



NOTICE OF REQUEST FOR INFORMATION (RFI)
Inclusive Innovation Fund: Improving Access to Capital for DC Entrepreneurs
DCEB-2018-I-0001

The Office of the Deputy Mayor for Planning and Economic Development (DMPED) is requesting input on the design of and approach to a new program anticipated for implementation within the next year. The project seeks to increase access to capital for DC entrepreneurs, and particularly for underrepresented entrepreneurs, such as people of color and women by creating an investment fund focused on early stage ventures. Comments on the technical aspects of program design and the work plan and suggestions on approaches to implementing an effective program are welcomed.

This document is a Request for Information (RFI) only. It is not being posted as a statement of work (SOW) at this time, nor does it constitute a Request for Proposal (RFP) or Request for Application (RFA) or a promise to issue an RFP or RFA in the future.

Respondents are advised that DMPED will not pay for any information or administrative costs incurred in response to this RFI. All costs associated with responding to this RFI will be solely at the interested party's expense. Not responding to this RFI does not preclude participation in any future RFP or RFA.

1. Purpose of the RFI

The purpose of this Request for Information (RFI) is to solicit input from investment professionals and DC's entrepreneurial community on the investment capital needs, program design, and potential partnerships. Stakeholders responding to this RFI are asked to provide informed responses and feedback regarding the project overview below and describe any benefits, changes, limitations, unintended consequences, and potential economic gains or losses that may result from the project. In addition, respondents can provide recommendations (including proposed draft RFQ/RFP/RFA language) regarding the best approach for implementation and program design—specifically noting how the program would address the District's objectives for the program.

We encourage responses from organization or individuals with experience working with diverse founders, supporting entrepreneurs and/or investors in DC, raising funds and/or investing in high-growth companies.

We also encourage responses from individuals or organizations interested in being involved the Inclusive Innovation Fund program as a fund manager or other role to be defined. This may include, but is not limited to, the following:

- Fund managers;
- Investors;
- Entrepreneur technical assistance providers;
- Consultant services;
- Research entities

BRIAN T. KENNER
DEPUTY MAYOR

2. Introduction and Background

Access to capital is critical to growing businesses, entrepreneurial ecosystems and, subsequently, the tax base and jobs. Venture capital, in particular, can be critical to the success of high-growth businesses.

While the DC region and DC have seen increased venture capital deals and investment in recent years, entrepreneurs across the board struggle to raise the investment they need to start and scale companies. Underrepresented entrepreneurs – including people of color, women, and LGBTQ individuals – face particularly high barriers, especially at early stages.

Nationally, only 1% of funded startup founders are African-American and only 8% of funded founders are female. Proprietary data reveal that in DC, the trends are only marginally better, and this is corroborated by feedback received through entrepreneur focus groups and regular stakeholder engagement.

One reason posited for the lack of investment in minority entrepreneurs is that venture capitalists tend to invest in people like themselves. As the vast majority of venture capital and angel investors are white men, this presents an issue for women and minority entrepreneurs.

These barriers have real consequences for economic development. A report by the Center for Global Policy Solutions revealed there are an estimated 1.1 million businesses that could be produced by people of color, but are stunted due to socially discriminatory financing practices and a bias towards companies run largely by white men.

In November 2016, the District released Pathways to Inclusion, a roadmap for making DC's tech and innovation economy the most inclusive in the nation. This report was the first such assessment and revealed the importance of capital to achieving an inclusive innovation economy in DC. A survey of entrepreneurs conducted for the report showed that access to capital was the most frequently cited barrier to inclusiveness for minority entrepreneurs, followed by implicit bias, access to networks and access to talent enabling programs. It also revealed that less than half of minority entrepreneurs surveyed had managed to obtain funding for their companies. None received venture capital investment – half received angel investments or philanthropic gifts, and half relied on family and friends, their personal savings, and credit cards.

Finally, while underrepresented entrepreneurs face particularly strong barriers, many entrepreneurs struggle to find needed investment capital. According to Fosterly's DC 2016 Startup Census Report for the Greater Washington Region, which was based on surveys with hundreds of companies, "many startups have raised small 'friends and family' rounds under \$50,000, but as the dollar amount climbs towards \$1M, fewer and fewer report success. Rather than continue that downward trend, after the \$1M mark, the number of startups securing funding in the higher ranges increases along with the dollar amount. This is indicative of the funding gap that exists for startups with capital requirements between \$50K and \$1M. Often the dollar amount is simply too large for friends, family, or an individual angel investor, but not large enough for venture capital." Fosterly suggests that grant and award money may provide a solution to this problem.

Thus, the District would like to alleviate this market failure by working with private sector partners to create a locally-based investment fund that supports DC entrepreneurs, with an emphasis on

underrepresented entrepreneurs. It is willing to provide risk capital to enable an investment professional partner that shares DC's vision for inclusive innovation to build out a program that makes a lasting and substantial improvement to the entrepreneurial ecosystem.

3. Project Objectives

3.1.1. Primary

3.1.2. Increase access to investment capital for underrepresented DC entrepreneurs

3.1.3. Leverage the District's commitment of risk capital to secure private follow on funding

3.2.1. Secondary

3.2.2. Catalyze the growth of industry verticals that speak to DC's strengths, in accordance with DC's Economic Strategy

<http://dceconomicstrategy.com/sector-analysis/#tabs-2>)

4. Project Approach

4.1. The District is considering providing seed capital to create an investment fund focused on supporting early stage DC entrepreneurs that face disproportionate barriers to venture capital, including minorities and women.

4.2. This fund would be managed by a professional fund manager and advised by a board that includes District government representation. The fund manager would be responsible for securing private investors, including venture capital funds, corporate venture funds, banks, individuals, and foundations, conducting due diligence and sourcing, and recruiting a board. The Office of the Deputy Mayor for Planning and Economic Development would have the authority to approve board appointments.

5. Draft Fund Structure

5.1. Applicant Criteria

5.1.1. All funds must be invested in firms owned by underrepresented entrepreneurs.

5.1.2. Diverse teams are welcome; the company must have 51% ownership of underrepresented leadership.

5.2. Investments

5.2.1. Early: angel to seed stage

5.2.2. \$50,000-\$250,000

5.2.3. Diligence customized to stage of venture (e.g. idea/concept, revenue generating)

5.3. Fund size

5.3.1. Committed public seed capital: \$1.5 million (District) -- must be pari passu with the fund

5.3.2. Target: \$10-20 million – potential to re-raise for a bigger round later

5.3.3. Possibility for additional \$1-5 million District investment in next 1-3 years

- 5.4. Type of investment
 - 5.4.1. Convertible note with terms that allow for longer conversation timeline and greater variation on equity/debt split, be supportive and explicit with owner buyback clauses at a discount pending milestones, and option pools (e.g. for employees, advisors) that are less dilutive over time.

- 5.5. Sourcing and diligence
 - 5.5.1. Fund manager would need experience investing in underrepresented Entrepreneurs
 - 5.5.2. Minimal management fee
 - 5.5.3. Preference will be given to fund manager applicants who can demonstrate greatest leverage of private funding
 - 5.5.4. Preference will be given to fund manager applicants who can include an education component into their work to sustain a pipeline of viable portfolio companies

- 5.6. Return
 - 5.6.1. IRR TBD by board and fund manager
 - 5.6.2. Company must "do no harm" and create jobs
 - 5.6.3. Internal loan loss plan would support slower procedures for recourse

6. Questions for Respondents

Comments and recommendations related to any of elements of the above project objectives, project description and fund structure are welcome. Specific areas of interest are below. Respondents need not address all questions.

1. How well would the project approach and fund structure described above address the project objectives?
 - a. Could the approach or structure be revised to more effectively address the objectives?
 - b. What risks or feasibility challenges could threaten success? What revisions to approach or structure would improve feasibility?
2. How should we define underrepresented entrepreneurs and businesses?
 - a. Should it be broad to include groups such as veterans and those with disabilities?
 - b. Should we include a preference for minorities? Minority is defined as a representative from a community that has been historically marginalized; examples include distinction by race, gender, sexual orientation. If so, why and how should it be structured?
 - c. Should we include a preference for entrepreneurs of color? If so, why and how should it be structured?
 - d. Do you have data to show the degree of these various underrepresentation of populations?
3. Should the fund allow some nominal amount of investment in ventures led by entrepreneurs that do not meet the definition of underrepresented? If so, what criteria should guide their eligibility?
4. The District does not expect market rate return on its investment, but what rate of return would be possible to achieve while still catalyzing private investment?
5. What is a reasonable management fee?

6. What qualifications, experiences and credentials would be essential and beneficial for the manager of the above investment fund? Provide rationale.
7. What is a feasible target for private follow on funding?
8. Besides providing risk capital, how could the District improve the fund manager's ability to attract private capital?
9. How could additional District investment(s) of \$1-5 million over the next 1-3 years be most effectively used to meet the project objectives?
10. How might a District investment of unobligated funds provided through Treasury Department's State Small Business Credit Initiative (SSBCI) affect the fund structure and ability to meet project objectives?
11. What qualifications, expertise, and experience are essential to have represented on the Advisory Board? Are there any specific individuals or organizations that would make excellent prospects for this board?
12. Are there innovative models that have been implemented elsewhere that offer insights for the District?

7. Respondent Information Requested

Respondents should include the following information if interested in playing a role in management of the fund:

1. **Team/Company Contact:** company name(s), address(es), contact name, contact information
2. **Response Summary:** describe the company/team's interest; experience/expertise of company/team; overall approach for delivering the program;
3. **Project Approach:** describe how the team would approach the project and, if applicable, describe how and why the approach recommended differs from what is described above.
4. **Roles:** The optimal role of the District Government, Advisory Board, and any other recommended project partners
5. **Respondent's Capabilities:** describe the history and structure of the organization(s), direct relevant experience on similar projects, and resources available to perform the work suggested in the project approach
6. All respondents should provide name, company, title and contact information (email, phone, mailing address)
7. All information submitted is subject to verification. Additional information may be requested to substantiate responses.

8. Questions

Questions regarding this announcement shall be submitted in writing by e-mail to the representatives' email address listed below. Verbal questions will NOT be accepted. Questions will be answered by posting answers to the OCP and DMPED websites; accordingly, questions shall NOT contain proprietary or classified information. The Government does not guarantee that questions received after Friday, February 16, 2018 will be answered.

9. Summary

THIS IS A REQUEST FOR INFORMATION (RFI) ONLY to identify sources that can provide INCLUSIVE INNOVATION FUND: IMPROVING ACCESS TO CAPITAL FOR DC ENTREPRENEURS. The information provided in the RFI is subject to change and is not binding on the

Government. The Navy has not made a commitment to procure any of the items discussed, and release of this RFI should not be construed as such a commitment or as authorization to incur cost for which reimbursement would be required or sought. All submissions become Government property and will not be returned.

10. Information Submission

Interested firms shall submit the above information to:

- Farhad Rezaei, farhad.rezaei@dc.gov, Contract Specialist with a copy to:
- Sharon Carney, Economic Strategy Director, sharon.carney@dc.gov

11. Due Date

Responses are due by 2:00 pm EST on Tuesday, March 6, 2018. Respondents will not be notified of the results of the evaluation.

KEY DATES

RFI Released	Tuesday, February 6, 2018
Last Day to Submit Questions on the RFI	Friday, February 16, 2018
DMPED response to Questions	Friday, February 23, 2018
RFI Due	Tuesday, March 6, 2018