

Barbara  
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IMPACT STATEMENT REGARDING CONTINUING EFFECTS OF THE  
BUDGET IMPASSE AND RECENT GOVERNMENT SHUTDOWN

Since the beginning of Fiscal Year 1996, the Minority Business Development Agency (MBDA) has experienced unprecedented obstacles and disruptions to its program activities. These problems are directly attributable to the current Congressional budget process, and to the series of furloughs and continuing resolutions that have wreaked havoc with the Agency's normal processes. As this report will demonstrate, this disruption has had a devastating impact on the minority businesses which MBDA serves, and the local economies of the regions in which those businesses are located.

Background

MBDA provides fee-for-service management/technical assistance and other business development services to minority entrepreneurs through a network of organizations which operate minority business development centers (MBDCs) in approximately 100 metropolitan areas. These centers provide hands-on assistance for bonding, bid estimation, financing, marketing, franchising, import/export, joint ventures, acquisitions and mergers, and in a variety of other areas, to enhance the growth and competitiveness of qualified minority-owned firms. The centers identify minority firms for contract and subcontract opportunities with federal, state and local government entities, and in the private sector. They also assist minority firms to identify both private- and public-sector sources of financing and assist with the preparation of financial documents for submission to lenders.

The MBDCs are funded under cooperative agreements with MBDA which are processed in conjunction with the Department's Office of Executive Assistance Management (OEAM). The awards are renewed annually and are re-competed every three years. Because the start dates and ending dates for these projects are staggered throughout the year, the processing of new awards and the renewal of existing awards is an ongoing activity.

## Disruption To MBDA Operations

### 1. Uneven Stream of Agency Funding

The series of short-term continuing resolutions (CR's) under which the Department has been operating has severely hampered MBDA's ability to manage its awards process. Not only has the lack of an appropriation prevented the Agency from looking across the entire year to determine which projects would be refunded, but the variations in the Agency's budget allocation under the differing CR's have prevented the Agency from knowing even which projects it will be able to fund from one month to the next.

### 2. Delays In Processing MBDC Awards

The recent shutdowns have both resulted in the temporary closing of MBDA's regional offices, Field Coordination Division, and other offices which are essential to the internal packaging of project awards. During this period, OEAM, the Department's Financial Assistance Review Board (FARB), and other grants-related functions were shut down as well. Because of the resulting delays in processing, there are, as of January 26, 1996, 17 projects for which awards have expired without renewal.

### 3. Delays In Processing Drawdown Requests For Funded Organizations

Departmental guidelines require that MBDC operators submit drawdown requests for operating funds at least monthly. Our information is that many of the operators submit these requests biweekly. Because of the prolonged nature of the December 18 shutdown, many of our operators have been unable to process a drawdown for several weeks. As a result, a number of center operators have had to resort to short-term borrowings to keep their projects going, or cut back their services to reduce costs.

## Impact On MBDC Operators

The impact of these events on the Agency's network of funded organization has been devastating. We have received reports of center closings, furloughs of center employees, and other suspensions of service, all of which are directly attributable to the budget standoff. As reflected in the following tables, of the 100 centers authorized under the Agency's funding plan, only 71 centers are fully operational, 18 have closed down, and 11 are operating on skeleton staffs. Furthermore, the funding problems which the budget impasse has created for our centers are not limited to any geographic region, but affect the entire country.

Status of MBDA Funded Organizations

<u>Regions</u>	<u>Fully Operational</u>	<u>Skeleton Staff</u>	<u>Closed</u>
ARO	18	3	5
CRO	13	0	1
DRO	18	0	4
NYRO	13	3	3
SFRO	9	5	5
	71	11	18

Geographic Location of MBDA Funded Projects  
Which Have Closed or Scaled Back Services

<u>Region</u>	<u>Projects Closed</u>	<u>Projects Operating Skeleton Staff</u>
Atlanta	Charleston Charlotte Columbus Jackson Raleigh/Durham	Cherokee NABDC Louisville Orlando
Chicago	Cleveland	
Dallas	Corpus Christi Houston New Mexico NABDC Salt Lake City	
New York	Baltimore Hampton Roads Middlesex	Brooklyn Bronx Newark
San Francisco	Alaska Arizona NABDC Bakersfield CA NABDC Riverside	Phoenix Portland Santa Barbara Seattle Tucson

(As of January 26, 1996)

Because so many of its services are delivered through its network of private contractors, the impact of the budget crisis on MBDA is substantially greater than on many other Commerce bureaus. Indeed, this crisis has virtually crippled the Agency's delivery system. Many of MBDA's center operators are themselves small and minority-owned firms who lack the financial resources of larger, better-capitalized government contractors. It is a testament to their staying power that so many of them have continued to operate notwithstanding their inability to drawdown award funds, and are in essence financing the ongoing work of the Federal Government themselves. As the attached chart indicates, the total costs which have been advanced by those centers which have remained in operation since December 18, 1995 are substantial. See Table C, Total Average Cost of Operation for MBDA Funded Projects During Period of Federal Shutdown.

Finally, it is arguable that the most significant impact which the budget impasse has had on the center operators is the continuing environment of instability and uncertainty which permeates the entire network. The highly publicized budget debate, and efforts within Congress to dismantle the Commerce Department, have caused the centers to lose credibility as a long-term resource within their local markets. This credibility is essential for a number of reasons. First, it enables the centers to attract and retain qualified professional consultants. Second, it enhances the stature of the center within the local business community, including the banks, developers, corporate purchasing departments, state and local agencies and others with whom the centers negotiate on behalf of their minority business clients. These contacts often become sources for future referrals to the center. Third, it enables minority entrepreneurs to feel comfortable entrusting the centers with their critical business planning and strategic issues. The budget impasse is tragically eroding the long-term credibility of the Business Development Center Program.

#### Impact On The Minority Business Community

Without the Agency's MBDCs to assist eligible minority firms to capitalize on available market opportunities, there would be a dramatic ripple effect throughout the entire economy. Already we are seeing disastrous consequences from the closing and cutbacks in service of the centers previously identified. The inability to obtain needed MBDC assistance has resulted in numerous sales and lending transactions failing to close, negotiations coming apart at critical stages, and in many cases an irrevocable loss of the time and energy spent by firm principals in pursuit of these aborted efforts.

As indicated in the following table, we have identified actual performance reductions of more than \$38 million dollars for the 18 MBDCs and NABDCs which have been closed as a result of the budget crisis. This amount includes more than \$20 million in loans (and other financing package approvals) not obtained by the clients of these centers. The dollar value of procurement awards obtained by clients with the help of these centers has been reduced by \$18.3 million, during this three month period, from the procurement amount reported for the same period in 1994.

**Comparison of October 1, 1994 through December 31, 1994  
To The Same Time Period in 1995  
For Projects That Are Closed**

	October thru December 1994		October thru December 1995		Difference In Dollar Value of Loans	Difference In Dollar Value of Procurement
	Dollar Value of Approved Loans	Dollar Value of Approved Procurement	Dollar Value of Approved Loans	Dollar Value of Approved Procurement		
<b>Atlanta Regional Office</b>						
Charlotte	\$950,000		\$0	\$0	(\$950,000)	\$0
Charlotte	\$846,000	\$81,807	\$0	\$0	(\$846,000)	(\$81,807)
Columbus	\$5,676,414	\$3,927,952	\$0	\$0	(\$5,676,414)	(\$3,927,952)
Jackson	\$123,540	\$141,860	\$0	\$0	(\$123,540)	(\$141,860)
Raleigh/Durham	\$45,300	\$52,793	\$0	\$174,265	(\$45,300)	\$121,472
<b>Chicago Regional Office</b>						
Cleveland	\$75,000	\$55,000			(\$75,000)	(\$55,000)
<b>Dallas Regional Office</b>						
Corpus Christi	\$225,000	\$106,067	\$350,000	\$0	\$125,000	(\$106,067)
Houston	\$8,934,936	\$1,923,887	\$0	\$0	(\$8,934,936)	(\$1,923,887)
New Mexico NABDC	\$1,918,500	\$9,973,206	\$0	\$0	(\$1,918,500)	(\$9,973,206)
Salt Lake City	\$335,000	\$65,382	\$185,000	\$435,047	(\$130,000)	\$369,663
<b>New York Regional Office</b>						
Baltimore	\$609,222	\$181,287	\$20,000	\$231,000	(\$589,222)	\$49,713
Hampton Roads	\$1,410,771	\$1,091,741	\$0	\$0	(\$1,410,771)	(\$1,091,741)
Middletown	\$30,000	\$0	\$85,000	\$912,750	\$55,000	\$912,750
<b>San Francisco Regional Office</b>						
Alaska	\$0	\$0	\$0	\$0	\$0	\$0
Arizona NABDC	\$0	\$0	\$0	\$0	\$0	\$0
Bakersfield	\$0	\$0	\$209,000	\$25,000	\$200,000	\$25,000
CA NABDC	\$0	\$1,690,429	\$0	\$89,035	\$0	(\$1,601,394)
Riverside	\$80,000	\$938,000	\$0	\$0	(\$80,000)	(\$938,000)
<b>Totals for these BDCs</b>	<b>\$21,259,683</b>	<b>\$20,229,411</b>	<b>\$840,000</b>	<b>\$1,867,097</b>	<b>(\$20,419,683)</b>	<b>(\$18,162,314)</b>

It is important to recognize that this \$38 million negative impact which we have specifically identified for the 18 closed centers does not reflect the additional loss of production from the 11 centers which are operating with reduced staffs. Neither does it reflect the harm to the overall network caused by the uncertainty surrounding the program's long-term future. This impact would be almost impossible to precisely identify at the micro level of operation, however, we do know that total output of all MBDCs and NABDCs declined from the 1994 level by more than \$209 million during the period October 1, 1995 through December 31, 1995. That amount includes a reduction to approved financing of \$151.5 million and more than \$57 million in procurement awards.

The inability to obtain the direct, hands-on assistance which the centers provide will continue to result in a loss of revenue and valuable business opportunities for minority enterprises. However the impact will be felt beyond the minority community. Without fully-operational centers to help minority firms develop loan packages, banks and other financial institutions have had to forego profitable lending opportunities. Numerous government contracts are at risk because of the possibility that centers will be unavailable to assist with procurement issues. New franchises, purchases of plant and equipment, and real estate transactions have also been put in jeopardy. The greatest toll is from the loss of jobs that will result if full funding for this program is not restored. 1/

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Attached to this statement as Exhibits 1 through 5 are a series of anecdotal examples of the hardships imposed upon current center clients as a result of the inability to access MBDC assistance, as well as from the budget impasse in general.

**MINORITY BUSINESS DEVELOPMENT AGENCY**

**INFORMATION TECHNOLOGY  
OPERATIONAL PLAN**

**FISCAL YEAR 2001**

**NOVEMBER 3, 2000**

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# I Description of IT Organization and Management Processes

## I.A IT Management Organization

MBDA has made some administrative changes that indicate management's enhanced usage of our online delivery service, the Phoenix-Opportunity Match System. This revamped organizational structure is reflected in the description below.

### OFFICE OF THE DIRECTOR.

The **Director** determines the focus of the Agency, with the formulation of policies and programs, which direct and manage all activities of the Agency. The **Deputy Director** is the principal assistant to the Director. The Deputy Director will assist the Director in the day-to-day activities of the Agency; aid in supervising the Executive Staff in the formulation and execution of the budget, personnel matters, *information technology issues*, program and operational activities and acts for the Director in the latter's absence. The **Chief Counsel** serves as legal advisor to the Director and provides programmatic legal services for all components of the Agency.

### ASSOCIATE DIRECTOR FOR MANAGEMENT.

The **Associate Director for Management** reports directly to the Deputy Director and is responsible for management of the Agency's budget, debt collection and resolution activities, human resources development, management and organization, administrative support, and the *information technology component*. The Associate Director is also ultimately responsible for the Agency's compliance and implementation of the Chief Financial Officers Act (CFOA), the Federal Managers' Financial Integrity Act, the Government Performance and Results Act (GPRA), the Government Paper Elimination Act (GPEA), and the Freedom of Information Act (FOIA), except to the extent that another agency providing accounting services to the Agency has such responsibility.

The functions of this Office are carried out through its principal organizational elements:

- The **Office of Administration and Financial Management**, which administers internal management systems;
- The **Office of Program Support Services**, that develops procedures for Regional Office implementation of Agency grants, and manages the solicitation of program proposals and their evaluation in response to those solicitations;
- The **Office of Information Technology Services (OITS)**, which develops and maintains information systems to satisfy management requirements.

The *OITS* is charged with collecting, processing, and assembling all on-going and special data and reports, and developing standards for and maintaining the documentation and the quality of the Agency's information systems. In coordination with other affected Agency offices, the Office shall provide system analysis, design, development support, and oversight for the Agency's automated systems for administrative and program management, and provide computer software design, development, implementation, and maintenance to the Office of the Director and other Agency operating units.

The supervision for the functions of this office rests with the agency's Chief Information Officer (CIO). The CIO is accountable for and tasked with the responsibilities identified below.

#### CHIEF INFORMATION OFFICER (CIO)

The **Chief Information Officer** has to, as part of the office's on-going tasks, implement the provisions of the CCA and the Paperwork Reduction Act regarding the acquisition, management, and use of information technology (IT) resources; implement the provisions of Chapter 35 of Title 44, U.S.C., "Coordination of Federal Information Policy" that are applicable to the Agency; manage Agency compliance with the Computer Security Act of 1987; and implement OMB Circular A-130, "Management of Federal Information Resources" and Executive Order 13011 of July 16, 1996, "Federal Information Technology." The CIO shall serve as the principal advisor to the Director on information resources, information policy, and information systems management; and strive to improve the operations and service delivery of MBDA programs through the effective use of information technology.

The CIO is responsible for providing advice and other assistance to the Director and administrative staff of the Agency. He must ensure that public outreach and program specific information is acquired, and information and communications technology for programmatic and other purposes is managed in a manner that implements priorities established by the President, the Secretary of Commerce and the Director of the Minority Business Development Agency.

The CIO's major duties and responsibilities are to serve as the principal advisor to the Director on matters of design, development, implementation, and revisions of policies, plans and programs to facilitate and strengthen the cost-effective, efficient, and timely application of public affairs, advocacy, information technology and other resources to the achievement of strategic Agency missions and goals. To this end, the CIO will normally participate in high level meetings as the Director or other senior Agency principals may convene for the purpose of establishing, reviewing or revising strategic Agency missions.

In addition, the CIO, on behalf of the Director and all other senior Agency officials, will exercise agency authority in the oversight of the establishment and promulgation of policies, plans and programs to ensure the Agency's nation-wide information resources are designed, acquired, operated, maintained, monitored and evaluated to support the cost-effective and timely achievement of strategic Agency missions.

The CIO will develop implementation and maintenance of an appropriate information technology architecture for the Agency to include supervision of contractors and other outside support for Agency programs.

Included, as a task, is the establishment and circulation of technical and operating standards for application to Agency's public affairs, advocacy, administrative and other information systems.

The CIO will provide guidance and direction to Agency elements responsible for preparing performance plans pursuant to the Government Performance and Results Act, strategic plans pursuant to the Paperwork Reduction Act, and other plans concerning information resources

management as may be legislatively mandated or otherwise required by Executive Branch or Department direction, with a view to ensuring the integration into the Agency operations.

The CIO ensures, in collaboration with affected operating elements, coordinated monitoring, review, and evaluation of the management, utilization, performance and security of Agency information technology, and administrative information resources, program research in support of Agency goals and objectives, and automated information systems supporting administration and electronic outreach. In this capacity, the CIO recommends funding priorities with respect to the acquisition, operation, maintenance, and improvement of Agency information systems, resources, programs and projects, including the discontinuance or termination of particular programs and projects.

Other duties of the CIO include initiating and overseeing implementation and evaluation of training plans to ensure Agency personnel acquire and retain technology skills needed to manage and use existing and planned public outreach, and other information technology resources, and to recommend changes in such plans as warranted by operating experience and anticipated conditions. The CIO establishes the process to evaluate whether proposed collections of information relevant to the mission of Agency's public affairs, advocacy of Agency programs, and integration of Agency information resources with public affairs, advocacy and administrative programs should be approved and to certify such proposed collections of information for OMB and Departmental review and approval.

MBDA's CIO must provide or ensure, in coordination with the Department's Office of Legislative and Intergovernmental Affairs and affected Agency elements, a continuing liaison with members and staffs of Congressional committees having oversight responsibilities for the Agency's electronic outreach resources and their management. In conjunction, the CIO will develop contacts with industry and academic communities, state and local governments and non-governmental organizations with a view toward identifying "best practices" information technology and administrative information resources management which might create opportunities for the Agency or its clients, and considering general issues of common interest. This carries over to establishing contacts with officers in other Executive Branch agencies serving in comparable positions, and representing the Department in such inter-agency groups concerned with public affairs, advocacy, information technology and administration or other information resources management.

### ***1.B Investment Management Process***

MBDA makes use of review committees to establish organizational guidelines and changes that direct the various units in the accomplishment of the agency's mission-critical goals. This process involves the use of consulting groups made up of the senior level management, line managers and division chiefs. These groups are charged with giving assistance in developing strategic plans and guiding the agency toward its desired mission driven outcomes. Following are some of the responsibilities that these committees have:

- Define mission, set goals and policy
- Define organizational structure
- Allocate funds
- Review operational plans and report to senior management
- Coordinate systems and project planning
- Define and review IT resource requirements
- Critique project planning and implementation

When the goals are set and the strategic planning sessions are completed, and the agency's direction is established, these substantive ideas are conveyed to the Information Technology (IT) office for implementation analysis. The IT office will formulate a plan to encompass all phases of the planning process and produce a work plan which establish the methodology for accomplishing the agency's' objectives.

The plan will be reviewed by the presenting committees to ensure that all units within the agency are in line with the proposed process and that the mission of the agency will be fully realized by this course of action.

## ***I.C IT Architecture***

### ***I.C.1) Current IT Architecture***

Each of the five regional offices LANs (Atlanta, Chicago, Dallas, New York, and San Francisco) are connected through PVCs with committed information rate of 512kb/s. As a baseline, this CIR permits basic email connectivity, Internet access, directory replication services, and limited teleconferencing ability.

A total of eight circuits are managed in the MBDA WAN environment. Each regional office LAN is connected through 512k PVC terminated by a General DataComm CSU/DSU and Cisco 3600 series router. LAN services are distributed in a switched Ethernet configuration using 3Com equipment. Three remaining circuits provide aggregate frame relay service in Washington and a clear channel T1 for dedicated Internet access. All Internet services in regional offices are distributed through one interface at MBDA headquarters.

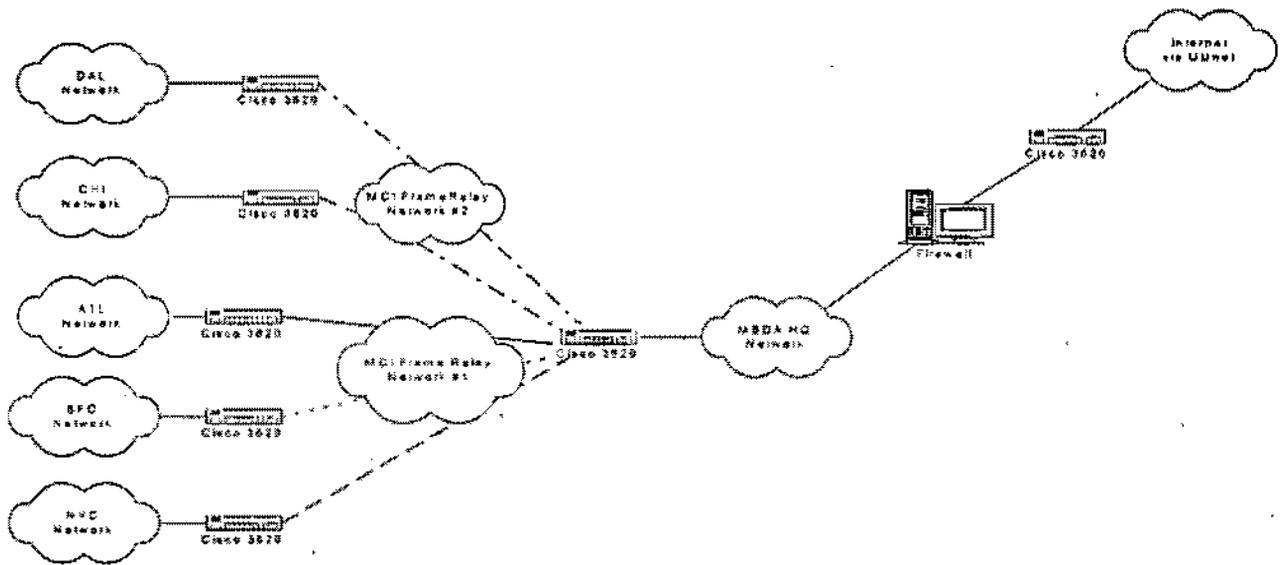


Figure 1 MBDA Current Wide Area Network

### I.C.2) Planned IT Architecture

The portal is going to be run on two Compaq Proliant ML570 with two Xeon 700 CPU each, one (1) GB of RAM, redundant power supply and redundant fans. Each server has an array controller in it that provides hardware RAID support. The two servers are going to be connected to a Cisco load balancer in order to increase performance and reliability. The current Checkpoint firewall is being replaced with a couple of Cisco PIX 515 firewalls. The PIX firewalls are going to form a DMZ for the web servers. A Cisco IDS 4220E is also being purchased in order to monitor the network. Additionally, the internal network at Headquarters is being upgraded to a GIGA backbone from the current 10/100 infrastructure.

The Compaq Proliant ML570s are going to be running RedHat Linux 6.2E (which is specifically built for Oracle) with Allaire ColdFusion 4.5 Server Enterprise, Oracle 8i, and Apache server.

The future architecture of the MBDA network utilizes Gigabit Ethernet as the primary service connection between access layers and core/distribution layers.

The future network is divided into three logical functional areas. 1) The server farm area, 2) The core/distribution area and 3) The access layer (closets). As seen in Figure 1, Desktop

workstations communicate to file servers through 100 Mbps Ethernet switches located in each wiring closet. Each wiring closet has a 1000 Mbps Gigabit Ethernet connection to the Core switch located in the main data center.

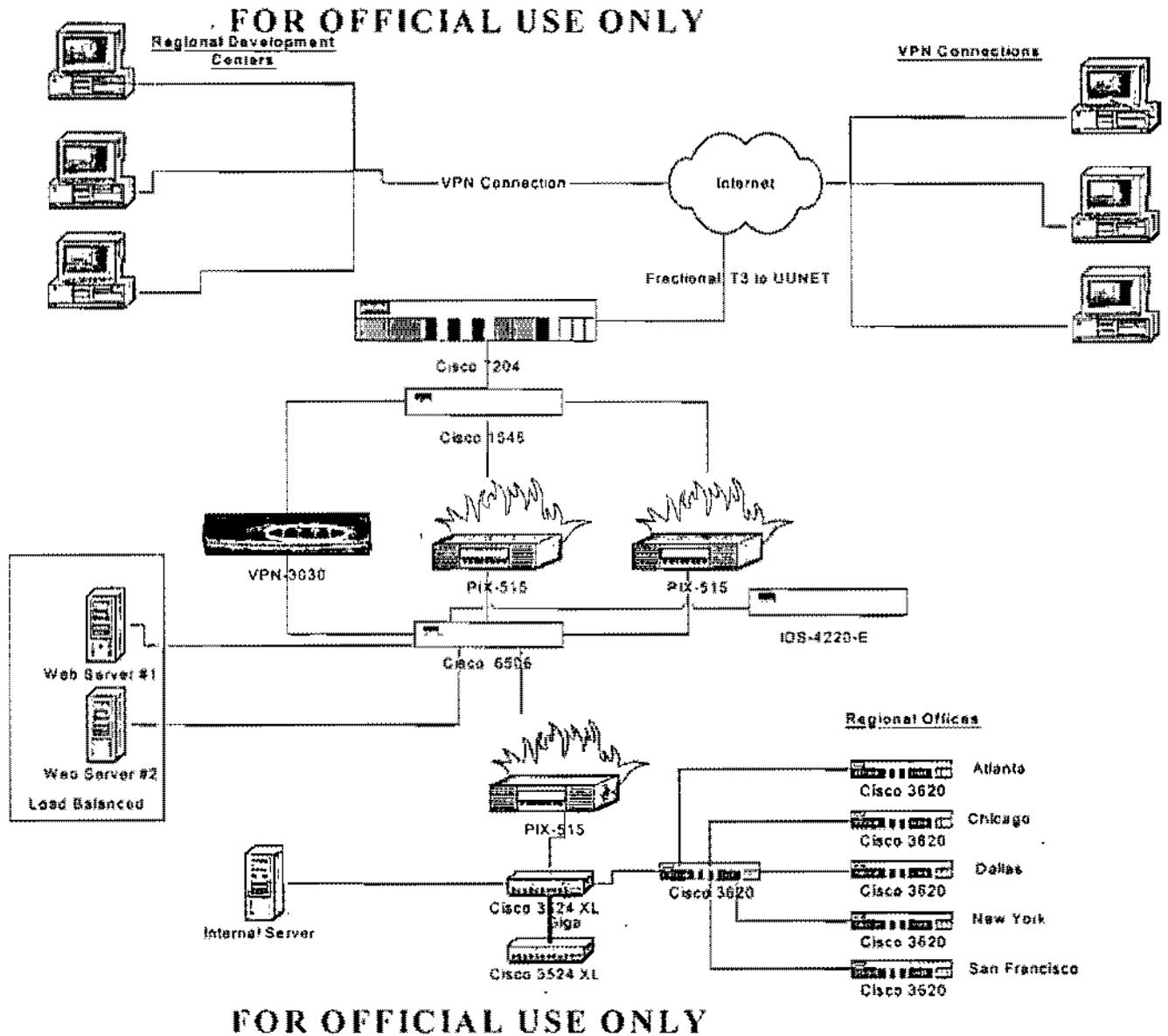


Figure 2 MBDA Future Network

### Future Hardware

The PIX 515 Firewall is intended for Small/Medium Business and has throughput measured at 120 Mbps with the ability to handle up to 125,000 simultaneous sessions. The PIX Firewall delivers the highest-performance, enterprise-class firewall product line within the Cisco firewall family. The integrated hardware/software PIX Firewall series delivers high security without impacting network performance, scaling to meet the entire range of customer requirements. The

Cisco Secure PIX Firewall series is a key element in the overall Cisco end-to-end security solution set and is the leading product line in its segment of the firewall market.

The Cisco 7204 or Internet Router interconnects the Campus and WAN, allowing voice video and data to be exchanged at high speed between sites. This requires three abilities – high speed WAN interfaces including ATM DS3 and OC3, Packet over DS3 and OC3 (SONET/SDH), high speed LAN interfaces such as Fast Ethernet, and high performance network services. The 7200 provides these in a cost effective, compact package.

The Catalyst 6506 delivers industry-leading, integrated solutions for both enterprise and service provider environments. The Catalyst 6509 provides scalable, intelligent multi-layer switching for enterprise and Internet service provider (ISP) infrastructures, intelligent server switching and Web scaling technologies, integrated voice solutions and local area network (LAN)/WAN integration

The Cisco Systems Catalyst 3500 series XL is the industry's premier line of stackable 10/100 and Gigabit Ethernet switches that deliver premium performance, manageability, and flexibility, with unparalleled investment protection. The Catalyst 3500 series product family offers customers tremendous benefits through Gigabit Ethernet-based configuration options, new Cisco Switch Clustering multi-device management architecture, and embedded voice and IP telephony support.

The Catalyst 3500 series is ideally suited for enterprise wiring closets, branch offices, and medium-sized local-area networks (LANs), delivering best-in-class performance through its 10.8-Gbps switch fabric and deployment flexibility with a wide array of wiring closet connectivity options.

The Cisco VPN 3000 Concentrator Series is a best-of-breed, remote-access VPN solution for enterprise-class deployment. A standards-based, easy-to-use VPN client and scalable VPN tunnel termination devices are included as well as a management system that enables corporations to easily install, configure and monitor their remote access VPNs. Incorporating the most-advanced, high-availability capabilities with a unique purpose-built, remote-access architecture, the Cisco VPN 3000 Concentrator allows corporations to build high-performance, scalable, and robust VPN infrastructures to support their mission-critical, remote-access applications. Unique to the industry, it is the only scalable platform to offer components that are field-swappable and can be upgraded by the customer.

## ***1.D IT Improvements***

### **1.D.1) System Improvements or Replacements**

Over FY 2000, the MBDA has re-evaluated its use of the internet. Beginning with an intranet site for its Strategic Partners and an extranet to provide information to the general public, the MBDA has shifted to planning a Web Portal that will serve as the premier site for Minority Business Entrepreneurs to come to for all their business needs. Heading into FY 2001, the idea

of the Web Portal has expanded to become a true Application Service Provider (ASP). As an ASP, the MBDA will be able to provide real products and services to the Minority Community, in addition to the vast wealth of information. To accomplish this, the MBDA has dedicated a significant amount of resources to improving its IT architecture to facilitate this new role.

This decision poses several challenges to the MBDA:

- ✓ **Performance** – With increased traffic, MBDA’s systems need to provide higher performance.
- ✓ **Reliability** – As end users become more dependent on the MBDA’s system, the reliability of this system will become an important factor in maintaining the user’s trust.
- ✓ **Security** – Because MBDA will attract more attention through increased site hits and provide many more important services to end users, security will need to be tightened and new policies written. We will need to guard against attacks while securing our proprietary code and the users’ data.
- ✓ **Interoperability** – The MBDA will continue to expand and add more and more products and services. As technology increases to support these new directions, the MBDA must maintain a system that is open and extensible to new technologies.

To meet these needs, the MBDA will choose technologies and supporting systems that are open source or dedicated to open standards and architectures. The value of open source technology is described in Appendix A.

Because of the dramatic change in the MBDA’s direction, the current three web sites ([www.mbda.gov](http://www.mbda.gov), [partner.mbda.gov](http://partner.mbda.gov), [mbdanet.mbda.gov](http://mbdanet.mbda.gov)) will be replaced by one site: [www.mbda.gov](http://www.mbda.gov). As this happens, the entire system this ASP runs on will be ported to a new environment. These changes will accomplish the goals stated above.

	Current	New
<b>Operating System</b>	Microsoft Windows NT 4.0	Red Hat Linux
<b>Front End</b>	Microsoft Active Server Page	Allaire ColdFusion
<b>Database</b>	Microsoft SQL Server 7.0	Oracle 8i, Release 2
<b>Web Server</b>	Microsoft IIS	Apache
<b>GIS</b>	MapQuest	ESRI

These changes will improve performance to end-users and allow MBDA to impose stricter security policies on the system. Additionally, it will eliminate the need for smaller subsystems, such as the Opportunity Match Automated Email System, currently written in Visual Basic (VB). This subsystem will be re-written in ColdFusion.

#### I.D.2) Processes Improvements or Replacements

In addition to the systemic changes outlined above, the MBDA will also undertake a serious effort to improve the quality of its data. Currently, minor validations are being done on data being entered into the MBDA system. This data must then be periodically validated manually, expending vast amounts of resources. In FY 2001, the MBDA will begin placing more stringent

validations and checks at the point of data entry, thereby reducing the need to extraneous manual validation efforts in the future.

Spell Checker – An on-line spell checker can validate user input before it hits the database eliminating spelling errors that may effect the quality of service provided to the user.

Address Verification – The MBDA is evaluating on-line address verification tools that would standardize user-inputted addresses to USPS addresses. This will ensure addresses have a higher probability of being successfully geocoded.

More On-line Validations – Additionally, more validations will be added to the front end to check formats of various fields and check references to standard coding schemes. This will eliminate errors like zip codes without 5 digits, or invalid NAICS codes.

## ***I.E IT Security***

MBDA, in conjunction with efforts made by the Department of Commerce, Office of the Chief Information Officer (DOC/OCIO), proceeds to make Information Technology (IT) Security an issue of high priority. MBDA has appointed personnel to the task of producing an IT security plan, in line with established OMB as well as DOC-wide IT security policies. A pre-FY2001 assessment by members of the GAO, of MBDA information systems and security policies on September 6, 2000, produced a measure by which MBDA has initiated and implemented higher priority, security standards. Details of all MBDA IT security implementations and standards, both present and future, will be made available in MBDA's IT Security Plan, due in the middle of November 2000.

Currently, information system and physical plant security procedures are in place with copies of system passwords, back-up tapes and cipher-lock combinations held in a fireproof safe. Both system passwords and cipher-lock combinations are changed on a regular basis, with knowledge of those given to appropriate IT personnel.

All employees with access to MBDA information systems, both government and contractor, have been cleared by DOC security. Additionally, all MBDA personnel with access to specific IT systems (e.g. network servers) have been appointed and accounted for separately.

The MBDA Information Security Officer and senior system administrator staff conduct periodic, systematic reviews of access by users in order to determine if unusual activities are taking place. Access is also monitored for the purpose of giving access to individuals to certain areas on systems where the need exists. Security auditing of systems is employed and reports of attempted illegal entry are documented. To date, there have been no direct incidents of illegal entry into MBDA systems. Additional periodic monitoring of auditing systems is planned as future system development occurs.

Regular updates from Microsoft Corporation addressing Windows NT security procedures are immediately implemented. Additionally updates of anti-virus software (e.g.; Norton Anti-Virus)

are put into place as necessary and are applied to all MBDA IT systems. In order to keep abreast of these updates, monitoring of various certified sources (FedCIRC, SARC, etc.) for such updates is done by both the ITSO as well as senior network administration staff.

Currently, MBDA IT systems are protected from outside penetration via a network firewall system. As policy has been established by agency management, the MBDA ITSO along with senior network administrator staff have decisively begun the process of implementing stringent measures with regard to access through various Internet means (e.g. lock-out of specific protocols, disallowing usage of specific ports, etc.) With these in place, MBDA hopes to have in place a better means to not only control issues related to network security, but to also monitor access and usage of network resources.

In FY2001, a new infrastructure will be put in place and with it, continued support, implementation and upgrade of IT Security policies and procedures, as they are applicable to those systems. One especially unique security feature will be the implementation of multiple firewalls to protect MBDA network systems from external intrusions.

MBDA does not currently operate classified systems nor do those systems contain information deemed classified or even business proprietary. Regardless, security considerations on all MBDA information systems has been re-assessed in light of recent threats and actual attacks to both national and international IT systems from malicious individuals (e.g. DdoS attacks). Therefore, MBDA will continue its efforts in maintaining security measures of the highest standards.

### ***1.F FY 2000 Accomplishments***

During fiscal year 2000, the MBDA re-examined its current IT infrastructure and charted a new direction for the future. Several major accomplishments resulted from this:

- ✓ **Y2K** - as was a major priority for every organization across the world, the MBDA prepared for any Y2K bugs by auditing all systems and complying fully with all DOC requirements. The MBDA was pleased to experience no problems related to Y2K.
- ✓ **Test Environment** – changing platforms entirely is a tremendous effort. To prepare for this, the MBDA implemented a test environment of Oracle 8i running on Red Hat Linux, plus the installation of ColdFusion Server.
- ✓ **Begin Development** – the MBDA has already begun the development effort. This effort includes not only coding and alpha releases of key functionality but also includes the more fundamental processes and workflow of how to design each set of functionality according to CMM Level 2.
- ✓ **Backbone Upgrades** – the MBDA has also planned a number of upgrades to its infrastructure that will increase its capacity in anticipation of future growth. The details of these upgrades took months to finalize and are only awaiting FY2001 monies to proceed. The MBDA was able to upgrade equipment at all its 5 regional offices.

- ✓ New Modules – the MBDA released two new functions via the internet in FY2000. The eGrants module allowed the public to apply on-line for grants for Minority Business Development Centers, thereby eliminating large quantities of paper work. The Resource Locator allows users to locate, map and print driving directions for resources available to minorities based on proximity to a target address. This is based on geocoding resource information.

## II Financial Summary

Exhibit 53

Justification and Other  
Reporting Requirements

### Report on Information Technology

II.A

**Minority Business Development Agency**  
(in thousands of dollars)

Line number Code	Entry	2000	2001	2002	Percentages CY	
		PY Act.	CY Est.	BY Est.	Financial %	IT Security %
<b>Part 1. Data on IT Systems by Mission Area</b>						
006-40-01-01-01-0000-00	Mission Area I: Financial Management					
006-40-01-01-01-0000-00	Major IT:					
006-40-01-01-01-0000-00	All Other Financial Management:					
006-40-01-01-01-0000-00	Development/modernization/enhancement	-0-	-0-	-0-		
006-40-01-01-01-0000-00	Steady State	-0-	-0-	-0-		
006-40-01-01-01-0000-00	Subtotal, IT costs	-0-	-0-	-0-		
006-40-01-01-01-0000-00	All Mission Areas:					
006-40-01-01-01-0000-00	Development/modernization/enhancement	-0-	-0-	-0-		
006-40-01-01-01-0000-00	Steady State	-0-	-0-	-0-		
006-40-01-01-01-0000-00	Total, All Mission Areas	-0-	-0-	-0-	0%	0%
<b>Part 2. Data on IT Infrastructure and Office Automation</b>						
Significant IT Infrastructure System:						
Database System						
006-40-02-02-02-0001-00	Development/modernization/enhancement	1230	1170	1550		
006-40-02-02-02-0001-00	Steady State	270	330	450		
006-40-02-02-02-0001-00	Subtotal, IT Costs	1500	1500	2000	0%	4%
Appropriation/Funding Sources						
006-40-02-02-02-0001-04	Salaries & Expenses Budget	1500	1500	2000		
Long Haul Communications						
006-40-02-02-02-0001-00	Development/modernization/enhancement	-0-	-0-	-0-		
006-40-02-02-02-0001-00	Steady State	115	107	105		
006-40-02-02-02-0001-99	Subtotal, IT Costs	115	107	105		
Appropriation/Funding Sources						
006-40-02-02-02-0001-07	Salaries & Expenses Budget	115	107	105		
All Infrastructure Systems:						
006-40-02-02-02-0001-00	Total Development/modernization/enhancement	1230	1170	1550		
006-40-02-02-02-0001-00	Total Steady State	270	330	450		
006-40-02-02-02-0001-00	Total, All Infrastructure Systems	1500	1500	2000	0%	4%
<b>Part 3. Data on IT Architecture and Planning</b>						
		N/A	N/A	N/A		
<b>Part 4. IT Resources Summary:</b>						
Mission Area, Infrastructure, and Architecture Totals:						
006-40-04-02-02-0001-00	Development/modernization/enhancement	1230	1170	1550		
006-40-04-02-02-0001-00	Steady State	270	330	450		
006-40-04-02-02-0001-00	Total, All IT Costs	1500	1500	2000	0%	4%

### **III Management and Major System Initiative**

#### **III.A List of Major and Significant Systems**

< This section lists all major and significant systems. – Jeff Sauri >

#### **III.B Capital Asset Funding for Major Systems**

Not Applicable, as none of our systems are considered major.

#### **III.C Management IT Initiatives**

- ✓ The MBDA has planned a formal study of the new network, once the upgrades are made. The results of this study will help tune the equipment for performance and efficiency.
- ✓ A tracking system called TrackIt was installed in FY2000 which allows the MBDA to monitor what help desk related tasks are being performed. Analyzing the results of these tickets will help MBDA evaluate where it is spending money and how much the maintenance of its systems is costing not only in dollar value, but in man-hours too.
- ✓ Under GAO's direction, the MBDA is instituting a stringent level of security. The MBDA will write a charter identifying the goals of any policy and then continue documenting and reinforcing these policies and measures.
- ✓ As part of its development effort, the MBDA is creating coding and design standards for future development to ensure a consistent and reliable quality of programming in ColdFusion and database design.

#### **III.D Non-compliant Systems and Corresponding Corrective Measures**

There have been several delays to the implementation of these systems due primarily to the Continuing Resolution. We have been unable to increase the level of effort needed to release the portal in the desired time frame. We have also been unable to purchase software and establish relationships with organizations needed for the full implementation. The MBDA will continue to design and plan for the FY2001, so that we will be ready to move forward immediately following the end of CR.

## Appendix A. OPEN SOURCE DEVELOPMENT BENEFITS AND CHALLENGES

By Sean Breen  
Chief Technology Officer, Q-Industries

Open Source Development (OSD) is a name for a new model of software development that has provided significant advances in the last few years. Most notable of these Open Source software creations is the world-class Linux operating system and the leading web server, Apache. The Open Source model is both a political and technical system that combines to create the perfect environment for very rapid advances in software development.

Two elements comprise the mainstay of OSD, these are the General Public License (GPL) and the Internet. The GPL (<http://www.fsf.org/copyleft/gpl.html>) provides the political infrastructure that guarantees that GPLed software is always freely distributed and the software code (the "source" code) is public and available for modification and redistribution. More importantly, though, the GPL stipulates that all modifications to Open Source software also to be freely and source publicly available. Any bug fixes and modifications to GPLed software are automatically covered by the GPL and are hence publicly available. The GPL, in essence, prevents GPLed software from being subverted and morphed into closed source (where the source code is not available for public inspection and use). Once software is GPL, it is always GPL.

The second element that has contributed to the meteoric rise of OSD is the Internet. The unique ability of the Internet to interconnect millions of people together in a highly collaborative environment has allows thousands of people to contribute efficiently to Open Source projects. In fact, Internet based technologies such as CVS (Concurrent Versioning System) allows anyone on the Internet to "check-out" GPL source code for a project, improve the code and then "check-in" the code for integration back into the project. This system allows a tremendous number of developers to work on selected pieces of a project in parallel. In addition, each piece of code that is "checked-in" is subject to vast amount of peer review, as all source code is freely available.

This system of freely available source code -- thanks to the GPL -- and massively parallel code development, -- thanks to the collaborative Internet environment -- results in a software development model which reviles, or even surpasses, the ability of traditional software company to develop software and provide bug fixes.

Open Source Development provides these key benefits, which are simply not available to traditional, closed source software companies.

**Extreme Development** - Hundreds, and sometimes thousands, of programmers contribute to the development of Open Source software. These programmers, often from around the world, provide a talent pool that is unparalleled in the closed source world of traditional software development. Thanks to the GPL and the Internet, anyone with the will and skill can contribute to a project. Each programmer can "bite off" a small piece of the overall project and work in parallel with thousands of other programmers. This massively parallel development results in development cycles that are measured in days or weeks, not the months or years associated with the plodding, closed source development model. Open Source projects leap forward with

generations worth of improvements in a very short amount of time. For examples of extreme development in action, go to <http://www.sourceforge.com> or <http://www.freshmeat.com>.

**Quick Bug fixes** - Just as hundreds of programmers can work to improve the Open Source project, so do hundreds working to eliminate bugs in the system. In fact, OSD is intrinsically setup to expose bugs quickly and allow timely resolutions. Since the GPL requires publicly available source code, bugs can be spotted and resolved by anyone with the required skills. Additionally, the GPL requires that any bug fixes also be freely available. In the traditional closed source world, bug fixes are incumbent on the original developer of the software, since they are the only ones with access to the original source code. This method ensures that (1) bug fixes come slowly, since only the original code developer can examine code, and (2) you are beholden to the original code developer for the fix (usually via a service contract).

**Massive Support** - All Open Source code is available to anyone who wishes to use, view or modify the code. This completely open system allows for questions to be studied and resolved quickly by a very large collaborative Internet based communities, such as <http://www.questionexchange.com>. As with other aspects of OSD, these communities are formed by hundreds or thousands of users and programmers, working in a highly collaborative and parallel fashion.

**Highly Secure** - A critical benefit of OSD is security. In the traditional closed source world, the source code, which secures a system or application, cannot be freely viewed by independent parties for security flaws, poor coding or backdoor access. This lack of peer review seriously reduces the chance of critical security flaws from being brought to light and corrected before disaster strikes. Indeed, there is nothing from stopping traditional software companies from purposely coding backdoor access to their systems (<http://www.zdnet.com/zdnn/stories/news/0,4586,2328464,00.html>), or simply writing poor security systems with the mistaken notion that "security through obscurity" (<http://slashdot.org/features/980720/0819202.shtml>) is a viable security model.

In the Open Source model, all of the code for the system is available for anyone to view, at any time for any reason. In this model, it is much more likely that a security flaw will be noticed via third party analysis, exposed and corrected, before it is exploited. Since all code is public and freely available, it would be virtually impossible to hide backdoors and other sorts of nefarious code without immediate exposure.

**Future Proof** - With all aspects of OSD available to public, no one person, party, company or country controls the software -- or the future of the software. In the traditional, closed software world, if a company folded or the software was not deemed viable, the users of the software are left in a lurch with no support and no ability to upgrade or modify the software. The OSD model allows for software to survive beyond the limits of person or company that created the software. Additionally, the GPL guarantees the right to modify and use the software, regardless of the disposition of the person or company that created the software. The OSD model allows the users of the software to determine their own destiny.

**Hostage Proof** - The OSD model does not allow any one person, party, company or country to control the software. In the OSD model, no one is in the position to demand upgrades, or charge for answers or support. In the traditional, closed source world, you bought into a company's ideology as much as their software. Once you bought into the company you were doomed to an addictive cycle of costly upgrades and retraining based on the software companies ideological plans, not your own needs or desires. Your software destiny was not your own, you were hostage to the company for upgrades and support. Not only do the traditional software companies know you are hostage to them, they bank on it.

What does this all mean? OSD points to a new vista of software development that promises (and delivers!) faster, more robust software that is controlled by the users of the software.

The current challenge to OSD is to capitalize on the substantial benefits of Open Source software, where appropriate, and to bring these values to the business world. Education is a primary aspect of this challenge. For example, there is a common misconception that because an Open Source system is used to program a web site, or an application, that the web site or application must be freely available. This is not true. Just as an artist paints with brushes and oils that anyone can obtain does not mean that anyone can obtain his creative output, his art. Likewise, obtaining the benefits of OSD does not imply that projects created with Open Source tools and systems are too Open Source.

# MBDA RESPONSE TO MBDA MANAGEMENT REVIEW

## INTRODUCTION:

At the direction of Secretary William Daley, an intensive management review was conducted of the Minority Business Development Agency (MBDA), beginning in mid-April and concluding in early June. The review team was led by Clyde Robinson, Deputy Chief of Staff, and included Ray Kammer, Acting CFO and Assistant Secretary for Administration; Paul Joffe, Deputy General Counsel; David Lane, Director of the Office of Policy and Strategic Planning; and Jane Bobbitt, Assistant Secretary for Legislative and Intergovernmental Affairs.

The team reviewed extensive documentation and previous reports, conducted a range of interviews, examined House Appropriations Hearing transcripts, reviewed budget requests, and held a half-day briefing and discussion session with top MBDA management. The team issued a report, The MBDA Management Review (The Review), dated June 10, 1997, which proposed short- and long-term goals for the agency and recommended immediate action on a limited number of key steps.

This report is MBDA's interim response to The Review. MBDA plans to complete its Business Planning process which will reflect a thorough assessment of all programs and action steps planned to comply with the recommendations, as outlined in The Review. The final response to The Review will be submitted by January 31, 1998. In the interim, the following is MBDA's planned actions, to date, in response to the key issues and recommendations proposed in The Review.

## METHODOLOGY:

The overriding recommendation of The Review was as follows:

*Take soundings from program users, historical beneficiaries, policy experts, industry leaders, and other interested persons on current MBDA programs, the recommendations of this report, and the policy choices for the future strategic focus of MBDA.*

In compliance with this recommendation, MBDA undertook the following activities:

1) Conducted extensive interviews with the above referenced key clients and stakeholders nation-wide on current MBDA programs.

2) Developed a Strategic Plan, dated August 12, 1997, based upon the interview results of all program users, historical beneficiaries, policy experts, industry leaders, and other interested persons interviewed.

And

3) Began an intensive 120 Day Business Planning process to develop Action Steps necessary to implement goals established in the Strategic Plan and recommendations presented in The Review. Courtland Cox was appointed Acting Director, MBDA, by Secretary Daly to lead the agency in the direction consistent with the Executive Orders and the recommendations cited in The Review. The 120 Day planning process was initiated by Courtland Cox and will be completed by January 31, 1998.

Start Date: 4<sup>th</sup> Quarter FY 97

Completion Date: 1<sup>st</sup> Quarter FY 98

**MBDA MANAGEMENT REVIEW ISSUES, ANALYSIS, AND RECOMMENDATIONS/MBDA RESPONSE:**

**ISSUE ONE:** *MBDA needs to review its activities to ensure that it can efficiently and effectively achieve its mandate as established by E.O. 11625.*

**Recommendations:** MBDA should develop a strategic business plan for the agency, reflecting targeted clientele, programmatic mix and rationale, and implementation and funding specifications. In brief, this document would develop and make operational MBDA's vision and direction.

~~X~~ MBDA should consider whether to revise its customer-driven, direct service emphasis to better fit the policy role contemplated by the Executive Order. In doing so, the Department of Commerce must determine whether MBDA can effectively lead Federal policy making without greater authority to make its directives effective.

**MBDA Response:** MBDA developed a strategic plan, dated August 12, 1997, which reflects targeted clientele and other stakeholders' expressed program direction and needs. MBDA is now in a follow-up Strategic and Business Planning phase, which revises MBDA's original submission to better reflect the concerns raised in The Review, the agency is broadening its programmatic emphasis to accommodate the policy role directed in the Executive Order. The final Strategic Business Plan will be submitted by January 31, 1998.

**Start Date:** 1<sup>st</sup> Quarter FY 98

**Completion Date:** 2<sup>nd</sup> Quarter FY 98

**ISSUE TWO:**

*The headquarters organizational structure needs to be revised as a result of changes in programmatic direction, budget reductions, and staffing cuts. The new organization should conform with MBDA's new strategic business plan.*

**Recommendations:** Reorganize beginning with an immediate restructuring to establish the new Associate Director for Policy and Management, as discussed in Issue Five. The second phase would be an outgrowth of the strategic business plan described above.

We recommend a headquarters structure of no more than two layers — as shown below.

**Office of the Director**  
Including GC and external affairs  
function

**Policy and Management** *Programs Development*  
Functions:

budget, exec sec,  
admin services, policy  
and research

*Management of*  
**Program Operations**  
(including field operations)  
functions:

national programs, field operations  
information technology (Internet  
delivery)

- Significantly reduce the ratio of overhead to program positions.
- Reduce the size of the Office of Director.
- Create a senior career position as the Associate Director for Policy and Management.
- Reduce the ratio of clerical to professional staff.

**MBDA Response:** While MBDA is still revising its strategic and business plans, it agrees in principle to the organizational structure and staffing pattern suggested in The Review.

*Will be developed after approval of business plan*

**Start Date:** 1<sup>st</sup> Quarter FY 98

**Completion Date:** 3<sup>rd</sup> Quarter FY 98

**ISSUE THREE:** *The agency's shift in mission focus will require a critical examination of the need for and location of field offices. The agency's field structure should be redesigned.*

**Recommendations:** Restructure field operations and structure based upon a new formula that reflects the MBDA target clientele and the redesigned program strategy. The total number of offices should be reduced as part of that process and the recommendation that follows.

4/5

Explore opportunities for possible linkages with and co-location of MBDA offices with existing DOC offices in the field, expanding the use of existing one-stop shops through co-servicing and cross-servicing by other bureaus (as well as SBA). Potential cooperative arrangements with non-MBDA offices, e.g. providing on-line services, should also be considered.

For the field offices that remain, examine the staff composition of the office — especially addressing the support-to-professional mix.

**MBDA Response:** MBDA is in the process of restructuring its field operations. The total number of MBDCs will be reduced. No!

MBDA has undertaken a discussion with top officials from the Small Business Administration to create a collaborative field operation to assist minority and small businesses. MBDA will also begin discussions with ITA, EDA, NTIA and NIST about collaborative efforts that can be undertaken. MBDA will be providing on-line services.

**Start Date:** 1<sup>st</sup> Quarter FY 98

**Completion Date:** 4<sup>th</sup> Quarter FY 98

**ISSUE FOUR:** *The extensive Federal government resources need to be better coordinated to support the minority business initiative, beginning with the Department of Commerce itself.*

**Recommendation:** Establish a coordinating function in MBDA that serves as a secretariat for minority business activities in other bureaus of Commerce, and other agencies of the Federal government.

**MBDA Response:** MBDA concurs fully with the need for the agency to play a proactive role in coordinating the Federal government resources as well as in formulating Federal strategies to support minority businesses. MBDA plans to propose to the Department that the Secretary chair a Federal interagency committee on minority business which will be modeled after the Trade Promotion Coordination Committee.

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 4<sup>th</sup> Quarter FY 98

**ISSUE FIVE:** *The lack of a career senior executive position and the high turnover and vacancies in senior political positions have overburdened the executive leadership.*

**Recommendation:** Recruit an experienced career senior executive (AD/PM) to be responsible for internal management, to carry out MBDA's management reinvention, and to provide continuity in executive leadership.

**MBDA Response:** **Plans addressing this issue will be completed and provided in the final Strategic Business Plan which will be submitted by January 31, 1998.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 4<sup>th</sup> Quarter FY 98

**ISSUE SIX:** *The headquarters workforce, due to RIF and reassignment, may no longer have the capacity to carry out the changes MBDA must make.*

**Recommendations:** Rebuild staff capability through a range of measures including skills assessment, specialized training, and reallocation of resources.

Institute team-building throughout the organization. Continue to monitor and address conduct and performance issues at the management and employee level.

Implement clear assignment of management authority and accountability to specific organizational units. Implement clear delegations of responsibility, authority, and accountability down through the organization to the lowest level of management.

Implement standard operating procedures for routine programmatic and administrative activities, with specified guidelines and authority for their revision.

Additionally, require employee performance planning and evaluation processes to accurately record and monitor agency and individual personnel performance against plans and to identify the need for corrective measures on a timely basis.

**MBDA Response:** MBDA accepts all of the above recommendations. MBDA retained the consulting services of Coleman & Associates to identify core competencies required of staff to conduct the business and mission of MBDA. Following this identification process, an assessment of existing staff capabilities will be made.

The MBDA reorganization plan will include the requisite reallocation of staff resources appropriately. Individual Development Plans will be completed for each employee which will address any required specialized training needed. Updated performance plans will be prepared on each employee and performance monitored as prescribed by Department of Commerce regulations.

**Start Date:** 1<sup>st</sup> Quarter FY 98

**Completion Date:** 3<sup>rd</sup> Quarter FY 98

**ISSUE SEVEN:**

Lacking an authorizing statute, oversight of MBDA has historically been carried out through the Congressional appropriations process. As discussed in previous sections, such oversight has primarily focused on downsizing and the possible overlap in functions between MBDA and SBA. In recent years, the Appropriations Committees have requested reports on MBDA/SBA duplication as well as on joint projects that these agencies could embark on together. As a final note, recently the House Commerce Committee also has begun examining MBDA grants and awards. These actions indicate that MBDA should improve its efforts to address issues of concern to Congress.

**Recommendations:** MBDA should step up plans to identify and implement more joint field service delivery with SBA and inform the Hill about it.

MBDA needs to clearly communicate to Congress how it is implementing its plans for joint MBDA/SBA projects by identifying the specific projects and the amount of funding obligated for each project. No

MBDA should continue to cooperate fully with oversight investigations. YES

MBDA should provide Hill briefings on particular issues, including MBDCs closings and new initiatives. YES

**MBDA Response:** MBDA concurs with all above recommendations. No!

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** Ongoing

*Recommend*

**ISSUE EIGHT:** *Improvements in the operations of MBDA grant and joint project programs are possible, building on experience gained in their past operation.*

**Recommendations:**

**Multi-year Funding:** Consistent with DOC Financial Assistance Notice (FAN) Number 10, MBDA should consider funding competitive financial assistance awards on a multi-year basis (up to three years or five years with excellent performance). This will allow for and encourage long-range program planning and contribute to enhanced project administration.

**MBDA will determine its funding strategy after it completes its strategic and business plan.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 3<sup>rd</sup> Quarter FY 98

**MBDA Performance Measures/Assessments:** MBDA should consider developing the criteria for assessing the performance of a recipient under an MBDA grant or cooperative agreement on the basis of the impact on minority business and the fulfillment of MBDA's mission. It has been suggested that greater emphasis on quality of work under an award rather than reliance on quantitative assessments would improve any performance assessment.

**MBDA is presently undertaking these evaluations.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 2<sup>nd</sup> Quarter FY 98

**MBDA Program Regulations:** To clearly communicate its financial assistance policies and operating procedures to the public and internally within DOC, MBDA should consider developing and either codifying regulations in the Code of Federal Regulations or publishing rules in an annual Federal Register notice for each of its grant programs. These codified or annually published rules would replace most of MBDA's current internal operating orders and many of the policies currently disseminated via Federal Register notices announcing the availability of funds and Competitive Application Packages (CAP).

**MBDA will publish in the Federal Register its operating procedures.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 3<sup>rd</sup> Quarter FY 98

**Annual Solicitation for Applications:** MBDA should consider whether it would significantly reduce the administrative burden of processing grant/cooperative agreement awards if the agency were to make one yearly announcement to invite project proposals.

**MBDA will make one yearly announcement to write proposals and process them via one annual grants/cooperative agreements process.**

**Start Date:** 1<sup>st</sup> Quarter FY 98

**Completion Date:** 2<sup>nd</sup> Quarter FY 98

**Evaluation of Applications:** MBDA will review the adequacy of its procedures for evaluating applications submitted under its existing competitive grants programs and update as necessary. Procedures should be developed for any new programs developed in the future. Evaluation procedures should provide clear instructions to reviewers to ensure that evaluation criteria are consistently applied between panels and MBDA regions. Evaluation factors and the weight of those factors should lead to the selection of projects that best serve MBDA's goals.

**MBDA will include outside, independent reviewers who are experts in business development as panel reviewers.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 2<sup>nd</sup> Quarter FY 98

**Selection of Applications for Funding:** The MBDA annual funding rule and/or codified agency regulations for its grant programs should state who the award "Selection Official" will be and clearly delineate the factors or criteria that will be considered by the Selection Official in making funding recommendations to the Grants Officer.

**MBDA will clearly delineate the factors or criteria that will be considered by the Selection Official in making funding recommendations to the Grants Officer.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 2<sup>nd</sup> Quarter FY 98

**Appropriate Legal Character of MBDA Programs:** The issue of whether the focus of the MBOC program should be converted from one where the principal purpose is the attainment of a mutual benefit (joint project) to one where the principal purpose is stimulating minority business development (cooperative agreement) warrants further study.

**MBDA has undertaken discussion with OIG, OGC, OEAM on this subject and it has agreed to use cooperative agreement as the instrument to solicit MBOC's.**

**Start Date:** 1<sup>st</sup> Quarter FY 98

**Completion Date:** 1<sup>st</sup> Quarter FY 98

**Communications/Training:** MBDA and the offices within the Department which play pivotal roles (OEAM, OGC, OIG) in grants award and administration should maintain effective communication and interaction in the overall processing of financial assistance awards. MBDA should also provide appropriate training to staff in the area of financial assistance administration.

**MBDA will maintain effective communication and interaction with OEAM, OGC, OIG in the overall processing of financial assistance awards.**

**Start Date:** 1<sup>st</sup> Quarter FY 98

**Completion Date:** Ongoing

## ADDITIONAL RECOMMENDATIONS

Clearly define what role MBOCs will play in minority business policy, linking program services to the needs and expectations of customers.

MBDA should develop a mechanism to assess the usefulness of the agency's outreach and communications efforts. This mechanism should present:

- objectives;
- measures for assessing how well objectives are being met;
- staff, travel and related resources devoted to outreach and communications; and
- identification of any partners and their partnership roles.

**MBDA will develop a mechanism to assess the usefulness of the agency's outreach and communications efforts.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 4<sup>th</sup> Quarter FY 98

MBDA should prepare a travel budget and show its relation to the agency's budget. This budget should include specific guidelines to ensure economy on overseas travel, including limits on the numbers of officials traveling.

**MBDA will prepare a travel budget and show its relation to the agency's budget.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 2<sup>nd</sup> Quarter FY 98

MBDA should develop clear and accurate identification of benefits (outcome measures) that are expected to accrue from their links with other organizations.

① MBDA will develop <sup>has</sup> clear and accurate identification of benefits (outcome measures) that are expected to accrue from their links with other organizations.

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 2<sup>nd</sup> Quarter FY 98

*Done!  
In Strategic  
Plan*

MBDA should track the attainment of benefits and publicize these as well, along with applicable caveats.

**MBDA will track the attainment of benefits.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 4<sup>th</sup> Quarter FY 98

MBDA should develop and maintain an up-to-date list of organizations with which the agency maintains links.

**MBDA will develop and maintain an up-to-date list of organizations with which the agency maintains links.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** Ongoing

With assistance from the Department, MBDA will develop options for using its charge under Executive Orders 11625 and 12432 to play a stronger role in formulating Federal strategies to support minority businesses.

MBDA should explore whether the formation of minority focused teams in each of the Department's bureaus would promote improved assistance to minority business enterprise. Improve internal management information reporting. Take steps to improve communications between headquarters and regional office staff. Implement team-building through the agency.

**MBDA will consider this recommendation.**

**Start Date:** 2<sup>nd</sup> Quarter FY 98

**Completion Date:** 4<sup>th</sup> Quarter FY 98

*Maddox*

**MEMORANDUM OF UNDERSTANDINGS  
(MOUs),  
INTERAGENCY AGREEMENTS  
(IAs)  
and  
JOINT PROJECT AGREEMENTS  
FOR THE  
MINORITY BUSINESS DEVELOPMENT AGENCY**

**Prepared by the -  
Office of External Affairs  
Barbara J. Maddox  
Assistant Director**

**Joan Parrott-Fonseca  
Agency Director**

**Revised March 18, 1995**

U.S. DEPARTMENT OF COMMERCE  
 MINORITY BUSINESS DEVELOPMENT AGENCY  
 MEMORANDA OF UNDERSTANDING (MOUs)

AGENCY	PURPOSE	CONTACT PERSON(S)	DOCUMENT SIGNED	DOCUMENT TERMINATES
Dept. of Commerce (DOC) Dept. of Housing and Urban Development (HUD) Environmental Protection Agency (EPA) Government of the District of Columbia (GDC)	To advance the environmental "Green Movement" in urban communities and to assist in the creation of minority business entrepreneurial opportunities and job training and placement through the furtherance of efforts to stimulate economic growth & development in the District of Columbia.	Loretta Young MBDA 482-1624	May 7, 1993	On-going
Resolution Trust Corporation (RTC)	To assist in publicizing and promoting the RTC Minority Women Outreach Program.	Gavin Chen MBDA 482-3261	April 1, 1991	On-going
U.S. Travel and Tourism (USTTA)	To promote and support development of cultural attractions and historical and natural heritage resources.	Robert Hooks MBDA 482-3261	Sept. 30, 1994	Aug. 31, 1996
International Trade Administration (ITA)	To engage in the development and dissemination of foreign marketing opportunities and information designed to assist in the expansion of foreign markets for U.S. products and services.	Robert Hooks MBDA 482-3261	April 15, 1994	April 14, 1996

**MEMORANDA OF UNDERSTANDING (MOUs)  
(CONTINUED)**

AGENCY	PURPOSE	CONTACT PERSON(S)	DOCUMENT SIGNED	DOCUMENT TERMINATES
National Oceanic and Atmospheric Admin. (NOAA)	To provide MBDA with information on contracts & responsible for administering and small and disadvantaged business subcontracting plans. Encourage cooperation in the delivery of services between the MBDCs and NOAA's headquarter offices in promoting participation of minority businesses.	Marie Travis NOAA 482-0011  Raul Quiros MBDA 482-1712	July 14, 1992	On-going
U.S. Small Business Administration/DOC/NationsBank	To provide prospective small business persons with concentrated assistance relative to business creation, development and	Robert Hooks MBDA 482-3261	April 13, 1994	On-going Amended Oct. 12, 1995
Technology Administration (TA)	To encourage minority participation in the U.S. Japan Manufacturing Technology Fellowship Program.	Robert Hooks MBDA 482-3261  Phyllis Genther Yoshida TA 482-1287	May 18, 1993	On-going
Amwest Surety Insurance Company	To implement a minority bonding assistance program to combine the efforts of both parties in promoting minority business development in the U.S.A.	Georgina Sanchez MBDA 482-1015	March 7, 1994	On-going

**MEMORANDA OF UNDERSTANDING (MOUs)  
(CONTINUED)**

AGENCY	PURPOSE	CONTACT PERSON(S)	DOCUMENT SIGNED	DOCUMENT TERMINATES
Bank of America Illinois Community Development Corporation	To establish a framework for cooperation in order to further the availability to minority business enterprises of credit.	David Vega MBDA 312-353-0182	Jan. 19, 1995	Jan. 18, 1996
STAT-USA Economic and Statistics Administration	For the purchase of STAT-USA products and services.	James Thomas MBDA 202-482-3163	Sept. 19, 1995	Sept. 18, 1996
Chemical Bank	To increase the availability of capital for minority businesses.		Feb. 22, 1995	Feb. 21, 1996
International Trade Administration	To provide services and assistance to MBEs in outreach, info dissemination, specialized management and technical assistance, resource identification, etc	Robert Hooks MBDA 202-482-3261	April 15, 1994	April 15, 1996

**INTERAGENCY AGREEMENTS (IAs)**

<b>AGENCY</b>	<b>PURPOSE</b>	<b>CONTACT PERSON(S)</b>	<b>DOCUMENT SIGNED</b>	<b>DOCUMENT TERMINATES</b>
Economic Development Administration (EDA)	Transfer of funds for the MBOCs in Los Angeles and Oakland, California	Scott Carter EDA 482-2127  Barbara Maddox MBDA 482-3007	Aug. 11, 1995	Aug. 10, 1996
United States Travel and Tourism Administration (USTTA)	To develop projects and programs as authorized by existing legislation and current policies in order to promote minority business participation in tourism.	Robert Hooks MBDA 482-3261	Oct. 1, 1994	On-going
U.S. Travel and Tourism Administration (USTTA)	To co-sponsor five multi-cultural tourism mini workshops/seminars, one in each of the MBDA regions	Robert Hooks MBDA 483-3261	Sept. 30, 1994	On-going
U.S. Travel and tourism Company	To provide services and assistance to minority businesses in outreach, information dissemination, specialized management and technical assistance.	Robert Hooks MBDA 482-3261	Sept. 30, 1994	Aug. 30, 1996

**MINORITY BUSINESS OPPORTUNITY COMMITTEES (MBOCs)  
JOINT PROJECT AGREEMENTS**

AGENCY	PURPOSE	CONTACT PERSON(S)	DOCUMENT SIGNED	DOCUMENT TERMINATES
<p>Chicago MBOC Klulzinsky Fed. Bldg. 230 So. Dearborn St. Suite 1064A Chicago, IL 60604</p>	<p>To identify economic opportunities for the minority business sector and to develop specialized approaches for disseminating this information to the minority business community.</p>	<p>David Vega MBDA Region (312) 353-0182  Barbara Maddox MBDA HQ (202) 482-3007  LaVena Norris MBOC (312) 353-5140</p>	<p>Sept. 28, 1995</p>	<p>Sept. 30, 1996</p>
<p>Corpus Christi MBOC 201 N. Chapparral Suite 325 Corpus Christi, TX 78401.</p>	<p>To ensure maximum opportunities for minority businesses to participate in the economic mainstream. To increase jobs and contracts.</p>	<p>John Iglehart MBDA Region (214) 767-8001  Barbara Maddox MBDA HQ (202) 482-3007  Gilbert Soliz MBOC (512) 883-9917</p>	<p>July 12, 1995</p>	<p>June 30, 1996</p>
<p>Delaware MBOC U.S. Dept. of Commerce 800 French Street Wilmington, DE 19001</p>	<p>To provide support to Minority entrepreneurs in the city of Wilmington Delaware, to insure maximum opportunities for minority and small and disadvantaged businesses.</p>	<p>Al Jackson MBDA Dist. Ofc. (215) 597-9236  Barbara Maddox MBDA (202) 482-3007  Thomas Moyer MBOC (302) 571-4093</p>	<p>Jan. 19, 1996</p>	<p>Sept. 30, 1996</p>

**MINORITY BUSINESS OPPORTUNITY COMMITTEES (MBOCs)  
JOINT PROJECT AGREEMENTS  
(CONTINUED)**

AGENCY	PURPOSE	CONTACT PERSON(S)	DOCUMENT SIGNED	DOCUMENT TERMINATES
<p>Los Angeles MBOC Mayor's Office of Economic Development 200 N. Spring Street City Hall, Room 2000 Los Angeles, CA 90012</p>	<p>To serve as a community advocate for the full inclusion of the minority business sector in the economic life of the community. Increase jobs and contracts.</p>	<p>Melda Cabrera MBDA Region (415) 744-3001  Barbara Maddox MBDA HQ (202) 482-3007  Diane Sallee MBOC (213) 485-6154</p>	<p>Aug. 31, 1995</p>	<p>Aug. 1, 1996</p>
<p>No. California MBOC 1221 Oak Street Suite 555 Oakland, CA 94612</p>	<p>To enhance the relationship between the minority small business community and contracting procurement officials.</p>	<p>Melda Cabrera MBDA Region (415) 744-3001  Barbara Maddox MBDA HQ (202) 482-3007  Harold Logwood MBOC (510) 272-3865</p>	<p>Aug. 24, 1995</p>	<p>July 31, 1996</p>
<p>Puerto Rico MBOC CACICA Building, 2nd Floor P.O. Box 4275 San Juan, Puerto Rico 00902</p>	<p>To stimulate relationships among the public and private communities with minority, small and disadvantaged business. To improve the availability of financing, procurement and contracting opportunities.</p>	<p>Robert Henderson MBDA Region (404) 730-3300  Barbara Maddox MBDA HQ (202) 482-3007  Dr. Billy Mendez MBOC (809) 728-5625</p>	<p>Sept. 28, 1995</p>	<p>Sept. 30, 1996</p>

**OTHER JOINT PROJECT AGREEMENTS  
(CONTINUED)**

<b>AGENCY</b>	<b>PURPOSE</b>	<b>CONTACT PERSON (S)</b>	<b>DOCUMENT SIGNED</b>	<b>DOCUMENT TERMINATES</b>
United Retailers Association of Puerto Rico	To focus increased support of the minority business enterprises by coordinating the collective resources.	Barbara Maddox MBDA (202) 482-3007	Aug. 18, 1995	Aug. 18, 1996

## The New Realities for Minority Business

### Introduction

The beginning of the 21<sup>st</sup> century is a critical time in the development of minority businesses. As a result of the Civil Rights movement and the urban turbulence of the late 1960s, federal and state governments and the private sector developed programs to promote Minority Business Enterprise (MBE) growth. Generally, these programs concentrated on business development and included sheltered markets, management and technical assistance, and preferred access to capital for smaller businesses. The combined efforts of the private and public sectors over the years have helped to create over 2 million minority firms, with sales in excess of \$205 billion.<sup>1</sup>

*Markets* have changed dramatically over the past ten years. Corporations have significantly restructured their organizations and re-engineered many of their processes, including procurement. These companies will continue to search for innovative ways of decreasing administrative and other costs, and increasing the efficiency of their operations, including greater use of e-business strategies, greater outsourcing of non-core competencies, and exploration of new markets.

*Government*, traditionally a significant source of business for minority entrepreneurs, has moved in a similar direction, redesigning its procurement process and contracting for a greater number of services. This has resulted in "bundling" of government contracts, with management of these contracts performed by fewer contracting officers. These changes, in both government and the private sector, have had a dramatic impact on all businesses and have encouraged an increasing number of alliances, partnerships, and mergers and acquisitions among vendors and suppliers.

*Technology* also has revolutionized the business environment. Companies and government agencies are increasing their use of technology and electronically streamlining their processes, including purchasing and selling. Business-to-business commerce is growing at a rapid rate and is projected to be a major growth area in the Internet economy. Like all businesspersons, minority entrepreneurs must understand these trends and develop strategies to address them.

In addition to these changes, there is a major **demographic transformation** occurring in this country. Minorities, who now represent approximately 26% of the U.S. population, are expected to represent nearly 50% by 2050.<sup>2</sup> This will create opportunities for consumer and business sales in those communities where minority businesses, if correctly positioned, could have a competitive advantage. These demographic changes will ultimately alter the relationships between corporate America and communities that have traditionally been under-served by the business sector.

New strategies for Minority Business Enterprise Development (MBED) must acknowledge that MBEs are not islands unto themselves, but are operating in a rapidly changing, global economy that places a premium on technological know-how, managerial effectiveness and decisiveness, equity capital, and business partnerships. While these changes present challenges, minority businesses can continue to grow and compete as they leverage their uniqueness and growing economic power. MBEs can be major players in the global economy if they:

- Advocate to the public and private sector the importance of MBED to the U.S. economy
- Leverage the resources of government
- Develop new business structures
- Access new markets
- Develop new sources of capital

To encourage the development of new strategies, a national consortium must be formed, meeting on a regular basis to discuss the changing business environment and advocate, both within and outside the minority business community, effective strategies for empowering minority businesses. The MBE community as a group must set the agenda, and develop and implement solutions. The discussion should include the following areas:

- Present Status of Minority Business Enterprise Development
- Trends Impacting Minority Business Development
- Recommendations and Strategies to Enhance Minority Business Enterprise Development in the 21<sup>st</sup> Century
- Benefits to the U.S. and Global Economy

This clearly is not a comprehensive discussion of all trends impacting minority businesses. However, it is intended to provide a general overview of the business environment and serve as a starting point for a discussion of the necessary strategies for promoting minority business success in the 21<sup>st</sup> century.

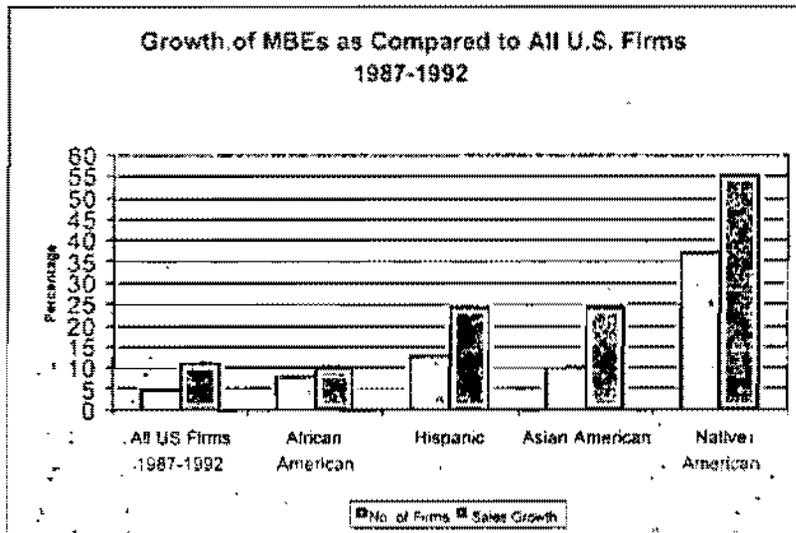
## I. Present Status of Minority Business Enterprise Development

Minority-owned firms have grown over the past ten years at approximately double the rate of all firms in the U.S. economy, in terms of both new firms and total sales. There are estimated to be 2 million minority firms, generating in excess of \$205 billion annually.<sup>iii</sup> From 1987 to 1992, the overall growth rate for all firms was 4.7%, with sales growth of 10.75%. The numbers and sales of minority businesses grew at the following rates.<sup>iv</sup>

- Hispanic-owned firms increased 12.8%, with sales growth of 24.11% per year
- African-American firms increased 7.9%, with sales growth of 10.25% per year
- Asian-American owned firms increased 10%, with sales growth of 23.98% per year
- Native-American-owned firms increased 37%, with sales growth of 55% per year

See Figure 1.

Figure 1



Source: SBA Office of Advocacy, 1992 Economic Census

MBEs are not, however, as well-represented in the business arena as the rapid MBE business growth suggests. For example:

- Minority groups represent 26.1% of the population, but own only 11.6% of the nation's businesses<sup>v</sup>
- Minority businesses comprise only 6% of total business gross receipts<sup>vi</sup>
- Minority businesses employ only 3% of the American civilian labor force<sup>vii</sup>
- Recent studies conducted by the Center for Advanced Purchasing Studies revealed that, in the 19 industries with the largest representation of minority subcontractors, only 3.5 % of supply dollars are estimated to have gone to minority businesses. See Figure 2.

Figure 2

Corporate Purchases across Industries			
Industry	Total Sales/Assets	Number of companies in study	% of purchases from minority businesses
Automotive Industry	394.40	9	2.80
Beverage	14.30	8	2.60
Carbon Steel	31.00	16	2.10
Chemical Industry	139.00	11	0.60
Computer and Telecommunications Industry	138.10	11	3.50
Higher Education	28.30	49	3.00
Life Insurance	1231.40	17	1.90
Machinery Industry	49.50	13	1.50
Municipal Governments	22.10	34	8.50
North American Food Manufacturing	35.60	9	7.20
Personal Care Products	15.70	13	3.70
Pharmaceutical Industry	47.60	14	4.80
Semiconductor Industry	47.60	19	2.04
State Governments*	254.70	32	3.90
County Governments*	8.90	32	3.80
Telecommunications Services Industry	238.20	11	6.40
Textiles	10.70	23	1.10
Transportation Industry	122.50	29	2.50
U. S. Banking Industry**	984.30	14	3.60
U. S. Engineering/Construction	41.50	42	3.90
			Avg. across Industries
Totals	3,655.40	376.00	3.48

\*Sales Numbers reflect budget; All remaining numbers average of State and County combined

\*\* Asset Numbers reflect sales

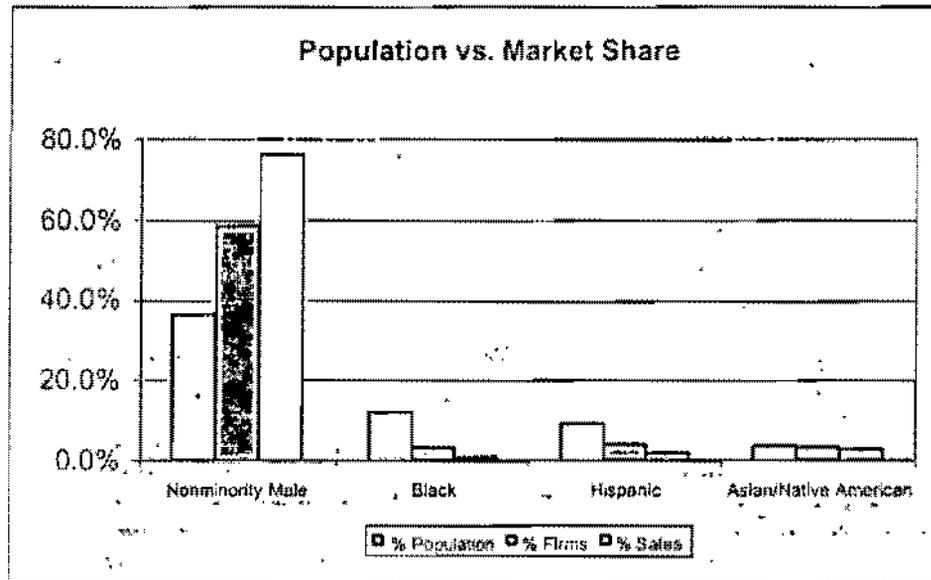
Source: Center for Advanced Purchasing Studies, 1997

In addition, many minority-owned firms are relatively small, without the capacity to perform large contracts for the private and government sectors. For example, 46% of all minority firms had annual receipts of less than \$10,000 in 1992 (the most recent Department of Census data). By contrast, the same data reflects that minority-owned firms with annual receipts of \$1 million or more accounted for only 1.2% of overall minority firms.

However, larger firms have a significant economic impact, both in terms of gross revenues and employment. Although constituting only 1.2% of minority-owned firms, these larger companies generated 52% of the total gross receipts of all minority businesses. In 1992, 1,700 or less than 1 % of minority firms had 100 employees or more; these firms, however, generated 16% of the revenues of all minority firms.<sup>viii</sup> These findings are supported by a recent study of Latino businesses in Los Angeles, which concluded that Latino businesses with more than \$1 million in annual receipts constituted 1.2% of overall Latino firms, but generated 52% of sales receipts and employed 47% of the workforce in Latino firms with paid employees.<sup>ix</sup>

Figure 3 demonstrates the disparity in minority business participation in the corporate marketplace across a broad range of business areas.

Figure 3 *Reprinted from: Milken Institute; Data Source: SBA Office of Advocacy, 1992 Economic Census*



These statistics show that minority business growth is not tracking overall growth in the minority population. To reverse this trend, the MBE community must develop strategies to take advantage of the strengths of minority communities and translate these strengths into economic power.

## II. Trends Impacting Minority Business Development

The trends most strongly impacting MBED can be grouped under four main categories:

- Corporate Business Strategies
- Government Restructuring
- Financial Trends
- Minority Demographics

These trends will be discussed in greater detail in the following sections.

### A. Corporate Business Strategies

The way in which business is conducted in the U.S. has changed dramatically over the last twenty years. Some of the most significant changes are:

- Industry Consolidation
- Process Redesign
- Increase in Strategic Alliances
- Expansion of the Internet and Use of E-Commerce

### Industry Consolidation

One of the dominant trends affecting businesses is the continuing proliferation of mergers and acquisitions. Primarily driven by technological advances or new government policies, the number and size of mergers have escalated as firms attempt to compete or access new opportunities. In 1992, there were nearly 5,000 mergers and acquisition deals valued at \$150 billion.<sup>x</sup> Five years later, the number of deals nearly doubled and were valued at \$860 billion.<sup>xi</sup>

This trend seemingly has not affected the minority business community. Although there is insufficient quantitative information to track the numbers of mergers and consolidations of MBEs, anecdotal evidence suggests that these are not strategies frequently utilized by minority businesses. While mergers and acquisitions are not viable alternatives for all firms, the apparent dearth of these transactions in the minority business community is alarming.

This merger activity has critically impacted the procurement process in the following ways:

- The number of suppliers is decreasing  
At all corporations; but particularly those that have consolidated, procurement is moving from a cost center to an activity of strategic importance. As corporations lower costs, reduce inventories, reduce the number of negotiations, and gain increased flexibility in product and service delivery, they are reducing the number of suppliers utilized. Today most corporations have aligned themselves with a smaller number of large suppliers who can deliver greater customization and better quality management and can achieve economies of scale.
- The size and capacity of suppliers, particularly first-tier suppliers, have increased dramatically  
Large, merged companies usually streamline their operations by seeking larger first-tier suppliers who can deliver high volumes at consistently high quality, provide rapid execution, and have substantial capital resources. Larger companies more frequently outsource their non-core competencies to first-tier suppliers and require that they provide these services at a reduced cost. This trend continues down the supply chain, as all purchasers enter into longer-term, exclusive arrangements with a limited number of suppliers.

### Process Redesign

Over the past ten years, U.S. companies have redesigned their production, service and procurement processes to be more market-focused. Two of the most significant redesigns are Just-in-time production and procurement of supplies and services.

The changing procurement process has been discussed in the preceding section. Just-in-time production requires that suppliers deliver their products on a schedule directed by the producer. In general, these suppliers must increase their overhead costs in the areas of research and development and human resource management in order to sustain the delicate balance of sufficient inventory levels and management while simultaneously increasing shareholder value through rising profit margins. Larger, more established suppliers are better equipped to deliver these new demands and still turn a profit.

Currently, most MBEs do not have adequate size, capital, expertise, and infrastructure to compete for these selective supplier positions. The key will be to identify quicker means of rapid growth and sufficient access to capital not only to compete, but to gain a competitive edge.

### Increase in Strategic Alliances

The numbers of strategic alliances between majority companies have grown exponentially: Globally, over 32,000 alliances were formed between 1995 and 1998, which account for 18% of the revenues of America's biggest companies.<sup>xii</sup> The key reason these alliances are formed is to enable businesses to enhance their ability to enter larger markets.

As majority companies grow larger, minority businesses must compete with these alliances that, due to combined resources, will have significant market share. In order to remain competitive, minority businesses may need to develop partnerships and joint ventures, whether with minority or majority partners.

The benefits of strategic alliances for minority businesses are tremendous, whether they partner with other MBEs or with majority-owned companies. Although many large businesses increasingly look to large-scale suppliers, there continues to be a role for smaller businesses providing specialized services. These businesses are often more flexible, move more quickly and are more responsive than larger businesses. In either case, the primary reason for a partnership is that it enables an MBE to expand the scale and/or scope of service without additional capital requirements.

### Expansion of the Internet and Use of E-Commerce

In 1995, approximately 18% of businesses were electronically connected to their suppliers. Figure 4 demonstrates that this number has grown substantially over the past four years. Compared to \$8 billion in 1997, revenue generation is predicted to reach \$300 billion in just a few years.<sup>xiii</sup>

Internet usage for business purposes is growing rapidly; the statistics speak for themselves<sup>xiv</sup>:

- Twenty-seven million purchases are now made on the Worldwide Web everyday.
- At the beginning of 1993, there were just 50 sites on the Web; the number now is estimated to be over one billion.
- The percentage of small businesses with access to the Internet nearly doubled over a two-year period, from under 22% in 1996 to over 41% in 1998.

The growth of E-commerce and Internet usage is staggering, both are having an impact on the future of business development. Through the use of E-commerce, companies gain several advantages:

- Efficiency
- Speed
- Enhanced marketing and communication capabilities
- Enhanced customer service
- Reduced transactional costs and cycle times

With greater access to the Internet and increased financial resources, the opportunities become endless. **Yet, in order to maximize these opportunities, more minority business owners must develop an Internet presence as part of their core business objectives.** Many minority business owners still face the same obstacles that plagued them before in developing the appropriate infrastructure:

- Lack of understanding of the benefits of using e-commerce and e-business strategies
- Inability to afford, internally or through outsourcing, the expertise and time required to use these business strategies
- Lack of capital for state-of-the-art technology and equipment

Figure 4

## Corporate Use of E-Commerce by Industry

Industry	Total Sales/Assets \$billions	Number of companies in study	Percentages						
			Number of suppliers with whom E-C. was conducted	Purchasing transactions	Internet Transactions	Invoices	Payments	Purchase releases	Requisitions
Automotive Industry	394.40	7		56.4		54.8	47.5		
Beverage	14.30	6		39.0		34.8	45.5	49.2	23.3
Carbon Steel	31.00	16		39.2					
Chemical Industry	139.00	11		23.1	0.6	66.1	11.9		
Computer /Telecom.	138.10	9	19.2	36.7		25.7	6.9	46.6	56.3
Higher Education	28.30	49		2.0					
Life Insurance	1231.40	16	18.3			27.6	13.1		35.6
Machinery Industry	49.50	13	24.0						
Municipal Governments	22.10	30		32.0	31.0				
N. A. Food Manuf.	35.60	9		37.0					
Personal Care Products	15.70	12	13.2						
Pharmaceutical	47.60	14		14.8		7.4			37.3
Semiconductor	47.60	19		2.4					
State Governments*	254.70	32		60.0			9.0	57.0	51.0
County Governments*	8.90	32	110.0	26.0		48.0	21.0	65.0	
Telecommunications	238.20	11		11.7	7.0	2.0	1.5		
Textiles	10.70	23		36.0	36.0	32.0	18.0	46.0	49.0
Transportation I	122.50	28		5.0		9.5	3.9	21.4	26.1
U. S. Banking**	984.30	14		2.6			1.5		
U. S. Engineering/Const.	41.50	12							
Averages			36.9	26.5	14.9	30.8	16.3	47.5	39.8

\*Sales Numbers reflect budget; All remaining numbers average of State and County combined

\*\* Asset Numbers reflect sales

Source: Center for Advanced Purchasing Studies Research, 1997

**Whether revenues are generated from business-to-business sales or direct end consumer purchases, it is clear that MBEs must embrace the trend both in concept and through implementation. However, MBEs cannot break the barriers to entry unless they develop appropriate support systems and capital is made available.**

## B. Government Trends

As the federal government budget has been reduced, government agencies have used strategies similar to those of corporate America to increase their efficiency. For minority businesses, the primary impact has been felt in government procurement practices, where there is greater use of e-business strategies and the Internet. In addition, the effects of recent legal actions have had a significant impact on the environment for minority businesses.

### Procurement

Because of the budget reductions:

- Government purchasing departments have been downsized
- Government procurement budgets have been cut
- More emphasis has been placed on customer/supplier allocation
- There is an increased use of information technology in procurement activities

The federal government has been using more streamlined contracting practices to purchase goods and services in an efficient, cost-effective manner. In general, governmental agencies are putting larger contracts out for bid, through the process called bundling. For example, through bundling, an agency will consolidate what in the past would have been ten \$250,000 contracts into a single \$2.5 million contract to be satisfied by one supplier.

In addition, much more government procurement is taking place electronically. By presidential directive, federal procurement officers are more aggressively using electronic commerce for procurements, especially those under \$100,000. Within the federal government, contract opportunities over \$25,000 are advertised once in the Commerce Business Daily; thereafter, these opportunities are posted electronically.

Although the outcome is a more streamlined process, the impact on MBEs is twofold:

- The number of available contracts for small, disadvantaged and 8(a) businesses is dwindling.
- All government contractors must be technologically savvy. In the future, it will be difficult to do business with the government without using e-business strategies.

Technology may be leveling the playing field with respect to access to information, but MBEs will not benefit unless they acquire and use these tools.

## Legal Trends

In the legal arena, minority business programs are facing increased scrutiny, including those programs that establish set-asides for minority businesses. More than 120 cases have been filed across the country challenging race-based programs that will affect the viability or legality of certain minority business opportunity programs, or the existing interests of certain minority businesses. Although these cases generally involve government contracting programs and the criteria used in awarding contracts, the outcome of these cases will most likely affect private sector procurement programs.

In general, there have been two emerging trends regarding government contracting: 1) resistance to set-aside programs, and 2) the need for clear evidence of past discrimination to justify the continuation of these programs. The federal and state courts have tightened the standards used to review programs that have race (and gender) as a criterion in contract awards. Specifically, the Supreme Court case of City of Richmond v. J.A. Croson (1989) required "strict scrutiny" in many public-sector minority contracting programs, with the presentation of a compelling need for the program and clear evidence of

- Past and/or present discrimination both in quantitative and qualitative terms
- A program design that is sufficiently narrow to benefit only the victims of such past acts of discrimination

More recently, in the case of Adarand Constructors, Inc. v. Peña, the federal courts have re-affirmed this analysis. The courts may assess (a) whether or not an agency could have used other, race-neutral methods to achieve its objectives, (b) whether numeric targets set by an agency were correlated with so-called "qualified minorities" in the applicable contracting or subcontracting pool, and (c) the extent of the "burden" placed on non-minorities who are not involved in these programs.

As the courts continue to limit race-based affirmative action and minority business development programs, federal contract opportunities available for minority businesses will continue to shrink. In addition, this approach to government programs will most likely spill into the private sector.

## C. Financial Trends

### I. Debt Financing

There have been a number of trends in the financial services industry, including bank consolidations, decreasing numbers of regional and community banks and the use of credit scoring, that have impacted the ability of all businesses to obtain debt financing.<sup>59</sup> Minority firms, traditionally more dependent on debt financing

than majority firms, have been particularly impacted by these trends. The Federal Reserve Board's National Survey of Small Business Financing, released in 1995 indicated that only 41% of those minority businesses surveyed obtained bank loans, compared with 51% of white businesses.<sup>xvi</sup> The same survey indicated that minority businesses are turned down more frequently for loans than their majority counterparts. There continues to be a clear discrepancy with respect to access to capital between majority and minority businesses.

The following trends have impacted the availability of debt capital for minority businesses:

#### Bank Consolidations

The financial services industry has changed dramatically over the past decade. Since 1990, the number of insured commercial banks has fallen by 3,000 due to mergers, acquisitions, or failures<sup>xvii</sup>. This has restricted financing options for minority and small businesses (the majority of minority businesses fall within the small business range). In addition to the financing gap, smaller businesses have been affected in the following ways:

- In the six years from 1987 to 1993, commercial banks and thrift institutions' market share of small business loans outstanding fell from 70.6% to 65.3% as finance companies and other institutions gained market share.<sup>xviii</sup>
- Commercial banks, traditionally the primary source of commercial credit, represent an increasingly smaller share of the financial services markets (decreasing from a 51% share to a 23% share in 1997).
- Local independent banks, historically more receptive to small business lending than larger banks, have been acquired by regional bank holding companies at a rapid pace.

#### Credit Scoring

Credit scoring is increasingly used by banks to make decisions about business credit. Credit scoring models assign values to various criteria – such as how long an applicant has lived in his or her residence, and how well he or she has paid off debt in the past. These values are then compiled into a single numerical score.

Credit scoring is more efficient and less costly than traditional methods for making credit decisions, since the information provided by applicants can be quickly and automatically converted to a score<sup>xix</sup>. It has, however, both positive and negative implications for minority business lending. One of the benefits of credit scoring is its potential to promote a secondary market for small business loans. Credit scoring, by providing a method of assessing small business loans according to uniform standards, which currently does not occur, can be one of the key factors in creating a secondary market.

In addition, credit scoring, by use of seemingly objective credit criteria, has the potential to make financial decisions race-neutral by running an application against a standard model. On the other hand, while it is illegal to use race, religion, national origin, sex or marital status in any credit scoring model, the use of geographical information is permitted; this may prove disproportionately detrimental to minority business owners, who often are clustered in urban areas.<sup>xx</sup>

### Regulatory Effects on Financing

Regulatory changes also have contributed to the tightening of commercial lending to small businesses.<sup>xxi</sup> The most significant of these are:

- The 1989 establishment of risk-based capital standards. Under these standards, banks are required to shift from lending to the private sector to investment in U.S. Treasury and other government securities. The effect of these regulations on business lending was reflected in a precipitous fall in business loans from 1989 through 1992.
- Various state level regulations that have constrained branch banking, interstate banking, bank holding companies and usury limits on corporate borrowing.<sup>xxii</sup>
- The Federal Reserve Board's interpretation of Regulation B of the Equal Credit Opportunity Act, which prohibits banks from collecting data on the race or gender of business loan applicants. Consequently, there is no data on the unmet demand for such loans which could help in decision-making, strategic marketing, and product development on the part of financial institutions that want to increase lending to minority businesses.<sup>xxiii</sup>

### 2. Equity Financing

Equity capital has not been a traditional source of financing for minority businesses as the result of lack of availability. Of the estimated \$85 billion in equity capital available, the funds targeted at minority businesses are estimated to equal \$1-2 billion.<sup>xxiv</sup> Minority firms also have not had the networks to access the venture capital community. In addition, many minority businesses have been unwilling to seek equity financing, due to concerns over losing control of their businesses.

This lack of equity has hampered the growth of minority businesses. There are several advantages to equity financing over debt financing:

- Personal guarantees and collateral are not required
- There is a certain level of protection from bankruptcy
- Investors can add expertise and networks to the venture
- Riskier ventures are more acceptable

In addition, investors are increasingly using other strategies, including mezzanine financing. A small but growing number of mezzanine and other equity funds providing competitive rates of return (15-25%) are focused on minority and inner city markets. Any capital strategy devised for minority businesses must focus on the increased use of these types of vehicles.

Minority entrepreneurs often are reluctant to give up equity in their companies, fearing that they will lose control of their companies. While this is a possible outcome, entrepreneurs can structure contracts with equity investors to protect their interests (e.g. non-voting stock, equity options based on performance, options to buy-out equity partners, clauses that prohibit arbitrary removal).

**NBE growth through equity funding has great potential and may be preferable to debt financing. However, equity funding is difficult to obtain and is often controversial, due to the perceived risk of entrepreneurs losing control of their businesses. MBED must focus its efforts on preparing minority businesses to compete through access to all forms of capital. Any strategy for minority capital access must seriously consider and explore all financing options, including equity.**

#### **D: Minority Consumer Trends**

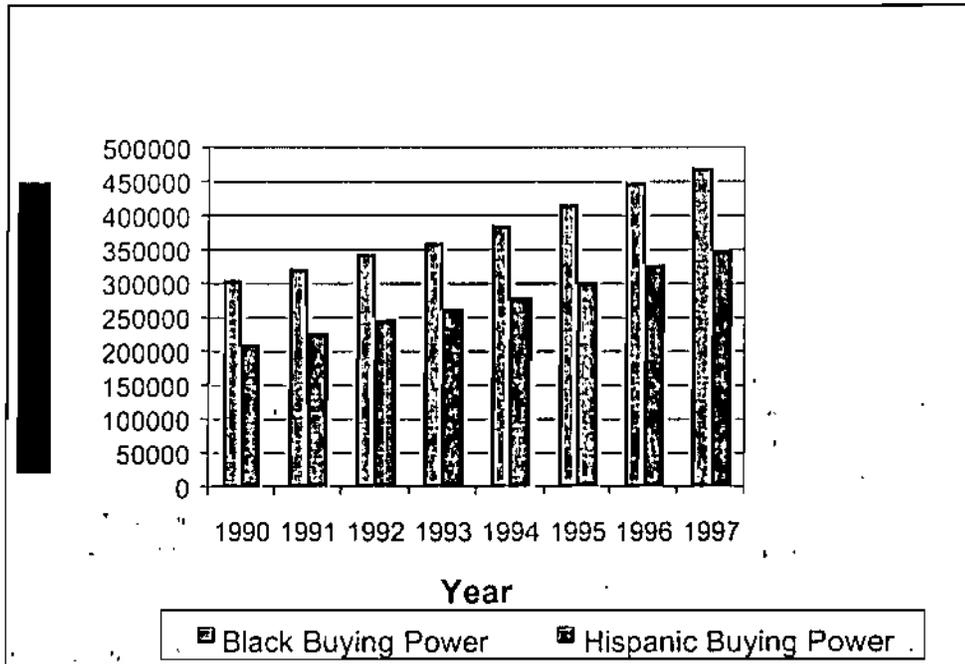
The minority population can benefit from certain trends, including the increasing size of the minority consumer markets, the expanding pool of minority managers, the increased number of minority entrepreneurs, and growth of the nation's inner cities.

##### Minority Consumer Trends<sup>xxx</sup>

The size of the minority consumer market is growing and creating more opportunities for minority businesses. The nation's black buying power rose from \$308 billion in 1990 to \$475 billion in 1997, up by 54.2% in seven years and at a compound annual growth rate of 6.4%. In 1997, 28.6 million Americans claimed Hispanic ancestry, almost 11% of the country's population. It is estimated that the nation's Hispanic buying power has risen from \$208 billion in 1990 to \$328 billion in 1997, up by 58 % in seven years - a compound annual rate of 7.5%. Both Black and Hispanic percentage gains exceed the 41.1 % projected for total buying power. Asian Americans' buying power rose from \$113 billion in 1990 to \$194 billion in 1997, a 72% increase. Over 50% of all minority-owned businesses with sales over \$1,000,000 were owned by Asian Americans, i.e., and 12,505 out of 24,727 minority firms. See Figure 5.

Figure 5.

African-American and Hispanic Buying Power



Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia

By the year 2010 it is projected that the minority population will make up over 30% of the US labor force and by 2050 will be almost 50% of the US population. See Figure 6 and 7.

Figure 6. Projected 2010 U.S. Workforce

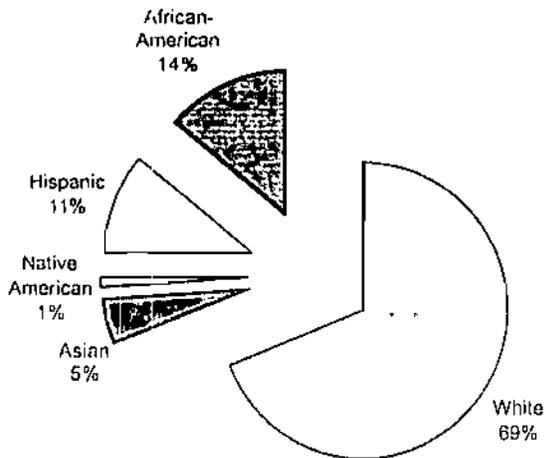
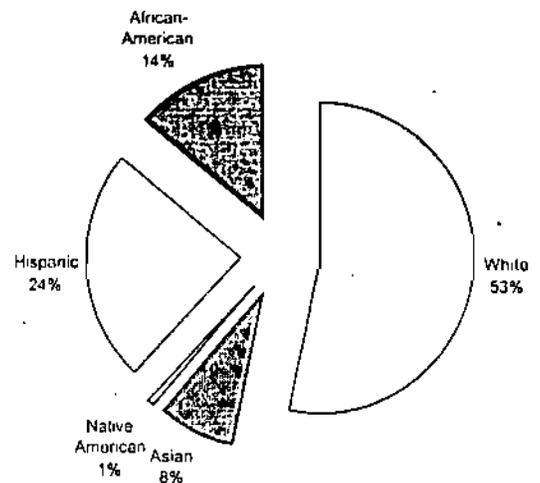


Figure 7. Projected 2050 U.S. Population



Source: Hudson Institute, *Workforce 2020*

### Inner City Markets

Despite lower household incomes, inner-city areas concentrate more buying power into a square mile than many affluent suburbs. Although not exclusively minority, many inner city areas have large numbers of minority residents. These communities are poorly served by small, medium, and large corporations. Currently, estimates indicate that at least 30% of inner city retail demand is unmet, equaling approximately \$25 billion nationwide. In some areas such as Harlem, unmet demand is estimated to be as high as 60%.<sup>xxvi</sup>

Minority businesses often are competitively positioned in many of these markets. An MBE owned and operated by a resident of the inner-city, or another individual with information about and an understanding of inner city communities, may have a greater chance for success than a majority business. In addition, minority entrepreneurs can maximize their networks within many inner city markets to enhance the competitiveness of their businesses.

### Increase in Minority Managers

Another encouraging development has been the increase in minority manager-entrepreneurs. Many minority managers are dissatisfied with the opportunities for corporate upward mobility and, as a result, entrepreneurship has become an attractive alternative. This new group of entrepreneurs has a multitude of resources, including well-placed connections in both the majority and minority communities, and a strong drive to be successful. As they begin to prosper, they are also becoming very savvy with their investment and buying habits.

Entrepreneurship will continue as a necessary and viable option for a large part of the workforce population. The development of MBEs can best be fostered through a stronger partnership among government, the private sector, and the MBE community. This partnership should focus on ensuring that MBEs gain full understanding and equitable access to key business development trends.

### **III. Recommendations and Strategies to Enhance Minority Business Enterprise Development in the 21<sup>st</sup> Century**

The MBED community must develop specific and practical strategies to empower minority businesses. These strategies are:

## 1. Build a Strong Case for MBED

Starting immediately, minority business leadership must build a compelling case to the business community of the importance of minority business development. These leaders should continuously stress that the ultimate goal of MBED is building a strong economic infrastructure.

Advocacy efforts on behalf of minority business must demonstrate the national economic importance of developing strong, competitive minority businesses. The minority business community must develop quantitative data on the overall economic effects of minority businesses, including increased employment opportunities, a larger tax base, and greater economic infrastructure in minority communities. To address this, MBE leadership should:

- Produce additional quantitative information on minority businesses and their economic effect
- Meet annually with Native American, Asian American, Hispanic and African American publishers
- Continually produce op-ed articles in national print media, including the Wall Street Journal, New York Times, Washington Post and Los Angeles Times
- Meet annually with leaders of minority business and trade organizations to develop a mutually agreeable strategy with specific:
  - \* Objectives
  - \* Milestones
  - \* Responsibilities
  - \* Action Plans

## 2. Develop New Business Structures

MBEs must develop mutually supportive relationships and new structures that allow them to grow. New structures or alliances could take the form of:

- Joint Ventures
- Strategic Alliances
- Mentor-Protégé Programs
- Consortia
- Partnerships

These types of transactions are not for all businesses. However, if MBEs as a group do not increase the number of strategic alliances, mergers and consortia, minority businesses will not prosper in the 21<sup>st</sup> century. MBEs must also position themselves for growth by seeking equity investments. Companies with substantial equity bases can

more easily create wealth; successfully complete public offerings and have an enhanced ability to impact the U.S. economic infrastructure.

### 3. Access New Markets

As traditional domestic markets become saturated and larger companies merge, growth will be a challenge for minority firms. Exploring new markets will be essential to the continued prosperity of new and growing companies. The most lucrative new opportunities are generated from overlooked domestic markets such as inner cities, new markets created by the Internet, and untapped overseas markets.

### 4. Develop New Capital Sources and New Capital Structures

The most common sources of borrowed capital for minority entrepreneurs are commercial bank lending, SBA-backed funding, and minority-lending programs. A business sector that is so dependent on commercial bank debt is hampered by the fixed requirements of debt financing, which tends to hinder growth.

Additional sources of equity, quasi-equity and other alternative forms of financing must be created for minority business to have a fair chance of competing against majority companies. Specifically, we recommend the following:

- Explore opportunities for the creation of new equity vehicles focused on minority businesses.
- Monitor secondary market demonstration models that could be replicated nationwide. This includes identifying new and specific incentives for primary lenders to sell small business loans easily and enhance their liquidity, thus increasing the funds available for increased commercial lending.
- Explore the opportunities created by and the possible drawbacks of credit scoring

### 5. Support and Encourage the Use of Technology

Minority businesses must keep pace with new cutting-edge technology by using the Internet for marketing, purchasing or supply strategies.

In addition, new technology can be leveraged to:

- Support Internet and E-commerce education for minority businesses
- Monitor the technology and telecommunications industry in its efforts to recruit minority professionals, managers and executives
- Inform MBEs about government grant programs that encourage innovation
- Develop a technology mentor/protégé program for the sole purpose of increasing the technology infrastructure within the MBE community

## 6. Leverage Government Resources

The government often has taken a leadership role in increasing minority involvement in contracting. Recently, this has included such programs such as the Department of Transportation's Information Technology Omnibus Procurement (ITOP), and Department of Commerce's Commerce Information Technology Solutions (COMMITTS). The former provided that at least one contract within each of the three service categories would be awarded to small businesses and 8(a) firms. The latter is a total small business set-aside to enable agencies to access the services of small, small disadvantaged, 8(a) and women-owned small businesses. In the COMMITTS program, twenty-nine small businesses were awarded contracts for a total of \$1.5 billion worth of information technology products.

- Develop new approaches to assist MBEs in obtaining a larger share of multi-year contracts

Every year, billions of dollars are spent on service contracts that generally are awarded to large firms. Many minority companies are unaware or unprepared to participate in the bidding process. To improve this situation and receive procurement information, MBEs should register in the MBDA contract matching database(Phoenix), the National Aeronautics and Space Administration database, and other government market opportunity databases.

- Increase the staff and resources of the Office of Small and Disadvantaged Business Utilization (OSDBU)

One of the cornerstones of the 95-507 bill, requiring each agency of the federal government to establish/identify set-aside contracts for small and disadvantaged businesses, was the development of the Office of Small and Disadvantaged Business Utilization (OSDBU). Although the legislation required that the OSDBU director report directly to the Secretary or Deputy Secretary of each agency, this has not happened. In addition, these offices often have received limited financial resources.

To effect change in this critical area:

- Raise the visibility of the OSDBU director by having this position report directly to the Secretary or Deputy Secretary of an agency
- Increase the budgets of these offices

## IV. Potential Benefits to the U.S. Economy

The potential benefits of increased minority business development to the overall U.S. economy are varied. Analysis of the following information would demonstrate the impact of viable MBEs on the nation's tax base, employment and the individual wealth and well-being of tens of thousands Americans.

- Long-term Business Development Efforts
- Contracts and Services Performed
- Employment
- Economic Status of Firm Owners
- Income Taxes Paid by Firms, Owners and Employees
- Diversity of Individuals Impacted

The MBED sector has unlimited potential for minority job creation, increased economic development and improved the quality of life in urban areas. Unfortunately, this potential will not be realized unless a radical new approach to MBED is implemented, one that involves a partnership among the public and private sector, minority businesses and financial institutions.

If the strategy is successful, it will benefit all members of the partnership as well as the general public. The minority community will have:

- A larger asset base
- Larger, stronger businesses
- More insightful and progressive leaders
- More capital for community and neighborhood development

The private sector will have:

- Stronger suppliers
- A more vibrant community

The government will have:

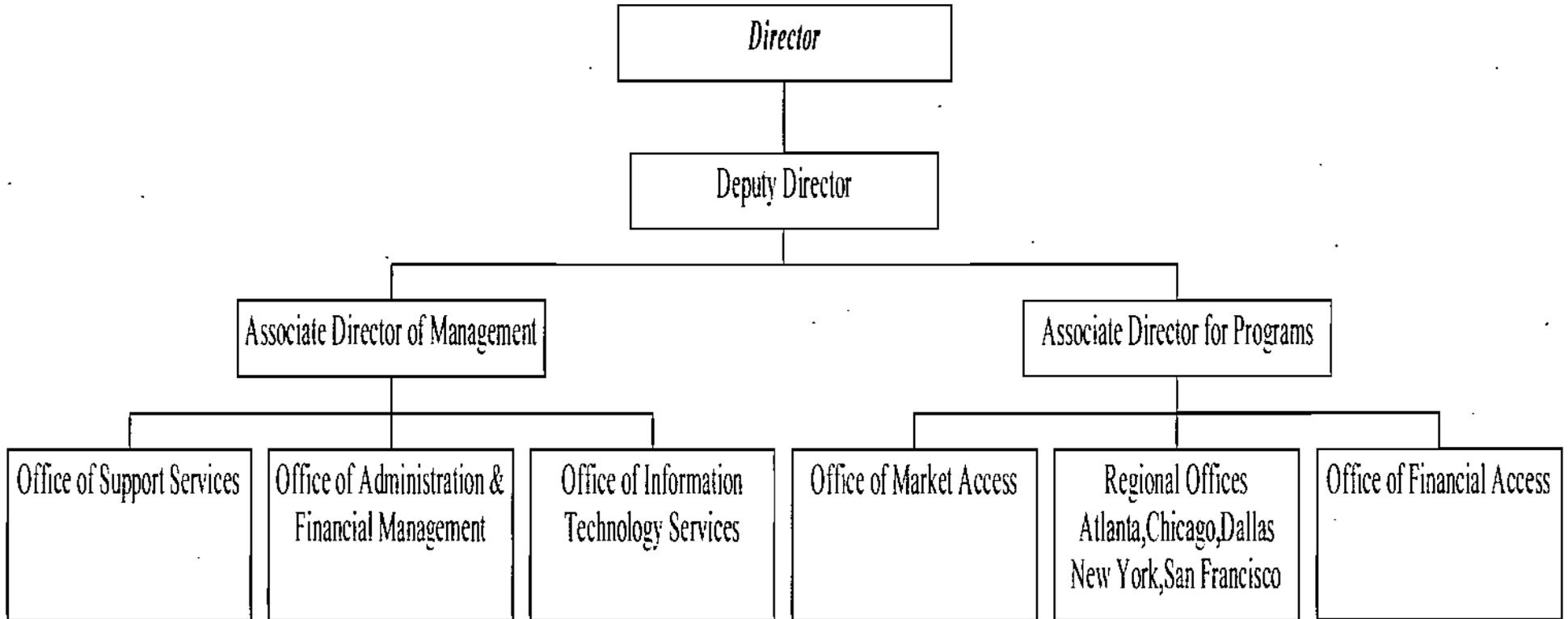
- An expanded tax base
- A reduction in unemployment in the U.S. population
- Greater economic development in minority communities, including low and moderate income communities.

A new strategy for MBED is long overdue. Progress continues but at a very slow pace. This progress must be accelerated to foster social as well as economic growth of the United States of America and the global community it influences.

## Notes

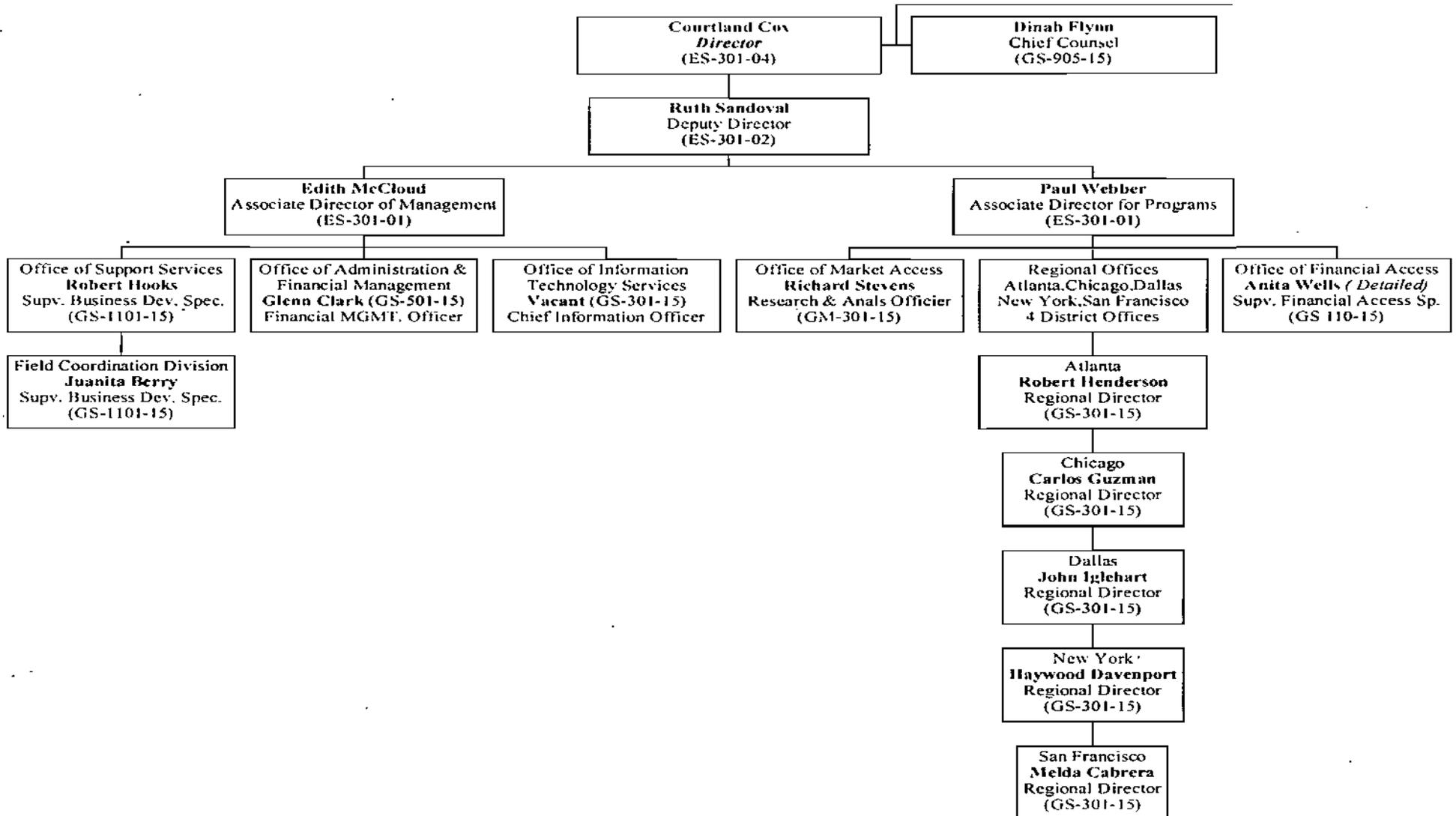
- <sup>i</sup> U.S. Census Bureau, *1992 Economic Census, Survey of Minority-Owned Business Enterprises*. This constitutes the most recent and comprehensive information available.
- <sup>ii</sup> U.S. Department of Commerce, Minority Business Development Agency, *The Emerging Minority Marketplace, Minority Population Growth: 1995-2050*, (1999).
- <sup>iii</sup> U.S. Census Bureau, *1992 Economic Census, Survey of Minority-Owned Business Enterprises*.
- <sup>iv</sup> Michael Harrington and Glenn Yago, *Mainstreaming Minority Business: Financing Domestic Emerging Markets*, (Milken Institute, 1999): p.7.
- <sup>v</sup> *ibid.* p. 6.
- <sup>vi</sup> Data provided at the 1997 National Minority Supplier Development Council Annual Convention, October, 1997
- <sup>vii</sup> Estimate derived from 1992 and estimate 1997 statistics quoted by Office of Advocacy, U.S. Small Business Administration, from data provided by the U.S. Department of Commerce, Bureau of the Census.
- <sup>viii</sup> U.S. Census Bureau, *1992 Economic Census, Survey of Minority-Owned Business Enterprises*; pp.3-8.
- <sup>ix</sup> Waldo Lopez-Aqueres, *Business Traits, Market Characteristics, and Employment Patterns of Large Latino-owned Firms in Southern California*, (The Tomas Rivera Policy Institute, 04 October, 1999), pg. 1.
- <sup>x</sup> Charles V. Bagli, *Conditions Are Right for a Takeover Frenzy*, New York Times, 02 January 1997; p. 3, Col. 1.
- <sup>xi</sup> Securities Data Company, quoted in Steven Lipin, *U.S. Merger Activity Marks New Record*, The Wall Street Journal Europe, 02 January 1998, p. 9.
- <sup>xii</sup> Amanda Lang, *Consultant Feels Alliances Don't Get the Credit They Deserve*, National Post, 26 January 1999, p.C11.
- <sup>xiii</sup> *Testimony of Daniel O. Hill, Assistant Administrator for Technology before Committee on Small Business U. S. House of Representatives*, 26 May 1999, p. 1.
- <sup>xiv</sup> *ibid.* p. 1.
- <sup>xv</sup> Harrington and Yago, *Mainstreaming Minority Business*. pp. 16-17
- <sup>xvi</sup> *Scoring with Minority-Owned Businesses: Closing the Credit Gap*, (Organization for a New Equality, 1998), pp. 9-10
- <sup>xvii</sup> Jonathan Scott and William Dunkelberg, Bank Consolidation and Small Business Lending: A Small Firm Perspective. Information provided at the *Business Access to Capital and Credit: A Federal Reserve System Research Conference*, 8-9 March 1999
- <sup>xviii</sup> Federal Reserve Board, *National Survey of Small Business Finances*, Federal Reserve Bulletin, (November 1996)
- <sup>xix</sup> *Scoring with Minority-Owned Businesses: Closing the Credit Gap*, pp. 25-26
- <sup>xx</sup> *ibid.* pp. 25-27
- <sup>xxi</sup> Michael Harrington and Glenn Yago., pp. 16-17
- <sup>xxii</sup> *ibid.* p. 18
- <sup>xxiii</sup> *Scoring with Minority-Owned Businesses: Closing the Credit Gap*, p. 5
- <sup>xxiv</sup> Michael Harrington and Glenn Yago, pp. 11-15
- <sup>xxv</sup> Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, 1998
- <sup>xxvi</sup> Michael E. Porter and Mark Blaxill, *Inner Cities Are the Next Retailing Frontier*, The Wall Street Journal, 24 November 1997

**MINORITY BUSINESS DEVELOPMENT AGENCY**  
**COURTLAND COX (DIRECTOR)**  
**ORGANIZATIONAL CHART**



# **MINORITY BUSINESS DEVELOPMENT AGENCY**

## **LISTINGS OF PRINCIPAL ORGANIZATIONAL UNITS**



**Template  
Bureau Summaries  
For Overview Book**

**I. Bureau Description**

**A. Organization Chart**

See Chart

**B. Bureau name and title of the bureau head as a heading**

See Chart

**C. Introductory paragraph (1) identifying the organization; (2) providing a brief statement of its purpose; and (3) supplying its funding and FTE ceiling for FY 2000 and funding and FTE as proposed in the President's budget for FY 2001.**

The Minority Business Development Agency (MBDA) was created by Executive Order 11458 on October 5, 1969 by then-President Richard M. Nixon. The agency was created to assist minority businesses in achieving effective and equitable participation in the American free enterprise system. As the only federal agency mandated to encourage the growth and development of minority-owned businesses, MBDA:

- provides access to public/private debt and equity financing, market opportunities, and management and business information.
- coordinates and leverages public and private resources and
- facilitates strategic alliances.

MBDA services are provided to socially and economically disadvantaged groups who own or wish to start their own businesses, including, African Americans, Native Americans, Puerto Ricans, Spanish-speaking Americans, Eskimos, Aleuts, Asia Indians, Asian Pacific Americans and Hasidic Jews.

Washington, D.C. is the location of MBDA's headquarters, where activities are planned, developed, coordinated and evaluated. MBDA has five regional offices (Atlanta, Chicago, Dallas, New York and San Francisco) and four district offices (Boston, Los Angeles, Miami and Philadelphia) where staff oversees assistance and services in multi-state regions. Within these regions MBDA funds 42 Minority and Native American Business Development Centers, 7 Minority Business Opportunity Committees, and 7 Business Resource Centers.

In FY 2000 MBDA was appropriated \$27,221,000. In FY 2001, the agency requested \$28,156,000. FTE ceiling for both FY 2000 and 2001 is 120.

The Senate and House Appropriation Committees have oversight for MBDA. The Subcommittee in each house is the Subcommittee on Commerce, Justice, State and Judiciary.

#### **D. Bureau mission**

The Minority Business Development Agency (MBDA) is to actively promote the growth and competitiveness of minority-owned businesses.

#### **E. Listing of principal organizational units**

See Chart

### **II. Descriptions of each principal organizational unit**

#### **A. Organizational Unit/ Mission**

**Office of the Director:** formulates policies and programs and directs all activities of the Agency.

**The Chief Counsel:** serves as legal programmatic advisor to the Director and provides programmatic legal services for all components of the Agency.

**The Deputy Director:** principal assistant to the Director. Assists the Director in the day-to-day activities of the Agency.

**Associate Director for Management:** responsible for the administration of the Agency's budget and financial management activities, facilities management, human resources development, and other administrative management activities. This position is also responsible for information management, contracts and grant processing activities. The functions of the Office is carried out through its principal organizational components:

**The Office of Administration and Financial Management:** develops and administers financial management activities for the Agency, administers management systems, develops and monitors GPRA related performance measurement and evaluation processes, management improvement programs, administrative services, human resources development, and monitors and performs follow-up actions related to official government reports.

**The Office of Program Support Services:** develops procedures for implementation of Agency grant and contract activities; ensures prompt and proper resolution of grantee audit report issues; coordinates with Departmental offices in implementing Secretarial objectives and policies; and serves as the liaison with the Departmental Office of Executive Assistance Management regarding all aspects of Agency financial awards. This component includes the **Field Coordination Division** to exercise its grant administration activities.

The Office of Information Technology Services: collects, processes and assembles electronic data and reports, develops and maintains information systems to satisfy management requirements, and manages system to ensure data security and integrity.

Associate Director of Programs: is responsible for the management of program operations. The Associate Director supervises the Regional Directors, and the Chiefs of the Offices of Financial and Market Access on all programmatic activities. The activities of the Office are carried out through its principal organizational components:

The Office of Market Access: promotes market development of programs to support and expand minority businesses. Plans, develops, and implements national programs to be delivered over the Internet including growth strategies, electronic commerce, franchising, telecommunications, strategic alliances, and international trade. Develops and coordinates private and public sector resources to enhance market access. The Office is responsible for pure and applied research regarding economic conditions in the national and international marketplace, which affect minority business growth and development. Analyzes and develops national policies in the promotion of minority business development. Assigns, edits, and publishes Agency articles and official publications, and provides support to the Director, and the Agency on publications, telecommunications, speeches, printing, graphics, and audio-visual displays and presentations. Some of the activities are carried out in collaboration with the Departmental Office of Public Affairs.

The Office of Financial Access: promotes access to financial capital for minority-owned businesses through both the debt and equity capital markets. Over the Internet and through MBDA's network of funded organizations, this office establishes guidelines for the delivery of management and technical assistance in the form of loan packaging, financial analysis, document preparation and related services.

Regional Offices: are responsible for an assigned geographic area. The regional offices implement Agency policies and programs within the assigned region. The Regional Offices ensure the effective delivery of Agency programs and services, including advocacy on behalf of minority businesses to the public and private sectors. Advocacy also includes the Minority Enterprise Development (MED) Week, that cumulates into a National conference each year. The Regional Offices are responsible for the monitoring and evaluation of programs that provide direct assistance to minority firms, including monitoring of program results.

The District Offices: report to the Regional Directors. They are responsible for program activities within their specific area.

**B. Major programs and activities**

**The Minority Business Development Center/Native American Business Development Center (MBDC/NABDC) Program** is designed to deliver business development services through 42 Centers nationwide.

**The Minority Business Capital Access Policy Institute** is an effort to focus resources on issues of capital access for minority businesses. MBDA has funded an Institute that will collect, analyze and disseminate information on the capital needs of minority businesses, review and assess new strategies and instruments for increasing financial access for minority businesses, and promote the importance of increased capital flows within the MBE community.

**The Phoenix-Opportunity on-line Bid Matching System** allows minority companies (MBE's) to register their firms in the MBDA database of minority business enterprises using the Internet. With this tool, MBE's are able to access contract opportunities and other information vital to the success of their business. Major companies and corporations, as well as Federal Agencies, are able to post opportunities and seek business partners. In FY 1999, a total of 47,076 clients or 59.6% of MBDA's total client base was served by this system and received 140,275 bid matches.

**The Market Analyst** is an innovative software tool that allows MBEs to conduct market research in their geographical area of business. With this desktop tool, MBEs gain competitive insights for their business.

**The Resource Locator** is a unique software application, which allows MBE's, or anyone accessing MBDA's web site, to search for business resources and locate them on a map - interactively on the Internet.

The MBDA offers several Virtual Business Development Centers on the Internet including; the **Aquaculture Virtual Center**, the **Franchising Center**, the **International Trade Center**, and the **Manufacturing Technology Center**. These sites offer a number of services to assist minority entrepreneurs in gaining entry to these exciting fields. The information provided could be categorized as access to technical and business information, access to sources of capital, and access to markets.

## **Education and Training**

The MBDA has commissioned several studies to provide education and training for MBEs via the Internet at [www.mbda.gov](http://www.mbda.gov) or through printed copies. These studies focus on the minority population growth and purchasing power from 1995 to 2050.

## **II. Listing of domestic and foreign field offices**

MBDA has five regional offices (Atlanta, Chicago, Dallas, New York and San Francisco) and four district offices (Boston, Los Angeles, Miami and Philadelphia).

## **III. Bureau "hot issues" and calendar**

- A. Listing of issues, activities and major milestones that will or could require attention within the first year of the new Administration in the format provided below.

This should include items such as reports due to the President and/or Congress; Congressional hearings; legislative deadlines affecting program implementation; and conferences, meetings, or other representational events necessitating the involvement of the Secretary and/or President.

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Date <sup>1</sup>	Nature of Issue or Activity	Secretarial or Presidential Involvement	Contact Person & Telephone Number
(1) Sept. 22 – 26, 2001	Minority Enterprise Development Week	Luncheon/Speech and/or gala appearance	Edith McCloud X 4095
(2) FY 2001	MBOC Program Reduction/Elimination	Congressional Involvement	Edith McCloud X 4095

**B. Detailed descriptions of each calendar item should be included, using the format provided in the attachment. Descriptions should not exceed two pages.**

1. In each year since 1983, the President of the United States has signed a Proclamation designating a week in recognition of the contributions made by minority businesses.

Minority Enterprise Development (MED) Week is an annual national celebration in recognition of the contributions made by minority businesses to the Nation's economy. This year will mark the 18<sup>th</sup> Annual National MED Week celebration.

National MED Week is the largest Federal business, educational and media event held on behalf of minority business enterprise and it provides a forum for:

- articulating the Administration's position in support of minority business development;
- interaction among corporate America, Federal, state, and local governments, minority-owned businesses and other private-sector entities to identify potential business opportunities and forge new partnerships in support of minority business development; and
- sharing and acknowledging successes and other business-enhancing experiences.

The U.S. Department of Commerce's Minority Business Development Agency (MBDA) and the U.S. Small Business Administration's (SBA) Office of Government Contracting and Minority Enterprise Development jointly sponsors National MED Week. Activities are held throughout the country under the auspices of MBDA's and SBA's Regional and District Offices and network of funded organizations in celebration of MED Week,

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<sup>1</sup> If there is no specific date by which an issue must be addressed, indicate the general timeframe within which it will require attention. An issue should be identified as requiring "immediate" attention if it must be addressed between January and March; "near term" between April and September; and "long term" between October and December.

culminating in the National Conference held in Washington, D.C. These activities promote and recognize the achievements of minority-owned businesses and the significant contributions of major corporations to minority business growth and development.

**MINORITY BUSINESS SUMMITS AND WORKSHOPS** – Feature prominent speakers who will discuss cutting-edge policy and political issues facing minority businesses. These events attract a very enthusiastic audience and provide venues for substantive policy discussions and a national dialog on minority business issues and challenges.

**EMERGING BUSINESS LEADERS INSTITUTE** – Will provide multi-faceted training opportunities for college and university students exploring entrepreneurship opportunities.

**BUSINESS EXPO** – A ribbon-cutting ceremony/reception will kick off the following day's business exposition of domestic and international corporations, Federal agencies and minority companies. The event provides participants the opportunity to define their procurement/ purchasing needs, showcase their goods and services, and establish a solid relationship with potential business partners.

**SPECIAL NETWORKING EVENTS** – Events will be held throughout the Conference to provide attendees with opportunities to develop relationships for new and increased levels of business opportunities and to gain knowledge about issues affecting today's challenging business environment.

**WELCOME RECEPTION** – This opening event of the MED Week 2000 Conference is a business mixer held on the first evening.

**CONGRESSIONAL RECEPTION** – A traditional National MED Week event held at the Library of Congress, it provides Conference attendees with an opportunity to network and meet with Members of Congress.

**THREE INFORMATIVE LUNCHEONS** – Feature keynote speakers and experts on minority business.

**AWARDS/RECOGNITION CEREMONIES** – Highlight the accomplishments of minority businesses nationwide. Minority entrepreneurs, minority business advocates and leaders in the corporate community will also be recognized.

2. MBDA has recognized the importance of the Minority Business Opportunity Committee (MBOC) program. Although the program is effective for the areas serviced, the program is limited to seven (7) cities at a cost of \$1.6 million per year. MBDA's electronic initiative will provide the same types of services for a greater geographic area. MBDA is considering the reduction/elimination of the MBOC program servicing 36 Metropolitan Statistical Areas (MSAs) in order to implement the use of electronic tools

that will service 315 MSAs. The reduction/elimination of the program will allow the use of those funds to assist in sustaining MBDA's electronic initiatives.

**V. Biography and position description for the incumbent in each position identified on the organizational chart.**

**COURTLAND COX**

**Director**

**Minority Business Development Agency**

**U.S. Department of Commerce**

President William J. Clinton appointed Courtland Cox Director of the Minority Business Development Agency (MBDA) on March 29, 1998. Mr. Cox brings to this position a solid background in minority business development, entrepreneurship and international trade. He directs the Department of Commerce's minority business economic development initiatives and assists the Secretary of Commerce in implementing new strategies to better serve the minority business community, particularly, in the areas of access to markets and procurement, access to capital and management and technical assistance.

Prior to his MBDA appointment, Mr. Cox held several positions at the Department of Commerce. In 1993, he served under the late Ronald H. Brown as Special Assistant to the Deputy Assistant Secretary for Africa, the Near East and South Asia at Commerce's International Trade Administration. In 1994, he was appointed as Director for the Office of Civil Rights where he spearheaded improvements in Commerce's Equal Employment Opportunity and affirmative action processes and implemented initiatives, which improved all aspects of human resources management. His special assignments at Commerce included coordinating the Department's efforts at the International Trade Center in the new Ronald Reagan Building and serving as Chair of Commerce's Diversity Council, where communications between employees, managers and employee groups were improved.

For twelve years, Mr. Cox held positions with the District of Columbia Government before joining the Commerce Department, including: Special Assistant to the Deputy Mayor for Economic Development; Director, Minority Business Opportunity Commission; and Director, Office of International Business. Upon leaving the D.C. Government, Mr. Cox served as a business consultant assisting with drafting the District's Small, Minority and Disadvantaged Business legislation.

Mr. Cox brings a wealth of experience to his appointment as MBDA Director. As a former entrepreneur, having been co-owner and manager of the Drum and Spear Bookstore and Drum and Spear Publishers for several years, he is uniquely aware of the many issues that impact minority business growth. While a college student at Howard University, he became a member of the Student Non-Violent Coordinating Committee and, for over thirty-five years, has helped to create civil and human rights laws and managed organizations which carry out the mandates of EEO and affirmative action laws in the areas of public accommodations, voting rights, employment and minority

contracting opportunities. Mr. Cox played a key role as one of the organizers of the 1963 March on Washington.

Mr. Cox currently resides in Washington, D.C. He is married and has one daughter.

**RUTH ALICIA SANDOVAL**  
**Deputy Director**

Secretary of Commerce William M. Daley appointed Ruth Alicia Sandoval as Deputy Director of the Minority Business Development Agency (MBDA) on September 8, 1998. Ms. Sandoval serves as the second in command to MBDA Director Courtland Cox in managing the Agency's objectives and programs. She brings to the position an extensive background in banking, economic development, and international trade development. She assists in implementing and developing minority business economic development initiatives for the Department of Commerce and in the creation of new market-setting strategies to better serve the minority business community.

Prior to her MBDA appointment, Ms. Sandoval held the position of Deputy Associate Deputy Administrator for Economic Development at the U.S. Small Business Administration (SBA) and Director of Community Empowerment and One-Stop Capital Shops. Ms. Sandoval led SBA's national focus on empowering underserved communities through the Empowerment Zone Initiative. During her tenure as the SBA Director of Community Empowerment, Ms. Sandoval served on the President's Community Empowerment Board Working Group. For the previous ten years, Ms. Sandoval has held several positions in the banking industry, including: Retail Administration at First Interstate Bank, Branch Manager at ABQ Bank and Bank of America, and Vice President of Community Development for Bank of America.

An active participant with numerous professional and civic organizations, Ms. Sandoval served as the 1996 Chairman of the Albuquerque Hispano Chamber of Commerce with a membership of 1,700 businesses. The Mayor of Albuquerque and the City Council appointed her to the Airport Advisory and its international subcommittee. Recognizing the next level of banking and businesses' extensive need for capital, Ms. Sandoval served actively on the board of two community development financial institutions, the New Mexico Community Development Loan Fund and the Women's Economic Self Sufficiency Team (WESST Corp.). Ms. Sandoval also served on the National Hispanic Bankers Association's Board of Directors as Vice President during 1996 and 1997 and was the founding President of the New Mexico Chapter.

Ms. Sandoval was born in New York City. Her father is from Valparaiso, Chile, and her mother from Quito, Ecuador. Ms. Sandoval currently resides in Arlington, Virginia. She is a single mother of two boys, Alejandro and Adrian.

**Paul R. Webber, IV**  
**Assistant Director**  
**Minority Business Development Agency**

Paul R. Webber, IV is currently the Assistant Director of the Minority Business Development Agency (MBDA) at the United States Department of Commerce. In July 1997, Secretary of Commerce William Daley appointed him as the Acting Director. Mr. Webber was requested by the Secretary to represent him at the Fourth African/African-American Summit in Harare, Zimbabwe. Before his appointment as Acting Director, Mr. Webber served as MBDA's Acting Deputy Director and Associate Director for Operations, with responsibility for overseeing MBDA's nationwide network of funded Minority and Native American Business Development Centers. These Centers provide business assistance to minority firms in the areas of bonding, bidding, estimating, financing, procurement, international trade, franchising, acquisitions and joint ventures, to increase opportunities in domestic and international markets for minority entrepreneurs.

As MBDA's Assistant Director, Mr. Webber directs the Agency's minority business economic development initiatives throughout the United States and its territories. Since his appointment in January 1995 by the late Secretary of Commerce Ronald H. Brown, Mr. Webber has demonstrated the Administration's commitment to minority business development by streamlining MBDA's grant award process and leveraging the resources of the public and private sectors to develop and enhance the Agency's community-based initiatives. He has been successful in leading MBDA's reinvention efforts, despite the recent reductions in MBDA's Congressional budgetary allowances and significant Headquarters staff reductions.

Prior to Mr. Webber's appointment at MBDA, he served as a partner in the law firm of Thompson, Hine and Flory in Washington, D.C., where he represented corporate and banking clients in general, civil and commercial litigation matters. He was also an associate with the law firm of Pohoryles and Greenstein, P.C. in Washington, D.C. where he handled litigation in connection with the firm's banking and real estate matters. Before practicing law, Mr. Webber served as a Law Clerk to the Honorable Henry H. Kennedy, Jr. Associate Judge, Superior Court of the District of Columbia, where he assisted Judge Kennedy in both civil and criminal matters.

Mr. Webber holds a Juris Doctorate from the Howard University's School of Law, in Washington, D.C., and a Bachelor of Arts degree in English from Dartmouth College in Hanover, New Hampshire. He has served as Chairman for the District of Columbia Minority Business Opportunity Commission and as a member of the Board of Governors for the Joint Center for Political and Economic Studies, Inc.

Mr. Webber is a native of Washington, D.C., where he currently resides with his wife and two children.



UNITED STATES DEPARTMENT OF COMMERCE  
Minority Business Development Agency  
Washington, D.C. 20230

116 23 1995

MEMORANDUM FOR

Rafael Borrás,  
Deputy Assistant Secretary  
for Administration

From:

*Joan Parrott-Fonseca*  
Joan Parrott-Fonseca  
Director

Subject:

Reduction in Force (RIF) Plan

Attached is a copy of the Minority Business Development Agency RIF Plan in accordance with DAO-202-351.

Attachments

## **MINORITY BUSINESS DEVELOPMENT AGENCY REINVENTION AND REALIGNMENT PLAN**

Consistent with Secretarial and Congressional directives and numerous studies, the MBDA has taken steps to reinvent its service delivery vehicles while realigning the Agency's operations to increase services at the local level. MBDA's Reinvention and Realignment Plan (Plan) was developed in response to the drastic budgetary cuts the Agency experienced during FY 1996 and its development of new locally-tailored service delivery vehicles for business assistance. The Plan reduces the Agency's existing emphasis and reliance on the Minority Business Development Center (MBDC) model as a vehicle for service delivery, and fully integrates programs that foster minority business opportunities through increased access to resources and new markets. The Agency's objective is to link its Federal resources to local public and private entities who have existing capacity and resources to provide effective minority business assistance at the local level. This new strategy requires that MBDA resources be redirected to its Regional and District offices to ensure the effective implementation of services at the local level.

The Plan has three components: (1) implementing the recommendations from various reports and the directives by the Secretary and Congress which direct the Agency to shift its staff resources to the local level; (2) developing a funding strategy which enhances and does not replicate existing local capacity for minority business assistance based on the completed series of supply and demand studies which identify local minority business needs and capacity; and (3) strengthening the Agency's field office structure to implement and execute this locally-based strategy. The Plan requires the MBDA to reorganize and streamline its headquarter office and strengthen the professional skill level of its field offices. The reduction in force (RIF) at the headquarters office will reduce staff and lead to the elimination or consolidation of operating units. The cost savings of the RIF will allow the Agency to concurrently strengthen its ability to serve the minority entrepreneur at the local level.

The objective of this Plan is to maintain the Agency's capacity in minority business development and to obtain from the Department or the public sector those services which do not necessitate minority business development expertise. The Agency has identified several administrative support and other services that can be provided by other Departmental bureaus. The Agency will concurrently establish new field positions to strengthen personnel skill levels at its Regional and District offices. Employees impacted by the RIF will have the opportunity to apply for these new positions. The Plan should result in cost-savings necessary to function under the new budgetary constraints required by Congress.

## REQUIREMENTS

- I. A. Action to be taken:
- B. Reason:
- C. Organization and Geographical Description:
- D. Performance Rating of Records:
- E. Positions to be Abolished:
- F. Employees to be Separated:
- G. Estimated number to be downgraded:
- H. Projected issuance date of RIF notice:
- I. Projected effective date:
- J. Describe Alternative Actions:

## TASKS

### Reduction in Force (RIF)

The abolishment of positions and units results from a need to realign MBDA operations based on anticipated budget reductions and to implement new program approaches. The new program concept places more emphasis on program development, design and implementation in the field.

The RIF will only impact the Headquarter's competitive area.

All employees have a current performance rating of record.

55 positions are to be abolished.

An estimated 45-55 employees will be separated.

An estimated 10-20 employees will be downgraded.

Between August 30 and September 6, 1996 --  
Dependent on the conclusion of union negotiations.

Projected November 9, 1996.

A Reassignment Plan was developed to reassign

senior staff members to Regional and District Offices. There was strong objection from employees and the Union Local to directed reassignment of employees from Headquarters to field offices. After reconsideration of MBDA organizational needs and budget constraints, the Management Team decided to rescind directed reassignments and to develop an alternative plan. This plan requires a sizable RIF of the Headquarter staff. The MBDA has been under a hiring and promotion freeze since June 7, 1995. Employees who will be affected by the RIF will have the opportunity to apply for new positions being established in the Agency's regional and district offices.

- K. Detail of any Unusual Situation Factors: Not Applicable.
2. Information Required for Budget Clearances: Information will be forwarded to Budget.
3. Cutoff Date for Freeze of Personnel Action: Other than details, there have been no personnel actions since March 14, 1996.
4. Vacancies: A number of positions will be established in the regional and district offices contingent on the availability of funds and immediate management needs.
5. Develop Communication Plan: An employee notification meeting was held on March 14, 1996, which outlined for headquarter employees the action plan (as of that date), the

reason for the action, the impact on staff, assurance that the action was not performance related, the need for continued high level performance where and what kind of assistance will be offered to employees and employee rights. In addition, there will be an "all hands" meeting to inform employees of the impending RIF. A follow-up information package was previously provided to each employee regarding the RIF procedures. Employees were notified to update personnel records on July 19, 1996.

6. Notification to Union:

MBDA was contacted by memorandum dated March 22, 1996, from the Union requesting a copy of the RIF Plan. A discussion was held with the Union regarding the rescinded reassignments to the Regional and District offices. A meeting with the Union concerning the RIF is pending. A copy of the approved RIF plan and all other pertinent documents will be given to the Union. If the Union requests bargaining on the impact and implementation of the RIF, management is prepared to immediately begin the process.

7. Personnel Actions:

All SF-52s for positions being abolished are attached.

**MINORITY BUSINESS DEVELOPMENT AGENCY  
REINVENTION STRATEGY**

**I. BACKGROUND**

Secretary Ronald H. Brown set some ambitious reinvention goals for MBDA in 1993 and 1994. The mandate was to maintain and improve the services that MBDA had traditionally delivered to startup and mom and pop businesses while becoming relevant to a whole new generation of existing and ready to grow minority owned. Early in this Administration, it also became apparent that an over reliance on the Minority Business Development Center (MBDC) model had created gaps in the scope of assistance programs the Agency offered. To that end, MBDA developed a Reinvention/Streamlining Plan (RSP) which would provide for a wider spectrum of broad based and one-on-one program activities delivered through partnerships with public and private sector organizations.

**II. FISCAL YEAR 1996**

**A. Programmatic Changes**

The Agency has developed a two-prong strategy: (1) a broad based national programs; and (2) locally-tailored service delivery vehicles.

**1. National Programs**

This set of programs are geared toward providing increased access to industry sectors and resources where minority businesses are traditionally underrepresented or underserved. The five general priority areas identified by the Agency for continued development are:

- a. Capital Formation
- b. Construction
- c. International Trade
- d. Rural Programs
- e. Internet Delivery Systems
- f. Franchising#

**2. Locally-Tailored Service Delivery Vehicles**

In early 1995 and in collaboration with the Office of Executive Assistance Management, the Agency began to develop a menu of locally-tailored service delivery vehicles. These announcements provide a menu of service delivery mechanisms that the Agency will draw from in tailoring its services to meet local needs. In all cases the local MBDA funding will endeavor to leverage community private, public and nonprofit efforts targeted to minority businesses. Primarily there are four kinds of service delivery vehicles:

- a. National Business Development Support Projects;
- b. Local Minority Business Opportunity Committees;
- c. Local Business Development Centers;
- d. Local Community Based Enhanced Services Centers. (See attached, "Draft Program Announcements" for descriptions)

## B. Administrative Changes

The Agency has been preparing for smoother transition into the RSP through organizational streamlining. This preparation has included staff reductions through buyouts, discontinued service retirements and the elimination of three organizational units. These actions reduced staff from 182 to 156 FTE, placing the Agency four FTEs below the FY 1996 Conference allowance. These actions also brought the supervisor to staff ratio from 1:5 to 1:10.

The Agency has developed and drafted a reorganizational structure that will further streamline its operations and is planning to implement a reduction in force (RIF) as required. It is prepared to review these plans given the fact that one half of the FY96 will have elapsed before any plan can be implemented.

## III. FISCAL YEAR 1997

### A. Programmatic Changes

For MBDA to deliver its national programs on a national scope it cannot afford to replicate consulting infrastructure throughout the country, especially in face of larger demands for service based on the Adarand v. Pena decision. For example, the MBDA anticipates having to serve new "race neutral" classes of minority-owned businesses based on the volume of preliminary inquiries by organizations and individuals seeking inclusion in MBDA services. Therefore, in FY 1997 the MBDA plans to continue the shift of resources away from the traditional management and technical assistance models and into programs that increase access to capital and markets.

Within FY 1997 base funding, the Agency will continue to develop its industry-sectored national program. The \$4 million increase in the passback will allow MBDA to establish the necessary capacity to further implement this national strategy. In FY 1997, the MBDA will continue a multi-phased project initiated in FY 1996 that will allow minority firms to access capital and market opportunities through the use of on-line information technology via the National Information Infrastructure. This

project will be the basis of a national strategy of providing national initiative programming and M&TA through on-line information technology. A Web-Net Site specifically designed to carry interactive consulting communications between consultants and end-users will accomplish the national goal of reaching four-five million end-users.

#### **B. Administrative Changes**

Consistent with the KPMG/Peat Marwick and Inspector General recommendations, the Agency will fill critical positions in the field. This action will allow us to reaffirm our commitment to the Agency's field structure essential in our efforts of reinvention.