

## **Complete Capital** By Antony Bugg-Levine

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## Complete Capital

We need integrated solutions, not just investment capital, to address social problems

BY ANTONY BUGG-LEVINE

ALTHOUGH WE ALL WOULD LIKE to avoid more stories of economic doom and gloom, those of us who work with social service agencies and their clients are witnessing a sector in crisis. In the United States, the withdrawal of federal stimulus funding is echoing through the social spending system, shrinking budgets as needs grow. Demand for services rose 20 percent again last year, while for many essential organizations government funding failed to meet demand and private funding failed to fill the gap, according to a 2012 state of the sector survey from Nonprofit Finance Fund (NFF). A similar story is playing out around the globe. We cannot afford to hunker down and wait for economic relief that may be many years away.

So what are we going to do? As the co-author of the recent book *Impact Investing* and the CEO of an organization (NFF) that has been lending to nonprofits for 32 years, I certainly believe that tapping into the resources and expertise of for-profit investment is part of the answer. The rise of the impact investment movement is poised to unlock substantial new capital for social purpose. Innovative nonprofits are already rethinking the way they do business and are going to heroic lengths to extract maximum impact from every dollar. And increasingly, we have the data and knowledge we need to tackle social ills.

But the ultimate contribution of impact investing, and similar innovations, will not come in the form of interesting investments or channeling grant money more efficiently. Instead, it will come by addressing two fundamental challenges of our moment: How will developed countries sustain a safety net in the wake of macroeconomic and demographic pressures? And how will developing countries ensure that economic growth is more equitably shared?

To answer those questions requires us to reframe how we work. We need to move away from silo approaches when we ask “Where can I make meaningful loans?” or “How can I give away my grant money better?” Instead, we must ask “How do we work together to solve the social challenges that matter?”

This approach is not over-idealistic; it can be achieved. At NFF, our experience working with thousands of nonprofit clients has led us to believe that innovations like impact investing can reach their potential when these innovations are integrated more effectively. Innovation is not good enough and cannot be an end in itself. Instead, we need to mobilize grant fund-



ing alongside investment capital, organizational innovation, and government collaboration. We call this approach “complete capital.”

Complete capital is more than just another way to rebrand public-private partnerships. It is a framework for recognizing the complete set of perspectives and capabilities required to address complex social challenges. We believe that effective approaches will mobilize four types of capital:

- **Financial capital** that both pays for expanded project delivery (such as new ambulances or shelter beds) and builds healthy and sustainable organizations. The combination of grants and investments will differ for each intervention, but the complete capital approach will bring sufficient resources to sustain operations, change business models, and facilitate growth.

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- *Intellectual capital* that draws on rapidly expanding evidence about what works and what does not at the business model and systems level.
- *Human capital* that translates bold ideas into action. More than just a capable management team and board, human capital is the leadership ecosystem of outside advisors, volunteers, and clients that organizations need to thrive in challenging environments.
- *Social capital* that enables people and organizations unused to working together to collaborate effectively. We will need to reposition government, private funders, organization leaders, and their clients in new relationships. Trust and creativity will be essential for social capital formation, supporting and pushing us to confront our collective challenges and embrace innovative solutions.

#### THE NECESSITY OF COMPLETE CAPITAL

Three recent examples show why a complete capital approach is necessary.

Among New York City's 4,000 major social service agencies, many of which perennially struggle to break even, the question in 2009 was how the social safety net could be preserved when city reimbursements were delayed in the wake of the financial crisis. Deep budget cuts followed in 2010 and 2011, while demand for services grew. With a further \$112 million reduction in New York City social spending in 2012, many of these organizations are on a slow-bleed trajectory that threatens their survival and the communities that rely on them.

Enter complete capital: NFF is responding by launching the Community Resilience Fund (CRF), an integrated grant, investment, and advisory services vehicle targeting up to 100 core social service agencies in New York City. CRF will bring together \$50 million in loans from commercial banks and private foundations, aggregate millions of dollars of grant money from multiple funders, and draw on a loan guarantee from the city of New York. It will offer clients advisory services that draw on the intellectual capital developed by NFF over years of working with similar organizations faced with the need to change their business models. And substantial social capital has been spent to bring bankers, donors, service providers, and the city government together at a time of crisis that has left many wary and suspicious.

Another example of complete capital is playing out in California. There, lack of access to affordable fresh food creates "food deserts," which exacerbate health inequalities in poor communities. The California Endowment has recognized that leaving the food desert problem unsolved could undermine its ability to meet ambitious targets to transform health outcomes for communities across California. But even its substantial grant funds would quickly run dry before it could address this problem at a large scale.

So last year, using a complete capital approach, the California Endowment used a \$30 million anchor investment to catalyze the launch of the California FreshWorks Fund. The fund has raised \$264 million in investment commitments from a range of com-

mercial banks, impact investors, and private foundations, and it makes grants available to support innovative ideas that are not investment-ready. This approach drew on intellectual capital developed by the Reinvestment Fund based on a similar program in Pennsylvania; the human capital of NCB Capital Impact, which runs the California FreshWorks Fund; and the social capital of first lady Michelle Obama, who has boosted awareness of this work as part of her national campaign to combat obesity.

And this is not just a US phenomenon. In India, Shaffi Mathur and Ravi Krishnan became inspired to create an ambulance company when personal experiences showed them the importance of emergency health care. With two friends and \$400,000, they launched Dial 1298 for Ambulance, dispatching ambulances to Mumbai residences. For clients seeking treatment in private hospitals, the company charged a fee, allowing free ambulance service to poor clients. To raise additional revenue, Dial 1298 sold ad space on its ambulances. But by 2007, demand outpaced capacity and existing revenue sources could not adequately fuel the company's growth.

Enter complete capital: Between 2007 and 2009, the Dial 1298 team mobilized financial capital from impact investors, securing

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\$2.5 million from the Acumen Fund and then accessing mainstream equity finance. Dial 1298's central innovation—the tiered pricing model that allows wealthy customers to subsidize poor ones—draws on visionary ideas developed by organizations such as the Aravind Eye Care System. Beyond financial capital, Dial 1298 has benefited from human capital support from Acumen Fund, which has lent strategic planning experts, and the London Ambulance Service, which has provided advice. Yet the main resource for its expansion is state government contracts, which would not be available if Dial 1298's founders and many others had not organized campaigns to ensure that these contracts are awarded on merit, not patronage.

What will it take to expand this approach? As these examples show, mobilizing complete capital is not for the faint of heart. It takes longer to pull off. It requires us to connect organizations and individuals used to operating in silos and to overcome legacy mindsets and mutual suspicions. Few organizations can afford to carry the costs of staff time while waiting to bring diverse partners across the finish line.

If a simpler way could work, we should follow it. But the social safety net will not repair itself—and we cannot count on the economy to return to a state where silo approaches are the norm.

In our time of crisis, it may be tempting to batten down the hatches and ride out the storm. But I believe we need to rebuild the boat. And to do that requires more than innovative carpenters to hammer nails better and sawyers to mill the best boards. We need all hands on deck. ■