Ford Foundation

Program Related Investments: Ten Frequently Asked Questions

1. *How is a program-related related investment (PRI) different from a grant?*

   Where grants represent donations in support of charitable activities, a PRI is a loan in support of one of the following: (a) charitable activity that is expected to generate revenue which, in turn, can be used to repay the loan, such as a socially-motivated venture; or (b) charitable on-lending or investing where the returns of principal and interest are expected to be sufficient to repay the loan, as with a revolving loan fund.

2. *So, the Foundation wants its money back?*

   Yes, the Foundation wants its money back. With interest.

3. *Who gets PRIs?*

   The Foundation provides PRIs to support existing grantees of the Foundation.

4. *How much funding is available for PRIs?*

   The Foundation has established a $200 million pool of resources within its endowment for use as program-related investment capital. On annual basis, the Foundation awards approximately $17 million in PRIs. In addition, the Foundation awards a small number of "net asset grants" annually to PRI recipients whose capital structure requires strengthening.

5. *What criteria does the Foundation use to assess PRI proposals?*

   PRI requests must meet three tests: First, the proposed activity must fit within the program areas of the Foundation's work. Second, the proposed activity must qualify as charitable. Finally, the proposed activity must be shown to offer a reasonable prospect of repayment.

6. *How does the Foundation define charitability?*

   The Foundation relies on the United States Internal Revenue Code as a framework for determining charitability. This means that, in order for a PRI's activities to be deemed charitable, these activities would need to be activities for which the IRS typically would award tax-exempt status. It is not enough that the revenues from a PRI-supported activity be used in a charitable way. For example, operating a profit-making enterprise for the purposes of generating revenue for an otherwise charitable organization might not be deemed charitable if the enterprise itself is not in some way engaging in charitable activity.

   In addition, the Foundation requires that prospective PRI recipients show that they have been unable to obtain financing from traditional banking or other financing sources.

7. *How does the Foundation determine whether a PRI offers "a reasonable prospect of repayment?"*

The Foundation undertakes an assessment of the financial prospects for a proposed PRI by looking at the strength of the proposed business model, the financial strength of the organization, and the organization's management. Generally, a PRI proposal includes the submission of a <u>business plan</u> and a set of <u>financial projections,</u> as well as information about the organization's current and past financial performance and its management personnel and practices.

8. *What are the terms of a PRI?*

There is no set term for the Foundation's PRIs, but they tend to share the following characteristics:

Amount:	Between $1 million and $3 million.
Term:	Between seven and ten years; longer terms possible in exceptional circumstances.
Interest rate:	One-percent annual interest rate, interest payable quarterly.
Principal repayment:	Can be deferred in early years.
Security:	Collateral not required, but loans are generally made with general recourse to the assets of the borrower.

In addition to these terms, the Foundation generally requires various performance and reporting covenants in order to safeguard charitability and financial strength.

9. *What does the PRI proposal process look like?*

The Foundation's PRI process has three parts:

First, it undertakes a <u>preliminary review</u> to assess whether the proposed PRI meets threshold tests for program fit, charitability, and business feasibility. This process can take one to three months and does not require a formal proposal, but does require some general information about the organization and the nature of the proposed PRI.

Second, the Foundation undertakes a more formal <u>due diligence</u> phase to assess the request in greater detail. A formal proposal, business plan, and other supporting documents are required. After review of these materials, the Foundation will undertake a site visit to meet with key leadership, staff and constituents of the organization. Once a formal proposal is received, this phase takes between three and four months. Upon successful completion of the due diligence phase, the PRI request will be submitted to the Foundation's officers for approval.

Finally, the Foundation works with the borrower on a <u>closing process</u> that includes the development of a loan agreement, promissory note, and other supporting documentation necessary to make the loan. Once these have been finalized, the funds are transferred to the borrower. This process can take between two and four months, once all the necessary documentation is received from the borrower.

10. *How do I get a PRI?*

Existing grantees of the Foundation should begin the PRI proposal process by discussing the idea with their program officer or the unit or office with which they generally work.