

Evaluating the U.S. Small Business Administration's Growth Accelerator Fund Competition Program

The U.S. Small Business Administration's (SBA's) Office of Investment and Innovation (OII) contracted with the Library of Congress's Federal Research Division (FRD) for an independent evaluation of the Growth Accelerator Fund Competition (GAFC) program. The OII oversees the program, which the SBA instituted to "support the development of accelerators and their support of startups in parts of the country where there are fewer conventional sources of access to capital."¹ The goal of the resulting report is to evaluate the scope and value of the GAFC program as a federal government-sponsored means of spurring innovation and small business growth.

The analysis included in the report is based on a literature review of scholarly research on the growing accelerator movement; data and reports from the Aspen Institute's Global Accelerator Learning Initiative, Crunchbase, the Global Accelerator Network, and PitchBook; SBA-required reporting by the 2014–16 GAFC winners; interviews with key experts in the field; a survey of the 2014–16 GAFC winners to build the fullest picture possible of the program's impact; and a peer review by experts in the field. Attempts are made to calculate the estimated economic impacts of the program, but the program's data collection needs to be refined to provide more meaningful quantitative measures. Moreover, the program is at a very early stage, limiting the ability to calculate long-term trends.

Contents of the Report:

- Background on the accelerator movement since 2005.
- Descriptions of accelerators and similar entrepreneurial support organizations.
- Descriptions of other startup support programs within the U.S. government and abroad.
- cursory examination of selected state-level support efforts, in particular those in California, New York, Ohio, Texas, and Virginia.
- Survey responses from 2014-15 GAFC award recipients.
- SWOT (strengths, weaknesses, opportunities, and threats) analysis.
- Critical feedback from peer reviewers.

The GAFC Competition

The goal of GAFC program is to stimulate economic development and innovation by helping entrepreneurs and their startups speed the launch, growth, and scale of their businesses, particularly those in areas that are not typically well served by the private sector. The competition began in 2014 and has awarded flexible, non-repayable prizes (\$50,000 each) annually for the past four years.

Since 2014, the SBA's GAFC prizes have provide monetary support to accelerators distributed across more than 85 percent of the United States.

- In 2014, GAFC awarded \$2.5 million to 50 winners from 31 states, Washington, DC, and Puerto Rico.

¹ U.S. Small Business Administration (SBA), "SBA Launches 4th Annual Growth Accelerator Fund Competition to Award \$1 Million to Support Startup Focused Centers of Excellence," accessed August 9, 2017, <https://www.sba.gov/offices/headquarters/ooi/resources/1428931>.

- In 2015, it awarded a total of \$4.4 million to 88 winners representing 39 states, Washington, DC, and Puerto Rico.
- In 2016, the program awarded \$3.4 million to 85 winners, representing 38 states and Washington, DC.
- Overall, between 2014 and 2016, the SBA awarded 223 GAFC prizes to 187 unique winners from 45 states, Washington DC, and Puerto Rico for a total of \$10.3 million. (Another 20 awards were to be awarded in 2017, but that process was still ongoing at the time of this evaluation.)
- California was home to the most prize winners—13 total between 2014 and 16.
- Accelerators from Delaware, Mississippi, Oklahoma, Vermont, and Wyoming have not won any awards so far.

Awardees commit to one year of quarterly reporting on measures such as the numbers of jobs created, funds raised, startups launched, and corporate sponsors obtained.

Other Public Programs Supporting Entrepreneurship and Innovation

Multiple federal agencies, either singly or jointly with other organizations, have programs to help spur technological development and support small businesses. Most national-level efforts have been started in the past five years and are aimed at leveraging the private sector to help the public sector address large, complex issues. These programs provide large amounts of funding to a handful of organizations that help the federal government work better—whether it be accelerating the implementation of projects; improving efficiency; developing a sense of entrepreneurship; attracting foreign investment, technology, or know-how; or forming public-private partnerships to address these problems. A few of the federal programs also provide small awards (from \$25,000 to \$50,000), but differ from GAFC in that they either exist to support the internal functions of a specific agency, are limited to university-based teams, or target a specific type of product for a specific marketplace.

The Accelerator Landscape

- Accelerators provide fixed-term programs that last for fewer than 12 months; most last about three months. They provide mentorship and technical assistance that enable the “fast-test” validation of ideas. Additionally, accelerators link entrepreneurs to business consultants and provide assistance in the preparation of pitches needed to obtain further investment.
- In the short term, the success rate of an accelerator can be measured against the acceptance rate of startups and the frequency with which they are acquired or otherwise exit the program. In the long run, an accelerator’s success can be measured against its startups’ internal rates of return and abilities to bring in additional sources of funding.
- Research indicates that the startups graduating from an accelerator may obtain funding faster than those using other funding mechanisms. Other research has shown that top accelerators shorten the time it takes to acquire venture capital financing, with accelerators reducing the costs for angel investors and venture capitalists in a number of ways.
- Research has shown that attracting venture capital to a region has a positive impact on employment growth and entrepreneurship more broadly. An increase in finance activity following the arrival of an accelerator leads to new growth in local, regional investment groups. Accelerators also can serve as catalysts, bringing together forces to create an entrepreneurial environment where one did not exist previously.
- When it comes to calculating the number of accelerators in the United States, sources differ because the phenomenon is new and has not been studied deeply. Moreover, a lack of clarity exists in what constitutes an accelerator.
- Little data yet exists that demonstrates their efficacy as institutions and intermediaries in the entrepreneurial ecosystem, meaning that policymakers continue to have little information to help them determine how or if these programs should be supported and encouraged.
- In regions with less venture capital financing, accelerators become more important as a funding source.

- The regions with the most concentrated levels of accelerator and incubator activity are located in California and New York. Additionally, Florida, Illinois, Massachusetts, Missouri, Ohio, Pennsylvania, and Texas host significant numbers of accelerators. Together, these nine states represent nearly three-quarters of the accelerator activity in the United States.
- Traditional venture capital markets are concentrated in three main hubs: the San Francisco Bay Area, the Boston–Washington corridor, and Southern California—encompassing approximately seven states. However, a good amount of activity is now occurring outside of those areas: 54 metropolitan statistical areas and four non-metropolitan areas across 35 states and Washington, DC, have accelerator programs. Some cities, including Chattanooga and Nashville, Tennessee; Cincinnati, Ohio; Milwaukee, Wisconsin; and Honolulu, Hawaii have more than two accelerators.² Today, “upwards of 650 accelerators” have been founded in the United States, some of which are funded privately while others receive backing from governments, corporations, or universities.³

Profile of 2014–16 GAFC Winners

- The SBA awarded the GAFC prize to an increasing number of organizations that were owned or led by underserved populations, such as racial minorities, veterans, and women.
- Most winners were commercial entities, nonprofits, or university-based organizations. One was affiliated with a city government.
- The awardees most often identified their organizations as hybrid models (42 percent), followed closely by accelerators (35 percent). Many fewer classified themselves as incubators (16 percent) and even less identified as co-working startup communities (5 percent) or shared tinker/maker spaces (2 percent).
- Incubators are much less likely to provide small amounts of angel money or seed capital, or specialized or structured loans, than accelerators or hybrid programs. Approximately 60 percent of the programs that identified as accelerators provided small amounts of angel funding or seed capital, but only 11 percent of the programs that identified as incubators provided such support.
- Accelerators and incubators are more likely to offer high-growth, tech-driven startup mentorship and commercialization assistance, but they are less likely to provide services to underserved communities (such as women, veterans, minorities, or economically disadvantaged groups or locations) than hybrid models.
- Accelerators are less likely to offer resource sharing and co-working arrangements or to provide a shared working environment than incubators or hybrid models.
- Accelerators and hybrid models are slightly less likely to provide their startups with regular networking opportunities than incubators.
- Hybrid models are less likely to use a selective process to choose participating startups than accelerators or incubators.
- Accelerators, incubators, and hybrid models provide their startups with introductions to customers, partners, suppliers, advisory boards, and other players, as well as opportunities to pitch ideas and startups to investors, along with capital formation avenues (e.g., demo days), at approximately the same rates.
- Contrary to the typical accelerator model, in which the provision of seed funding is fairly standard, less than half of the GAFC winners provided such financing to their startups and even fewer took an equity stake in those businesses. Approximately one-quarter of the winners provided seed funding to only their most promising startups. Of those that did take an equity stake in exchange for seed funding, most took 5–6 percent equity. Accelerators that made investments in their startups made an average total investment of \$1,827,600 between 2014 and 2016.

² Ian Hathaway, “Accelerating Growth: Startup Accelerator Programs in the United States,” Brookings Institution, February 17, 2016, <https://www.brookings.edu/research/accelerating-growth-startup-accelerator-programs-in-the-united-states/>.

³ Benjamin L. Hallen, Christopher Bingham, and Susan Cohen, “Do Accelerators Accelerate? The Role of Indirect Learning in New Venture Development,” July 2016, 6, <https://ssrn.com/abstract=2719810>.

- Approximately half of the respondents described themselves as focused on an industry (such as life sciences or food) or a location (such as rural areas or specific counties). Forty-one percent of the winners described themselves as focused on a demographic (such as women, Native Hawaiians, or veterans) or technology (such as biotechnology or clean technology). Between 10 percent and 20 percent of the respondents described their organizations as being focused on a product, a service, or being a social enterprise.
- The winners tended to be young businesses with small numbers of employees and average annual operating budgets of less than \$500,000. As of January 2017, almost half had been in business less than five years, and 20 percent had been in business between 5 years and 10 years. Quarterly reporting shows that the average amount raised by the accelerators from outside investors (excluding the \$50,000 from the SBA) was between \$1,413,106 and \$2,636,024.
- Approximately one-fifth of the winners had an operating budget greater than \$1,000,000. These winners were more likely to describe themselves as having a hybrid model, and were more likely to have 6–15 full-time employees.
- Among the GAFC winners, healthcare/medicine was consistently the most represented category among their startups, followed by information technology (IT) and food/beverage/hospitality. Other well-represented sectors include education, manufacturing, and agriculture. Non-IT technology/science, energy, and tourism were the least represented. This basic trend appears consistent over the three years of the program for which there is data.
- Funding from a single source—such as angel investors; family/friends/self; corporations; private venture capital; other federal, state, or local government funding; or loans/debt financing—typically comprised 10 percent or less of a winner's operating budget.
- Corporations and state governments were a common source of funding that comprised more than 10 percent of a program's budget.
- It was rare for any single funding source to comprise more than 50 percent of an awardee's operating budget. However, nine respondents received 100 percent of their funding from a single source, with state governments providing one-third of this support.
- According to third-quarter reporting data by the 2014–15 GAFC winners, none of the 2014 winners and only 3 percent of the 2015 winners raised capital from international investors. However, 28 percent of the recipients reported that their startups had raised capital internationally.

GAFC Winners' Comments on the Power of the GAFC

GAFC winners identified the following benefits of the program for their organization, startups, and communities:

- Increased credibility brought by receiving a federal financial award.
- Improvements to and increased participation in the local entrepreneurial culture.
- Creating faster market entry.
- Increased number of startups launched and jobs created.
- Supporting groups or regions that are not typically served by the venture capital community.
- Providing accelerators the stability they need until they graduate their first class of graduates.

Strengths and Weaknesses of the GAFC Program

The main strengths of the GAFC program fell into the following categories: meeting its program goals, filling geographic gaps in the accelerator and entrepreneurial ecosystem, providing support to accelerators and startups headed by traditionally underserved groups, outstanding program administration, the recognition and leverage provided by a federal award, a strategic boost in funding, a positive impact on the local startup community, and leveraging other SBA services and follow-on funding. While no awardee thought the size of the GAFC award should be reduced, many provided ways in which the award could be increased or scaled in some way.

The primary weaknesses of the GAFC program include, according to the survey respondents, irregular communication from program administrators; concerns that it overlaps and duplicates other SBA entrepreneurial support programs, such as its small business development centers and women's business development centers, or the services of the Office of Entrepreneurial Development; that it grants prizes to too many organizations that are not true accelerators; and that some organizations may become too dependent on the funds for their existence.

Opportunities for the further development of the GAFC program were also provided by respondents to the FRD survey. These remarks primarily address the size of the GAFC award and whether the program should be revised in some way.

The biggest threat to the GAFC program, as with any public program, is reduced congressional funding, which could come about for several reasons: the SBA's overall funding is cut and it no longer has the funds to support the program; GAFC's inclusion of non-accelerator programs creates a redundancy with other federal programs; the required reporting shows a low return on investment; or the program or its funding is abused. Additionally, lack of sufficient funding for program staff could impact the effectiveness of how the program is run.

Recommendations from FRD and Experts in the Field

The FRD project team's analysis of the survey responses and review of the existing literature about the industry yielded the following recommendations concerning the GAFC program:

- Develop more statistically sound reporting metrics.
- Improve the collection, monitoring, and maintenance of reporting metrics by devoting dedicated staff to such efforts.
- Enforce mandatory reporting requirements.
- Provide a follow-on evaluation that is based on improved reporting metrics, a longer time period over which to collect results, and a focus on program impacts.
- Use logic models to establish the parameters of what the GAFC program is to achieve and how best to achieve it.
- Place greater effort into differentiating applicants based on their size, the sector (e.g., geographic, demographic, or industrial) in which they operate, the support model they operate (e.g., accelerator or incubator), their near-term and long-term growth prospects, and their proposed use of funds; consider adjusting the size of the prize according to these factors.

To supplement its own research and survey findings, FRD solicited the input of government, nonprofit, and accelerator experts to provide their perspectives on the GAFC program. These experts were across-the-board supportive of the GAFC program as a relatively low-cost, small, impactful government program, unique in structure and target, which supports the infrastructure needed to successfully launch startups and should continue to be funded. They felt that both the size of the prize and the program were sufficient, but encouraged the expansion of both—suggesting the SBA, at the very least, maintain the prize at its current level or increase it up to \$100,000. They also felt the overall annual program budget should be between \$2.5 million to \$10 million.

From their unique perspectives within the federal government and accelerator industry, the peer reviewers added the following recommendations to the GAFC program discussion:

- The GAFC program needs a larger staff in order to not only assist in program management but, more importantly, to develop and maintain key program metrics so the effectiveness of the award can be knowledgeably monitored.
- The program could be diversified and tailored to meet the specific needs of the prize recipients (accelerators), their startups, and the local economies they serve, as well as government policymakers.
- The program needs to provide mechanisms to connect past and present GAFC winners to enable them to share best practices.