



The Daily Dish

# The Small Business Investment Company Program

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## Eakinomics: The Small Business Investment Company Program

Thomas Wade has written a highly accessible primer on the Small Business Investment Company (SBIC) Program, cleverly titled, “[The Small Business Investment Company Program: A Primer](#).” This Small Business Administration (SBA) program has been in existence for over 60 years and has provided nearly \$70 billion to America’s small businesses through 166,000 investments, including financing for Apple, Intel, and Tesla in their early stages. SBICs may only invest in companies that satisfy the SBA’s definition of a small business.

Here is how the mechanics were set up. “The SBA provided financing (known as leverage) to its SBICs via the issuance of unsecured loans (known as debentures), and these SBICs would then make investments in small businesses they thought had potential for growth.” At first glance, SBICs look like venture capital funds making equity investments in promising entrepreneurial ventures, with the proviso that the taxpayer is providing the money via the SBA. In fact, the financing structure is a bit more flexible: “SBIC investments can be made in a variety of ways, from ‘straight’ debt with no equity features (Loans), debt with equity features (Debt Securities) or stock and partnership interests (Equity Securities), or any combination of the above, with the interest rate charged by the SBA dependent on the type of investment.” Finally, there are limits on leverage and overall support: “For every \$1 the SBIC raises in private capital, the SBA will commit \$2 of debt, up to a [cap of \\$175 million](#). In this manner an SBIC with \$50 million in private capital available can access up to \$100 million in SBIC leverage, allowing them to invest \$150 million in qualifying small businesses.” SBICs also benefit from a number of favorable legal provisions.

Now, you might say: “This is all really interesting (or, if you are undercaffeinated, not), but why do I care on March 10, 2021?” As readers of Eakinomics know, one of the key policy responses to the COVID-19 recession is the SBA’s Paycheck Protection Program ([PPP](#)), which offers loans to small businesses that may be forgiven if used to cover a specified list of costs (notably payroll costs). As time has passed, there has been increasing concern that firms will be unwilling to take on more debt and that the short-term nature of the PPP is a mismatch for small firms going forward. In this context, the SBIC program would appear to be a potential vehicle for providing alternative financing to promising small businesses, especially longer-term support by professionals who can help a small firm grow.