

Investment Capital

Impact capital, social impact bonds, and other private sector investments are another potential source of braided funds. Such investments into workforce programs [became very popular in the mid-2010s](#). Because investors typically require at least repayment, these funds should be considered as last resort or [“seed funding”](#) to launch a program. Ideally, programs can eventually transition to less expensive sustainable long-term funding sources.

Many sources of this capital [require slightly below market to risk-adjusted market rates returns](#). In short, they must be paid back with some level of interest. Investors will [distinguish between Program Related Investments, which often carry 0% interest, and Mission Related Investments](#), which often carry a higher risk-adjusted interest rate. Setting up the investment often comes with significant administrative fees for legal agreements, program design, and other activities, though this can be offset through philanthropic contributions. Agencies may also [consider Community Development Financial Institutions \(CDFIs\) as potential partners](#). CDFIs are, by their nature, impact-oriented and often provide lower-rate and lower-cost sources of capital. In fact, the Federal Reserve Bank of Atlanta has [conducted research](#) around how CDFIs and workforce development organizations might collaborate to maximize their impact.

While investor funding can be useful in some cases - such as exploring innovative new models or capital investments that will ultimately be repaid by government sources - it is important to note that in addition to being expensive, investment capital often reduces program flexibility. If a program struggles to achieve its goals, it will need to negotiate with investors before making substantial pivots. That being stated, [the worldwide impact investment market is estimated to be over \\$1 trillion](#). If an agency finds itself at the right stage to leverage this funding source, it can attract substantial additional funding.

Each funding source generally comes with its own timelines, reporting requirements, funder influence, and compliance issues. Some require annual reports. Others quarterly. Some funders might insert their own agenda into programs. Others will defer to staff. Some will accept reports generated in formats convenient to staff. Others will request that staff report through the funders' own systems, which have different levels of user-friendliness. These requirements should not prevent agencies from blending, braiding, or sequencing, but they should be taken into account when agencies decide

whether and how to do so. Compliance requirements for these funds are contingent on the agreement that the agency signs with the investor.

Approach	Often Used With	Description
<p>Outcomes Based Loans/Income Share Agreements for Training</p>	<p>Braiding or Sequencing</p>	<p>Funding provided directly to students to cover the cost of training where a student repays the fund if they meet specific milestones upon program completion, such as a wage threshold. Over time, repayment is recycled to cover the cost of the next learner and can be repaid to investors as learners succeed. Such funds are often braided with philanthropic or public sector capital to hedge against risk and ensure that investors are repaid.</p> <p>For example, Social Finance worked with American Diesel Training Centers to launch a Career Impact Bond for careers in the automotive sector.</p>
<p>Business or Community Services</p>	<p>Braiding or Sequencing</p>	<p>Robust business service offerings often include a range of training, capacity building, job quality assessments, employee ownership transitions or process improvement transformation support coupled with capital for the business to implement the change. WIOA rapid response, layoff aversion, SBA funds or others may be braided or sequenced to provide a full range of support to a business.</p> <p>For example, the San Diego Workforce Partnership, the workforce board, teamed with Project Equity to provide information on employee ownership transitions, paid for by WIOA funds, and then worked with Mission Driven Finance to explore options for capital access that could support the companies in</p>

		their implementation of such an approach.
Workforce and Education Technology	Braiding or Blending	<p>Workforce technology solutions which support barrier removal, such as translation, virtual mentoring, career navigation, and VR/AI enhanced learning, can be key elements to assisting</p> <p>For example, Michelson20MM uses a variety of investment approaches to support learning technologies that help students get enrolled in college, stay enrolled and re-enroll if they drop out.</p>

Building a Capital Stack

In private enterprise, [a capital stack or cap table reflects investors in a company, investment amount, and their investment types or terms](#). For a workforce agency, this model reflects funders and their funding or reporting requirements. The big issue here is how complex the arrangement can become. [Too many investors on different terms can make a private company uninvestable](#). Too many funding sources with different terms can make a program unmanageable. Funding sources can become hard to track, align, and report. These processes can take substantial staff time, taking away from work on the program itself. As a result, agencies should put substantial thought into how much funding they need, from what sources, and the costs and benefits of those decisions.

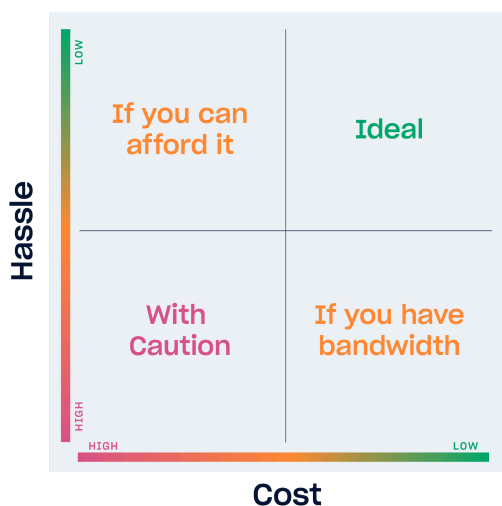
Source	Type	Typical Process	Common Characteristics
Public - Federal, State, Local	Grants or tax credits	Generally uses a rigorous, competitive grant process	Often the largest source of funding but generally includes strict compliance requirements
Foundations / Philanthropy	Grants and related giving	May be through an open grant process or by invitation	Often for smaller amounts but generally more flexible. Tend to be issue or place based
Employers	Subsidy, grants or gifts	May be through an open grant process or by invitation	Often for smaller amounts but generally more flexible. Tend to be sector or place based.
Individuals	Gifts	Often through a campaign or personal relationships	Generally small amounts but may be regular contributions (e.g., monthly). Usually unrestricted
Investors	Loans	Application process	Can be 0% interest but requires repayment over time or if thresholds not met, some require interest payments
Revenue Generating Activities	Fee for service, social enterprise	Internal process driven	Provides opportunities for expansion, need to consider program income compliance requirements

The Myth of Diversification

Nonprofits can also provide a valuable lesson in this space. [In foundational research from 2007 that continues to be relevant and authoritative, The Bridgespan Group found that](#) the most successful fundraisers concentrate on one type of funding source, as compared to diversifying. The lessons from this “Myth of Diversification” also applies to blending, braiding, and sequencing. Each type of funding source is like a different business model. An agency must operate differently to utilize government grants versus service fees versus philanthropic funding. Rather than trying to diversify activity across all these funding sources, an agency may choose to specialize. For example, if it builds expertise in government grants, it could explore blending, braiding, or sequencing its existing funding with many grants from many different levels of government, contingent on compliance requirements. Decisions will ultimately require balancing the funding need with the potential additional complexity.

A Framework for Cost/Benefit Analysis

This framework gives a rough explanation of how an agency might evaluate sources of capital. A low-hassle, low-cost source, such as some philanthropic grants, is ideal but often in short supply. Hassle might include compliance requirements, timelines and partnership considerations. A higher-hassle, lower-cost source, such as some federal grants that have



extensive reporting requirements, can be valuable if an agency has sufficient staffing and/or bandwidth. A lower-hassle, higher-cost source, such as a philanthropic investment only requiring repayment, can be valuable if a program generates enough program related income¹ for repayment, such as through employer contributions. Finally, higher-hassle, higher-cost sources, such as a risk-adjusted market-rate investment, might be approached with more caution and only when an agency and program is confident in its ability to manage those requirements.

¹ Title 2 of the Code of Federal Regulations (CFR) Part 200 (§200.307) defines program related income as “**Gross income** earned by a non-federal entity (recipient) that is **directly generated by a sponsored activity** or earned **as a result of the federal award** during the period of performance”

In turn, an agency can visualize those funding sources as a “stack” that fills the necessary funding requirements for a program. To decide what sources to utilize and how much funding from each source, the agency needs to consider several factors: (1) How much funding is necessary to pay for the full program?; (2) How much funding is necessary to pay for the minimum viable program to deliver impact for participants?; and (3) How do potential sources of funding (evaluated here using the color coding from Table 1) stack up to match those criteria?



Partnership Structure for Funding

As agencies make decisions about whether and how to leverage additional sources of funding, they may also consider the appropriate legal entity with which to place the funding or operate the program. Possible entities include non-profit Public-Private Partnerships (PPPs), pooled funds, joint power agreements (JPA), and other options. For example, [NevadaWorks](#) uses a joint powers agreement that weaves together multiple counties to deliver services for the local area. Similarly, New York City established a separate entity called the Workforce Development Corporation (WDC), a collaboration across multiple partners, to implement their new green jobs strategy.

Much like the 2x2 matrix above, the logic behind this analysis relates to whether the “benefits” of using the partnership model exceed the “costs” of additional logistics or expenses. Common costs include administrative and legal costs associated with formulating and running a new entity.

The relative amount of private funding for a program often determines the decision whether to establish a new entity or partnership. While no hard and fast rule exists for the threshold, at some point desired program outputs and outcomes can be best achieved through the flexibility of a separate entity. For example, for multi-year programs which will blend funds it is common to establish a separate entity specific to carrying out the objective of the new program and all associated reporting and compliance. Or, if using an outcomes based loan or income share model with participants where repayment is required, government entities may find it is complex or even prohibited to be the recipient of such funds and thus set up a separate entity to manage the work and protect the agency from possible risks.

In some more larger funding arrangements, private funders might also request this strategy, which can for cleaner separation and avoid the perception that the government is directing a public entity. While many agencies might prefer this level of flexibility, forming and operating a PPP incurs costs related to staffing, admin, and other logistics. Agencies must determine whether this cost-benefit analysis outperforms the option of operating the program internally or some other partnership model.