



THE STATE OF VETERAN AND RESERVIST ENTREPRENEURSHIP

**A REPORT RELEASED BY
SENATOR JOHN F. KERRY
CHAIRMAN
U.S. SENATE COMMITTEE ON SMALL BUSINESS AND
ENTREPRENEURSHIP**

MARCH 28, 2007

Executive Summary

Today there are 25 million veterans in America, with over one million who have left military service since September 11, 2001. As the conflicts in Iraq and Afghanistan continue, the number of veterans, including service disabled veterans, will increase and reservists will continue to carry more of the burden than ever before.

Veteran and reservist entrepreneurs face unique challenges as they work to achieve entrepreneurial success and economic security:

- Unemployment among recently discharged veterans is 11.9 percent compared to 4.6 percent among non-veterans. Unemployment among veterans ages 18-24 is 18 percent.
- Forty percent of reservists lose income and 22 percent experience economic harm to their business as a result of deployment.
- In the largest small business loan program, the share of loans to veterans has decreased from 11 to 8 percent since 2001.

After the Vietnam War, many veterans were left behind. Today repeated and extended call-ups are stretching reservists thin and the ongoing conflicts in Iraq and Afghanistan will yield a new generation of veterans who must not be forgotten. We cannot afford to ignore the lessons of the past.

As veterans and reservists reenter civilian life after their service, the economic benefits and opportunities provided by the federal government will become even more critical, particularly in the field of entrepreneurship and business ownership. And there are steps the government can take to reduce the barriers veterans and reservists face when entering or returning to the civilian workforce.

Financial assistance through loans or grants and access to entrepreneurial development programs are key solutions to address these challenges and level the private sector playing field for veterans and reservists. Unfortunately, many veterans and reservists don't even know about the programs available to them to start, build or maintain a small business. And new programs can and should be created to target the specific needs of the veteran and reservist communities.

Legislation to expand veteran entrepreneurship opportunities and assist reservist business owners and employees should be enacted to ensure America's men and women in uniform become successful contributors to our economy. Specifically, the government should expand loan programs, create a grant program, improve reservist-specific programs, provide increased outreach and business training assistance, empower agency advocates for veterans, collect more information, and provide small firms with tax incentives. Contracting oversight must be improved and steps to expand veteran access to contracting should be considered.

Table of Contents

Introduction.....	4
Legislative History.....	6
Veterans and Entrepreneurship.....	7
Top Issues of Concern for Veteran Small Business Owners.....	8
Financing.....	8
Government Programs for Veteran Entrepreneurs.....	10
Contracting.....	13
Government Fails to Meet Veteran Contracting Needs.....	14
Federal Contracting Record with Service Disabled Veteran Owned Businesses (2005).....	16
National Guard and Reserves.....	17
Military Reservist Economic Injury Loans.....	19
Conclusion.....	20
Recommendations.....	20

“Keeping America’s commitment to our veterans doesn’t end when they take off the uniform. It means helping them succeed after they have honorably served our country.” – Sen. John Kerry

Introduction

With nearly 25 million veterans in the United States, including 2.5 million service disabled veterans, and over one million reservists, there is a growing need for an increased commitment to helping America’s veterans and reservists succeed in business and the private sector during and after their service to our country.

There are more than 1.1 million veterans who have left military service since 2001.¹ And, since September 11, 2001, a total of 233,309 National Guard, 183,681 Reserve, and 1,067,971 Active Component personnel have been deployed to Iraq and Afghanistan.² As more veterans and reservists return to civilian life, the economic benefits and opportunities provided by the federal government will become even more critical, particularly in the field of entrepreneurship and business ownership.

Starting, growing or just maintaining a small business is challenging, and veterans often face unique and increased challenges and barriers due to their service to the country. For example:

- The unemployment rate among recently discharged veterans is more than double the national overall unemployment rate --11.9 percent compared to 4.6 percent.³ And, the unemployment rate for veterans age 18-24 is 18 percent – twice their non-veteran counterparts.⁴
- Fifty-five percent of self-employed reservists experienced income loss when deployed and 22 percent said that their business suffered serious or very serious harm.⁵

There is a compelling need for the federal government to lead the way in supporting and expanding entrepreneurial opportunities for veterans and ensuring that reservists succeed during and after their deployment.

Service disabled veterans face additional challenges in pursuing entrepreneurship, and, because of the ongoing war on terror, the number of service disabled veterans is continuing to increase. Between January 2002 and August 2005 nearly 167,000 service disabled veterans were discharged. These are just a portion of the 2.5 million service disabled veterans who have sacrificed their physical and emotional health in defense of this country.⁶

¹ <http://www.bls.gov/news.release/vet.toc.htm>

² Department of Defense, Office of the Assistant Secretary of Defense, Legislative Affairs, March 2007

³ <http://www.bls.gov/news.release/vet.t06.htm>

⁴ <http://www.bls.gov/news.release/vet.toc.htm>

⁵ CBO Study: The Effects of Reserve Call-Ups on Civilian Employers, May 2005

⁶ Department of Labor—Employment Situation of Veterans Summary May 26, 2006

In general, individuals with disabilities seek self-employment opportunities at rates higher than the national average.⁷ However, self-employment rates for service disabled veterans are lower than the general population and lower than non-disabled veterans. The Bureau of Labor Statistics Employment Situation of Veterans, released in May 2006, reports that 6.6 percent of the total population is self-employed, including almost 9 percent of non-disabled veterans. However, just over 5 percent of service-disabled veterans experience self-employment. The reasons for this discrepancy remain unclear. Since self-employment can sometimes be the best or only way of securing employment for disabled individuals, it is imperative that we make sure that entrepreneurship remains a viable option for all service disabled veterans.

It is important to remember that compensation for service related disabilities is often nominal. For example, a veteran with a 60 percent disability rating receives \$901 per month or \$10,812 per year. This increases slightly to \$984, or \$11,808 per year, if he or she has a spouse⁸ and places these families at or below the poverty line. The Department of Health and Human Services' poverty guidelines are \$13,690 for a family of two.⁹

Unfortunately, information regarding post-service employment for service disabled veterans is incomplete. According to a February 2007 GAO report, the lack of information makes it impossible for federal agencies to be "completely aware of the effect that disabilities incurred by reservists while on active duty have on their reemployment, and what additional assistance may be needed to help transition this population back into the workforce."¹⁰

Small business policies in Washington are shortchanging America's veterans. Last year, the Administration eliminated the office solely dedicated to helping veterans navigate the more than \$370 billion in the federal contracting arena. And there were efforts to disband the Small Business Administration's Advisory Committee on Veterans Business Affairs.

While Congress has enacted laws and given federal agencies resources to expand veteran entrepreneurship opportunities and relieve the burden on small firms with deployed employees, there is more the government can do to help America's men and women in uniform and the businesses who support them.

On September 19, 2005, Sen. Kerry held a Senate Committee on Small Business and Entrepreneurship field hearing in Massachusetts entitled, "**Military Reservists and Small Business: Supporting our Military Families and their Patriotic Small Business Employers**" to examine the impact of deployments on the National Guard and Reservists who own or work for small businesses. The hearing coincided with the four-year anniversary of the first National Guard and Reserve units to be called up to fight in Afghanistan.

On January 31, 2007, the Senate Committee on Small Business and Entrepreneurship held a hearing entitled "**Assessing Federal Small Business Assistance Programs for Veterans and**

⁷ January 2007 report issued by the SBA Office of Advocacy

⁸ <http://www.vba.va.gov/bln/21/Rates/comp01.htm#BM02>.

⁹ <http://aspe.hhs.gov/poverty/07poverty.shtml>

¹⁰ Military Personnel: Additional Actions Needed to Improve Oversight of Reserve Employment Issues (GAO-07-259, February 2007)

Reservists.” The purpose of the hearing was to determine what problems veterans, service disabled veterans and reservist small business owners face and what the government can do to address them.

This report is a follow up to those hearings and summarizes the state of veteran entrepreneurship in America today – the challenges veterans and reservists face during an ongoing war with extended and repeated call-ups. This report also makes recommendations for legislative and administrative action to address the needs and concerns of veteran and reservist entrepreneurs.

Legislative History

There are programs at a number of Federal agencies designed to assist veterans and reservists start, maintain and grow their own business. But questions remain about how effectively the agencies are coordinating with each other and informing veterans and reservists about the government assistance available to them.

Comprehensive legislation was passed by the Senate Committee on Small Business and Entrepreneurship and enacted into law in 1999. **The Veterans Entrepreneurship and Small Business Development Act** (Public Law 106-50) directed federal agency coordination and created programs to expand veteran entrepreneurship assistance. Specifically, the law:

- Required the Small Business Administration (SBA) to make better use of resources to help small businesses owned and controlled by veterans, insuring that SCORE and Small Business Development Centers provide veterans with the technical assistance and other support needed;
- Called for the SBA to use existing resources to assist small firms impacted when a military reservist is called up and to advertise those services;
- Targeted veterans to help them access capital through the 7(a) and 504 loan and Microloan Programs;
- Created the Military Reservist Economic Injury Disaster Loan Program and authorized the SBA to provide loan deferrals and reductions in interest rates;
- Established the government-wide three percent contracting goal for service disabled veteran owned businesses and required a report from the Office of Federal Procurement Policy on the number and dollar value of contracts and subcontracts to veteran owned small businesses and service disabled veteran owned businesses (SDVOBs); and
- Established the National Veterans Business Development Corporation (Vet Corp) to create a network of information and assistance centers for veterans.

The Committee Report accompanying the Veterans Entrepreneurship and Small Business Development Act said:

“During and after the Persian Gulf War in the early 1990’s, the Committee heard from reservists whose businesses were harmed, severely crippled, or even lost, by their absence. Problems faced by reservists called to active duty and their small businesses

were of a varied nature and included cash-flow problems, difficulties with training an appropriate alternate manager on very short notice to run the business during the period of service, lost clientele upon return, and on occasion, bankruptcy. These hardships can occur during a period of national emergency or during a period of contingency operation when troops are deployed overseas.”¹¹

This legislation was passed on the heels of a 1997 law that reauthorized small business programs.¹² That law included a section written to improve business opportunities for service disabled veterans, provided grants for outreach programs to veterans, and specifically called for a comprehensive outreach plan to be developed between the SBA, the Department of Veterans Affairs and the Department of Labor to assist eligible veterans on business training, management assistance, employment and relocation counseling, and provide information on veteran benefits and entitlements.

Veterans and Entrepreneurship

According to the 2002 U.S. Census Survey of Business Owners, 14 percent of all small business owners are veterans, seven percent of whom are service disabled. This means there are 3 million veteran-owned businesses. Veterans are slightly more inclined to be self-employed than their non-veteran counterparts. In 2004, nearly 15 percent of veterans were self-employed, while 10 percent of the total workforce chose self-employment.¹³ The higher self-employment rate for veterans versus non-veterans has been true since 1979. However, there has been a slow decline in self-employment among veterans believed to be the result of veterans aging and exiting from the work force.¹⁴

One-third of veteran business owners utilize the skills they gained during service in running their business today – including military courses and technological training. In addition, a 2004 study for the Small Business Administration’s Office of Advocacy found that 22 percent of all veterans were already taking steps toward business ownership or were interested in starting or buying a small business. And 72 percent of those veterans expected to employ at least one other person when creating their new business, demonstrating a powerful job creation mechanism.¹⁵

However, that same study revealed that there are key government resources and programs that rank high on a list of concerns important to veterans. Both service disabled veterans (SDV) and non-service disabled veterans view “access to financing” as the top critical issue important to their entrepreneurial success.

¹¹ Report number 106-136 which accompanied P.L. 106-50

¹² Public Law 105-135, the Small Business Reauthorization Act of 1997

¹³ The Small Business Economy for Data Year 2005: A Report to the President (December 2006)

¹⁴ December 2004 SBA Advocacy Self-Employed Business Ownership Rates in the United States: 1979-2003

¹⁵ <http://www.sba.gov/advo/research/rs242tot.pdf> 15 and 16 are the same study. Is that clear? I’m not sure how these cites work.

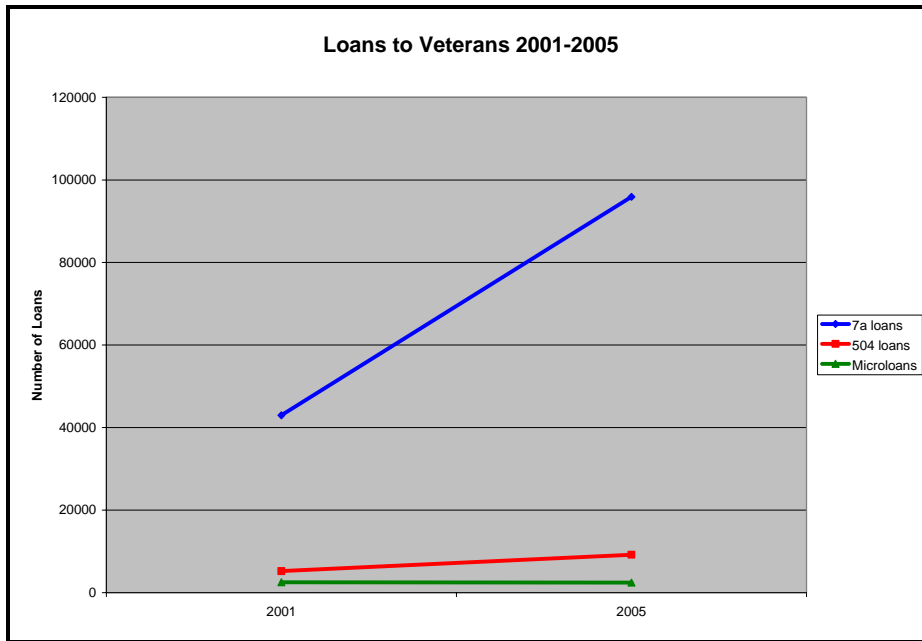
Top Issues of Concern for Veteran Small Business Owners¹⁶

Issue	Ranking Overall	Ranking SDV	Percent Overall	Percent SDV
Access to financing	1	1	34.3%	52.4%
Useful government and private programs for entrepreneurs	2	2	33.3%	38.1%
Useful government and private programs for veteran entrepreneurs	3	3	29.9%	23.8%
Retaining qualified employees	4	6	10.4%	4.8%
Developing a network of contacts	5	4	6.0%	9.5%
Finding qualified employees	6	7	13.4%	4.8%
Developing and implementing a marketing strategy	7	5	3.0%	9.5%
Understanding the competition	8	9	7.5%	4.8%

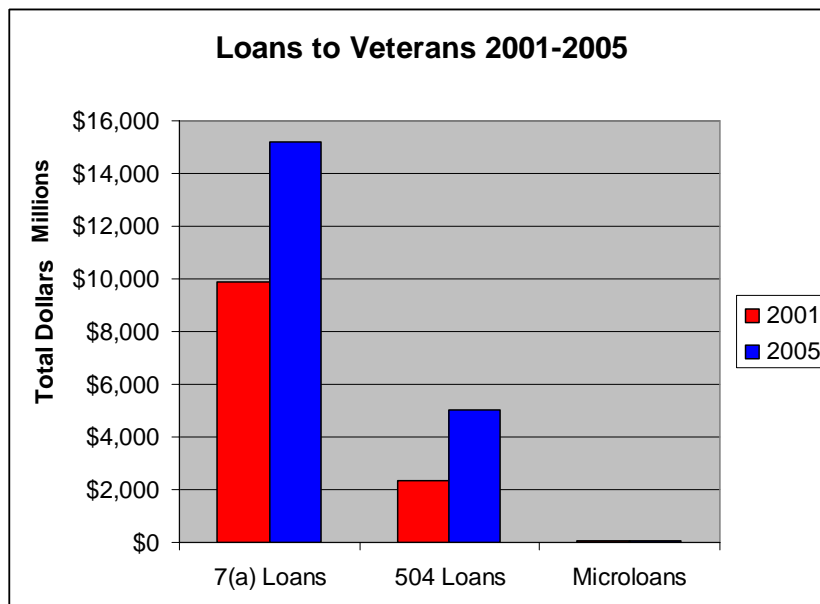
Financing

The number one concern of veteran-owned small businesses is access to capital. The number of small business loans to veterans has increased. The Small Business Administration's (SBA) largest loan program, 7(a), which provides working capital, and the 504 program, which provides long-term credit for businesses to buy fixed assets, such as buildings and equipment are important programs for veterans seeking to start or grow a business. Between 2001 and 2005 veterans saw a 120 percent increase in the number of 7(a) loans from 42,958 to 95,900. During that same time frame, the number of 504 loans to veterans increased by 76 percent, from 5,213 to 9,194. However, the number of microloans (\$35,000 or less) decreased by 3 percent from 2,501 loans in 2001 to 2,428 loans in 2005.

¹⁶ <http://www.sba.gov/advo/research/rs242tot.pdf>



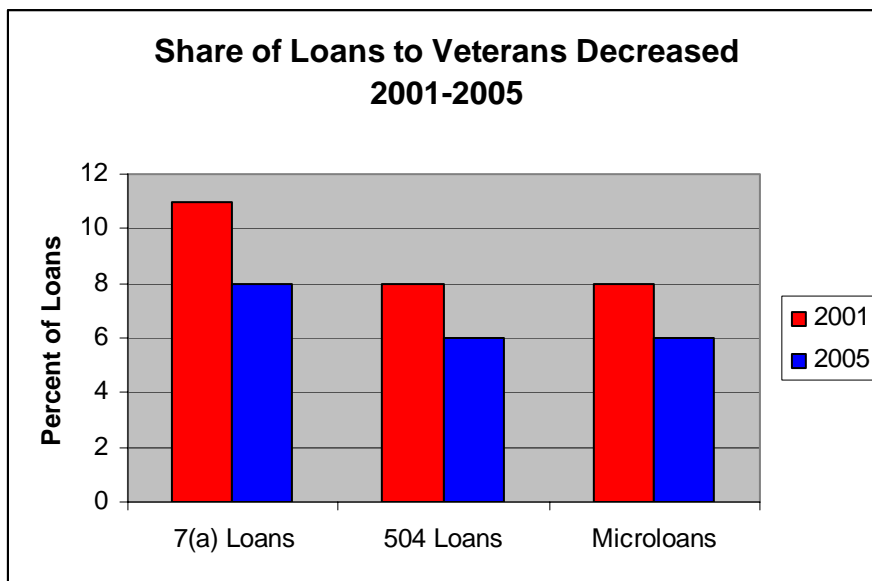
As the number of loans to veterans have increased, the total dollars loaned has also grown. For example, the 7(a) loan dollars to veterans grew by 50 percent from about \$10 billion in 2001 to more than \$15 billion in 2005. In the 504 program, loan dollars doubled, growing from more than \$2 billion to more than \$5 billion. Yet the total loan dollars for veterans in the Microloan Program has shrunk by six percent due to the Administration's attempt to eliminate the program for the past three years and reductions in funding for the program.



If the number of loans and total dollars of loans to veterans have gone up, then why does access to capital remain one of the top problems for veterans? This is because as the loans have gone up, they are not proportional to the loans made to small businesses as a whole.

Nationwide, the percent of loans and loan dollars to veterans as a share of all small business loans has dropped from 2001 to 2005. The total number of veterans in the United States has grown since 2001 and the overall lending to small businesses has also grown, but lending to veterans in comparison has decreased. This raises strong concerns about how the government is addressing the top priority for veteran business owners.

Specifically, in the 7(a) program, the veterans' share of loans has dropped from 11 percent to 8 percent. In the 504 loan program, the share of loans to veterans has dropped from 8 percent to 6 percent. Similarly, for those businesses needing the smallest amounts of capital, the percent of microloans to veterans has dropped from about 8 percent to 6 percent. The numbers for 2006 are even lower.



Government Programs for Veteran Entrepreneurs

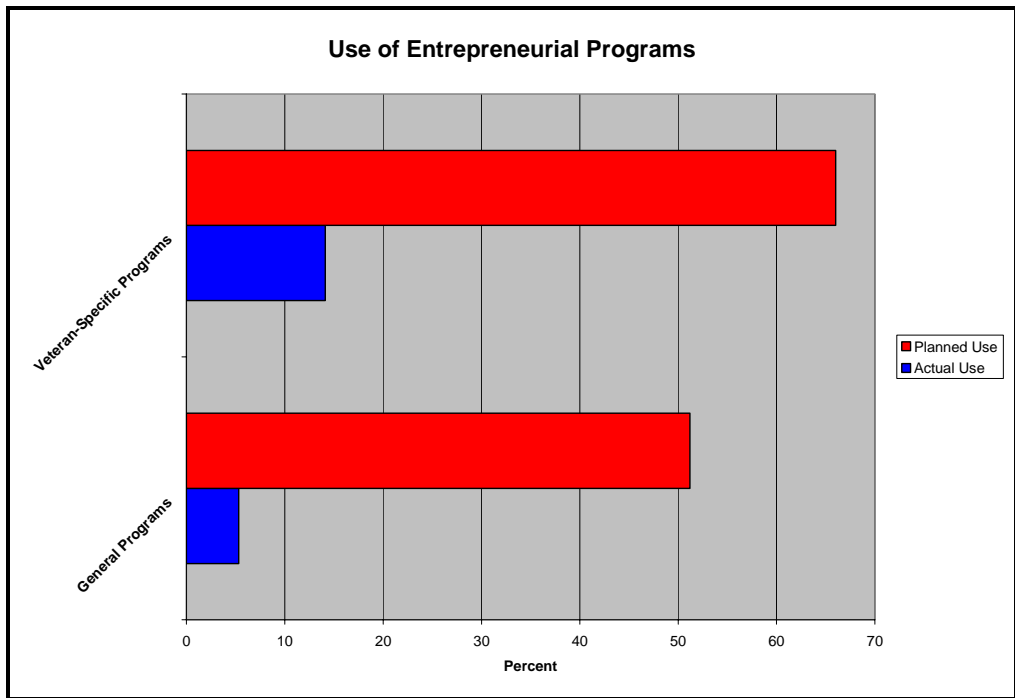
After access to capital, the next priority for veteran entrepreneurs is access to government and private programs geared towards small business owners and veteran small business owners specifically. This underlies the inadequate outreach to the veteran community about the programs available to them.

There are a number of government programs which aid veterans, including programs at the SBA. The SBA's Office of Veterans Business Development was created in 1999, with passage of the Veterans Entrepreneurship and Small Business Development Act. This office is charged with supporting and promoting SBA programs that assist veterans seeking to start or grow a small business.

The same law also created the Advisory Committee on Veteran Business Affairs and the National Veterans Business Development Corporation. In 2004, the Administration allowed the Advisory Committee to terminate, but efforts by veterans and members of Congress saved it. The Advisory Committee reports back to the SBA, Congress and the White House with recommendations on how to better support veteran entrepreneurship, while the Veterans Corporation was created to work with government and private entities to help veterans start and grow small businesses.

The SBA also has general entrepreneurial programs that can help veterans. According to the agency, 10 percent of individuals utilizing entrepreneurial programs such as Small Business Development Centers (SBDC), Women Business Centers (WBC), and Service Corps of Retired Executives (SCORE) are veterans. For example, SBDCs provided business counseling to 23,432 veterans and trained an additional 25,900 veterans in 2005.¹⁷ It is difficult to get an accurate picture, however, because many veterans do not identify themselves as veterans at the time they receive SBDC help. Approximately 3 percent of WBC clients are veterans.

The Veterans Entrepreneurship and Small Business Development Act also called for the SBA to coordinate with the Department of Veterans Affairs to ensure the best resources and most efficient services are provided to veterans as they seek to start or build a business.



According to a 2003 Office of Advocacy survey, only about 5 percent of new veteran business owners had used veteran-specific programs while about 14 percent of veterans had used general small business development, training and assistance programs. Despite these rather low numbers, the same survey showed that more than 50 percent of veterans planned to use non-veteran specific programs while nearly 66 percent planned to use veteran-specific ones. It is also

¹⁷ According to the Association of Small Business Development Centers

important to note that nearly 17 percent of service disabled veterans utilized veteran specific programs, compared to 5 percent of non-service disabled veterans.¹⁸

This wide gap between actual use and planned use of entrepreneurial programs reveals a great need for these services but also raises a question: *Is information about all of the available entrepreneurial programs and services adequately reaching veterans?*

According to the survey, more than one-third of veterans were not even aware the programs existed while 1 out of 5 was confused as to what programs were available. Yet more than 9 in 10 veterans who were unaware of the services said they would use them if they knew about them.¹⁹

The Office of Advocacy survey concluded that, “investment in small business programs for veterans and service disabled veterans is economically rational,”²⁰ yet it is clear that not enough is being done to inform veterans about the available government programs. “Useful government and private programs” for veteran and non-veteran entrepreneurs are top priorities, so we must do more to make them aware that these programs do exist. These programs could also eliminate some of their other concerns by providing tools to help them find employees and increase their retention, expand networking opportunities, develop marketing strategies, understand the competition, and learn about certification requirements for service disabled veterans to contract with the federal government.

¹⁸ <http://www.sba.gov/advo/research/rs242tot.pdf>

¹⁹ <http://www.sba.gov/advo/research/rs242tot.pdf>

²⁰ <http://www.sba.gov/advo/research/rs242tot.pdf>

“Our disabled veterans want to continue to serve our country, and we should help them do that by giving them every tool to grow their businesses and create jobs in their communities. Three percent is nothing compared to what these men and women have done for America, and it’s time the Administration’s commitment match our disabled veterans’ sacrifice.”– Sen. John Kerry

Contracting

In 1999, Congress passed the Veterans Entrepreneurship and Small Business Development Act which established a 3 percent goal for all federal agencies to contract with service disabled veteran owned businesses (SDVOBs).²¹ In 2003, in an effort to provide more tools to help the government meet this goal, Congress passed a provision in the Veterans Benefits Act allowing contracts to be sole-sourced to SDVOBs and established a limited competition program for these firms.²² In May 2004, the SBA issued an interim final rule to implement these sole-source and set-aside procurement programs.²³

The government has also recognized that it is a “moral obligation to provide the disabled veteran a range of benefits designed to ease the economic and other losses and disadvantages incurred as a consequence of serving his or her country.”²⁴ The 3 percent goal²⁵ and the ability of federal agencies to set aside contracts for SDVOBs²⁶ are considered two of the “benefits.”

In October 2004, the President signed Executive Order 13360 which required each federal agency to:

1. Develop a strategy to significantly increase its contracting and subcontracting with SDVOBs;
2. Designate a senior-level official to be responsible for developing and implementing the strategy; and
3. Report annually its progress to the SBA.²⁷

The agencies’ plans were to address reserving contracts exclusively for SDVOBs, facilitating participation by SDVOBs in competitions for contracts, encouraging existing contractors to subcontract with SDVOBs and monitoring those efforts. In addition, plans were to include information about training agency personnel on federal contracting law and disseminating information to SDVOBs that would help them compete for contracts.

Yet the federal government’s contracting record with SDVOBs is a failure. In 2005, six years since the three percent goal was passed into law, only .605 percent of federal contracts have been

²¹ P.L. 106-50

²² Section 308 of the Veterans Benefits Act (P.L. 108-183)

²³ Federal Register Vol. 69, No. 87, p. 25262

²⁴ <http://www.sba.gov/GC/FAQs-mar2005.pdf>

²⁵ Section 15(g) of the Small Business Act (15 U.S.C. 644(g))

²⁶ Section 36 of the Small Business Act (15 U.S.C. 657f)

²⁷ <http://www.sba.gov/GC/vets/exec.order-13360-contracting-with-serv-dis-vets-businesses-memo.pdf>

awarded to SDVOBs. While this was up from .38 in 2004, the government’s inability to meet the statutory goal cost these firms nearly \$9 billion in contracts. The government has failed to meet contracting goals for women owned and HubZone small business company categories, but the latest numbers from the Federal Procurement Data System (FPDS)²⁸ state the case for expanded efforts at increasing SDVOB contract opportunities. In fact, SDVOBs are the least utilized of all categories.

Government Fails to Meet Veteran Contracting Needs

	Contracts/Subcontracts	Total Dollars	% Goal	% Total
SDVOB	40,659	\$1,899,148,262	3%	0.605%
HubZone	69,834	\$6,103,161,942	3%	1.944%
Women- Owned	346,685	\$10,494,302,639	5%	3.242%
8(a)	75,983	\$10,464,083,780	NA	3.332%
Other SDBs	210,868	\$11,251,009,379	5%	3.583%

In January 2006, Senator John Kerry wrote to 20 federal agencies to determine whether they had implemented the two laws and to understand the strategies they employed to increase veteran contracting opportunities and reach these federally mandated goals. While Kerry heard back from most agencies, the Federal Emergency Management Agency, the Environmental Protection Agency, the Department of Energy, the Department of Agriculture, and even the Small Business Administration all failed to respond.²⁹

The responses indicated acknowledgement of the law and a realization of the SDVOB contracting goals; however, the rhetoric and promises to do better are not good enough. The Federal Emergency Management Agency is the only major agency or department that exceeded the three percent contracting goal in 2005.³⁰ At the time of this report, both the SBA and VA believe that they may have exceeded the three percent goal in 2006. However, those numbers are not yet final. (See a complete list of federal agencies’ contracting record on page 15.)

Current federal contracting rules may play a role in preventing agencies from meeting the 3 percent contracting goal. For example, the “Rule of Two” states that a contracting officer may set aside a contract for sole-source to a SDVOB only if there are not two or more SDVOBs that can do the work. If two or more SDVOBs cannot be found to bid, then the contract may be given as a sole-source award. Because contracting officers are often under pressure to fulfill certain award requirements quickly, the Rule of Two may prevent SDVOBs from receiving a sole source contract.

²⁸ There are many questions as to the accuracy of the numbers in the Federal Procurement Data System, however, these are the only numbers Congress currently has to conduct contracting oversight. See GAO letter GAO-05-960R.

²⁹ To read the agencies’ responses to Sen. Kerry’s request for implementation of SDVOB contracting laws, visit <http://sbc.senate.gov/correspondence109th.cfm> and click on the dates next to letters titled “Sevice-Disabled Veterans Set-Aside Program Utilization.”

³⁰ There are many questions as to the accuracy of the numbers in the Federal Procurement Data System, however, these are the only numbers Congress currently has to conduct contracting oversight. See GAO letter GAO-05-960R.

The Office of Federal Contract Assistance for Veteran Business Owners was closed by the Administration in May 2006. This office suffered from a lack of support and minimal resources to effectively assist America's veterans so that they can get a fair shot at federal contracts. When the Administration shut the office last year, it had only one full-time staff member.

The Office of Veterans Business Development has also been given short shrift. Despite the increasing number of veterans due to the current conflicts and increased responsibilities as a result of Executive Order 13360, this office has been virtually flat funded for years. The Office has limited resources to operate five veteran business outreach centers and to provide assistance to veteran business owners with federal contracting and, as a result, outreach to and development of SDVOBs has suffered.

The law requires that large corporations have a subcontracting plan for federal contracts. Unfortunately, it does not require that federal contracts performed outside the United States by U.S. firms be subject to the same subcontracting requirements. The lack of subcontracting plans for overseas contracts limits the ability of SDVOBs to access billions of dollars in Iraq and Afghanistan related contracts.

The lack of small business participation in overseas contracting could impact competition and efficiency. SDVOBs are led by individuals who have sacrificed at home and abroad to ensure that our freedoms are protected. They could bring unique skills and knowledge to do business in the places where many of them have served. Prime contractors in places like Iraq and Afghanistan that have won federal contracts should involve SDVOBs in their subcontracting plans.

**Federal Contracting Record with
Service Disabled Veteran Owned Businesses (2005)**

	SDVSB Contractor Actions	SDVSB Contractor Dollars	SDVSB Contractor %	All Actions	All Dollars
Dept. of Agriculture	663	\$23,842,386	0.604%	108,607	\$3,948,158,917
Dept. of Commerce	529	\$24,173,011	1.275%	25,435	\$1,896,181,065
Dept. of Defense	17,829	\$1,093,009,806	0.499%	1,705,008	\$218,970,654,489
Dept. of Education	37	\$1,048,443	0.083%	2972	\$1,258,847,634
Dept. of Energy	125	\$49,154,298	0.215%	9887	\$22,855,579,163
Environmental Protection Agency	98	\$3,027,819	0.206%	23,376	\$1,466,353,011
FEMA	8	\$50,612,246	9.597%	394	\$527,390,686
General Services Administration	2,265	\$52,231,177	1.203%	170,570	\$4,342,817,361
Dept. of Health and Human Services	265	\$41,394,195	0.449%	62,269	\$9,210,072,297
Dept. of Homeland Security	420	\$46,308,628	0.480%	46,298	\$9,642,620,427
Dept. of Housing and Urban Development	53	\$16,362,406	1.526%	3,955	\$1,072,523,589
Dept. of the Interior	590	\$29,547,519	1.095%	73,320	\$2,698,843,235
Dept. of Justice	383	\$32,816,523	0.788%	220,711	\$4,165,034,767
Dept. of Labor	221	\$14,079,591	0.851%	7,077	\$1,653,648,957
NASA	248	\$138,374,495	1.129%	20,039	\$12,259,930,870
Office of Personnel Management	6	\$305,989	0.130%	5,120	\$234,950,155
Small Business Administration	12	\$237,298	0.500%	602	\$47,428,314
Social Security Administration	82	\$3,686,618	0.426%	8,207	\$864,866,114
Dept. of State	363	\$42,395,871	2.010%	148,568	\$2,109,253,098
Dept. of Transportation	129	\$12,511,197	0.838%	12,792	\$1,493,316,115
Dept. of the Treasury	118	\$5,459,025	0.280%	17,436	\$1,946,821,434
Dept. of Veterans Affairs	15,933	\$210,829,326	2.151%	2,863,287	\$9,800,419,790

Source: Federal Procurement Data System

National Guard and Reserves

There are approximately 1.1 million reservists serving our country today, which represents about 44 percent of the nation's entire military force.³¹ The independent Commission on the National Guard and Reserves was established by Congress in 2005. Recently, on March 1, 2007, the Commission released an interim report. Since September 11, 2001, the deployments of U.S. military reservists have risen from about 12.7 million days of service to an estimated 63 million days in 2006. As many as four National Guard combat brigades are expected to be activated by the current increase in U.S. troops in Iraq.³²

The headline of a recent opinion column in the *Army Times* says it all: **Is being a Reservist still worth it?**³³ Ted Daywalt, a retired Navy captain and president of a veteran jobs website, wrote that employers are becoming wary of hiring reservists because of increased mobilizations over the last several years.

Daywalt cites a 2004 study by Business & Legal Reports which found “the number of employers paying full salaries to their activated National Guard and Reserve employees fell in some cases by as much as 50 percent.” In addition, *Workforce Management* magazine conducted a poll that found **51 percent of employers would not hire military reservists if they knew they “could be called up and taken away from their job for an indeterminate amount of time.”** Only 31 percent would still hire reservists, while 18 percent did not know.³⁴

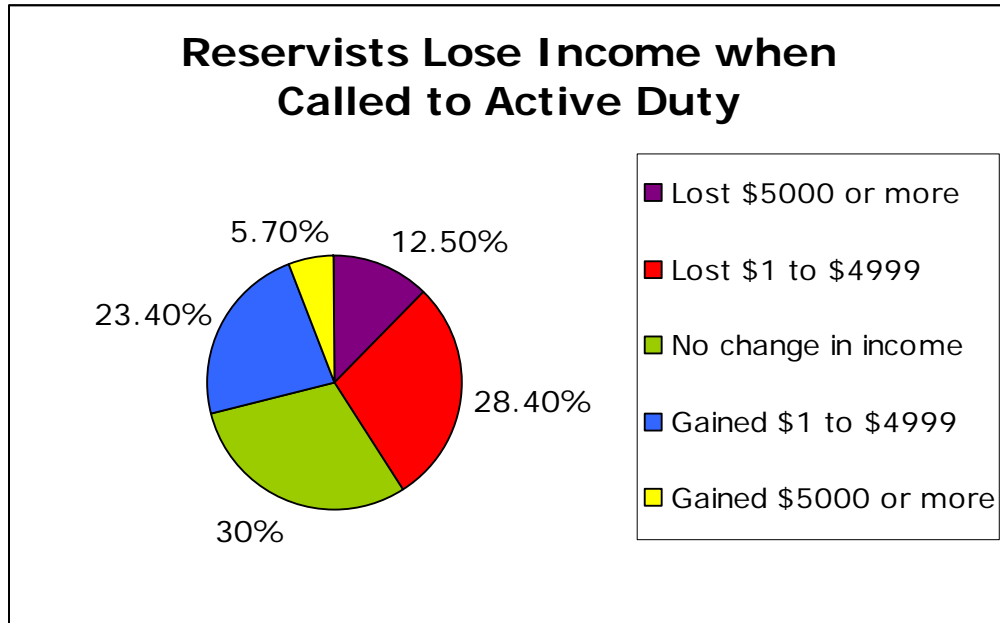
On top of these obstacles, a 2000 study by the Department of Defense found that more than 40 percent of reservists lost income when they were mobilized or deployed from 1991 to 2000. Specifically, about 13 percent lost \$5,000 or more while 28 percent lost less than \$5,000. This was higher among the self-employed, 55 percent of whom saw a decrease in income. Ten percent had income losses of over \$25,000.

³¹ February 2007 GAO report (GAO-07-259)

³² <http://www.cngr.gov>

³³ *Army Times*, February 5, 2007

³⁴ *Army Times*, February 5, 2007



Source: September 2003 GAO report using 2000 DOD data

According to a recent Congressional Budget Office (CBO) analysis³⁵, only about six percent of businesses employ reservists. Smaller firms – those with fewer than 500 staff – employ 35 percent of all reservists. Eighteen percent of reservists work for firms with fewer than 100 employees. Out of 860,000 reservists in the Selected Reserves³⁶, between 8,000 - 30,000 hold key positions in small businesses, according to CBO, with about 55,000 reservists (about 9 percent) self-employed.

CBO concluded that “[a]ctivations create vacancies that firms would not otherwise have had. Some businesses may absorb the loss of personnel at little cost, but others may experience slowdowns in production, lost sales, or additional expenses as they attempt to compensate for a reservist’s absence.” Mobilizations are likely to be “more severe” for small firms losing key employees, businesses that require highly specialized skills, and the self-employed.³⁷

These challenges are further complicated by the inability of key federal agencies to conduct outreach to the employers of reservists who are called up – particularly smaller firms. The Uniformed Services Employment and Reemployment Rights Act (USERRA) ensures eligible military service members are promptly reemployed with the pay, seniority and benefits they would have received if they had not left for active duty.

Unfortunately the Department of Defense has not been able to verify employer information for 24 percent of reservists with civilian employers. According to a February 2007 GAO report, “[w]ithout better employer information, DOD cannot manage activities such as conducting

³⁵ CBO Study: The Effects of Reserve Call-Ups on Civilian Employers, May 2005

³⁶ Selected Reserves are the primary source of Reserve personnel

³⁷ CBO Study: The Effects of Reserve Call-Ups on Civilian Employers, May 2005

outreach to help employers understand their USERRA responsibilities or know if its decisions are adversely affecting communities by activating a large number of its first responders or healthcare professionals, or disproportionately impacting small business employers.”³⁸

Military Reservist Economic Injury Loans

Over the last five years, more than 500,000 military reservists have been called to active duty. In an attempt to help reservists and businesses that incur economic hardships as a result of an essential employee or small firm owner being deployed, Senator Kerry authored legislation to create the Military Reservist Economic Injury Loan Program (MREIDL) in 1999. The program’s goal is to assist reservist-dependent small businesses with the ordinary, day-to-day operating costs of running a business.³⁹ The law provides these employees access to low interest loans from the SBA when they are called up to active duty. Under the 1999 law, the SBA can defer existing loan repayments, reduce the interest rates on direct loans for these employees, and, using the agency’s Disaster Loan Program, award economic injury disaster loans.

The Committee continues to hear about the need for economic assistance to reservist small business owners. Despite the record number of call-ups, the SBA has made fewer than 300 economic injury loans through this program since 2002 and many reservists are not even aware the program exists. It is clear that changes need to be made, so that reservists are informed about the availability of the MREIDL program and that the program better meets their needs.

³⁸ Military Personnel: Additional Actions Needed to Improve Oversight of Reserve Employment Issues (GAO-07-259, February 2007)

³⁹ P.L. 106-50

Conclusion

While some steps have been taken to address the needs and concerns of veteran and reservist entrepreneurs, it is clear that more work must be done. Key steps include: expanding access to capital – through loan and grant programs, improving reservist-specific programs, providing increased outreach and business training assistance, solidifying roles and advocates for veterans, collecting more information, increasing contracting oversight and competition, and providing small firms with tax incentives.

The Chairman of the Committee on Small Business and Entrepreneurship makes several recommendations to improve and expand existing programs and to ensure America keeps its commitment to veterans and reservists during and after their service to our country.

Recommendations

1. Create a non-collateralized loan program for small businesses affected by reserve deployments .

Reservist families have already sacrificed enough when a family member goes away to serve their country and when their business is harmed as a result. Providing non-collateralized loans of up to \$100,000 would allow for reservist dependent businesses to access the capital they need to stay afloat without having to sacrifice beyond the service of the key employee. So that reservists have time to repay the loans, such a program should not accumulate interest or require payments for one year or until after the deployment ends, whichever is longer.

2. Create a grant program for small business affected by reserve deployments.

When it comes to supporting our reservist small business owners, loans cannot be the only answer. Many small businesses that are financially crippled because of a reservist being deployed would be further harmed by taking on additional debt. A grant program would help small businesses that cannot afford to take on a Military Reservist Economic Injury Disaster Loan or that were denied such a loan, but still are viable businesses and need assistance.

3. Create a veteran entrepreneurship loan program.

Unemployment for recently discharged veterans is more than double the national overall unemployment rate. Veterans have tremendous skills and leadership experience; however, they often lack the funding to turn those skills into a new business. A veteran entrepreneurship loan program would provide the funding to help turn dreams into reality.

4. Improve the Military Economic Injury Disaster Loan (MRIEDL) program, specifically:

- a) Create a pre-deployment loan approval process. Currently, reservists can only apply for a loan *after* deployment, when the business is already suffering. A pre-deployment loan approval process would allow reservists to apply for a loan before they need it and would allow businesses to use the loan funds during deployment. Since funding is often most essential while the employee is on active duty, a pre-deployment loan process would be a tremendous aid to many businesses.

- b) Increase the application deadline from 90 days to one year. Under present law, reservists have 90 days after returning home to apply for an MREIDL loan. This is simply not enough time. Additional time is needed so reservists can return to work and ascertain exactly what the needs of the business are before applying for an MREIDL loan.
- c) Improve outreach and technical assistance for loans and grants. In order for a program to be used, the individuals who would benefit from it need to know about its existence. Therefore, it is critical that the SBA increase efforts to ensure that small business owners who are in the reserves – or who employ reservists – are aware of this tool.

5. Provide technical and managerial assistance to reservists.

The challenges facing small businesses that lose an owner or key member to deployment are tremendous. Although funding is a critical part of supporting these businesses, managerial and technical training is also very important. Therefore, the creation of a program to provide business planning assistance to small businesses owned and operated by members of the National Guard and Reserve would be an important additional tool.

6. Make the Advisory Committee on Veterans Business Affairs permanent.

It is clear that the government needs to improve its support of veteran and reservist small business owners, and the Advisory Committee continues to be an important source of independent advice and policy recommendations, which are sorely needed at this time. Continuing uncertainty about the Advisory Committee's future has prevented the committee from focusing on its core function. A permanent extension would strengthen the focus and input of the Advisory Committee.

7. Report on the needs of service disabled veteran small business owners and entrepreneurs.

Service disabled veterans are growing in number, now the most we have seen since Vietnam. For service disabled veterans, self-employment can sometimes be the best or only way of securing employment. Therefore, it is essential that clear information is available about what the government can do to support entrepreneurship among service disabled veterans.

8. Report on the affect of Department of Defense reservist policies on employment opportunities and small business employers.

The Committee has heard numerous stories about reservists being turned down for employment because of their reserve status or pressured to leave the reserves in order to advance at work. Small business owners have spoken about the desire to support reservists but also the need to keep their businesses viable. A report would shed additional light on what is occurring and go beyond anecdotal evidence to provide policy makers with guidance.

9. Fully Fund and Staff the SBA's Veteran Business Offices.

In order to increase contracting opportunities, we must also provide more resources to expand and develop the pool of capable and qualified veteran and service disabled veteran business owners. One way to do that is to fully staff the SBA's Office of Veteran Business Development and the Office of Federal Contract Assistance for Veteran Business Owners. Without sufficient

resources these offices cannot conduct the outreach necessary to make veterans and reservists aware of the small business programs available to them.

10. Increase SDVOB Opportunities to Compete for Federal Contracts.

With the government failing to meet the three percent contracting goal – and only one major agency exceeding it in 2005 – there needs to be more leadership at federal agencies to oversee procurement policies and train staff in compliance with statutorily mandated goals.

It is important that SDVOBs be given every opportunity to do business in the places where many of them and their comrades have served. Prime contractors in places like Iraq and Afghanistan must be required to create and adhere to the same types of subcontracting plans required under domestic procurement law.

In addition, the Chairman recommends addressing the impact of current contracting rules on the ability for SDVOBs to compete for federal contracts.

11. Tax Credits to bolster small businesses and their employees called to active duty.

Providing small firms with financial relief when reservists are called up will provide more incentive for firms to hire reservists.

a) Incentives for Differential Military Pay. Most large businesses have the resources to provide supplemental income to reservist employees called up; however, it is often difficult for small businesses to do the same. A tax credit to small businesses would help with the cost of paying the salary of their reservist employees when they are called to active duty. This in turn would help the service members and their families during a challenging time.

b) Tax Credit for a Temporary Replacement Employee. A majority of veterans returning from Iraq and Afghanistan are National Guard and Reserve members. Because small businesses are disproportionately affected by the call up of a key employee or owner, this credit was created to ameliorate some of the strain of hiring a new replacement. This credit would help small businesses cover the cost of temporary replacement employees, thus preventing the closures of some small businesses and the loss of jobs, and increasing the likelihood that small business will continue to hire reservists.