FMC as a New Capital Model

How FMC Changes Outcomes for Contractors

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I. Executive Summary

A. Scale and Opportunity in the Federal Marketplace

The federal marketplace is one of the largest and most consistent sources of economic activity in the world, with hundreds of billions of dollars annually assigned across agencies and mission areas. For government contractors, this represents a significant and sustained opportunity to build, scale, and deliver solutions that support critical public-sector functions.

B. Structural Financial Challenges

Yet participation in this market is not defined solely by capability or demand. While the opportunity is substantial, the path to accessing and executing it is shaped by structural realities that distinguish government contracting from nearly every other industry. Long procurement cycles, upfront investment requirements, delayed payment timelines, and evolving compliance standards all contribute to this operating environment. These dynamics are inherent to the federal acquisition system, which is characterized by complex processes, regulatory requirements, and administrative burden placed on contractors throughout the lifecycle (U.S. Government Accountability Office [GAO], 2017).

For many contractors, the primary challenge is not identifying opportunity, but sustaining the financial capacity to pursue and execute it effectively. While federal spending continues to increase, participation by small businesses has declined significantly, with nearly 40 percent fewer firms receiving contracts than a decade ago (National Equity Atlas, 2024). At the same time, over $183 billion in federal contracts are awarded to small businesses annually, indicating that opportunities remain substantial but are increasingly concentrated among fewer firms (U.S. Small Business Administration [SBA], 2025).

Traditional capital solutions, designed for businesses with predictable cash flow, do not align with the timing and structure of federal work. As a result, contractors are often forced to make reactive decisions based on short-term constraints rather than long-term strategy. This disconnect between how government contracting operates and how it is financed represents a fundamental inefficiency within the market. It limits participation, compresses margins, and constrains growth.

C. Emergence of FMC as a New Capital Model

At Parabilis, we have consistently seen this disconnect among contractors of all sizes. Federal Market Credit (FMC) is emerging as a response to this challenge. FMC offers scalable, asset-backed credit solutions directly to U.S. federal contractors serving the small to mid-sized market, providing businesses the freedom to grow, innovate, and deliver essential programs and mission-critical capabilities.

This white paper outlines the structural challenges facing government contractors, examines the limitations of existing financing options, and defines FMC as a new category of capital. Drawing on our experience supporting contractors in the federal marketplace, it further explores how FMC changes contractor outcomes and contributes to a more efficient and resilient federal contracting environment.

II. Reality of Operating in the Federal Marketplace

A. Market Complexity and Procurement Timelines

The federal government remains the largest buyer of goods and services in the world, with total contract obligations exceeding $700 billion annually (GAO, 2024). For contractors, this creates a steady pipeline of opportunities across sectors, including defense, healthcare, technology, and infrastructure. However, participation in this market is not straightforward. Contractors must navigate a system defined not only by scale but by friction.

Procurement timelines are often extended, with opportunities taking anywhere from 12 to 24 months to move from initial identification to contract award. During this period, contractors are required to invest significant time and resources into proposal development, compliance requirements, and relationship-building efforts, all without certainty of return on investment. This creates an environment in which capital must be deployed well in advance of revenue realization.

B. Delayed Payments and Operational Pressure

Even after contracts are awarded, financial pressure does not subside. Contractors are expected to mobilize quickly, often bringing on staff, committing to subcontractors, and incurring operational costs before any revenue can be generated. While policies are intended to ensure timely reimbursement, payment cycles often exceed expected timelines. This creates a consistent lag between when work is completed and when payment is received, forcing contractors to operate ahead of their revenue on a regular basis.

The dynamic becomes more pronounced during periods of disruption. In the event of government shutdowns or administrative lag, payment may be delayed even for work that has already been completed and approved. Contractors are still required to meet payroll, maintain operations, and fulfill contractual obligations, regardless of whether cash flow is arriving as expected. As a result, businesses that are otherwise stable can experience immediate financial strain due to factors entirely out of their control.

C. Strategic Constraints on Growth and Competition

Under these conditions, contractors are forced to make critical decisions under financial pressure. For example, pricing strategies are often influenced not only by cost and value, but by the need to secure work quickly and maintain liquidity. This can lead to underbidding or reduced margins, which may improve short-term competitiveness but ultimately weaken long-term sustainability. Similarly, firms may pursue a strategically suboptimal, broader range of opportunities that prioritize volume over alignment to keep revenue moving.

These pressures also shape how contractors approach partnerships and growth. Teaming decisions are frequently driven by necessity rather than long-term strategy, as firms look to distribute risk or meet immediate requirements. At the same time, investment in market research, capture strategy, and early positioning is critical to long-term success, but is often constrained by limited access to capital. Access to financing remains a widely cited barrier for small businesses in federal contracting, with many firms reporting difficulty securing capital aligned with government payment cycles (Bipartisan Policy Center, 2021). Contractors are therefore placed in a reactive position, responding to opportunities as they arise rather than shaping their trajectory in advance.

D. Capital Access as a Structural Barrier

Collectively, these conditions define the structural reality of operating in the federal marketplace. Contractors are expected to invest early, execute consistently, absorb delays, and take on risks in pursuit of long-term opportunities. However, the capital available to most contractors does not reflect this reality. Traditional financing options are often rigid in structure, reactive in nature, and misaligned with the timing of government contracts. This creates a fundamental mismatch between how contractors operate and how they are financed. Despite continued growth in federal contract spending, participation by small businesses has declined significantly over time, reinforcing the view that structural barriers, specifically access to aligned capital, limit effective participation (GAO, 2022). Without that alignment, even highly capable contractors are limited in how effectively they can compete, execute, and scale.

III. Why Traditional Capital Falls Short

A. Misalignment Between Traditional Financing and Federal Contracting

Building on this structural mismatch, the limitations of traditional financing become clear. Traditional capital solutions often face limitations, not because funding is unavailable, but because they are fundamentally misaligned with how government contracting operates. In a market defined by delayed revenue, upfront investment, and operational uncertainty, capital must function as a forward-looking enabler. Traditional financing, by contrast, is often structured around more reactive frameworks.

One form of traditional financing is bank lending, which is structured around predictability. Financial institutions assess borrowers based on consistent revenue streams, historical performance, and the ability to repay on fixed schedules. This model is effective for businesses with stable cash flow and continuous revenue generation. However, government contractors operate in an environment where revenue is inherently delayed and dependent on contract timelines rather than continuous sales cycles. This reflects broader structural characteristics of the federal acquisition system, which is defined by complex procurement processes and administrative requirements that extend timelines and increase the operational burden on contractors (GAO, 2017). As a result, contractors often face difficulty securing capital that aligns with their revenue timing, reinforcing broader barriers to participation in the federal marketplace.

B. Limitations of Bank Lending and Factoring

As a result, the issue is not simply that revenue is delayed, but that capital is evaluated using assumptions that do not hold within the federal marketplace. Conventional lending models rely heavily on historical financial performance and standardized risk assessments, which often fail to capture the forward-looking nature of government contracting. Contractors invest significant resources well before revenue is realized, yet these investments are not reflected in traditional underwriting frameworks. Therefore, businesses with strong contract pipelines may still face limitations in accessing capital despite having clear, thorough paths to future revenue (SBA, 2025).

Factoring provides an alternative form of financing by offering liquidity against outstanding invoices, but it remains inherently limited in scope. Since factoring is tied to submitted invoices and completed work, contractors can only access capital after they have begun execution and generated billable activity. As a result, it does not support the earlier stages of the contract lifecycle, where contractors must invest in staffing, operations, and mobilization before any revenue is realized. Rather than functioning as a forward-looking enabler, factoring operates as a lagging form of capital that responds to revenue after it is generated. As a result, it does not support the investment required to generate that revenue in the first place.

C. Short-Term Financing and Growth Constraints

Other capital solutions introduce a different form of misalignment. Short-term financing options, including high-cost lending products, may provide immediate access to capital but also introduce trade-offs for long-term sustainability. Repayment structures are typically fixed and aggressive, requiring contractors to begin repayment before contract revenue is fully realized. In an environment where payment timing is uncertain and frequently delayed, these obligations create a disconnect between repayment requirements and actual cash flow, forcing contractors to manage debt independently of when revenue is received.

Beyond individual financing structures, the broader issue lies in how traditional capital is evaluated and deployed, resulting in a financial environment that does not scale with the demands of the federal marketplace. Contractors are required to make decisions within capital constraints that do not expand alongside opportunity, creating a ceiling on growth independent of capability or demand. This limitation introduces a recurring structural imbalance in how firms compete. Access to appropriately structured capital becomes a differentiating factor, influencing which contractors can pursue larger opportunities, sustain operations over extended timelines, and invest in long-term positioning. In effect, financial structure begins to shape market outcomes, determining not only how firms grow, but which firms are able to participate at all.

D. Need for a Scalable Capital Model

At the market level, this dynamic reduces efficiency by constraining participation and limiting the full utilization of available capability. When capital does not evolve alongside the operating environment, it can influence how contractors make strategic decisions. Addressing this gap requires a model of capital that is built to scale with the realities of the federal marketplace rather than operate independently of them.

IV. Defining FMC as a New Capital Model

A. FMC as a Scalable Model

Federal Market Credit (FMC) emerges directly in response to the structural disconnect between capital and how the federal marketplace operates. Rather than attempting to adapt existing financial tools to government contracting, FMC represents a purpose-built capital model designed around how the marketplace actually operates. It offers scalable, asset-backed credit solutions directly to U.S. federal contractors serving the small to mid-sized market, providing businesses the freedom to grow, innovate, and deliver essential programs and mission-critical capabilities. It reframes capital not as a reactive source of liquidity but as an integrated component of how contractors plan, pursue, and execute work.

B. Forward-Looking Capital Evaluation

At its foundation, FMC reflects a different approach to evaluating how value is created in government contracting. FMC takes a more forward-looking approach by recognizing that awarded work, backlog, and credible pipeline activity all matter in assessing a contractor's ability to perform and grow. In doing so, it aligns capital more closely with operational performance indicators, contract pipeline strength, execution capacity, and long-term growth potential in the federal marketplace.

C. Alignment with Contract Timing and Risk

This forward-looking orientation is especially important in a market where timing shapes almost every operational decision. FMC is structured to align with the lifecycle of a government contract, from pre-award investment through execution and reimbursement. Unlike traditional lending, which depends on fixed repayment schedules, or factoring, which is limited to completed work, FMC addresses the gap between when capital is needed and when revenue is received. That distinction matters because small businesses continue to face persistent capital access gaps, particularly when financing must support growth before cash is realized (SBA, 2023).

FMC also reflects a more precise view of risk. Traditional financing often evaluates risk primarily at the firm level, which can lead to conservative underwriting outcomes that overlook the strength of the underlying opportunity. In government contracting, however, risk is also shaped by contract-level factors such as agency reliability, funding structure, period of performance, and payment profile. FMC is better positioned to account for these dynamics and to evaluate capital needs in a way that reflects both the contractor's capabilities and the structure of the work itself. This is particularly important in an environment where firms continue to face structural barriers in accessing capital that aligns with their needs (U.S. Department of the Treasury, 2025).

D. Flexibility and Strategic Execution

Another defining feature of FMC is flexibility. Government contracting is rarely linear, and delays, modifications, option periods, and administrative changes all affect how and when revenue is realized. FMC is designed to accommodate that variability by aligning capital more closely with actual operating conditions rather than forcing contractors into repayment structures that do not reflect the realities of contract execution. That flexibility becomes especially valuable in a financing environment where many firms continue to face uneven access to credit and challenges in obtaining the full amount of financing they seek (Federal Reserve Banks, 2022).

Importantly, FMC functions as more than a financial solution. As a scalable, asset-backed model designed for federal contractors, it operates as a strategic enabler. Access to capital aligned with contract timing allows contractors to invest earlier in the procurement process, pursue opportunities that require greater upfront investment, and make decisions based on long-term positioning rather than short-term constraints. At Parabilis, that distinction is central. The role of capital is not simply to keep work moving once it has started, but to support the financial readiness required to win, execute, and scale in the federal marketplace.

E. FMC as Infrastructure for Growth

The emergence of FMC ultimately reflects a broader need in government contracting: a capital model built for the market rather than imposed on it. When financing aligns with contract timing, incorporates forward-looking evaluation, and recognizes the operational realities of federal work, it becomes more than a stopgap; it becomes infrastructure for growth.

V. The Parabilis Approach

A. Integrating Capital into Contractor Operations

At Parabilis, we approach the federal marketplace with the understanding that capital is not a standalone input but a functional part of how contractors operate in a highly structured, time-dependent environment. Rather than treating financing as a generic product, we integrate capital directly into the way contractors plan, sequence, and execute work. As a result, capital becomes embedded within the contractor's broader operational strategy rather than functioning as a separate financial resource.

B. Market-Informed Capital Deployment

Execution of this approach is grounded in how we evaluate opportunities. Instead of relying solely on static financial indicators, we consider how work is positioned within the federal procurement process. This includes visibility into contract structures, timing expectations, and the relationship between awarded work and future pipeline. By grounding capital decisions in how work is actually secured and performed, Parabilis deploys financing in ways that reflect the realities contractors face.

C. Flexible and Adaptive Financing

This model also emphasizes the importance of adaptability in capital delivery. Government contracting environments are inherently dynamic, and Parabilis structures financing to adjust alongside disruptions and changes in timing, scope, and contract progression. These conditions are treated as expected, allowing contractors to maintain continuity without restructuring operations around rigid financial constraints.

D. Strategic Support Beyond Financing

In addition to capital deployment, we operate within a broader ecosystem of expertise in the federal market. Contractors benefit not only from financing but also from access to insights, relationships, and guidance that inform decision-making at every stage of growth. This creates a more integrated support system where contractors receive both financial and market expertise throughout the contract lifecycle. Rather than functioning in isolation, financing works alongside strategic resources and industry guidance to support long-term growth and execution.

Taken together, the Parabilis approach is defined by how capital is positioned within the contractor's operating model. By embedding financing into execution, aligning it with how opportunities are pursued, and supporting it with market-specific expertise, Parabilis enables contractors to operate with greater consistency and strategic control within the federal marketplace.

VI. Conclusion

The federal marketplace offers significant long-term opportunity, but the ability to participate and grow within it depends on more than demand alone. Contractors operate in an environment shaped by extended procurement timelines, upfront investment requirements, delayed payments, and operational uncertainty. While these conditions are inherent to the market, the capital available to support contractors has often failed to align with how federal work is pursued and performed.

Federal Market Credit (FMC) addresses this disconnect by aligning capital with the structure and timing of government contracting. This creates a more integrated support system where contractors receive both financial and market expertise throughout the contract lifecycle. By supporting contractors across the full contract lifecycle and adapting to operational realities, FMC enables more stable, flexible, and strategic execution. At Parabilis, this approach reflects the belief that capital should support contractor performance and long-term growth rather than function solely as a short-term liquidity solution. As the federal marketplace continues to evolve, contractors will increasingly need capital solutions tailored to the realities of government contracting.

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