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Leveraging the Power of Foundations: An Analysis of Program-Related Investing

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Foundations invest in and support charitable activities in numerous ways. While most foundation support is through grants, foundations may also use program-related investments (PRIs) to create positive social impact. PRIs meet the annual IRS 5 percent distribution requirement and maintain or grow a foundation's assets through repayment or return on equity.

PRIs provide foundations different methods by which to accomplish their charitable goals. Examples of PRIs include low-interest loans, equity investments, lines of credit, interim financing, mortgage financing, and business startup capital. These options are attracting interest from foundations investigating how to stretch their assets in today's economy. PRIs are arguably underutilized, however; they account for only a small part of philanthropic giving. Over the past two decades, less than one percent of U.S. foundations made PRIs annually, but in the same period "program-related investments have gained momentum ... with substantial growth in the dollar amount invested, the number of PRIs granted, and the number of foundations participating" (Lilly Family School of Philanthropy, 2013, p. 2).

In an effort to increase awareness and understanding of PRIs, the Indiana University Lilly Family School of Philanthropy project team has produced *Leveraging the Power of Foundations: An Analysis of Program-Related Investing*.¹ The

report was sponsored by Mission Throttle², a Michigan-based L3C organization created by Phillip Fisher, son of Max and Marjorie Fisher, that focuses on accelerating philanthropic innovation. This 48-page report, the most recent published scholarship on PRIs, gathers a quantitative analysis of PRI data from the Foundation Center for the years 2000-2010 and qualitative data from interviews with foundation executives who have used PRIs. This report describes their history, how they have been recently utilized, and the opportunities and risks they pose for foundations.

Leveraging the Power of Foundations will be most interesting and informative for private foundations, board members, researchers, and others who wish to learn more about PRIs and how they are used successfully. The report may be less relevant for community foundations, which cannot file their investments as PRIs recognized by the federal tax code.

The chief strengths of this report are its organization and accessible language. It is arranged in logical sections and is best read cover-to-cover. A brief introduction discusses the appeal of PRIs and outlines the four research questions explored by the study. A background section explains IRS treatment of PRIs, differences between program-related investments and mission-related investments, the history of PRIs, and previous research (of which there is little that focuses exclusively on PRIs).

¹ This report is available online at <http://www.philanthropy.iupui.edu/research-by-category/PRIreport>

² <http://www.missionthrottle.com>

After outlining the methodology, the authors present the trends, size, and scope of PRI activities between 2000 and 2010. This thorough quantitative analysis includes a number of figures and tables highlighting statistics from the Foundation Center's PRI database. Overall trends of PRIs since 1990 are also analyzed, and accompanying visuals enhance the analysis by demonstrating how PRI activities have changed over the past two decades.

The authors next share their qualitative analysis based upon case-study interviews with foundation leaders, presenting the motivations, challenges, and opportunities in PRI activities, and discuss different PRI practices and definitions of success and failure.

The conclusion reiterates the opportunities offered by PRIs, barriers that prevent foundations from using them, and the need for more education in PRIs so the field can grow. Appendices highlight the top 30 PRI providers by number of PRIs and total amount and the top 30 PRI recipients (national and international). An FAQ and user guide offer additional information.

This concise, comprehensive report will be a valuable resource for private foundations, board members, and researchers. Particularly helpful is its discussion of how foundations can overcome the challenges of PRIs and reap their various benefits through peer learning and foundation networks that target PRI-trained employees, intermediaries, consultants, and legal counsel. A reader is sure to gain a greater understanding of PRIs and a new awareness of their strategic use.

References

LILLY FAMILY SCHOOL OF PHILANTHROPY. (2013). *Leveraging the power of foundations: An analysis of program-related investing*. Retrieved from http://www.philanthropy.iupui.edu/files/research/complete_report_final_51713.pdf

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