The eleven Agencies that participate in the SBIR and STTR programs make their awards either as grants or contracts. In 2020 the combined SBIR and STTR budget across all of the participating Agencies was a little over $4 billion. Of that, a little over half was provided to small businesses in the form of contracts; while the other half was provided as grants. What’s the significance of this? Why should you care if some Agencies provide contracts, while others provide grants? What impact might this have on you?

SBIR/STTR GRANTS
The Federal Grant and Cooperative Agreement Act of 1977 established the distinctions between procurement contracts, often simply called contracts, and grants, and cooperative agreements. We won’t touch on cooperative agreements here but will focus our discussion exclusively on contracts and grants.

The Federal government uses grants to accomplish a public purpose, advance a national objective, address a public problem, or stimulate a particular activity desired by the awarding Agency. Grants are very flexible, allowing considerable latitude to the Principal Investigator, or PI. Investigator-initiated research projects that align with an Agency’s mission are awarded as grants. There are four Agencies that participate in the SBIR and STTR programs that uniquely award grants. These are the Department of Energy, the National Oceanic and Atmospheric Administration, the National Science Foundation, and the U.S. Department of Agriculture. With grants, PIs do their best to complete the research and achieve the desired aim.
By contrast, contracts are more demanding. A contracting Agency is looking to procure a good or service that will be of direct benefit to the government. There are five contracting Agencies that participate in the SBIR or STTR program, with the largest being the Department of Defense and the National Aeronautics and Space Administration. The other contracting Agencies are the Department of Homeland Security, the Department of Transportation, and the Environmental Protection Agency. There are also two Agencies that use both grants and contracts. These are the Department of Health and Human Services and the Department of Education. It’s not uncommon to find a table which contrasts the differences between procurement contracts and grants. The most comprehensive can be found on a Department of Energy site which is referenced in the Links Tool. Here are a few highlights.

## GRANTS VS CONTRACTS

With grants, the applicant often defines the scope of work. The PI is required to make their best effort and has more freedom to adapt the project and the outcome, as there is no legally binding requirement to achieve results. The payment method is also more flexible, often using a “drawdown” system. By contrast, a contract is a binding agreement between a buyer and seller to provide goods or services in return for compensation. The scope of the work is fairly inflexible. There are frequent reporting requirements and payments are based on deliverables and milestones. The upside of a contract, however, is that there is often a built-in customer. By the way, classified work is done as contracts, not grants.

So, returning to the question asked at the beginning – why is it important to understand the difference between a contract and a grant? The instrument used by an Agency to make an award will have implications for you. The type of award affects reporting requirements, the complexity of your financial system, your customer base, and cash flow. As you begin to explore the various Agencies and the SBIR/STTR programs that they provide – pay attention to whether they provide grants or contracts. Keep in mind however, that there is always significant variability amongst the Agencies that participate in the SBIR and STTR programs and the fact that some provide grants and others provide contracts does not imply uniformity in how the Agencies administer their programs. They are all quite unique.