



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

DATE: September 25, 2014

TO: Prospective Impact Investment Small Business Investment Company (“SBIC”) Applicants and Private Limited Partners

SUBJECT: SBIC Program’s Impact Investment Fund Policy Update

1. **Updated Impact Investment SBIC Policy.** On April 7, 2011, the Small Business Administration (“SBA”) launched the SBIC Program’s Impact Investment Fund (the “Impact Fund”), as part of President Obama’s [Start-Up America Initiative](#). The goal of the Impact Fund is to support small business investment strategies that maximize financial return while also yielding measurable social, environmental or economic impact, in order to:

- a. Increase the flow of capital to small businesses in federal priority sectors and underserved communities.
- b. Contribute to the growth and development of the impact investment industry.

SBA will pursue this goal by:

- a. Collaborating with institutional investors to identify and capitalize experienced private equity fund managers to make “impact investments” into Small Business Concerns (“SBCs”).
- b. Licensing, on an expedited basis, fund managers qualified to organize and operate an “Impact SBIC.”

Per its original guidance, SBA has continued to review this policy and is implementing changes based on feedback received. This policy was last updated in September 2012 to expand the impact definition. This document updates and replaces the September 2012 policy letter. Please note that Impact SBICs are subject to the same rules and regulations that govern the Standard SBIC Program.

SBA is also considering future regulatory changes to encourage both Impact SBICs and Standard SBICs to invest in the nation’s most underserved areas. Although SBA will begin accepting applications under this revised policy immediately, these changes will go into effect beginning on October 1, 2014.

2. **SBA Impact Investment Fund Commitment Allocation.** SBA intends to target an average of \$200 million per year in SBA-guaranteed leverage commitments to Impact SBICs. Impact SBICs may be eligible for SBA-guaranteed debenture leverage of up to three times their qualified private capital, subject to standard maximum debenture ceilings per [13 CFR 107.1150](#), SBA credit procedures, and the following considerations:

- a. SBA will continue to license qualified applicants as Impact SBICs on an ongoing basis. Although the original policy identified a termination date of fiscal year 2016, SBA is committed to continuing this important initiative past the original five year period. As a goal, SBA intends to commit on average \$200 million per year to Impact SBICs.
- b. Impact SBIC applicants that are considering seeking a third tier of leverage should review SBIC regulations (Click on [13 CFR 107.1150](#) for more information).
- c. If demand for [Energy Saving Debentures](#) exceeds availability, SBA will develop procedures which give priority to Impact SBICs licensed under this policy seeking to issue Energy Saving Debentures.

3. Impact Investment Fund Requirements. SBA expects Impact SBICs to deploy at least 50% of their invested capital into Impact Investments (the “50% Threshold”). Impact Investments are investments in SBCs that meet fund-identified definition(s) approved by SBA or at least one of the SBA-identified criteria described below:

- a. ***Fund-Identified Impact Investing Strategies:*** Impact investing is a developing field that is undergoing constant growth and change. Impact investors are active across a wide variety of industries, sectors and regions, pursuing any number of mission-driven investment strategies. To accommodate the diversity of impact investing strategies, Impact SBICs may finance SBCs that meet the fund’s own, customized definition of an “impact investment,” subject to the following:
 - i. *Define:* During the licensing process, using Appendix 2 of Form 2181 – Narrative, the fund must provide the following information:
 - (1) Identify the social, environmental or economic area(s) the fund intends to target;
 - (2) Provide a detailed definition of what the fund will consider an “impact investment” for the purposes of meeting the required 50% Threshold. The definition should describe the characteristics or business activities that will make an investee eligible for an impact investment; and,
 - (3) Explain how the fund intends to meet the measurement and reporting requirements outlined in paragraph 4(b) of this policy letter.

SBA will evaluate this information as part of the Impact SBIC licensing process and reserves the right to determine whether a fund’s proposed investment strategy is indeed consistent with the goal of the Impact Investment Fund. Prospective applicants are encouraged to take advantage of the SBIC Program’s [pre-screening process](#), during which they may obtain informal, non-binding guidance on their eligibility to apply as an Impact SBIC.

- ii. *Declare:* In any private placement memorandum or similar offering materials, the fund must have identified itself as having an impact investment strategy that is consistent with the investment strategy presented to SBA during the SBIC Program’s licensing process.

Among the wide array of impact investing strategies that investors use, SBA has identified several sectors of national priority. Impact fund managers with expertise in these sectors are encouraged to apply for an Impact SBIC license:

- i. **Clean Energy:** Investments that facilitate improvements in energy efficiency or the use of renewable resources.
- ii. **Education:** Investments in SBCs offering products or services that facilitate improvements in student outcomes or teacher effectiveness at the K-12 or post-secondary levels.
- iii. **Advanced Manufacturing:** See Attachment 1 for a detailed description of this sector.

Impact SBICs that utilize a self-identified impact investing strategy must adhere to the measurement and reporting requirements outlined in paragraph 4(b) of this memo.

- b. ***SBA-Identified Impact Investing Strategies:*** Impact SBICs may also meet the 50% Threshold by financing SBCs that meet at least one of SBA’s definitions of an “impact investment,” described below:
 - i. ***Recipients of Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) grants:*** Eleven federal agencies participate in the SBIR program and five of the eleven participate in the STTR program. These grant-based programs are highly competitive and are designed to encourage domestic small businesses to engage in Federal Research and Federal Research & Development that have the potential for commercialization. Stimulating technological innovation, meeting the nation’s research needs and increasing private-sector commercialization of discoveries drives America’s competitiveness via broad and inclusive small business participation. More information is available at: www.sbir.gov.
 - ii. ***Energy-Savings Qualified Investments:*** SBA considers “energy-savings qualified investments,” (“ESQI”) as defined in [13 CFR 107.50](http://13CFR107.50), to be impact investments.
 - iii. ***Place-based:*** SBA considers investments in SBCs located in the following communities, which are underserved and/or facing barriers to access to credit and capital, to be impact investments,
 - (1) Low or moderate income (“LMI”) enterprises located in LMI Zones, as defined in [13 CFR 107.50](http://13CFR107.50);

- (2) Qualified low-income community investments (“QLICs”) located in low-income communities (“LICs”), as defined by the New Markets Tax Credit (“NMTC”) program in [26 CFR 1.45D-1\(d\)](#)¹;
- (3) Rural business concerns located in rural areas as defined in [7 CFR 4290.50](#)²; and,
- (4) SBCs located in economically distressed areas (“EDAs”), as defined by Section 301³ of the Public Works and Economic Development Act (“PWEDA”) of 1965, as amended, [42 U.S.C. 3161](#).

4. Impact Reporting & Measurement.

- a. ***Reporting Required by All Impact SBICs:*** Upon licensing, SBA will begin tracking the progress of Impact SBICs in fulfilling their commitment to deploy at least 50% of their invested capital in impact investments. For each new impact investment, Impact SBICs should use the “Comments” section of SBA Form 1031⁴ to report the following information:
 - (1) Indicate “Impact Investment” at the beginning of the “Comments Section”; and,
 - (2) Identify the criterion or criteria under which the investment qualifies as an impact investment using the appropriate key words, for example: SBIR, STTR, ESQI, LMI, LIC, Rural, EDA or Fund-Identified. If “Fund-Identified,” the Impact SBIC must describe how the investment meets the customized definition of an “impact investment” that the Impact SBIC provided during the licensing process.

For the purposes of complying with this policy, no further impact reporting or measurement is required of Impact SBICs that achieve the 50% investment threshold based solely on the sum of capital invested in SBA-identified impact investments as outlined in paragraph 3(b).

- b. ***Reporting Required by Impact SBICs Using Fund-Identified Strategies:*** Impact SBICs using a fund-identified impact investing strategy, as described in paragraph 3(a), must commit to measure

¹ The NMTC program is operated by the U.S. Department of Treasury’s Community Development Financial Institution (“CDFI”) Fund, which maintains a [mapping tool](#) that identifies eligibility. Users must first establish a “MyCDFIFund” account following the instructions provided.

² The definition of rural areas for the Rural Business Investment Program (“RBIP”) was modified by the Food, Conservation, and Energy Program of 2008 (“2008 Farm Bill”) to align with the U.S. Department of Agriculture’s (“USDA’s”) Business and Industry (“B&I”) Guaranteed Loan program, for which the Rural Business-Cooperative Service (“RBS”) maintains a [mapping tool](#) that identifies eligibility.

³ Section 301(a)(1) of PWEDA (42 U.S.C. 3161) provides that an area is economically distressed if it has a per capita income of 80 percent or less of the national average. Section 301(a)(2) (42 U.S.C. 3161) provides that an area is economically distressed if it has an unemployment rate that is, for the most recent 24-month period for which data is available, at least 1 percent greater than the national average unemployment rate. The Federal Highway Administration provides [supplemental guidance](#) on the determination of EDAs. Many states also publish lists of counties that qualify as EDAs. Finally, the Bureau of Labor Statistics provides statistics on [unemployment rates](#) at the national and local levels.

⁴ SBA Form 1031 is a report all SBICs, regardless of type, must file with SBA with each new financing.

the social, environmental or economic impact of their investment strategy using the *Fund-Level Impact Assessment* or *Portfolio Company Impact Assessment* approach outlined below in sections (4)(b)(i) and (ii). These assessments must be provided to SBA with the Impact SBIC's next required financial statement submission (known as SBA Form 468), unless requested sooner by SBA:

- i. ***Fund-Level Impact Assessment:*** Within two years of licensing, obtain an initial assessment or rating of the fund's overall impact, based on an analysis of all the investments in the portfolio and subject to the following:
 - (1) The assessment or rating system must be based on the Global Impact Investing Network's [Impact Reporting and Investment Standards](#) ("IRIS"); and,
 - (2) The assessment or rating must be conducted by an independent, third-party, such as B Lab's [Global Impact Investment Ratings System](#) ("GIIRS").

A second assessment should be completed within two years of the end of the investment period.

- ii. ***Portfolio Company Impact Assessment:*** Within two years of making an impact investment qualifying under paragraph 3(a), obtain from an independent third-party provider an assessment of the individual SBC's impact using one of the following sets of standards:
 - (1) IRIS
 - (2) The reporting guidelines of the [Global Reporting Initiative](#) ("GRI")
 - (3) The standards developed by the [Sustainability Accounting Standards Board](#) ("SASB")

Currently, IRIS, GRI and SASB are the only standards that qualify for use by Impact SBICs. As the impact investing sector becomes further developed and in consultation with its stakeholders, SBA may approve additional acceptable standards in the future on an ongoing basis as applicable.

5. Collaborating with SBA. The success of the Impact Fund depends on effective collaboration between SBA, limited partners ("LPs") and fund managers, each of which plays an important role in managing and capitalizing Impact SBICs.

- a. ***Impact Investment LP:*** Impact Investment LPs are institutional investors interested in maximizing the financial return on their investments while achieving social, environmental or economic impact. SBA intends to communicate openly with this group and will encourage them to:
 - i. Identify additional ways to improve the SBIC program and the Impact Fund;
 - ii. Recommend the SBIC program to qualified impact fund managers in which they have invested or are being considered for an LP commitment; and
 - iii. Consider investing in existing SBICs, funds currently in the SBA application process, and/or prospective applicants focused on impact investing.

It is important to recognize that SBA will continue to rely on its Impact Investment LPs to perform their own due diligence and make investment decisions in accordance with their own established investment evaluation criteria, time parameters and other factors they determine.

Institutional investors interested in learning more about the Impact Fund and how they can participate may contact SBA by email at: AskSBIC@sba.gov. SBA has designated an Impact Investment LP point of contact that will receive your email and reply promptly.

- b. **SBA:** SBA hopes to expand its Impact LP base by:
- i. Educating institutional investors and fund managers about the SBIC program, the Impact Fund and the rigorous licensing, monitoring and regulatory processes SBA employs to ensure the success of the program;
 - ii. Communicating regularly with partners interested in participating or supporting SBA's efforts in impact investing;
 - iii. Considering Impact Fund policy improvements based on feedback received from its partners; and,
 - iv. Obtaining updates on promising impact investment fund managers proceeding through the investment pipelines of LPs willing to share information with SBA.

SBA will help facilitate Impact SBIC capital raising and licensing process by:

- i. Implementing an expedited licensing track for Impact SBIC applicants, as described in paragraph 6 of this memo; and
 - ii. Distributing to interested LPs, with the consent of participating funds, the names of existing Impact SBICs and Impact SBIC applicants that have passed our initial due diligence and screening processes, internally known as those in Phases II and III of the licensing process. The list will include a brief description of each fund's focus and contact information. SBA cannot recommend any individual fund, but interested investors may contact SBICs and applicants directly for more information.
- c. **Impact SBIC Manager:** The Impact SBIC fund managers responsible for sourcing and executing impact investments in SBCs are the foundation of the Impact Fund. Impact SBIC applicants must submit the same documents, follow [the same process](#), and meet the same high standards as any applicant to the SBIC program. However, Impact SBIC applicants will benefit from the Impact SBIC Expedited Licensing Track and the opportunity to be part of the voluntary list provided to private institutional investors interested in impact investing.

To qualify as an Impact SBIC applicant, the applicant must demonstrate its management team's ability and strategy to deploy at least 50% of the fund's dollars into impact investments.

Consistent with the broader SBIC program, applicants licensed as Impact SBICs are expected to substantially adhere to the business plan they proposed during the licensing process, particularly with respect to their impact investing strategy.

6. **Expedited Licensing Track & Opting-In.** SBA is committed to minimizing any delay Impact SBICs may face in getting to market so they can begin making the impact investments the Impact

Fund was created to support. Both existing Standard SBICs and Impact SBIC applicants have an opportunity to participate:

- a. **Impact SBIC Applicants:** Impact SBIC applicants are subject to the same rigorous [application process](#) and underwriting standards applied to Standard SBIC applicants:
 - i. **Phase I – Initial Review.** During this phase, SBA reviews each applicant’s business plan and management qualifications. SBA will give priority to Impact SBICs with the goal to complete its Phase I review within 60 days of submission of the [Management Assessment Questionnaire](#).
 - ii. **Phase II – Capital Raise.** Impact SBICs that are approved in Phase I will be offered the opportunity to be included on the list of Impact SBICs and Impact SBIC applicants that SBA will periodically distribute to Impact Investment LPs. Only with applicant consent will the fund be added to the list, along with a brief description of the fund’s focus and its contact information.
 - iii. **Phase III – Licensing.** An applicant that submits its application to become an Impact SBIC will receive expedited consideration of its license application. In order to process the application as quickly as possible, SBA suggests that applicants adhere closely to SBA’s [model limited partnership agreement](#) and the additional guidance provided in [Technote 15](#) and Attachment 2 in [Technote 14](#), among others. SBA will give priority to Impact SBICs in licensing with a goal of 90 days.
- b. **Existing SBICs:** SBA may approve requests from existing Standard SBICs to opt-in and earn Impact SBIC status. These funds should submit their request, via e-mail, to their assigned Operations Analyst by December 1, 2014. The request should explain how the fund meets the requirements of section 7(b)(i) or (ii) below and provide any required supporting material. SBA will approve or deny opt-in requests within 90 days of their receipt:
 - i. **SBA-Identified Impact Investments:** Standard SBICs may opt-in under this section if at least 50% of the SBIC’s invested capital has been deployed in one or more SBA-identified impact investments. The fund should provide a list of all current and past investments, the criteria under which the investment qualifies as an SBA-Identified impact investment and the amount of capital deployed with each investment.
 - ii. **Fund-Identified Impact Investments:** Standard SBICs that have been pursuing their own, fund-identified impact investment strategy must provide SBA with a description of the social, environmental or economic issue area(s) the fund initially sought to target and the investment strategy it used to generate impact. The fund should provide a list of all current and past investments, identify those that it considered to be impact investments and the amount of capital deployed with each investment. In addition, the fund must have already obtained an impact assessment that meets the criteria outlined in section 5(b). A copy of the assessment should be provided to SBA.

As noted in section 1, SBA is considering future regulatory changes. These changes may include provisions for a subsequent opt-in period. SBICs that currently do not meet the opt-in criteria listed above, but which may wish to opt-in at a later date should notify their assigned Analyst by December 1, 2014.

7. **Compliance.** SBA is committed to maintaining the integrity of the Impact Investment Fund and will deny its “Impact” designation to or remove its designation from Impact SBIC applicants or Impact SBICs that fail to meet the requirements outlined in this policy, including the following:
- a. Per section (3)(a)(i), SBA reserves the right to determine whether an Impact SBIC applicant’s investment strategy is consistent with the goal of SBA’s Impact Investment Fund. Applicants with investment strategies SBA determines are inconsistent with the goal of the Impact Investment Fund, but which otherwise meet the licensing qualifications, may still be awarded a Standard SBIC license.
 - b. SBA may remove its “Impact” designation from any Impact SBIC that does not meet the reporting requirements outlined in section (4).
 - c. SBA may remove its “Impact” designation from any Impact SBIC that has not made, as determined by SBA, a good faith effort towards meeting the 50% Threshold, as described in section (3). In making its determination, SBA may consider any assessment(s) obtained under Section (4)(b) and will compare an Impact SBIC’s actual investments with the SBA-approved impact investment strategy presented during the licensing process.
8. **Initiative Policy Review.** SBA will review this policy on an annual (or more frequent) basis and, if needed, issue new guidance. If you would like to provide SBA with feedback regarding this initiative, please contact SBA at AskSBIC@sba.gov.

Respectfully,



Javier Saade
Associate Administrator
Office of Investment & Innovation
U.S. Small Business Administration

Attachment 1: Advanced Manufacturing

Investments into manufacturing activities, defined by the North American Industry Classification Standards as the mechanical, physical or chemical transformation of materials, substances or components into new products, in one of the following areas:

1. **Commercialization of new manufacturing technologies:** Investments that advance the domestic commercialization of new manufacturing technologies or manufacture technology products originating from the systematic application of scientific or technical knowledge.
2. **Commercialization of federal research investments in manufacturing:** Investments that advance the domestic commercialization of manufacturing technologies or technology products that received federal research investment, including:
 - a. Technologies developed by recipients of awards and/or grants from the Small Business Innovation Research Program (SBIR), the Small Business Technology Transfer Program (STTR), and/or the National Network for Manufacturing Innovation Institutes (NNMI).
 - b. Technologies originating from federal labs and research institutes and/or developed with the support of federal research grants or funding.
3. **First commercial production capabilities in manufacturing:** Investments in the first commercial production processes and/or facilities to scale the domestic production of new manufacturing technologies or technology products. To qualify, an investment must meet the following criteria:
 - a. The investment must be in the receiving company's first commercial scale venture for a given new technology product or technology process.
 - b. The production must be located in the United States.