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.
Example 1: The Grocery Store

• Can a foundation make a grant to a group that wants to buy a grocery store?
Example 2: Guarantee

• Could a foundation provide either a loan, loan guarantee or other credit enhancement to the store owner?
• 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.
• 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.
• 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.
Types of PRI’s

- Deposits
- Fixed Income Investments
- Loans
- Credit Enhancement
- Capital Investments
- Equity
PRI's within a continuum of options
Benefits

- **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.
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
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
• The form has been around since 2005.

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Questions?