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OFFICE OF FEDERAL
PROCUREMENT POLICY

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MEMORANDUM FOR CHIEF ACQUISITION OFFICERS
SENIOR PROCUREMENT EXECUTIVES

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Performing by Delegation the Duties of the
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SUBJECT: Increasing Small Business Subcontracting Participation in the Federal Marketplace

Building supply chain resilience in the federal marketplace requires agencies to work aggressively with their prime contractors to promote meaningful small business subcontracting opportunities. Subcontracting is the primary gateway into the federal marketplace – helping companies to become acclimated to federal missions and buying practices, and agencies to become familiar with the talents of small businesses that perform important functions within supply chains and may wish to compete as prime contractors in the future.

High-performing government contractors understand the importance of building resilient supply chains. There are many examples of prime contractors with strong small business subcontracting plans and practices. As highlighted in the table below, prime contractors' efforts have contributed to a total of \$86.4 billion in small business subcontract awards in FY 2023 – which represents an all-time high in small business subcontracting. While this achievement is noteworthy, more work remains to strengthen the federal marketplace and domestic resiliency.

The Small Business Administration (SBA), in its most recent Report to Congress on Small Business Subcontracting Plan Goals Status,¹ states that of the more than 2,800 individual subcontracting plans associated with completed contracts, many reported zero goals for one or more of the small business socioeconomic categories. This information is summarized in the table below. The report, which analyzes data reported to the Electronic Subcontracting Reporting System (eSRS), further points out that if contractors had met their subcontracting plan goals on prime contracts completed in FY 2023, small businesses would have received almost \$1.5 billion more in subcontract awards and small business concerns owned and controlled by socially and economically disadvantaged individuals (SDBs) would have received an additional \$850 million in subcontract awards. In a separate review, the Government Accountability Office (GAO) recommended that agencies give greater attention to consistently following procedures set forth in law and regulation for oversight of small business subcontracting plans.²

¹ [SBA, Report to Congress on Small Business Subcontracting Goals Status Fiscal Year 2023](#).

² Small Business Subcontracting: Oversight of Contractor Compliance with Subcontracting Plans Needs Improvement (GAO-20-464).

Snapshot of Small Business Subcontracting in FY 2023

Category	Percentage of Total Subcontract Dollars Awarded	Sub-contracting Goal	Total Subcontract Dollars Awarded (in billions)	Percentage of Plans with Goals for Small Business Category*	Percentage of Plans with Goals Met*
Small Businesses	33.34%	31%	\$86.4	92.0%	61.7%
Small Dis-advantaged Businesses	4.89%	5.0%	\$12.7	75.9%	47.4%
Women-owned Small Businesses	5.65%	5.0%	\$14.7	78.2%	51.6%
Service-Disabled Veteran-owned Small Businesses	2.63%	3.0%	\$6.8	64.5%	38.1%
HUBZone Small Businesses	1.97%	3.0%	\$5.1	63.6%	34.8%

*Figures address individual plans in completed contracts, as reported in Attachment 1 of SBA's Report on Small Business Subcontracting Goals Status for FY 23. (See Footnote 1.)

To address these challenges, the Office of Federal Procurement Policy (OFPP) worked with SBA, Senior Procurement Executives (SPEs), and agency Small Business Directors to highlight (i) key subcontracting requirements in existing government-wide regulation that are designed to provide maximum practicable opportunities for small business subcontractors and (ii) several agency-developed management practices to improve access for small business subcontractors. Chief Acquisition Officers (CAOs) and SPEs are encouraged to work with their Small Business Directors to review the government-wide regulatory requirements cited below and consider use of the highlighted management practices as appropriate. In addition, CAOs and SPEs should encourage their workforce to take a small business subcontracting training refresher. Attachment 1 provides a list of training resources on small business subcontracting available through the Federal Acquisition Institute, SBA, the Department of Defense, and the National Aeronautics and Space Administration (NASA). Further, OFPP will work with the General Services Administration (GSA), SBA, and other agencies to consider ways in which subcontracting data can be used more strategically by agencies and contractors to identify opportunities for strengthening supply chains and addressing vulnerabilities.

I. Pre-award reminders and considerations

1. **Work collaboratively with small business specialists to determine opportunities for subcontracting.** The Small Business Act and the Federal Acquisition Regulation (FAR) require that subcontracting plans undergo small business functional reviews to ensure maximum practicable opportunities for small businesses.³ Further, the FAR delineates the steps a contracting officer must take to determine whether a proposed contractual action requires a subcontracting plan.⁴ If the contracting officer determines that no subcontracting opportunities exist, the FAR requires the contracting officer to document the rationale, obtain approval at a level above the contracting officer, and place the determination in the contract file.⁵ Early collaboration between the contracting officer and small business specialist can be helpful in aligning the acquisition and small business offices on the extent to which opportunities may exist, saving time in the functional review and any follow-up that the procurement center representative (PCR) may have when the PCR reviews the subcontracting plan.⁶ For example:
 - when negotiating new plans with incumbents, contracting officers and small business specialists are encouraged to consider achievement on the prior plans and not simply default to the goals negotiated for the prior plan; and
 - prior to waiving the subcontracting requirement, the contracting officer is encouraged to share with the small business specialist the explanation from the contractor on why subcontracting is not planned.
2. **Evaluate an offeror's performance in meeting its past small business subcontracting plan goals to predict the likelihood of achieving goals on the new subcontracting plan.** Considering an offeror's track record in achieving its subcontracting plan goals is a strong indicator of its likely future achievement on proposed subcontracting goals and a motivator for stronger performance. When subcontracting plans are used as an evaluation factor, the FAR states that agencies (1) shall evaluate past performance regarding the extent to which the offeror attained applicable goals for small business participation under contracts that required a subcontracting plan⁷ and (2) should specifically consider achievement of subcontracting plan goals for SDBs.⁸

³ 15 U.S.C. 644(k)(20) and FAR 19.201(c)(17).

⁴ FAR 19.705-2.

⁵ FAR 19.705-2(c).

⁶ FAR 19.705-5(a)(3) requires the contracting officer to notify the SBA PCR of the opportunity to review a proposed subcontracting plan when a plan is required.

⁷ FAR 15.304(c)(3)(ii). The requirement to include subcontracting plans as an evaluation factor is applicable for solicitations that are not set aside for small business concerns, involving consolidation or bundling that offer a significant opportunity for subcontracting.

⁸ FAR 15.305(a)(2)(v).

3. **Consider subcontracting incentive strategies to help strengthen the supplier base.** When contracting by negotiation, the FAR allows contracting officers to provide monetary incentives, such as payments based on actual subcontracting achievement or an award-fee using subjective evaluation criteria.⁹ When a subcontracting plan is required and finalized, and in the judgment of the contracting officer the inclusion of a monetary incentive is necessary to increase small business contracting opportunities, contracting officers may include FAR clause 52.219-10, Incentive Subcontracting Program. Effective employment of subcontracting incentives may also contribute to a comprehensive agency strategy to grow its supplier base in areas where the agency has determined that greater capacity and capability are needed.
4. **Consider broadened use of small business participation evaluation factors (SBPEFs) or significant subfactors.** The FAR requires that contracting officers include proposed small business subcontracting participation in the subcontracting plan as a SBPEF for solicitations “that are not set aside for small business concerns, involving consolidation or bundling, that offer a significant opportunity for subcontracting.”¹⁰ A number of agencies have expanded the use of SBPEFs beyond just those solicitations involving consolidation or bundling to enhance small business subcontracting opportunities.¹¹

Evaluating small business participation at the factor or significant subfactor level and identifying the solicitation evaluation criteria incentivizes offerors to identify and commit to small business subcontracting and partnering opportunities. Evaluation factor criteria that have been used include: the extent to which submissions specifically identify small businesses (to include any teaming or joint venturing), commitment to the small businesses (including participation by SDBs, women-owned small businesses (WOSBs), service-disabled veteran-owned small businesses (SDVOSBs), and HUBZone small businesses), the extent of participation of small businesses in terms of total contract value, and the complexity and variety of work being performed.¹² Agencies are encouraged to review Attachment 2, which includes references to agency guidance, example evaluation criteria, and sample documents related to the expanded use of SBPEFs.

5. **Challenge zero or virtually-zero goals (i.e., goals equaling a mere fraction of one percent).** Agencies are encouraged to challenge a prime offeror’s proposed zero or virtually-zero goals and document determinations in the contract file to accept zero or virtually-zero goals.¹³ When reviewing proposed subcontracting plans with zero or virtually-zero goals for one or more socioeconomic small business categories in the base or option periods (or both), contracting officers are encouraged to ensure the offeror provides an explanation for the non-participation (including specific NAICS codes relevant to the contract which the prime offeror has considered and not considered for subcontracting opportunities), confer with their small business contracting specialist regarding the adequacy of the explanation, and reject

⁹ FAR 19.708(c).

¹⁰ FAR 15.304(c)(4).

¹¹ While not the focus of this memorandum, some agencies also have expanded use of SBPEFs to increase opportunities for small businesses at the prime level as part of a teaming arrangement.

¹² Evaluation criteria examples can be found in DFARS 215.304(c)(i) and DFARS PGI 215.304(c)(i)(A).

¹³ See SBA: Report to Congress on Small Business Subcontracting Goals Status Fiscal Year 2023 at Attachments 3 and 4 for an agency-by-agency breakdown of the percentage of individual subcontracting plans agreed upon by the agency without small business or socioeconomic small business subcontracting goals.

plans where meaningful opportunities for small businesses and underserved communities are not addressed.

For example, some agencies review data in the Federal Procurement Data System to see if the Federal Government has made prime awards to small businesses, SDBs, WOSBs, SDVOSBs, and HUBZone small businesses for work that would fall within the scope of the subcontracting plan as one indicator of whether it is likely that these businesses would be available to perform work at the subcontract level. The [government-wide procurement equity tool](#), SBA's [Dynamic Small Business Search Tool](#), and SBA's [Subcontracting Network System](#) can also be used to identify socioeconomic small businesses sources, including potential new entrants, registered in the System for Award Management that may be interested in subcontracting. Additionally, to the extent feasible, agencies are encouraged to consider the subcontracting plans of previous contracts with similar procurement requirements and assess the extent of historical achievement in reaching subcontracting goals for the products or services needed. Where contracting officers and small business specialists disagree, consider appropriate elevation of such disagreements.

6. **Consider the value of reflecting an offeror's promised use of small business subcontractors in the contract.** Several agencies incorporate, or are experimenting with incorporating, a Small Business Participation Commitment Document (SBPCD) into the resulting contract.¹⁴ The SBPCD is the prime contractor's proposed response to the SBPEF. Reflecting the successful offeror's small business subcontracting commitment in the contract can provide contracting officers with increased ability to hold the prime contractor accountable for the execution of their commitments to partner and subcontract with small businesses in individual contracts (if the offeror is a small business, the participation commitment would be at the prime contract level). Attachment 2 includes additional information on the use of SBPCDs.
7. **Strengthen the small business supplier base for research and development by considering a preference for Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) subcontractors.** Research and Development (R&D) represents an important and high spend area for overall federal procurement, but participation by small businesses and SDBs in this market segment is low relative to general market participation. The SBIR/STTR programs encourage domestic small businesses to explore their R&D potential by establishing a path to commercialization. SBA's SBIR/STTR Policy Directive provides for the use of preferences to promote subcontracting with SBIR/STTR small businesses, such as requiring the prime awardee to use evaluation factors favoring subcontracting to phase III SBIR/STTR concerns, or providing other incentives to the prime contractor for utilizing SBIR/STTR awardees as subcontractors, as referenced in 15 U.S.C. § 638(y).¹⁵ Additionally, mentor protégé programs are an important tool to provide developmental assistance to small businesses and bring new entrants into the Federal Government marketplace. Agencies are encouraged to consider an evaluation preference for prime contractors that include their protégé firms as subcontractors.

¹⁴ In defense contracting, proposals addressing the extent of small business performance are separate from subcontracting plans as described in DFARS 215.304(c)(i)(B).

¹⁵ SBIR/STTR Policy Directive Section 4 (c)(7)(iii).

8. **Improve agency procurement forecasts.** Agencies should prioritize implementation of OFPP’s guidance, [*Strengthening Government-wide Agency Federal Procurement Forecasts*](#). This guidance, which was informed by a public crowdsourcing campaign and numerous executive branch focus groups, provides direction to strengthen procurement forecasts by improving the quality of forecast content, the timeliness of forecast information, and vendor access to agency forecast information through a centralized point that is phased in. Improved and earlier access to forecast information can help vendors – both primes and subs – to prepare more effectively for upcoming agency competitions and lower barriers to entry for small businesses, including small businesses that may be looking for opportunities to subcontract with primes. The guidance allows agencies to maintain their current forecasting tools and push forecast data to GSA’s Forecast of Contract Opportunities, which will provide vendors with a central point of access to all forecasting information across the Federal Government. This approach will simplify vendor access to the planning information they need and simultaneously allow agencies to maintain and enhance platforms they may have already built or plan to build to facilitate and support supply chain partnering within their supplier base, including prime-sub relationships, mentor-protégé relationships, teaming, and joint ventures.

II. Post-award reminders and considerations

1. **Monitor submission of subcontracting plan reports, review any discrepancies with the plan, and ensure good faith compliance.** Post award contracting officer responsibilities with respect to subcontracting plans are outlined in FAR 19.705-6 and 19.706. As part of subcontracting plan management, the FAR requires contractors to submit Individual Subcontract Reports (ISRs) and a Summary Subcontract Report (SSR) through eSRS semi-annually and annually, respectively.¹⁶ Contracting officers should confirm that subcontracting reports are submitted by contractors in a timely and accurate manner. Contracting officers should be comparing the subcontracting goals in the contractor’s ISRs to goals in the approved subcontracting plan.¹⁷ When actual small business subcontracting use does not meet the expressed goals of a subcontracting plan, the contracting officer should ensure the contractor is providing written explanation in the ISR for why it is not using small businesses as envisioned in the plan and steps it is taking to address shortcomings.¹⁸

Evaluating the prime contractor’s compliance with its subcontracting plan should include an assessment of whether the prime contractor has made a “good faith effort” to comply with its small business subcontracting plan,¹⁹ taking into account the requirements set forth at FAR 19.705-7(b) and SBA’s regulations at 13 C.F.R. 125.3(b) and (d)(3)(i), which include discussion of enumerated actions that would demonstrate good faith.

2. **Evaluate contractor achievement against the small business subcontracting plan and document the evaluation in the Contractor Performance Assessment Reporting System (CPARS).** Responsible management of a subcontracting plan can support strong, diverse supply chains. The FAR states that evaluation of a contractor’s performance shall address

¹⁶ FAR 19.704 (a)(10).

¹⁷ Agencies that use commitment documents could compare the reports to the commitments to small businesses in the contract, potentially making oversight of the subcontracting plan more manageable.

¹⁸ FAR 19.705-6(g)(2).

¹⁹ FAR 19.705-6(g)(1).

achieving small business goals in the subcontracting plan, including those statutorily required for SDBs, WOSBs, SDVOSBs, and HUBZone small businesses.²⁰ Review of the contractor's semi-annual ISRs, or annual SSR for Commercial Plans, is an integral part of the agency's responsibility to assess and document the contractor's efforts to achieve its plan goals in CPARS.²¹ The achievement of subcontracting goals should be consistently evaluated and performance documented in CPARS following the evaluation ratings in [FAR Table 42-2](#). CPARS reporting should reflect not just subcontracting plan shortcomings but also achievements that meet and exceed expectations. Agencies should review CPARS and compliance with [FAR Table 42-2](#) during internal procurement management reviews.

- 3. Take note of ongoing policy actions that can help small business subcontractors compete as prime contractors.** Small business subcontractors often struggle to break into the market because they lack a qualifying past performance when competing for a prime contract. A final rule issued by SBA²² authorizes a first-tier subcontractor on a prime contract with a subcontracting plan to request a past performance rating from the prime contractor that can then be submitted as part of an offer by the small business for a prime contract. Under SBA's rule, contracting officers are required to consider that record of past performance when evaluating an offer for a prime contract by the small business. The FAR Council is working on proposed amendments to implement SBA's rule in the FAR.

Attachments

cc: Agency Small Business Directors

²⁰ FAR 42.1502(g)(1).

²¹ FAR 42.15.

²² 87 FR 43731 (July 22, 2022).

Subcontracting Training Resources

Below is a list of training resources to help the workforce manage subcontracting compliance.

Federal Acquisition Institute (fai.gov):

- FAC 059 HUBZone Contracting
- FAC 031 Small Business Programs
- FAC 091 Small Business Strategies for Multiple-Award Contracts

Defense Acquisition University:

- [CLC 059 Management of Subcontracting Compliance](#)

Department of Defense:

- [Guide to Preparing and Reviewing ISR for an Individual Subcontracting Plan](#)

National Aeronautics and Space Administration:

- Subcontracting Plan Administration*
- Subcontracting Plan Requirements*

Small Business Administration:

- Second Wednesday prime contractor training webinars:
<https://youtube.com/playlist?list=PLrwM1ZVcvDhab78HybaUQBNBPO3rP4q5P>

*Posted on the Periodic Table of Acquisition Innovations – see Attachment 2.

Small Business Participation Evaluation Factor and Commitment Document Resources

Several agencies have adopted a Small Business Participation Evaluation Factor (SBPEF). Their guidance, sample solicitation language, and templates can be found in the [Periodic Table of Acquisition Innovations](#) (PTAI) under the “Small Business Participation Evaluation Factor and Commitments” tile in the “Evaluation” section of the PTAI. A summary of the information that may be found on the PTAI is below.

Small Business Participation Guidance:

- Guidance: Small Business Participation Commitment Document and Small Business Plan Primer
- Guidance: Small Business Participation as an Evaluation Factor (SBPEF)

Commitment Documents:

- Template: Small Business Participation Commitment Document
- Template: USGS Small Business Participation Commitment Document Template

Evaluation Criteria:

- Templates: [Small Business Participation as a Factor](#)
- Sample: Sections L & M for Confidence Rating
- Sample: Draft Section M Evaluation Criteria

Management Tools:

- Checklist: Individual Subcontracting Plan Checklist and Review
- Checklist: [Subcontracting Program Checklist](#)
- Checklist: Subcontracting Plan Review Checklist
- Training: Subcontracting Plan Administration
- Training: Subcontracting Plan Requirements

Related Guidance:

- AFARS: [Small Business Participation Proposal](#)
- HUD: [2452.215-72 Evaluation of small business participation](#)
- NASA FAR Supplement: [1815.304 Small Business Utilization](#)