

Overview of the SBIR and STTR Programs

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs are key U.S. government initiatives to foster innovation by small businesses in collaboration with federal research and development needs. The goal is to stimulate technological innovation, increase private-sector commercialization of innovations derived from federal R&D, and promote participation by socially and economically disadvantaged small businesses. The U.S. Small Business Administration maintains a very useful website for SBIR/STTR, [here](#).

SBIR—launched under the [Small Business Innovation Development Act of 1982](#)—is designed to support small businesses engaged in R&D with commercialization potential.

STTR—launched under the [Small Business Research and Development Enhancement Act of 1992](#)—promotes the transfer of technology from nonprofit research institutions (like universities and federal labs) to small businesses.

Both SBIR and STTR are structured into three phases:

Phase I (Feasibility). SBIR Phase I focuses on the feasibility and technical merit of an idea submitted in response to a publicly posted topic. Contract awards are valued at up to \$150,000 and include a period of performance from six to 12 months. The contract type is almost always firm-fixed-price (FFP). The deliverable is almost always a report.

Phase II (R&D Expansion). SBIR Phase II builds upon Phase I results, typically lasts up to 2 years, and provides substantial funding to further develop the innovation. The contract type can be fixed-price or cost-reimbursement. The deliverable(s) can vary from more reporting to a prototype.

Phase III (Commercialization). SBIR Phase III is laser-focused is on moving the innovation to market. Contractors do not receive RDT&E funding appropriated specifically for the SBIR program and must instead secure private or other federal funding (e.g., funds from a procurement appropriation) to continue development. Section 1709 of the [2018 NDAA](#) makes clear SBIR Phase III actions do not require a Justification and Approval document under [FAR 6.302-5](#) or otherwise. Specifically, Sec. 1709 of the 2018 NDAA states issuing activities, “shall issue, without further justification, [SBIR] Phase III awards.”

Tactical Considerations

Per [15 USC 638\(b\)\(5\)](#), solicitation issuance is coordinated between agencies to minimize overlap between agencies. Details on the “master release schedule” may be found [here](#).

SBIR source selection is a volume business. Per the [2022 SBA Annual Report](#), over 5,300 Phase I and Phase II contracts were issued in 2022. For this reason:

- The SBIR source selection process is ripe for use of templates and standardized processes. Because the procurement cycle goes quickly, it provides excellent opportunities to teach junior contract specialists the end-to-end procurement process.
- Procurement officials must be vigilant on procurement integrity issues. There are lots of small awards which are not normally considered high risk, and SBIR acquisition program management often centralizes decision-making authority due to resource limitations. [GAO recently identified](#) 37 unique fraud schemes in the SBIR program as well as potential mitigations.

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SBIR contracts include enhanced data rights for a 20-year protection period (measured from the date of the first funding agreement). Successors-in-interest, including large businesses, may receive Phase III SBIR awards. [SBIR/STTR Policy Directive, May 3, 2023, paragraph 6\(a\)\(5\)](#). This often makes Phase I and Phase II SBIR contractors attractive acquisition targets.

Phase I and Phase II proposals must be evaluated based on technical merit and commercial potential. In Phase II, a commercialization plan must be included, covering aspects such as market analysis, intellectual property, and financing. [Id at paragraph 7\(b\)\(2\)](#).

All cost-reimbursement contracts, including SBIRs, require an accounting system determined adequate by the Government for determining costs. [FAR 16.301-3](#). In DoD, CORs are not required on firm fixed price SBIR contracts but are required on cost-reimbursement SBIR contracts. [DFARS PGI 201.602-2](#).

Appropriations bills require funding of the SBIR program through the “SBIR tax.” For agencies with over \$100M in annual R&D spend (11 agencies), approximately 3.2% of their R&D budget must be allocated to SBIR. [15 USC 638\(f\)](#). For agencies with over \$1B in annual R&D spend (5 agencies), approximately 0.45% of their budget must be allocated to STTR. [15 USC 638\(n\)\(1\)\(B\)](#).

SBIR is a significant driver of contract obligations to small business, and DoD agencies balance use of assisted acquisition for SBIR against achievement of annual small business goals. This can result in suboptimal allocation of finite organic agency contracting workforce and lost opportunity for assisted acquisition providers.

Information on the transition rates for SBIR efforts (i.e., the percentage of SBIR-funded projects that move from Phase I to Phase II, or from Phase II to Phase III) can be found in the annual reporting, [here](#). Within DoD it’s a mixed bag, but my anecdotal observations are the (a) USAF awards a lot of contracts in Phase I and Phase II (as well as a combined Phase I and II contract approach that they invented), (b) USAF has developed [a program](#) which provides matching funding to help companies concerned about “the valley of death” between Phase II and Phase III, and the USN transitions a lot of projects (e.g., I personally led award of a [\\$35M Phase III contract](#) in 2019 that eventually became [a program of record](#); the Navy submarine community leveraged SBIR and open systems architecture to [quickly improve acoustic capabilities](#)).

The ‘SBIR mill’ issue and efforts to address

There have been growing calls to reform certain aspects of the SBIR program to address the issue of ‘SBIR mills’—companies that specialize in winning SBIR awards through optimized processes. Ben Van Roo, a former RAND Corporation analyst, has provided analysis on this issue explaining how a small number of companies are capturing what many consider to be a disproportionate share of the funding (i.e., from 2016 through April 2022, 10% of companies received 61% of all SBIR awards; for more see [here](#), [here](#), and [here](#), as well as [here](#) if you prefer listening over reading).

The SBIR/STTR Extension Act of 2022 has attempted to address this by increasing the required transition rate from 25% to 50% for firms that have received 50 or more SBIR awards over the past five years. See also: [INNOVATE Act](#), introduced March 2025, which seeks to (a) cap the total SBIR/STTR funding a company can receive to \$75 million, (b) limit the number of proposals a company can submit per solicitation and per year, (c) require fixed-price contracts for SBIR/STTR awards, (d) enhance commercialization benchmarks and data collection, and (e) strengthen safeguards against foreign influence and improving due diligence.

Overview of the SBIR and STTR Programs: References

The following is a list of helpful references to learn more about SBIR:

[SBIR/STTR Policy Directive](#): Where I always go first when I have a question (.pdf of the 2023 version, [here](#)).

[SBA's SBIR Website](#): SBIR home base.

[SBIR.gov Reports](#): The most recent public reports; especially good for top-level statistics on the program.

[15 USC 638](#): Small Business Act, where SBIR statutes reside in the United States Code.

[Public Law 97-219](#): Small Business Innovation Development Act of 1982

[Public Law 102-564](#): Small Business Research and Development Enhancement Act of 1992

Agencies:

The eleven agencies that must allocate 3.2% of their R&D budgets to fund SBIR (i.e., over \$100M in annual R&D spend):

[Department of Agriculture](#)

[Department of Commerce](#)

[Department of Defense](#)

[Department of Education](#)

[Department of Energy](#)

[Department of Health and Human Services](#)

[Department of Homeland Security](#)

[Department of Transportation](#)

[Environmental Protection Agency](#)

[National Aeronautics and Space Administration](#)

[National Science Foundation](#)

Individual SBIR websites within DoD:

- [USN SBIR](#)
- [USA SBIR](#)
- [USAF SBIR](#)
- [DARPA SBIR](#)
- [SOCOM SBIR](#)
- [DLA SBIR](#)