

Small Disadvantaged Businesses, Disadvantaged Business Enterprises, and Minority Business Enterprises: Definitions and Differences in Terms Used by Government Programs

October 20, 2023

Government contracting programs that promote small business contracting opportunities support certain types of “disadvantaged” business owners, among other small business owners. Some policies are agency-specific and some are government-wide (i.e., applicable across agency procurement activities). The programs generally aim to help create a diversified, competitive federal supplier market and national economy. Three terms that are similar but not interchangeable in terms of their meaning for government programs are: Small Disadvantaged Businesses (SDBs), Disadvantaged Business Enterprises (DBEs), and Minority Business Enterprises (MBEs). This Insight defines these terms and clarifies which programs use them.

Small Disadvantaged Businesses (SDBs)

SDBs are small businesses (according to [Small Business Administration size standards](#)) that are at least 51% owned and controlled by “socially and economically disadvantaged” individuals or groups (groups include recognized Indian tribes, Alaska Native Corporations, Community Development Corporations, and Native Hawaiian Organizations) and meet criteria described in Small Business Administration (SBA) regulations at [13 C.F.R. §124.1001](#). Owners must be both socially *and* economically disadvantaged. Per [13 C.F.R. §124.103\(a\)](#), “Socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities.” SDBs may be owned by individuals identifying as racial or ethnic minorities but not necessarily so. Per [13 C.F.R. §124.104\(a\)](#), “Economically disadvantaged individuals are socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities.” Individuals who wish to claim economic disadvantage must submit financial information, including net worth, personal income, and

Congressional Research Service

<https://crsreports.congress.gov>

IN12266

asset limitations, as outlined at [13 C.F.R. §124.104\(c\)\(2\)-\(4\)](#). Firms whose owners meet the definitions in these regulations may self-certify their disadvantaged status, and may be subject to “status protests” and punitive action if they misrepresent themselves. To be considered for federal contracting preferences, SDBs must register with the federal online System for Awards Management ([SAM.gov](#)). They may also register with the SBA’s online database of small business contractors, known as the [Dynamic Small Business Search](#).

The federal government has maintained [annual goals](#) for SDB participation in federal contracting and subcontracting. The current goal is 5% of contract award dollars and 5% of subcontract award dollars. There are five types of firms for which there are government-wide statutory procurement goals: small businesses, SDBs, women-owned small businesses, service-disabled veteran-owned small businesses, and Historically Underutilized Business (HUB) Zone small businesses.

SDBs include participants in the SBA’s 8(a) Business Development program (see [CRS In Focus IF12458](#)). An agency may count an award to an 8(a) program participant towards its SDB contracting goal. SDB owners must meet the same disadvantage criteria as 8(a) program firms in order to receive contracting preferences. However, while 8(a) program participants must apply for certification by the SBA to be in the program, SDBs that are not 8(a) program participants do not apply to the SBA to have their firms designated as SDBs; as mentioned, SDBs are self-certified.

Disadvantaged Business Enterprises (DBEs)

Disadvantaged Business Enterprises (DBEs) are relevant to the U.S. Department of Transportation’s (DOT’s) grant assistance programs. Both state and local government entities may receive DOT grant assistance. While DBE is a term used by DOT for DOT purposes, DBEs are defined by criteria from both SBA and DOT regulations. DBEs must meet [SBA size standards](#) and DOT social and economic disadvantage criteria. The DOT definition of “socially and economically disadvantaged” differs from that of the SBA. DOT’s regulations regarding DBEs can be found at [49 C.F.R. Part 26](#), and include a net worth limit that is higher than the SBA’s limit for SDBs. The DOT definition of social disadvantage explicitly mentions women while the SBA definition does not. DBEs may be owned by individuals identifying as racial or ethnic minorities but not necessarily so.

There are no *federal* contracting preferences for DBEs. The DBE program applies to the contracts awarded by *state and local governments* that receive certain DOT grants. For more information, see [CRS In Focus IF12055](#).

Minority Business Enterprises (MBEs)

Minority Business Enterprise (MBE) is a term most relevant to the Minority Business Development Agency (MBDA), an agency in the Department of Commerce whose mission is to promote the growth and competitiveness of MBEs. MBDA programs offer a network of local business development centers and other initiatives, such as advocacy and research on behalf of MBEs. MBE is not a term used by federal contracting programs; there are no contracting preferences for MBEs.

[MBDA’s authorizing statute](#) defines an MBE as a firm that is at least 51% owned and controlled by one or more socially *or* economically disadvantaged individuals. The statute defines the term “socially or economically disadvantaged individual” to mean someone who:

has been subjected to racial or ethnic prejudice or cultural bias (or the ability of whom to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities, as compared to others in the same line of business and competitive market area) because of the identity of the individual as a member of a group, without regard to any individual quality of the individual that is unrelated to that identity.

The agency's authorizing statute noted that the agency may presume that the term "socially or economically disadvantaged individual" includes any individual who is a member of a group identified in 15 C.F.R. §1400.1, as well as others noted in 15 U.S.C. §9501(15)(B). For more information about MBDA and its history and mission, see [CRS Report R46816](#).

Author Information

R. Corinne Blackford
Analyst in Small Business and Economic Development
Policy

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.