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Demystifying Program-Related Investing

Based on the applied research paper "Demystifying Program-Related Investing: Lessons from Recent Adopters" by Maoz (Michael) Brown, Director of Impact Research, Evaluation, and Learning, Wharton Impact, Value, and Sustainable Business Initiative (Wharton Impact)

Introduction

Foundations can stretch their philanthropic dollars via a powerful tool called program-related investing. This tool enables foundations to provide loans, equity capital, and other financing that advances social mission as a priority while also offering opportunities for financial return. Program-related investments (PRIs) can recycle and grow philanthropic capital, enhance investee performance and commercial sustainability, attract additional funders, and drive innovation.

Yet PRIs remain strikingly underutilized. In a new applied research paper titled "Demystifying Program-Related Investing: Lessons from Recent Adopters," author Michael Brown draws on tax return data and estimates that only about 0.4% of U.S. private foundations made at least one PRI in 2023. Conventional wisdom attributes this gap to operational demands, cost, and administrative burden, reinforcing the perception that PRIs are instruments that only the most well-resourced foundations can manage. This research challenges that assumption.

Interviews with professionals at 36 U.S. foundations that recently adopted PRIs reveal that the difficulty of PRI implementation varies substantially, with interviewees split roughly halfway between those who found the process challenging and those who did not. The difficulty of PRIs, it turns out, is not a fixed feature of the instrument; it is a variable that foundations can shape through deliberate choices. The research surfaced three factors that largely explain why experiences vary so much, and all three are within an organization's power to manage: complexity, capacity, and congruity.

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Findings

Complexity refers to the inherent characteristics of a PRI that necessitate time, coordination, and specialized judgment. The paper identifies four dimensions that drive complexity. *Deal structure* concerns how straightforward or convoluted a PRI's financial terms are, ranging from standard-term loans to staged funding tied to milestones or convertible instruments. *Regulatory compliance* centers on the IRS's requirement that PRIs serve a charitable purpose, a test that can be simple for some investments and demanding for others. *Operating context* captures external factors — sectoral dynamics, revenue uncertainty, permitting requirements, and policy volatility — that add demands outside the foundation's direct control. *Partnership dynamics* reflect the potential coordination challenges of working with co-investors, government funders, or intermediaries with their own timelines, risk frameworks, and approval processes. Complexity spikes when multiple dimensions intersect, but the goal is not to avoid complexity altogether. Objectives such as reaching underserved populations or catalyzing market-based solutions often require accepting greater complexity, and foundations benefit from making that choice deliberately rather than adding complexity without a clear strategic rationale.

One interviewee illustrated how internal reactions to financial terms can generate unnecessary complexity: "I think we made the deal more complicated than we needed to. The prospect of generating a return triggered a higher level of scrutiny and caution internally, so we had all these conditions on the deal." Another interviewee's experience with a carbon-focused PRI showed how operating context can drive complexity: "The carbon project has not fully come to fruition because carbon projects are surprisingly complicated. It takes a lot of time and expense to research and verify the carbon on the property and make the case for how much there is and the quality of it."

Capacity encompasses the expertise and resources needed to execute PRIs — financial analysis, legal knowledge, administrative systems, and programmatic judgment. A central insight of the paper is that foundations need not build all these capabilities internally. Capacity resides in six locations, each with different implications for how a foundation team learns, spends, and manages the work. *Peer networks* provide low- or no-cost knowledge, templates, and candid lessons through informal relationships and membership associations. *Intermediaries* such as Community Development Financial Institutions (CDFIs) and impact investing funds offer comprehensive, turnkey solutions that handle sourcing, underwriting, closing, and servicing, dramatically reducing administrative burden. *External advisers* — consulting firms, specialized attorneys, financial analysts — provide targeted expertise without the overhead of full-time foundation staff. *Internal staff* offer greater control and deeper learning but require sufficient deal volume and organizational commitment to justify dedicated resources. *Investees* bring domain expertise and community

Figure 1 • Three Factors Shaping Foundation PRI Experience

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connections but may also need additional support if they lack experience with repayment obligations or investor relations. *Co-investors* can serve as force multipliers, sharing due diligence costs, dividing monitoring responsibilities, and contributing complementary expertise.

One interviewee reflected on the value of intermediaries for foundations without in-house investment expertise: “There’s no administrative burden. They’re great to work with for someone with my social worker background who’s a generalist.” Another captured how the learning curve for building internal capacity, while real, is not insurmountable: “The hardest part was figuring out what we needed to do differently when analyzing a loan versus a grant. We’re not loan officers and don’t have that experience, so we had to build processes for risk analysis. It was difficult because we’d never done it before, not because it was inherently hard.”

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Congruity addresses how well a foundation’s culture, processes, and structures align to enable clear goals and effective action. The paper identifies five dimensions along which congruity varies. *Purpose alignment* concerns whether the organization has a shared understanding of why it is pursuing PRIs. *Risk appetite* reflects the foundation’s tolerance for both financial loss and regulatory uncertainty, and whether that tolerance is consistent across leadership, staff, and board. *Administrative style* captures whether documentation, approval, and reporting processes are scaled to actual need or generate friction disproportionate to tasks. *Organizational cohesion* reflects how well program, finance, and leadership teams coordinate rather than operate in silos with misaligned incentives. *Leadership commitment* concerns whether boards and executives actively champion PRIs or offer only lukewarm support unlikely to sustain teams through challenges. Low congruity creates self-imposed barriers — conflicting goals, burdensome bureaucracy, siloed teams — that are often more significant than any difficulty inherent in a PRI itself.

One interviewee highlighted the importance of purpose alignment: “It comes down to this: What am I going to give up to do this, and is it really worth it to have a PRI program when we’re doing great at grantmaking?” Others described deliberate strategies for building organizational cohesion, with one foundation forming a PRI committee with program officers and investment managers to “break down silos” and another establishing cross-functional task forces to cultivate the mindset “that everyone is responsible for advancing the mission, rather than the mindset that only the program team holds the mission while everyone else does administrative work.”

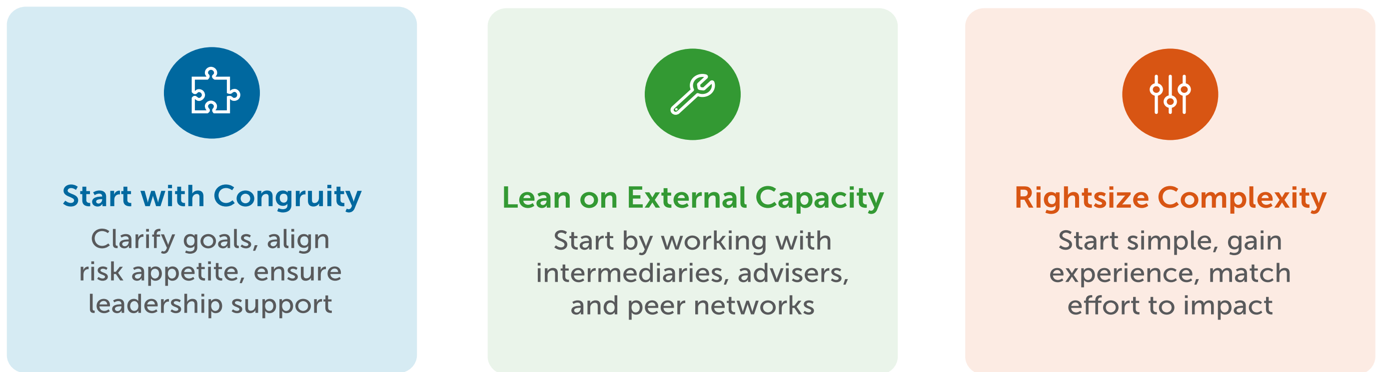
Actionable Insights

Understanding how complexity, capacity, and congruity shape PRI implementation shifts the question from “How do we overcome the difficulty of PRIs?” to “What choices will shape how difficult PRIs are for us?” The paper offers three practical takeaways for foundation teams considering PRIs, and for other allocators of philanthropic capital considering impact-first investing.

Start with congruity. Before considering technical execution, organizations should clarify why they are pursuing PRIs and ensure alignment across the five dimensions identified above. A foundation can access abundant external capacity or choose simple deal structures yet still struggle if its board wavers on vision, its program and finance teams operate at cross-purposes, or its approval processes impose unnecessary friction.

Lean toward external capacity initially. Foundations new to PRIs generally benefit from tapping peer networks first, then working through intermediaries or engaging external advisers. This sequencing allows foundations to learn what PRIs entail before making internal commitments. Foundations with program staff already experienced in nonprofit financial matters, or investment teams incentivized for mission-aligned investing, may

Figure 3 • Three Steps for Successful PRI Implementation



build internal capacity from the outset. Many foundations maintain delegated models indefinitely, and that approach can be entirely appropriate when deal volume is modest or when efficiency matters more than direct control.

Rightsize complexity. Foundations making direct investments should start with straightforward structures — standard-term loans to established nonprofits, ideally organizations they already know through grantmaking — and then scale thoughtfully. The highest-leverage PRIs often occur precisely where uncertain returns, long time horizons, and other sources of complexity keep traditional capital away. Foundation professionals seeking that transformational impact should approach complexity deliberately, matching it to organizational capacity and congruity.

By demystifying PRI adoption while respecting its genuine challenges, this research aims to help more foundations find their path toward successful implementation.

READ THE FULL PAPER

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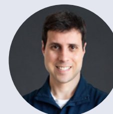
ABOUT THE PAPER AUTHOR



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The Impact, Value, and Sustainable Business Initiative at the Wharton School (Wharton Impact) conducts evidence-based research on the gap between corporate and investors' impacts on natural, social, and human capitals and their financial valuations.

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