



Expanding the Philanthropic Toolbox Webinar Series

Part I: Introduction to Program-Related Investing

February 16, 2011

Panelists



Peter Berliner
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PRI Makers Network
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Ed Diener
Counsel
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www.skollfoundation.org



Dana Pancrazi
Senior Program Officer
The F.B. Heron Foundation
www.heronfdn.org



The **Skoll Foundation's** mission is to drive large-scale change by investing in social entrepreneurs and other innovators.



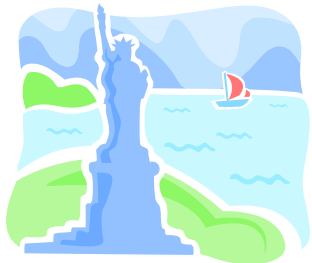
- First PRIs in 2004:
 - US and abroad
 - Focus on economic and social equity
 - Plus global health, climate change and water scarcity
- 2004 – 2009: Skoll made \$21 million in loans, guarantees and equity investments to 10 organizations, with a default rate of about 1%.

The F. B. Heron Foundation

New York, NY

Emphasis on wealth-creation strategies for low-income families in urban and rural communities in the U.S., including:

- Home Ownership
- Enterprise Development
- Access to Capital
- Effective Practices in Philanthropy



The F. B. Heron Foundation

PRI Program Summary

36 active PRIs outstanding totaling
\$19.5 million



Survey # 1

Which of the following describes you?

- I'm a foundation staff person.
- I'm a foundation trustee.
- I work with foundations.

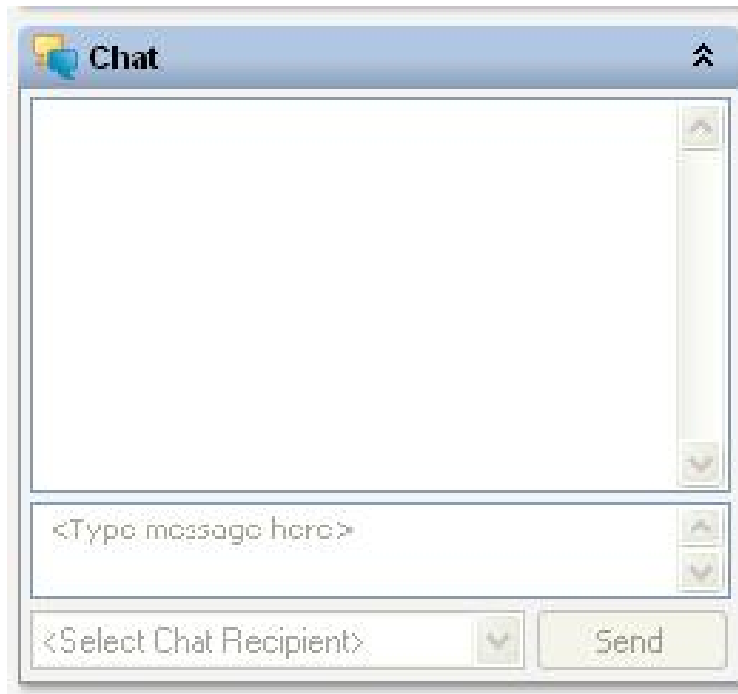
Survey # 2

Which of the following describes you?

- I'm new to PRIs.
- I have some knowledge about PRIs, but limited or no direct experience with them.
- I'm experienced with PRIs, but interested in learning more.

Survey # 3

Do you have a specific question you would like us to answer?



Topics

- ✓ Role of PRIs as a philanthropic tool
- ✓ Types, applications and benefits
- ✓ Opportunities
- ✓ Resources
- ✓ Questions



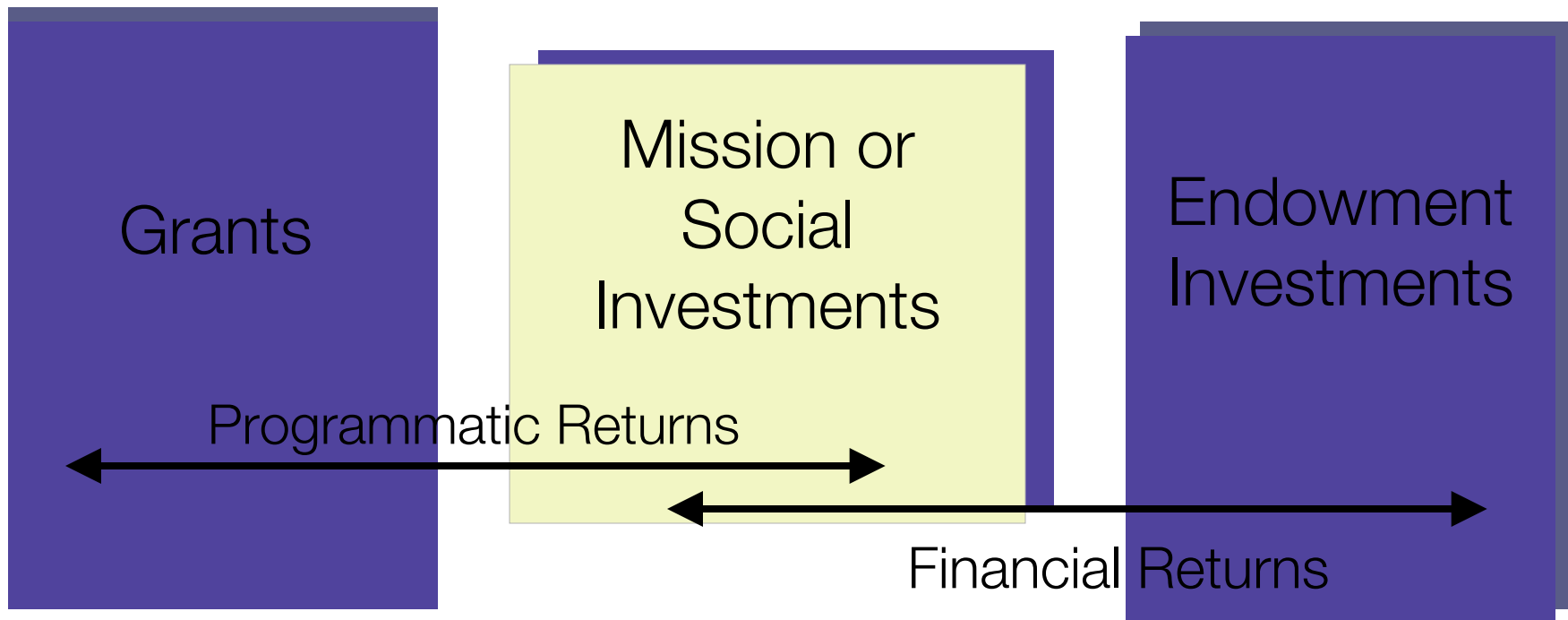
What are PRIs?

PRIs are **financial investments** made by foundations in order to achieve **program** goals.

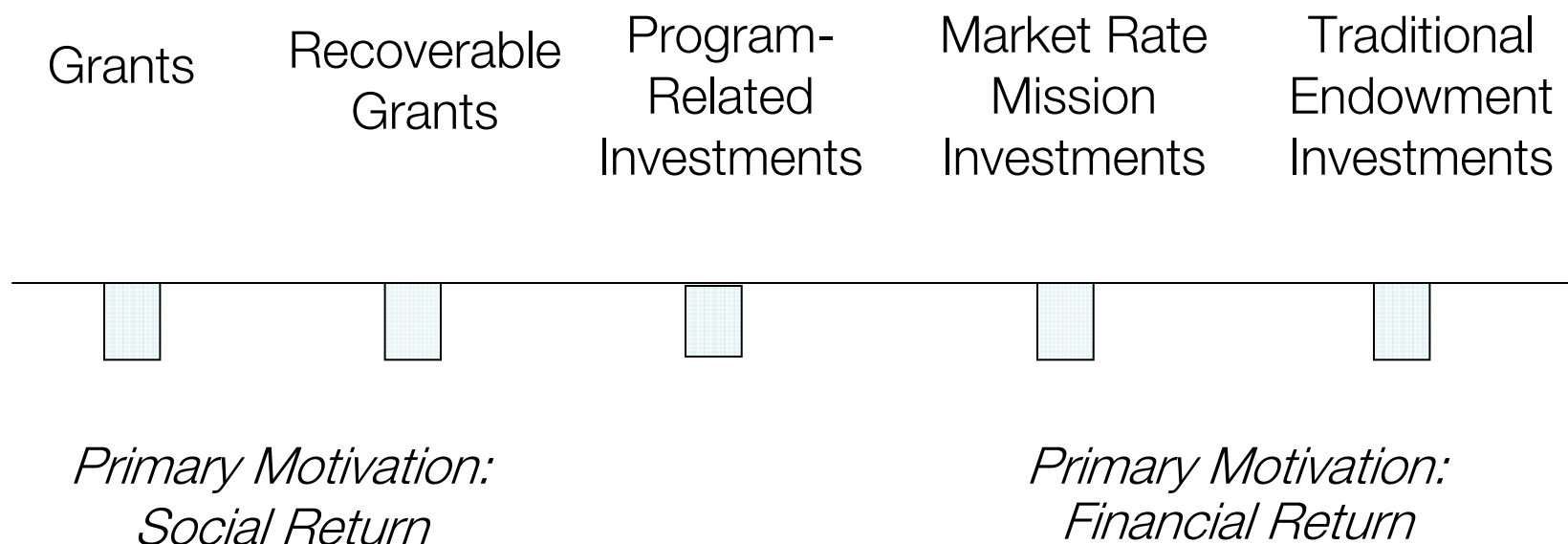
Program-Related Investments

- ✓ Like grants, they are made for **charitable purposes**,
but
- ✓ Unlike grants, they are expected to be **repaid**, often with at least a modest **financial return**,
and
- ✓ Unlike other foundation investments, they cannot be made for the **primary purpose** of financial gain.

Foundation Investments



Philanthropic Investing Continuum



IRS Requirements for Private Foundations

- ✓ The primary purpose is to further one or more exempt purposes of the foundation.
- ✓ The production of income or the appreciation of property may not be a significant purpose of the investment.
- ✓ The PRI cannot be used to fund electioneering or lobbying activity.

Benefits to Private Foundations

- ✓ Counts against payout requirements
- ✓ Not considered a jeopardizing investment
- ✓ Funds are recycled into future investments



Benefits to Public Foundations

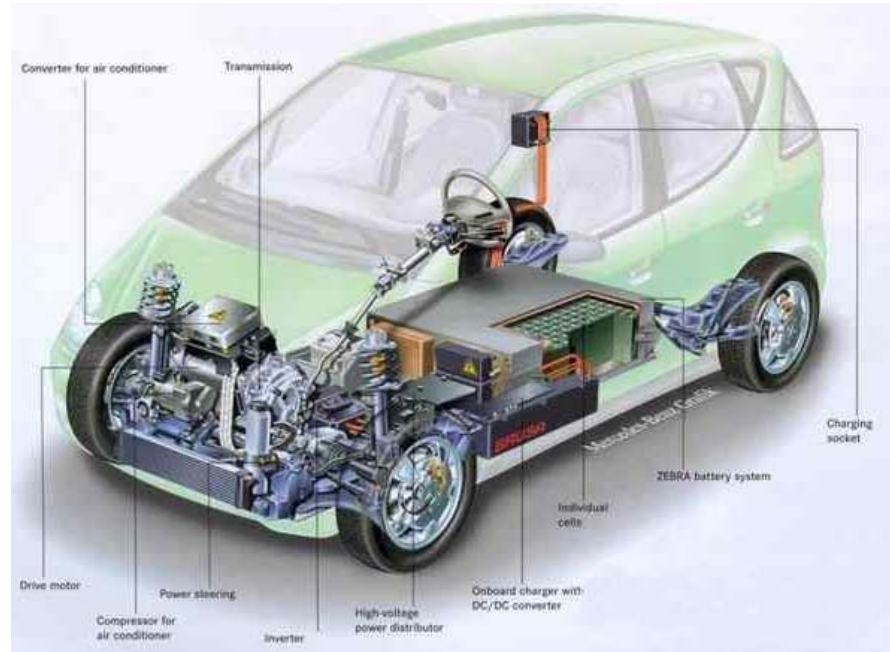
- ✓ Support large scale community projects
- ✓ Leverage private and public funding
- ✓ Funds are recycled into future investments



Benefits to Recipients

- ✓ Provides access to inexpensive capital
- ✓ Strengthens financial capacity
- ✓ Builds credit and performance record

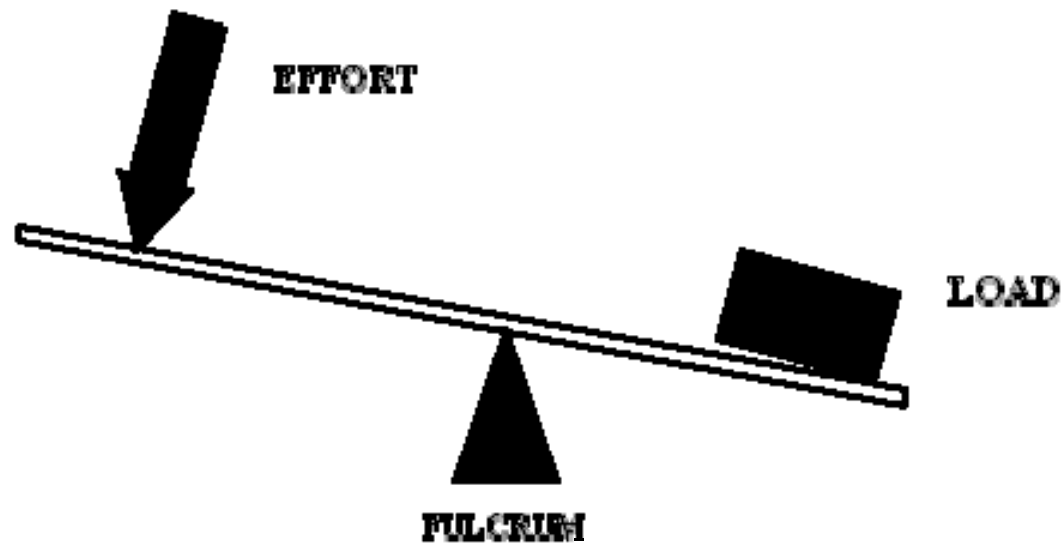
Harness the Power of Capital



Why PRIs? Why Now?

- ✓ Limited philanthropic resources
- ✓ Difficulty of bringing solutions to scale through grants alone
- ✓ Need to foster sustainability

Leverage Public and Private Resources



Grant or PRI?

- ✓ Reliable Income Stream
- ✓ Feasible Business Plan
- ✓ Financial and Managerial Capacity

Types of PRIs

- ✓ Deposits
- ✓ Fixed Income Investments
- ✓ Loans
- ✓ Credit Enhancements/Guarantees
- ✓ Real Estate Purchases
- ✓ Equity Investments

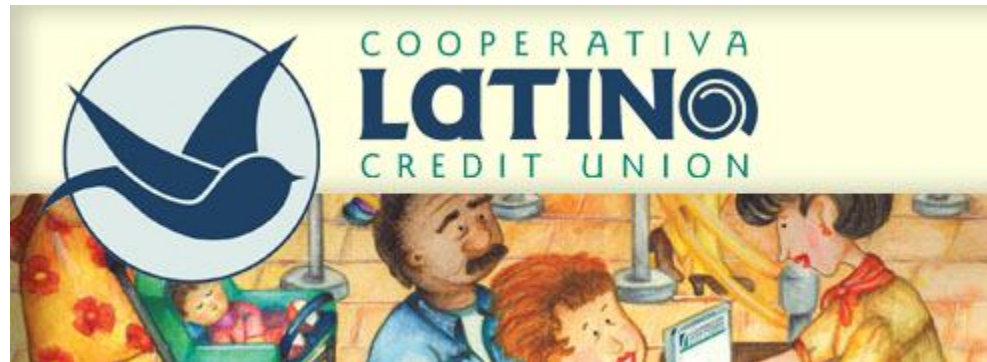


Types of PRIs

Deposits

Community Banks

Credit Unions



Types of PRIs

Fixed Income Investments

Bonds

Calvert Notes



Types of PRIs

Loans

Working Capital

Bridge Loans

Loan Funds (microfinance)



Types of PRIs

Credit Enhancements/Guarantees

Schools

Land Trusts



Types of PRIs

Real Estate

Office Development

Land Acquisition



Types of PRIs

Equity Investments

New businesses

Research/Development



Survey # 4

Which type of PRI is your foundation considering or likely to make?

- Deposits
- Fixed Income Investments
- Loans
- Credit Enhancements/Guarantees
- Real Estate Purchases
- Equity Investments



Self-Help Enterprises

Building Houses → Homes → Communities



Federation of Appalachian Housing Enterprises, Inc.





\$2.5 million loan pool to an intermediary for community development



Questions?



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Resources

PRI Makers Network Webinars

PRI Institute

May 25 - 27, Los Angeles, California

www.primakers.net

www.primakers.net

- Investment policy statements
- Loan documents and other templates
- Guides for use of PRIs
- PRI Activity Database
- Deals Clearinghouse
- E-networking
- Articles and books

Selected Articles, Guides, Manuals and Books

Glossary of PRI-related Terminology

Program-Related Investments: A User-Friendly Guide

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

A Basic Guide to Program-Related Investments, Christie I. Baxter, The Grantsmanship Center Magazine, 1997.

Philanthropy's New Passing Gear: Mission-Related Investing – A Policy and Implementation Guide for Foundation Trustees, Rockefeller Philanthropy Advisors. This is a practical publication that can inform decision makers about how to implement mission-related investing.

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

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

The PRI Directory: Charitable Loans and Other Program-Related Investing by Foundations (2009). The Foundation Center. This directory lists leading PRI providers and includes tips on how to seek out and manage PRIs.

Program-Related Investments: A Technical Manual for Foundations by Christie I. Baxter. This book provides foundations with guidelines for evaluating PRIs, monitoring grant recipients, and tracking returned funds.

Leveraging Your Assets with Loans and Other Program-Related Investments (PRIs). Association of Small Foundations, November 2007.

Program-Related Investments and You—Perfect Together? James P. Joseph. Taxation of Exempts, March 2010.

Capital With a Conscience. Jane M. Searing. American Institute of Certified Public Accountants. 2008.

These and other resources and materials are accessible via:
www.primakers.net/publications_articles_and_transcripts

Key Points

PRIs:

- ✓ Are a way to make low cost capital available to social enterprises.
- ✓ Create benefits for investor and investee.
- ✓ Are useful as alternatives to grants in the right circumstances.
- ✓ Can range from simple and risk-free to complex and/or higher risk.
- ✓ Can be used as a tool by foundations of all sizes and types.

Appendix

Who Uses PRIs?

- ✓ 320+ PRI uses reported
 - From adoption to pharmacology to wildfire
- ✓ Recipients in 45 US states and 37 other countries
 - From Alabama to Wyoming and Brazil to Yugoslavia
- ✓ Many types of PRIs
 - Loans, equity investments, lines of credit, linked deposits, real estate purchases, guarantees

Uses and Applications

Cash Deposits

Latino Community Credit Union
<http://www.latinoccu.org/en>

Notes

Calvert Foundation
<http://www.calvertgroup.com/>

Revolving Loans

Marion Knott Foundation
http://www.knottfoundation.org/cashflow_loans/

Low Interest Loans

Meyer Memorial Trust
http://www.mmt.org/support_for_grantseekers/featured_grants/pri/

Loan Guarantees

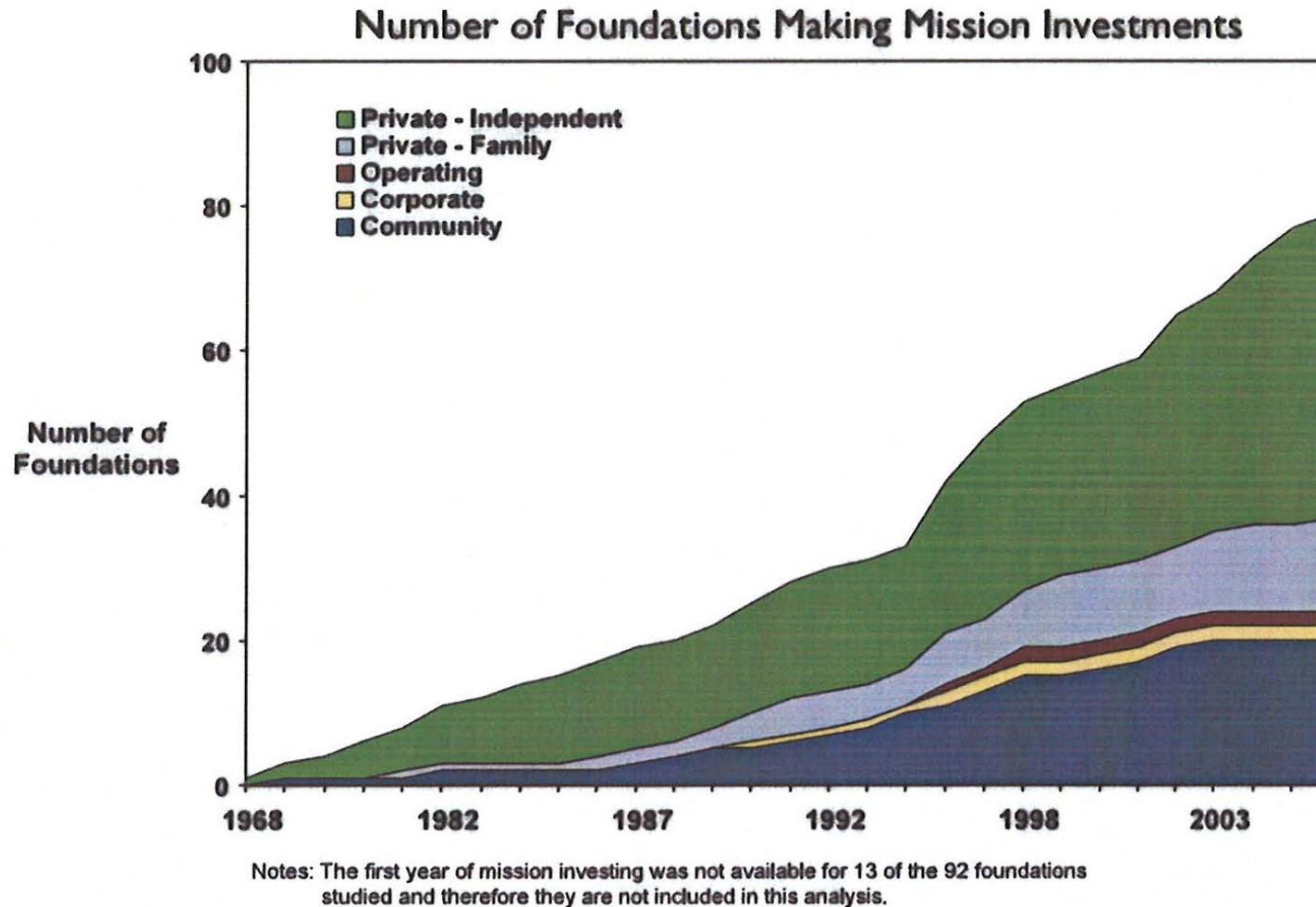
Gaylord and Dorothy Donnelly Foundation
<http://www.gddf.org/plandinitiatives4.html>

Definitions

- ✓ **PRIs are the only category with a legal IRS definition**
 - Primarily to achieve program goals
 - Terms must be below market on a risk-adjusted basis
 - Does not support lobbying
 - Must be investigated, documented and monitored

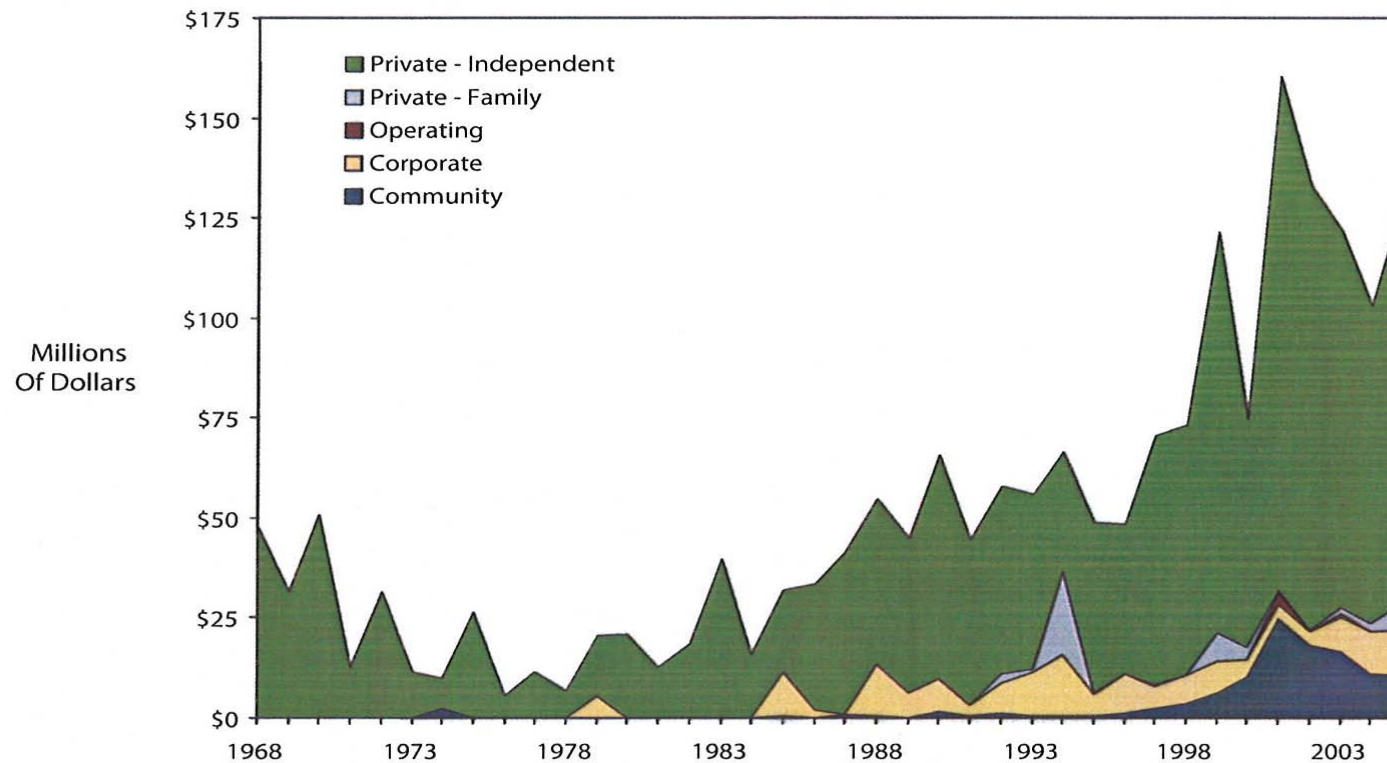
- ✓ **Foundations may make other charitable investments that don't qualify as PRIs**
 - Financial return is a primary or equal goal with social return
 - Emerging philosophy of using all (or more) assets to support mission
 - Terms may include: social, mission, impact investing, DBL/TBL

Only a Small Number of Foundations Making Social Investments



Annual SI Volume Growing But Still <\$200 Million

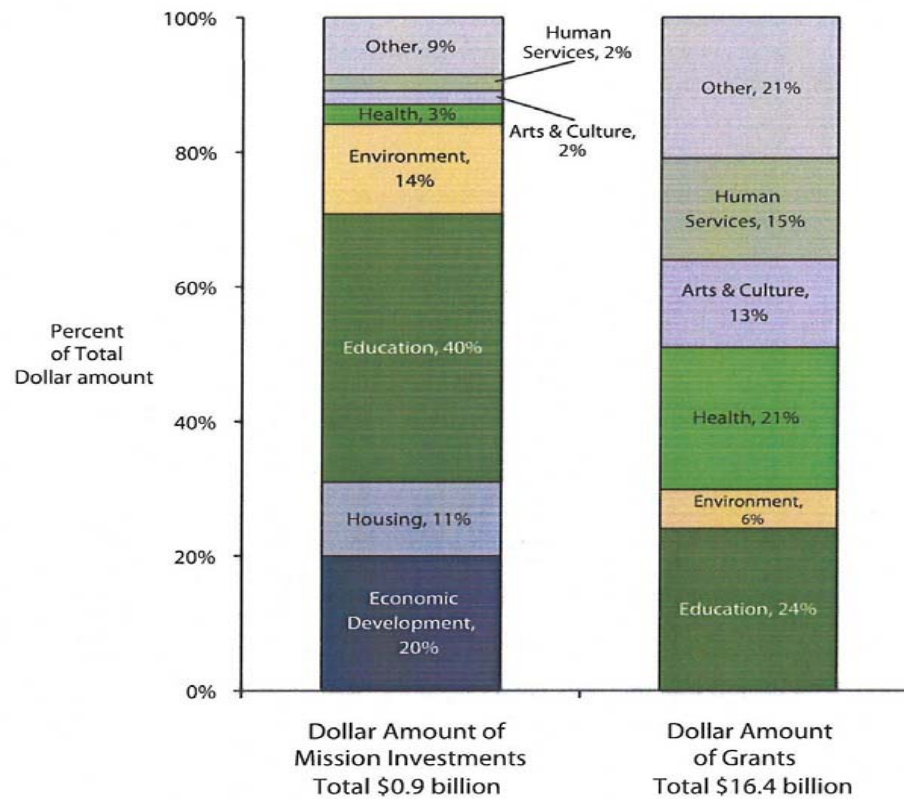
Dollar Amount of New, Committed Mission Investments Per Year
By Foundation Type in Constant 2005 Dollars



Notes: In constant 2005 dollars based on annual average CPI, all urban consumers as reported by the U.S. Department of Labor. To avoid major swings due to periodic investments, one foundation's infrequent and large equity investments are not included in this trend analysis. The first year of mission investing or the foundation size was not available for \$120 million of investments and therefore is not included in this analysis.

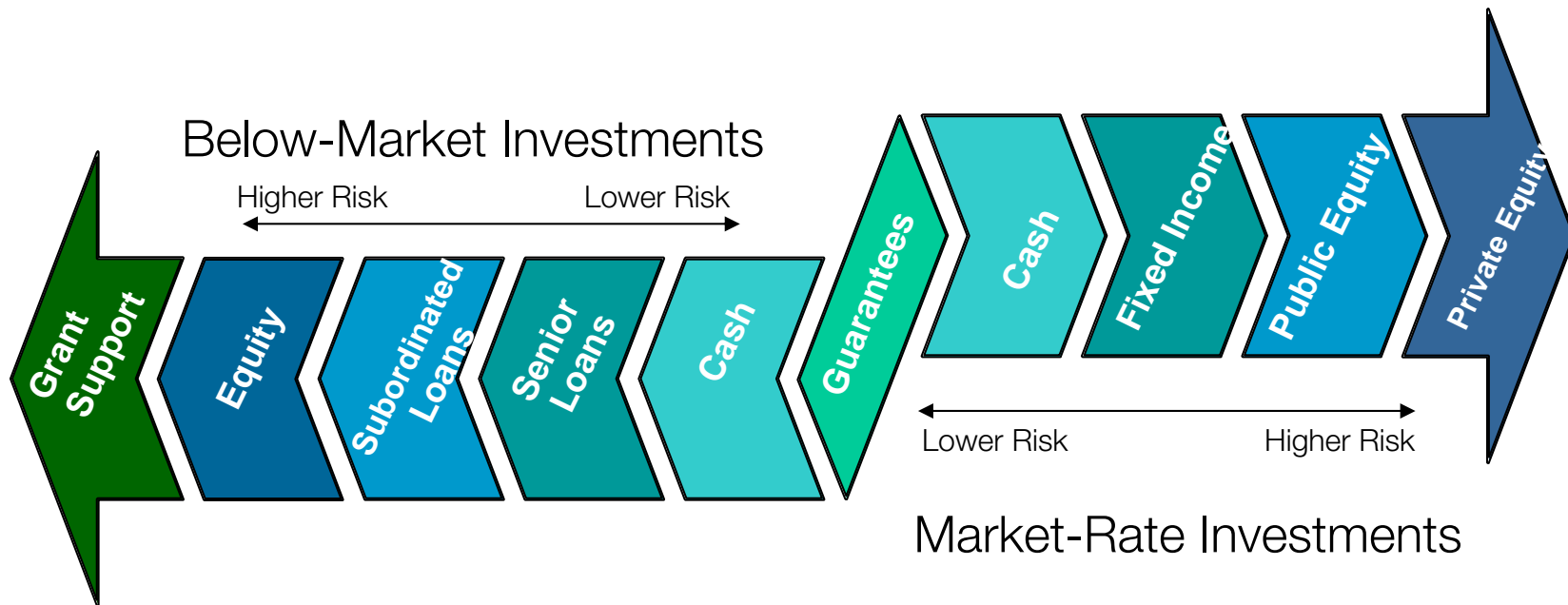
SI Program/Issue Areas

Comparison of Issue Areas Addressed by Mission Investments (2001-2005) Versus Grants (2005)



Note: 2005 grant data for all foundations is from Foundation Center's Foundation Giving Trends (December 2006) based on all grants of \$10,000 or more awarded by 1,154 of the largest foundations; grant data does not have Economic Development or Housing categories.

Social Investment Continuum



Source: The F.B. Heron Foundation Mission-Related Investing Continuum