U.S. Small Business Administration
Washington, D.C. 20416

Testimony Before the
U.S. House Committee on Small Business

SBA-Created Initiatives: necessary or Redundant Spending?

Javier Saade, Associate Administrator, Office of Investment and Innovation

April 30, 2014

Chairman Graves, Ranking Member Velazquez, members of the committee—thank you for giving me the opportunity to speak on some exciting programs today.

I am proud to report the important work my office is doing to support high growth small businesses across the United States; I want to start by giving a quick overview of the programs in our office. I will then discuss our regional innovation clusters program and our growth accelerator fund – two programs which are part of what we call the entrepreneurship ecosystem and are designed to further support start-ups and job growth across the country.

SBA's Office of Investment and Innovation (OII) leads programs that provide the high-growth small business community with access to two things: financial capital and R&D funds aimed at commercializing technologically driven innovations. We do this primarily via three programs which you are familiar with—the Small Business Investment Company (SBIC) program, the Small Business Innovation Research (SBIR) program and the Small Business Technology Transfer program (STTR).

Since 1958,the SBIC program has served as a model of successful public-private partnership in which the SBA guarantees leverage to privately owned and professionally managed private equity funds that in turn provide long term loans and equity funding to small businesses. Last fiscal year, SBICs provided almost $3.5 billion in financings to 1,068 small businesses across the country, the highest amount of financings in over ten years. For every dollar of SBA-guaranteed leverage issued to SBICs in 2013, SBICs provided two dollars in financings to small businesses. Today, the program oversees about 280 active SBICs with over $20 billion in private and SBA-guaranteed capital under management. Given SBICs have already provided almost $2.4 billion in financings as of the FY 2014 midpoint, we expect to exceed FY 2013 numbers.

The SBIR and STTR programs are two set-aside programs designed to help small businesses compete in the world of federally funded R&D and help drive them towards commercialization of their inventions and ideas. These programs are paramount in keeping the U.S. at the forefront of science and technology in our global economy given the dearth of investment at the earliest stages of world-changing innovations.

The SBIR program operates across 11 government agencies through which R&D grants are awarded to small businesses, so they can support the needs of the federal government. Thanks to the work of this committee, this program is authorized to be 2.8% of the extramural research budget; and up to 3.2% by 2017 for all agencies with over $100 million in extramural budgets.

The STTR program operates across 5 government agencies and facilitates cooperative R&D between small businesses and research institutions in the United States. This makes up .35% of the extramural budget for the five agencies with extramural budgets over $1 billion.

In addition to these programs, my department works on a series of other projects related to innovation. To keep the U.S. in a leadership role, SBA, and in particular the Office of Investment and Innovation are especially focused on that second "I", the one for Innovation. Our office is committed to helping innovative Americans access capital and launch lasting businesses in new and cutting edge ways.

In the first half of the 20th century large corporations were key drivers of our country's innovations. This is no longer the case as the entrepreneurial ecosystem has been significantly atomized in terms of innovation, capital, institutional support and human resources. This atomization has created an entrepreneurial ecosystem that is the most dynamic in the globe, but in which funding gaps still exist, especially geographies that are far from the coasts. In the past three years, almost 80% of U.S. early and seed stage venture financings were provided to companies in four coastal states: California, Massachusetts, New York and Washington. [1] These figures demonstrate that startups and small businesses in other parts of the country have less support from conventional private capital and the big banks. But what they can do is pool together talent and resources, share best practices and create their own local ecosystems. At the SBA we are aiding in this process through Regional Innovation Clusters and the new Growth Accelerator Fund.

Capital isn't available to small startups from large banks and institutions in the way it used to be pre-2007. Regional Innovation Clusters tap into resources, talent and capital to create deeply entrenched networks for industry or region specific groups of small companies. Through these clusters, companies have access to technology and opportunities which they otherwise wouldn't be able to tap into.

Accelerators are typically a physical microcosm (think of a hub) of these larger clusters (think of threaded spokes). They provide physical space, mentoring, networking, and often capital to the smallest startups; usually on a rotating basis of 3 to 9 months cohorts; or until a startup can graduate and continue to grow on its own. Accelerators fill a resources gap in the entrepreneurial ecosystem in a new and exciting way; and they're growing – SBA estimates that there are now about 700 accelerators in the United States.

To that end, SBA is launching a $2.5 million contest for accelerators. The cash awarded to contest winners is to assist in funding their operations and thus allow more capacity to scale up. The overall goal of the competition is to award capital to the best in class models, with a special focus on geographic areas in which financing is in short supply, and models which are run by women or other underrepresented groups.

[1] Numbers based on Thomson One Data for all U.S. Venture Capital Deals between 1/1/2011 and 4/15/2014.

SBA will use evaluation criteria similar to those we use to evaluate our SBIC applicants: management team; track record; business model/strategy; and policy impact (including identifying what gaps the applicant will fill). We will award entities that have the best models for financial success and impact. Winner will be selected by a combination of SBA personnel with experience in evaluating venture fund performance as well as people from the private equity industry.

We will be announcing this contest through a variety of media conduits, as well as through events such as Demo Days and webinars, in partnership with groups such as the Global Accelerator Network. We will make the award decisions by the end of this fiscal year, and winners will be asked to report back results on a quarterly basis.

SBA will forge long term partnerships with these accelerators. Through establishing these relationships, we will be introducing a sector which, historically, has been unfamiliar with SBA's suite of services and connecting them to our resource partners' programs and our more traditional loan programs.

Thank you and I am happy to answer any questions you may have.