

An Introduction to Program Related Investments

Community Law & Business Clinic
Wake Forest University School of Law



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- **Discuss some of the emerging ideas surrounding social ventures, including PRI's and L3C entities.**



- **“PRI” - Program Related Investments are investments made by foundations that further the foundation’s charitable purpose, but where the foundation expects to receive a return.**
 - **“L3C” – Low-profit Limited Liability Companies are business entities that bridge the ‘gap’ between the for-profit and non-profit sectors.**
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Example 1: The Grocery Store



- **Can a foundation make a grant to a group that wants to buy a grocery store?**



- **Could a foundation provide either a loan, loan guarantee or other credit enhancement to the store owner?**
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- **Foundation grants funds to support 501(c)(3) organizations – money furthers exempt purpose.**
 - **Grants are credited against the foundation's distribution requirements under IRC 4944.**
 - **Decision to make a grant is usually made by program staff with extensive knowledge of the program area.**
 - **Once grant is made, the foundation does not expect to receive the money back.**
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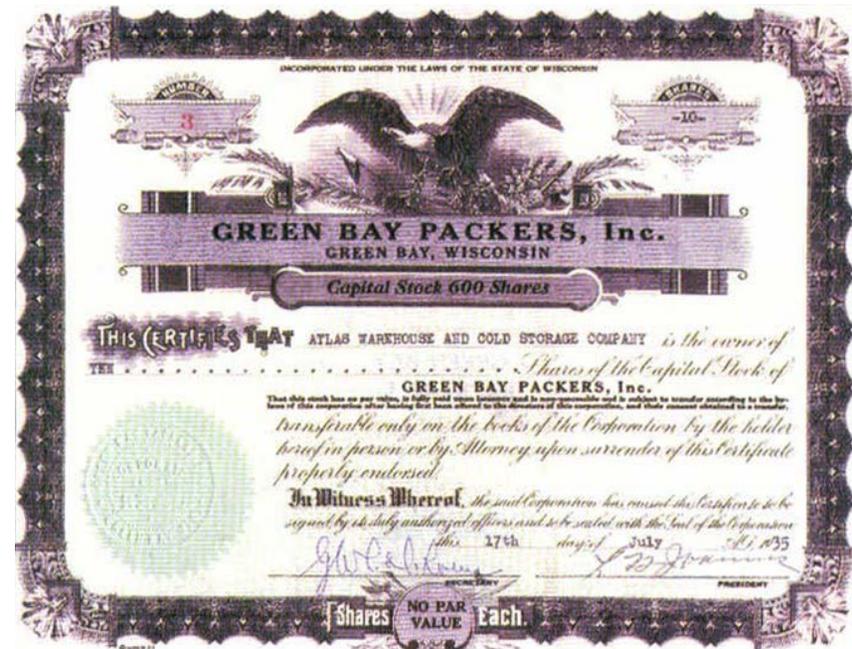


- **Like grants, PRI's are made to further a charitable purpose, BUT....**
 - **Unlike grants, the PRI is expected to be repaid – often with at least a modest return of profit, AND....**
 - **Unlike other investments made by the foundation, financial gain can not be the primary purpose for the investment.**
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- **First, the investments primary purpose must be to advance the foundation's charitable objective.**
 - **Second, neither the production of income nor appreciation of property can be a significant purpose behind the investment.**
 - **Third, the funds cannot be used to directly or indirectly lobby or for political purposes.**
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- Deposits
- Fixed Income Investments
- Loans
- Credit Enhancement
- Capital Investments
- Equity





PRI's within a continuum of options





- **Foundations**
 - Satisfy distribution requirement
 - Increase impact and scale
 - Leverage private and public funding
 - New relationships about mission, market and social change
- **Grantees**
 - Access to capital
 - Capacity building
 - New relationship

 - Sustainability



Where are PRI's being made?

- **350 PRI's in the United States and foreign countries.**
- **47 states and 37 countries.**





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Example 3: Environmental Investments in Poor Countries





Foundation center and GrantCraft looked at what foundations should consider when thinking about adding PRI's to their portfolio:

- **Staff skill and capacity**
 - **Board awareness and support**
 - **Building from success**
 - **PRI's as part of an overall change strategy**
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Nonprofits and social ventures hoping to attract PRI's should consider:

- **Relationship with the foundation**
 - **Need for a track record**
 - **Need for clear plan, reasonable projections and key leadership**
 - **Vision and value proposition**
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- **The form has been around since 2005.**
 - **About 600 L3C's in the US. Gates Foundation established a \$100 L3C in 2010.**
 - **The May 2012 Treasury Regulations may spark interest in the form due to the clarification on activities that qualify as PRI's.**
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Questions?
