

# BEST IN CLASS

## Using America's New Business Plan's Four Pillars as a Model for Increasing Access to Procurement Opportunities



The federal government is the largest buyer of goods and services in the whole world, spending over \$630 billion each year. In recent years, small businesses have experienced a vast decline in their participation rate in federal contracts; new entrants that are small businesses have declined 79 percent from 2005 – 2019, driving a renewed effort among policymakers to reverse this decline.<sup>1</sup> The flow of federal funding from recent legislative efforts presents a once-in-a-generation opportunity to re-invest in America's small businesses by ensuring Federal buyers prioritize American-made suppliers. There is an unprecedented opportunity for small firms and entrepreneurs to leverage a larger share of that commerce as the federal government seeks to increase the number of small firms into its procurement base.

### POLICY IN PRACTICE:

While the federal government aims to increase the number of contracts to small firms, small businesses of color continue to face disparities and barriers in federal contracting compared to non-minority firms. In fact, recent Small Business Administration (SBA) data show that only 9.5% of all contracts went to minority-owned small businesses in FY20; whereas, non-minority-owned small businesses were awarded 15.6% of all contracts.<sup>2</sup> To address this, the Kauffman Foundation's network of grantees and partners is hard at work implementing actions that lead to more equitable procurement systems for all.

*Some examples of our partners' work include:*

- The **U.S. Black Chambers, Inc.** is working to advocate for policymakers in Washington to support increased equity in small business financing and government contracting for Black-owned entrepreneurs (who continue to face barriers to entry).
- The **North Carolina Institute of Minority Economic Development** created an **Equity Advocacy Certificate Program**, helping prepare entrepreneurs to engage their elected officials on issues impacting procurement disparities for entrepreneurs of color.
- **New Profit** worked to create training programs for a learning cohort of advocates who worked to educate policymakers on the policies needed to improve access to one of the most lucrative sectors of the U.S. economy (federal contracting).

This document is part of Ewing Marion Kauffman Foundation's deep dive series. Much of the policy included in this document is largely attributed to America's New Business Plan. Additional information on policies priorities can be found at <https://www.startsupnow.org/anbp>.

<sup>1</sup> Bipartisan Policy Center. <https://bipartisanpolicy.org/report/supporting-small-business-and-strengthening-the-economy-through-procurement-reform/>  
<sup>2</sup> Small Business Administration. <https://www.sba.gov/blog/sba-releases-fy-2020-disaggregated-contracting-data>

# POLICY SOLUTIONS TO ENCOURAGE FEDERAL BUYERS TO SUPPORT INNOVATIVE ENTREPRENEURS:

**Expand access to opportunity by providing government-wide incentives to reform category management practices to enable more small sellers into the marketplace.** Category management, while increasing the efficiency of the way our government purchases goods and services, can lead to bundled contracts, consolidated vehicles, and can prioritize larger suppliers in the procurement landscape. Agencies should prioritize category management reforms by gaining credit for shopping with socio-economically disadvantaged groups.<sup>3</sup> Policymakers should:

- Work to unbundle large contracts and enable more small firms to become subcontractors to gain experience.
- Implement the “rule of two” to encourage greater use of small firms. The rule of two states that if at least two small firms demonstrate they can do a federal job, the agency must set aside that contract for a small business.
- Enable first-time contractors to leverage private-sector (or local government) past performance in federal bids.

**Expand access to capital to help small businesses finance procurement projects and get paid on time for federal jobs.** Many small businesses cannot afford to front the cash flow needed for a large federal contract. Upon completion of a job, small firms need reassurance that their work will be paid for in full upon completion of the job.<sup>4</sup> Policymakers should:

- Implement and hold agencies accountable to reaching prompt pay protocols to ensure small firms are paid as soon as they finish a job.
- Work across agencies to connect government contractors to resources that can be used to raise capital for federal jobs.

**Expand access to knowledge for small sellers by reforming federal programs that prioritize small business procurement goals.** Programs created to help small and underserved businesses work with the federal government include the Small Business Administration’s 8(a) Business Development program, the Disadvantaged Business Enterprise (DBE) program through the Department of Transportation, the Minority Business Development Agency’s procurement assistance centers, and APEX Accelerators. However, not all programs are accessible or equitable to the most underserved firms. Policymakers should:

- Increase the minimum percentage for small business spending across all federal agencies.<sup>5</sup>
- Reform these programs to encourage agency investment in socio-economically disadvantaged groups.
- Work through public-private partnerships to expand awareness of federal resources created for small businesses.

**Expand access to support by holding federal buyers accountable to providing exemplary service and guidance for small business sellers.** The Office of Small and Disadvantaged Business Utilization (OSDBU) exists in every agency to liaise between small suppliers and federal buyers. While these offices are a great resource, more must be done to ensure they are meeting the needs of entrepreneurs. Policymakers should:

- Require OSDBUs to hold regular contracting 101 training sessions to help small firms win contracts.
- Require OSDBUs to undergo substantial training before starting the job and hold them accountable with performance metrics.
- Require regular outreach by region and industry, ensuring OSDBUs can maintain an effective network of small sellers that could provide services for their agency.

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<sup>3</sup> OMB Memorandum M-22-03, Advancing Equity in Procurement, outlines a path towards investing in socio-economic small businesses. <https://www.commerce.gov/sites/default/files/2022-04/PM%202022-03%20%20Category%20Management%20and%20Small%20Business%20and%20Socio-Economic%20Program%20Goals.pdf>

<sup>4</sup> Bureau of the Fiscal Service. <https://www.fiscal.treasury.gov/prompt-payment/>

<sup>5</sup> The Biden-Harris administration increased the federal contract spend goal for disadvantaged businesses to 15% by 2025 for women, minority, service-disabled, and HUBZone small businesses. [https://www.gsa.gov/about-us/newsroom/news-releases/gsa-announces-actions-to-advance-equity-and-supplier-diversity-in-federal-procurement-04182022?\\_gl=1\\*11eydcf\\*\\_ga\\*MJE5NjgyMTE3LjE2OTIxMTEwMTM.\\*\\_ga\\_HBYXWFP794\\*MTY5MjExMTAxMjY4LjE2OTY5MjExMTA2NS4wLjAuMA](https://www.gsa.gov/about-us/newsroom/news-releases/gsa-announces-actions-to-advance-equity-and-supplier-diversity-in-federal-procurement-04182022?_gl=1*11eydcf*_ga*MJE5NjgyMTE3LjE2OTIxMTEwMTM.*_ga_HBYXWFP794*MTY5MjExMTAxMjY4LjE2OTY5MjExMTA2NS4wLjAuMA)