

Industrial Finance Corporation Act of 2021

Senators Chris Coons, Amy Klobuchar, Chris Van Hollen,
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BACKGROUND

- **Domestic manufacturers lack sufficient access to capital**, which has led to an off-shoring of skilled jobs, a failure to reap the full economic benefits of U.S. innovation, supply chains vulnerable to geopolitical disruptions or interference, and dominance by other nations in producing the next generation's most essential technologies, such as semiconductors and 5G communications hardware.
- **Our current innovation model relies on private capital** to fund the commercialization of government-funded research, which leads to the infamous "valley of death" of innovation. Manufacturers have high capital needs and a difficult time obtaining private funding. Also, private capital often seeks short-term returns on investments, but winning in emerging technologies requires a long-term, strategic vision.
- **Congress and government grant-giving programs cannot keep up** with the pace of innovation. Though government-led research programs are vital to our global leadership, they have failed to address market failures that lead to off-shoring of the benefits of U.S.-led research. Also, government grants result in taxpayers assuming the high risk of technological innovation without sharing in the correspondingly high rewards.
- **A government-owned corporation** in the model of the U.S. International Development Finance Corporation could help close this gap with investments in industries critical to our economic and national security that leverage additional private sector funding and allow the taxpayer to share in the financial upsides of high-risk, high-reward investments.

Industrial Finance Corporation Act

- Establishes the Industrial Finance Corporation of the United States (IFCUS), a government-owned corporation, to support:
 1. Resilient supply chains in critical industries
 2. U.S. manufacturing and the resulting economic development and good jobs
 3. On-shore commercialization of advanced technologies
 4. Small- and medium-sized manufacturers, especially those with low access to capital
 5. Industries vulnerable to systematic underinvestment and unfair industrial policies
- **IFCUS will leverage \$50B in capital to generate hundreds of billions of dollars** of additional financing by working with private capital partners. It will have the authority to issue and guarantee loans, purchase equity stakes, issue bonds, acquire assets, create investment facilities and enterprise funds, and securitize its investments.
- **IFCUS will maintain high environmental, social, and labor standards**, creating good jobs all across the country and minimizing environmental harm, with accountability to the public and Congress. Robust transparency standards ensure that the corporation's activities serve its mission to the taxpayer.
- **IFCUS will complement private capital and existing government programs** by coordinating with governmental research departments and agencies and establishing safeguards to ensure that its investments encourage private investment without competing against it.

The Industrial Finance Corporation Act is endorsed by the Information Technology and Innovation Foundation (ITIF), the Niskanen Center, the Berggruen Institute, and MForesight.

Industrial Finance Corporation: Illustrative hypotheticals

Synthetic Biology

NIIMBL, the Manufacturing USA Institute at the University of Delaware, awarded a grant to a collaboration between a company and a university to develop an accurate, rapid test for dangerous organisms that might contaminate a biopharmaceutical manufacturing process. After proving the technology, the company wants to begin a limited production run. By working with the Delaware Manufacturing Extension Partnership, the firm identifies a local supplier who could make the product, but the supplier would have to purchase new equipment. Because the technology is new, the supplier cannot secure a loan without a high interest rate, and its management team is wary of expanding into a new business. **IFCUS provides a low-interest loan for the supplier to make the capital investment while ensuring effective coordination across the supply chain.**

Clean Steel

A struggling steel producer with a highly skilled workforce in the Midwest wants to expand into climate-conscious markets by replacing its blast furnace with a high-tech electric arc furnace with lower emissions. Given its recent business challenges and the current structure of the market for steel, private investors are skeptical about the short-term payoff of the pivot. **IFCUS identifies the long-term potential upside of investing in the firm and takes an equity stake** to fund the necessary capital investment.

HVDC Transmission Lines

In consultation with the Departments of Commerce and Energy, IFCUS identifies high-voltage, direct current (HVDC) transmission component manufacturing as a major growth market both domestically and internationally. Though the HVDC supply chain and service sector is dominated by foreign competitors who receive substantial direct subsidies from other governments, small and medium-sized American firms have pioneered the use of superconducting cable. To spur domestic investment in the sector, **IFCUS creates an “HVDC Financing Facility” to increase the flow of credit to component manufacturers** like superconducting cable producers to expand production, and to lower the cost for HVDC service providers to invest in their workforce.

Semiconductors

Given the impact of breakdowns in the supply chain for trailing-edge semiconductors on a wide range of manufacturing industries as well as our national security, IFCUS decides to prioritize domestic semiconductor manufacturing. Since production is well-understood, and trailing-edge chips are cheaper to produce than the newest technologies, **IFCUS offers purchase guarantees to several US firms for a selection of economically-critical chips.** These guarantees provide certainty of demand to US semiconductor firms, who can then justify maintaining capacity in the lower-tech chips that our manufacturing sectors rely on.

Advanced Batteries

The advanced battery manufacturing industry is a critical piece in a green energy transition. Although there is a wide range of competing technologies, investors want to bet on the eventual winner for outsized returns. To ensure that capital is available for a wide range of promising advanced battery technologies, **IFCUS provides seed funding to the Advanced Battery Enterprise Fund.** This fund then invests in an ecosystem of battery production approaches to ensure that the sector develops a multitude of economically-viable solutions, not just the one that produces the most profits in the next few years.