



**Responses to Questions Raised at the
Expanding the Philanthropic Toolbox Part II: Getting Started Webinar
March 16, 2011**

Below are brief responses to questions raised by participants in the March 16 webinar. If you have additional questions or thoughts in response to any of the information below, please contact us at info@primakers.net. We also encourage you to refer to our website for additional resources, such as the [PRI Primer](#) and our [Tools and Templates](#) (the latter is available to Network members only).

THE FOLLOWING QUESTIONS AND RESPONSES ARE FOR DISCUSSION PURPOSES ONLY AND ARE NOT TO BE CONSIDERED AS DEFINITIVE LEGAL ADVICE.

PRI Basics

Q: What latitude is possible in interpreting "charitable activities"? Is there a valuation model that foundations use to weigh PRIs' charitable intent?

A: The process for determining charitable activity is similar to determining eligibility for a grant, e.g., by evaluating whether it will benefit the community in ways that are consistent with the foundation's purpose. An investment that qualifies as a PRI is one that is made primarily for a programmatic purpose, and one that a prudent investor would not make if their primary purpose was the production of income or appreciation of property. Click [here](#) for additional information.

Q: Are there any legal mandates regarding the percentage of assets that can be allocated to PRIs? How about a recommended percentage? What percentage of most foundations' annual program budget is allocated to PRIs? Are there methods for determining how much of our asset base to allocate?

A: The percentage of assets devoted to PRIs varies widely among foundations. One of our member foundations devotes nearly 100% of its program budget to PRIs. More typically, foundations may spend 5% - 10% of their program budgets in the form of PRIs. In addition, some foundations exceed their 5% minimum payout requirements by using a portion of the endowment assets as PRIs. Some foundations determine their PRI budget size via a process similar to what they use to determine the size of their grantmaking budget each year. The amount spent may depend on need, opportunities or external economic conditions. It may also depend on the charter of the foundation, e.g., whether it has been established in perpetuity or is expected to spend down its assets.

Q: How are PRIs reported to boards? Is it through the foundation's investment or financial committees?

A: PRIs may be reported to boards in the same way that grants are reported. In many cases, one or more trustees and/or other members of the finance or investment committees serve on PRI committees along with program and/or administrative staff, and the committees report directly to the Board.

Q: Do PRI payments back to the PRI maker serve as an offset to the 5% threshold?

A: Repayments of principal count as negative distributions and generally must be paid out as grants or PRIs in the year in which they are repaid. Earnings from PRIs are treated the same as other revenues generated from investment income.

Q: How costly is each transaction?

A: Costs vary depending on the type and complexity of the transaction. For example, deposits in a community bank may require little or no additional cost; the cost of making a loan may be similar to making a grant but with an added cost for development or review of loan documents. Generally, PRIs require more documentation than grants and may be monitored more frequently and over a longer period of time, which adds to their cost.

Types of PRIs

Q: What are the pros and cons of loan guarantees as a PRI tool?

A: Loan guarantees can enable the organizations you support to access other kinds of financing. By making a guarantee rather than a loan, a foundation is able to continue to invest those dollars. Loan guarantees are counted as PRIs only if they are actually released by the foundation.

Q: When is local venture capital a desirable PRI -- and when is it not desirable?

A: Some foundations deploy venture capital directly or through a fund in order to help develop innovative products and services that address unmet needs. By doing so, foundations generally take on more risk than they would by making other types of investments. At the same time, they may realize substantial social and financial returns.

Q: Much of the PRI discussion understandably considers loan structures. What about purchasing real estate which would then be used (possibly under lease arrangements) by one or more grantees in furtherance of their missions? Are there criteria critical to the purchase process to ensure PRI treatment?

A: There are many examples of foundations purchasing land and/or facilities for use by nonprofit or public organizations in order to serve a charitable purpose. The PRI criteria would relate to whether the use of the land or facility was made available at less than a market rate—one which an ordinary investor would not likely offer.

Q: What role does an LLC have in a PRI?

A: PRIs can be made to nonprofit, public and for-profit entities (including LLCs), provided that the funds invested by the foundation result in a charitable purpose, e.g., new jobs in a low income community.

Q: What can you tell us about making PRIs to international NGOs?

A: Several PRI Makers Network members make international PRIs. Such investments are often made through US-based intermediary organizations like the [Acumen Fund](#) and [Global Partnerships](#). Domestic foundations that make PRIs to organizations outside the US must exercise expenditure responsibility as they would if making a grant.

PRIs and Community Foundations

Q: How can PRI making be made palatable to community foundations who have concerns about staff time, fears about challenges to charitable purpose, etc.?

A: Although community foundations do not have to meet the annual payout required of a private foundation, many are using concessionary investments (like PRIs) as well as market rate investments as an effective philanthropic tool. In order to do so, they need to determine how they will address the same issues that are relevant to private foundations, such as focus, capacity, risk and cost. The PRI Makers Network will offer a [new webinar series designed for community foundations](#) beginning in June.

Q: What software do you use to track your PRIs? Have you used GIFTS?

A: Many foundations are using GIFTS and similar software to track PRIs.

Q: Are reports expected from the PRI recipient limited to financial information, or do they also include program results?

A: Generally, foundations expect their investees to report both financial and programmatic outcomes.

Q: How do we balance the small amount of funding available with the large demand once the word gets out? Do you have any suggestions for "rationing out" loans so that we are not overwhelmed by the demand? Should it be on a first-come, first-served basis or on some priority basis?

A: The issue of demand should be treated in the same way that foundations manage demand for grants. It helps to have your interests, priorities and expectations relative to PRIs posted on your website as a way to manage expectations. However, because comparatively few organizations are seeking PRIs (compared to ones seeking grants), this may not be an issue.