

For Immediate Release: September 28, 2021

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PolicyLink National Equity Atlas

National Equity Atlas: Number of Small Business Vendors in Federal Marketplace Declined by Nearly 40 Percent over the Last Decade

New analysis of federal contracting data shows that the number of small businesses contracting with the federal government shrank dramatically over the past decade and federal purchasing is highly concentrated in just a few districts

PolicyLink urges Congress to leverage federal procurement programs in historic spending bill to build equitable and prosperous local economies

OAKLAND, CA — While Congress works to advance the bipartisan infrastructure bill and \$3.5 trillion spending bill, small businesses are already preparing for the influx of projects and contracts that will emerge. However, [a new analysis](#) from the [National Equity Atlas](#), a partnership between PolicyLink and the USC Equity Research Institute, released today shows that such businesses are struggling to find opportunities for federal contracts.

“Small businesses are key to the economic health and sustainability of our country, playing a vital role in our recovery and building an equitable economy. It is critical that Congress invest in the next generation of small business leaders,” said **Tracey Ross, Director of Federal Policy at PolicyLink**. “The federal government has a significant opportunity with the spending bill to invest in the role of small business as engines of job creation, economic growth, and racial equity. As our nation’s demographics continue to change, ensuring that ethnically diverse businesses thrive over the next several decades will require active investment, technical support, and improved access to contracting opportunities.”

In 2020, the federal government spent [26 percent](#) of its contracting budget on small businesses (a total of \$145.7 billion), exceeding its goal of 23 percent. Yet, a National Equity Atlas review of federal data revealed that while the total dollar amount going to small businesses has increased, the number of small businesses doing business with the federal government has plummeted over the past decade. About 40 percent fewer small businesses fulfilled federal contracts in 2020 compared with 2010, and every year, fewer and fewer small companies sell their goods and services to the federal government.

The federal government is the nation’s largest purchaser of goods and services, spending [more than half a trillion dollars](#) on contracts every year. This buying power is a crucial catalyst for equitable economic development across the country, creating scores of opportunities for businesses along a vast supply chain. Recognizing the value of its purse, the federal government has an official policy to ensure that small businesses, as well as entrepreneurs who

face systemic barriers to business development and growth, have “maximum practicable opportunity” to access these contracting opportunities. The dramatic decline in contracting opportunities is significant because of the outsized role that small businesses - and particularly small businesses owned by people of color - play in an equitable recovery and economic future for the country.

Research has shown that in the face of chronic [labor market discrimination](#), [segregation](#), and disinvestment in communities of color, businesses owned by people of color are [more likely to hire people of color](#) than other firms and also [generate increased economic activity](#) in communities of color. Entrepreneurship can also help [close the racial wealth gap](#). But while workers of color start businesses at above-average rates, persistent barriers to accessing capital, networks, and business support translate into lower revenue growth for entrepreneurs of color. Federal contracting is an important pathway for business expansion and growth that can have ripple effects in communities that bear the heaviest burdens of structural racism and were hit hardest by the pandemic.

In addition to the decline in small business participation in the federal marketplace, the Atlas analysis found:

- **Less than 16 percent of total government procurement is from small businesses owned by people of color and women.** People of color are 39 percent of the population and own [29 percent](#) of all American businesses, yet entrepreneurs of color receive less than [12 percent](#) of federal government contracting dollars. Women own 42 percent of American companies and women of color start businesses at the fastest rate of all racial/gender groups, the federal government fell shy of meeting its 5 percent contracting goal for small women-owned businesses in 2020.
- **Federal contracts with small businesses are highly concentrated in just a few communities — exacerbating spatial inequities.** While federal contracts do go to businesses located in every congressional district, 17 districts — which are home to just four percent of the population — received 43 percent of small business procurement.

The infrastructure package offers solutions to unlock contracting opportunities for small businesses and entrepreneurs of color. A [set of programs](#) through which the Small Business Administration will partner with Historically Black Colleges and Universities (HBCUs) and other institutions would invest \$2.4 billion over ten years to establish business incubators and business development programs in underrepresented communities and support small businesses to meet evolving technological needs.

To view the full analysis, click [here](#).

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The [National Equity Atlas](#), produced by PolicyLink and the USC Equity Research Institute, is America's most detailed report card on racial and economic equity. We equip movement leaders

and policymakers with actionable data and strategies to advance racial equity and shared prosperity.