

Congress of the United States  
U.S. House of Representatives  
Committee on Small Business  
2361 Rayburn House Office Building  
Washington, DC 20515-6515

**Memorandum**

To: Members, Committee on Small Business  
From: Committee Staff  
Date: November 6, 2017  
Re: Hearing: "Hiring More Heroes: A Review of SBA's Office of Veterans Business Development"

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On Wednesday, November 8, 2017 at 11:00 a.m., the Committee on Small Business will meet in Room 2360 of the Rayburn House Office Building to examine the Small Business Administration's (SBA) Office of Veterans Business Development's (OVBD) efforts to transition our nation's veterans from the battlefield to the small business realm. As the majority of veteran-owned businesses are small businesses, it is crucial that veterans have the tools and resources they need to get off the ground once they return home. The hearing will examine whether the OVBD is operating efficiently and effectively to serve our nation's veterans.

**I. Introduction**

Our nation's heroes make up a significant percentage of the American workforce. The Department of Labor's Bureau of Labor Statistics (BLS) reported that as of September 2017, there were nearly 10.4 million veterans in the civilian labor force.<sup>1</sup> Of those veterans, approximately 10.1 million were employed and about 309,000 were unemployed.<sup>2</sup> In addition, the unemployment rate for veterans was lower than the unemployment rate for nonveterans aged 18 and older, at approximately 3 percent and 4 percent, respectively. However, veterans also had a lower labor force participation rate than nonveterans aged 18 and older, at 50.6 percent and 65.7 percent, respectively.<sup>3</sup> This means that, overall, more nonveterans above the age of 18 are available for work or are seeking employment more actively than veterans. A recent report from the Council of Economic Advisers and the National Economic Council attributed this to a number of possible factors, including potential employers' difficulty in understanding a military resume, the presence of a service-connected disability, and the increasing population of post-9/11

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<sup>1</sup> The civilian labor force refers to those either employed, unemployed, or available for work, except for temporary illness, and had made specific efforts to find employment sometime during the four-week period ending with the reference week. *Table A-5, Employment Status of the Civilian Population 18 Years and Over by Veteran Status, Period of Service, and Sex, Not Seasonally Adjusted*, U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, <https://www.bls.gov/news.release/empst.t05.htm> (last modified Oct. 6, 2017).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.* The labor force participation rate refers to the percentage of available workforce that is employed or actively seeking employment.

veterans who have been diagnosed with post-traumatic stress disorder.<sup>4</sup> In order to reverse the trend of the declining labor force participation rate among the veteran population, it is important to examine whether the existing resources available to veterans, specifically at the federal level, are working to achieve their intended goals.

## II. Office of Veterans Business Development

The SBA's OVBD was established in 1999 and is responsible for administering several programs to assist veterans in starting and maintaining a business.<sup>5</sup> The OVBD was created to "maximize the availability, applicability and usability of all administration small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors."<sup>6</sup> As a result, OVBD provides a number of training and counseling programs specifically for veterans and oversees federal procurement programs for Veteran-Owned (VOSB) and Service-Disabled Veteran-Owned (SDVOSB) small businesses.

Historically, the majority of veteran-owned businesses are small businesses. In 2012, the Bureau of the Census estimated that about 2.5 million, or 9.1 percent, of nonfarm firms in the United States were owned by veterans.<sup>7</sup> Of these firms, approximately 17 percent had employees, while the other 82 percent did not.<sup>8</sup> In addition, 99.8 percent of those reporting had fewer than 500 employees, while only 0.3 percent had at least 500 employees.<sup>9</sup> Further, a recent SBA study found that veterans are 45 percent more likely to be self-employed than non-veterans.<sup>10</sup> While veteran small business owners share several of the same challenges that other small business owners face, many of these challenges are unique to their background of military service. Established to address congressional concerns that the SBA and the federal government in general were not doing enough to assist with veteran entrepreneurs' specialized concerns, the OVBD provides services of particular importance to VOSBs and SDVOSBs.

### A. Training and Counseling

Since its formation as an agency, the SBA has provided management and technical assistance training to countless American small businesses. This is no different for VOSBs and SDVOSBs; the SBA provides management and technical assistance to more than 100,000 veterans each year through its entrepreneurial development (ED) resource partners.<sup>11</sup>

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<sup>4</sup> EXEC. OFFICE OF THE PRESIDENT, *MILITARY SKILLS FOR AMERICA'S FUTURE: LEVERAGING MILITARY SERVICE AND EXPERIENCE TO PUT VETERANS AND MILITARY SPOUSES BACK TO WORK* (May 2012), [https://obamawhitehouse.archives.gov/sites/default/files/docs/veterans\\_report\\_5-31-2012.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/veterans_report_5-31-2012.pdf).

<sup>5</sup> Veterans Entrepreneurship and Small Business Development Act of 1999, Pub. L. No. 106-50, 113 STAT. 233.

<sup>6</sup> *About Office of Veterans Business Development*, U.S. SMALL BUS. ADMIN., <https://www.sba.gov/offices/headquarters/ovbd/about-us> (last visited Oct. 17, 2017).

<sup>7</sup> *Statistics for All U.S. Firms with Paid Employees by Industry, Veteran Status, and Employment Size of Firm for the U.S. and States*: U.S. Bureau of the Census Am. Fact Finder 2012,

<https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk> (last visited Nov. 1, 2017).

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Facts on Veterans and Entrepreneurship*, U.S. SMALL BUS. ADMIN., <https://www.sba.gov/content/facts-veterans-and-entrepreneurship> (last visited Oct. 24, 2017).

<sup>11</sup> U.S. SMALL BUS. ADMIN., *FY 2018 CONGRESSIONAL BUDGET JUSTIFICATION AND FY 2016 ANNUAL PERFORMANCE REPORT*, 95-100 (May 22, 2017),

One resource the SBA uses to reach veterans are Veteran Business Outreach Centers<sup>12</sup> (VBOCs). VBOCs serve as a one-stop shop for veterans, reserve members, and military spouses looking to start or grow a business and assist with training, counseling, and resource referrals at 20 different locations nationwide at no cost to the business.<sup>13</sup> VBOCs are modeled after SBA's largest entrepreneurial development program, the Small Business Development Center (SBDC) program.<sup>14</sup> SBDCs and VBOCs are formed through cooperative agreements with non-profit entities or institutions of higher education, termed resource partners. SBA provides funds that the resource partner must match through non-federal sources, such as private donors or state funds. In FY2016, nearly 28,000 veterans were trained by VBOCs and approximately 19,000 veterans were counseled, assisting more than 47,000 veterans total.<sup>15</sup>

In addition to VBOCs, veterans also have the opportunity to use SBA's other ED resources, including SBDCs, Women's Business Centers (WBCs) and the Service Corps of Retired Executives (SCORE) for veteran-specific training and counseling. Since the average VBOC is responsible for service coverage in at least three states,<sup>16</sup> these additional programs are often more accessible to veteran entrepreneurs. Additionally, each SBA regional office is staffed with one or more Veterans Business Development Officers to provide additional specialized services.<sup>17</sup>

#### *B. Oversight of Federal Procurement Programs*

In addition to providing training and counseling programs for veteran entrepreneurs, OVBD is also responsible for oversight of federal procurement programs for veteran-owned and service-disabled veteran-owned small businesses. As a part of this responsibility, OVBD monitors the small business procurement goals set forth each year to ensure that veteran-owned and service-disabled veteran-owned small businesses receive a proportionate amount of federal contracts.

Under the Small Business Act, a small business owned and controlled by a service-disabled veteran can qualify for a federal procurement set-aside or a sole-source award if the small business is at least 51 percent owned and controlled by one or more service-disabled veterans.<sup>18</sup> Currently, the federal government has a goal of awarding three percent of all prime contract dollars to service-disabled veteran-owned small businesses.<sup>19</sup> This goal has been met or exceeded each year since FY2012.<sup>20</sup> In FY2016, 3.98 percent, or \$16.3 billion, of small business

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[https://www.sba.gov/sites/default/files/aboutsbaarticle/FINAL\\_SBA\\_FY\\_2018\\_CBJ\\_May\\_22\\_2017c.pdf](https://www.sba.gov/sites/default/files/aboutsbaarticle/FINAL_SBA_FY_2018_CBJ_May_22_2017c.pdf)  
[hereinafter SBA Budget Submission].

<sup>12</sup> 15 U.S.C. § 32.

<sup>13</sup> SBA Budget Submission, *supra* note 11, at 95.

<sup>14</sup> 15 U.S.C. § 648.

<sup>15</sup> SBA Budget Submission, *supra* note 11, at 96.

<sup>16</sup> *Id.* at 95.

<sup>17</sup> *Id.*

<sup>18</sup> 15 U.S.C. §632(q)(1) & (4); Veterans Benefits Act of 2003, Pub. L. No. 108-183, 117 STAT. 2651; Veterans Benefits, Health Care and Information Technology Act of 2006, Pub. L. No. 109-461, 120 STAT. 3403.

<sup>19</sup> Veterans Entrepreneurship and Small Business Development Act of 1999, Pub. L. No. 106-50, 113 STAT. 247

<sup>20</sup> SBA Budget Submission, *supra* note 11, at 40.

eligible contracts were awarded to service-disabled veteran-owned small businesses by federal agencies.<sup>21</sup>

### *C. Access to Capital*

Although the majority of SBA lending programs are not administered by OVBD, many of these programs are especially helpful to the veteran community. Several of SBA's loan guarantee programs, such as the 7(a) Loan Program, are appealing to veteran-owned small businesses, as they provide loans to small businesses that have difficulty obtaining credit from traditional lending sources. The SBA's 7(a) Loan Program is considered the agency's flagship loan guaranty program and, derived from Section 7(a) of the Small Business Act, the program authorizes the SBA to provide business loans to American small businesses.<sup>22</sup> Since FY2012, veteran 7(a) loan approvals have steadily increased.<sup>23</sup> In FY2016, the average approved veteran 7(a) loan amount was \$359,736.<sup>24</sup>

The SBA also administers several loan guaranty subprograms that offer expedited loan procedures to encourage lenders to provide loans to specific groups of borrowers identified by SBA as having difficulty accessing capital, such as veteran entrepreneurs. In November 2013, the SBA began the practice of waiving the one-time, up-front loan guaranty fee for loans to a veteran or veteran's spouse under the SBA Express program through FY2014.<sup>25</sup> Recognizing its success, Congress passed the Veterans Entrepreneurship Act of 2015 to make this practice permanent on or after October 1, 2015.<sup>26</sup> As a result, veterans received 3,538 7(a) loans totaling \$1.36 billion in FY 2016.<sup>27</sup>

In addition, the Military Reservist Economic Injury Disaster Loan (MREI DL) program is important for veteran-owned small businesses that have one or more essential employees in the military reserves. Authorized in July 2001, the MREIDL program was established to "provide credit and management assistance to small businesses when an essential employee...is a reservist called to active duty."<sup>28</sup> An essential employee is defined as "an individual who is employed by a small business concern and whose managerial or technical expertise is critical to the successful day-to-day operations of that small business concern."<sup>29</sup> Similar to the 7(a) Loan Program, SBA is required to verify that the business cannot receive "credit elsewhere" before entering into the loan agreement. These loans are intended only to provide the amount of capital necessary for the

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<sup>21</sup> *Id.*

<sup>22</sup> 15 U.S.C. § 632-57s

<sup>23</sup> U.S. SMALL BUS. ADMIN., SBA LENDING STATISTICS FOR MAJOR PROGRAMS, [https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA\\_Lending\\_Statistics\\_for\\_Major\\_Programs\\_as\\_of\\_09-30-2016.pdf](https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_Lending_Statistics_for_Major_Programs_as_of_09-30-2016.pdf) (last updated Sept. 30, 2016).

<sup>24</sup> *Id.*

<sup>25</sup> Upon introduction, this was called the SBA Veterans Advantage Program. U.S. Small Bus. Admin., *SBA Procedural Notice* (Dec. 18, 2013), [https://www.sba.gov/sites/default/files/files/5000-1299\\_0\\_1.pdf](https://www.sba.gov/sites/default/files/files/5000-1299_0_1.pdf).

<sup>26</sup> Veterans Entrepreneurship Act of 2015, Pub. L. No. 114-38, 129 STAT. 437.

<sup>27</sup> SBA Budget Submission, *supra* note 11, at 28.

<sup>28</sup> VETERANS ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT ACT OF 1999, S.REPT. No. 106-136, at 4 (1999).

<sup>29</sup> Veterans Entrepreneurship and Small Business Development Act of 1999, Pub. L. No. 106-50, § 402(a), 113 STAT. 233, 244 (codified at 15 U.S.C. § 636(b)(3)(A)(i)).

business to fulfill its necessary obligations until the essential employee is released from military duty.<sup>30</sup>

### III. Challenges for OVBD

Although the OVBD continues to serve veterans at record levels each year, government watchdogs and Congress remain concerned that there is still room for improvement. SBA has continued to create and operate unauthorized programs in a field already considered crowded at the federal level. Additionally, SBA has not addressed concerns of duplication and redundant efforts among federal agencies.

#### A. Unauthorized Programs

Since 2009, SBA has undertaken efforts to create their own entrepreneurial development initiatives by redirecting federal funds and resources from Congressionally-authorized programs.<sup>31</sup> According to an August 2013 letter from SBA to the Committee on Small Business, SBA created 22 programs without statutory authority from Congress.<sup>32</sup> Of these 22, three fell under the OVBD: 1) Boots to Business; 2) Veteran Women Igniting the Spirit of Entrepreneurship; and 3) the SBA Veteran Pledge Initiative. Since August 2013, SBA has continued to introduce more unauthorized programs within the veteran's assistance sphere, such as Boots to Business: Reboot. Rather than working to reduce duplication and increase coordination, SBA continues to generate seemingly-new entrepreneurial development programs that are duplicative of already existing efforts in the federal landscape and the private sector. This practice has garnered bipartisan criticism from Congress in recent years, as the practice allows SBA to operate and evaluate the programs without specific statutory directives or oversight mandates.

SBA's veteran assistance programs also lack sufficient performance metrics. Given that SBA creates and operates a number of these programs outside of Congressional authorization, they do not contain the appropriate performance metrics that would result from proper statutory authority. However, in order to accurately assess the successes and outcomes of these programs, sufficient performance metrics are necessary.

#### B. Duplication Among Agencies

In addition to SBA, other federal agencies, notably the Department of Veterans Affairs (VA), the Department of Labor (DOL), and the Department of Defense (DOD), among others, have launched a number of programs to assist veteran entrepreneurs.<sup>33</sup> In 2011, the Veterans

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<sup>30</sup> *Id.*

<sup>31</sup> This issue has been examined in previous SBC hearings. For further information on other unauthorized entrepreneurial development programs see *SBA-created Initiatives: Necessary or Redundant Spending? Before the H. Comm. On Small Business*, 113th Cong. (2014).

<sup>32</sup> Letter from the Hon. Karen Mills, Administrator, SBA, to the Hon. Sam Graves, Chairman, Committee on Small Business (Aug. 30, 2013) (on file with Committee).

<sup>33</sup> In addition to the programs discussed in this memo, other federal agencies offer entrepreneurial development assistance for veteran entrepreneurs. The Department of Agriculture (USDA) administers the New Farmers Program to provide veterans with educational resources through a network of state, regional, and county Cooperative

Opportunity to Work and Hire Heroes Act of 2011 (VOW Act)<sup>34</sup> required that transitioning service members attend the Transition Assistance Program (TAP) through DOL.<sup>35</sup> TAP established a partnership among DOD, VA, the Department of Transportation, and the DOL's Veterans' Employment and Training Service (VETS) to provide career and training assistance to transitioning service members within 180 days of separation or retirement.<sup>36</sup> TAP offers a number of different curriculum options, including an entrepreneurial development track, to assist transitioning service members.

In addition to their partnership with TAP, VA also offers Vocational Rehabilitation and Employment (VR&E) services to help with job training, resume development, and job skill coaching.<sup>37</sup> VA's Education and Career Counseling Program also offers opportunities for veterans and service members to get counseling and support before reentering the employment sphere.<sup>38</sup> Although neither Congress nor government watchdogs would argue that veteran entrepreneurs do not need reasonable career and technical assistance, SBA has not provided a viable explanation or legislative fix to address the duplication of programs among federal agencies. Therefore, it is unclear if SBA's programs truly meet needs that are not already met by existing federal programs.

#### **D. Conclusion**

To give our nation's heroes the support and gratitude they deserve when they return home, it is imperative that veteran entrepreneurs feel they have a helping hand at the SBA. It is clear that OVBD has made significant headway in playing that crucial role by providing necessary training and counseling, overseeing federal procurement practices, assisting with access to capital, and advocating for veteran entrepreneurs at the federal level. However, SBA can improve its efforts to assist veteran small businesses by working alongside Congress to address the allocation of funds among unauthorized programs and improving coordination with other agencies to address the complexity and duplication of federal programs.

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Extension offices. The Department of Energy (DOE) also administers, in partnership with DOD, the Solar Ready Vets program to prepare veterans for careers in the solar energy industry.

<sup>34</sup> Veterans Opportunity to Work and Hire Heroes Act of 2011, Pub. L. No. 112-56, 125 STAT. 711.

<sup>35</sup> *Transition Assistance Program Information*, U.S. DEP'T OF LABOR, <https://www.dol.gov/vets/programs/tap/> (last visited Oct. 31, 2017).

<sup>36</sup> The Disabled Transition Assistance Program (DTAP) also exists for service members leaving the military with a service-connected disability.

<sup>37</sup> *Vocational Rehabilitation and Employment*, U.S. DEP'T OF VETERANS AFFAIRS, <https://www.benefits.va.gov/VOCREHAB/> (last visited Oct. 31, 2017).

<sup>38</sup> *Education and Career Counseling*, U.S. DEP'T OF VETERANS AFFAIRS, [https://www.benefits.va.gov/VOCREHAB/Edu\\_Voc\\_Counseling.asp](https://www.benefits.va.gov/VOCREHAB/Edu_Voc_Counseling.asp) (last visited Oct. 31, 2017).