

STATEMENT OF
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VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

Legislation to Update SBA's Entrepreneurial Development

WASHINGTON, DC

MAY 6, 2009

MADAM CHAIRWOMAN AND MEMBERS OF THIS COMMITTEE:

On behalf of the 2.2 million members of the Veterans of Foreign Wars of the United States and our Auxiliaries, I would like to thank this committee for the opportunity to testify and for its rigor in pursuing small business issues on behalf of veterans. The issues under consideration today are of great importance to our members and the entire veteran population.

During this economic recession the number of unemployed veterans has increased to more than one million as of March 2009. There are twice as many unemployed veterans as there were one year ago and there are more unemployed Iraq and Afghanistan veterans than servicemembers serving in Iraq and Afghanistan combined. Our servicemembers are leaving Iraq and Afghanistan, coming home, and fighting another war against unemployment, homelessness, bankruptcy, and a host of medical conditions. In this tough economy many veterans are considering self-employment. Unfortunately, there are scarce resources for transitioning veterans interested in small business. The VFW believes that the answer to

veterans' unemployment is multi-fold and that increased resources for veterans interested in entrepreneurship is one of the answers to this National issue. Veterans, if given the opportunity, will succeed in small business because they understand the concept of hard work, can adapt quickly to changing times, and are goal oriented.

The strongest predictor that an individual will become self-employed is military service. Currently, 14.6% of veterans are self-employed and with our economic climate this number will likely rise, especially if we give them the tools they need to succeed. Also, veterans' entrepreneurship creates a win-win for veterans' unemployment because veterans are more likely to hire veterans thereby reducing veterans' unemployment. However, for a veteran interested in entrepreneurship the reality is quality resources are extremely scarce and available to few.

Job Creation Through Entrepreneurship Act of 2009

Per this Committee's request the VFW has reviewed the *Job Creation Through Entrepreneurship Act of 2009*. Since the entirety of the bill is not concentrated on veterans we will only comment on Title I of the bill titled "Establishment of Veterans Business Center Program." Most importantly, the *Job Creation Through Entrepreneurship Act of 2009* addresses many of the VFW's key issues we have outlined working with your staff as necessary for the advancement of veterans' entrepreneurship and in previous testimony before your Subcommittee on Contracting and Technology. Particularly, this legislation calls for the expansion of veteran small business centers under the purview of the Small Business Administration (SBA).

Currently veterans only have access to eight veteran business centers, and only five that currently are receiving government funding, which have proven successful to veterans interested in receiving education, information, and resources to assist them in starting or maintaining a business. This act would provide \$10,000,000 for these veteran business centers in fiscal year 2010 and \$12,000,000 in fiscal year 2011. These funds will be issued to centers

that meet the criteria as established by the Director of SBA and are required to seek matching funds for grants received. The Grants will be broken into two categories, “initial grants” and “growth funding grants.” Priority for grant applications will be given to areas where the population of veterans exceeds the national median or the population of veterans of Operation Iraqi Freedom or Operation Enduring Freedom exceeds the national median of such veterans.

The initial grants will provide up to \$150,000 to an approved center for up to a period of five years. This translates into 66 veteran business centers in fiscal year 2010 and 80 veteran business centers in 2011. After five years these business centers can then apply for growth funding grants in the amount of \$100,000. Each veteran’s business center receiving grants will use them primarily on veteran entrepreneurial development, counseling of veteran-owned small business through one on one instruction and classes, and providing government procurement assistance to veterans. After three years of receiving this grant the centers can continue to apply for this grant but will be required to meet performance benchmarks as established by the SBA Secretary. The VFW strongly believes that this will dramatically increase veterans’ access to entrepreneurial resources.

The Job Creation Through Entrepreneurship Act of 2009 also addresses veterans’ need for additional resources to assist them with access to capital. The proposed legislation would provide up to \$4,500,000 for three different types of grants each payable up to \$75,000. While the VFW is supportive of these measures, particularly the procurement assistance grant program and the small business grant program, we are concerned that the access to capital grant program will still not be sufficient to provide veterans with adequate and timely access to business capital. Furthermore, the VFW is concerned that the grant’s level of assistance, if provided to the limit of \$75,000, would only provide 20 grants for each of the three types of additional grants. The VFW believes that the services outlined in this legislation should be provided for all of the veteran business centers. Also, current funding would only provide up to 60 total grants at the \$75,000 level which could potentially be fewer grants than centers.

The VFW continues to strongly advocate for the provision of additional financial tools and assistance for veterans restoration of credit. Particularly, if a veteran's credit was negatively affected due to his military service. The VFW has found this to be more common with veterans that participated in the invasion force of Iraq, and Afghanistan veterans, due to a general lack of access to communications and the internet. Due to this many servicemembers were unable to pay bills, receive credit alerts or learn of any other issues that might negatively affect their credit, until the damage was already done. The Veterans of Foreign Wars remains committed to increasing the credit protections provided under the *Servicemembers Civil Relief Act* and for the creation of a direct loan program and a hybrid loan program that would mix various factors of a loan guarantee and a direct loan from SBA.

The VFW has four primary concerns that we believe need to be addressed in regards to veterans' small business assistance. The Job Creation Through Entrepreneurship Act of 2009 strongly addresses our call for an increase in veteran's business centers and addresses veteran's need for access to capital, albeit the VFW believe that the bill does not do enough to assist veterans' access to capital. We have attached our four primary concerns below.

1- Many Veterans Have Little or No Access to Capital

Veterans' entrepreneurship faces four fundamental issues; little or no access to capital, little access to entrepreneurial education, the failure of government agencies to comply with Federal Procurement laws, and the lack of parity for Small Disabled Veteran Owned Businesses (SDVOSB) versus other programs. First, and of the utmost importance, veterans access to capital needs to be increased. For many veterans the Patriot loan program is not an option because they are being denied by lenders even with the guarantee. The VFW suggests creating a direct loan program funded in conjunction with a stronger Patriot loan program or a hybrid loan that would mix certain characteristics of the guarantees and direct loans. This would create an array of financial tools available to veteran startups and veterans in business. Different types of loans would constitute different conditions of lending based on the situational factors of the veteran.

2- Veterans Lack Entrepreneurial Educational Assistance

There is a very small amount of resources being diverted towards educational programs for veterans' entrepreneurship. Part of the problem is that the National Veterans Business Development Corporation (TVC), which was created by Congressional funding in 1999, was supposed to do just this. Unfortunately, this program lacked necessary oversight and much of the funding was abused and misused by its leadership.

The VFW fully supports the concept of moving and expanding TVC's veteran business centers under the purview of the SBA as is currently suggested by the Job Creation Through Entrepreneurship Act of 2009. SBA currently maintains five business centers and would be the likely fit to fund and conduct oversight of the three business centers that were being occasionally funded by TVC. However, eight veterans' business centers are insufficient for the national demand for these services. Not one member of this entire committee has a veteran small business center located in their Congressional district.

In fiscal year 2008, SBA's operational budget (excluding personnel costs and overhead) was \$888,000. This funded SBA's five business centers and various forms of outreach. The VFW would like to see these programs greatly expanded to include various locations throughout the country.

3- Lack of Legal Compliance by Federal Agencies

The Veterans of Foreign Wars is periodically notified of governmental agencies failure to abide by the laws outlined in *P.L. 106-50*, *P.L. 108-183*, *P.L. 109-461*, and *P.L. 110-186*.

In regards to *P.L. 106-50* nearly every agency has continually and consistently failed to reach their outlined mandate of 3% of all federal contracts for SDVOSB's. In Fiscal Year 2008, preliminary numbers suggest 1.4% of all federal contracts went to SDVOSB's. It has been 10 years since *106-50* was signed into law and we can say we are halfway there, almost.

In regards to P.L. 108-461 and 109-461, the VFW believes the VA and other agencies utilize sole-source and noncompetitive procedures to help them meet their mandated minimum of 3% of all federal contracts. The VFW strongly believes that this procedure should particularly increase in federal agencies like DoD that are egregiously failing to abide by government mandates and are failing its former servicemembers.

P.L. 110-186 is intended to increase the number of veterans' small business centers. SBA has not received any funds in order to carry out this mandate. Furthermore, *P.L. 110-186* calls for the creation of an Interagency Task Force. Nearly one year later the Task Force is still non-existent.

4- Lack of Parity for SDVOSB's

GAO recently issued a report that states "a contracting agency, before proceeding with an SDVOSBC set-aside, must first reasonably consider whether the conditions for a HUBZone set-aside exist, and, if they do, agency must proceed with a HUBZone set-aside." This decision rests solely between the interpretations of two words—shall and may. Because HUBZone's language in the Federal Acquisition Regulation includes "shall" instead of "may" GAO ruled that HUBZone has priority and the programs lack parity. The Veterans of Foreign Wars strongly objects to this determination and strongly urges Congress to return parity to the aforementioned programs.

Capital, Training, Compliance, Parity

In order for veterans to succeed in small business they need training, capital, compliance, and parity. If the VFW were to sum up the current state of veterans business and procurement in one word it would be complacency. There are extremely limited options in regards to veterans' access to capital, few options for education, and a host of federal agencies that after nearly a decade continually, and willfully, fail to abide by their public mandates. These agencies's failure to abide by these mandates for such an extended period of time challenges the very authority of this body by woefully ignoring the laws it passes.

As America's largest group of combat veterans, we thank you for allowing the Veterans of Foreign Wars to present its opinion on this very important legislation. We also thank you, and your staff, for your rigor in passing legislation that will make these long overdue, much needed, changes for America's veterans. Veteran entrepreneurship if expanded is a win-win for everyone including the government and America's taxpayers.

Madam Chairwoman, this concludes my testimony and I will be pleased to respond to any questions you or the members of this Committee may have. Thank you.