

Small Business Administration – Small Business Investment Corporation (SBIC)


Background. The SBIC Program is one of many financial assistance programs available through the U.S. Small Business Administration (SBA). The structure of the program is unique in that SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. SBA does not invest directly into small business through the SBIC Program.

The SBIC Program currently offers its licensees access to debt capital with a 10-year maturity and semi-annual interest payments. The structure of this financing means that most SBICs focus primarily on providing small businesses with debt or debt with equity features. SBICs will typically focus on companies that are mature enough to make current interest payments on the investment so that, in turn, the SBIC can meet its interest obligations to the SBA.

Impact Investment Initiative. SBA recently launched a \$1 billion initiative that mirrors the *Impact Investment* initiative created at OPIC. SBA's program, in contrast, focuses on domestic investments. As part of the *Impact Initiative*, SBA will commit \$1 billion over the next five years in SBA-guaranteed bonds as a match to private capital raised by privately owned and managed investment funds. No new authority is required for SBA to initiate this program, and SBA is seeking proposals from investment funds interested in becoming licensed as *Impact Investment* SBICs. While there is no deadline for submitting a proposal, it is recommended that interested funds initiate a discussion with SBA as soon as possible. The agency has received several proposals to date, which are currently under review.

An *Impact Investment* SBIC must deploy at least 50 percent of the total dollar amount of its investments into impact investments, defined as investments in Small Business Concerns (SBCs) that target areas of critical national priority, including underserved markets and communities facing barriers to access to credit and capital. *Impact Investment* SBCs must meet one or more of the following criteria:

- **Place-based:** SBCs located in, employing residents of, or with at least 35 percent of its full-time employees at the time of initial investment residing in low- or moderate-income areas as defined in CFR 107.50, or economically distressed areas, as defined by Section 3012 of the Public Works and Economic Development Act of 1965, as amended, 42 U.S.C. 3161.
- **Sector-based:** SBCs in industry sectors that the administration has identified as national priorities. Currently only clean energy and education have been identified as priority sectors.



The prospective investment fund’s strategy must involve investing growth capital in companies that are either located in economically distressed areas or companies that are in emerging sectors, such as clean energy. SBA will provide up to a 2:1 match to private capital raised by funds that target “impact” investments.

Similar to OPIC, SBA’s participation will serve as a catalyst for accelerating capital support for start-ups and high-growth firms. SBA will provide expedited licensing and capital to fund managers who qualify to organize and operate an *Impact Investment* SBIC. SBA will also proactively collaborate with institutional investors to drive capital to experienced private equity fund managers functioning as *Impact Investment* SBICs.

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