

**HOLD UNTIL RELEASED BY THE
SENATE COMMITTEE ON
ARMED SERVICES**

**TESTIMONY OF
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DEPARTMENT OF DEFENSE
OFFICE OF SMALL BUSINESS PROGRAMS
BEFORE THE UNITED STATES SENATE
COMMITTEE ON ARMED SERVICES
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Introduction

Chairperson Hirono, Ranking Member Sullivan, and distinguished members of the Subcommittee, thank you for the opportunity to speak with you today about the defense industrial base and the role of small businesses within the Department of Defense (DoD). My name is Farooq Mitha, and I am the Director of the Department of Defense Office of Small Business Programs and report to the Assistant Secretary of Defense for Industrial Base Policy within the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)). The Under Secretary of Defense for Acquisition and Sustainment is the Principal Staff Assistant and advisor to the Secretary of Defense for all matters relating to acquisition and sustainment in the Department of Defense. Today I will discuss the role of the DoD Office of Small Business Programs, tools used to increase small business participation, program accomplishments, small business barriers, and the Department's recently released small business strategy.

Role of the DoD Office of Small Business Programs

A key role of the Director of the DoD Office of Small Business Programs is to advise DoD officials, including the Secretary of Defense, on small business matters. This includes small business policy advice, programs, industry engagement, and meeting statutory and regulatory requirements. The Director of the DoD Small Business Programs is also the functional lead for small business professionals across the acquisition workforce. Most of these small business professionals work within the Military Departments and Defense Agencies. I am pleased to be joined today by the Small Business Directors in the Military Departments who are Senior Executives in the career civil service and oversee small business activities within their respective organizations.

The role for each of us as small business leaders in the Department of Defense is to ensure that the Department has a strong, healthy, robust industrial base of small business suppliers. The statutory requirements for this role primarily pertain to ensuring the Department achieves its negotiated small business prime contracting goals and its assigned prime contracting goals for HUBZone certified small businesses¹ and businesses owned by socially and economically disadvantaged people, service-disabled veterans and women under the Small Business Act. Additionally, DoD has assigned subcontracting goals for the same categories for which we have prime contracting goals. The Small Business Administration (SBA) negotiates or assigns these goals.

DoD Small Business Participation

The Department has achieved its small business prime contracting goal for the past eight years. DoD's small business prime contracting goal negotiated with the SBA for FY 2022 was 22.5%, and the sub-contracting goal was 32.25%. Additionally, the established goals for the socio-economic categories were 9.5% for small, disadvantaged business (SDB), 5% for women-owned small business (WOSB), 3% for service-disabled veteran-owned small business (SDVOSB), and 3% for HubZone small businesses. The DoD Office of Small Business Programs tracks performance against these goals on a weekly basis through the System for Award Management (SAM.gov). Data is reported regularly to the DoD small business community, DoD senior leadership – including the Under Secretary of Defense for Acquisition and Sustainment – the White House, and the SBA.

¹ The Historically Underutilized Business Zones (HUBZone) program helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities. These preferences go to small businesses that obtain HUBZone certification in part by employing staff who live in a HUBZone. The company must also maintain a "principal office" in one of these specially designated areas.

Preliminary reports show that in FY 2022 the DoD awarded \$85.2 billion in prime contracts to small businesses, which is around 24.8 percent of all its prime contracts. The Department does not currently have the final subcontracting performance number, but in FY 2021 the Department surpassed its subcontracting goal with a performance of 33.9%. The White House also increased the focus on the Small Disadvantage Businesses (SDB) socioeconomic category to support the President's emphasis on advancing racial equity by committing to SDB performance to 15% in FY 2025. In FY 2022, the Small Disadvantaged Business prime contract performance was above 10.1%, which represented an all-time high above the 9.5% goal. The Department awarded over \$34 billion to Small Disadvantaged Businesses. Service-Disabled Veteran Owned Small Business prime performance is currently at 3.06%, above the 3.0% goal. Woman Owned Small Business and HUBZone performance are currently below their prime contracting goals, with a 3.9% performance and 2.2% performance, respectively.

DoD Office of Small Business Programs and Accomplishments

The DoD Office of Small Business Programs maintains oversight of several programs with significant impact on small businesses, including the Indian Incentive Program (IIP), the Mentor-Protégé Program (MPP), the Rapid Innovation Fund (RIF) Program, and the Department's APEX Accelerators (formerly known as Procurement Technical Assistance Centers (PTACs)). These programs are critical to enhancing small business participation and success in defense acquisition. Aligning these programs and efforts to work together will broaden outreach, drive prototyping, strengthen the DoD supply chain, and increase technology transfer into defense programs.

The MPP is an important supply chain focused program, the authority for which was made permanent in the Fiscal Year 2023 National Defense Authorization Act (NDAA). Under

this program, experienced companies meeting certain eligibility requirements provide business developmental assistance as mentors to protégé firms. These protégé firms are disadvantaged small businesses from the various socioeconomic categories and many can be new entrants to the defense industrial base. Mentor firms provide assistance in a range of areas (e.g., internal business management systems, equity investments, loans, and bonding, technical, general, and administrative assistance) that enable protégé firms to become suppliers as prime and subcontractors to the Department of Defense and other federal agencies. The MPP has achieved great success. Over the past four years, protégé firms performed an average of over \$5 billion of contract work for the federal government annually. One such company is Composite Solutions, which develops and delivers conductivity-based polymer and composite solutions that answer the combined demands of conductivity and shielding performance in lightweight materials systems. Composite Solutions has been awarded over \$18 million in prime contracts since the start of their Mentor-Protégé Agreement.

The APEX Accelerators consists of 96 centers across the country, funded through cooperative agreements with the Department. These centers provide procurement technical assistance to small businesses to help them learn how to do business with DoD, the federal government at large, and at the state and local level. These centers were previously aligned under the Defense Logistics Agency but recently were realigned under my office in accordance with the statutory changes in the Fiscal Year 2000 National Defense Authorization Act. Now that these centers are within the DoD Office of Small Business Programs, I have given them a new name, a refreshed mission focus, and will be working to integrate their activities with other small business programs to support the Secretary's small business objectives.

The Rapid Innovation Fund (RIF) Program was established by Congress to help innovative businesses, many of which are small businesses, bridge the valley of death and support commercialization of technologies from prototype to production. This is an important authority that showed impressive outcomes with an over sixty percent commercialization rate . One of these companies is Diversified Technical Systems, based in Seal Beach, CA, which developed a smart helmet sensor for the Army that can detect mild traumatic brain injuries in soldiers. The Army and Marine Corps fielded nearly 50,000 units with this product. The DoD Office of Small Business Programs is working to reinvigorate the RIF program to support small, innovative companies with cutting edge technologies that can support the warfighter. The Indian Incentive Program (IIP) provides a 5% rebate to prime contractors on the total amount subcontracted to an Indian-Owned Economic Enterprise or Indian Organization. Established by Section 504 of the Indian Financing Act of 1974 (25 U.S.C. § 1544), IIP incentivizes the use of Indian-Owned Economic Enterprises, Native Alaskan, and Native Hawaiian small businesses by prime contractors which has increased the participation of Indian Organizations and Indian-Owned Economic Enterprises since the program's inception. This program continues to help establish a diverse industrial base to the Department while improving the economy of Native American communities and encouraging participation by socio-economically disadvantaged firms in the DoD.

In addition, the DoD Office of Small Business Programs provides policy and oversight for DoD of procurement preference programs for women-owned small businesses, service-disabled veteran-owned small businesses, and HubZone businesses. Furthermore, DoD has various initiatives and programs designed to improve subcontracting performance, such as the Comprehensive Subcontracting Plan Test Program.

Small Business Barriers

The DoD Office of Small Business Programs diligently advocates for small business inclusion within the defense acquisition process from the earliest stages, emphasizing awareness of the important role small businesses play in our nation's economy and in our national security. This idea that small businesses strengthen our industrial base and serve a critical role in delivering the capability to protect our troops has been emphasized by leadership across the Department.

In October 2021, Secretary of Defense Austin issued a memo to the Secretaries of the Military Departments, the Chairman of the Joint Chiefs of Staff, and the Directors of Defense Agencies and Field Activities emphasizing the importance of small businesses to the DoD and the strategic interest we have in leveraging their innovation and capabilities to address our global challenges and to ensure mission success. The DoD Office of Small Business Programs has engaged in several initiatives pertaining to outreach, policy development, and streamlining of the acquisition process to make it easier for the Department to meet its time sensitive needs. These initiatives strive to reduce barriers for small businesses such as confusing points of entry into defense markets, contracting challenges imposed by improper bundling and consolidating of contracts, and understanding complex regulations. This effort will help strengthen the Department's engagement and support of small businesses, as indicated in the release of the new 2023 DoD Small Business Strategy.

DoD's New Small Business Strategy

In January 2023, the Department released its Small Business Strategy, which was developed by the DoD Office of Small Business Programs in coordination with the Military

Departments. Although the small business strategy was in response to a National Defense Authorization Act requirement, the Department created the strategy in alignment with the President's Executive Order 14036, *Promoting Competition in the American Economy*, and Executive Order 14017, *America's Supply Chains*.

The Small Business Strategy focuses on three strategic objectives: implement a unified management approach for small business programs and activities, strengthen the Department's engagement and support of small businesses, and ensure the Department's small business activities align with national security priorities. I'll briefly discuss each objective and highlight the major initiatives within each one.

Unified Management Approach for Small Business Programs and Activities

To the Department's credit, there are a myriad of small business programs and activities distributed across the Defense landscape. Although this gives small businesses a multitude of opportunities to engage with and participate in defense acquisition, it can also be confusing. Small businesses and even members of the DoD acquisition workforce can find it challenging to understand where to go to first and who to contact to find information on available DoD small business programs and opportunities. In response to this challenge, the Department is taking on several initiatives to improve internal coordination, ease the entry points for small businesses into the defense marketplace, and provide training to small business professionals in the acquisition workforce.

To implement a unified management structure for small business programs and activities, the Department will establish a small business integration group, chaired by the Director of the DoD Office of Small Business Programs. This integration group will include representatives

from the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)), the Office of the Under Secretary of Defense for Research and Engineering (OUSD(R&E)), Small Business Innovation Research (SBIR) Program Managers, the Directors of the Office of Small Business Programs for the DoD Components, and representatives of other industrial base programs as needed. The small business integration group will focus on increasing collaboration so the Department's small business programs and related efforts can better leverage each other's expertise to grow participation of small businesses in the defense industrial base, attract more companies, mature technologies, and enable more rapid tech transfer and commercialization. This approach will facilitate development of easy-to-understand pathways for industry so that a small business could enter the supply chain through participation in a targeted outreach effort, such as a hackathon or pitch event, become a protégé firm to a successful mentor to obtain business development support, engage their local APEX Accelerator to get counseling and identify contracting opportunities, compete for an SBIR or Small Business Technology Transfer (STTR) contract, and commercialize their technology through support from RIF with help from small business acquisition preferences.

In addition to the integration group, the Department is implementing a common training curriculum for DoD small business professionals. DoD has specially trained small business professionals across the Department that contribute at all stages of the acquisition process to raise the visibility of small business contributions, capabilities, and expertise. These small business professionals assist acquisition teams with requirements generation, solicitation preparation, acquisition strategy and plans, and other required documentation to ensure that appropriate priorities are given to small businesses. Small business professionals conduct outreach to small businesses, large businesses, nonprofits, and academic institutions to facilitate

strong relationships between the government stakeholders and the small business community. They also assist with market research and raise the visibility of how a certain industry sector can contribute to all phases of the acquisition process. With the broad set of roles that small business professionals play, they should be trained as a professional community to ensure that small businesses have the maximum practical opportunity to participate in DoD acquisition and programs. That is why the Department is working to roll out a common training for all small business professionals and appropriate elements of the broader acquisition workforce.

Lastly, small businesses today face a multitude of entry points into the defense marketplace that are scattered throughout the DoD Components and Agencies. These entry points are of varying quality, and the processes can be confusing. This is an unnecessary challenge for a business that is trying to understand where to go first, who to contact, and where to find information on available resources and opportunities. As a first step to help solve this dilemma or challenge, the Department is turning our current small business website, www.business.defense.gov, into a common entry point for small businesses. The Department will improve the information and resources on this site to enable small businesses to navigate small business offices through the Department, cross-reference information on small business programs across the Department, and provide access to available acquisition forecasts and toolkits on how to do business with the DoD. In addition, DoD will explore embedding tools on the website to provide referrals of small business capability information to end users and decision-makers.

Ensure the Department's Small Business Activities Align with National Security Priorities

The Department is also focusing on how to align small business activities with national security priorities. For the Department to acquire the capabilities it needs at the volume and

speed of relevance, it needs access to a strong, growing industrial base that includes a thriving small business ecosystem. An important element of a thriving ecosystem is the commitment of a long-term authorization and funding needed to send a signal to industry that there are stable programs that they can competitively participate within and make needed investments to be a leader in this market. Over the last two years the Department has worked very closely with Congress to achieve this objective. Reauthorization of the SBIR and STTR programs at the end of FY 2022, and permanent authorization of the Mentor-Protégé Program in the Fiscal Year 2023 NDAA, are two such examples. Additionally, the Department included the Indian Incentive Program in the President's budget request for the first time.

The Department is also working to develop market intelligence tools for the acquisition workforce to reinvigorate DoD's innovative and resilient industrial base and supply chains. Recent disaggregated data from the Small Business Administration showed that there are equity gaps in the nation's domestic supply chains. Thus, the Department's solutions will seek to eliminate gaps, vulnerabilities, and critical shortfalls in America's supply chains in an equitable manner. To support this objective, the Department is planning to field a robust set of tools that DoD officials can utilize to increase the efficiency of small business market research, track small business performance, and run comparative analytics using data sourced from across the Department and Federal government. Identifying capable small business suppliers through market intelligence data is key to increasing set-asides for small business competition, understanding the supply chain, locating small business manufacturers, and increasing the number of small companies in the Defense Industrial Base (DIB).

The other focus area of this strategic objective is streamlining policy and ensuring the Department's small business professionals are engaged in the earliest part of the acquisition

process. Small business capabilities should be considered at the earliest stages of acquisition to maximize opportunities for small businesses to compete and participate for contracts. Early engagement of small business professionals enables DoD to ensure small business capabilities and technologies are included in developing acquisition strategies and to identify and address barriers to entry facing small businesses earlier in the process. The Department is working diligently to ensure the DoD small business workforce is part of acquisition teams to have these impacts. Additionally, the Department's current policy mirrors the Small Business Act so that small business directors across the Department have direct access to senior leadership to advocate effectively for small businesses and ensure small business priorities are included in acquisition planning. The Department also brings accountability to its senior leaders on small business inclusion by ensuring that senior executives who oversee acquisition have a mandatory performance element in their performance objectives related to support and fulfillment of DoD's small business goals. All these initiatives are aimed at increasing small business performance in DoD's national security priority areas, reducing barriers to entry for small businesses, and creating the right culture to have ongoing leadership emphasis on small business inclusion.

Strengthening the Department's Engagement and Support of Small Businesses

The third strategic objective of the Small Business Strategy focuses on how the Department can increase its engagement with small businesses and provide more supporting resources to help ease their entry into the defense marketplace. One way the Department is increasing engagement with small businesses is through the 96 APEX Accelerators assisting businesses in 49 states, Washington, D.C., Puerto Rico, Guam, the U.S. Virgin Islands, the Commonwealth of Northern Marianas, and in regions established by the Bureau of Indian Affairs at the U.S. Department of the Interior. APEX Accelerators serve as a resource for small

businesses to obtain procurement technical assistance, including information, counseling, and training related to contracting and subcontracting opportunities with the Department, other Federal agencies, and state and local governments.

The APEX Accelerator program is now overseen by the DoD Office of Small Business Programs and will be a key component of the Department's overall regional engagement strategy, serving as a front door for industry into the Department. The goal is to leverage these entities to improve market research, to provide more training to industry on key topics relevant to conducting business with DoD – such as cybersecurity readiness and foreign, ownership, control, and influence (FOCI) risks, to conduct more targeted outreach, and to better share data to improve the Department's understanding of the supplier base at the prime and sub-tier levels, while simultaneously strengthening and increasing the DIB.

Two issues that are extremely important in this area of economic competitiveness and national security are cybersecurity readiness and FOCI risk mitigation for small businesses. Cybersecurity threats to the DIB keep increasing in number, frequency, and severity. Protecting sensitive controlled DoD information and capabilities from increasingly sophisticated threats posed by foreign competitors and adversaries remains a critical national security priority for the Department. The resources required to safeguard data and systems from common and advanced persistent threats can put a strain on companies of any size, but resource-constrained small businesses are particularly vulnerable.

Small businesses make up over 70 percent of the DIB, making cyber risks to the supply chain a significant concern. Supporting cyber resilience within the small business industrial base is key to enabling these companies to address industrial base gaps across the Department. Cybercriminals know that small businesses are the most resource-constrained, considered high-

value targets in the defense supply chain, and are often unprepared to prevent those attacks. To combat this constant risk to the U.S. defense supply chain and the companies' economic competitiveness, the Department is committed to ensuring strong cybersecurity hygiene throughout the DIB. By promoting and assisting with cyber resilience for small businesses, DoD can play a key role in enabling these companies to address cybersecurity gaps, while also mitigating threats to the supply chain and DoD sensitive information. Recognizing these challenges, the Department initiated Project Spectrum. As identified on its website, Project Spectrum is a comprehensive "platform that provides companies, institutions, and organizations with cybersecurity information, resources, tools, and training. Its mission is to improve cybersecurity readiness, resiliency, and compliance for small/medium-sized businesses and the federal manufacturing supply chain." The Department intends to provide guidance to small businesses in connection with the conduct of voluntary cyber preparedness self-assessments, as well as appropriate tools, technologies, and training small businesses can use to help improve their cyber resilience.

The Department is keenly aware that U.S. adversaries increasingly use nonmilitary means to achieve their objectives, often by targeting the smallest and most innovative companies through controlled access to rare raw materials, vulnerabilities in their supply chains, and FOCI operations that work in conjunction with state-sponsored or proxy intelligence and cyber forces. These operations target key technology sectors, providing adversaries and near-peer competitors access to American Intellectual Property (IP) and ingenuity. This access can be legally gained through joint ventures, mergers, and acquisitions, or illegally through cyber espionage. These activities can destroy small businesses and undermine U.S. efforts to pursue global economic and national security interests. Helping protect the DoD small business industrial base from these

threats is critical to economic and national security and requires taking a comprehensive approach.

The Department intends to make an immediate impact by educating and training small businesses on these threats and providing them with due diligence tools that will enable them to understand and mitigate their risks. The DoD Office of Small Business Programs plans to expand its current cyber risk platform to include FOCI risks. This may also entail development of DoD-wide due diligence standards to help ensure DoD can strike the right balance between security and imposing regulatory burdens and unnecessary costs that may deter the nation's most innovative companies from wanting to do business with the Department. Some concepts that may potentially be addressed include developing due diligence capabilities to capture data and provide a multi-dimensional risk profile of DIB small business participants, assessing FOCI risk associated with defense contractors, and establishing market-based incentives to drive behaviors that are conducive to both economic and national security. The purpose of these efforts is to assist small businesses with additional tools and techniques to protect information and know-how, while ensuring appropriate measures are in place to enable participation in defense acquisitions and small business specific programs like SBIR.

Conclusion

I would like to thank this panel for allowing me to speak today. As you can see, our programs and initiatives have focused on increasing small business participation in defense acquisitions through targeted programs, reducing barriers to entry and providing resources to industry to make it easier for them to do business with us. The Department looks forward to implementing the Small Business Strategy to continue this important work that impacts our national and economic security. I look forward to answering any questions you may have.