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Small Disadvantage Business Goals: The Effects of Recent Administrative Changes

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Abstract

While the diversification of small federal contractors in the industrial base is embraced across administrations and parties, the federal small business goals had not changed from 1997 until 2021. At that time, the Biden Administration increased the Small Disadvantaged Business (SDB) goal to 15% of all prime contract dollars effective Fiscal Year 2025, with incremental increases from the current 5% statutory goal in the intervening years. Concurrently, the Office of Management and Budget directed agencies to “increase baseline spending for the additional socioeconomic small businesses and traditionally underserved entrepreneurs recognized in the Small Business Act,” specifically small businesses in the historically underutilized business zone program (HUBZones); women-owned small businesses (WOSBs); and service-disabled veteran-owned small businesses (SDVOSBs).

The Small Business Act prime contracting goals allocate 23% to all small businesses, with subgoals of 5% each for SDBs and WOSBs, and 3% each for HUBZone and SDVOSBs. However, the new SDB goal may increase reliance on 8(a), WOSB, HUBZone, and SDVOSB contracting authorities, harming ineligible SDBs. Without any check on SDB certification, companies may incorrectly claim SDB status, leading to an inaccurate picture on the success of SDBs under the new policy.

Research Statement: This paper will provide a history of the SDB program, then baseline 8(a), non-8(a) SDB, WOSB, HUBZone, and SDVOSB participation in prime contracting prior to the administrative changes in 2021. It will then analyze changes in participation in FY 2021 and FY 2022. It will also examine changes in the number of SDBs and other socioeconomic firms receiving awards and the methods by which competitive contracts versus contract set-aside for the other socioeconomic programs. Finally, it will look at the NAICS code distribution of the procurements, with an eye to determining how changes in this policy are affecting the ways small businesses participate in the industrial base.

Introduction

While the origins of the Small Business Administration’s (SBA) Small Disadvantaged Business (SDB) contracting program and its prime contracting goals date to 1958, the history of the program is one of ebbs and flows. While the SDB appellation has applied at both the prime and subcontracting level, this paper will concern itself with prime contracting opportunities. However, before examining the data on the SDB program, it is important to understand the origins and evolutions of the program, as they provide the context necessary to assess the current performance of the program.

Origins of Small Business and SDB Contracting Programs and Goals

In 1958, Congress amended to Small Business Act (the Act) for two purposes related to this paper. First, it explained why contracting with small businesses was important, when it directed that small businesses should

> receive any award ... contract or any part thereof ... as to which it is determined by the [SBA] and the contracting procurement ... agency (1) to be in the interest of maintaining or mobilizing the Nations full productive capacity, (2) to be in the interest of war or national defense programs, [or] (3) to be in the interest of assuring that a fair proportion of the total purchases and contracts for property and services for the Government are placed with small-business concerns. (Pub. L. 85-536 § 2)

Second, it introduced the 8(a) contracting authorities, with the concept of SBA acting as an intermediary between small businesses and federal agencies for contracting purposes. This allowed SBA to act as the prime contractor to another agency and to then sole source a subcontract for the entirety of the work to a small business.

Reforms of the 1970s

In 1968, President Richard Nixon issued two orders to encourage contracting with minority businesses, and SBA began to use its 8(a) authority to support minority-owned businesses. However, Congress did not change the Act for another decade. Only in 1977 did the Act first distinguish between types of small businesses for the purposes of contracting, finding that priority should be given to small businesses in labor surplus areas (Pub. L. 95-89 §502). After this late start, change came rapidly. In 1978, the Act was amended to create programs for socially and economically disadvantaged businesses. Defining socially and economically disadvantaged small businesses as those “at least 51 per centum owned by one or more socially and economically disadvantaged individuals” and whose “whose management and daily business operations are controlled by one or more of such individuals.” Congress found that:

> (A) that the opportunity for full participation in our free enterprise system by socially and economically disadvantaged persons is essential if we are to obtain social and economic equality for such persons and improve the functioning of our national economy;
>
> (B) that many such persons are socially disadvantaged because of their identification as members of certain groups that have suffered the effects of discriminatory practices or similar invidious circumstances over which they have no control;
>
> (C) that such groups include, but are not limited to, Black Americans, Hispanic Americans, Native Americans, and other minorities;
>
> (D) that it is in the national interest to expeditiously ameliorate the conditions of socially and economically disadvantaged groups;
>
> (E) that such conditions can be improved by providing the maximum practicable opportunity for the development of small business concerns owned by members of socially and economically ' disadvantaged groups;
>
> (F) that such development can be materially advanced through the procurement by the United States of articles, equipment, supplies, services, materials, and construction work from such concerns; and
>
> (G) that such procurements also benefit the United States by encouraging the expansion of suppliers for such procurements, thereby encouraging competition among such suppliers and promoting economy in such procurements. (Pub. L. 95-507 §201)

The 8(a) subcontracting authority created in 1958 was repurposed to allow direct placement with SDBs under what begins to resemble the modern program (§202). However, the definitions of social and economic disadvantage were fairly vague, with social disadvantage meaning that an individual has "been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities," and economic disadvantage meaning that an individual's "ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged" (§202). While specific groups were identified as qualifying, individuals could self-certify. This presumed-disadvantaged group grew over the next decade, and penalties for misrepresentation were added (Pub. L. 99-272 §18009).

The 1978 legislation also marked the first goaling requirements. It directed that each agency, in consultation with SBA, establish goals for use of small businesses and SDBs as prime contractors (Pub. L. 95-507 §221). At the end of each year, the agencies were then required to report to the SBA on the prime contracts awarded under these goals.

Changes of the 1980s

1986 saw the beginnings of major changes in the SDB program. First, Congress required that each agency "make consistent efforts to annually expand participation by small business concerns from each industry category in procurement contracts of the agency, including participation by SDBs. (Pub. L. 99-500 §921) Next, Congress added a 5% SDB goal for the Department of Defense (DoD; Pub. L. 99-661 §1207). To meet this goal, the DoD was allowed to expedite payments to SDBs, set-aside work for SDBs, provide financial incentives to prime contractors awarding work to SDBs, and apply price evaluation adjustments (PEAs) of up to 10% on SDB offers when a contract was awarded using full and open competition. This was quickly followed by changes to the Alaska Native Claims Settlement Act to require that Alaska Native Corporations be deemed socially and economically disadvantaged (Pub. L. 100-241 §15). Then in 1988, Congress passed the Business Opportunity Development Reform Act (BODRA).

BODRA was a major reform of the SDB/8(a) program. Until this time, all SDBs were eligible for awards under the 8(a) program. However, BODRA required that SBA begin certifying companies, limited each 8(a)-participating company to no more than 9 years in the program, and each individual to only one participating company for qualification purposes (§201). Program participants were required to submit evidence of their SDB status including financial statements, business plans demonstrating a potential for success, and annual updates confirming their eligibility and their progress. Companies that successfully won 8(a) contracts could keep performing that work as long as they remained 8(a) program participants, but the work need to go to other 8(a) firms at the end of the 9 years (§407).

BODRA also changed the goaling framework. Rather than allowing agencies to establish agency-specific goals, the President was required to establish government-wide goals of 20% for small business and 5% for SDB firms, and then to have SBA negotiate agency-specific goals (§502). The SBA was required to annually report on goal attainment, including the methods by which the contracts had been awarded (§503).

Challenges to SDB Contracting

In 1994, this expansion of SDB authorities continued with the passage of the Federal Acquisition Streamlining Act (FASA). FASA made the DoD SDB authorities, including set-asides and PEAs, available to civilian agencies (§7102). The Federal Acquisition Regulatory (FAR) Council rushed to promulgate rules to implement these new authorities, issuing a proposed rule on January 6, 1995 – only 85 days after the passage of FASA. The rule was very expansive, directing that “individuals who certify as members of members of named groups (Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, Subcontinent-Asian Americans) are to be considered socially and economically disadvantaged” without any inquiry into financial disadvantage (60 Fed. Reg. 2304). Contracting officers were to give preference to SDB set-asides over small business set-asides (60 Fed. Reg. 2307).

Before a final rule could be issued, the Supreme Court’s decision in Adarand Constructors, Inc. v. Peña (Adarand) forced the Clinton Administration to revisit the application of the SDB contracting programs. In Adarand, the Court found that “government may treat people differently because of their race only for the most compelling reasons” and held “that all racial classifications, imposed by whatever federal, state, or local governmental actor, must be analyzed by a reviewing court under strict scrutiny. In other words, such classifications are constitutional only if they are narrowly tailored measures that further compelling governmental interests” (Adarand 2113).

With the door opened for challenges to the SDB program, President William Clinton announced that his Administration would “reaffirm the principle of affirmative action and fix the practices” and would adopt “a simple slogan: mend it but don’t end it” (New York Times Staff, 1995). The President ordered agencies to eliminate or reform any program that uses race, ethnicity, or gender to create a quota, “preferences for unqualified individuals,” “reverse discrimination,” or which “continues even after its equal opportunity purposes have been achieved” (Clinton, 1995). As a result, the DoD discontinued SDB set-asides (Kaminski, 1995). Civilian agencies never implemented the SDB set-aside, and SBA required that firms be certified as SDBs to receive the PEA or other considerations (63 Fed. Reg. 35772). The PEA was itself only available for industry codes designated by the Department of Commerce, which were ensure the program was narrowly tailored (63 Fed. Reg. 35714).

The DoD’s use of the SDB PEA was limited beginning in 1998, when Congress passed legislation stating that if the Department met the 5% SDB goal in a fiscal year, it could not use the PEA during the next fiscal year (Pub. L. 105-261 §801). As the DoD was regularly meeting the goal, this effectively nullified the PEA. The civilian agency PEA authority lapsed in December 2004 (Auletta, 2004). In 2008, the Federal Circuit found that the DoD’s revised implementation of the SDB program was unconstitutional (Rothe). In 2018, Congress repealed the DoD-specific SDB provisions, including the PEA (Pub. L. 115-232 § 812).

The Biden Administration and SDB Goaling

Until the first day of the Biden Administration, it appeared that for prime contracting purposes, non-8(a) SDB firms would only benefit from the statutory goal. Then, on January 20, 2021, President Joseph Biden signed Executive Order 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government, which directed agencies to identify “potential barriers that underserved communities and individuals may face in taking advantage of agency procurement and contracting opportunities” and then tasked the Office of Management and Budget (OMB) and the agencies to develop a plan for to eliminate “any barriers to full and equal participation in agency procurement and contracting opportunities” (86 Fed. Reg. 7010-11). Then, on June 1, 2021, in remarks commemorating the centennial of the Tulsa Race Massacre, the President stated, “I’m going to increase the share of the dollars the federal government spends to small, disadvantaged businesses, including Black and brown small businesses.

Right now, it calls for 10 percent; I'm going to move that to 15 percent of every dollar spent will be spent."[1]

To implement this policy, OMB issued a directive on December 2, 2021, "to increase spending to SDBs to 15% by [FY] 2025 and to increase baseline spending for the additional socioeconomic small businesses and traditionally underserved entrepreneurs recognized in the Small Business Act ... includ[ing] [WOSBs ,SDVOSBs,] and small business contractors in [HUBZones]" (Miller, 2021). Specifically, agencies were directed to adopt "an agency-specific SDB contracting goal for FY 2022 that will allow the Federal Government to cumulatively award at least 11% of Federal contract spend to SDBs in FY 2022," and increase over the FY2020 achievement of 10.45% (Miller, 2021). A subsequent October 2022 OMB memorandum reported that "agencies awarded a record $62.4 billion to SDBs in FY 2021, totaling 11.01 percent of all contracting dollars and meeting the 11 percent aspirational goal a year early" in addition to awarding "record spending to [SDVOSBs], [HUBZones], and small businesses overall" (Young, 2022). Therefore, in FY 2023, agencies were to "allow the Federal Government to cumulatively award at least 12 percent of Federal contract spending to SDBs." Most recently, President Biden signed Executive Order 14091, Further Advancing Racial Equity and Support for Underserved Communities Through the Federal Government, which confirmed that the FY 2025 SDB goal would be 15%, directed OMB to set a SDB goal for FY 2024, and directed agencies to "undertake efforts to increase contracting opportunities for all other small business concerns as described" in the Act (88 Fed. Reg. at 10831).

Qualifying for the SDB Program

This renewed focus on SDB prime contracting makes it important to understand which firms qualify as SDB under the Act. SBA regulations state that SDBs must be small under the size standard assigned to the six-digit North American Industry Classification System (NAICS) code assigned to the relevant procurement and meet the criteria of social and economic disadvantage established for the 8(a) program. Businesses owned by Indian tribes, ANCs, Community Development Corporations, and Native Hawaiian Organizations will be presumed to be socially and economically disadvantaged (13 C.F.R. § 124.1001). While active participants in the 8(a) program are automatically SDBs, any other firm may self-certify as an SDBs if "it believes in good faith that it is owned and controlled by one or more socially and economically disadvantaged individuals" (13 C.F.R. § 124.1001).

SBA's test for social disadvantaged is complex. In general, socially disadvantaged individuals are "are those who have been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities" but the "social disadvantage must stem from circumstances beyond their control" (13 CFR § 124.103(a)). Certain individuals are presumed socially disadvantaged, but everyone still must hold themselves out as a member of one of these designated groups,[2] and be identified by others as a member of that group

[1] The SDB statutory goal was, and remains, 5%. However, SBA's annual reports indicate that SDBs were receiving approximately 10% of prime contract dollars.

[2] Per 13 CFR § 124.103(b), social disadvantage is presumed for "Black Americans; Hispanic Americans; Native Americans (Alaska Natives, Native Hawaiians, or enrolled members of a Federally or State recognized Indian Tribe); Asian Pacific Americans (persons with origins from Burma, Thailand, Malaysia, Indonesia, Singapore, Brunei, Japan, China (including Hong Kong), Taiwan, Laos, Cambodia (Kampuchea), Vietnam, Korea, The Philippines, U.S. Trust Territory of the Pacific Islands (Republic of Palau), Republic of the Marshall Islands, Federated States of Micronesia, the Commonwealth of the Northern Mariana Islands, Guam, Samoa, Macao, Fiji, Tonga, Kiribati, Tuvalu,

(13 CFR § 124.103(b)). However, others may also qualify as socially disadvantaged by proving their disadvantage by a preponderance of the evidence (13 CFR § 124.103(c)). This evidence must include:

> (i) At least one objective distinguishing feature that has contributed to social disadvantage, such as race, ethnic origin, gender, physical handicap, long-term residence in an environment isolated from the mainstream of American society, or other similar causes not common to individuals who are not socially disadvantaged;
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> (ii) The individual's social disadvantage must be rooted in treatment which he or she has experienced in American society, not in other countries;
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> (iii) The individual's social disadvantage must be chronic and substantial, not fleeting or insignificant; and
>
> (iv) The individual's social disadvantage must have negatively impacted on his or her entry into or advancement in the business world. SBA will consider any relevant evidence in assessing this element, including experiences relating to education, employment and business history (including experiences relating to both the applicant firm and any other previous firm owned and/or controlled by the individual), where applicable. (13 CFR § 124.103(c))

To prove disadvantage, the facts must independently establish “the individual has suffered social disadvantage that has negatively impacted his or her entry into or advancement in the business world,” with each “instance of alleged discriminatory conduct ... accompanied by a negative impact on the individual's entry into or advancement in the business world” (§ 124.103(c)). SBA cautions that it will “disregard a claim of social disadvantage where a legitimate alternative ground for an adverse employment action or other perceived adverse action exists and the individual has not presented evidence that would render his/her claim any more likely than the alternative ground.”

This inquiry becomes especially difficult when asserting disadvantage based on gender. SBA provides several examples of why many women may not qualify. First, the SBA explains that if a woman seeks to prove social disadvantaged based on gender, it is not enough to state that she was paid less than her male colleagues, since “it is no more likely that the individual claiming disadvantage was paid less than her male counterpart because he had superior qualifications or because he had greater responsibilities in his employment position;” instead the woman “must identify her qualifications (education, experience, years of employment, supervisory functions) as being equal or superior to that of her male counterpart in order for SBA to consider that particular incident may be the result of discriminatory conduct” (§ 124.103(c)). Likewise, if a woman claims that she was denied opportunities provided to male employees, she must prove those employees held the same position and that funding was available but denied to her. In the final example, SBA states that clients making derogatory, gender-based statements about a woman is not enough to prove social disadvantage, but that the woman must prove that she lost work because of the derogatory statements (§ 124.103(c)(3)).

In comparison, economic disadvantage is much more objective. SBA regulations provide that “economically disadvantaged individuals are socially disadvantaged individuals

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or Nauru); Subcontinent Asian Americans (persons with origins from India, Pakistan, Bangladesh, Sri Lanka, Bhutan, the Maldives Islands or Nepal).”

whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same or similar line of business who are not socially disadvantaged" (13 CFR § 124.104(a)). Each individual must demonstrate that their net worth is less than $850,000, excluding the value of their principal residence, their equity in the business, and the value of any qualified retirement accounts (§ 124.104(c)(2)). Likewise, average personal income over the past year must be less than $400,000, and the total value of all assets other than qualified individual retirement accounts must be less than $6.5 million (§ 124.104(c)(3)-(4)).

Relationship to Other Programs

It is important to understand the relationship between 8(a), SDB , WOSB, Economically Disadvantaged WOSB (EDWOSB), and Disadvantaged Business Enterprise (DBE) status. All active 8(a) participants are SDBs, but the vast majority of SDBs are not 8(a) companies. As of March 27, 2023, SBA's Dynamic Small Business Search tool listed 6,367 active participants in the 8(a) program, but 177,071 self-certified SDBs. A WOSB must independently meet the social and economic disadvantaged tests to be an SDB. A WOSB that meets the economic disadvantage test is defined as an EDWOSB (13 CFR § 127.203). However, EDWOSBs are not SDB unless they also meet the social disadvantage test.

Unlike SDBs, WOSBs and EDWOSBs, the DBE program is run by the Department of Transportation. Like SDBs, DBEs are defined as small businesses that are "at least 51 percent owned by one or more individuals who are both socially and economically disadvantaged" (49 CFR § 26.1). While all groups presumed to be socially disadvantaged for the SDB program are also considered socially disadvantaged for the DBE program, the DBE program includes additional groups such as women and individuals of Portuguese and Sri Lankan origins to be socially disadvantaged (§ 26.1). The DBE program imposes a net worth cap of $1.32 million on DBEs. (49 CFR § 26.67). Therefore, a WOSB can be a DBE as long as it meets the net worth cap, but that does not make it an SDB. Likewise, an EDWOSB may not qualify as a DBE since its assets may exceed the cap.

The overlap in terminology between these programs creates a substantial amount complexity for any business, and self-certification only enhances this challenge. The System for Award Management (SAM) does not provide any guidance for potential registrants. While 8(a), WOSB, EDWOSB, and DBE, status must be added by a federal agency, self-certifying SDBs are simply asked if their business is "a small disadvantaged business concern? (yes or no)." (SAM, 2023). Thus, it is not surprising to find that there appear to be inaccurate or fraudulent self-certifications. For example, DSBS shows that 16.66% of WOSB are self-certifying as SDBs; however only 10.34% are identified as minority owned. This means that 102,725 non-minority WOSBs are claiming SDB status, presumably based on gender. Even if these WOSBs all met the social disadvantage test, they would also need to meet the economic disadvantage test. As of March 27, 2023, only 0.2% of certified-WOSBs have been certified as EDWOSBs, meaning they met the economic disadvantaged test – the remaining WOSBs did not qualify under the economic disadvantage status. Thus, it appears that 16.64% of WOSB may be incorrectly self-certifying as SDBs, and it is unlikely that WOSBs are the only group confused when self-certifying.

Data Sources and Cautions About Data Quality

The following analysis relies on data pulled from the Federal Procurement Data System (FPDS) portion of SAM. FPDS is a dynamic system, with funds being obligated and deobligated every day, making it difficult to assess whether a particular socioeconomic goal has been met. Consequently, SBA runs an annual report that provides the snapshot for the prior fiscal year, referred to hereinafter as the Static Small Business Goaling Reports

(SSBGR), used for SBA's annual procurement scorecard. Whenever possible, this paper relies on that data. However, if the SSBGR were not available or did not allow for the required level of data, information was instead pulled using FPDS's standard reporting function applying the small business goaling criteria (GC). Finally, if data could not be obtained using these sources, ad hoc reports were run.

SBA's annual Small Business Goaling Guidelines set the parameters for the SSBGR and the GC reports. While not an exhaustive list, this means awards using 8(a) procedures are treated as prime contracts both from a goaling standpoint and by the agencies themselves. About 20% of all dollars obligated each year are excluded from the goaling base, prime contracting credit is provided for some Department of Energy subcontract, and certain prime contracts awarded to small businesses located in Puerto Rico or covered territories receive double goaling credit. (FY22 Small Business Goaling Guidelines 9, 18, 19).[3] Therefore, depending on the type of report run and the date the report was run, some variation in numbers is to be expected.

Baseline of SDB and Socioeconomic Achievements

Despite the loss of the PEA, SDBs have continue to gain federal market share. As the chart below demonstrates, SDB prime contracting increased by 1.3% between FY 2008, the last year of the SDB PEA at DoD, and FY 2009. It proceeded to grow through FY 2020, climbing to 9.45% in FY 2014 and 10.39% in FY 2020. Concurrently, small businesses, WOSBs, and SDVOSBs all saw steady growth, with only HUBZone dollars declining. For perspective, in FY2008, only the SDB goal of 5% was being met, with the government failing to meet the 23% small business goal, 5% WOSB goal, 3% SDVOSB goal, and the 3% HUBZone goal. By FY 2020, the government was regularly exceeding the small business, SDB, and SDVOSB goals, making progress on the WOSB goal, and struggling with the HUBZone goal.

Table 1. Small Business Goaling Results FY 2008–2009, FY 2014, and FY2020

Fiscal Year	Small Business	SDB	WOSB	HUBZone	SDVOSB
2008	20.49%	6.27%	3.20%	2.17%	1.39%
2009	21.89%	7.57%	3.68%	2.80%	1.97%
2014	24.99%	9.45%	4.68%	1.81%	3.67%
2020	25.42%	10.39%	4.71%	2.39%	4.23%

SSBGR.

With the increased SDB goals announced by President Biden in January 2021, the following chart illustrates that SDB contracting increased by 0.34% from FY 2020 to FY 2021, and by 0.39% from FY 2021 to FY 22. Simultaneously, overall small business prime contracting dropped by 0.05%, and SDVOSBs grew by 0.32%. WOSB contracts fell to the lowest level since FY 2013, and HUBZones saw minimal growth.

[3] Double credit for Puerto Rican and covered territory businesses applies for FY2019–FY2024. Act, §15(f).

Table 2. Small Business Goaling Results FY2018–FY2022

Fiscal Year	Small Business	SDB	WOSB	HUBZone	SDVOSB
2018	25.06%	9.65%	4.75%	2.05%	4.27%
2019	25.82%	10.13%	5.04%	2.23%	4.34%
2020	25.42%	10.39%	4.71%	2.39%	4.23%
2021	26.11%	10.73%	4.41%	2.44%	4.33%
2022	25.37%	11.12%	4.34%	2.55%	4.45%

Data for FY 2018–2021 is from SSBGR, Data for FY 2022 is from GC.

Analysis of Types of SDB Firms and Contracting Methods

Given that there is no contract method designed to reach non-8(a) SDBs, it is worth examining how these SDB numbers were achieved. As shown in the following chart, from FY2018 to FY 2022, while the percentage of dollars awarded to SDBs increased, the percentage awarded using 8(a) procedures declined, so that rather than 37.88% of dollars to SDBs being awarded via the 8(a) program in FY 2018, by FY 2022 only 31.06% were awarded using these procedures. This also means that only 31.06% of the dollars awarded required any verification of SDB status. While 8(a) awards were declining, awards to ANCs were increasing from 1.64% to 1.94%.

Table 3. Detail of SDB Awards Results FY 2018–FY2022

Fiscal Year	SDB Results	8(a) Procedures	SDB Firms Qualifying for Other Programs	8(a) Procedures as a percent of SDB Spend	ANC-Only Percent
2018	9.65%	3.66%	3.59%	37.88%	1.64%
2019	10.13%	3.62%	3.96%	35.72%	1.79%
2020	10.39%	3.52%	4.19%	33.88%	1.86%
2021	10.73%	3.44%	4.18%	32.08%	1.93%
2022	11.12%	3.45%	4.26%	31.06%	1.94%

FPDS Ad Hoc Reports.

Given that awards using 8(a) procedures have been declining, the question then becomes how are contracting officers reaching SDB firms for the purposes of awards. As detailed below, it becomes clear that when base-lined against the FY 2018 to FY 2020 dollars, the awards of the last 2 fiscal years show that SDB receiving slightly more sole source awards under non-8(a) authorities. These include sole source awards using the EDWOSB, WOSB, HUBZone, and SDVOSB authorities of the Act, and the Veteran-Owned Small Business (VOSB) authorities found at 28 U.S.C. § 8127. As a method to contract with SDBs, 8(a) sole source awards—the preferred method under the Act for 8(a) awards—declined over 4%. Non-8(a) sole source authorities increased slightly during that same period, but most of the dollars appear to have been achieved using small business set-asides and other set-asides. While from FY2018 to FY2020, 8(a) sole source awards accounted for more SDB dollars than did small business set-asides, from FY2021 to FY2022, the use of small business set-asides grew by over 2.3% and surpassed 8(a) sole source awards by almost 5%. Likewise, the combined use of SDVOSB, HUBZone, WOSB, and VOSB set-asides to SDBs increased from 7.83% to 12.34%. This means that much of the growth in SDB awards is coming from awards made under other program authorities.

Table 4. Competition Information for SDB Awards FY 2018–FY022
(Percent of SDB Dollars by Contracting Method)

Fiscal Years	8(a) Sole Source	Sole Source, Not 8(A) Authorities	Restricted Competition, not SB Set-Asides	Restricted Competition, not SB Set-Aside or 8(a)	Small Business Set-Aside
FY2018–FY2020	27.28%	0.54%	48.82%	7.83%	25.82%
FY2021–FY2022	23.25%	0.56%	46.32%	12.34%	28.16%
FY2018–FY2022	25.40%	0.55%	47.65%	9.94%	26.91%

FPDS Ad Hoc Reports.

Relation to Goaling and Effect on Other Socioeconomic Programs

Which authorities, then, are contributing the most to the increase in SDB dollars? As shown below, the authorities outside of the Act have little influence on SDB goaling, with an average of only 0.05% of SDB dollars being obtained using VOSB dollars, and only 0.36% of SDB dollars being obtained using authorities created for Native Americans, including the Buy Indian Act, Indian Economic Enterprise, and Indian Small Business Economic Enterprise (ISBEE) preferences. While HUBZone, WOSB, and EDWOSB authorities make significant contributions, with a combined percentage over 3% each of the last 5 years, it is the SDVOSB authorities that are most often used to meet the SDB goals. SDB dollars arising from SDVOSB set-asides and sole source contracts has risen from 4.49% prior to the increase in SDB goals to 8.63% in the last 2 years.

Table 5. Preference Programs Used to Meet SDB Goals

Fiscal Year	HUBZone Authorities	SDVOSB Authorities	VOSB Authorities	Native American Authorities	WOSB and EDWOSB Authorities
2018	1.75%	7.23%	0.05%	0.32%	1.83%
2019	1.86%	2.92%	0.06%	0.34%	1.95%
2020	1.56%	7.02%	0.03%	0.29%	1.69%
2021	1.78%	8.51%	0.05%	0.34%	1.51%
2022	1.77%	8.73%	0.05%	0.47%	1.46%
Total	1.74%	6.42%	0.05%	0.36%	1.66%
2018–2020	1.71%	4.49%	0.05%	0.31%	1.81%
2021–2022	1.77%	8.63%	0.05%	0.41%	1.48%

FPDS Ad Hoc Reports.

Given that these other authorities are being utilized to meet the SDB goal, it is worth exploring how each of the five statutory small business categories does independently of each of the other categories. Therefore, the next chart looks at the percentage of prime contract dollars awarded to small businesses that have no other socioeconomic qualifiers, SDBs, WOSBs, HUBZones and SDVOSBs where the firms are exclusively participants in their respective programs. This reveals that SDBs are the only socioeconomic group to meet their statutory goal independent of any other program. However, there has been a substantial drop in awards to small businesses that are not participants in other programs. WOSBs have fared the worst, with about 0.3% of dollars being awarded to businesses that are only WOSBs or EDWOSBs. This number has also substantially declined, although at no point over the past 5 years did WOSBs qua WOSBs account for even a third of the statutory goal. In FY 2022, only 0.35% of the 5% goal was met by WOSBs operating only in the WOSB program, and the overall WOSB performance fell to the lowest level in a decade.

Dollars to HUBZone firms not qualifying for other programs has remained remarkably steady over the past 5 years. However, this low percentage means that only one in five of every dollars awarded to HUBZones, and only one in six of every dollar goaled for HUBZones, is being awarded to firms that are exclusively HUBZone firms. Aside from SDBs, SDVOSB come the closest to meeting the statutory goal using only SDVOSB firms, and over half of the dollars attributed to the SDVOSB goal were awarded to SDVOSB-only firms. However, while the percentage of all dollars awarded to SDVOSBs has been increasing, growth appears to be with firms that qualify for multiple programs, as exclusively-SDVOSB dollars have remained steady.

Table 6. Goal Attainment When Analyzing Businesses with Only One Socioeconomic Designation

Fiscal Year	Small Business	SDB	WOSB	HUBZone	SDVOSB
2018	11.22%	6.06%	1.55%	0.59%	2.46%
2019	11.09%	6.17%	1.68%	0.65%	2.67%
2020	11.08%	6.21%	1.60%	0.68%	2.61%
2021	11.16%	6.55%	1.56%	0.59%	2.62%
2022	9.88%	6.86%	0.35%	0.69%	2.60%

Effects on the Number of Firms Doing Business with the Government

Having examined the percentage of dollars awarded to SDBs and the methods by which SDB are obtaining those dollars, it is worth considering whether the Administration's changes to SDB goaling have resulted in more SDB firms receiving awards. This requires a look at the number of unique entity identification (UEI) codes that received awards over the past 5 years. As the following table demonstrates, the overall number of entities doing business with the government continued its well-documented drop from FY2018 to FY2022. During that period, 27,996 fewer businesses received contracts with the government, a decline of nearly 23%. The number of unique small businesses dropped even quickly, with a 23.34% drop in the number of firms receiving awards. SDBs, WOSBs, and SDVOSBs, declined as well, albeit at a slower rate. The number of SDVOSBs fell by 17.81%, WOSBs fell by 11.6%, and SDBs fell by 9.79%. HUBZone businesses were the only category to increase, adding 244 new firms.

It appears that the Biden Administration's SDB policies may have slowed the decline in the number of SDB firms. SDB firms dropped by 6.23% from FY 2018 to FY 2020, but the rate of decline slowed to 3.8% from FY 2020 to FY 2022. Aside from the HUBZone program, which added 60 firms in the last two years, SDBs had the slowest rate of decline of any category.

Table 7. Unique Entities Receiving Awards, FY2018–FY2022

Fiscal Year	All UEI	Small Business	SDB	WOSB	HUBZone	SDVOSB
2018	123,230	80,399	29,867	14,300	3,023	2,841)
2019	110,549	72,065	27,830	13,474	3,115	2,761
2020	105,599	68,727	28,007	13,280	3,207	2,585
2021	99,762	64,774	27,418	12,823	3,388	2,463
2022	95,234	61,716	26,941	12,641	3,267	2,335

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While the Biden Administration efforts have slowed the rate of SDB decline, it is worth examining trends within the various types of SDBs. Of all types of SDB firms, the greatest decline happened among 8(a) firms, with the number of UEIs dropping by 12.56% in the last five years. However, most of this change—10.21%—occurred between FY2018 and FY2020, with only a 2.62% drop after the new SDB goals took effect. Unexpectedly, SDBs that were not 8(a) firms or 8(a) Joint Ventures (JVs) declined the fastest during the FY 2020–FY2022 time period—the very period which should have encouraged firms to register as SDB. Indeed, presumably these were the very firms the Administration sought to encourage to contract with the government. Interestingly, two categories of SDBs saw significant increases during these 5 years. 8(a) JV firms increased by 24.8% overall, with more than 10% of that growth in the past 2 years. Likewise, ANC-owned firms also increased by 11.83% over 5 years, with much of the growth in the past 2 years.

Table 8. Trends in Types of SDB Entities Receiving Awards, FY2018–FY2022

Fiscal Year	All UEI	Small Business	SDB	SDB, not 8(a) or 8(a) JV	8(a)	8(a) JV	ANC Owned
2018	123,230	80,399	29,867	23,563	5,818	500	786
2019	110,549	72,065	27,830	21,931	5,395	524	792
2020	105,599	68,727	28,007	22,232	5,224	567	821
2021	99,762	64,774	27,418	21,676	5,152	606	838
2022	95,234	61,716	26,941	21,246	5,087	624	879
Change 18–20	14.31%	14.52%	6.23%	5.65%	10.21%	-13.40%	-4.45%
Change 20–22	9.82%	10.20%	3.81%	4.44%	2.62%	-10.05%	-7.06%
Change 18–22	22.72%	23.24%	9.80%	9.83%	12.56%	-24.80%	-11.83%

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Average Size of Awards

Of SDBs that received contracts in the 5-year period, the average amount they earned increased by 57.51%. This was a slower rate of growth than found in the average total contract value for small businesses. Interestingly, the largest growth occurred among firms that are neither an 8(a) or 8(a) JVs, with the average amount earned to these companies nearly doubling between 2018 and 2022, increasing by a remarkable 92.8%. While slightly more growth occurred in the years prior to the increased SDB goals, it may be attributable more of these firms leaving the industrial base in the prior years. Only 8(a) JV firms saw a decline in the mean total award value, with the average peaking in FY 2020. This may be partially explained by the fact that 8(a) JVs also had the largest growth in the number of firms receiving contracts. The average total award to an ANC firm grew by over $3 million during the 5-year period, compared to less than a million in growth for small, SDB, non-8(a) SDBs and 8(a) JVs. Awards to traditional 8(a) firms grew by approximately $1.5 million, or roughly half as much as awards to ANCs.

Table 9. Mean Total Award by Type of SDB Entities Receiving Awards, FY2018–FY2022

Fiscal Year	Small Business	All SDB	SDB, Not 8(a) or JV	8(a)	8(a) JV	ANC
2018	$1,555,260.08	$1,696,155.32	$883,485.04	$4,753,384.14	$4,422,213.67	$11,082,800.36
2019	$1,822,339.50	$1,945,387.19	$1,077,528.30	$5,213,420.03	$4,615,087.99	$11,602,658.62
2020	$2,145,009.37	$2,211,131.38	$1,252,230.96	$5,919,238.34	$5,629,919.17	$13,243,333.29
2021	$2,333,834.60	$2,365,491.79	$1,394,820.10	$6,083,848.78	$5,484,094.69	$13,650,769.39
2022	$2,531,292.38	$2,671,628.76	$1,703,325.85	$6,393,270.46	$5,298,229.25	$14,113,532.95

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Having examined average awards by type of SDB contractor, next this paper will look at average awards to firms qualifying for only one socioeconomic category. Compared to SDB-only firms, small business-only firms had lower average contract values, and the disparity increased from $433,336.89 in FY 2018 to $723,601.69 in FY 2022. In contrast, while the average value of contracts awarded to an SDB-only in FY 2018 was $224,231.57 less than that awarded to all SDBs, but by FY 2022 the difference had dropped to only $154,590.34. SDB-only awards were larger than WOSB-only awards, a gap that is growing each year. However, SDVOSB-only and HUBZone only firms did substantially better than SDB-only firms, with $3.1 million and $1.7 million more in FY2018 awards, respectively. This difference grew to over $4.1 million and $2.8 million by FY 2022.

Table 10. Mean Total Award by Unique Socioeconomic Designation, FY2018–FY2022

Fiscal Year	SB-Only	SDB-Only	WOSB-Only	HZ-Only	SDVOSB-only
2018	$1,038,586.87	$1,471,923.75	$1,049,156.71	$3,244,900.29	$4,598,504.11
2019	$1,292,450.85	$1,757,410.73	$1,324,560.11	$3,934,264.51	$5,262,882.25
2020	$1,522,518.10	$1,972,058.17	$1,449,691.94	$4,594,841.26	$6,133,941.96
2021	$1,679,849.00	$2,189,450.12	$1,555,034.19	$4,036,639.32	$6,589,183.89
2022	$1,793,436.73	$2,517,038.42	$1,837,544.87	$5,365,391.66	$6,685,814.32

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However, it is possibly that these disparities could be accounted for by a few very large awards distorting the mean, so it is necessary to also look at median awards. In this 5-year period, for SDBs that received contracts, the median total of award size increased by 95.17%, with nearly 50% of the growth occurring prior to the Biden Administration's SDB initiatives, and only 30.63% growth since FY 2020. This was roughly the same rate of growth found in median small business awards - 30.43%. Again, the greatest relative growth occurred among SDB firms that are neither an 8(a) or 8(a) JVs, with the median award doubling between 2018 and 2022, and with a growth rate of 101.15%. Similarly, 8(a) JV firms saw a decline in the average total award value, with the median in FY 2020 exceeding the median in FY 2022 by almost half a million. While the change in mean dollars could have been explained by the increased number of 8(a) JVs, this is belied by finding the same trend in median values. Instead, it reflects that 8(a) JV firms were less successful in FY 2021 and FY 2022. The median award per ANC firm grew by over $1.6 million during the 5-year period, so that the median ANC award is now over 3,479% higher than the median award to small businesses, 2,604% higher than the median award to SDBs, and 261% higher than the median award to 8(a) firms. Median awards to 8(a) firms grew by approximately $200,000, roughly only 20% as much as median awards to ANCs.

Table 11. Median Total Award by Type of SDB Entities Receiving Awards, FY2018–FY2022

Fiscal Year	Small Business	SDB	SDB, Not 8(a) or JV	8(a)	8(a) JV	ANC
2018	$51,752.19	$66,837.00	$38,000.00	$1,081,458.76	$1,270,414.90	$2,357,193.48
2019	$64,317.37	$82,890.00	$48,350.00	$1,183,694.00	$1,591,642.05	$3,167,686.93
2020	$74,851.92	$99,857.00	$55,888.49	$1,312,482.02	$1,953,659.50	$3,452,984.25
2021	$83,202.44	$109,349.49	$64,300.74	$1,211,899.10	$1,320,202.22	$3,071,126.58
2022	$97,632.90	$130,443.21	$76,438.50	$1,299,306.00	$1,519,998.98	$3,397,567.59

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When a similar analysis is conducted for the median total awards to firms qualifying for only once socioeconomic category, the results are mixed. Compared to SDB-only firms, small business-only firms had lower median contract values, and the disparity increased during these 5 years. In FY 2019, small business-only firms had median contract values of 80.7% of SDB-only firms, and this fell to 66.4% in FY 2022. As with mean awards, median SDB-only awards were larger than WOSB-only awards. Likewise, this gap is increasing each year. Similarly, SDVOSB-only and HUBZone-only firms did substantially better than SDB-only firms, with $274,464.82 and $217,813.66 more in FY2018 awards, respectively. This difference grew to over $429,569.61 and $330,971.56 by FY 2022. While the SDVOSB growth may be explained by increases in contracting with SDVOSB firms by the Department of Veterans Affairs. However, when coupled with the half percent increase in HUBZone goaling and the increase in HUBZone UEIs receiving awards, the increase in HUBZone mean and median awards is noteworthy.

While the difference between mean SDB and SDB-only awards fell between FY 2018 and FY 2022, the median difference between the two categories grew, from $18,670.66 more for all SDB firms in FY 2018 to $34,959.23 more in FY 2022. This suggests that there were several large awards to SDB-only firms in the past few years, but that the average SDB-only firm has not seen its awards grow at the same pace as firms with large awards.

Table 12. Median Total Award by Unique Socioeconomic Designation, FY2018-FY2022

Fiscal Year	Small Business Only	SDB-Only	WOSB-Only	HUBZone	SDVOSB
2018	$38,889.48	$48,166.35	$39,995.00	$265,980.00	$322,631.16
2019	$47,250.00	$60,697.96	$49,899.80	$323,134.01	$381,534.75
2020	$52,000.00	$69,447.70	$55,750.00	$307,542.82	$432,852.55
2021	$53,890.20	$78,506.58	$64,761.30	$372,023.38	$525,685.10
2022	$63,484.63	$95,483.98	$71,191.83	$426,455.54	$525,053.59

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The median awards to small businesses, small business-only, SDB, SDB-only, WOSB, and WOSB-only firms fall below the simplified acquisition threshold, meaning that unless a multiple award contract was used, these were required to be set aside for small business (FAR 19.502-2(a)).

Industrial Classification of SDB Awards

Finally, it is necessary to examine whether policy changes affected the sourcing of goods and services by industrial category. When examining the 24 sector categories, or two-digit NAICS codes, a few trends emerge. Regardless of socioeconomic category, in FY 2022 all small businesses received a higher percentage of prime contracts in the Mining, Quarrying, and Oil and Gas Sector (Mining); Educational Services Sector (Education); and Public Administration Sector than they had received in FY 2018. Similarly, all firms improved from FY 2020 to FY 2022 in five sectors: Mining; Utilities; Construction; Manufacturing (Metals, Machinery, Computer Electronics, Electrical Transportation Equipment, Furniture, Miscellaneous) and Public Administration. Overall, small businesses did better in two-thirds of sectors since FY 2020, but declined in two-thirds of sectors since FY 2018. SDBs fared better: they improved in 16 sectors since FY 2020, and only declined in nine since FY 2018. This is a better performance than any other socioeconomic group, with WOSBs improving in 15 categories in the past 2 years but declining in 14 categories over 5 years; HUBZones improving in 11 categories since FY 2020 but declining in 10 since FY 2018; and SDVOSB improving in 12 since FY 2020 and declining in 13 since FY 2018. Apart from the sectors mentioned at the beginning of this paragraph, if SDB performance improved, at least one other socioeconomic saw a reduction. This was especially noteworthy in Manufacturing (Paper, Printing, Petroleum, Coal, Chemical, Plastics, Rubber, Nonmetallic Mineral) sector, where SDB increases were offset by a decline among all other categories, including small businesses overall.

Table 13. Awards by Industry Sector, FY 2018–FY 2022

Sector		Small Business	SDB	WOSB	HUBZone	SDVOSB
Agriculture, Forestry, Fishing and Hunting	Change 2020–2022	14.31%	9.75%	3.58%	-1.36%	2.04%
	Change 2018–2022	3.64%	9.26%	0.58%	-3.72%	1.67%
Mining, Quarrying, and Oil and Gas Extraction	Change 2020–2022	26.34%	22.45%	3.64%	8.45%	0.82%
	Change 2018–2022	30.51%	21.39%	1.18%	7.38%	0.83%
Utilities	Change 2020–2022	2.40%	1.17%	0.33%	0.22%	2.60%
	Change 2018–2022	-0.41%	0.70%	-0.02%	-0.26%	2.54%
Construction	Change 2020–2022	6.50%	3.92%	0.88%	0.52%	0.67%
	Change 2018–2022	-1.91%	0.62%	-0.62%	0.38%	-0.12%
Manufacturing (Food, Textile, Apparel, Leather)	Change 2020–2022	-1.81%	-0.87%	-2.43%	-1.19%	1.45%
	Change 2018–2022	-2.37%	5.45%	-0.26%	-0.65%	1.89%
Manufacturing (Paper, Printing, Petroleum, Coal, Chemical, Plastics, Rubber, Nonmetallic Mineral)	Change 2020–2022	-6.81%	0.94%	-0.43%	-0.11%	-1.79%
	Change 2018–2022	-1.29%	1.91%	-0.38%	-0.62%	-2.60%
Manufacturing (Metals, Machinery, Computer Electronics, Electrical Transportation Equipment, Furniture, Miscellaneous)	Change 2020–2022	2.70%	0.53%	0.37%	0.24%	1.44%
	Change 2018–2022	1.12%	0.51%	-0.10%	0.19%	2.56%
Wholesale Trade	Change 2020–2022	1.91%	0.53%	1.73%	0.00%	-0.49%
	Change 2018–2022	-4.30%	0.59%	-1.07%	-0.14%	-5.24%
Retail Trade (Motor Vehicle, Furniture, Electronics, Building Material, Food, Health, Gasoline, Clothing)	Change 2020–2022	5.35%	0.62%	1.82%	-4.29%	-0.71%
	Change 2018–2022	11.55%	5.51%	6.08%	-4.48%	-1.56%
Retail Trade (Sporting Goods, General Merchandise, Miscellaneous)	Change 2020–2022	-0.55%	0.78%	-1.55%	0.53%	-0.08%
	Change 2018–2022	-8.30%	-5.92%	0.56%	0.70%	-1.79%
Transportation and Warehousing	Change 2020–2022	2.72%	2.57%	0.38%	-0.02%	-0.14%
	Change 2018–2022	4.83%	2.62%	0.13%	0.06%	-3.03%
Postal Service, Courier/Messenger, Warehousing	Change 2020–2022	2.97%	-0.48%	-1.98%	2.73%	6.18%
	Change 2018–2022	-2.31%	-0.50%	-3.04%	1.60%	0.83%
Information	Change 2020–2022	1.19%	1.08%	0.31%	-0.32%	-2.34%
	Change 2018–2022	0.30%	-0.33%	-1.31%	-0.06%	4.37%
Finance and Insurance	Change 2020–2022	-0.47%	-0.41%	0.07%	0.03%	-13.88%
	Change 2018–2022	-2.50%	-0.63%	-1.40%	0.01%	43.21%
Real Estate and Rental Leasing	Change 2020–2022	2.37%	-7.72%	-1.14%	-4.90%	2.35%
	Change 2018–2022	1.82%	-0.90%	2.98%	0.79%	-0.11%
Professional, Scientific, and Technical Services	Change 2020–2022	0.39%	0.82%	-0.73%	0.20%	0.26%
	Change 2018–2022	1.87%	1.82%	-0.34%	0.52%	0.47%
Management of Companies and Enterprises	Change 2020–2022	0.17%	-0.28%	-0.16%	0.14%	2.18%
	Change 2018–2022	-0.51%	0.16%	-0.53%	0.55%	0.24%
Educational Services	Change 2020–2022	4.10%	4.12%	-0.57%	2.74%	-1.38%
	Change 2018–2022	7.30%	4.20%	0.06%	3.47%	0.76%
Health Care and Social Assistance	Change 2020–2022	1.07%	-0.30%	-1.84%	0.37%	3.69%
	Change 2018–2022	-6.95%	-3.19%	-2.96%	0.21%	-1.49%
Arts, Entertainment, and Recreation	Change 2020–2022	-6.38%	-0.55%	1.33%	-3.11%	-5.53%
	Change 2018–2022	-15.31%	-4.02%	3.25%	-7.23%	-10.59%
Accommodation and Food Services	Change 2020–2022	-4.48%	-3.23%	0.68%	0.20%	-7.01%
	Change 2018–2022	-3.05%	-1.17%	-1.41%	0.49%	-5.72%
Other Services (except Public Administration)	Change 2020–2022	-0.97%	-0.09%	0.38%	0.27%	-2.15%
	Change 2018–2022	-3.38%	0.60%	0.33%	0.15%	-6.04%
Public Administration	Change 2020–2022	1.90%	0.64%	0.33%	0.01%	11.49%
	Change 2018–2022	1.64%	0.75%	0.20%	0.02%	12.43%

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However, not all sectors, or industries, are created equal in terms of Federal procurement. Taking the 50 six-digit NAICS with the highest total spend FY 2018 to FY 2022, a different picture emerges. First, 11 of these NAICS represent industries where SBA issued Non-Manufacturer Rule (NMR) class waivers or the NAICS represented a wholesaler.[4] Among these 11 NAICS, small businesses consistently well represented, with between 28.5 and 37% of dollars going to small primes. This far exceeds the 23% prime contract goal but does not significantly strengthen the industrial base. None of the socioeconomic programs meet their respective goals within these categories. While SDB contracts increased through FY 2021, they dropped again in FY 2022. SDVOSBs provide almost none of these items.

Table 14. Percentage of Prime Contracts in Top 11 NMR and Wholesaler NAICS

Fiscal Year	Small Business	SDB	WOSB	HUBZone	SDVOSB
2018	29.89%	3.85%	4.94%	2.05%	0.01%
2019	28.50%	3.32%	4.57%	1.90%	0.00%
2020	36.84%	4.17%	3.06%	1.10%	0.00%
2021	37.00%	4.98%	2.71%	1.33%	0.00%
2022	30.47%	3.19%	3.92%	1.76%	0.00%

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Of the remaining 39 NAICS in the top 50, on average small businesses and SDBs improved in both the 2-year and 5-year period, while all other groups declined. Small businesses improved in 90% of the sectors over 2 years, and in 70% over 5 years. This was slightly better than SDBs, which improved in 80% and 70% of sectors in the 2-year and 5-year periods. Both small firms and SDBs improved in 80% of sectors between FY 2020 and FY 2022, and in 60% between FY 2018 and FY 2022. In contrast, SDVs only improved half the time, while WOSBs declined in 70% of sectors over 5 years, and HUBZones declined in 90% of sectors during the same period. All socioeconomic groups did better in construction over the 2- and 5-year period. While all groups also did better in Information Technology from FY 2020 to FY 2022, WOSBs and HUBZones saw a decline in this area over a 5-year period. Only SDBs saw a gain in the accommodation and food service sector over 5 years. It was in manufacturing that SDBs saw the greatest gains, outpacing small businesses over the past 2 years with an 8.7 increase, and having received an amazing 18.26% of all prime contract dollars awarded in these NAICS in FY 2022.

[4]For industries with NMR waivers, SBA has determined that “no small business manufacturer or processor of the product or class of products is available to participate in the Federal procurement market” (13 CFR § 121.406 (b)(5)). Wholesalers are only required to regularly deal in the item, and the value they add is by stocking the item (13 CFR § 121.402). The 11 NAICS are: 311421, Fruit and Vegetable Canning; 331410, Nonferrous Metal (except Aluminum) Smelting and Refining; 331491, Nonferrous Metal (except Copper and Aluminum) Rolling, Drawing and Extruding; 332994, Small Arms, Ordnance, and Ordnance Accessories Manufacturing; 333314, Optical Instrument and Lens Manufacturing; 333318, Other Commercial and Service Industry Machinery Manufacturing; 334210, Telephone Apparatus Manufacturing; 334516, Analytical Laboratory Instrument Manufacturing;334517, Irradiation Apparatus Manufacturing; 339113, Surgical Appliance and Supplies Manufacturing; and 424210, Drugs and Druggists’ Sundries Merchant Wholesalers.

Table 15. Changes to Percentage of Awards to Each Socioeconomic Category in the Top 39 Non-NMR NAICS

Sector	Small Business	SDB	WOSB	HUBZone	SDV
Accommodation and Food Services					
Change 2020–2022	4.23%	0.62%	0.14%	0.28%	-1.78%
Change 2018–2022	-2.95%	2.67%	-0.51%	-31.37%	-2.33%
Administrative and Support & Waste Management & Remediation Services					
Change 2020–2022	4.35%	-0.10%	0.51%	1.92%	4.29%
Change 2018–2022	4.06%	1.41%	-1.22%	-5.34%	3.69%
Construction					
Change 2020–2022	14.37%	5.02%	0.85%	3.93%	8.42%
Change 2018–2022	10.89%	5.73%	0.72%	2.63%	7.13%
Educational Services					
Change 2020–2022	3.70%	2.88%	-1.49%	3.64%	0.88%
Change 2018–2022	7.08%	2.18%	-1.81%	-1.07%	3.83%
Finance and Insurance					
Change 2020–2022	0.66%	0.41%	0.00%	0.00%	0.00%
Change 2018–2022	-2.45%	-0.16%	0.37%	-0.40%	0.00%
Health Care and Social Assistance					
Change 2020–2022	-26.77%	-13.44%	-0.45%	0.23%	-0.48%
Change 2018–2022	-15.79%	-7.75%	-0.29%	-6.71%	-0.31%
Information					
Change 2020–2022	2.46%	2.75%	0.05%	0.48%	0.33%
Change 2018–2022	1.23%	2.78%	-0.34%	-9.34%	0.30%
Manufacturing					
Change 2020–2022	7.80%	8.70%	-0.13%	-2.35%	-1.18%
Change 2018–2022	20.08%	7.73%	0.28%	-4.23%	1.24%
Professional, Scientific, and Technical Services					
Change 2020–2022	8.97%	2.04%	0.44%	-2.47%	0.20%
Change 2018–2022	2.72%	0.66%	-0.15%	-2.87%	-2.87%
Utilities					
Change 2020–2022	5.81%	0.25%	0.00%	0.01%	-0.04%
Change 2018–2022	6.36%	-0.14%	-0.04%	-14.52%	-0.03%

FPDS Ad Hoc Report.

Two NAICS have historically had very high small business representation: 42412 and 54159. In NAICS 424120, Stationery and Office Supplies Merchant Wholesalers, over 70% of dollars are routinely awarded to small firms. In FY 2020, small business received 82.55% of dollars spent in this classification, but SDBs accounted for only 6.49% of those dollars. By FY 2022, the small business percentage had fallen to 45.06%, but SDBs now account for 19.56% of this spend. NAICS 541519, Other Computer Related Services, is particularly interesting for two reasons. First, the government has spent over $20 billion a year in this sector the last 3 years. Second, NAICS 541519 includes Information Technology

Value Added Resellers (ITVARs). Of every dollar spent with ITVARs, at least 15% and not more than 50% may be services provided by the small firm, with up to 85% coming from the cost of goods the ITVAR is reselling to the government (13 CFR 121.201). In FY 2020, small firms received 55.96% dollars spent in this industry, and SDBs accounted for 24.85% of this spend. By FY 2022, small business spend had increased 4.74%, and SDB spend totaled 28.34%, translating to about $3.1 billion in additional SDB spend.

Conclusion and Recommendations

The federal government has been exceeding the statutory SDB goal for nearly 30 years. Prior to the Administration's administrative goal change, in recent years SDB have received about 10% of prime contract dollars. While the initiative has increased reported dollars spent with SDBs, this success has several complications. First, despite statements by the President and in the OMB memo about increasing spending with "traditionally underserved entrepreneurs" such as WOSBs and HUBZones, the percent of spend being awarded to WOSBs has declined under each year of the initiative and HUBZones have seen only meager increases. The government has never met the statutory HUBZone goal, and has only met the WOSB goal twice, raising questions about why the has moved away from meeting the congressional goals.

The second complication is the method of contracting with SDBs. While the SDB goal has always been met using firms that do not qualify as WOSBs, HUBZones, or SDVOSBs, the majority of the increased spending has come from contracts with ANCs, WOSBs, SDVOSBs, and HUBZones that are certifying as SDBs. Indeed, there has been nearly a 5% increase in contracts being set-aside to SDBs using HUBZone, WOSB, and SDVOSB set-aside authorities, and a 2.5% increase using small business set-aside authorities, while 8(a) awards declined. This means that aside from the ANCs companies, increases are coming at the expense of traditional 8(a) companies and WOSB, SDVOSB, and HUBZone firms that do not qualify as SDBs. This is especially true for the SDVOSB program, which had an 8.6% increase in set-aside and sole source awards to SDB firms in the past 2 years, and where the mean and median awards to firms that were both SDVOSBs and SDBs grew faster than awards to SDVOSBs alone.

Third, absent a certification program or protest process, there is no way to know whether this increased spend is reaching true SDBs. The complicated requirements for qualifying as an SDB coupled with a push to award more dollars to SDB may lead to companies incorrectly self-certifying. The data on WOSB registrations certainly suggests that a large number of firms are certifying based on gender, even though women are not presumed disadvantaged. Likewise, it suggests that firms are not applying the economic disadvantage test.

Fourth, despite the Administration's efforts to increase the number of SDBs participating in federal procurement, the number of SDBs has fallen by nearly 10% in the past five years. While this is a slower rate of decline than small businesses overall, the only growth in SDB qualifying firms has come from ANCs and 8(a) JVs. The former were already participating in the industrial base but have added new subsidiaries, and the latter represent partnerships with non-SDB firms. ANCs also saw a 27.35% increase in mean awards per company, and a 44% increase in media award size.

Finally, while SDBs improved their representation across industry sectors – more than any other socioeconomic category, including small businesses – other programs did not fare well. They improved in 15 sectors and only declined in nine since FY 2018. In contrast, WOSBs declined in 14 sectors, HUBZones declined in 10, and SDVOSB 13. 13 since FY 2018. Generally speaking, SDB increases were offset by a decline among all other categories. Of the 39 NAICS with the highest federal spending but not subject to NMR waivers, SDBs improved in 80% of the sectors since the 2021 policy changes, but SDVOSB declined in 50% of industries, WOSBs declined in 70% of industries, and HUBZones declined in 90% industries. A substantial amount of increased SDB spend also came from industries where much of the cost reflects reselling goods.

Therefore, as the Administration continues to pursue ever higher levels of SDB spending, it should consider the following adjustments:

1. It should make it clear that increases in SDB spending must not come at the expense of the other socioeconomic programs, and it should make it a priority to meet all of the statutory small business goals before seeking to increase spending with other programs.
2. Clarify how businesses qualify for the SDB program so that firms are neither inadvertently or fraudulently self-certifying, and either institute a certification program or allow for competitor size-status protests.
3. Align goals to NAICS codes or industry sectors where the government could benefit from new entrants or additional SDB participation so that agencies do not seek the path of least resistance to goal attainment.

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