

Program-Related Investments

Under U.S. law, program-related investments (PRIs) are financial investments or instruments that foundations use primarily for programmatic returns instead of financial returns. Most commonly offered in the form of loans to nonprofit organizations or equity investments in investor-owned funds, PRIs blend the social change orientation of grants with the discipline of financial investing. U.S. law allows foundations to treat PRIs as charitable distributions, just like grants, while making a risk-adjusted, below-market financial return. As a result, foundations using PRIs find that they occupy a pivotal position on the capital continuum between grants and commercial investments.

Funders have noticed that capital that takes the form of a formal investment rather than a grant can be more catalytic and valuable for organizations with particular resource engines, especially those involved with real estate. These organizations will typically have some degree of earned revenue, possess or trade in assets that can be monetized using commercial capital, and/or have a capital structure that includes equity. U.S. foundations have, with great positive impact, used PRIs since the 1970s, mainly to augment their grantmaking in community redevelopment and affordable housing construction. To this day, PRIs provide much of the long-term capital used by community development finance institutions throughout the U.S. In the past 10 years, U.S. foundations have rapidly increased their use of PRIs outside the U.S., as well.

The Skoll Foundation's PRI strategy is to make PRIs that complement and advance the foundation's mission, with a strong focus on organizations competing successfully for grants within its Skoll Awards for Social Entrepreneurship and field-building programs. The foundation also makes PRIs to innovative and entrepreneurial intermediaries that are accelerating the provision of capital and other resources to underserved markets. These intermediaries, such as GroFin East Africa Fund and ShoreCap International, are generally the best available charitable option in selected emerging economies. Their high-leverage potential and inherent design for scaling and expansion give these investment intermediaries the potential to reach large numbers of people, address inequality and foster job creation.