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### Strategies for Program-Related Investing

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Kelly Lucas, Community Foundation of South Wood County

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### Program-Related Investments (PRIs)

- Innovate
- Leverage
- Grow

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### Program-Related Investments (PRIs)

- Like a grant, a PRI is a tool for foundations to make inexpensive capital available to non-profit organizations and social enterprises to achieve specific program objectives.
- Unlike grants, PRIs require repayment.
- Expected returns are lower than prevailing market rates, adjusted for risk.

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### Philanthropic Investing Continuum



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### Types of PRIs

- Deposits
- Loan Guarantees
- Low Interest Loans
- Bonds
- Commercial or Real Estate Equity Investments

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### Common Uses of PRIs

- To purchase or construct facilities
- Develop housing projects
- Purchase land or equipment
- Capitalize a loan fund
- Start or grow a business venture
- Finance green retrofits
- Refinance debt
- Address emergency or short-term cash flow needs
- Pay for production costs for a theater program.
- Create charter schools.
- Protect forests
- Implement sustainable fishing or agricultural practices

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### Potential Results

- Families moving into a previously foreclosed, recently renovated, affordable homes.
- Farm workers avoiding predatory lenders, developing financial literacy, and building assets.
- Arts organizations and other non-profits delivering programs and services.

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### Benefits to Foundations

- **Recyclable:** Once repaid PRIs can be redeployed for new projects, extending philanthropic resources.
- **Size:** PRIs can provide capital for larger projects that exceed typical grant amounts.
- **Leverage:** PRIs can attract other sources of funding from banks, corporations and government.
- **Pay-out:** During rapid asset growth PRIs help meet immediate distribution requirements with the likelihood that capital will again be available in the future.

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**Benefits to Non-Profit Organizations**

- **Capacity:** Offer access to larger pools of capital to support strategic projects and growth.
- **Strength:** Foster management capacity and financially sound approaches to programs and strategies.
- **Self-Sufficiency:** Support investee efforts to build self-sufficiency through earned income.
- **Credibility:** Help in developing credit history, leading to more bankable organizations.
- **Relationship:** Establish a long term relationship between investor and investee, with built in accountability.

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**Grants or PRIs**

- To Fund or Finance?
- Opportunity for Leverage?
- Sustainability?

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**WHEN TO SEEK A PRI**

- Within the foundation's guidelines
- Income generating
- More favorable terms than other sources
- Opportunity for leverage
- Internal capacity
- Balance sheet

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## Examples of PRIs

- ❖ Revolving loan fund to support economic development and jobs creation: **Seattle Foundation**
- ❖ Loan guarantees to pay for the development of charter schools: **Gates Foundation**
- ❖ Seed capital for Latino Community Credit Union: **Babcock Foundation**
- ❖ Emergency working capital for community agencies: **Knott Foundation**
- ❖ Secured deposits in a community bank; **OP and WE Edwards Foundation**

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## Investment Funds

- **Green Communities Initiative (Enterprise Fund)** to develop 8,000 units of affordable housing using sustainable building practices with the goal of creating healthier, energy efficient housing and advance the green market.
- **Window of Opportunity:** Ten-year multi-state effort to preserve more than 70,000 affordable rental homes. MacArthur Foundation is the primary investor nationally, and partners with local foundations.
- **Shorebank Capacity Plus Loan Program.** Designed to meet the working capital needs of all types of non profits (e.g. social service, arts and culture, and community development). Allows investors to go through a financial intermediary skilled in non-profit underwriting.
- **Nonprofit Finance Fund.** Established to help nonprofits strengthen their financial health and improve their capacity to serve their communities.
- **Living Cities Catalyst Fund:** Below-market rate loans and guarantees to high performing organizations to improve education; provide opportunities to build income and wealth; promote health and wellness and enhance neighborhoods and communities.

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PRI Makers Network is a program of Philanthropy Northwest

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## Program-Related Investments

In addition to grants, foundations make *Program-Related Investments (PRIs)* as a way to achieve their philanthropic goals. Like grants, program-related investments provide organizations with access to capital to use to address social needs. Unlike grants, these investments must be repaid.

*PRI's* may take several forms. They may be made as loans or loan guarantees, deposits in loan funds or banks that serve low-income or other targeted communities, or as equity investments in real estate or businesses. *PRI's* can help non-profit and other organizations **gain** access to inexpensive capital; **build** a credit record that will qualify them for commercial financing; **improve** financial management capacity.

At the same time, *PRIs* make it possible for foundations to:

- Recycle repayments of *PRIs* into new charitable investments.
- Count the value of *PRIs* toward its minimum five percent payout of net assets.
- Leverage other capital from banks and other conventional sources by taking on real or perceived higher risk;
- Strengthen non-profit organizations by fostering long-term sustainability and improving cash flow;
- Make larger distributions to charitable causes.

### WHEN TO SEEK A PRI

Organizations typically seek PRI financing to purchase or construct facilities, develop housing projects, purchase land or equipment, capitalize a loan fund, start a business venture, or refinance debt. However, PRIs have also been used to address emergency or short-term cash flow needs, pay for production costs for a theater program, create charter schools, protect forests, finance the implementation of sustainable agricultural practices, and a host of other projects.

### Your organization might consider seeking a PRI from a foundation:

- If the project falls within the foundation's guidelines;
- If the project for which you are seeking funds is expected to result in a reliable source of income which will enable you to repay the PRI.
- When a foundation can provide significantly more favorable terms of investment than other sources you have explored e.g. commercial banks and intermediary organizations.
- If the funds will be used to leverage other resources e.g. commercial or public financing.
- If you can demonstrate the capacity to manage loans and/or forms of financing.

*PRI Makers Network* is comprised of foundations that use mission and program-related investments to accomplish their philanthropic goals. *PRI Makers Network* members come from more than 90 foundations of all sizes, from every region of the country, with a wide range of programmatic goals

For more information, go to: [www.primakers.net](http://www.primakers.net) or contact: Peter Berliner, Managing Director; e-mail: [pberliner@primakers.net](mailto:pberliner@primakers.net); telephone: 206 443-8462.

# ***Leveraging Foundation Resources through Program-Related Investments***

## **Resource List**

### **Organizations and Useful Web Sites:**

**PRI Makers Network** is an association of foundations engaged in program related investing that enables them to share expertise, tools and resources. Visit: <http://www.primakers.net>.

**More for Mission: the Campaign for Mission Investing** encourages foundations to align investments with mission, while maintaining long-term targeted financial returns. Visit: <http://www.moreformission.org/>.

**Center for Applied Philanthropy (CAP)** is as a resource for foundations that are considering or practicing program or mission related investments. Visit: <http://www.tpi.org/thecenter.aspx>

### **Selected Articles**

*Program-Related Investments: A User-Friendly Guide*

David S. Chernoff is Associate General Counsel of the Chicago-based John D. and Catherine T. MacArthur Foundation.

*Program-Related Investments: More Complicated Than Grants, But Worth Considering*

Robert Jaquay in Shelterforce Online.

*A Basic Guide to Program-Related Investments*

Christie I. Baxter, 1997.

*Matching Program Strategy and PRI Cost*

Frances Brody, John Weiser, Scott Miller, Phyllis Joffe (editor).

*Money Matters: The Structure, Operation and Challenges of Nonprofit Funding*

Jed Emerson and Paul Carttar, The Bridgespan Group, January 2003.

*Should We Consider a PRI? Basic Program-Related investment Criteria for Foundations and Nonprofit Organizations.*

Frances Brody, Christa Velasquez, 2002.

*Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming.*

Jed Emerson, Stanford Social Innovation Review, Summer 2003.

### **Case Studies**

**Growing and Formalizing Mary Reynolds Babcock Foundation's PRI Program**

This study describes the process by which the Mary Reynolds Babcock Foundation employed its PRI program to helping people and places move out of poverty and achieve greater social and economic justice. The case study explains how board and staff put policies and processes in place to formalize the program and ensure that it would meet the Foundation's social and financial goals.

### *Expanding Philanthropy—Mission-Related Investing at the F.B. Heron Foundation*

This case study explores the details of the F.B. Heron Foundation's rationale, exploration, and implementation of its mission-related investment strategy, and reviews the tools (including PRIs), specific investments, interim outcomes, and lessons learned.

## **Guides, Manuals and Books**

### GrantCraft Guide - Program-Related Investing: Skills & Strategies for New PRI Funders

In this guide, experienced PRI makers walk through the process, offering practical advice at each step — from explaining the concept to your board to structuring and closing your first deal.

The PRI Directory: Charitable Loans and Other Program-Related Investing by Foundations. The Foundation Center. This directory lists leading PRI providers and includes tips on how to seek out and manage PRIs.

Program-Related Investments: A Technical Manual for Foundations by Christie I. Baxter. This book provides foundations with guidelines for evaluating PRIs, monitoring grant recipients, and tracking returned funds. Chapters include: The PRI Decision: From Policy to Program; Federal Tax Considerations for Private Foundations; Documenting Direct Investments; Investing in Intermediaries; Supporting Ventures; and Evaluation.

Leveraging Your Assets with Loans and Other Program Related Investments (PRIs), published November 2007 by Association of Small Foundations (ASF). Small foundations are using PRI loans and other investments to enhance the power of their grant making, build capacity, and leverage the impact of their assets. Visit ASF Bookstore (\$10 for ASF members, \$15 for non-members) or contact Janice Simsohn Shaw

### Economic Development: A Legal Guide for Grantmakers

Jane C. Nober, 2005, 125 pages, \$59. Published by Council on Foundations, this guide provides an in-depth legal knowledge of charitable tax law, including implications for program-related investments, and contains information that all grantmakers can use plus specific guidance for private foundations, community foundations and corporate grantmakers.

### Philanthropy's New Passing Gear: Mission-Related Investing – A Policy and Implementation Guide for Foundation Trustees. Rockefeller Philanthropy Advisors.

This is a practical publication that can inform decision makers about how to implement mission-related investing.

### Aggregating Impact: A Funder's Guide to Mission Investment Intermediaries

October 2007 by Mark Kramer and Sarah Cooch, FSG Social Impact Advisors  
This report provides a guide to mission investment intermediaries, organizations that collect capital from multiple sources and reinvest it in people and enterprises, whether nonprofit or for-profit, that deliver both social impact and financial returns. The authors provide an overview of mission investment intermediaries and how foundations use them, the benefits and challenges of investing in intermediaries, and an analysis of available intermediaries that address economic development, housing and the environment.

These and other reference materials are accessible via:

[http://www.primakers.net/publications\\_articles\\_and\\_transcripts](http://www.primakers.net/publications_articles_and_transcripts)

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**COMMUNITY INVESTING**

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**HELEN BADER FOUNDATION**

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- ✘ Established in 1992
- ✘ Estate primarily created through successful business
- ✘ Funding primarily in WI and Israel
- ✘ Established Economic Development area in 1997 with focus on Workforce Development and Business Development
- ✘ First recommendation of program area goals presented in February 1997

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**ECONOMIC DEVELOPMENT PROGRAM GOALS - THEN AND NOW**

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- ✘ Business development / expansion primarily in underserved communities
- ✘ Workforce development strategies for people with multiple barriers to employment
- ✘ Community development strategies to support investments in the other two areas

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**THE LANDSCAPE IN MILWAUKEE IN 1997**

- ✘ Limited capital for micro enterprise and small business development
- ✘ Very limited risk capital for business expansion
- ✘ Crumbling CDC community
- ✘ CDFIs, NMTC, NMVC didn't exist yet
- ✘ On the eve of transition to W2 - "work first"
- ✘ Growing community of entrepreneurial nonprofits / Social Entrepreneurship Movement

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**LIMITATIONS OF GRANT MAKING**

- ✘ Working to support entrepreneurs but limited in ability through grant-making strategies and nonprofit partners
- ✘ Wanted to support entrepreneurial nonprofits (social enterprises) but needed a different type of capital structure / finance models
- ✘ Couldn't really encourage strategies around "sustainability" exclusively through grants

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**THE PATH TO PRIS BEGAN THROUGH SOCIAL ENTERPRISE CONVERSATIONS**

- ✘ Began exploring "social venture capital" model, then Program Related Investments
- ✘ When grants were made that could have been "better" as PRIs we talked about it internally
- ✘ Had very active program supporting Social Entrepreneurship
- ✘ As luck would have it...first PRI was to help "start a bank" before we had a PRI program
- ✘ Launched PRI program - officially - in 2000

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**OUR BOARD'S THINKING BEHIND PRIS**

- ✘ Disclaimer: Culture of supporting risk-taking
- ✘ PRI investments are clearly aligned with the mission of the Foundation's grant making
- ✘ The board was not uniform in their support of "lending" versus "granting" – but willing to try it
- ✘ Board's understanding has been an evolving one – continuous education at each meeting
- ✘ Board saw potential for PRIs to be a "deal changer" in our economic development work

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**BOARD SUPPORT HAS GROWN THROUGH EXPERIENCE WITH PROGRAM**

- ✘ Early in the PRI program Board allocated \$5 million as a revolving fund paid \$1 million / yr
- ✘ Introduced PRIs to the board 2 or 3 at each meeting
- ✘ Used a 3<sup>rd</sup> party underwriter early in process
- ✘ Tied all PRIs to program area strategies
- ✘ Board members worked hard to transition in board meetings: grantmakers to "loan committee"

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**GETTING TO "TRANSFORMATIONAL"**

- ✘ Needed to look at vehicles to leverage HBF funds - \$ 5 million is not a lot
- ✘ Pursued Venture Capital and Private Equity models
- ✘ 4 years in the making – Generation Growth Capital
- ✘ Board more than doubled PRI budget adding additional \$5 million for LP investment and \$1 million for investment into Management Company as Shareholder

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**PRIS TODAY**

- ✘ Continue to provide education and background on our PRI portfolio to board
- ✘ Track SROI along with financial indicators to make sure the mission piece is present
- ✘ Board asks questions about deal structure – fabulous!
- ✘ In this current economic time getting close to \$900,000 in repayments in this fiscal year was pretty helpful in solidifying support for PRIs ☺

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**QUICK SNAPSHOT OF PORTFOLIO**

- ✘ Portfolio of 35 approved PRIs
- ✘ ~ \$11.2 million committed
- ✘ ~\$300K in losses
- ✘ Some SROI:
  - + 775 classroom seats
  - + 11 commercial / community facilities
  - + 233 units of housing – mostly for elderly
  - + 379 jobs preserved / created
- ETC.

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