

Center for Strategic and International Studies

TRANSCRIPT

Event

**“Reauthorizing and Reforming the Small Business
Innovation Research (SBIR) Program”
Keynote Panel**

DATE

Tuesday, September 9, 2025 at 9:00 a.m. ET

FEATURING

Senator Joni Ernst (R-IA)

*Chair, Senate Small Business and Entrepreneurship Committee and Chair, Senate Armed
Services Subcommittee on Emerging Threats and Capabilities*

CSIS EXPERTS

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Transcript By

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Emily Harding: Hi, all. If you can take your seats. Thank you.

Well, good morning, everyone. We are here this morning to talk about a topic that is fundamental to the economy, to national defense, even to the way that we see ourselves as Americans, and that is how small businesses drive America forward. They are the engines of growth, the incubators of innovation. Every big business was once a small one, from Microsoft to Lockheed Martin to Anduril to Palantir. But the question is, how do we effectively incubate these small, soon-to-be-great businesses without wasting taxpayer money? What is the right level of risk for the taxpayer?

One of CSIS's great strengths is bringing people together across government, business, and academia to tackle complex issues like this one. So today, we are very proud to welcome Senator Joni Ernst from the great state of Iowa. And serving as our moderator is Dr. Jerry McGinn. He's one of the nation's leading experts on a truly critical issue, the defense industrial base. Jerry has made his mark with thoughtful policies in academia, at the Defense Department, and in industry. Like Senator Ernst, he's an Army veteran. He now leads CSIS's new Center for the Industrial Base, which drives impactful research on all things defense, contracting, and the combination of industry and government that can so powerfully move us forward. It's an exciting new initiative. And there's no better person to lead us through this conversation. So with that, over to you, Jerry.

Jerry McGinn: Great. Great. Thank you very much, Emily. And it's great to be here. And welcome everyone.

And, Senator, it's really an honor to have you here.

Senator Joni Ernst: Thank you.

Dr. McGinn: All right. So the Small Business Innovation and Research Program, or SBIR, and the Small Business Technology Transfer Program, or STTR, has been in existence for 40 or 30 years, respectively, driving innovation across the federal government with, you know, over 10 agencies participating in these. And it's grown quite a bit over the last decade. But as the senator knows well, unfortunately, the program expires at the end of this month. And so the discussion is how do – you know, how to reauthorize it, how to reform it. And we couldn't have a better person to lead this discussion with us.

So Senator Ernst is from Iowa, of course. And she was elected in 2014 as a senator, as a former – is a veteran, a retired lieutenant colonel in the Iowa National Guard. And she leads these – is the chair of the small business – is the Senate Committee on Small Business and Entrepreneurship, as well

serves on the Senate Armed Services Committee. So it's an honor to have you. And we look forward to your remarks. So, please.

Sen. Ernst: Wonderful. Thank you. Thank you so much. And would you like me to take the podium now? And what I'd like to do is start. I have an address that we will make for the audience. And then I think we'll have a little discussion, Jerry, so – or, Gary. Thank you. I appreciate it.

Dr. McGinn: So if you have any questions, you can put them – scan the QR code and then get them in the queue.

Sen. Ernst: And, yes, you can scan for – thank you. Thank you so much. And, Emily and Jerry. And it is wonderful to be here because this is a really important topic, I think, for so many of us. And I really want to thank CSIS for hosting this morning, for the event, and for your thought leadership. It really does make a difference as we are moving through this issue and shaping the conversation on America's national security.

So as the chair of the Senate Armed Services Subcommittee on Emerging Threats and Capabilities, and as a combat veteran, I know firsthand that a robust national defense relies on the rapid development and deployment of the best defense technologies. To equip our warfighters, we must reverse years of complacency in our defense industrial base and leverage the homegrown ingenuity of America's innovators. In my role as chair of the Senate Small Business Committee, I meet with many of our hardworking startups and small businesses in the heartland and across the country who are driving this effort and developing the cutting-edge defense capabilities.

This work has made it clear that Congress must reform and reauthorize the Small Business Innovation Research, or SBIR, program. Over 40 years ago, the SBIR program was established as America's seed fund to give startups early support to de-risk their technologies, in order to attract investment and adoption. The public-private partnership structure has seen some success, but in its current state the program has lost its way and is benefiting China at the expense of our warfighters, making reform both urgent and essential. This summer, I released a report and exposed that several companies receiving hundreds of millions of dollars through the Pentagon's SBIR program have troubling relationships with China and other foreign adversaries.

I asked the Pentagon to investigate these ties further. The department identified significant security risks in certain companies. By continuing to award taxpayer funds to compromised firms, the program is serving as a potential subsidy for Beijing's advancements. Even one case is too many.

In 2023 and 2024, 835 applications for SBIR/STTR funding were flagged for having foreign risks. Only 303 were denied for their ties to adversaries. And this standard was implemented inconsistently across agencies, a loophole that China can exploit. Some agencies denied 100 percent of flagged applications, while others denied less than 1 percent. My INNOVATE Act would put a stop to this egregious misuse of taxpayer funds by establishing clear, consistent standards for federal agencies and empowering them to recover taxpayer dollars when our national security is threatened.

We can't keep allowing the effectiveness of the SBIR program to be limited. Currently, a few companies called SBIR mills have received a disproportionately large share of funding while delivering minimal results. In the past decade, 25 companies in the Pentagon's SBIR program – just .5 percent of award recipients, those 25 companies – received 18 percent of all funding. That's over \$2.3 billion, folks, a \$92 million windfall for each company. No wonder hardworking folks in Iowa have a hard time viewing these as truly small businesses. Despite the dollars funneled in, GAO reports that these frequent awardees generate lower sales, fewer investments, and fewer patents compared to SBIR companies that received much, much less. The Pentagon's Defense Industrial Board also reports that so-called SBIR mills have a low transition rate and entire business models rely on receiving tax dollars through SBIR awards.

This must change. It is unacceptable that seemingly unproductive firms, many of which do not resemble small businesses, are crowding out thousands of new entrants and promising startups. My bill would reorient SBIR to its original purpose: Providing merit-based support for American innovators, not perpetual revenue for a select group of companies who have become dependent on the government. I want to help companies leverage their work in the SBIR program to build viable businesses that can thrive beyond relying on taxpayer funding.

In addition to teeing up resources for young, growth-oriented firms, the INNOVATE Act creates a pipeline of new entrants through smaller, streamlined Phase 1A awards reserved for entrepreneurs that have not previously participated in the program. This will enable agencies to better map the entirety of America's technological talent, identifying the best solutions regardless of location.

And lastly, too many SBIR companies on the verge of success encounter administrative hurdles that limit long-term procurement opportunities. My legislation addresses this by creating targeted, larger-dollar SBIR investments through new strategic breakthrough awards to rapidly scale the most promising technologies.

In the face of today's threats, I am focused on maximizing the opportunity to fix the SBIR program. Properly structured, I firmly believe it can empower patriotic American entrepreneurs to innovate and tackle the challenges of the 21st century. I am actively working with my colleagues in Congress to change the status quo, and look forward to passing a comprehensive reform and reauthorization package. And thank you all very much for your support in this important cause.

So, again, thanks for coming today. I look forward to our questions. I know we'll have a lot of fun with this. And I just really appreciate all of you being advocates for our small business. So thanks so much for allowing me the opportunity. Thank you. (Applause.)

Dr. McGinn: Great. Thank –

Sen. Ernst: Thanks. Thank you.

Dr. McGinn: Great. Thank you very much, Senator. That's tremendous.

So you've been involved in small business innovation for a number of years. I think you helped on the last time SBIR was reauthorized. And so – but what kind of – what kind of led you to kind of – to really go big on this INNOVATE Act?

Sen. Ernst: Yeah. Thank you, Jerry.

So the INNOVATE Act was formed with the work that I do on the Small Business Committee – I'm the chair in this Congress – but also my work on the Senate Armed Services Committee, and knowing that we needed to develop technologies faster and rapidly deploy them to the warfighter. And that's why such an emphasis on the Department of Defense or Department of War, whatever you want to call it today.

But certainly, what we did when we reauthorized or worked on SBIR last time, we identified that we needed due diligence because we have a lot of intellectual property that is being transferred inadvertently to China and other adversaries. So we have taxpayer-funded programs that are benefiting our adversaries, so that's a consideration. The rapid deployment of those technologies to the warfighter is another. But then, also, the problem that we have with getting new entrants into the program. We want to make sure that this is benefiting truly small businesses and providing opportunity all across the United States, not just on the coastlines.

Dr. McGinn: I see. I see.

And so you had mentioned in your remarks about what you call SBIR mills, you know. So what is your concern there with regard to these firms?

Sen. Ernst:

Well, this was supposed to be – as a program, it was supposed to provide seed funding for many small businesses to get into the contracting space with the federal government to provide services, to provide technologies, goods for the federal government. But what we have found is that a number of these participants in the program have gotten really good at writing award – you know, award programs, and so they’re receiving millions and millions of dollars but not actually delivering on goods or services for the federal government. So what we see is that many are taking advantage of these programs for perpetual funding rather than seed money.

So the goal would be to get a company into the program through SBIR; get a grant award; develop a technology, a service, or a good; and eventually get to commercialization or provide that service for the federal government. Well, the SBIR mills are taking billions of dollars and not producing anything. So it’s great to get that grant money, but they’re not providing anything for the federal government in many cases – not every one. But again, it’s supposed to be seed money. That was the intent behind the program. And instead, what we’ve done is develop really great programs where people are just writing white papers that really don’t do anything for us. So we’ve got to get back to the original tenets of the program, getting people in and then eventually graduating them out of the program, focused truly on those small businesses that will provide those goods and services.

Dr. McGinn:

You know, it’s – you know, we have a number of small businesses in the room. And as a – as a small business, you know, navigating, you know, the complexities of DOD proposals such as, you know, trying to get a SBIR can be really challenging. And I think that’s, in some ways, the roles that these firms have – some of these so-called SBIR mills – you know, that they help companies. And what are some of the ways that that I think – you know, does your INNOVATE Act get at, like, ways to help small businesses not need a middleman, or not need – ways that they get directly into the program?

Sen. Ernst:

Yeah, absolutely, and – yes. And I did mention the SBIR mills and some of the outrageous statistics that we have on some of those mills where, when you look at the DOD in particular, again, 25 companies – 25 companies sucked up, you know, 18 percent of the funding at DOD, and are not really producing. And we see kind of a – it’s really, like, a negative investment strategy – (laughs) – because we’re pumping the money in, but not getting anything back out. Which is why we need the INNOVATE Act, because it does get at that issue and brings more entrants in. And we have a Phase 1A program written into the INNOVATE Act, which would allow for greater access for new entrants.

These awards would be for those that are brand new to the program. They've never participated in SBIR before. So you don't need that middleman. They're not going to suck up all the money. We want new entrants to come in. If you look, disproportionately those SIBR mills/grantees are along the coastlines. You know, I'm from middle America. There's a lot of great technologies being developed in middle America. A lot of great small businesses. This is one way, through those Phase 1A application processes, that they can be more involved in SIBR.

Dr. McGinn: Is the Phase 1A – is it a smaller award than typical? Typical Phase 1s are, what, about 130,000 (dollars), or something?

Sen. Ernst: Right. Yes. It is a smaller dollar grant award to a recipient. And it is a much more streamlined process. So it makes it easier for small businesses to gain access into SBIR.

Dr. McGinn: OK. And that's part of your INNOVATE Act, you said? OK. So one question that we've got from the audience here is that, you know, small business – you know, SIBRs lead to technology is then used – either commercialized, or it can be used by the government as well. Is there a potential for Pentagon program managers to lose access to some experienced small businesses in favor of, kind of, some of these new entrants through this bill? You know, so – or what do you think on that?

Sen. Ernst: And, well, I think that's some of the pushback that you might hear from those award recipients year after year. I wouldn't say – no. If you have a proven technology and you are developing technology, and the Pentagon recognizes those technologies as benefiting our federal government, at the expense of the taxpayers, you will still have access to them. But this allows new entrants to come in and also compete in that space. So what we want to develop is a good competition out there. Competition is healthy. We shouldn't shy away from that.

If we have other products that are better suited for the needs of today and tomorrow, then certainly I want our Pentagon and our warfighters to have access to that. If you are a proven technology, you are doing a great job, we know those program managers will recognize that. You should graduate out of the SBIR program and be able to compete outside of that space. That's why SBIR exists, is to provide an entrance into the system but not to stay on it forever. This was, again, supposed to be seed money, not perpetual funding.

Dr. McGinn: Good. Yeah, so to build off that point, you know, there are good metrics. You know, it's an axiom that, you know, what you measure is what you get, right? And so – and there are good metrics for Phase 1 awards and Phase 2 awards for SBIR. But then the transition when companies go either from Phase 2 to Phase 3, or to another transaction authority – so when they move into an

actual program, we don't have ways – direct ways to measure that currently. You know, does INNOVATE Act get at this? Or, you know, and what are your thoughts on how to transition?

Sen. Ernst: Yeah, it does. And the INNOVATE Act, what we are doing is introducing something called the Strategic Breakthrough Award. And that can be up to \$30 million then. And it does require matching funds coming from the entity, but that \$30 million to help carry over. So we do hear this from a lot of different entities that, you know, they're struggling. But again, the Strategic Breakthrough Award, it is requiring those matching funds, but it is up to \$30 million. So that can help carry some of those businesses forward.

Dr. McGinn: OK. So one of our questions that's come in says, is there a qualitative difference between what traditional small businesses and some of these more VC-backed startups can provide to the federal government through SBIR? Or is it – you're just trying to open the aperture for all kind of –

Sen. Ernst: We are trying to open the aperture. So, yeah. We just want more entrants to engage with the federal government and provide those new technologies. And it's a great program, but it has been misused through the years. And that's what we're trying to course correct right now. We just need more entrants engaging. And the SBIR mill issue is the one that we really want to get at. We want to get at. I would say that's one of the biggest issues. And then also the foreign risk that exists out there, because we still have documented companies that are spinning off and – oh, the lights went out.

Dr. McGinn: Wow.

Sen. Ernst: Hey. But let's get a small business on that. They'll take care of it. (Laughter.) But we can – we can really identify, define clearly in the INNOVATE Act, what a foreign risk is, and do the proper due diligence. So those are what we are trying to get after. I don't care if you're a VC-backed firm or if you're, you know, just a small business in somebody's garage. We want to provide entrance into SBIR.

Dr. McGinn: Great. I wonder if we could pull a little bit on the threat issue with regard to China. I mean, we all recognize that is a big concern. How do you kind of balance the need for more due diligence with the need to make this program more open for small businesses, and whatnot?

Sen. Ernst: Well, yes. It's really, really important. So we can go through that due diligence. It's very important. And actually defining what that foreign risk is clearly in the INNOVATE Act is a big difference. You know, we've done the due diligence work in the past, but obviously we didn't close down enough on that to really deter our adversaries from gaining access or influence. With some of these programs we see start-up companies that will maybe spin off

into other companies, that are then owned or purchased by Chinese or have Chinese influence, and other adversaries too. It's not just limited to China. But we have the ability, through the INNOVATE Act now as well, if, post-award, we identify that the technologies have been exposed or taken by our adversaries, we can claw back award dollars. So we feel this is an important measure to deter those companies from selling to the Chinese what has been funded by the American taxpayer.

Dr. McGinn: Gotcha. Gotcha. So we talked a little bit about the transition. You know, you're – what did you call them, the strategic breakthrough, right? So the – because a lot of the companies that have had SIBRs, you know, talk about struggling in the transition, what they call the valley of death. And there are a few of those, as you know. But, you know, transitioning from, you know, the smaller SIBR Phase 2 is even to the beyond, and you think that, like, a Strategic Breakthrough Award – and I think there's also, like, the Air Force has had – does what they call STRATFI and TACFI awards. So you think that will help small businesses transition this innovation into the larger scale?

Sen. Ernst: Absolutely, we do. And a lot of discussion about this. Whether it's been in SIBR or outside of SIBR. We always hear about the valley of death, and how many of those small businesses don't have that revenue stream to keep them going. And of course, we know that, especially when you focus on the Department of Defense, it may take a while for those programs to get picked up and fully funded. So providing that award, the Strategic Breakthrough Award, it does allow that bit of a revenue stream to keep those small businesses going when they're focusing on those products for our warfighters.

Now, I recognize as much as the next guy that sometimes we're developing products for the Department of Defense that don't have a commercial application. And this would be very important as well for that Strategic Breakthrough Award to keep those small companies going when they know they can't spin off and commercialize elsewhere.

Dr. McGinn: OK.

Yeah, one of the things that the – you know, the SBIR program goes for lots of aims. You know, half the money goes to defense, and it has increased substantially over the past decade in terms of the SBIR funding and STTR funding. And the bill is – SBIR has been reauthorized numerous times and is very popular on both sides of the aisle. Does your bill kind of – does it look at reauthorizing in terms of – is it three years? Is it five years? And do you have any thoughts on – you know, because it expires – you know, what's the – kind of the right model going forward?

Sen. Ernst: Well, we are still negotiating on this because we have not come to terms collectively. We want this to be a bipartisan bill.

So, really, everything is out there on the table right now. We would like to see a longer extension, of course, but I'm willing to negotiate that. So we are trying to bring the Democrats to the table on this, recognizing that we need to do something about SBIR mills. If we're funding the program with taxpayer dollars, we need to make sure that we're producing results, OK? So that's one thing. The second, again, is the Chinese influence, which I think we have really come to terms on. But what I'm not willing to do is just an outright clean extension of the bill, which is what the Democrats are trying to do. We know we need to reform the program.

Many of you will also recognize that I serve as the DOGE chair in the Senate. So with that in mind is making sure that when the American taxpayer is investing in programs they are seeing a return, they are seeing a benefit to what their hard-earned dollars are providing, whether it's for the warfighter, whether it's in the Department of Energy, whether it's any of our departments out there.

So it's on the table. We hope to have a longer reauthorization. But, you know, I'm firing that warning shot out there that I am not going to do just a clean reauthorization to see the same old, same old go on within the SBIR program. We know that there are problems that have to be corrected. My team and I have worked really, really hard on this issue. And so we want to get them to the table. I am willing to negotiate on how long that reauthorization should be.

Dr. McGinn: And how do you – you know, practically, you know, it expires in a couple weeks, so – and I understand there's negotiations going on. There are a couple other bills, potentially, out there. And how do you envision this going forward? Are they going to – is this going to be a bill that's going to be attached to the National Defense Authorization Act? Or what do you – you know, how do you think it's going to go forward?

Sen. Ernst: Right. And that would be one of the goals, is that we could potentially get it attached to the National Defense Authorization Act. But again, we need to come to the – we'll need the Democrats to come to the table. So we have signaled we are willing to sit down and work with them 24/7. Doesn't matter when; you let us know, we're willing to sit down and negotiate. There's a lot of stall tactics that are going on right now. We need everyone to come together, focus on this.

We know that if it lapses that does create problems for a lot of small businesses out there. We don't want that to happen, but I'm just saying then they need to come to the table and work with us on this before we agree to a

reauthorization and how that moves forward. There's a number of options and opportunities. We don't want to miss those. But in order to do that, we have to have those conversations.

Dr. McGinn: Great. Yeah, I think there's a lot to be done and we only have a few weeks to do it.

Sen. Ernst: Yes.

Dr. McGinn: But want to thank the senator for your time and for – the audience for all your questions. And hopefully, we'll be able to get the SBIR and – SBIR reauthorized –

Sen. Ernst: Yes.

Dr. McGinn: – and we'll find a good path forward. So thank you for –

Sen. Ernst: Yeah. Thanks, Jerry. And thanks, Emily. And thanks to CSIS for hosting. Thank you.

Dr. McGinn: It was wonderful to have you here. Thank you very much. (Applause.)

(END.)