Strategic Objective 1.5: High-Growth and Startups

Fuel high-growth entrepreneurship, innovation, and job creation by providing the tools small businesses need to start and grow their businesses

Performance Goal: Issue $2.6 billion in debenture leverage to SBICs in FY 2017
Objective Lead: Associate Administrator, Office of Investment and Innovation
Programs/Activities: Small Business Investment Companies (SBIC), ScaleUp Manufacturing Investment Company (SUMIC), Small Business Innovation and Research (SBIR), Small Business Technology Transfer (STTR), Growth Accelerators
Strategies:

1. Grow the deployment of long-term capital via the SBIC program
2. Support innovative manufacturing technologies by financing their scale up from prototypes to commercial-scale facilities
3. Improve Small Business Innovation Research (SBIR/STTR) operations, outreach, and commercialization and Small Business Technology Transfer (STTR) programs
4. Strengthen the accelerator network targeted at high growth startups and capital providers
5. Provide thought, policy, and executional leadership on the crowdfunding capital raising model

High-growth businesses create new, high paying jobs in today's economy. Through longer-term "patient" capital, growth accelerators and regional innovation clusters, federal research and development grants, and export assistance, the SBA plays a critical role in the ongoing success of high-growth small businesses. These high-growth investments provide opportunities for small businesses to create jobs and sustain the cycle of American entrepreneurship and innovation.

To support job creation, the SBA is committed to growing the existing programs that serve these firms with investment, innovation and commercialization of government research and development, and targeting new initiatives that serve this critical part of the economy. Targeting $2.6 billion in debenture leverage to SBICs will expand access to capital for these high-growth potential small businesses by giving them the means to grow rapidly, develop their ideas, and expand their product offerings and services. The efforts of the SBIR program support the President's Cross-Agency Priority Goal to increase the economic impact of federally funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.

Progress Update: In FY 2015, the SBA met its goal of committing $2.5 billion in debenture funds to SBICs. The Agency licensed 25 new SBIC funds with an average licensing time of 8.4 months and put in place a new tracking system, identifying processing times for each stage of review. This new system has allowed the program to quantify and qualify its performance with regards to customer service and to identify areas needed for improvement. To reduce licensing times, the SBA is reducing delays within its control and communicating with applicants clearly and promptly regarding actions required on their part. In addition, the SBA continued development of an SBIC web-based system to modernize the business model, encourage potential applicants, streamline processes, and reduce redundancy or duplicative efforts. SBIR is planning to build its solicitation portal and upgrade its database to support additional data collection for performance analysis. The SBIR and STTR programs' current authorization expires at the end of FY 2017. The Agency requests the reauthorization for both programs, often referred to as America's Seed Fund, be extended as they support the growth of small, high-tech businesses. The programs have been responsible for establishing thousands of advanced technologies and providing the first funding to many now prominent large businesses.

Table 1.5a displays the cost to administer the program. It includes direct costs from the operating budget, including grants and contracts, compensation and benefits, Agency-wide costs such as rent and telecommunications, and indirect costs.

Table 1.5a: High-Growth and Startups Budget – Total Administrative Resources (Thousands)

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
$ 24,262	$ 26,305	$ 23,229	$ 19, 667	$ 14,220	$15,910	$16,661	$16,696

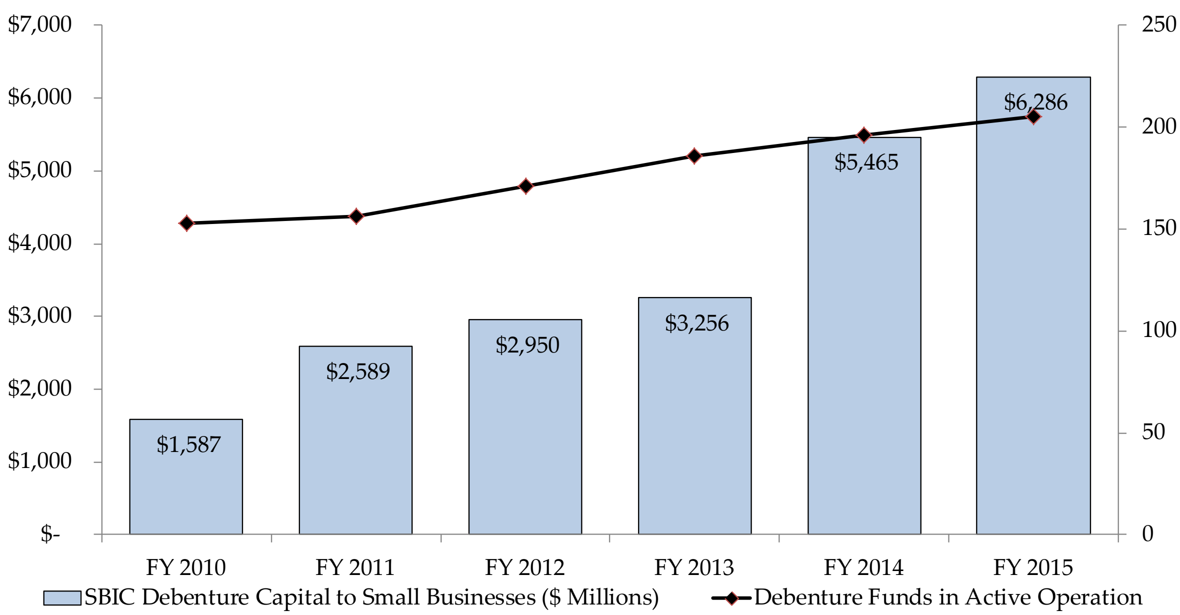
Table 1.5b shows progress toward the performance goal of SBA debenture leverage committed to SBICs.

Table 1.5b: Small Business Investment Company (SBIC) Performance Goal

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Dollars of SBA Debenture Leverage Committed to SBICs (Millions)	**Target**	Baseline	$ 1,352	$ 1,900	$ 2,400	$ 2,500	$ 2,500	$ 2,500	$ 2,600
	Actual	$ 1,165	$ 1,827	$ 1,924	$ 2,156	$ 2,549	$ 2,533		
	Variance	N/A	35%	1%	-10%	2%	2%		
Additional Information: The measure tracks the dollar amount of commitments to SBIC funds.									

Chart 1.5 shows the total dollar value of SBIC debenture capital and the number of debenture funds in active operation. Both the dollar amount of capital and the number of debenture funds in active operation have increased since FY 2009.

Chart 1.5: SBIC Debenture Capital ($ Millions) to Small Businesses and Number of Debenture Funds in Active Operation



Strategy 1: Grow the deployment of long-term capital via the Small Business Investment Company (SBIC) program

The **Small Business Investment Company** program provides long-term loans and equity capital to small businesses, especially those with potential for substantial job growth and economic impact. SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. They use private capital plus funds borrowed with an SBA guaranty to make investments in qualifying small businesses. More than 300 SBICs have more than $24 billion of capital under management. By increasing availability of growth capital to small businesses, the SBA helps small business owners at every stage of a business's development. This capital is generally longer term "patient" capital that is well suited to high-growth companies and is a critical tool to help these businesses expand and create jobs in their communities.

Table 1.5c shows progress toward the performance indicator that tracks the time to license SBICs. For FY 2017 the time to license target is six months.

Table 1.5c: Small Business Investment Company Performance Indicator

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Time (Months) taken to License an SBIC	**Target**	N/A	N/A	N/A	N/A	N/A	Baseline	6.0	6.0
	Actual	5.8	5.5	5.4	6.8	7.4	8.4		
	Variance	N/A	N/A	N/A	N/A	N/A	N/A		
Additional Information: The measure monitors the average number of months for the internal SBIC licensing process.									

<u>FY 2015 Accomplishments and Challenges</u>

The Agency issued $2.5 billion to SBICs in new debenture leverage commitments and licensed 25 new SBICs. In addition, the SBA proposed to expand the Impact Investment Initiative to include, for example, investment in SBIR/STTR companies and to make advances in the manufacturing sector.

The SBICs provided more than $5.4 billion to support more than 1,000 small businesses. Approximately 25 percent of the small businesses financed are special opportunity gap businesses, including those located in low-to middle-income areas, minority-owned, woman-owned, and veteran-owned businesses.

The SBA continued expanding outreach to both general partners and limited partners (LP) with the focus of increasing new entrants into the SBIC program. In particular, the SBA will work with more regional and community banks to increase LP participation in the SBIC program so that these banks can take advantage of its benefits. The SBA is also focused on providing greater opportunity to women and minority fund managers.

<u>FY 2016 and FY 2017 Planned Performance</u>

The Agency expects to issue $2.5 billion in FY 2016 and $2.6 billion in FY 2017 in new debenture leverage commitments to SBICs. The Agency expects to issue 20 new licenses in FY 2016, and 15 new licenses in FY 2017. It should be noted that licensing activity has been at a historically high level in recent years. The SBA proposes to change the Early Stage Fund program to increase its participation.

The SBA will continue to expand its outreach and focus on increasing the participation of minority-led and women-led funds in the program. The Agency will continue to support the expansion of leverage available to funds under common control and would expect this opportunity to increase the number of funds seeking licensure.

Strategy 2: Support Innovative Manufacturing Technologies by Financing Their Scale Up From Prototypes to Commercial-Scale Facilities

The SBA is uniquely suited to play a key part in encouraging the growth of advanced manufacturing in the United States because it plays a central role in realizing the benefits of technological innovation and in the overall growth and health of the U.S. economy. To support this effort, the SBA is proposing the ScaleUp Manufacturing Investment Company (SUMIC) program to support innovative manufacturing technologies scaling up their first commercial production facilities in the U.S. The loan guaranty program would support private funds, operating similarly to the SBIC debt guaranty program, except with a much larger fund and project size necessary to support the needs of manufacturing scale up efforts.

Investment in small innovative manufacturers will promote the development of cutting edge manufacturing technologies by smoothing the pathway from prototype to production for new processes, tools, and methodologies. By inducing industry and non-federal co-investment in innovation opportunities that will lead to improved manufacturing capabilities, SUMIC will help to bridge the gap between fundamental technical discoveries in the U.S. and products manufactured here.

Furthermore, U.S. manufacturers individually are challenged to fund these technology development functions, and small-size manufacturers struggle with prototyping and scaling of new technologies and potential products. This initiative would help provide the critical mass and knowledge base necessary to address these challenges. Partnerships that bring diverse organizations together to accelerate innovation for advanced manufacturing create a stronger innovation system and link those innovations more directly to domestic production capabilities. This proposal builds on the success of models deployed in other countries.

<u>FY 2015 Accomplishments and Challenges</u>

The ScaleUp Manufacturing Investment Company (SUMIC) Act of 2015 (S. 1934 and H.R. 3468) would amend the Small Business Investment Act of 1958 to establish the SUMIC program. The bill has been introduced and is awaiting congressional action. The bill would establish a fund, administered by the Small Business Administration, to offer federal loan guaranties to investors looking to invest in novel manufacturing startups looking to make their products in the United States. The legislation builds out a proposal from the President's FY 2016 budget that was first recommended by the President's Advanced Manufacturing Partnership, a council of 19 manufacturing CEOs and university presidents co-chaired by Dow and MIT.

<u>FY 2016 and FY 2017 Planned Performance</u>

The SBA requests new mandatory authority for $1.25 billion in subsidy to be spread from FY 2017 to FY 2021 to create the ScaleUp Manufacturing Investment Company program. If the authority is provided, SUMIC will generate $10 billion in investment activity in five years to bridge a significant portion of the financing gap for small advanced manufacturing startups. The mandatory proposal estimate of budget authority and outlays used a placeholder subsidy rate of approximately 25 percent. The estimated subsidy costs associated with each application for a federal loan guaranty to provide financing to a fund would be determined on a fund-by-fund basis using actual fund financial information.

Table 1.5d shows the projected mandatory outlays to support a $5 billion program level in FY 2017 with subsidy costs of $1.25 billion spread between FY 2017 to FY 2021.

Table 1.5d Projected Mandatory Outlays

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
$0 Million	$155 Million	$365 Million	$365 Million	$365 Million

Strategy 3: Improve the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs' operations, outreach and commercialization

The **SBIR/STTR program** helps innovative small businesses meet the research and development needs of the federal government and then commercialize those innovations in the marketplace. The SBA coordinates the SBIR and STTR programs for the federal government, setting performance standards for the eleven participating agencies, tracking metrics, and helping small businesses interested in pursuing SBIR opportunities. The money for these programs goes directly to some of America's most promising small research and development companies to help them drive innovation, strengthen U.S. competitiveness, and create jobs.

Table 1.5e displays the cost to administer the program. It includes direct costs from the operating budget, including grants and contracts, compensation and benefits, Agency-wide costs such as rent and telecommunications, and indirect costs.

Table 1.5e: SBIR/STTR Budget – Total Administrative Resources (Thousands)

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
N/A	N/A	$3,110	$2,430	$9,258	$9,650	$10,506	$10,527

Table 1.5f shows the performance indicator that tracks the percent of dollars awarded to SBIR proposals.

Table 1.5f: Small Business Innovation Research (SBIR) Performance Indicator

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Percent of Federal Government Dollars Awarded to SBIR Proposals	**Target**	N/A	N/A	N/A	N/A	N/A	Baseline	3%	3%
	Actual	2.5%	2.5%	2.6%	2.7%	2.8%	Data Lag		
	Variance	N/A	N/A	N/A	N/A	N/A	N/A		
Additional Information: Federal agencies with extramural budgets for research or research and development in excess of $100 million must spend at least the targeted amount on small business innovation. There is a two year data lag in reporting results.									

Table 1.5g shows the performance indicator that tracks the percent of dollars awarded to STTR proposals.

Table 1.5g: Small Business Technology Transfer (STTR) Performance Indicator

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Percent of Federal Government Dollars Awarded to STTR Proposals	**Target**	N/A	N/A	N/A	N/A	N/A	Baseline	0.45%	0.45%
	Actual	0.30%	0.30%	0.35%	0.35%	0.40%	Data Lag		
	Variance	N/A	N/A	N/A	N/A	N/A	N/A		
Additional Information: Federal agencies with extramural budgets for research or research and development in excess of $1 billion must spend at least the targeted amount on small business innovation. There is a two year data lag in reporting results.									

In FY 2012, the SBA and other federal agencies began implementing the SBIR/STTR Reauthorization Act of 2011. As a result, the SBA amended SBIR/STTR program policy directives that govern SBIR/STTR program compliance, reporting, and small business eligibility requirements. The Reauthorization Act and amended policy directives ensure the continuation of the SBIR/STTR programs through FY 2017 with several significant improvements and higher minimum percentages of extramural research and development budgets that agencies must use to calculate set-aside amounts for SBIR and STTR awards to small businesses. This additional capital will spur small business innovative research and technology ventures.

The Reauthorization Act also instructed the White House Office of Science and Technology Policy (OSTP) to create an Interagency Policy Committee (IPC) comprised of representatives from all SBIR/STTR agencies, OSTP, and the SBA. The IPC reviews policies and makes recommendations to improve SBIR/STTR program effectiveness and efficiency. The SBA, OSTP, and other federal agencies have worked through the IPC to improve government data and reporting, overhaul the public-facing website at SBIR.gov, and explore several different mechanisms by which cooperative efforts can better help small businesses access the SBIR/STTR program.

FY 2015 Accomplishments and Challenges

The SBA administered $2 million in Federal and State Technology (FAST) grants. The Agency continued to use the five working groups to implement the directives in the Reauthorization Act and to support the White House's Lab-to-Market Commercialization agenda. In addition, the SBA monitored and improved the central commercialization database to track data and perform business intelligence analysis and executed plans to further enhance the SBIR program, evaluate its metrics, and monitor results. The database provides commercialization data on the awards granted by the federal government in a central location.

FY 2016 and FY 2017 Planned Performance

In FY 2016, the SBA will implement and monitor multiple cross-agency initiatives designed to improve program effectiveness, share best practices, continue to enhance the "TechNet" database (the federal government SBIR/STTR database), and further improve SBIR.gov. The additional improvements and enhancements will ensure that SBIR.gov is the central location for small businesses to work with the federal government on research and development. The SBA will seek reauthorization for SBIR/STTR in FY 2017 as the program continue to develop to further small business growth in the federal research and development arena.

The SBA will continue to execute the 20 FAST grants awarded in FY 2015. In FY 2016, the SBA will coordinate two more promotional 20-state road tours, two national events, and a regional event. Substantial work at improving FAST outreach through web and video exposure will be a major focus. The SBA will expand its pilot training program to the majority of states and territories.

The SBA will continue to implement initiatives designed to improve SBIR/STTR program effectiveness and enhance value to small business, and will continue to maintain and improve "TechNet" and SBIR.gov. The additional improvements and enhancements will ensure that SBIR.gov is the central location for small businesses to work with the federal government on research and development. The SBA will review feedback on the new outreach tools and modify them to improve user experience. In addition, the SBA will use its field staff and resource partners to promote SBIR.

Strategy 4: Strengthen the accelerator network targeted at high growth startups and capital providers

Growth accelerators are organizations that help entrepreneurs start and scale their businesses. Typically run by experienced entrepreneurs, accelerators help small businesses access seed capital, mentors, and networking opportunities. These organizations help accelerate a startup company's path towards success with targeted advice on revenue growth, job growth, and sourcing outside funding. Accelerators also help foster an inclusive entrepreneurial ecosystem by stimulating entrepreneurship outside traditional startup hubs like Palo Alto or Boston. They can effectively leverage the specialties and strengths of a particular city and region such as healthcare in Nashville or engineering in Detroit.

Table 1.5h displays the cost to administer the program. It includes direct costs from the operating budget, including grants and contracts, compensation and benefits, Agency-wide costs such as rent and telecommunications, and indirect costs.

Table 1.5h: Growth Accelerators Budget – Total Administrative Resources (Thousands)

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
N/A	N/A	N/A	N/A	$2,500	$3,987	$1,175	$5,173

Table 1.5i shows the performance indicator that tracks the number of applications SBA receives for the growth accelerators program.

Table 1.5i: Growth Accelerators Performance Indicator

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Number of Applications Received for SBA Accelerators Program	**Target**	N/A	N/A	N/A	N/A	N/A	N/A	Baseline	450
	Actual	N/A	N/A	N/A	N/A	N/A	421		
	Variance	N/A	N/A	N/A	N/A	N/A	N/A		

FY 2015 Accomplishments and Challenges

Growth Accelerator Fund awards were given to accelerators in 30 states, Washington, D.C. and Puerto Rico. Most of these areas typically have little access to venture capital. Of the 50 winners: 7 of them were in rural areas, 9 of them were new, 38 percent were majority-owned by women, and 14 percent represented underserved populations.

The winners reported that since their collective inception, they have launched or currently house 976 and 482 startups respectively, for a total of 1,458 companies. Almost 1,000 small businesses have graduated from the accelerators. On average, each accelerator graduates about 10 small businesses per year. Further, the 482 small businesses currently being accelerated yield similar results: about 10 businesses in a given year. Each of them reported the creation or retention of nearly 4,800 jobs.

The SBA completed a second installment of the competition and awarded $4 million to 80 accelerators in order to continue building the support structure needed to help startups become commercially viable and create more jobs. This extra infusion of capital to qualified accelerators and the burgeoning ecosystem in which they play provides resources to boot the startup and entrepreneurship communities around them in order to provide a much needed and sustainable economic impact.

<u>FY 2016 and 2017 Planned Performance</u>
In FY 2016, the SBA received $1 million in funding to support an expansion of the Agency's growth accelerators initiative. Under this proposal, the SBA will scale growth accelerators via a competition among universities and private sector organizations. With an initial investment of $22.5 million in a five-year period, this program will scale what already works best.

In FY 2017, the SBA requests $5 million to support additional outreach efforts. This request will allow the Agency to continue its support for startups growth and commercial viability. The outcome will have a real and sustained economic impact in regions with participating small businesses.

Strategy 5: Provide thought, policy, and executional leadership on the crowdfunding capital raising model

The SBA has led policy development and supported thought leadership on the current proposed crowdfunding rules as published by the Securities and Exchange Commission (SEC). Crowdfunding serves as an alternative source of capital to support a wide range of ideas and ventures. Through its position on the SEC advisory board for small and emerging companies, the Agency provides support to the SEC on the development of rules and platforms to ensure that the needs of the small businesses are met.

<u>FY 2015 Accomplishments and Challenges</u>
The Agency continued to work with the SEC to formalize a rule on crowdfunding under the Securities Act of 1933 and the Securities Exchange Act of 1934 to implement the requirements of Title III of the Jumpstart Our Business Startups Act of 2012. Regulation of crowdfunding would prescribe rules governing the offer and sale of securities. The proposal provides a framework for the regulation of registered funding portals and brokers that issuers are required to use as intermediaries in the offer and sale of securities. The proposal would exempt securities from the registration requirements of the Securities Exchange Act.

<u>FY 2016 and 2017 Planned Performance</u>
SEC issued a final rule on crowdfunding November 16, 2015, to be effective May 16, 2016. In FY 2016, the SBA will continue to work with SEC's Office of Small Business Policy in the Division of Corporation Finance to expand their efforts. The SBA will host a series of events externally and internally which include meeting with small businesses to inform them how to best leverage Title III.

In FY 2017, the SBA will host webinars and other outreach events to provide education on the newly created rules regarding crowdfunding. The SBA expects to be a leading resource in educating and marketing the availability and regulations of crowdfunding to small businesses.