

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: Chairwoman Nydia Velázquez
DATE: July 10, 2019
RE: Full Committee Hearing: Continuing to Serve: From Military to Entrepreneur
DATE: Wednesday, July 10, 2019, 11:30 a.m.

On Wednesday, July 10, 2019, at 11:30 a.m. in Room 2360 of the Rayburn House Office Building, the Committee on Small Business will hold a hearing titled “Continuing to Serve: From Military to Entrepreneur.” While facing challenges in transitioning to new jobs after time in the military, returning service members possess leadership skills that naturally translate to entrepreneurship. The purpose of the hearing will be to discuss the role of veteran entrepreneurs in growing the economy and examine legislative efforts to foster veteran entrepreneurship.

Witnesses include:

- Mr. Davy Leghorn, Assistant Director, The American Legion, Washington, DC
- Mr. Scott M. Davidson CPT. USA, Retired, Managing Partner and CEO, The GCO Consulting Group, McLean, VA
- Ms. Torrance Hart, Founder, Teak and Twine, LLC, Springfield, VA
- Ms. Laurie Sayles, President and CEO, Civility Management Solutions, Greenbelt, MD

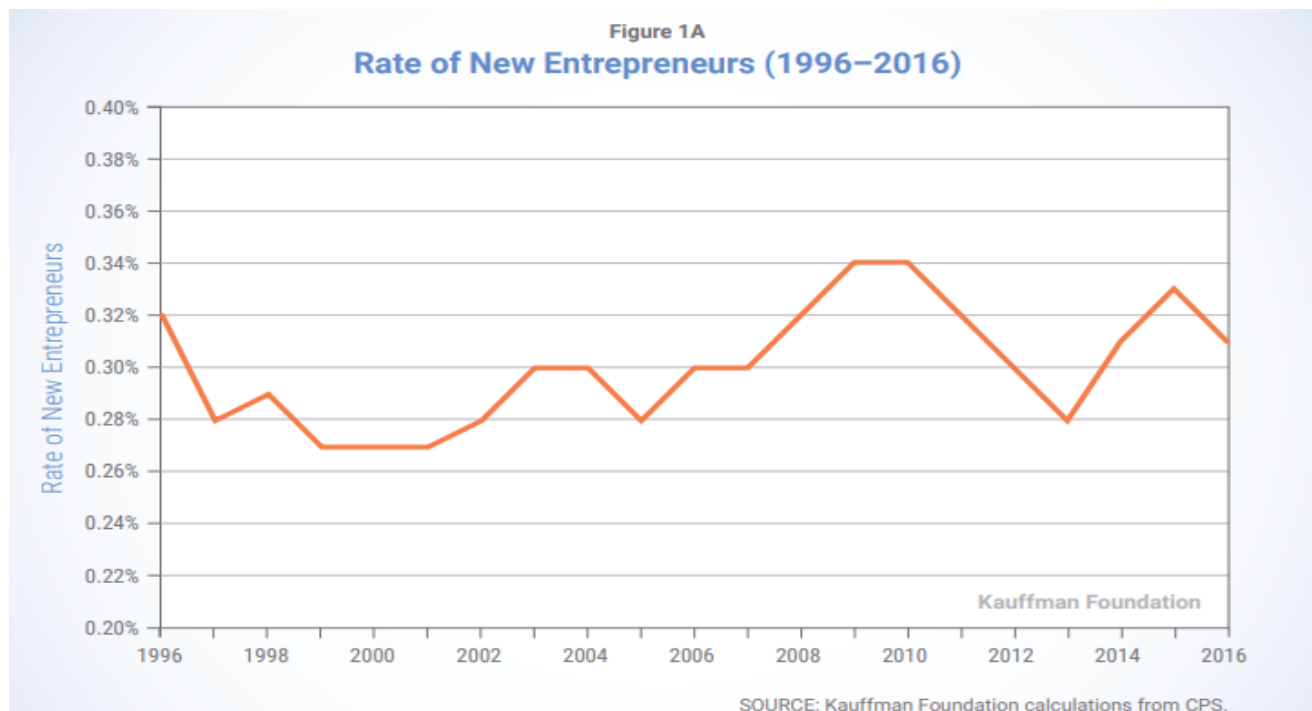
Background

America’s 30 million small businesses play a vital role in economic growth and job creation. They account for 56 million jobs and create two out of three private sector jobs in the United States.¹ These small firms operate across the full spectrum of industries, providing a wide range of opportunities to generate high levels of economic and employment growth. America’s 2.5 million veteran-owned small businesses are an important component of that growth, employing 5.03 million Americans and generating more than \$1 trillion in receipts.² Yet, the long-term rate of entrepreneurship is declining. In 2016, the Rate of New Entrepreneurs, which is the percentage of adults becoming entrepreneurs in a given month, decreased after reaching .33 percent in 2015.³

¹ SMALL BUS. ADMIN., FY 2020 CONGRESSIONAL JUSTIFICATION AND FY 2018 ANNUAL PERFORMANCE REPORT.

² *Exploring Challenges and Opportunities of Underserved Businesses in the 21st Century: Hearing Before the H. Subcomm. on Economic Growth, Tax, and Capital Access of the H. Comm. on Small Business*, 116th Cong., (2019) (statement of Davy Leghorn, Assistant Director, The American Legion).

³ THE EWING MARY KAUFMANN FOUNDATION, KAUFMANN INDEX OF STARTUP ACTIVITY; (Fairlie, Morelix, Tareque et. al eds., 2017).



Veteran entrepreneurship is also on the decline, partly due to less veterans of working age.⁴ The share of new veteran entrepreneurs declined steadily from 12.49 percent in 1996 to 4.16 percent in 2016.⁵ While age is a factor, recent studies have found an overall reduction in entrepreneurship among veterans in the labor force and lower rates for veterans compared to non-veterans. In 1998, 16 percent of veterans in the labor force were self-employed, compared with 12 percent of non-veterans. In 2018, that rate declined to 11 percent for both veterans (33 percent decline) and non-veterans (9 percent decline).⁶

Across America, there are more than 200,000 servicemembers each year who are making the transition out of our military, and there are critical policy questions to examine. This hearing offers Members the opportunity to better understand the impact veterans have on the economy and hear from the witnesses on how to support their development and growth. Witnesses will also discuss the key drivers of veteran entrepreneurship and entrepreneurial success, challenges veterans face in starting and operating their businesses, and how best to support veteran-owned businesses as they attempt to create jobs. Understanding the significant contributions veterans make to the economy results in the recognition that more must be done to facilitate their growth. The hearing will also focus on several legislative initiatives pending before the Small Business Committee that would foster entrepreneurship amongst veterans, and in turn drive economic growth.

⁴ KAUFMANN FOUNDATION, *supra* note 2, at 17.

⁵ *Id.*

⁶ Sankaran Battisto, THE SMALL BUSINESS ADMINISTRATION & THE FEDERAL RESERVE BANK OF NEW YORK, FINANCING THEIR FUTURE: VETERAN ENTREPRENEURS AND CAPITAL ACCESS (2018).

Veterans Develop Key Entrepreneurial Skills in the Military

When transitioning from the military to civilian life, some veterans opt to pursue entrepreneurship. Some of the primary reasons are: dissatisfaction with the civilian workforce, desire to be one's own boss, financial and personal independence, and work-life balance and flexibility.⁷ Quite a few well known and very successful businesses were founded by veterans. Nike was co-founded by Army veteran, Bill Bowerman; Wal-Mart was founded by another Army veteran, Sam Walton; and GoDaddy was founded by a former Marine, Bob Parsons.⁸

Research over the years has also shown that veterans are especially qualified to start and run their own businesses. They possess unique skillsets that are ideally suited for entrepreneurship. Some of the skills servicemembers develop in the military are: an ability to make good decisions in chaotic environments, leadership, confidence, independence, and drive.⁹

Obstacles Facing Veteran Entrepreneurs

The same obstacles facing non-veteran entrepreneurs exist for veterans, and while obstacles exist at every stage of the business, they are particularly acute for veterans at the earliest developmental stages. According to the Institute for Veterans and Military Families (IVMF), some of the challenges include accessing capital, limited or no networks, and difficulty developing mentorships.¹⁰

Accessing Capital

Funding remains one of the most significant issues facing small startups. Most small businesses need access to capital or startup funding to purchase new materials and equipment, obtain workspace, develop products, hire employees, and market the business. Yet, to access the capital needed, the entrepreneur must prove their creditworthiness to a lender. This can be challenging for a person just starting out and even more difficult if banks perceive the new ideas to be risky ventures.¹¹ Veterans are more likely to be denied credit and often rely on personal savings and credit cards to launch or grow their small business.¹² According to a report entitled, "Financing their Future: Veteran Entrepreneurs and Capital Access," veteran-owned business had lower approval rates for applications submitted to large banks, small banks, and online lenders.¹³

⁷ INSTITUTE FOR VETERANS AND MILITARY FAMILIES, SYRACUSE UNIVERSITY, BRIDGING THE GAP: MOTIVATIONS, CHALLENGES, AND SUCCESSES OF VETERAN ENTREPRENEURS (Boldon, Maury, eds., Interim Report, 2017).

⁸ Mitsy Stutsman, VETREPRENEURS – STRENGTHENING THE BACKBONE OF THE U.S. (Center of Excellence for Veteran Entrepreneurship, 2018).

⁹ INSTITUTE FOR VETERANS AND MILITARY FAMILIES, SYRACUSE UNIVERSITY, VETERAN ENTREPRENEURSHIP – WHAT YOU SHOULD KNOW (Maury, 2018).

¹⁰ IVMF, *supra* note 7, at 4.

¹¹ *Id.*

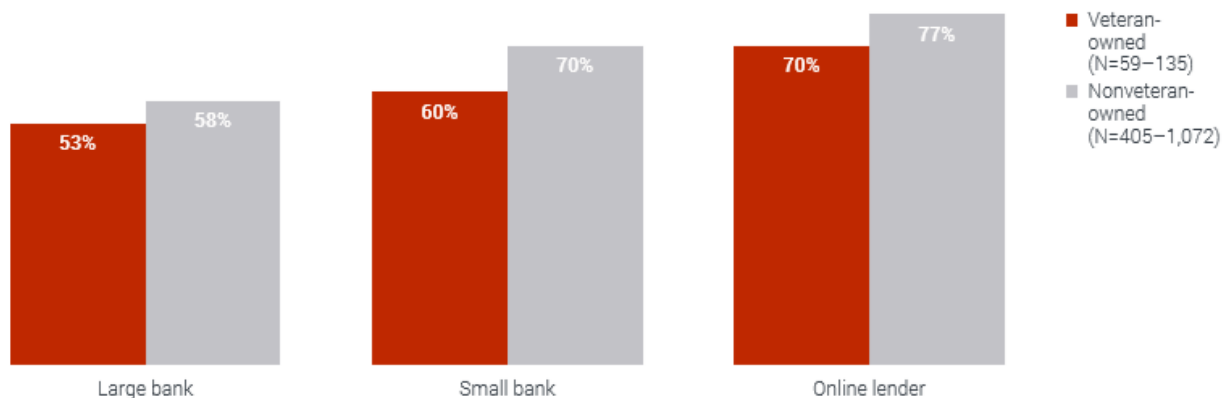
¹² SMALL BUS. ADMIN., STRATEGIC PLAN FY 2018-2022 10 (Office of Performance Management, 2017).

¹³ Battisto, *supra* note 6, at 12.

FIGURE 5

APPROVAL RATE BY SOURCE OF LOAN, LINE OF CREDIT, OR CASH ADVANCE

(% of loan/line of credit and cash advance applicants that applied to each lender)



Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

Some possible explanations for the lower approval rates for veterans could be the lower size of the loans, which are costly for lenders to process; veterans may have difficulty building a credit score or have an insufficient credit history because of frequent moves and overseas assignments; veterans may lack an understanding of how to prepare a successful loan application.¹⁴

Limited Networks and Mentors

In the IVMF report, veterans also expressed difficulty establishing networks, particularly if they relocated to a new area. The report found that 50 percent of veterans relocated to a city other than their hometown when their military service was completed. While acknowledging that mentors were instrumental to success, many found it difficult to cultivate necessary relationships.¹⁵ Without mentors and a network in the private sector, veterans can run into dead ends.¹⁶

SBA's Role in Fostering Veteran Entrepreneurs

With military personnel returning to the civilian sector and their penchant for entrepreneurship, it is imperative that they receive the training and assistance to start and grow a successful business. The SBA administers several programs that support small business owners and aspiring entrepreneurs. The Office of Veterans Business Development (OVBD) is responsible for overseeing veterans' related programs.

The Office of Veterans Business Development

The OVBD's official mission is to maximize the availability, applicability, and usability of small business programs for Veterans, Service-Disabled Veterans, Reserve Component Members, and

¹⁴ Battisto, *supra* note 6, at 18.

¹⁵ IVMF, *supra* note 7, at 6.

¹⁶ Michael Abrams, Michael Faulkner, and Andrea Nierenberg, BUSINESS NETWORKING FOR VETERANS: A GUIDEBOOK FOR A SUCCESSFUL TRANSITION FROM THE MILITARY TO THE CIVILIAN WORKFORCE XV (Fourblock, Hart, et. al eds., 2014).

their dependents or survivors. The Office has several programs that provide counseling and training services to aspiring and existing veteran entrepreneurs, including the Boots to Business program. It also has oversight over federal procurement programs for veteran-owned and service-disabled veteran-owned small businesses. The office promotes federal procurement opportunities for veterans by working to ensure three percent of federal prime contracts and subcontracts go to service-disabled veteran-owned small businesses. It also acts as an Ombudsman for veterans with SBA programs.

Counseling and Training

The Small Business Administration (SBA) offers a wide range of free or low-cost counseling and training services through its entrepreneurial ecosystem to help entrepreneurs launch and grow their small businesses. To deliver these resources, the SBA relies on its four primary resource partners: Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), SCORE, and Veterans Business Outreach Centers (VBOCs). Through the resource partners, the SBA provides counseling and training assistance to more than 100,000 veterans each year.¹⁷

- Veterans Business Outreach Centers

The Veterans Business Outreach Center (VBOC) program provides free counseling, training, and resource partner referrals to eligible service members, veterans, National Guard and Reserve members, and military spouses. The VBOC program is particularly cognizant of the unique skills veterans develop during their service in the military and their relevance to owning a small business. With 22 centers nationwide, the VBOCs teach veteran entrepreneurs the fundamentals of business ownership, including the development of a five-year business plan, market research, legal considerations, and financing. In Fiscal Year 2018 (FY 2018), VBOCs trained and counseled nearly 52,000 veteran small business owners.¹⁸

- Boots to Business Program

The Boots to Business program is an entrepreneurial development program offered by the Small Business Administration (SBA) as part of the Department of Defense's Transition Assistance Program (TAP). Initially launched as a pilot initiative in 2012, the program offers transitioning servicemembers and military spouses information about self-employment and business ownership.¹⁹ This program is the primary responsibility of VBOCs, which provide two day, in-person "Introduction to Entrepreneurship" classes on over 180 military installation nationwide.²⁰

The Boots to Business curriculum focuses on the key steps for evaluating business concepts and provides the foundational knowledge to develop a business plan. In addition, participants connect with SBA resources, including information on access to capital, counseling, training, and contracting opportunities. In FY 2018, nearly 17,200 veterans,

¹⁷ SBA, *supra* note 1, at 65.

¹⁸ SBA, *supra* note 1, at 93.

¹⁹ SMALL BUS. ADMIN. OFFICE OF INSPECTOR GENERAL, AUDIT REPORT: THE SBA'S BOOTS TO BUSINESS PROGRAM (Rep. 18-20. 2018).

²⁰ *Id.*

servicemembers, and military spouses stationed at military installations nationwide participated in the two-day course.²¹

The Boots to Business program is specifically designed to instill the knowledge necessary to take a business from concept to execution and facilitate the road to entrepreneurship for our nation's veterans. The program is tailored to servicemembers, who are natural leaders, confident, and driven because of their service in the military.

Every year, more than 200,000 servicemembers make the transition from military to civilian life. Transition assistance, like the Boots to Business program, is critical to ensure that those who serve in the military have opportunities for meaningful employment. The National Defense Authorization Act of FY 2019 requires servicemembers participating in the Transition Assistance Program (TAP) to enroll in one of three capstone classes, which include: Accessing Higher Education, Career and Technical Training, and Entrepreneurship (Boots to Business). It is expected that this new requirement will significantly increase the number of servicemembers who participate in the Boots to Business program.

- *Boots to Business Reboot*

The Boots to Business Reboot extends the entrepreneurship training offered in TAP on military installations to veterans of all ages. The Boots to Business Reboot, on average, serves 1,775 veterans per year.²²

- *Service-Disabled Veterans Entrepreneurship Training Program*

The Service-Disabled Veterans Entrepreneurship Training Program (SDVETP) awards four grants, between \$50,000 to \$150,000, to support organizations that deliver entrepreneurship training programs to service-disabled veterans, military spouses, and caregivers who aspire to be small business owners.²³

- *Veterans Institute for Procurement*

The Veterans Institute for Procurement (VIP) is an accelerator funded in part by SBA for small business owners, principals, and C-level executives of veteran-owned businesses and service-disabled veteran-owned businesses focusing on federal procurement. The Veterans Institute for Procurement (VIP) is run by the Montgomery County (Maryland) Chamber of Commerce Foundation.²⁴

- *Women Veteran Entrepreneurship Training Program and Veteran Women Igniting the Spirit of Entrepreneurship (V-WISE)*

The Women Veteran Entrepreneurship Training Program (WVET) offers entrepreneurship training to women veterans, women servicemembers, as well as women spouses of service members and veterans interested in launching and growing small businesses. The Veteran

²¹ SBA, *supra* note 1, at 83.

²² SMALL BUS. ADMIN. – OFFICE OF VETERANS BUSINESS DEVELOPMENT, <https://www.sba.gov/offices/headquarters/ovbd>.

²³ *Id.*

²⁴ *Id.*

Women Igniting the Spirit of Entrepreneurship (V-WISE) program is administered by the Institute for Veterans and Military Families (IVMF) at Syracuse University, NY. IVMF is the recipient of one B2B and two ETP grants and is a key SBA Office of Business Development (OVBD) resource partner. There are three-phases of the program include a 15-day online course (Phase I), 3-day entrepreneurship training event (Phase II), and ongoing mentorship, training and support opportunities for graduates launching or growing their business (Phase III).²⁵

In FY 2018, WVETP/V-WISE provided entrepreneurship and small business management training to 768 women veterans, active duty female servicemembers and female partners/spouses of active duty members and veterans. In FY 2019, 662 have been trained thus far.²⁶

Government Contracting

Congress has designated service-disabled veteran-owned small businesses as a key group that can benefit from contract assistance. To underscore this commitment, the Veterans Entrepreneurship and Small Business Development Act of 1999 established an annual goal of not less than 3 percent on all federal prime contract and subcontract awards for service-disabled veteran-owned small businesses (SDVOSBs).²⁷

- In order to achieve this goal, the Veterans Benefits Act of 2003,²⁸ amended the Small Business Act to create incentives for providing greater contract opportunities to SDVOSBs. Under the program that SBA oversees, contracting officers may set-aside contracts for SDVOSBs if there is a reasonable expectation that two or more responsible SDVOSBs will bid on the contract and the service or goods are offered for a fair market price. Furthermore, it allows sole source awards if the SDVOSBs is determined to be a responsible contractor, there is not a reasonable expectation that other two SDVOSBs will submit offers and if the award price does not exceed \$5 million in the case of manufacturing SDVOSBs or \$3 million in the case of any other SDVOSBs. According to SBA data, the federal government has exceeded the 3 percent goal for SDVOSBs prime contracts in the last 5 years. Most notably, in FY 2018, SDVOSBs received \$20.6 billion or 4.27 percent of federal prime contracts.²⁹
- In addition to the SBA program, which applies to all agencies, Congress authorized the Department of Veterans Affairs (VA) to administer its own procurement program known as the “Vets First Program” through the Veterans Benefits, Health Care, and Information Technology Act of 2006.³⁰ The Act gave the VA the authority to set aside contracts and make source sole awards to SDVOSBs and Veteran-Owned Small Businesses (VOSBs) as

²⁵ *Id.*

²⁶ SBA, *supra* note 1, at 99.

²⁷ Pub. L. No. 106-50, §502, 113 Stat 233, 247 (1999).

²⁸ Pub. L. No. 108-183, § 308, 117 Stat 2651, 2662 (2003).

²⁹ SMALL BUS. ADMIN., THE FEDERAL GOVERNMENT ACHIEVES SMALL BUSINESS CONTRACTING GOAL FOR THE SIXTH CONSECUTIVE YEAR WITH RECORD-BREAKING \$120 BILLION TO SMALL BUSINESSES, Press release no. 19-36, Jun. 25, 2019, <https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/federal-government-achieves-small-business-contracting-goal-sixth-consecutive-year-record-breaking>.

³⁰ Pub. L. No. 109-461, §502, 120 Stat 3403.

a whole. Moreover, while the SBA program only sets a contracting preference, the Act gives SDVOSBs and VOSBs a priority over other small business preferences.

Although the two programs share the same goal, each has its own participation requirements. Furthermore, while firms can self-certify for the SBA program, SDVOSBs and VOSBs verified by the VA may not necessarily be found eligible to receive an SBA set aside contract and vice versa.

Access to Capital

The SBA offers a variety of loan guaranty programs to assist veterans in acquiring capital to start, grow, and succeed in small business.

- Military Reservist Economic Injury Disaster Loan (MREIDL). The loan program provides direct loans of up to \$2 million to small business owners who are unable to obtain credit elsewhere to meet expenses when an essential employee has been called up to active duty during periods of military conflict.
- The Veterans Advantage Program. The program waives, or discounts, guarantee fees on SBA Express loans and 7(A) loans to encourage lending to veteran-owned small businesses. Under the Veterans Advantage program, SBA Express loans of up to \$350,000 have a zero percent guarantee fee for veteran small business owners. All SBA 7(a) business loans of less than \$125,000 will also have a zero percent guarantee fee, and loans greater than \$125,000 will be discounted to anywhere between 0.125 percent to 3.75 percent, depending on the loan amount and repayment terms. In addition to the advantageous enhanced interest rate to veterans, reservists, and their spouse, the SBA Express loan program offers a very fast turnaround time for loan approval. In FY 2018, SBA waived or discounted fees on 1,360 SBA Express Loans totaling \$102,692,500 for veterans.³¹

Conclusion

It is important to highlight the important role veteran entrepreneurs and small business startups play in strengthening our economy and creating jobs. The need for training and counseling resources will increase as 200,000 servicemembers transition from the military to civilian life and are required to take one of the three capstone classes. The hearing provides the opportunity for Members of the Committee to consider testimony on the challenges and benefits of being a veteran entrepreneur in this country and taking the risks necessary to help the country grow.

³¹ SBA OVBD, *supra* note 22.