

Good Morning. My name is Mark Walsh, and I am pleased to join you today to discuss the Small Business Investment Company, or SBIC program. From late 2015 until January 19th of this year, I ran the Office of Investment and Innovation (OII), at the US Small Business Administration here in Washington D.C. My area oversaw all SBIC, SBIR (Small Business Innovation Research) and Incubator/Accelerator programs. I was a Presidential appointee. It was my first job in government. Before that I had a 35+ year career in technology, the internet, and media - with senior or C-Suite positions at a wide variety of companies, including AOL, GE, HBO, VerticalNet, and more.

Further, for the last 17 years, I have been an active “Angel” and venture investor in a wide variety of start-ups, and have served on the board of directors for many of those companies and other high-growth venture backed entities. I have also served as Chairman of the Bipartisan Policy Center here in DC. I have a BA from Union College in NY, and an MBA from Harvard.

I am happy to discuss the SBIC program, one of the most innovative, financially successful and well-structured government programs in existence. However, since I left the program almost 10 months ago, I hope the committee will forgive me if some of my recollections and remembrances are dimmed or made suspect by the passage of time. Also, my opinions are my own, and are not meant to reflect any one else’s or any other agenda.

The SBIC program takes low-interest debt issued by a consortium of banks, backed by the SBA/OII, and provides it to professionally managed domestic Venture Capital and Private Equity funds. These VC and PE funds can only receive the non-dilutive debt investment from OII after being granted an SBIC License. The license application and approval process is extraordinarily rigorous, and creates an efficient “filter” for mismanaged or ill-targeted funds from receiving taxpayer dollars.

Further, a licensee is required to report all significant investment activities, sales of companies, additional Limited Partner investments, etc. to the OII on a regular quarterly basis, and there are annual on-site inspections by OII trained teammates to validate all the activities and efforts of the licensee. In short, OII is as vigilant an investor as any in the private market, if not more so. However, as we all know, investment entails risk, so OII also had a trained team of “workout” experts who

helped funds that ran awry of financial health, and in some cases assumed ownership and control of failed funds and disposed of the assets at admirable salvage valuations. But, make no mistake, the amount of unrecoverable investment was miniscule, and was the envy of the private sector.

In short, the SBIC program was a fabulous example of a public/private partnership, and one I was proud to be part of. My colleagues and teammates, both career and political appointees, were as motivated, talented and professional as any I have worked with in my career. I enjoyed my all-too-short stint immensely.

But, I was asked here today to address ways to improve the SBIC program. Nothing is perfect, and there are a few areas I would try to address if I were still in charge.

- 1) **Outreach**: We made extraordinary progress during my time in discovering new funds and new types of funds, and in meeting and engaging more diverse fund managers – gender, demographic, geographic and market-focused diversity – than many prior efforts. That happened because my teammates and I made it a priority. The SBIC program should hire and motivate more and more outreach teammates to reignite and continue that trend.
- 2) **Promote and Reward certain types of Funds**: “Impact Funds”, (aimed at social, environmental, educational, or institutional improvement as opposed to pure profit) are wonderful entities. The SBIC program should be able to encourage them with lower interest rates, more attractive payback options, or faster application processing. Currently, they are not effectively treated any differently than other funds. Also, SBIC had a “Venture Fund” category, aimed at higher-risk start up investments, and those funds should also have better terms made available for them, as they are often structured to have less appetite for debt.
- 3) **License Processing Streamlining/Reporting Requirement Streamlining**: The amount of paperwork expected of a license applicant and license holder is heavy. OII and the Program should continue its efforts to use available technologies to streamline these processes. Some funds we tried

to enroll and apply chose not to because the paperwork and processes were onerous and time consuming.

- 4) **Equity Ownership**: OII should have the ability to receive a very small amount of equity in the companies its capital invests in. The SBIC program, started in the 1950's, has held debt-stakes in a number of iconic companies. For instance, in 1977 it held over 4% ownership in a small technology company called Apple. Over the years, the program has had limited success in taking equity stakes, but I feel that OII should continue vigorous and energetic efforts to create some ownership "upside" for American taxpayers through this program with equity ownership versus only debt.
- 5) **More Private Sector Partnerships**: During my stint, teammates and I created a wonderful board-diversity initiative called ONBoard (The Open Network for Board Diversity) with a partner, LinkedIn (the professional Social Network). There are a great number of innovative and productive private sector companies who would be wonderful partners in new and innovative opportunities. OII should be freer to pursue those.
- 6) **Networking Opportunities between Funds and Companies**: OII was not at liberty to cross pollinate its investment funds with each other. Companies looking for capital who called OII could not be told about PE or VC funds that might be looking to invest in them. OII is a natural clearinghouse for a wide variety of data it collects about its Funds, and it should have more "Open Access" to the data for industry observers, companies, funds and analysts.

There are other improvements or opportunities I could detail, but these are some that I saw great potential in when I was at the Agency. I would encourage the Committee to work with OII and the SBA to promote these ideas, if the Committee finds them of value.

Before I conclude, let me also mention the SBIA, or Small Business Investor Alliance. They are the industry association focused on the SBIC marketplace. Their staff and management were extraordinarily helpful to me as I learned the program, and were invaluable partners for the initiatives me and my OII colleagues pursued. Their Board and members were truly the "best of the best",

and I can't thank them enough for their productive role in the ongoing success of the SBIC program.

Thank you for inviting me today, and now I am ready to help with any questions or comments the Committee may have.

Mark L. Walsh