ALTERNATIVE INVESTMENTS IN SOCIAL PROJECTS: WHY GRANT-MAKERS PARTICIPATE IN PROGRAM-RELATED INVESTMENT

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By

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ABSTRACT

Available funds for social enterprises are extremely limited and fragmented, while most traditional grant money goes to large established non-profit organizations. Social enterprises fall somewhere in between traditional non-profits, which rely fully on grants, and for-profit businesses, which have venture capital and other sources of funding available to them. By definition, these organizations have revenue generating activities that at least loosely support a social mission. A social enterprise is often referred to as a double bottom line organization, because it focuses on both a traditional financial return and a social return. (A triple bottom line organization refers to a social enterprise that also has environmental goals.)

One additional option for investment in a social enterprise project is PRI (Program-Related Investment,) which potentially gives tax incentives to foundations and other investors in order to support social projects with positive, but below market, financial returns on investment. PRI allows grant-makers to
invest capital in projects with a financial return, or a return of the principal amount invested, which in turn means those funds can be re-invested. This study focuses on the grant-makers that have participated in PRI and those variables that may help predict future investment. Using ordinary least squares (OLS) regression models, I conclude that larger foundations are making PRI’s more frequently and for larger amounts than their smaller counterparts. However, neither the number of PRI grants nor the total amount given are correlated with total foundation grants in a given year, suggesting that PRI programs are not yet part of the formalized structure of grant-making across all foundations. In order to improve our understanding of PRI programs and their efficacy, more and different data need to be collected. This is also what foundations may need to see before investing further in this area.
Introduction

The social sector (defined here as non-profit organizations, non-governmental organizations, and some for profit social enterprises that have social goals as their primary mission and revenues as secondary) is extremely fragmented and competitive, at least in part due to its reliance on grant-making from governmental agencies and foundations, where supply does not come close to meeting demand for funding. This is not in regards to those non-profit organizations that receive steady funds from their members and alumni, such as educational and religious institutions, but more about those working for social change that have always had a difficult time raising capital. The foundations upon which these organizations depend are only required by the Internal Revenue Service to spend 5% of their corpora annually (which includes administrative costs.) Many foundations are more concerned with keeping the status quo where organizations rely on their grants rather than helping them reach a scale where they can become sustainable. At the same time, there is little capital support for “social enterprises”, those organizations that earn some revenues through their programs but may need some start-up funds to reach the scale to become profitable, similar to new businesses relying on venture capital.
Program-Related Investment (PRI) is one alternative method that foundations can use to support organizations. Riskier than Socially Responsible Investment (SRI) and Mission Related Investment (MRI), PRI includes activities similar to those of banks, such as loans, guarantees, or equity investments. PRI can count toward a foundation’s 5% disbursement requirement, but once the money is repaid, those funds must be reinvested. Currently, very few foundations participate in PRI, and they lack incentives, such as tax benefits, to increase their participation. One problem with PRI is the high legal cost. Most foundations practicing PRI, especially those using PRI as part of their 5% disbursement, spend a great deal on legal fees to assure that their investments qualify as PRI. Due to this issue, it is primarily the largest foundations that choose to participate in PRI because their scale reduces their average legal costs per PRI investment.

There has been little research on the impact this type of investment can have on the recipient organizations, which is particularly noteworthy when contrasted with research on the impact from receiving grant money. Unfortunately, most of those who work at foundations and social enterprises are extremely busy and are not interested in answering a lot of complicated questions. This may be because they are not interested in this type of program, but ultimately this question must be answered empirically. This especially applies to those foundations that do not participate, and therefore may see no reason to study PRI.
Because organizations that do not participate in PRI are not asked about their PRI investment, nor are they asked why they do not participate in PRI; studies such as this one are limited in their scope since they cannot determine why companies choose not to participate in PRI. This thesis will analyze the financial and social impacts PRI has made to date, and theorize about what a higher percentage of foundation participation in different types of PRI could do in the future. It will compare those grant-makers that make minimal or larger amounts of PRI, and assess why and when they are likely to make this kind of investment.
**Glossary**

*PRI:* Program-Related Investment

*MRI:* Mission-Related Investment

*SRI:* Socially Responsible Investment

*Social Sector:* a way to define organizations doing work to create positive social change by what they are instead of what they are not. The social sector is made up of non-profit organizations, non-governmental organizations, and some for profit social enterprises that have social goals as their primary mission and revenues as secondary. This is more than a tax status but gets more to an organization’s mission. It also can exclude some traditionally non-profit organizations such as schools and religious institutions.

*Social Enterprise:* a social sector organization that has its own revenue sources beyond grants. These organizations are able to take on and repay debt, and often require capital in order to benefit from economies of scale.
Corpus: a foundation’s “principal or capital sum, as opposed to interest or income. *Pl. Corpora.*” (Dictionary.com)
Background

The foundation and grant-making sector has become a large part of the American economy. 71,000 grant-making foundations gave away $40.7 billion in 2006, continuing two years of double digit increases in giving, according to the Foundation Center. Some factors and trends involved include:

- Strong stock market performance partially responsible for foundation assets’ growth of 10-12% in 2006
- Strong rise in giving by individual, family (10.3% growth) and community (13.2%) foundations, while corporate foundations grew at a lower rate (6%)
- Twelve pharmaceutical foundations were established in the late 1990’s and early 2000’s to distribute medicine to low income patients. These twelve were responsible for 9% of total foundation giving in 2006, primarily involving gifts in kind. (*Foundation Giving Continued Double-Digit Growth in 2006, 2007*)

One major trend for grant-makers is that many are looking closely at their grantees’ results, treating them more as investments rather than merely gift recipients. This is a direct result of the trend of wealthy business leaders and
heads of industry, including Bill Gates, Warren Buffett and Pierre Omidyar, taking a more active role in their foundations and applying measurement approaches to them previously found primarily in the private sector. This has involved a great deal of emphasis on performance measurement and tracking mechanisms for certain social and financial goals, which allows portfolios to compare their grantees with each other, and theoretically leads to decision making that is less based on emotion and more so on actual figures and results. Of course, some detractors of this approach say that these are specifically decisions that should be made for emotional reasons, “that the work of the non-profits extends beyond tangible, immediate or predictable results” (Ni 2008), but that is a discussion for another paper.

At the same time, the field of social enterprise sits somewhat in between traditional for-profits and non-profits. Social enterprise includes organizations that advance “a social mission through entrepreneurial, earned income (“commercial”) strategies.” (Fast Facts about Social Enterprise, The Social Enterprise Alliance). Many cutting-edge social entrepreneurs, along with traditional non-profits, are finding ways to run businesses that earn money for their organizations while advancing their social missions. These range from the well-known and established Goodwill Thrift Shops and Girl Scout Cookies to the newer fields of microfinance and venture philanthropy.
The combination of the grant makers’ interest in tracking performance and social enterprise’s focus on revenue models has led to a new buzz word in the field: *sustainability*. Many modern donors want to fund programs that will not require perpetual funding, but will need some start-up capital and then be able to take care of most of their own needs, similar to the venture capital model in the private sector, although without the assumption of a large financial payout after a public offering or leveraged buyout. The establishment and growing interest in PRI and MRI by grant-makers are direct results of these trends and demonstrate their evolving interest in looking at their grantees; not as charity causes, but as a portfolio of investments that will show some combination of social and financial returns.

PRI can consist of debt or equity investments in many potential asset classes, including:

**Debt**
- Conditional Investments
  - Loan Guarantee
  - Recoverable Grant
- Deposits
  - Insured Deposit
  - Linked Deposit
- Loans
  - Senior Loan
  - Subordinated Loan
• Line of Credit
  o Senior Loan Fund
  o Subordinated Loan Fund
• Fixed Income Securities
  o Bond
  o Bond Fund
  o Mortgage Backed Security
  o Other Asset Backed Security

**Equity**

• Real Estate
  o Real Estate (individual investments)
  o Real Estate Fund
• Public Equity
  o Public Equity Fund (includes Socially Responsible Investment Funds)
  o Direct Public Equity (individual companies)
• Private Equity
  o Direct Private Equity (individual companies)
  o Private Equity Fund
Literature Review

The majority of research on Program-Related Investments has been highly qualitative, and any quantitative information is found solely in the form of lists of PRI’s made by grant-makers. These studies are difficult to compare to one another because the researchers do not all follow standardized criteria for PRI and MRI. Therefore, some studies combine the two or do not differentiate them in the same way. The most thorough depository of information on the topic is the Foundation Center’s text which is the most comprehensive listing of all the grant-makers participating in PRI and an overview of each (Falkenstein 2003). This is basically a list of all PRI’s made up until 2003, with some information both on the investors and investees. For an overview of mission investing, *Compounding Impact: Mission Investing by U.S. Foundations* offers a comprehensive look at the current and historical landscape of mission investment activity by U.S. foundations (Cooch and Kramer 2007). It looks at the mission investment practices, including PRI and MRI, for 92 U.S. foundations that together have made $2.3 billion worth of mission investments (in constant 2005 dollars based on the Consumer Price Index.) FSG conducted interviews with the foundations and gathered data (the primary dataset used in this thesis) for this study, and this paper’s results are primarily based on those data.
There have also been many articles written about PRI, many of which overlap in information and/or theme with the PRI Directory. The majority of these are geared toward those organizations, usually social enterprises, seeking to attract PRI. *Program-Related Investments: A Technical Manual for Foundations,* gives organizations advice and contacts about potential funders and how to manage those investments (Baxter 1997). Also helpful for those projects seeking PRI funds is *Program-Related Investments: A User-Friendly Guide,* as it describes the legal requirements for PRI’s (Chernoff).

There are also materials more suited to the grant-maker looking to invest in PRI. *Where Money Meets Mission: Breaking Down the Firewall between Foundation Investments and Programming,* gives examples of ways that foundations can align their endowments with their mission, including specific case studies regarding The Heron Foundation’s PRI’s (Emerson 2003). *Current Practices in Program-Related Investing* analyzes the Foundation Center survey, explains the different kinds of PRI, and gives some examples of successful PRI projects. It also explains some of the rationale and benefits for grant-makers to use PRI rather than traditional grant-making (Brody et al. 2002). *Program-Related Investments: More Complicated than Grants, but Worth Considering* includes more background information that explains why a foundation would want to use PRI (Jaquay 2001). For a more specific guide, *Economic
Development: A Legal Guide for Grantmakers includes information on basically everything the grant-maker needs to participate in PRI, including specific guidance for private foundations, community foundations and corporate grantmakers (Nober 2005).

On the more academic side of this subject is Blended Value Investing: Capital Opportunities for Social and Environmental Impact, a paper written for the World Economic Forum that describes various investment types in the social sector, including combined grants, loans and equity. This paper also shows examples of successful PRI’s and explains why they can work and how they fit into the spectrum of social investment. This include securitizations of microfinance and other activities, where financial assets are pooled and packaged as new securities that investors can buy and sell. Another example cited is the Calvert Foundation’s creation of the Community Investment Notes, which are “designed to make it safe and convenient for average investors to direct capital to community development and other blended value-generating projects and enterprises” (Emerson and Spitzer, 2006). This followed an earlier paper also prepared for the World Economic Forum the prior year, which also included examples of PRI (Private Investment for Social Goals and the Blended Capital Market 2005).
As mentioned earlier, microfinance is one newly popular area in which investors are looking to make both a financial and social return. For example, microfinance institutions make small loans to poor people in developing countries in order to help them start businesses and escape the cycle of poverty, and the lender receives interest and principal payments on the loan. Microfinance has gained much public attention recently with the 2006 awarding of the Nobel Peace Prize to Muhammad Yunus and Grameen Bank, the entity he founded in 1976 to provide financial services to the disadvantaged community of his native Bangladesh. Grameen’s programs are primarily geared toward women, although some other microfinance institutions are not. Yunus is considered the father of the microfinance movement, which has spread worldwide and been replicated by many organizations. Microfinance investments are now being bundled and sold as market rate securities, including one, Compartamos, which recently became a public offering.

Due to its high payback rates and many success stories, many grant-makers have shown an interest in microfinance investment. Mission Investing in Microfinance A Program Related Investment (PRI) Primer and Toolkit is geared toward private foundations, including family or company-affiliated foundations, that support poverty alleviation initiatives and are considering PRI or MRI in microfinance. The basic policy, financial and legal issues are addressed,
including model legal documents that a foundation can use to implement its decision to invest in this area. It does mainly focus on those PRI’s offered by MicroCredit Enterprises (the authors’ workplace,) but it also discusses PRI’s in general microfinance. Included are descriptions of 2 PRI investment opportunities offered by MicroCredit Enterprises, both of which are straightforward, permitted under federal law, easy to implement and simple to administer. The first option is a foundation providing an interest-bearing secured revolving line of credit. Each $1.2 million loan (the minimum investment required) supports up to 12,000 microcredit business loans, which are then administered by established microfinance organizations in developing countries. MicroCredit Enterprises secures the line of credit with full recourse guarantees (with a 10:6 collateral-to-loan coverage) provided by high net worth individuals and institutions, which can also include other foundations. MicroCredit Enterprises seeks the most affordable loan terms commensurate with a foundation’s risk profile because ultimately MicroCredit Enterprises' cost of debt is borne by the poor women entrepreneurs in the developing world. The second option is for the foundation to be a Guarantor. In this scenario, the foundation guarantees loans to MicroCredit Enterprises. Each $1 million guarantee (the minimum required) supports up to 5,000 microcredit business loans. The foundation maintains complete control of its assets, therefore receiving all investment returns from its portfolio, but it does not realize a return on the
guarantee risk. In the event of an overseas financial loss, each Guarantor bears the loss on an equitable basis with all other Guarantors. Foundations have made PRI investments to MicroCredit Enterprises: The MSST Foundation made a loan, and the Oswald Family Foundation, Swift Foundation and Three Guineas Fund are Guarantors (Lewis and Wexler 2007).

The body of literature listed here encompasses most of the writings on PRI and MRI. There are documented case studies, practical and legal advice, and lists of PRI’s and MRI’s made with information about their recipients. It is clear that Jed Emerson is leading the academic field in this research, and many others are starting to pay more attention due to his influence. With the growing interest in a next sector “in between” the for-profit and not-for-profit realms, and some potential regulatory changes that may make PRI easier to use, especially for smaller investors, I expect to see more articles and research regarding mission investing.

What is missing from this research is a discussion of why a foundation would want to make PRI rather than, or in addition to, its grants. It would be interesting and helpful to see a side-by-side comparison of those foundations already discussed in these texts along with those choosing not to make participate. Both quantitative and qualitative analysis could be done here, because it should be
clear not only how many foundations are choosing not to partake in PRI, but also why they are not. In some cases it may be out of ignorance of the opportunity, while others may have some financial or mission-related reasons.
Conceptual Framework and Hypothesis

**Conceptual Framework**

- Total Assets of Grant-Maker (2006 or latest available)
- Annual Giving by Grant-Maker (2006 or latest available)
- State Size of Grant-Maker (1=NY & CA; 2=all others)

- Total PRI made by a Foundation or Grant-Maker
- Number of PRI’s made by a Foundation or Grant-Maker
Hypothesis

Independent variables, including a grant-makers total assets, percentage of assets distributed, and geographical location, are positively correlated with the amount and frequency of future Program Related Investments. It is clear that with the issue of scalability, it currently makes more sense for larger foundations to make PRI’s, because the average cost of administration can be lowered, leading to economies of scale. However, this may not be the case, because grant-makers have different reasons for investing their assets rather than giving them away. Also, I hypothesize that grant-makers in large states or major metropolitan areas are more likely to invest in PRI, primarily due to their sophistication and access to information, as well as to revenue generating projects.
Data and Methods

The primary source for data comes from one data set, called the PRI Activity Database. This data set comes from PRImakers, a nonprofit association of grant-makers who use mission investing for social goals, and was collected by the Foundation Strategies Group (FSG) in Boston, MA. It can be found on the website www.primakers.net, which is proprietary to members only. I was given temporary access to this site by PRImakers due to the academic nature of this research. The population included in the survey includes foundations that made Program-Related Investments before and including 2005. This is not as complete a survey as I would have liked, because some foundations did not answer some or all questions on the survey, and it should be noted that foundations can have different definitions of PRI (although they technically should not for IRS reporting purposes.) The results also do not include foundations that do not participate in PRI, or instances where a particular foundation does not make a PRI, so this study is unable to determine the difference between a foundation making PRI or not.

There is a sample size of \(n=1631\), which includes information from 57 grant-making organizations. The survey was distributed online, but participants were walked through questions over the phone. All participants are foundation
employees who should already have extensive knowledge of most of the
questions being asked. Some of the participants are listed as anonymous, but still
labeled so they are kept separately from each other.

The variables included in the data set are listed here:

- **Funder Name:** This is the foundation or grant-maker making the PRI.
  There are 57 grant-making organizations included in this survey.

- **Recipient Name:** This is the name of the organization receiving the PRI.

- **Investment Amount:** This is the amount of PRI made at one time. It should
  be noted that some foundations make multiple PRI’s to the same
  organization at different times, or in different structures, which are
  counted as separate entries here:

- **Closing Date** This is the contractual start date of the PRI, the date the PRI
  recipient receives its funds to start the project(s).

- **PRI Status:** This category shows the current status of the PRI as of 2005.
  Categories include Approved, Cancelled, Closed, Open, Default, which I
  have condensed from narrower categories.

- **Other Variables:** Recipient Type, Recipient State, Recipient Country,
  Recipient Region, Use of proceeds (i.e. Working Capital), County
  Supported, Region Supported, Country Supported, Purpose (i.e. Arts,
  Culture & Humanities), Interest Rate, Investment Instrument (i.e.
Recoverable Grant), Outstanding Balance, Maturity Date, Repayment Terms (i.e. Straight-line amortization term loan,) Loan Documentation, Recourse, Collateral, Reporting Required, and Proposed outcomes (i.e. Purchase equipment to support ongoing workshops.)
Results

The research study focuses on why foundations make Program-Related Investments in social projects. It looks at all instances of PRI’s, and analyzes what makes a foundation more likely to invest, whether that is repayment performance in prior PRI’s, location, type of social program, etc. It also examines whether this shows different results for various types of foundations, based on size, region, and other considerations.

In addition to the full data set which is listed for each individual PRI amount, the data have been combined into a smaller dataset that consists of each grant-maker as an individual line item, with all PRI’s made by that grant-maker consolidated into one entry. This format shows how many PRI’s are made by each grant-maker as well as the total amount. Although this sample size is much smaller as a consequence, the information is actually more relevant due to the focus on decisions made by individual grant-makers. Variable descriptions and statistics can be found in the appendix.

The regressions run are Ordinary Least Squares (OLS) and analyze both what factors influence how often a foundations will make a PRI and how much the PRI will be. This includes multiple variables that could potentially be correlated
with the PRI such as those pertaining to the foundation and those more specific to the recipient. For example, larger foundations are more likely to be found in big cities and states.

The results are as follows: 1) Foundation PRI expenditures rise with the total asset base of the foundation (significant $t=3.9$); 2) foundation PRI expenditures are negatively correlated with total amount of given a single year (not quite significant $t=1.6$). While total PRI spending is matched to overall assets, the negative correlation between annual giving and total PRI expenditures suggests that PRI expenditures are not necessarily a consistent component of a foundation’s overall giving operations and in some cases may be relatively ad-hoc. Second, the number of PRI investment in a given year is positively correlated with both total assets and annual giving, but these results are insignificant suggesting that PRI programs differ across foundation size.

In order to improve the survey, I suggest that PRI makers track the outcomes of project more thoroughly including at least an estimate of total benefits resulting from the completion of a project. This is a result of incomplete survey questioning. To get a full picture of this, all foundations and grant-makers (perhaps limited to those over a certain size) should be surveyed about their PRI use. Questions need to get more specific and answers should be limited to certain
words, so that results can be categorized more easily. It is also not completely helpful to have all these data at one point in time (the PRI Activity database is supposed to be current, but there are no resources for ongoing data collection.) Because of this, all “Closed” PRI listings appear to be equal, although some may have been paid on time and others late.

It is likely that most, if not all, of the foundations sophisticated enough to practice PRI are also tracking non-financial performance metrics. If PRImakers wants to be the primary source of information on this topic, it must define these social metrics and use them across all grantees. While this may be difficult, it will be helpful to separate out financial and social returns on investment. That way, future research can determine whether PRI is a more effective form of investment than traditional grant-making. PRImakers should do this with some of the major foundations involved to get their input and determine what methods they are already using that would be relevant here.
Conclusion

PRI use is extremely limited among grant-makers, and is unlikely to have substantial growth rates in the near future without a strong marketing program or IRS regulation changes that make it easier to determine which investments fall under this category. However, certain factors undertaken by potential PRI recipients can increase the likelihood of benefiting from PRI. If a social enterprise wants to attract this type of funding, it may want to target large foundations and grant-makers that have appropriate qualities to fit with its mission and are already familiar with PRI.

Additional survey research must be implemented to get a more thorough and current picture of the state of PRI and overall mission investment. A study showing the benefits of PRI, both on the supply and demand side, could be used in marketing campaigns for multiple purposes:

- Persuade non-profit organizations to start earned income programs and become more sustainable
- Make for-profit business consider working toward corporate social responsibility instead of merely earning profits
- Convince foundations to invest their endowment funds into PRI and MRI
• Lobby the government to create regulations making it easier to recognize PRI and MRI, and give additional tax incentives to do so.

The potential of PRI is infinite and has barely been realized, which is made clear by the results of this study. As this is fairly new as an investment type, and as a survey, this is to be expected, but it should improve with future iterations.
Appendices

Exhibit A: Variable listings

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Variable</th>
<th>Rationale and Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td>PRI Amount</td>
<td>These regression looks for correlation between various factors when a foundation makes a PRI in a particular organization, and the size of that investment. (Per each particular PRI and also rolled up to the grant-maker level.)</td>
</tr>
<tr>
<td>Dependent</td>
<td>Number of PRI’s</td>
<td>These regressions are similar to those run on PRI Amount, but they will focus instead on how many PRI’s a foundation makes as opposed to how much they invest in this manner.</td>
</tr>
<tr>
<td>Independent</td>
<td>Prior PRI’s</td>
<td>This looks at whether the foundation has made prior PRI’s in the same organization and whether there is a positive or negative effect on the current PRI’s. (This would be more helpful if the status and results of the prior PRI’s made to that organization were included here.)</td>
</tr>
<tr>
<td>Independent</td>
<td>Recipient Type</td>
<td>This shows whether the PRI recipient is a non-profit, for-profit, or another type of organization.</td>
</tr>
<tr>
<td>Independent</td>
<td>Recipient State</td>
<td>This can show whether PRI’s are more likely to be made in particular areas, or areas close to where the foundation is based.</td>
</tr>
<tr>
<td>Independent</td>
<td>Recipient Country</td>
<td>This can show whether PRI’s are more likely to be made in particular areas, or areas close to where the foundation is based.</td>
</tr>
<tr>
<td>Independent</td>
<td>Recipient Region</td>
<td>This can show whether PRI’s are more likely to be made in particular areas, or areas close to where the foundation is based.</td>
</tr>
<tr>
<td>Independent</td>
<td>County Supported</td>
<td>This can show whether PRI’s are more likely to be made in particular areas, or areas close to where the foundation is based.</td>
</tr>
<tr>
<td>Variable Type</td>
<td>Variable</td>
<td>Rationale and Importance</td>
</tr>
<tr>
<td>---------------</td>
<td>--------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Independent</td>
<td>Region Supported</td>
<td>This can show whether PRI’s are more likely to be made in particular areas, or areas close to where the foundation is based.</td>
</tr>
<tr>
<td>Independent</td>
<td>Country Supported</td>
<td>This can show whether PRI’s are more likely to be made in particular areas, or areas close to where the foundation is based.</td>
</tr>
<tr>
<td>Independent</td>
<td>Large State (State Size)</td>
<td>This binary variable was created to distinguish foundations from small and large states (based on number of foundations.) For simplicity, only New York and California are considered large states here. Large state = 1; Small state = 0.</td>
</tr>
<tr>
<td>Independent</td>
<td>Use of proceeds</td>
<td>This is used to determine whether PRI’s are more likely to be made in Capital Expenditures, Working Capital, etc.</td>
</tr>
<tr>
<td>Independent</td>
<td>Purpose</td>
<td>This is the recipient’s field (i.e. Arts, Culture &amp; Humanities.) This can show whether certain fields are more likely to attract PRI overall, or whether this aligns with a foundation’s own mission.</td>
</tr>
<tr>
<td>Independent</td>
<td>Interest Rate</td>
<td>This should be compared with the risk-free rate of return, the foundation’s Internal Rate of Return and other key indicators to show whether the interest rates given are above or below market rate and whether this adjusts for risk.</td>
</tr>
<tr>
<td>Independent</td>
<td>Investment Instrument</td>
<td>This can show whether certain types of foundations are more likely to make certain types of investments (i.e. Recoverable Grant.)</td>
</tr>
<tr>
<td>Independent</td>
<td>Recourse</td>
<td>This shows whether the foundation has any legal way out of the loan, or a way to get the recipient to repay the loan. It is a way to potentially reduce risk for the investor, while giving incentive to the recipient to repay loans or follow another arrangement.</td>
</tr>
<tr>
<td>Independent</td>
<td>Collateral</td>
<td>This is another way to measure risk, and potentially also measure what recourse an investor has against a defaulting recipient</td>
</tr>
<tr>
<td>Variable Type</td>
<td>Variable</td>
<td>Rationale and Importance</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Independent</td>
<td>Reporting Required</td>
<td>This just shows whether a foundation requires outcomes, either financial or social, from a recipient.</td>
</tr>
<tr>
<td>Independent</td>
<td>Proposed outcomes (i.e. Purchase equipment to support ongoing workshops.)</td>
<td>These are the results that a recipient is expected to</td>
</tr>
</tbody>
</table>
## Exhibit B: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>First (Full) Dataset</th>
<th>Second Dataset (omits variables such as anonymous or those with no results)</th>
<th>Third Dataset (rolled into foundation level PRI &amp; omits 2 foundations without complete data)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sample Size</strong></td>
<td>1,631</td>
<td>1,565</td>
<td>51</td>
</tr>
<tr>
<td><strong>Total PRI Amount</strong></td>
<td>1,517,445,030</td>
<td>1,486,056,642</td>
<td>1,486,056,642</td>
</tr>
<tr>
<td><strong>Average PRI Amount</strong></td>
<td>962,235</td>
<td>983,492</td>
<td>29,134,444</td>
</tr>
<tr>
<td><strong>Median PRI Amount</strong></td>
<td>500,000</td>
<td>500,000</td>
<td>3,365,350</td>
</tr>
<tr>
<td><strong>Mode PRI Amount</strong></td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Minimum PRI Amount</strong></td>
<td>0</td>
<td>0</td>
<td>48,350</td>
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<tr>
<td><strong>Maximum PRI Amount</strong></td>
<td>18,900,000</td>
<td>18,900,000</td>
<td>419,378,931</td>
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<tr>
<td><strong>Standard Deviation</strong></td>
<td>1,605,299</td>
<td>1,647,409</td>
<td>83,063,141</td>
</tr>
<tr>
<td><strong>Number of PRI’s</strong></td>
<td>n/a</td>
<td>n/a</td>
<td>1542</td>
</tr>
<tr>
<td><strong>Number of Canceled PRI’s</strong></td>
<td>11</td>
<td>11</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Number of Closed PRI’s</strong></td>
<td>662</td>
<td>628</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Number of Pending PRI’s</strong></td>
<td>25</td>
<td>25</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Number of Current PRI’s</strong></td>
<td>712</td>
<td>686</td>
<td>n/a</td>
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<tr>
<td><strong>Number of Converted PRI’s</strong></td>
<td>4</td>
<td>4</td>
<td>n/a</td>
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<tr>
<td><strong>Number of Default PRI’s</strong></td>
<td>93</td>
<td>91</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Number of NA (Other) PRI’s</strong></td>
<td>124</td>
<td>120</td>
<td>n/a</td>
</tr>
</tbody>
</table>
Exhibit C: Correlation of a Foundation’s Total Assets to Total PRI’s

\[ y = 0.0327x - 1E+08 \]
\[ R^2 = 0.821 \]

- Total Assets on Total PRI's
- Linear (Total Assets on Total PRI's)

Total Assets 2006

Total PRI's in USD
### Exhibit D: Regression Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T Value</th>
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</thead>
<tbody>
<tr>
<td><strong>Model A (dependent variable is number of PRI’s made by a grant-maker):</strong></td>
<td></td>
<td></td>
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<tr>
<td>Intercept</td>
<td>7.9</td>
<td>1.7</td>
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<tr>
<td>Grant-maker’s total assets in 2006 (or latest available)</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Grant-maker’s annual giving in 2006 (or latest available)</td>
<td>1.2</td>
<td>0.4</td>
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<tr>
<td><strong>Model B (dependent variable is total amount of PRI made by a grant-maker):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>1,090,444.3</td>
<td>0.2</td>
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<tr>
<td>Grant-maker’s total assets in 2006 (or latest available)</td>
<td>0.1</td>
<td>4.0</td>
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<tr>
<td>Grant-maker’s annual giving in 2006 (or latest available)</td>
<td>-0.5</td>
<td>-1.6</td>
</tr>
</tbody>
</table>
References


