PRI Toolkit - When to Use PRIs

THE FUNDAMENTALS

Program Related Investments (PRIs) are effective tools in achieving a foundation's mission of moving people out of poverty. Three fundamentals of PRIs are:

1. PRIs are not useful for every organization.
2. PRIs can be effective for ***high-performing organizations operating on a business model with sufficient income stream to repay a loan.***
3. PRIs can be used independently or in conjunction with grants.

PRIs and grants are complementary tools, but they achieve different goals.

- Grants are most effective in providing capacity-building, operating or project support when there is no income stream for repayment.
- PRIs can be used only when there is an income stream that can be a source of repayment. PRIs are effective at providing working or loan capital, equity investments, and subsidy for community development projects.

The following example illustrates how grants and PRIs can be used in tandem to support the development of an organization for increased scale, impact and financial sustainability:

> *Mary Reynolds Babcock Foundation (MRBF) made a grant to Mountain Microenterprise Fund (MMF) in 1998 to support organizational development goals around increasing their staff capacity and geographic impact for entrepreneurial training and peer lending. Funds supported increased staff and operations to open additional offices and serve the western-most rural areas of NC. In 2000, MRBF made a grant to support MMF's business technical assistance and lending program as they moved beyond peer lending and created a loan fund to offer small business loans up to $50,000. Additional grant funds in 2005 supported the business program and included an equity grant of $100,000 to capitalize the loan fund and leverage additional capital from the U.S. Treasury CDFI Fund. The MRBF Board is considering a $200,000 PRI as debt capital to expand MMF's loan fund to meet growing demand for business loans and increase MMF's earned income and self-sufficiency. The combination of grants and a PRI over nearly a decade has offered capacity building and leverage to expand MMF's impact and sustainability.*

WHEN TO CONSIDER A PRI

- The ***organization's mission matches the foundation's mission***; it is achieving impact on moving people and places out of poverty. Its impact and sustainability can be increased by a PRI.
- PRIs require that the funds be repaid, so ***there must be some sort of income stream*** available from the project or program to eventually repay the PRI. This may be from the organization's cash flow or from another source of repayment. PRIs can be structured in a number of different ways to fit the needs of the borrower.
- The organization operates on a ***sound business model***, with board and staff expertise in business management and strong internal financial systems.
- PRIs can meet a nonprofit's ***need for financing if a commercial lender is not able to meet the need on appropriate terms***. PRIs must be made on concessionary terms, meaning that a commercial financial institution would not make the investment on the terms provided by the Foundation.

BENEFITS OF PRIs

There are numerous meaningful benefits of making a PRI, depending on the scale and mission of the organization. Examples of benefits and uses include:

Increased Impact and Sustainability

- The addition of new capital allows an organization to increase its activity and meet goals for both mission impact and financial self-sufficiency;
- A PRI allows grantees' projects, enterprises and financial products to build a track record and prove their creditworthiness;
- Organizations gain discipline and efficiency through intensified financial analysis and accountability in the PRI process;

Leverage and Bridge to Capital Markets

- Intermediaries use PRIs to lend to new entrepreneurs or homeowners who lack access to traditional capital markets.
- PRIs fill financing gaps for projects requiring subsidy due to modest revenue streams, high transaction costs or other limitations.
- CDFIs use PRIs to take higher-risk positions and allow commercial lenders to participate in large deals.
- Organizations use PRIs to establish track records for pilot programs or new financial products, expecting banks and other traditional lenders to make market rate investments to move the program to scale.

Source: Mary Reynolds Babcock Foundation

The MRBF PRI Policies and Guidelines provide more detail on eligible borrowers, acceptable uses, terms, and structures for PRIs.