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**Building Institutions for Social Change:
The Case for “Buy-and-Hold Philanthropy”**

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I am delighted to be here in New Orleans for the PRI Makers Network second national conference. I have a passion for program-related investments and confess to be on something of a crusade to persuade more foundations to join us. MacArthur’s Trustees share my enthusiasm. We have seen how PRIs multiply the power of our grantmaking.

Over the years, MacArthur has awarded \$265 million in PRIs, with \$180 million outstanding. Most have been used in the U.S. to build the field of community development finance and for *Window of Opportunity*, a national effort to preserve affordable rental housing. In December, the Trustees raised our PRI allocation to \$300 million with an invitation to ask for more when we are fully invested.

We are fortunate to have many dedicated partners. Doug, we appreciate your leadership in housing preservation and were pleased to hear about the Meyer Trust’s recent \$6 million PRI and grant to create the Oregon Housing Acquisition Fund.

This morning I want to talk with you about two related topics: first, why MacArthur is committed to the use of PRIs and second, how PRIs have made us better at strengthening institutions central to our mission.

That topic may be a bit surprising. We are best known for the MacArthur Fellows, the “genius grants” that celebrate creative individuals. But institutions receive almost all of our funds. Over 30 years, MacArthur has supported more than 4,000 institutions with nearly \$4 billion in grants and PRIs.

MacArthur works in 60 countries in conservation, population, human rights, migration and peace and security. In the U.S., we focus on community and economic development, stable, affordable housing, juvenile justice reform and education, especially how technology affects the way young people think, learn and play.

Whether preserving biodiversity in Bhutan, reducing maternal mortality in Nigeria, protecting human rights in Russia or saving low-cost homes in New York, New Orleans and Chicago, MacArthur depends on institutions.

We live in an era of rapid change, in which both challenges and opportunities abound. There are dangers, like terrorism and climate change. And moral imperatives, such as meeting the Millennium Development Goals to alleviate poverty. There are hopeful signs as well, including the emerging international system of justice.

Strong institutions are central to our quest for a more just, sustainable and peaceful world. They help us frame the issues we must address, gather objective evidence, analyze policy options, inform the public and galvanize action. Some aid or critique governments. Others engage, leverage or transform private markets. All stand squarely for the public interest. We trust them, we depend on them. Foundations are not very good vehicles for direct action but the institutions in which we invest are on the front lines, doing the work, taking the risks, translating our shared dreams into reality.

How should foundations use their resources to strengthen the institutions dedicated to social change and improvement? Today, I will give you some examples of how we have used both PRIs and grants to build and strengthen institutions with an approach I call “buy-and-hold philanthropy.”

There has been a lot of talk about new philanthropy, strategic philanthropy and venture philanthropy. We have seen the rise of social enterprises, market-driven nonprofits and businesses with a “double-bottom line.” Grantmakers and scholars alike have focused on the importance of strategy, specific goals and measurable outcomes. The discussion is healthy and I applaud the efforts it promotes. Pluralism makes philanthropy stronger – we do not all need to take the same approach.

MacArthur certainly embraces creativity, innovation and risk taking. We seek new opportunities and challenges. But, we also take the long view – devoting a solid share of our dollars to institutions of lasting importance. We do this through long-term PRIs, multi-year operating support grants and major one-time awards attuned to an institution’s core mission. Experience shows us the power of funding that is patient, flexible and liberating – it shows us the power of buy-and-hold philanthropy.

PRIs are the cornerstone of this approach to philanthropy, and we hope to see their use grow. There are more than 71,000 foundations in this country. In 2005 they gave away \$36 billion - but only \$217 million in PRIs. We should aim to double if not triple that amount within the next five years. In advancing this case, I cite three ways in which PRIs make MacArthur a better, more effective foundation – three virtues I believe PRIs offer grantmakers of every kind.

First, PRIs provide tremendous leverage. Consider our housing preservation initiative. Since 2001, we have awarded \$50 million to preservation-minded developers and lenders across the U.S. By the end of last year, these groups had used our PRI dollars to marshal over \$3.5 billion in new long-term financing – enough capital to acquire, improve and preserve 50,000 at-risk affordable rental homes. In other words, every PRI dollar that we have invested has unlocked 70 dollars from public and private sources. One to 70 – dramatic leverage by anyone’s count.

Second, PRIs fuel innovation – especially at the nexus of the public, private and nonprofit sectors. Through our preservation initiative we made a \$5 million PRI to the New York Housing Acquisition Fund. Backed by seven foundations, the City of New York and 20 financial institutions, the Fund’s timely bridge loans have catalyzed large preservation projects in the Bronx and elsewhere. The Fund’s creative use of PRIs for a guaranty pool has inspired similar funds around the country, including here in the Gulf Coast.

Although housing has been the focus for most of our recent PRIs, we also use them to stimulate creative business models and partnerships in other fields. Here are two recent examples – both related to technology.

Last year we gave a \$2 million PRI to the Calvert Foundation so it could become the first security issuer for eBay’s “MicroPlace.” This new online platform lets individuals make investments as small as \$100 each to support microfinance lenders in Africa, Asia and Latin America. A second example comes from our new Digital Media and Learning Initiative. It will use a PRI to seed a public interest fund to support the development of social networks, virtual worlds and video games with high educational merit but uncertain commercial appeal.

This brings me to the third “virtue” of PRIs: building institutions. PRIs take discipline that inherently makes organizations stronger. They are less restrictive and less costly than conventional loans. And, typically, PRIs come in larger amounts for a longer term than grants. Our smallest PRI is \$1 million and ten years is standard – versus the 2 or 3 year cycle typical for most grants. Mixing PRIs with our grantmaking lengthens our perspective, giving organizations the time and running room they need to prove their worth; to lead a field; to produce real change.

The discipline of PRIs has sharpened strategy and due diligence across all of our grantmaking. It makes us think hard about business plans and forecasts – identifying and testing key assumptions and risks. Our job is not done with PRIs and grants alone: program officers pay attention to other kinds of help – governance, fundraising, information systems, staffing – that an institution needs to achieve financial sustainability and programmatic success. Our long time horizon makes us look not only for great ideas and dynamic leadership, but also for a culture that fosters planning, risk-taking, mistakes and learning. We back institutions that know their strengths and weaknesses; that know who they are and where they are going; that have the resilience and resolve to work through the surprises and setbacks that always come. In short, we invest in organizations whose character gives us confidence and whose ambitions give us hope.

In 1983 MacArthur made its first PRI, buying stock in the South Shore Bank of Chicago – a for-profit institution that had less than \$100 million in total assets. Today, the company known as ShoreBank has \$2 billion in assets, offices in Chicago, Detroit and Cleveland and a robust international consulting practice. In 2006, it loaned \$433 million to small businesses, housing rehabbers and non-profits – capital that strengthened communities and expanded opportunity while also generating a healthy net income.

ShoreBank started us on more than two decades of support for Community Development Financial Institutions. In 1989, we made a PRI to the Center for Community Self-Help. It had just \$7 million in capital at the time; today it manages more than \$1 billion. Self-Help has used

this capital to bring responsible mortgages and wealth-building opportunity to 60,000 underserved households across the country. Also in 1989, we made the first of several PRIs to the Low Income Investment Fund. Its financing has since unlocked over \$5 billion in public, private and philanthropic capital for affordable housing, child care and other facilities serving 450,000 people in more than half the states in the U.S.

Dollars leveraged, houses built and jobs created are important. But as the new book Forces for Good reminds us, the true value of social-purpose institutions cannot be captured by data alone. The real measure of their impact is how they transform public policy and spur market innovation – spearheading legislation to combat predatory lending or using investment-grade bonds to finance community development projects.

In fact, the collective experience of the CDFI field has challenged deeply held prejudices and misconceptions. With more than \$11 billion of loans and losses of less than one percent, CDFIs have overturned “conventional wisdom” about low-income communities. They have shown that millions of marginalized or underserved people who live in these places can be responsible, productive participants in our mainstream economy.

The institution and field-building success of CDFIs inspired us to make MacArthur’s largest PRI ever last year – \$25 million. In partnership with the Opportunity Finance Network and the Wachovia Foundation, we created a five-year program to propel ten high-potential CDFIs to the next level of scale, innovation and sustainability. The first winners of the Wachovia NEXT Awards for Opportunity Finance were the Latino Community Credit Union and ACCION Texas. We were delighted to have Ford’s Frank deGiovanni and Heron’s Luther Ragin serve on the selection committee.

It took more than twenty years of patient, flexible, liberating investments from MacArthur, Ford and others to help the CDFI field reach this exciting next phase of its development. It is a classic story of how the buy-and-hold philanthropy approach builds institutions that create a field. It is a story that highlights the three fundamental principles of this approach – principles that apply to PRIs and grants alike:

1. “Know them fully.” Consider strengths and weaknesses carefully and assess each institution thoroughly before a long-term investment is made.
2. “Believe in them deeply.” Choose institutions whose core purpose you value, talent you admire and judgment you trust.
3. “Hold them accountable but set them free.” Demand clear, long-term results and prudently mitigate risk. But avoid unnecessary “strings.” Let your funds be true risk capital – freeing institutions to innovate, adapt and evolve.

Long-term relationships are central to buy-and-hold philanthropy. Patient funding lets institutions seize new opportunities. It also lets them endure hardship beyond their control. This is why, after the 2005 hurricanes, we awarded \$7 million in zero-percent loans and unrestricted grants to bolster existing PRI borrowers and grantees we knew would be critical to the long-term rebuilding effort. These institutions included Enterprise Corporation of the Delta, Southern

Mutual Help Association, Volunteers of America and Southern Development Bank. A small grant helped start the Gulf Coast Housing Partnership, which is developing over 1,000 affordable homes. Some of you may have seen the work of these groups during yesterday's tours.

But what about our other grantees – those with little or no earned income? Most nonprofits depend heavily on annual fund raising. PRIs may not work for them, yet they too need funding that is patient, flexible and liberating. That is why we support 180 arts and culture institutions in Chicago with five-year renewable, unrestricted grants. That is why we give general operating support to anchor institutions in all of our major fields: groups like the Population Council, Conservation International, National Housing Trust and the National Center for Juvenile Justice. And that is why we hold our funding commitments firm, even in the face of a falling stock market. Our grantmaking stayed steady during the 2001 downturn and this is how we plan to respond again if market conditions decline.

I was happy to see the recent New York Times article, “Can Foundations Take the Long View Again?” It suggested that more foundations are turning to unrestricted operating grants rather than narrow project support. I also take heart in the efforts of Edna McConnell Clark and others to raise funds that help promising nonprofits grow. Institutions do come to inflection points – moments when a strategic infusion of capital can make a major difference. This is true whether or not an institution plans to grow.

That insight led MacArthur to create two grant programs aimed at strengthening institutions. Like our process for picking MacArthur Fellows, applications cannot be made. Instead, our program staff nominates institutions they consider ready and likely to benefit from a major, one-time award. The awards are not lieu of regular grants, which continue.

The first program began in 1995, focusing on large, established institutions. The awards range from \$5 to 10 million each and more than 30 groups have received them to date. We look for organizations where we have a long history and deep familiarity. They must have strong leadership and provide clear evidence that a major investment could prove instrumental and timely in terms of growth, resilience or transformation. Most important, we look for institutions that will remain critical for their issues and the fields in which we work.

One well-known recipient is the Center for Budget and Policy Priorities in Washington. A \$5 million grant in 2002 launched their new endowment campaign. Now more than \$10 million, this fund gives the Center independence to take on issues for which project funding is unavailable or too slow. The Center's analysis of federal budget proposals, often published within hours of their introduction, is trusted as accurate and objective. The policy process works better because the Center is strong, nimble and independent.

Other recipients include the Center for Responsible Lending, the World Resources Institute, the Metropolitan Policy Program at Brookings, National Public Radio and Human Rights Watch.

I can speak first hand about the impact of these awards. I was Chair of Human Rights Watch when it received one of these grants in 1998, before I joined MacArthur. The news came at a critical moment, during the planning stage of a major fund drive. It spurred others to match and

led us to double our goal from \$25 to \$50 million, which we ultimately exceeded. Before the grant, this organization's annual budget was \$12.5 million; today it is \$30 million. The work of Human Rights Watch now extends to 68 countries and includes fighting genocide in Darfur, exposing abuses in Burma and standing for the rule of law in Pakistan.

But not all institutions are large or eager to grow. It is often small or emerging organizations that generate provocative ideas, reframe the debate, or provide fresh ways of understanding persistent problems. Some are particularly effective at delivering services or challenging old paradigms.

Two years ago we initiated a program for these organizations, the MacArthur Award for Creative and Effective Institutions. So far, 18 groups working in the US and abroad have received special one-time grants of up to \$500,000. They include: Action Health in Nigeria, educating young people about reproductive rights and responsibility; Resources Himalaya Foundation, protecting biodiversity in Nepal and Bhutan; the Institute of Law and Public Policy, advancing human rights in Russia; and Kartemquin Films here in the U.S., making *Hoop Dreams* and other documentaries that hold a mirror to our society.

These groups were chosen because they are well-run and at a critical stage in their development. All have budgets under \$2 million. They do not have to be new or fast growing. Indeed, most are longstanding, proven field leaders that have stayed small by design. A good example is the Chicago-based Woodstock Institute. Its prescient studies of predatory lending and rising foreclosures illuminated the true costs for homeowners and communities. Their insightful work is helping advocates, policymakers and local leaders combat a crisis that continues to unfold across the U.S.

We need path-breakers and visionaries, to be sure. But a well developed, vibrant social sector also requires diversity and staying power. The simple truth is this: all institutions dedicated to social progress – nonprofit, for-profit or hybrid – have an enduring need for support that is patient, flexible and liberating. They need funds for working capital, general operations, purchase of buildings and equipment, operating reserves, strategic planning and endowments. They need backers who adhere to the principles of buy-and-hold philanthropy: Know them fully; Believe in them deeply; Hold them accountable but set them free.

This approach does not mean we have to give up a sharp programmatic focus or funding strategy. But we must take care not to overlook or under-fund organizations simply because they are well established, stable or small.

The challenge, of course, is to bring the right resources, in the right ways, to the right organizations, at the right times. This is never easy. The institutions we support vary widely. They are highly complex, answering to many stakeholders and measures of success. Moreover, the value of institution-building investments is seldom straightforward or clear.

That is what makes us appreciate events like this conference. They allow us to share our perspectives and talk candidly about what has worked and what has failed. We come away reenergized and ready to spur innovation, ease transitions and reinforce steady strengths.

I am honored that MacArthur has been able to play its part in helping this important network take root. We are a better foundation for the connections and partnerships forged here. We are all better foundations thanks to events like this and networks like PRI Makers.

Without philanthropic capital, there would be no meaningful social sector, no civil society. Whether we describe our philanthropy as traditional or venture, whether we are large or small, whether we make PRIs or MRIs or plain, old-fashioned grants, we have the opportunity and the obligation to work together – to create and strengthen institutions that amplify the collective power of the human spirit.

I am optimistic that the 21st century will be different, will be better, not only in America but around the globe. It will be so because foundations like yours and mine have helped build more vibrant, effective and resilient institutions dedicated to achieving a more just and sustainable world at peace.

Thank you very much.