

**Statement of the
Cooperative State Research Education and Extension Service
United States Department of Agriculture**

to

**United States House of Representatives
Committee on Science and Technology
Subcommittee on Technology and Innovation**

April 26, 2007

We appreciate this opportunity to submit this statement to the Committee regarding the Small Business Innovation Research Program administered by CSREES on behalf of all USDA agencies. The mission of the Cooperative State Research, Education and Extension Service (CSREES) at the United States Department of Agriculture (USDA) is to advance knowledge for agriculture, the environment, human health and well-being, and communities through national program leadership and federal assistance. In this statement we will provide an overview of the USDA-SBIR program and attempt to answer the specific questions posed by the committee.

Within USDA, the staff functions necessary to administer the SBIR program have been centralized in CSREES in order to provide the SBIR community effective, efficient and consistent service. These staff functions include solicitation, review and evaluation of proposals, award administration and post award management. CSREES has well refined systems and procedures for administering grant programs due to a long history of managing extramural research grants. USDA and CSREES are very proud of this program that has supported over 1,600 research and development projects since its inception in 1982, allowing hundreds of small businesses to pursue innovative ideas and explore their technological potential.

Overall there are eight USDA agencies with research and development budgets that set aside 2.5% of their extramural research and development awards for the SBIR program. These agencies are Agricultural Research Service (ARS), Animal and Plant

Health Inspection Service (APHIS), Cooperative State Research, Education and Extension Service (CSREES), Economic Research Service (ERS), Forest Service (FS), National Agricultural Statistics Service (NASS), Rural Development (RD), and Foreign Agricultural Service (FAS). In fiscal year 2006 these agencies contributed over \$19.5 million to SBIR. Of the total USDA funding, approximately 82% is contributed by CSREES, about 12% is contributed by ARS and approximately 3% is contributed by the Forest Service.

The USDA-SBIR program administered by CSREES has two types of awards. The first is for Phase I feasibility studies that can be up to \$80,000 for eight months and the second is for Phase II research and development grants that can be up to \$350,000 for 24 months. Approximately 90 Phase I feasibility grants and 35-40 Phase II research and development grants are awarded annually. Successful completion of a Phase I study is prerequisite to receipt of a Phase II grant. Of the applications received, 15 to 17% of the Phase I and 50 to 60% of the Phase II proposals have been funded each year.

An important aspect of the SBIR program is post-award management. Most of the effort is directed toward Phase II projects that have demonstrated technical feasibility in Phase I and are continuing their research and development. A commercialization assistance program is offered to new Phase II winners so that grantees can work with a contractor who helps identify potential commercialization partners, markets or new business opportunities. In addition, the USDA's SBIR National Program Leaders conduct occasional site visits and work closely with all of the Phase II projects to provide advice and guidance. Since successful commercialization often takes several years, the USDA SBIR program maintains contact with past Phase II winners for many years in an effort to document those projects which achieve commercial success.

Program Effectiveness

The committee has asked whether the SBIR program is meeting its objectives to stimulate and commercialize innovation in support of agency missions through expanded

small business participation in extramural Federal R&D and how program efficiency and effectiveness could be improved.

The USDA SBIR program has effectively supported innovative R&D projects that have led to commercialization of important new technologies that have benefited many aspects of American agriculture and rural development. However, SBIR program managers believe they could encourage more participation by small business firms by increasing awareness of the SBIR opportunities through attendance at State and regional meetings. Program managers also believe site visits would allow them to work with current grantees and help them more rapidly achieve commercial success. Therefore we recommend allowing a small percentage of SBIR program funds be made available for these activities.

Award Levels

The committee has asked what the appropriate award levels are in light of typical project costs to support agency missions, the trends in seed and early stage financing and the fact that there has not been an inflationary adjustment in award levels since 1992.

Given the size of the USDA SBIR budget, current award levels are sufficient to meet our needs. USDA would have no objection if the maximum award levels were increased beyond the current \$100,000 for Phase I and \$700,000 for Phase II awards. However, any such increase would not directly affect our program because we are currently limiting grant levels to \$80,000 for Phase I and \$350,000 for Phase II.

Small Business Participation

The committee has asked how the programs can increase the participation of innovative small business in federal R&D including the total number of small businesses, their geographic distribution, and participation of minority and disadvantaged firms.

As noted above, one way to increase small business participation in the SBIR program is through more effective outreach efforts.

Financing and Commercialization

The committee has asked what common program elements are needed across all agencies to address financing gaps in the Phased award structure to provide commercialization assistance.

Different SBIR programs use different approaches to deal with the funding gap between Phase I and Phase II projects. USDA allows companies to eliminate this funding gap through a combination of a no-cost extension of the Phase I project together with pre-award authorization on the Phase II award. Other Departments allow companies to submit Phase I and Phase II proposals simultaneously. In reality, however, very few companies choose to take advantage of either of these options.

Regarding commercialization assistance, many SBIR programs offer commercialization assistance in Phase I and/or Phase II. The dollar limit on this assistance has been set at \$4,000 for over 10 years.

Administrative Costs

The committee has asked how program administration costs should be addressed in reauthorization in light of the fact that program costs are currently paid out of non-SBIR funds.

SBIR programs are not currently allowed to use any program funds for administrative purposes. This has become a serious problem for the USDA SBIR program. The administrative costs for the SBIR program have to come from the limited general administrative funds within CSREES. We recommend allowing a small percentage of the SBIR program funds to be used for administrative purposes to improve overall program effectiveness. These purposes should include travel support for outreach efforts, support for commercialization assistance and support for the proposal review process.

As one example, the USDA SBIR program would like to be able to offer Phase II grant awardees a very successful private sector commercialization assistance program that costs \$12,000 per company. Unfortunately, the lack of adequate administrative support funds coupled with the commercialization assistance limits precludes the use of this valuable assistance. Funds to support this program could be available if administrative costs were allowed.

Conclusion

In closing the SBIR program has been effective and has encouraged business initiative and innovation in the agricultural sector of our economy. Since its inception, over 1600 innovators and entrepreneurs have received the resources they needed to examine the commercial feasibility of their ideas and many of these have gone on to achieve some measure of commercial success. With several relatively simple modifications we can improve on this successful track record and help even more small businesses, which in turn will help expand job opportunities in Rural America and keep America's agriculture strong.

Thank you for the opportunity to provide these comments.