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Section 610 Review of the

Small Business Administration’s Government Contracting Programs

13 Code of Federal Regulations (C.F.R.) § 125

August 2020

Table of Contents

1.1 List of Tables

1.2 List of Figures

2 Introduction

Section 610 of the Regulatory Flexibility Act (5 U.S.C. § 610) calls for the implementation of periodic "lookback" reviews for rules affecting small entities. These periodic reviews assemble updated information about the need for regulation; examine retrospective information about the regulatory impacts and performance to determine whether rules need to be changed, amended, or rescinded; and assess whether they are still consistent with their stated objectives. Additionally, these reviews help identify any adverse or unintentional economic impacts that the implemented rule may have had on a substantial number of affected entities and identify any ways to increase the rule's overall effectiveness in the future.

Review of rules under Section 610 is organized around assessment of the following factors:

- The continued need for the rule
- The nature of complaints and comments about the rule from the public
- The complexity of the rule
- The extent to which the rule overlaps, duplicates, or conflicts with other federal rules (or, if applicable, with state and local rules)
- The length of time since the last review of the rule or the degree to which technology, economic conditions, or other factors have changed the area affected by the rule

Consistent with the wording in Section 610, a plan for a review must be established within 180 days after a rule is published. The actual review of the rule shall be conducted within 10 years of the publication of the final version of the rule. The review is initiated when, each year, every agency submits a list to the *Federal Register* outlining rules that have had a Significant Economic Impact on a Substantial Number of Small Entities (SISNOSE) and are due for a review under Section 610. The rules on this list are reviewed within the following year.

Consistent with this process, this document provides a Section 610 Review that focuses on the Government Contracting Programs of the Small Business Administration (SBA). The term "Government Contracting Programs" encompasses a group of similar but separate programs that enhance the economic competitiveness of small businesses in the United States by supporting them in competing for and receiving federal government contracts. These programs are codified in the *Code of Federal Regulations* (13 C.F.R. § 125), promulgated in 1996 (61 Fed. Reg. No. 21, [Jan. 31, 1996], p. 3312). The array of Government Contracting Programs includes assistance with the following:

- Prime contracting (for federal contracts)
- Subcontracting (for federal contracts)
- Government property sales assistance

In addition, 13 C.F.R. § 125 governs the Certificate of Competency (COC) program, which allows small businesses to appeal determinations of being unable to perform the required contracting work, and therefore not being selected as contract awardees, when they are the low bidder. This part of the code also governs SBA's Small Business Mentor-Protégé Program and the Service-Disabled Veteran-Owned Small Business Concerns (SDVOSBC) program.

3 Program Description

3.1 Purpose

Since 1942, the United States has assisted small businesses through temporary agencies such as the Smaller War Plants Corporation and later the Small Defense Plants Administration during times of war. This practice later led to the creation of the permanent SBA in 1958. SBA's Government Contracting Programs assist small businesses in competing in the U.S. economy by helping them obtain a "fair share of Federal Government prime contracts, sub contracts, orders, and property sales."[1] The Government Contracting Programs provide this assistance through an array of services detailed in 13 C.F.R. § 125. The Government Contracting Programs comprise the following main services:

- Prime contracting assistance (13 C.F.R. § 125.2)
- Subcontracting assistance (13 C.F.R. § 125.3)
- Government property sales assistance (13 C.F.R. § 125.4)
- The COC program (13 C.F.R. § 125.5)

However, 13 C.F.R. § 125 also governs SBA's Small Business Mentor-Protégé Program (13 C.F.R. § 125.9) and the SDVOSBC program (13 C.F.R. § 125.11–31).

3.2 Eligibility

The Government Contracting Programs apply broadly to all small business concerns, including those governed by other SBA programs, such as 8(a) participants, Historically Underutilized Business Zone (HUBZone) small business concerns, SDVOSBCs, Women-Owned Small Businesses (WOSBs), and Economically Disadvantaged Women-Owned Small Businesses (EDWOSBs).[2] WOSBs are businesses that are predominantly owned and controlled by women, whereas EDWOSBs, a subset of WOSBs, are businesses that are predominantly owned and controlled by women who are economically disadvantaged.[3]

A small business is defined as one that:

- Is organized for profit
- Has a place of business in the United States
- Operates primarily within the United States or makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials, or labor
- Is independently owned and operated
- Is not dominant in its field on a national basis[4]

Additionally, the Small Business Act establishes size regulations based on annual receipts (in dollars) or number of employees to "define whether a business entity is small and, thus, eligible for Government

[1] 13 C.F.R. § 125.2(a)(1), 61 Fed. Reg. 3312.

[2] 13 C.F.R. § 125.2(a)(1).

[3] 12 C.F.R. § 127.2(b)(2), § 127.2(a)(2).

[4] Congressional Research Service, "An Overview of Small Business Contracting," January 10, 2020, p. 4.

programs and preferences reserved for 'small business' concerns." These classifications vary by type of economic activity or industry.[5]

3.3 Services

The Government Contracting Programs establish prime contracting and subcontracting assistance programs, as well as various responsibilities of prime contractors (including other small business concerns), to ensure that small business concerns have the maximum practicable opportunity to participate in the performance of the contract, among other requirements. These requirements state that agencies should break out contract work items into smaller units and solicit small business concerns early in the acquisition process, and set guidelines for concerns to participate in a formal Mentor-Protégé Program to provide developmental assistance to protégés.[6] The complete array of services under 13 C.F.R. § 125 is described briefly in the subsections below.

3.3.1 Prime Contracting Assistance (13 C.F.R. §125.2)

In 13 C.F.R. § 125.2, the government outlines a series of responsibilities of SBA and other federal government agencies issuing procurements associated with assisting small businesses in competing for and securing contracts. SBA's responsibilities include the following activities of SBA Procurement Center Representatives located at federal agencies:

- Determining whether small business set-aside or sole-source awards are appropriate for a given contracting opportunity
- Identifying strategies to maximize small business participation in procurements
- Advocating for the maximum possible utilization of small business concerns in government contracting

Procuring federal agencies have a separate set of requirements under 13 C.F.R. § 125.2, including requirements to foster small business participation, requirements for market research to determine the type and extent of small business contracting participation in the future, and requirements for the development of a proposed acquisition strategy. In addition, Small Business Specialists, Offices of Small and Disadvantaged Business Utilization, and Offices of Small Business Programs at the procuring agency have a series of defined responsibilities and functions, including minimizing, bundling, and consolidating scope in contracting and conducting annual reviews to determine the extent to which small businesses are receiving their fair share of procurements.

Under 13 C.F.R. § 125.2 there are also limitations on contract consolidation and bundling, in addition to a series of notification requirements when bundling or consolidation of contracts takes place. Other portions of 13 C.F.R. § 125.2 provide additional scope and structure for multiple-award contracts and the setting aside of specific contracting opportunities for small business concerns.

[5] 13 C.F.R. § 121.101. Receipts-based size standards include, for example: $39.5 million (or less) for NAICS 236115, new single-family housing construction (except for-sale builders), and $22.0 million (or less) for NAICS 453910, pet and pet supplies stores. Employee-based size standards include, for example: 750 employees (or fewer) for NAICS 212391, potash, soda, and borate mineral mining, and 500 employees (or fewer) for NAICS 327390, other concrete product manufacturing.

[6] 13 C.F.R. § 125.3(b).

3.3.2 Subcontracting Assistance (13 C.F.R. § 125.3)

In 13 C.F.R. § 125.3, the government outlines a series of responsibilities for prime contractors, contracting officers, and SBA Commercial Market Representatives (CMRs) aimed at practicably maximizing small business subcontracting opportunities in federal procurements.

For prime contractors, 13 C.F.R. § 125.3 outlines a series of requirements and encouraged actions, such as breaking out contract work into smaller, economically feasible units; conducting market research to identify opportunities for small business participation; and soliciting small business concerns early in the acquisition process. A series of additional requirements for non-small prime contractors are also codified.

Contracting officer responsibilities under 13 C.F.R. § 125.3 focus on evaluating prime contractor compliance with subcontracting plans, including evaluating efforts to comply with the prime contractor requirements described above.

CMR responsibilities under 13 C.F.R. § 125.3 consist of facilitating the matching of non-small prime contractors with small business concerns for subcontracting purposes. Many of these responsibilities are addressed by counseling non-small prime contractors on their responsibilities and counseling small business concerns on marketing aimed at non-small prime contractors.

Also outlined and codified in 13 C.F.R. § 125.3 are standards for compliance reviews of small business utilization in subcontracting, subcontracting consideration in source selection, subcontracting use in multiple-award contracts, and subcontracting use in bundled and consolidated contracts.

Separately, 13 C.F.R. § 125.6 describes limitations on subcontracting applicable to prime contractors.

3.3.3 Government Property Sales Assistance Program (13 C.F.R. § 125.4)

The Government Property Sales Assistance Program aims to assist small businesses in obtaining federal property that has been disposed of, sold, or leased, including using set-asides and providing counseling to small businesses where appropriate. This program is focused on timber products, strategic materials from national stockpiles, oil royalties, and mineral rights, but may also include any other type of property.

3.3.4 Certificate of Competency Program (13 C.F.R. § 125.5)

The COC program governs the use of a written instrument certifying that one or more specifically named small business concerns are responsible for carrying out the work in a specific federal government procurement. The purpose of the COC, and the program, is to allow for appeal and reconsideration of situations in which the low bidder in a given procurement is not given the award due to the perception, belief, or judgment that said low bidder could not perform the work. Applying for a COC initiates a review of the low bidder’s eligibility and qualifications. After the array of requirements and review tasks in 13 C.F.R. § 125.5 are considered, the granting of the COC entails the awarding of the procurement in question to the entity that receives it. The text in 13 C.F.R. § 125.5 also provides numerous protocols for COC decision making, reconsideration of COCs after issuance, monitoring of COC-receiving entities, and notifications regarding steps in the COC process.

3.3.5 Establishment and Revision of Acquisition-Related Dollar Thresholds (13 C.F.R. § 125.7)

The text of 13 C.F.R. § 125.7 grants to the Federal Acquisition Regulatory Council the responsibility of adjusting acquisition-related dollar thresholds across the Government Contracting Programs (13 C.F.R. § 125 as a whole) on October 1 of every 5th year.

3.3.6 Small Business Mentor-Protégé Program (13 C.F.R. § 125.9)

Under 13 C.F.R. § 125.9, rules are established to govern SBA's Small Business Mentor-Protégé Program. This program is designed to enhance the capabilities of protégé firms by requiring approved mentors to provide business development assistance to these firms and to improve their ability to successfully compete for federal contracts. Assistance may be technical or management related, but may also take the form of financial assistance (equity investments and/or loans), subcontracts, or assistance performing on prime contracts through joint venture arrangements.[7] In exchange for the mentorship provided, the mentor receives the ability, as described in 13 C.F.R. § 125.9(d), to engage in federal government contract and subcontract opportunities, including small business set-asides, as part of a joint venture with their protégé.

The text of 13 C.F.R. § 125.10 separately delineates a series of regulations for Mentor-Protégé Programs of other federal agencies.

3.3.7 Service-Disabled Veteran-Owned Small Business Concern Program (13 C.F.R. § 125.11–31)

Some federal contracting opportunities are limited to SDVOSBCs. The Federal Government's goal is to award 3 percent of all federal contracting dollars to SDVOSBCs each year. Eligibility requirements for SDVOSBCs include qualification as a small business, 51 percent ownership and control by one or more service-disabled veterans, day-to-day and long-term decision making in the hands of service-disabled veterans, and the ability to demonstrate a service-connected disability.

3.4 Types of Contracts

The Government Contracting Programs apply to all types of federal contracts, including prime contracts, subcontracts, orders, and property sales.[8] The programs set limitations on contract bundling and conditions for setting aside multiple-award contracts to help small business concerns compete in the acquisition process.[9] Additionally, the program allows SBA to identify acquisitions in which a sole-source award or set-aside is appropriate, and to identify strategies to maximize the participation of small businesses in the procurement process.[10]

[7] 13 C.F.R. § 125.8 separately provides requirements and regulations applicable to joint ventures in the context of small business set-asides.

[8] 13 C.F.R. § 125.2(a)(1).

[9] 13 C.F.R. § 125.2(d)-(e).

[10] 13 C.F.R. § 125.2(b)(1)(i).

4 Affected Universe

4.1 Potential Affected Universe

SBA's Government Contracting Programs have the potential to affect any small business in the United States, as defined by SBA size standards.[11] As of 2018, there were 30.2 million small businesses in the United States.[12]

4.2 Actual Affected Universe

Table 1 shows the average participation of firms in various subgroups or subprograms between 2017 and 2019, approximating the number of firms in the affected universe. For the different business types, WOSBs and SDVOSBs, participation values indicate the average number of firms of that type that have been awarded federal contracts between 2017 and 2019.

Table 1: Average Number of Participating Firms for Various Government Contracting Subprograms

SBA Government Contracting Programs: Business or Participation Type	Average Number of Participating Firms or Activities, 2017–2019[a]
EDWOSBs	28,490
SDVOSBCs	16,018
Government Property Sales Assistance Program	498
Protégé Firms (in the Mentor-Protégé Program)	51
COC Program	72[b]

[a] Some firms may be part of multiple Government Contracting Programs (e.g., a firm may be both a WOSB and a protégé firm). The sum of the rows in this table would therefore double-count some unique participants in Government Contracting Programs.
[b] Reflects the average number of COCs granted annually between 2017 and 2019.

5 Section 610 Review Criteria

The purpose of a Section 610 Review is to determine whether a rule should continue unchanged, be discontinued, or be amended, based on its impacts and on the current market conditions. When reviewing a rule, the following criteria are considered:

- The continued need for the rule
- The nature of complaints and comments about the rule from the public
- The complexity of the rule
- The extent to which the rule overlaps, duplicates, or conflicts with other federal rules (or, if applicable, with state and local rules)
- The length of time since the last review of the rule, or the degree to which technology, economic conditions, or other factors have changed the area affected by the rule

The findings for each of these criteria are discussed throughout this section.

[11] https://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf.

[12] SBA, Office of Advocacy, 2018 Small Business Profile, https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf.

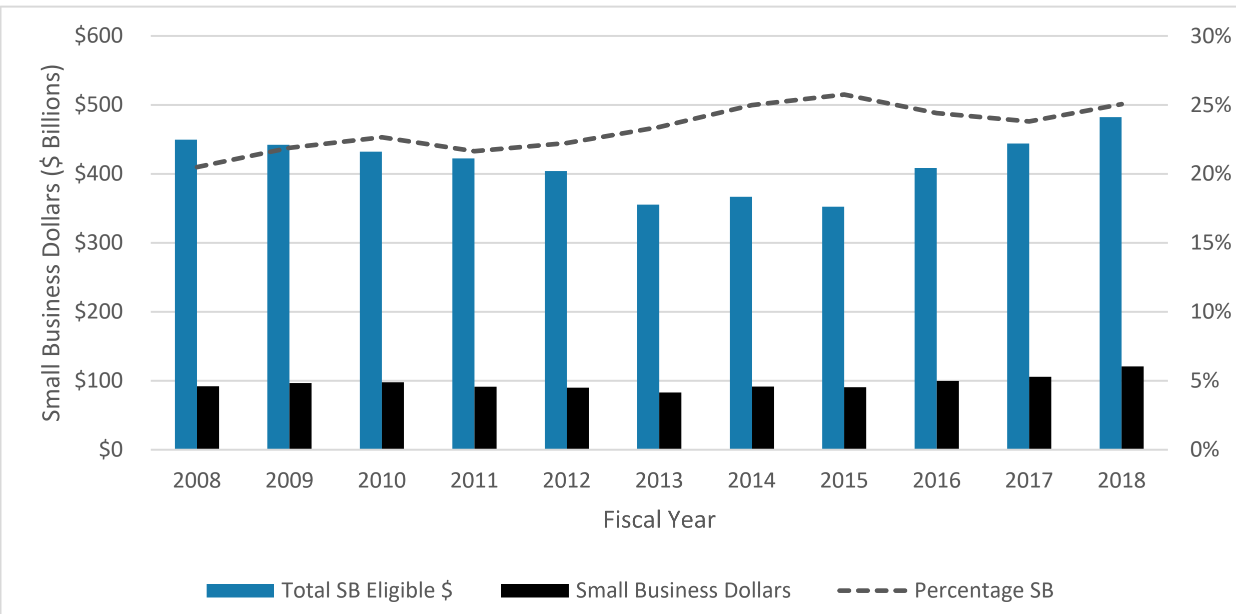
5.1 Discussion of Continued Need

This section begins with a broad overview of small business participation in the Government Contracting Programs. Then it uses program-specific data for SBA's Government Contracting Programs to assess the functioning of and continued need for those programs. The initial need for SBA's Government Contracting Programs, as codified in the *Federal Register* in 1996, was to assist small businesses in obtaining a fair share of federal government contracts, subcontracts, and property sales.

5.1.1 General Trends

Total federal contracting dollars available to be obligated to all small businesses have remained generally stable between 2013 and 2018, as shown in **Figure 1**. Federal contracting dollars actually received by small businesses have also remained stable, indicating continued use of various programs under the government contracting umbrella.[13] Small businesses received more than $100 billion in federal contracts beginning in 2017, indicating growth of the program.[14] The proportion of federal contracting dollars received by small businesses to total available federal contracting dollars has averaged approximately 23 percent between 2008 and 2018, consistently surpassing the predetermined government-wide goal of 23 percent. Industry-level trends based on the NAICS codes of small businesses engaged in federal contracting show similar trends for small business obligations over time.

Figure 1: Small Business Overall 10-Year Performance Trend



While this broad trend represents wide participation of small businesses in government contracts, examining program-specific and service-specific data yields additional insights into the continued need for specific programs under the government contracting umbrella. The following subsections investigate the trends in specific programs and services.

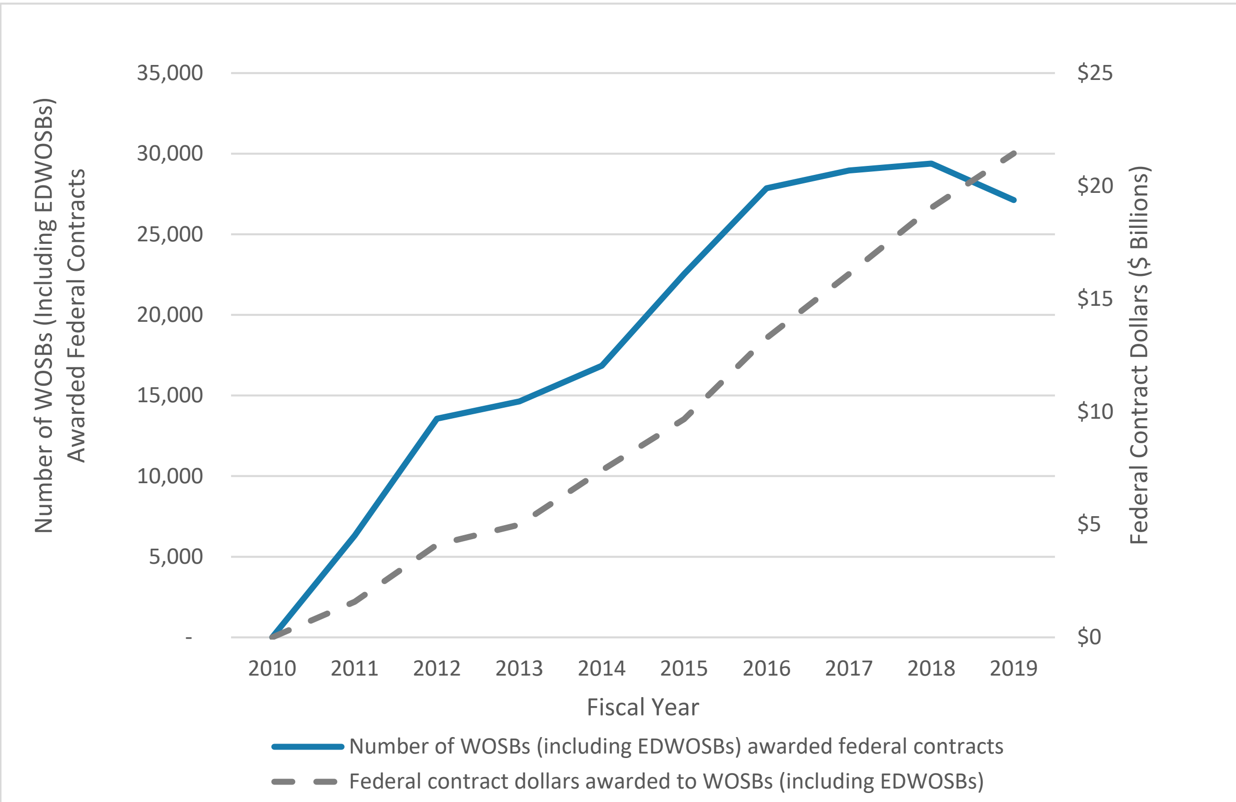
[13] An industry-level examination using federal contracting dollars obligated to small businesses, by NAICS code, shows trends similar to those shown in Figure 1 across the broad array of NAICS codes.

[14] SBA Scorecard FY2018.

5.1.2 Women-Owned Small Businesses

WOSBs have increasingly participated in government contracting over the last 10 years. Figure 2 shows that the number of WOSBs, including EDWOSBs, that were awarded federal contracts has increased sharply in the last decade, doubling between 2011 and 2013, and then doubling again between 2013 and 2017. **Figure 2** also shows a similar sharp increase in federal contract dollars awarded to WOSBs. While the number of WOSBs receiving federal contracts has generally increased over the last decade, the available data show a decrease in that number in 2019 relative to prior years.[15]

Figure 2: Participation of WOSBs in Federal Contracting

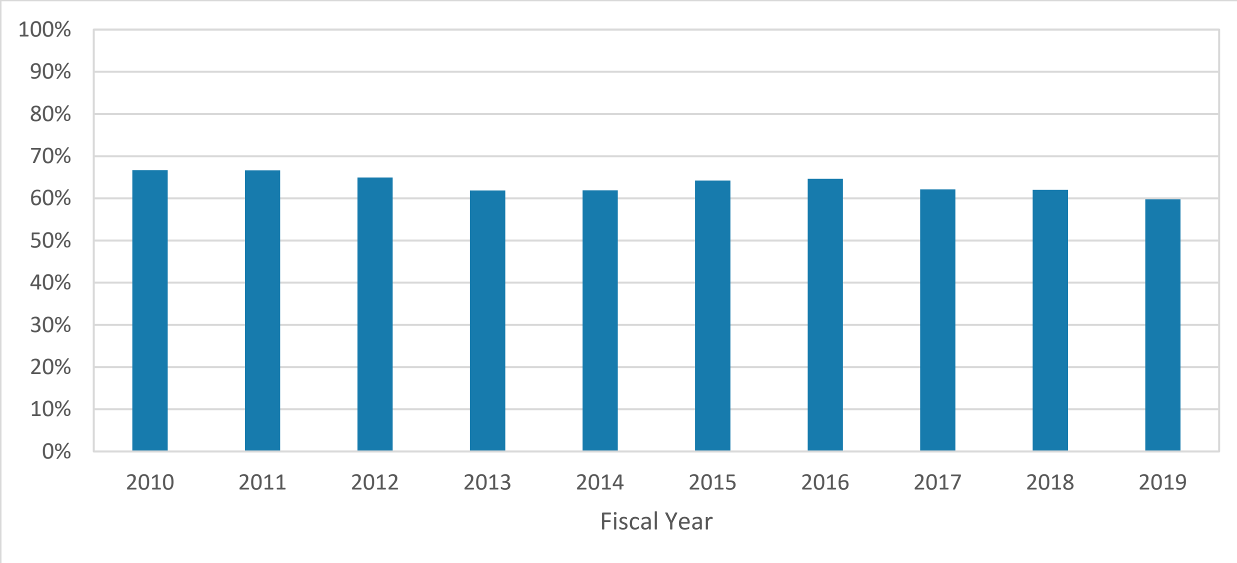


Among WOSBs, the proportion that have been awarded a federal contract in any given year has remained stable over the last decade. **Figure 3** shows that the percentage of the total (self-reported) WOSBs (including EDWOSBs) that have received a federal contract has been around or over 60 percent for the last 10 years. Consistent participation in government contracting by WOSBs demonstrates that this program continues to be in use and in demand.[16]

[15] While it is possible that revised 2019 data may reverse or ameliorate this downturn, there is no indication that the 2019 data relied upon in preparing this document are incomplete or require revision or supplementation.

[16] Ideally, a conclusive analysis would consider this trend against internal and external SBA targets in the proportion of WOSBs and/or EDWOSBs that received a federal contract in a given year, and the examination of the trend holistically since the inception of the WOSB and EDWOSB certification programs. In the absence of these data, the rates over the last decade have been relatively stable.

Figure 3: Proportion of WOSBs (including EDWOSBs) Awarded at Least One Federal Contract

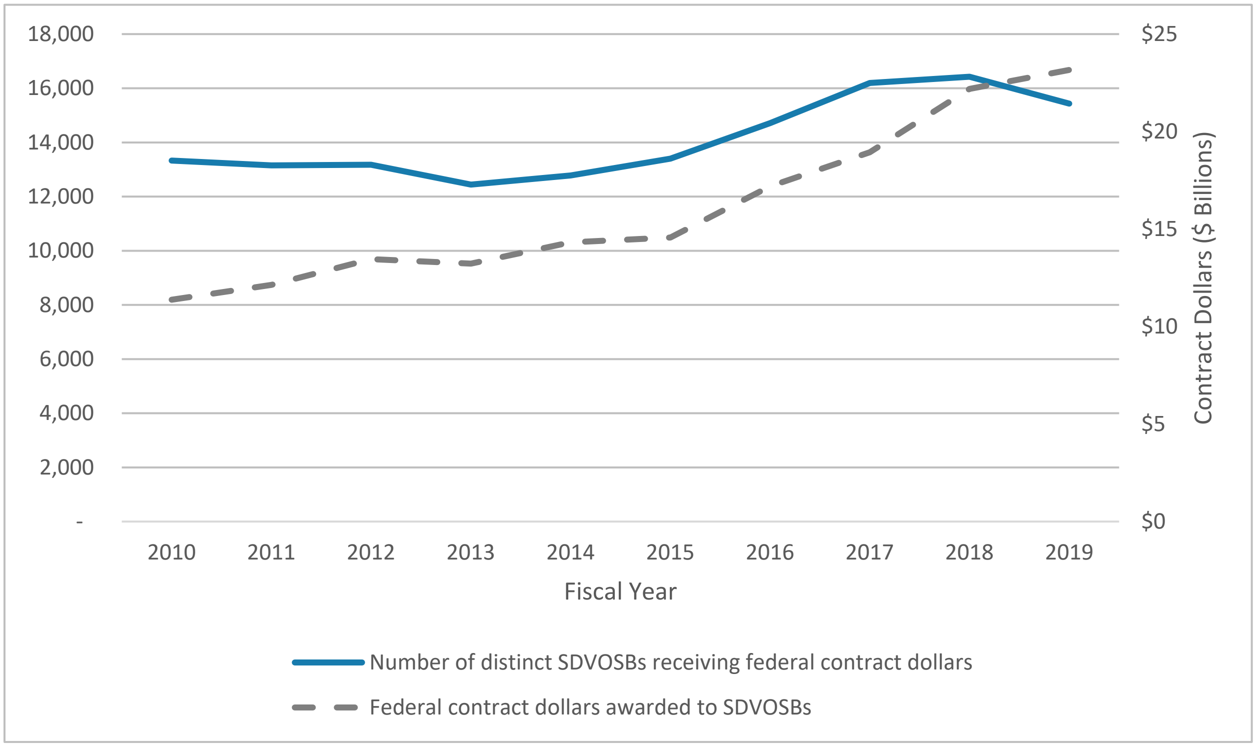


5.1.3 Service-Disabled Veteran-Owned Small Businesses

SDVOSBs have increasingly participated in federal contracting in the last decade. Figure 4 shows that the number of SDVOSBs receiving federal contract dollars generally increased from 2010 through 2017, and more recently, has plateaued and remained relatively steady.[17] **Figure 4** also shows that the federal contract dollars awarded to SDVOSBs have increased steadily over this period, with substantial increases between 2015 and 2018.

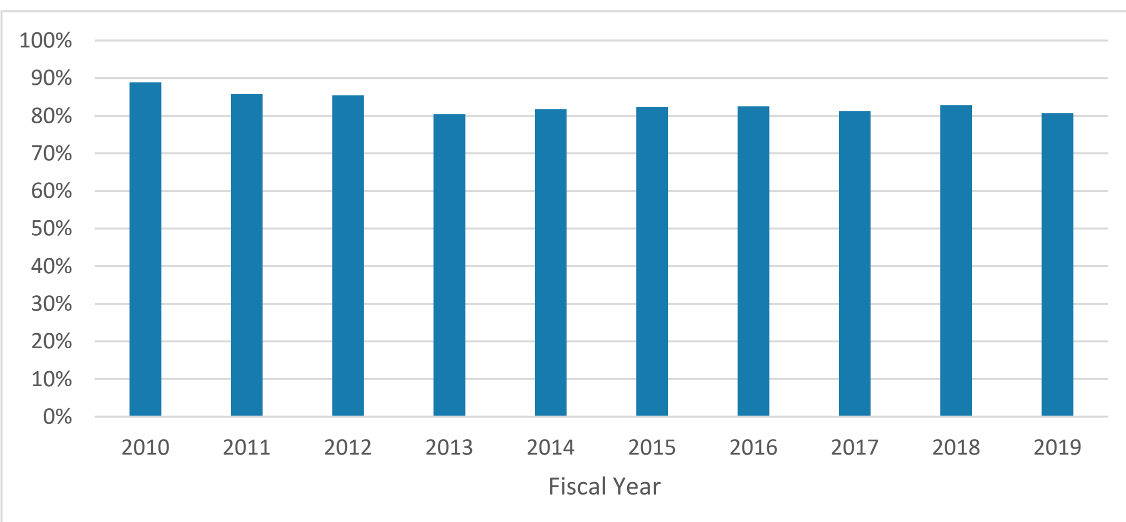
[17] While it is possible that revised 2019 data may result in a trend different from the presently observed plateau, there is no indication that the 2019 data relied upon in preparing this document are incomplete or require revision or supplementation.

Figure 4: SDVOSBC Program Participation



The percentage of (self-)certified SDVOSBs that receive federal contract dollars has remained around or above 80 percent for the past 10 years, as shown in **Figure 5**. Similar to WOSBs and EDWOSBs, high participation among SDVOSBs in government contracting indicates that this program remains in high use and demand.[18]

Figure 5: Percentage of SDVOSBs Awarded at Least One Federal Contract

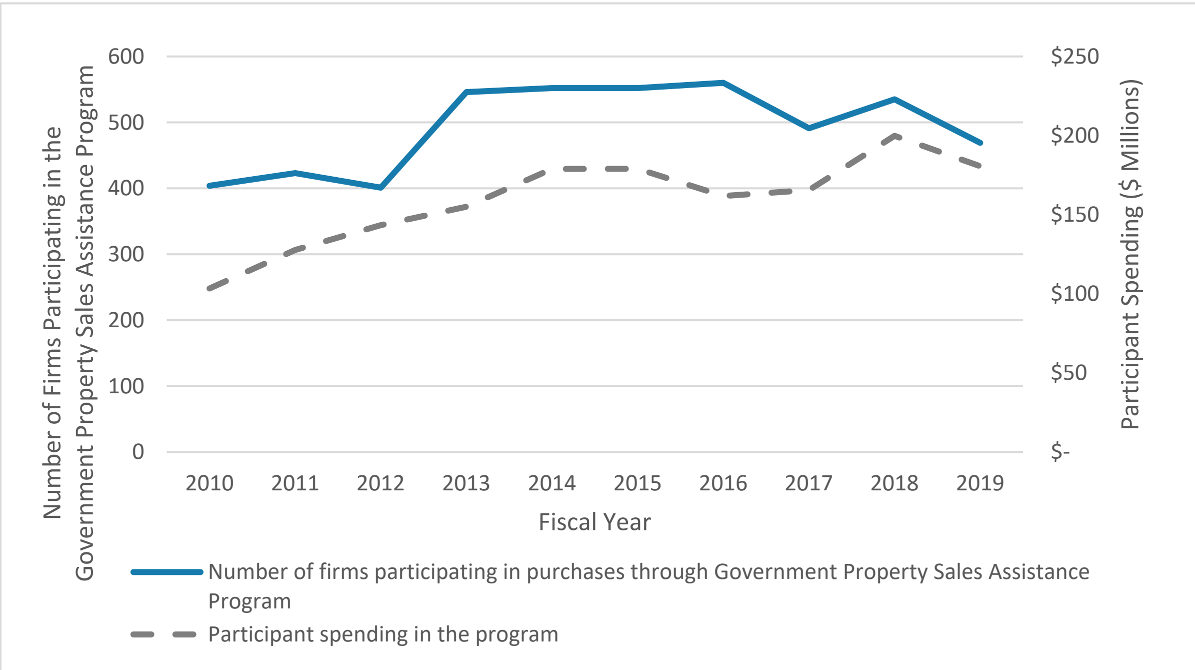


[18] Ideally, a conclusive analysis would consider this trend against internal and external SBA targets for the proportion of SDVOSBs that received a federal contract in a given year, and the examination of the trend holistically since the inception of the SDVOSB certification program. In the absence of these data, the rates over the last decade have been relatively stable.

5.1.4 Government Property Sales Assistance Program

Figure 6 shows that the number of firms participating in the Government Property Sales Assistance Program has been relatively stable over the last 10 years. In this timeframe, spending among participating firms has increased, demonstrating some growth of the program. While the program's long-term trend is stable, there was a recent decrease in both the number of participating firms and participant spending in the program in 2019 relative to 2018.[19]

Figure 6: Participation in the Government Property Sales Assistance Program



5.1.5 Mentor-Protégé Program

The Mentor-Protégé Program has shown declining levels of participation by protégé firms. However, the remaining participating protégé firms appear to be increasingly effective in winning contracts. **Table 2** shows that the number of firms entering and completing the Mentor-Protégé Program has been decreasing in the last 5 years, with only 23 protégé firms participating in 2019.

[19] Timber products sales make up the largest portion of program participants. With the current trend of industry consolidations, SBA is seeing more Small Business timber products participants transition to Other Than Small. At the same time, SBA is not seeing any significant increase in Small Business timber products purchasers. As a result, the number of participants in the Property Sales Assistance Program and the consistency of participation may be subject to a downward trend for the future.

Table 2: Participation in the Mentor-Protégé Program

Fiscal Year	Number of firms that entered the Mentor-Protégé Program
2015	73
2016	121
2017	93
2018	37
2019	23

Note: In 2017, one of the 93 firms that entered the program did not complete it. Otherwise, all firms entering the program from 2015 through 2019 have completed it.

Despite decreasing levels of participation in the program, the contract dollars awarded to firms participating in the Mentor-Protégé Program are increasing. **Table 3** shows the dollars awarded to protégé firms in various contract categories. Across each of these categories, the number of contract dollars awarded to protégé firms has increased over time, indicating that despite lower participation in the program, there has been growth in the number and/or size of contracts received by participating protégé firms.

Table 3: Contract Dollars ($ Millions) Awarded to Protégé Firms, by Contract Category

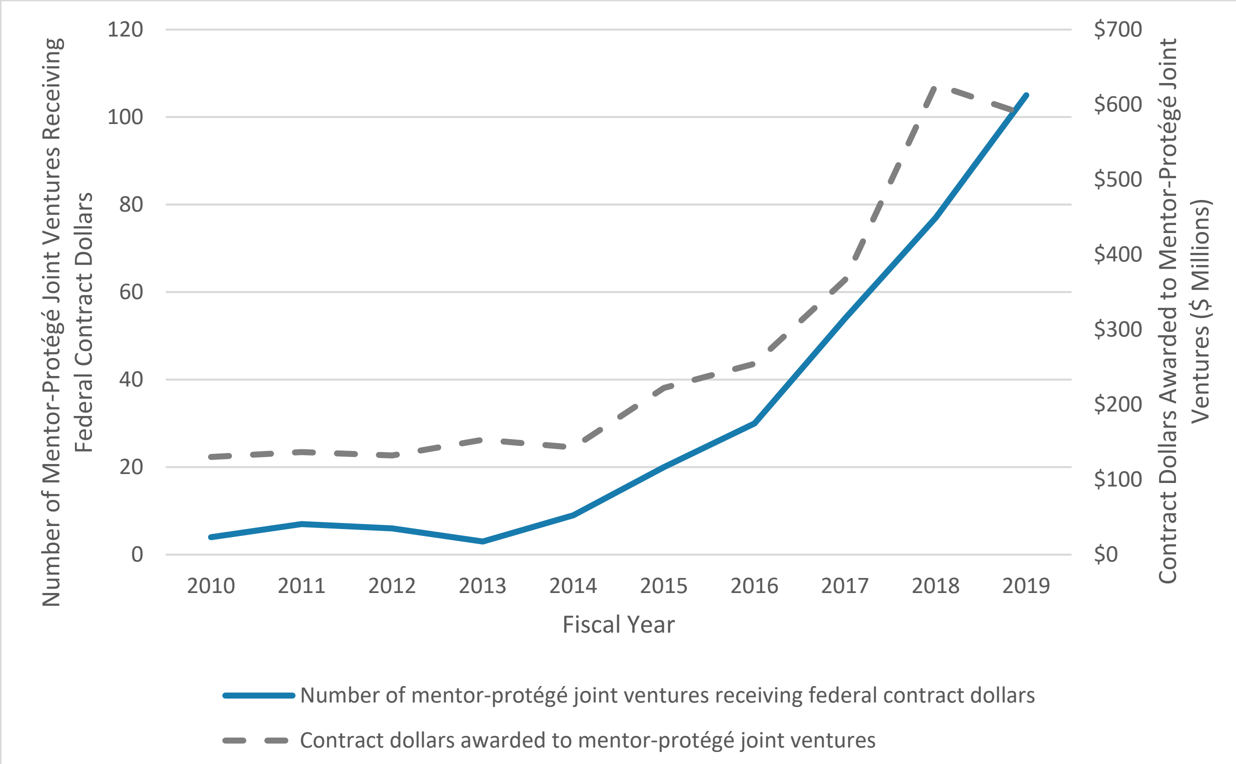
Fiscal Year	Protégé Firms	Protégé Firms as Set-Asides	Mentor-Protégé Joint Ventures as Set-Asides	Protégé Firms as Sole-Source	Mentor-Protégé Joint Ventures as Sole-Source
2015			$84.2		$4.8
2016			$107.6		$4.1
2017	$1,102.3	$298.3	$184.8	$622.9	$15.2
2018	$1,407.8	$383.1	$291.5	$751.5	$35.3
2019	$1,721.6	$582.8	$305.9	$815.0	$43.2

Gray-shaded cells (empty) reflect categories for which data were not available for the given fiscal year.

One possible explanation for the phenomenon of decreasing participation but increasing contract dollars awarded is that the Mentor-Protégé Program has improved in how it supports protégé firms, increasing the number and size of contracts that participating protégé firms are winning despite lower overall interest and/or ability to participate in the program. Given these trends, SBA may benefit from further investigation of this program in the future; to the extent the future economic landscape continues to warrant government contracting support for small businesses, the Mentor-Protégé Program's ability to secure greater award amounts for its participants in the face of declining overall participation may render it a model to build upon for future SBA programs.

The specific contract category that has seen the most growth is mentor-protégé joint ventures. **Figure 7** shows that both the number of mentor-protégé joint ventures receiving contract dollars and the amount of contract dollars awarded to these joint ventures have increased sharply in the last decade, especially since 2013 to 2014.

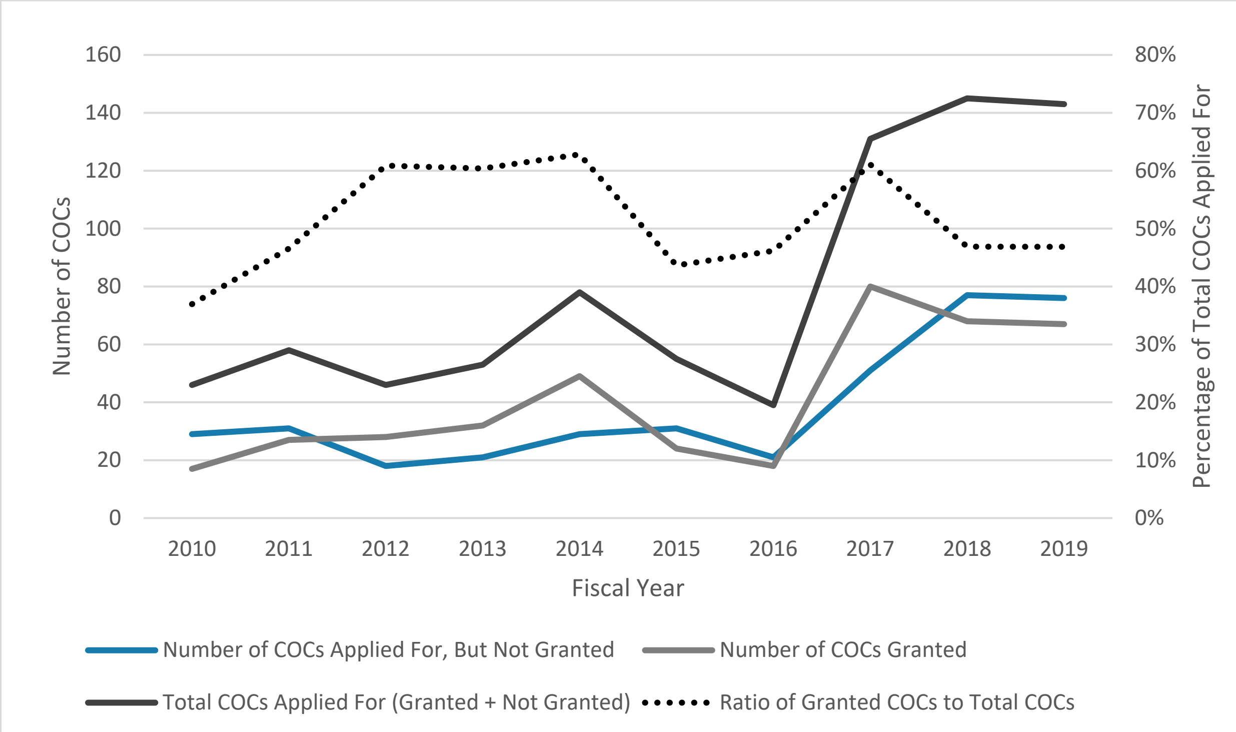
Figure 7: Participation of Mentor-Protégé Joint Ventures in Federal Contracting



5.1.6 Certificate of Competency Program

The COC program fulfills a specific need for small businesses in the Government Contracting Programs; **Figure 8** shows that the total number of COC applications has generally increased, suggesting demand for the program. The numbers of COC applications both granted and not granted have been increasing, contributing to the total increase in COC applications. From 2017 to 2019, the overall number of COCs, both granted and not granted, has plateaued.

Figure 8: Proportion of Total COCs Granted and Not Granted



5.1.7 Future Outlook

While the broad trends of participation and spending in the Government Contracting Programs have remained steady over the past decade, participation by some specific types of firms has been declining in recent years.

WOSB participation in government contracting, the number of firms participating in the Mentor-Protégé Program, and the number of firms participating in the Government Property Sales Assistance Program have all been decreasing in recent years. Since the long-term, 10-year trends for these programs indicate stability, it is unclear whether these recent data points have introduced long-term downward trends. Given the onset of the COVID-19 pandemic and the associated economic disruption, the potential for these trends to extend into the future, and their relevance in terms of continued need, has been substantially diminished. Rather, continued need for programs and services under SBA's government contracting umbrella will be driven in the immediate future by small businesses attempting to persist through the current economic disruption and maintain economic viability in the face of multiple economic pressures from both the supply side (labor markets) and the demand side (decreased economic demand). Therefore, the issues described above notwithstanding, SBA will likely need to reassess participation in, and demand for, its programs and services going forward, given the pandemic's widespread and ongoing impact. In brief, the pandemic's effects on small businesses are not captured in these retrospective data. COVID-19 will likely have widespread implications for small businesses and their need for the gamut of SBA programs; SBA will thus need to reassess its programs using updated data that accounts for the pandemic's effects.

5.2 Complaints, Comments, and Issues

Section 610 of the Regulatory Flexibility Act requires a review of any complaints, comments, or other reactions from the public. As part of this component, this review focused on documents from various sources, including a report by the Interagency Task Force on Federal Contracting Opportunities for Small Businesses (co-chaired by SBA, the Office of Management and Budget, and the Department of Commerce, and including participation by 12 other federal agencies).[20] While the Government Contracting Programs continue to assist thousands of small businesses in winning billions of dollars in federal contracts each year, the sources reviewed have identified several challenges that could be overcome to further strengthen the program. The subsections below summarize the relevant findings by category, based on the theme of the complaint or issue.

5.2.1 Unclear Small Business Contracting Policies

The Interagency Task Force identified unclear small business contracting policies as a key weakness that hampered the use of existing small business contracting programs and reduced the opportunities such programs intend to provide for small businesses, a finding that applied across the array of federal agencies that engage in procurement through contracting. The Task Force noted that as task order and delivery order contracts have increased in popularity, many of the policies in the Government Contracting Programs fail to actually help small businesses. While existing set-aside requirements apply to the initial award of task order and delivery order contracts, such contracts generally are not set aside because they typically are broad in scope and small businesses often lack the capacity to perform all the work that might be required during the life of the award. The Task Force also noted other ongoing challenges related to aspects such as unjust contract bundling, general underutilization of the Mentor-Protégé Program, and a lack of strength of current policy and practice regarding small business subcontracting plans.[21]

In a September 2015 review, the Government Accountability Office (GAO) found that more than half of SBA's standard operating procedures needed to be revised (including those for the Women's Business Ownership program) or eliminated (including the *Veterans Small Business Training Guide*).[22,23]

5.2.2 Lack of Accountability for Meeting Small Business Goals

In the same report, the Interagency Task Force also noted that while there is a government-wide goal of increasing small business contracting, there has been uneven progress in meeting this goal across agencies, and agency leaders are not held accountable when targets are not met. Additionally, while many agencies have developed best practices for increasing opportunities for small businesses, information often is not effectively communicated between (or within) agencies, and promising practices are not used consistently.[24] Notably, the Government Contracting Programs do not focus on

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[20] Interagency Task Force on Federal Contracting Opportunities for Small Businesses, "Report on Small Business Federal Contracting Opportunities," p.2.

[21] Interagency Task Force on Federal Contracting Opportunities for Small Businesses, "Report on Small Business Federal Contracting Opportunities," pp. 8–15.

[22] Government Accountability Office, "Leadership Attention Needed to Overcome Management Challenges," GAO-15-347, September 2015, Executive Summary, p. 2.

[23] SBA stated that all standard operating procedures in the Office of Government Contracting are current as of 2018.

[24] Interagency Task Force on Federal Contracting Opportunities for Small Businesses, "Report on Small Business Federal Contracting Opportunities," pp. 16–17.

the potential to increase the competitiveness of small businesses by increasing accountability of federal agencies for supporting small business contracting.

5.2.3 Insufficient Use of Technology

The Interagency Task Force report also noted that the technological and data systems in the current federal acquisition environment are "cumbersome and inaccessible" for many small businesses, especially those new to these systems. Difficulties in using the current data systems may contribute to errors.[25] The report recommended the use of FedBizOpps as a one-stop-shop application in lieu of a patchwork of other competing data systems.

5.2.4 Organizational Challenges within SBA

A GAO September 2015 report describes broad organizational challenges within SBA, noting that frequent turnover of political leadership in the Federal Government (including at SBA) has made sustaining attention to necessary changes difficult, and that senior SBA leaders have not prioritized long-term organizational transformation. The report further notes that SBA's organizational structure has created "complex overlapping relationships among offices that have contributed to challenges in program oversight."[26] These types of organizational challenges may be particularly relevant to programs under the umbrella of 13 C.F.R. § 125, given the reality that the Government Contracting Programs consist of multiple overlapping programs with similar aims, and that the regulations within 13 C.F.R. § 125 also govern and/or affect SBA programs under other parts of Title 13 of the C.F.R., such as the 8(a) Program and the HUBZone program.

5.3 Program Complexity

Because the Government Contracting Programs encompass other SBA programs, small businesses that wish to pursue government contracting opportunities find themselves facing a complex array of overlapping programs, services, and regulatory requirements. Small businesses must be familiar with not only the general Government Contracting Programs, but also more specific programs that may be applicable to them—and of how these differ.

As described throughout this document, an array of distinct (self-)certification programs, services, and guidelines all fall under the government contracting umbrella. While this array allows for targeted support and set-asides for specific types of small businesses, it also has the potential to result in the fragmentation of the purpose of the government contracting umbrella as a whole, which, broadly, intends to assist *all* small businesses in competing for and receiving federal contract dollars. In the future, SBA will likely continue to navigate the potential tension between organizational goals that apply broadly to small businesses and an array of targeted but overlapping programs whose participants represent only a small percentage of the small businesses in the United States.

5.4 Overlapping of, Duplication of, and Conflict with Other Programs

In addition to the array of services provided under the umbrella of SBA's Government Contracting Programs under 13 C.F.R. § 125, SBA also administers other programs to assist specific types of small

[25] Interagency Task Force on Federal Contracting Opportunities for Small Businesses, "Report on Small Business Federal Contracting Opportunities," pp. 18–20.

[26] Government Accountability Office, "Small Business Administration: Leadership Attention Needed to Overcome Management Challenges," GAO-15-347: published September 22, 2015; publicly released October 28, 2015.

businesses under other parts of Title 13 of the C.F.R. While the Government Contracting Programs focus specifically on assisting small businesses in competing for and securing federal contracts and property, these other programs also include other activities beyond contracting assistance. The data and exhibits in Section 4.1.1, which show general government contracting trends, are inclusive of support received by small businesses from these other programs, examples of which include the following:

- The 8(a) Business Development Program provides a broad scope of assistance for small disadvantaged businesses (i.e., businesses that are owned and controlled at least 51 percent by socially and economically disadvantaged individuals). Examples of assistance under the 8(a) Program include the awarding of sole-source contracts, assistance in building institutional knowledge, specialized training, and loans.
- HUBZone is a place-based program for businesses in areas that are historically underutilized, based on their principal office location. Businesses must be 51 percent owned and controlled by U.S. citizens or an Indian tribe, and 35 percent of the employees must reside in the HUBZone.
- SDVOSBC is a program for veteran-owned businesses that assists with competitive and sole-source contracts. The Department of Veterans Affairs determines eligibility based on disability, and SBA makes the determination based on size. This program is governed by 13 C.F.R. § 125 but is not considered a primary component of the Government Contracting Programs.
- The WOSB and EDWOSB contracting programs provide opportunities for women-owned businesses. To participate, a business must be owned by an American citizen and be 51 percent owned and directed by women, with women managing the day-to-day and long-term business decisions and operations and a woman holding the highest position. To qualify for the EDWOSB program, there are additional thresholds for net worth, income, and fair market value of assets.[27, 28]

There is some concern that these programs (specifically the HUBZone and 8[a] programs) may compete with each other and diminish each other's effectiveness.[29] Coupled with the administrative burden of having different staff and certification procedures for each of these programs, this concern suggests some efficiencies may be gained by streamlining the programs discussed above.

With all these programs available to small business owners, each with different requirements for participation and different application processes, it may be difficult for individual businesses to understand:

- Which programs they qualify for
- Whether they can qualify for multiple programs
- The different benefits of each program
- How to apply for the programs
- Whether they should apply for multiple programs

[27] https://www.sba.gov/sites/default/files/articles/Government_Contract_Briefing_1.pdf.

[28] Government Accountability Office, "Leadership Attention Needed to Overcome Management Challenges," GAO-15-347, September 2015, Executive Summary, p. 2.

[29] https://fas.org/sgp/crs/misc/R41268.pdf, p. 7.

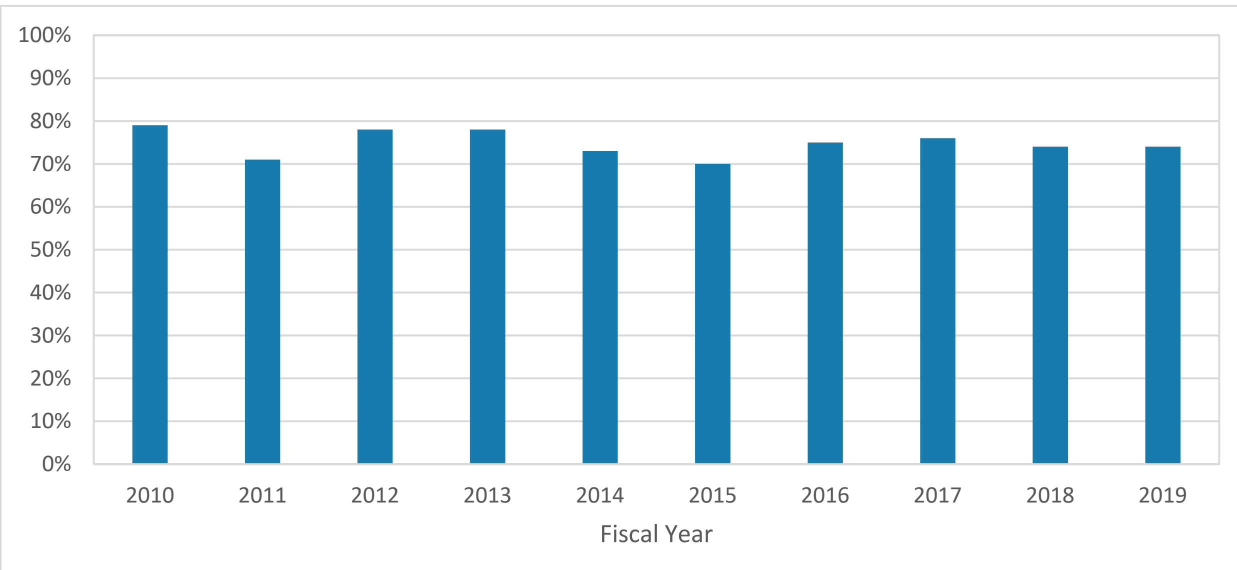
While the programs do serve different populations, it is possible there will be overlap, or confusion among interested parties in understanding the intricacies. SBA offers a tool that allows businesses to quickly determine whether they are potentially eligible for the 8(a) Program, the WOSB program, the EDWOSB program, or the HUBZone program.[30] While the tool does not make a final determination of eligibility, it allows users to narrow the programs they may be eligible for, and provides links to instructions on how to apply for the programs.

5.5 Changes in the Market and Economic Factors

5.5.1 Government Property Sales Assistance Program

Figure 9 indicates that the percent of government property purchased by small businesses has remained stable over the past decade. Consistently, about 70 percent of government property sold each year is purchased by small businesses, indicating continued use of the Government Property Sales Assistance Program.

Figure 9: Percent of Government Property Sold to Small Businesses



5.5.2 Certificate of Competency Program

The contract dollars associated with COCs have been increasing, as shown in **Table 4**. There was a sharp, one-time increase in 2017 (highlighted in Table 4), but they otherwise seem to have been generally increasing over the last 10 years.

The 2017 spike in contract dollars associated with COCs can be attributed to six contracts in SBA's geographic Area V, all under NAICS code 54 (Professional, Scientific, and Technical Services). In 2017, the COC program helped a business win a significantly larger contract (or set of contracts) than is usual for the program, which did not occur in years prior to or following 2017.

[30] https://certify.sba.gov/am-i-eligible#top.

Table 4: Millions of Contract Dollars Associated with COCs

Fiscal Year	Contract Dollars Associated with COCs ($ millions)
2010	$29.0
2011	$96.9
2012	$89.0
2013	$49.5
2014	$166.5
2015	$137.7
2016	$998.7
2017	$30,414.7
2018	$1,073.0
2019	$1,071.0

The contract dollars associated with COCs for each NAICS code, with the exception of NAICS code 54, generally reflect this broader trend. The NAICS codes with the largest values of COC contract dollars, such as 54, 31-33 (Manufacturing), and 23 (Construction), show stability or slight increases in COC contract dollars over the last decade. Most NAICS codes, even at the two-digit level, do not feature reported COC contract dollars for every year, so a trend cannot be assumed from their data. Additionally, there are a significant number of COC contract dollars that are reported without any NAICS code at all, suggesting difficulty in confirming sector-level trends in COC application and receipt rates.

6 Analytic Review

SBA's programs often target specific subsets of the small business universe that are not participating in the market at the levels that would be expected absent structural market limitations. For example, the 8(a) Program provides technical assistance and training to businesses owned by socially and economically disadvantaged citizens who have historically had less access to capital and markets, while the HUBZone program provides assistance to businesses located in (and employing workers residing in) historically underutilized business zones. Assessing the effects and successes of each program requires program-specific data and analyses (e.g., comparison of the performance of similar businesses receiving 8(a) assistance versus those not receiving assistance or tracking the proportion of federal contracting dollars received by HUBZone program participants over time). Program-specific data aside, this section examines potential high-level effects of SBA's entire program portfolio using sector- and economy-level data, assessing the relative performance of small businesses compared to the rest of the economy. This comparison helps establish a baseline for contextualizing trends in the viability and performance of small businesses.

6.1 Market Concentration: Concentration Ratios

In economics, a "concentration ratio" is a numerical representation of the proportion of a given market or sector captured by the biggest firms in that sector. The less concentrated a market or sector, the more competitive it is, and the greater the share of the market held by small businesses. Less concentrated sectors may also have lower barriers to entry and fewer obstacles to financial success than more concentrated sectors. Concentration ratios are defined on a "number of firms" basis (e.g., the "Four-Firm Concentration Ratio" measures the total market share of the four largest firms in a sector, the "Eight-Firm Concentration Ratio" measures the total market share of the eight largest firms, etc.). Concentration ratios for many (but not all) sectors are available from the Economic Census, which is published every 5 years: Economic Census data are available for 1997, 2002, 2007, and 2012, with the 2017 data due for release in the immediate future.[31] Market concentration data from the Economic Census is generally available at the two-digit NAICS level, the broadest level possible, although these data are available for the manufacturing sector (NAICS 31–33) at the three-digit level.[32] These data are only available nationally; no additional geographic resolution (e.g., state, county) is available.

An alternative to the concentration ratios is the application of the Herfindahl–Hirschman index (HHI). The HHI differs from the concentration ratio in that it is the *sum of the squares of the market shares* of the *n* largest firms in a sector, whereas the concentration ratio is purely the *sum of the market shares* of these firms. The HHI therefore gives more weight to the market shares of large firms than a concentration ratio does, highlighting those cases where a few big players dominate the market.

For the sake of simplicity and reproducibility, this section reports market concentration data using concentration ratios—at the 50-firm, 20-firm, 8-firm, and 4-firm levels—and does not use the HHI.[33] Critically, examination of the available data indicates that trends in concentration ratios across sectors generally do not vary by the chosen firm level (i.e., top 50 firms, top 20 firms, top 8 firms), with few exceptions.[34]

Note that the Economic Census does not publish concentration data for some sectors, including:

- Mining, quarrying, and oil and gas extraction (NAICS 21)
- Construction (NAICS 23)
- Management of companies and enterprises (NAICS 55)[35]

[31] Economic data included in prior Economic Censuses (i.e., those pre-1997) does not include market concentration data.

[32] Unlike every other sector, for which concentration ratio data from the Economic Census are available at the two-digit NAICS code level, concentration ratio data (and HHI data) for the manufacturing sector are available only at the three-digit level. To transform these three-digit-level data into an aggregate two-digit level figure, two analyses were considered: (1) weighting the individual year-by-year concentration ratios of each three-digit manufacturing NAICS code by relative sales revenues in 2012; and (2) weighting the change in concentration ratio between 1997 and 2012 for each three-digit manufacturing NAICS code by relative sales revenue in 2012. The results across both of these methods are relatively consistent, with the first method resulting in smaller changes in concentration ratio between 1997 and 2012 than the second method (e.g., a four percent change using the first method on a four-firm basis compared to an 18 percent chance using the second method, or a three percent change using the first method on a 50-firm basis compared to a five percent change using the second method).

[33] The HHI is only directly available from the Economic Census for the manufacturing sector (NAICS 31-33). To maintain consistency across sectors, the concentration ratio (available for all sectors with concentration data) is used instead. Given the mathematical relationship between the concentration ratio and the HHI, the HHI can be calculated and presented as needed, especially if research suggests that the quadratic nature of the HHI better aligns to other measures of industry competitiveness and barriers to entry than a linear measure such as the concentration ratio.

[34] Specifically, there is a consistent downward trend in concentration three sectors: (1) health care and social assistance (NAICS 62); (2) Arts, entertainment, and recreation (NAICS 71); and (3) other services (NAICS 81) across every firm level. Beyond these three sectors, the only sectors that show an aggregate downward trend at specific firm levels include: (4) accommodation and food services (NAICS 72), under the eight-firm and four-firm levels only; (5) real estate and rental and leasing (NAICS 53) under the eight-firm level only; (6) wholesale trade (NAICS 42) at the four-firm level only; and (7) professional, scientific, and technical services (NAICS 54) at the four-firm level only.

[35] The Economic Census publications do not specify whether the lack of concentration data stems from high concentrations in these sectors to begin with, or for another reason.

Furthermore, the Economic Census does not include agriculture, forestry, fishing, and hunting (NAICS 11) or public administration (NAICS 92), and therefore does not provide concentration data on these sectors.

The sectors considered in this section comprise approximately 75 percent of U.S. gross domestic product (GDP), according to the Bureau of Economic Analysis. The largest omission is public administration (NAICS 92), which comprises 11 percent of U.S. GDP but is not relevant to assessment of small business performance changes associated with SBA programs. Therefore, across U.S. GDP attributable to sectors for which SBA program participation may influence the viability and performance of small businesses, this analysis covers sectors comprising approximately 84 percent of GDP.

6.2 Time-Series Analysis

As Economic Census data are available for only four points in time, time-series analysis of sector concentrations using these data are relatively limited. However, arraying sector-by-sector concentration ratios allows for high-level analysis of whether industry concentration is increasing (i.e., relatively worse small business performance to the benefit of larger market actors) or decreasing (i.e., relatively better small business performance to the detriment of larger market actors). The temporal horizon of the data, from 1997 to 2012, is reasonably broad with regard to the existence of relevant SBA programs. For example, the HUBZone program was established in 1997 as part of the Small Business Administration Reauthorization Act (Public Law 105–135). Therefore, the Economic Census data roughly capture recent changes in high-level small business performance since major SBA programs have been created.

Table 5, **Table 6, Table 7,** and **Table 8** show concentration ratios by sector across the four Economic Census years for which data are available, starting in 1997. The tables also show the changes between 1997 and 2012 on both a delta and percentage change basis.[36] Each table provides concentration ratio data at a different firm level, though the trends are similar regardless of the firm level examined.

For the majority of sectors, concentration ratios have increased between 1997 and 2012. In these sectors, economic activity has become more concentrated across a handful of larger actors, and small businesses have correspondingly grown less competitive. Only in a few sectors—mainly (1) health care and social assistance; (2) arts, entertainment, and recreation; and (3) other services (except public administration)—have concentration ratios decreased over this time period, indicating increased competitiveness by small businesses. Notably, these three sectors are generally not highly involved in government contracting, suggesting the universe of small businesses that may benefit from SBA programs is more densely concentrated in sectors whose market concentrations have increased since 1997 than in the cross-section of U.S. businesses as a whole.[37]

[36] The concentration ratio is itself a percentage, reflecting the proportion of a sector comprised by the *n* largest companies. Therefore, the delta between 1997 and 2012 reflects the change in this proportion, i.e., a change in concentration ratio from 10 to 15 is a five percent increase in the overall concentration of the sector; meanwhile, the percentage change in concentration ratio from 10 to 15 is 50 percent, indicating that the concentration has increased by 50 percent relative to its previous level.

[37] For example, the U.S. Department of the Treasury's list of major contracting NAICS codes (see https://www.treasury.gov/about/organizational-structure/offices/Documents/NIACS%20Code%20Guide.v4.pdf) identifies 25 six-digit NAICS codes, none of which fall within NAICS 62, 71, or 81. The majority of these codes fall into NAICS 54 (professional, scientific, and technical services), NAICS 56 (administrative and support and waste management and remediation services), NAICS 31-33 (manufacturing), and NAICS 51 (information). Of these, only NAICS 54 has exhibited a decreased concentration ratio between 1997 and 2012 given the data in Tables 5 through 8, and even then, only at the four-firm level. (Concentration has increased in NAICS 54 at all other firm levels.)

Table 5: Market Concentration by Sector, 50-Firm Basis

Sector NAICS Code	Sector NAICS Description	%[38] 1997	%[38] 2002	%[38] 2007	%[38] 2012	Changes 1997-2012 Delta	Changes 1997-2012 % Change
22	Utilities	64.5	69.0	70.1	69.1	4.6	7%
31–33	Manufacturing	49.9	51.3	52.0	51.5	1.6	3%
42	Wholesale trade	20.3	27.2	24.9	27.6	7.3	36%
44–45	Retail trade	25.7	31.7	33.3	36.9	11.2	44%
48–49	Transportation and warehousing	30.7	33	42.7	42.1	11.4	37%
51	Information	N/A	62.0	62.0	62.3	0.3	0%
52	Finance and insurance	38.6	44.9	46	48.5	9.9	26%
53	Real estate and rental and leasing	19.5	24.4	26.1	24.9	5.4	28%
54	Professional, scientific, and technical services	16.2	16.2	18.3	18.8	2.6	16%
56	Administrative and support and waste management and remediation services	22.1	21.9	23	23.7	1.6	7%
61	Educational services	19.6	21.4	22.3	22.7	3.1	16%
62	Health care and social assistance	18.8	14.7	15.1	17.2	-1.6	-9%
71	Arts, entertainment, and recreation	21.8	19.6	19.5	19.6	-2.2	-10%
72	Accommodation and food services	21.1	23.1	23.7	21.2	0.1	0%
81	Other services (except public administration)	12.8	11.2	11.3	10.9	-1.9	-15%

Notes:
N/A = Not available; for NAICS 51, changes are shown only for 2002 to 2012.
Delta reflects the difference in concentration ratio between 1997 and 2012. As the concentration ratio is itself a percentage, it reflects the absolute change in the percentage. By comparison, the “% Change” column reflects the proportional change in the concentration ratio between 1997 and 2012.
Shaded rows (rows with a negative change value) reflect sectors in which industry concentration has *decreased* between 1997 and 2012.

[38] Percentage of Total Sales, Receipts, or Revenue

Table 6: Market Concentration by Sector, 20-Firm Basis

Sector NAICS Code	Sector NAICS Description	%[39] 1997	%[39] 2002	%[39] 2007	%[39] 2012	Changes 1997-2012 Delta	Changes 1997-2012 % Change
22	Utilities	40.6	44.9	44.5	48	7.4	18%
31–33	Manufacturing	37.1	39.2	40.2	39.5	2.3	6%
42	Wholesale trade	12.9	18.7	16.6	18.1	5.2	40%
44–45	Retail trade	18.5	23.9	25.4	27.8	9.3	50%
48–49	Transportation and warehousing	21.8	25.2	34.9	33.7	11.9	55%
51	Information	N/A	48.5	49.9	50.7	2.2	5%
52	Finance and insurance	22.6	28.2	28.5	31.6	9.0	40%
53	Real estate and rental and leasing	14.1	17.1	16.3	15.8	1.7	12%
54	Professional, scientific, and technical services	11.6	11.1	12.4	12.3	0.7	6%
56	Administrative and support and waste management and remediation services	14.2	14.9	15.2	16.7	2.5	18%
61	Educational services	13.3	15.6	15.3	15.9	2.6	20%
62	Health care and social assistance	14.2	9	9.2	10.6	-3.6	-25%
71	Arts, entertainment, and recreation	15.1	12.4	12.5	12.8	-2.3	-15%
72	Accommodation and food services	14.8	16.5	17.4	15.1	0.3	2%
81	Other services (except public administration)	8.6	7.1	7.0	7.0	-1.6	-19%

Notes:
N/A = Not available; for NAICS 51, changes are shown only for 2002 to 2012.
Delta reflects the difference in concentration ratio between 1997 and 2012. As the concentration ratio is itself a percentage, it reflects the absolute change in the percentage. By comparison, the "% Change" column reflects the proportional change in the concentration ratio between 1997 and 2012.
Shaded rows (rows with a negative change value) reflect sectors in which industry concentration has *decreased* between 1997 and 2012.

[39] Percentage of Total Sales, Receipts, or Revenue

Table 7: Market Concentration by Sector, Eight-Firm Basis

Sector NAICS Code	Sector NAICS Description	%[40] 1997	%[40] 2002	%[40] 2007	%[40] 2012	Changes 1997-2012 Delta	Changes 1997-2012 % Change
22	Utilities	22.9	24.6	22.1	25.7	2.8	12%
31–33	Manufacturing	25.6	27.5	28.2	27.5	2.0	8%
42	Wholesale trade	8.5	11.6	9.6	9.9	1.4	16%
44–45	Retail trade	11.7	15.3	17.5	19.5	7.8	67%
48–49	Transportation and warehousing	14.5	18.3	25.2	26.4	11.9	82%
51	Information	N/A	34.4	37.3	35.5	1.1	3%
52	Finance and insurance	11.8	16.1	15.7	18	6.2	53%
53	Real estate and rental and leasing	9.6	10.4	8.4	9.5	-0.1	-1%
54	Professional, scientific, and technical services	6.8	6.4	6.9	6.9	0.1	1%
56	Administrative and support and waste management and remediation services	8.7	9.0	9.8	11.7	3.0	34%
61	Educational services	8.4	10.6	9.9	10.5	2.1	25%
62	Health care and social assistance	10.1	5.4	5.3	6.2	-3.9	-39%
71	Arts, entertainment, and recreation	10.2	7.7	7.9	7.9	-2.3	-23%
72	Accommodation and food services	9.8	8.9	10.1	9.1	-0.7	-7%
81	Other services (except public administration)	5.4	D	4.0	4.3	-1.1	-20%

Notes: N/A = Not available; for NAICS 51, changes are shown only for 2002 to 2012. D = Withheld to avoid disclosing data of individual companies.
Delta reflects the difference in concentration ratio between 1997 and 2012. As the concentration ratio is itself a percentage, it reflects the absolute change in the percentage. By comparison, the "% Change" column reflects the proportional change in the concentration ratio between 1997 and 2012.
Shaded rows (rows with a negative change value) reflect sectors in which industry concentration has *decreased* between 1997 and 2012.

[40] Percentage of Total Sales, Receipts, or Revenue

Table 8: Market Concentration by Sector, Four-Firm Basis

Sector NAICS Code	Sector NAICS Description	%[41] 1997	%[41] 2002	%[41] 2007	%[41] 2012	Changes 1997-2012 Delta	Changes 1997-2012 % Change
22	Utilities	14.7	13.4	12.5	15	0.3	2%
31–33	Manufacturing	18.3	19.3	19.5	19.0	0.7	4%
42	Wholesale trade	6.2	7.5	5.5	5.6	-0.6	-10%
44–45	Retail trade	7.9	11	12.3	13.5	5.6	71%
48–49	Transportation and warehousing	11	14.8	17.2	18.3	7.3	66%
51	Information	N/A	23.2	28.1	26.9	3.7	16%
52	Finance and insurance	6.9	9.9	9.6	10.5	3.6	52%
53	Real estate and rental and leasing	5.3	6.5	4.8	6.1	0.8	15%
54	Professional, scientific, and technical services	4.2	3.9	4.2	4.0	-0.2	-5%
56	Administrative and support and waste management and remediation services	5.7	6.0	6.2	7.9	2.2	39%
61	Educational services	5.5	6.5	6.6	7	1.5	27%
62	Health care and social assistance	7.8	3.9	3.5	4.2	-3.6	-46%
71	Arts, entertainment, and recreation	7.2	5.4	5.6	5.4	-1.8	-25%
72	Accommodation and food services	6.5	5.1	5.8	5.1	-1.4	-22%
81	Other services (except public administration)	3.4	D	2.3	3.0	-0.4	-12%

Notes: N/A = Not available; for NAICS 51, changes are shown only for 2002 to 2012. D = Withheld to avoid disclosing data of individual companies.
Delta reflects the difference in concentration ratio between 1997 and 2012. As the concentration ratio is itself a percentage, it reflects the absolute change in the percentage. By comparison, the "% Change" column reflects the proportional change in the concentration ratio between 1997 and 2012.
Shaded rows (rows with a negative change value) reflect sectors in which industry concentration has *decreased* between 1997 and 2012.

Figure 10 and **Figure 11** aggregate the data in the tables above by weighting each NAICS code by its 2012 sales revenues and 2012 contribution to GDP, respectively. This shows economy-wide trends in concentration in lieu of a sector-by-sector approach. Irrespective of the weighting applied, economy-wide concentration has increased since 1997.

Notably, **Figure 10** and **Figure 11** indicate that while economy-wide market concentration has increased in essentially every 5-year period (a marginal decrease between 2002 and 2007 at the four-firm level in Figure 5 is the only exception), the biggest increases in concentration occurred between 1997 and 2002. It is notable that there were two recessions in the time spanned by the data—in 2001 and 2007 to 2009—though the changes in concentration mostly occurred in the first period, between 1997 and 2002. The recession that occurred in the 2007 to 2009 period does not appear to have substantially driven market concentration upward compared to the 2002 to 2007 period, in which no recession occurred, or to the 1997 to 2002 period, which included the 2001 recession. Alternatively, increases in concentration that may have occurred during the 2007 to 2009 recession may have been mitigated by economic

[41] Percentage of Total Sales, Receipts, or Revenue

expansion between 2010 and 2012, and/or by other factors such as the passage of the Affordable Care Act of 2010.

Figure 10: Market Concentration in the Economy, Sectors Weighted by Sales Revenue

Firm-Level Basis	%[42] 1997	%[42] 2002	%[42] 2007	%[42] 2012	Changes 1997-2012 Delta	Changes 1997-2012 % Change
50-Firm Level	25.5	32.4	32.7	34.5	9.0	35%
20-Firm Level	17.1	22.7	22.9	24.3	7.2	42%
8-Firm Level	10.7	14.3	14.4	15.2	4.5	42%
4-Firm Level	7.3	9.5	9.4	9.8	2.5	34%

Delta reflects the difference in concentration ratio between 1997 and 2012. As the concentration ratio is itself a percentage, it reflects the absolute change in the percentage. By comparison, the "% Change" column reflects the proportional change in the concentration ratio between 1997 and 2012.

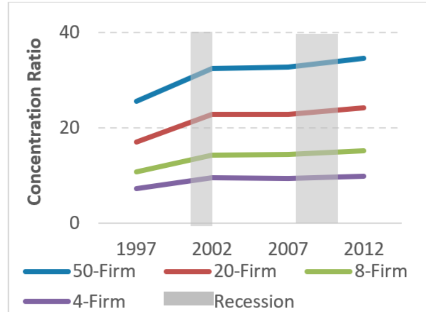
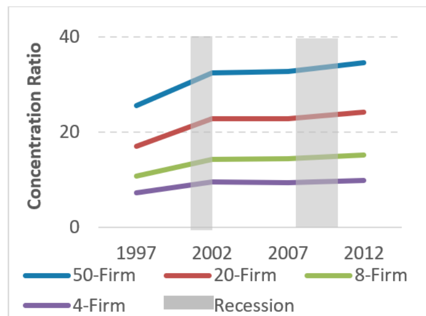


Figure 11: Market Concentration in the Economy, Sectors Weighted by GDP

Firm-Level Basis	%[42] 1997	%[42] 2002	%[42]2 007	%[42] 2012	Changes 1997-2012 Delta	Changes 1997-2012 % Change
50-Firm Level	28.1	34.3	35.5	36.0	7.9	28%
20-Firm Level	19.7	24.7	25.4	25.9	6.2	32%
8-Firm Level	12.8	15.9	16.4	16.9	4.1	32%
4-Firm Level	8.7	10.7	11.0	11.3	2.6	30%

Delta reflects the difference in concentration ratio between 1997 and 2012. As the concentration ratio is itself a percentage, it reflects the absolute change in the percentage. By comparison, the "% Change" column reflects the proportional change in the concentration ratio between 1997 and 2012.



The findings in this section are consistent with a 2018 report prepared by Economic Consulting Services for SBA's Office of Advocacy.[43] That report noted:

> *The small business share of GDP fell from 48.0% in 1998 to 43.5% in 2014 due to 2.5% real annual growth for large businesses versus only 1.4% for small businesses.*

The report similarly found a decrease in the share of GDP by sector across most sectors between 1998 and 2014, with management of businesses and utilities as the only exceptions.

6.3 Conclusions and Implications

The time-series analysis of market concentration suggests that concentration has increased in a majority of the economic sectors that are tracked by the Economic Census, as well as in the economy as a whole. This has occurred despite the presence of SBA programs. Increases in concentration have been relatively modest, with some sector-specific exceptions, both in terms of some sectors with rapidly increasing

[42] Percentage of Total Sales, Receipts, or Revenue

[43] Kathryn Kobe, Economic Consulting Services, "Small Business GDP 1998-2014," prepared for U.S. SBA Office of Advocacy, December 2018

concentration (including retail trade, transportation, and finance) and some sectors with decreasing concentration (including health care and arts and recreation).

While these data suggest that small businesses have become somewhat less competitive over the past 2 decades despite the support offered by SBA programs, it is not possible to infer from these data what the change in market concentration *would have been* across this period if SBA programs did not exist. Therefore, it is possible that but for SBA's Government Contracting Programs and services, the data presented in this section might have indicated an even greater increase in market concentration.

In the context of the 610 Review, this baseline and economic analysis has implications for two review criteria: (1) continued need and (2) changes in the market. Broadly, the data in this section show a modest increase in economic concentration over the past 2 decades. Therefore, the present analysis has not uncovered evidence that suggests the failure of SBA's programs, nor that the programs are adversely hindering small businesses, given the relatively steady concentration ratios across the economy.

As described throughout this section, market changes relative to small businesses reflect greater concentration across the economy, as well as within most individual economic sectors. This finding suggests a continued need for SBA programs that seek to enhance the viability and economic performance of small businesses. Critically, the increases in economic concentration over the past 2 decades have been fairly modest, suggesting a continued need for SBA programs but perhaps not a strong basis for complete program overhauls that would substantially expand the assistance provided to small businesses. However, the reality of increasing market concentration does suggest a need for programs akin to those currently administered by SBA to prevent or alleviate further erosion of the competitiveness of small businesses across the economy.

This time-series analysis has focused on high-level economic data from the Economic Census. Given the availability of program-specific data, such analyses could be expanded from the top-down, sector-wide and economy-wide levels to focus on the specific performance of SBA programs in meeting their stated goals. Absent these data, this section indicates a continued need for SBA programs that assist small businesses, given the increase in market concentration that has occurred during, and potentially despite, the assistance provided by these programs to date.

Furthermore, targeted analyses of specific SBA programs may benefit from sector-level examinations of concentration, including the concentration ratios discussed in this section and other measures. Such measures include the number and market share of businesses in each sector meeting certain small business size standards. If deemed relevant, future analyses can examine how the composition of individual sectors and their revenues has changed over time between small businesses and non-small businesses, akin to the GDP-based analyses conducted in Economic Consulting Services' 2018 report for SBA's Office of Advocacy. These analyses may be most useful to support 610 Reviews of programs whose impacts are particularly targeted to a subset of economic sectors.

In summary, this report found the following with respect to a retrospective review of SBA's Government Contracting Programs:

- General trends in small business participation in federal contracting indicate stability in the proportion of total contract dollars received, and modest growth in dollars both potentially and actually obligated for small business recipients.

- Among specific (self-)certification programs, such as WOSB[44], EDWOSB, and SDVOSB, participation in terms of both number of firms and federal contract dollars received increased throughout the 2010s, with limited downturns or slowdowns in growth toward the end of the decade. Whether these trends will persist into the future is presently a moot point, due to the incipient economic disruption associated with the COVID-19 pandemic.
- Other programs within the government contracting umbrella, including the Mentor-Protégé Program, COC program, and Government Property Sales Assistance Program, show steady levels of program participation and associated award or spending amounts.
- In sum, there do not appear to be drastic declines in the participation levels or effectiveness of SBA's Government Contracting Programs to an extent that would result in legitimate questions about the continued need for these programs.
- A series of complaints, comments, and issues have been raised regarding the SBA Government Contracting Programs, especially in the context of SBA's other programs. An overlapping array of programs, services, and activities results in layers of complexity that can lead to confusion, duplication, and inefficiency. This represents a potential opportunity for improvement, and reconsideration of how SBA's various programs and services work together to support small businesses may be of particular relevance as SBA considers reshaping its offerings in the wake of the COVID-19 pandemic.
- Although, broadly, market concentration in the United States has increased over time, which has put additional pressure on small businesses in terms of economic viability, overall concentration growth has been relatively small and sector-specific, and some sectors have actually experienced decreases in concentration over the past 2 decades. Like most other economic indicators, these trends will be substantially disrupted by the COVID-19 pandemic; there may be a greater need for SBA programmatic support in a post-pandemic world, where economic disruption will likely affect small businesses disproportionately.

[44] SBA issued a Final Rule in May 2020 implementing a WOSB Certification program, SBA will begin certification determinations starting October 15th, 2020.