent loss in GDP across Africa and Asia. Given that “frontier” markets, like Nigeria and Bangladesh, and more developed “emerging” markets, like Brazil and China, represent a growing share of global GDP, any loss in economic productivity can threaten the sustainability of these growth engines. As more business is conducted in these countries, investments in human capital are critical, especially as Africa’s labor force is expected to become the world’s largest by 2035.

REVIEWING THE NUTRITION LANDSCAPE

Addressing Undernutrition
What approaches to overcome undernutrition work best? To date, a number of interventions—from breast-feeding education to micronutrient supplements—have proven track records. These include “nutrition-specific” interventions, some of which are shown in table 1, that are generally considered to have the greatest impact on addressing undernutrition. In addition, there is also a wide range of “nutrition-sensitive” interventions, including improving water and sanitation and increasing both the quality and quantity of agricultural outputs, although evidence of their impact on undernutrition rates is still emerging. And while new innovations are helping to develop a more robust pipeline of nutrition-specific interventions, it is clear that evidence-based programs exist and have resulted in documented success.
Promoting good nutritional practices

- Breast-feeding
- Complementary feeding for infants after 6 months
- Improved hygiene practices, including hand washing

Increasing intake of vitamins and minerals

- Periodic vitamin A supplements
- Therapeutic zinc supplements, for diarrhea management
- Multiple micronutrient powders
- Deworming for children
- Iron–folic acid supplements for pregnant women, to prevent and treat anemia
- Iodized oil capsules where iodized salt is unavailable

Providing of micronutrients through food fortification

- Salt iodization
- Fortification of staple foods with iron and other micronutrients

Therapeutic feeding with special foods

- Treatment for moderate acute malnutrition
- Treatment for severe acute malnutrition with ready-to-use therapeutic foods (RUTF)

Note: this list, used at the time of the Lab discussion, may be updated following the release of research published by The Lancet in June 2013.

Building Momentum to Scale Up

Important results are emerging from these approaches. Stunting and wasting are on the decline in some countries. In Peru, stunting fell to 20 percent of children in 2011 from 30 percent in 2006. In Ethiopia, more than 300,000 children now receive treatment for severe acute malnutrition each year.

Much more work—and at a larger scale—is needed to tackle the problem. The World Health Assembly’s goal is a 40 percent reduction in stunting by 2025 in the highest-burden countries, an average annual reduction rate of at least 3.9 percent per country. This is nearly twice the rate of reduction seen globally from 1990 to 2011; thus, while some countries have made progress toward this target over the last decade, very few are on track to reach or surpass this rate.

The Scaling Up Nutrition movement (SUN) was created in response to a critical need to increase national and international commitment to meeting target nutrition goals and to provide a common vision of the direct and indirect interventions among donors and countries. Since its formation in 2010, SUN has played an important role in building momentum and shifting the debate from food to nutrition. The movement is supported by over 100 partners representing the full spectrum of stakeholders, including national governments, bilateral and multilateral agencies, civil society, academia, and the private sector.
BARRIERS TO SCALED-UP RESULTS

With growing momentum and proven interventions and programs, the stage is set to scale up efforts to tackle undernutrition. However, there are constraints that must be addressed. Lab participants discussed and assessed the most pressing challenges and gaps that countries face as they seek to implement integrated, results-oriented nutrition programs.

Funding

Funding for nutrition-related initiatives is a key constraint. National and state government budgets support certain in-country activities, although precise data on domestic expenditures can be difficult to access. Nutrition programs cross sectors and can fall within the mandates of several ministries and departments that oversee health, agriculture, sanitation, social protection, and education. Consequently, some of the direct and indirect expenditures across departments may not be transparently documented. Explicit allocations for nutrition-specific programs remain small; in some countries they represent less than 1 percent to 2 percent of the total health budget. Lab participants discussed the need for a more specific political push toward “line items” for nutrition within national and state budgets. This could complement the positive trend toward increased domestic funding seen over the past decade, with government funding in the highest-burden countries increasing fourfold from 2000 to 2010.

Additional funding comes from bilateral and multilateral donors and private foundations. As shown in figure 2, governments and foundations commit over $400 million per year to direct nutrition aid. This does not include funding that goes to emergency food aid, improved agriculture, sanitation, or similar activities. Unfortunately, when interventions specifically targeted at undernutrition are aggregated, total donor funding for nutrition represents just 0.4 percent of all official development aid.

![Development aid disbursements (2009–2011 averages)](image)

Additional, though limited, support comes from the private sector, sometimes through corporate social responsibility initiatives or nutrition programs within their core business. For example, Unilever promotes hand washing and improved hygiene—practices that significantly affect nutrition outcomes—to mothers and children in several high-burden countries. Investment activity from the capital markets has been mostly targeted at agriculture and food security and has not been directed to nutrition at any significant scale. This is slowly changing. For example, the Global Alliance for Improved Nutrition (GAIN) is working to create marketplaces in Mozambique and Tanzania to promote investment in small and medium-size companies that produce fortified foods. These nascent initiatives have started at a small scale, reflecting the challenge of creating revenue-generating opportunities from many direct nutrition interventions.

The complexity of the funding landscape for nutrition underscores the growing recognition that no single source of funding is capable of addressing the problems of undernutrition. While there are efforts under way to engage the private sector and new donors, building the capacity of the public sector remains a top priority in most affected countries.

**Country Capacity**

Despite the considerable gains individual countries have made toward nutrition goals, various capacity constraints remain. Human capital is often a significant capacity challenge, especially in high-burden areas. For some countries, full-time ministry staffing for the coordination of nutrition efforts can be minimal due to the lack of financial resources or shortage of qualified workers. Without a strong pool of candidates, especially for technical and socially sensitive programs, countries depend on external consultants or workers from donor-funded initiatives who leave at a project’s conclusion. This limits the development of local talent and capacity.

In some countries, progress is being made to fill these gaps. Community health services, in particular, have been critical in creating results. For example, in Ethiopia, the Health Extension Programme deploys two community based health workers for every 5,000 people, a platform that is further supplemented by a “development army” consisting of one volunteer for every six households across the country. These kinds of integrated community services create impact.

**Governance and Coordination**

Another significant challenge as countries scale up their nutrition programs is coordinating among the various ministries, stakeholders, and donors who handle different aspects of a nutrition plan. Coordination is made more difficult by the lack of human and financial capital as well as the sheer volume of the organizations and initiatives operating in any particular region. The competing priorities of state or national offices, donors, and projects can add layers of bureaucracy that slow implementation. Individual initiatives operate in “silos,” without a larger view of how their work fits within the broader nutrition landscape. Major stakeholders like the U.N. organizations involved in nutrition have worked to improve coordination. However, Lab participants agreed that as country programs scale up, much more could be done to facilitate collaboration and coordination and to enhance governance and accountability.
Monitorsing and evaluation

Given the capacity constraints and coordination challenges, substantial gaps occur in the ability to measure results at scale and evaluate what works. Historically, both the public and private sectors have faced problems collecting data, especially when trying to assess the coverage and quality of programs. Part of the problem stems from the lack of infrastructure, both physical and technological, in many of the high-burden countries. Without coordination among ministries and external entities, monitoring and evaluating programs can be both labor-intensive and time-consuming. Moreover, because undernutrition can be caused by different factors, there is an additional layer of difficulty in evaluating the direct relationship between a specific intervention and its overall impact on nutrition. For example, a vitamin supplement may be extremely effective in one community, but another that lacks proper sanitation may not see the same improvements. Strengthening the systems that are needed to monitor and evaluate success will be vital in reaching the scale needed to have a bigger impact on the elimination of undernutrition.
**THE OPPORTUNITY**

Nutrition is finally receiving attention as a human and economic development priority in its own right. The political will exists, as the 2013 Nutrition for Growth event demonstrates. Momentum is growing in high-burden countries, and there are existing programs and interventions that can make a demonstrable impact.

Yet Lab participants agreed that current initiatives, while effective, have made insufficient progress. The discussion focused on the role a new funding model could play in addressing the major barriers of funding, capacity, coordination, and monitoring and evaluation. Participants saw exciting opportunities in mobilizing new resources that can overcome these challenges and deliver results at a greater scale.

The new funding vehicle could add value in three ways: First, by targeting investments in prioritized, evidence-based country programs to create results on a large scale; second, by incentivizing high-burden countries to designate more domestic resources for their plans, based on an investment’s proven track record; and third, by channeling donor resources through a pooled facility, using existing initiatives and partners where possible, to improve efficiency and coordination.

The participants agreed this is an important moment to truly change the trajectory of country-led programs and attract new capital for nutrition, from domestic government budgets and donors.

**DEFINING THE MODEL: CATALYTIC FINANCING FACILITY**

A large funding gap remains for undernutrition. The Lab’s discussion focused on the benefit of a collaborative, pooled funding model, a catalytic financing facility that could be used to increase and diversify sources of capital for quality nutrition programs. Participants identified the facility’s most critical components as:

- Giving partner countries access to medium-term funding to accelerate the scale-up of high-quality nutrition programs and to demonstrate results while they arrange longer-term domestic and donor funding as a condition of support
- Attracting new public and private funders by creating a simple investment channel with the ability to match new funding to increase a donor’s leverage
- Providing funding through a mechanism that complements existing initiatives and provides quality, efficiency, transparency, and financial oversight.

**OPERATIONS AND ACTIVITIES**

As shown in figure 3, a catalytic financing facility could complement existing activities by providing new capital for country programs that demonstrate results at scale. Traditional donors—for example, bilateral and multilateral donors and private foundations that currently support nutrition programs—would provide the seed funding, which would then be used to “crowd-in” new sources of capital. This pooling would limit transaction costs by avoiding the need for
donors to duplicate due diligence or build capabilities on the ground. In this type of vehicle, matching funds from the seed funders could serve as a catalyst and a “stamp of approval” to attract new investors and donors.

**Figure 3**

*Catalytic financing facility*

- Emerging global architecture
- Catalytic activity

Allocate to prioritized programs at scale
- Long-term delivery of country plans
- Up to five ready and willing country partners
- Priority to evidence-based programs

Attract sustainable sources of funding to nutrition
- Domestic resources
- Long-term donor funding

Catalytic facility for nutrition

Create results at scale
- Accelerated results
- Demonstrate impact at scale
- Direct impact (e.g., millions of stunting cases and/or child deaths averted)
- Indirect impact (e.g., education, economic)

Source: Steering Committee.

The activities to be funded by the facility include:

- Scaling up country programs: support partner countries’ efforts to expand nutrition programs that prioritize evidence-based interventions, using government channels and existing technical partners
- Supporting innovations: focus on innovations in delivery and design to roll out scalable models, and feedback loops for evidence generated during implementation
- Strengthening M&E and governance systems: emphasize building the capacity of countries to design and manage their programs, and to strengthen the governance and M&E systems required to make this happen.

To measure results, the facility could use targets, such as stunting cases or deaths averted by addressing specific undernutrition-related causes. Given the importance of the first 1,000 days of prenatal and infant care, targets could also include numbers of mothers and children who gain access to services through the facility’s funded activities. Performance could also be judged by the quantity of additional resources brought in, as leverage is part of the added value of the facility.

The emphasis on performance could facilitate an additional innovation: participants discussed results-focused disbursement models. As seen in figure 4, these types of “push and pull” mechanisms use donor capital as an incentive to spur innovation and strengthen local markets.
These funding vehicles have had success in other sectors but have not yet been used for nutrition-specific interventions. The AgResults Initiative of 2012, for example, uses pooled commitments to jumpstart improvements in agricultural productivity and food security through innovative financing mechanisms. Additionally, donors like Grand Challenges Canada, the Bill & Melinda Gates Foundation, and USAID use prizes to create financial incentives to spur the creation of new technologies that overcome particular development challenges.

Lab participants discussed potential models of performance-based incentives, such as development impact bonds which offer upfront funding for programs from investors that are repaid by governments and donors once agreed upon outcomes have been reached; nutrition-related components to prizes, similar to a Grand Challenge; and advance market commitments, which create market demand through a donor-funded commitment that subsidizes prices for a specific product that would otherwise be unattractive to manufacture and produce because of its costs and lack of perceived revenue.

**FIGURE 4**  
*Push and pull mechanisms*

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| **Ex-ante inducement for specific actors**  
- Subsidize companies to deliver components of interventions where a revenue model is viable | **Ex-ante inducement for multiple actors**  
- Invest in public goods (e.g. demand creation for fortified products, R&D, laboratories to assure quality)  
- Change or enforce regulations affecting companies (e.g. maternity leave, quality control of fortified products, trade restrictions, taxation)  
- Provide credit facilities (e.g. for producers) |
| **Ex-ante inducement for specific actors**  
- Subsidize companies to deliver components of interventions where a revenue model is viable | **Ex-ante inducement for multiple actors**  
- Invest in public goods (e.g. demand creation for fortified products, R&D, laboratories to assure quality)  
- Change or enforce regulations affecting companies (e.g. maternity leave, quality control of fortified products, trade restrictions, taxation)  
- Provide credit facilities (e.g. for producers) |
| **Ex-post rewards to specific actors**  
- Develop results based financing models for nutrition  
- Create prizes | **Ex-post rewards to multiple actors**  
- Make advanced market commitments for the purchases of nutritional products  
- Recognize ‘good behavior’ (e.g. for maintaining high standard, or a conducive workplace) |

*Source: Steering Committee.*
During the Lab, participants also discussed a number of activities that the financing facility should not do. It should not provide long-term funding for country programs; the goal is to exit when countries have developed enough internal capacity to operate self-sustaining programs, through either increased domestic budgets for nutrition or longer-term donor commitments. The facility should not displace current development assistance for nutrition programs. The facility should not function as a “global fund” that would channel all available aid for nutrition programs; instead it would finance specific gaps not addressed by current donor initiatives.

Lab participants agreed that the core group of seed funders would need to finalize the facility’s detailed design work, elaborate on activities, and decide on the eligibility of countries that are ready and willing to partner.

GOVERNANCE AND STRUCTURE OPTIONS
While the financing facility’s structure should be determined by its initial group of funders, Lab participants discussed some governance options. As seen in table 2, the principles of aid effectiveness developed over the past few years by donors, country representatives, and civil society leaders call for any new facility to work within the existing funding landscape as much as possible to minimize duplication.

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<th>Table 2</th>
<th>Principles of aid effectiveness</th>
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<td>Country ownership</td>
<td>Countries lead their own development by coordinating partners and aid, setting development strategies, and leading institutional reforms and anti-corruption efforts.</td>
</tr>
<tr>
<td>Alignment</td>
<td>Development partners align around country ownership objectives and use country systems to ensure efficiency and transparency.</td>
</tr>
<tr>
<td>Harmonization</td>
<td>Development partners coordinate with one another, simplify their procedures, use common reporting, share information, and incorporate all partners, including public, private, and civil society actors.</td>
</tr>
<tr>
<td>Results focus</td>
<td>Development partners and countries ensure that aid focuses on real and measurable impact, measure and monitor results, and use results to guide the development process.</td>
</tr>
<tr>
<td>Mutual accountability</td>
<td>Development partners and countries are mutually accountable for funding and results and are accountable to the intended beneficiaries.</td>
</tr>
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Source: Adapted from OECD Working Party on Aid Effectiveness.

In this spirit, various options were discussed during the Lab, for example, whether the facility could be adopted as part of an existing initiative already under way, or if a new mechanism should be created, potentially housed within an existing development partner within the current aid architecture. An example of an existing initiative is the Global Agriculture and Food Security Program (GAFSP), a multilateral effort whose mandate is to fund programs that promote food security but as yet it is not designed to support nutrition-specific interventions. An example of an existing development partner is the World Bank, which houses trust funds and oversees the International Development Association (IDA).

Ultimately, it was clear that more work needs to be done to finalize a structure and governance outline most attractive to donors, countries, and stakeholders. A number of options would need to be refined by the initial group of seed funders.
ATTRACTING FUNDING

One of the essential elements of the facility is the ability to use seed funding as a catalyst to encourage countries to allocate more domestic money for nutrition. Investing in undernutrition programs has gained momentum over the past few years, but sustained political will is needed to achieve lasting success. The financing facility could accelerate political buy-in by demonstrating that quality programs can operate at scale and by creating incentives for countries to increase funding. Participants discussed this domestic resource mobilization as a potential condition of support.

There was also debate as to whether or not countries currently have the budgetary capacity to provide this capital up-front as opposed to simply moving existing funding from one budget to another. However, participants agreed that the financing facility could draw additional attention to the benefits of investing in nutrition and said that, over the long term, this could position a country to spend more on direct and indirect interventions as part of their national nutrition plans.

Another objective of the facility is to draw funding from donors who would likely not enter the nutrition space without the reputation and confidence that come with the participation of the founding seed partners. As seen in figure 5, the facility would seek to raise additional capital from new sources, including new bilateral partners and private foundations that have yet to engage in nutrition funding, individual philanthropists, and private-sector companies that would be interested in providing financial or in-kind support.

During the Lab, participants discussed fundraising ambitions, with a goal of $500 million to $1 billion. The funds would be disbursed over five to seven years in up to five partner countries initially. This capitalization level would equate to a funding volume of roughly $15 million to $20 million per country per year. Given the ambitious targets, it was determined that more market testing would be required to size the facility appropriately and create a fundraising strategy.
“It’s about more money for nutrition. And more nutrition for the money.”

—Rob Hughes, Department for International Development, U.K.
Conclusion

After years of neglect, nutrition now has its moment in the global development spotlight. It is time to mobilize new resources to scale up high-impact nutrition programs.

The momentum that started with countries taking important steps to develop national nutrition plans can be accelerated by new targeted investments that address the biggest hurdles to implementation.

Lab participants laid out a clear vision: the creation of a catalytic financing facility that can attract, allocate, and oversee new capital to accelerate results in eliminating undernutrition. The financing facility would emphasize evidence-based, proven, scalable programs to achieve a marked reduction in undernutrition rates.

By pooling resources, donors will have the opportunity to make a measurable impact that few can achieve alone. The facility would offer donors a unique opportunity to secure financial leverage on their funds, while creating a path to sustainability for countries by helping to mobilize domestic resources and build local capacity to disburse funds effectively.

Seizing nutrition’s moment and scaling up funding can trigger a significant shift in how countries around the world improve the health and productivity of their communities.
APPENDIX

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6. Ibid.


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