

**A COMMUNITY
DEVELOPMENT
VENTURE CAPITAL
PRACTITIONER'S
HANDBOOK**



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INTRODUCTION

Launched with support from the Rockefeller Foundation, the New Horizons in Workforce Development Initiative seeks to strengthen the role that community development venture capital (CDVC) funds can play in advancing the employment opportunities of low-income workers. The New Horizons Initiative was developed on the premise that workplace practices that provide opportunities for low-skilled workers to learn new skills and take on added responsibilities in a business also improve productivity and profits. By identifying models in which CDVC funds have effectively combined progressive workforce development efforts with their investment activities — and helping to move those efforts forward — New Horizons is paving the way for CDVC funds to add value to their portfolio companies through the provision of quality human resource assistance. This handbook is an essential tool in that process.

CDVCA and its partners — Coastal Enterprises, Inc. (CEI), The Reinvestment Fund (TRF), ShoreBank Enterprise (SE), and SJF Ventures (SJF) — developed New Horizons, with the goal of nurturing thriving, viable businesses that offer quality employment opportunities to low-income individuals — and developing a road map for other CDVC funds to do the same. All partners are motivated by a shared belief that investment in human capital is a critical aspect of business success and an integral part of overall investment strategy and an understanding that CDVC funds occupy a unique space at the intersection of investment capital and workforce development.

Making human capital considerations a fundamental part of a CDVC fund's investment activity is in part about constructing a new paradigm — a new conceptual framework within which CDVC funds operate — but it is also about implementing several key practices that move funds beyond theory and concept and toward tangible results. CDVC funds are motivated by the desire to generate both financial and social returns, and those social returns are defined as much by the quality of jobs created for low-income individuals as the number. Thus, all CDVC funds are engaged to some extent in issues related to workforce development and human capital development.

All New Horizons partners came to this effort with proven records in workforce development and were awarded grants to implement new or expand existing efforts to make workforce development an integral part of their investment activity and to participate in ongoing meetings to share the lessons they've learned. As such, they formed the core of the New Horizons Initiative, as partners in a collaborative work group. The purpose of this handbook is to highlight the promising practices carried out by the New Horizons participants. It is our hope that by sharing the experiences, challenges and successes these funds have faced in their efforts to integrate workforce development and CDVC investing, we will help facilitate the efforts of other CDVC funds interested in embarking on similar work.

This handbook encourages CDVC funds to be thoughtful about how they engage with human capital issues and offers some tools that can be effectively employed to make these issues more central to their missions and activities. Through program descriptions, practitioner insights, brief case studies, and sample documents, this handbook offers practical insights into how four CDVC funds are making workforce development and human resource assistance an integral part of their investment strategy.

The programs described in this handbook vary in scope and particulars, but they all share many components. They all emphasize the importance of:

- Being aware, critical and explicit about workforce development issues at every stage of the investment process – whether generating deal flow, conducting due diligence, structuring investments, assisting portfolio companies, monitoring portfolio company performance, developing reporting systems, or exiting investments;
- Making assistance with human capital issues a critical component of the value a CDVC fund offers to its portfolio companies;
- Believing in the connection between progressive human resource practices and high performance workplaces and building a portfolio of companies that demonstrate the competitive advantage of investing in human capital; and
- Developing an understanding throughout the organization of human capital issues, as well as building strong relationships with outside service providers that increase the scope and depth of workforce development and human resource services available to a CDVC fund's portfolio companies.

As evidenced in the profiles of each group contained in Section 2, the New Horizons participants each have distinct programs, services, histories and areas of focus. CEI has over 15 years of experience working to forge connections between its portfolio companies and existing workforce development services. TRF has five years experience and has taken a more market-driven approach. SE brings an expertise in “industry clusters” to these efforts. And SJF's broad investment area presents special opportunities and challenges. One of the funds has substantial staff dedicated almost exclusively to workforce development and human resource issues, while others are working with a more limited staff capacity.

While focusing on the experiences of a few, this handbook is intended to be useful to all CDVC funds, whatever their stage of development. It is divided into topical sections — each with a substantive overview of the issues and, when available, sample documents or practitioner tools. This handbook was designed to be updated and supplemented in the future. Hopefully, you will find it a useful source of ideas and information — a sort of "starter set" as you develop your own workforce development/human capital toolkit.

Finally, this handbook highlights some wonderful successes, but it remains a work in progress. Efforts to link human resources, workforce development assistance, and investment capital are young. We look forward to much additional learning and growing. The handbook describes key practices and tools that will assist CDVC funds seeking to make these critical links, but it is important to note that there is no single "model" of how to do this. There is no formula that can be applied under all circumstances. CDVC funds need to respond to the wide-ranging needs of their portfolio companies and the lower-income individuals they employ. They also need to be able to react dynamically to changes in market conditions. A carpenter who has only one hammer and nails is ill-equipped for most jobs. While she won't need every tool for every task, she needs a complete set to be prepared for work. Similarly, CDVC funds need a diverse and dynamic set of tools for working effectively with growing companies and lower-skilled employees. This handbook doesn't offer a complete toolkit, but it aims to help funds that are starting to put one together. We offer a new approach — a way of thinking about workforce development, human capital and CDVC investing that facilitates the development of a wide range of services, programs and policies.

