AAU POSITION ON SBIR/STTR REAUTHORIZATION

Increasing the Set-Aside Will Harm Scientific and Medical Research

The Senate and the House are currently considering reauthorization of the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. **AAU supports the SBIR/STTR programs, but opposes the proposed increase in the percentage set-aside for SBIR/STTR contained in the Senate bill. AAU has endorsed the House bill, which contains no set-aside increase.**

**AAU supports SBIR/STTR reauthorization and the current set-aside:** In the early years of the SBIR program, many universities were critical of the program. However, as universities and faculty became more engaged in commercializing new technologies, the attitude towards the SBIR and STTR programs improved. Indeed, the university community now looks very favorably upon these programs and sees them as a positive vehicle for helping commercialize university research and serving as a conduit for stimulating scientific and technological collaboration between faculty and industry.

**The best way to increase the level of federal funding for the SBIR and STTR programs is to increase the overall fiscal budgets for the research agencies not to increase the set-aside.**

**Increasing the set-aside in a constrained budget environment will result in decreased funding for important scientific and medical research:** In a time of constrained budgets, the country needs to make every effort to support peer-reviewed basic and applied research programs at the federal research agencies. Increasing the set-aside would further reduce the already low-success rates at the National Institutes of Health (NIH), National Science Foundation (NSF), and other federal research agencies. Currently the success rates for many NSF research programs are below 20 percent, where only one of every five proposals is funded. At NIH, success rates are even lower.

**There are no data to justify increasing the set-aside:** The proposed set-aside increases are a solution in search of a problem. There is no evidence to support the argument that there are significant numbers of high quality SBIR proposals that are going unfunded under the current 2.5 percent set-aside. In fact, data from NIH suggest that at that particular agency there are not, in fact, a high number of high quality SBIR proposals that are going unfunded under the current set-aside amount. The success rates of SBIR awards under the current set-aside are consistent or higher than those for other peer-reviewed programs. The 2008 National Research Council study, “An Assessment of the SBIR Program,” specifically pointed to the need for better assessment of the overall effectiveness of the SBIR/STTR programs. To help better assess quality of the SBIR program, AAU supports the NRC recommendation to increase the amount of the existing set-aside that can be used for program assessment.

To illustrate the magnitude of the potential impact of a one percent increase in the set-aside, consider the following examples: A one percent set-aside increase for SBIR would be approximately $300 million less for research from the NIH portfolio. For comparison’s sake, NIH spends about $300 million each year on diseases and conditions such as:

- Prostate cancer
- Influenza
- Colon cancer

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$300 million is more than NIH spends on diseases and conditions such as:
- Lung cancer
- Asthma
- Lymphoma

$300 million is approximately twice as much as NIH spends on:
- Autism
- Parkinson’s disease
- Organ transplant

A one percent increase in the set-aside for SBIR would be approximately $825 million (FY10 funding) from the Department of Defense research portfolio. This is hundreds of millions more than the individual basic research budgets of the Army, Navy, Air Force, or DARPA.

The SBIR set-aside amount represents a floor and not a ceiling: If agencies find that they are rejecting good SBIR proposals, they already have the ability to fund those proposals by supporting SBIR at a level higher than 2.5 percent if they wish. AAU supports allowing the agencies to decide if the quality of the SBIR proposals merits funding at levels above the 2.5 percent level.

AAU supports expanding the SBIR/STTR program to allow universities and others to apply for proof-of-concept funding: Even with the existing SBIR and STTR programs, there still exists a funding gap which often prevents universities from moving new research discoveries and technologies quickly into the marketplace. SBIR and STTR funding presumes there is already sufficient evidence that a particular research advance or technology has enough commercial value to attract further investment for commercialization. Often, however, there is insufficient funding available within universities, or from other sources, to push these technologies across the “Valley of Death” to the point where they have sufficient commercial value. The current economic climate has left companies, angel investors and venture capitalists even less willing to invest in the proof-of-concept, scaling up, and modeling required to explore the commercial value of such advances. While the current SBIR program partially addresses this issue, it often still falls short of providing early stage “proof-of-concept” funding to adequately investigate if emerging technologies are worthy of the level of development required for investment or adoption by the commercial sector. AAU supports language in the current House bill which encourages NIH to consider a new demonstrating program using STTR funds to address these “proof-of-concept” challenges which face universities and their faculty.

“NIH would favor keeping the set-aside at the current 2.8 percent level [for SBIR/STTR combined]... We feel that that level is appropriate to meet the mission of NIH and to support innovation in the small business community.”
– Dr. Sally Rockey, Deputy Director for Extramural Research, NIH, April 23, 2009, House Science Committee, Subcommittee on Technology & Innovation hearing

“The current budget set-asides of 2.5 percent for SBIR and 0.3 percent for STTR for all federally funded extramural research provide a sufficient floor for agencies to invest in innovation from small business.”
– Dr. John P. Holdren, Director of the Office of Science and Technology Policy, Executive Office of the President, June 9, 2009, Letter to Senator Landrieu, Chair, Committee on Small Business

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