



# Equity in Federal Procurement Literature Review

Memorandum

Understanding Inequities in Federal  
Contracting

# U.S. Small Business Administration



U.S. Small Business  
Administration

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## **Disclaimer**

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## Abbreviations and Acronyms

CEA	Council of Economic Advisors
DOJ	Department of Justice
FY	Fiscal year
GAO	Government Accountability Office
GSA	General Services Administration
HUBZone	Historically underutilized business zone
MBDA	Minority Business Development Agency
NAICS	North American Industry Classification System
OMB	Office of Management and Budget
SBA	Small Business Administration
SDB	Small disadvantaged business
SDVOSB	Service-disabled veteran-owned small business
STEM	Science, technology, engineering and mathematics
WOSB	Women-owned small business

## Abstract

The United States Federal Government is the largest consumer of goods and services in the world, spending more than \$650 billion each year (White House, 2022). This purchasing power makes Federal procurement a powerful tool to support and implement procurement policies and practices that advance equity. To support the Federal government in identifying and implementing efforts that can advance equity, it is important to also understand the nature of inequities in Federal procurement, including the size of inequities and factors that contribute to inequities.

As part of its equity evidence building activities, the U.S. Small Business Administration (SBA) funded a systematic literature review to address three topics: (1) develop a working definition for equity in procurement, (2) identify inequities in Federal contracting, and (3) identify practices for promoting equity in Federal procurement. This memorandum focuses on the second topic and presents findings from the literature regarding inequities in Federal procurement. It summarizes structural and systemic issues that prevent diverse small businesses and women-owned from contracting with Federal agencies as well as policies and practices that continue to contribute to inequities. The memorandum also summarizes policies, practices, and procedures that may create barriers for Federal agencies to contract with these businesses.

In support of the literature review, the SBA first developed specific questions for each of the topics and provided an initial list of sources. Based on the literature review questions, the project team conducted a systematic search of government and non-government literature (i.e., Federal reports, executive orders, memos, journal articles, private entity reports) published between January 2013 – July 2023 using select databases and search terms. Given the limited timeline of the project, sources published by state and local entities were excluded from the literature review. Of the 99 sources identified for the literature review, 48 sources contained findings relevant to inequities in Federal contracting.

Findings from the literature indicate that there are inequities in Federal procurement. Specifically, findings show that the share of Federal procurement dollars going to women-owned and minority-owned businesses generally falls behind those businesses' representation in the overall economy. The majority of findings in this review are related to systemic issues, policies, and practices that prevent small businesses from contracting with the Federal government, including lack of access to capital and limited capacity, discriminatory policies and practices, difficulties entering and navigating the procurement process, complicated and time-consuming procurement processes, lack of targeted communication and outreach efforts, difficult-to-meet contract requirements, challenging contract management practices, and characteristics of the small businesses themselves. Fewer findings focus on barriers for Federal agencies to contracting with women-owned and minority-owned businesses but some key themes that emerged for this topic include agency staff perceptions, agency procurement capacity and expertise, availability of qualified small businesses, and specific procurement policies.

Overall, the findings suggest a number of opportunities exist to improve equity in Federal procurement. They also cite systemic issues that must be addressed through policies, programs, and practices to improve equity. Federal procurement goals are but one of the strategies needed to help mitigate disparities but additional systematic efforts are needed at all levels (i.e., system, agency/business, individual) to help redress the systemic issues that perpetuate the inequities seen in Federal procurement today.

## Preamble

Equity as a field has evolved significantly in recent years. As a result, language used to describe groups, their contexts, and their experiences has also evolved. While we attempt to use language that avoids reinforcing discrimination and biases, we recognize that some phrases may be appropriate to use in some contexts but not in others and that meanings and usage of phrases change over time. For the purpose of this memorandum, for ease of description, we use the phrase “diverse small businesses” to mean businesses owned by groups who have been historically marginalized. Other phrases, such as “underrepresented communities”, “underserved businesses”, “minority-owned businesses”, “disadvantaged groups”, etc., are used when presenting findings from the literature and to keep consistent with the terms used by the authors of the sources.

## Introduction

In 1953 with the Small Business Act, Congress created the U.S. Small Business Administration (SBA) as an independent agency of the Federal government to aid, counsel, assist and protect the interests of small business concerns; preserve free competitive enterprise; and maintain and strengthen the overall economy of our nation. Today, the SBA serves more than 32 million small businesses and innovative startups, helping them start, build, grow, and be resilient. By providing counseling and training, resources, capital, and contracting expertise, the SBA helps to ensure that small businesses, especially those in underrepresented communities, are elevated and given the tools and resources they need to create jobs and maintain and strengthen the economy (SBA, n.d.).

In addition, the SBA plays a key role in supporting the Administration in meeting the collective small business<sup>a</sup> procurement goals for the Federal government (SBA, 2022a) (see Table 1).

**Table 1. Federal small business procurement goals by small business category.**

Small Business Category	Small Business Procurement Goals
Small businesses	Not less than 23% of the total value of all prime contract awards for each fiscal year fiscal year (FY).
Women-owned small businesses (WOSBs)	Not less than 5% of the total value of all prime contract and subcontract awards for each FY.
Small disadvantaged businesses (SDBs)	Not less than 12% <sup>b</sup> of the total value of prime contract and not less than 5% subcontract awards for each FY.
Historically underutilized business zones small businesses (HUBZones)	Not less than 3% of the total value of all prime contract and subcontract awards for each FY.
Service-disabled veteran-owned small businesses (SDVOSBs)	Not less than 3% of the total value of all prime contract and subcontract awards for each FY.

<sup>a</sup> WOSBs, SDVOSBs, and HUBZones are recognized in the Small Business Act as additional socioeconomic small business and traditionally underserved entrepreneurs; but do not always meet the disadvantaged business definition. Related actions to advance equity in procurement also include people with disabilities, Historically Black Colleges and Universities, Minority Serving Institutions, and Tribal Colleges and Universities (FAI, 2022).

<sup>b</sup> The subcontract spending goal for SDBs was raised from 5 percent to 12 percent for FY 2023.

One of the priorities of the Biden Administration is to advance “equity for all [within government programs and services], including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality” (White House, 2021a). This includes promoting equitable participation in Federal contracting, including making Federal contracting and procurement opportunities more readily available to small disadvantaged businesses (SDBs), and removing barriers faced by underserved individuals and communities (White House, 2021b). In support of this priority, the President set a goal of increasing the share of Federal contract dollars awarded to SDBs from 5 percent in FY 2020 to 15 percent by FY 2025 (White House, 2021b). In addition, he charged agencies with assessing available tools and undertaking efforts to increase opportunities for small businesses and traditionally underserved entrepreneurs to compete for Federal contracts.

To help address the Administration objectives and meet the collective procurement goals, the SBA works with each Federal agency to determine its individual contributions (agency-specific goals) and tracks and reports agency performance towards these goals. The SBA supports the implementation of governmentwide reforms and implements equity evidence building activities. The agency also develops resources for Federal agencies and other stakeholders to help remove barriers for equitable participation and create opportunities for underserved communities to access Federal contracts.

## Purpose and Content

As part of its evidence building activities, the SBA funded an Equity in Federal Procurement Literature Review to address three key topics and answer specific questions for each topic (see Table 2). The purpose of this memorandum is to summarize the findings from the second literature review topic: identifying inequities in Federal contracting.

The first section of this memorandum provides an overview of the literature search methods, followed by a detailed summary of the findings from the literature, and an analysis and discussion section. Throughout the memorandum, tables, figures, and call-out boxes are used to highlight key information. The last section of the memorandum provides a bibliography of all included literature for this topic. The appendix provides a glossary of key terms (definitions) used in this memorandum.

**Table 2. Equity in Federal procurement literature review topics and questions.**

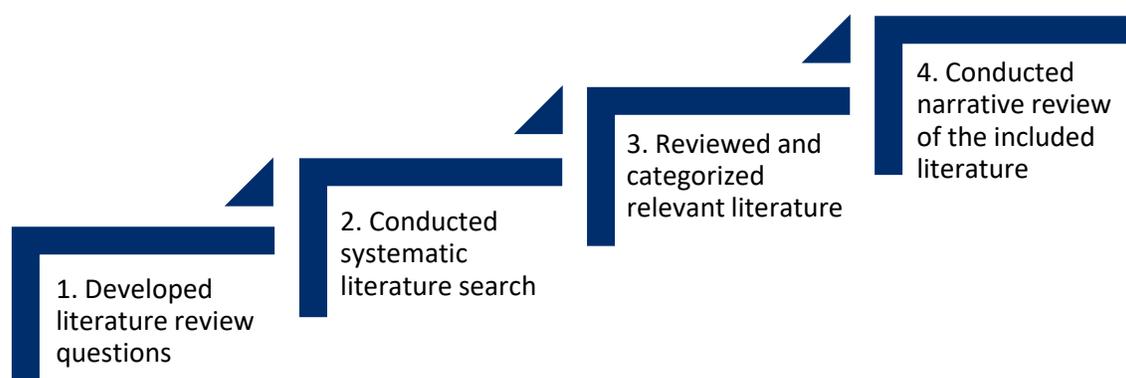
Literature Review Topics	Literature Review Questions
<p><b>1. Develop a working definition for equity in procurement</b></p>	<p>a. What current definitions of equity are available, and operationalizable, for the purpose of evaluating strategies to promote equity in Federal procurement?</p> <ul style="list-style-type: none"> <li>i. How is the Federal government currently defining equity—explicitly and implicitly—in the context of procurement? Who is included/excluded in these definitions?</li> <li>ii. How are equity experts and private sector businesses currently defining equity in procurement (and/or transferable contexts)?</li> </ul> <p>b. How have experts in both government and other contexts operationalized equity in the context of procurement?</p>

Literature Review Topics	Literature Review Questions
<p><b>2. Identify inequities in Federal contracting</b></p>	<p>a. Within the included literature, what evidence of inequities are cited in Federal contracting?</p> <p style="padding-left: 20px;">i. To what extent does inequity in Federal procurement look different than inequity in the economy at large, and what contributes to this difference?</p> <p>b. What general factors are contributing to inequities in Federal procurement?</p> <p>c. What factors are preventing diverse small businesses from contracting with the Federal government?</p> <p>d. What factors are limiting agencies/government from contracting with diverse small businesses?</p> <p>e. To what extent do factors contributing to inequity differ by Federal procurement categories (e.g., those used in category management: information technology, professional services, facilities and construction, medical products, transportation and logistics, industrial products and services, travel, security and protection, human capital, office management)?</p>
<p><b>3. Identify practices for promoting equity in Federal procurement</b></p>	<p>a. What practices are being used/applied or suggested to promote equitable contracting in the Federal sector?</p> <p style="padding-left: 20px;">i. What is known about their effectiveness?</p> <p>b. Within the included literature, what practices are being used/applied or suggested to promote equitable contracting in the state, local, or private sector?</p> <p style="padding-left: 20px;">i. What is known about their effectiveness?</p> <p>c. What is known about the ability to scale practices used/suggested in the federal and state, local, and private sector?</p>

## Literature Search and Review Methodology

The literature search and review were completed using a multi-step process as outlined in Figure 1 below, with each step building on the previous step. In the first step, the SBA, with feedback from the Office of Management and Budget (OMB), drafted the specific questions for each topic of the literature review and then worked with the project team to refine and finalize the questions.

**Figure 1. Steps for completing the equity in Federal procurement literature search and review.**



Activities in the second step (i.e., literature search) were designed to supplement the body of literature initially provided by the SBA to help answer the literature review questions. To identify additional literature, the project team conducted a systematic search of government and non-government literature (i.e., Federal reports, executive orders, memos, journal articles, private entity reports) published between January 2013 and July 2023 using the databases and search terms listed below. Bibliographies in key documents were also reviewed carefully to identify relevant literature. Given the limited timeline of the project, sources published by state and local entities were excluded from the literature review. Literature focused on countries other than the United States were also excluded.

- **Databases:** Google, Google Scholar, JSTOR, SagePub, Government Publishing Office, Inter-university Consortium for Political and Social Research, Chief Financial Officers Act Agency websites.
- **Search terms:** e.g., [procurement OR contracting OR federal contract\*] and [equity OR disparit\* OR underserved OR disadvantaged OR underutilized OR diverse OR veteran OR women OR small business].

## Summary of the Available Literature

The literature provided by the SBA and the additional literature identified through the systematic literature search, resulted in a sample of 131 sources for review for this project. After a detailed review of the sources, the project team excluded 32 sources because they did not contain findings relevant to answering the literature review questions, resulting in a final sample of 99 sources. Of those, 48 sources contained findings relevant to identifying inequities in Federal contracting. The sources included federal sources, private sources, and journal articles (see Table 3).

**Table 3. Type and number of publications relevant to understanding inequities in procurement.**

Type of publication/source	Number of sources
Federal sources (e.g., Acts, Executive Orders, memos, agency reports, blog posts)	24
Private entity sources (e.g., briefs, white papers, reports, toolkits, resource guides, websites)	19
Journal articles	5

## Narrative Discussion of the Literature

The United States Federal Government is the largest consumer of goods and services in the world, spending more than \$650 billion each year (White House, 2022). This purchasing power makes Federal procurement a powerful tool to support and implement procurement policies and practices that advance equity. However, despite Federal procurement goals to help increase the number of Federal contracts with diverse small businesses and WOSBs, the share of Federal procurement dollars going to underrepresented businesses generally falls behind those businesses’ representation in the overall

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\* The function of the asterisk in a literature search is to broaden the search by including words that have the same root but different endings.

economy. The following sections describe findings from the literature regarding inequities in Federal procurement and factors that may contribute to those inequities.

It should be noted that, many of the factors that contribute to inequities discussed in this memorandum, pertain to small businesses in general, rather than diverse small businesses specifically. However, the findings are likely also applicable to diverse small businesses given that businesses owned by groups who have been historically marginalized tend to be small businesses.

a. Within the included literature, what evidence of inequities are cited in Federal contracting?

Findings from the literature suggest that diverse small businesses and WOSBs experience inequities with regard to obtaining Federal as well as state and local contracts. Specifically, inequities have been shown in disparity studies, through the examination of disparity and odds ratios, and by comparing procurement achievement goals.

*Differences in disparity indexes*

Inequities have been demonstrated by disparity studies which compute a numerical disparity index or ratio that represents the magnitude of the disparity between groups. Specifically:

“A disparity ratio measures the degree to which firms of a given type (e.g., women-owned) are represented in federal contracting in proportion to their prevalence in the population (e.g., industry). The disparity ratio is the ratio of two ratios: (1) the utilization ratio divided by (2) the availability ratio” (Optimal Solutions Group, 2021a). The utilization ratio is ratio of the number (or obligations) of contracts awarded to small businesses (e.g., WOSBs) divided by the contracts (or obligations) awarded overall. The availability ratio is the ratio of the number of small businesses (e.g., WOSBs) to the total number of firms in the industry.

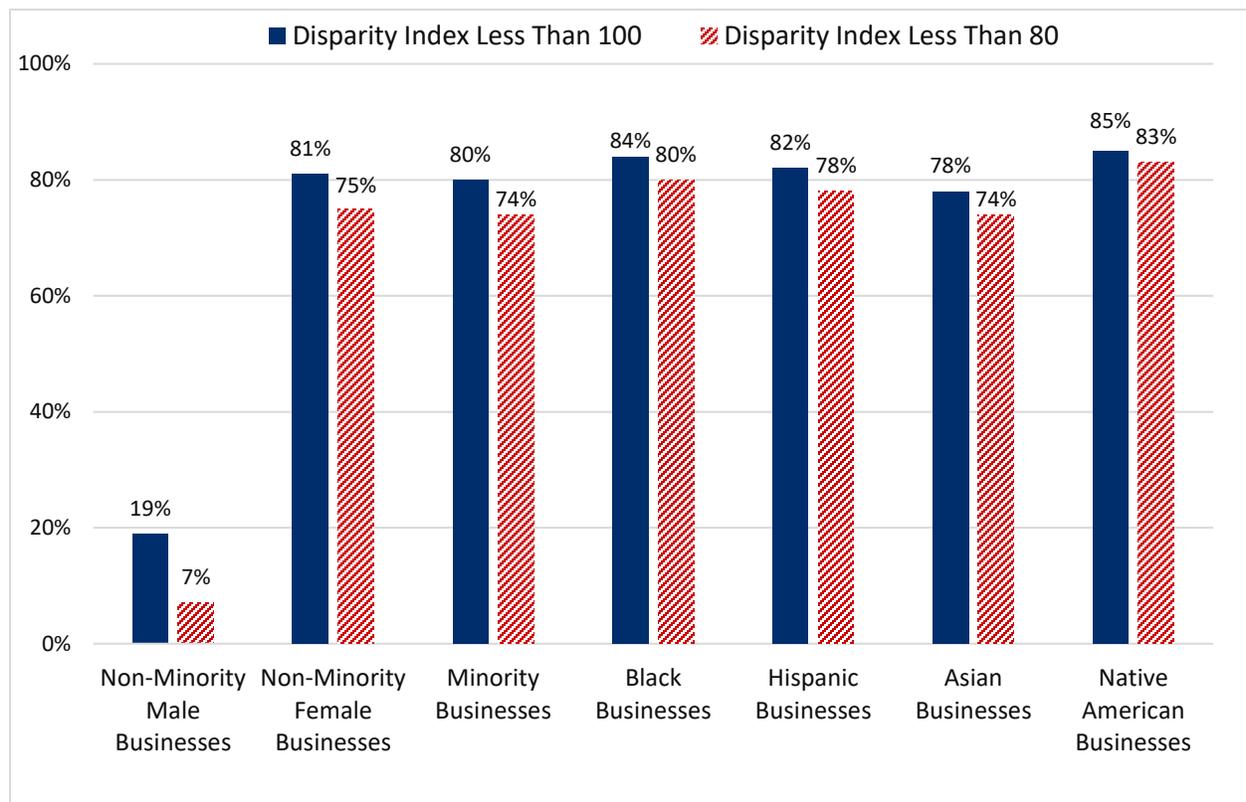
A disparity ratio of less than 0.80<sup>c</sup> (or 80 if expressed on a scale that multiplies the disparity index by 100) indicates a substantial or large and adverse disparity (Premier Quantitative Consulting, Inc., 2016). A disparity index of less than 100 indicates adverse disparity and an index of more than 100 indicates parity (Optimal Solutions Group, 2021a). Disparity studies and resulting disparity ratios reflect a difference between two groups on an outcome of interest. Thus, they do not necessarily imply discrimination but rather highlight differences that may need further examination.

In his report, Wainwright (2022) presented findings from 205 disparity studies examining women-owned and minority-owned business participation in state and local governments and public contracting entities since 2010. The studies were conducted between 2010 and 2021, spanning 32 states and the District of Columbia, across every industry segment of the United States economy. The findings reveal large adverse disparities across all major industry sectors and for every minority group (see Figure 2). For example, for minority businesses as a group, 80 percent of the disparity indexes were adverse (less than 100), and 74 percent were large and adverse (less than 80). In contrast, for non-minority male businesses, just 19 percent of disparity indexes were adverse (less than 100), and only 7 percent were large and adverse (less than 80). The author suggests that these findings indicate underutilization of minority-owned and women-owned businesses in public procurement markets based on the businesses’ availability.

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<sup>c</sup> Meaning the group’s representation in contracting is less than 80 percent of its representation in the population.

**Figure 2. Percent of businesses with an adverse disparity index by population.**



*Differences in odds of winning contracts*

Inequities have also been demonstrated by differences in the odds of winning contracts. Specifically, using data from April 2019 to August 2020 provided by the SBA from the System for Award Management and from the Federal Procurement Data System, Chow (2022) found that woman-owned, minority-owned, and veteran-owned businesses have lower odds than other businesses of winning Federal prime contracts, all else being equal. For example, minority-owned businesses<sup>d</sup> had roughly 15 percent lower odds of winning a prime contract than other small businesses. Minority-owned businesses’ odds of winning prime contracts were also lower in about 67 percent of industries, representing over 50 percent of prime contracts. In addition, the odds of SDBs<sup>e</sup> winning prime contracts were approximately 37 percent lower than the odds of other small businesses that were not identified as SDBs winning prime contracts. Chow also highlighted that the business size and age ratios favor the larger and older businesses, reflecting their greater likelihood at competing for and thus winning prime contracts.

*Inconsistencies in meeting procurement goals*

Government-wide track records for meeting collective procurement goals may also reflect inequities in Federal contracting. Prime contracting data from the SBA show that across the Federal government, the track record in meeting procurement goals for specific business programs is uneven, with some goals being missed each year (SBA, 2023; Bipartisan Policy Center, 2021). For example, whereas the collective

<sup>d</sup> Includes minority-owned small businesses, SDBs that are minority-owned, and minority-owned 8(a) participants.

<sup>e</sup> Includes SDBs that did not participate in the 8(a)-business development program.

prime contracting goal for SDBs (5 percent, 11 percent in FY 2022) and SDVOSBs (3 percent) have been consistently met in recent years, the WOSB goal (5 percent) has only been met twice (2015 and 2019) since it was established in 1994, and the HUBZone goal (3 percent) has never been met (see Table 4). In FY 2022, the most recent year for which data is available, 4.57 percent of contract dollars went to WOSBs, 11.38 percent went to SDBs, 4.57 percent went to SDVOSBs, and 2.65 percent went to HUBZones (SBA, 2023).

**Table 4. Government-wide small business prime contracting achievement.**

Fiscal Year	SDBs Goals: 5%, 11% <sup>f</sup>	WOSBs Goal: 5%	SDVOSBs Goal: 3%	HUBZones Goal: 3%
2022	Yes	No	Yes	No
2021	Yes	No	Yes	No
2020	Yes	No	Yes	No
2019	Yes	Yes	Yes	No
2018	Yes	No	Yes	No
2017	Yes	No	Yes	No
2016	Yes	No	Yes	No
2015	Yes	Yes	Yes	No
2014	Yes	No	Yes	No
2013	Yes	No	Yes	No

Note. Adapted from Bipartisan Policy Center (2021).

In addition to differences in meeting government-wide procurement goals for prime contracts, track records for meeting subcontracting goals and agency-specific goals are also uneven (Carrazana, 2023). For example, in FY 2022, the subcontracting goal for WOSBs was met (5.14 percent) whereas the subcontracting goal for SDBs and SDVOSBs was not met (4.55 percent<sup>g</sup> and 2.16 percent) (SBA, 2023). As another example, agency-specific data show some agencies exceed WOSB procurement goals (e.g., Department of the Interior: 14.01 percent, Department of Labor: 12.8 percent) whereas other agencies fall short (e.g., Department of Energy: 3.04 percent, National Aeronautics and Space Administration: 4.29 percent) (SBA, 2023).

Findings from a survey conducted by Goldman Sachs, *10,000 Small Businesses Voices*, underscore these inequities. Specifically, according to the survey results:

“99 percent of WOSBs believe the federal government could do more to support them and 89 percent said the playing field for female small businesses is not level compared to male-owned businesses. Furthermore, the new survey data finds that current programs and services offered to WOSBs are not meeting their needs, with 72 percent of respondents giving the federal government a “C” or below grade for effectiveness.” (Goldman Sachs, 2023)

<sup>f</sup> For FY 2022, the procurement goal was raised from 5 percent to 11 percent.

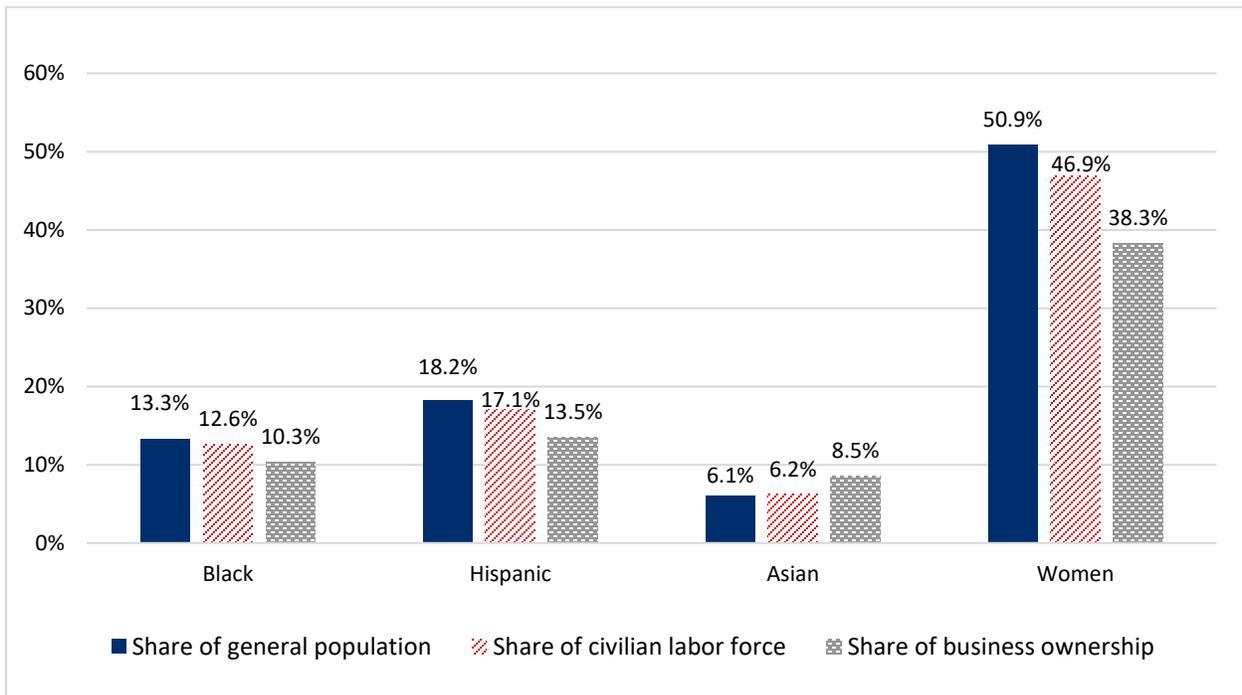
<sup>g</sup> For FY 2022, the subcontracting goal for SDBs was 5 percent.

a.i. To what extent does inequity in Federal procurement look different than inequity in the economy at large, and what contributes to this difference?

Data on the general population and business ownership

Data on business ownership reveal inequities by race and gender, which may influence the composition of Federal procurement spending (White House CEA, 2021). Specifically, as shown in Figure 3, data from 2015-2019 for the nation as a whole, show that minority groups are generally underrepresented in business ownership relative to their share of the general population and civilian labor force (FRA, 2023). In addition, even though minority businesses represent 29 percent of all businesses only approximately 11 percent have paid employees (MBDA, n.d.).

**Figure 3. Data from 2015-2019 on business ownership compared with population and labor statistics.**



Data from the 2018 Annual Business Survey (reference year 2017) show that, out of the 5.7 million employer businesses<sup>h</sup> in the United States, approximately 124,000 were Black-owned employer businesses, representing 2.2 percent of all employer businesses. This reflects a vast underrepresentation of Black business owners given that in 2017, Blacks represented 12 percent of the U.S. adult population and 13 percent of the labor force (Katz et al, 2022; 2020; Bureau of Labor Statistics, 2018). Katz et al. (2020) also highlighted that Black-owned businesses tend to be highly concentrated in a few economic sectors. Of the 19 industries analyzed, two thirds of Black-owned businesses were concentrated in only five industries: health care and social assistance; professional, scientific and technical services; administrative, support, waste management and remediation; retail trade; and other services.

More recent data from the 2021 Annual Business Survey (reference year 2020) show that approximately 19.9 percent of employer businesses in 2020 were minority-owned, 2.4 percent were Black-owned, 10.6

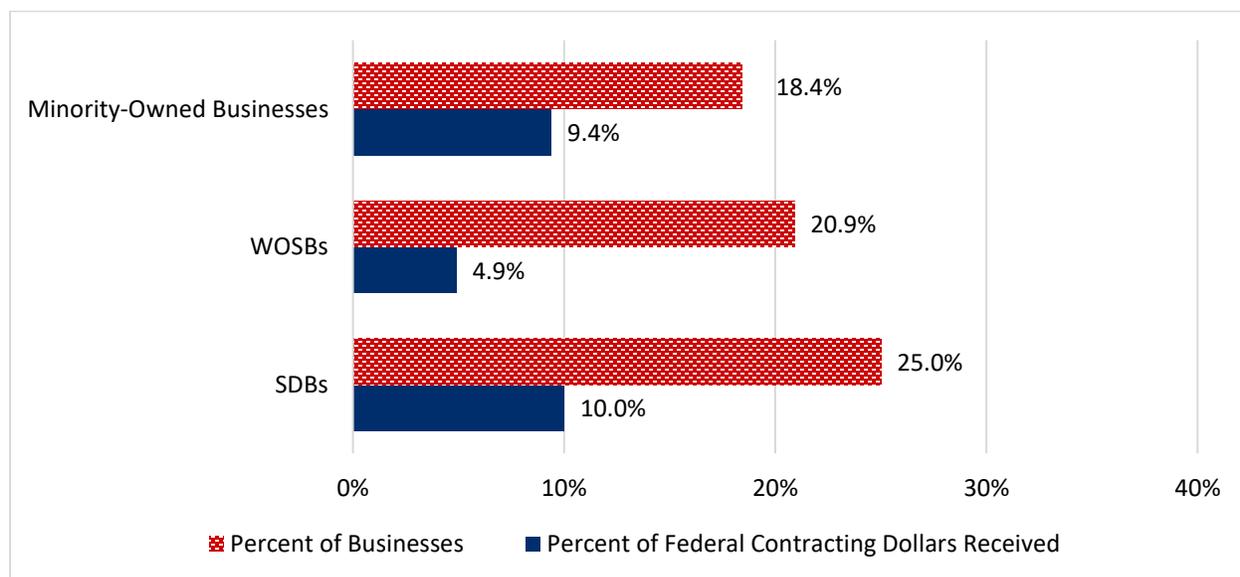
<sup>h</sup> The survey does not provide data on non-employer businesses. A non-employer business is one that has no paid employees.

percent were Asian-owned, 6.5 percent were Hispanic-owned businesses, 21.4 percent were owned by women, and 5.6 percent were veteran-owned (Census, 2023).

[Data on Federal procurement](#)

Data on Federal procurement show that minority-owned businesses secure a lower number of Federal contracts in proportion to the number of available and eligible minority-owned businesses (MBDA, n.d.; DOL, 2022). For example, as shown in Figure 4, in FY 2020, minority-owned businesses received only 9.4 percent of total Federal procurement dollars and WOSBs received only 4.9 percent of total Federal procurement dollars (McSwigan, 2022; JP Morgan, 2022). In contrast, FY 2019 data show minority-owned businesses represented 18.4 percent of employer businesses and WOSBs represented 20.9 percent of employer businesses. In addition, in FY 2020, SDBs represented 25 percent of all businesses participating in government contracting, but received only about 10 percent of total Federal procurement dollars (SBA, 2022b).

**Figure 4. Percent of FY 2020 Federal contract dollars received by businesses vs. percent of businesses.**



Note. Minority-owned businesses and WOSBs refer to employer businesses; SDBs refer to all businesses.

Looking at all businesses registered to receive Federal contracts, FY 2021 data show that minority-owned businesses represented 24 percent of businesses registered to receive Federal contracts, but accounted for only 3 percent of all contract awards. Similarly, Black business owners accounted for nearly 12 percent of eligible businesses, but fewer than 5 percent of Federal contract awards. Women-owned businesses represented 23 percent of registered businesses, but received just over 5 percent of Federal contracts (DOL, 2022).

These data highlight that there are large point differences between the number of available and eligible diverse small businesses and the number of Federal contract dollars being awarded to these businesses. McSwigan notes that, if awards were proportional to their share of the U.S. employer businesses, minority-owned businesses would have received

**Additional Federal contract dollars businesses would receive if awards were proportional to their share of the U.S. employer businesses:**

- ✓ Minority owned: \$64 billion
- ✓ Women owned: \$77 billion
- ✓ Black owned: \$4 billion
- ✓ Hispanic owned: \$24 billion

\$64 billion more in Federal contracts in FY 2020, 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 would have received almost \$24 billion more (McSwigan, 2022).

b. What general factors are contributing to inequities in Federal procurement?

Findings from the literature review show that there are systemic and historical issues that have caused inequities in Federal procurement as well as factors related to practices that still contribute to inequities in Federal procurement today. When examining factors that contribute to these inequities, it is important to keep in mind the following:

**“Key ingredients for creating and operating small businesses successfully are (1) involvement of skilled, capable entrepreneurs, (2) investment of, and access to sufficient debt and equity capital to exploit business opportunities and achieve efficient scale, and (3) access to markets for the firm’s products.” (Bates et al., 2017)**

*Factors related to discrimination*

Generally, inequities reflect longstanding structural and systemic issues rooted in discrimination. They are exacerbated by decades of regulations, programs, policies, and practices which have failed to account for racism, discrimination, and unique barriers faced by systematically marginalized communities (Myers et al., 2021). For example, structural racism and gender discrimination have resulted in wealth disparities and educational disparities between white and minority households and historical underinvestment in minority-owned and women-owned businesses (Bates et al., 2017; Liu and Parilla, 2020; Harvard, 2022; McSwigan, 2022).

Many of these systemic issues still impact the ability of people of color and women to grow and start businesses and diverse small businesses and women-owned businesses to access contracting opportunities today. Specifically, findings show that minority-owned and women-owned businesses experience barriers to accessing capital, including obtaining bank loans (Bates et al., 2017; Harvard, 2022; McSwigan, 2022). Focusing on Black-owned businesses, Fairlie et al. (2020) found that Black entrepreneurs start businesses with smaller financial capital than white entrepreneurs, and continue to take on less capital in the early years of their business operation than white entrepreneurs. The authors also found that Black-owned businesses may be less likely to apply for credit due to the assumption that they will be denied credits.

Businesses “led by people of color are less likely than their white counterparts to get startup loans or acquire real estate and have historically been excluded from career-advancing opportunities like apprenticeships and professional networks. Furthermore, even when firms led by people of color do win government contracts, these structural disadvantages may mean that they have trouble delivering and may not be renewed or considered for future opportunities, reinforcing this exclusionary cycle.” (Harvard, 2022)

Findings from disparity studies also indicate that current discriminatory actions may lead to inequities for diverse small businesses and women-owned businesses’ ability to contract with the Federal government (Premier Quantitative Consulting, Inc., 2016). Discriminatory actions might include outright prejudicial treatment of businesses in a particular market or prejudicial actions by procurement agencies or prime

contractors, when considering these businesses as subcontractors, to purposely exclude or hinder their participation (Premier Quantitative Consulting, Inc., 2016).

### *Factors related to procurement policies and practices*

Other factors that contribute to inequities are related to government-wide procurement policies and practices that may impact the availability of, and access to, Federal contract opportunities. For example, category management has resulted in fewer opportunities for small businesses, including diverse small businesses. Category management was officially implemented across the Federal government in 2016 in an effort to economize Federal purchasing, particularly through contract consolidation, contract bundling, and a focus on government-wide contracts. Given that consolidation and bundling of contracts tends to result in the elimination of individual contracts, tens of thousands of contracts were eliminated by this practice, of which over half (53 percent in 2019) had previously been awarded to small businesses (Bipartisan Policy Center, 2021; McSwigan, 2022). According to the SBA, contract bundling tends to disproportionately impact women-owned businesses, resulting in a loss of \$1 billion per year in contracting opportunities (Carrazana, 2023).

The limited visibility of available opportunities and inadequate outreach practices may also contribute to inequities in Federal contracting. While the government provides repositories of information about Federal contracting opportunities, they lack full transparency into the full array of procurement opportunities and buying trends (OMB, 2021a). In addition, the government continues to rely heavily on a relatively small number of existing communication channels, which may limit the government's ability to make meaningful connections through innovative and targeted engagements (OMB, 2021a).

In addition, even though opportunities are available and diverse small businesses may be aware of these opportunities, navigating the government procurement process can be confusing and cumbersome. This may be especially true for businesses without experience in submitting proposals or understanding agency requirements (West, 2023). In addition, meeting Federal procurement requirements can be expensive, keeping the winning of contracts out of reach for many diverse small businesses (McSwigan, 2022).

### *Factors related to management, oversight, and accountability*

Inequities may also be the result of policies and practices related to agency management, oversight, and accountability, such as eligibility certification practices. Businesses have to be certified as small businesses before they can pursue preferential small business (set-aside) opportunities. Small and SDBs can self-certify as a small business or SDB and do not have to complete a formal certification process. Veteran-owned or SDVOSBs must apply for certification through the U.S. Department of Veterans Affairs

#### **Policies and practices that may contribute to inequities in Federal procurement:**

- ✓ Category management
- ✓ Contract consolidation
- ✓ Contract bundling
- ✓ Government wide contracts
- ✓ Limited visibility
- ✓ Inadequate outreach practices
- ✓ Confusing procurement processes
- ✓ Costly procurement requirements

Vets First Verification Program. Women-owned, HUBZone, or 8(a) small business<sup>i</sup> must apply for certification through the SBA (GSA, n.d.). The application process itself may be a lengthy and costly process for businesses and once certified, businesses will have to recertify at regular time points (e.g., HUBZones businesses annually; WOSBs every three years) (Carrazana, 2023).

In addition, Molina (2015) suggests that potential weaknesses in the oversight of the eligibility certification process may contribute to inequities in Federal procurement. Specifically, the author notes that fraud in the small business size and status certifications of eligibility for participation in the WOSB program, and the lack of appropriate enforcement of the eligibility requirements, may limit the ability of legitimate WOSBs to receive their fair share of Federal contract dollars. In a report published by the U.S. Government Accountability Office in 2010 (GAO, 2010), the agency highlighted that, based on the 14 cases it investigated, \$325 million in set-aside and sole-source contracts were given to firms not eligible for the 8(a) program.

#### *Factors related to data collection and performance reporting*

Other factors that may contribute to inequities in Federal procurement may be related to tracking and reporting of Federal procurement spending. For example, current data collection and performance evaluation practices may misrepresent actual procurement achievements. One of these practices refers to how Federal contract dollars awarded to diverse small businesses are counted toward procurement goals. Specifically, the dollar value of contracts awarded in small business set-aside programs is often counted toward more than one program (“double dipping”). Thus, if an award is granted, or a subcontract is given to a WOSB in a HUBZone, it is counted toward both procurement goals; this inflates results reported with respect to small business procurement achievements (Bipartisan Policy Center, 2021).

#### *Factors related to businesses themselves*

In addition to barriers that originate from the system, inequities may also be the result of factors related to businesses themselves. For example, women-owned businesses are, on average, smaller than other types of businesses and thus, they retain fewer resources and capabilities with which to offset high administrative entrance costs associated with getting on Federal bid lists, bidding for Federal contracts, and supplying to the government (Optimal Solutions Group, 2021b). This finding may be supported by a study conducted by General Services Administration (GSA) Office of Evaluation Sciences and the SBA (GSA, 2021), not directly related to Federal procurement, but focused on examining underserved businesses’ ability to obtain emergency grants and loans. The study found that “businesses owned by members of historically underserved groups generally had fewer full-time employees” and “businesses owned by members of historically underserved groups generally took longer to submit an application after the application windows opened”.

Another factor to consider is that the overall number of small businesses that are prime contractors with the Federal government might be shrinking. For example, from FY 2020 to FY 2021, that number shrank by 6 percent (Carrazana, 2023). In addition, there has been a large decline in the number of small businesses that enter the Federal marketplace, with the number of small businesses doing business with

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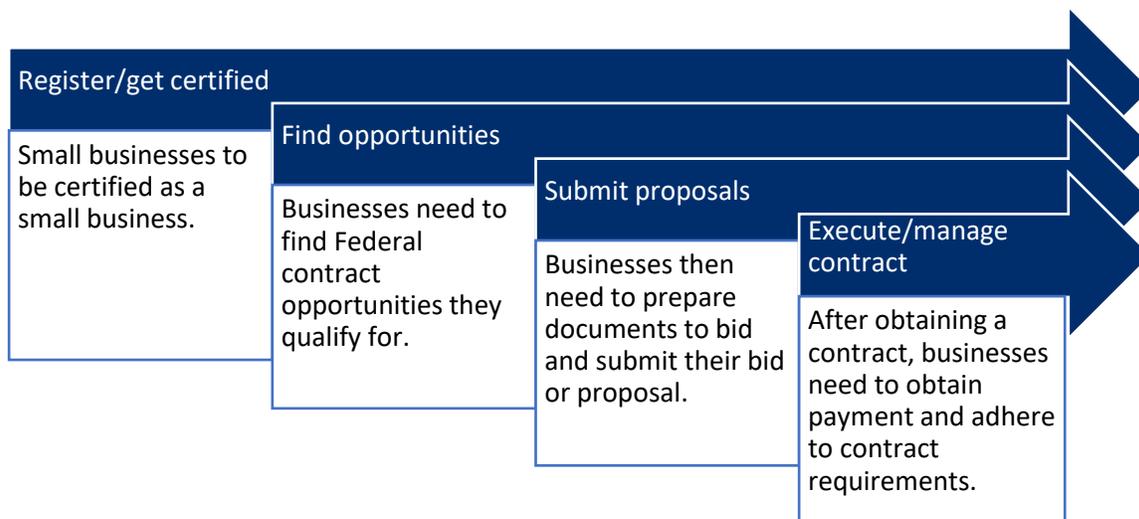
<sup>i</sup> Businesses that are considered SDB due to social and economic disadvantage may qualify for certification under the 8(a) program. The 8(a) program is not a minority business program, but has many benefits that include preference in contracting, preferential teaming agreements and focused business development training.

the Federal government for the first time decreasing by about 60 percent since 2010 (Federal News Network, 2023). Using 2001-2016 data from the System for Award Management and from the Federal Procurement Data System, Hunter et al. (2018) showed that about 40 percent of new entrants exit the Federal marketplace after three years and about 60 percent exit the Federal marketplace after five years.

c. What factors are preventing diverse small businesses from contracting with the Federal government?

Government procurement processes (see Figure 5) are complex to navigate. Generally, small businesses first need to be certified<sup>j</sup> as small business (small business, SDB, WOSB, etc.) to pursue set-aside opportunities. They then need to identify suitable opportunities, prepare documentation to compete, and finally submit their bid or proposal. Additionally, they may need to respond to a Request for Information/Sources Sought Notice to even receive a solicitation of interest. Each of these steps can be confusing and burdensome. Even after obtaining a contract, businesses have to deal with challenges related to managing the contract, such as lengthy payment timelines, which can cause financial stress -- in some cases resulting in businesses deciding not to bid on government work again or even being forced to shut down (Harvard, 2022).

**Figure 5. General steps in government procurement process.**

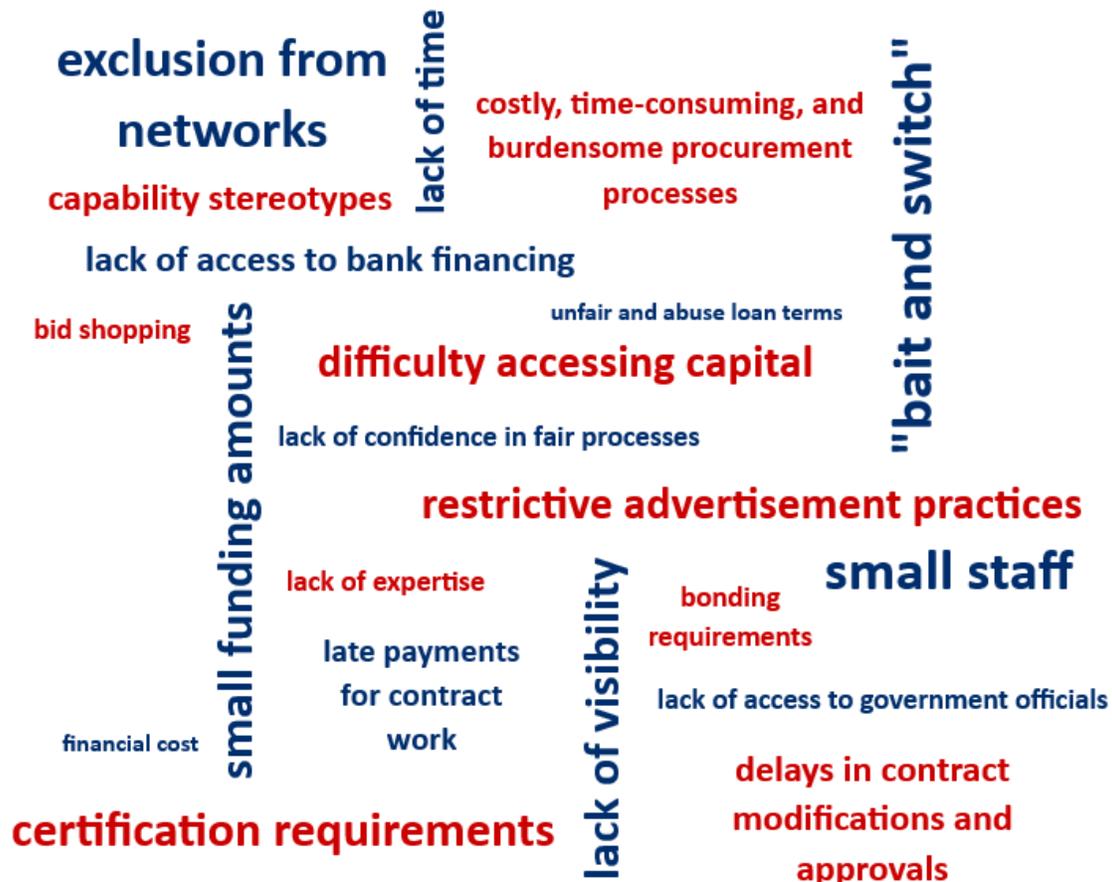


Given these various steps involved in government procurement processes, there are many factors that may prevent diverse small businesses' from contracting with the Federal government (see Figure 6). Factors that may prevent these businesses from contracting with Federal government include limited capital, financial cost, discriminatory or prejudicial practices by agencies and prime contractors, difficult processes for getting certified, lack of communication and limited outreach, and difficult-to-meet contract requirements. For example, evidence shows that women and minority entrepreneurs often do not submit proposals for large-scale government contracting work because of the time, costs, and lack of confidence in the contract bidding process (Optimal Solutions Group, 2021b). Without dedicated

<sup>j</sup> Depending on the type of small business, business can self-certify (i.e., small business, SDB) or have to apply for certification through Federal agencies (i.e., WOSBs, SDVOSBs).

business development staff, small businesses may need to divert resources away from billable work to develop proposals, using volunteer time or scarce overhead funds.

**Figure 6. Factors preventing diverse small businesses from contracting with the Federal government.<sup>k</sup>**



*Factors related to building capacity to compete and scalability*

As noted above, people of color and women experience barriers to accessing capital. In addition, borrowers may also be faced with the prospect of predatory capital (Katz et al., 2022), or lending practices that impose unfair and abusive loan terms on them. According to the authors, the lack of adequate and reliable capital is the biggest barrier for entrepreneurs to start a business in the first place and, once started, to grow the business to ensure adequate capacity to compete with other businesses.

As reported by Bates et al. (2017), studies indicate minority-owned businesses have considerably less access to bank financing than white-owned firms, and they are charged higher interest rates. For example, in a survey conducted with randomly selected businesses, the Federal Railroad Administration (FRA, 2023) found that survey respondents<sup>l</sup> perceived discrimination while applying for commercial loans

<sup>k</sup> The graphic was created based on the findings from the sources reviewed for this project. It presents key systemic barriers identified through a narrative analysis of the sources.

<sup>l</sup> Of the 3,142 total comments received in response to the questions soliciting lived experiences of discrimination in business, 1,510 comments were from minority- and women-owned businesses.

and higher rates for commercial or professional insurance. Similarly, the Minority Business Development Agency (MBDA, n.d.) reports that minority-owned businesses are more likely to be denied loans at a rate nearly three times higher than non-minority-owned businesses and, on average, pay 7.8 percent interest rates compared to non-minority-owned businesses paying on average 6.4 percent interest rates.

The ability to grow a business, or “scalability, is a barrier to entry for small businesses competing for higher-tier contracts such as Best-in-Class contracts<sup>m</sup> and other government-wide contracts. Higher-tier contracts, structured to serve multiple agencies, require small businesses to provide a larger range of products or services to more customers making larger, consolidated purchases, and more staff resources and upfront costs, which can be a risky proposition for small businesses because they may not recoup their investment if they do not win the award” (GAO, 2020).

#### *Factors related to costs*

Obtaining eligibility certifications and preparing and applying for Federal awards can be costly, time intensive, and burdensome. Given the barriers for diverse small businesses in accessing capital, competing for Federal contracts may be challenging for these businesses (McSwigan, 2022). In addition, when diverse small businesses do apply for Federal awards, they may spend more money and may invest more time than small businesses owners overall. For example, American Express survey results showed that, in 2010, minority-owned businesses invested 35 percent more time and money in seeking contracts than the other businesses due to having to spend more time to find opportunities (Khazan, 2012).

Another limiting factor may be the size of Federal contract awards. Specifically, as part of its “set-aside” policies, the government may automatically “set aside” contracts between \$10,000 and \$250,000 for small businesses or specific types of small businesses, such as WOSBs or SDBs, as long as at least two companies are competing. However, these funding amounts can be too small to be worth the required investment for the businesses (McSwigan, 2022).

#### *Factors related to discrimination, prejudice, and assumptions*

Findings from the literature review also list potential discriminatory practices that may cause disparities for diverse small businesses. Specifically, agency and prime contractors may hold prejudices that result in capability stereotypes, double or higher standards, and manipulating bid processes. According to the Department of Justice (DOJ, 2022) “minority and female business owners report dealing with assumptions by prime contractors that they are a worker and not the business owner of a subcontracting firm.” In other instances, procurement staff have been reported to question whether minority-owned business had the same competence as existing supplier businesses (Bates et al., 2017).

When engaging with subcontractors, prime contractors have also shown to manipulate bid processes through bid shopping and held bids, or “bait and switch” practices (DOJ, 2022). For definitions, see Table 5. An example of a “bait and switch” is when SDBs are included as subcontractor during the procurement phase but rarely see any work given once the contract is awarded (FRA, 2023).

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<sup>m</sup> Tier 3, Best-in-Class Solutions, are the highest rated government-wide contracts within the spend under management model. Spend under management is “spend on contracts that meet defined criteria for management maturity and data-sharing.” For more information go to: <https://gsa.federalschedules.com/resources/your-guide-to-category-management/>

**Table 5. Definitions “bait and switch” practice and bid shopping.**

“Bait and switch” practices	Bid shopping
<p>“The prime contractor commits to using a minority- or woman-owned business to meet a race- or gender-conscious goal for subcontractors, but never gives the minority- or woman-owned business the promised work.” (DOJ, 2022)</p>	<p>“Bid shopping occurs when a prime contractor solicits a bid from a minority- or woman-owned business, but instead of selecting them as a subcontractor, the prime uses the bid to get lower bids from non-minority- and male-owned firms.” (DOJ, 2022)</p>

One of the facilitators for diverse small businesses to succeed in Federal procurement, cited in the literature, is the access to learning opportunities such as professional networks. These networks provide an informal flow of information that influence how businesses learn about and successfully obtain Federal contracting opportunities (McSwigan, 2022). However, diverse small businesses and women-owned businesses are often excluded from “good ol’ boy” networks or lack access to connections and networks (FRA, 2023). In fact, 86 percent of minority- and women-owned businesses identified exclusionary networks as a barrier to obtaining contracts (DOJ, 2022).

Lastly, diverse small business owners may hold perceptions about Federal procurement that keeps them from entering the contracting pool or from competing for Federal contracts. When asked about their reasons for not engaging in Federal procurement, small businesses that did not apply for Federal government contracts<sup>n</sup>, responded thinking that success would be unlikely because their businesses tend to not be adequately prioritized and that government may not be invested in their success (Bipartisan Policy Center, 2021). In this survey conducted by the FRA (2023), a respondent also stated that Federal agencies appear to apply a “rinse and repeat” strategy, avoiding risk by allowing the same contractors, predominantly white male-owned businesses, to maintain prime and subcontracts for multiple years (FRA, 2023).

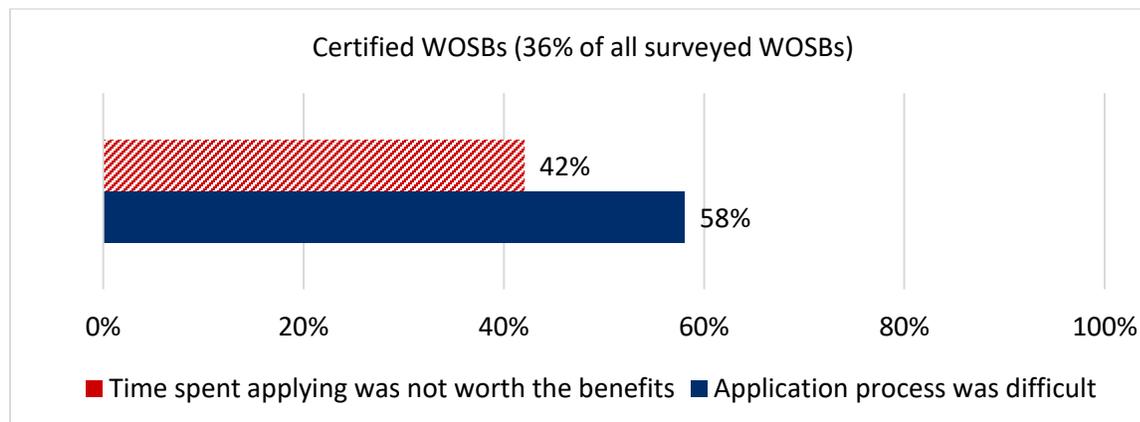
*Factors related to entering the procurement process*

Small businesses also perceive the application process for the small business certification as being too difficult to navigate and too time-consuming, as well as not being worth the effort (Goldman Sachs, 2023). Specifically, as shown in Figures 7 and 8, of the 36 percent of certified WOSBs, more than half (58 percent) indicated that the application process was difficult and 42 percent noted the time spent applying was not worth the benefits. Of the 64 percent of WOSBs who are not certified, 25 percent noted not being familiar with the certification or its benefits, 24 percent reported not being convinced the benefits of certification are worth it, and 18 percent found the process is too time consuming (Goldman Sachs, 2023). As noted by Carranza (2023), “women business owners report that the process simply does not work for them.”

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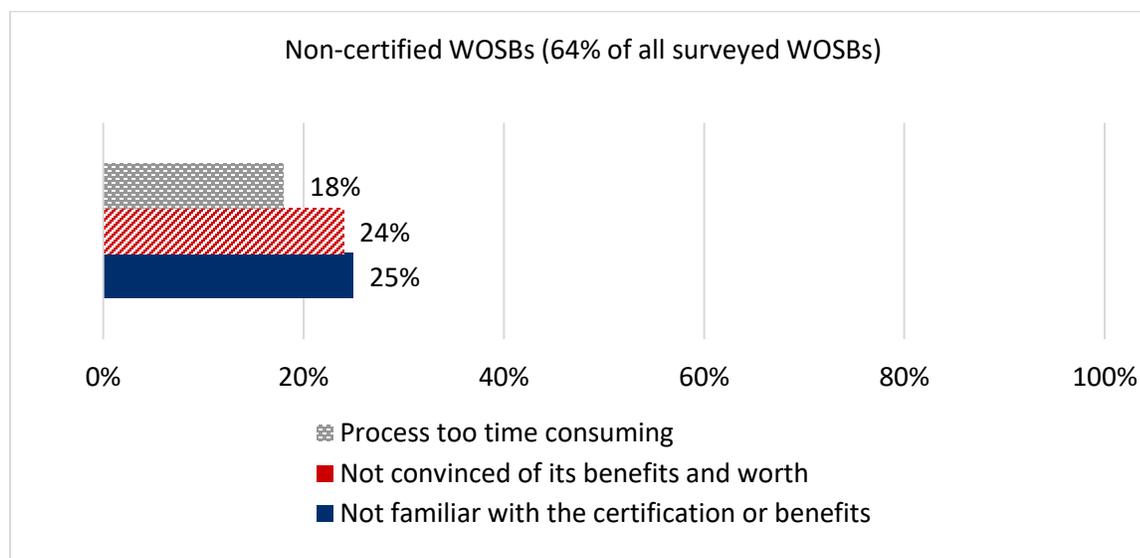
<sup>n</sup> About 77 percent of the 5,508 respondents, stated that they did not work on or seek business opportunities with the Federal government.

**Figure 7. Key challenges reported by certified WOSBs (representing 36 percent of surveyed WOSBs) with the small business certification process.**



Note. Results represent the percentages of surveyed WOSBs who noted being certified. I.e., of the 36 percent of WOSBs who said they were certified, 42 percent reported the time spent applying was not worth the benefits.

**Figure 8. Key challenges reported by non-certified WOSBs (representing 64 percent of surveyed WOSBs) with the small business certification process.**



Note. Results represent the percentages of surveyed WOSBs who noted not being certified. I.e., of the 64 percent of WOSBs who said they were not certified, 18 percent noted that the certification process is too time consuming.

Among these challenges, small businesses often lack the time, staff, or expertise to manage government paperwork and to comply with procurement requirements and contracting rules. For example, small business may have administrative staff composed of only a few individuals and therefore do not have the time to acquire the knowledge needed or to complete required documentation (West, 2023). Exacerbating these factors is the fact that contract solicitation documentation and the metrics for evaluating proposals are often complex and difficult to understand. In addition, the amount of paperwork required to submit proposals and insufficient time to develop proposals create significant barriers for small businesses' abilities to win contracts (Optimal Solutions Group, 2021a).

### *Factors related to learning about funding opportunities and lack of communication*

Other factors are related to limited opportunities for diverse small businesses to learn about what opportunities exist (Harvard, 2022). For example, requests for proposals may be advertised to businesses that are registered in government vendor portals under certain industry codes. As noted in several sources, “new and recent entrants face difficulties navigating the Federal marketplace due to inadequate Government outreach to diverse vendors and the lack of visibility into available opportunities” (OMB, 2021a, 2021b).

In addition, news of opportunities may be shared through networks and, as noted earlier, people of color and women tend to be excluded from these networks. Thus, businesses that have access to networks may receive more extensive information and are more likely to learn about a wider range of opportunities than diverse small businesses (Shelton, 2018). Another barrier is the lack of communication during the solicitation process. Businesses struggle to get answers to their questions, including those about solicitation documentation (Optimal Solutions Group, 2021a).

When diverse small businesses identify an opportunity that they qualify for, they may still be hesitant to compete due to their belief that the government is not interested in doing business with a new entity. The request may also be written or scoped in such a way that prevents small business from competing (i.e., scope of work is too large to take on; requirements are too hard to meet) (Harvard, 2022). In addition, while agencies may hold information sessions for contractors on doing business with the Federal government, that information tends to be general and does not always provide details about applying for particular opportunities (McSwigan, 2022).

### *Factors related to contract requirements/terms*

Federal government contracts also tend to come with specific requirements, such as bonding requirements, that diverse small businesses may find difficult to meet. As part of this requirement, contractors must obtain a surety bond, which financially guarantees the performance of the agreed upon work. Highlighting the challenge for meeting bonding requirements, findings show that 83 percent of minority- and women-owned businesses identified bonding requirements as a specific barrier to their ability to obtain contracts (DOJ, 2022).

#### **Federal agencies may require the following:**

- ✓ Surety bond
- ✓ Prior experience
- ✓ Certifications

Another requirement is that of “prior experience”, which tends to favor white-led businesses over those led by minority owners (Harvard, 2022). Specifically, Federal agencies tend to ask offerors for prior experience with similar Federal projects. They generally choose contractors who can demonstrate a clear understanding of Federal contracting and have a track record of successful performance. The emphasis on experience in the application process makes it challenging for diverse small businesses to break into the Federal procurement space, it is difficult to obtain Federal contracts without already having done business with the government (FRA, 2023). McSwigan (2022) noted that this is especially difficult for minority-owned businesses who face greater challenges in reaching the mature stages of a business.

Higher-tier contracts also often require vendors to meet particular technical requirements, such as cybersecurity requirements. To meet these requirements, businesses have to obtain certifications, which

can take months or even years to obtain and can cost thousands of dollars. As a result, obtaining those certifications can be prohibitive for some small businesses (GAO, 2020).

#### *Factors related to contract execution*

Once diverse small businesses obtain Federal contracts, they may experience additional challenges related to executing or managing the contracts. For example, getting payments for completed work may take longer than expected, contacting government leads may be challenging or they may not be helpful when they are contacted, and contract modifications and approvals may take too long (Optimal Solutions Group, 2021a). While larger businesses may have numerous other contracts to assign available staff during such delays affecting a single contract, these delays in payment or contract modifications or approvals may pose existential threats to small contractors, particularly those that are relatively new.

#### *Factors related to businesses themselves*

Other factors facilitating or preventing diverse small businesses from contracting with the Federal government include those related to the businesses themselves. For example, prime contractors may have misperceptions about minority-owned businesses, making prime contractors potentially less likely to use minority-owned business as subcontractors. As stated by the Vice President of a construction company, the company held “the misperception that small, minority- and women-owned subcontractors were too risky to work with due to their size, limited resources and portfolio. Although many of these companies have exactly what it takes to be successful, they aren’t given the chance to compete for contracts because of this misperception” (Walton, 2017).

As noted in another source, businesses with multiple SBA and socioeconomic program designations may in fact “have a higher likelihood of obtaining prime Federal contracts (Optimal Solutions Group, 2019). For instance, HUBZone businesses with 8(a) certification are 30 percentage points more likely to obtain a Federal contract compared to non-8(a) HUBZone businesses.

Similarly, HUBZone businesses that are also veteran-owned small businesses and WOSBs are 10 percentage points and 3 percentage points, respectively, more likely to obtain Federal contracts than those that are not” (Optimal Solutions Group, 2019). The authors also note that business management practices and characteristics can serve as facilitators or limiting factors. Specifically, HUBZone businesses that accept government credit cards are 9 percentage points more likely to win Federal contracts than HUBZone businesses that do not accept government credit cards. And lastly, HUBZone businesses located in urban areas have shown to be 3 percentage points less likely to obtain Federal contracts compared to those located in rural areas.

**HUBZone businesses that accept government credit cards are 9 percentage points more likely to win Federal contracts than HUBZone businesses that do not accept government credit cards.**

#### *d. What factors are limiting agencies/government from contracting with diverse small businesses?*

While there are numerous factors that prevent diverse small businesses from contracting with Federal agencies, there is limited research on barriers faced by agencies in contracting with these businesses. Barriers that have been identified for agencies include agency staff perceptions, agency capacity and expertise, availability of qualified small businesses, and procurement policies.

### *Factors related to agency staff perceptions*

Staff perceptions may contribute to Federal agencies' challenges in meeting procurement goals. For example, agency staff may assume that there is a lack of small businesses in HUBZones that can meet the agency's contract demands and that HUBZone businesses may lack the capabilities and skills for the work (GEARS, 2018).

### *Factors related to procurement policies*

Small business program rules and regulations may also create barriers that limit agencies in contracting with diverse small businesses. For example, executing the sole source authority under the WOSB program is difficult for contracting officers because rules for sole source authority under the WOSB program are different from those under the SBA programs. For the WOSB program, the Federal Acquisition Regulation, which states that contracting officers must justify in writing why they do not expect other WOSBs or economically disadvantaged WOSBs to submit offers on a contract, is stricter than it is for the 8(a) program. In addition, it is required that WOSB program set-asides be restricted to specific industries (i.e., to specific NAICS codes) (CRS, 2022).

### *Factors related to government staffing availability, expertise, and burden*

Recent years have seen a large reduction in the number of Federal staff, due to a large number of retirements, and an increase in the government's reliance on external contractors for basic services (West, 2023). As a result, agencies are experiencing a loss of expertise within departments or teams focused on procurement and evaluating business expertise. This may create barriers for agencies to contract with diverse small businesses as Federal officials may be unfamiliar with the businesses and therefore may not be able to adequately judge their ability to deliver quality products. Instead, agencies may contract with well-known large businesses with established reputations rather than risk contracts with lesser-known businesses (West, 2023).

In addition, as noted in the previous section, implementing strategies to meet procurement goals and adhering to rules and requirements associated with small business types can be difficult and time-consuming for Federal contract officials. Different SBA programs for small businesses have different sets of rules and regulations, including rules related to the use of sole-source awards, the applicability of price adjustments, and the need for special certifications. Thus, managing these different requirements can create barriers and may result in some of these programs being underutilized (Mee, 2012). For example, when the WOSB program was approved:

“Officials believed that creating another small business contracting program would put too much pressure on already overworked contracting officials and consequently would lead to the inadequate achievement of small business programs” (Mee, 2012).

### *Factors related to availability of small (diverse) businesses / perception of availability*

Another factor that impedes Federal agencies' ability to contract with diverse small businesses is that there may be a limited number of small contracts available for small businesses and that the number of available small businesses may be limited (Mee, 2012; Bipartisan Policy Center, 2021). In fact, findings from the literature indicate that fewer and fewer small businesses are participating in the Federal procurement marketplace (see Figure 9).

**Figure 9. Data showing the decline in businesses participating in the Federal procurement marketplace.**



- The number of aerospace and defense prime contractors shrank from 51 in 1993 to five in 2000 as result of the agency’s consolidation efforts (DoD, 2022).
- From 2010 to 2019 the number of small businesses providing common products and services to the federal government declined by 38 percent (Bipartisan Policy Center, 2021).
- From 2005 to 2019, the number of new small business entrants into Federal contracting declined by 79 percent (Bipartisan Policy Center, 2021).

As stated in Figure 9 above, from 2010 to 2019, there was a 38 percent decline in the number of small businesses providing common products and services to the Federal government (Bipartisan Policy Center, 2021). The authors of the report suggest that this shrinkage may be partly driven by a 79 percent drop in the number of new small business entrants into Federal contracting.

Findings also indicate there is limited availability of qualified SDBs that are "ready, willing and able" to participate in government contracting (Bipartisan Policy Center, 2021), which may be a consequence of the overall decline in small businesses and new small business entrants. Other findings indicate that Federal agencies have difficulty identifying small businesses that can maintain HUBZone certification requirements, including the HUBZone 35 percent employee residence requirement (GEARS, 2018) and that, even if there are enough qualified businesses, they may not pursue Federal government contracting opportunities due to the challenges identified in the previous sections (Mee, 2012).

e. To what extent do factors contributing to inequity differ by Federal procurement categories (e.g., those used in category management: information technology, professional services, facilities and construction, medical products, transportation and logistics, industrial products and services, travel, security and protection, human capital, office management)?

There is limited information about existing differences in inequities between sectors and procurement categories. The findings below summarize findings regarding existing differences in inequities from two reports, followed by factors that may contribute to those differences.

#### *Examples of differences in inequities*

One report (Optimal Solutions Group, 2019) highlighted differences in inequities between sectors for HUBZone businesses. Specifically, the authors note that HUBZone businesses in the construction sector have a four percent higher likelihood of obtaining Federal contracts compared to those in the manufacturing sector. In turn, HUBZone businesses in the manufacturing sector have a six percent higher likelihood of obtaining Federal contracts compared to businesses providing professional, technical, and scientific services. Another report (Premier Quantitative Consulting, Inc., 2016) found that Asian American-owned businesses in professional services, African American-owned construction business, and Hispanic American-owned businesses in architecture and engineering services had the highest proportion of substantial disparities – meaning these businesses secured a lower number and dollar amount of contracts in proportion to the number of available minority-owned businesses in a relevant market.

### *Factors related to business representation*

One of the reasons that there may be differences in inequities between sectors is that diverse small businesses might be under- or over-represented in specific sectors. As a result of diverse small businesses' and women-owned businesses' concentration in some industries, they may be underrepresented in other sectors where large Federal purchases are made, such as defense, manufacturing, and technologies (Katz et al, 2022; Optimal Solutions Group, 2021b). A reason for the underrepresentation in some sectors may be that minorities and women tend to be underrepresented in science, technology, engineering and mathematics (STEM) as a whole. For example, women make up less than 30 percent of U.S. STEM employees and, for STEM employees with bachelor's degrees, only 6 percent are Hispanic and only 7 percent are Black STEM employees (Williamson, 2020).

Katz et al. (2022) noted that minority-owned businesses are underrepresented in many high-paying and high-growth sectors across the economy, while they are overrepresented in the service industries. In an earlier report, Katz et al. (2020) noted that Black-owned businesses tend to be concentrated in health care and social assistance; professional, scientific and technical services; administrative, support, waste management and remediation; retail trade; and other services, but tend to be relatively underrepresented in retail, manufacturing, and construction. The White House Council of Economic Advisors (White House CEA, 2021) also highlighted differences in representation, noting that businesses owned by disadvantaged racial groups tend to be underrepresented in transportation and warehousing industries. Looking at women-owned businesses, findings highlight that they tend to be concentrated in more crowded, competitive, less revenue-generating industry sectors that have higher failure rates such as health care and social assistance, or professional, scientific, and technical services (Optimal Solutions Group, 2021b).

### *Factors related to procurement policies and practices*

Other factors that may contribute to the difference in inequities between sectors include procurement policies, such as those related to set-asides, and the scope of projects. For example, Carrazana (2023) highlighted that e-commerce services are excluded from competing for set-aside projects. Fairchild et al. (2018) noted that the "size and structure of infrastructure projects exceed most minority-owned, women-owned, and disadvantaged businesses' bid capacity as subcontractors, much less as primes."

## **Analysis and Discussion**

There are many sources that identify and describe inequities in Federal procurement. Specifically, findings show that the share of Federal procurement dollars going to diverse small businesses and women-owned generally falls behind those businesses' representation in the overall economy. Findings also indicate that there are two sides to the coin: on the one side, policies and practices prevent diverse small businesses and WOSBs from contracting with the Federal government and, on the other side, Federal agencies face barriers to contracting with diverse small businesses and WOSBs.

The majority of findings were related to policies and practices that prevent diverse small businesses and WOSBs from contracting with the Federal government. Commonly cited barriers included lack of access to capital and limited capacity, discriminatory policies and practices, difficulties entering and navigating the procurement process, complicated and time-consuming procurement processes, lack of targeted communication and outreach efforts, difficult-to-meet contract requirements, challenging contract

management practices, and characteristics of businesses themselves (e.g., certifications, business management practices). There were fewer findings related to barriers for Federal agencies to contracting with diverse small businesses and WOSBs but the available information sheds light on key themes. Specifically, barriers for Federal agencies seem to be related to agency staff perceptions, agency procurement capacity and expertise, availability of qualified small businesses, and specific procurement policies.

Overall, the findings suggest a number of opportunities exist to improve equity in Federal procurement. They also cite systemic issues that must be addressed through policies, programs, and practices to improve equity. Federal procurement goals are but one of the strategies needed to help mitigate disparities but additional systematic efforts are needed at all levels (i.e., system, agency/business, individual) to help redress the systemic issues that perpetuate the inequities seen in Federal procurement today.

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## Appendix. Glossary of Key Terms

### **8(a) Business Development Program**

As per the SBA, the 8(a) Program, established under Section 8(a) of the Small Business Act, is a business development program that offers SDBs training, technical assistance and federal contracting opportunities in the form of set-aside and sole-source awards. The 8(a) Program is generally limited to small businesses "unconditionally owned and controlled by one or more socially and economically disadvantaged individuals." 15 U.S.C. § 637(a)(4)(A).

### **“Bait and switch” practice**

As per the DOJ, bait and switch is a practice in which the prime contractor commits to using a minority- or woman-owned business to meet a race- or gender-conscious goal for subcontractors, but never gives the minority- or woman-owned business the promised work.

### **Bid shopping**

As per the DOJ, bid shopping is a practice in which the prime contractor solicits a bid from a minority- or woman-owned business, but instead of selecting them as a subcontractor, the prime uses the bid to get lower bids from non-minority- and male-owned firms.

### **Category management**

As per the GSA, category management is the practice of buying common goods and services as an organized enterprise in order to improve the efficiency and effectiveness of acquisition activities.

### **Disparity ratio**

As per the Optimal Solutions Groups, a disparity ratio measures the degree to which firms of a given type (e.g., women-owned) are represented in federal contracting in proportion to their prevalence in the population (e.g., industry). The disparity ratio is the ratio of two ratios: (1) the utilization ratio divided by (2) the availability ratio.

### **Economically disadvantaged women-owned small business (EDWOSB)**

As per the SBA, an EDWOSB is a small business that is 51% or more owned and controlled by one or more women, each with a personal net worth less than \$850,000; with \$450,000 or less in adjusted gross income averaged over the previous three years; and each with \$6.5 million or less in personal assets.

### **Equity**

As per the White House Executive Order, the term equity means the consistent and systematic treatment of all individuals in a fair, just, and impartial manner, including individuals who belong to communities that often have been denied such treatment, such as Black, Latino, Indigenous and Native American, Asian American, Native Hawaiian, and Pacific Islander persons and other persons of color; members of religious minorities; women and girls; LGBTQI+ persons; persons with disabilities; persons who live in rural areas; persons who live in United States Territories; persons otherwise adversely affected by persistent poverty or inequality; and individuals who belong to multiple such communities.

### **Executive Order**

As per the Department of Justice, Executive Orders are official documents through which the President of the United States manages the operations of the Federal Government.

**Federal procurement**

The buying of goods and services by the U.S. government.

**Minority-owned business**

The Cornell Law School defines a minority-owned business as a business that is 51% or more owned and controlled by one or more individuals belonging to a socially disadvantaged designated group.

**North American Industry Classification System (NAICS)**

As per the U.S. Census Bureau, the NAICS is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

**Request for proposal (RFP)**

As per the GSA, RFPs are used in negotiated acquisitions to communicate Government requirements to prospective contractors and to solicit proposals.

**Service-disabled veteran-owned small business (SDVOSB)**

As per the SBA, a SDVOSB is a small business that is 51% or more owned and controlled by one or more veterans rated as service-disabled by the VA.

**Small business**

The SBA defines a U.S. small business as a concern that: is organized for profit; has a place of business in the U.S.; operates primarily within the U.S. or makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor; and is independently owned and operated and is not dominant in its field on a national basis. In determining what constitutes a small business, the definition will vary to reflect industry differences – especially size standards.

**Small business in Historically Underutilized Business Zone (HUBZone)**

As per the SBA, a HUBZone business is a small business that is 51% or more owned and controlled by U.S. citizens, a Community Development Corporation, an agricultural cooperative, an Alaska Native corporation, a Native Hawaiian organization, or an Indian tribe.

**Small disadvantaged business (SDB)**

As per the SBA, a SDB is a small business that is 51% or more owned and controlled by one or more disadvantaged persons. Business owned by racial and ethnic minorities, economically disadvantaged persons, and people who can provide evidence of individual social disadvantage, are presumed to qualify.

**Sole source procurement**

As per the DOJ, a sole source procurement (called an Other than Full & Open Competition) is when the government enters into a contract with a contractor without going through the typical competitive process as required by law because it deems that the contractor is the only source available that can meet the government requirements.

**Surety bond**

As per the DOJ, a surety bond is a legally binding contract entered into by three parties: the principal, the obligee, and the surety. The obligee, usually a government entity, requires the principal, typically a business owner or contractor, to obtain a surety bond as a guarantee against future work performance.

**Underserved communities**

As per the OMB, underserved communities refer to populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life.

**Women-owned small business (WOSB)**

As per the SBA, a WOSB is a small business that is 51% or more owned and controlled by women who are U.S. citizens.