

## **ROBERT A. RAPOZA ASSOCIATES**

### **RURAL BUSINESS INVESTMENT PROGRAM**

Congress authorized the Rural Business Investment Program (RBIP) in the 2002 Farm Bill. The purpose of the RBIP is to promote economic development and create wealth and job opportunities in rural areas by encouraging developmental venture capital investments primarily in smaller enterprises and by meeting the unmet equity investment needs of these businesses. Congress provided approximately \$280 million in program level funding for debenture guarantees for licensed Rural Business Investment Companies (RBIC) to make equity capital investments in small businesses located in rural areas. Congress also provided \$44 million in grant financing for an RBIC to provide operational assistance to businesses in which they invest.

The U.S. Department of Agriculture will oversee implementation of the RBIC program and has entered into an interagency agreement with the U.S. Small Business Administration for day-to-day operations of it. [Click Here for the USDA Press Release.](#)

#### **What is the RBIP?**

The RBIP provides venture capital financing to businesses located in rural areas through licensed Rural Business Investment Companies that are approved by the Secretary of USDA. A licensed RBIC can receive up to 300 percent of the private capital it raises in the form of government guaranteed debenture financing to make equity capital investments in rural businesses, or \$105 million, whichever is less. The RBIC can also receive a grant of up to either 10 percent of the private capital raised or \$1,000,000, whichever is the lesser amount, to provide operational assistance to small business investments or prospective small business investments. The RBIC must repay the debenture according to terms specified by the Secretary but no later than fifteen years from the date it receives the debenture financing; the Secretary may provide up to a five-year grace period before repayment begins.

A Licensed RBIC must invest at least 75% of the capital it raises, including the debenture financing, in the form of equity capital in businesses located in rural areas; and, not more than 10% of the capital raised can be invested in businesses located in an area with a city of over 150,000 population according to the last census. The statute gives the Secretary of USDA the discretion to define a rural area.

#### **How do organizations receive a license to operate a RBIC?**

An organization interested in operating a RBIC must apply to the USDA for a license. In order to apply, a RBIC must be a newly formed for-profit entity or a newly formed for-profit subsidiary of such an entity; have a management team experienced in community development financing or venture capital financing; and be a company that will invest in enterprises that will create wealth and jobs in rural areas, with an emphasis on smaller enterprises.

The RBIC application will ask for the following pieces of information: a business plan describing the target investment area; qualifications of the management team; a description of how the RBIC intends to work with community-based organizations; a proposal for use of grant funds (not mandatory if RBIC does not intend to apply for grant financing); the investment criteria the RBIC plans to use to evaluate potential business investments; and, financial information on the RBIC's parent company or affiliated firms.

In order to win approval for a license, the RBIC must meet the application criteria, the target investment area must be approved by the Secretary, and the applicant must enter into a participation agreement with the Secretary. The applicant must also have raised a minimum of \$2.5 million of private capital and have a plan to raise the remaining amount within a reasonable period of time to receive a license to operate as a RBIC. In order to begin receiving debenture financing, the RBIC must raise a minimum of \$5 million in private capital.

Organizations should consult the RBIC statute for a detailed description of what constitutes private capital allowed; in general, private capital includes capital from a variety of sources but excludes borrowed capital, and, with some exceptions, capital raised directly or indirectly from the Federal Government or State agencies. The statute does grant an exception for qualified non-private funds, which include contributions by one or more entities of any State as long as the aggregate amount of the contribution does not exceed 33 percent of the total private capital raised by the applicant or RBIC.

### **Are there additional criteria for receiving a license to operate a RBIC?**

There are additional criteria an organization must satisfy before it is approved for a license to operate a Rural Business Investment Company. These criteria include:

- An entity must be a private for-profit newly incorporated body, limited liability company, limited partnership organized solely for the purpose of conducting activities authorized by this legislation;
- Its articles of Incorporation contain a mission statement, name of company, target investment area, place of principal office, amount and classes of share of capital stock of RBIC and be subject to approval by the Secretary;
- The RBIC must commit to investing at least 75% of the capital in rural business concerns, and not more than 10% in an area containing a city of over 150,000 as determined in the last decennial census.
- The RBIC must ensure that it is designed primarily to meet the equity capital needs of rural businesses and does not compete with traditional small business financing by commercial lenders.
- Secretary must require that the RBIC makes short-term non-equity investments of less than 5 years only to the extent necessary to preserve an existing investment.
- The RBIC must ensure the diversification of management and ownership.

**What is debenture financing:**

Guaranteed debenture financing is essentially a government guaranteed loan that the government provides to the RBIC in the form of a debenture. The amount of the debenture financing a RBIC receives can be for up to 300 percent of the amount of private capital raised, or \$105 million, whichever is less. Thus, for example, a RBIC that raises \$10 million of private capital can qualify for up to \$30 million of debenture financing. The RBIC must repay the amount of debenture financing it receives according to a schedule determined by the Secretary, but no later than fifteen years from the date it receives the debenture. The Secretary can discount the face value of the debenture and allow for a grace period before repayments begin.

**What types of investments can a RBIC make?**

A licensed RBIC can invest rural business concerns that can be a) a public, private, or cooperative for-profit or non-profit organization; b) a for-profit or non-profit business controlled by an Indian tribe on a Federal or State reservation or other federally recognized Indian tribal group; or, c) an other person or entity; that primarily operates in a rural area, as determined by the Secretary of USDA.

The statute defines equity capital investments as “common or preferred stock or similar instrument, including subordinated debt with equity features.”

**What is the requirement for Operational Assistance Grants:**

A licensed RBIC is not required to provide operational assistance to businesses in which it invests. However, if it does so, the RBIC can apply for grants of up to 10% of the private capital raised or \$1 million, whichever amount is less. Operational assistance is defined as management, marketing, and other technical assistance that assists a rural business concern with business development. Grant assistance is restricted only for services delivered to smaller enterprises located in rural areas.

**When will applications be available for the RBIP program:**

On October 31, 2003, USDA announced that it anticipates applications for the RBIP program will become available in six months, or by April 2004. Interested organizations should continue to check the USDA Rural Development website at [www.rurdev.usda.gov](http://www.rurdev.usda.gov) or Rapoza Associates website at [www.rapoza.org](http://www.rapoza.org). Click here for the joint USDA/SBA press release announcing the program.