

THE REGIONAL AFFILIATE COUNCILS OF NMSDC

September 9, 2025

The Honorable Nicholas LaLota
Chair
Subcommittee on Contracting and Infrastructure
Committee on Small Business
2361 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Gil Cisneros
Ranking Member
Subcommittee on Contracting and Infrastructure
Committee on Small Business
2361 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Written Testimony for the Record

Hearing Title: "Leveling the Playing Field: Fostering Opportunities for Small Business Contractors"

Dear Chairman LaLota and Ranking Member Cisneros:

On behalf of the Regional Presidents of the National Minority Supplier Development Council, thank you for the opportunity to submit written testimony for this hearing on fostering opportunities for small business contractors. Our NMSDC network through our regional Council provides essential business services and connects over 17,000 MBEs nationwide to more than 1,700 corporations, resulting in \$548.2 billion in economic output annually, sustaining 2 million jobs, with \$149.6 billion in total wages earned. We are the nation's largest, most impactful, and most successful no-profit advocacy organization proving growth for all.

Federal contracting has historically been one of the most effective avenues for building wealth and economic mobility in the United States. However, recent policies have created significant barriers that threaten the survival of small businesses in the federal marketplace.

The SBA was established by the Small Business Act of 1953 (Public Law 83-163), signed into law on July 30, 1953, with the dual purpose to create the SBA and preserve small business institutions and free, competitive enterprise. The declared policy of the Congress established in that legislation, which has been regularly reinforced for over the past 72 years, is that *"the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government... be placed with small-business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation."*

Unfortunately, over the past decade, more than 90,000 small businesses have been lost from the federal contracting base. On February 15, 2024, in this subcommittee and during a hearing with the same title – “Leveling the Playing Field: Challenges Facing Small Business Contracting” – Chairman LaLota identified the problems by stating *“the number of small businesses receiving federal contracts has decreased by 50 percent over the past 10 years... nearly 60 percent fewer small businesses are entering the federal contracting system...”*

The Chairman also highlighted *“the systemic failures in the federal acquisition process, which undermines small business participation in contracting.”*

This decline represents far more than just numbers — it is the erosion of innovation, local job creation, and the diverse entrepreneurial ecosystem that underpins our economy. Small businesses are not just vendors; they are economic anchors in communities, providing good jobs and reinvesting locally. Their absence weakens supply chains, slows innovation, and ultimately drives up costs for taxpayers.

Unfortunately, deleterious actions by previous and the current Administration are not only continuing but are expediting the reduction in small business participation on government contracting.

Review and Reform Category Management:

Category management, while originally intended to streamline procurement and eliminate duplication, has had unintended consequences. It has concentrated contracting opportunities within a handful of large corporations that dominate Best-in-Class (BIC) vehicles, while limiting open competition and excluding highly qualified small firms who lack access to these vehicles. This approach effectively fast-tracks large incumbents, making it difficult for new entrants to gain a foothold, and undermines the congressional intent of small business set-aside programs. As a result, the long-term health of the federal industrial base is at risk.

When small businesses are squeezed out of federal contracting, taxpayers lose because there are fewer competitors to keep prices fair, innovation suffers as agile and creative firms are sidelined, and communities decline as local businesses close and jobs disappear. Moreover, the government becomes less resilient as it grows increasingly reliant on a shrinking pool of large vendors. This is not just a procurement issue — it is a matter of economic security and national competitiveness.

To reverse this trend and restore a level playing field, we urge Congress to review and reform the BIC program to ensure small businesses have meaningful access to federal contracting opportunities. Congress should expand and enforce small business set-asides, particularly in industries where small firms have been pushed out, and require agencies to increase transparency by reporting the impact of category management on small business participation. Additionally, establishing clear on-ramps for new and emerging small businesses to compete and holding agencies accountable for meeting small business contracting goals will help strengthen and diversify the federal marketplace.

Maintain the Rule of Two:

The Rule of Two is a cornerstone of federal small business contracting, first adopted by the Navy in 1964 and expanded government-wide by 1984. It requires contracting officers to set aside procurements for small businesses when there is a reasonable expectation that at least two qualified small firms will submit offers at fair market prices. This rule has been instrumental in ensuring that small businesses—particularly

those that are minority-, women-, and veteran-owned—can successfully enter and compete in the federal marketplace. Over the decades, it has driven growth in small business participation, strengthened local economies, and provided the government with diverse and innovative suppliers, helping to maintain a robust and resilient industrial base.

Members of Congress and small business advocates have repeatedly emphasized the rule's importance. As Ranking Member Velázquez stated, *"The Rule of Two is the foundation of the small business industrial base, making it possible for small businesses to successfully enter, compete, and remain in the federal marketplace."* Recent hearings and bipartisan proposals, such as the Protecting Small Business Competitions Act (H.R. 2804), have sought to codify and expand the rule to counter the growing dominance of large contracting vehicles. Without the Rule of Two, fewer competitors mean higher prices for taxpayers, reduced innovation, and diminished opportunities for local job creation. Strengthening and expanding this rule could inject billions annually into small business contracting, ensuring that federal procurement remains competitive, equitable, and aligned with Congress's longstanding intent to foster small business growth.

Strengthen and Utilize SBA Workforce and Programs:

We strongly support Chairman LaLota's statement during last year's hearing that, particularly in the Department of Defense, *"we must not only consider the primes, but also the tiers of suppliers providing parts for ships, submarines, and planes or businesses providing vital services."*

In February 2022, the Under Secretary of Defense for Acquisition and Sustainment provided a report to Congress stating that *"promoting competition to the maximum extent possible is a top priority for the Department."* The report identified that *"over the past decade, small businesses in the [Defense Industrial Base] DIB shrunk by 40%... the data shows that if the DIB continues along the trend, DoD could lose an additional 1,500 suppliers over the next 10 years. This downward trend is a national security and economic risk to the nation that could lead to a decline in key domestic capabilities and requires swift action to reverse."* The report further recognized that *"consolidations that reduce required capability and capacity and the depth of competition would have serious consequences for national security"* and the Department must take proactive efforts to mitigate these challenges, and to *"increase competition and build domestic capacity, especially from small businesses, and to close gaps in the domestic national security and technology industrial base."*

DoD's own report specifically identified the tools through which they are able to counter these trends by leveraging Federal procurement programs and highlighted the direct benefits the Department receives by stating *"DoD's small business programs play an instrumental role in diversifying the defense supply chain and bringing new entrants, specifically from underserved socio-economic groups, into the defense marketplace."*

These programs – particularly the 8(a), Women-owned, service-disabled Veteran, and HUBZone programs – play a significant role in helping all Federal agencies identify, recruit, and build the capacity within their supply chains. These programs must be utilized to the maximum practicable extent if the original intent of Congress and spirit of the Small Business Act of 1953 are to be achieved. This will be more difficult if the planned 43% cuts to the SBA workforce are implemented, as reported. Further, if the ongoing reductions in staff, funding and authority of contracting officers, Office of Small Disadvantaged Business Utilization (OSDBU) representatives, Ombudsmen, and Procurement Center Representatives (PCRs) continue the

entire infrastructure of how the government facilitates competition in Federal procurement and fosters small business participation will be eliminated.

Small businesses have always been recognized by Congress as the backbone of the federal procurement system and a vital safeguard for America's economy, essential to our economic strength and innovation. The intent of the original drafters of the Small Business Act of 1953 was to preserve free competitive enterprise and ensure that a fair proportion of federal contracts are awarded to small businesses, not merely as a programmatic goal, but as a deliberate strategy to prevent the concentration of federal procurement in the hands of a few large corporations, which could stifle innovation and create monopolistic markets.

Small businesses bring agility, innovation, and regional diversity, providing the government with cutting-edge solutions while supporting local job creation and economic resilience. By fostering a broad base of suppliers, Congress sought to keep markets competitive and to build a globally competitive U.S. industrial base. Today, as the federal government faces complex global challenges, the role of small businesses in providing unique capabilities and preventing over-reliance on a limited number of prime contractors is more important than ever, reflecting both the original vision of the Act and the ongoing necessity of fair and open competition. By acting now, Congress can preserve competition, strengthen supply chains, and ensure taxpayer dollars are used effectively.

We appreciate the Subcommittee's leadership on this issue and look forward to working together to protect and grow our nation's small business industrial base.

Respectfully,

The Regional Presidents of the National Minority Supplier Development Council (NMSDC)
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