



Advance Payments to Small Defense Contractors

Introduction

To meet the unprecedented demand for Army forces in an era of persistent conflict, unparalleled numbers of civilian contractors have been hired to supply vital services to Soldiers. The Gansler Commission, created in August 2007 to provide recommendations based on lessons learned in the field, advised adding 1,400 personnel to the Army's contracting workforce—an increase of approximately 25 percent. Implementation of this recommendation is expected to be completed within the next three to five years.

Despite such reliance on contractors to bridge the gap between the high demand for Army capabilities and the supply available, the market remains restricted to large business contractors that more readily obtain the necessary commercial financing support. In the current financial climate of tight credit and unavailability of commercial financing support, small business contractors are inherently disadvantaged in their ability to pursue and support government contracts; thus, competition is limited and prevents the government from capitalizing on the offers of better products and services from small businesses. Moreover, the government's mandate to assist small and disadvantaged businesses is undermined by smaller businesses' inability to finance initiatives.

Small Businesses Disadvantaged

By virtue of their size, small businesses often lack capital resources to support the large government contracts that call for extensive up-front funding for

supplies and other costs. To manage this problem, the Federal Acquisition Regulation (FAR), in paragraph 32.000, recognizes this handicap and allows for contract financing and advance payment considerations. Yet in practice, approval for granting these considerations ultimately rests with the local contracting officer. These officers examine each contract and determine when such payments are appropriate; however, it is not uncommon for inconsistencies to arise that are ultimately disadvantageous to small businesses. In particular, contracting officers may view granting advance payments or contract financing as an additional administrative burden and consequently deny such requests for support.

Small business contractors find themselves in especially sensitive situations when acting as subcontractors to large businesses that do not require financing support. Often, the large business is concerned that a request for contract financing for its subcontractors may be viewed as a sign of weakness.

The Way Ahead

The federal government, including the Department of Defense, has long expressed support for measures that promote the inclusion of small and disadvantaged businesses in the contracting effort. Contracts routinely offer such provisions. The ability to finance small businesses with good past performance records should be seen as supportive of these programs and initiatives.



Upon request, small and/or disadvantaged businesses and contractors with good past performance records should automatically receive contract financing and/or advance payments. No changes are needed to existing legislation—small businesses acting as subcontractors should be able to directly request advance payments and/or alternate contract financing, without the need to work through large businesses. Establishment of a review and appeal process to examine denials of requests is essential to ensuring proper administration of the program. As a

result, large contractors would face stiffer competition from small businesses, Soldiers would receive the vital support necessary from the best (though not necessarily the largest) contractors, and job creation would spring from thriving small businesses. If the use of advance payments for companies with good past performance were encouraged, it could be advantageous for DoD, for industry and, most important, for Soldiers, especially during these challenging economic times.

Key Points

- Unprecedented numbers of contractors are providing vital support to the Army in this era of persistent conflict.
- Small business contractors are disadvantaged by limited capital resources in the current climate of tight credit and unavailability of commercial financing support.
- Small businesses should be able to directly request contract financing and/or advanced payments.
- With more contractors in the market, stiffer competition would lead to better products and services for the Army.



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