www.grantcraft.org

grantcraft

PRACTICAL WISDOM FOR GRANTMAKERS

PROGRAM-RELATED INVESTING

SKILLS & STRATEGIES FOR NEW PRI FUNDERS

program-related investing

skills & strategies for new PRI funders

contents

SPECIAL FEATURES

IN THIS GUIDE, experienced funders of program-related investments explain why PRIs are a valued addition to their strategic repertoire. Grant makers interested in getting started in the PRI arena will find tips on assembling the right set of skills, gaining the confidence of their trustees, and structuring deals that advance the foundation's mission.

This guide was written by Neil Carlson. It is part of the GrantCraft series.

Underwriting for this guide was provided by the Ford Foundation and The John D. and Catherine T. MacArthur Foundation.

Publications and videos in this series are not meant to give instructions or prescribe solutions; rather, they are intended to spark ideas, stimulate discussion, and suggest possibilities. Comments about this guide or other GrantCraft materials may be sent to Jan Jaffe, project leader, at j.jaffe@grantcraft.org.

To order copies or download .pdf versions of our publications, please visit www.grantcraft.org.

What Is a PRI?

Program-related investments, or PRIs, may seem like a new idea, but in fact they've been around for more than thirty years. During that time, slowly but surely, some foundations have learned to use PRIs well and have come to see them as an important part of their philanthropic toolbox. As one grant maker who uses PRIs explained, "The independent sector's role is to be at the cutting edge of social and economic issues," especially in "areas where there are not readily apparent market solutions." To the extent that PRIs embrace both the private market and the greater good, he continued, they may be seen as the "risk capital for social change."

Simply put, PRIs are investments made by foundations in support of charitable purposes, with the explicit understanding that those investments will earn below-market returns, adjusted for risk and mission. (For more on what that means legally and financially, see page 4.) Although a PRI is not a grant, it counts toward a foundation's payout requirement in the year a disbursement is made.

The vast majority of PRIs are below-market loans or loan guarantees. A few PRI makers make equity investments, as well — mainly stock purchases in social purpose businesses and partnership stakes in community venture capital and microfinance funds. In all cases, repayments must go out again in the year they are received by the foundation through grants or new PRIs.

Despite recent interest in PRIs, many foundations have been slow to integrate them into their overall strategies. Several grant makers suggested that the hesitation may be due to the ambiguous status of PRIs, which are neither programmatic fish nor investment fowl. One speculated that "foundation executives may not fully appreciate the degree to which well-crafted PRIs can directly leverage private capital for social benefit." Others thought that acquiring the necessary skills may simply seem too daunting.

PRIs and MRIs

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

But PRIs need not be intimidating. The important thing for novices to remember is that grant makers already have the programmatic knowledge that is the foundation of any good PRI. "Our PRIs come through program first and foremost," said one, adding that the members of her PRI team have widely varying technical backgrounds — including people who had never signed their own mortgage notes.

This guide offers an overview of the PRI field for grant makers who want to learn more about what PRIs offer. We talked to people from large and small foundations with a range of experience with PRIs — from veterans who've been making large PRIs for thirty years to relative newcomers — and asked them to discuss the nuts-and-bolts skills, processes, and structures required to be effective investors.

WHERE THE EXAMPLES COME FROM

Many PRI makers generously provided background information and commentary on their investment strategies and procedures. Several examples from different program areas figure prominently:

- **Enterprise and community development.** A family foundation in the South made a $500,000, 10-year equity investment with an anticipated return of 8-10 percent in a venture capital fund targeting job creation and business development in low-income communities.
- **Housing.** A foundation in the Midwest made a $300,000, 17-year investment at 1 percent in a loan fund that supports the redevelopment of residential apartments above commercial spaces in rural downtowns.
- **Environment.** A California-based foundation made a $10 million, 10-year loan at 1 percent to establish a fund that will invest in companies involved in marketing seafood from sustainable sources.
- **Children and families.** A New York foundation made a $500,000, 8-year senior loan at 3 percent to a loan fund supporting child care lending, expansion, and working capital.
- **Media.** A national foundation made a $1.5 million, 10-year loan at 1 percent to a loan fund that provides business finance to independent media enterprises.
- **Health.** A community foundation used a $4 million, 20-year bond with a 5.75 percent yield to help underwrite the purchase of a company that provides health insurance to low-income families throughout its state.
- **International**. A recently established foundation made a $1 million, long-term equity investment in a private fund that provides capital to finance companies, mostly banks, serving small and mid-sized clients in developing countries.

A complete list of those who contributed to this guide is on page 25.

PRIs: The Legal Definition and Requirements

PRIs are the historical product of the Tax Reform Act of 1969, which, among other things, imposes fines on foundations if they make "jeopardizing investments" — that is, any investment (including any loan) that could imperil the foundation's ability to carry out its charitable activities.

Program-related investments are the exception to the rule. Under Section 4944, private foundations are allowed to make "program-related investments" that meet three criteria:

1. **The investment's primary purpose must be to advance the foundation's charitable objectives.** Essentially, the foundation has to show that it would not have made the investment but for its relationship to the foundation's tax-exempt activities.

2. **Neither the production of income nor appreciation of property can be a significant purpose.** Lawyers generally apply a simple litmus test here: Would an investor solely engaged in investing for profit make the investment on the same terms? When the answer is no, it means the foundation is accepting higher risk and lower returns.

3. **The funds cannot be used directly or indirectly to lobby or for political purposes.** Simple enough, but an important distinction from grants, which can, with certain limits, be used for lobbying. (See the GrantCraft guide *Funding Advocacy: The Philanthropy of Changing Minds*, for more information on the rules regarding grants.)

If the recipient of the program-related investment is not a public charity, the foundation is required to exercise expenditure responsibility. The expenditure responsibility requirements for a PRI are somewhat more stringent than for regular grants. As explained in one large foundation's standard PRI opinion letter: "[E]xpenditure responsibility … means that the private foundation is responsible to exert all reasonable efforts and to establish adequate procedures (1) to see that the grant is spent solely for the purpose for which made, (2) to obtain full and complete reports from the grantee on how the funds are spent, and (3) to make full and detailed reports with respect to such expenditures to the Secretary [of the Treasury]."

Public foundations have somewhat more freedom — but some public foundations use the IRS guidelines voluntarily in the interest of "fiduciary prudence," as one foundation executive put it.

PRI accounting. The accounting for PRIs is fairly straightforward. A PRI counts toward a foundation's required 5 percent charitable distribution in the year it is disbursed to the borrower. PRI principal repayments count as a "negative distribution" against the foundation's payout requirement in the year the principal is repaid — in other words, a $500,000 repayment must go out again in grants or new investments in the year it is repaid. Interest, dividends, and capital appreciation count as regular income.

Legal compliance. The IRS rules governing charitability are complicated, and the implications for innovative projects may be nuanced. Some foundations therefore insist on getting an opinion letter from a lawyer confirming that a PRI meets the legal requirements before making an investment. (If the IRS disallows a PRI, it can be considered a jeopardizing investment for which the foundation and its managers can be fined; having a legal opinion usually allows the foundation's managers to avoid penalties since it demonstrates that the investment was made in good faith.) In rare cases, a foundation may nix a deal because a lawyer finds that it lacks a legally sufficient charitable purpose, or because it could be financed through traditional means. The upshot, said one investor, is this: "Talk to a lawyer and make sure it's someone who has done PRIs before" – and do it early on.

Deciding to Make PRIs: Putting the Pieces in Place

Making a PRI is a lot like making a grant. Like traditional grant makers, PRI makers must have a deep knowledge of their program area, the public policies that shape the field, the organizations they work with, and the social outcomes they want to achieve. As one funder explained, "PRIs are really just another tool for grant makers. You don't make a PRI just because it's a sexy financial investment; you make it because it furthers your mission."

Yet, because PRIs are also financial investments, they require skills not necessarily demanded by straight grant making. As one leading PRI investor put it, "You have to be comfortable with the numbers," and with tasks such as financial analysis, underwriting, and financial and organizational due diligence. At an institutional level, PRIs require thinking differently about how the foundation achieves its mission. Helping trustees make the shift, and sometimes even overcoming their resistance, can be a hurdle. Finally, foundations have to cultivate a PRI pipeline, or "deal flow" as it's known in the investment community.

The following sections discuss those three areas and offer advice from experienced PRI makers.

SKILLS AND STAFFING

Every PRI maker we spoke to underscored the importance of having at least some people on board with backgrounds in finance and investing. "You can't make a PRI if you don't engage in a financial conversation with a grantee," said one. "If you don't understand their finances, you can't make the case that you'll get repaid."

Internally, foundations need systems that track and monitor loan repayments and reporting, assess the PRI portfolio's overall financial risk, and monitor compliance with investment terms. "It's an art form with multiple facets," said one PRI maker — but, he went on, if a foundation has a couple of people who understand all those aspects, "they're going to have the ability to pull it all together."

Broadly speaking, PRI making requires three sets of skills: programmatic, financial, and legal. Foundations structure those functions somewhat differently, depending on their size, strategy, and internal capacities. Larger foundations, which tend to have a higher volume of deals and make bigger investments, typically establish separate investment teams or PRI units. Smaller foundations tend to take a more ad hoc approach, forming investment teams as needed.

Whether permanent or ad hoc, a foundation's PRI team often includes its legal counsel — although most foundations rely as well on outside counsel with considerable PRI expertise. As the counsel to a large foundation noted, "Program officers are very focused on the programmatic issues. As lawyers, we're used to seeing issues in a different way. If we're brought in early, we're in a position to raise questions or propose some options for dealing with problems. It's the program officer's job to decide how to proceed."

Foundations have two options for acquiring PRI expertise: buy it (from consultants, financial analysts, or financial reporting services), or build it in-house (by hiring experts or training current staff). Most investors use a blended approach — buying market analyses, for instance, but building in-house managerial expertise.

Here is some specific advice about finding the necessary skills:

Look inside the foundation. Several investors offered the reassuring advice that a foundation's own finance and investment units are handy sources of expertise. Members of the finance team, given their investment experience and finance background, are probably in a good position to understand PRI transactions. Likewise, foundation counsel can help place the deal within relevant tax law and payout guidelines.

Gaining access to that expertise may require reaching across the organizational divide between program and finance – a reach that can break down silos of staff talent and lead to greater innovation. One PRI maker from the program side pointed out that financial staff are usually happy to help; they work at a foundation precisely because they are attracted to its mission: "They don't see getting involved with a PRI as, 'Oh no, one more thing I have to do.' It's a job enhancement for them."

Train staff as investors. Other foundations have experimented with training their program staff to be investors. "We hire program staff with competencies in their program areas, and then we train them for the credit function of the program-related investment," said one foundation executive. A novice PRI maker noted that understanding PRIs has strengthened her grant making. "We've had to really learn to understand financial analysis," she said. "There have been times in the past when we probably haven't done adequate due diligence on grants from a financial perspective. Now we know more, and we're more attuned to those issues." This is especially helpful, she continued, when working with grantees in very complicated financial situations: "We now understand [their business] at a much higher level than we did before."

But beyond basic skills in financial analysis, said one former program officer who now handles PRIs for her foundation, PRI makers need "the ability to see investment opportunities and understand the function of investment capital in social change." She continued: "The 'art' of making PRIs builds on the well-honed skill typically found in program staff that allows them to see the bigger organizational picture and find a philanthropic opportunity. PRIs use finance to promote the opportunity."

Use available skills creatively. A public foundation in the Midwest with a staff of two and an active board of trustees decided to tap its trustees for expertise. The director created a standing PRI committee, consisting of the director, the legal counsel, "plus a few trustees and other community leaders in business, banking, law, accounting, and nonprofits." The committee screens PRI applications and makes recommendations to the foundation's board.

GETTING THE BOARD ON BOARD

Newcomers to the field of PRIs often say that convincing skeptical trustees can be a major hurdle. Some see PRIs as a challenge to long-held beliefs about how a foundation accomplishes its mission. "When I started talking about doing PRIs, there was a little concern, or the potential for concern, that we might be moving too fast," one executive director recalled.

Every PRI maker we talked to argued that the effort required to make a case to the board is definitely worthwhile – especially at smaller or family foundations. A handful of large foundations have dominated the PRI field to date, yet small foundations may be poised to make major contributions. As one investor put it, "I see the real innovation in this field emerging from family foundations. Smaller organizations have less bureaucracy, more ownership, and a lower tolerance for process. In many cases they're more willing to take risks. We've seen smaller family foundations saying, 'PRIs are great – let's look at doing mission-related investments, too.'"

The following strategies may be helpful for getting trustees comfortable with PRIs:

Educate trustees informally and formally. Nearly everyone we spoke

BUY OR BUILD? FINDING AND USING CONSULTANTS

Finding expertise ...

The old-fashioned way, through networking. "Finding good consultants is always a challenge," one PRI maker noted. There are a handful of reputable firms that specialize in PRI consulting, she said, but "the best way to go about it is to talk to colleagues" with a lot of experience and lots of contacts. Another recommended checking with regional intermediaries, such as loan funds, community banks, and community venture capital funds: "These folks issue loans all the time for all kinds of different purposes. They will know what consultants are available to meet your needs."

Buy the numbers. Several investors underscored the efficiency of buying financial analysis and general market data. "We buy off-the-shelf analysis when we can," one large PRI maker said. In community development finance, many investors use the CDFI Assessment and Rating System (CARS™), a commercial service developed by the National Community Capital Association to evaluate investments in financial institutions like loan funds, credit unions, and community banks. "All we're trying to do is minimize overhead," she continued. "It's efficient for us to have an attorney in-house, but it usually makes sense for us to buy analyst reports."

... and using it.

Expertise for rent. Foundations often establish core functions in-house – such as financial analysis, legal compliance, and deal structuring – while outsourcing others. The executive director of a foundation whose mission is to bring "social benefit" to the residents of a particular geographic region underscored the pivotal role consultants play in his organization. "There's no way we could have all the in-house expertise we need, even in the program areas we invest in," he said. The foundation often hires outside experts to help evaluate prospective grants and investments – for a socially motivated landscaping business, a real estate deal, or an environmentally sound timber investment fund. "I've told our program officers and trustees that we don't have to know everything, but we have to know what we don't know – and find someone who does."

Buy to build capacity. A consulting engagement can also be a form of staff development, or the first step in building in-house expertise. "If you do end up working with a consultant, think about what you want to learn from the engagement so you can build in-house capacity," one investor advised. "You should be looking at how to think about structuring an investment, the broad outlines of underwriting, how to select a third party that will perform additional due diligence on your behalf, and how to ask good questions about that due diligence before, during, and after the due diligence." Consultants worth their salt, he continued, should help foundations build those skills for themselves.

to emphasized the need to educate trustees. The trick, said one foundation president, is to introduce the idea without being didactic. Start off with some informal education by asking trustees whether or not they have heard of PRIs. Then offer them some background reading and point to other foundations that use PRIs. Finally, he said, underscore the connection to mission.

Several foundations invited experienced PRI makers to speak to the finance committee and board. Hearing about program-related investing and having the opportunity to ask specific questions was "huge," as one novice PRI maker recounted. Some board members may be persuaded by the utility of PRIs as asset management tools. Said one foundation executive, "PRIs count, after all, as charitable contributions much as grants do, but they are assets that are repaid, not expenses."

And remember that educating the board can be an ongoing thing. The director of a small public foundation recalled that accurately assessing her board's risk tolerance was "a major stumbling block" when she started proposing PRIs to them several years ago: "We had many members who only wanted to do 'safe deals.' The problem is, the 'safe deals' did not need our underwriting — the riskier ones did!"

She formed a committee of the board to work with her on PRIs, but found that the initial committee had "too many bankers and not enough of a grant maker focus." Over time, the committee – and the whole board – have come to see PRIs "as a way to expand our services to the community and stretch our dollars" in a key area: housing.

Get the frame right. It's important to describe PRIs in language that resonates with foundation trustees. For some, that might mean emphasizing the relationship between PRIs and mission. The trustees of a foundation in the South, for instance, embraced PRIs when they realized that PRIs could help connect grassroots groups to mainstream institutions, including capital markets, and advance the foundation's mission. "They see that PRIs are a way to use the market to advance our goals around poverty reduction," the executive director said of her trustees.

For other foundations, however, emphasizing the investment aspects of PRIs makes more sense. "We positioned this as an investment," said one PRI maker about the initial presentation to the board. "It extends our ability to meet our mission, but if they hadn't viewed it as a business decision and an investment vehicle, they'd say, 'Well, you're just telling us that we're going to give more money away.'"

Another executive director said that his trustees fell somewhere in the middle: "We were able to convince them that [PRIs] are a good investment vehicle — not that we are going to get a high rate of return, but that we are going to get our money back, so it's different from a grant."

Show what similar foundations have done. Several PRI novices emphasized the importance of looking to similar foundations as models. "It probably doesn't do you much good if you run a family foundation to go visit Ford in New York and talk to them about their $10 million PRI in overseas microfinance," one foundation executive explained. Instead, he advised, find an organization similar to yours and pay them a visit with your trustees in tow. "You really need to think about how fast you can go with this," he continued. "Can you give trustees a sense of comfort as to your outside risk, while also giving them a feel for the upside, the benefits?"

Look for internal champions among the trustees. As in any group, some trustees will likely warm up to PRIs more quickly than others. "Generally, you have a handful of folks who are enthusiastic and a couple who are resistant," explained a PRI maker who previously worked as a PRI consultant. A good strategy is to identify the enthusiastic trustees, she continued, and support them as they try to move others along.

Make it easy to say yes. Arguably the most important strategy for getting the board on board is to make it easy for them to say yes. One executive director noted, for example, that placing a dollar limit on PRIs gave skeptical board members the peace of mind they needed to approve the foundation's initial foray. "Having a dollar limit helped them realize that all of a sudden half our corpus wasn't going to be out as PRIs," he said. "For us, the staff members, that ceiling gave us the authority we needed to go ahead and put the pieces in place."

Thinking of PRIs as investment instruments, he continued, also helped trustees think about the risks in relation to other investments: "If you have 5 percent of your assets in venture capital, which is pretty risky, you can do that because you can afford to lose 5 percent and it won't affect you overall. It's the same with PRIs – it's risk management."

By the same token, several new investors underscored the importance of

Resources for PRI Funders

The following websites offer a wealth of information for prospective, novice, and experienced PRI makers:

- **PRI Makers Network (www.primakers.net).** A project of the Neighborhood Funders Group, the PRI Makers Network offers a growing collection of resources, including training materials, a searchable database of actual PRI documents, information on consultants, and special features (such as opportunities to learn from experienced PRI funders) for network members. An excellent starting point for the novice PRI maker.
- **Brody Weiser Burns (www.brodyweiser.com).** Maintained by a consulting firm specializing in PRIs, this website offers useful case studies and publications on various aspects of PRI making. *Matching Program Strategy and PRI Cost*, for example, gives sound advice on assessing and managing program and financial risks.
- **Foundation Center (www.foundationcenter.org).** In addition to *The PRI Directory: Charitable Loans and Other Program-Related Investments by Foundations (2nd ed.)*, the Foundation Center website gives readers a searchable list of publications on PRIs. Find it under FAQs in the section devoted to resources for grant makers.

starting with clear and simple deals. "Don't get too fancy," one advised. "Keep it small and simple. Build your systems first, and then try riskier deals."

FINDING A FEW GOOD DEALS

The good news for inexperienced PRI makers is that finding good PRIs is a lot like finding good grants – but with a few twists. In most cases, PRIs emerge from a foundation's existing program work, usually from current grantees. "Eighty percent of our PRIs go to groups that have been or are grantees," one investor said. This is no coincidence, he explained, but a strategy that the foundation pursues for two underlying reasons: "One is programmatic, in that it helps assure programmatic alignment. The second is, frankly, risk management." Grant makers know things about a grantee's leadership, financial position, and organizational competence that make it much easier to assess financial risk and underwrite an investment. Likewise, grantees are more likely to step forward if problems arise, and midcourse corrections can mitigate the risk of default.

Beyond building on current portfolios, PRI makers cited a list of strategies for finding good investments that will sound familiar to any grant maker: Work in your area of expertise, keep lines of communication open in your community or field, and stay close to your mission. Here are a few other specific tips:

Spread the word that your foundation is open for PRI business. The executive director of a large regional foundation recalled how, after he made a presentation on PRIs to a group of local nonprofits, a respected social service agency that was also a grantee requested a $1 million loan to help purchase a new facility. The loan might not have happened without the advertising. "Had they not heard that discussion, they probably would have come for a grant," he noted. "More likely, they would have asked for $1 million, and we would have given them $500,000 or something less. But they were thinking more creatively after they heard me talk about PRIs." The director of a small foundation with a strong local focus concurred: "We learned that we had to put an emphasis on our PRI program in order to attract applicants."

Integrate PRI development with strategic planning. Several foundations' PRI strategies emerged from long-term strategic plans. For example, as part of a newfound focus on poverty reduction, one foundation decided to develop financial products that would aid its mission. It held a series of focus groups with community-based financial institutions in its region and asked them what they needed.

As a result of the feedback, the foundation channeled investments into underserved rural areas, defined investment terms and conditions, and targeted new financial institutions through an RFP process. "The start-up process took us a while, about a year," a program officer explained. Thanks to the planning legwork, the foundation now has a pipeline of institutions that are developing innovative financial products — key outputs in the foundation's strategic plan.

Make finding and analyzing PRIs a part of the grant maker role. A midsized national foundation has made PRIs a core function of operations. In addition to doing regular grant making, program officers are expected to build their own PRI deal flows. The foundation either hires program officers with financial skills or trains them in credit analysis, underwriting, and financial analysis. Each quarter, the entire staff meets to analyze the PRI portfolio and assign risk ratings to each deal. Program officers present all the material issues: programmatic, economic, legal, management, and governance. PRI proposals then undergo a third-party review, a step that helps ensure the integrity of the deals and gives program staff an impartial sounding board.

Use the Internet – but use it wisely. Most PRI makers we talked to generate the vast majority of their investments from their existing portfolios and professional networks, yet a few mentioned the value of using the foundation's web site to extend their reach. "We didn't want to have a drive-up window, but we did want to get information out to people," said the counsel to a foundation that has posted general information about its loan program on its web site, with an eye toward streamlining the investment process.

In the next iteration of the site, she explained, the foundation intends to include standard loan documents so prospective investees can download, complete, and submit the forms for initial review prior to "their first-cut conversation with a program officer."

How Three Foundations Got Their Feet Wet with PRIs

The best way to learn to make PRIs is by doing it. As the executive director of one new PRI-making foundation put it, "It comes from experience, and the only way you can get experience is to make some investments."

PRI makers seem to have gotten into the PRI pond in one of three ways: they jumped in, they waded in, or they were thrown in by circumstance.

JUMPING IN: BUILDING PRIs INTO OVERALL STRATEGY

Some PRI makers set out with the express goal of integrating PRIs into their foundation's overall strategy — a big commitment that may emerge from a strategic planning process or the arrival of a new chief executive. Most foundations in this cohort enjoyed strong board support for PRIs and understood clearly how PRIs would fit into their overall mission.

Not long ago, for example, a family foundation began looking at PRIs as a way to extend its long-standing commitment to fighting poverty in low-income communities. For over a decade, the foundation had focused on building leadership and capacity among the small, grassroots organizations in its grant-making portfolio. After making a few grants to help organizations develop revenue-generating enterprises, program staff began to wonder if PRIs might help them build up their credit histories and business skills. At that point, grant makers reasoned, the organizations would have access to more capital than the foundation could provide with grants alone.

The board gave its enthusiastic go-ahead to pursue PRIs, but there was one major obstacle: no one on the program staff had any investment experience. "We were pretty gun shy about our own capacity to make PRIs directly," the executive director recalled.

The foundation decided to build its internal capacity by co-investing with a more experienced investor that was willing to act as a mentor. The veteran PRI maker shared due diligence with the novice foundation, acting as a technical advisor and consultant on a $500,000 investment in a community-oriented venture capital firm. Staff members from the two foundations spent several days together reviewing internal systems, investment analysis, skill-sets, and how various job functions – program, administration, and investment – need to be aligned to make sound investments.

As the novice foundation develops its PRI program, it will focus on its core geographic region. In the meantime, the two foundations are exploring other investments. "It's great to have the Cadillac version," said the executive director regarding the experienced foundation's due diligence. "As we learn what we're looking for, we can take more calculated risks."

WADING IN: TAKING IT ONE DEAL AT A TIME

Other foundations have moved more cautiously, withholding the decision to pursue a PRI strategy until they have made one or two pilot investments. Even the most supportive board members may need to be convinced, and a go-slow approach can be a good way to demonstrate the effectiveness of PRIs without making major commitments of effort and capital. Several small foundations stood waist-deep for years, setting up a series of ad hoc investment teams that seized opportunities as they arose from the foundation's regular grant making. Other foundations co-invested with other PRI makers but didn't make a deliberate effort to learn the ropes.

The chief operating officer of a foundation on the West Coast described his organization's initial foray into PRIs. Founded in 2002, the foundation has focused mainly on getting its grant-making operations up and running, but the board also approved a $6 million PRI budget. Instead of staffing up immediately, the foundation hired a consultant to coordinate due diligence and manage the contract negotiations for its initial program-related investments. In 2004, the foundation made its first PRI as a private equity investment in a well-regarded intermediary that provides capital for small businesses and microenterprises in developing countries.

Like the organization that dove in, this foundation found an experienced foundation partner that had already invested in the intermediary. The experienced foundation shared due diligence, business modeling, and legal opinions, but the partnership didn't have a strong mentoring quality. "It was sort of like having a lead investor," the COO of the novice foundation recalled. "This was a blue-chip fund we were supporting, but having a co-investor gave us more confidence."

Following the success of that first investment, the foundation is ramping up slowly, selectively favoring a PRI structure when it appears to work better than a grant. The PRI consultant was recently hired as a full-time employee, and he has begun to develop legal and due diligence capacities — yet, for now, the foundation is still taking it one deal at a time. "I don't know how far it's going to go," the COO said, noting that the foundation doesn't plan to add more staff members to its nascent PRI unit.

Developing internal policies will be part of the work, the COO acknowledged: "What do we do if a grantee defaults on a loan? If we're serious about getting paid back, what expertise and resources do we need to have on hand to restructure a deal? Those are decisions we need to make down the road."

THROWN IN: MAKING A PRI TO SUPPORT CORE GRANT MAKING

From time to time, a foundation finds itself making a PRI because it's the best way — or the only way — to support a longtime grantee or program objective.

Investments like this tend to have a good-news/bad-news quality. On one hand, because the investment emerges from a core grant-making area, the foundation knows the field and the players in it. On the other hand, because the proposed investment is thrust urgently upon it, the foundation must scramble to structure a one-time deal. Many times, these are investments foundations can't afford not to make.

For example, a community foundation in the Northeast had long been a supporter of its state's pioneering effort to provide health care for low-income families. In 1994, the foundation made a planning grant to one of four health plans that would provide eligible uninsured children, families, and pregnant women with comprehensive health care under the state's Medicaid program. Within six years, the plan's community health centers were providing care to more than half of all Medicaid enrollees in the state. It was a crucial resource for poor and minority families.

In 2000, the health plan's preferred shareholder, an out-of-state, for-profit company, announced that it wanted to liquidate its holdings, a move that could have imperiled health care access for the plan's low-income members. "We realized that some entity could come in, buy [the health plan], and decide they don't want the Medicaid population — and there wouldn't really be anything anyone could do about that," said the foundation's senior vice president. "The whole Medicaid managed care system that we had developed would be shattered."

Instead, the foundation made a $4 million PRI that allowed the health plan to buy out its shareholders and convert to nonprofit status. The foundation purchased the for-profit company's shares and converted its equity stake into a 20-year bond at 5.75 percent.

Although the health plan was in good financial condition and its executive leadership and operations were strong, the investment still carried risks. The plan relies heavily on federal Medicaid funding – a significant factor in an era of state budget deficits and privatization. Recognizing the role of the health plan in the state's health care system, the state agreed to a risk-sharing agreement that provides $2 million per year as operational revenue above and beyond Medicaid payments for members.

PRI Instruments and Their Uses

PRI INSTRUMENT	EXAMPLE
DEBT	
Common loan – a sum of money lent by a foundation to a borrower, which agrees to repay the money at a below-market rate of interest at a specified date.	A 10-year, $750,000 loan with a 1 percent interest rate to help capitalize a microfinance loan fund.
CASH EQUIVALENT DEPOSITS	
Certificate of deposit – a savings certificate, typically issued to a foundation by a community development bank or low-income designated credit union, that entitles the foundation to receive a below-market rate of interest at a specified maturity date. A CD may be issued in any denomination.	A $100,000 deposit in a community development bank or credit union, which lends the money to minority-owned small businesses.
Linked deposit – an arrangement in which a foundation agrees to make a deposit in a bank or credit union at a below-market interest rate. In exchange, the financial institution agrees to make a below-market loan to a certain borrower (or class of borrowers). Essentially, a linked deposit is a subsidized loan.	A $75,000 deposit in a credit union, linked to business loans for start-up companies in low-income neighborhoods.
EQUITY	
Common stock – a security representing a share of ownership in a corporation or project with a direct charitable purpose. In the event of liquidation, holders of common stock are at the bottom of the priority ladder for repayment.	A $5 million stock purchase in a community development bank holding company, which allows a subsidiary to further expand financial services for low-income customers.
Preferred stock – a class of ownership in a corporation or project with a direct charitable purpose that entitles shareholders to a stated dividend and a higher spot on the repayment priority ladder in the event of a liquidation. Unlike common shareholders, the holders of preferred stock usually do not have voting rights.	A $500,000 ownership stake in a national community development bank whose primary business is investing in low-income communities.
OTHER	
Loan guarantee – an arrangement by which a foundation agrees to repay a loan with interest in the event that a borrower defaults.	A $200,000 loan by a commercial lender to a consortium of child care centers to support small business development; a foundation guarantees repayment.

Making and Structuring Deals

"In my judgment, PRIs require the same kind of programmatic review that one would give to a very important grant," said one investor. The additional challenge, he continued, lies in having the systems in place to analyze and structure deals. "There is definitely an art form to it," he noted. "You have to analyze the deal at first impression, and then negotiate and structure it in a way that helps the project advance but at the same time protects the investment repayment ability. And then you have to know how to document the deal and get it closed."

Every foundation's investment process is different, but all follow a few basic steps, outlined in the following sections.

EARLY-STAGE ANALYSIS

Many foundations do a certain amount of informal, preliminary work by talking to grantees and colleagues about opportunities and ideas that might align with their programmatic interests. "We don't have a set idea about what an opportunity should look like," one investor said. Another noted that it's sometimes possible during early conversations to get a clear picture of your own "appetite for risk" in a prospective transaction: "If the organization is throwing out investment ideas that your foundation wouldn't consider from a risk perspective, then a PRI might not be the way to go."

Once a potential deal emerges, a grant maker typically does a "back of the envelope" assessment of the potential investee's financial position, management, and organizational fit. Some foundations also do a quick review of an organization's internal financial documents, looking for basic financial and organizational soundness.

Here's the list of documents that one foundation requests at this stage:

- A short concept paper (three pages) describing the borrower and the request, including the proposed amount, term, and use of funds
- Fiscal year-end financial statements for each of the last three years, including audited statements and recent management letters from the group's auditors, if available
- The organization's budget for the current fiscal year
- Financial, fundraising, staffing and/or business plans (only if readily available)
- An organizational staffing chart and other organizational background materials, including organizational annual reports or brochures describing recent achievements
- Any background materials that have already been prepared with respect to the proposed project: demand analysis, financial projections, and management plans and procedures

DUE DILIGENCE

Following early-stage analysis, most investors conduct formal due diligence, though the specifics depend on the type of organization and investment vehicle under consideration. "Our due diligence starts with the program officer articulating why, from a program perspective, the PRI makes sense," one investor said. "One has to understand the structure of the transaction to craft a due diligence process that makes sense to analyze the risk and strength of each deal."

HOW MUCH INTEREST SHOULD WE CHARGE?

There are no hard and fast rules governing PRI interest rates, but there are some guidelines. The important thing to remember is that, in order to meet the IRS charitable purpose requirement, a PRI must generate below-market returns on a risk-adjusted basis. There are two general approaches to calculating interest and returns:

- **Set a ceiling.** Many foundations set a standard below-market interest rate for all loans at a certain percentage of the total value of the equity investment. A flat 1 percent interest rate, for instance, ensures that almost any loan is below market. A uniform interest rate can also streamline reporting and repayment.
- **Discount market risk.** Other investors calculate the return a given investment could expect to generate in the private market, and then discount it according to the recipient's needs and IRS guidelines. "We take seriously that we must demonstrate that our pricing is concessionary compared to what a socially indifferent investor or lender would require," one investor explained. "But if that means that we get 5 percent or 7 percent return, and that is clearly below market for that particular investment, then that's fine."

In general, the essential factors include capacity and tenure of management, financial position (capitalization, debt, cash flow), and financial track record. Legal due diligence also starts at this point. Some investors also compare peer organizations, using a process known as benchmarking.

STRUCTURING INVESTMENTS

In most foundations, a program officer prepares an investment recommendation, which outlines the programmatic rationale for the investment, describes the terms, and analyzes the financial and material issues that emerged from the due diligence process.

If the investment is a loan, the parties agree to the terms: amount, interest, limitations on use, repayment schedule, collateral, and reporting procedures. A foundation may also structure a series of covenants that govern ongoing monitoring and reporting. Similar agreements underwrite many equity deals.

MONITORING AND REPORTING

Most PRI investors require quarterly or annual narrative reports on programmatic goals, just as they would with grants. The financial aspects of a PRI, however, demand additional reporting. Most foundations require recipients to report on key financial indicators (available cash, amount of debt, and net worth), personnel (using "key person" covenants to make sure top staff aren't going anywhere, or that investors are kept informed if they do), programmatic monitoring, and organizational monitoring (staffing, technology, board development, and leadership succession). It's important, said one program officer, "to define monitoring expectations upfront – for the comfort of your board, your management, and the borrower." "And," said another, "if you're going to put covenants and other stipulations on use of funds into the loan, you're going to need to monitor them," either directly or by hiring consultants to manage due diligence.

"Good PRI making," said one investor, "requires a lot of follow-through between closing and repayment — including managing the expectations of borrowers that the PRI will simply be renewed. For PRI makers, getting the money out is important, but getting it back is important, too."

RESTRUCTURING A FLOUNDERING INVESTMENT

If an investment runs into trouble, grant makers emphasize the importance of getting paid back.

In most cases, investors fall back on the strong relationships they have established with the investee and simply try to work things out. As one investor explained, "In some cases, it has just been a matter of working with management to be very clear about their plan for turning this around." How management responds to questioning can reveal a great deal about their view of the problem and how they will address it. "For us, the willingness to be open and candid is very important," he added.

In some circumstances, this investor said, the foundation has "called" its collateral, which could be in the form of real property, general liens, or cash collateral. In other cases, the foundation has restructured the loan to extend the repayment period or accelerate repayment. "More often than not," he concluded, "it's just a matter of engaging to understand what they are doing. If they come up with a plan, you go with that. You monitor quarterly performance, and keep a close eye on things." It's also possible to write off part of the loan or, in a worst-case scenario, convert it to a grant.

PRIs are not grants in disguise, several investors insisted. "The moment you say, 'Poof! It's a grant,'" warned one, "is the moment you lose your leverage" — and not just with that particular grantee but potentially with your entire portfolio. "If one investee defaults without consequence, others will look around and say, 'They're not serious about getting paid back.'" More broadly, some funders argue, allowing borrowers to default without consequences distorts the market for PRIs. As one PRI maker noted, "Borrowers have varying perceptions about how serious foundations are about the return of principal, and it has an unsettling effect on the PRI marketplace."

THE TERMS OF THE DEAL

A lot of investing comes down to a handful of questions: When and under what terms will a lender be paid back? What profit will a lender realize in exchange for its financial risk? And what recourse will an investor have in the event of default or bankruptcy?

Repayment Terms – *how a lender or investor will be paid*

- Straight-line amortization – paying off a loan in regular installments over a set period of time
- Interest only with balloon – paying interest only for a set period of time with the principal balance due at the end of the term
- Interest only converted to amortized term loan – paying interest only for a set time, with the balance then converted to straight-line amortization
- Dividend/distribution – a company's (or partnership's) payment of cash to shareholders

Security – *the collateral, if any, on a loan*

- Secured – debt guaranteed by a pledge of specific assets or collateral
- Unsecured – debt not backed by collateral

Recourse – *what the lender can do if the borrower defaults on a loan*

- General – allows the lender access to all of an organization's assets if the borrower fails to repay the loan
- Limited – allows the lender access only to a certain class of assets (for example, cash but not real estate)

Loan Position – *the order in which multiple lenders get paid back if the borrower defaults and assets are liquidated*

- Senior – debt that has priority for repayment at liquidation
- Subordinated – debt that is either unsecured or has a lower priority than that of another debt claim on the same asset or property

From Idea to Closing: One Foundation's Process

We asked an experienced PRI investor to describe his foundation's investment process, from early-stage analysis to closing a deal. Here's what he said:

- **Early-stage analysis.** "We have a document request list that we give to the grantee or the organization. We try not to have them generate anything new for us at this stage. If they have a business plan, we'll take a look at it. If they don't have one, that's okay. We look at their basic financial information: again, stuff they've already produced."

  "The outcome of this process is a three-page memo that is then shared with our legal staff and other PRI makers, as well as the referring program officer. Then we have a meeting to discuss the potential deal. Really, the purpose of this meeting is to determine if we should give it a red, green, or yellow light. Is this a deal that we're willing to look at further? Does it pass some basic thresholds for feasibility? Does it really manifest the program interests of the foundation? Does it satisfy basic thresholds for charitability — in other words, is it legal? Does it offer some reasonable chance for repayment — is it financially feasible? Assuming we come up with a yellow or green light, we develop a list of questions that the due diligence process should be addressing. I'd say about 60 percent of the potential deals make it through this phase."

- **Due diligence.** "Then we go into a more formal due diligence process, which involves more document collection, especially if the prospective grantee hasn't already developed a full-blown business plan. We usually do a site visit and have significant interaction with other stakeholders: board members, other staff members, customers, other creditors, other funders, regulators."

  "Toward the end of this process, we start developing a term sheet for the deal and a recommendation for foundation management about where we think the deal should go. Assuming our program officer and the foundation management agree, we work the term sheet up into a recommendation for action."

- **Structuring the deal.** "Between approval and closing come the steps of developing the legal documentation of the terms that were negotiated prior to approval and satisfying any supplemental conditions that were put on the PRI borrower. Then we close and actually fund the loan. Occasionally, a regulatory or legal issue will knock a deal out at this stage, but that's rare."

- **Getting to the closing table.** "From early stage through the due diligence process is probably anywhere from six to ten months. From approval to closing is anywhere from two to four months. But this is ideally. Sometimes deals do stretch out, and we end up with several years pre-closing. Sometimes you can do deals, especially renewals, fairly quickly."

PRIs in the Big Picture

"There has to be a clear sense of how program-related investments fit within the grant-making mission of the organization," said one longtime PRI maker. Here are the leading reasons why foundations use PRIs:

To prove a market or the creditworthiness of an institution. In many cases, PRIs are the risk capital for unproven markets, companies, or institutions. Here's how one investor described his foundation's strategy: "One of the things we think PRIs can do is to help an organization build a record of managing debt successfully. And in so doing, they position themselves to be able to access capital markets more broadly down the road." When a grantee goes on to apply for bank debt, the foundation serves as a reference: "The bank isn't focused on the fact that we made a PRI. For them, it was a senior loan for seven years at 3 percent, full stop."

To catalyze or strengthen good management within recipient organizations. Because PRIs add another level of complexity to management and operations, the organizations that do well tend to have managers with the skills needed to achieve both social objectives and bottom-line outcomes. In the view of one investor, helping to build that management expertise is one of PRI making's greatest strengths: "The fact is, solid management, good management, is tough. A lot of social enterprises have good intentions, but not necessarily management experience."

To become better grant makers. While the same outcomes can be achieved with good grant making, PRI makers – all of whom are also grant makers – insisted that the shared financial risks and long-term commitments demanded by PRIs forced them to be more disciplined in evaluating and supporting recipient organizations. Said one PRI newcomer, "PRI making has been really good for us, because it's really pushed our work in lots of areas. It's shifted the emphasis we put on analytical information and due diligence."

To help investees retain a commitment to mission. Given the enormous market pressures many mission-driven enterprises face, PRIs can sometimes help recipients retain their commitment to mission by offering a unique source of capital. The chairman of a large community development banking institution recalled, for example, how equity PRIs gave his institution the flexibility it needed to continue its work in underserved markets: "If you're dealing with something like a regulated financial institution or bank holding company, regulators have always been very demanding of wanting to see equity, not debt, on your balance sheet."

To extend the foundation's resources. A longtime PRI maker from a national foundation characterizes PRIs as "recyclable, interest-bearing grants," a description that underscores their unique ability to extend a foundation's resources. Because the principal is returned to the foundation, along with interest or capital appreciation, PRIs increase the overall pool of funds available for grant making or program-related investing. Another longtime PRI maker noted that PRIs are particularly attractive instruments in a down economy. "A lot of grant makers began thinking about PRIs beyond the normal grant-making process when overall assets took a dip," he recalled. "Suddenly, the restraints on grant making were apparent, and the idea of also being able to do a program-related investment for a selected project or development seemed to be very attractive."

As a bridge to mission-related investing. In recent years, a handful of practitioners have been asking how foundations can break down the firewall separating program and finance, and begin using the endowment in pursuit of mission. Or, as the representative of one foundation framed the question, "Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?"

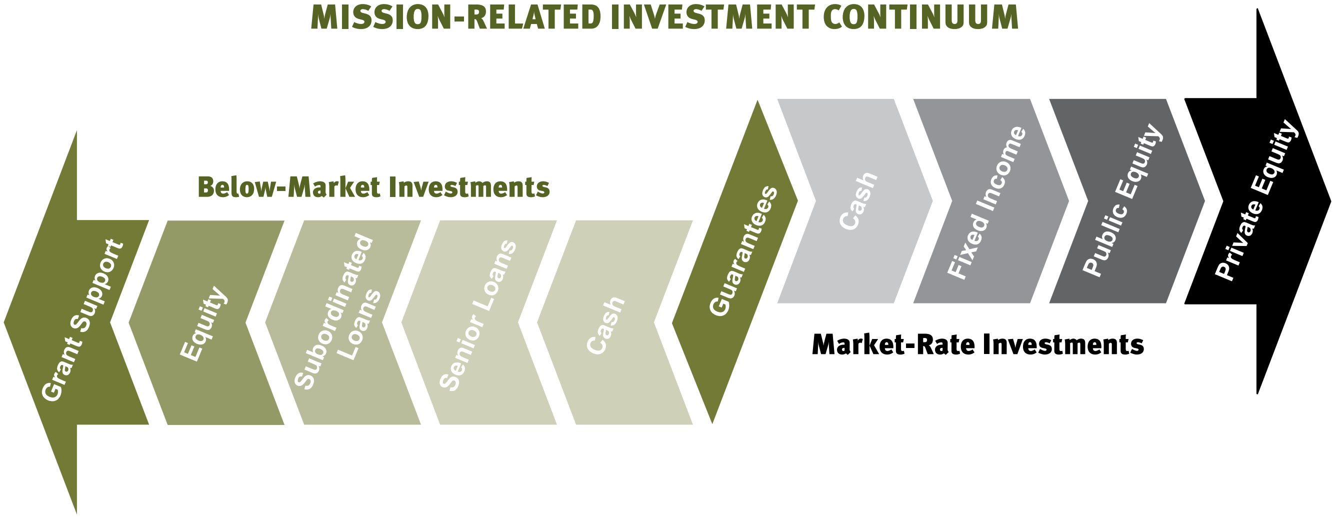
There are two main schools of thought in response to that question. One argues for a strict separation between investments and program activities. "In our view, the goal of the investment team is to maximize the value of the foundation's endowment so we have more money to make grants and PRIs," argued one longtime PRI maker whose foundation is not pursuing mission-related investing. "PRIs sit squarely in our program area. We don't see them as investments; we see them as a form of grant making that has particular utility and benefits in very particular situations."

Foundations that make mission-related investments, or MRIs, take a different view. They contend that their strategy is not inconsistent with maximizing the value of the endowment. They believe that foundations should, where possible, invest their financial assets in pursuit of their missions.

A few foundations are using an expanded range of instruments to invest foundation assets. For a picture of how one foundation sees the continuum of potentially useful vehicles — from grant support at one end to private equity at the other — see the diagram at right, developed by the F. B. Heron Foundation.

The F. B. Heron Foundation makes grants and PRIs while also maintaining an MRI portfolio that includes targeted mortgage-backed securities, taxable municipal bonds, and privately placed notes aligned with its programmatic interests, along with private equity investments in venture and real estate funds focused on inner-city and rural communities. For more information on MRIs, see the Foundation's 2004 publication, *New Frontiers in Mission-Related Investing*, available at www.fbheron.org/viewbook_frontiers.pdf.

MISSION-RELATED INVESTMENT CONTINUUM



Source: F. B. Heron Foundation

Four Tips for Novice PRI Makers

- **Take another look at your grant portfolio – and talk up PRIs to current grantees.** Sometimes the best investment opportunities are already in a foundation's grant portfolio. One PRI maker recalled being asked by a grantee for a $500,000 grant to help capitalize a landscaping business that would employ developmentally disabled adults. "Their income projections were reasonable enough to sustain the business, but we didn't want to shoulder all the financial risk with grant money," he explained. Instead, the foundation persuaded the nonprofit to take a $200,000 grant and a $300,000 PRI, thus shifting some of the financial risk to the nonprofit. The loan instilled a measure of financial discipline that might not have accompanied a single, large grant. As it happened, the enterprise didn't even need the full investment. Now, a year later, the landscaping business is ahead of schedule to repay what it borrowed and is looking at new opportunities.

- **Co-invest with an experienced PRI maker.** Partnering with an experienced investor is arguably the best way for a new investor to gain experience. "It's important to realize that you don't have to do this alone," one PRI maker advised. "Over the years, there's an 'involving' practice in program-related investments, which means that it's possible to jointly underwrite deals with other foundations." Co-investors share due diligence, investment analysis, and documentation. Perhaps more important, co-investing gives newcomers a feel for the underlying investment processes and a sense of how they all fit together. "There's an infrastructure to support program-related investing that didn't exist even a few years ago," the investor continued, "but it does now, and that can greatly assist the ability of a foundation to do this work, do it well, and do it with some confidence." One new PRI maker offered an additional tip: Look for a partner organization that's similar to your own, since "private foundations and community foundations are subject to different rules and may have different views and needs."

- **Invest in intermediaries.** Several experienced investors urged novice PRI makers to consider financial or community development intermediaries for their first few deals. Their rationale was the same as for their own investments. "For more traditional grant makers, getting involved with an intermediary means that making a PRI doesn't need to be that taxing," one investor noted. "I don't think it has to be a brain drain for them." Likewise, novice investors can "buy into" deals that are already vetted and structured by other foundations – technically a co-investment, but one that requires less time and fewer resources that a full partnership.

- **Break down barriers between program and finance.** A final piece of advice from several investors was to look for expertise within your own organization. The finance and investment units at many foundations are valuable sources of expertise, especially at smaller foundations that may not have the resources to hire dedicated PRI staff. "It's possible for a small organization, or someone new to the field, to extend themselves by just thinking through what they want to achieve," one investor said. "Start by asking how far you can get with grant-making analysis and protocols, then add whatever due diligence is needed to make investments." For modest investments and relatively straightforward deals, a foundation's internal expertise is likely sufficient, at least for planning. "For skills you don't possess at the moment, hire a consulting firm," he advised. "Style your engagement so it's not just a one-off experience, but an organizational learning opportunity, so the capacity gets built in-house."

Top PRI Mistakes

Are there classic pitfalls in making PRIs? You bet!

Just to be sure that "the picture is not too rosy," a few seasoned PRI funders shared their personal shortlists of common mistakes:

- **Taking on too much risk by going it alone.** Funding a project independently, rather than collaborating with others or working through an intermediary, can make for hard going if a project turns out to be poorly designed, or the project developer lacks experience, or the assumed market fails to materialize.
- **Financing too large a stake in a project.** If difficulties arise, there's a tendency to turn to the sponsor with the deepest pockets. Or, alternatively, a project can stall and never be completed. Funders and others beyond the PRI maker should have a stake in seeing the project through to completion.
- **Funding nonprofits on the rocks.** Some organizations will try to get loans as a last resort, even when they have no real means for repayment. It's important to look closely at the assumptions presented by PRI seekers, and to avoid throwing good money at a hopeless situation.
- **Venturing too confidently into the venture capital arena.** Unless a PRI maker is dealing with a seasoned venture capital firm, where there's a clear time horizon and path to exit, it's usually harder to recoup the value of a venture capital investment than a straightforward loan. Investors sometime lose a portion of their initial outlays in community development venture capital funds — an outcome that may seem attractive to PRI makers when compared with a grant-funded effort — but it makes sense to align expectations with that reality.
- **Funding in an unfamiliar field.** It's easy to get seduced by a good idea that is "out of program," something that would not be funded with grant money because it doesn't fit. Without knowledge of a field or community, the players, and how the overall markets work, it's hard to be a responsible investor.
- **Not building in mechanisms that raise flags when trouble approaches.** Many foundations have learned the hard way to manage risk by including covenants that specify minimum financial benchmarks that must be maintained by the borrower during the life of the loan. Also, if the project doesn't require the entire amount upfront, some PRI makers choose to disburse the funds in stages – especially if the borrower is new or the proposition risky.

What PRI Recipients Wish Their Investors Knew

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

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

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

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

Ways to Use This Guide

This guide was written primarily for foundation executives, grant makers, and donors who are interested in getting started with program-related investing. You may find it especially valuable in some of the following situations:

- **With your board**: Sharing the guide or excerpts from it with your trustees may help them think through the advantages and demands of developing a PRI portfolio.
- **With grantees**: Many people who contributed to this guide suggested that it's a good idea to market the availability of PRIs actively to existing grantees. If your foundation is thinking of a PRI program, you might want to share this guide with grantees to gauge demand.
- **With advisors and consultants**: In all likelihood, you'll engage consultants to help you with PRIs – at least at the beginning. You can use this guide to invite feedback and dialogue.
- **Before talking with more experienced PRI makers**: If you're planning to co-invest with an experienced PRI funder, this guide will familiarize you with some basic concepts and terminology and help make your conversations more productive.
- **As a starting point for learning more**: If the information in this guide intrigues you, consider joining the PRI Makers Network or explore the group's website at **www.primakers.net**.

ACKNOWLEDGMENTS

We thank the grant makers and grant users who generously shared their experiences and insights, and all those whose contributions of time, talent, and perspective have helped to make this guide possible.

Ted Bagley
Shari Berenbach
Betsy Biemann
Francie Brody
China Brotsky
Angela Brown
John Colborn
Frank DeGiovanni
Richard Fahey
Jon Funabiki
Ronald Grzywinski
Kim Honor
Mary Houghton
Robert B. Jaquay
Jacqueline Khor
Spence Limbocker
Christine Looney
Sandra Mikush
Karla Miller
Kenneth T. Montiero
James R. Posner
Luther M. Ragin
Mary Anne Rodgers
Jeff Rosen
Debra Schwartz
Julia V. Shea
Kim Smith
Marsha Smith
Doug Stamm
Kathleen Starr
George Surgeon
Christa Velasquez
Karen Voci
John Weiler
Charles Wibiralske
Altman Foundation
Mary Reynolds Babcock Foundation
Brody Weiser Burns
Calvert Social Investment Foundation
Annie E. Casey Foundation
Episcopal City Mission
Ford Foundation
George Gund Foundation
The F.B. Heron Foundation
The Hyams Foundation, Inc.
The John D. and Catherine T. MacArthur Foundation
Maine Technology Institute
Meyer Memorial Trust
Neighborhood Funders Group
NewSchools Venture Fund
Northwest Area Foundation
David and Lucile Packard Foundation
Posner-Wallace Foundation
The Rhode Island Foundation
The Rockefeller Foundation
Rotary Charities of Traverse City
ShoreBank Corporation
Skoll Foundation
Solidago Foundation
Tides Foundation

Underwriting for this guide was provided by the Ford Foundation and The John D. and Catherine T. MacArthur Foundation.

For additional guides and other materials in the GrantCraft series, see www.grantcraft.org

grantcraft
PRACTICAL WISDOM FOR GRANTMAKERS