fig. 16 Funding Outside the Box II: Program-Related Investments

On one of her frequent visits to Mexico, Phyllis Landers meets a woman in Oaxaca, Juana Lopez, who is trying to revive the local silk-making industry. Juana explains that there was an indigenous silk-making craft in southern Mexico prior to the Spanish Conquest. However, the industry was suppressed in the 16th Century when the Spanish, from their base in the Philippines, began to ship silk from the Far East to Mexico and Spain. Juana is cultivating silk worms on mulberry trees on her farm, but she says that too little silk is being produced for a viable industry to be established. Fifteen to 20 local women, most without jobs or any education, are being trained to cultivate the silk, harvest it, and make cloth. Juana sells the cloth in local shops, mainly to tourists. Juana says that she sees the potential to hire more people and perhaps eventually operate a profitable business.

At a foundation board meeting, Phyllis proposes that the foundation make a grant in support of Juana's silk-making activities. Several trustees express the view that a grant would not be appropriate, because Juana appears to be operating a business with a profit motive. Phyllis argues that Juana's business probably will never make a profit, or at least not a significant one, and that the real objective of the activity is to restore a craft tradition that died out nearly 500 years ago and to provide job training and jobs in an impoverished region.

One trustee asks whether the idea of a "PRI" might be appropriate. The trustee explains that "PRI is foundation lingo for program-related investment — an investment no one would ever make except to do good in the world." On consultation with the foundation's counsel, the board learns that the PRI must be for a purpose that is genuinely charitable and consistent with the foundation's governing instrument. The production of income or gain cannot be a significant motive of a PRI. After a review of the relevant documents and the law, the lawyer concludes that the foundation may make the investment as a charitable undertaking.

After some debate about whether to lend money to the project, in exchange for a promissory note, or to invest in the project, in exchange for a share of the equity, the board selects the second option. The foundation will seek, in exchange, a seat on the board of directors of the new business. The trustees conclude that a seat on the board will enable the foundation to provide ongoing business advice intended to ensure the survival of the new company and will prevent the company from abandoning its initial mandate. Protecting the foundation's investment, the trustees conclude, is not a significant objective of taking a seat on the board.

Although the foundation will own more than 20 percent of the stock in the new business, counsel to the foundation advises the trustees that there should not be any problem with "excess business holdings" so long as the foundation can show that an investment in the business is substantially related to the foundation's performance of its charitable purposes.