Performance Philanthropy through the SaT Catalyst Fund

Philanthropy as Capital

Performance Philanthropy represents a significant paradigm shift where philanthropists, using tax-deductible donated dollars, choose to use those dollars as investment capital in Program Related Investments (PRIs) that assist others to create businesses that solve problems, employ people, and serve unmet needs in under-served communities both around the corner and around the world.

The difference between this and traditional philanthropy is significant. In traditional philanthropy, tax-deductible donor dollars are given to not-for-profits to provide relief and betterment services, foregoing any return on the donation and a likely recurring ask for the same or similar donation in the future. Performance Philanthropy enables those same tax-deductible dollars to be used to create circumstances where others can build enterprises, build wealth for themselves and others, changing outcomes and livelihoods where used, even if generating diminishing negative returns. This means future philanthropic investments, if needed, may be at decreasing increments until an enterprise becomes financially viable. The purpose of this paper is to address the legalities of using philanthropic dollars to make investments.

Sat Catalyst Fund

The SaT Catalyst Fund (SCF) is an LLC, wholly owned by Significant Matters (SM), a 501(c)3 organization. SCF was formed by SM for the purpose of making Program Related Investments (PRIs). Individuals and organizations may open an account with SCF for the purpose of funding PRI Projects. An account is referred to as a "PRI Account." A PRI Account is a sub-account owned by SCF.

A PRI Account may be established by the individual or organization (hereinafter referred to as "Donor") completing the SCF Agreement and making an irrevocable contribution to SM. SM then transfers the funds to SCF for the purpose of making a PRI. The Donor has the right to direct their contribution to one or more PRIs offered by SCF.

Each PRI Account has its own accounting and investment returns and expenses will be allocated accordingly. The Donor also has the right to reinvest investment proceeds into additional PRI Projects.

All PRI Projects are offered for the purpose of furthering the mission of SM. Accordingly, SM is the default beneficiary of each PRI Account. However, the Donor may name an alternative 501(c)3 beneficiary.

What is a Program-Related Investment?

A Program-Related Investment (PRI) is a financial tool commonly used by foundations and other philanthropic organizations to support charitable activities and achieve their mission. PRIs are governed by Section 4944 of the Internal Revenue Code. PRIs are a type of impact investment, which means that they are made with the primary goal of generating a positive social or environmental impact, rather than solely for financial return.

Key characteristics of Program-Related Investments include:

1. Charitable Purpose: PRIs are made to further a philanthropic organization's charitable mission. They must be aligned with the organization's tax-exempt purpose, which typically includes activities such as poverty alleviation, education, healthcare, and other social or environmental initiatives.
2. Below-Market Interest Rates or No Return: Unlike traditional investments, PRIs often offer below-market interest rates or, in some cases, no financial return at all. The focus is on achieving social, environmental and/or spiritual impact rather than maximizing financial gain.
3. Recyclable Funds: When the PRI investment is repaid, the philanthropic organization can recycle the funds and use them to make additional PRIs, thereby leveraging the initial capital to support more charitable activities.
4. Active Involvement: Philanthropic organizations may play an active role in the PRI project to ensure that the intended social, environmental and/or spiritual outcomes are achieved. This involvement can include providing technical assistance, monitoring progress, and collaborating with the recipient organization.
5. Risks Assumed: Philanthropic organizations understand that there is a risk of not fully recovering their investment, but they are willing to take this risk in pursuit of their charitable mission.

Common examples of PRIs include low-interest loans to nonprofit organizations or social enterprises, investments in community development financial institutions (CDFIs), and funding for projects that may not be attractive to traditional investors but have significant potential for positive social impact. PRIs are a way for philanthropic organizations to leverage their financial resources to address societal issues, and they are an important tool in impact investing within the philanthropic sector.

What is the difference between a PRI Account and a Donor Advised Fund (DAF)?

DAFs are accounts offered by charitable organizations for the purpose of assisting individuals in making ***donations*** to other 501(c)3 organizations.

A PRI Accounts is an account offered by a charitable organization for the purpose of making Program Related ***Investments*** in both nonprofits and for-profit organizations.

How is a PRI Account tax-deductible to the donor?

The parent company to the SCF is Significant Matters (SM), a 501(c)3 nonprofit organization registered with the IRS and the SCF is an initiative of SM. Your donation is made to SM with the understanding that you wish to set up a PRI Account within the SCF for the purpose of making PRIs in PRI Projects that are vetted by and in alignment with the mission of SM. The tax deduction comes from making your donation to SM, which will issue your tax-deductible receipt. Although the donor can choose which PRI Project offered by SM to invest in, the donor does not personally own the investment.