THE PRESIDENT'S EXPORT COUNCIL
WASHINGTON, D.C. 20230

June 19, 2014

President of the United States of America
The White House
Washington, DC 20500

Dear Mr. President,

We recommend continued federal attention to help entrepreneurs and startup companies bring their innovations to market because those goods and services offer additional opportunities to create jobs and expand U.S. exports. To achieve the goals of the National Export Initiative, interested U.S. businesses of all sizes should be in position to help. In particular, there are nearly thirty million small and medium-sized firms (SMEs) that employ about half of the total U.S. private sector payroll. According to the U.S. Small Business Administration (SBA) and the Census Bureau, however, only about 298,000 small businesses export. Among those exporters, 58 percent export to only one country, and 83 percent export to no more than four countries. These figures indicate that opportunities exist to help companies compete globally for business investments and export activities. One of those opportunities is to help entrepreneurs and startup firms access capital.

Access to capital is critical for all companies, but for viable startups, in particular, it is often the difference between an innovative idea and commercializing an innovation. Capital flows easily and quickly across geographic boundaries seeking invention and returns on investment. Risk, however, remains a determining factor in capital access. Traditional sources such as financial institutions and investment firms are more likely to lend capital to businesses with a demonstrable record of commercial success than take a financial risk on a startup.

The special challenge of securing angel, seed and venture capital for startups and high-growth firms has led states and the federal government to develop and implement tools to complement traditional lending. This helps broaden access to capital necessary to fuel critical mass in deal flow across the country and not just in traditional regions of entrepreneurial activity. For decades, states have designed, funded and operated a range of loan and capital access programs for startups and small businesses often tailored to suit local market conditions. Elements of those state programs include direct loan and low-interest rate loans, loan guarantees, direct and "fund-of-funds" investment, lender loan reserve accounts, and collateral support; examples from the states are attached. (Attachment One)

The federal government also has a long history helping facilitate capital access for startups and small firms including through programs such as:

The **U.S. Small Business Investment Company (SBIC) program**, created by Congress more than fifty years ago, is a public-private partnership that helps small domestic businesses meet their capital needs. SBICs are private equity funds licensed and regulated by the SBA located in 43 states, the District of Columbia, and Puerto Rico that offer subordinated loans or equity investments in small companies. The SBIC program has provided almost $60 billion of long-term debt and equity capital to more than 107,000 small domestic companies.

The **Small Business Innovation Research (SBIR)** and **Small Business Technology Transfer (STTR)** programs provide competitive federal funding to qualifying startup technology ventures that have commercial potential but encounter difficulty attracting sufficient private investment because they are still early in development. Both programs are coordinated by the SBA.

Most recently, the **State Small Business Credit Initiative (SSBCI),** began in 2010, authorized for seven years by the Small Business Jobs Act (Pub. L. 111-240). The SSBCI is a $1.5 billion public-private collaboration to promote small business lending and investing. Forty-seven states and the five territories along with the District of Columbia and qualifying municipalities in non-participating states have received SSBCI formula funds. States can use their SSBCI funds to enhance existing or help capitalize new state loan programs or state-run venture capital programs. Through 2012, recipients have expended more than $190 million in SSBCI funds, principally through community banks and community development financial institutions that target underserved markets and populations, drawing into the market over $1.4 billion in new private loan capital, which represents a 7:1 leverage ratio. States do not repay the SSBCI funds but rather keep the money as an "evergreen fund" that recycles into new loans. Funded by the U.S. Department of the Treasury, managed by participating states, and implemented through the participation of private sector lenders and investors, the SSBCI's goal is to use a limited investment of public resources to leverage private capital for startup and small businesses.

Opportunities remain to help startups, high growth companies, and SMEs grow to compete globally for business investments and export activities. We encourage your Administration to assess existing federal capital access programs on an ongoing basis, and recalibrate them, where appropriate, to best match the current needs of startup and high-growth companies.

We urge your Administration to continue its support for programs at all levels of government to help entrepreneurs and startup firms access capital that, in turn, spurs innovation, creates jobs, and nurtures entrepreneurial ecosystems. We urge the Department of Commerce to provide inter-agency leadership on promoting access to capital programs, including the SBA initiatives referenced above. Commerce should leverage in-state resources, such as the District Export Council (DECs), to raise awareness in the startup and small business community about federal programs, collaborate with other federal agencies and departments, and partner with states to help accelerate capital access for entrepreneurs and startups that, in turn, can help grow U.S. exports. [1]

Sincerely,

Jim McNerney

[1] Please note this letter was prepared by the private sector appointed members of the PEC.

Attachment One

Examples of State Programs Supporting Capital Access

The **Oregon Growth Board** makes venture capital investments that help grow companies from early stage to large, locally headquartered firms. The Board uses a portion of state lottery proceeds to fund its Oregon Growth Fund and Oregon Growth Account. In particular, the Oregon Growth Account has committed $110 million with $91 million already invested in 120 in-state companies creating over 2,000 jobs in the following industry clusters: Diversified Sectors (Angel Investor Events), High Technology, Outdoor Gear and Active wear, Natural resources and Advanced Manufacturing. http://www.oregon4biz.com/Contact-us/Oregon-Growth-Board/

- Oregon also operates loan and capital access programs such as the **Oregon Business Development Fund**, the **Credit Enhancement Fund** and the **Capital Access Program** that have years of proven success making direct loans to Oregon small businesses, participating in loan loss-reserve programs, or issuing loan guarantees to financial institutions for the benefit of small businesses.
  http://www.oregon4biz.com/Business-financing-resources/Oregon-Finance-Programs/

The **Oklahoma Seed Capital Fund (OSCF)** is a state-appropriated investment fund that provides concept, seed and start-up equity investments to the state's innovative businesses. Managed by a private not-for-profit firm, Fund managers look for growing innovative small businesses in Oklahoma that show promise of rapid growth in terms of revenue, increased employment and increased private investment capital in Oklahoma companies. http://www.i2e.org/access-to-capital/seed-capital/

- Investment terms are typically convertible debt or preferred equity. Investment decisions involve a rigorous due diligence process.

- To be eligible for the Seed Fund, an entrepreneur must be at the concept, seed or start-up stage. The Fund's managers seek firms that have the potential to become high growth and contribute to the ongoing economic growth of the state.

- Investments are focused on industry sectors with advanced technologies and proprietary products, processes, knowledge, or some combination such as advanced materials, aerospace, agri-sciences, biotechnology, communications technologies, energy, information technology, medical devices, nanotechnology, and robotics.

The **Ohio Third Frontier** (OTF) is a $2.1 billion technology-based economic development initiative under the State's Development Services Agency. The OTF supports existing industries that are transforming themselves with new, globally competitive products and fostering the formation and attraction of new companies in emerging industry sectors. The OTF provides funding to Ohio technology-based companies, universities, nonprofit research institutions, and other organizations to create new technology-based products, companies, industries, and jobs. http://development.ohio.gov/bs_thirdfrontier/background.htm

- The **Commercial Acceleration Loan Fund** (CALF) is an Ohio Third Frontier program that offers early-stage funding to investment-validated Ohio companies to develop next generation products and services. http://development.ohio.gov/bs_thirdfrontier/caf.htm

The **Michigan Economic Development Corporation** (MEDC) works to increase the availability of capital for in-state companies at every stage of the business lifecycle. MEDC helps connect startups and other businesses with capital providers - federal grants, venture capitalists, banks, and others - as well as offer programs that can expand the reach of those capital providers.
http://www.michiganbusiness.org/start-up/capital/#section1

- MEDC operates a broad array of capital access options including equity funding programs like the **Pure Michigan Venture Match Fund** that offers a public match to qualifying companies with a private equity investment commitment and the **Michigan Pre-Seed Fund Investment Program** that supports qualifying high-tech startups nearing commercial viability with early-stage capital. This program also includes a loan component.

- MEDC maintains various venture capital and private equity programs targeted to particular industry sectors such as energy technology and smart transportation enterprises (**Huron River Ventures**) and sciences, advanced manufacturing, homeland security, alternative energy technology, information technology and agriculture (**Michigan Accelerator Fund I**).

- MEDC also supports equity investment in Michigan companies through fund-of-funds such as the **21st Century Investment Fund** and **Venture Michigan Fund I & II**.