

# A Framework for Inclusive Govtech Ecosystems

On February 27, before our Demo Day & Innovation Summit, CivStart convened a smaller focus group of private, public, and nonprofit sector leaders to discuss **how we can increase the number of sustainable companies led by underrepresented groups in the govtech space.**

The aim of the larger project is to establish a roadmap to research, promote, test, and revise a set of recommendations for everyone interested in creating more inclusive govtech ecosystems for innovation in state and local government.

As some of the largest employers and oldest organizations and in any community, governments need to be pushed in order to overcome their substantial inertia.

## Why build more inclusive govtech ecosystems?

Govtech can offer solutions for small improvements in people's lives, but the govtech ecosystem faces unique challenges compared to other startups. Not every technology comes in the form of easy pivots from already-viable private-sector technologies (think municipal composting, jury-management, or water-system management technology). Govtech can also improve the lives of poorer and marginalized communities, but many of the challenges to creating and supporting govtech ecosystems are magnified for these issues (think tenant rights technologies, simplifying access to public benefit programs, and accessibility/disability technologies). This roadmap places special emphasis on improvements in these areas since solutions that emerge from underrepresented groups are going to be better able to help governments meet the needs of these groups.

From the perspective of state and local government, the prospects of taking on risky, untested technologies from founders with little in the way of traditional recommendations and accolades can seem inadvisable at best. **Entrepreneurs, nonprofits, investors (including venture capitalists (VCs) and angel networks), and others all have a role to play in addressing these concerns and creating inclusive govtech ecosystems.** However, state and local governments are the key actors here. They play large and important roles in the lives of everyone, whether old or young, employer or employee, rural or urban resident. Even under the burden of stewarding the public trust (and treasury), improvements in healthcare, transportation, utilities, citizen-responsiveness, efficiency, management, privacy-protection, and other govtech innovation is incredibly important.

Below are the key points raised in the initial discussion hosted by CivStart on barriers and opportunities to creating more inclusive govtech ecosystems.

**Government can be a better customer.**

To diversify our entrepreneurs we need to provide support and resources.

Governments are low-risk purchasers. We need ways to de-risk govtech innovations.

People invest in their networks. We need more diverse investors and more diverse networks.

Governments are already diverse organizations, and innovation can be supported from within state and local government as well.

#### Additional Resources

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## Government can be a better customer.

### Government Procurement Reforms:

- Procurement reforms are among the top needs identified by anyone thinking through these issues.
- **Challenge-based procurement**, and **startup in residence programs** are two already-successful models being adopted more widely.
- Several govtech startups offer solutions that increase transparency and streamline the procurement process on both ends.
- Disbursement of government funds for contracts take too long for cash-strapped startup companies, or founders who don't have deep pockets themselves.

### Government Needs a “Front Door”:

- The process of winning a government contract can also feel opaque to those outside government. There are often numerous permits, audits, and legal hoops a business seeking to work with a state and local government needs to jump through. Those can vary from one jurisdiction to the next, where even singular governments lack a centralized approach to help entrepreneurs navigate these hurdles.
- Governments talking and working across departments on these issues can also help tremendously.
- It can be difficult to discern who the key decision-maker(s) are on any potential contract. Providing a clear “front-door” to govtech companies and opportunities for local and other entrepreneurs to connect with key decision-makers in government can be a great way to open it up to innovation.
- Companies, for their part, need to do the research to ensure they are speaking with key decision-makers across all the departments that will benefit from or be impacted by their solutions.

### Government Appears Too Big & Too Small:

- From the perspective of potential entrepreneurs, the government market looks to be undifferentiated, where the main contractors are often the biggest consulting firms.

- The reality is that contracting requirements, processes, and decision-making can vary tremendously across governments and agencies, who don't always invest time in bulk purchasing and collaborative spending.
- This means that for potential govtech startups and their investors the market can appear to be a bad strategy: too big and too small at the same time.
- Again, governments working to standardize, or bulk purchase across departments and agencies could help tremendously.
- Governments should take the next step and work regionally with other state and local governments to maximize support of potential entrepreneurs from within their own communities and attract innovative ideas from elsewhere.

#### **Government/Govtech Education:**

- State and local governments have enormous and diverse demands on them. Few, if any government staff may have advanced knowledge of leading technology concepts, design, and processes. At the same time, companies seeking contracts (and investors seeking to fund these companies) often lack education on state and local government jargon, processes, and opportunities. At worst, these imbalances in education can lead to good innovations getting frustrated in the process of seeking contracts, or government officials adopting technologies they don't need or understand.
- There is substantial opportunity for mutual educational projects between government staff and officials with govtech investors and companies, potentially facilitated by educational institutions or nonprofits.

## **To diversify our entrepreneurs we need to provide support and resources.**

#### **Social Capital and Professional Skills:**

- Founders of startups often benefit from their own, and their network's professional skills, provided in-kind, to help them start their businesses. Many entrepreneurs who come from underserved communities, or who don't have the professional skills in their friend and family networks for other reasons will struggle to pay for the legal, accounting, and business-consulting services that other entrepreneurs get provided for free.
- Governments, nonprofits, and educational institutions should play a part in lowering these barriers, building these skills in marginalized communities, and providing free and low-cost access to legal and professional services.
- Many state and local governments already partner with bar associations for pro-bono legal services provided to certain businesses and nonprofits. Similarly, they could partner with accounting firms, educational institutions to teach "how to work with our local government" courses, and others to provide more holistic help for these entrepreneurs.

#### **Access to Capital:**

- One of the most common barriers identified when thinking about how to make more inclusive ecosystems for entrepreneurs, limited access to capital for founders from underserved communities is magnified in the govtech space because providing solutions to governments takes more time (and therefore requires more of a runway) than private-sector markets.
- Similar to the *social capital* discussion above, friends and family often provide the initial seed funding for new businesses, but communities that lack wealth and networks of wealthy friends and family face obvious problems here.
- Investors such as angels and VCs have an obvious role to play here in supporting a more diverse set of founders, and potentially investing in them earlier than usual.
- Government fellowships and paid pilot programs, or even outright grants for aspiring entrepreneurs can help provide runway here as well.
- Nonprofit incubators, often funded in part by governments, foundations, and potential investors can prioritize providing services to underserved founders, both meeting equity targets and potentially nurturing more disruptive ideas from founders outside the traditional funding considerations.
- Nonprofits and educational institutions can help provide research and education on the government market for investors such as angels and VCs to help them feel more familiar and informed in the govtech ecosystem.
- Foundation grants and angel investments can also help diversify the govtech ecosystem by providing early funding for diverse entrepreneurs and de-risking later investments by VCs.
- Finally, and most broadly, government essential services that help ameliorate the costs and risks of starting a business such as low-cost public transportation and childcare and generous welfare benefits can cushion the downside and therefore encourage entrepreneurs considering taking the risk of starting a new business.

#### **Increasing Accessibility of Existing Programs:**

- In order to make more inclusive ecosystems, we need to consider who is able to participate and who might be prevented from participation in existing programs like a fellowship program or a startup in residence program.
- Government and incubators/accelerators should consider providing entrepreneurs with wraparound services like transportation, childcare, or flexible hours to make them more accessible to a broader range of entrepreneurs.

## **Governments are low-risk purchasers. We need ways to de-risk govtech innovations.**

#### **Citizen Expectations:**

- Governments provide stability for their residents and communities. Unlike private business, which come and go as the market dictates, a government cannot begin to

provide a new service, only to have it disappear at the whim of an acquisition, internal pivot, or failed round of funding.

- Creating an expectation of a service only to take it away can be worse than never beginning the service at all. Worse, a company can abuse the privacy or behave in other unaccountable ways that diminish citizen trust in their government.
- Citizen Expectations is one reason why governments are necessarily lower-risk purchasers of private-sector solutions.
- Governments sometimes adapt to this by building solutions in-house, and this can be successful, but can also cause new problems for maintainability.
- Providing for more consistent citizen expectations can be addressed partly through explicitly smaller-scale trials, pilot programs and fellowships, startup in residence programs that build trust and expectations on both sides, and through nonprofits willing to do due-diligence work to de-risk new and innovative solutions.

#### **Fiduciary Responsibility:**

- Sharing many similarities identified in the above *Citizen Expectations* section, governments have to be good stewards of the public trust and the public treasury.
- Governments are reluctant to spend tens of thousand of dollars of taxpayer money that results in a failed project, even if lessons were learned.
- Again, explicitly smaller scale pilot programs and fellowships, startup in residence programs, and trusted non-profits providing due-diligence can all help, as well as foundation funding that covers the initial pilot or fellowship contracts and therefore limits the exposure of state and local governments.

#### **Political Volatility:**

- Governments are run, at the highest levels, by elected officials, and the priorities of state and local governments and their budgets can change with the election of new officials or approvals of new ballot initiatives and referenda.
- This can make it a challenge for entrepreneurs to consider the government market, when their customers can be inconsistent. Decision-making can also be implicitly on an unclear or unrealistic political timeline.
- Startups, as a result may be more likely to focus on solutions for less-volatile political and budgetary priorities, like workflow, pension portfolio management, or others. Unfortunately, this may discourage innovations in social services, park management, or other areas that see more political volatility. **As a result, there may be major innovations in these areas that have yet to be tried for want of market stability.**
- This is a fact that anyone involved in the govtech ecosystems will have to grapple with.

#### **Lack of Track Record:**

- Startups, by definition, lack the track record of the large consulting and other firms that are more traditional government private-sector partners. This increases the political, fiduciary, and other risks discussed in this section.

- Similarly to what was discussed above, foundation and government support for early pilots and fellowships, trusted non-profits providing due-diligence, and startup in residence programs can all help address this concern.

## People invest in their networks. We need more diverse investors and more diverse networks.

### Investing in what you know:

- Angel investing and Venture capital funding is a risky process involving a lot of heuristics and gut-feelings of the people making the investments. Yes, strategy, market, product, and plan are all hugely important, but when companies are just ideas, or early pilot products, the people-to-people connection between the investor(s) and the founder(s) is hugely important.
- So it is only natural that when investors are thinking about investing huge amounts of money into a risky proposition, they are likely to focus on the people and backgrounds they have the most understanding and experience in — those closest to their own. Since the vast majority of VCs are white men, and often concentrated in a few large coastal cities, this tendency creates a serious disaster for inclusive investing.
- One solution is to broaden the networks of investors through networking, conferences, office hours, and other connections, moving some of these online to support founders outside the large coastal cities. Investors can offer many benefits beyond just money, including feedback, advice, mentorship, market intelligence, and connections.
- Potential investors can also seek the expertise of investors from diverse communities to help them evaluate potential investments, either individually, through board membership, or by partnering with inclusivity-focused startup incubators and academics.
- Nonprofits, on the other hand, can work to both educate existing diversity-focused investor communities on the govtech market, and provide due-diligence and support to facilitate less-risky investments in diverse founder backgrounds. They can also help to hold the investor community publicly accountable for their records on inclusive investing, as well as diversifying their staff and board positions.
- Nonprofits and foundations can also help support more diverse founders in the early stages of their ventures — founders who may become angels or VCs themselves in the future, providing an example of, and investing in, a more inclusive ecosystem.

## Governments are already diverse organizations, and innovation can be supported from within state and local government as well.

### Spinning Innovations out of Government:

- Governments have the diversity and deep knowledge of the processes, frustrations, and needs inside their own departments.

- Oftentimes, ideas for improvement or solutions that could be viable not just within one government, but across many state and local jurisdictions go un-pursued because there is no clear pathway to take those ideas and develop them inside or outside their current positions to spin them off into private companies that can serve many different governments.
- This may be one of the best ways to empower women entrepreneurs and entrepreneurs of color, since these individuals already have the background in government, and the understanding and contacts that can help them land a critical first contract.
- Luckily, federal agencies like NASA, and numerous national defense agencies have successful models to learn from. The ATF, USDS, NSA, NASA, and even Healthcare.gov all provide examples of federal agencies and projects invested in spinning off private companies benefiting numerous agencies and encouraging and building the govtech ecosystem more broadly.

#### **State & Local Governments as an Investor:**

- State & local governments have a long history as low-risk investors through pension funds, or even financial vehicles like Alaska's sovereign wealth fund.
- Some governments, like Maryland and Washington DC, have been experimenting with encouraging, supporting, or operating venture funds, social-impact investing, and higher-risk strategic investment opportunities to support entrepreneurs in their communities.
- The federal government, especially within the national security sector, has experience with providing non-dilutive capital to promote and pilot companies, that can then move to more traditional financing to try and scale. This could be a model that state and local governments learn from.

#### **Innovation within Government:**

- Governments already have mandates to hire diverse members of their communities. These people, provided with the right incentives, resources, and clear pathways — many of which are outlined above — may be able to streamline processes, improve user experience, save money, and improve efficiency.
- Internal *Innovation Departments* and a focus on government *interpreneurship* could increase experimentation, innovation, and problem solving directly within government — providing more satisfaction for smart and highly-motivated employees and improving services at the same time.
- This is slightly beyond the scope of this research, but should be further explored as a pathway to support the ultimate goal of better, more efficient government service provision for our communities.

## **Additional Resources**

- ❑ [DC Pathways to Inclusion \(DC Mayor's Office\)](#)
- ❑ [Entrepreneurial Ecosystem Playbook 3.0 \(Kauffman Foundation\)](#)

- ❑ [City Innovate “Startup in Residence” \(STiR\)](#)
- ❑ [Challenge Based Procurement](#)
- ❑ [Venture Capital’s Diversity Disaster \(TechCrunch\)](#)
- ❑ [Village Capital](#)
- ❑ [Tedco \(Maryland Venture Fund\)](#)
- ❑ [How US Sovereign Wealth Funds benefit their citizens and alleviate poverty \(International Policy Digest\)](#)