

INNOVATE ACT

Investing in National Next-Gen. Opportunities for Venture Acceleration and Technological Excellence Act

Chair Ernst's proposal to reauthorize and reform the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs:

Matching Threats to Capabilities: Identifying the Best Innovators Nationwide

The current lack of a competitive proposal process and consolidation among SBIR awardees reduces the quality of technology delivered by the program. Attracting new entrants with disruptive innovations and strong commercialization potential in Phase I will help identify the best solutions for further investment in Phase II.

POLICY SOLUTION

- **Reform Phase I** – Initiate Phase 1A, which reserves a minimum 2.5% of the SBIR allocation for smaller, one-time \$40K awards with a two-page streamlined application available solely to companies without prior awards. This would allow agencies to make bets on approx. 2700 new companies annually and conduct mapping of technological solutions nationwide.¹

DoD Strategic Breakthrough Awards: Scaling Technology to Bridge the Valley of Death

Inconsistencies between the SBIR-STTR timeline and broader DoD budgeting timeline make it difficult to scale even the best technologies into long-term contracts. To combat valley of death issues, the program should dedicate funding to transition the best technology with clear buy-in from acquisition officials.

POLICY SOLUTION

- **Strategic Breakthrough allocation to scale technologies aligned with DoD priorities** – Reallocate underutilized STTR Phase II to fund new high-dollar SBIR Phase II awards of up to \$30M, requiring: (1) 100% matching funds, (2) readiness for deployment, and (3) commitment from a program executive officer or senior acquisition authority.

Eliminate Mills: Combatting Small Business Welfare

SBIR was established as a source of early-stage seed funding for startups with the best technology and team who intend to rapidly scale an innovative idea. In the past decade, 25 companies, notoriously known as SBIR mills, received 18% of all award dollars at DoD, amounting to \$2.3 billion—at the same time, these companies maintain a disappointing transition rate.² Combatting exploitation of SBIR dollars by unproductive firms will ensure productive investments with taxpayer funds and drive real solutions to support America's competitiveness.

POLICY SOLUTION

- **Require commercialization success for continued eligibility** – Set clear, streamlined commercialization expectations for SBIR-STTR companies (After 25 Phase II awards, companies must have a minimum 1:1 ratio between SBIR and non-SBIR revenue).
- **Cap on seed funding through SBIR** – \$75M lifetime max per company, including subsidiaries.

Countering America's Adversaries: Strengthening Research Security Provisions

The SBIR and STTR Extension Act of 2022 introduced foreign ties due diligence to prevent taxpayer-funded research from aiding adversaries. However, agencies differ in flagging and addressing foreign risks, a disparity highlighted in a November 2024 GAO report, which demonstrates the need for consistency across agencies.³

POLICY SOLUTION

- **Standardizing foreign ties due diligence** – Creates a definition of "foreign risk" to clarify what constitutes a potential foreign risk and provide a consistent baseline for evaluation.
- **Bolstering agency recovery authority** – Strengthens agencies' ability to clawback SBIR and STTR awards when national security is at risk.

FOOTNOTES

[1] SBIR.gov Database. (Committee Calculations on File)

[2] DoD, Defense Innovation Board, *TERRAFORMING THE VALLEY OF DEATH* (July 2023); GAO, *Small Business Research Programs: Increased Performance Standards Likely Affect Few Businesses Receiving Multiple Awards* (Mar. 29, 2024).

[3] GAO, *Agencies Identified Foreign Risks, but Some Due Diligence Programs Lack Clear Procedures*, (Nov. 21, 2024).