

How the U.S. Department of Defense Can Leverage Alternative Funding Mechanisms for Strategic Impact

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DOD Established the Office of Strategic Capital In 2022 To Attract Private Capital To Key DOD R&D Efforts

- Private capital is the dominant form of funding in 12 of 14 Critical Technology Areas.
- Private capital is currently postured for investments in software.
- OSC aims to attract, catalyze, and scale private capital toward key priorities through credit-based financial tools rather than traditional acquisition approaches.

Though These Policies Are New For DOD, Federal Credit Programs Have Existed For Decades

Department Or Agency	First Federal Credit Program Established	Number of Programs	Estimated PB24 Loan Obligations
Small Business Administration	1954	7	\$105.2 billion
Department of Energy	2005	6	\$46.4 billion
Department of Commerce	1936	5	\$16.6 billion
Export Import Bank	1934	5	\$11.6 billion
Development Finance Corporation	2019	8	\$8.7 billion

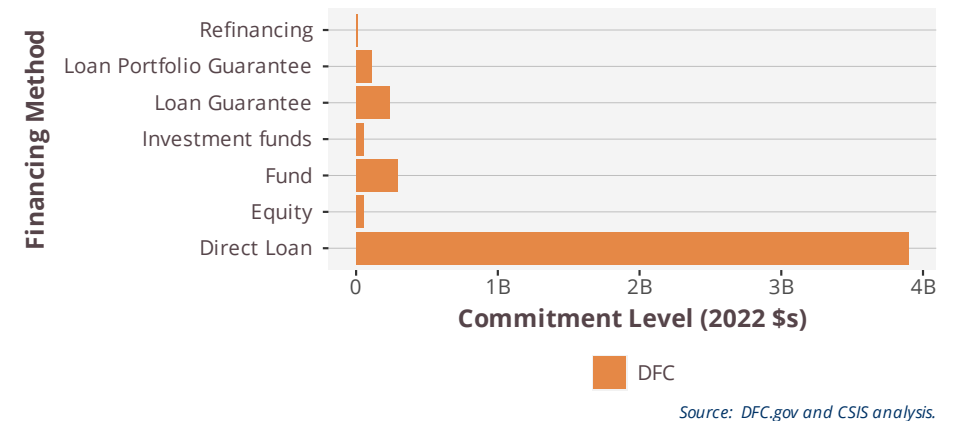
The Specific Lending Authorities CSIS Assessed Are Varied And Are Defined Below

Financial Tool	Definition	Agencies Using the Financial Tool
Direct Loans	A form of debt financing which is given to clients with set terms on tenors and rates. Loans are typically disbursed and repaid in dollar denominations.	DFC, EXIM, DOE, DOC
Loan Guarantees	A federal agency will assume the debt obligation if the borrower defaults. A government agency can purchase the debt from the lending institution and take on the loan.	DFC, EXIM, SBA, DOE, DOC
Loan Portfolio Guarantees	A federal credit agency guarantees a portfolio of loans which enables the guaranteed party to scale up its lending activities to qualifying borrowers.	DFC
Equity Financing	This is the ability for the government to make investments into companies abroad either directly, by buying a percentage of the company, or indirectly, through funds that invest in those companies	DFC
Export Financing	Government agencies can provide financing to exporters. Export finance provides firms access working capital while they wait for invoices.	EXIM
Investment funds	U.S. government agencies can invest debt and equity to help address the shortfall of private equity capital in developing countries or in investment funds in critical technologies where there are financing gaps.	DFC

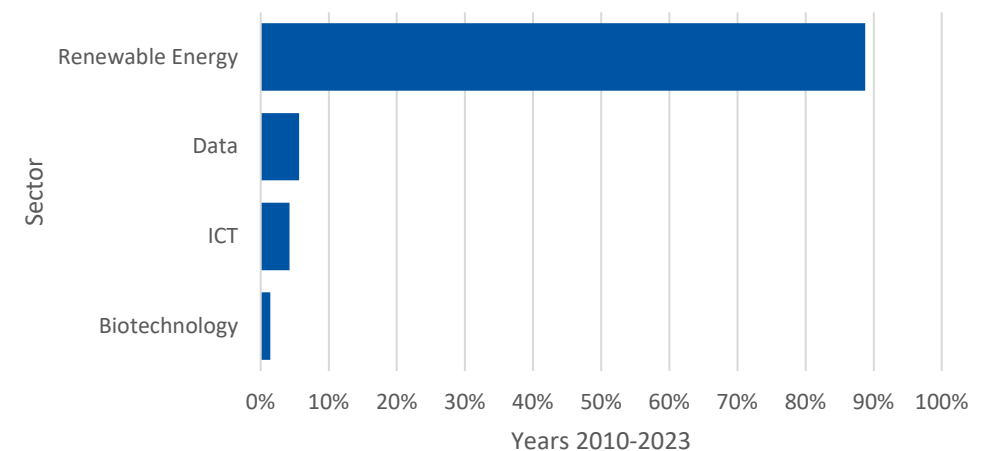
The Development Finance Corporation (DFC)

- DFC is the newest agency surveyed. It was established in 2019 and succeeded the Overseas Private Investment Corporation.
- DFC is funded through a Corporate Capital Account (CCA), consisting of appropriations and collections.

DFC Financing to Critical Technology Areas by Mechanism



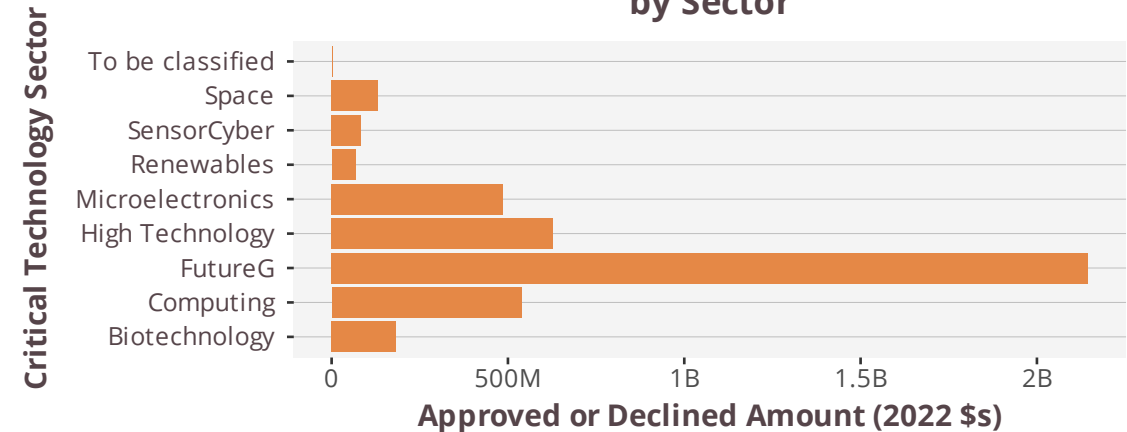
DFC Investment by Sector



The Export Import Bank

- EXIM is considered a self-financing agency.
- EXIM approved \$3,458,276,775 and disbursed \$2,771,404,019 from 2007-2023.
- The EXIM uses a mix of insurance, loan guarantees, direct loans, and insurance, which is not included in this analysis.

EXIM Financing to Critical Technology Sectors by Sector



EXIM Financing to Critical Technology Sectors by Mechanism



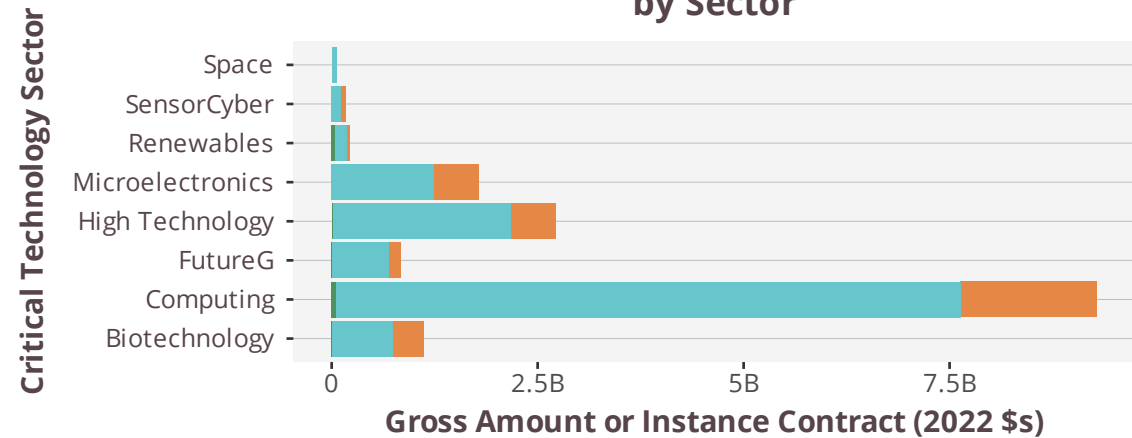
EXIM

Source: EXIM dataset and CSIS analysis.

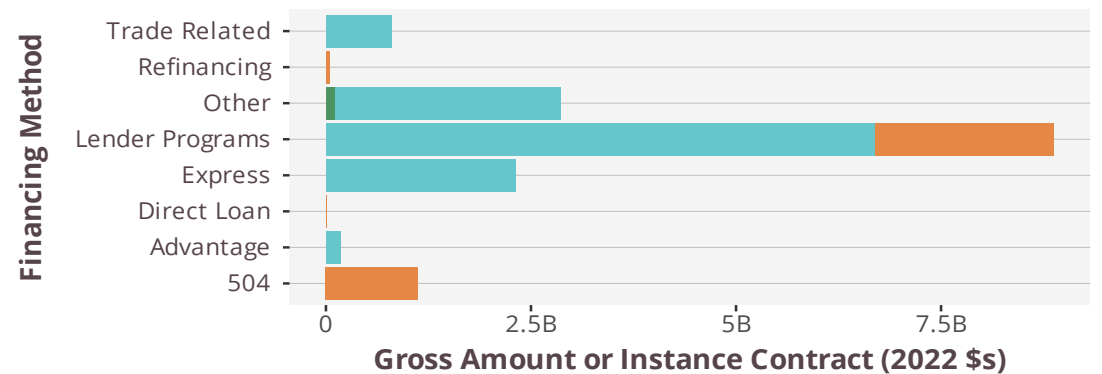
The Small Business Administration

- SBA's 7(a) program is funded through Congressional appropriations and by fees and collections of its loan guarantees.
- From 2014 to 2020, the SBA only subsidized \$99 million of its loan guarantees – these all occurred in 2020 amidst the Coronavirus Pandemic.

SBA Financing to Critical Technology Sectors by Sector



SBA Financing to Critical Technology Sectors by Mechanism

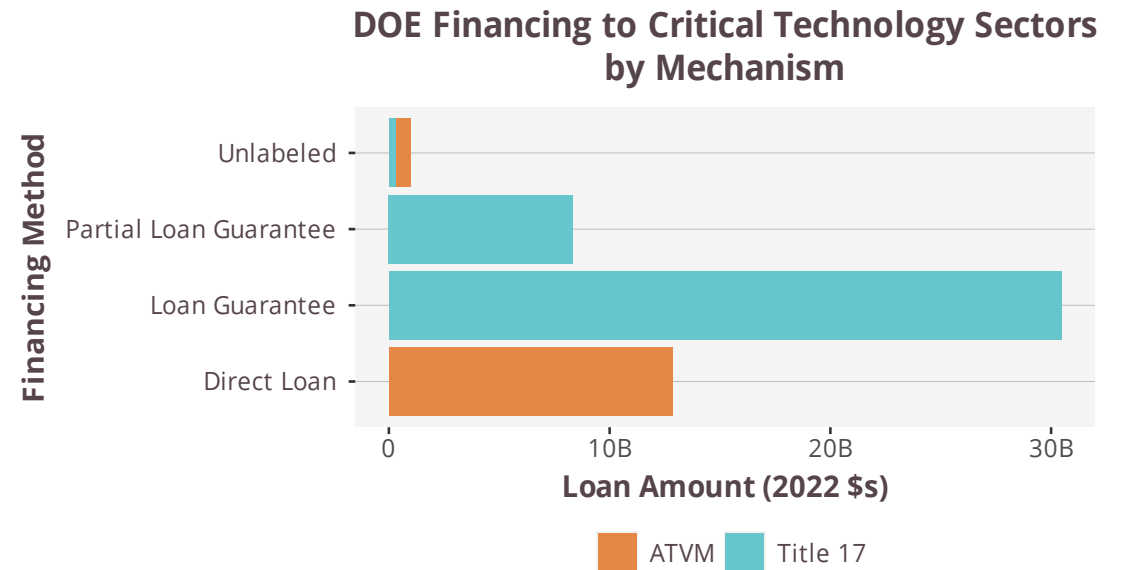
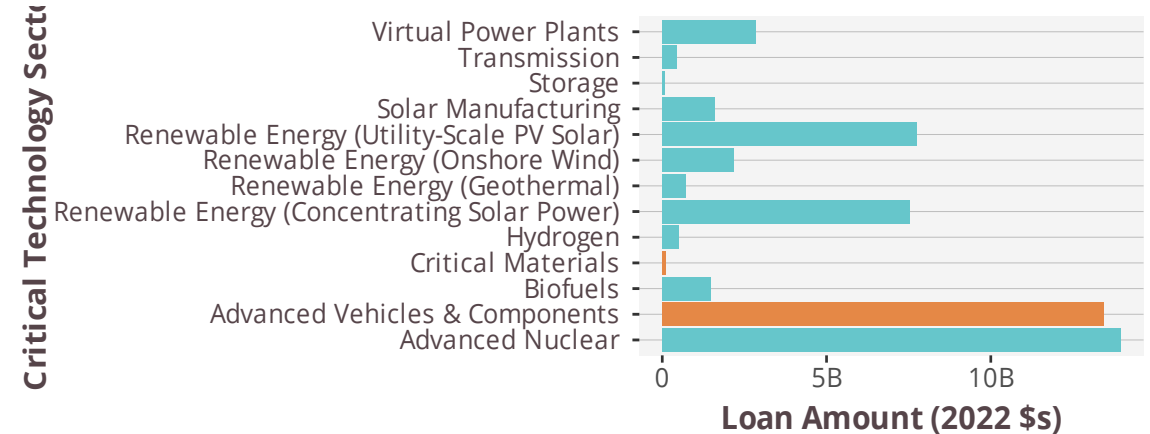


504 7(A) SBG

Source: SBA FOIA datasets and CSIS analysis.

The Department of Energy

- The Department of Energy's (DOE) Title 17 Energy Infrastructure Reinvestment (EIR) Program was established by the Energy Policy Act of 2005.
- The ATVM Program was established in 2008 to support the U.S. auto-industry with debt capital.



Source: LPO Portfolio Projects, FAADS, and CSIS analysis.

Select Insights

- The overwhelming majority of these investments either remain active or are paid off.
- DOD must prepare to manage the challenge of perceived “failure” when investments do not yield anticipated returns.
- Develop appropriate report systems to establish effective monitoring and evaluation of investments.

