



Highlights of [GAO-06-565](#), a report to congressional requesters

## Why GAO Did This Study

The Small Business Innovation Research (SBIR) program is a three phase program that increases the use of small businesses to meet federal research needs and encourages commercialization of this research. Venture capital is one source of funding to help commercialize SBIR projects. To receive an award firms must meet ownership and other criteria and awards may exceed dollar guidelines. In 2002, the Small Business Administration (SBA) clarified that majority owners of firms that receive awards must be individuals rather than corporations.

Since 2002, controversy has arisen over the extent to which venture capital firms may own SBIR firms. GAO was asked to provide information on SBIR for fiscal years 2001 - 2004. For NIH and DoD, we determined the (1) number and characteristics of awards, (2) number and characteristics of awards above the guidelines, (3) changes in award characteristics after 2002, and (4) factors agencies consider, and data they collect on, SBIR awards.

NIH, DoD, and SBA provided technical comments that were incorporated, as appropriate. DoD said our findings were not surprising in light of differences in the markets for SBIR projects. SBA said our findings, though useful, may be misconstrued as suggesting a link between venture capital investment and SBIR eligibility, when no such link exists.

[www.gao.gov/cgi-bin/getrpt?GAO-06-565](http://www.gao.gov/cgi-bin/getrpt?GAO-06-565).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Anu Mittal at (202) 512-3841 or [mittala@gao.gov](mailto:mittala@gao.gov).

# SMALL BUSINESS INNOVATION RESEARCH

## Information on Awards Made by NIH and DoD in Fiscal Years 2001 through 2004

### What GAO Found

During fiscal years 2001-2004, the National Institutes of Health (NIH) and Department of Defense (DoD) made 16,019 SBIR awards valued at \$5.3 billion. GAO identified the following characteristics of these awards: (1) most were concentrated in a few states; (2) a few agency component made most of the awards; (3) award amounts ranged from well below the guidelines to significantly above; (4) few awards were made to firms that had received venture capital investment, NIH made more than DoD; and (5) firms that received DoD SBIR awards were relatively small-sized.

Overall, from fiscal year 2001 through 2004, about half of NIH awards and 12 percent of DoD awards exceeded the guidelines, and most went to firms that had not received venture capital investment. Awards above the guidelines accounted for 70 percent of NIH's SBIR dollars and 23 percent of DoD's. Agency officials said NIH and DoD made such awards generally to fund relatively expensive research or to ensure high-quality results. Awards above the guidelines to firms that had received venture capital investment accounted for 18 percent of NIH's awards above the guidelines, and about 8 percent of DoD's. At NIH, firms that had received venture capital investment were more likely to receive the largest awards than firms that had not. A similar relationship existed for DoD's phase I awards but not for its phase II awards.

Since 2002, when SBA clarified SBIR ownership eligibility criteria, an increasing number of awards have been made to small business firms that had received venture capital investment; such firms have generally received larger awards at NIH and, in the aggregate, a larger share of NIH's and DoD's available SBIR funds. In addition, the average phase II award amount to firms that had received venture capital investment increased by over 70 percent, from about \$860,000 in fiscal year 2001 to about \$1.5 million in fiscal year 2004. As a result, such firms attracted a greater percentage of NIH's total SBIR dollars each year—about 21 percent on average in fiscal years 2003 and 2004, compared to an average of about 14 percent in fiscal years 2001 and 2002. At DoD we found similar trends, but to a somewhat lesser extent.

NIH, DoD, and SBA focus mainly on SBIR eligibility criteria relating to ownership, for-profit status, and the number of employees when reviewing applications. Although applicants self-certify that they meet these criteria, both NIH and DoD make efforts to verify the accuracy of the information prior to making an award. When agency officials are unable to verify the accuracy of an applicant's information, they refer the matter to SBA. Both agencies limit their data collection efforts largely to information about the SBIR award itself, such as award size. Agencies are not required to gather data on characteristics of the firms receiving the awards, such as the presence of venture capital investment; as a result, this information is currently not being collected.