

SMALL BUSINESS INNOVATION RESEARCH Change in Program Eligibility Has Had Little Impact

Why GAO Did This Study

The SBIR program provides grants and contracts to small businesses to develop and commercialize innovative technologies. The 2011 SBIR reauthorization included a provision that gave agencies the option to allow majority-owned portfolio companies to participate in SBIR. SBA issued a rule to implement the statutory provision, which became effective in January 2013. The reauthorization act requires agencies to submit a written determination to SBA and Congress, explaining how such awards will, among other things, significantly contribute to the agency's mission, before making SBIR awards to majority-owned portfolio companies.

The reauthorization mandated GAO to review the impact of this provision every 3 years. This is the first report under the mandate, and it examines (1) the impact of allowing majority-owned portfolio companies to participate in agency SBIR programs and (2) the extent to which agencies have elected to expand their SBIR programs to include majority-owned portfolio companies. GAO reviewed agency rules, policies, and other documents; analyzed SBIR data; and interviewed program officials from SBA and the 11 participating agencies, industry associations, and majority-owned portfolio companies.

What GAO Recommends

GAO recommends that SBA discuss the written determination requirement with participating agencies and, if needed, provide additional guidance. SBA generally agrees with the recommendation and plans to discuss the written determination requirement at a future program managers meeting.

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What GAO Found

Two of the 11 agencies participating in the Small Business Administration's (SBA) Small Business Innovation Research (SBIR) program—the Department of Health and Human Services (HHS) and the Department of Energy (DOE)—opted to open part of their SBIR programs to small businesses that are majority-owned by multiple venture capital or similar firms (majority-owned portfolio companies), allowing such companies to apply for and receive SBIR awards. Specifically, HHS's National Institutes of Health (NIH) and the Department of Energy's Advanced Research Projects Agency-Energy (ARPA-E) opted to allow such companies to participate. For fiscal years 2013 and 2014, NIH and ARPA-E collectively received 20 applications from majority-owned portfolio companies and made 12 SBIR awards to them, totaling about \$7.9 million. SBIR applications received and awards made to these companies comprise less than 1 percent of NIH and ARPA-E's SBIR applications and awards. NIH and ARPA-E officials said the change to allow majority-owned portfolio companies to apply for SBIR awards helps ensure that their SBIR programs receive the best research proposals.

For various reasons, the remaining nine agencies participating in SBIR have not submitted a written determination to allow them to make SBIR awards to majority-owned portfolio companies. According to officials from these agencies, they did not conduct any formal analysis but considered various factors, such as whether the change would significantly increase the number of applications, what administrative resources would be required to implement the change, and whether they had the evidence needed to prepare a written determination. All but one of the agencies told GAO that they may reevaluate their decision in the future, but did not have any specific plans for doing so. Officials from several agencies said that they wanted to see how the change in eligibility affected NIH and ARPA-E before implementing the change at their agencies.

GAO also found that some agencies viewed the written determination as a potentially stringent requirement. For their written determinations, NIH and ARPA-E did not conduct any independent research on majority-owned portfolio companies (nor were they specifically required to do so), but NIH cited related research. In contrast, six agencies viewed the written determination as potentially requiring independent analysis. Five agencies told GAO that they did not have the evidence or research needed to support a written determination, and another agency said it might consider opting in if it were easier to do so. According to SBA, the written determination is a notification letter that SBA reviews but does not approve or deny. SBA officials said they meet routinely with SBIR program managers, and this issue has not been raised. SBA updated its SBIR Policy Directive to include the written determination requirement but essentially used the same language as the reauthorization act without providing any specific guidance. In SBA's rule implementing the reauthorization act, SBA stated the rule's potential benefit is to provide more businesses with access to the SBIR program, which could increase competition and the quality of proposals and spur innovation. SBA is not responsible for encouraging or discouraging agencies to expand eligibility to include such companies, but SBA also has not discussed the issue with them. SBA could be missing an opportunity to help agencies better understand the evidence required for the written determination, which could inform the agencies' decisions whether to expand their program.