

Venture capital, tech firms push for DOD procurement reform

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On June 23, 2023, a coalition of companies, including venture capital firms like Kleiner Perkins, General Catalyst and Founders Fund, and start-up defense technology companies, published an open letter¹ to the Department of Defense (DoD), addressed to Secretary Lloyd J. Austin, petitioning DoD to consider procurement reform to help “overcome barriers to innovation.”

The group asserts these barriers create “antiquated methods for developing requirements and selecting technologies that have drastically limited” DoD’s access to “the best commercial innovation.” In particular, the coalition endorsed adopting four recommendations pulled from a report² by The Atlantic Council, a non-partisan international affairs think tank.

The letter calls for the removal of barriers for small businesses with venture capital or large business funding to compete for SBIR contracts and grants.

First, the letter suggests that DoD modernize to align with the 21st century industrial base. The letter acknowledges that DoD has already taken a strong step in this direction by establishing the Defense Innovation Unit (DIU), which reports directly to Secretary Austin and whose mission is to accelerate the adoption of commercial technology.

The coalition also encouraged DoD to provide DIU with additional staffing and resources to tap into the non-traditional defense industrial base, reinforce “buy before build” commercial practices, and help DoD speed up validation and approval of needs and funding.

Next, the letter advocates for enhancements to the Small Business Innovation Research (SBIR) program, under which DoD funds small business independent research and development (IR&D) work through several phases of funding that is intended to commercialize developing technology. Perhaps most significantly, the letter calls for the removal of barriers for small businesses with venture capital or large business funding to compete for SBIR contracts and grants.

While no specifics were provided, the coalition seems to be advocating for changes to the eligibility requirements and affiliation rules specific to the SBIR Program, which could allow for greater investment in small businesses without risking the contractor’s ability to qualify for a SBIR award.

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The coalition also suggests “direct-to-Phase III grants,” *i.e.*, direct to the commercialization phase, as well as other flexible funding vehicles including a Strategic Funding Increase Program, which would match customer and private funding, as well as pilot projects for external capital funding from the Office of Strategic Capital.

The coalition also suggests encouraging tech companies to contract with DoD by raising the threshold for cost accounting standard (CAS) coverage to “at least” \$100 million, revising or expanding the commercial item CAS exemption, and providing more procurement funds for research and development. Other suggestions include investment in modernizing the System for Award Management portal to improve its design and usability and streamlining processes related to security clearances.

Finally, the letter suggests establishing a bridge fund for demonstrated technologies, such as a \$250 million pilot fund to scale technologies “demonstrated at operational exercises” in order to overcome the “valley of death,” where promising new technologies often fail to receive adequate funding and die out before they can be transitioned into use under major defense programs.

It remains to be seen if the coalition’s letter will elicit a response from DoD and whether any of the suggested measures will gain traction and result in procurement reforms that might further

increase venture capital investment in non-traditional and start-up government contractors.

In any event, there are already some promising signs. On June 22, 2023, just one day before the coalition released its letter, the House Appropriation Committee approved³ a \$1 billion allocation to establish a “hedge portfolio” of commercial, innovative non-traditional solutions for weapons systems and suppliers that

would be outside the traditional defense industrial base and would be managed by DIU.

Notes

¹ <https://bit.ly/3DeQUIQ>

² <https://bit.ly/3NTN9NH>

³ <https://bit.ly/3rw2IDV>

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