

Program Related Investments (PRIs)

A Program Related Investment (PRI) is an investment made by a private foundation with the primary purpose of advancing its exempt mission. It is distinct from grants in its assumption of financial returns. It is also distinct from a portfolio investment because the primary purpose of a PRI must be to advance a charitable purpose. A PRI is allowed to yield positive and substantial financial returns, but the returns must be below-market in some way.¹

Other distinct characteristics of PRIs:

- Counted toward the IRS annual 5% charitable distribution requirement for private foundations-Investment principal must be regranted within a year of return, while additional returns are considered the same as portfolio investment returns
- Exempt from “jeopardizing investments”² penalties or fines
- An enterprise that receives a PRI is required to use these funds toward an agreed upon charitable purpose and repay any portion not used for this purpose
- Expenditure responsibility of monitoring the investment’s use of funds, which is not required for grants to public charities³

What does a PRI look like?

A PRI allows for innovative creativity in how to pursue a foundation’s charitable purpose. PRIs can be made to nonprofits, governments, and businesses. They may take various financial forms including equity, loans, convertible debt, and guarantees. There is no industry, phase of development, or geographic limitation. The PRI must simply be made to advance a foundation’s exempt purpose, have below-market terms, and not intend to have influence on legislation or political campaigns.

What are the key benefits of a PRI?

They are especially influential within the field of impact investing due to being both tax advantaged and flexible in form.

PRIs can work alongside commercial investors, producing the opportunity for collaboration with external capital or signaling a commercial market opportunity in an overlooked enterprise. A PRI also serves to incentivize private ventures to focus on inequalities, channeling private market assets to charitable missions.

The management of the investment can be more disciplined in meeting obligations to an investor compared to a grant maker. An investor can also negotiate for rights that a grant maker may not be able to, such as appointment of board members, approval of major decisions, put rights, or investor priority claims to intellectual property if the company abandons their mission or goes bankrupt.

Finally, the foundation itself may be more disciplined in funding distributions when considering the financial risk of a PRI over a grant. The ongoing relationship of an investment can establish a stronger stake and tie between the foundation and investment.

How do foundations utilize PRIs?

The Gates Foundation is a leading proponent of PRIs with a \$2.5B investment pool with typical PRIs of \$5M or higher. Their investment criteria considers likelihood of project without their involvement, leverage of external capital, scalability & sustainability, appropriate cost of impact, balancing the portfolio, and the Foundation's own capacity to serve as supportive partners to the organizations in which they invest.⁴

In the state of Minnesota, the Venn Foundation found that 39 out of 1634 private foundations made at least one PRI between 1998-2016. These foundations collectively invested \$164M in 554 PRIs. However, this remains a starting point for the potential of PRIs. PRIs of \$164M is a small fraction of the \$23B adjusted dollars given during the same time period. The reported limitations to making more PRIs included staff/board capacity and limited experience with PRIs.

What are the differences between PRIs, MRIs, SRIs, and ESGs?

Mission related investments (MRIs) and socially responsible investments (SRIs) are investments that are expected to have market rate returns, which distinguishes them from program related investments (PRIs). This means that MRIs and SRIs do not have to meet charitable standards, but do have to meet the prudent investment standard.⁵

MRIs further an organization's mission, usually a foundation, but are not a charitable activity. This means that MRIs do not count toward a foundation's annual charitable distribution requirement and have no legal definition. MRIs thus come from a foundation's investment assets rather than their program assets.⁶

SRIs can be understood as commercial investments that seek to do no harm, as defined by religious, personal, or political values. These investments choose to balance profit with principles, which is done through positive or negative screening for criteria set by the investing party. Examples of this can be a fund that excludes oil companies, or a fund that requires all portfolio companies to adopt fair labor practices. The weight and scope of these criteria can vary by investor.

Another strategy is ESG incorporation. ESG refers to environmental, social, and governance criteria. These criteria are considered alongside technical valuations from traditional investment analysis. ESG factors may reflect social consciousness, but the strategy operates primarily on the understanding that ESG factors affect financial performance, valuations, and long-term resiliency. ESG factors include things such as climate change, animal welfare, child and forced labor, community engagement, executive compensation, and transparency.⁷

While these factors are key considerations in ESG analysis, they are not exclusive to this strategy and can be taken further through PRIs, MRIs, and SRIs.

What does Integrated Capital mean?

This is a strategy coined by RSF Social Finance. Integrated capital refers to the “coordinated use of different forms of financial capital and non-financial resources to support an enterprise that’s working to solve complex social and environmental problems.”⁸

The different forms of financial capital utilized in this approach include: loans, loan guarantees, investments (equity, revenue share agreements, mezzanine financing), grants, and non-financial support including network connections or advisory support.

What are CDFIs?

Community development financial institutions (CDFIs) are private financial institutions that specifically serve low-income and low-wealth communities. CDFIs can be crucial in financing community businesses in communities that are underserved by commercial banking, providing opportunities for growth. CDFIs are profitable, but not profit-maximizing and come in four forms: banks, credit unions, loan funds, and venture capital funds. CDFIs receive investments from both the private sector and federal dollars through the CDFI Fund.⁹

Sources of information provided by Cogent Consulting PBC and the following:

¹Jeff Ochs, “The PRI Pulse” (Venn Foundation, 2016).

²A jeopardizing investment is an investment that would suggest a lack of reasonable business care and prudence in providing for the financial needs of a foundation. This breaks the Prudent Investor Rule. James Chen, “Prudent Investor Rule Definition,” Investopedia, May 21, 2019, [investopedia.com/terms/p/prudent-investor-rule.asp](https://www.investopedia.com/terms/p/prudent-investor-rule.asp)

³Paul Brest, “Investing for Impact with Program-Related Investments,” Stanford Social Innovation Review, 2016.

⁴Bill & Melinda Gates Foundation, “Strategic Investment FundFAQ,” [sif.gatesfoundation.org/faq/](https://www.sif.gatesfoundation.org/faq/)

⁵See footnote 2 for more on jeopardizing investments.

⁶For more on the Federal tax difference between MRIs and PRIs, see page 36. David A. Levitt, “Investing In The Future: Mission-Related And Program-Related Investments For Private Foundations,” The Practical Tax Lawyer, Spring 2011, [missioninvestors.org/resources/mris-and-pris-private-foundations](https://www.missioninvestors.org/resources/mris-and-pris-private-foundations).

⁷Michelle Zhou, “Explaining the Differences between ESG, SRI & Impact Investing to Clients,” Investopedia, accessed May 5, 2020, [investopedia.com/financial-advisor/esg-sri-impact-investing-explaining-difference-clients/](https://www.investopedia.com/financial-advisor/esg-sri-impact-investing-explaining-difference-clients/).

⁸“Integrated Capital,” RSF SocialFinance, accessed May 5, 2020, [rsfsocialfinance.org/our-story/how-we-work/integrated-capital/](https://www.rsfsocialfinance.org/our-story/how-we-work/integrated-capital/).

⁹“What Is a CDFI?,” Opportunity Finance Network, October 2, 2013, [ofn.org/what-cdfi](https://www.ofn.org/what-cdfi). U.S. Department of the Treasury, “What Does the CDFI Fund Do?,” Community Development Financial Institutions Fund, accessed May 5, 2020, [cdfifund.gov/Pages/default.aspx](https://www.cdfifund.gov/Pages/default.aspx)