



**STATEMENT OF
JOSEPH C. SHARPE, JR., DIRECTOR
NATIONAL VETERANS EMPLOYMENT & EDUCATION COMMISSION
THE AMERICAN LEGION**

BEFORE THE

**SUBCOMMITTEE ON CONTRACTING AND WORKFORCE
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES**

ON

**ENTREPRENEURIAL DEVELOPMENT PROGRAMS
RESOURCES TO ASSIST SMALL BUSINESSES**

MARCH 30, 2017

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Chairman Knight, Ranking Member Murphy and Members of the Subcommittee, on behalf of National Commander Charles E. Schmidt and The American Legion, the country's largest patriotic wartime service organization for veterans, comprising over 2.2 million members and serving every man and woman who has worn the uniform for this country, we thank you for the opportunity to present The American Legion's views on Small Business Administration's (SBA's) Entrepreneurial Development Programs: Resources to Assist Small Businesses.

The American Legion views small business as the backbone of the American economy. It is the mobilizing force behind America's past economic growth and has given the United States a competitive advantage in the global economy. Small Business development will continue to be a major factor in our nation's economic and national security well-being as we move further into the 21st Century.

Reports from SBA show that businesses with fewer than 20 employees account for 90 percent of all U.S. firms and are responsible for more than 75 percent of all new jobs. These small businesses generated over a trillion dollars in income and employed 56.8 million people or 48 percent of the private workforce in 2013. According to the Small Business Administration, there are anywhere from 24 to 28.2 million small businesses in the U.S. and 99.7 percent of all firms are small businesses. Just as small business is the backbone of the economy, veterans are the foundation of America. Thus, providing veterans with every small business resource and opportunity is not only integral to our economy but also vital to our country. Listed below are several facts regarding veteran business owners according to the Small Business Administration, Office of Veteran Business Development:¹

- **Veterans are 45 percent more likely to be self-employed**
- **According to the U.S. census, about 2.4 million, or 1 out of 10 of all U.S. small businesses are veteran-owned**

¹ SBA Office of Advocacy: Frequently Asked Questions - https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf

- **Veteran-owned small businesses generate over \$1.2 trillion in receipts²**

The American Legion recognizes the benefits of American entrepreneurship, not only for the overall American economy but also for the transitioning servicemember seeking to develop their own business and becoming local job-creators.

According to the Department of Veteran's Affairs, due to the experience veteran's gain in the military, the success rate of veteran-owned businesses is higher than other nonveteran-owned businesses.³ The current War on Terror has had a devastating impact on the military and has exacerbated this country's veteran unemployment problem, especially within the National Guard and Reserve components of our military. Unfortunately, many of the thousands of veterans who are currently leaving the service are from the combat arms and non-skilled professions that are not readily transferable to the civilian labor market.

The American Legion knows that giving veterans the resources they need to start businesses will assist in stimulating the Nation's economic recovery. As previously stated, veterans, when compared to their civilian counterparts, are more successful at creating lasting small businesses. Encouraging and supporting veterans is the first step to recovering from a near 40 year low in entrepreneurship in the United States.⁴

Reaffirm Support of the Small Business Administration's Office of Veterans Business Development:

The American Legion supports increased funding for the SBA's Office of Veterans Business Development (OVBD) in its initiatives to provide enhanced outreach and specific community-based assistance to veterans and self-employed members of the Reserves and National Guard. The American Legion continues to support legislation that has allowed OVBD to enter into contracts, grants, and cooperative agreements to further its outreach goals and development of a greater nationwide community-based service delivery system specifically for veterans, and members of the Reserve components along with active-duty servicemembers that are transitioning to civilian life.⁵ These endeavors make a significant impact on the gainful employment needs of our veterans, transitioning servicemembers and our Reserve component members of the Armed Forces. The OVBD budget for FY 2017 is currently 12.3 million, which includes staffing in Washington, DC, Boots to Business Programs for transitioning

U.S. Entrepreneurship Near 40-Year Low

“Being the next Mark Zuckerberg requires Americans to be gutsy and start companies. Lately, they're not doing it. New business creation in the U.S. is at a nearly 40-year low... The Great Recession was a great killer for entrepreneurship. Americans didn't start new businesses because few had the money or the guts to do it in those gloomy days. But the expectation was that America's great entrepreneurial spirit would rush back as the economy recovered.”

-CNN Money, September 8, 2016

² SBA Office of Veterans Business Development Resources - <https://www.sba.gov/offices/headquarters/ovbd/resources/370491>

³ North Dakota Department of Veterans Affairs - <http://www.nd.gov/veterans/benefits/entrepreneurship>

⁴ <http://money.cnn.com/2016/09/08/news/economy/us-startups-near-40-year-low/>

⁵ American Legion Resolution No. 153: [Support Effort of the Small Business Administration's \(SBA\) Office of Veterans Business Development](#)

servicemembers and veterans, and 20 Veteran Business Outreach Centers (VBOCs) across the country.

Expansion of VBOC Roles:

The VBOC Program is designed to provide entrepreneurial development services such as business training, counseling, and resource partner referrals to transitioning servicemembers, veterans, National Guard & Reserve members and military spouses interested in starting or growing a small business. The veteran community's demand for entrepreneurial resources is outpacing the services available from the 20 VBOCs SBA currently funds.

The American Legion believes that if the VBOCs were funded to the maximum capacity or were juggling less number of states within their region, they would be able to meet the veteran entrepreneurial demand for services. Furthermore, this would allow them to expand their role in outreach to government entities to advocate for veteran-owned small businesses.

The American Legion recommends additional funding of \$18 million for the OVBD – there is a need for:

- 51 VBOCs, one for each state and Puerto Rico
- Increase funding for Boots to Business
- Increase funding for Boots to Business Reboot
- Develop a training program such as Boots to Business Reboot for established business owners to sustain, improve financial performance and expand their businesses
- Create a two or three-day extensive training program as a follow-on for Boots to Business focused exclusively on legal and government regulations
- Create a government-wide Veteran Business Development Program for Service-Disabled Veteran-Owned Small Businesses (SDVOSBs) in Federal Contracting
- Develop a training program that provides business owners with information about accessible and affordable technology resources
- Develop a two-day or three-day advanced training class on Cybersecurity and protecting Intellectual Property
- Increase staff at the VBOC's for advocacy work on the local level with city, town and state representatives. For example, the old Historic Walter Reed Army Medical Center closed a few years ago – it was purchased by the U.S. State Department and the District of Columbia for a mere \$26 million. As of today, the District of Columbia has hiring requirements for district residents for that property, but nothing for veterans. In addition, it has small business requirements to include special recognition for women and minority small business owners, but again nothing for veterans. Advocacy on a local level could have notified the city officials the need to include some of the 9,000 small veteran businesses in the District of Columbia, so they could have been involved in the redevelopment of that property and potentially others in the community.

“An emphasis on helping existing businesses scale to a greater degree offers enormous and largely untapped potential to create new jobs and generate economic development”

The State of Small Business in America 2016 issued by Babson College

- Hire a staff person for the OVBD that has the federal contracting expertise and federal authority to assist veterans with procurement issues with other government agencies.
- Make two-year renewable grants program to create and operate incubators and accelerators that provide technical assistance and training to covered individuals on how to become successful entrepreneurs

SBA is authorized by 15 U.S.C. 637(b)(17) to make grants to, and enter into contracts and cooperative agreements with, educational institutions, private businesses, veterans' nonprofit community-based organizations, and Federal, State, and local departments and agencies for the establishment and implementation of outreach programs for disabled veterans, veterans, and members of a Reserve component of the Armed Forces. The Small Business Act also specifically requires the Associate Administrator of OVBD to increase veteran outreach by ensuring that VBOCs regularly participate, on a nationwide basis, in the workshops of the Transition Assistance Program.

Since its inception in 1953, SBA has served to aid, counsel, assist, and promote the interests of small businesses; while SBA is best known for its financial support of small businesses through its many lending programs, the agency also plays a critical role in providing funding to organizations that deliver technical assistance in the form of counseling and training to small business concerns.

SBA's OVBD mission is to empower veteran entrepreneurship by formulating, implementing, administering, and promoting policies and programs to equip veteran, servicemember, Reserve component, and military spouse owned small businesses with counseling, training and education, access to capital, and contracting to civilian life that is exploring self-employment.

- The Boots 2 Business Program is a one to two-day Introduction to Entrepreneurship course taught in classrooms on military installations and an eight-week online Foundations Entrepreneurship course taught by a consortium of entrepreneurship professors and practitioners.
- Comprehensive Feasibility Analysis: VBOCs provide assistance in identifying and analyzing the strengths and weaknesses of the business plan to increase the probability of success. The results of the analysis are utilized to revise the strategic planning portion of the business plan.
- Mentorship: VBOCs conduct, as appropriate, on-site visits with clients to ensure adherence to their business plans.
- VBOCs review monthly financial statements to determine whether a revision of the business plan is warranted or that desired results are attained.
- Business Plan Preparations: VBOCs assist clients in developing and maintaining a five-year business plan. The business plan includes such elements as the legal form of the business, equipment requirements and cost, organizational structure, strategic plan, market analysis, and a financial plan. Financial plans include financial projections, budget projections, and funding requirements.

Since 2013, some of the performance metrics of the VBOC concluded that:

- Over 98,742 veterans received small business counseling
- Approximately 114,085 veterans received business related training
- Roughly 3,130 jobs created
- Nearly 400 new business start-ups
- 703 Boots to Business training classes for transitioning service members⁶

In communication with some of the VBOCs, a key element seems to be clear: VBOCs are in demand to satisfy the resource needs of our nation's veteran entrepreneurs. For instance, the VBOC in Michigan has helped 25 veteran-owned small businesses with their start-up goals, assisted 57 veterans to obtain various business certifications, and helped veteran business owners receive \$3.4 million in contract awards. Other VBOCs have voiced similar achievements. However, all are seeking additional funds to further increase their outreach efforts. VBOCs in Arizona, Illinois, and New Mexico have created a workshop roadshow, where each one goes to the surrounding Native American reservations to reach the rural population of Native American veterans.

The American Legion's goal is to make sure that veterans have all the resources possible when looking to start their own business. The American Legion believes that VBOCs have been instrumental in developing veterans into entrepreneurs and should receive more funding to allow them to assist more veterans.

Service-Disabled Veteran-Owned Small Businesses (SDVOSBs)

As a late-comer to becoming a preferred group in federal contracting, SDVOSBs were not recognized until 2005. There are many government entities that use loopholes to exclude veterans from set-aside programs that derive their budget from general revenue. One example of exclusion is with the procurements made for services to improve the DC, VA, MD Metrorail. By law, the federal government is mandated to award no less than 3 percent of all federal contracts to SDVOSBs. The reason veterans are excluded is because this funding stream goes directly to the states and therefore are not susceptible to SBA's small business goal tracking. The American Legion believes that this is one of the most egregious exclusions of veteran-owned small businesses. We urge Congress to prevent this from happening ever again by mandating that states who receive federal funding adhere to the 3 percent procurement rule for veterans.

Access to Capital

The first step to opening a small business is having access to capital. Even when the economy is strong, access to capital is one the largest impediments facing any small business, hindering both wishful and flourishing entrepreneurs. Most business owners consistently identify access to capital as the top issue affecting their businesses. Currently, to raise capital, aspiring business owners resort to obtaining investors or they risk using their personal funds. One of the biggest barriers to small businesses financing is requiring debt be secured by the equity in fixed assets. This mismatch in debt-equity hinders startups and expanding businesses and generally veteran

⁶ Small Business Administration's Office of Veteran Business Development

entrepreneurs typically do not have the assists necessary to acquire sizeable loans. Most veterans leaving military service lack the kind of equity necessary for traditional bank loans. Another barrier to capital for small businesses is that banks are often reluctant to work with the small business community, as smaller loans generally are less-profitable for a bank.

In the 114th Congress S. 1870: *VET Act of 2016* was introduced. If enacted this bill would have amended the Small Business Act to direct SBA to create a three-year pilot program that would allow veterans and servicemembers to turn their G.I. Bill education benefit into financial capital to start a veteran-owned small business. The program would allow up to 250 veterans eligible for GI Bill benefits who apply to the program, and are approved, to start a new business or purchase or expand an existing business or franchise. This is a grand idea that very well may allow veterans to determine their future, take control of their benefits, lower the veteran unemployment rate and furnish veterans with a sense of self all while providing for their families and stimulating their local economy. According to the latest Bureau of Labor Statistics, the unemployment rate for most veterans is under 5 percent; however, those statistics do not take into the account inner city unemployment, which is still over 9 percent. Native American Reservation unemployment can be as high as 50 percent, and it is all too high in our territories such as Guam and American Samoa.

In Puerto Rico, the unemployment rate for veterans is anywhere from 16 percent to 25 percent. Through our employment activities and public outreach in Puerto Rico, we found out that some of our nation's National Guardsman and Reservists are homeless. Also, many of our veterans and Reservists living in rural America are underemployed and suffering from financial stresses that decrease their quality of life. Regarding Reservists, this is problematic, due to its potential negative effect on readiness within the military. Moreover, a significant number of servicemembers come from depressed areas in the U.S. and many transitioning servicemembers go back home to these depressed areas. Creating new ventures is indeed a critical component of a healthy, innovative, and growing economy. Those seeking to foster economic development in any particular geographic area encourage startup companies as a means to create new jobs, boost tax revenue, and stimulate innovation.

Conclusion

The mission of The American Legion's Veterans Employment & Education Commission is to take actions that affect the economic well-being of veterans, including issues relating to veterans' employment, home loans, vocational rehabilitation, homelessness, and small business. Small business continues to be a primary job generator and a major trainer for American employees. The small firm workplace includes a considerable amount of young and entry-level workers. It is vital that veteran-owned and service-disabled-veteran-owned businesses receive a fair and proportionate amount of federal contracts so these veterans can build and maintain successful businesses. The American Legion reiterates that the Small Business Administration's Office of Veterans Business Development should be the lead agency to ensure that all veterans are provided with Entrepreneurial Development Assistance.

We look forward to continuing to work with the subcommittee to enhance entrepreneurship among America's veterans. Again, thank you Chairman Knight and Ranking Member Murphy for allowing The American Legion to present our views on this very important issue.

For additional information regarding this testimony, please contact Mr. Matthew J. Shuman at The American Legion's Legislative Division at (202) 263-2981 or mshuman@legion.org