

**Micro-SBIC and Emerging Managers Program Act of 2021**  
**Section by Section Summary**  
**Reps. Chrissy Houlahan (D-PA)**

**Background**

Authorized by the Small Business Investment Act of 1958, the Small Business Administration's (SBA) Small Business Investment Company (SBIC) program provides access to low-cost, government-backed investment capital for small businesses, strengthening local communities and empowering American business owners to grow and compete in the global economy. The SBIC program's funds represent approximately \$30 billion in investment capital which, since 1995, has helped create or sustain over 9.5 million jobs. By most metrics, the SBIC program is an example of a successful public policy that aligns the power of the private market with the public interest of job creation and economic growth. However, the SBIC program has historically struggled with a lack of racial, ethnic, and gender diversity, both among investors participating in the program, and in the companies receiving investments. As early as 2007, SBA testified that "women and minority participation [in the SBIC program] is low," and that it has tried to increase women and minority representation in the program by reaching out to venture capital firms, trade organizations, and others to better understand why diverse representation in the program is low. Notably, SBA also testified it tried "finding debenture [SBIC] firms with minority representation on their investment committees and senior management." Despite these efforts, the Small Business Investor Alliance (SBIA) asserted in subsequent Congressional testimony that SBA's SBIC licensing process "has done an abysmal job at attracting and licensing funds led by women and minorities." These challenges persist to the present day – in FY2020, slightly over 5% of all companies financed by SBICs were owned by women, minorities, or veterans.

On July 15th, 2020, the House Committee on Small Business held a hearing exploring policy options for the small business COVID-19 recovery, including the role SBICs can play in financing small businesses in need of patient capital. One of the recommendations included lowering barriers for smaller and more community-driven investors to access the SBIC program. This legislation addresses that need by creating a "Micro-SBIC" license within the SBIC program. Specifically, a Micro-SBIC license requires less private capital raised than conventional SBICs (\$25M vs. \$175M) and reduces management requirements to expand the pool of eligible fund managers. To incentivize investments in small businesses that need it most, the Micro-SBIC license offers discounted leverage for investments in small businesses majority-owned by women, minorities, native Americans, or veterans; or located in a low- or moderate-income (LMI) or other underserved areas. Furthermore, to improve fund manager diversity, the bill also establishes an Emerging Managers Program, through which less experienced managers and those with an emphasis on underserved markets can receive guidance and assistance from experienced fund managers.

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*Section 1. Short Title.*

This Act may be cited as the “Micro-SBIC and Emerging Managers Program Act of 2021.”

*Section 2. Micro-SBIC License.*

- Establishes a “Micro-SBIC” license within the larger SBIC program for investment funds with \$5 million minimum private capital.
- Directs SBA to reduce requirements for Micro-SBIC applicants to encourage applications from fund managers new to the program.
- Requires SBA to provide applicants with a status update and remaining requirements on the application within 90 days of SBA’s receipt of the application.
- Requires SBA to, within a reasonable time after providing the 90-day status update, approve and issue the Micro-SBIC license, or disapprove and notify the applicant in writing. Permits SBA to provide provisional approval for a 12-month period.
- Permits Micro-SBICs owned by conventional SBICs to access SBA leverage at 100% of its private capital, capped at \$50M. Micro-SBICs not owned by conventional SBICs will access leverage at 50% of private capital, capped at \$25M.
- Permits Micro-SBICs that invest in Special Competitive Opportunity Gap Businesses (those owned by women, minorities, or veterans, or located in an LMI area) and those located in other underserved areas to exempt from leverage limits up to \$25 million (or \$50 million, in the case of a Micro-SBIC owned by a conventional SBIC) in investments to these businesses.
- Requires SBA to amend regulations to increase a Micro-SBIC’s leverage cap flexibility (“overline limit”) compared to conventional SBICs.
- Requires SBA to include the number of diverse Micro-SBIC applicants and licensees in the annual report submitted under Sec. 10(a) of the Small Business Act, as well as the number of Micro-SBIC investments made in Special Competitive Opportunity Gap Businesses, and a disaggregation by the type of investment made (straight debt, debt with equity features, or equity only).
- Establishes the Emerging Managers Program, under which experienced SBIC and other private equity fund managers may enter into a written agreement approved by SBA to provide guidance and assistance to an applicant for a SBIC or Micro-SBIC license managed by at least two emerging managers (defined as an individual with an investment record of less than 10 years, or with a focus on underserved markets).
- Clarifies leverage drawn by funds receiving guidance under an Emerging Managers agreement shall not be considered as part of the leverage made available to the SBIC providing guidance.