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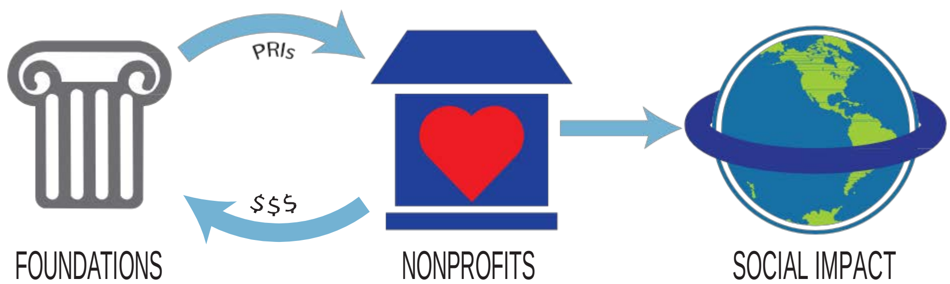

An Analysis of Program-Related Investing

Researched and Written by

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ACKNOWLEDGMENTS

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With special thanks to Xiaonan Kou, Jacqueline Ackerman, Melanie McKitrick, and Caitlin Copple for their review and comments.

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The Indiana University Lilly Family School of Philanthropy is dedicated to improving philanthropy by educating and empowering students, professionals and volunteers to be innovators and leaders who create positive and lasting change in the world. The first of its kind in the world, the School offers a comprehensive approach to philanthropy — voluntary action for the public good — through its academic, research and international programs and through The Fund Raising School, Women's Philanthropy Institute and Lake Institute on Faith & Giving. Learn more www.philanthropy.iupui.edu.

"Improving Philanthropy to Improve the World"

ACKNOWLEDGMENTS

With particular gratitude to the advisory council for their expertise, insights and guidance:

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This analysis and report was made possible through generous support from

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Forward

The School of Philanthropy at Indiana University has provided a valuable baseline analysis of foundation use of program-related investments for the years 2000–2010. This research study combines quantitative analysis of Foundation Center data on PRIs with in-depth interviews with foundation executives who use or have used this investment tool. PRIs have the potential to both increase foundations' grant making funds and grow foundation endowments while meeting the annual IRS five percent distribution requirements. As a very small piece of philanthropic giving, PRIs have been overlooked and underutilized. This School of Philanthropy study shows us that foundations of all sizes have successfully used this tool to address the full panoply of social, cultural, and environmental issues. And although less than one percent of foundations have used PRIs, those using this tool have applied it creatively, using the full range of commercial financing mechanisms. Low interest loans, equity investments, lines of credit, loan guarantees, interim financing, mortgage financing, linked deposits, and business start-up capital have all been successfully used by foundations to achieve charitable goals plus a modest financial return.

In my land conservation work with The Nature Conservancy, I saw the immediate impact a program-related investment could make. For example, The Nature Conservancy's Conservation Notes, an innovative fixed-income financial product for impact investors who are looking for a combination of social, environmental, and financial returns, has enabled the organization to expand the scale and scope of its conservation activities over time by attracting a new type of low-cost and flexible capital. The Packard Foundation was an early investor in the Conservation Notes program, and through the use of program-related investments the foundation has been able to provide The Nature Conservancy with growth capital for creative conservation and environmental causes.

As a faculty member at the Leeds School of Business, University of Colorado, it became abundantly clear that program-related investment funds provided at a below-market rate were a key to financing sustainable real-estate projects replete with affordable housing, renewable energy components, and locally grown food. The ability of PRIs to leverage private-sector financing for socially beneficial projects is too often underappreciated.

I am committed to helping foundations understand the power of PRIs. As the founder of the Sustainable Finance Collaborative and a Research Fellow in the Daniels School of Business at the University of Denver, I have been privileged to serve on the Advisory Committee for the School of Philanthropy study. The underutilization of PRIs is a puzzle that merits solving, and the School of Philanthropy study gives the philanthropic community a place to start.

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Executive Summary

For more than four decades, foundations in the U.S. have used program-related investments (PRIs) to address urgent societal needs ranging from housing, education, and health to community development, environment, and arts and culture. PRIs are investments made by foundations to support charitable activities, and, unlike grants, PRIs provide foundations a return on their investment through repayment or return on equity. According to the Ford Foundation, since their initial use in the 1960s, PRIs have helped organizations establish a loan repayment history, generate earned income, gain access to new funding, and develop new financial management history. As the world faces increasingly complex social and economic issues, there is renewed interest among foundations and philanthropists in harnessing the promise and potential of program-related investing to fulfill individual and community needs.

Despite growing interest and rising awareness, foundations have generally been slow to adopt PRIs as vehicles for charitable purposes. During the past two decades, less than one percent of U.S. foundations made PRIs each year. Even in 2004, the peak year of PRI activity in terms of the total number of PRIs, as shown by the data, only 137 foundations made PRIs, totaling $312.6 million, which accounts for only a small portion of the country's over 66,000 foundations with $510.5 billion in assets and $31.8 billion in grant dollars that year (Foundation Center, 2011). Recently, however, a growing number of funders are actively seeking to learn about the use of PRIs and how they can achieve positive social impact. As more foundations seek to leverage the potential power of their assets beyond grants alone, they are seeking to participate in peer-learning networks to increase their capacity of PRIs.

This report provides an overview of the key trends in program-related investing, drawing on quantitative analysis of data sources and in-depth interviews with foundation leaders. In this report, we examine the successes and challenges funders have encountered in using PRIs. The report also examines the motives and practical strategies that funders have used to get started. The findings provide insights into how PRIs are gaining attention within the philanthropic landscape and also reveal potential barriers to their diffusion. The current economic environment may be an ideal catalyst for foundations to consider strategies beyond grant making to accomplish their charitable purposes while minimizing the influence of asset losses on giving. However, significant challenges to expanding PRI use still remain.

Key Findings

- **There generally has been an increase in the total PRI dollar amount, the total number of PRIs granted, and the total number of PRI providers since the late 1990s. The average PRI dollar amount has increased steadily since 2005.**

Program-related investments have gained momentum since the 1990s—especially between the mid-1990s and the mid-2000s—with substantial growth in the dollar amount invested, the number of PRIs granted, and the number of foundations participating. The total PRI dollar amount increased significantly from the lowest point of $106 million in 1996 to over $400 million in 2007. There was also a rise in the total number of PRIs made per year during this period, from fewer than 200 in the mid-1990s to more than 400 in the mid-2000s. In addition, for most years in the 1990s, fewer than 100 foundations made PRIs every year. This number started to rise above 100 in 1999 and hit its peak at 137 in 2004. Moreover, the average PRI dollar amount has increased steadily since 2005, rising from nearly $635,756 in 2005 to over $1.5 million in 2009. The average amount in the years of 2008, 2009, and 2010 have more than doubled from 2005 levels.

- **Although there is a great deal of interest in the philanthropic sector, the use of PRIs by foundations remains limited.**

Despite the general increasing trends of PRIs since the 1990s, mixed results are revealed by different datasets for recent years. The IRS Statistics of Income dataset shows increasing trends in the PRI total dollar amount in recent years. In contrast, the Foundation Center data have witnessed a decline in the total dollar amount and number of PRIs made per year as well as the total number of PRI providers and recipients. For the years after 2008, fewer foundations reported participation in PRI activities, despite the growth in the total number, assets, and grant making of foundations throughout the U.S.

- **Foundations made PRIs to a variety of program areas between 2000 and 2010, particularly in the areas of housing, community development, and education. PRI providers have also shifted from the traditional PRI program areas to other uses, such as environment, health, arts and culture.**

Public and societal benefit, human services, and education (specifically housing, community development, and education) were the three major PRI-supported program areas in terms of both the total dollar amount and the total number of PRIs made between 2000 and 2010. These traditional PRI programs accounted for over 70 percent of PRIs granted. Foundations also made PRIs to other program areas between 2000 and 2010, such as environment, health, art and culture, and religion-related projects.

- **A wide variety of financial instruments were used by foundations to grant PRIs between 2000 and 2010. While loans/promissory notes were the most common, foundations have increased the use of equity investments and debt other than loans, such as loan guarantees or loan funds.**

Loans were the most common financial instruments used by PRI makers. Over half of all PRIs during the period of 2000–2010 were loans, and equity investments and capitalizing loans were the next two most common instruments. Foundations have increased the use of debt other than loans, such as loan guarantees or loan funds. Foundations with medium to large assets were more willing to use debt as opposed to loans or equity investments than were foundations of other sizes.

- **Regardless of a growing interest, barriers to the use of PRIs remain.**

Foundations can encounter many barriers as they begin using PRIs. Interviews with foundation leaders revealed four main and reoccurring challenges:

- Lack of information or knowledge of PRIs
- Lack of expertise in PRI management, and disconnection between the program and financial teams
- Potential transaction costs associated with doing PRIs
- Lack of appropriate opportunities.

- **Measuring success and failure of PRIs remains challenging.**

More often than not, foundations have specific guidelines to determine the success and failure of their PRIs. Foundations generally have a two-part definition of success: programmatic/social success and financial/investment success. Some foundations deem a PRI successful even if it did not produce a positive financial return on the investment, so long as the PRI or overall project produced the desired social outcome. Achieving success requires planning, new team structures, traditional financial investment skills, and social metrics. Achieving success can also be aided through foundations' attempts at peer learning and support. This sector is developing rapidly and delivering important financial and social results; however, it remains young. Foundations are actively involved in the field's continued evolution through both their mission investing and their grants and commissions for continued field development, including trade associations, financial and social performance tracking, and new investment product development.

- **Peer networks play an important role in supporting and educating foundations in the use of PRIs.**

Program-related investing increasingly involves collaboration and coordination between foundations, funding networks, and financial intermediaries. Collaboration among foundations using or interested in PRIs has become a common practice, providing many foundations with learning opportunities and support. According to the interviewed foundations in our research, many foundations have or are actively seeking ways to learn from their peers and to share best practices. In addition, effective impact investing strategies and implementation plans call upon investment, financial, and program professionals within foundations to work together. They also create significant opportunity for collaboration with funders and other investors whose program, sectorial, or geographic interests present mutual interests.

Conclusion

There is a growing recognition that foundation resources are scarce relative to society's needs and that PRIs could offer new strategies to aid these needs. PRIs provide opportunities for foundations to allocate a greater share of their resources in order to advance their charitable mission through means other than grant-making, including equity investments, loans, and loan guarantees. Some leading foundations are actively using charitable-investment strategies designed to accelerate and scale desired results. Many of these funders are also actively involved in sharing results with their peers to fuel adoption and learning. Program-related investing is gaining attention within the foundation community for both managing risk and generating attractive long-term returns. Regardless of this potential, many funders have cautioned that PRIs are not an end in themselves. They are a means to greater impact and a complement to effective grant making and other philanthropic activities.

Introduction

Scholars, policymakers, and practitioners are increasingly interested in expanding and strategically employing philanthropic resources in a way that best addresses the challenges of a changing world. Traditionally, foundations have tackled social problems primarily via grants. By law, private non-operating foundations are required to pay out annually five percent of the average market value of their total assets in the form of grants or eligible administrative expenses, with certain exceptions. Consequently, the vast majority of private foundations stay very close to the five percent minimum for their charitable purposes while investing the remaining 95 percent of their assets for financial value only, which in some circumstances may even have potentially adverse effects on the foundation's mission. Given this, it has been noted that the potential power of foundation assets far surpasses the impact of grants alone. In 2011, for instance, the more than 76,000 foundations in the United States paid out an estimated $46.9 billion in grants but held an estimated $646.1 billion in assets (Foundation Center, 2012).

As society deals with increasingly complex and substantial problems, foundations have been urged to stretch their assets to reach real solutions. The current economic environment, in particular, challenges foundations to consider strategies beyond grant making to accomplish their charitable purposes and to minimize the influence of asset losses on giving. Hence, nonprofit scholars such as Emerson (2003) suggest that foundations should breach the "firewall between grant making and fund management," investing their assets in ways that are consistent with and supportive of their charitable missions. Program-related investments (PRIs), mission-related investments (MRIs), and other mission investments provide appealing solutions for foundations to maximize the impact of their financial resources.

As early as the late 1960s, many foundations began developing PRI tactics to stretch limited funds and to attract other funders to advantageous projects as well as to allow foundations to maintain or grow their corpus. Like grants, PRIs are vehicles for charitable purposes. Unlike grants, PRIs are recyclable philanthropic funds when repaid and often come with at least a modest rate of financial return. While PRIs have existed for over 40 years, foundations have been slow to adopt such investment strategies. Our analysis shows that less than one percent of the nation's foundations use PRIs; thus there is a clear need to increase the understanding of PRIs in the philanthropic sector. Using quantitative and qualitative analysis on the practices of PRIs, this study explores the following research questions:

- What are the trends, size, and scope of U.S. foundations' PRI activities between 2000 and 2010?
- What factors motivate foundations to use PRIs?
- How do foundations determine successful versus failed PRI projects?
- What challenges hinder the use of PRIs by foundations? What opportunities exist to overcome these challenges?

To answer these research questions, this study provides a comprehensive quantitative analysis of the Foundation Center's PRI database for the years 2000 to 2010. Analysis of this single and uniform dataset helps to shed light on the trends and landscape of foundations' PRI activities. Additionally, the study explores the driving forces and challenges of PRIs through in-depth case studies of seven U.S.-based private foundations that use PRIs. This research aims to fill the gaps in knowledge about PRIs and to advance and disseminate new information about PRIs so that foundations might better leverage their impact for the greater good.

This study begins with an environmental scan of previous literature on PRIs, including a discussion of the legal definition of PRIs and related terms. It then provides a thorough quantitative analysis of the trends, size, and scope of PRI activities for the years 2000 to 2010. Next, we summarize key themes emerging from case-study interviews, which present an in-depth understanding of the motivations and practices of the selected foundations and their definitions of success and failure. Finally, the study concludes with several overall observations and findings regarding the opportunities, trends, and outlook of PRIs.

Background

A. IRS Rulings and Updates on PRIs

Program-related investments are important tools through which foundations can go beyond grant making to achieve their philanthropic goals. PRIs, as a result of the Tax Reform Act of 1969, originally emerged as a formal philanthropic activity that allows foundations to bring low-cost capital to disadvantaged communities. The relevant law, promulgated under federal tax regulations such as I.R.C. § 4944, prohibits private foundations from making "a jeopardizing investment" that could undermine their ability to support any of their charitable purposes. However, the section also carves out PRIs as an exception to the jeopardizing investment rule. According to I.R.C. § 4944(c), private foundations are permitted to make program-related investments, provided they meet the following three criteria:

- The primary purpose of the investment is to accomplish one or more of the foundation's charitable, religious, scientific, literary, educational, or other exempt purposes described in section 170(c)(2)(B) of the federal tax code.
- Production of income or appreciation of property is not a significant purpose of the investment.
- No purpose of the investment is to lobby, support, or oppose candidates for public office or to accomplish any of the other political purposes forbidden to private foundations by section 170(c)(2)(D) of the federal tax code (IRS, 2010).

The PRI regulations also provide some examples of PRIs, which include

- low-interest or interest-free loans to needy students;
- high-risk investments in nonprofit low-income housing projects;
- low-interest loans to small businesses owned by members of economically disadvantaged groups, where commercial funds at reasonable interest rates are not readily available;
- investments in businesses in deteriorated urban areas under a plan to improve the economy of the area by providing employment or training for unemployed residents; and
- investments in nonprofit organizations combating community deterioration.

For private foundations, PRIs are allowed to be counted as part of their annual minimum payout. "Return of PRI principal is equivalent to a refund of a grant and, thus, increases the annual payout requirement by the amount of principal repayment. Interest income or earnings from PRIs are treated the same way as earnings from any other foundation investment" (PRI Makers Network). Although all types of foundations make PRIs, entities other than private foundations, "including community foundations, social investors and corporate giving funds may use the term 'PRI' to refer to a concessionary investment for a charitable purpose, but there is no legal requirement for them to use the term 'PRI'" (PRI Makers Network).

The PRI regulations, effective as of 1972, "were designed to provide real-life examples of what large private foundations were doing at the time" (Levitt & Wexler, 2012). Generally, foundations were making loans rather than using other financial instruments, such as equity investments. Their PRI loans were mostly made to support deteriorating urban communities. In addition, their PRI activities were concentrated domestically rather than internationally.

On April 19, 2012, the Department of the Treasury and the Internal Revenue Service released proposed new guidance to private foundations regarding PRIs, which provides nine new present-day examples illustrating a wide range of investments that may qualify as PRIs. The new examples, as well as the principles articulated in the preamble, once approved, will update the current PRI regulations and illustrate the modern use of PRIs from the following aspects:

- PRIs can be achieved through a variety of financial investments, including loans as well as equity investments. A credit-enhancement arrangement may also qualify as a PRI.
- PRIs are not limited to support economically disadvantaged individuals and communities. They can also be used to further advance science, promote the arts, and combat environmental deterioration.
- The recipients of PRIs need not be nonprofits as long as they are instruments for furthering a charitable purpose; they may also be for-profit entities.
- PRI activities may be conducted in a foreign country.
- A potentially high rate of return does not automatically prevent an investment from qualifying as a PRI.

In all, the proposed new guidelines on PRIs "should facilitate PRIs by reducing uncertainty in the field" and are "welcome as much for their specific findings as for the signal that they send to private foundations that the IRS does indeed consider PRIs to be a valid tool for private foundation charitable activity" (Levitt & Wexler, 2012).

B. Definitions: PRIs versus MRIs

Program-related investing is only one type of mission or social investing that foundations make in order to achieve their philanthropic goals. **Mission investing** refers to "financial investments made with the intention of (1) furthering a foundation's mission and (2) recovering the principal invested or earning financial returns" (Bernholz & Richter, 2009, p. 42). It includes investments by all types of foundations, "across asset classes and with both market-rate and below market-rate expected returns on a risk-adjusted basis" (Bernholz & Richter, 2009, p. 42).

In addition, mission investing is a specialized subset of **social investing**, the general practice of considering social and environmental factors, in addition to financial factors, in investment decisions. Social investors include not only foundations but also individuals, pension funds, corporations, and educational endowments. The nonfinancial factors considered in a social investment may not necessarily be tied to the investing organization's core mission (Cooch & Kramer, 2007).

Both PRIs and **mission-related investments (MRIs)** are "characterized by an intention to create positive social impact as well as some level of financial return" (Levitt, 2011a, p. 33). Therefore, both PRIs and MRIs fall within the category of mission investing. However, there are some key differences. First, an MRI is fundamentally different from a PRI in that it is purely a financial instrument rather than a charitable activity. Secondly, an MRI refers to an investment by a foundation to achieve "market-rate financial return on a risk-adjusted basis plus social and/or environmental return related to the mission of the organization" (Bernholz & Richter, 2009, p. 42). In practice, PRI funds could come from either program dollars or endowment dollars, but MRIs are made from investment assets rather than program assets. By law, as a commercial investment, an MRI must meet applicable prudent investor standards. However, unlike PRIs, "there is no legal definition of an MRI and no legal requirements to qualify for this status" (Levitt, 2011a, p. 34). In practice, the terms *mission-related, mission-based* and *mission-driven investing* are often used interchangeably, and some foundations use the term *MRI* interchangeably with *social* or *mission investing*. In this report, the term MRI refers only to market-rate investments, or to investments made using endowment funds.

C. A Brief History of PRIs

For more than 40 years, foundations in the U.S. have used PRIs to provide charitable organizations and programs in marginalized communities with greater access to equity, credit, and asset development (Bernholz & Richter, 2009). The Ford Foundation is credited as the pioneer of PRIs in the philanthropic field. The foundation's engagement in PRIs started in the late 1960s and was motivated by a grant proposal from "a group wanting to provide on-the-job training for minority youths as they rehabilitated a tenement building" (Ford Foundation, 1991, p. 5). In anticipation of the creation of a legal definition of PRI in the Tax Reform Act of 1969, leaders at the Ford Foundation proposed to set aside approximately $10 million for PRIs (Ford Foundation, 1991).

While conducting research into PRIs, the Ford Foundation learned that PRIs were not a new concept but rather an old practice that could be traced back to the eighteenth century. As far back as the mid- to late 1700s, Benjamin Franklin, considered America's first social investor, used financial instruments like revolving loan funds for artisan and humanitarian organizations (Ford Foundation, 1991). In the nineteenth century, a group of wealthy men based in England and the United States called the "Philanthropy at Five" funded various ambitious housing redevelopment projects through low-interest loans (Ford Foundation, 1991). The popularity of these types of philanthropic investments continued through the 1900s until the Great Depression "slowed this trend and took most philanthropists out of the social investment business" (Ford Foundation, 1991, p. 6).

While the Ford Foundation has been acknowledged for launching the PRI field in the late 1960s, many of the most successful early PRIs were carried out by smaller community foundations that were responding to local needs (Bernholz & Richter, 2009). Early successful results led to the expansion of PRIs by many foundations and to the spinoff of financial intermediaries elsewhere so that foundations could serve regional and national markets while continuing to meet local needs (Bernholz & Richter, 2009; Ford Foundation, 1991).

Today, PRIs allow for the employment of an array of established financing mechanisms to help "organizations and communities acquire property, create jobs, develop beneficial products or services, build or preserve affordable housing or community facilities, improve public health, and a host of other social purposes" (Benabentos et al., 2012, p. 11). Organizations like the Ford Foundation continue to use low-cost loans, loan guarantees, and equity investments in strategic ways to strengthen the work of its loan recipients and to provide risk capital for cutting-edge initiatives.

D. Previous Research

A large body of literature has grown around the concepts of PRIs, mission-related investments, mission investing, impact investing, social investing, socially responsible investing, community investing, proxy voting and shareholder advocacy, double/triple bottom-line investing, blended-value investing, and other related concepts. However, as PRIs are often discussed alongside these other concepts, there is limited research that focuses solely on PRIs. In addition, limited quantitative studies are available to provide information on the landscape of PRI activities by U.S. foundations. The majority of PRI research has been qualitative and in the form of practitioner guides and case studies.

In recent years, a few quantitative reports have been released related to PRIs. In large part, data on PRIs are tracked and compiled by the Foundation Center and the PRI Makers Network. The Foundation Center's PRI database has tracked information on PRIs, gathered from foundations' 990-PF tax forms and various survey responses, since the early 1990s. In 1995 the Foundation Center released its first, very detailed quantitative report that analyzed survey results from PRI providers and recipients. It reported that the use of PRIs was on the rise, and that from 1990 to 1993 the number of foundations using PRIs increased from 57 to 93. A more recent analysis by the Foundation Center suggested an increasing use of PRIs by foundations between 1998 and 2005. However, beginning in 2006 the number of PRIs issued and PRI providers has steadily decreased (Foundation Center, 2010). An earlier study on mission investments, conducted by FSG Social Impact Advisors in 2007, offers a comprehensive look at the current and historical landscape (stretching back nearly 40 years) of mission investment activity by U.S. foundations. Through in-depth interviews and data analysis of 92 U.S. foundations, the study suggests that mission investing increased significantly between 2002 and 2007 and the majority of private foundations' mission investing has been concentrated in PRIs. While the PRI programs of four large foundations account for most historical U.S. mission-investment activity, smaller foundations' use of PRIs has grown rapidly in recent years (Cooch & Kramer, 2007).

In addition to the data reports, a recent practitioner guide on PRIs, which was a joint project by Mission Investors Exchange, the Thomson Reuters Foundation, and Linklaters LLP, provides a basic reference for private foundations and legal advisors concerning the regulations, processes, and documentation requirements related to PRIs. It answers questions about what qualifies as a PRI, what types of documentation are important, and when external legal counsel may be needed. It also offers samples of legal documents that are useful in developing, negotiating, or managing a PRI (Benabentos et al., 2012). For more resources on PRIs, see the appended User Guide.

Methodology

In this study, the School of Philanthropy conducted two phases of research to understand U.S. foundations' PRI practices. In the first phase, we analyzed the Foundation Center's PRI database. In the second phase, we conducted seven interviews with foundations that have been utilizing PRIs in their philanthropic endeavors.

To understand the current landscape and trends of PRIs in the philanthropic sector, this study examined the Foundation Center's PRI database for the years 2000 to 2010. During that period, the Foundation Center tracked 427 foundations that provided 3,757 PRIs amounting to \$3.39 billion in investments (adjusted for inflation to 2010 dollars).

The data analysis of the Foundation Center's PRI database informed the case study selection by establishing reliability and generalizability of the findings. To select potential foundations for interviews, we first conducted a statistical analysis to investigate important foundation characteristics that are linked with foundations' PRI activities. The dependent variables—PRI activities—are measured as the total number of PRIs, total PRI dollar amount, and average PRI dollar amount, respectively, by each foundation on an annual basis for the years 2000 to 2010.

From this initial analysis, we concluded that three foundation characteristics are statistically significantly associated with PRI activities: foundation asset level, geographic location, and foundation type. We then classified foundations based on the level of total PRI dollar amount (high, medium, or low) and foundations' level of assets in 2000 (very large, large, medium, or small), and we obtained 12 categories of PRI providers (e.g. very large foundation with high level of total PRI dollar amount, small foundation with high level of total PRI dollar amount). Then, based on the total number of PRIs and the average PRI dollar amount of each foundation, we selected a total of 29 potential case studies across the 12 categories. To ensure a broad and varied sample of foundations we then selected 2 to 4 foundations from each category by

- total number of PRIs made and average PRI dollar amount;
- geographic dispersion (Northeast, Midwest, West, South); and
- variation in foundation type (independent, family, operating, community, and corporate foundation).

Based on the responsiveness and availability of contacted foundations, the School conducted seven case-study interviews with foundations' senior leadership. In addition, we reviewed the websites of the foundations used in the case studies to gain information on their PRI programs. In combination, the interviews and website research revealed five major themes as discussed in the sections below:

- Motivations for using PRIs
- PRI recipient selection
- Definitions of success and failure of PRIs
- The challenges and opportunities of PRIs

Trends, Size, and Scope in PRI Activities, 2000–2010

A. Overview of the Foundation Center's PRI Database

The data analysis is mainly based on the Foundation Center's PRI database between 2000 and 2010. During this period, the Foundation Center tracked 427 foundations that provided 3,757 PRIs totaling $3.39 billion (adjusted for inflation to 2010 dollars). The Foundation Center's PRI database is modeled on its grants database, and the records of PRIs were gathered primarily from IRS Forms 990-PF along with other information provided directly by foundations, foundation publications, and Foundation Center surveys.

Individual PRI records in the database include the following information for foundations, recipients, and PRI activities, respectively:

- Foundations: name, location, type, year established, assets amount ($), total grants, and expenditures
- Recipients: name, location, type
- PRI activities: amount, loan term, year issued, program area, type of financial vehicle (e.g., loan, equity investment), type of support provided (e.g., capital, program), and the beneficiary group served (e.g., economically disadvantaged, ethnic or racial minorities).

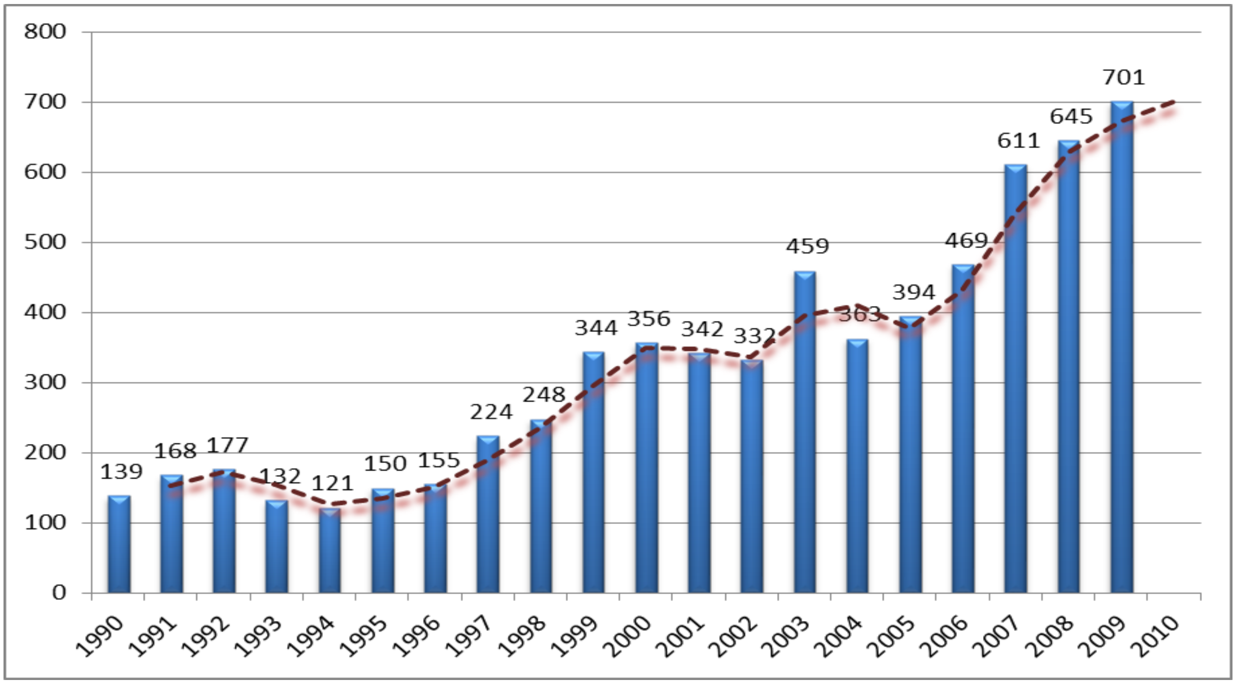
This section first examines the total number of PRIs as well as the total, average, and median PRI dollar amount by each foundation from 2000 to 2010 as well as on an annual basis. We then analyze the overall trends of PRIs over the past two decades and provide data analysis from the perspectives of PRI providers, PRI activities, and PRI recipients. Finally, we discuss potential problems with the dataset and offer reflections on the data.

B. Overall Trends in PRI Activities

The use of program-related investments by foundations remains limited. During past two decades, about one percent of U.S. foundations made PRIs each year. According to the Foundation Center dataset, in 2004, the peak year in terms of the total number of PRIs, only 137 foundations made PRIs totaling $312.6 million, which accounts for only a small portion of the country's over 66,000 foundations with $510.5 billion in assets and $31.8 billion in grant dollars that year (Foundation Center, 2011). Fewer foundations participated in PRI activities in 2010, despite the growth in the total number, assets, and grant making of foundations.

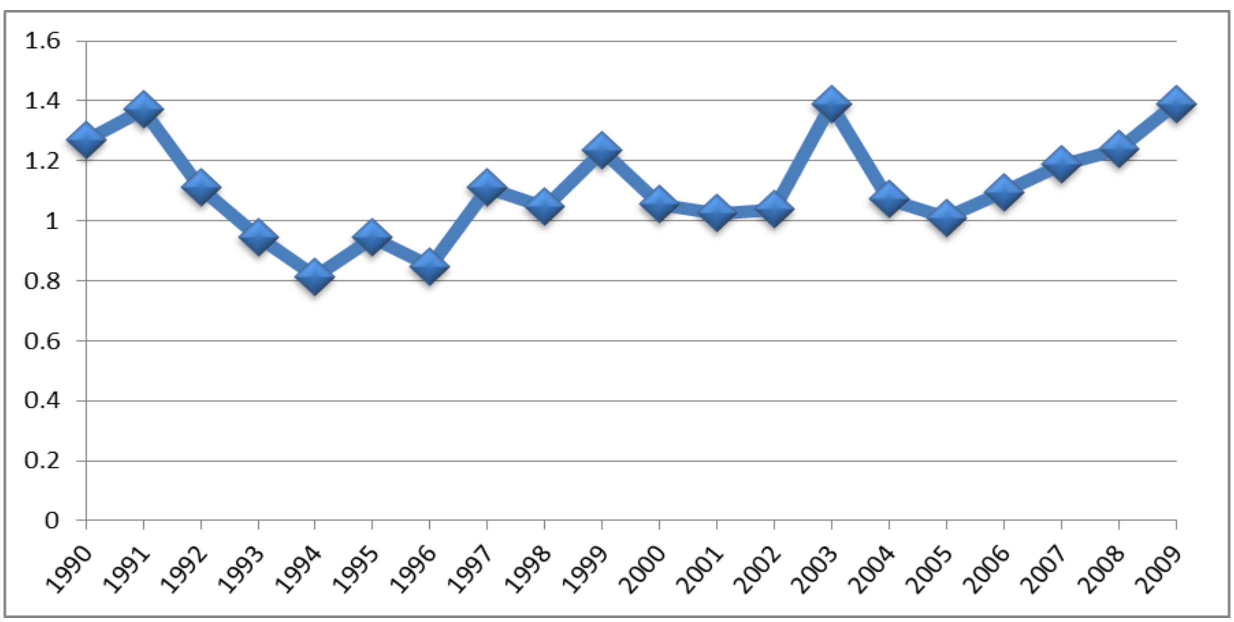
Though program-related investments remain underutilized, they have gained momentum since the 1990s, as evidenced by both the Foundation Center data and the IRS Statistics of Income (SOI) dataset. The private-foundations statistics produced by the Statistics of Income Division are based on a sample of Forms 990-PF that are filed with the IRS for a particular tax year. The SOI sample of private foundations is stratified based on both the size of fair-market value of total assets and the type of organization. 100 percent of returns filed for foundations with fair-market-asset value of $10 million or more are included in the SOI dataset, since these organizations represent the vast majority of financial activity in the foundation sector. The remaining foundation population is randomly selected for the sample at various rates, ranging from 1 percent to 100 percent, depending on asset size. Figure 1 displays a significant growth in the total PRI dollar amount reported by the IRS SOI from 1990 to 2009. In 1990, only $139 million was invested in PRIs, while the total PRI dollar amount grew to $701 million in 2009, representing a growth rate of 404 percent over two decades. Figure 2 displays the percent of total PRI dollar amount of total qualifying distributions by foundations from 1990 to 2009. Followed by a decline in the early 1990s, the percent generally increased from less than 1 percent in the mid-1990s to 1.4 percent in 2009.

FIGURE 1 Total PRI Dollar Amount per Year by the SOI, 1990–2009



Notes: Amounts are in millions of dollars. All years are weight adjusted.

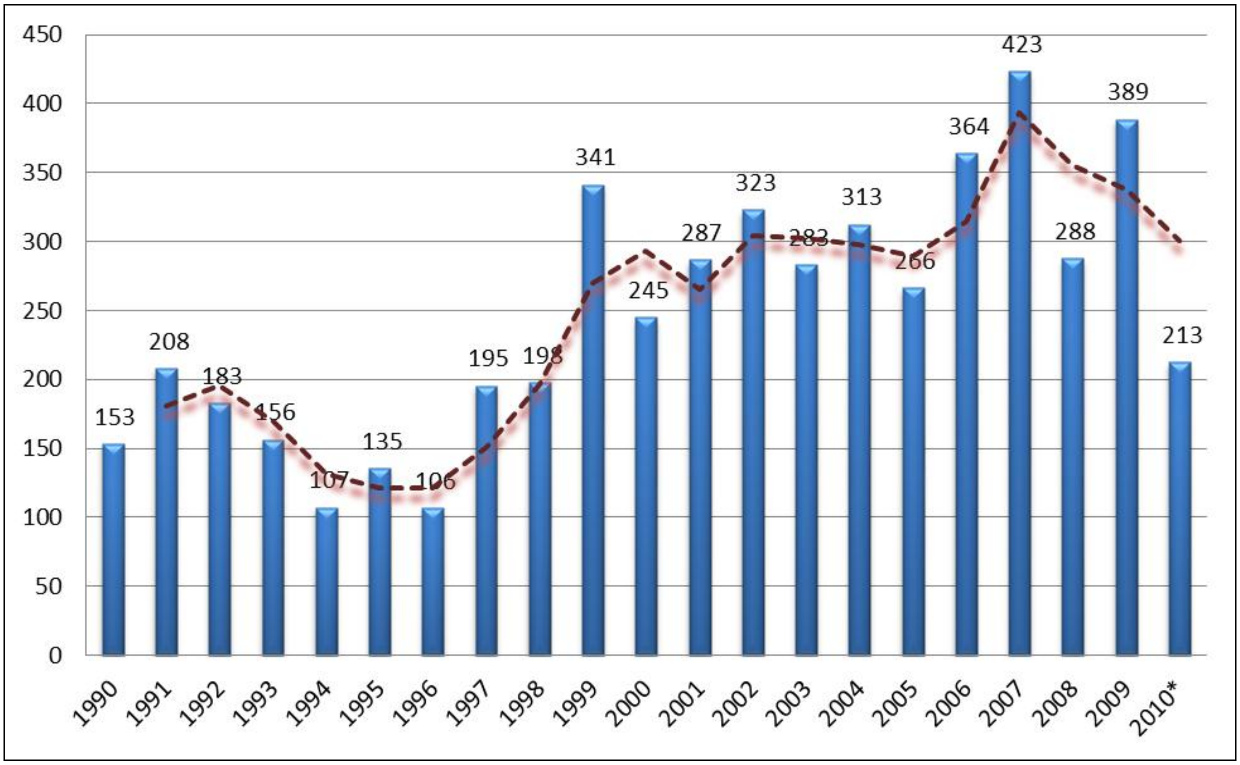
FIGURE 2 Percent of Total PRI Dollar Amount of Total Qualifying Distributions per Year, 1990–2009



Notes: All years are weight adjusted. Data from 1990 to 2009 are from the IRS SOI.

The Foundation Center dataset also displays similar increasing trends in the use of PRIs—especially between the mid-1990s and the mid-2000s—with substantial growth in the dollar amount invested, the number of PRIs granted, and the number of foundations participating. As shown in Figure 3, the total PRI dollar amount increased significantly from the lowest point of $106 million in 1996 to over $400 million in 2007.

FIGURE 3 Total PRI Dollar Amount per Year, 1990–2010



Notes: All years are inflation adjusted to 2010 dollars. Amounts are in millions of Dollars. Data from 1990 to 1999 are from The Foundation Center, *The PRI Directory*, 2009. Data from 2000 to 2010 are based on the Foundation Center's most updated PRI database. Data include only PRI transactions of $10,000 or more. *2010 data from the Foundation Center database are incomplete.

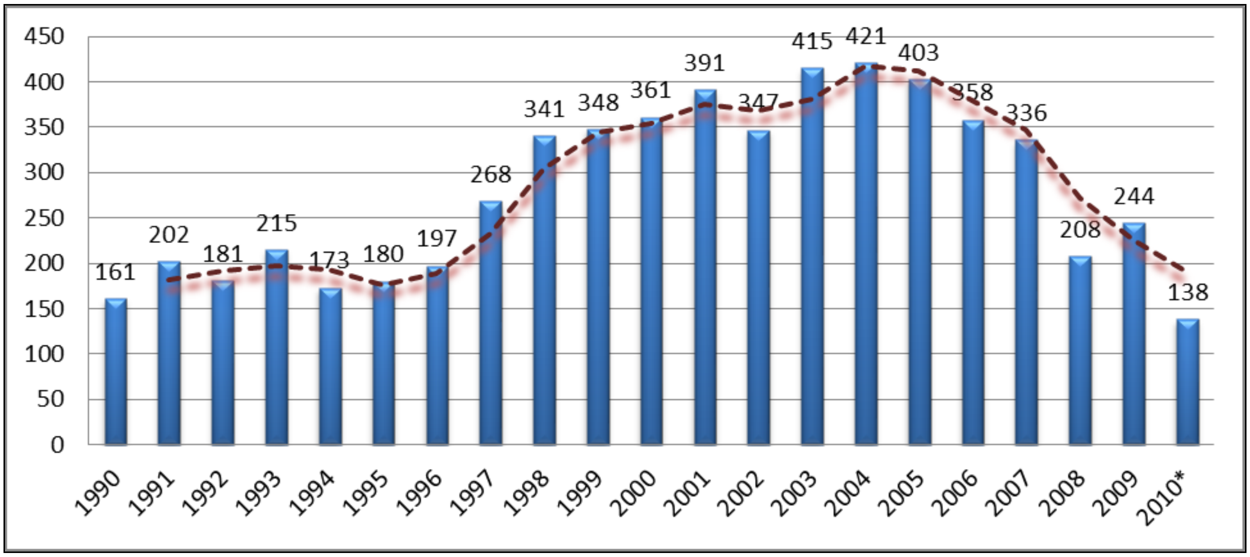
In general, higher figures of PRI dollar amounts are derived from the IRS SOI dataset. For instance, in 2006, the IRS SOI reported the total PRI dollar amount by domestic private foundations and charitable trusts to be $468.5 million. In that same year, the Foundation Center's PRI dataset reported the total annual PRI dollar amount to be $364 million (inflation adjusted to 2010 dollars), a figure slightly lower than that in the SOI data. For 2007, the IRS SOI reported a total dollar amount of $610 million, a figure much higher than the $423 million (inflation adjusted to 2010 dollars) reported in the Foundation Center's database. In part, this difference may reflect more complete information on PRI activity in the SOI dataset. However, based on PRI research conducted by the Foundation Center in the early 1990s, there is also some amount of misreporting of PRI activity in the SOI data. For example, some foundations are reporting their outstanding PRI amounts rather than new commitments, thereby inflating the totals. The Foundation Center's research found that other foundations were listing non-program-related investments and property holdings, including artwork, as PRIs. While these were undoubtedly unintentional errors made by foundations in completing a complicated IRS form, they nonetheless need to be taken into consideration when considering the overall SOI figures. SOI data are also presented in the aggregate, rather than at the level of individual PRIs, limiting the level of analysis that is possible. By comparison, the Foundation Center's data offers a more detailed analysis in PRI characteristics. For these reasons, this report mainly relies on the Foundation Center's PRI dataset for the following analysis of PRI activities.

In addition, according to the School's analysis of the Foundation Center's database, there was also a rise in the total number of PRIs made per year during this period, from fewer than 200 in the mid-1990s to more than 400 in the mid-2000s (Figure 4). Figure 5 shows an increasing trend of the number of PRI providers from the mid-1990s to the mid-2000s. For most years in the 1990s, fewer than 100 foundations made PRIs every year. The number of PRI makers rose above 100 in 1999 and remained above 100 until 2007, when it dropped to 78.

Despite the generally increasing trend in PRI activity since the 1990s, recent years have witnessed a declining trend in the total dollar amount (Figure 3) and number of PRIs (Figure 4) made per year, as well as the total number of PRI providers (Figure 5) and recipients. While there has been a slight decrease in the PRI dollar amount since 2007, Figure 4 shows that the number of PRIs has declined greatly since 2004, from the peak of 421 in 2004 to fewer than 300 in the recent three years. Similarly, the number of PRI providers dropped to fewer than 100 again in 2008 (Figure 5), and the number of PRI recipients declined from over 300 in the mid-2000s to nearly 200 after 2008, trends that were likely due to 1) the economic downturn, 2) the declining demand for PRIs by recipients, and 3) some leading PRI providers (e.g. Heron Foundation) adjusting their mission investment strategies by making fewer PRIs but more MRIs in the late 2000s.

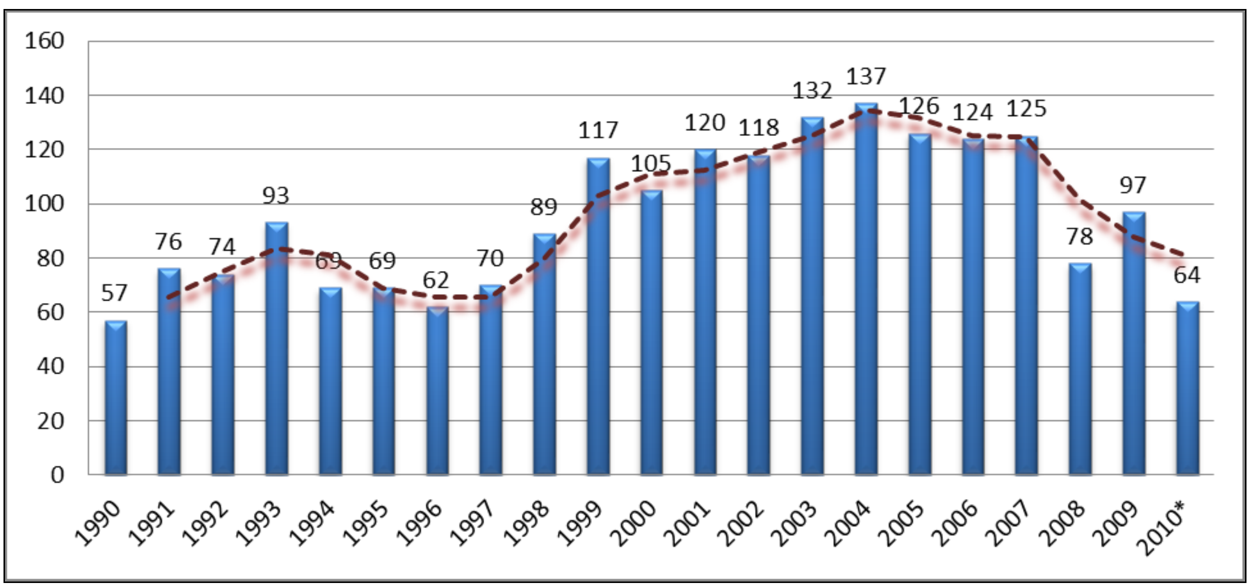
In contrast with the declining trend in total dollar amount and number of PRIs, Figure 6 indicates that the average PRI dollar amount has increased steadily since 2005. The average amount in 2008, 2009, and 2010 more than doubled from 2005 levels.

FIGURE 4 Total Number of PRIs per Year, 1990–2010



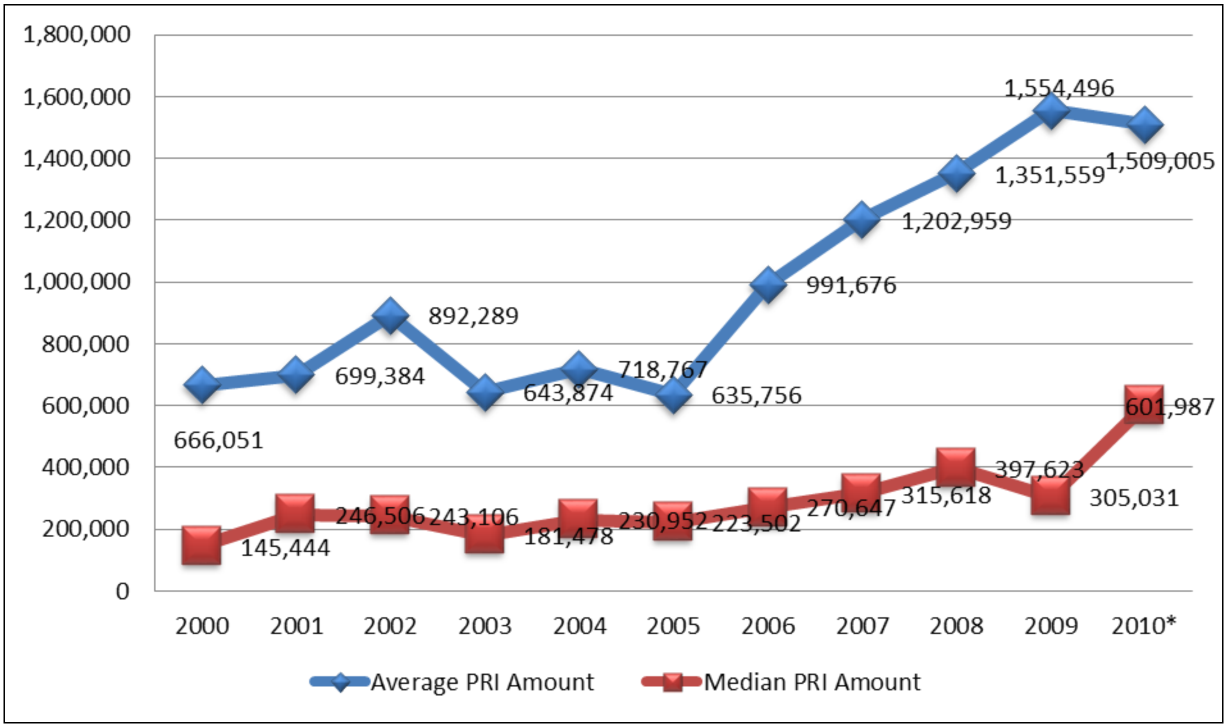
Notes: Data from 1990 to 1999 are from The Foundation Center, *The PRI Directory*, 2009. Data from 2000 to 2010 are based on the Foundation Center's most updated PRI database. Data include only PRI transactions of $10,000 or more.
*2010 data from the Foundation Center database are incomplete.

FIGURE 5 Total Number of PRI Providers per Year, 1990–2010



Notes: Data from 1990 to 1999 are from The Foundation Center, *The PRI Directory*, 2009. Data from 2000 to 2010 are based on the Foundation Center's most updated PRI database. Data include only PRI transactions of $10,000 or more.
*2010 data from the Foundation Center database are incomplete.

FIGURE 6 Average and Median PRI Dollar Amount per Year, 2000–2010



Notes: All years are inflation adjusted to 2010 dollars.
*2010 data from the Foundation Center database are incomplete.

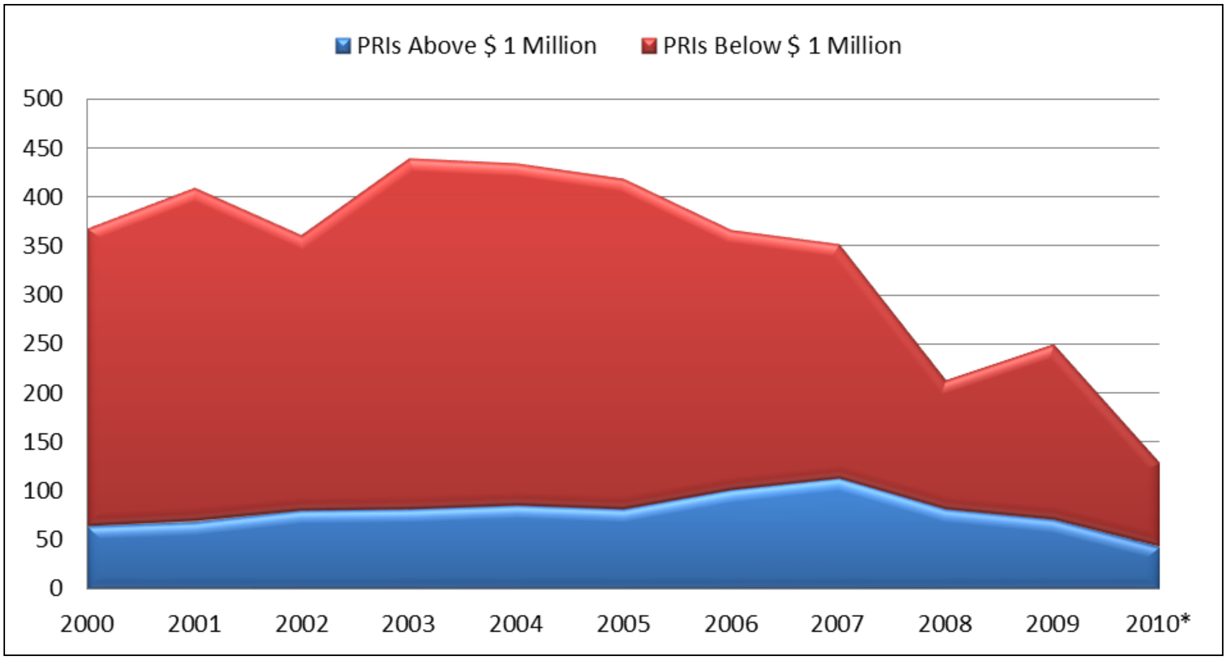
PRI size matters

Approximately 76 percent of the PRIs made between 2000 and 2010 were small investments (under $1 million); however, they accounted for only 19 percent of the total dollar value of PRIs over that time period. In contrast, large investments (above $1 million), which only composed 24 percent of total PRIs, made up 81 percent of the total dollar value of PRIs over that period.

Figure 7 shows a sharp decrease in the number of the small-dollar PRIs between 2007 and 2008, while the number of large-dollar PRIs remained comparatively constant. This suggests that the overall decline in the number of PRIs during this time was due primarily to the significant decrease of small investments that formed the majority of PRIs.

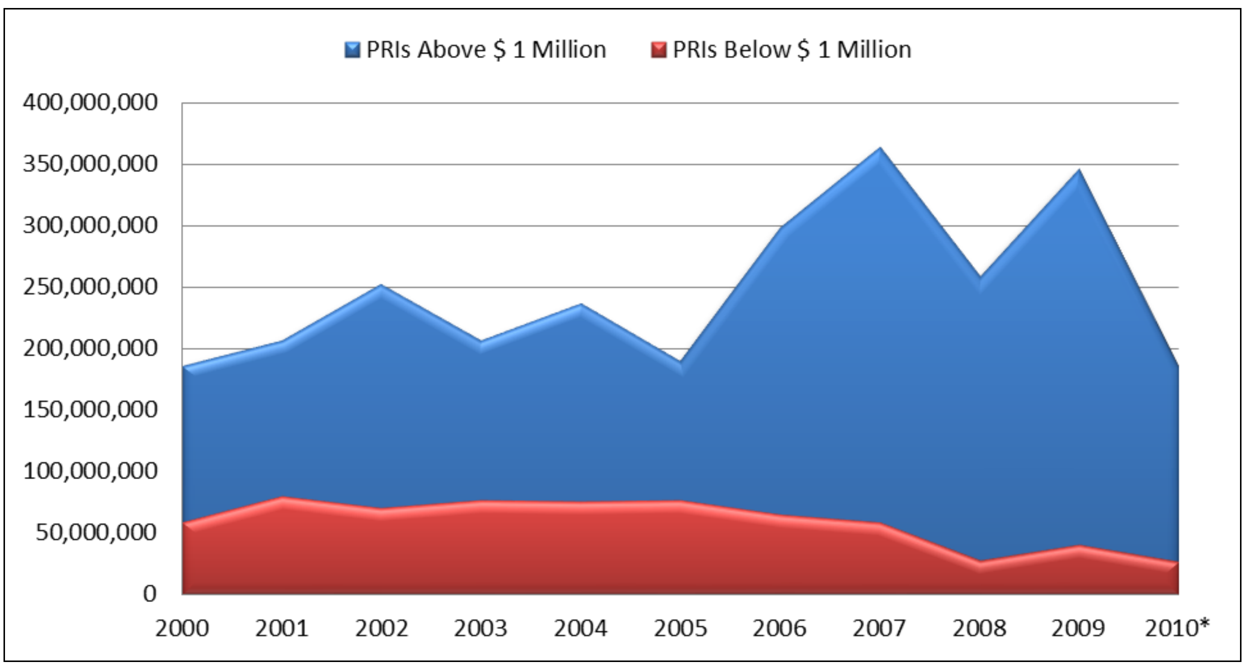
Similarly, large-dollar PRIs were the main reason for the increase in average PRI dollar amount in the past decade. This is because large-dollar PRIs dominated the total dollar value of PRIs invested in the past decade, and the total dollar value from large PRIs actually increased between 2005 and 2008 and again in 2009 (Figure 8).

FIGURE 7 Distribution of the Total Number of PRIs Above and Below $1 Million for Each Year, 2000–2010



Note: All years are inflation adjusted to 2010 dollars.
*2010 data from the Foundation Center database are incomplete.

FIGURE 8 Distribution of the Total Amount Invested in PRIs Above and Below $1 Million for Each Year, 2000–2010



Note: All years are inflation adjusted to 2010 dollars.
*2010 data from the Foundation Center database are incomplete.

C. PRI Providers

Foundations of all asset levels made PRIs in 2000–2010

Our analysis indicates that the dollar amount and number of PRIs a foundation makes are closely related to a foundation's level of assets. As shown in Table 1, foundations with larger asset levels made more PRIs and invested higher dollar amounts into PRIs.

- Large foundations with assets of $200 million and above, which represented only 22 percent of the PRI makers in the database, provided 59 percent of the total dollar amount and 35 percent of the total number of PRIs.

- Foundations with small to medium asset sizes also actively participated in PRI activities. Over half of PRI providers in the database are small- to medium-size foundations with assets under $50 million. Foundations with assets of less than $200 million, though they tended to make small dollar amount investments in general, provided over 60 percent of the total number of PRIs for 2000–2010.

- Foundations of all asset levels reduced the number of PRIs that they issued in the second half of the past decade. At the same time, the medium- to large-size foundations increased the dollar amount invested, particularly around 2009.

TABLE 1 PRI Activities by Asset Level of Foundation, 2000–2010

Foundation Asset Level	# of Foundations	%	Total PRI Amount ($)	%	Median PRI Amount ($)	Average PRI Amount ($)	Total # of PRIs	%
Less Than $10 Million	121	28%	227,448,278	7%	485,000	1,879,738	882	23%
$10 Million–Under $50 Million	106	25%	464,963,885	14%	977,168	4,386,452	645	17%
$50 Million–Under $200 Million	104	24%	685,735,725	20%	2,084,804	6,593,613	917	24%
$200 Million and Above	96	22%	2,015,727,368	59%	4,733,042	20,997,160	1,313	35%
Total	427	100%	3,393,875,263	100%	251,440	903,347	3,757	100%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. Foundation assets in 2000 are used in analysis. If missing, the earliest assets data available are used instead. 2010 data from the Foundation Center's database are incomplete.

Foundations of all types made PRIs in 2000–2010

All types of foundations made PRIs between 2000 and 2010 (Table 2). Independent and family foundations were the most active PRI providers. About half of the foundations in the PRI database are independent foundations, which provided 52 percent of the total PRI dollar amount and 54 percent of the total number of PRIs over from 2000 to 2010. Operating foundations made the largest PRIs by average dollar amount over the period.

In general, the research shows a declining trend in the number of PRIs by all types of foundations in the recent years. However, for independent foundations, the average PRI dollar amount has generally increased over the period.

TABLE 2 PRI Activities by Type of Foundation, 2000–2010

Type of Foundation	# of Foundations	%	Total PRI Amount($)	%	Median PRI Amount($)	Average PRI Amount($)	Total # of PRIs	%
Independent Foundation	213	49%	1,762,958,960	52%	263,015	865,044	2,038	54%
Family Foundation	126	30%	983,829,763	29%	182,929	1,042,193	944	25%
Operating Foundation	32	8%	317,283,779	9%	293,403	1,117,196	284	8%
Community Foundation	34	8%	186,034,459	5%	263,015	826,820	225	6%
Corporate Foundation	16	4%	121,778,138	4%	305,031	531,782	229	6%
Public Charity	6	1%	21,990,163	1%	173,214	594,329	37	1%
Total	427	100%	3,393,875,263	100%	251,440	903,347	3,757	100%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

Geography of PRI providers matters

Though PRI providers were distributed fairly evenly among the four major U.S. regions, foundations in **New York** and **California** represent nearly 30 percent of all PRI providers in the database (Table 3). This is possibly because the largest U.S. foundations are concentrated in these states, and larger foundations are more likely to make PRIs. Foundations in the **Northeast** provided the largest portion of PRIs in terms of both the total dollar amount (32 percent) and the total number of PRIs (33 percent) between 2000 and 2010. Foundations in the **West** formed the second largest portion of the total PRI dollar amount (31 percent), though they made the smallest number of PRIs during that time period. On average, the **West** made the largest average dollar amount of PRIs compared to the other regions between 2000 and 2010.

PRI providers in all regions decreased the number of PRIs made in the second half of the past decade. Regardless, in the database, foundations in the **Midwest**, which contains the fewest medium- to large-size size foundations in terms of assets as compared to other regions, significantly increased the total and average PRI dollar amounts they made between 2006 and 2008. The average PRI dollar amount generally increased for foundations in the **Northeast** between 2000 and 2010.

TABLE 3 PRI Activities by Region of PRI, 2000–2010

Region of Foundation	# of Foundations	%	Total PRI Amount($)	%	Median PRI Amount ($)	Average PRI Amount($)	Total # of PRIs	%
Northeast	122	29%	1,093,248,777	32%	303,125	869,037	1,258	33%
West	104	24%	1,039,956,190	31%	316,580	1,438,390	723	19%
Midwest	95	22%	648,700,134	19%	244,176	829,540	782	21%
South	106	25%	611,970,161	18%	123,253	615,664	994	26%
Total	427	100 %	3,393,875,263	100%	251,440	903,347	3,757	100%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center’s database are incomplete.

D. Characteristics of PRI Activities

Foundations made PRIs to a variety of program areas

As shown in Table 4, foundations made PRIs to all major program areas between 2000 and 2010. Public and societal benefit organizations and activities received the largest share of investments in terms of number, whereas mutual/membership benefit received the smallest share. Human services received the largest share of investments in terms of total number of PRIs, while, again, mutual/membership benefit received the smallest share.

- Public and societal benefit, human services, and education (in particular, housing, community development, and education) were the three major PRI-supported program areas in terms of both the total dollar amount and the total number of PRIs made between 2000 and 2010. These activities accounted for over 70 percent of PRIs granted.

- Public and societal benefit, international and foreign affairs, environment, and health were the program areas receiving largest average PRI dollar amount.

TABLE 4 PRI Activities By Major Program, 2000–2010

Major Program Area	Total PRI Amount ($)	%	Median PRI Amount ($)	Average PRI Amount ($)	Total # of PRIs	%
Public & Societal Benefit	931,299,014	27.44%	281,619	1,020,043	913	24.30%
Human Services	741,271,266	21.84%	254,193	787,748	941	25.05%
Education	643,327,248	18.96%	253,656	992,789	648	17.25%
Environment /Animals	389,916,795	11.49%	417,879	1,482,573	263	7.00%
Health	265,427,279	7.82%	308,132	1,061,709	250	6.65%
Arts, Culture & Humanities	210,753,717	6.21%	185,816	709,608	297	7.91%
Religious	147,413,899	4.34%	118,582	370,387	398	10.59%
International & Foreign Affairs	60,595,005	1.79%	727,500	1,637,703	37	0.98%
Mutual /Membership Benefit	255,800	0.01%	88,936	85,267	3	0.08%
Unknown	3,615,240	0.11%	417,261	516,463	7	0.19%
Total	3,393,875,263	100%	251,440	903,347	3,757	100%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

FIGURE 9 Total PRI Dollar Amount by Program Area, 2000–2010

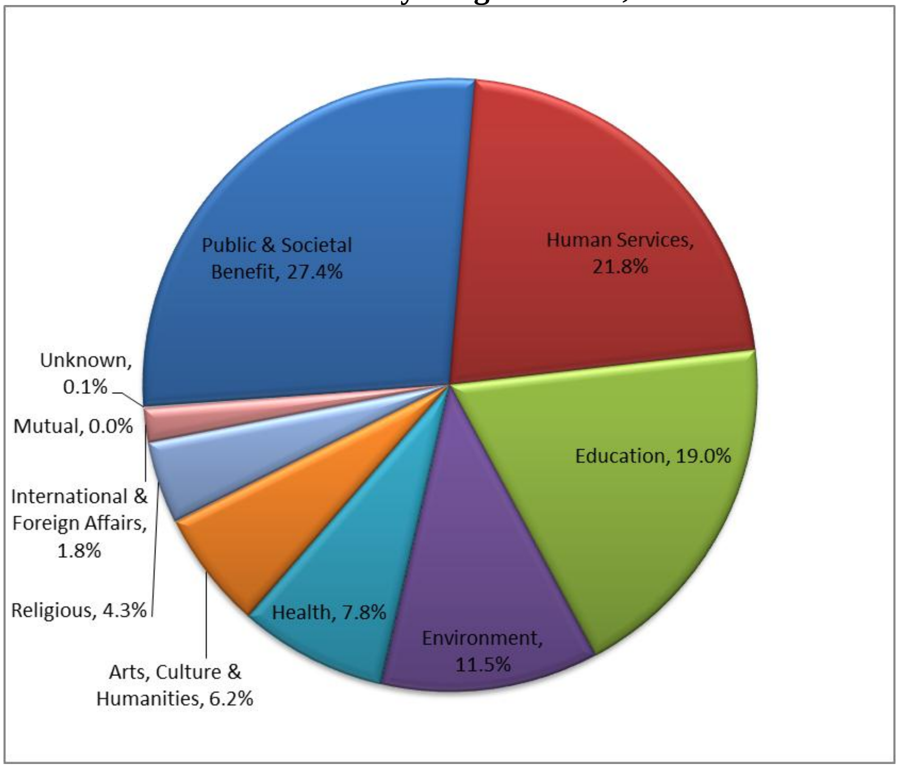
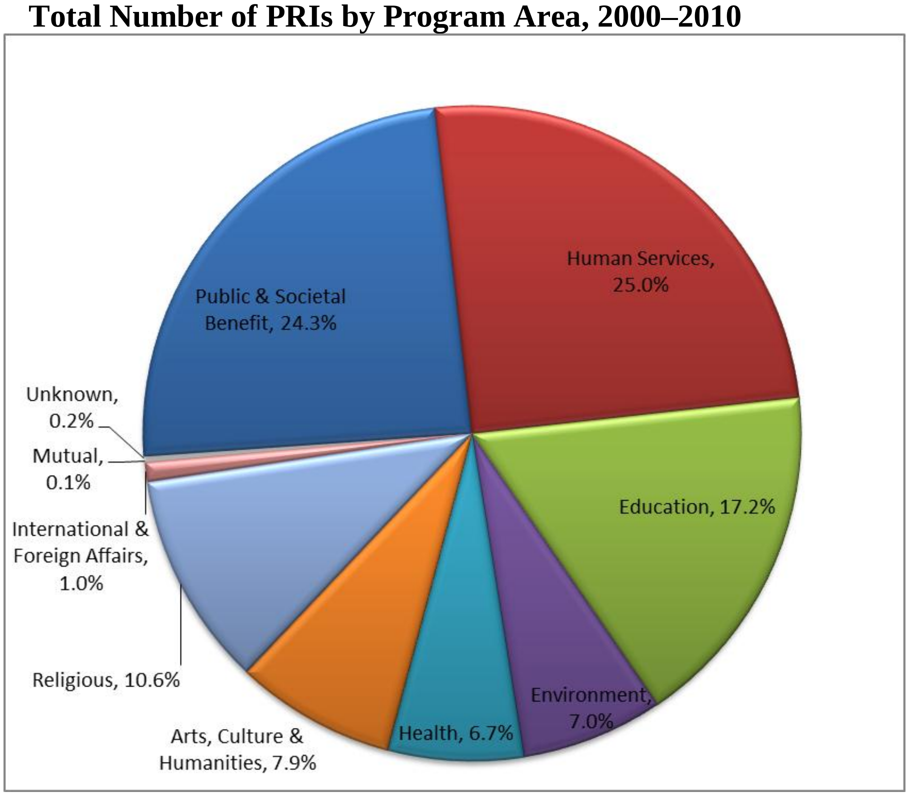


FIGURE 10 Total Number of PRIs by Program Area, 2000–2010



PRIs by type of financial instruments

A wide variety of financial instruments have been used by foundations to grant PRIs, as shown in Table 5. However, loans/promissory notes were more commonly used than all other types of instruments.

- Loans were the most common financial instruments used by PRI makers. Over half of all PRIs during the period of 2000 to 2010 were loans, followed by equity investments and capitalizing loans. However, the average amount for loans/promissory notes was smaller than the average amount for many other types of financial instruments.

- Loans were the most popular financial instruments utilized by foundations of all asset levels (Figure 11). Foundations with medium to large assets were more willing to use debt other than loans or equity investments than were foundations of other sizes.

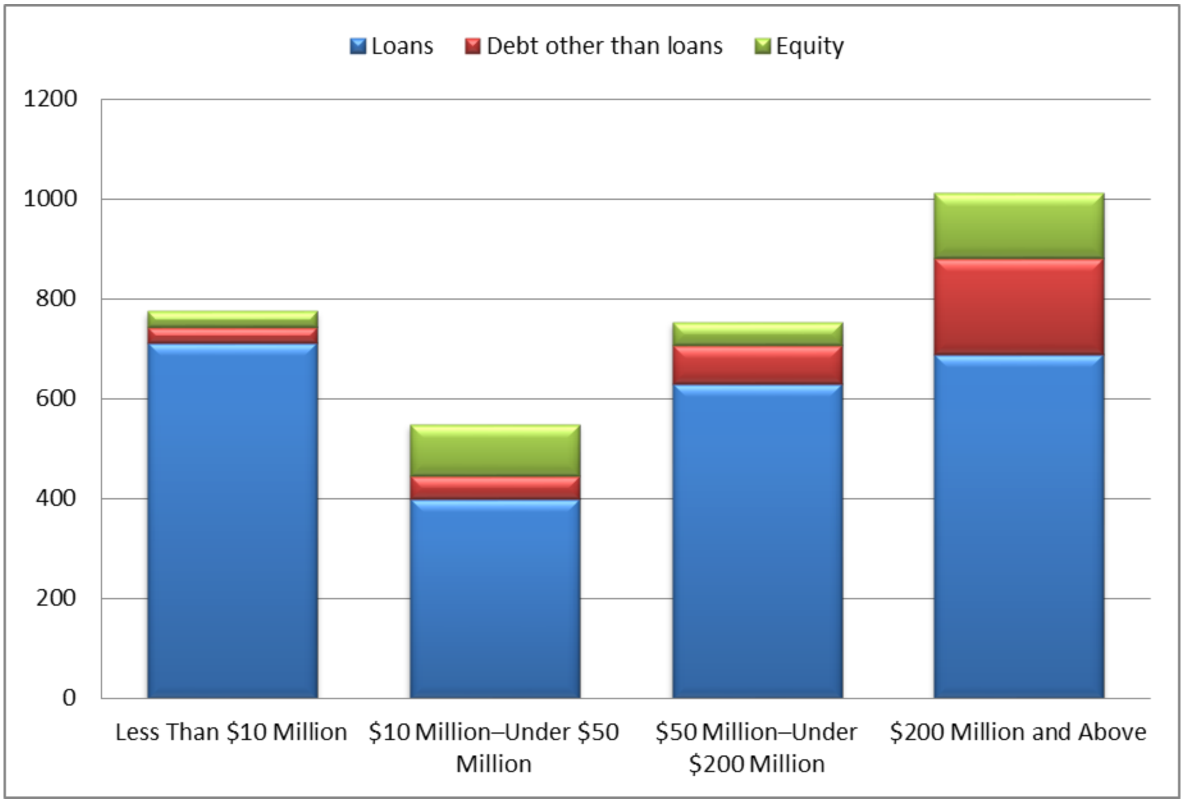
- In addition to loans, foundations have increased the use of debt other than loans, such as loan guarantees or loan funds.

TABLE 5 PRI Activities by Type of Financial Instrument, 2000–2010

Type of Financial Instrument	Total PRI Amount($)	%	Median PRI Amount($)	Average PRI Amount($)	Total # of PRIs	%
Loans /Promissory Notes	2,049,878,075	60.4%	234,269	844,614	2,427	64.6%
Equity Investments	52,230,201	1.5%	254,193	705,814	74	2.0%
Capitalizing Loan Funds/Other Intermediaries	43,871,986	1.3%	593,000	2,193,599	20	0.5%
Charitable Use Assets	266,031,448	7.8%	327,514	1,043,261	255	6.8%
Line of Credit	264,930,375	7.8%	606,250	1,358,617	195	5.2%
Loan Guarantees	8,705,894	0.3%	111,751	334,842	26	0.7%
Interim Financing	88,005,759	2.6%	149,253	2,095,375	42	1.1%
Linked Deposits	70,494,012	2.1%	756,217	2,937,250	24	0.6%
Mortgage Financing	15,044,845	0.4%	246,906	1,074,632	14	0.4%
Business Startups /Expansion	22,837,601	0.7%	444,917	1,756,739	13	0.3%
Unspecified	511,845,067	15.1%	246,506	767,384	667	17.8%
Total	3,393,875,263	100.0%	251,440	903,347	3,757	100.0%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

FIGURE 11 Number of PRIs by Type of Financial Instrument by Foundations of Different Asset Levels, 2000–2010



Notes: Foundation assets in 2000 are used in analysis. If missing, the earliest assets data available are used instead. 2010 data from the Foundation Center's database are incomplete.

E. PRI Recipients

Foundations made PRIs to all types of recipient organizations

Foundations provided PRIs to recipient organizations working in all nonprofit subsectors, but the number and dollar amount of the PRIs were not evenly distributed. Organizations working in the areas of public and societal benefit, human services, and education were the most popular PRI recipients in the past decade. Specifically, recipient organizations working in community improvement, education, and housing combined received half of the total dollar amount and the total number of PRIs granted between 2000 and 2010.

TABLE 6 PRI Activities by Type of Recipient Organization, 2000–2010

Type of Recipient Organization	Total PRI Amount ($)	%	Median PRI Amount ($)	Average PRI Amount ($)	Total # of PRIs	%
Arts	205,134,671	6.04%	197,251	670,375	306	8.14%
Education	591,970,309	17.44%	250,000	895,568	661	17.59%
Environment/Animals	394,461,601	11.62%	406,727	1,540,866	256	6.81%
Health	228,649,460	6.74%	300,000	1,073,472	213	5.67%
Human Services	649,974,453	19.15%	254,193	786,894	826	21.99%
International & Foreign Affairs	53,856,666	1.59%	405,434	1,145,887	47	1.25%
Public & Societal Benefit	1,088,736,019	32.08%	288,690	1,054,977	1,032	27.47%
Religious	177,170,364	5.22%	121,250	437,458	405	10.78%
Mutual/Membership Benefit	255,800	0.01%	88,936	85,267	3	0.08%
Unknown, Unclassified	3,665,920	0.11%	233,970	458,240	8	0.21%
Total	3,393,875,263	100%	251,440	903,347	3,757	100%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

PRI recipients were distributed nationally and internationally

Table 7 shows the geographic location of recipient organizations within the United States. Organizations in the South received the largest share, nearly one-third, of PRIs from 2000 to 2010. By contrast, organizations in the Midwest received the smallest portion, less than 20 percent, of investments.

- Within the United States, organizations in the South and Northeast received the largest portion of PRIs by total number of investments between 2000 and 2010. South and West received the largest portion of PRIs by total dollar amount during the same period.

Organizations in the West received the largest average PRI dollar amount. In particular, organizations in New York and California received over 30 percent of total PRI dollar amount made in the past decade.

- Although Midwest recipients ranked the lowest for number of PRIs, there was a sharp increase of total PRI dollar amount between 2005 and 2008, from $25 million to $112 million.

- Internationally, organizations in foreign countries received PRIs with large median and average dollar amounts. Armenia received the largest share of PRI grants, followed by England, each receiving an average PRI dollar amount of greater than $1 million.

TABLE 7 PRI Activities by Region of Recipient Organizations, 2000–2010

Recipient Region	Total PRI Amount ($)	%	Median PRI Amount ($)	Average PRI Amount ($)	Total # of PRIs	%
Northeast	816,168,423	24%	288,160	831,129	982	26%
South	917,954,278	27%	173,214	879,267	1,044	28%
West	865,337,349	25%	339,278	1,255,932	689	18%
Midwest	518,986,756	15%	245,853	719,815	721	19%
Foreign*	252,701,551	7%	303,905	1,039,924	243	6%
Unknown	22,726,905	1%	73,580	291,371	78	2%
Total	3,393,875,263	100%	251,440	903,347	3,757	100%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center’s database are incomplete.
*Foreign includes Puerto Rico.

PRI support went to different types of recipient auspices

Foundations granted PRIs to various types of recipient organizations, including nonsectarian nonprofit organizations, religious organizations, for-profit entities, and governmental agencies (Table 8). Compared to other types of recipients, nonprofit organizations received the largest share of PRIs in terms of both the number and dollar value of investments.

- Nonsectarian nonprofits represented the largest share of PRI support by both the dollar amount (63 percent) and the number of PRIs (52 percent). In contrast, governmental entities received the smallest number of PRIs (6 percent) as well as the lowest dollar amount (8 percent).

- Consistent with the overall trend of PRIs, the number of PRIs to all types of recipient auspices has declined since the mid-2000s. Looking at total PRI dollar amount, while all types of auspices experienced fluctuations in the past decade, the support to religious organizations has diminished by the largest percentage.

- While the governmental entities made up the smallest portion of PRI financing, there has been a significant growth in average dollar amount received by this type of recipient since 2005.

TABLE 8 PRI Activities by Recipient Auspices, 2000–2010

Recipient Auspices	Total PRI Amount ($)	%	Median PRI Amount ($)	Average PRI Amount ($)	Total # of PRIs	%
Nonprofit	2,091,260,833	62%	296,455	1,065,882	1,962	52%
Religious	512,828,036	15%	155,284	538,685	952	25%
Government	247,815,189	7%	288,022	1,086,909	228	6%
Business	468,263,585	14%	237,164	973,521	481	13%
Unknown	73,707,620	2%	N/A	N/A	134	4%
Total	3,393,875,263	100%	251,440	903,347	3,757	100%

Notes: Total, average, and median PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

F. Discussion of Data Issues

Specific data challenges, largely associated with how foundations report their PRIs, may lead to data inaccuracy, particularly the underestimation of PRI activities. However, according to Steven Lawrence from the Foundation Center, there could also be some level of overestimation, because the dataset does not exclude PRIs that were in whole or in part not repaid. Anecdotally, this quantity is probably not insignificant.

First, the Foundation Center's PRI dataset is primarily based on IRS Forms 990-PF and self-reports by foundations, which may not capture the complete picture of PRI activities by foundations other than private foundations, such as community foundations. This is mainly because PRI is a legal term that applies to private foundations, and only private foundations are required to report their PRI transactions on Forms 990-PF in order to obtain some important tax benefits. For entities other than private foundations, such as community foundations, PRI could be a less explicit concept. They "may use the term 'PRI' to refer to a concessionary investment for a charitable purpose" (Benabentos et al., 2012, p. 9), but they also may not use the term even if they make bona fide PRIs.[1] This can cause self-reporting bias within the dataset. Moreover, there is no legal requirement for those entities to report PRIs, because they do "not have to satisfy the specific requirements for the investment to qualify as a PRI for tax purposes" (Benabentos et al., 2012, p. 9). The lack of readily available information sources, such as Forms 990-PF, could lead to the data on entities other than private foundations being incomplete.

In addition, due to the data updating process, the 2010 data are currently incomplete for a handful of foundations, according to Foundation Center. As the School has found in a sample comparison check between data from the Foundation Center and data from 2010 990-PF forms on 2010 PRI dollar amounts by top ten PRI makers, up to half of the foundations' information may be missing in the Foundation Center's database for that year. This may also lead to underestimating PRI activities in 2010.

Up-to-date data on PRIs, in addition to anecdotal case studies, play a very important role in informing the philanthropic field about the landscape and trends of PRIs. The data also provide useful information for foundations and other entities wanting to engage in PRIs. Hence, we stress the importance of having a reliable PRI database. To this end, we encourage 1) the development and education of a more refined definition of PRIs for all types of foundations; and 2) the provision of PRI data by foundations in a timely manner. As mentioned above, only private foundations can use PRIs as they are defined by I.R.C. § 4944(c). This is not to say that other foundations, such as community foundations, cannot make investments that they consider to be PRIs and that share similar characteristics to legally defined PRIs. This highlights out an ambiguity with the accepted definition of a PRI within the field. In addition to the definition issues, many foundations do not report PRIs as such to the IRS, even if they consider the investment to be a PRI internally. Combined with the lack of a single, comprehensive PRI database, these limitations may be causing a field-wide underestimation of PRI activity.

[1] Please see the Q & A session for a discussion about the definition of PRI.

Motivations, Challenges, and Opportunities in PRI Activities

A. Motivations for Conducting PRIs

Foundations have varying motivations for engaging in PRIs. The foundations interviewed for case studies highlighted the following reasons as to what motivated them to participate in PRIs:

A desire to recycle and increase philanthropic resources for future use and to hedge risks for worthwhile projects

PRIs are expected to be repaid. In this sense, funds used for PRIs are recyclable and can be used again for other projects and generate social benefits multiple times. Even in the case of a PRI loan with zero percent expected rate of return, "it has a positive financial impact relative to a grant which has a negative 100% financial return" (Cooch & Kramer, 2007, p. 8). This feature makes PRIs attractive financial instruments, particularly in face of the current economic downturn. Some foundations, Foundation C for example, would consider using PRIs instead of grants when it believes a grant project could result in the generation of revenues above the fees necessary to run the project and to repay the loan.

"[PRI] has a positive financial impact relative to a grant which has a negative 100% financial return."

PRIs are also appealing financial tools when a project appears worthwhile but cannot totally qualify for a grant to cover all costs. Under such circumstances, some foundations, such as Foundation C, use PRI loans to cover some of the costs. Moreover, when significant financial risk is present in a project, PRIs can be employed to hedge that risk. Risks could be further lessened by shifting some responsibilities to grantees. As Foundation C noted, PRIs encourage recipients to answer the question: "Would you spend that money as if it is your money or others'?"

- **An interest in maximizing social impact by aligning more assets with mission achievement**

There has been an increasing awareness of the discrepancy between foundation grant making and fund management. Traditionally, foundations allocated only a very small portion of their total assets for charitable purposes while investing the vast majority purely for financial returns. As a result, there is a growing interest in allocating more resources for mission achievement. PRIs (for foundations that integrate PRIs into their social investing package) and other social investments in general enable foundations to advance their missions through the use of endowments.

This is well illustrated by Foundation E, whose leaders wanted to go beyond the "type" foundation strategies to achieve social objectives from the very beginning. The foundation's engagement in PRIs was triggered by the board's question in 1996: "Should the foundation be more than a private investment company that uses its excess cash flow for charitable purposes?" In response, PRI was selected as the foundation's initial mission-driven investment. In order to get the most out of its total resources for greater social impact, the foundation has further developed a mission-related investing strategy that includes not only such below-market investments as grants and PRIs but also some other market-rate mission-related investments. The foundation currently holds a very large portfolio of mission-related

"Should the foundation be more than a private investment company that uses its excess cash flow for charitable purposes?"

investments, and it plans to deploy 100 percent of its assets for mission purposes in the future.

- **A need to tackle social issues and deepen social change by going beyond grant making**

PRIs, which encompass a variety of financial tools, allow foundations to support recipient organizations and solve social problems in ways that grants alone cannot. First, PRIs can assist in leveraging public and private funding from other investors for valuable projects. Further, by providing capital for innovative strategies for social change, PRIs can help bring solutions to scale. This was particularly emphasized by Foundation E. Reflecting on its multiyear experience of "helping families at the bottom of the economic and social scale," the foundation staff concluded that "poverty is structural, not marginal," and "the urgency and size of the problems we face require that we work differently." The foundation also noted that its past strategies, which were based on access to the mainstream but did not target the structural causes of poverty, are inadequate. As a result, the foundation has moved beyond grants and has deployed a wide range of investment instruments, including PRIs, to increase employment and to fuel economic and technological innovation.

"The urgency and size of the problems we face require that we work differently."

- **An impulse to help develop stronger recipient organizations by bolstering their organizational capacity**

Another motivation for making PRIs is to help recipient organizations develop organizational capacity. For instance, a loan can help a nonprofit organization establish a credit history, which is important for securing funding from other creditors. Debt or equity can also help recipients to enhance cash flow, increase access to capital, and secure long-term sustainability. Moreover, the process of securing and managing PRIs can help recipients build their financial and management capacity.

This motivation is illustrated by Foundation D, a pioneer and advocate in the use of PRIs. It started making PRIs as early as the late 1960s with the intention of creating a new mechanism to help partner organizations. When discussing the origins of PRI practice in the field, the foundation noted that its PRIs were rooted in partnerships with community development foundations (CDCs). When working with CDCs, Foundation D came to the fundamental realization that CDCs needed new access to funds—something different from grants. It was the foundation's goal to provide better credit and access to capital for its partners and to provide low-cost financial solutions. Combined with such external events as the changes in regulations, these goals propelled Foundation D and others to adopt PRIs in the early days. Risk tolerant, low-cost capital used in the area of affordable housing was the beginning of the foundation's PRI practice. PRIs were used to supplement and augment the foundation's use of grants and other strategies at the time. To date, the foundation has committed $560 million for program-related investments, and it sets aside an average $25 million annually for new investments. "PRIs have been proven to be a valuable way to support recipient organizations, and have strengthened the relationship between grantor and grantee" (Foundation D).

"PRIs have been proven to be a valuable way to support recipient organizations, and have strengthened the relationship between grantor and grantee"

Besides the intrinsic motivations discussed above, the interviewed foundations also mentioned four main extrinsic factors that drove their initial PRI activities.

- **Driven by leadership/Accompanied by organizational transformation**

Boards and executive leaders of foundations usually play an important role in initiating and pushing forward PRIs and other mission-related investments. For Foundation E, it was the board that suggested that the foundation should distinguish itself from a conventional investment manager and encouraged the staff to explore ways that the foundation could engage more of its assets for philanthropic goals. Similarly, Foundation G's mission-driven investing began in 2007, when the foundation was undergoing transitions, and the mission of the foundation was reframed and clarified. New leaders and staff members brought new ideas to the organization and set up conditions to advance the mission of the foundation through use of its endowment.

On the other hand, a conservative board or staff turnover could slow the pace of participating in PRIs. Foundation A, for instance, experienced some resistance from leadership at the beginning of its work with PRIs. It was not until the foundation was pressured into designing a more thorough social investment portfolio that the discussion of PRIs began to be more appealing. Foundation D also noted that staffing at foundations can impact whether or not that foundation uses PRIs more often or not. Many foundations have large turnover, meaning that people championing PRIs come and go quite often, which often leaves no one at the foundation to push for PRI use.

- **Inspired by peers**

Peer leaning has become another important driving force of PRIs and other mission-related investments. The PRI practice of Foundation C, in particular, was "intrigued by some other foundations." In the mid-1990s, the staff prepared a brief paper to inform the board members how PRIs might be used, and it eventually led to their use of PRIs. In fact, several PRI peer networks have formed, which not only serve as advocates of PRIs but also provide foundations with learning opportunities and other support (see "Challenges and Opportunities" for details).

- **Forced by the economic downturn**

Deteriorating economic conditions make PRIs more appealing because they allow for the recycling of charitable dollars. Several of the interviewed foundations, particularly small foundations, mentioned this as one of the major reasons for their recent participation in PRIs. Foundation B, for example, started to look for new options outside of basic grant making to finance programs due to the collapse of Lehman Brothers and the economic fallout in 2008. Another foundation stated frankly: "We want our money back."

- **Influenced by a changing legal environment**

The ups and downs of PRI activities over the past several decades have to some degree also been influenced by the legal environment. According to Foundation D, PRIs at the foundation were quite popular in the late 1960s and 1970s, but their use and popularity decreased during the 1980s and picked back up in the 1990s and recent years. One major reason for its popularity during the 1990s and today is due to the changes in Community Reinvestment Act, which regenerated a lot of interest in PRIs. In fact, since the Tax Reform Act of 1969, which established PRIs, billions of dollars have been invested through thousands of PRIs made by hundreds of the U.S. foundations. Legal costs, particularly tax-related requirements associated with making PRIs, are often considered impediments to foundations' PRI practice. As a result, the recently updated regulations by IRS to improve the guidance regarding PRIs are largely welcomed by the field in that it should help foundations make PRIs more easily and encourage more use of PRIs.

B. Defining Success and Failure of PRIs

Despite all the inner motivations and external driving forces, PRIs are still considered financially riskier than grants by many foundations. All the foundations interviewed noted that they have specific guidelines that are used to measure risks, to select the right recipient organizations, and to determine the success and failure of their PRIs.

Selecting the Right Recipients for PRIs

Given the financial risks involved in PRIs as compared with grants, as well as the potential for recycling the funds and generating revenue, selecting the right recipient organization is very important. This requires foundations to determine whether or not a PRI is the best option for a potential investee. Two major concerns were stressed by all the interviewed foundations—the financial capability of a recipient to repay a PRI loan and the alignment of a PRI project with the foundation's mission. In other words, foundations select the right recipients through both "a financial lens and a mission lens" (Foundation E).

First, considering the financial risks involved in a program-related investment, foundations need to decide whether or not a recipient can follow the PRI stipulations and repayment plans in the long term. The key, as noted by Foundation G, is to "find an organization that can accept the PRI as a borrowed package, not a grant". In making this determination, a foundation often considers a potential recipient's previous financial history, future financial projections, current assets and resources, and ability to leverage other funds (Foundation E). To this end, it is often safer and easier for foundations to make PRIs to their grant recipients. For example, Foundation D, which has a long history of success in making PRIs, only makes PRIs to organizations that have a grant history with the foundation. Although not always the case, the history that the two parties have shared can help to inform the foundation about how financially responsible and capable a recipient may be in terms of repayment and use of PRI funds. If the two parties lack such a history, foundations typically work with a third-party intermediary or a consultant to find out more about the potential recipient organization.

Further, foundations also go through a program-screening process for potential recipients. The central issue they consider is whether or not a recipient's goals are in line with the foundation's mission. A related concern is if the outcome of a PRI project is going to be deemed "charitable." Foundation A goes beyond a basic check for programmatic fit to look at the potential impact as well as the innovation of a PRI project.

Defining Success and Failure of PRIs

According to the seven interviewed foundations, there are generally two parts to their definition of PRI success:

- Programmatic/social success: The investment produced the desired social outcome and impact.

- Financial/investment success: The recipient met the PRI investment repayment schedule so that the return on the loan investment was realized.

While all responding foundations agreed that both parts of this definition of success were important, several foundations acknowledged that financial success typically receives more attention from foundation leaders and board members. Foundation G explained that this was the case because there are obvious ways to measure the financial investment returns, while social outcomes are more difficult to quantify. In addition, another interviewee from a separate foundation noted that the desired social impact results can take more time to surface and become noticeable; sometimes longer than the actual PRI loan lifetime. Foundation G added to the two parts of success mentioned above by suggesting that asset growth should be aligned with success. Some foundations view a PRI as a failure if the recipient does not meet the financial terms.

Although many of the foundations interviewed agreed that growth is a good thing, most noted that social outcomes were more important than investment returns. In fact, some foundations stated that a PRI can be deemed successful even if it did not produce a positive financial return on the investment so long as the PRI investment and overall project produced the desired social outcome.

In the event that a PRI does not produce the financial returns that are expected, a foundation can convert the PRI into a grant to avoid losing money on the investment. Foundations responding to interviews were mixed about whether or not this situation, in which the investment returns are not realized but a positive social outcome may still occur, should be deemed a failure. As the interviewee responses suggest, most foundations appear to be more concerned about the desired social outcomes than the potential for financial returns on their PRIs.

Foundation D, a large national foundation, noted that beyond the financial and program successes mentioned above, there is an abstract portion to the success of a PRI. The first part is the advancement of thinking within the field of PRI and the peer learning that helps foundations learn from one another. The second part of the abstract portion of success is the advocating and promoting of PRIs to other foundations that may be considering the tool in the future.

C. Challenges and Opportunities for PRIs

Although there is a growing interest in PRIs in the philanthropic field, the actual use of this tool is limited to a rather small number of foundations—less than one percent of U.S. foundations made PRIs each year between 2000 and 2010. This leads to the question, why are so few foundations making PRIs? What hinders foundations from more actively engage in PRIs? The case-study foundations highlighted several barriers that could prevent a foundation from making PRIs, including

- lack of information or knowledge of PRIs;
- lack of expertise in PRI management;
- potential transaction costs associated with doing PRIs; and
- lack of appropriate opportunities.

Lack of information or knowledge: Foundation B noted that, although both foundations and grantees can benefit from a PRI, those foundations inexperienced in using the tool may have a hard time utilizing it successfully since the PRI learning curve is usually quite steep. While many foundations interviewed believe that other foundations could learn more about PRIs from peer organizations, Foundation G claimed that this view is rather optimistic. Foundation G argued that the culture of secrecy and foundational seclusion must be done away with in order to prevent future PRI ignorance in the field and promote the growth of the use of PRIs.

Lack of expertise: Processing PRI transactions generally requires a foundation to develop different management expertise and processes from those used in traditional grant making. For instance, as noted by Foundation C, a foundation's staff must be knowledgeable about PRIs in order to decide when a PRI is an appropriate tool to be used. In our case studies, some experienced PRI makers have established PRI or mission investing expertise, while a few less-experienced foundations give PRI-management responsibility to either their grant making or investment team. In either case, it is necessary for the PRI program, grant making team, and investment team to collaborate to manage sourcing, oversight, collections, and legal concerns of PRI transactions. For example, Foundation A has a specialized social-investing team separate from its grant-making team, yet the two teams work together closely to determine if a grant or a PRI is more appropriate for a specific task. Lack of staffing can also impact whether a foundation uses PRIs, as pointed out by Foundation D.

Potential transaction costs: An additional concern some foundations may have when considering PRIs is the potentially high transaction costs. These costs include both the payment for the necessary filed paperwork and for expertise running PRI programs. A less tangible and measurable transaction cost may be time. As Foundation C suggested, some foundations may be discouraged from offering PRIs because the return on their investment will take quite some time to appear. Foundation E, a foundation that has used PRIs since 1997, noted that most PRIs have an investment life of 10 years. In addition to a long wait on a low-interest investment, the investment is susceptible to external, macro-economic issues that may impact the borrower's ability to repay the loan. Although foundations take many precautions when deciding to use a PRI, investments risks such as external factors will always be a concern.

Lack of appropriate opportunities: According to Steven Lawrence from the Foundation Center, many nonprofits do not generate sufficient return to repay a foundation investment. Other than for specific types of NPOs in specific circumstances, these organizations would much rather receive grants. One of our interviewees also noted that the recent declining use of PRIs may partly be due to the decreasing demand by nonprofits.

Despite the potential challenges foundations face when deciding whether or not to engage in PRIs, the interviewed foundations identified several specific opportunities for overcoming the challenges mentioned above, including:

- peer learning and foundation networks;
- targeting PRI-trained employees; and
- intermediaries, consultants, and legal counsel.

Peer learning and foundation networks: Since the beginning of the 2000s, foundations using PRIs, particularly larger foundations, took steps to coalesce their partnerships into PRI or mission-investing networks, such as PRI Makers Network and the More for Mission Campaign. In May 2012, the Mission Investors Exchange (MIE) was launched as a joint project of PRI Makers Network and the More for Mission Campaign. The MIE now has more than 200 members, which are foundations and mission-investing organizations that use or are learning to use PRIs and MRIs as a strategy to accomplish their philanthropic, social, or environmental goals. MIE offers foundations and other philanthropic innovators an arena for the exchange of ideas, tools, and experiences in order to support their use of PRIs and other mission-investing tools that can increase the impact of their capital.

All the foundations interviewed have been participating in one or more of the existing professional PRI networks. These foundations noted that these networks have become very important for two main reasons:

- Expanding the field of foundations using PRIs and mission-related investments by encouraging foundations to consider these investment options
- Encouraging a form of peer learning among foundations making PRIs

Foundation D, a large foundation that has "actively engaged in growing the field" of PRIs, noted that professional networks and organizational cooperation among foundations using or considering PRIs are necessary to expand the use of PRIs. Foundation D suggests that through this cooperative expansion, the field can become more knowledgeable and efficient in making PRIs. Foundation E, another leader in the field of PRIs, concluded that the best way to learn has been "learning by doing," and it benefited greatly from learning with other foundations making PRIs. It learned not only through information sharing but also by coaching—an interesting point that was also mentioned by Foundation F. Foundation F explained that through PRI networks, its staff members were at one time "learning, and [now] they have become the teachers." In addition, foundations also noted that these peer-learning networks particularly provide small foundations, as well as those foundations not yet making PRIs, a great opportunity to gain information and reduce potential transaction costs.

Overall, these networks have helped to promote learning opportunities for foundations doing PRIs and mission investments, because they offer foundations a place to go, both online and in-person at various conferences, for PRI and mission-related investment articles, research reports, case studies and stories from the field, practitioner guides, and professional templates. Moreover, these networks have also helped to foster collaboration and professional relationships among foundations and other entities making PRIs. Despite the praise that many foundations give to PRI networks and foundation partnerships, some, like Foundation G, remain pessimistic about the true sincerity among partnering foundations in the field in that many foundations are still hesitant to be open with one another. As a result, as mentioned above, Foundation G suggests that the culture of secrecy and foundational seclusion must be done away with in order to prevent future PRI ignorance and promote the growth of the PRI field.

Targeting PRI-trained employees: Another opportunity highlighted by the foundations interviewed was their attempt to attract talented employees and staff with an education or background in PRIs and mission investing. As Foundation D noted, at one point all foundations were learning this new tool or program, but now there are knowledgeable individuals who foundations can seek out in order to bolster their PRI staffing capability and overall PRI performance.

Intermediaries, consultants, and legal counsel: Beyond the possibilities and opportunities presented through PRI networks, foundations have also found learning opportunities through working with intermediaries, consultants, and legal counsel when considering or making a PRI. Respondents noted the following reasons for collaborating with these advisors:

- Serve as a gatekeeper and introduce foundations to the PRI field and process
- Offer assistance in the management (management utility) of PRIs, in assessing potential PRI recipients, dispersing funds, or working with the recipient on the project design
- Help foundations better understand risks at a local level and help prevent foundations from many unforeseen risks
- Assist foundations seeking to expand their PRI programs and help assess and access markets or geographic areas to which the foundation does not have direct links

Despite the benefits mentioned, some foundations are hesitant to use intermediaries. Foundation C, a small foundation based in the Southwestern U.S. that works to support local organizations involved in education and community development, shared that it does not use intermediaries. Most notably, Foundation C explained that large foundations can benefit the most from using intermediaries and consultants when investing in international projects or organizations. According to Foundation G, this hesitation could be rooted in the idea that using an intermediary could interrupt the direct connection that the foundation should have with a grantee. Furthermore, using intermediaries may leave some foundations feeling more like a financial institution than one that cares about the social outcomes of a project. Today, however, intermediaries have become the norm. More and more foundations have come to accept the benefits that intermediaries can offer in PRI education, management, and risk avoidance.

D. The Outlook: Moving beyond PRIs

In their 2007 study, Cooch and Kramer concluded that the vast majority of private foundations that make mission investments concentrate on PRIs. Despite a number of successful experiences by some foundations with mission investing over many years, most foundations have remained in the experimental mode for decades without moving beyond low-interest loans to a more strategic and integrated approach. Our interviews suggest this is still the case. Despite leading foundations actively using and advocating mission investing in the field, there is some resistance to this idea from other foundations.

In our interviews, some foundations have already developed a mission-investing portfolio that includes PRIs as part of their investment portfolio. Foundation E, one of the top PRI makers, uses "mission-related investing" as an umbrella term that encompasses both PRIs and market-rate mission-related investments (MRIs). In exploring investment opportunities within all asset classes, Foundation E has developed a mission-related investment portfolio that incorporates grants and PRIs (below-market investments) as well as MRIs. Foundation A, which is also an active PRI provider, has established a social investing program that includes both PRIs and MRIs. The foundation's social investments use endowment dollars to generate financial returns as well as to increase resources dedicated to their programmatic work. However, these foundations stress that PRIs are made to support an organization's direct charitable activities rather than to build endowments.

Other foundations, in contrast, strictly differentiate PRIs from mission-investment programs. To Foundation F, PRIs are not mission or impact investments, and they are not stand-ins for those tools. While their PRIs come out of grant dollars, the foundation's mission-driven investing uses endowment dollars and is one segment of a larger investment portfolio. Moreover, PRIs are unique in their goals to meet charitable intent, while Foundation F's mission-driven investing purpose is to both realize market rates of return and improve the lives of vulnerable children. Similarly, PRIs are part of Foundation C's grant strategy. Its board and the staff are very clear that the mission comes first and investment opportunities come second. Both foundations are very cautious about entangling PRIs with mission investments.

While some foundations, like Foundation B, are currently looking into moving beyond PRIs toward mission-related investments, some of the interviewees are pessimistic about market-rate mission-related investing. For example, Foundation F expressed no interest in MRIs, largely because MRIs take money out of a foundation's corpus, which is against the foundation's goal of perpetuation. Foundation C is suspicious of the idea of a "double bottom line," saying that the foundation was "not sure if foundations can achieve their social purposes and continue to receive the necessary investment rate of return in the long term." As a result, Foundation C is indifferent about MRIs. By making PRIs part of their grant-program strategy, this foundation is showing its preference for social returns over revenue generation.

Conclusion

Through the quantitative and qualitative analysis in this study, the School of Philanthropy at Indiana University has shown that program-related investing continues to be a valuable option beyond grant making for achieving social impact objectives.

The data analysis on the Foundation Center's PRI dataset from 2000 to 2010 shows that, although PRIs remains an underutilized tool, they have generally gained momentum since the 1990s. The most recent years (2008 to 2010) witnessed a declining trend in PRI use. The decline is likely attributable to the economic downturn, the decreasing demand for PRIs by recipients, and the lack of patience on the part of foundations in waiting for the outcomes of PRIs, according to one of the interviewed foundations. Despite this decline in the number of PRIs, the average PRI dollar amount invested increased steadily between 2005 and 2010, and from 2008 to 2010 it more than doubled in the average amount from 2005. In addition, foundations have been using a wide variety of financial instruments to grant PRIs. While loans are still the most common tool, there has been an increase in the use of equity investments by foundations. Moreover, PRIs were distributed not only nationally but also internationally. Recipient organizations in foreign countries, such as Armenia and England, received PRIs with large average dollar amounts.

The interview analysis in this study reveals several important themes within the PRI field. First, both intrinsic motivations and extrinsic factors are important in driving foundations' initial PRI activities. Second, foundations have specific guidelines that are used to measure risks, to select the right recipient organizations, and to determine the success and failure of their PRIs. In particular, most foundations view a PRI as successful if it provides both a financial and social return. Third, there exist some barriers that prevent a foundation from doing PRIs, including: lack of information or knowledge of PRIs; lack of expertise in PRI management; and the potential transaction costs associated with making PRIs. Fourth, there have also emerged some opportunities for foundations to overcome the barriers mentioned above, including: participating in peer learning networks; targeting PRI-trained employees; and using intermediaries, consultants, and legal counsel. Finally, foundations vary in their attitudes toward mission investing. Despite some leading foundations actively using and advocating mission investing in the field, there is some resistance to this idea from other foundations. Some foundations are very cautious about entangling PRIs with mission investments and are reluctant to move beyond PRIs to mission investing.

This study also suggests a discrepancy between the rhetorical side of PRIs, as advocated by large PRI leaders, and realistic side of PRIs, as illustrated by the declining trend of PRIs in the late 2000s. As also indicated by the 2012 Bank of America Study of High Net Worth Philanthropy, compared to 2009, only 1 percentage point more of high net worth donors in 2011 reported both being aware and currently using such alternate philanthropic tools like program-related investments, mission-related investing, and socially responsible investing. PRIs remain a niche, albeit important, tool for a very small segment of the grant making community. This is not to say that the use of PRIs could not increase in the coming years. In fact, as this report suggests, there is much opportunity for foundations and network organizations to advocate to foundations the increased use of PRIs. However, more education in PRIs will be critical for the growth of the PRI field. More importantly, in a time when many foundations want quick results and returns on their investments, as suggested by one interviewee, some patience may help recipients to demonstrate their worthiness as investees.

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APPENDIX I Top 30 PRI Providers by Total PRI Amount ($), 2000–2010

Foundation Name	Foundation Type	State	Total PRI Amount ($)	%
Ford Foundation	Independent	NY	302,000,000	9%
The David and Lucile Packard Foundation	Family	CA	282,000,000	8%
The John D. and Catherine T. MacArthur Foundation	Independent	IL	229,000,000	7%
The AVI CHAI Foundation	Independent	NY	122,000,000	4%
Bill & Melinda Gates Foundation	Family	WA	90,200,000	3%
The ALSAM Foundation	Family	UT	82,400,000	2%
Marty and Dorothy Silverman Foundation	Independent	NY	78,800,000	2%
Jacobs Center for Neighborhood Innovation	Operating	CA	78,300,000	2%
Walton Family Foundation, Inc.	Family	AR	78,200,000	2%
The Prudential Foundation	Corporate	NJ	72,200,000	2%
Libra Foundation	Independent	ME	59,400,000	2%
The Annie E. Casey Foundation	Independent	MD	59,200,000	2%
The Cafesjian Family Foundation, Inc.	Family	FL	59,100,000	2%
The University Financing Foundation, Inc.	Operating	GA	55,100,000	2%
Presbyterian Health Foundation	Independent	OK	52,200,000	2%
Kalamazoo Community Foundation	Community	MI	49,800,000	1%
Layne Foundation	Independent	CA	45,900,000	1%
Charter School Growth Fund	Operating	CO	39,600,000	1%
The Kresge Foundation	Independent	MI	37,600,000	1%
The Conservation Land Trust	Operating	CA	37,300,000	1%
Otto Bremer Foundation	Independent	MN	32,700,000	1%
The F. B. Heron Foundation	Independent	NY	32,600,000	1%
Conrad N. Hilton Foundation	Family	CA	31,800,000	1%
Bodner Family Foundation, Inc.	Independent	NY	29,700,000	1%
Soros Economic Development Fund	Operating	NY	28,900,000	1%
The Cleveland Foundation	Community	OH	28,300,000	1%
Charitable Leadership Foundation	Independent	NY	23,900,000	1%
Building Hope	Operating	DC	23,200,000	1%
Gordon and Betty Moore Foundation	Independent	CA	23,000,000	1%
Pearl M. & Julia J. Harmon Foundation	Independent	OK	22,600,000	1%
Subtotal for Top 30			2,187,000,000	65%
Total for Other Foundations			1,203,000,000	35%
Total			3,390,000,000	100%

Notes: Total PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

APPENDIX II Top 30 PRI Providers by Total Number of PRIs, 2000–2010

Foundation Name	Foundation Type	State	Total # of PRIs	%
Bodner Family Foundation, Inc.	Independent	NY	177	5%
The AVI CHAI Foundation	Independent	NY	136	4%
C.I.O.S.	Family	TX	128	3%
The Prudential Foundation	Corporate	NJ	126	3%
Otto Bremer Foundation	Independent	MN	93	2%
Ford Foundation	Independent	NY	81	2%
The David and Lucile Packard Foundation	Family	CA	79	2%
Jacobs Center for Neighborhood Innovation	Operating	CA	77	2%
The John D. and Catherine T. MacArthur Foundation	Independent	IL	73	2%
Marty and Dorothy Silverman Foundation	Independent	NY	71	2%
Ervin G. Houchens Foundation, Inc.	Independent	KY	71	2%
Layne Foundation	Independent	CA	67	2%
Helen Bader Foundation, Inc.	Family	WI	54	1%
The F. B. Heron Foundation	Independent	NY	53	1%
Joe W. & Dorothy Dorsett Brown Foundation	Independent	LA	53	1%
The Cafesjian Family Foundation, Inc.	Family	FL	50	1%
Development Credit Fund, Inc.	Independent	MD	46	1%
Fannie Mae Foundation	Corporate	DC	44	1%
The Meadows Foundation, Inc.	Family	TX	43	1%
The Abell Foundation, Inc.	Independent	MD	43	1%
Eugene and Agnes E. Meyer Foundation	Independent	DC	42	1%
The Melville Charitable Trust	Family	MA	39	1%
The University Financing Foundation, Inc.	Operating	GA	36	1%
Alavi Foundation	Independent	NY	35	1%
Meyer Memorial Trust	Independent	OR	35	1%
Media Development Loan Fund	Independent	NY	33	1%
Kalamazoo Community Foundation	Community	MI	33	1%
The Kresge Foundation	Independent	MI	32	1%
The Erich & Hannah Sachs Foundation	Family	CA	31	1%
Charter School Growth Fund	Operating	CO	30	1%
Subtotal for Top 30			1911	51%
Total for Other Foundations			1846	49%

APPENDIX III Top 30 PRI Recipients by Total PRI Amount ($), 2000–2010

Recipient Name	State/Country	Total PRI Amount ($)	%
Nature Conservancy	VA	94,700,000	3%
National Community Stabilization Trust	DC	53,900,000	2%
Trust for Public Land	MN	52,700,000	2%
Mater Dei High School	CA	52,600,000	2%
Research Park Project	OK	52,200,000	2%
Self-Help Ventures Fund	NC	46,900,000	1%
Market Creek Partners LLC	CA	37,200,000	1%
Opportunity Finance Network	PA	33,900,000	1%
Shorebank Corporation	IL	31,400,000	1%
KIPP Academy	TX	30,500,000	1%
Diocese of San Diego	CA	29,500,000	1%
Reinvestment Fund	PA	28,000,000	1%
Local Initiatives Support Corporation	NY	26,200,000	1%
Stabilization Trust REO Capital Fund	DC	25,400,000	1%
East Baltimore Development Foundation	MD	24,500,000	1%
University Financing Foundation Project	GA	22,900,000	1%
Armenia, Government of	Armenia	22,500,000	1%
ProCredit Holding	Germany	21,700,000	1%
California Charter Schools Association	CA	21,200,000	1%
Cascade Capital Holdings	Armenia	20,400,000	1%
Brighter Choice Foundation	NY	20,100,000	1%
Low Income Investment Fund	NY	19,300,000	1%
Downtown Tomorrow	MI	18,200,000	1%
Southern Bancorp Capital Partners	AR	18,100,000	1%
Conservation Fund	VA	17,800,000	1%
Freshway, Inc.	ME	17,600,000	1%
Root Capital	MA	17,600,000	1%
Pineland Farms Natural Meats, Inc.	ME	17,500,000	1%
Pacific Charter School Development	CA	17,000,000	1%
Aspire Public Schools	CA	17,000,000	1%
Subtotal for Top 30		908,500,000	27%
All other PRI recipients		2,481,500,000	73%
Total		3,390,000,000	100%

Notes: Total PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

APPENDIX IV Top 30 Foreign Recipients by Total PRI Amount ($), 2000–2010

Recipient Name	Country	Total PRI Amount ($)	Total # of PRIs
Armenia, Government of	Armenia	22,500,000	6
ProCredit Holding	Germany	21,700,000	1
Cascade Capital Holdings	Armenia	20,400,000	4
National Urban Reconstruction and Housing Agency	South Africa	10,800,000	1
Empresas Verdes	Chile	9,460,015	6
KMB Bank	Russia	8,661,004	2
Marie Stopes International	England	8,487,500	1
Conservation Land Trust Argentina	Argentina	7,533,697	5
CS Media R/E	Armenia	7,008,921	2
SolarEn, LLC	Armenia	6,263,243	7
Riders for Health	England	5,784,442	2
Shorecap International LLC	England	5,299,252	5
ASA International Holding	Bangladesh	5,260,304	1
Televisora Nacional	Panama	5,131,258	1
CS Media Enterprises, LLC	Armenia	4,740,048	3
Kenya Women Finance Trust Limited	Kenya	4,368,682	2
Asia Pacific Fuel Cell Technologies	Taiwan	3,605,925	3
Desarrolladora de Emprendedores	Mexico	3,542,053	2
GroFin	South Africa	3,422,060	2
loveLife Trust	South Africa	3,203,533	2
Construction Management Alliance Europe	England	3,165,797	2
BRAC	Bangladesh	3,040,752	1
CAPE Fund	Canada	2,597,723	2
Aldea Global	Guatemala	2,490,406	3
AFR LLC	Chile	2,472,892	1
Amhara Credit and Savings Institution	Ethiopia	2,425,000	1
Open Democracy Limited	England	2,371,638	1
Express	Ukraine	2,366,899	2
African Population and Health Research Center	Kenya	2,350,000	1
A-Up	Armenia	2,315,625	8

Notes: Total PRI amounts are adjusted for inflation to 2010 dollars. 2010 data from the Foundation Center's database are incomplete.

APPENDIX V Frequently Asked Questions

Q: What is a program-related investment (PRI)?

A: A PRI is an investment made by a private foundation to support a charitable organization, project, or activity. PRIs are typically structured as loans but can also be equity investments or loan guarantees. The IRS defines a PRI as any investment by a foundation that meets the following three criteria:

- Its primary purpose is to further some aspect of the foundation's charitable mission.
- The production of income or the appreciation of property is not a significant purpose of the PRI.
- It may not be used to support any lobbying or political campaign activities.

Q: What are the federal tax consequences of making a MRI or a PRI?

A: In general, PRIs are treated similarly to grants for purposes of the federal tax rules governing private foundations, while MRIs do not receive the same treatment. PRIs are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. A PRI must follow specific IRS Code criteria. In addition, for private foundations, PRIs are allowed to be counted as part of their annual minimum payout. What makes PRIs unique is that they can be taken from endowments while garnering a below-market rate return and be counted toward the charitable distribution requirement of the IRS. An MRI differs from a PRI in that it is purely a financial instrument that can be, but is not required to be, connected to a private or community foundation's philanthropic mission. MRIs are investments made by foundations with the intention of generating both market-rate financial returns and social or environmental impacts. Therefore, all PRIs can be MRIs, but not all MRIs can be PRIs.

Q: Who receives PRIs and what kinds of projects do they fund?

A: PRIs are often used to support the production of affordable housing and community development. These investments have also been used to fund a broad array of other charitable projects including arts and social-services projects. The recipient sponsor of a charitable project may be a for-profit or nonprofit organization.

Q: Can any type of foundation make a PRI?

A: Only private foundations can use PRIs as they are defined by I.R.C. § 4944(c). This is not to say that other foundations, such as community foundations, cannot make investments that they consider to be PRIs. Community foundations frequently make concessionary investments, similar to PRIs, which are made for program purposes. This points out an apparent ambiguity within the field of foundations using PRIs, that, outside of the IRS Code definition, there is no uniform definition or agreement on what is considered to be and should be defined as a PRI.

Q: Can a private foundation of any size use PRIs?

A: Yes, although to date the field of PRI making has been dominated by the largest private foundations.

Q: Can community foundations use PRIs?

A: Yes, but they cannot file these as PRIs recognized by the IRS Tax Code. Community foundations are, therefore, not able to witness the annual minimum payout benefits of private foundations.

Q: Do all private foundations report PRIs on their 990-PF tax returns?

A: Reporting a PRI on a tax return is completely up to the individual private foundation. Many private foundations do not report their PRIs on their tax returns when these charitable investments do not count toward their annual payout. Often times a foundation can consider and define these investments as other forms of grants or investments. In addition, if a PRI is converted to a grant, due to the recipient defaulting on investment, the foundation may stop reporting the PRI on their 990-PF.

Q: Are all PRI investments repaid to the foundation?

A: Not all PRIs, which are primarily in the form of a loan, are repaid to the lending foundation. This can happen for several reasons, but the primary reason is due to default by the recipient. When this occurs, a foundation can convert the PRI, in whole or in part, into a grant.

Q: What are the interest rates, terms, and structures of a typical PRI?

A: Interest rates on PRIs can vary from zero percent to just below the prevailing market rate. The IRS requires the interest rate to be below market-rate and on a risk-adjusted basis. Rates are typically calibrated to each borrower's capacity and a project's ability to make principle and interest payments. A foundation's desire to generate interest income or favor a social outcome over repayment of the loan may also determine or affect the rate, terms, and structures.

Q: Is a recoverable grant the same as a PRI?

A: A PRI is similar to a recyclable or recoverable grant in that the repayment of a loan or the return of the equity can eventually be recycled and used for another charitable purpose. Closely related, both recoverable grants and PRIs provide for the return of capital under certain circumstances. In addition, since the transaction of a recoverable grant or PRI can be classified as a grant, it avoids confronting default if a grantee/recipient does not repay. Recoverable grants, however, are not considered PRIs by the IRS; they are treated as grants until they are recovered.

Q: Can potential financial returns deter foundations from using PRIs?

A: In some cases foundations have shifted to using impact investments that do not qualify as PRIs merely because they can offer a foundation more significant financial return. In addition, attorneys of foundations often advise against using PRIs because of the misperception that any financial return at all disqualifies them from PRI status. While these trends and concerns have increased the popularity of broader social investment strategies, they may be leading to a slight decrease the popularity and use of PRIs.

Q: Can foundations make below-market-rate investments that are not PRIs and still meet their fiduciary requirements?

A: A foundation can always make a below-market investment that serves its charitable mission without any conflict with its fiduciary duty. This duty runs to the organization's purpose, not to maximizing the financial return. Due to the PRI IRS Code language noting that "no significant purpose of the investment" can be to make a profit, some attorneys may advise foundations to not declare investments as PRIs that have the potential of any financial return.

APPENDIX VI User Guide

Selected Organizations

- **Mission Investors Exchange**
    - 2101 Fourth Avenue, Suite 650
      Seattle, WA 98121-2357
      www.missioninvestors.org
      Info@MissionInvestors.org
      206-443-8463

- **Council on Foundations**
    - 2121 Crystal Drive, Suite 700
      Arlington, VA 22202
      www.cof.org
      community@cof.org
      800-673-9036

- **Initiative for Responsible Investment at Harvard University**
    - Harvard University
      Kennedy School of Government
      79 John F. Kennedy Street
      Belfer Building, Rm 102
      Cambridge, MA 02138
      http://hausercenter.org/iri/
      david_wood@hks.harvard.edu
      617-495-1904

- **Philanthropy Northwest**
    - 2101 Fourth Avenue, Suite 650
      Seattle, WA 98121
      www.philanthropynw.org
      info@philanthropynw.org
      206-443-8430

- **Cambridge Associates**
    - 4100 North Fairfax Drive
      Suite 1300
      Arlington, VA 22203-1664
      www.cambridgeassociates.com
      703-526-8500

- **FSG – Social Impact Advisors**
    - 1001 Connecticut Avenue NW
      Suite 925
      Washington, DC 20036
      www.fsg.org
      info@fsg.org
      866-351-8484

- **Rockefeller Philanthropy Advisors**
    - 6 West 48th Street, 10th Floor
      New York, NY 10036
      www.rockpa.org
      info@rockpa.org
      212-812-4330

- **Confluence Philanthropy**
    - 475 Riverside Drive, Suite 900
      New York, NY 10115
      www.confluencephilanthropy.org
      kayla@confluencephilanthropy.org
      212-812-4367

Selected Publications and Articles

- **Strategies to Maximize Your Philanthropic Capital: A Guide to Program Related Investments (Mission Investors Exchange, Thomson Reuters Foundation and Linklaters).** This guide is a comprehensive primer to understanding and making program-related investments (PRIs).
    - http://www.missioninvestors.org/tools/strategies-maximize-your-philanthropic-capital-guide-program-related-investments-primer

- **Program Related Investing: Skills and Strategies for New PRI Funders (Grant Craft).** Grant Craft offers a practical guide for novice PRI makers.
    - http://www.grantcraft.org/?pageid=1299

- **Risk, Return and Social Impact: Demystifying the Law of Mission Investing by U.S. Foundations (FSG Social Impact Advisors).** This report analyzes the legal considerations applicable to private and community foundations under federal and state laws.
    - http://www.fsg.org/Portals/0/Uploads/Documents/PDF/The_Law_and_Mission_Related_Investing_Full.pdf?cpgn=WP%20DL%20-%20The%20Law%20and%20Mission%20Related%20Investing%20FULL

- **Assessing and Managing PRI Risk: Nothing Ventured, Nothing Gained (Grant Craft).** Grant Craft offers an overview of the risks of making PRIs and discusses opportunities to minimize such risks.
  http://www.grantcraft.org/pdfs/assessing_risk.pdf

- **Philanthropy's New Passing Gear: Mission-Related Investing, A Policy and Implementation Guide for Foundation Trustees (Rockefeller Philanthropy Advisors).**
  This comprehensive report provides a policy framework and implementation guide for foundation trustees who are interested in mission investing, both program-related and mission-related (endowment) investing.
    - http://www.missioninvestors.org/tools/philanthropys-new-passing-gear-mission-related-investing-policy-implementation-guide

- **Solutions for Impact Investors: From Strategy to Implementation (Rockefeller Philanthropy Advisors).**
  This guide aims to increase the rigor with which impact investors frame their investment decisions and demonstrate the integration of impact investing across asset classes.
    - http://www.rockpa.org/document.doc?id=15

- **Aggregating Impact: A Funder's Guide to Mission Investment Intermediaries (FSG Social Impact Advisors).**
  This report provides an understanding of current trends in the use of mission-investment intermediaries by U.S. foundations.
    - http://www.fsg.org/tabid/191/ArticleId/83/Default.aspx?srpush=true

- **Mission Investing in Microfinance: A Program Related Investment (PRI) Primer and Toolkit (MicroCredit Enterprises).**
  The authors of this primer and toolkit present a useful report for foundations interested in microfinance PRIs generally and PRIs offered by MicroCredit Enterprises specifically.
    - http://www.adlercolvin.com/pdf/private_foundations/RAW_PRI_toolkit_(00054219).pdf

- **Investing for Social Gain: Reflections on Two Decades of Program Related Investments (Ford Foundation).**
  The Ford Foundation provides an overview of its use of PRIs, as well as a history of PRIs more generally.
    - http://www.fordfoundation.org/pdfs/library/Investing_For_Social_Gain.pdf

- **Leveraging Your Assets with Loans and Other Program Related Investments (ASF).**
  The Association of Small Foundations has produced this primer for its members, covering topics including criteria for PRIs, common types of PRIs, determining whether PRIs are right for your foundation, a step-by-step guide to making PRIs, tracking and accounting for PRIs, organizations that simplify the PRI process, and sample distribution and repayment scenarios.
    - http://www.missioninvestors.org/tools/leveraging-your-assets-loans-and-other-program-related-investments

- **Program Related Investments: Do They Cost, Or Do They Pay? (MacArthur Foundation).**
  A primer paper by Paul E. Lingenfelter that discusses why PRIs are a powerful tool and why they are so underutilized.
    - http://www.cof.org/files/Documents/Family_Foundations/Financial-Management/PRIs-are-Underutilized.pdf

- **Program Related Investments and You—Perfect Together? (James P. Joseph).**
  This article by James P. Joseph offers an overview of PRI rules and uses.
    - http://www.arnoldporter.com/resources/documents/Arnold&PorterLLP_TaxationofExempts_Joseph_March-April10.pdf

- **Program Related Investments: A User Friendly Guide (David S. Chernoff).**
  This article by David S. Chernoff presents the history of PRIs as well as a brief introductory user guide.
    - http://www.community-wealth.org/_pdfs/tools/pris/tool-macarthur-pri.pdf

- **Program Related Investments: Domestic and International (David S. Chernoff).**
  This article by David S. Chernoff discusses the international potentials of PRIs.
    - http://www.icnl.org/research/journal/vol3iss1/special_1.htm

- **Program Related Investments Provide Needed Relief (Philanthropy Journal).**
  In this article, Julia Vail explains how PRIs are becoming the main vehicle of financial help for foundations.
    - http://www.philanthropyjournal.org/resources/special-reports/finance-accounting/program-related-investments-provide-needed-relief

- **Program Related Investment Tax Regulations (IRS).**
  The IRS defines program-related investment (PRI).
    - http://www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Program-Related-Investments

- **Answers to Some Frequently Asked Questions about PRIs (The Grantsmanship Center).**
  The Grantsmanship Center provides answers to some of the common questions about PRIs.
    - http://www.tgci.com/magazine/Answers%20to%20Some%20Frequently%20Asked%20Questions%20About%20PRIs.pdf