



September 9, 2021

The Honorable Nydia Velázquez  
Chair  
Committee on Small Business  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Blaine Luetkemeyer  
Ranking Member  
Committee on Small Business  
U.S. House of Representatives  
Washington, DC 20515

Dear Chair Velázquez and Ranking Member Luetkemeyer:

On behalf of the Small Business Investor Alliance (SBIA), the nation's leading voice for the Small Business Investment Companies (SBIC) and other providers of long-term capital, I am writing in support of the House Small Business Committee's proposal to enhance and improve the SBIC program to better serve a broad swath of American small businesses.

The massive economic disruptions of the past year have amplified the challenges faced by American small businesses and the important role the Small Business Administration (SBA) has in aiding small businesses and job creation. For many years, this Committee has held hearings on the myriad challenges in accessing long-term, patient capital. The existing Debenture SBIC program has been extremely effective at supporting high-growth small businesses and creating domestic jobs while operating at a zero-subsidy rate through both good and bad times, however the structure of the Debenture program limits the types of capital SBICs can deploy to a mix of debt and equity, and generally not the most patient kind of capital -- straight equity. This means that while SBICs provide capital across the country, the earlier stage venture investments that are normally pure equity are overwhelmingly concentrated, with of 75% of these investments in Silicon Valley, New York City, and Boston. Entrepreneurs in the rest of America should have access to venture capital without moving their new and growing business to one of the three areas where venture is readily available. For America to be successful in providing good, sustainable jobs and innovating to compete globally, we need thoughtful public policy that removes barriers to business innovation. The piece of legislation before the Committee today is a thoughtful step in addressing real problems and expanding economic opportunity and free enterprise for the small business community.

Venture SBIC – As mentioned above, there are vast venture capital deserts for a majority of Americans. But what does this mean and how does it impact small business growth and jobs? Venture capital is a form of private equity and a type of financing that investors provide to startup

companies and small businesses. But the bigger a venture fund, the larger the investment they need to make, whereas small businesses need small investments. Geography matters, too, because entrepreneurs operate in local and regional ecosystems that are not isolated to the three venture hubs.

So, while there are significant sums of money in venture funds, the issue is that there are more and more massive venture funds in a few areas investing in a handful of sectors, but fewer and fewer small venture funds serving the rest of the country. This means startups seeking \$10-100 million have a healthy market and lots of options, but small business startups that need much smaller investments have extremely limited options. Further, the largest venture funds are highly concentrated in three urban, while smaller funds are located in across a far broader swath of America. America's economic vitality depends on having a strong, small venture market serving smaller start-up businesses in all areas, particularly underserved communities located in rural, urban, and suburban areas.

The current venture market is also extremely concentrated in just a few economic sectors – information technology, healthcare, and business/financial services. While these are important economic sectors that provide high growth and profit, the manufacturing sector is also extremely important and deserves more attention from policymakers. As a matter of global competitiveness, we clearly need more manufacturing to be inside the United States.

Creating an equity facility for the existing SBIC program will amplify early-stage private capital investment via smaller venture funds in fly-over areas too often passed by and into a broad array of industries that will let us build, innovate, and create jobs here in the United States to compete globally.

Emerging Managers – Professions in Venture Capital and Private Equity require many years of training, and mentorship from industry professionals. The Emerging Managers proposal bridges the divide for individuals who have a background in business, want to enter the private equity or venture capital industry, but lack the depth of investing experience. This provision will allow formal arrangements between those starting out in the industry and those who are established in the industry, enabling the transfer of knowledge and experience between the next generation and experts in the industry. This will increase not only the geographic and demographic diversity of SBIC funds, but will also increase the likelihood that these new funds will be successful at helping small businesses grow.

MicroCap SBIC Licenses. The MicroCap SBIC program is designed to enhance the demographic and geographic diversity of SBIC applicants. When implemented, MicroCap SBICs will be small, starter funds that are right-sized for smaller markets and for the smallest end of the growth business continuum. If implemented correctly, and in conjunction with the Emerging Managers partnerships, SBA should be able to expand the diversity of both the composition of SBIC funds, and the small businesses accessing capital.

In sum, subtitle D titled “Increasing Equity Opportunities for Small Manufacturers” would be good public policy that benefits millions of Americans whose communities are not being adequately served and that are often simply overlooked by the providers of long-term, patient capital. The Small Business Investor Alliance urges all members of Congress to vote in support of these provisions.

Sincerely,

A handwritten signature in blue ink that reads "Brett Palmer". The signature is written in a cursive style with a small "03" written below the name.

Brett Palmer  
President  
Small Business Investor Alliance

cc: Members of the Committee on Small Business