SCALING CIVIC TECH

Paths to a Sustainable Future

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FOREWORD

How can we harness technology to promote civic engagement and more responsive government?

This foundational question lies at the heart "civic tech," a constellation of activity seeking to use technology to enhance how people interact with government and one another. What began as a series of ad hoc efforts and hackathons has developed over the past decade into a broader civic tech community of for-profit and nonprofit organizations and investors.

In many respects, there has never been a more exciting time for the **civic tech community**. The 2016 presidential election fanned the flames of citizen engagement and illustrated to many the importance of investing in organizations serving to strengthen our democracy. Since the election, a growing number of foundations, investors and high-net-worth individuals have begun exploring ways to support civic engagement and democracy either in conjunction with their existing strategies or as a standalone opportunity. This surge of interest and potential capital could be transformational for civic tech.

As civic tech funders with a longstanding commitment to supporting informed communities and civic participation, we at **Knight Foundation** and the **Rita Allen Foundation** are eager to help the field use new resources and interest to capitalize on this moment in time. To do so, we need to examine a sobering reality: very few civic tech startups formed over the last decade have meaningfully scaled or sustained their work. With a few notable exceptions, civic tech organizations have struggled to translate prototypes, pilots and products into full-fledged organizations with business models that assure ongoing impact. Even the best-known organizations face very real challenges in sustaining and expanding their work. Countless conversations with our grant partners, peer funders, researchers and other practitioners have confirmed the unfortunate reality that the lack of proven business models has constrained the growth of civic tech.

Inspired by these conversations, we commissioned research to generate deeper insights about business models in the field and surface ways of overcoming challenges. Today we are excited to share that research in a new report, **"Scaling Civic Tech: Paths to a Sustainable Future."** The report captures sustainability challenges, bright spots and recommendations based on the perspectives of nearly 50 startup leaders (for-profits and nonprofits) and funders (foundations, venture capitalists and angel investors) interviewed by Catherine Bracy and Elana Berkowitz, two experienced practitioners in the field. The Nonprofit Finance Fund also provided guidance based on their extensive experience promoting business models and business-minded approaches across the social sector.

This latest research builds on Knight's report **"The Emergence of Civic Tech"** and New Media Ventures' recent **"Making Money for Impact"** report about revenue models. It confirms the hard truth that few civic tech startups have developed repeatable and reliable revenue to cover their costs and grow their operations—indeed, many startups in the field launch without an anticipated business model. That said, the research pointed to a number of different ways organizations are exploring to monetize efforts to promote open government, voting and other forms of civic engagement. It emphasized the need for organizations and funders to distinguish between "buyer" revenue, supporting core operations, and "builder" investments intended to fuel their long-term success. It also highlights a series of important skills that funders can help startups to develop, including business planning, sales and fundraising, and evaluation. In addition to approaches for attracting more funders, including impact investors, the research suggests how funders can structure their funding to encourage longer-term success.

As a field, we have spent considerable time lamenting civic tech organizations' struggles with sustainability. Our hope in presenting this report is to begin to change this narrative by provoking a more consistent, collaborative and rigorous field-wide conversation about not just challenges but potential solutions. We look forward to working with others to pursue these ideas into a resilient and impactful future for civic tech.

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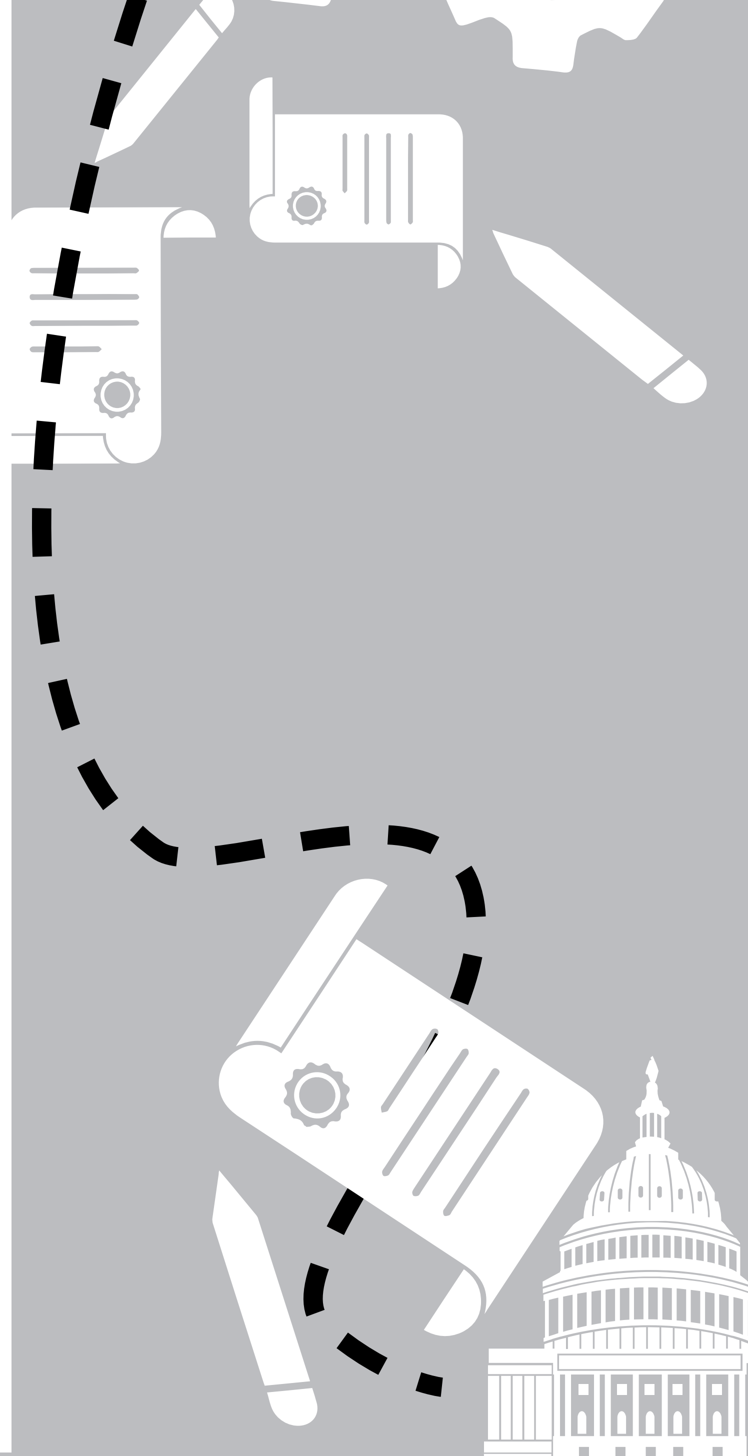


SUMMARY

Technology has the potential to massively change the way citizens interact with government and one another, strengthening communities and governance. People, organizations and government have begun to leverage technology to inform and encourage civic engagement, from simplifying voter registration to hosting virtual government town halls to launching crowdfunding campaigns supporting civic assets. This growing cluster of activity has become known as "civic tech."

Despite the proliferation of activity in civic tech, few startups in the field have meaningfully scaled and demonstrated sustainable business models capable of adapting to a rapidly changing operating landscape and set of needs. Civic tech for-profits and nonprofits alike have struggled to identify business models to expand their reach and impact. The struggles with sustainability have been increasingly observed and lamented by startups, funders and others committed to leveraging technology to promote a vibrant civil society.

Knight Foundation and Rita Allen Foundation commissioned research to deepen understanding about emerging business models and the dynamics of sustainability for civic tech organizations, including for-profits and nonprofits. The research was conducted by Catherine Bracy and Elana Berkowitz, two individuals with deep sector knowledge, in collaboration with Nonprofit Finance Fund, which brought significant expertise in funder policies and practices as well as social enterprise business models and capitalization. The research consisted of analysis and interviews with nearly 50 stakeholders, including founders of for-profit and nonprofit civic tech organizations, foundations, venture capital firms and other prominent stakeholders in the field.

The research addressed the following key questions:

What are emerging business models and earned revenue sources, and how do they vary across segments of the civic tech field?

What are notable examples of civic organizations that have scaled and insights from their work?

What are opportunities to increase and optimize the effectiveness of philanthropic and private capital funding in the field?

What lessons about growth and sustainability can be drawn from other fields in the social sector?

How can civic tech practitioners and funders support more sustainable growth among individual organizations and the field as a whole?

This report reflects insights, examples and lessons about the successes of and challenges to the sustainable growth of civic tech organizations. Key themes include:

Success stories lacking

The research originally aimed to showcase a cohort of organizations that have achieved solid financial footing, but found that even the organizations most often cited as success stories still struggle with sustainability. The report discusses several leading practices and revenue sources, but few organizations can truly be described as sustainable yet—which may be partly attributable to the relative youth of the field.

Revenue model variances

Sources of repeatable and reliable revenue and the organizational capacities required to access them differ considerably across segments of the civic tech landscape (such as transparency, voting and resident-to-government interaction). Even within segments, organizations have approached business models quite differently and represent a mix of for-profits and nonprofits.

Growth paths

The organizations that have grown the most have largely been for-profit software companies that sell to government and enterprise clients. These organizations have focused on developing their sales capacity and often had founding teams with existing strong government networks. Organizations have grown through other business models, but generally not as quickly.

Impact measurement underdeveloped

Inability to assess and communicate impact has limited the ability of civic tech organizations to attract funding. The lack of rigorous and consistent outcomes measurement, and of compelling evidence of impact, poses a barrier to more philanthropic funders supporting civic tech.

Underinvestment in core capacities

While venture funding enables tech companies to invest in core capacities such as tech development and sales staff, philanthropic funding for civic tech startups has largely supported the implementation of specific projects. Philanthropic funders should consider how they invest in civic tech startups to ensure that investments support their long-term growth and not just the short-term implementation of specific projects and programs.

The report findings and recommendations seek to inform the strategies and operations of civic tech startups and funders. More broadly, the report aims to contribute to growing discussion about sustainability in the field. By lifting factors hampering growth and providing recommendations, this study aspires to provoke more conversation about how to overcome barriers faced to date and help to scale organizations with potential to have the greatest impact on government transparency, citizen engagement and effective local governance.

[1] See Knight Foundation report **"The Emergence of Civic Tech: Investments in a Growing Field"**; Omidyar Network and Purpose report **"Engines of Change: What Civic Tech Can Learn from Social Movements"**; and Civic Hall Labs and Microsoft resource **"Civic Tech Field Guide."**

[2] This **blog post** by Ron Bouganim of Govtech Fund explains the difference between GovTech and civic tech.

What exactly is "civic tech"?

Several reports have sought to provide greater clarity about the contours and growing field of civic tech. Suffice to say, there is no universally accepted definition of the term.

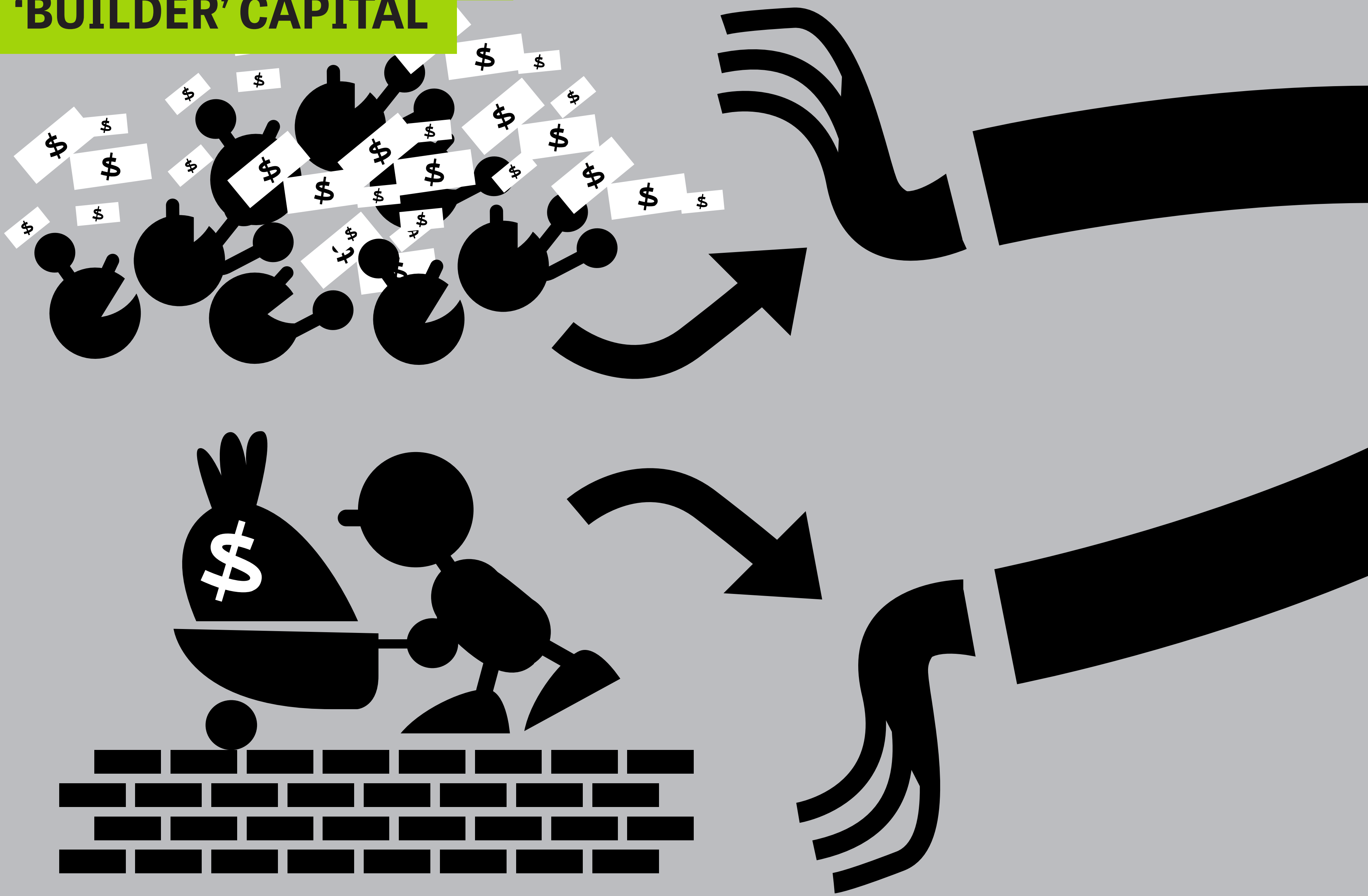
For the purposes of this report, key terms are defined as follows:

- **Civic tech:** Technology used to inform, engage and connect residents with government and one another to advance civic outcomes.
- **GovTech:** Technology designed with government as the intended customer or user.

Whereas GovTech is defined by the intended user (that is, government), civic tech is defined by the intended outcome. Thus, civic tech and GovTech are neither mutually exclusive nor perfectly overlapping.[2] As opposed to GovTech, which includes many technologies government uses to increase the efficiency of its internal operations, civic tech tools largely include a citizen-facing component.

This report focuses on civic tech organizations of which a subset would also be considered GovTech. Furthermore, the research concentrated on organizations whose primary mission concerned civic tech rather than large tech companies whose "civic features" constitute only a fraction of their intended use (such as Facebook's Town Hall).

‘BUYER’ REVENUE VS. ‘BUILDER’ CAPITAL



The distinction between a company's operating revenue and investment funding is well-understood among for-profit companies and investors. However, nonprofits and their funders often don't distinguish among different forms of capital. This imprecision has been an impediment to more sophisticated conversations about business models and sustainability in the social sector.

The civic tech space contains a mix of for-profits and nonprofits, so establishing clear vocabulary from the outset is even more important. Adopting terminology used by the Nonprofit Finance Fund (NFF)[3], this research explores two distinct types of funding: "buyers" and "builders."

Buyers

Buyers provide revenue to cover the ongoing costs of social enterprises, whether for- or nonprofit, to deliver impactful programs. Several sources of funding constitute buyer revenue, including earned revenue for services, small donors and paying members, and program-restricted grants. Though buyers often "purchase" program execution on behalf of others (such as a donation for disaster relief efforts in a distant country), they may also be the direct beneficiaries (for example, paying museum admission or donating to a local NPR station). Buyers pay organizations to perform their existing work rather than to grow, adapt or innovate. In sum, buyer money is the lifeblood for social enterprises and provides them with repeatable and reliable funding to deliver programs and services.

Builders

Builders provide capital to fund startup costs, growth and ongoing transformation and innovation. Builder investments intentionally support the launch and expansion of social enterprises, including paying for deficits incurred by social enterprise business lines until these efforts can be sustained by repeatable and reliable buyer revenues. Whereas buyer revenue supports the execution of services, builder capital enables organizations to develop their product/service offering as well as their core capacities and administrative capabilities. The injection of builder capital tends to be more episodic and considered to be riskier in that it intends to support long-term growth and impact rather than the immediate execution of programs.

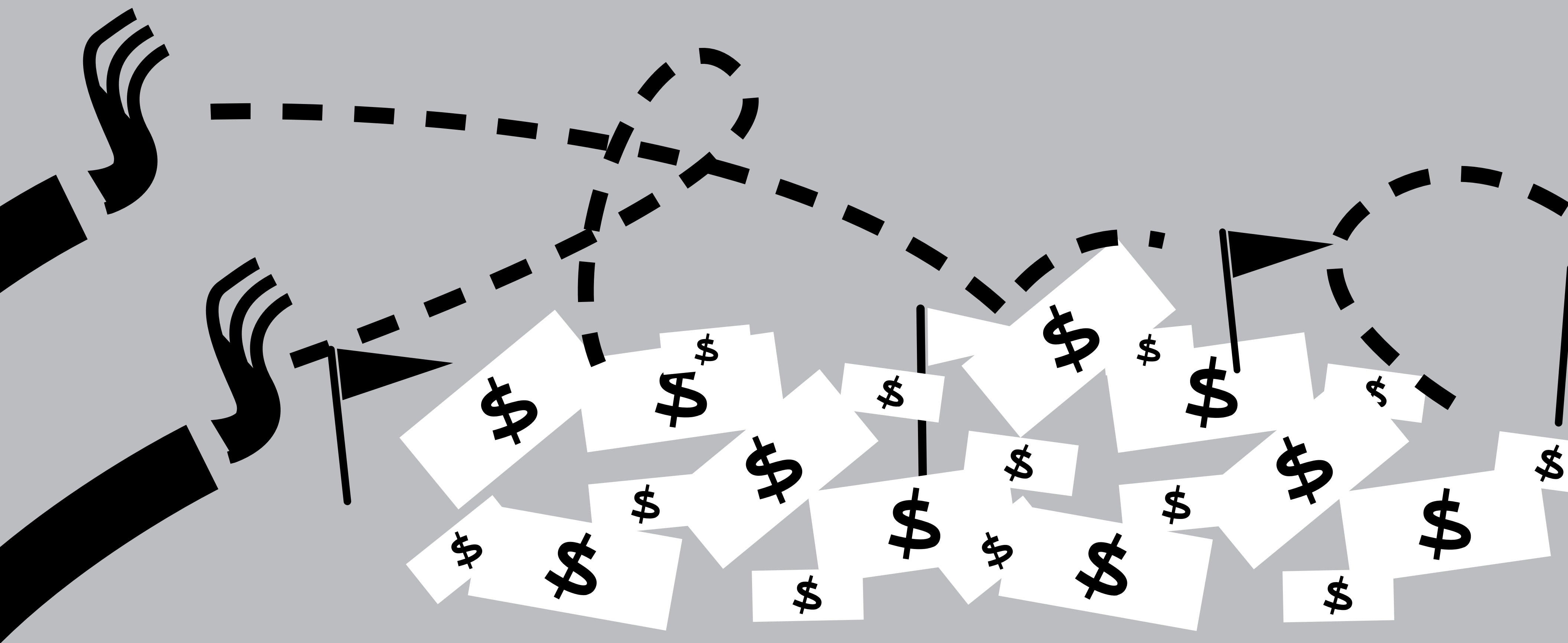
An example from Knight's own grant-making that illustrates the distinction is its funding to Democracy Works. Knight has acted as a builder through several grants that provided capital to the organization to launch and iterate its TurboVote services. Meanwhile, Knight was a buyer through a grant that allowed TurboVote to deliver services to three university partners.

A sustainable and adaptable business model provides reliable and repeatable revenue that covers the full costs of operations. Achieving sustainability is a process, and organizations fall on a spectrum from total reliance on builder capital through operations based solely on repeatable and reliable earned revenue.

The report findings are organized by these different forms of funding. A social enterprise that is both currently sustainable and able to invest in growth and adaptation over time will have adequate access to both "buy" revenue and "build" capital. When funders and social enterprises operate and communicate cognizant of the delineation between builders and buyers, they are more likely to achieve their aspirations.

[3] For more background about Nonprofit Finance Fund's concept of build vs. buy, see its **"2011 Portfolio Performance Report,"** 2012.

BUYER REVENUE: REPEATABLE AND RELIABLE INCOME SOURCES



Civic tech organizations derive earned revenue from a variety of clients as well as from individual donations. While some organizations focus on a single form of revenue and a single type of client (such as city government), others earn income through multiple revenue sources and types of clients. As a general rule, some diversification in sources of earned revenue can contribute to better sustainability and adaptability. However, these gains from diversification can quickly reach diminishing and negative returns as additional investment in capacity is required to manage and support these added revenue streams and relationships.

This research identified several sources of repeatable and reliable income for civic tech organizations. The most prevalent and promising revenue sources are noted below and discussed in the report.

- **Enterprise software**
- **Consulting**
- **Government procurement and sales**
- **Corporate partnerships**
- **Advertising**
- **Data monetization**
- **Transaction fees**
- **Small donor dollars**

Enterprise software

Software sales and related services were the most common form of revenue discovered in the research and among the organizations that have exhibited the most growth. Frequently, most revenue was derived by offering Software as a Service (SaaS) to enterprise clients paying monthly or annual license or subscription fees. Often though, companies earn additional revenue associated with consulting and customization of their software to meet the needs of clients.

Organizations sell software that meets a variety of needs to several types of enterprises. The biggest civic tech SaaS customer segment is government clients that seek software for managing citizen engagement and open data efforts. However, several large nonprofits and advocacy organizations also purchase civic tech SaaS to manage communications and engagement with their constituencies.

Solving a customer pain point

Civic tech companies achieving the greatest traction with software sales offer solutions that squarely address a clear and urgent client need. However, many civic tech organizations design software intended to serve a broad public/civic purpose but fail to address a need for any particular client that could actually pay for it. This misalignment between the beneficiaries (for example, the public) and customers (often government) often leads to software without a natural buyer.

Clients, particularly government, are often seeking software that improves the efficiency of workflows and processes. **NextRequest**, a tool that streamlines the public record request process, benefits the public by improving government transparency but earns revenue because it addresses a pain point for its government clients. The tool makes fulfilling requests more efficient for government employees. By focusing on the request fulfiller as a user, NextRequest offers a clear value proposition to government clients that want software that minimizes the time and resources needed to perform mandated public functions.

Balancing level of customization

Government and other enterprises frequently request additional support and customization from civic tech companies selling software. As one entrepreneur put it, "Government loves buying tech with hand-holding attached."

Customized SaaS can certainly have advantages from the perspective of the startup. First off, customizing software increases the chance of "lock-in" whereby customers will continue to be committed to the software because of the high switching costs associated with implementation and transition. Moreover, ancillary revenues can prove valuable for younger companies still eagerly seeking money to support core product development.

But there are trade-offs. Several CEOs said their teams and top product people found consultative and customization work to be unsatisfying. Their top product people wanted to focus on large product problems, not bespoke tweaks and client management, and they believed that making that team focus on consulting instead of challenging engineering problems was a recipe for losing top performers.
Perhaps most important, supporting one-off customizations can dilute the focus on producing a great product with the potential to scale. **Civic Insight**, a platform for analyzing and visualizing government data sets (which was acquired by **Accela)**, earned revenue early on through custom SaaS projects. These companies phased out consulting because they perceived a far larger upside in profitability by scaling usage and driving down costs.

"We close deals by conveying the value proposition to the working-level government employees who will use this and can do smaller contracts. It's about how much money you can save them or how much time you can save them."
— Josh Goldstein, CEO, Department of Better Technology (DOBT)

Partial vs. end-to-end solution

Few civic tech SaaS applications are "plug and play" solutions that government can buy as stand-alone products. Government clients are often required to integrate new software into complex and often aging workflows and software systems. Thus, selling a solution to government intended to solve for just one component of a larger process or replace one aspect of an existing software serving multiple purposes can prove challenging.

For example, a piece of software that allows the government to communicate with citizens about sanitation issues would be insufficient to many potential government customers. Instead, they would want the software to interface seamlessly with a system that manages incoming requests, tracks progress on those work orders and allows for easy analytics of the performance of the department in responding to those initial pieces of citizen feedback.

Civic tech organizations have overcome this limitation in a few ways. **OpenGov,** a software company that aims to advance government efficiency and accountability, has developed a full suite of products that solve pain points adjacent to the initial product it offered. OpenGov launched its first product, OpenGov Transparency, with a focus on making it easier for cities to provide citizens with transparency into how tax dollars were spent but now also offers additional tools to government including a budget builder and a data analytics platform.

"We had to do a major rewrite of the application to serve both New Orleans and Palo Alto from the same application. Turning the application into SaaS was a big gamble for us because it was not clear that the idea would work—our alternative was to do more contract work and custom implementations, which were less scalable, more complex and less interesting. Also, going SaaS allowed us to lower our price and allowed us to avoid threshold that required complex procurement and RFP processes."

— Eddie Tejeda, Civic Insight

Subcontracting is another approach that smaller civic tech organizations have taken to selling to government clients. By subcontracting, startups can focus on product development and service delivery while the primary contractor navigates larger processes and complexities associated with selling to government. **Placemeter**, which converts video about pedestrian, bicycle and vehicle habits into actionable data for cities, has subcontracted with companies such as **ARUP** that have contracts in place with government agencies such as the United States Department of Transportation (Placemeter was acquired by Netgear).

Consulting

Consulting, advisory and training services are a frequent form of revenue in the field, though few organizations concentrate solely on this revenue source. Most frequently, companies earn consulting revenues for services delivered in conjunction with implementing their software. **Neighborland**, a communications platform that supports stakeholder collaboration, provides advisory services to organizations leveraging its software for civic engagement. **The Center for Technology and Civic Life (CTCL)**, a nonprofit leveraging technology to modernize engagement between residents and local government, offers training and advising to local election boards adopting election toolkit software it offers on its site.

Some organizations offer consulting based on unique expertise they have developed. Leveraging its extensive experience working with millennials, **DoSomething.org**, an organization activating young people to support social campaigns, launched a millennial marketing consulting arm called TMI in 2013 that serves both brands and causes. **mySociety**, a U.K.-based social enterprise that builds civic engagement technologies, operates a commercial subsidiary providing digital services that complement a petition website it built; the subsidiary now accounts for 10 to 20 percent of the company's revenue.

Issues with scalability

Consulting simply doesn't scale very easily compared with software revenue models; that is, the marginal costs of expanding a consulting business, namely hiring more consultants, will be greater than expanding a software business. Nevertheless, consulting is still a worthwhile and underused form of revenue in the field. Several civic startups that have raised venture funding began by earning revenue through consulting and believed it created an "on-ramp" for both customer learning and revenue—without diluting equity or taking on demanding investors before they were ready. In particular, nonprofits that have founding teams with insights and experience with civic engagement and specific markets have an opportunity to further leverage this expertise and set of relationships to earn income from government and companies that value it.

Willingness to pay

Organizations that offer consulting and training to government have discussed challenges attracting paying clients. This may partly stem from the lack of perceived benefit by clients, but also points to limited budgets in government and the importance of understanding the willingness and ability of government to pay for services. CTCL trainings on modern voting tools and design principles for government officials are popular free offerings, but the company is still wrestling with strategies for coaxing clients to pay for training.

Staffing the right competencies

Organizations aggressively pursuing consulting revenues have recruited staff and developed competencies to deliver these services.
For instance, TMI hired someone with deep experience running client services for advertising agencies. Without the appropriate resources to dedicate to this, others have struggled.

GOVERNMENT PROCUREMENT AND SALES

Civic tech founders enjoy trading battle stories about the challenges of government procurement. (For instance, sometimes getting the contract signed means driving three hours to drop off a stack of three-ring binders and CD-ROMs with your documentation because that is what an agency requires.) The complexity and difficulties of government procurement are especially frustrating to founders in this space because many of them entered this segment precisely because they want to help government be more citizen-centered, transparent and effective but, in the short term, they need to play the game they had hoped to reinvent.

Nevertheless, the importance of "hacking" government enterprise sales was the most common issue raised by SaaS startups. Organizations have taken different approaches, but a few keys to success for government sales emerged during the conversations.

Government expertise

Successful companies usually had founding teams with government experience (whether as an employee or as a **Code for America** fellow) or quickly hired people who did. In fact, several companies grew directly out of products their founders supported while working in government:

- The teams at **Nava** and **Ad Hoc** came together during the rebuild of HealthCare.gov.
- Civic Insight, NextRequest, **Remix** and **Textizen** were founded by Code for America fellows, and **SeamlessDocs** went through the Code for America Accelerator program.
- **Department of Better Technology** was built by Presidential Innovation fellows.

This direct experience has been invaluable for designing products that address true problems and opportunities. Teams with a government background adopt a mentality of "we built the product for ourselves" and design solutions using their knowledge of existing needs and workflows, and what would truly make the day-to-day work of public servants more efficient and effective.

Those with government experience possess a fluency in government procurement processes and culture that provide them a sales edge. They understand hierarchies within and between agencies, and know who actually has the budget and procurement authority. Furthermore, they respect informal cultural norms and know how to "speak the language" of government customers.

Embracing a sales mentality

Civic tech organizations that have grown through SaaS revenue fully recognize they are in the sales business. As one founder put it: "If you don't want to do government sales, it doesn't mean your business model fundamentally requires philanthropic capital. It means you maybe don't want to run a software business." The founders of Remix, all former Code for America fellows with product, design and engineering backgrounds, understood the importance of pairing sales efforts with product early on to achieve a sustainable business model.

"Actually selling is hard. Few of the civic tech people want to do that part. They want to build a great product and not do sales. That is what I realized as a Code for America fellow. You need to feel comfortable doing your pitch presentation 15 times in a week and convincing cities and organizations that your product is going to solve their problem."
— Ariel Kennan, New York City Mayor's Office for Economic Opportunity

During their three months at Y Combinator, they went on to sign 20 government contracts under the guidance of other SaaS startup founders and experts. They did this by talking to more than 100 potential customers largely identified among users of the initial free version of the product, who were already using Remix day-to-day for transit planning. Paul Graham, co-founder of Y Combinator, inspired them by saying, "Enterprise software companies aren't technology companies, they're sales companies, and sales depends mostly on effort."

"People complain about not getting funded, but it takes 20 minutes on pitch day to tell who is actually working on a project and who wants to build a business. I don't need to be confident that you know how to actually build a business the day you pitch me, but I want to see some intent and willingness to learn."
— Corey Ford, Matter

CEOs and sales teams

Most companies did not bring on a full-time salesperson until after they received significant funding or experienced considerable growth. The most successful companies generally had CEOs with a proclivity toward sales who shouldered most of the responsibility early on. At the time of their series A round of funding, open-source mapping platform **Mapbox** had 30 employees but no sales team and was growing primarily through the efforts of its founder/CEO, Eric Gunderson. Since then it has formed a sales team of about 10 employees headed by a sales professional.

"We vet salespeople for fit and passion for our mission but, yes, compared to the rest of our team, the sales people are kind of like Action Jack Barker in 'Silicon Valley.' "
— Startup CEO

Many founders noted that sales hires were a bit of a "shock" to the civic hacker culture of the original teams. Issues can stem from compensation since salespeople with performance incentives can end up earning more than almost anyone in the company. But CEOs reinforced the notion that moving up the ladder and landing larger contracts required hiring dedicated sales staff, even if they looked and acted differently from the early, scrappy product development team members.

Tracking sales funnel performance

Growing startups in this space are constantly trying to optimize their sales funnel and lower cost of customer acquisition. They continuously experiment with different sales approaches (for example, inside vs. outside) and contract sizes to identify the most effective sales strategies.

Corporate partnerships

Several forms of corporate partnerships produce meaningful revenues for civic tech organizations. For companies, these partnerships produce benefits ranging from brand marketing to employee engagement. While civic tech nonprofits say considerable time is needed to manage these partnerships effectively, many believe that corporate partners' processes and report requirements tend to be less stringent and onerous than those of foundations.

The most common form of partnership involves companies sponsoring campaigns to affiliate their brand with certain causes. The most lucrative opportunities exist where civic tech organizations reach very large or targeted audiences with whom companies want to market. For eight years, DoSomething (with nearly 5 million teen/young adult members) received sponsorship from Aeropostale for the "Teens for Jeans" campaign, which collected over 4 million pairs of jeans for homeless children and drove foot traffic to Aeropostale stores, which served as drop-off points.

Another set of services supports companies with employee engagement and corporate social responsibility offerings. An example is **Democracy Works,** an organization building tools to improve the voting experience for voters and election officials, which has partnered with Starbucks to adopt its TurboVote software to get customers and employees registered to vote.

Startups also stressed the importance of defining in advance what makes an appropriate corporate partner—and what that partner can and cannot influence. Business goals and impact goals should be kept as aligned as possible, and when they conflict this should be made explicit to avoid any situations where civic tech organizations believe these partnerships could undermine or tarnish their effectiveness. Brand partnerships can certainly generate buzz and revenue, but civic startups need to know the reputational risks that can accompany these partnerships and approach them accordingly.

Advertising

A few platforms earn revenue from advertisements on their sites and group email lists. Generally, though, few civic tech organizations earn revenue this way, and many feel bearish about the long-term prospects of advertising as a meaningful revenue driver.

Significant advertising revenue is feasible only for platforms reaching a large or targeted set of users that are considered valuable to advertisers. **Change.org**, a large online petition site, originally focused on earning revenue through sponsored campaigns (it recently began pivoting toward a different business model). It adopted a "neutral platform" policy to broaden the types of campaigns and related sponsorship opportunities beyond only causes viewed to be progressive-leaning. On the other end of the spectrum, neighborhood-level social networks such as **Nextdoor** (which operates nationally) and **Front Porch Forum** (based in Vermont) rely fairly considerably on advertising revenue because the forum attracts a geographically targeted set of users the business can market to.

Civic engagement platforms have largely struggled to reach and cultivate audiences. Even popular sites such as Change.org reaching several orders of magnitude larger audiences than nearly all sites in the space still face challenges converting episodic traffic into more frequent and sustained use. While people may occasionally visit a civic platform and take an action (sign a petition, donate to a cause), most people do not identify strongly enough with these platforms to engage daily as they do with Facebook and other social networks. The relatively small user bases of most civic tech products along with infrequent engagement by those users has limited the potential for advertising revenue.

Data Monetization

A few companies have monetized civic-related data sets. Democracy Works and CTCL generate a considerable portion of their revenue by licensing the electoral data they gather (local ballot and candidate information) either to tech companies that provide it in the search results for their users or to initiatives such as the Voting Information Project.

Companies also discussed the possibilities and perils of selling user data. On the one hand, this is a common and lucrative form of revenue among consumer tech companies, and some companies indicated that they were selling data about users to companies or nonprofits who would like to market to or fundraise with individuals who have expressed interest in particular issues. But monetizing user data creates a moral hazard for many civic-minded organizations that believe selling access to a user's civic activity or political profile conflicts with their core values.

"Monetizing user data was the model suggested to us frequently by many VCs—selling user data or email addresses— but we decided against it and prioritized user privacy and user control of their own data, which is why we ended up pursuing an enterprise model."
— Marci Harris, PopVox

Transaction fees

Organizations supporting fundraising and crowdfunding on their platforms often generate revenue through these transactions with multiple flavors of how the fees are implemented. Some use the "Kickstarter model" of taking a straight percentage of the total amount raised as the transaction fee. **ioby**, a hyperlocal civic project-centric crowdfunding site, charges a flat $35 fee per project that meets a funding goal over $1,000. It also offers donors the option of providing a gratuity to ioby on top of their donation, and over 60 percent of donors pay a gratuity. Similarly, three-fourths of **DonorsChoose.org** donors elect to pay an optional 15 percent gratuity charge of the donation amount which the organization uses to support overhead, teacher outreach and site maintenance (the fee is required for institutional and corporate partners).

Similar to advertising, meaningful revenue is predicated upon significantly scaling activity on the site. Startups that are funding a few hundred projects a year might earn somewhere in the five figures from transaction fees, well short of the income they need to sustain their operations. Whether venture-backed like **Crowdpac** or philanthropy supported like ioby, civic crowdfunding startups are not yet sustaining themselves based on transaction fees from activity on their platforms.

Small-dollar donors

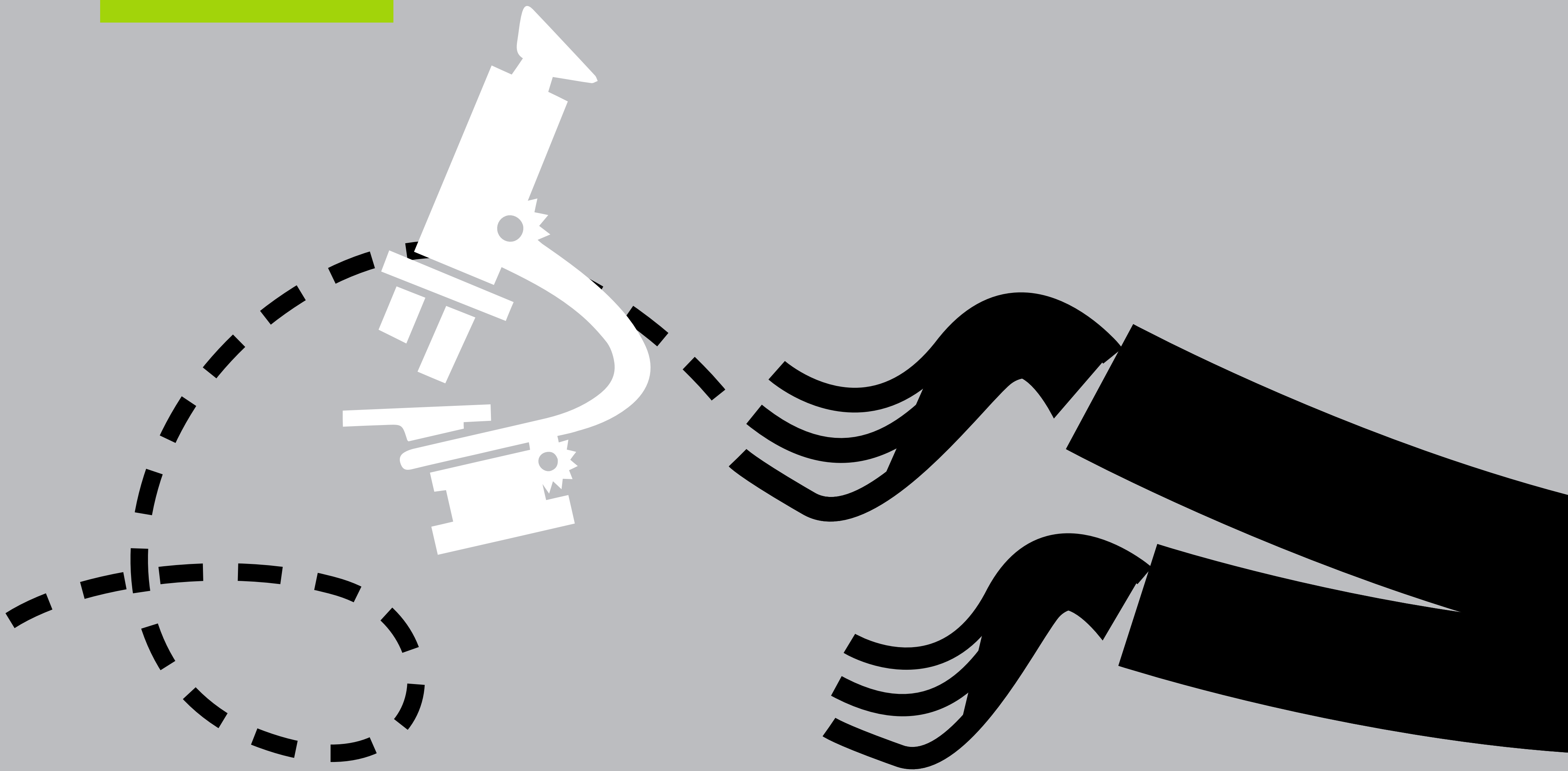
While all the previously mentioned revenue sources are considered to be "earned revenue" because they come in exchange for goods and services, small-donor revenue qualifies as "contributed revenue" because it is gifted. Yet, individual donors are often a critical revenue source for nonprofits because this income is repeatable and reliable over time.

Individual donors constitute the largest revenue source for nonprofits throughout the social sector (such as NPR and Doctors Without Borders). Though small-donor giving is a sizable source of income for those in the activist tech community (MoveOn, SumOfUs), there are scant examples in civic tech of organizations raising significant money through small-dollar donors. And while the 2016 election fueled a surge in small-donor giving for many organizations, it appears few civic tech nonprofits have capitalized on this fervent support. In fact, many sites examined did not even prominently feature a "Donate" option anywhere.

Building a reliable base of small-dollar donors requires organizations to invest in things such as donor prospecting, campaign development and outreach. Organizations also need to adopt a community-based mentality that prioritizes deeply engaging with audiences as a core component of ultimately seeking their financial support to further the work.

Few civic tech organizations have invested in small-donor development strategies and capacities. A notable example of an organization that has concentrated on small donors is the social campaign platform **Avaaz**, which invested resources early in the infrastructure needed to cultivate small-dollar donors. This included building a mailing list, investing in digital marketing capabilities and understanding how to run goal-driven campaigns to engage its community.

LANDSCAPE ANALYSIS



In addition to identifying prominent civic tech revenue sources, the research examined how revenue and business models varied among different segments of activity within civic tech.[4] This section outlines the unique dynamics, challenges and opportunities associated with a few key clusters of activity within civic tech along with a selection of organizations that illustrate key points. Indeed, revenue models and sustainability prospects vary quite a bit across segments of civic tech.

	Open Data and Transparency	Voting and Elections	Government-Resident Interaction	Citizen Mobilization
Enterprises (illustrative)	• Countable • Granicus • Mapbox • MapLight • NextRequest • OpenGov • PopVox • Socrata • Sunlight	• BallotReady • CTCL • Democracy Works • Vote.org	• Accela (Civic Insight) • coUrbanize • mySociety • Neighborland • Peak Democracy • SeeClickFix	• Avaaz • Brigade • Change.org • Crowdpac • Do Something • ioby • Loomio
Buyer Revenue Sources	• Software • Small donors	• Data licensing • Corporate partnerships • Consulting • Software	• Software • Consulting	• Corporate partnerships • Consulting • Advertising • Transaction fees • Software

4 **Civic Hall** and Microsoft developed and maintain the **Civic Tech Field Guide**, which offers a more comprehensive taxonomy and list of civic tech organizations. This **blog post** by Matt Stempeck at Microsoft provides an overview of the project.

Open data and transparency

Several organizations promote more open and transparent government operations, and increase the availability and accessibility of government data. Some companies come at this work from an accountability lens and see themselves as an extension of journalists and watchdog organizations. Meanwhile, other businesses take a more collaborative posture and seek to partner with government to openly publish data and increase its utility. Though the collaborative approach certainly has limits when it comes to driving transparency, organizations serving government as a client can still generate important public value through advancing government openness.

The collaborative approach is typified by SaaS companies providing tools to government that enable citizens to access, analyze and visualize public data sets. These organizations have garnered more significant earned revenue streams and scaled more significantly. An example is **Socrata**, which exclusively focuses on government clients and whose products include a general open data solution and specific modules for public finance and safety data. **Granicus** also offers a few different SaaS solutions designed explicitly for government, including tools to make government data and meetings more transparent and communications software for citizen engagement

"When you look at cities using open data, it's a tax on people working there. They often see it as a cost center because it is so separate and distinct from the rest of their job. You need to build a suite of products that deliver value to civil servants."
— Josh Goldstein, DOBT

Contrarily, organizations primarily focused on holding government accountable have established fewer reliable sources of revenue. Because of the critical watchdog role they serve, they inherently face greater challenges forming revenue-generating partnerships with government clients and instead tend to rely heavily on philanthropic funding.

A promising source of revenue for some of these organizations has come from advocacy organizations that want to use open data to inform and engage their members around important issues. **PopVox**, a site that fosters more transparency and citizen participation in policymaking, earns money from large nonprofits that use its tools for advocacy (PopVox explored advertising and individual subscriptions as sources of revenue but found they weren't viable). Similarly, **Countable** is a website and popular app that makes bills being considered by Congress easier to understand and streamlines the process of directly contacting representatives about these bills. It also earns revenue from advocacy organizations using the tool to inform and mobilize their bases concerning pending legislation.

Transparency-focused nonprofits were some of the few nonprofits in civic tech that have pursued or considered cultivating a small-dollar donor base. For organizations such as Sunlight Foundation, Center for Responsive Politics (which operates **OpenSecrets.org**) and National Institute on Money in State Politics (which operates **FollowtheMoney.org**), this has yielded limited success; a review of their 990 forms in recent years shows donations accounting for 5 to 25 percent of their total revenues. Sunlight Foundation and MapLight considered bringing on consultants to support donor development consultation and decided the likely returns could not justify the costs. They see more funding potential among foundations and major donors, who they believe are better fits for the type of large-scale tech projects they support, and have focused most of their fundraising development resources in this direction.

Though not prominent, a few other examples of revenue sources were notable. MapLight has licensed its data set on company campaign contributions to media companies (such as Bloomberg and LexisNexis) and perhaps shows that others could pursue licensing revenue for government data they can make more transparent. The National Institute on Money in State Politics has earned fees by providing expert witness testimony for legal cases, demonstrating an interesting way organizations in this area could commoditize the expertise they have developed.

Voting and elections

A variety of new tools, platforms and sites seeks to improve the process of voting and information about voting and elections (such as registration, election dates and polling locations, and candidate and ballot information). This research report focused on nonpartisan organizations and tools seeking to increase democratic participation rather than tech for running political campaigns or advancing a partisan agenda.

A few dynamics make the voting and election segment unique. First, people respect the sanctity of the civic right and duty of voting, so perceptions of this process being commercialized could damage user trust in these tools and ultimately their impact. Furthermore, since voting is such an episodic behavior, it does not lend itself to business models that require consistent and frequent user engagement.

Though these dynamics likely explain why most organizations in this space are nonprofits, a few have pursued for-profit business models. **BallotReady**, which offers free online voter guides for tens of thousands of state and local electoral candidates, launched through grant funding but now operates as a for-profit. They earn revenue by selling access to their elections API and making white-label SaaS products for civic organizations, advocacy groups, and PACs.

While most other prominent organizations reviewed were nonprofits with individual and institutional donors, they have developed several revenue-generating business lines including SaaS, data licensing, consulting and corporate sponsorships. Democracy Works offers a SaaS product called TurboVote that simplifies the processes of registering to vote. In the last two presidential election years, it earned a third of its total revenue through partnerships with universities and other institutions that adopt TurboVote to make voting easier for their students, employees and other constituencies (this revenue source constitutes a lower share of revenue in nonpresidential election years). Democracy Works also recently launched a brand marketing partnership program with businesses including Starbucks and Target—featuring a corporate campaign to get employees registered—which both generates revenue and massively expands their reach.

Voting and elections organizations led the way when it came to data licensing revenue. Democracy Works, CTCL and **Vote.org** either currently or at one point licensed electoral information to big technology companies and initiatives providing voting information (such as local polling place, logistics and ballot information) to people seeking it.

Another key revenue source comes from organizations leveraging these tools for voter registration campaigns. TurboVote and Vote.org earn revenue in this way; Vote.org charges an installation fee and a monthly rate for the use of its tool, which has been used by organizations such as MoveOn and 18MR.

Though slower to materialize, these organizations have begun seeing traction from services targeting government as a client. Democracy Works has formed partnerships with two states for its Ballot Scout service to streamline the tracking of mail-in ballots: In Virginia it has a direct contract with the state, while in New Jersey it has contracted with a vendor that the state uses. It has also partnered with the state of Iowa to support the adoption of its TurboVote tool by local businesses and universities. CTCL has sought to grow government training services on the backs of its election toolkit and experience supporting work with local election offices. Democracy Works and CTCL have discussed the challenges of selling to individual governments and jurisdictions one-by-one and wanting to pilot cooperatives, cohorts or convening approaches to reach many election officials and accelerate adoption and sales of their government services; Democracy Works is developing an “Election Technology Cooperative” of elections officials and intends to charge an annual membership fee that covers their use of products (such as Ballot Scout or others the group decides it wants).

Government-resident interaction

Several organizations are using technology to enhance how residents interact with government officials. The nature of these tools varies from those focused on more transactional correspondence (such as reporting a downed wire) to others promoting more sustained and widespread deliberative democracy processes (participatory budgeting).

Many companies in this segment derive all or nearly all of their revenue from government clients. Accela, one of the largest and longest-tenured companies in civic tech, offers a suite of productivity and engagement software exclusively to government clients. It earns revenue from licensing its software and through customization and implementation of initial deployments. It has raised considerable capital and acquired other civic startups (such as Civic Insight). **SeeClickFix**, a tool for residents to report service problems (such as a pothole or a water line break), has historically earned all revenue from city government clients, although it has recently contracted with a few university partners that direct their student bodies to download and use the tool to report issues.

“When we started in New Orleans we thought ‘The City will pay for ethnographic data.’ We built the first prototype of Neighborland based on this assumption. When we shared it with the city, they weren’t interested in feedback that wasn’t addressing their top priorities – blight, water management, and the murder rate. We shifted our product strategy to helping civic organizations engage with residents on specific projects in an accessible, collaborative, fun new way. This experience taught us a great deal about how city government thinks about wicked social problems. It was very humbling.”

— Dan Parham, CEO, Neighborland

Government-serving companies not only tailor their software to meet idiosyncratic government needs but also provide valuable expertise to government clients. **Peak Democracy** offers its Open Town Hall tool to city governments seeking a more productive approach to citizen participation and trust development. Peak Democracy provides valuable knowledge to government clients about effective citizen engagement approaches that transcend the functionality provided by its software.

Meanwhile, other companies pursue a “mixed market” approach that sells to industries beyond government. For example, **coUrbanize** offers an online engagement platform specifically concerning real estate development projects. In addition to municipal housing and development authorities, their clients include private real estate developers soliciting resident input in the development process.

Citizen mobilization

A final group of companies examined connect citizens with one another to discuss, fund and engage with civic causes and issues. Organizations include online petition sites and civic crowdfunding platforms. This segment exhibits perhaps the greatest diversity of business models, signaling the lack of a clear “slam dunk” and complex dynamics facing citizen mobilization tools.

Compared with other segments analyzed, citizen mobilization tools infrequently earn B2B and enterprise sales revenues. Rather, the most common revenue models in this space tend to be predicated upon the volume of activity supported, such as crowdfunding and advertising. Few civic tech organizations at this point have garnered considerable and sustained use, and the long-term prospects of doing so remain questionable for reasons discussed earlier. Furthermore, whereas companies in mainstream consumer tech industries have the luxury of venture investment that enables them to pursue user growth without prioritizing profitability in early years, companies in civic tech generally have not had enough capital to relegate profitability to a distant worry.

A few companies have developed SaaS models for citizen mobilization. **Loomio**, a collaborative decision-making tool, was launched by a group of progressive activists as a free tool. While the product is still free for individuals and offered pro bono to community groups, Loomio now earns money from monthly subscriptions to enterprises.

Finally, a few organizations in this segment have begun to cultivate small-dollar donors. The leading example by far is Avaaz, a tool for mobilizing social campaigns that supports 100 percent of its operations through member donations. It attracts members (whom it calls "sustainers") to fund general operations in addition to raising donations for important campaign priorities through one-off fundraisers.

"Google might say they won't build anything that people won't use as frequently as their toothbrush, but I don't know anyone who is involved in their civic life that much of the day—unless they are in the midst of the Civil War."
— Tom Steinberg, mySociety founder

"Once you have a lot of users, how do you directly monetize them in a way that is mission aligned and user aligned? We are still working toward creative, mission-aligned solutions to turning on that spigot in a way that balances revenue with impact. We want to find ways where we can increase chances of our users winning their campaigns while creating monetization opportunities that help us grow sustainably."
— Matthew Slutsky, Change.org

BUILDER CAPITAL: INVESTING IN GROWTH AND TRANSFORMATION

Before startups develop reliable and repeatable “buyer” revenue streams to cover their full ongoing costs, they need “builder” capital to fund ongoing operating deficits as they develop the capacities to grow. Currently, there is a paucity of growth capital options suiting the unique (financial and impact) return profiles of civic startups.

This section covers lessons about challenges and opportunities concerning two primary forms of builder capital:

- **Philanthropic capital**
- **Venture capital**

Philanthropic capital

Philanthropic growth capital consists of investments from institutional foundations and very high net worth individuals (greater than $500 million in net worth) to support the development and transformation of an organization. These investments may provide unrestricted support for general operations or be restricted grants that support capacity building (for example, technology, leadership development or fundraising) or other costs necessary to grow and innovate. Conversely, foundations that provide restricted funding on a long-term, year-over-year basis act like buyers and should be considered revenue sources rather than capital investors.

These investments are intended to be episodic and are ultimately proven successful if the organization or program funded develops enough buyer revenue to no longer need philanthropic growth investments (until need for build capital arises for another growth effort or transformation). Capital campaign investments are one familiar example of philanthropic growth capital. Other examples include Omidyar Network’s **2006 investment of $6 million in DonorsChoose.org**, an online marketplace that connects teachers in high-need communities with donors who want to help, and its **2007 investment of $4 million in GlobalGiving**, an online marketplace that allows donors to support nonprofits and projects around the world.[5]

Philanthropic capital has been limited

Compared with other investment areas (for example, K-12 and higher education, health), there is thus far relatively little philanthropic capital in the civic tech space. Whereas the Foundation Center approximated philanthropic funding for education sector nonprofits in 2014 at $5 billion, [6] previous research showed a relatively minuscule amount of philanthropic funding for civic tech.[7]
Because of this lack of philanthropic capital flowing into the space, many civic startups have calculated that there is simply much more potential capital to be raised from tech-focused venture capital firms than from philanthropy right now. Accordingly, many decided at the outset to structure themselves as for-profit enterprises, rather than nonprofit organizations, to attract venture capital. This decision, in turn, makes it difficult to near impossible for many foundations, which are typically ill-equipped to make for-profit investments, to support those organizations except in rare cases. However, it is possible that recent anecdotal funder interest in supporting democracy-related programs and organizations since the 2016 elections might change this calculus.

[5] For more examples of innovative build capital investments in the social sector, see NFF Capital Partners’ 2012 SEGUE Portfolio Performance Report, http://www.nonprofitfinancefund.org/sites/default/files/paragraphs/file/download/capital_partners_2012_performance_report_0.pdf.

[6] http://foundationcenter.org/gainknowledge/research/keyfacts2014/grant-focus-priorities.html.

[7] Knight Foundation, “The Emergence of Civic Tech: Investments in a Growing Field,” https://www.knightfoundation.org/media/uploads/publication_pdfs/knight-civic-tech.pdf.

Challenges with funding nonprofit technology startups

Many civic tech nonprofits identify more closely with the consumer tech sector than they do with the social sector when it comes to their vision for launching and growing an organization. However, the way philanthropic foundations support civic tech startups differs quite a bit from how venture capital supports for-profit tech startups.

Whereas venture funding provides consumer tech companies with a runway for product development and growth (builder capital), the vast majority of philanthropic funding tends to be restricted to the implementation of specific programmatic activities (buyer capital). Despite a growing recognition of the importance of multiyear unrestricted funding, most foundations fund short-term program delivery causing nonprofits to chronically underinvest in core capacities, a phenomenon dubbed the **nonprofit starvation cycle**. This challenge is experienced even more acutely among civic tech nonprofits that desperately need to invest in core capacities including technology development and sales.

Furthermore, foundations often lack the staff and expertise needed to fully support technology startups. Some funders have sought to overcome these limitations by supplementing traditional grant-making skillsets with external advisers who have product development experience and can advise and support building internal expertise and capacity. For example, New Media Ventures typically includes readers with tech experience as part of its selection process for open grant calls. The Ford Foundation recently began a **Technology Fellows** program in which the fellows provide foundation staff with strategic and programmatic advice concerning issues at the intersection of technology and social justice. As a general matter, however, the lack of technology investment knowledge serves as a barrier to foundation entry into the civic tech sector.

Need for more impact measurement

Challenges with impact measurement in the civic tech field have precluded more philanthropic investment. Funders interviewed pointed to the relative lack of civic tech nonprofits that can clearly articulate their impact in a compelling way. Funders who have already invested in civic technology as part of their theory of change may be willing to invest in nonprofits in their earliest stages before they have clear evidence of impact—or may be willing to invest in nonprofits' abilities to gather that evidence as part of capacity-building efforts. However, foundations that invest in civic participation through more traditional means—such as turn-out-the-vote efforts, government watchdog groups, civic engagement programs and the like—are seeking clearer evidence of impact to consider complementing or shifting funding strategies for increasing civic participation.

"Many [institutional] funders have processes and norms that can undermine product development. There is little institutional knowledge or shared understanding about what is required for a sales or product push. I try to tell them what it costs, and they say, 'This is what I can give,' so you are forced to agree that you can do something for less than you can do it for because that is what is on offer. I get it done by cobbling together all sorts of grants of the angel round size—about $100,000 to 200,000—doing things that no for-profit entrepreneur would consider sane. I am literally constantly fundraising."

— Seth Flaxman, Democracy Works

Measurement and evaluation—building a theory of change, determining success metrics and collecting outcomes data—require upfront investment on the part of social enterprises. However, very little philanthropic funding has been deployed to gather and communicate evidence about impact. It is also true that a slavish commitment to measuring **"vanity metrics"** such as raw page views or number of email subscribers—measures that look good when presented to funders and boards but do not provide insight into the effectiveness of program operations—can stand in the way of meaningful performance measurement that can generate insight for leaders to improve their programs.

Raising capital "rounds"

Some civic tech nonprofits, borrowing from the venture capital startup space, have started thinking about fundraising for growth capital in terms of "rounds." The prospect of raising large amounts of capital from multiple donors at a single juncture is appealing to organizations that constantly scramble for shorter-term restricted program funding. While results have been mixed, examples of organizations experimenting with this approach are proliferating.

Crisis Text Line, which offers counseling and support to young people in crisis, recently closed a $25.5 million funding round with investors that included traditional funders and high net worth individual donors. The company's early investments in impact measurement and the program's focus on a specific target population enabled CTL to demonstrate compelling data about its impact on a very tangible outcome (helping at-risk teens). It took CTL many years to build relationships and trust among the high net worth individuals (including Reid Hoffman, co-founder of LinkedIn) who ultimately funded its round.

Though cultivating relationships and networking with funders do not come naturally to all technology startup founders, it's vital that startups pursue these activities to position themselves down the line for the potential to raise larger sums of capital. Code for America leveraged its board members' and founders' connections to hold several small dinners to introduce high net worth individuals to Code for America's work and lay the groundwork for future requests.

Thinking of fundraising in terms of a "round" can produce benefits, even if the target isn't reached. Democracy Works tried to raise a $5 million round and though it fell short, it did receive commitments from institutional funders and believed that describing fundraising efforts using the premise of a round was a useful marketing technique.

Reliance on high net worth donors and angel investors for flexible funding

Beyond foundation grants, individual donors and angels play an important role in providing the runway that organizations need to get on the path to sustainability, particularly for tech organizations that may need time to develop a product before they can sell it or raise money to distribute it. Finding individual champions who can provide flexible general operating support with low reporting requirements has shown to be an important ingredient for growth, allowing startups to build a strong organizational foundation, creating entrees to other donors and important stakeholders, and signaling a level of support and prestige.

Especially in the early stages, founders who were most successful in raising angel money, whether in the form of equity or grants, were highly charismatic, talented at telling their stories, radically inspiring and often well-connected. Leadership of sector standouts Change.org, Code for America and Democracy Works possessed all of these characteristics to varying degrees and, consequently, benefited from early, flexible funding from an angel investor that served as a validating signal to other investors and allowed them to build systems required to thrive.

Unfortunately, these founders' stories undoubtedly have elements of both luck and access—it's not easy for a founder to conjure a rich, influential investor without already having that personal relationship. Dependence on angels, whose access and privilege put them out of reach of many founders, unnecessarily limits the diversity of the field and narrows the type of founder who can access capital to scale their work.

"The funding world is still driven by relationships, and all too often success seems determined by who you know. Pitch practice, charisma, and dogged networking can help level the playing field, but access remains a persistent problem. First-time entrepreneurs should seek out champions that explicitly value emerging and diverse voices. Accelerators can be great options, as are open funding calls like those for the Knight Prototype Fund and NMV's Innovation Fund. As funders, it's also our responsibility to be aware of our biases and look for ways to move beyond the 'usual suspects.' "

— Seth Flaxman, Democracy Works

Venture capital

Significant growth and scale are certainly not the aspiration of all civic tech organizations. Many set out to solve a very specific problem (such as to map property vacancies) or work in a specific city. Such organizations still face sustainability challenges, particularly those related to finding ongoing streams of revenue to support their work

The venture capital mindset will always make growth a priority; that is what provides the returns investors expect. But, in civic tech, many organizations may not have scale as their ultimate measure of impact. They might prefer to optimize for depth of impact on one community or focus deeply on the needs of communities and governments involved in one specific issue.

This distinction creates significant challenges for civic tech startups as they think about how to create sustainable, growing organizations and, in particular, to decide whether to structure as for-profit or nonprofit organizations in pursuit of their civic missions. Many feel caught between two worlds. On the one hand, they are comparing themselves to a cohort of companies they view as peers—agile, lean, venture-backed tech startups that are also building and shipping products.

On the other hand, institutional foundations—the primary source of philanthropic funding—are organized to support more traditional charities and often lack the capacity, technical expertise and funding mechanisms that work for these agile, iterative, product-centric organizations that move at internet speed.

The **"zebra" initiative**, a nascent movement started by Jennifer Brandel of Hearken and Mara Zepeda of Switchboard, aims to create a network of and make the argument for the value of profit-earning companies that **don't necessarily emphasize exponential growth at the expense of social impact**. While early, this initiative offers promise to build a sector of civic tech and other startups that balance growth and impact considerations.

Civic tech companies that desire not just sustainability but also scale need to determine how to attract meaningful growth capital. Early-stage companies still testing product/market fit have seen accelerator programs and prize competitions (such as **Big Apps NYC**) as a good "step one" option for building a prototype and landing initial users, and friends and family networks have been viable for raising angel funding. But to scale meaningfully, for-profit civic tech companies have and will continue to turn to venture capital for funding. (Mapbox is one of the only examples of a company that was able to "bootstrap" in this space to over $1 million in revenue and a 30-person team before raising significant venture funding.)

Founders attract venture investors by showcasing their vision, team, early product/market fit and a market that is large enough to hold the potential for venture size returns; this last piece is especially crucial and largely requires founders to forecast a plan for expansively scaling their work.

"So maybe growing civic tech isn't a VC mentality, but it isn't a philanthropy mentality either. Instead of grand slams, I think this space can produce a bunch of singles and doubles, and that is what investors should look for. So investors can make some money but not venture returns. This just will not exist as a credible possibility for a lot of these companies. But this is a very necessary part of the civic space. It takes people who are serious about experimentation and long-term viability at the same time."
— Corey Ford, Matter

GovTech coheres as an investment category while "civic tech" remains murky

Venture investors have a long-standing aversion toward companies with government sales models, since lengthy and complicated sales cycles diminish growth trajectories. However, a growing cadre of private investors has begun to invest in GovTech and civic tech. In addition to investors such as **Govtech Fund** and Omidyar Network that explicitly focus on this field, investments have come from a number of blue chip venture funds such as Andreessen Horowitz, Greylock Partners and Spark Capital. Government Technology's **2017 GovTech** 100 profile noted that companies in the space cumulatively raised $185 million in fresh funding in 2016 and a total of $949 million over their lifetimes

Venture capital firms interviewed largely viewed this work through the prism of GovTech defined as companies serving government clients. GovTech companies have a clear customer that can pay and, as enterprise SaaS companies, VCs have relatively defined benchmark metrics to look for when conducting diligence on an investment (for example, customer lifetime value, cost of acquisition). Meanwhile, investors largely believed "civic tech" was more nebulous as an investment category, and the diverse set of companies it pertains to complicates the development of cogent investment theses for the space.

To be clear, some civic tech companies that do not have government as a customer, such as NationBuilder, NextDoor and Change.org, have raised significant venture capital. But these companies said they did not use the term "civic tech" to describe what they do and instead used terms such as "marketing platform," "social network" and "CRM" because they were more understandable categories to investors.

Growth paths for companies pursuing venture capital

Venture investors get their return when there is a liquidity event such as an initial public offering or an acquisition. Though civic tech mergers and acquisitions have increased (Accela acquired PublicStuff and Civic Insight in 2015, Granicus and GovDelivery merged in 2016), civic startups need to be realistic about whether they might be able to achieve a liquidity event and if they are willing to make the sacrifices needed to get there.

Achieving the kind of 10x returns that venture-backed companies aim for is difficult if you have one narrow product intended to be sold to only one customer base. Raising venture capital for civic tech companies often means showing a total addressable market much larger than, say, a focus on one community or narrower problem—regardless of how impactful solving those problems might be. Venture-backed civic tech companies tended to chart growth potential through either a) going deeper by providing additional government enterprise software or b) going broader by offering the product to enterprises beyond the civic/government sector.

- **Go deeper:** Some companies initially developed software to solve a relatively narrow pain point but expanded their product offerings to address adjacent customer pain points. Building additional products that solve pain points adjacent to the initial product can add value for government users and leverage the set of relationships and hard-won insights about selling to governments acquired over time. For example, SeeClickFix began as a tool for residents to report issues with government services to government clients. It has since expanded the capabilities to enable a system that manages incoming requests, tracks progress on those work orders and allows for easy analytics of the performance of the department in responding to those initial pieces of citizen feedback that kicked off the process.

- **Go broader:** Other companies have looked beyond government and targeted additional sectors as an approach to scaling their organizations. Long government sales cycles and procurement hurdles make enterprise software sales to other industries more attractive. Additionally, obtaining revenue from other industries can occasionally cross-subsidize impactful civic work. With a larger base of paying customers, companies sometimes gain the ability to offer their software to civic clients either at lower rates or free of charge while leveraging engineering resources to offer a product that ultimately delivers more value to civic clients. Mapbox, which sells its mapping software to companies in transportation, travel, real estate and more, has 35 full-time developers working on its open source mapping layer, Open Street Maps—which represents more people than could work full time on this product if the company didn't have such a varied base of paying enterprise clients.

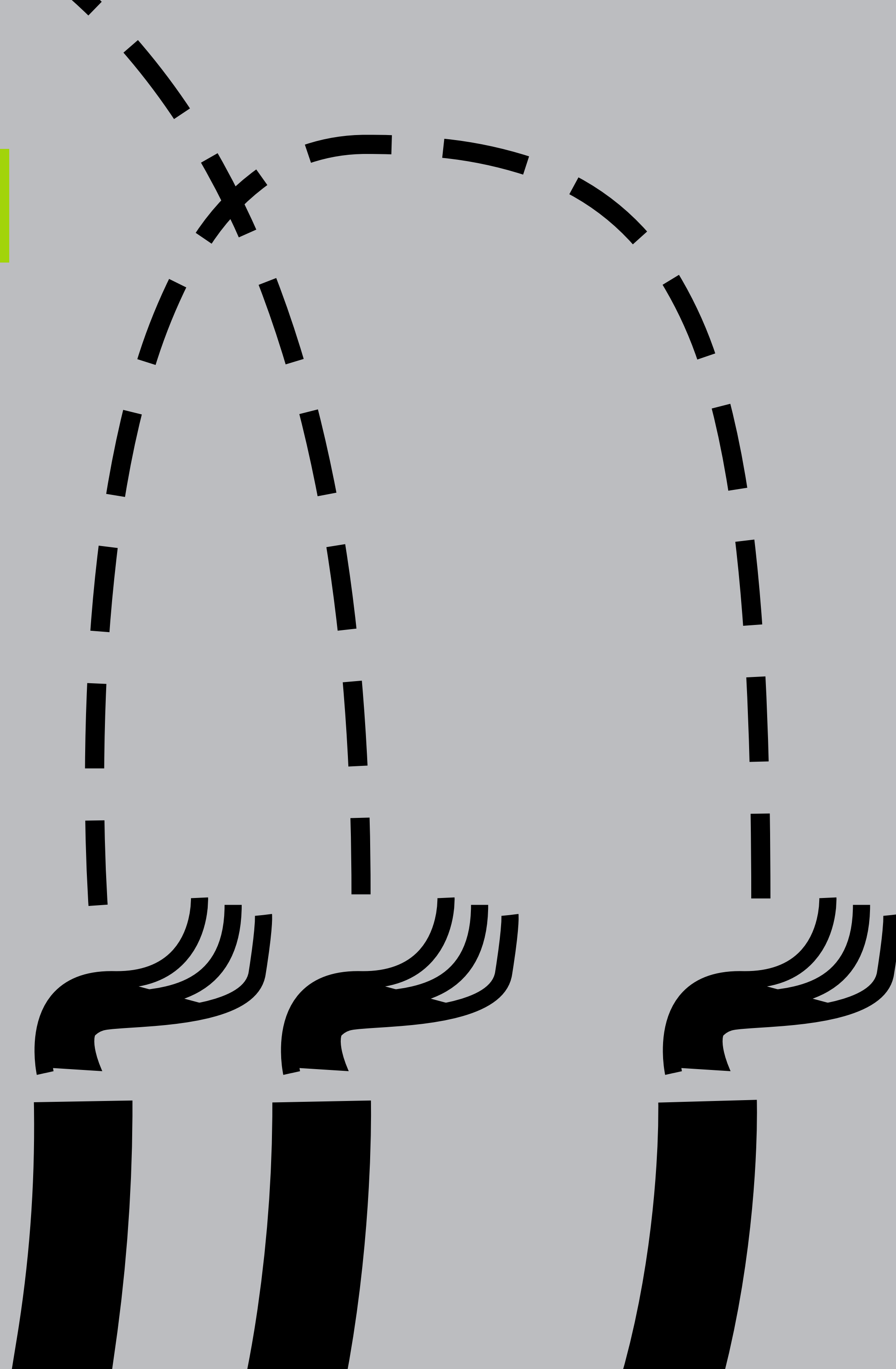
Accepting the pivot

Civic tech funders noted that entrepreneurs in the field who struggle to raise venture funding and grow often seem unable or unwilling to pivot from their initial target focus and market. Though adapting the vision can be challenging to mission-driven entrepreneurs, especially when it means shifting energies beyond the public and social sectors, civic startups that take venture funding must accept that it often comes with an expectation that growth will be pursued in whatever form presents itself. Conversely, entrepreneurs also noted that not all funders are comfortable with grantees' pivots; in some cases, rigid grant agreement terms and perceived funder expectations can make entrepreneurs wary that philanthropic funders may not follow them through their pivots.

"We never use the phrase 'civic tech' with potential customers and investors. We only use 'GovTech,' even though we see ourselves as part of both worlds. A lot of old-school investors barely want to touch GovTech, so why make our lives harder as a startup? The thing that allows GovTech to be comprehensible to investors is that it is just another enterprise SaaS sector. Civic tech is riddled with definitional problems, and if we have 10 minutes with an investor, it shouldn't be on us to unravel that problem."

- Software CEO

RECOMMENDATIONS



This section outlines a series of recommendations for advancing the sustainability and effectiveness of individual civic startups as well as the broader civic tech field. They address needs and opportunities that frequently surfaced during conversations with founders and funders. The recommendations are grouped into three areas:

- **Competencies:** Strengthening skills and capacities.
- **Capital:** Attracting more and different types of funding and funders.
- **Collaboration:** Promoting field-wide infrastructure and collective action.

Competencies

The research illuminated the variety of skills and experiences needed by organizations in this space to survive and thrive. The founding teams of the enterprises that have grown the most have paired technology skills with valuable experience in government or the social sector. However, the research identified a clear skills gap at many organizations in the field. A few discrete areas for founders and funders to invest in skill development include:

Business planning

Several civic tech organizations, especially nonprofits, have launched without a meaningful business plan or earned revenue strategy. They often focus exclusively on the technology and the challenge it will address but do not emphasize business modeling at the outset. Yet, the research establishes the importance of clearly identifying revenue sources and targets as well as capital requirements from the outset.

For starters, New Media Ventures' **recent white paper, "Making Money for Impact,"** provides a good primer on potential revenue models and best practices for cultivating them.

Furthermore, founding teams with neither financial experience nor the budget to hire a chief financial officer or staff with a business background should pursue—and funders should support—alternative approaches for developing business planning and financial management capacity. Viable approaches include:

- Business planning resources (such as toolkits and webinars) to guide the process and develop skills.
  - **Business Model Canvas, Bridgespan Group financial analysis toolkit and business planning resources, Nonprofit Finance Fund Real Cost Project**
- Skilled volunteerism organizations could be a great way for nonprofits to enlist pro bono professionals to support financial planning and forecasting.
  - **Catchafire, Taproot Foundation**

Sales

Despite several business models relying on sales to government and enterprise clients, startups in this space often launch without any dedicated sales staff. This "if we build it, they will come" mantra simply is not working. Complex and cumbersome government procurement processes make sales to government clients that much more daunting.

Hiring sales staff with relevant sector experience, particularly for organizations selling to government, is imperative for startups with SaaS and enterprise sales business models. Sales experience should be considered as vital as technology expertise when launching, rather than a trailing need to be addressed down the road. Funders meanwhile can serve a valuable role by "de-risking" the sales process, by funding pilot engagements with government and other clients disinclined to pay for services they view as risky in the short term but open to funding future work on the basis of a successful trial run. Knight of city governments to work with **Citymart**, a company helping to reform and improve the way cities conduct the procurement process. Another example of this practice is Dodge Foundation funding for nonprofit newsrooms to use audience-engagement platform **Hearken**.

Fundraising

Small-dollar donations have been an overlooked, likely underused revenue source among civic-minded nonprofits. Though launching and maintaining small-donor campaigns require effort and resources, civic nonprofits and their funders should explore ways to experiment with the cultivation of individual donors as nonprofits have done in many other parts of the social sector.

Most immediately, civic nonprofits are incredibly well-positioned to tap into a sizable group of individuals and funders looking for ways to channel their support since the 2016 election. Journalism organizations have capitalized on this opportunity with many reporting a surge in donors and members in the months following the election. Knight Foundation sought to multiply the surge of donor interest in journalism through the **Knight News Match,** which offered matching funds to journalism nonprofits that broadened their donor base, and Knight and the Democracy Fund recently expanded this initiative. Funders could instigate donor development and broaden the pool of capital for civic tech through matching funds and incentive-based approaches.

More broadly, public and nonprofit journalism fundraising could prove an instructive model for civic nonprofits. NPR stations have a long track record of appealing to donors through the utility they provide (that is, donors are listeners) and through a common identity as members of the community. Civic tech organizations offer very similar value propositions in terms of providing a valuable utility and associating their work with a specific community (especially those with a geographic focus) that they could use to make the case to donors. **Local News Lab's Crowdfunding Guide** covers several lessons and examples from journalism crowdfunding campaigns that are quite applicable to civic tech.

Finally, though previously discussed issues of access and privilege present challenges to founders seeking to access highly flexible angel capital, successful founders have dedicated time, effort and capital to position themselves to receive funding from angel investors and high net worth donors. Key tactics that founders should adopt include:

- Crafting a compelling and tight elevator pitch about the organization's vision, work and potential for impact. (This **First Round blog post** synthesizes an excellent set of insights and recommendations about pitching to venture funders.)
- Building a list of people that includes potential funders as well as nonfunder allies who can validate your work. To identify potential funders, find out who has funded organizations doing similar work or addressing similar themes.
- Attending industry events and conferences frequented by people on the list. Leverage networks for introductions in advance to speakers and attendees, and inquire with conference organizers about speaking opportunities to build awareness about the organization.
- Applying to pitch competitions and open calls for funding. Though these usually offer only limited amounts of funding, they help organizations hone their pitch, form new funding relationships and validate their organizations in the eyes of future funders.

Measuring and communicating impact

Civic tech organizations largely need to improve their ability to tell compelling and comprehensible stories about their impact. On a more cosmetic level, organizations can do more to frame their work and outcomes in a way that resonates with beneficiaries and current and potential funders. The research suggested that descriptions of the work as addressing key civic infrastructure can come off as esoteric or amorphous, and that some organizations may be better served discussing how they can have impact in specific issue areas. While not every organization will be able to pitch its impact in terms of attributable, plausible, concrete outcomes, this is an underused tactic in the civic tech sector.

The crux of the challenge, though, lies in the limited ability of civic tech organizations to measure their impact. A **study conducted by ethnographer and strategist Kate Krontiris on behalf of Omidyar Network** effectively chronicled dynamics relating to impact measurement in the space. Successful organizations concentrated early on building measurement and evaluation approaches that generated data, which in turn enabled them to increase effectiveness internally and communicate results externally. For nonprofits, clear evidence of impact is crucial over time for attracting follow-on growth funding from philanthropic and impact investors. But proven results are equally important for for-profits that are often selling services to enterprise and government clients skeptical of new entrants and seeking validation from previous engagements.

Civic startups and their funders need to invest in strengthening measurement and evaluation capabilities. Potential resources for organizations looking to enhance their impact measurement approach include:

- Knight Foundation partnered with Network Impact to produce a series of products (**"Assessing Civic Tech,"** "**How to Measure Success,**" "**Assessing Civic Tech: Additional Tools & Resources**").
- Civic Hall's "**A Lever and a Place to Stand,**" funded by Rita Allen Foundation, includes case studies of civic tech impact.
- MySociety convenes **TICTeC (The Impacts of Civic Technology Conference)** each year and curates **related research tools** that serve as useful resources.
- Many online resources and tools support nonprofit impact measurement and evaluation capacity, such as **The Bridgespan Group's Intended Impact/ Theory of Change Toolkit** and **Root Cause's "Building a Performance Measurement System: A How-To Guide."**

Capital

Very few philanthropic and venture funders invest in the field. Founders report that they quickly exhaust the pool of existing funders, and competition for available resources is high. The space needs to attract more funding and promote greater coordination among funders.

Attracting Investors

Appeal to issue area philanthropic funders

A limited number of funders will ever self-identify as "civic tech funders," so organizations should cultivate support from funders of specific issue areas (such as economic development and education) whose interests are advanced by their work. For instance, Code for America has created focus areas in health, safety and justice, and economic development with targeted outcomes that include increasing enrollment in California's food assistance program and reducing incarceration for low-level offenders. Civic tech solutions are still very much at the heart of what the organization supports, but by framing its outcome on issue areas, Code has attracted capital from funders supporting specific issues areas, such as California Health Care Foundation and Molina Foundation. Similarly, Civic Hall Labs is working with Robert Wood Johnson Foundation on a "lab" focused on public health.

Entice traditional democracy funders

Only a small portion of traditional democracy funders currently supports technological approaches to civic engagement. Civic tech funders should reach out to traditional democracy funders (including members of the Democracy Funders group) to identify opportunities where civic tech funding could advance their strategies.

Build networks of angel investors and high net worth donors

Angel investors could provide highly valuable unrestricted capital for the civic tech space yet have been an infrequent source of funding (many of the more financially successful nonprofits in this space attracted support from wealthy donors in their early stages). Funders should consider supporting networks, convenings and programs that increase the visibility and connectedness of civic tech startups to angel investors and high net worth donors, particularly those in Silicon Valley and those working in the technology industry. New Media Ventures (NMV) has grown a network of progressive angel

investors supporting for-profit and nonprofit media startups; its network has supported some of the fastest-growing startups in the online engagement space, including Upworthy and CrowdTangle, which was recently acquired by Facebook.
To facilitate connections, funders might also consider organizing "road shows" to shop investments in their portfolios among potential investors, as well as incorporating angel investors and high net worth donors into collaborative rounds as described in the "Collaborate on investments" recommendation below.

Make inroads to the impact investing community

Increasingly, a segment of the investing community is describing itself as engaging in impact investing, or investing in companies, organizations and funds with the intention to generate a measurable, beneficial social or environmental impact in addition to a more traditional financial return. Individual, venture capital and institutional investors can all consider themselves impact investors.

Given the growing importance and influence of this emerging field in the broader social sector, it is interesting to note that little funding for civic tech to date has come from the impact investing community. One notable exception is **Change.org;** its investor group includes impact investors such as Omidyar Network, Obvious Ventures and Rethink Impact, along with traditional angel investors such as LinkedIn's Reid Hoffman, Yahoo's Jerry Yang, and Twitter's Ev Williams.

However, there has not been much impact investment so far in civic tech. Some foundations have also made limited impact style for-profit investments (as in Knight Foundation's investments in Change.org, and PublicStuff and the Omidyar Network's support of SeeClickFix and Citymart).

Civic tech founders and funders should consider targeting the impact investing community through events and forums, particularly **SOCAP** and its annual impact investing conference, which offers a **social entrepreneurs scholarship**, as well as events curated by the **Global Impact Investing Network.**

De-risk venture investments

Foundation funding, including grants and program-related investments (PRI), could more intentionally fund experimentation with for-profit companies in the field that could ultimately receive funding from private investors. Philanthropic investments in the earliest phases of the education technology market were instrumental and helped fertilize the sector's readiness for an influx of venture money. For example, Knight Foundation's PRI funded Citimart to work with several cities on transforming their procurement processes, both offering an immediate social value and demonstrating the market potential for its services (Citimart has gone on to raise private capital). Because philanthropic funders have limited capital and tend to shift their resources over time, it's vital they fund opportunities with an eye toward their ability to encourage more sustainable sources of funding beyond their own investment.

Increasing Funding Effectiveness

Collaborate on investments

Civic tech funders often invest in isolation but should seek opportunities to coordinate their support. One opportunity is to develop a pooled fund to invest growth capital into high-potential civic startups (for example, **Latin American Alliance for Civic Technology).** Alternatively, funders could explicitly co-fund grant-making initiatives, with a recent example being New Media Ventures' **recent open call**, which has attracted additional investment from Omidyar Network, Open Society Foundations and a network of impact angel investors.

Meanwhile, the field may be able to pursue more of a "round" mentality for funding civic startups. Similar to venture capital rounds, foundations could co-invest in civic nonprofits in order to synch their infusions of build capital and avoid all-too-common patterns of funders driving misaligned priorities and requirements through their individual investments. At the same time, more founders should further consider pitching the round concept to their existing core funders.

Funders might also consider thematic funds focused on a particular population served, a type of business model, geography or other strategic factor.

Provide growth capital

Philanthropic foundations should consider adapting their funding approaches to account for the needs of tech startups. For starters, foundations should provide more "build" capital to civic tech nonprofits that enable them to develop the skills and abilities outlined among the Competencies recommendations. Small amounts of flexible investment in the early stages, in lieu of restricted program-specific grants, may result in longer-term sustainability, adaptability, and greater overall social and financial return on investment. This would align with the growing cadre of philanthropy experts calling for "**pay-what-it-takes philanthropy,**" which **removes traditional limits to overhead rates and institutes more accurate methods for determining the true full costs** of successful organizations. In increasing build capital, foundations are also in a position to provide funding to more a diverse pool of founders than the privileged constituencies currently supported by angels.

Develop tech investment expertise

Foundations should also consider ways to strengthen their own technological know-how to effectively fund in this field. Several interviewees noted that low levels of technological awareness had led their funders to inadvertently encourage poor decisions about program design (for example, programming languages and database architecture), with lasting negative impacts. Short of hiring program staff with deeper technical knowledge, foundations can take steps such as funding part-time technologists, fellows or informal code reviews that enhance their technological acumen for investing in and supporting more successful grantees (the **Ford Foundation Technology Fellows program some components of this recommendation and continues to evolve)**. Foundations should also consider ways of co-funding and sharing these resources.

Exploring alternative finance mechanisms

Foundations in other fields have pushed beyond traditional grant-making and PRIs and begun to deploy new methods of funding that inject their grantees with needed growth capital. Though most civic tech organizations have yet to reach the maturity needed to use these new financing mechanisms, funders may still be interested in further exploring their viability as their grantees and the broader field matures.

Outcomes-based financing

Pay-for-performance contracts and pay-for-success vehicles such as social impact bonds are future potential sources of capital for civic tech. Continued government budget pressures and focus on meaningful and measurable impact in the social sector are leading to heightened focus on outcomes as requirements for funding. As this trend continues, it is plausible that the ability to track and capture outcomes and impact data, to use that data for continuous improvement and to provide transparent reporting will become more important in accessing funding and investment. While pay-for-success efforts in civic tech may be several years off, investments today in building outcomes capacity and infrastructure of individual organizations and the field can help the sector prepare to accept these potential capital sources. More detailed information on pay-for-success can be found on Nonprofit Finance Fund's website, **www.payforsuccess.org**.

Debt financing

Debt products have not been explored extensively in the civic tech sector but could provide a diversity of funding options for more sophisticated organizations. One example is a revolving loan fund, which can help small and midsized grantees bridge gaps in funding, weather financial setbacks and implement new strategies. Repaid loans then fund loans to other groups, meaning that the original capital in the fund can be re-lent several times over. For example, the Nonprofit Finance Fund-designed and -managed **Mellon Loan Fund,** which supports arts and cultural heritage organizations, has leveraged its initial loan capital 3.5 times since its inception in 2009. For earlier stage investments, a mixed grant and loan fund might be appropriate. In such an arrangement, grant funding might be devoted to technical assistance to assess and build the investment readiness of recipient early stage organizations; loan capital could then be deployed to organizations that have demonstrated sufficient readiness. Other debt products, including loan guarantees (a promise to repay an investee's debt in the case of default) and subordinated debt (a type of loan repaid after all other types of loans and debts are paid), can allow an investee to secure additional funding from other lenders that might otherwise charge higher interest rates or not be willing to lend at all.

Collaboration

The maturation of civic tech as a field will depend on greater collaboration and coordination. Thankfully, a number of organizations (for example Civic Hall, Code for America, Data and Society, and mySociety) provide vital infrastructure for the civic tech sector. Nevertheless, several needs in the field present opportunities for funders to support existing and new field-building organizations and approaches that enhance coordination, collaboration and competencies in civic tech.

Incubators and accelerators

There is a promising opportunity to form or partner with incubators and accelerators focused on civic tech startups. Incubators and accelerators have played a crucial role in the nascent stages of other fields and serve several important functions.

First, incubators and accelerators could help early civic tech startups with prototyping and assessing market fit. Many civic tech startups have launched with an orientation toward developing a solution but without a firm grasp of the need and size of the intended market. Incubators and accelerators would enable startups to create and launch products while building their skills and networks. Furthermore, these programs could support product design processes that enable startups to gather meaningful feedback from advisers in the field, technologists and, perhaps most important, users. (The Civic User Testing Groups such as those in **Chicago** and **Miami** could serve as a model.)

Meanwhile, incubator and accelerator programs could catalyze more, and more effective, funding for civic tech (see Capital recommendations above). By developing and showcasing a pipeline of promising early-stage companies, these programs could recruit new investors to the space. Additionally, these programs could serve as valuable forums for connecting and bridging funders across the venture and philanthropic funding spectrum.

The focus of several programs overlaps with the civic tech space. Startup incubator **1776**, which has a Cities track, seeks out scalable social enterprises and offers a mix of nonmonetary supports and seed stage investments. Urban Us provides venture funding to companies seeking to make cities better and operates the Urban-X accelerator. The **Tumml** startup hub provides resources to early stage entrepreneurs tackling major urban challenges. Fast Forward, a nonprofit technology accelerator in Silicon Valley, recently began accepting civic technology startups; its latest demo day was double-oversubscribed, and participants in the 2016 class raised $5.7 million in follow-on funding in the first three months after the accelerator.

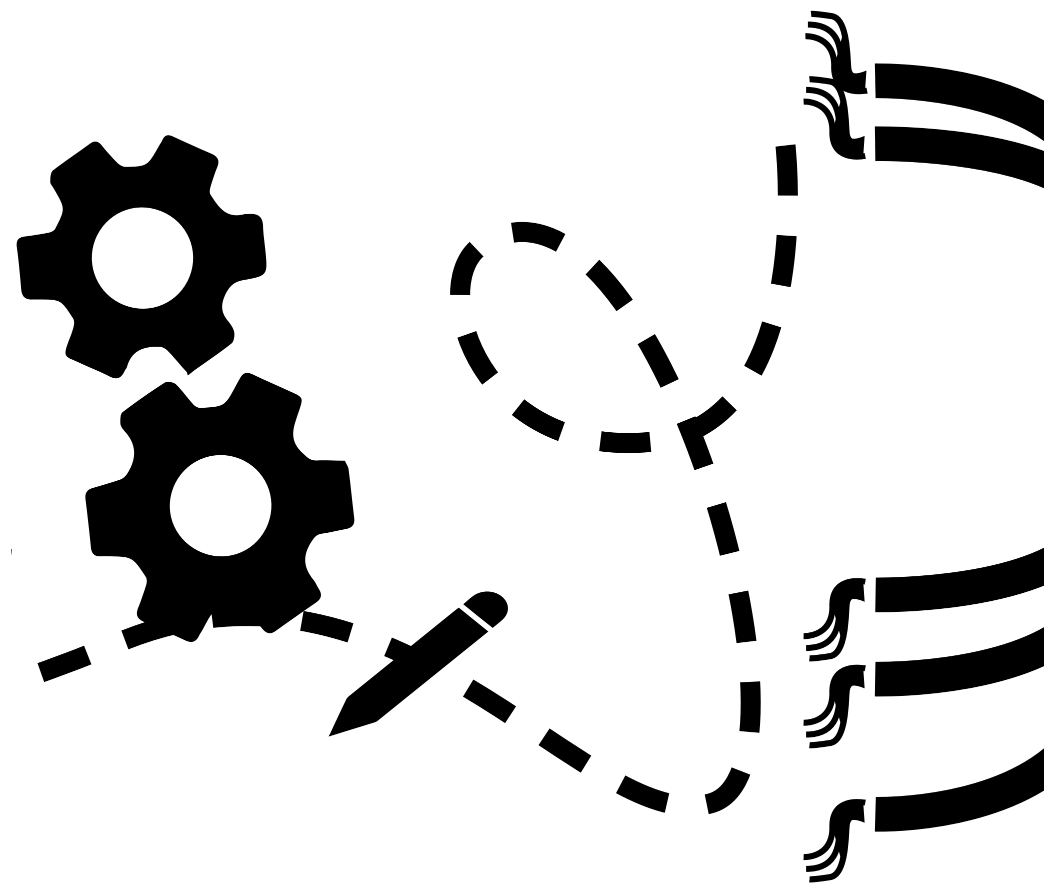
Shared sales and fundraising services

Perhaps the most unifying challenge experienced by civic startups relates to sales processes and capacities. All organizations selling to government, not just civic tech startups, can speak to the problems with government procurement processes and the frustrations caused. Several initiatives are underway to encourage reforms to government procurement.

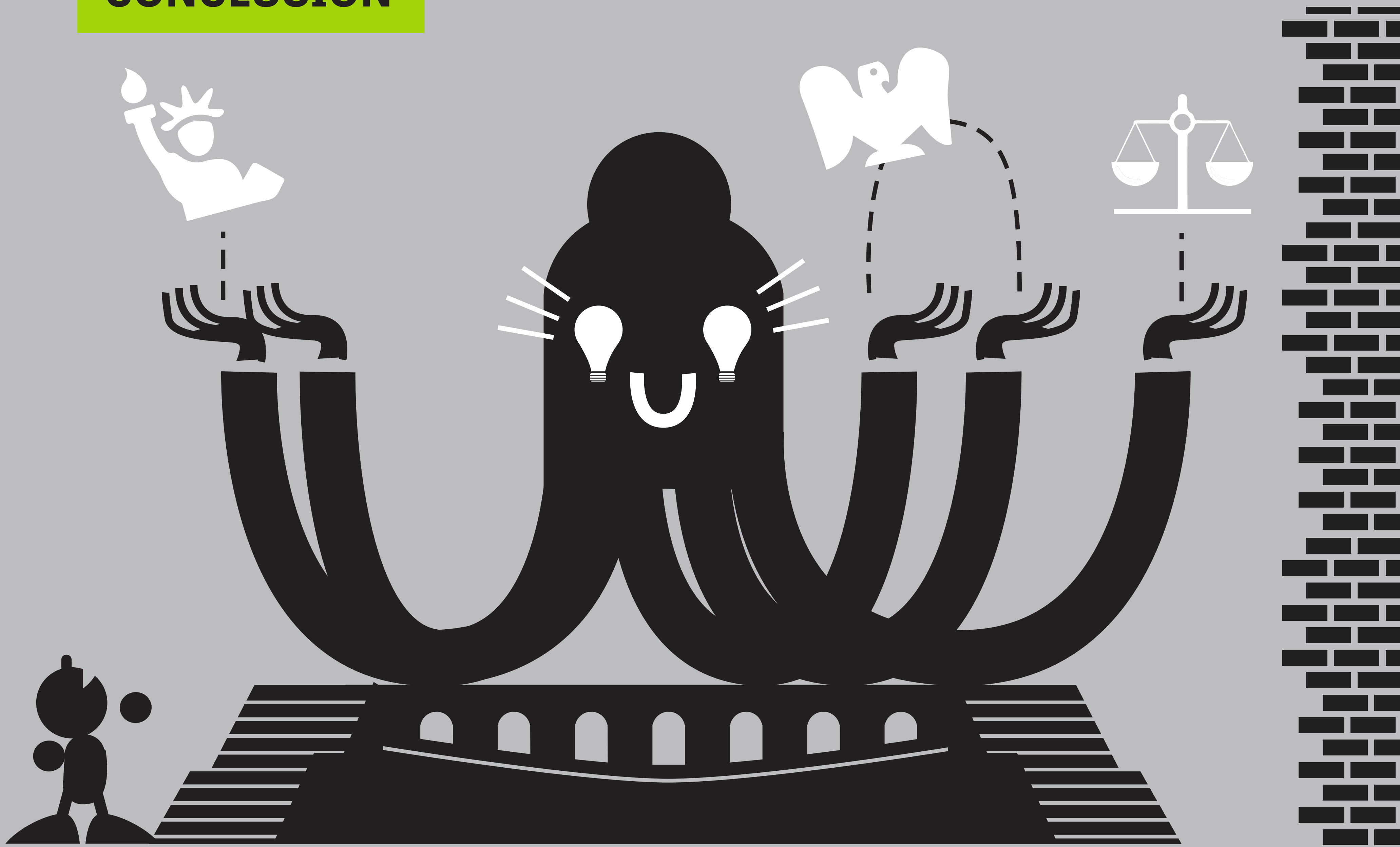
Tactically, though, funders and practitioners in civic tech can begin overcoming sales challenges in a few ways. First, startups often lack insights about government procurement processes and the networks needed to connect to government decision-makers. Funders could be playing a greater role demystifying procurement processes and facilitating introductions to potential government users. This could take the form of building crosscutting entities that bridge civic startups with potential government clients.

Another reason that civic startups, especially nonprofits, struggle with sales is that they lack the capital to hire full-time sales staff, let alone a sales team experienced in selling to government clients. The founder tends to be the person overseeing the company, managing tech development and selling the product. Funders could invest in outsourced sales teams that support sales functions across several civic startups.

Similarly, nonprofit selling to individual donors (fundraising) may also benefit from outsourcing this capacity and considering a shared-service model; for example, several public broadcasting organizations partner on fundraising through the **Contributor Development Partnership**, which helps with reducing their overhead and promotes benchmarking and learning about effective tactics across organizations.



CONCLUSION



The 2016 election catalyzed a surge of interest and consciousness about the importance of a strong civil society and active citizen engagement. This has cast a spotlight on the work of organizations promoting informed and engaged citizens, including members of the civic tech community. And though few funders historically have explicitly focused on civic engagement, a growing cadre of donors and investors is seeking opportunities to support organizations contributing to well-functioning democracy.

This could mark a sea-change moment for civic tech. As captured in this report, a shortage of capital and funders in the civic tech space has limited the ability of organizations to invest in core capacities and meaningfully scale their operations. Civic tech organizations are primed to benefit from this growing interest, especially among high net worth donors and funders from the tech industry.

Though an infusion of capital is sorely needed, so are long-term business models for sustaining the work of civic tech organizations. The research identified several revenue sources and strategies that organizations have pursued to develop repeatable and reliable income; yet hardly any organizations with sustainable and adaptable business models were uncovered. Building financially sustainable business models is ultimately what will take civic tech from a collection of activity and initiatives to a cohort of organizations advancing greater and more long-lasting impact.

Advancing civic tech will require more collaboration and coordination between funders and founders in the field. The recommendations outline ways to overcome consistent obstacles that have constrained the growth of the startups in this space including deficiencies in business, sales, measurement and communications skills. Founders and funders must work together to recognize these barriers to growth and then capitalize organizations to build these foundational capabilities. Closer cooperation is also needed among funders, who often approach their work in isolation. Bridging private and philanthropic funders offers enormous potential for advancing this field.

Meanwhile, additional data and discourse about civic startup business models will play a crucial role in promoting sustainable organizations. The lack of transparent and accessible reporting of financial and impact data became quite apparent during this research; more open discussions among civic enterprises and funders about business and impact models will be vital for learning from one another, benchmarking results, increasing effectiveness and ultimately attracting other funders by clearly communicating impact. As companies such as Facebook, Google and Snapchat continue to integrate tech features into their platforms, it will become all the more urgent to discern the business viability and impact generated by stand-alone civic companies.

Above all, this research intended to build a more nuanced understanding and sophisticated conversation about business models in the civic tech landscape. Through shared insights and shared actions, there is enormous potential to overcome this fundamental challenge that has plagued civic tech since its infancy. After all, the success of civic tech has never been more urgently needed.