A GRANTCRAFT GUIDE

PROGRAM-RELATED INVESTING

Why make PRIs? How can novice PRI makers get started?

IN THIS GUIDE

Program-related investing to support charitable activities is a philanthropic resource that has been available to all foundations for 30 years. Many grant makers are using PRIs (typically below-market-rate loans or equity investments) with great success, yet others have been slow to pick up the tool. Why the hesitation? In this guide, experienced PRI makers help newcomers better understand the reasons for making PRIs. They also suggest some simple ways to get your feet wet and bring your board and colleagues along. In addition, the guide offers strategies for understanding, structuring, and closing deals — either on your own, with staff from your own foundation, or with help from consultants or intermediaries.

HIGHLIGHTS

- **Making a deal**
- **Legal definitions and requirements**
- **Tips for new PRI makers**

"You don't make a PRI just because it's a sexy financial investment; you make it because it furthers your mission."

–Grant maker on why PRIs fit a grant making context

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A sample from the guide:

What PRI Recipients Wish Their Investors Knew

Apply lessons from your PRI practice to grant making more generally. Several PRI recipients lauded the mind-set that investing forces grant makers to adopt. "I think foundations really ought to consider whether this kind of investment and institution-building strategy is actually preferable to grant making," one recipient said. Unlike grant making, which is often focused on the short term, PRIs allow recipients to focus on long-term goals of hiring and retaining talent and building their core business so they can achieve scale and impact. Plus, she continued, "the not-for-profit sector would benefit if it were more investment-oriented."

Standardize reporting requirements, please! Since many PRI investees receive investments from several different PRI makers, each with its own set of measurements and reporting procedures, reporting can become an administrative headache and a drag on investees' efficiency. The solution? "It would be really nice if the foundation community could agree on a standard set of templates for underwriting and expenditure reporting," one recipient said.

What about the other 95 percent of foundations assets? Several PRI recipients urged foundations to consider investing part of their assets in mission-related, market-rate investments. "Foundations should develop 'investments-related programs' in addition to program-related investments," one asserted. "They would be more economically driven and would still have a program component, but they would fulfill what's being bandied about by a lot of folks as a blended value proposition" – a market-rate return in pursuit of social goals. Noting that several foundations are currently investing portions of their endowments in blended value instruments, one grantee urged others to follow suit. "I think there are some real opportunities for foundations to be on the cutting edge – not just in the foundation world, but in the investing community."

Loans are good, but equity is better. Loans and other debt instruments account for the vast majority of PRIs; recipients welcome these investments, but many wish foundations would make more equity investments. "I think that the best opportunity to use PRIs is through equity investing," said one PRI recipient, "especially for things that have a very difficult time getting capitalized through traditional means." Equity provides more flexibility, he continued, particularly for start-up ventures, regulated financial institutions, and businesses in unproven markets.

PRIs and MRIs

Recently, program-related investments have opened the door to a broader conversation about the relationship between mission, markets, and social change. In developing this guide, we heard from a few foundations that have begun to use mission-related investments, or MRIs, to expand the programmatic impact of their endowments through market-rate, social purpose investing. For more on MRIs, see page 21.