



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
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M-22-03

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

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SUBJECT: Advancing Equity in Federal Procurement

The Federal Government is the largest consumer of goods and services in the world, spending more than \$650 billion each year. This purchasing power makes Federal procurement a powerful tool to support small business growth and build generational wealth throughout the United States, including for firms owned by underrepresented individuals.

The President has set a policy of using Federal contract spending to support small businesses and advance equity. In Executive Order 13985, *Advancing Racial Equity and Support for Underserved Communities through the Federal Government* (the Executive Order), the President directed agencies to make Federal contracting and procurement opportunities more readily available to all eligible vendors and to remove barriers faced by underserved individuals and communities.¹ In his June 2021 speech commemorating the centennial of the Tulsa Race Massacre, the President announced an additional step. He set a goal of increasing the share of contracts awarded to small disadvantaged businesses (SDBs) to 15% by 2025. And he charged every agency to assess available tools to increase opportunities for small businesses and traditionally underserved entrepreneurs to compete for Federal contracts.

This memorandum implements the President's commitments to increase spending to SDBs to 15% by fiscal year (FY) 2025 and to increase baseline spending for the additional socioeconomic small businesses and traditionally underserved entrepreneurs recognized in the Small Business Act. These additional businesses include women-owned small businesses (WOSBs), service-disabled veteran owned small businesses (SDVOSBs), and small business contractors in Historically Underutilized Business Zones (HUBZones).² To achieve the President's commitment, the memorandum instructs agencies to take five management actions, which have been developed in partnership with the Small Business Administration (SBA) and Federal buying agencies. These actions will help to increase spending to underserved

¹ The Executive Order calls for a comprehensive approach to advancing equity for all, including "people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality."

² For purposes of this guidance, the term "socioeconomic small business" refers collectively to SDBs, WOSBs, SDVOSBs, and HUBZone small business contractors.

communities and to broaden participation from within these communities. As a result, they will strengthen the breadth and depth of the Federal Government's small business supplier base, which has eroded significantly over the past decade.

These actions will also advance the third priority of the President's Management Agenda (PMA): managing the business of Government to build back better. The *Biden-Harris Management Agenda Vision* (November 2021)³ recognizes that fostering lasting improvements in the Federal acquisition system, including through the management actions described in this memorandum, can create opportunities for underserved communities. The PMA Vision states, "By creating more opportunities for all types of businesses and underserved entrepreneurs to compete for Federal contracts, the Federal marketplace can serve as a platform to create a more equitable economy."

Management Actions

Federal agencies should take the following five management actions to implement the commitments described above.

1. Agree with SBA on an agency-specific SDB contracting goal for FY 2022 that will allow the Federal Government to cumulatively award at least 11% of Federal contract spend to SDBs in FY 2022.

Federal law contemplates that the Government will structure its approach to procurement in a manner that increases access for socioeconomic small businesses and establishes a baseline of goals for overall small business contracting. In FY 2020, 10.45% of Federal agencies' total eligible contracting dollars went to SDBs.

To meet the President's 15% goal by FY 2025, agencies and SBA shall negotiate interim SDB contracting goals for FY 2022. These interim goals shall demonstrate improvement at each agency. Taken together across the Government, these goals shall result in the award of 11% of total eligible contract spending to SDBs. Increasing Federal spending with SDBs can accelerate inclusive entrepreneurship, narrow wealth gaps, and create a more dynamic and resilient supplier base. SBA plans to reflect in agencies' FY 2022 small business scorecards agency efforts to increase SDB spending. And SBA will work with the Office of Management and Budget (OMB), the Domestic Policy Council (DPC), and the National Economic Council (NEC) to identify possible increases in the floor amount of spending for WOSBs, SDVOSBs, and HUBZone contractors that agencies should strive to achieve in FY 2023.

2. Review and adjust category management stewardship practices to boost contracting opportunities for SDBs and other socioeconomic small businesses.

Since 2014, the Executive Branch has organized its buying practices for common goods and services (which make up about 60% of total Federal contract spending) using the stewardship principles of "category management." Under category management, teams of experts in each significant category of Federal contract spending (e.g., professional services,

³ [Performance.gov/PMA](https://www.performance.gov/PMA)

medical supplies, industrial products, etc.) help agencies buy as an organized entity, rather than as thousands of independent buyers. Stewardship practices include using data analysis to inform buying decisions, adopting vendor management strategies to eliminate redundant actions with the same contractor, and developing tools to share contract terms and prices paid for goods and services so buyers can make better-value purchases in the future.

With its focus on interagency collaboration and coordination, category management can help achieve key Administration priorities, including domestic sourcing and combatting climate change, by ensuring the many agency buying offices across the Federal Government offer sellers and supply chains clear and consistent demand signals and predictable work streams. As one measure of category management’s positive impact, validated agency data shows that category management has saved more than \$33 billion in three years.⁴

Since 2017, OMB has given agencies credit for contract activity that is aligned with category management principles, activity we call “spend under management” (SUM). Analysis of SUM credit since 2017 shows that socioeconomic small businesses have received a proportionally lower share of spending under category management than other spending. This trend is most likely a reflection of agencies having generally sought SUM credit for their use of large, high-dollar Government-wide and agency-wide contracts. Small firms face challenges in accessing these contracts when agencies do not set them aside exclusively for small business participation.

In furtherance of the Executive Order, OMB is committed to promoting a stronger and clearer alignment between the acquisition stewardship practices promoted by category management and the goal of advancing equity in procurement. The category management infrastructure built to help the Government become a more organized and informed buyer can be effective in supporting agencies as they promote more equitable buying practices.

For these reasons, through this memorandum, OMB is revising and clarifying the guidance in OMB Memorandum M-19-13, *Category Management: Making Smarter Use of Common Contract Solutions and Practices*, which provides guidance on the use of category management. The revisions and updates are set forth in the Attachment and summarized in the table below.

Revisions and Updates to OMB Memorandum M-19-13 on Category Management

Revision/Update	Purpose of Change
<ul style="list-style-type: none"> A new Tier 2-Socioeconomic Small Business (SB) SUM measure takes effect at the beginning of FY 2022 (retroactive to October 1, 2021) to give agencies automatic credit towards agency category management goals for <i>all awards</i> made to certified and self- 	<ul style="list-style-type: none"> Empowering the workforce to pursue the best acquisition strategy for reaching underserved small business communities helps to maximize awards to socioeconomic small businesses

⁴ These savings were cited favorably by the Government Accountability Office in its November 2020 report [OMB Can Further Advance Category Management Initiative by Focusing on Requirements, Data, and Training](#) (GAO 21-40).

Revision/Update	Purpose of Change
certified socioeconomic small businesses ⁵	
<ul style="list-style-type: none"> Agencies are reminded to establish and implement category management plans consistent with statutory socioeconomic responsibilities and the need to diversify the agencies' small business supplier base 	<ul style="list-style-type: none"> Using category management practices to promote industry-specific best practices reduces burdens on small business vendors and reinforces small business goal achievement
<ul style="list-style-type: none"> Agencies are reminded that category management plans shall not prioritize spending on "Best in Class" (BIC) solutions at the expense of meeting socioeconomic small business goals and providing maximum practicable opportunity to small businesses 	<ul style="list-style-type: none"> Ensuring that use of BIC solutions is balanced with decentralized contracts and other strategies that are necessary to increase diversity within the agency's small business supplier base advances equity in procurement
<ul style="list-style-type: none"> SBA and the Department of Commerce, which includes the Minority Business Development Administration, are recognized as voting members of the Category Management Leadership Council⁶ 	<ul style="list-style-type: none"> Accounting for small business equity in category management governance furthers the consideration of procurement practices that promote supplier diversity

Agencies should immediately review and update any internal guidance implementing Memorandum M-19-13 or other category management guidance to ensure it aligns with the revisions and clarifications described above and in the Attachment. Agencies should also clearly communicate these changes with their workforce to support better alignment between category management stewardship and attainment of socioeconomic small business contracting goals. OMB and SBA will work with Chief Acquisition Officers (CAOs) and Senior Procurement Executives (SPEs), directors of agency Offices of Small Disadvantaged Business Utilization (OSDBUs), and agency senior accountable officials for category management to monitor implementation.

⁵ Tier 2-SB credit applies to 8(a) and other small disadvantaged businesses, women-owned small businesses, service-disabled veteran-owned small businesses, and small businesses working in HUBZones. Tier 2-SB credit will be awarded to agencies automatically in bi-monthly updates to category management dashboards found on the Acquisition Gateway: [Public Category Management Dashboards & Analytics | D2D \(gsa.gov\)](https://www.gsa.gov/public-category-management).

⁶ The CMLC is the interagency governing body for category management activities.

3. Increase the number of new entrants to the Federal marketplace and reverse the general decline in the small business supplier base.

A recent report found that the number of new small business entrants to Federal procurement decreased by 79% from 2005 to 2019.⁷ Analysis of agency data reported in the Federal Procurement Data System finds similar trends regarding the small business supplier base at large, including a loss of 49,000 small businesses (or 38% of small businesses) in the Federal supplier base since 2010. These trends are at odds with the Administration’s goal of advancing equity in procurement and portend a less dynamic and competitive Federal marketplace that could leave agencies at greater risk of being unable to withstand supply chain disruptions.

The OMB *Study to Identify Methods to Assess Equity: Report to the President* (July 2021)⁸ found that new and recent entrants face difficulties navigating the Federal marketplace due to inadequate Government outreach to diverse vendors and the lack of visibility into available opportunities. The report concluded that these shortcomings “create unfair advantages for incumbent contractors, complicating efforts to diversify the Federal supplier base.”

To address these challenges, the following initial Government-wide steps will be taken.

- *New entrant management tools.* OMB, DPC, and NEC will work with agencies to develop: (i) a common definition of “new entrant” for the purpose of benchmarking current performance and tracking progress over time, and (ii) a plan for public reporting of agency performance on this metric.
- *Strengthened procurement forecasting capabilities.* OMB will work with agencies to achieve greater consistency across the Federal Government in the availability and quality of procurement forecasting tools⁹ by ensuring they provide: (i) early awareness of potential opportunities, (ii) user friendly search and filter functions, and (iii) advanced information that can be used to prepare more effectively for competition (e.g., description of requirement, anticipated place of performance, whether the opportunity will be set aside for small businesses, fiscal quarter of award).
- *Improved data management.* SBA, OMB, the General Services Administration, and other agencies will work together to provide data analytic capabilities, including on demographic and geographic information, to help the workforce understand the impact of current buying practices across industries and sectors and take focused actions in areas with the greatest opportunity for growth by socioeconomic small businesses. These actions will be informed by analyses of market trends in the U.S. economy to help determine where adjustments in procurement practices, including more targeted outreach, can drive more equitable results, and where other types of government action outside the Federal procurement process may be required.

⁷ [Supporting Small Business and Strengthening the Economy Through Procurement Reform](#) (June 22, 2021)

⁸ [Study to Identify Methods to Assess Equity: Report to the President](#) (July 2021)

⁹ Section 8(a)(12)(C) of the Small Business Act requires agencies to compile and make available projections of contracting opportunities that small business concerns, including SDBs, may be able to perform.

- *Increased transparency for Federal agencies and interested businesses.* OMB will work with the Department of Treasury to add small business user-friendly data capabilities to USAspending.gov. This action will help businesses who are not current Government contractors to identify opportunities, and navigate information about purchasing histories and other relevant geographic or socioeconomic factors.

In parallel with these Government-wide efforts, agency equity teams for procurement established under the Executive Order are encouraged to pursue additional strategies that can reverse recent declines in the contracting base and promote greater small business supplier diversity across business categories. Agencies should consider the following steps:

- Engage early in the acquisition process with the agency’s OSDBU and SBA’s assigned Procurement Center Representative to identify barriers to access and craft acquisition strategies to maximize opportunities for small business participation. In addition, any release of 8(a) contracts should be paired with new 8(a) opportunities at a commensurate level.
- Hold regular meetings with program managers of new socioeconomic small businesses to improve understanding of mission and awareness of upcoming opportunities.
- Increase use of innovative business practices that reduce administrative burden or increase the participation rate of small businesses within the procurement process. Many of these practices are highlighted in the Periodic Table of Acquisition Innovations (PTAI), available at <https://fai.gov/periodic-table>.
- Make commitments for data-driven outreach, including, where practicable, crowdsourcing tools that allow for dynamic community engagement and supplier scouting targeted at increasing participation in underserved communities, especially by new entrants, small business manufacturers, small business service providers of specialized and other in-demand services, and sellers in supply chains that are the focus of increased domestic sourcing efforts or are advancing our clean energy future.
- Track the percentage of contract spending under the simplified acquisition threshold that is set aside for small businesses.
- Strengthen oversight of prime contractor reporting of subcontracting plans and goals, as subcontracting opportunities are often pathways for small businesses to become involved with Federal contracting.
- Proactively use the “Acquisition 360” survey to understand better how contractors and potential contractors from underserved communities experience the Federal contracting process.¹⁰

¹⁰ The Federal Acquisition Regulatory Council will soon release a final rule to encourage the use of the Acquisition 360 tool, which provides a standardized survey instrument to facilitate feedback. This rule builds on the March 18, 2015 OFPP Memorandum, *Acquisition 360 – Improving the Acquisition Process Through Timely Feedback from External and Internal Stakeholders*.

4. Include the achievement of small business contracting goals as a part of the performance plans for key Senior Executive Service (SES) officials.

Advancing equity for socioeconomic small businesses will require focused attention, proactive engagement, and follow-through by the agency's senior leadership. A decade ago, achievement of small business contracting goals was added to the performance plans of many agency SES program officials responsible for procurement. This strengthening of accountability began a decade-long record of meeting small business contracting goals.¹¹ However, some plans did not specifically focus on particular socioeconomic small business goals. And application was uneven for program officials who can play a significant role in deciding the extent to which work for their agency is set aside for socioeconomic small businesses.

Agencies are expected to include progress towards achievement of each of the socioeconomic small business goals, including the heightened SDB goal negotiated with SBA, as evaluation criteria in all performance plans for SES managers that oversee the acquisition workforce or agency programs supported by contractors. These managers include the agency's CAO, SPE, OSDDBU directors, and heads of contracting activities, as well as SES program officials who participate in planning acquisitions or selecting contractors to support their projects. In order for changes to maximally affect FY 2022 socioeconomic small business goal achievement, agencies should take any necessary actions by January 10, 2022.

5. Ensure agency small business contracting offices have access to senior leadership.

The Small Business Act requires that each Federal agency with procurement powers maintain an Office of Small and Disadvantaged Business Utilization to advocate for small businesses in procurement and contracting processes. These offices play an important role in advancing equity by, among other things: working with agency acquisition officials to increase the probability of participation by small businesses; assisting small businesses in obtaining payments from an agency (or prime contractor) with which they have contracted; and providing the agency's CAO and SPE with advice and comments on acquisition strategies, market research, and other actions to expand access to the agency's supplier base.

Section 15(k)(3) of the Act requires that OSDDBU directors generally be responsible only to and report directly to agency heads or their deputies. Implementation of this requirement is uneven across agencies, however. Sufficient access to senior agency leadership is necessary to ensure that Federal small business contracting goals are core to each department's mission and to facilitate effective collaboration with CAOs, SPEs, and senior accountable officials for category management.

¹¹ In the National Defense Authorization Act for FY 2013, Congress required agencies to take steps to ensure that members of the SES responsible for acquisition and other members of the SES, as appropriate, "assume responsibility for the agency's success in achieving each of the small business prime contracting and subcontracting goals and percentages by (1) promoting a climate or environment that is responsive to small business concerns; (2) communicating the importance of achieving the agency's small business contracting goals; and (3) encouraging small business awareness, outreach, and support." Pub. Law No. 112-239, 126 Stat. 2076, sec. 1633(b), 15 U.S.C. § 631 note.

By January 10, 2022, CFO Act agencies¹² shall report to the SBA Administrator and OMB's Deputy Director for Management whether they currently meet the requirements of section 15(k)(3). To the extent OSDBUGs lack the access specified in section 15(k)(3), the response should include a plan on how and when the agency will come into compliance during FY 2022. Reports should be sent to section15k@sba.gov and MBX.OMB.OFPPv2@OMB.eop.gov.

Related Actions

In assessing procurement barriers pursuant to direction in section 5 of the Executive Order, agencies have identified challenges facing socioeconomic small businesses as well as other underserved communities, including individuals who are blind or have severe disabilities, Historically Black Colleges and Universities and other Minority-Serving Institutions, and Tribal Colleges and Universities.¹³ The guidance in this memorandum is intended to inform and complement the actions agencies are considering for the underserved communities in their Equity Plans required by the Executive Order. OMB will consider additional management actions to advance equity in procurement based on these ongoing efforts.

Questions regarding this management guidance may be sent to MBX.OMB.OFPPv2@OMB.eop.gov.

Attachment

¹² 31 USC § 901.

¹³ Under section 2 of the Executive Order, the term “underserved communities” refers to “populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life.”

M-19-13 (Revisions)

SUBJECT: Category Management: Making Smarter Use of Common Contract Solutions and Practices

OMB Memorandum M-19-13 provides guidance on the use of category management—that is, the practice of buying common goods and services as an organized enterprise in order to improve the efficiency and effectiveness of acquisition activities—while meeting small business goals and other socioeconomic requirements. To achieve a stronger and clearer alignment between category management stewardship principles and small business contracting, agencies shall implement Memorandum M-19-13 as modified by the following revisions and clarifications:

Section 1. Annual establishment of category management goals and plans.

Agencies shall continue to develop strategic plans for category management informed by market intelligence, as provided in section 1, subject to the following changes and clarifications.

- a. *SUM Credit*. OMB will continue to use the three-tier system reflected in M-19-13¹⁴ to measure agency progress in implementing category management principals. However, OMB will no longer measure reductions in unmanaged (Tier 0) spend and instead will focus on increasing SUM.

In addition, OMB has modified how credit is provided to agencies under their category management plans in order to maximize awards to socioeconomic small businesses. Beginning in FY 2022 (retroactive to October 1, 2021), agencies will receive automatic Tier 2 SUM credit towards agency category management goals for all awards made to certified and self-certified socioeconomic small businesses. For purposes of this category management guidance, “socioeconomic small business” refers to 8(a) and other small disadvantaged businesses, women-owned small businesses, service-disabled veteran-owned small businesses, and small businesses working in HUBZones. This credit will be tracked under a new Tier 2-Socioeconomic Small Business (SB) designation.

Agencies shall continue to receive Tier 1 SUM credit for spending awarded to a small business contractor other than a socioeconomic small business, including under smaller decentralized set-aside contracts, if that award is designed to achieve small business goals and is conducted pursuant to a comprehensive, organized, agency-level strategy, as approved

¹⁴ SUM includes all contract spending that falls under any of three tiers, each of which is defined based on certain category management principles of stewardship. Tier 1 is agency-wide spending with strong contract management practices. Tier 2 is procurement spending via Government-wide or multi-agency contract vehicles that reflect strong management practices, including data and information sharing across agencies and use of cross-agency metrics. Tier 3 is procurement spending via Government-wide contract vehicles that meet additional “Best in Class” standards for management and stewardship.

by the agency after consultation with OMB. Agencies are not required to address plans for awards to socioeconomic small businesses, as credit will be automatically provided.¹⁵

Tier 2-SB SUM is designed to empower agencies to take full advantage of the best strategies for reaching underserved small business communities. In some cases, this will involve using existing Government-wide contracts to bring established socioeconomic small businesses into the agency's supplier base, helping to broaden the cache and resiliency of those businesses. In other cases, it will involve awarding small decentralized contracts or medium or large set-aside vehicles to create diversity by doing business with entities that are new or recent additions to the Federal market. Tier 2-SB SUM credit will be provided automatically regardless of the vehicle used to reach the socioeconomic small business.

- b. *Plan submission and execution.* When submitting plans to OMB, the SAO should be prepared to discuss with OMB's OFPP and SBA's Office of Government Contracting and Business Development (GCBD) any efforts by the acquisition policy and OSDBU offices to use the new Tier 2-SB SUM credit to increase the participation of underserved communities while upholding the principles of category management stewardship. The SAO is encouraged to share any promising strategies and identify areas where further guidance, data analytics, and/or training (either at the agency or government-wide level) may be needed.

In executing plans, SAOs, CAOs, SPEs, and OSDBUs shall ensure the following:

- **The achievement of socioeconomic and other small business goals shall be prioritized over achievement of category management goals if the achievement of both goals is not possible.** Agencies remain fully responsible for meeting and exceeding their small business and socioeconomic small business contracting goals. Steady focus on these goals is a key to advancing equity.
- **The achievement of socioeconomic and other small business goals shall be prioritized over achievement of Best in Class (BIC) contract goals if achievement of both goals is not possible.** BIC contracts shall not be used where doing so might imperil the agency's ability to meet and exceed its socioeconomic small business contracting goals, or might threaten growth of the agency's small business supplier base. BIC contracts are held by high-performing and seasoned contractors, including more than 2,000 well-established socioeconomic small businesses. Each agency should carefully consider where these sources can provide benefit if they are not already included in the agency's supplier base. At the same time, agencies must recognize that BIC contractors represent only a small fraction of the total number of small business contractors who do business with the Government. Also, BICs are generally designed for more seasoned contractors and therefore are not easily accessed by new and recent entrants. For these reasons, agencies must actively balance any consideration of BICs with other contracting strategies, including set-aside contracts, that can help the agency increase diversity within the agency's supplier base.

¹⁵ The same caveat applies to references to decentralized set-aside contracts in Attachments 3 and 4.

If, during the implementation of a category management plan, an agency believes a category management goal or target needs to be adjusted to achieve small business goals, the agency should make any necessary adjustments and promptly notify OMB.

Attachment 2 - Roles and responsibilities.

To better ensure the challenges facing small businesses are fully considered in the governance of category management practices and activities, section I(2) is amended to reflect that the Small Business Administration will participate as a voting member of the Category Management Leadership Council (CMLC), and the Department of Commerce will be added as a voting member, so that the Minority Business Development Agency and the Economic Development Administration may also contribute to the work of the CMLC.

Sections I(2) and (3) and section II(1) are amended to reflect that the CMLC, category managers, and SAOs will elevate the importance of requirements development in category management activities, both at the government-wide and agency levels. These officials will be expected to promote the early and effective engagement of key stakeholders to shape category management strategies and acquisition solutions, including program and requirements officials, end users, acquisition officials, information technology officials, and OSDBUGs.