

Effective State Policy and Practice

Entrepreneurship Development in Native American Communities

This bulletin examines entrepreneurship development in Native American communities. While efforts to promote entrepreneurship among low-income communities nationwide have grown dramatically over the past 20 years, only recently has Indian country begun to benefit from these programs and services. This bulletin provides background on the challenges that Native American entrepreneurs face and highlights organizations that currently provide quality entrepreneurship development services to Native American communities.

Definitions:

Native American communities/Indian country:

Defined broadly to include land-based populations on formal or informal reservations, traditional Indian lands, Indian allotments, Alaskan Native villages, or Hawaiian homelands—whether restricted or held in trust by the United States or Hawaii.

Entrepreneurship: The process through which entrepreneurs create and grow enterprises.

Entrepreneurship development: The infrastructure of public and private supports that facilitates entrepreneurship.

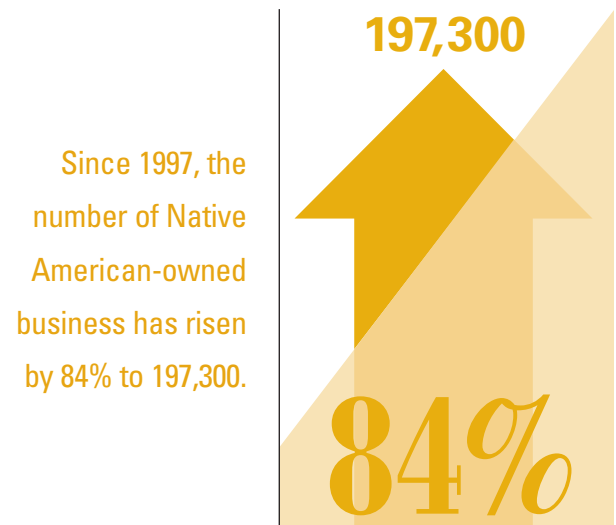
Training: Teaches core business development skills, such as financial management, planning, marketing, and procurement.

Technical assistance: Includes one-on-one counseling, business visits, referrals, and loan packaging. Generally available to clients from the start-up through the operation of their businesses.

Financial literacy: Includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.¹

Entrepreneurship and Native American Communities

The majority of revenue-generating enterprises in Native American communities are tribally owned. However, within recent years, small individually owned enterprises have also become an increasingly important economic base for these communities. Reports from the Community Development Financial Institutions (CDFI) Fund of the U.S. Department of Treasury characterize Native American communities as America's "domestic emerging market." The CDFI Fund cites the sales growth rates of Native American-owned business as double the U.S. average and business creation rates as seven times the U.S. average.² Data from the 2000 census shows that since 1997 the number of Native American-owned businesses has risen by 84% to 197,300 and that their gross incomes have increased by 179% to \$34.3 billion.³ The *Native American Entrepreneurship Project Report*, written by First Nations Development Institute (FNDI), estimates that 170,083 of these businesses are microenterprises—businesses that are owned and operated by one person or family, have fewer than five employees, and are usually financed with loans of less than \$35,000.⁴



Challenges to Native American Entrepreneurship

Despite this growth in Native American enterprises, barriers remain for the majority of potential entrepreneurs. According to available national research and interviews with industry leaders, local practitioners, and entrepreneurs, the most significant of these barriers include:

- ◆ Lack of business development training and technical assistance resources on Indian reservations,
- ◆ Low levels of general financial literacy among Native Americans, and
- ◆ Inadequate and inappropriate financing for Native American enterprises.

Business Development Training and Technical Assistance

According to the Aspen Institute, “training and technical assistance are arguably the most important components of microenterprise development services in the United States, particularly when those services are aimed at low-income clients.”⁵ This is especially true for Native American entrepreneurs whose economic environment has not traditionally been geared toward private enterprise. In fact, in the *Native American Entrepreneurship Project Report*, an analysis of 29 entrepreneurship development programs that serve Native Americans found that limited business expertise, specifically knowledge about marketing, business plan development, and general business practices, is a significant barrier for Native American entrepreneurs. While microenterprise development services are critical in overcoming this barrier, nearly 80% of tribal respondents to the CDFI Fund's *Native American Lending Study* ranked these services as highly insufficient on reservations.

Furthermore, the few Native American entrepreneurship development programs in existence face critical sustainability issues, such as the high cost of providing training and technical assistance services to clients who are unfamiliar with the business development process and face multiple personal and geographic barriers. Additional challenges for these programs include inadequate cash flow and loan pool capitalization and heavy reliance on federal sources of funding for their operations. The survival of these programs will partly depend on access to more private, local, and state resources secured either through direct funding to the programs or through partnerships with others who can supply needed products and services to Native American entrepreneurs.

Financial Literacy Education

Although the need for financial literacy education is not unique to Native Americans, the lack of financial expertise and financial education resources is particularly severe in Indian country, as compared to the rest of the nation. Native American clients do not have financial skills for a variety of reasons including: low levels of interaction with mainstream financial institutions; inexperience in managing money among older generations and a resulting lack of role-modeling in the family; poor access to sources of information (television, libraries, the Internet); and inadequate basic math and English skills. Financial education resources are also not readily available to Native American clients. According to the *Native American Lending Study*, the lack of education, training, and technical assistance designed to increase the financial literacy of Native American communities is a significant barrier to accessing affordable financial products and services. Consumer credit counseling and repair, basic financial literacy, and financial management resources were all ranked as highly insufficient on reservations.

Access to Financing

The reasons for inadequate access to capital are many, but current research highlights the following in particular:

Lack of access to mainstream financial institutions:

According to the *Native American Lending Study*, only 14% of Native American land in the United States has a financial institution in the community and 15% of Native American people must travel more than 100 miles to reach a bank or automated teller machine. Sixty-six percent of non-tribally affiliated financial institutions do not offer start-up business loans on or near Indian reservations, 74.3% do not offer micro business loans, 71.4% do not offer small business loans, and 79.6% do not offer larger business loans. Native American respondents rated equity financing for business development as the most difficult financial products to obtain.

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Limited use of trust land as collateral: Despite the fact that reservation-based entrepreneurs technically own their land, the land is held in trust by the federal government. In practice, this deprives Native Americans of the opportunity to use their land as collateral and creates a significant barrier to debt financing. They are often unable to access home mortgages and are left bereft of home equity, the most common form of collateral used to obtain loans for small business start-ups.

Poor credit histories: Native Americans' low levels of financial literacy coupled with their limited access to financial institutions and capital sources contributes to their poor credit histories or in some cases, total lack thereof. This, more often than not, disqualifies many from prime rate loans and results in relatively high loan default rates, reinforcing the cycle of unmanageable debt, poor credit, and insufficient capital for business development.

Lack of alternative financial institutions: With community development as their primary missions, CDFIs provide financial products and services to communities underserved by mainstream financial institutions. CDFIs include institutions such as credit unions, revolving loan funds, and venture capital funds. Currently, less than 70 Native American CDFIs are available to serve the approximately 562 Native American tribes in existence, as of May 2003 according to research by the Corporation for Enterprise Development (CFED) and the First Nations Oweesta Corporation. The vast majority of these institutions are emerging—defined as having a formalized

planning and development process, some operating and loan capital, and dedicated staff and a business plan—and have not yet closed their first loans. According to multiple reports and feedback from industry leaders, increasing the number of these institutions and building the capacity of existing ones is critical to increasing access to capital, preventing predatory lending, and increasing financial literacy education across Indian country.⁶

Predatory lending: According to the Federal Reserve Board, this practice includes: 1. Making unaffordable loans based on the borrower's collateral without regard to the borrower's ability to repay the obligation; 2. Inducing a borrower to refinance a loan repeatedly, even though the refinancing may not be in the borrower's interest; and 3. Engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower. The prevalence of predatory lending in Native American communities is significant and results in capital or financial services that are unreasonably priced and are unsuitable to the needs and financial position of the borrower. The most common reason for this is Native Americans' lack of experience with and information about banking, personal finance, credit, and discrimination. The National Community Reinvestment Coalition found that nationally, Native Americans fall victim to predatory lenders more often than the general population and were 2.5 to 3 times more likely to receive "sub-prime" loans than whites in 2000.⁷

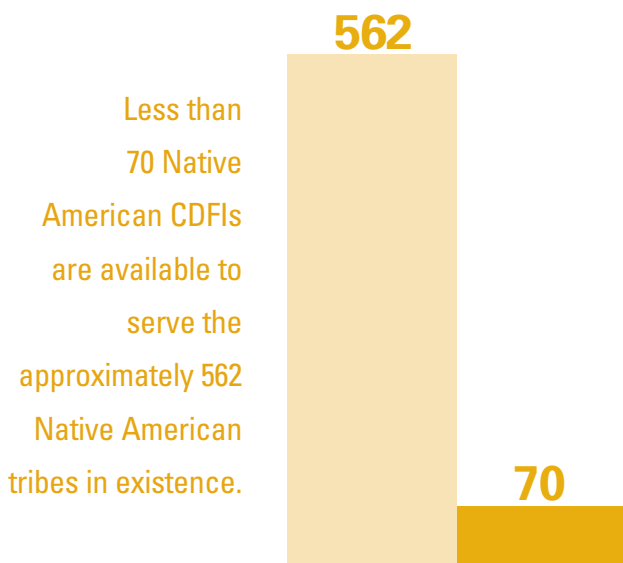
Local and Regional Native American Entrepreneurship Development Programs

Despite the many barriers to entrepreneurship development in Indian country, some local and regional organizations are providing financial products and entrepreneurship support services to these communities. While the demand for training, technical assistance, and financing still exceeds the available supply, these efforts are bridging a few of the gaps.

Native American CDFIs

Some Native American CDFIs provide entrepreneurs with the capital they need to start and expand their businesses.

The Lakota Fund is a private nonprofit community development financial institution for the Lakota people of the Oglala Lakota Nation living on Pine Ridge Reservation in South Dakota. The Fund was started in 1986



and has made over \$3 million in loans to develop small businesses and microenterprises through its two lending programs. The average loan to date is about \$8,500. The Lakota Fund also runs the Spirit Horse Gallery, which provides a marketplace for local residents' Native American cultural crafts.

For more information, contact Monica Drapeaux, executive director, mdrapeau@rapidnet.com

Four Directions Development Corporation is a non-profit community development corporation and financing institution that serves four Native American tribes in Maine. Four Directions Development Corporation received technical assistance from Coastal Enterprises, Inc. (CEI) to launch and operate a CDFI that will serve Native American entrepreneurs. Tribal chiefs from each of the four tribes are actively engaged in the strategic planning of the new CDFI and will be important decision makers. This approach is designed to develop enduring tribal capacity to operate the CDFI.

For more information, contact Susan Hammond, executive director, Four Directions, sc_hammond@msn.com or Helen Scalia, manager CEI development services, hms@ceimaine.org

Tribal Individual Development Accounts

Tribal Individual Development Accounts (IDAs)—matched savings accounts that enable low- to moderate-income people to save and accumulate assets, specifically homes, businesses and education—helps Native Americans secure start-up capital for business development.

The Commerce Department of the Cherokee Nation manages an IDA program for tribal members of any federally recognized tribe. The program is one of Indian country's first IDA programs and promotes savings for homeownership, home improvement, business development, and education. It also includes a savings program for youth. Its match rates range from 1:1 for education to 3:1 for homeownership. The program utilizes strategic partnerships to provide budgeting training and credit counseling services. It has served 160 tribal members since its inception in 1999.

For more information, contact Pamela Fisher, program coordinator, pfisher@cherokee.org

ALU LIKE, Inc. is the largest nonprofit IDA program that serves Native Hawaiians. Founded in 2000, ALU LIKE, Inc. has six program sites that serve eight islands and over 390 participants. The program promotes savings for home-

ownership, education, job training, and business capitalization. It also includes a savings program for youth. It has leveraged funding sources from the federal and state governments and several national and state banks to provide matching funds at rates of 2:1 to 3:1 to its accountholders. **For more information contact, Jamie Omori, director, idamete@alulike.org**

Training and Technical Assistance/Access to Markets

Training and technical assistance combined with access to markets helps produce successful enterprises.

Native Americans for Community Action, Inc. (NACA) runs Project Sih Hasin and the Overlook Program in Arizona. Project Sih Hasin is an economic development coursework and life skills training for women vendors. It offers basic to advanced business courses and micro-enterprise development training to vendors and provides them with comprehensive health and human services case management. The Overlook Program sponsors an initiative called the Oak Creek Vista Overlook project, an economic development effort that allows Native American artisans to sell their arts, crafts, and jewelry at a prime tourist location. To date, 320 vendors have registered to sell their crafts.

For more information, contact Dorothy Denetsosie, ddenetsosie@nacainc.org

Women's Economic Self-Sufficiency Team (WESST Corp.) is a business and technical assistance organization in New Mexico. Among its initiatives are programs that serve Navajo, Pueblo, and Zuni Indians. WESST Corp. programs offer clients three core services: individual business consultation in business planning, marketing, management, and financing; business training through group workshops, conferences, and entrepreneurial training courses; and financial assistance. To provide its clients with access to markets, WESST Corp. maintains a website, www.wesstartisans.com, and offers the MARKETLINK program, which provides meaningful sales and marketing skills to carefully screened artisans who have viable products, but limited ability to expand their sales arenas.

For more information, contact Bonnie Buckingham, regional manager, 505.325.0678

American Indian Neighborhood Development Corporation (AINDC) was started almost 30 years ago by a small group of American Indian women to promote economic development in the East Franklin Avenue neighborhood of Minneapolis, then home to the nation's

largest urban Native American population. Since its inception, AINDC has developed a shopping center, a small business incubator, an arts market, and will soon break ground on a 16,000 square foot, \$4 million commercial bakery and retail shop, housing all Native American entrepreneurs.

Business Development Networks

Networks of entrepreneurs and entrepreneurship development programs provide a forum to share ideas, lessons learned, and resources among Native American entrepreneurs.

The Oregon Native American Business and Entrepreneurial Network (ONABEN) is a Native American business development organization that serves approximately 5,000 Native American entrepreneurs in Oregon, Washington, Idaho, and Northern California through culturally specific as well as mainstream business development training, and intensive one-on-one counseling. Through its newest program, Business LINC, ONABEN connects established business owners to share their knowledge and experiences through roundtable discussions, group meetings, and conferences. ONABEN also brokers partnerships between Native American communities and state economic development agencies to build stronger enterprise development infrastructures.

For more information, contact, **Tom Hampson**, executive director, tom@onaben.org

Maine Indian Basketweavers Alliance (MIBA) was started in Maine by two women entrepreneurs to revive traditional Native American basketweaving. MIBA, like other networks of Native American weavers across the country, offers training and markets to help the weavers create and expand their businesses.

For more information, contact miba@mint.net

National Native American Entrepreneurship Development Programs

In addition to local and regional programs, key national organizations offer services that help Native American entrepreneurship development programs build their capacity to serve their clients. These organizations also help entrepreneurs access markets and support services.

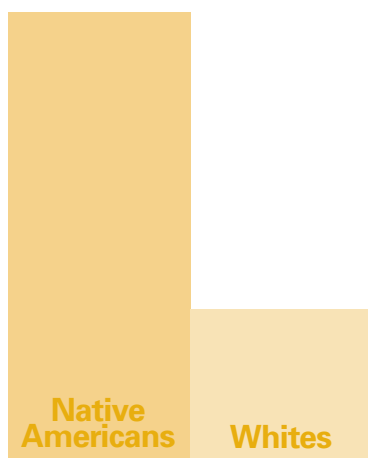
First Nations Development Institute assists tribes and Native American communities in controlling, creating, leveraging, utilizing, and retaining their assets and provides financial and technical resources as well as research, policy analyses, and advocacy services on behalf of Native American communities. FNDI, in partnership with Fannie Mae Foundation, developed a culturally appropriate financial literacy training curriculum that can be used by programs that serve Native Americans. To date over 18,000 workbooks have been published and over 500 trainers that work with 30 Native American communities have been trained to teach the curriculum. www.firstnations.org

First Nations Oweesta Corporation (FNOC) is located in South Dakota and is an affiliate of FNDI. FNOC works nationally to develop Native American CDFIs by providing training, technical assistance, resource development, and by linking them to financial institutions.

The National Center for American Indian Enterprise Development develops and expands the Native American private sector—which employs Indian labor, increases the number of tribal and individual Indian businesses, and positively impacts and involves reservation communities—by establishing business relationships between Indian enterprises and private industry. www.ncaied.org

Native American Business and Services Directory is hosted by the Economic Development office of the Bureau of Indian Affairs and provides a national web-based directory of Native American-owned businesses. <http://www.nabsdirectory.com>

Native Americans fall victim to predatory lenders more often than the general population and were 2.5 to 3 times more likely to receive “sub-prime” loans than whites in 2000.



Northern Arizona University, Center for American Indian Economic Development provides a resource library, business consulting, training, and workshops for Native American entrepreneurs. www.cba.nau.edu/caied

Native eDGE is an interagency initiative of the federal government hosted by the U.S. Department of Housing and Urban Development to facilitate sustainable economic development within Native American Communities. It includes a call center, publications clearinghouse, Internet site, and technical assistance information center. <http://nativeedge.hud.gov>

U.S. American Indian Chamber of Commerce fosters economic opportunities nationally for American Indian-owned businesses and works to unite state-level American Indian chambers in support of their common efforts. www.usaicc.org

U.S. Small Business Administration Office of Native American Affairs administers the tribal Business Information Centers Project, which offers access to business-related computer software technology, business training, and individual counseling to Native American entrepreneurs. <http://sba.gov/naa/>

The Corporation for Enterprise Development and Native American Entrepreneurship Development

While efforts to promote entrepreneurship among low-income communities have expanded over the years, only recently has Indian country begun to benefit from these programs and services. Native American entrepreneurship development is still in its early stages, but is emerging as a powerful economic development and poverty alleviation strategy for Native American communities. However, there is still much work to be done to assist Native American entrepreneurs in running financially successful individual enterprises. CFED is committed to strengthening the supports for Native American entrepreneurship across the country and welcomes new ideas and contributions from others working in this field. To share your ideas about Native American entrepreneurship or for more information on CFED's work in this area, please contact Jennifer Malkin at 202.408.9788 or Jennifer@cfed.org.

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¹ Complexity Management, Inc. and The Johnson Strategy Group, Inc. (2002). *CDFI Fund Native American Lending Study Equity Investment Roundtable and Research Report*. Washington, DC: Department of the Treasury.

² Ibid.

³ Minority Business Development Agency. (2001). *State of Minority Business Report*. Washington, DC.: Department of Commerce.

⁴ First Nations Development Institute. (2002). *Native American Entrepreneurship Report*. Fredericksburg, VA: Unpublished

⁵ Aspen Institute. (1999). *FIELD Forum Issue 1: Assessing the Effectiveness of Training and Technical Assistance*. Washington, DC: Aspen Institute.

⁶ Interview with Elsie Meeks, Executive Director, First Nations Oweesta Corporation. Reports include recent publications such as: CDFI Fund. (2001). *Report on the Native American Lending Study*; and Fogarty, Mark (April 1999). *Homegrown economics: User-friendly and structured for local control, tribal credit unions are catching on*. American Indian Report. Fairfax, VA: Falmouth Institute.

⁷ National American Indian Housing Council. (July 2001). *Native Americans Often Victims of Predatory Lending*. Press Release. Washington, DC: NAIHC

