

Shut Out: The Dearth of Opportunity for Minority Contracting



Curran McSwigan
Economic Policy Advisor
[@Curran_McSwigan](https://twitter.com/Curran_McSwigan)

Takeaways

Every year, the US government purchases billions of dollars' worth of goods and services through federal contracts, providing a massive market opportunity for thousands of businesses. But the process to compete for and ultimately win these contracts continues to shut out minority- and women-owned small businesses. In this report, we look at who exactly is receiving federal contracts as well as five specific barriers women- and minority-owned businesses face throughout the whole contracting process. Then, we calculate just how much in federal contracts women and people of color are missing out on. Specifically, if these businesses received federal contracting dollars in proportion to their share of US employer businesses:

- Minority-owned businesses would have received \$64 billion more in federal contracts in FY 2020, and women-owned businesses would have received an extra \$77 billion.
- Black-owned businesses would have received an additional \$4 billion in contract awards and Hispanic-owned businesses almost \$24 billion more.
- Small disadvantaged businesses would have received \$25 billion more in FY 2020 if federal agencies were already at President Biden's new 15% equity goal.

Last year, the US government spent \$17.3 billion to improve transit systems. They also allocated \$1.2 billion to support remote learning and \$3.1 billion to preserve the national parks.¹ The federal government is the largest customer in the world, spending hundreds of billions of dollars in contracts to businesses to do things like improve access to health care services, strengthen infrastructure, and protect our natural resources.² The sheer size and number of federal contracts provides a significant source of revenue for thousands of businesses. They also provide a tremendous opportunity to invest in the nation's small businesses as well as businesses owned by women and people of color.

Unfortunately, right now, small businesses only get a small piece of federal contracting dollars. For minority small business owners, that slice is even less. Barriers to growing and starting businesses keep women and people of color out of the running, while confusing and expensive requirements in the procurement process make winning a contract out of reach for far too many.

Contracting dollars have the enormous potential to help build wealth in communities of color across the country.³ But that potential means nothing if strides aren't made to make the federal contracting space more inclusive and supportive to minority-owned businesses. In this report, we dive deeper into who is getting federal contracting dollars and what barriers need to be addressed in order to get more women and business owners of color the market opportunity they deserve.

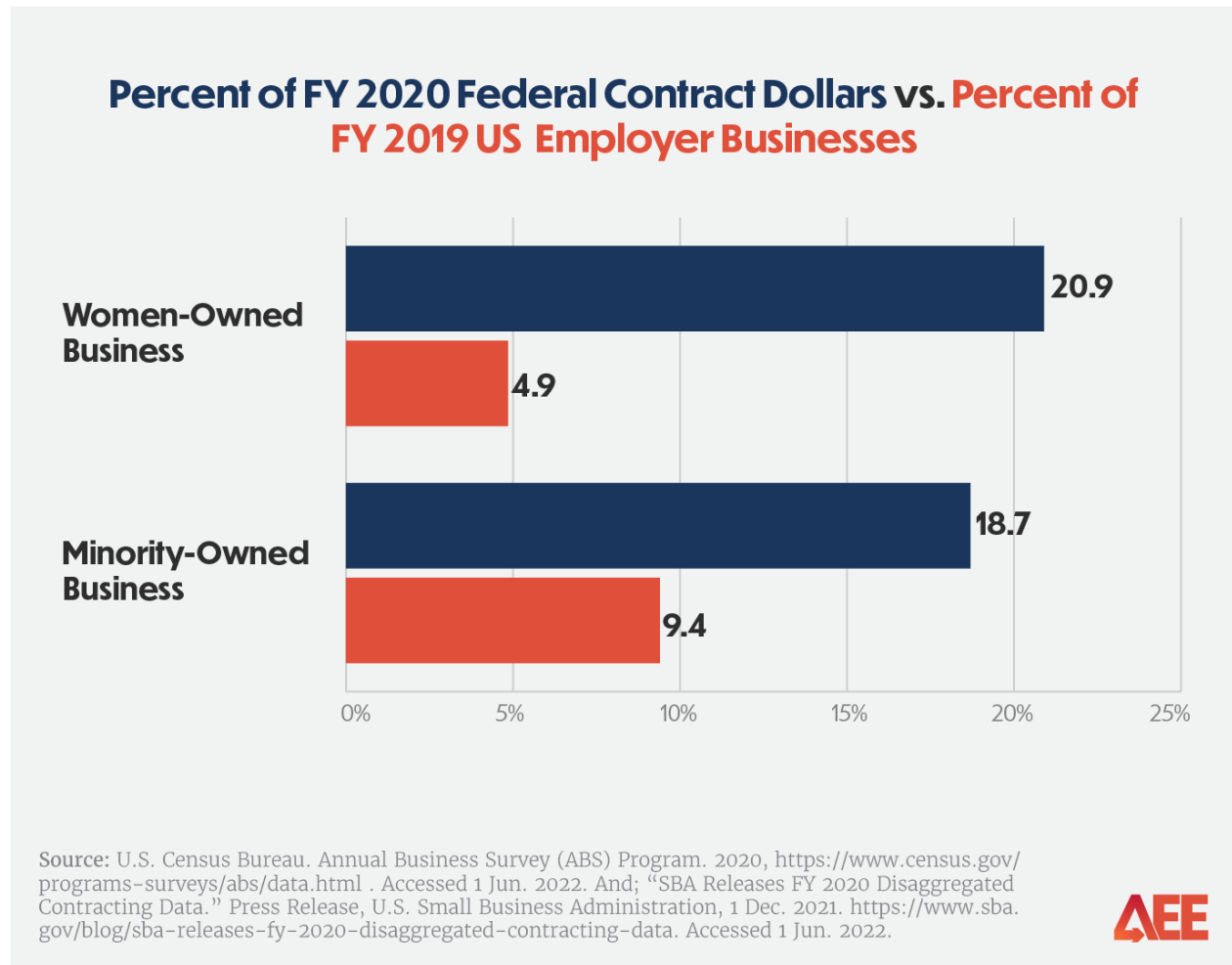
Who is getting federal contract dollars?

Analysis of the federal contracting landscape shows that minority-owned and women-owned businesses are getting a pittance in terms of contracting opportunities. Progress in changing this trend has been slow, and numerous agencies are falling short in supporting minority- and women-owned businesses.

Minority-owned and women-owned small businesses are getting only a sliver of the federal contracting pie.

In Fiscal Year (FY) 2020 the federal government spent over \$650 billion on contracts for goods and services, of which nearly \$560 billion was eligible to be done through small businesses.⁴ Yet,

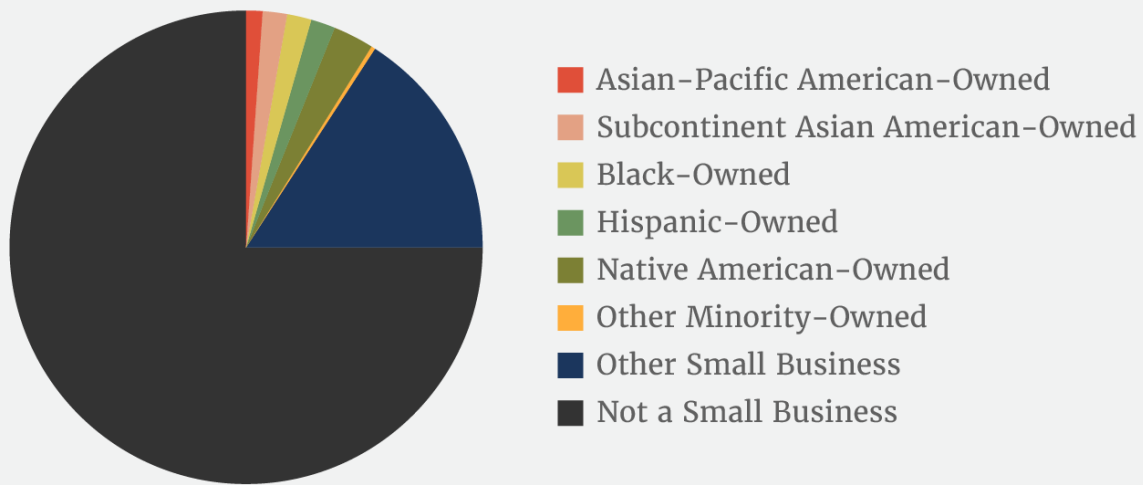
minority-owned small businesses received just 9.4% of those small-business eligible federal contracting dollars and women-owned small businesses a mere 4.9%.⁵ To put this into perspective, almost 19% of US employer businesses are minority-owned and just under 21% are owned by women.⁶



Small businesses writ large are often shut out of federal contracts. In FY 2020, small businesses only received 25% of the federal contracting pie. And of those awards to small businesses, 62% went to businesses owned by non-minority groups.⁷

Federal Contracting Dollars FY 2020

Small Businesses



Source: "SBA Releases FY 2020 Disaggregated Contracting Data." Press Release, U.S. Small Business Administration, 1 Dec. 2021. <https://www.sba.gov/blog/sba-releases-fy-2020-disaggregated-contracting-data>. Accessed 1 Jun. 2022.

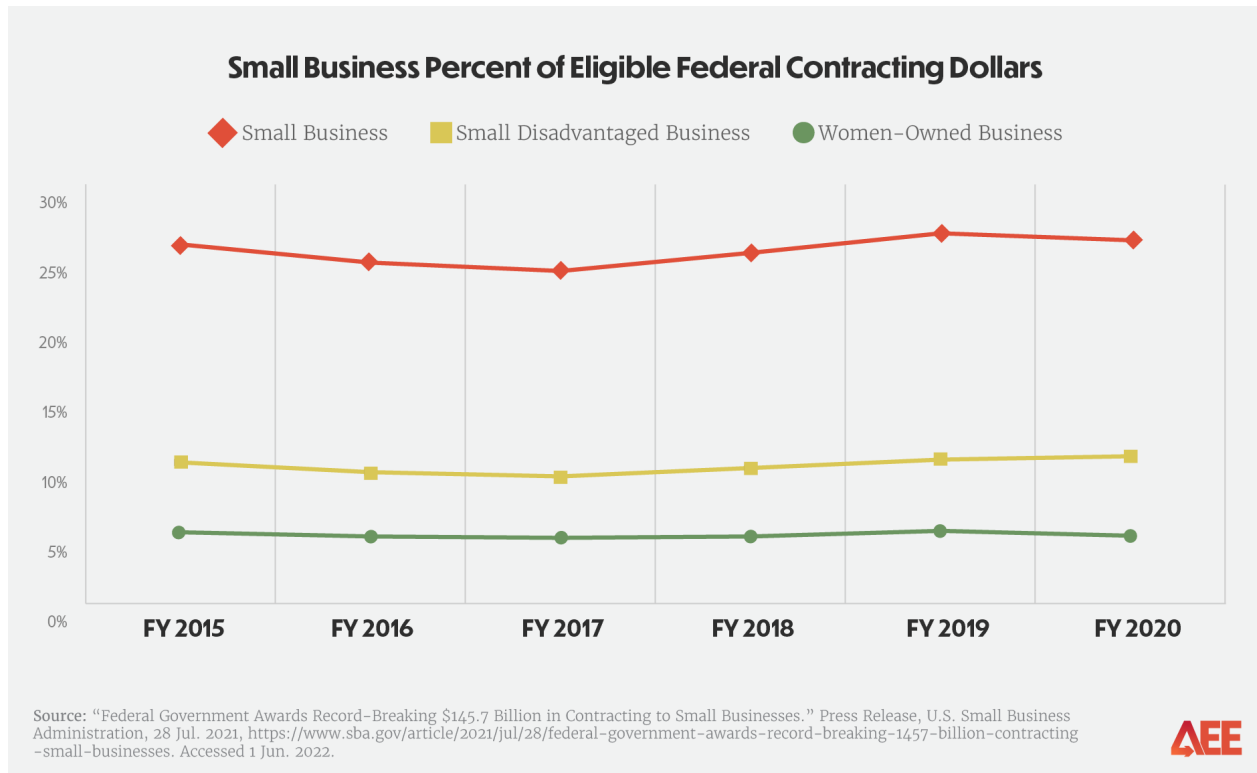


Progress toward changing these trends is moving too slowly and, in some cases, backwards.

The federal government has made efforts to improve equity in the contracting process by setting targets for the amount of contract dollars awarded to certain categories of small businesses. This includes a goal of awarding 5% of contract dollars to women-owned small businesses (WOSBs) as well as 5% for small disadvantaged businesses (SDBs), a classification meant to capture firms owned by racial and ethnic minorities or economically- or socially-disadvantaged persons.⁸

The WOSB program has met the 5% procurement goal only twice since it was authorized in 1994—in FY 2015 and FY 2019. And while WOSBs were awarded 5.1% of federal procurement dollars in FY 2015, in FY 2020 that number actually shrank to 4.9%.⁹

Although the government consistently meets its target for the percent of dollars awarded to small disadvantaged businesses, that share has stayed stagnant for years. Between FY 2015 and FY 2020, SDBs' percent of federal procurement dollars increased by less than half a percent. Notably, the Biden Administration recently announced a significant increase in its procurement goal for small disadvantaged businesses, aiming for their share to be 11% by FY 2022 and 15% by FY 2025.¹⁰



The Administration’s ambitious target comes at a time when the federal government is about to spend over a trillion dollars rebuilding America’s infrastructure as a result of the recently enacted bipartisan infrastructure law. It is also a clear step towards undoing the established trends of the past. During the four years under former President Trump, little to no progress was made toward equity goals. The Biden Administration’s elevation of equity targets, and move to raise them significantly, makes clear that federal agencies need to do more to award contracts to minority businesses.

Spotlight

On his first day in office, President Joe Biden signed an executive order directing the entire federal government to advance an equity and racial justice-driven agenda. In response, more than 90 federal agencies released their first-ever Equity Action Plans in April 2022. Together these plans contain more than 300 strategies and commitments to address barriers to equity and prosperity for underrepresented communities.¹¹

Notably, these plans touch on how to use the federal contracting process as a tool to narrow racial and gender wealth gaps. This includes the President’s new goal of increasing federal investment in small disadvantaged businesses by 50% by 2025.¹² Other actions to remove barriers to the federal procurement marketplace include improving communication channels with businesses, better marketing procurement opportunities, reducing the administrative

burden involved in the contracting process, and targeting specific programs to address inequities.¹³ For more see: [whitehouse.gov/equity/](https://www.whitehouse.gov/equity/).

In the past, the agencies responsible for the most contracting dollars have fallen short in supporting minority- and women-owned businesses.

While the federal targets highlighted above are for all federal contracting spending, individual agencies are also expected to meet these goals. Yet, in FY 2020, three of the four agencies with the largest pools of federal contracting dollars failed to meet the 5% threshold for prime contracts with women-owned small businesses. The Department of Defense (DoD) awarded 4.1% of contract dollars to women-owned small businesses, the Department of Energy (DOE) awarded 3%, and the Department of Veteran Affairs (VA) just 2.4%.¹⁴ Further, the DOE failed to meet the current 5% target for contract dollars awarded to disadvantaged businesses, and the DoD, Department of Health and Human Services (DHHS), and VA would fall short of Biden's newly established 11% goal.¹⁵

It is also important to note that these numbers are likely already over-inflated, as awards can count towards more than one categorization. For example, if a contract is given to a woman of color-owned small business, that would be counted toward both women-owned business and small disadvantaged business goals.¹⁶ If this data wasn't double counted, those numbers would probably be even lower.

As a result, minority- and women-owned businesses are missing out on billions in federal contracting dollars.

As the agencies with the largest slice of the federal contracting pie fail to meet equity goals, minority- and women-owned small businesses are being shut out of billions of dollars in contract awards. Take, for example, the DoD which is by far the largest awardee of federal contracts.¹⁷ From FY 2011 to FY 2020 they gave out a staggering \$2.7 trillion in prime contracts. Yet small disadvantaged businesses received only 8.4% of those funds and women-owned small businesses a mere 4%.¹⁸

Why aren't women and people of color getting a bigger piece of the federal contracting pie?

As minority-owned and women-owned businesses struggle to receive federal contracts, it is important for policymakers to understand what is holding them back. Below we unpack five key reasons why these specific business owners face greater barriers to successfully compete for, and win, federal contracts:

1. Confusing requirements and difficulties in obtaining information on contracts make applying an uphill battle.
2. Preferences for established and experienced businesses shut out women and minority owners.
3. Limits on set asides can mean the reward is too small to be worth it.
4. It can be costly and too time intensive to apply.
5. Contract bundling by federal agencies leaves fewer chances to succeed.

1. Confusing requirements and difficulties in obtaining information on contracts make applying an uphill battle.

For many small businesses, the procurement process can be incredibly difficult to navigate. In applying for federal contracts, small businesses must sift through whether particular agencies have certain prerequisites, certifications, or skill sets required to receive contracts.¹⁹ And while agencies may hold info sessions for contractors on doing business with the federal government, that information tends to be more general and doesn't always provide specifics on applying to particular projects.²⁰

These difficulties are often even harder to overcome for minority- and women-owned businesses. From the get-go, they experience greater challenges in simply obtaining information about these opportunities, understanding how the bidding process works, and the details involved in securing a government contract.²¹ Minority-owned businesses can often find themselves excluded from the informal networks of information that influence how businesses learn about and successfully obtain federal contracting opportunities. Many also report discriminatory attitudes from within agencies.²² One study evaluating disparities in the contracting process found that 65% of minority and women business owners felt that their firms were viewed as less competent than non-minority firms.²³

Better guidance is essential in helping new businesses navigate federal requirements and better understand the contracting process overall. But women and people of color struggle with access to fewer networks of support and mentorship, which has an effect on their ability to compete for contracting opportunities. A report from the Minority Business Development Agency (MBDA) looked at disparities in the contracting process and found that in 86% of instances, minority- and women-owned businesses said barriers in networking were holding them back.²⁴ During a recent House Financial Services Subcommittee on Diversity and Inclusion hearing, witnesses also emphasized that mentor-protégé partnerships in federal contracting are essential for breaking the cycle of underutilization.²⁵ It should be noted that the federal government has made strides in bolstering mentorship opportunities for small businesses. The SBA's Mentor-Protégé program pairs small businesses with experienced government contractors to help them navigate the federal contracting process.²⁶ But it's clear that more needs to be done.

2. Preferences for established and experienced businesses shut out women and minority owners.

The track record of businesses competing for contracts is also a key consideration for federal agencies, and most tend not to favor businesses in their early stages. A report from 2015 found that out of the top 25 firms winning government contracts, the youngest was founded almost 50 years prior.²⁷ Agencies will typically choose contractors who can demonstrate a clear understanding of federal contracting and have a track record of successful performance. This is especially hard for minority-owned businesses who face greater challenges in reaching the mature stages of a business. Black-owned and Hispanic-owned firms have higher failure rates than White-owned and Asian-owned firms.²⁸ And while 17% of Black women are in the process of starting or running a new business, only 3% of Black women are running a business more than three and a half years old.²⁹

Emphasis on experience in the application process makes it harder for small businesses to break into the contracting space.³⁰ The number of small businesses providing goods and services to the federal government shrank by 38% from 2010 to 2019. And even more striking is the fact that the number of new small businesses entering the federal contracting space declined by 79% from 2005 to 2019.³¹

As fewer small businesses are awarded federal contracts overall, minority-owned businesses are getting passed over more than white-owned businesses. In 2016, the MBDA found that the median share of contract dollars awarded to Black-owned businesses in five key industries was 4-44% of what one would expect them to receive based on their availability.³² This underutilization of minority businesses became even more apparent during the pandemic, as minority-owned businesses missed out on an alarming amount of COVID-related contracts. Analysis found that under the Trump Administration, Black-owned businesses received just 4% of the \$23 billion in COVID-19 related federal contracts awarded, even though a third of all Black-owned firms are in the health care and social services industry.³³

The SBA has tried to help minority-owned firms better establish themselves and enter the federal contracting space through the creation of the 8(a)-business development program. The nine-year program is designed to provide firms owned by socially- and economically-disadvantaged individuals with the tools to better compete for, and win, federal contracts.³⁴ Yet 8(a) has seen challenges of its own, with participants citing issues surrounding the duration of the program, the technical and training offerings it provides, and the struggles businesses face transitioning out after their nine years are up.³⁵ Programs like 8(a) may need to be reformed in order to better support small disadvantaged businesses to get their foot in the door and help them build the capacity to continue to win federal contracts.

3. Limits on set asides for small businesses can mean the reward is too small to be worth it.

In order to help small businesses successfully get federal contracts, the government automatically “sets aside” any purchase between \$10,000 and \$250,000 for small businesses, as long as at least two companies are competing.³⁶ These set-asides can also be for specific types of small businesses, such as women-owned small businesses or small disadvantaged businesses.³⁷ Yet, this set-aside threshold can often be too small to be worth it, especially when there is a high cost to even just bid on a project. For example, female small business owner Rosemary Swierk remarked that it costs her anywhere between \$20,000 and \$40,000 for her business, which builds low-rise non-residential buildings, to bid on a contract. But that cost is the same whether she is bidding on a contract worth \$100,000 or \$4 million.³⁸

For women- and minority-owned businesses, it can feel extra risky to invest time and money bidding on federal contracts when their chance of success is lower to begin. A 2016 report from the Department of Commerce found that the chances of businesses owned by women winning a federal contract were 21% lower than for similar companies.³⁹ And minority business owners on average saw 6.1 unsuccessful bids for federal contracts, compared to 4.4 unsuccessful bids for small contractors overall.⁴⁰ For small business owners, bidding on smaller contracts can feel too expensive to be worth it and the bigger ones too hard to compete for.

4. It can be more time intensive and costly to apply.

For many small businesses, the time spent preparing their business and applying for contracts, and the money they have to spend to do so, can feel burdensome.⁴¹ Some agencies expect contractors to invest significant resources into certifications and requirements that are often unattainable for small businesses. For example, the DoD currently requires the defense contractors it works with to have very specific cybersecurity certifications, which one former agency official commented keeps many small businesses from working with them altogether.⁴²

It often takes significant amounts of capital to apply for contracts, but women and minority entrepreneurs and business owners face bigger barriers to access capital in the first place. In 2021, Black-owned firms received just 13% of all the financing they applied for, versus 20% of Hispanic-owned, 31% of Asian-owned, and 40% of white-owned firms.⁴³ Black-owned businesses are also 3-5 times more likely to be labeled a high credit risk, even though a quarter of Black-owned firms have no outstanding debt.⁴⁴ And gender biases also hinder efforts to get financing—a survey found women were less successful in raising capital than their male counterparts.⁴⁵

For women and people of color, those high costs are a considerable deterrent to entering the federal contracting space. One survey asked women small business owners that had applied to state and local government contracts, but not federal ones, why they did not try for these contracts. Half of them said the process was too time consuming and 40% felt it was too complicated to apply.⁴⁶ Unfortunately these concerns come well-supported. Data shows the gender gap for contracts awarded is significantly higher at the federal level than local level. While at the local level

women- and men- owned small businesses are equally likely to say they received a government contract, for federal contracts there was a gender gap of 15 percentage points. ⁴⁷

When they do apply, minority- owned businesses also spend more money and invest more time into landing federal contracts than small business owners overall. In 2012, minority- owned businesses on average spent a staggering \$143,000 seeking federal contracting dollars- 11% higher than those invested by all small business contractors. ⁴⁸ Another survey from 2010 found that minority- owned firms invested 35% more time and money than the average small business in seeking out contracts. ⁴⁹ That financial and time- intensive investment in getting federal contracts was a reality for Black female small business owner Hester Clark. It took her around two and a half years to reposition her public relations firm Hester Group to federal customers before she was able to land her first contract. ⁵⁰

Minority- and women- owned small businesses end up investing more time and money to compete for the same contracts as their white male counterparts. And for many it is enough to keep them from competing for these contracts at all- perpetuating a cycle where just a few small businesses continue to reap the rewards of federal contracting dollars.

5. Contract bundling by federal agencies leaves fewer chances to succeed.

In striving for efficiency in the procurement process, federal agencies often end up consolidating and bundling contracts. ⁵¹ This is known as *category management*, a practice by which government agencies buy common goods or services together in order to increase efficiency and reduce unnecessary contract duplication. ⁵² On its face, efforts to save federal dollars in the contracting process intuitively makes sense. Rather than having individual agencies each use a different vendor for ordering something like office supplies, a large bulk contract is easier and cheaper. ⁵³ But these cost- saving measures often hurt small businesses the most. The GAO found that, in 2019, 53% of contracts that had been eliminated through category management were ones previously awarded to small businesses. ⁵⁴

When there are fewer federal contracts to go around, it impacts the ability of women- and minority- owned businesses to compete in an environment already stacked against them. Lynn Ann Casey, CEO of consulting firm ARC ASPICIO, told FCW magazine that her firm has faced numerous challenges in securing federal contracts as a direct result of category management. ⁵⁵ “We have been on several Best- in- Class vehicles, and despite our extensive experience and exceptional performance, we've only won one of those, and that's after spending hundreds of thousands of dollars,” she explained. ⁵⁶

Contracting bundling also may make it harder for women- and minority- owned businesses to break into sectors where they are underrepresented. While agencies may be meeting overall equity goals, it is hard to know in what sectors contracts are concentrated. Women- owned businesses are

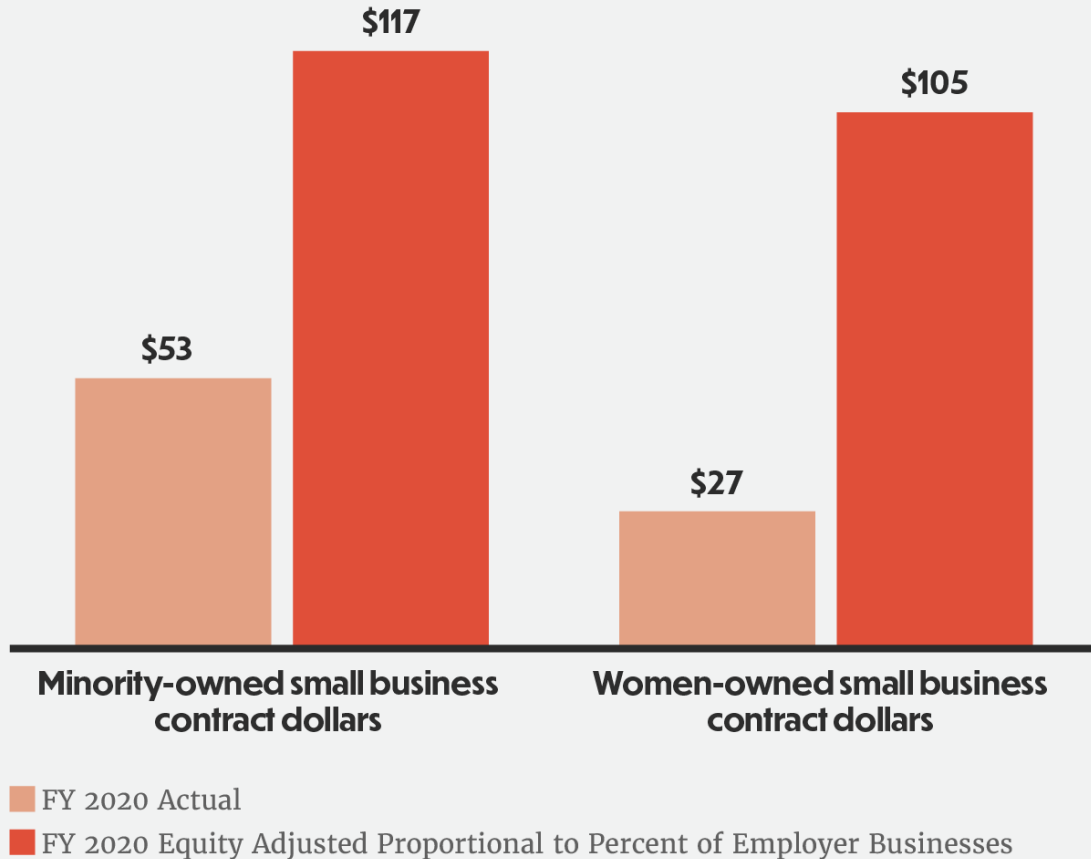
more heavily represented in the information technology sector than in the construction and transportation sectors. Sectors where they are underrepresented may be a key place for federal contracts to lift up women- and minority-owned businesses, but when contracts are bundled together, there are fewer chances to do so.⁵⁷ Setting benchmarks for each industry could be a way to ensure women and people of color are getting their fair share across all industries.

What if there was more equity in federal contracts?

While minority-owned and women-owned small businesses are only getting a sliver of federal contracting dollars, that doesn't need to be their destiny. As our data indicates below, if these businesses received federal contracting dollars in proportion to their share of US employer businesses, these entities would see a massive economic gain. Specifically:

Minority-owned businesses would have received \$64 billion more in contracts in FY 2020. And women-owned small businesses would have received an extra \$77 billion.⁵⁸

FY 2020 Women- and Minority-Owned Small Business Contracting Dollars Equity Adjusted (\$ Billions)



Note: Numbers are rounded to the nearest billion.

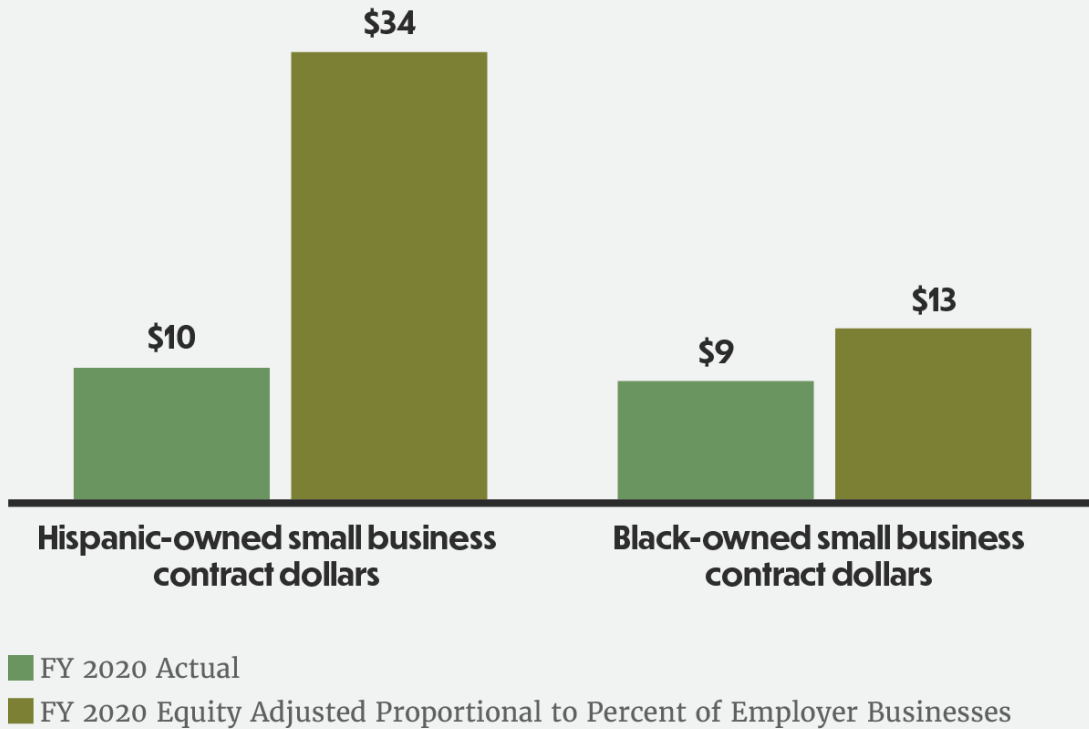
Source: Author's calculations based on U.S. Census Bureau. Annual Business Survey (ABS) Program. 2020, <https://www.census.gov/programs-surveys/abs/data.html> . Accessed 1 Jun. 2022. And; "SBA Releases FY 2020 Disaggregated Contracting Data." Press Release, U.S. Small Business Administration, 1 Dec. 2021. <https://www.sba.gov/blog/sba-releases-fy-2020-disaggregated-contracting-data>. Accessed 1 Jun. 2022.



Of this, Black- and Hispanic-owned businesses would see significant gains. If contracts were awarded proportional to representation of US employer businesses, **Hispanic-owned businesses would have received almost \$24 billion more in awards in FY 2020, and Black-owned businesses would have received nearly \$4 billion more.**⁵⁹ It is also important to note that Black- and Hispanic-owned businesses already make up a small fraction of employer businesses, especially when compared to their representation in the US population. While 18.5% of the US population is Hispanic, they are only 6% of employer business owners and receive just 1.8% of federal contracting dollars.⁶⁰ And while 13.4% of the US population is Black, they make up only 2% of all businesses owners and get just 1.7% of federal contracting dollars.⁶¹

FY 2020 Black- and Hispanic-Owned Small Business Contracting Dollars Equity Adjusted

(\$ Billions)



Note: Numbers are rounded to the nearest billion.

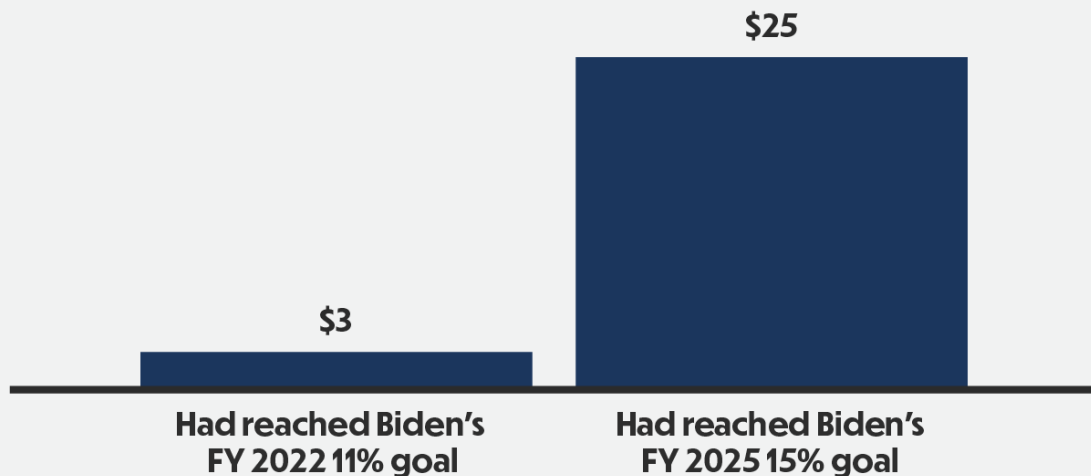
Source: Author's calculations based on U.S. Census Bureau. Annual Business Survey (ABS) Program. 2020, <https://www.census.gov/programs-surveys/abs/data.html> . Accessed 1 Jun. 2022. And; "SBA Releases FY 2020 Disaggregated Contracting Data." Press Release, U.S. Small Business Administration, 1 Dec. 2021. <https://www.sba.gov/blog/sba-releases-fy-2020-disaggregated-contracting-data>. Accessed 1 Jun. 2022.



Equity goals have remained too low for too long. With President Biden pushing for 15% of all contracting dollars to go to small disadvantaged businesses by FY 2025, agencies have a lot of work to do. **If small disadvantaged businesses received 15% of all federal contracting dollars in FY 2020, they would have received \$25 billion more in contract awards.**⁶² And that is for just one year. The longer it takes for agencies to get women- and minority-owned small businesses their fair share, the more money and opportunity these owners will continue to miss out on.

Difference in Contracting Dollars to Small Disadvantaged Businesses in FY 2020 if the Federal Government...

(\$ Billions)



Note: Numbers are rounded to the nearest billion.

Source: Author's Calculations based on: Federal Government Awards Record-Breaking \$145.7 Billion in Contracting to Small Businesses." Press Release, U.S. Small Business Administration, 28 Jul. 2021, <https://www.sba.gov/article/2021/jul/28/federal-government-awards-record-breaking-1457-billion-contracting-small-businesses>. Accessed 1 Jun. 2022. And; "The Benefits of Increased Equity in Federal Contracting." Issue Brief, The White House, 1 Dec. 2021, <https://www.whitehouse.gov/cea/written-materials/2021/12/01/the-benefits-of-increased-equity-in-federal-contracting/>. Accessed 1 Jun. 2022.



Conclusion

Federal contracts are a lifeline of opportunity for small businesses, but contracting dollars continue to bypass too many people of color and women. The Biden Administration's efforts to narrow racial and gender wealth gaps through federal contracts, both by raising equity targets and creating commitments in Equity Action Plans, are meaningful steps toward creating a more inclusive federal procurement process. But to ensure that women and people of color are getting their fair share of the contracting pie, barriers at all steps of the process—from getting capital to understanding the bidding process to actually receiving awards—have to be addressed.

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