

SMALL BUSINESS PARTICIPATION AND ACCELERATED PAYMENTS IN DOD CONTRACTING

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This paper

- Recent introduction of accelerated payments for federal contracts
 - Reduced from 30 to 15 days from invoice
 - Initially small businesses only, subsequently expanded
 - Food and construction already accelerated
- Policy relevance
 - Costly: agency cash flow, raises PV of contract payments
 - Broader policy effort to boost small business
 - SB survival and growth may be positive for procurement markets

Empirical Approach

- Exploit timing of policy adoption and differences across product type
 - Food and construction vs other products
- Main outcome: firm-level participation in federal contracting by small business
 - Small businesses face greater cash flow constraints
 - Participation is an indirect measure of other benefits (eg profitability)
- Estimate separately for firms with and without backlog of incomplete projects

Federal payment policy

- Prompt Payments Act enacted in 1982, revised 1988
 - Payment standard of 30 days after invoice (and interest penalties)
 - Shorter timelines for construction (14 days); poultry, eggs, frozen fish (7 days); perishable agricultural commodities (10 days)
- Accelerated payments
 - 2011 DoD announced goal (no penalties attached) of paying small businesses within 15 days of invoice
 - Later in 2011, OMB adopted for federal contracting
 - 2012 expanded to all contractors (including DoD)
 - Feb 2013: DoD canceled policy for small contractors
 - July 2014: Accelerated payments reinstated
- DoD applied to MOCAS in June 2011
- Indirect evidence of compliance for DoD

Data

- Contract actions reported in FPDS 2010-15
- Consider actions reflecting willingness to take on new work
 - Initial definitive contract award
 - Orders against IDVs subject to competition
- Outcome of interest is number of awards by firm-month
- Backlog measured within the data
- Continuous measure of small business status
- Reduce computing burden by taking 25 percent random sample of firm-months

Empirical approach

- Difference-in-difference specification

$$Y_{it} = \beta_0 + \beta_1 A_t * S_i + \beta_1 S_i + \rho_t + \varepsilon_{it}$$

- Mean log participation:
 1. Small businesses vs large businesses
 2. With accelerated payments vs without

Participation by backlog, DoD contracts

	(1) All firms	(2) Have backlog	(3) No backlog
SB*DoD Treatment for SB	-0.0059*** (0.0014)	0.026* (0.010)	0.00054 (0.00037)
SB*DoD Treatment for all firms	-0.0028 (0.0015)	0.064*** (0.013)	0.00049 (0.00039)
Observations	7195104	540386	6649598
R-Squared	0.45	0.66	0.10

Each specification includes year*month and firm effects. Standard errors clustered by firm are in parentheses.

Separate by product type, DoD contracts

	Food/Constr.			Non-Food/Constr.		
	(1) All firms	(2) Have backlog	(3) No backlog	(4) All firms	(5) Have backlog	(6) No backlog
SB*Treat SB	0.00025 (0.00028)	0.0064** (0.0024)	0.000088 (0.000086)	-0.0062*** (0.0013)	0.022* (0.010)	0.00045 (0.00036)
SB*Treat all	0.00018 (0.00047)	0.011*** (0.0031)	0.00011 (0.00011)	-0.0031* (0.0015)	0.056*** (0.013)	0.00038 (0.00037)
Observations	7195104	540386	6649598	7195104	540386	6649598
R-Squared	0.32	0.66	0.13	0.45	0.65	0.098

Each specification includes year*month and firm effects. Standard errors clustered by firm are in parentheses.

Conclusion

- Consider the impact of accelerated payments on the participation of small business in federal contracting
- Topic with both policy relevance and academic interest
- Recent legislation:
 - Accelerated Payments for Small Businesses Act of 2018 (never taken up)
 - Section 852 of the National Defense Authorization Act for Fiscal Year 2019
- Potential for further work:
 - Measuring compliance more directly (CPARS?)
 - Refining the measures of participation