



## Case Study: The Barra Foundation Makes a Program Related Investment (PRI)

Kristina (Tina) Wahl leaned back in her office chair and reflected on The Barra Foundation's first foray into making a Program Related Investment (PRI). "One of the challenges in this impact investing or mission-oriented investing space," she said, "is that a lot of people are talking about it, it sounds really important, and philosophically it makes sense, but *how do we actually do it?* And how do we get our boards on board to do it?"

Wahl's route to The Barra Foundation includes a lifetime of commitment to nonprofits and social policy. She earned an undergraduate degree in political science from Philadelphia's La Salle University, completed a one-year stint in New York City with the Vincentian Service Corps, a faith-based service organization, and earned a master's degree in public policy from Harvard's Kennedy School of Government. After working with an urban transitional jobs program in Philadelphia, she then spent five years at The Pew Charitable Trusts, arriving at The Barra Foundation as a program officer in 2010. Wahl was named president of The Barra Foundation in 2013. Now, with the Foundation's first PRI in place, she considers the path she and the Foundation's board took along the way, as well as the road forward.

## THE BARRA FOUNDATION

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In 1936, Robert Lincoln McNeil, a chemist, joined his grandfather's company, McNeil Laboratories, and began the transformation of the firm into a major pharmaceutical company. McNeil Laboratories eventually created and marketed such breakthrough products as Butisol™ and Tylenol™. The firm was purchased by Johnson & Johnson in 1959. With a strong sense of community and an ardent passion for the arts, McNeil, the former Chairman of McNeil Laboratories, started a family foundation in 1963. The Barra Foundation, named after the Scottish island where the McNeil clan originated, is now an independent foundation based in Wayne, Pennsylvania. Barra's website sets out the aim of the foundation:

We want to invest in innovation that seeks to drive positive change to address the needs of low-income populations in the region and promote a continued vibrant cultural community. Innovation is in our DNA—and has been since 1963. We are all about ingenuity. And we know from our experience that there are many smart, creative thinkers in our region tackling problems and seizing opportunities in new and different ways. We want to support your efforts to use innovation to make this region stronger.

"My father was a scientist," says Rory McNeil, Robert McNeil's son and current chair of The Barra Foundation's board. "He went at innovation from a scientific standpoint, and evaluation and dissemination were big parts of it. We've got four program bucket areas—education, arts and culture, health, and human services—that we try to focus on, and we are certainly looking to make an impact on underserved communities. The innovation umbrella is over all of that. Now we're trying to invest in innovation that inspires change in those areas and in those communities."

The Barra Foundation's principles include:

- Fostering an environment in our region that supports and advances innovative ideas and approaches
- Knowing that risk, failure, learning and sharing are essential elements of the innovative process
- Offering financial support and other incentives to encourage individuals and organizations to challenge assumptions, take risks, and develop new models
- Encouraging experimentation and imagination as keys to innovation
- Recognizing innovation can arise from unlikely partnerships
- Listening, engaging, and responding to the sector in which we operate

Describing the foundation, Wahl says, "We're a small shop, with just two full-time program officers, me, and one part-time administrative person. The foundation is about a \$90MM operation, and we provide about \$4MM in grants a year, so we're a midsize independent foundation in the marketplace of foundations here in Philadelphia."

According to McNeil, "Until about a decade ago, the funds were essentially distributed to two areas in about a two-thirds/one-third breakdown. About two thirds were given to program grants and about a third given to the general operating funds of many community organizations. About 370 to 380 organizations carved up that one third. After we held a strategic retreat, we made some thoughtful decisions about how we wanted to give our money away going forward. We determined that those community fund grants, in such small amounts, weren't really that effective—we were just giving to the same organizations every year. We felt it was important to be more impactful with our giving."

What has evolved at The Barra Foundation since then includes the *Catalyst Fund*, which provides early-stage funding to new or existing organizations aiming to test or launch something new or seeking to creatively adapt an existing program, process, or organizational model. Whatever the idea, the Foundation says it should be new, different, better, and significant. Ideas and initiatives should have the potential to spur change beyond an individual project or organization.

The community fund, in contrast, has evolved into the *Barra Awards*. The Barra Awards acknowledge and advance exemplary organizations in the Greater Philadelphia region. By exhibiting qualities of leadership, performance and adaptability, these organizations must demonstrate that they are keeping pace with a changing environment and continually looking for ways to be more effective in strengthening the communities they serve. Each Barra Awardee receives \$25,000 of unrestricted

funding per year for two years. In addition to receiving core support, Barra Awards organization leaders become members of a diverse network of entrepreneurial thinkers—their fellow awardees. This combination of flexible financial support and the opportunity to share ideas with other leaders from different disciplines and networks helps them discover new ideas and better solutions to problems.

Wahl adds, “The third part of our strategy is what we call ‘beyond the money’—those are the tools we are using beyond the actual grant dollars to further our mission. For example, bringing Barra Awardees together at an event can create opportunities for them to interact and to make connections. We’ve also sent organization leaders to meetings in different cities to expose them to different ideas, to different ways of thinking, to interact with people outside their usual circles—and to get some breathing room.”

## THE INVESTMENT CHALLENGE

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The Mission Investors Exchange notes that market-rate mission investments, also known as “mission-related investments (MRIs),” are part of a foundation’s endowment and have a positive social or environmental impact while contributing to the foundation’s long-term financial stability and growth. Below-market mission investments, also known as “program-related investments (PRIs),” are designed to achieve specific program objectives while they may earn a below-market financial return.

Tina Wahl explains the investment challenge The Barra Foundation faced: “How do we align more of our investments with our mission? In the simplest terms, PRIs are ‘program first and financial return second’ and MRIs are ‘return first and program second.’ Foundations provide 5% of their assets in grants to support their mission—but what about the other 95% of our assets?”

Andy Rachlin, Managing Director, Lending and Investment, at Philadelphia’s Reinvestment Fund, takes Wahl’s explanation a step further. “An

MRI,” he says, “is made out of the corpus of a foundation’s investments. It’s money that could otherwise be in an index fund or stocks. A PRI, on the other hand, is a grant substitute. It is an investment vehicle of some kind that is made with the returns on the corpus, money that would otherwise be used for making grants or paying the operating expenses of the foundation. It’s part-way between an investment and a grant, somewhere between those two on the spectrum. The MRI is much closer to an investment, but also carries social impact qualities.”

Wahl concludes, “One of the challenges faced by organizations which are focused in just one area, such as homelessness, is that they must look for investments in that specific area. Because The Barra Foundation is kind of agnostic about the kinds of projects we support, we are uniquely suited to mission-aligned investing and we have some flexibility. One of our values is modeling the behavior we want to see in our community, so if we’re asking organizations to test new ideas, we think it’s also an opportunity for us to test new ideas too.”

## THE BARRA FOUNDATION INVESTS IN AN MRI

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The Barra Foundation developed their mission investing approach in steps. First, Wahl says, “I went to a Mission Investors Exchange impact investing institute in May of 2015 and on my return presented to the board about the MRI and PRI concepts, which was new for most of the board members. In September we agreed to hold an educational session for the board. The institute suggested that the two ways to get started in mission investing are 1) to work with a Community Development Financial Institution (CDFI) on an MRI or, 2) to provide a PRI in the form of a low interest loan to a social enterprise. I knew we had a CDFI (the Reinvestment Fund) here in Philadelphia, so we made plans to hold our September 2015 board meeting at the Reinvestment Fund offices, and brought in three speakers to speak to our board: Dick Henriques, a Senior Fellow of the University of Pennsylvania’s Center for High Impact Philanthropy and former CFO of the Bill & Melinda Gates Foundation; Tatiana Garcia Granados, an MBA graduate of the Wharton School and Co-Founder and COO of The Common Market (a local foods distributor which connects organizations to sustainable farms); and Andy Rachlin, a Managing Director of the Reinvestment Fund.”

Wahl continues, “Following that meeting, the board was really interested in investing with the Reinvestment Fund. Our investment would be \$1MM for 3 years at 1.25% interest, so we would get some return. The money is invested in a variety of projects that the Reinvestment Fund determines. The Reinvestment Fund is essentially an intermediary. Our investment was an MRI, with funds taken from our corpus. And the financial return is the same rate that we would get in a fixed income fund.”

Rachlin adds, “The Reinvestment Fund is well-known and local, which is appealing, with a strong record of making successful impact investments. We sell publicly registered securities that offer a guar-

anteed rate of return that is market or near-market rate given the risk profile. The Reinvestment Fund is an AA-rated corporate borrower by S&P. We have a very unusual combination of impact investments, a long track record of demonstrating that impact, significant financial security for those investments—and we provide a very easy mechanism by which to make those investments.” Further, Rachlin says, “We have an investment profile that is transparent, so investors know the kinds of things we are doing with their money—but they don’t pick the specific project that we give their money to.”

“The Barra Foundation was broadly interested in expanding the range of tools that are available to them as a philanthropy, to use their resources to effect the kind of change they want to see in the world,” Rachlin continued. “Prior to this effort they basically had one tool—they had a grant. The way they interacted with the world was pretty binary—they either made a grant to an organization or they did nothing. This new effort started to expand their range of tools on the one hand and also increased the potential percentage of their resources that they could use to effect change at any given time. If all they were doing was taking the interest that they were earning on their corpus and making grants out of that, then the maximum percentage of their total assets they were using was only a few percent. To the extent they can start to move some of their corpus into investments that are generating return and also generating impact, they can start to increase the percentage of their assets they are using to effect change. So this was about giving them a new tool and also about increasing the resources pointed toward their mission.”

Tatiana Garcia Granados, Co-Founder and COO of the nonprofit organization The Common Market, has gained considerable experience with both MRIs and PRIs in the conduct of her business. About MRIs, she offers one caution from her own

experience: “What foundations have done in most of these cases is through an intermediary such as a CDFI. The reason foundations feel comfortable with intermediaries is that there’s the underwriting process, and there’s the training, and the body of knowledge of how to underwrite loans that most foundations don’t have. But using intermediaries can increase the cost of debt. The downside of that

structure for loan recipients is that ultimately the terms are not too different from what a commercial bank would offer. That’s why we would like a foundation to do a direct PRI.” Granados concludes, “It’s a new competency that organizations need to acquire. With a PRI you’re not going to need an intermediary to cover its costs. That’s really the main thing.”

## THE BARRA FOUNDATION INVESTS IN A PRI

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With a population of about 34,000 (2010 census), by 1995 the city of Chester, Pennsylvania was classified as a financially distressed municipality due to a loss of jobs and a rapid decline in population. The Barra Foundation had previously participated in the *Boundaries and Bridges* project, providing a grant to Widener University to work with the city of Chester, local artist and entrepreneur Devon Walls, and members of the greater Chester community. The project included workshops to encourage new collaborative possibilities and made funds available for artistic interventions to strengthen or build new bridges. “University partnership models are not new,” Wahl says, “but this was a new approach from an arts perspective. Instead of having meetings and focus groups to talk about how we could work together, the project used the arts to engage the community and the university in a conversation about what needed to happen and how to work better together, using anything from dance to theatre. It was pretty successful as a way to engage the community and to empower local artists.”

Wahl adds, “We wanted to continue the conversation about impact or mission-aligned investing at every board meeting to keep the educational process going. We had been approached about a few new potential projects, so we summarized four of them for the foundation’s board.”

A June 7, 2016 memorandum from the foundation’s staff to the board begins,

With our focus on innovation, Barra has be-

come one of the places to go when there is a novel approach emerging. As a result, over the past several months, individuals, peer foundations and organizations have approached Barra about mission-aligned (or impact) investing opportunities.

Wahl says, “We asked the board, ‘Do we have your permission to explore this?’ When we all met again in September 2016, the *New Day Chester* project seemed to be the right one to explore.”

### THE NEW DAY CHESTER PRI

Through an event funded by The Barra Foundation grant to Widener University for the *Boundaries and Bridges* project, Chuck Lacy of the Barred Rock Fund (a private foundation), and formerly President of Ben & Jerry’s, met Devon Walls, a Chester native and co-director of the Barra-funded project. Walls had been working for a decade to lay the groundwork for an arts revival, led by local artists, in Chester. In 2015 Lacy and Walls created *New Day Chester, Inc.*, to acquire and develop property on the Avenue of the States in Chester, including five storefronts, six apartments, artist studios, an incubator and maker space, a performing arts space and a coffee shop. *New Day Chester, Inc.*, is the first African-American led renaissance effort of its kind in Chester. Together, Lacy and Walls invested \$318,000 in equity, and received an additional \$75,000 loan from the Barred Rock Fund and a \$25,000 loan from the Untours Foundation.

A June 7, 2016 Barra Foundation staff memo to its board states:

*New Day Chester* is seeking \$262,000 in additional loans for 2016 and \$220,000 in loans for 2017. They are looking for a five-year term, interest paid annually (guaranteed by the Barred Rock Fund), with a balloon payment in five years.

The memo continues,

Mission-aligned investors are important because there is too much risk at this juncture to attract commercial investment. [*New Day Chester*] needs socially-minded investors to “take the scare out of the project.”

“*New Day Chester* seemed to be the right one for us,” Wahl says. “It was risky, kind of messy, and it seemed to fit our ideas around innovation. The leadership of Lacy and Walls was kind of a magical combination. Foundations feel more comfortable with this kind of investment after they have made a grant to an organization (as we already had). It’s a myth that you can’t provide funding for a for-profit organization, but there are certain things you need to do around expenditure responsibility with this kind of project, and steps you must take to indicate that you are supporting a social mission. We also hired an attorney who provided an opinion letter around the charitable intent of the project.”

Social entrepreneur Devon Walls says, “The Barra Foundation is helping us build infrastructure, bricks and mortar, so there are some different variables. With this one, we’re talking about ownership of real estate. Much of the real estate here in downtown Chester is blighted and abandoned. We knew we wanted to give the Avenue of the States a new

look. We wanted to reface it, and in order to do that we would have to go to banks to add money to the money we already had. The banks weren’t interested in giving loans because of the zip code in which we are located. So The Barra Foundation took the position of a bank and they took the risk with us to help us get the work done.”

Walls continues, “Budding artists and entrepreneurs find it’s scary to take money from banks or to take government money. We’re used to using our hands to earn the money to get the things done that we want to do. I’ve been having conversations with artists all around the country and it’s like we just have to find those people who are interested in investing in our dreams and goals. Sometimes it means you’re taking a loan instead of a grant, and being comfortable enough to say that you’re willing and ready to get the work done. I think it’s another avenue that has yet to be explored by many other organizations. The Barra Foundation will be the first to say they have never done anything like this. But it will open the doors to possibilities for other artists.”

“The issue in anything like this is in the *politics*,” Walls concludes. “Our biggest setback is in trying to get the city up to speed. In regards to The Barra Foundation, it’s been nothing but a blessing. We’ve done in two years what would take others ten years.”

“We made a five-year loan to *New Day Chester*, \$250,000 at 4% interest only per year, with principal due in five years,” Wahl says. Wahl reports, “Our board went to visit the Avenue of the States in March 2017, because it was important to be in touch and to feel it, to hear from Devon Walls and Chuck Lacy and to see the places being renovated, the theatre, and the coffee shop. And it’s moving along nicely.”

## THE MESSAGE

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“Most of us in smaller foundations come from non-profit backgrounds,” Wahl says. “We don’t come from finance backgrounds. Here I am trying to speak to the chair of the Investment Committee, and that’s pretty intimidating. There’s a cultural difference, and a lexicon I may not have. We explored hiring consultants to help us develop a strategy around impact investing, but it was too soon to do that. I felt it was really important for us to start the educational process on our own. And then we needed to learn by doing.”

The Barra Foundation board chair Rory McNeil notes, “I wouldn’t say we have decided to shift in any particular direction of granting or giving. I think a PRI is one more tool in our toolbox for us to consider. It’s not replacing any of our typical grant giving. Whether it’s ultimately a grant or investment income depends on the recipient’s performance. If *New Day Chester* were to collapse and we lose money, from a tax standpoint it becomes a grant. Based on the fact that our mission revolves around innovation, I think we had to approach it with the same kind of thinking and be innovative and a little ahead

of the curve. If it does well and we receive income, it’s an investment.”

McNeil concludes, “Obviously, we’re still at the beginning stages to see whether these investments all shake out, but I think it’s all about the educational process. Once boards have that, and take their time doing it, I think there’s a comfort level. You have to do the appropriate amount of leg work, as you would do with any grant. You have to understand the risk, and be willing to take the risk that it may fail. A failure is educational—you can learn from things failing. So why not put your investment dollars into something impactful while at the same time have an opportunity to have a return?”

The Reinvestment Fund’s Andy Rachlin sums up the growing interest in PRIs: “I think *activity is leading action* as of yet. The number of foundations that have gone as far as Barra has, and that have actually started to move the way their capital is deployed, is much smaller than the number of foundations that are talking about doing that. But talk comes before action.”

## DISCUSSION QUESTIONS

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1. Where did you see obstacles to impact investing? Where were the opportunities at Barra? How might another foundation's obstacles and opportunities be similar or different?
2. What is the role of staff and board as they explore impact investing? Who should lead the effort? What is the right pace?
3. Where in the board should impact investing responsibility sit? With the investment committee? A joint committee? At the board level, who should have oversight of this new effort?
4. Who can best provide advice on impact investing? Staff? An outside investment advisor? The Foundation's investment committee chair? A consultant? What challenges can the board expect with these options?
5. Where can non-financial foundation staff find needed resources and information on impact investing? Who can they turn to if they need to ask the "dumb questions"?
6. What concerns may arise when considering using some of the Foundation's corpus, and possibly sacrificing some return with it? Do you have to sacrifice return?
7. Should your corpus align more with your mission? What additional social or environmental impact could you have if you added impact investing to your tool box?
8. A low-interest loan to a social enterprise is just one example of a Program-Related investment. What are some other examples of Program-Related Investments?

## ADDITIONAL RESOURCES

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<https://www.barrafoundation.org>

<https://www.barrafoundation.org/get-inspired/grantee-story/exploring-program-related-investments>

<https://www.reinvestment.com/>

<https://missioninvestors.org/impact-investing-101>

<https://missioninvestors.org/resources/barra-foundations-first-mission-related-investment>

<https://missioninvestors.org/resources/mris-and-pris-private-foundations>

<https://www.forbes.com/sites/ashoka/2013/02/21/why-program-related-investments-are-not-risky-business/>

<https://www.irs.gov/charities-non-profits/private-foundations/program-related-investments>

Henriques, R., Nath, A., Cote-Ackah, C., & Rosqueta, K. 2016. "Program-Related Investments: Is There a Bigger Opportunity for Mission Investing by Private Foundations?" Center for High Impact Philanthropy. University of Pennsylvania.



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