

## Country case: Small business subcontracting in the United States

### Description

As an additional method of encouraging participation by small businesses in federal contracting opportunities, the United States has implemented a mandatory Small Business Subcontracting Program. For all contracts that exceed the simplified acquisition threshold (USD 150,000), contractors are expected to provide the maximum practicable opportunity to participate in contract performance to small business, veteran-owned small business, servicesdisabled veteran-owned small business, Historically Underutilized Business Zone (HUBZone) small business, small disadvantaged business, and women-owned small business concerns. For contracts or contract modifications expected to exceed USD 650,000 (including options) that contain subcontracting opportunities, the supplier selected for award is required to submit a detailed subcontracting plan. Failure to submit a subcontracting plan renders the supplier ineligible for award, and any contractor or subcontractor that fails to comply in good faith with the requirements of the subcontracting plan is considered in material breach of its contract. The requirement for a subcontracting plan does not apply when the selected supplier is itself a small business, to personal services contracts, or to contracts performed entirely outside of the United States (FAR 19.702).

Public Procurement  
Principle: **Access, Balance**

Procurement Stage:

**Tendering**

Audience: **Policy Maker,  
Procuring Entity, Private  
Sector**

Each subcontracting plan must include:

1. Separate percentage goals for small business, veteran-owned small business, servicesdisabled veteran owned small business, HUBZone small business, small disadvantaged business and women-owned small business concerns as subcontractors.
2. A statement of the total dollars planned to be subcontracted and the total dollars planned to be subcontracted to the categories of concerns identified in (1)
3. A description of the principal types of supplies and services to be subcontracted, including identification of the types to be subcontracted to the relevant concerns
4. A description of the method used to develop the subcontracting goals
5. A description of the method used to identify potential sources for solicitation purposes
6. A statement as to whether indirect cost considerations were included in the establishment of goals and estimated share of subcontracts
7. The name of an individual who will administer the subcontracting program, and a description of the duties of the individual;
8. A description of the efforts the offeror will make to ensure that relevant suppliers have an equitable opportunity to compete for the subcontracts

9. Assurances that the offeror will include the clause that mandates the Small Business Subcontracting Program in all subcontracts that offer further subcontracting opportunities and require any such subcontracts that exceed USD 650,000 to include their own small business subcontracting plan
10. Assurances that the offeror will co-operate in any surveys, studies and reporting requirements necessary
11. A description of the types of records that will be maintained concerning procedures adopted to comply with the requirements and goals in the plan.

Rather than establishing a subcontracting plan for each contract action, contractors may establish a master plan on a plant- or division-wide basis that contains all of the elements necessary except specific goals. For individual contracts, the master plan is then incorporated into the individual subcontracting plan along with the goals for that contract. Such plans are effective for three years after approval, but it remains a contractor's responsibility to maintain and update the master plan. Any changes to the master plan must be approved by the contracting officer (FAR 19.704).

In addition to the compliance requirements imposed by the subcontracting plan, the contracting officer may encourage the development of increased subcontracting opportunities in negotiated acquisition by providing monetary incentives in the form of payments based on actual subcontracting achievement or award-fee contracting. Such incentives are only appropriate when the contracting officer ensures that the goals are realistic and that any such incentives are commensurate with efforts the contractor would not have otherwise expended to achieve them (FAR 19.705)

Source: OECD (2016), [The Korean Public Procurement Service: Innovating for Effectiveness](#), OECD Publishing, Paris.