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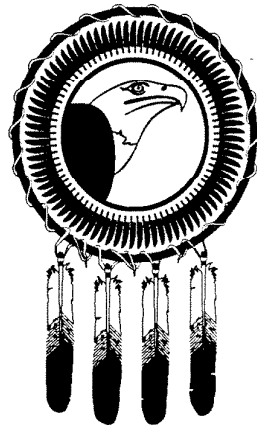
*Building Entrepreneurship and Economic Development for the Bishop Indian
Reservation: A Proposal to Achieve Growth Through Unity*

by

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John F. Kennedy School of Government
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Building Entrepreneurship and Economic Development for the Bishop Indian Reservation: A Proposal to Achieve Growth Through Unity



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Executive Summary

Executive Summary

The Bishop Paiute Development Corporation has requested this report, aimed toward improving the quality and success of their Indian Entrepreneurship Program soon to begin under HUD E.D./S.S. funding. While the entrepreneurship program itself is strong, the service to entrepreneurs could be maximized by development of greater funding and implementation resources, as well as improved communication and relationships with the Tribal Council, the surrounding agencies, and the population of the Bishop Indian Reservation.

RECOMMENDATION #1. Increased Focus on Implementation.

As the BPDC is aware,¹ the most difficult and problematic stage of the program will be the business start-up phase, due to difficulty of choosing a business and obtaining necessary capital. This report includes a Business/Entrepreneurial Screening Tool (BEST) to assist in business choice. Also included are a set of loan and equity funding ideas, such as Peer Lending and Equity Injection Programs,² and potential loan/information sources.

RECOMMENDATION #2. In Order to Further BPDC and Tribal Goals, Improve Public Image, Organize Resources, and Develop a Unified Economic Vision.

Currently, the capacity of the BPDC to assist entrepreneurs and the Tribal economic development in general is undermined by a lack of coordination and a high level of Tribal distrust.³ By working cooperatively with the Tribal Council and other agencies, the BPDC would be on the path to remedying these difficulties. Only through greater trust and understanding can the BPDC achieve its goals of entrepreneurial assistance and Tribal economic development.

RECOMMENDATION #3. Convene Semi-Annual Economic Summit Meetings in Cooperation with the Tribal Council,⁴ and Present Monthly Status Reports to Tribal Council, To Achieve Recommendation #2.

Effective cooperation between the BPDC, the Tribal Council, TERO, and other economically oriented agencies means the creation of a more positively interactive and structured relationship between those entities. The first Economic Summit would present an opportunity for establishment of a unified Tribal economic vision, the strengthening of communication links, and a clarification of roles, to be cemented by monthly update presentations.

RECOMMENDATION #4. Send to the Reservation Population a 'Request For Input': A Major Communication and Public Image Booster, and a (non-binding) Opportunity to Gather Tribal Ideas and Priorities While Undergoing Cathartic Healing.

In the long run, the strained relationship which worst undermines BPDC, Tribal, and entrepreneurial development goals is that between the BPDC and the Reservation population at large. The desire to better Tribal welfare shown by the BPDC, and the opportunity for Tribal members to voice festering concerns, should both pave the way to a greater mutual understanding and more appropriate economic development.

A plan of action and timeline, keyed to the implementation of both recommendations prior to the December 1998 completion of the entrepreneurship course, will be provided.

Recap of Recommendations to Further Assist the Entrepreneur

- Explore, and Develop if Possible, Peer Lending and Equity Injection Programs
 - Focus on Economically and Culturally Appropriate Business Selection, Using BEST Aid
 - Devote More Attention to Employee Management and Utilize Interactive Learning Techniques
- Continue to Meet Regularly with Each Entrepreneur as Long as Believed Necessary

Economic Development-Boosting Projects for the BPDC

- Establishment of a Unified Economic Vision, commencing with the First Semi-Annual Economic Summit Meeting and followed by Monthly Status Presentations
- Improved Coordination Between Economic Development Players
- Presentation to the Reservation public of a Request For Input, to Promote Communication, Better Public Image, and Allow Healing

**Business/Entrepreneurship Screening Tool (BEST):
Economic Development Options for the Bishop Indian Reservation**

Geared Toward the Individual Entrepreneur

	Retail, such as T-Shirt Shop & Catalog	Child Care/ Long-Term Care	Self-Storage	Internet/Sales	Arts & Crafts	Gas Station
History of Operation/ If so, Success Level	No	Yes High on Small Scale	Yes Moderate	No	Yes Minor	No
Qualified Labor Force	Yes	Yes	Yes	Potentially	Yes	Yes
Potential Employment	5 to 15	5 to 7	1 x 2 or 3 businesses	2 to 5	3 to 10	10 to 15
Comparative Advantage	Native American artisans	Trust (on Reservation only)	Allotment Land	Culture	Culture	None
Similar Businesses Locally	?	Yes	Yes	Yes (locally irrelevant)	Yes	Yes
Regional Outlook	Strong	Excellent	Decent	Excellent	?	Decent
Initial Capital Investment	High	Low	Moderate	Moderate	Low	Moderate/High
Access to Material Resources	Some	Yes	Yes	Some	Yes	Potentially
Adequate Land Available	Maybe	Yes	Yes	Yes	Yes	Yes
Community Based/Centralized	largely Centralized	Either	Centralized	Either	Either	Centralized
Environmental Pollutant	No	No	No	No	No	Probably
Culturally Appropriate	In Most Aspects	Yes	Yes	Yes	Yes	?
Outside Management	No	No	No	Temporarily	No	No

**Business/Entrepreneurship Screening Tool (BEST):
Economic Development Options for the Bishop Indian Reservation**

Geared Toward the Tribe as a Whole

	Small-Scale Manufacturing	Tourism	Agriculture	Casino	Hotel	Dialysis/Health Clinic
History of Operation/ If so, Success Level	No	No	Yes High	Yes Moderate	No	Yes High
Qualified Labor Force	Yes	Potentially	Yes	Yes	Potentially	Yes
Potential Employment	<50	High	?	100 to 150	30 to 50	10 to 15
Comparative Advantage	None	Culture, Casino	Tradition	Legal (and in CA)	Casino	none
Similar Businesses Locally	in plastics only	Yes	No	Yes	Yes	no
Regional Outlook	Strong	Strong	Weak	Decent	Strong	Excellent
Initial Capital Investment	High	High	Moderate	High	High	High
Access to Material Resources	No	Yes	No	Yes	No	Potentially
Adequate Land Available	Maybe	Yes, with off-Reservation components	No	Yes	Yes	Yes
Community Based/Centralized	Centralized	likely Centralized	Either	Centralized	Centralized	Centralized
Environmental Pollutant	Possibly	Possibly	No	No	No	No
Culturally Appropriate	?	?	Yes	Somewhat	Yes	Yes
Outside Management	Possibly	No	No	Some	Possibly	Some

Introduction: Findings & Recommendations

The BPDC's "Indian Entrepreneurship Program" has been created by Elliott R. Belinn, and is funded predominantly by HUD E.D./S.S. grant. As Mr. Belinn states, "The grant award is not large, \$77,500, and the challenge is daunting- to put 240 persons to work and start 15 businesses in the next two years."⁶ The program, which covers 6 months at 9 hours per week, is a Welfare-to-Work program, meaning that its students must be largely selected from the rolls of TANF; this is a limited restriction at Bishop, however, thanks to the high unemployment and poverty rates (see following chapter for more background information). Financially strained from the beginning, the BPDC is currently being underfunded by expected partners in this venture, such as OVIHA.⁷ The program is currently in the recruitment phase, with classes to run from June through the final implementation meetings in December. It is thus the goal of this report to offer a set of recommendations which can be fulfilled in time to benefit the graduates of the Program.

Initially, it was thought that these recommendations would be limited to the structure of the program itself, and in particular suggestions for the development of equity funding and loan sources, as well as a tool designed to aid project selection. Ideas and resources offered on these subjects include the creation of the **Business/Entrepreneurship Screening Tool (BEST)** and the proposal of **Equity Injection and Peer Lending Programs**. Research done for the project revealed, however, that some of the most imposing obstacles to entrepreneurship and indeed all economic development on the Bishop Indian Reservation arise from structural factors in the Reservation's economic regime.

Therefore, this framework of this report was expanded to include a review of these flaws and recommendations for action to be taken by the BPDC to help correct them.

The site visit and telephone interviews conducted for this report uncovered a lack of communication, trust, and common vision among the major economic players at Bishop. The BPDC is currently one of the main causal agents of this atmosphere, and though its intentions are good, the BPDC is this undermining its own mission, namely the furtherance of economic development for the Tribe. Accordingly, it is the purpose of this report to recommend greater cooperation between the BPDC, the Bishop Indian Tribal Council, other Tribal economic agencies, and indeed the General Council. This cooperation will come in the form of a Tribal Economic Summit and montly status reports thereafter, designed to achieve greater mutual assistance and understanding and the development of a unified Tribal economic vision. It will also come in the form of a 'Request For Input' from the BPDC to the Reservation population, which will help build a strong public image and communication with that population, while also providing an opportunity for cathartic healing. This report recommends to the BPDC that by engaging the above activities, developing loan and equity funding sources through the programs and contacts proposed, and utilizing the (BEST) in emphasizing wise project selection, it can achieve a higher level of development success and service to the Bishop Indian Reservation.

Historical and Current Background

Historical and Current Background

The Bishop Paiute Development Corporation (BPDC) faces an imposing set of geographical and inherited challenges to economic development and entrepreneurship. The Bishop Indian Reservation is located in Bishop, California, embedded in the heart of the Eastern Sierra. The surrounding Inyo and Mono county are among the state's largest and least populated; their combined size is roughly equivalent to that of Massachusetts, Connecticut, and Rhode Island put together, with a population of 27,000 (of whom 3000 are Native American). The Reservation's approximately 1400 residents (c.1000 tribal members) cover a modest 879 acres,⁸ meaning that unlike many other isolated reservations, the availability of natural resources or even agricultural land (central to Paiute/Shoshone traditions)⁹ is negligible.

Contact did not occur in this region until the 1860s, after which the relations between the local Paiute/Shoshone and the US governments were quite poor for over a century. Ft. Independence was established approximately 50 miles to the south for the suppression of the native population, who were rounded up en masse and shipped to Ft. Tahone and residential schools, far to the southwest, until 1939. In 1939, they were allowed to return, and established a prosperous community-centered agricultural community by the 1940s. However, the Los Angeles Department of Water and Power, which is infamous for its aggressive expansionism in Inyo County, bought up nearly all the available land, used up nearly all the water (which struck non-native farmers hard as well), and most economically detrimental of all, traded the Bishop and Big Pine native

populations the land they were living on in exchange for twice as much prime acreage in the LA metropolitan area.¹⁰

The economy was quite poor in the region for many years afterward, and social afflictions such as alcoholism ran rampant. However, since the 1960s, the state of affairs has been improving markedly: a tribal council-based government was established in 1965, education rates have risen sharply, cultural enrichment and remedial tutoring programs have been instituted, and the level of economic well-being has increased.¹¹ Although a 1997 survey by the Owens Valley Indian Housing Authority (OVIHA) found that 83.6% of respondents still consider alcoholism a high-level problem, the degree of social pathology on the Bishop Indian Reservation has decreased with the aforementioned improvements.¹²

Despite these positive economic and social steps, unemployment (49%) and poverty (73%) are still pervasive facts of life on the Reservation.¹³ And after the further elimination of social pathologies, economic growth is widely perceived to be the highest priority for the Tribe.¹⁴ To this end, the BPDC was incorporated by Tribal charter in 1988 as a non-political instrument for economic development and assistance.¹⁵ Projects undertaken by the BPDC since its founding include integral participation in nearly all development projects considered by the Tribe, the development of the Bishop Paiute Telework Center, which has met with minimal success providing outsourcing and other computer services, and currently, an offering to the Reservation community of twin courses in entrepreneurship and career development.¹⁶ The entrepreneurship course, the advancement of which is the focus of this report, is a HUD-funded Indian Economic Development & Support Services (E.D./S.S.) program with the lofty goal of creating 15

new native-owned small businesses over the next 2 years. An earlier version of the course was given on the Reservation in 1995, with dedicated students but no significant business creation;¹⁷ the course has since been restructured to remedy past weaknesses, and further suggestions for improvement are included in this report.

The Bishop Indian Reservation Economy At A Glance

- Located in the heart of the Eastern Sierra
- 49% unemployment, 73% poverty rate
- Skills and potential present, but overall resources scant
- Recent economic and social achievements have led Tribe to crucial point in early stages of economic development
- Aggressive Goals: BPDC & Entrepreneurship Program

On a broader scale (but of course still involving the BPDC), the Bishop Paiute Tribe has engaged in an unprecedented level of economic activity over the past few years. Most notably, the Paiute Palace Casino was established in 1995 on the Reservation's Interstate 395 frontage. The Casino currently generates approximately \$20 million in annual revenue, and although its profitability has been negligible, it creates over 100 jobs for native workers, and may serve as a center for future development.¹⁸ Ideas abound for further tribal development, including a partially completed industrial park (which may soon house such businesses as a Paiute equestrian school and a GTE cable-splicing center), a skilled nursing center, and a brand new dialysis center.¹⁹ As the previous list suggests, the culturally prioritized sector of health and health-related services has been an area of

excellence for the Tribe, exemplified by the renowned Toiyabe Health Clinic.²⁰ Though little available land remains on-reservation, and only a portion of that land is suitable for economic development (for both economic and cultural reasons),²¹ Tribal and individual entrepreneurial projects are not yet without a home. Entrepreneurship is present on-reservation in the form of an underground (largely arts & crafts) economy, as well as such low-labor, low-skill businesses as self-storage centers; non-implemented entrepreneurial ideas are at least as common, including child care and small retail and service corporations.²²

So despite resource constraints, the Reservation's positioning for further development is a source of optimism. However, additional obstacles within the community which is formed by Reservation residents and Tribal employees must be surpassed to remove threatening clouds from that optimism. Like many reservation communities, interactions between native and non-native residents at Bishop are prone to misunderstanding and distrust, especially with the high stakes of economic development.²³ The lack of common vision and of communication between the BPDC and the Tribal Council (representative of the community at large) has led to such difficulties. This problem now creates nearly as imposing a barrier to entrepreneurship and economic development, and especially to effective BPDC involvement in those activities, as do the economic limitations of location and resources. One of the the major goals of this report is the alleviation of such barriers, via a pro-active recommendation in the second chapter to follow. Before that, we turn to an exploration of the means and opportunities for the BPDC to promote entrepreneurship and economic development.

How Can The BPDC Aid Economic Development?

How Can The Bishop Paiute Development Corporation Aid Economic Development?

The Bishop Paiute Development Corporation provides a group of vital services both to the Tribal Government and to the individual entrepreneur. In some of these areas, such as the Indian Entrepreneurship Program, the BPDC excels, while in others improvement is needed to allow entirely effective promotion of economic development.

The BPDC's functions are:

BPDC's Role in Promotion of Entrepreneurship & Economic Development	
Services Provided to Entrepreneurs	Entrepreneurship Course
	Technical Assistance: Project Selection (see BEST), Making Contacts, Follow-up Issues
	Financing Assistance: including Grant and Loan Research, Peer Lending and Revolving Loan Development & Oversight
Services Provided to Tribe	Assistance with Project Selection (see BEST) Liaison with outside corporations (secondary player)
	Cooperative Formation of Economic Vision
Services Provided to Entrepreneurs and Tribe	Creation of Conducive Economic Environment through Cooperation and Mutual Understanding with Tribal Government and other agencies

Especially given the limited and often unstable funding available to the BPDC, this is an impressive workload. The following sections appraise and provide recommendations for each of the BPDC roles listed above, starting with entrepreneurship, the economic focus activity of this report.

I. Entrepreneurial Assistance

A. The E.D./S.S. Indian Entrepreneurship Program

The BPDC's strength is its capacity to aid entrepreneurship within the reservation's population. The skills and offerings of the BPDC in this sector are well-developed and extremely valuable. The Indian Entrepreneurship Program itself can be seen as the center of strength; the program provides a foundation for the BPDC to build upon and the course, although brief, should provide an extensive background in the business and managerial skills which give the prospective entrepreneur the ability to run a successful business. The steps which the BPDC has taken to improve the program since it was last taught, mainly in the course's final implementation stage, have rounded out its strength. based upon the syllabus alone (with no knowledge of the teaching techniques utilized),²⁴ this report recommends a greater emphasis on employee management and the use of active, cooperative learning in the classroom. One more extensive supplementary idea, development of a cooperative community-based business training corporation, is discussed in Appendix F.

As the BPDC is aware, the most difficult stage in entrepreneurial activity, and the point at which Indian Entrepreneurship Program participants have faltered in the past, is the implementation phase. In order to increase the rate of successful business start-up, the program will be dedicating a higher level of attention to loan and equity funding sources (a

common problem for entrepreneurs across Indian Country), project selection, and general follow-up counseling including operational and legal issues.²⁵ The ideas and recommendations of the next two sections (B & C) are offered toward the improvement of the entrepreneurial start-up rate.

B. Technical Assistance: Project Selection, Making Contacts, and Follow-up Aid

The BPDC can offer three main forms of technical assistance to entrepreneurs (both within and outside the program): business selection advice, follow-up counseling regarding whatever difficulties may arise, and links to corporations, city officials, and other necessary entities. The capability of the BPDC as a liaison figure is particularly strong, with excellent connections and research in both the local and the broader business community.²⁶ Potentially, the BPDC should be equally proficient as a source of follow-up counseling. In order to assure this, it is recommended that structured biweekly meetings be established with each entrepreneur as long as either party feels it to be beneficial.

The issue of project selection is often extremely difficult, particularly given the additional complexity of business choice in the cultural environment of Indian Country. In order to supplement the BPDC's current emphasis on business selection, and to ensure that the vitality of cultural appropriateness is taken into account, an Business/Entrepreneurship Screening Tool (BEST) has been developed for the small-reservation circumstance of the Bishop Indian Reservation, and is attached following the Executive Summary. Appendix A provides additional ideas on Choosing Development Projects.

The BEST, based on the ideas of Steve Cornell and a similar large-reservation instrument developed by Adam Diamant,²⁷ is an aid for project selection designed to

identify and catalog the crucial success-determining factors behind any business proposal, and as such is relevant not only to the Indian Entrepreneurship Program but to the BPDC's function in Tribal economic development. Beyond strictly business-oriented concerns such as comparative advantage and barriers to entry, the BEST takes into account issues crucial to reservation communities such as cultural match and environmental impact. This latter set of factors is extremely powerful, and if ignored can easily cause business failure and/or community dissatisfaction. In fact, at some reservations, research has found entrepreneurship itself to be culturally inappropriate, due to collective traditions and dislike for those who try to "get ahead" of the rest.²⁸ At Bishop, such a factor is apparent only at a low level, and can be accommodated through open communication and, of course, appropriate business choice.²⁹ Business ideas which measure up positively against the criteria established by the BEST are quite likely (it is admittedly an imperfect science) to be such appropriate choices.

The attached BESTs have been completed for a broad sample of the entrepreneurially-oriented and Tribally-oriented businesses currently proposed or operating on the Bishop Indian Reservation. These are meant largely as a sample to show the value of the framework for future use, with the business options selected here being candidates for further thought. Among the entrepreneurial options explored, child and long-term care appears most likely to succeed, thanks to an outstanding economic outlook and superior cultural match. Self-storage businesses, currently most common in the field of on-Reservation entrepreneurship, receive a milder recommendation. Meanwhile, retail and internet sales opportunities both show promise, and technically have the potential for larger profits, but do not form as complete a match as care-giving businesses. Finally,

based upon the BEST, a gas station is an excellent example of poor business choice. While the gas station might provide a complement to the casino, there is no history of successful operation of this type of business on-reservation, no comparative advantage against abundant competition, only a decent regional growth outlook, and a relatively high initial capital investment. And culturally, it is a terrible match: a centralized, somewhat hierarchical business (which is less of a concern at Bishop than some other reservations, but still needs to be taken into account), it would run a high risk of causing environmental damage, entirely against the beliefs of the Tribe.

Turning to tribally-gearred business options, the casino and dialysis/health clinic are offered as examples of current businesses experiencing some degree of success, as indeed their BEST results suggest they would.³⁰ Agriculture benefits from the best cultural match, closely trailed by the health clinic, but is unfortunately not a viable option due to the lack of available land and the poor economic outlook. The hotel and tourist services, on the other hand, are relatively solid across the board. Small-scale manufacturing and the hotel provide an interesting comparison: both projects would suffer high start-up costs and result in similar employment opportunities, but the comparative advantage offered to the casino and the lack of potential environmental threat from the hotel make it the favored option. Indeed, the development of hospitality and tourist services to accompany the casino seems like an excellent opportunity, although a high-stakes investment, based upon the BEST evaluation. The BEST selection aid should provide valuable future assistance in business choice for both individual and Tribal development projects.

C. Financing Assistance: Grant and Loan Research, New Funding Programs

Aspiring Indian entrepreneurs at Bishop most often face loan and especially equity funding problems at the time of start-up, not an uncommon challenge in Indian Country. The BPDC has identified this difficulty, and has begun research into loan, grant, and other equity funding sources on behalf of Indian Entrepreneurship Program members.³¹ This section will offer additional recommendations and information sources to help eliminate the financing gap.

In 1994, the unavailability of equity funding at the Cheyenne River Indian Reservation was studied by Georgia Emory (see Appendix E), who proposed a pair of programs which are equally valuable for Bishop: an “Equity Injection Program” and a “Peer Lending Program.” Faced with a situation in which such traditional options as bank or credit union establishment were not favorable, Emory designed the Equity Injection Program, influenced by the BIA’s Indian Business Development Grant Program, and the Peer Lending Program, styled after existing microlending programs. Following Emory, each Program’s basic characteristics are as follows³²:

Program	Components
Equity Injection Program	<ul style="list-style-type: none">-Commercial bank loan, 60-80% of capital-Entrepreneur contributes 5-10% as equity-Tribe purchases stock for remaining equity, but is not liable for debt, with stock to be bought back by owner in 5-7 years-BPDC provides ongoing counseling aid-Funds reinvested in future entrepreneurship

<p>Peer Lending Program</p>	<ul style="list-style-type: none"> -Groups graduate Indian Entrepreneurship Program -Members review and approve each loan -Initial loan limit \$500/one year, rises to \$5000 -Groups hold regular support and repayment meetings, and open group savings account -Loan profits reinvested in future loans
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These programs offer benefits such as increased chance of business success, while minimizing costs (except of course the ever-present risk in entrepreneurial investment). See Appendix E for more information. Along similar lines, The Lakota Fund, established by the Oglala Sioux Tribe using private funds, is featured in Appendix D and provides an example of an operation similar to the Equity Injection Fund in practice.

It is recommended that the feasibility of each of these two programs be explored, and either or both implemented if possible, under the supervision of the BPDC. It would be wise to avoid the political repercussions of Tribal Council involvement if possible, but a Tribal Council endorsement would provide legitimacy for the endeavor. If possible, at least one of these programs should be implemented in time to benefit this year's Indian Entrepreneurship Program participants.

Finally, regarding grant research and procurement, the BPDC has repeatedly proven its aptitude, securing for instance the HUD grant which led eventually to this report. Also, it has begun to investigate promising alternate funding leads such as acquiring a loan on a fully owned HUD home.³³ The BPDC is encouraged to keep up its grant and other funding research; the following "grant-writing consulting services"³⁴ may have additional leads:

Carson Consulting, Inc. (CCI)

PO Box 3368

Show Low, AZ 85902-3368

(520) 367-2600

Contact: Mr. Ray Carson

ORBIS Associates

1411 K Street NW, Suite 100 Washington, DC 20005 (202) 628-4444

Contact: Ms. Gwen Shunatona

Oxion Texas (not a grant-writing consultant, but a San Antonio-based firm with an interest in entrepreneurship and microlending)

Recap of Recommendations to Further Assist the Entrepreneur

- Devote More Attention to Employee Management and Utilize Interactive Learning Techniques
- Continue to Meet Regularly with Each Entrepreneur as Long as Felt Necessary
- Focus on Economically and Culturally Appropriate Business Selection, Using BEST Aid
- Explore, and Develop if Possible, Peer Lending and Equity Injection Programs

II. Tribal Assistance

The BPDC's responsibilities to the Bishop Indian Tribal Council are somewhat different than to the entrepreneurs of the community. In addition to assistance with project selection, for which the BEST was designed and discussed above, the BPDC must fulfill an appropriate role as a liaison figure between the Tribal Council and interested corporations or investors. And, in order to further the good of the Tribe, the Reservation's entrepreneurs, and indeed the BPDC itself, the BPDC needs to establish a

cooperative effort with the Tribal Council and other economic agencies to establish a unified economic vision for the Reservation's future.

A. Liaison with Outside Corporations

In building bridges between the Bishop Indian Reservation and Tribal Council and external business contacts, the BPDC must employ the same skills and contact networks which it utilizes on behalf of individual entrepreneurs, but to a mildly different end and with a greater degree of tact. The BPDC unquestionably possesses the ability to successfully fulfill this role; the difficulty arises from the relationship between the BPDC and the Tribal Council (or more completely, the Reservation community), a tenuous one which must be carefully maintained. Indeed, this relationship is so crucial to the success of economic development on the Reservation, and particularly to the Indian Entrepreneurship Program, that a large portion of this report is devoted to its enhancement. As a cooperative and subordinate player to the Tribal Council for Tribal development projects, the BPDC's liaison role must maintain all appropriate lines of communication and responsibility within the BPDC-Tribal Council-external contact triumvirate, with initial and final decisions resting with the Tribal Council and thorough communication in between.³⁵ By so doing, the BPDC will not only increase the Tribe's and its own chances of successful development projects, it will enhance its own reputation and trustworthiness, and thereby ensure its effectiveness in future economic opportunities. This topic will be discussed at length both below and in the following chapter.

B. Cooperative Formation of an Economic Vision

Accompanying the cooperation discussed above, the creation of an economic vision shared by the BPDC, the Tribal Council, other economic agencies (such as TERO),

and in fact the Reservation community would be greatly to the advantage of the Bishop Indian Reservation. BPDC leadership in establishment of such a vision would provide both a widely held goal to strive toward and an excellent opportunity to enhance the BPDC's public image. The structured working relationship suggested toward this end appears in the following chapter.

III. Entrepreneurial and Tribal Assistance

Creating a Cooperative and Development-Friendly Environment

Much of the material presented under *Tribal Assistance* and even *Entrepreneurial Assistance* above is directed additionally toward the creation of an atmosphere in which appropriate development projects can flourish, and additional means should be used as well. These means might include, as suggested by Mr. Belinn, the involvement of tribal leaders in at least some phases of the Indian Entrepreneurship Program.³⁶ In brief, the BPDC should assume a cooperative role, promoting collaboration and a healthy opinion of economic development from other parties through its actions assisting entrepreneurs in the creation of successful and appropriate businesses, assisting the Tribe in the selection of development projects, and working with the Tribal Council to establish a vision for the Tribe's economic future.

Where Does The BPDC Fit?

Where Does The BPDC Fit?

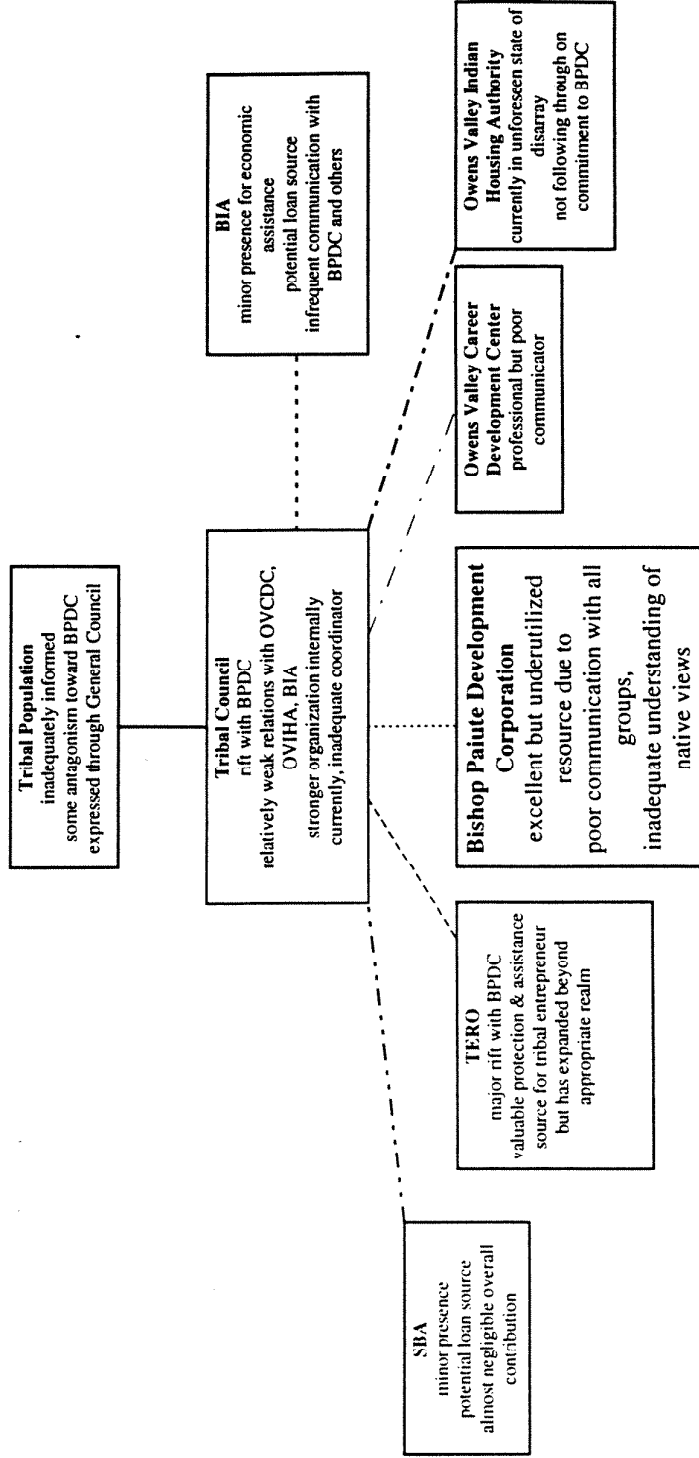
The previous chapter described briefly the need for greater communication and cooperation between the BPDC and the rest of the Reservation, and noted the creation of a united economic vision as one component of a movement toward a more amiable and effective development atmosphere. This chapter is similarly aimed, devoted to the role of the BPDC within the Bishop Indian Reservation. The BPDC, in a system with better-defined boundaries of responsibility and lines of communication, can do its own job more effectively as a leader in entrepreneurship and an important figure in Tribal development projects. By increased effectiveness, two things are meant: First, that the level of assistance in making economically and culturally wise investment choices that the BPDC provides to the Tribe will increase, due to clear goals, strong communication, and mutual understanding. And second, that the BPDC will have increased influence and mutual trust with the Reservation community, which will provide it with a sense of fulfillment and a greater ability to achieve its own goals, such as the success of the Indian Entrepreneurship Program participants. The following sections include a definition of the appropriate roles of the major players in economic development, overviews of their current status from the entrepreneurial perspective, and recommendations for improved communication and organization toward fulfillment of the Bishop Indian Reservation's economic potential.

I. Why Emphasize Communication and Organization?

At present, a severe communication breakdown exists between the BPDC and the Tribe at large.³⁷ Only slightly better communications are in evidence between the entire range of Tribal economically oriented organizations,³⁸ although the BPDC is widely viewed as the major culprit.³⁹ And whether or not the term “culprit” is entirely appropriate, the Tribal public and many leaders believe it is, a situation which undermines the capacity of the BPDC even to recruit potential entrepreneurs. A large share of the Reservation population is dissatisfied with the BPDC due to what it sees as an invasion of their interests and their right to be informed. This circumstance arises from two related factors: the lack of communication and the lack of mutual understanding. Mutual understanding can only be achieved through an impressive effort on the part of the BPDC to communicate its earnest ambitions, to listen to the desires of the General and Tribal Councils, and to improve its public image. To achieve these ends, stronger ties must be forged between the BPDC and (in particular) the Tribal Council.

Indian entrepreneurs on the Bishop Indian Reservation cannot currently make full and efficient use of the resources available to them. As shown on the attached chart (see next page), a sea of valuable but disorganized assistance floats before them. Tribal development projects must meander through a similar maze before achieving implementation. Ideally, the system would function as follows

Resources and Assistance from the Entrepreneur's Perspective



An Efficiently Functioning Economic Regime

Tribal Council:	-provides order, gravitational center -coordinates other groups -makes all final development project and policy decisions
BPDC:	-provides entrepreneurial assistance -assists Tribal Council with project selection and as liaison
TERO:	-protects Tribal employment rights
OVCDC:	-provides vocational assistance
OVIHA:	-provides general social services assistance
BIA, SBA:	-minor but cooperative figures; BIA assists Tribal Council; potential loan sources

However, conditions in reality are far less organized and efficient (although the chart above oversimplifies slightly). The attached Entrepreneur's Perspective chart details the general lack of communication, duplication of effort, and rifts which characterize the present economic regime at Bishop. The BPDC is among the leading offenders in non-communication and rift causation, including an insulting comment to TERO in a General Council meeting and usurpation of Tribal Council decision-making powers on at least one recent development project.⁴⁰ With this in mind, the BPDC must take the lead in establishing a better organized and more cooperative economic regime.

II. An Improved Economic Order, and An Improved BPDC Status

In the revised system, all Tribal economic groups will be expected to cooperate to further the development goals of the Tribe as a whole. The BPDC's role as a visible and effective source in the creation of a unified economic vision was introduced in the previous chapter. Other groups, such as TERO, need to be equally cooperative in this process. BPDC should undertake three related projects designed to further its own and the Tribe's economic well-being, two of which must include parallel cooperation from other organizations.

Economic Development-Boosting Projects for the BPDC
<ul style="list-style-type: none">• Establishment of a Unified Economic Vision, commencing with the First Semi-Annual Economic Summit Meeting and followed by Monthly Status Presentations• Improved Coordination Between Economic Development Players• Presentation to the Reservation public of a Request For Input, to Promote Communication, Better Public Image, and Allow Healing

A. The Unified Economic Vision, the Economic Summit Meeting, Improving Coordination, and Follow-Up Procedures

The identification of clear goals for economic development, toward which all Tribal economic organizations could direct their effort, accompanied by the mutually reinforcing improvement in coordination between groups, would constitute a boon to economic development on the Reservation. Waste of valuable resources would decline precipitously as organizations worked less often at cross purposes, and the level of distrust

and misunderstanding accompanying economic development at Bishop would fall as well, allowing for more effective cooperation between economic development (such as the BPDC) and the public. Presently, most interactions between the organizations shown on the 'Entrepreneur's Perspective' chart occur haphazardly and/or due to conflict. The system of communication, for instance, under which the BPDC submits annual reports to the U.S. Department of Commerce after Tribal Council review,⁴¹ cooperates (in most cases) with the Tribal Council on whatever projects come to the forefront, and watches plans for monthly meetings with the Tribal Council go unfulfilled, is plainly in need of improvement, and not in the interest of either party.

The BPDC and the Tribal Council together should convene the first semi-annual Economic Summit meeting as soon as possible. At that summit, all Tribal economic development organizations should collaborate to:

- establish the aforementioned unified economic vision,
- iron out past differences well enough to build solid working relationships, and
- to determine areas of jurisdiction, improving effectiveness and avoiding future conflict.

This would be the beginning of a policy of semi-annual Economic Summits. The spirit of the Summits would be maintained in the interim periods by monthly progress presentations to the Tribal Council (and when possible, the General Council) by each major player. The quagmire which currently surrounds economic development at Bishop should be minimized by this Summit-based innovation.

B. The 'Request For Input': An Opportunity for Communication, Image Enhancement, and Cathartic Healing

The BPDC currently suffers from a major public image problem, part of which it has earned. While admittedly working under an extremely difficult combination of trying economic circumstances and outsider status, the BPDC has not been able to bridge the gap between itself and the Reservation community. Disputes with Tribal members and agencies, such as TERO, occasional less-than-open policies on economic development, and an incomplete understanding of the natives' perspectives constitute the major sources of tension.⁴² In order to better serve the community for which it was created, the BPDC must redouble efforts to be sensitive to Tribal concerns, and to keep the Reservation community abreast of economic development news. Resulting from this effort, the BPDC is likely to find decreased resistance to its projects and increased support for the Indian Entrepreneurship Program.

The 'Request for Input' can be the flagship of this effort. A simple message requesting residents' opinions and advice on the present and the future of economic development at Bishop would have four positive results:

- the opening of communication links between the BPDC and the Reservation, including a sense of participation for respondents,
- an opportunity to gather and appraise development ideas and priorities,
- a boost to the BPDC's public image, and
- the cathartic release of past mistrust and frustration which the community may need.

With the fresh start the Summit system and Request for Input would provide, the BPDC should be in a position to assist the Tribe and its entrepreneurs to unprecedented levels of economic growth.

Recommendations and Action Steps

Recommendations & Action Steps

This report proposes four recommendations for the improvement of the Bishop Paiute Development Corporation's services, particularly the Indian Entrepreneurship Program. Though this report does not pretend to provide a cure-all for the economic and organizational difficulties faced by the BPDC, action taken in any one of these areas is designed produce a benefit, and the individual contributions made by each of these policies would be augmented by the implementation of the coherent set. As with entrepreneurial activity, the biggest difficulty is likely to arise in implementation. To that end, a timeline for the utilization of these recommendations has been prepared, achieving full status before the Entrepreneurship Program graduates its 1998 class, and aiming to provide that class with an enhanced opportunity for business success.

June 1998:

Indian Entrepreneurship Program begins. Review recommendations. Begin to research the Peer Lending and Equity Injection Programs, and to develop the 'Request for Input.'

July 1998:

Approach Tribal Council with cooperative vision of Semi-Annual Economic Summit Meetings, planning first Summit. Complete and issue 'Request for Input.'

Determine whether Peer Lending and Equity Injection Programs are feasible.

August 1998:

Begin tentative pre-screening of business choices with BEST (warm-up).

First Economic Summit Held. Unified Economic Vision begins to take shape.

Public image should be improving noticeably, and Request For Input responses trickle in.

September 1998:

Shift to implementation phase of entrepreneurship program. Utilization of BEST at its peak. Oversee formative stages of Peer Lending and/or Equity Injection Programs.

Deliver first monthly status presentation to Tribal Council, reviewing events including the Summit. Continue to think about Unified Economic Vision, to be drafted at next Summit.

Review Request for Input responses, gaining some constructive criticism and development ideas. Consider future projects to keep the community involved and further improve image.

October 1998:

Greater focus on entrepreneurship course, which is into crucial phase. Possible implementation of Peer Lending and/or Equity Injection Programs.

Second presentation to Tribal Council. Continue to interact with other organizations to establish jurisdictions and prevent conflict.

November 1998:

By now, entrepreneurial business choices are made, and any Peer Lending/Equity Injection Programs enacted are blossoming. Third status presentation. Possible public declaration of the ideas and concerns found in the Request for Input, voicing desire to collaborate with interested parties toward the goals the Request response creates.

December 1998:

Entrepreneurs graduate and turn to full-scale implementation. Funding programs continue, as should public image improvement.

Follow-up counseling to entrepreneurs. Preparation begins for second Summit.

Appendix A

SESSION FOUR - DAY TWO

Wednesday, 2:00 - 3:30 p.m.

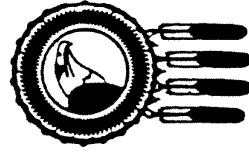
TITLE: Choosing Development Projects

DISCUSSION

LEADER: Steve Cornell

PURPOSE:

To examine the kinds of projects - from manufacturing factories to tourism - that make the most sense for your reservation.



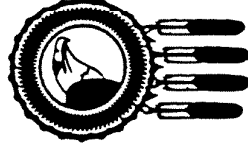
SESSION FOUR- DAY TWO

Wednesday, 2:00.- 3:30 p.m.

TITLE: Choosing Development Projects

KEY QUESTIONS

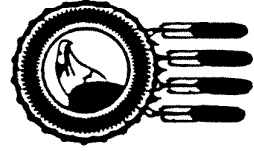
- Among the economic development projects that have been tried on your reservation, what do you think are the differences between the successes and the failures?
- What kinds of economic development projects – tourism, factories, agriculture, mining, retail businesses -- make the most sense for your reservation? Why?
- Can you write down a checklist that could be used by the tribal council to screen projects that are most likely to be successful?



National Executive Education Program for Native American Leadership

Choosing Development Projects

WHICH SPECIFIC DEVELOPMENT ACTIVITIES
SHOULD THE NATION PURSUE?

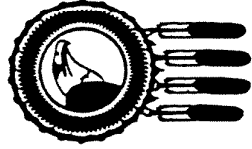


National Executive Education Program for Native American Leadership

Choosing Development Projects

PROJECT SELECTION: CONSIDERATIONS

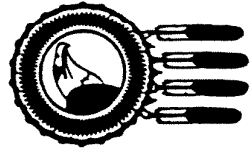
- MARKET
- ASSETS
- ORGANIZATION
- CULTURAL MATCH



Choosing Development Projects

MARKET CONSIDERATIONS: A CHECKLIST

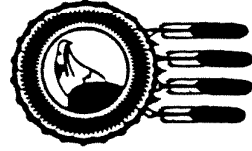
- IS THERE A MARKET FOR THIS ACTIVITY? HOW BIG IS IT?
- ARE OTHER COMPETITORS ALREADY INVOLVED?
- CAN YOU COMPETE WITH THEM?
- WHAT IS THE SOURCE OF YOUR ADVANTAGE?
 - EXPERIENCE
 - SKILLS
 - COST OF LABOR
 - ACCESS TO MATERIALS OR RESOURCES
 - ACCESS TO MARKET
 - REGULATORY RELIEF
 - TAX ADVANTAGES
 - OTHER...



Choosing Development Projects

ASSET CONSIDERATIONS: A CHECKLIST

- DOES THIS ACTIVITY REQUIRE SIGNIFICANT CAPITAL INVESTMENT?
- IF SO, DO YOU HAVE ACCESS TO SUFFICIENT CAPITAL?
- DOES THIS ACTIVITY REQUIRE SPECIFIC NATURAL RESOURCES?
- IF SO, DO YOU CONTROL SUCH RESOURCES? ARE THEY ACCESSIBLE AT A COMPETITIVE COST?

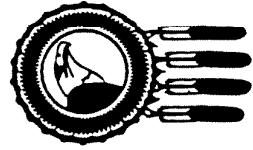


Choosing Development Projects

ASSET CONSIDERATIONS: A CHECKLIST

(CONTINUED)

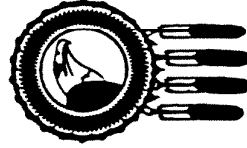
- DOES THIS ACTIVITY REQUIRE PARTICULAR SKILLS OR EXPERIENCE?
- IF SO, DOES THE RESERVATION WORKFORCE HAVE THOSE SKILLS OR EXPERIENCE?
- IF NOT, CAN YOU TRAIN PEOPLE? HOW MANY? HOW SOON?
- ARE THERE PARTICULAR ADVANTAGES TO THE TRIBE'S LEGAL SITUATION? WHAT ARE THEY AND HOW SECURE ARE THEY?



Choosing Development Projects

ORGANIZATIONAL CONSIDERATIONS: A CHECKLIST

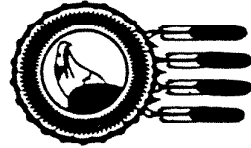
- WHAT'S THE IDEAL ORGANIZATIONAL FORM FOR THIS ACTIVITY?
 - PUBLIC (TRIBAL) VS. PRIVATE OWNERSHIP
 - INSIDE VS. OUTSIDE OWNERSHIP
 - LARGE-SCALE VS. SMALL-SCALE
- DO YOU HAVE THE MANAGERIAL CAPACITY TO RUN THIS KIND OR SIZE OF OPERATION?



Choosing Development Projects

CULTURAL CONSIDERATIONS: A CHECKLIST

- IF YOUR WORKFORCE LACKS THE NECESSARY SKILLS CAN YOU BRING IN OUTSIDERS WHO HAVE THEM? WILL THIS BE ACCEPTABLE TO THE PEOPLE?
- IF YOU DON'T HAVE THE MANAGERIAL CAPACITY WITHIN THE TRIBE CAN YOU HIRE OUTSIDE MANAGERS UNTIL YOU CAN TRAIN YOUR OWN? WILL THE PEOPLE TOLERATE OUTSIDERS IN MANAGEMENT POSITIONS?
- IF THE PROPOSED ACTIVITY INVOLVES CONTINUING PRESENCE OF NON-MEMBERS ON THE RESERVATION, WILL THIS BE ACCEPTABLE TO THE PEOPLE?
- IF YOU HAVE THE NECESSARY NATURAL RESOURCES, WILL THE PEOPLE AGREE TO MAKE COMMERCIAL USE OF THOSE RESOURCES?

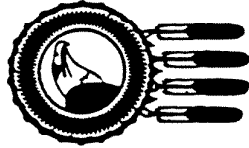


Choosing Development Projects

CULTURAL CONSIDERATIONS: A CHECKLIST

(CONTINUED)

- IF THIS ACTIVITY REQUIRES LARGE-SCALE ORGANIZATION, WILL TRIBAL MEMBERS BE WILLING TO WORK IN A SITUATION IN WHICH A FEW BOSSES HAVE AUTHORITY OVER A LOT OF WORKERS?
- ARE TRIBAL LOYALTIES (AS OPPOSED TO SUBTRIBAL OR FAMILY LOYALTIES) STRONG ENOUGH TO SUPPORT CENTRALIZED TRIBAL BUSINESS ORGANIZATION, OR WILL SUBGROUPS ON THE RESERVATION FAIL TO SUPPORT IT OR FIGHT TO CONTROL IT?
- WHAT KINDS OF ACTIVITY MIGHT THE ORGANIZATION OF THE COMMUNITY SUPPORT? E.G., A DISPERSED COMMUNITY WITH STRONG LOCAL TIES MAY SUPPORT COTTAGE INDUSTRY OR FAMILY BUSINESSES, BUT NOT LARGE TRIBAL ENTERPRISES RUN BY DISTANT, CENTRALIZED POWER.



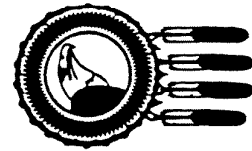
- WHATEVER THE ACTIVITY UNDER CONSIDERATION, IS IT
PREFERRED
ACCEPTABLE
CONTROVERSIAL
DISFAVORED
... AMONG THE PEOPLE?

Choosing Development Projects

CRITICAL INGREDIENTS FOR SUCCESS IN SELECTED DEVELOPMENT ACTIVITIES

GOVERNANCE

	Large-Scale Manufacturing	Small-Scale Manufacturing	Retail and Service	Tourism	Natural Resource Extraction
Governance: Third-Party Dispute Resolution	✓	✓	✓	✓	✓
Governance: Separating Politics from Day-to-Day Business Management	✓	✓	✓	✓	✓

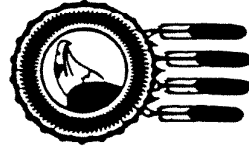


Choosing Development Projects

CRITICAL INGREDIENTS FOR SUCCESS IN SELECTED DEVELOPMENT ACTIVITIES

ASSETS

ASSETS	Large-Scale Manufacturing	Small-Scale Manufacturing	Retail and Service	Tourism	Natural Resource Extraction
High Natural Resource Endowment				✓	✓
Skilled and Experienced Workforce	✓	✓			
Access to Major Financial Capital	✓				✓
Near Markets and/or Low Transportation Costs	✓	✓			

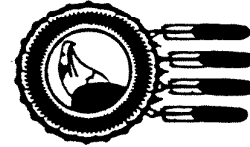


Choosing Development Projects

CRITICAL INGREDIENTS FOR SUCCESS IN SELECTED DEVELOPMENT ACTIVITIES

CULTURAL

CULTURAL	Large-Scale Manufacturing	Small-Scale Manufacturing	Retail and Service	Tourism	Natural Resource Extraction
Receptivity to Workers/Bosses Hierarchies	✓				✓
Receptivity to Interaction with Non-Members	✓			✓	
Receptivity to Communication				✓	✓
Tribe as Whole is Primary Locus of Identity/Loyalty	✓				✓



Notes • Notes • Notes • Notes • Notes • Notes • Notes • Notes



National Executive Education Program for Native American Leaders

Appendix B

Strategic Analysis

Harvard Project on American Indian Economic Development

Harvard Project on American Indian Economic Development
John F. Kennedy School of Government
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Strategic Analysis for Economic Development in Native Communities

This instrument is designed to serve as an analytical tool for use by Indian nations, Indian-owned or -operated corporations or companies, Indian entrepreneurs, and other Native entities seeking to promote economic development in Native communities. It is not intended as a substitute for formal market analyses or feasibility studies or for a comprehensive strategic planning initiative. It is instead a relatively quick, self-administered, intermediate step designed to assist Indian entities in thinking through their situations and their options, and in improving the quality of their economic decisions.

This analysis cannot give you all the answers you need. Its purpose is to help you identify strengths and weaknesses as well as areas of opportunity and areas of concern.

- The analysis has six sections:
- I. Strategic Vision
 - II. Priorities and Concerns
 - III. External Environment
 - IV. Internal Environment
 - V. Assets
 - VI. Project Analysis

These may be completed independently of each other with the exception that the final section on Project Analysis depends to some extent on information in preceding sections.

Economic development may occur in many ways, from enhanced subsistence activities to retail development to manufacturing or service industry. It may take many forms, from tribally-owned enterprises to independent household or individual entrepreneurship to joint ventures with non-Indian operators. It may involve traditional activities or entirely new projects. This analysis makes no assumptions about what forms development should take. It does assume that economic development on Indian lands should be designed to meet the goals of the communities directly involved and should occur under Indian auspices.

I. Strategic Vision

American Indian nations face many of the same dilemmas faced by sovereign peoples everywhere. Among other things, sovereign peoples have to decide what kind of society they are trying to build for themselves and for those who come after them. Although any strategic analysis ultimately has to answer some very concrete questions — what circumstances do we have to deal with, what resources do we have to work with, and what should we do? — it has to begin with the question of goals: what is it we are trying to accomplish?

Answer the following questions as best you can:

As you imagine your society twenty-five years from now, what do you hope will be different in the way your people live, work, interact with each other, and interact with the non-Native world around them? Identify at least four items that you hope will be different twenty-five years from now.

What in your society today do you hope will last? What do you hope will still be a characteristic of your society? Identify four things that you hope will still be part of the way your people live, work, interact with each other, or interact with non-Native world around them twenty-five years from now.

What do you think are the two most important positive changes that have taken place in your society in the last twenty-five years?

What are the two most important negative changes that have taken place in your society in the last twenty-five years?

II. Priorities and Concerns

Strategic vision is a source of broad, long-term guidelines for decision-making and policy. However, the task of achieving that vision involves establishing shorter-term priorities and identifying specific concerns. Knowing your priorities and concerns allows you to figure out which of the various options you have are most likely to achieve your goals.

A. Priorities

As you consider economic development or business activity, you may have a number of things in mind that you hope to accomplish or to produce. Among the possibilities are these (there may be others):

jobs for tribal members	increasing tribal income
increasing household income	increasing tribal tax revenue
tribal business ownership	member business ownership
provision of goods and services	training and skills development
stimulation of new businesses	reducing dependence
strengthening sovereignty	long-term growth
strengthening indigenous culture	stronger public image

Which of these are most important to you or your community? List your top three priorities (you can include goals not on this list):

1. _____
2. _____
3. _____

If you are considering a specific project, which, if any, of these goals does it support?

B. Concerns

Most business activities have costs of one sort or another. Most also create change in the communities where they take place. These costs and changes sometimes raise concerns for the community or its members. For each of the following, indicate *the level of impact you are willing to accept*:

Indebtedness	Lots	Some	None
Environmental deterioration	Lots	Some	None
Natural resource depletion	Lots	Some	None
Social impacts			
presence of non-Indians	Lots	Some	None
disruption of cultural activities	Lots	Some	None
disruption of social relations	Lots	Some	None
Reductions in sovereignty	Lots	Some	None
Participation in certain economic sectors (specify which sectors, if any are of concern, and how much e.g., gaming, tourism)			
Sector _____	Lots	Some	None
Sector _____	Lots	Some	None

Other concerns _____

If you are considering a specific project, which, if any, of these concerns does it raise?

Project _____ Concerns _____

III. External Environment

The external environment consists of the economic and political/legal conditions under which the nation or entrepreneur has to operate. These conditions constrain or facilitate self-determined economic and business activity, making some activities impossible, making others more or less likely to succeed. Evaluating the external environment is a crucial part of strategic decision-making.

A. Political/Legal Conditions

DEGREE OF "DE FACTO" SOVEREIGNTY

Substantial research in the United States and around the world indicates that development controlled by outsiders seldom succeeds. Therefore, a critical question has to do with who actually controls many of the major decisions affecting the life of the community. "De facto" sovereignty simply means sovereignty in practice. The appropriate question is: regardless of what the law says, who *really* makes the decisions in tribal or community affairs?

In your community, who *really* calls the shots when it comes to (circle one for each line):

Land use within Native lands	Tribe	Feds	State	Other _____
Use of other natural resources (e.g., water, wildlife, subsurface)	Tribe	Feds	State	Other _____
Economic development strategy	Tribe	Feds	State	Other _____
Whether to start a tribal business	Tribe	Feds	State	Other _____
What tribal business to start	Tribe	Feds	State	Other _____
Use of tribal funds	Tribe	Feds	State	Other _____
Contracts between the tribe and non-Indian vendors or joint venture partners	Tribe	Feds	State	Other _____
Administration of social programs	Tribe	Feds	State	Other _____
Distribution of housing	Tribe	Feds	State	Other _____

If, in most cases, you circled "Tribe," then de facto sovereignty is high. If you didn't, de facto sovereignty is low. Considering what you circled, and realizing that this may oversimplify a complex situation, how would you describe de facto sovereignty in your community (circle one)?

High Medium Low

REGULATORY ISSUES

What regulatory advantages, if any, does your community have (for example, is the community free of certain state or federal taxes, environmental regulations, or other legal constraints that non-Native communities experience)?

INTERGOVERNMENTAL RELATIONS

Intergovernmental relations are complex and may be better in some activities than in others. From a strategic point of view, the appropriate question has to do with whether tribal initiatives are likely to encounter support, opposition, or indifference from other governments.

At the risk of oversimplifying, how would you describe relations between the tribe or community and the federal government (circle one)?

Confrontational Cooperative Non-existent

How would you describe relations between the tribe or community and the state government (circle one)?

Confrontational Cooperative Non-existent

B. Economic Conditions

MARKETS

Markets are for specific products or services. It makes sense to ask questions about the state of the market for a particular product or service. If you know what product or service you wish to offer, you may answer the following questions with that in mind. If you don't have a particular product or service in mind, answering these questions can still give you an overview of your market situation.

To the best of your ability, describe each of the following markets (circle "yes" or "no" or fill in the blanks):

The internal market (the community itself)

Significant in size Yes No Specific needs _____

Accessible Yes No _____

Has buying power Yes No _____

Regional markets (nearby but outside the community)

Significant in size	Yes	No	Specific needs	_____
Accessible	Yes	No		_____
Has buying power	Yes	No		_____

Distant markets (more than 100 miles away)

Significant in size	Yes	No	Specific needs	_____
Accessible	Yes	No		_____
Has buying power	Yes	No		_____

If distant markets are inaccessible, is there any evidence that persons in those markets can be persuaded to come to you in search of a product or service (for example, eco-tourism, hunting/fishing)?

Yes No

If so, for what product(s) or service(s)?

What export opportunities might you have in which distance to markets is of minor importance (for example, graphic design services, computing services, arts and crafts, herbal or other Native foods, etc.)?

Do you have evidence that there are, in fact, markets for such export products or services (circle one)?

Yes No Haven't looked into it

What reasons, if any, do you have for thinking that you can effectively compete in those markets?

SECTORS

Before deciding to commit to a particular business activity, you probably will want to complete some kind of more detailed market analysis. A useful preliminary step, however, is to review what you already know or can easily find out about the sector (for example, tourism, timber, food processing, retailing, arts and crafts, etc.) that you are considering going into.

What sector(s) of the economy are you considering entering?

What is the current condition of that sector(s): growing, stagnant, or declining?

Sector _____	Condition _____
Sector _____	Condition _____
Sector _____	Condition _____

What is competition currently like in that sector(s): heavy (in which case it may be difficult to keep costs low enough to compete), or light (in which case there may be an opportunity for another player)?

Sector _____	Competition _____
Sector _____	Competition _____
Sector _____	Competition _____

If you do not know the current condition of the sector(s), how might you find out?

IV. Internal Environment

One of the crucial factors in economic development is the internal environment created by the governing institutions, politics, and culture of the nation or community. These form the environment in which potential investors — including tribal members — decide whether or not to bet their money, time, energy, or ideas on the future of the community. If that environment is unstable, highly politicized, or corrupt, investors will look elsewhere for opportunities. In particular, regardless of how much capital, education, or natural resources are available to you, without sound governing institutions, few businesses will last. Therefore, understanding the internal environment in which business has to operate is a key component of any strategic analysis.

A. Governing Institutions

For businesses to succeed and for lasting economic development to take root, governments have to provide certain things. Among these are:

- A stable institutional environment
- Separation of politics from business operations
- Effective and fair dispute resolution
- An administration that can get things done

STABILITY

When we talk about "investors" we mean not only those with dollars but anyone with energy, time, or ideas that they might be persuaded to bet on the future of the community. Few investors are willing to invest in unstable situations. Instability in governing institutions has undermined economic development in many countries around the world.

Do you have a tribal constitution that specifies how tribal government is organized and operates (circle one)?

Yes No

If you do not operate under a written tribal constitution, what is the basis of tribal government (e.g., traditional government, corporate charter, etc.)

Other things equal, longer terms of office for tribal presidents and council members provide more stability in government than shorter terms do. What is the term of office for your chair or president (check one)?

Two years _____ Four years _____ Other (specify) _____

What is the term of office for members of your tribal council (check one)?

Two years _____ Four years _____ Other (specify) _____

Other things equal, staggered terms of office for council members lead to more stability than terms that all expire at the same time. Do you have staggered terms of office for council members?

Yes No

Where tribal presidents or councils control all appointment to tribal government jobs, there tends to be less stability (when the administration changes, more jobs change). Where at least some jobs are protected from turnover with each new administration, there tends to be more stability. Can a new president or chair in your government replace anybody in the administration if he or she wants to?

Yes No

SEPARATION OF POLITICS FROM BUSINESS OPERATIONS

Systematic research indicates that those businesses that are insulated somehow from political interference are four times as likely to be profitable as those where tribal governments play a significant role in day-to-day business operations.

Do the tribal president, chair, or members of the tribal council play a significant role in the day-to-day operations of tribally-owned businesses in your community?

Yes No

Can the managers of tribally-owned businesses make most hiring, firing, payroll, purchasing, marketing, and other day-to-day business decisions without checking with the tribal council or tribal president?

Yes No

Does the manager of your tribally-owned business report to a board of directors or to the tribal council / president (for each business indicate board or council/president)?

Business #1 _____

Business #2 _____

Business #3 _____

If the manager reports to a board of directors, how many members of that board of directors are also either members of the tribal council or the tribal president?

Business #1	all of the board	_____	Business #2	all of the board	_____
	half the board	_____		half the board	_____
	only 1-2	_____		only 1-2	_____
	none	_____		none	_____
Business #3	all of the board	_____	only 1-2	_____	
	half the board	_____	none	_____	

Do your tribally-owned enterprises have their own charters that specify how they are to operate and what their relationship to the tribe is?

Yes No

Are there *effective* cultural constraints that prevent the president or council members from introducing tribal politics into business operations?

Yes No

Generally speaking, would you say that political interference is or is not a significant problem in your tribally-owned enterprises (circle one)?

Is a significant problem Is not a significant problem

If you are the manager of a tribally-owned business, how much of a role would you say local political issues play in your decisions (check one)?

- The primary role _____
- A major role _____
- Some role _____
- Not much of a role _____
- No role at all _____

If you are a manager or a member of the board of a village corporation (Alaska), what role would you say village politics plays in your business decisions (check one)?

- The primary role _____
- A major role _____
- Some role _____
- Not much of a role _____
- No role at all _____

If you are an entrepreneur running your own business, how much would you say you have to worry — as a business person — about tribal politics (check one)?

- Worry about it a lot _____
- Worry about it a little _____
- Don't worry about it _____

DISPUTE RESOLUTION

Fair and effective dispute resolution is a critical component of lasting economic development and business success. It is important that those working for or with the tribe or its enterprises, or those operating businesses with tribal resources or on tribal lands, believe that they will be fairly treated in disputes with others, including disputes with the tribe or its leadership.

If you have a tribal court, is that court controlled by the tribal council or is it an independent body?

Council controlled Independent

Are tribal judges elected by the people or appointed by the council or president?

Elected Appointed

If judges are appointed by the council or the president, can they also be removed by the council or the president?

Yes No

Are judges' terms of office the same length as the terms of council members and the president or chair, or are they different in length?

Same as council/chair Different from council/chair

If you do not have a separate tribal court, do you use other means of adjudicating disputes among tribal members or between member-owned businesses and the tribe (check all that apply)?

- Board of ethics _____
- Traditional dispute resolution _____
- State courts _____
- Council serves as tribal court _____
- Other (specify) _____

If you are an entrepreneur running your own business, how confident are you that disputes between you and the tribe or its leadership will be fairly dealt with (check one)?

- Very confident _____
- Confident _____
- Not very confident _____
- Utterly discouraged _____

ADMINISTRATION

How would you describe morale in the tribal administration (check one)?

High _____ Medium _____ Low _____

When a new president or chair is elected, do most workers in tribal administration worry about being fired?

Yes _____ No _____

If you are an entrepreneur running your own business, how would you describe the tribal administration (check one for each pair):

Helpful _____ Unhelpful _____

Efficient _____ Inefficient _____

Easy to deal with _____ Difficult to deal with _____

or: I have no dealings with the tribal administration _____

Are administrative procedures clear and consistent?

Yes _____ No _____

SUMMARY

As you go back over your answers to the questions about governing institutions, would you describe the governing institutions in your community as

Stable (circle one)? Yes _____ No _____

Fair (circle one)? Yes _____ No _____

Effective (circle one)? Yes _____ No _____

What, if anything, do you think needs to change if the governing institutions are to be improved?

B. Politics

Most communities have disagreements about strategic direction, priorities, people, and other topics. There are two major issues from the point of view of economic development and business activity. Do disagreements tend to be about real issues or do they represent long-standing divisions within the community (as, for example, along family lines)? Do disagreements make the government incapable of effective decisions?

How would you describe politics in your Indian or other Native community (check one)?

Lots of conflict, very tense _____

Sometimes there's conflict, sometimes not _____

There are disagreements, but not a lot of serious conflict _____

Everybody agrees about everything! _____

If there are major conflicts, would you say that they are the products of recent events or current issues and may change, or that they go back farther than anyone can remember and seem to be rooted in long-standing divisions (check one)?

Products of recent events or current issues, may change _____

Go way back, tied to long-standing divisions _____

When conflict arises within the community, does the community have effective ways of dealing with that conflict and deciding a course of action, or do politics often bring everything to a halt, immobilizing the tribe (check one)?

We usually deal with conflict effectively _____

We are often immobilized by internal conflicts _____

C. Culture

Some people claim that Native cultures are obstacles to economic development. Our research suggests that some Native cultural practices may make some kinds of development more or less difficult. But the more important question is: does the development strategy chosen by the tribe or community fit the culture of the people? If there is a good fit, then (other things equal) the chances of successful development rise. If not, they drop.

The following questions may help you determine what kinds of development strategies fit your cultural situation.

Indian communities where primary allegiance among community members is to the tribe as a whole often are good candidates for large enterprises that require the centralization of resources and effort and that are closely identified with the tribe. Communities where primary allegiance among community members is to a district, band, clan, or other subgroup within the community often are better candidates for smaller-scale, locally-run enterprises or for cottage industry.

Where does primary allegiance lie in your community (check one)?

Tribe _____

District _____

Clan or other kinship group _____

Indian communities in which the culture supports hierarchical relationships in which some people have to tell other people what to do are often good candidates for large enterprises in which there are several levels of authority. In such communities, it is not a problem to have one member of the community (a boss) telling another what to do at work. Communities in which the culture resists hierarchies are often poor candidates for large enterprises that require multiple levels of authority.

Does your culture tolerate hierarchy (bosses telling workers what to do) (circle one)?

Yes

No

Some Indian communities encourage individual initiative and success, and give high prestige to those individuals who step out of the crowd and build a record of individual achievement, including wealth. Such communities often are good candidates for retail enterprises, which demand high individual commitment to quality of service and market sensitivity, or for individual entrepreneurship more generally. Other Indian cultures are less individualistic, giving more prestige to those who subordinate their own interests to those of the community as a whole. Such communities often are better candidates for tribally-run enterprises.

How would you describe the culture of your community (check one)?

More individualistic _____

Somewhere between the two _____

Less individualistic _____

Some Indian communities encourage relationships with outsiders, find it easy to work with outsiders (including non-Indians), or don't mind having outsiders around. Such communities may be good candidates for tourism, for retail operations that market to non-members, or for operations that involve a mixed member and non-member labor force. Other Indian communities are less tolerant of such relationships, find working with outsiders difficult, or don't like having outsiders around the community in large numbers. Such communities may not be good candidates for these kinds of enterprises, although they may be good candidates for gaming or for resort tourism in which outsiders are concentrated in a single and relatively small geographical area.

How would you describe the culture of your community (check one)?

Insular (we generally don't like working with outsiders or having them around) _____

Less insular (we really don't mind working with outsiders or having them around) _____

V. Assets

By assets we refer to the human, cultural, financial, natural, and other resources that the nation or entrepreneur can contribute to economic development or to specific business activities.

CAPITAL

What funds, if any, does the tribe, community, or entrepreneur control that can be used for a business start-up?

What has to happen for those funds to be made available (e.g., council decision, shareholder decision, managerial decision, etc.)?

What other sources of capital are available or might be available to the tribe or community or to an entrepreneur within the community (e.g., is there a credit association that makes business loans, does the community have a good relationship with a bank, are there federal grant or loan programs that are applicable and that the community might qualify for)?

Other than the trust status of Native lands, are there other obstacles that may prevent the tribe or community from obtaining otherwise available funds?

Given your answers to these questions, how would you describe the capital situation?

Accessible capital (in tribe's hands)	High	Med	Low
Loan possibilities	High	Med	Low
Grant possibilities (bear in mind that there are almost <i>no</i> grants to fund for-profit activities)	High	Med	Low

NATURAL RESOURCES

What natural resources does the tribe or community control that can be used in development or as the basis of a business?

What has to happen for those resources to be made available (e.g., land use planning board has to decide, clan has to give permission, council has to approve lease, etc.)?

PEOPLE

What, in general, is the educational level of the community (check one)?

High (a lot of people have some college or professional training) _____

Medium (most adults are high school graduates) _____

Low (few adults are high school graduates) _____

What, in general, is the skill level of the community (check one)?

High (a lot of people have worked in skilled jobs or know skilled crafts) _____

Medium (some people have worked in skilled jobs or know skilled crafts) _____

Low (few people have worked in skilled jobs or know skilled crafts) _____

Are there particular skills that are widespread in the community? If so, what are they?

Are there other characteristics, attributes, or qualities that you see in the people of the community or tribe that should be considered a community asset and that might help in economic development or in business activity? If so, what are they?

CULTURE

What cultural resources in the community or tribe may be marketable or otherwise useful in economic development (check all that apply)?

- Artistic or craft abilities _____
- Knowledge of the land or animals _____
- Dense kinship ties and other social relations _____
- Other _____

LOCATION

Are there reasons, other than the natural resources of the area, why your location may be important in economic development (e.g., a pipeline or railroad or important waterway crosses or will have to cross your land).

VI. Project Analysis

Also known as a Project Selection Filter, this section helps you evaluate the pros and cons of pursuing particular projects. It may be especially useful if you are considering a range of possible business opportunities. The Project Analysis can give you a preliminary view of how promising each opportunity is, allowing you to reduce the list of options fairly quickly to the two or three most promising candidates. You can then move on to a more detailed feasibility analysis of those.

A. Enterprise Requirements

For each proposed project, answer the following questions, filling in the blanks or circling the best response:

Initial capital investment required High Med Low estimate (if you can) _____

Continuing capital needs (i.e., are you likely to have to inject additional capital down the road for equipment, expansion, etc.?) High Med Low estimate (if you can) _____

Skills (will this require highly skilled labor, moderately skilled labor, or unskilled labor?) High Med Low mixed (specify) _____

Is that labor supply available? Yes No

Infrastructure needed:
physical (utilities, roads, etc.)

bureaucratic (a support system of personnel)

What is the appropriate organizational form (e.g., does this activity require a large organization with lots of bosses? can it be done with household labor? can small units be competitive??)

Does it make sense for this enterprise to be owned by the tribe (public sector) or by an individual entrepreneur (private sector)

System fit (is the fit with other activities in the area good or bad?)

If bad, why?

Public Private

Good Bad

B. The Business Context

For each proposed project, answer the following questions as best you can:

Where's the market? _____

How big is it? (your best estimate) _____

What's the competition? _____

Given the size of the market, would you say there is lots of competition, some competition, not much competition?

Lots Some Not much

What's the sector outlook?

Growing Stable Declining

C. Your Assets

For each project and to the best of your ability, estimate whether the assets you have are adequate *for this project*. Bear in mind that conditions may change over the life of the business (check in appropriate columns).

Assets	Adequate	Inadequate	Likely to Improve	Likely to Deteriorate
Natural resources				
Access to financial capital				
Skills				
Institutional foundation (do your governing institutions protect investments; are they stable; can they get things done?)				

What do you have that gives you a *competitive advantage* over others who are already in the same business or may enter it? (check as many as you think you have)

Experience	_____	Access to market	_____
Skills	_____	Regulatory relief	_____
Labor costs	_____	Tax relief	_____
Access to materials/resources	_____	Culture	_____

D. Cultural Considerations

Different kinds of enterprises work better using different kinds of organizational forms. For example, capital-intensive extractive industry (such as mining) tends to require large, centralized organization if it is to be efficient. Service-intensive retail operations, on the other hand, often work best on a smaller scale and with private (as opposed to tribal) ownership. But some of these forms work better in some cultures than in others. Other cultural considerations may include the presence of non-tribal members in positions of authority, the presence of non-tribal members on Native lands, and certain uses of natural resources.

For each project, answer the following questions as best you can.

Does the appropriate organizational form for this enterprise meet the cultural preferences of the community?

Scale (large vs. small)	Yes	No
Authority (centralized vs. decentralized)	Yes	No
Form of ownership (tribe vs. individual/family)	Yes	No
Will it require outsiders in management positions?	Yes	No
If yes, is this acceptable to people in the community?	Yes	No
Will it draw outsiders to the tribe's lands?	Yes	No
If yes, is this acceptable to people in the community?	Yes	No
In the view of the community is this likely to be an acceptable use of natural resources?	Yes	No

E. Strategic Priorities and Concerns

Which of the priorities you identified in Section II on Priorities and Concerns (see above) does this project support?

Which of the concerns you identified in Section II on Priorities and Concerns (see above) does this project raise?

F. Comparing Projects

On the following page is a matrix that brings together the various pieces of the Project Analysis. It is intended to allow you to quickly and simply compare the various projects you are considering in terms of the questions you have answered in this section. The graph suffers from being compressed onto a single page, but it can be used in the following manner.

1. Number the projects you are considering (1, 2, 3...).
2. Enter those numbers in the left-hand column (Project).
3. For each project, under each of the remaining columns enter a check (✓) if the project looks promising in terms of that column heading. Enter an X if the project does not look promising in terms of that column heading. In other words, enter a check (positive) if the project looks good in terms of (for example) skills or system fit or competitive advantage; enter an X (negative) if it does not.
4. Compare projects in terms of their overall profiles and in terms of which issues they raise for you or the community.

Note: This method gives equal weight to every consideration. You may wish to weight things differently. Also note that you can expand or reorganize this graph to provide you with more information.

Project Filter (PSF)

Project				
			Initial Capital Investment	Enterprise Requirements
			Continuing Capital Needs	
			Skills	
			Infrastructure	
			Organizational Form	
			Ownership	
			System Fit	
			What Market	
			How Big?	
			Competition	
			Sector Outlook	
			Natural Resources	Tribal Assets
			Financial Capital Access	
			Competitive Advantage	
			Institutional Foundation	
			Skills	
			Organizational/Cultural Fit	Cultural Issues
			Outside Management	
			Draws Outsiders?	
			Acceptable Use?	
			Which Priorities?	Strategic Fit
			Which Concerns?	

Appendix C

BUSINESS ALERT

OCT/NOV/DEC VOL. 1, NO. 4

Inside This Issue

- ADVANTAGES OF LONG TERM INVESTMENT
- THE LAKOTA FUND
- FNFP MARKETING WORKSHOPS AND SURVEY
- SAGINAW INVESTMENT FUND

FNFP will be selling advertising space in the Alert at a cost of \$75.00 for a 2 3/4" x 4 1/2" space per issue; (\$250.00 - 4 issues). The Alert is published 4 times per year and is distributed to all tribes and inter-tribal councils. The Alert is also mailed to Indian businesses, organizations and individuals. Contact Theresa Carmody, FNFP, at (301) 869-3720 if you are interested in advertising.

TO OUR READERS:

The Alert is a quarterly publication. The format is intended to provide awareness of financial workings. The Alert features policy, legislation, coverage of FNFP site activities, and other information on economic and financial activities impacting Indian tribes and individuals. The annual subscription rate for the FNFP Alert is 20.00.

OFF WALL STREET

THE ADVANTAGES OF LONG TERM INVESTMENT
by Gelvin Stevenson

The BIA invests all Indian trust monies into one kind of security--short term Treasury bills and insured certificates of deposit in credit unions or banks.

One of the recommendations made by Price Waterhouse in their 1983 study is that the BIA expand its investment alternatives and put some of its funds into medium and long term Treasury securities. Some people may greet that advise with a big yawn, but, whether you manage your own money or the BIA handles your money for you, the issue is important. The longer the maturity of the bond you buy (the longer the time until the principal is paid back to the investor), the higher the interest rate. So keeping all the funds in short term investments might cost your tribe money. For example, in mid-November (the 10th, to be exact), Treasury securities that expired in three months yielded 5.10%. Those coming due in six months paid 5.51%. Seven-year Treasury Notes had a 7.20% rate. 30-year Bonds yielded 7.77%.

The difference between 5.10% and 7.77% may look small, but when applied to large sums of money, those little decimal points can have a big effect.

For example, say that your Tribe has \$2.5 million in trust that the BIA is managing for you. You have just completed your ten year plan, and decided you will not need to draw down any of that money for at least seven years. Just to be safe though, you want to keep \$500,000 in short term investments, so you can have access to it quickly, in case there is an emergency. So you tell the BIA that you want \$500,000 invested in Treasury Bills (short term) and \$2 million put into medium term debt (notes).

How much more money will your Tribe make because of that simple shift from short to medium term investments? Seven-year Notes now pay 7.20%; three-month Bills pay 5.41%. The difference is 1.79 percentage points and, on a \$2 million investment, that adds up to \$35,800 a year. Since that extra money stays in your trust fund and adds to your principal, it also earns interest. So at the end of the seven years, you will have an extra \$361,790 in your trust account--you'll have \$3,253,189 instead of the \$2,892,029 you would have had if you had received only the short term interest rate for those seven years. (We assumed that interest rates did not change over those seven years.)

There is one catch to going long, however. Interest rates might go up. If so, you will be locked into your medium term rates. And the short term rates--the return you would otherwise have been earning--will be going up. On the other

hand, rates might drop, in which case you still get your medium term rate, even though the short term rates you would have been receiving are coming down. That's why, (since you can't predict what direction rates are going to go) it's often a good idea to spread your investments over the entire range, keeping some money short, other medium, and some long. To know exactly what percentages to put into each pot, you should contact a professional, full time money manager -- preferably one who can read the future -- and carefully check out his or her investment record. They should know how to best spread out your investments.

Either way, you'll gain by diversifying your investment portfolio into the different maturities: short, medium, and long. ~~And~~ extra \$361,790 we came up with in our example gives you an idea of the size of the gain. Isn't that worth a phone call to the BIA?

A NOTE ON NAMES. Short, medium, and long term Treasury securities have different names. Short term are called Notes, medium term securities are Bills, and longer term debt instruments are Bonds.

LET US HEAR FROM YOU. If you have any questions about finance--or about investments, economic development, the economic outlook, Wall Street, etc.--feel free to ask. Just write to the Newsletter. Knowledge is power, and we're here to help you understand.

THE LAKOTA FUND

A TRIBAL DEVELOPMENT LOAN FUND

As is the case with many other tribes, the members of the Oglala Sioux Tribe have

seen numerous federal economic development efforts come and go, leaving little or no positive impact on the Pine Ridge Reservation.

It is doubtful that even large increases in federal loan programs could successfully promote economic growth. WHY? Key omissions in Government business development/lending programs is a failure to provide a way of strengthening local managerial and technical capacities. The Lakota Fund will address both of these needs.

FNFP efforts to organize the Lakota Fund began over a year ago. FNFP believes that if a viable small business sector is to be created and sustained on the Pine Ridge Reservation, that access to capital and technical assistance are essential.

Since the Lakota Fund will be operating on the reservation it will be able to overcome some of the basic problems Tribal members encounter with geographically and culturally remote commercial banks off the reservation. The closeness of the Fund to the individuals and businesses seeking financing will enable those operating the Fund to make more realistic assessments of credit worthiness and to make appropriate adjustments for lack of collateral and business track record.

By creating a technical assistance office as part of the Lakota Fund, the small business people will be assisted in preparing realistic and viable business plans as well as in implementing the plan once financing is obtained. Working closely with the small business person, the Fund will be able to detect and help correct operational problems before default on a loan becomes the only option.

The Lakota Fund will be capitalized by contributions from a variety of private sector sources; no government monies will be used to capitalize the Lakota Fund. Grants, gifts, and loans will be sought from a variety of institutions such as banks, insurance companies, corporations, utilities, foundations, individuals, etc. Since some contributors will expect a return on their investment while others will not, the Fund will be in a position

to provide financing at below market rates.

The FNFP has established an Organizing Committee comprised of a broad representation of Oglala people as well as technical experts from the reservation and surrounding area. The Lakota Fund organizing Committee established four Task Forces to develop recommendations on the structure of the organization, investment policies and practices, technical assistance & training, and fundraising.

The Lakota Fund will be incorporated as a not-for-profit corporation. The Organizing Committee is going to great lengths to insure that the Fund will function as a separate entity without interference from the Tribal Government. While the tribal council will have appropriate regulatory authority, it will have no policy-making or operational involvement in the Fund. The Council and the Organizing Committee recognize that this financial institution must remain independent of political entities if they are to remain impartial in their credit extension decisions. The Fund's Articles of Incorporation will spell out its general and specific purposes and powers which will give it sufficient autonomy to fulfill its mandate. The Tribal Council's role in chartering the Fund will be identical to the role of any state department responsible for chartering business corporations in its jurisdiction.

THE NECESSITY OF A TRAINING AND TECHNICAL ASSISTANCE COMPONENT

As was mentioned earlier, the Lakota Fund will establish a technical assistance office to provide free advice to Tribal members involved in starting and/or operating a business on the Reservation. Because of the general lack of experience and training in small business planning and operation on the reservation, the technical assistance component is

critical. The following guiding principles for developing and providing Technical Assistance and Training have been adopted by the Organizing Committee:

1. Linkage of TA to financing. The Organizing Committee felt very strongly that the distribution of financing must be tied to the use of technical assistance and training by the business person. It was suggested that an enforceable technical assistance contract between the Lakota Fund and the business be employed.

2. Clear TA process and expectations. The business person and the Lakota Fund should have a clear understanding of the technical assistance and training that is available and how it would be used.

3. Full time TA staff. The Lakota Fund will have a full-time staff person responsible for overseeing the TA function. In addition to providing TA, the staff person will serve as a coordinator to connect the business person with appropriate TA providers.

4. TA follow-up by the Lakota Fund. Other finance sources (such as the BIA revolving loan fund) have TA components but there is no follow-up after the loan has been made. The Organizing Committee felt that this was a major cause of problems with small businesses.

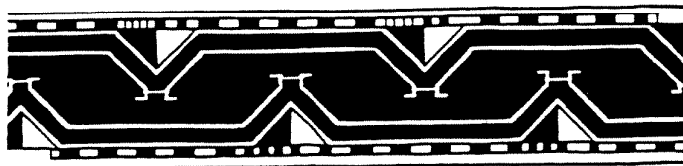
5. Direct provision (sale) for services. The Organizing Committee will consider providing services such as bookkeeping and accounting on a fee for service basis.

This could be made mandatory in the early years of an investment.

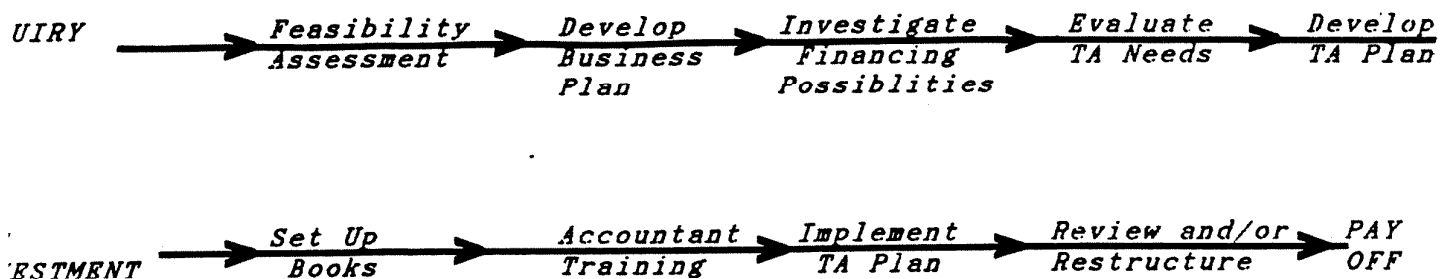
6. Monitoring of business. The close working relationship between the TA staff person and the business will enable the TA staff person to play an early warning role if the business is getting into trouble. The TA staff person needs to work closely with the Finance staff person to intervene before problems become irreversible so as to cut Fund losses.

The types of Technical Assistance and Training that will be available to small businesses are:

1. Bookkeeping
2. Accounting
3. Marketing
4. Management
5. Personnel
6. Repayment of financing
7. Taxes
8. Production
9. Collection
10. Cost Analysis
11. Legal
12. Negotiations
13. Business Development
14. Merchandising
15. Getting Financing
16. Personal Relations
17. Insurance
18. Feasibility Assessment
 - a. Market
 - b. Capital expenses
 - c. Operating expenses
 - d. Cash flow
 - e. Breakeven analysis



TECHNICAL ASSISTANCE TIMETABLE FOR INVESTMENT APPLICANT



In addition to having one person on staff there are at least three sources of technical assistance that the Lakota Fund will take advantage of; they are described as follows:

a.) The SBA has established a small business development office in Rapid City. The director of the office has already offered to be part of a concerted effort to provide small business assistance to business people on the reservation.

b.) Another SBA program is the Service Core of Retired Executives (SCORE). SCORE is staffed by retired executives who have had actual small business experience and are willing to provide expertise and know-how. The SCORE component of the SBA office also indicated its willingness to participate in a small business assistance effort on the reservation.

c.) The Oglala Lakota Community College currently is in the process of

establishing a small business curriculum. As a consequence, there are a number of instructors who have specialized expertise in several areas of small business development and operation. These instructors are not only able to provide a specific kind of assistance to small business people but they are able to provide classroom instruction to prospective business people. It is even possible that a course or two will be created to enable these people to take advantage of this training during evening hours after the business is closed.

The technical assistance office will create a list of technical experts in the area of small business who are willing to provide assistance on a pro bono basis. There are successful business people as well as attorneys and accountants who are willing to come in to provide assistance on a functionally specific task. While the technical assistance office will be

in a position to provide general fundamental help in the area of business planning, development and operations, there is still a need to pull in persons with knowledge specific to the area of the industry or business in question. Every type of business has its own peculiar "rules of thumb" and "tricks of the trade" with which only the practitioner is familiar.

MANAGEMENT OF THE LAKOTA FUND

The Lakota Fund will be managed by its' newly appointed director, George F. Wilson, an enrolled member of the Oglala Sioux Tribe. Much of Mr. Wilson's experience is in the area of business development. He has managed start-ups from small tribally owned stores to larger national operations. As business manager for the Lummi Tribe in the state of Washington in the early 70's, Wilson worked to establish the Lummi Aquaculture business. He helped establish the Lummi Indian Foundation Trust, a payroll deduction program which supported scholarship, youth and elderly programs. As a financial planner for STOWW, (Small Tribes of Western Washington) he developed nearly 20 business plans for member tribes.

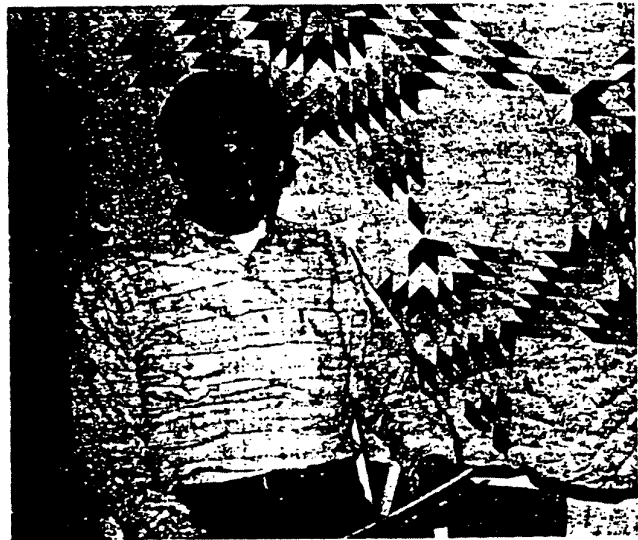
Mr. Wilson will use the skills he has acquired from his over 25 years experience in private business and Indian program operations to direct the Lakota Fund. Wilson sees the Lakota Fund as the lending vehicle that is essential if a healthy economy is to become a reality on the Pine Ridge Reservation.

INFORMAL SECTOR ACTIVITY

A look at the history of economic development efforts on the Pine Ridge Reservation reveals that the informal

economic sector which exists on this, as well as most reservations, has never been taken seriously. This sector is operating within the overall economic scheme and can best be described as a network of self-owned micro economic enterprises or small scale informal businesses. It is a dynamic system that operates whether the unemployment rate is 7% or 95%.

Small scale informal sector business may be characterized as being viable and pervasive throughout the community. It is a network of self-employed individuals who produce goods and services for the benefit of the community as a whole. These micro enterprises are all interrelated. The system contains horizontally and vertically integrated linkages that form the backbone of reservation economy. Each link in the system affects every other link and in a larger sense, the entire reservation. A deer hunter may sell or trade the tanned hide to a person who produces handcrafted items. The crafter may then sell or consign the finished product to a curio shop that caters to the tourist trade. This is one example of linking within the system.



George F. Wilson
Director, Lakota Fund

Enterprise within the informal sector ranges from simple, as in the case of gathering and selling wild turnips, to complex, as might befit the operation of a small convenience store. Informal sector businesses are usually located in or near the home resulting in lower overhead costs.

Start up costs are small, creating no undue burden on a small business. A woodcutter may be able to start his business with an initial endowment of \$300. Perhaps \$250 of that amount would allow him to purchase a small or used chainsaw with \$50 remaining for transportation costs. If that same woodcutter was able to borrow a chainsaw, the initial endowment need only cover transportation expenses. He would then be able to reinvest his business revenues in the purchase of a new chainsaw. With the business equipment acquisition and ownership problem solved, his business would prosper at a faster rate. Low capital requirements should equate to ease in obtaining an initial endowment for business start up, but this is not the case at Pine Ridge.

Federal programs have tended to take the "bigger is better" approach when it comes to businesses and have overlooked the potential development and needs of the informal sector. This is where the Lakota Fund will play an important role. Where it has been just about impossible for a person involved in an informal sector business to obtain a small loan from a conventional funding source (off reservation bank) for lack of acceptable credit background or know-how in obtaining a loan, the Lakota Fund will aim to fill the gap. The Fund will screen potential loan recipients to determine if their business plans are feasible and be able to offer the Training and Technical Assistance required, not only prior to funding, but after the business is funded. FNFP anticipates that the Lakota Fund will be making it's first loan early next year.

Contributing to this article:

Rebecca Adamson
Richard Sherman
Larry Swift

FNFP MARKETING NEWS

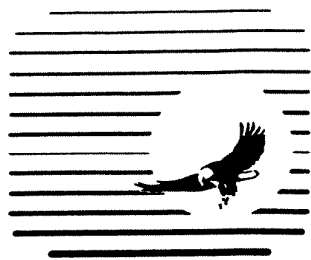
By Lori Pourier

Marketing has been a critical missing ingredient in tribal economic development. The lack of marketing has guaranteed a tribe's failure in many, otherwise sound, business and economic ventures. In today's era of drastic budget cuts, more tribes than ever before are turning to economic development in the hopes of rebuilding programs and replacing jobs lost to federal cutbacks. These efforts require marketing expertise.

Through First Nations site work, specific marketing needs of tribes are surfacing.

Traditional arts and crafts and specialty foods, for example, are common to many tribes and present business potential if teamed with marketing expertise.

First Nations has begun to develop a network of technical assistance in the area of marketing which will be available to all tribes. The lack of marketing expertise shows up on the individual level. For example many Indian people do not get top-dollars for their goods. We are devising ways to increase the prices received by Indian artists, ranging from marketing cooperatives to collective bargaining.

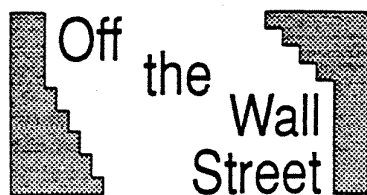


FIRST NATIONS FINANCIAL PROJECT

BUSINESS ALERT

Vol. 4, No. 2

Spring 1989



This column is here to serve you. It will keep you up-to-date on happenings in the world of tribal finance & investment, and give you a feel for how the wild and crazy world of Wall Street works.

The Way It Oughta Be: The Saginaw Chippewa Show How to Manage a Tribal Trust Fund

by Gelvin Stevenson

"Being in a position to make our own decisions has changed our whole outlook on life." That is how Arnold Sowmick, Chairman of the Saginaw Chippewa Tribe of Michigan, sums up the Tribe's unique experience of managing their own trust fund. And making their own decisions is exactly what they have done. Among their decisions: selecting two fund managers; instructing them about the Tribe's investment goals; dismissing both managers; and negotiating with their current fund manager. And if return on investment is the guide, these decisions have been good ones. If this is an experiment, it is proceeding successfully.

The Saginaw Chippewas were careful about selecting their first financial advisers. Their selection process was underway even before their \$10 million land claim settlement award was finalized. First Nations had sent Carol Oman, a financial consultant with an impressive background in financial regulation in Washington, and economic development abroad, to help teach the Council how to pick a good investment adviser.

Oman sought recommendations from throughout Michigan (the Tribe wanted a local investment manager), calling hospitals, universities, and others who knew money managers. She asked questions such as: How do they deal with their clients? Are they able to spend time with them? "Sometimes a bank would come up more than once," she recalls. "That meant something." From this list of referrals, she called the best, interviewing several dozen candidates over the phone. Then she flew to Michigan and quizzed a dozen in person.

From that process emerged four finalists for the Council to interview. First, each made a written presentation based on a list of

(continued on next page)

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Gelvin Stevenson, a member of FNFP's Board of Directors, is a business/finance consultant in New York City.

Micro-enterprise Lending

The Grameen Bank— Lakota Fund Experience *by Gerald Sherman*

The following article was written following a trip to Bangladesh that took place from February 5th through the 18th, 1989. Gerald Sherman, Executive Director of the Lakota Fund (the Lakota Fund is a micro-enterprise loan fund, established on the Pine Ridge Reservation by First Nations), Faith Stone, Board Member, and Laura Henze, First Nations Oweesta Program Coordinator, made the journey along with two program officers from the Ford Foundation. The trip was a result of research being done by the Lakota Fund Board and Staff into a highly successful method of lending that is used by the Grameen Bank in Bangladesh. Dr. Muhammad Yunus, founder of Grameen Bank (means Village Bank), had invited the staff to visit the bank in Bangladesh.

* *

The Grameen Bank of Bangladesh uses a method of lending that takes the bank to the villages and requires the formation of peer groups to make loans. This method relies upon peer pressure and a rigorous and rigid process to deliver loans to the poor without the need for collateral. The process requires involvement of the poor borrowers in the loan approval process and also requires them to save money. It uses money as the tool to bring about other needed social changes. This method of lending is being adopted by many other countries throughout the world and is being used in Chicago, rural Arkansas, and on three Indian Reserves in Canada.

Grameen Bank has grown from Dr. Yunus initially giving several women some very small loans from his own money, into an organization of several thousand employees, and over 400,000 borrowers. Grameen Bank has also branched into lending for joint ventures and housing construction. Beyond this, it is responsible for social changes among its numerous borrowers, through the use of loans as an agent for change, and has become world renowned for its unique method of lending.

As Director of the Lakota Fund, I have learned from Grameen Bank, and from our own lending experiences, that loans to untrained borrowers made without strict, enforceable procedures become grants. And grants are not what the poor need, especially the poor in Indian communities who have become accustomed to a grant-like system. We have learned that this type of "charity" is more harmful than helpful and that it keeps poor people dependent and does not restore dignity and self-sufficiency. Loans can do what charity cannot do; and loan money can be used over and over again. I learned that we need to concentrate on serving those with the greatest need. We must ensure that we have a method of targeting the truly needy that does not allow others without a need to take advantage of our program. With our limited resources I feel it is best to start only with loans to the poor and grow from there to meet other needs that become evident.

We found that the Grameen Bank had a repayment rate of 98%...this high repayment rate was mainly influenced by the process of group formation and loan approval.

In studying the group lending process we found that the Grameen Bank had a repayment rate of 98% and ACCION, which operates group lending programs in South Amer-

ica, had a repayment rate of about 96-98%. Although the societies that those loan programs operate in are much different from Pine Ridge's, a study of the loan programs operated by Calmeadow Foundation in Canada on Indian reserves show a repayment rate of about 90%. This high repayment rate was mainly influenced by the process of group formation and loan approval. We concluded that this allowed a screening process that is not built into the individual lending process.

In forming groups, the people screen each other. They are very careful about whom they select as group members because they will all be responsible for repayment of all loans. They are aware of the character of their fellow group members and select those people that they are sure will repay a loan. Also, there is no confidentiality in group lending. All discussions and transactions take place at the group meetings. As Dr. Yunus of Grameen Bank says, "Confidentiality breeds lies." Lies are not as easily manufactured in public. All loan requests are

(continued on next page)

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discussed openly in public and all enterprises closely scrutinized by all present. This ensures that enterprises given loans are more likely to be well thought out and are likely to make a profit from which they can repay the loan. Group members are required to provide evidence to the rest of the group that the loan proceeds are properly spent. People are more apt to operate their businesses properly since they will be examined by others frequently.

The way in which the small group lending process will be applied to the Lakota Fund is as follows:

- Each borrower will only be able to borrow up to \$400 the first time and when he/she has proven ability to repay he/she can graduate to \$700 and then to \$1,000. Borrowing smaller amounts in the beginning will not overwhelm the borrower with a lot of cash and will reduce the likelihood of mispending the money. This will teach the client to borrow money, use the money properly, save, and repay the loan with little risk to themselves, the other group members, and to the Lakota Fund.
- People will be given training before each bi-weekly group meeting, which will help them develop more business skills, increasing the likelihood of success and repayment of the loan. As people learn to repay with small amounts of money first, their attitudes toward loans should change, and as they see the money working to increase their incomes, they will learn to become more self-sufficient.
- Alcoholism, drug abuse, and other social problems will be addressed through Personal Effectiveness Training which is built into the group orientation process. This will assist borrowers in dealing with problems and in setting personal goals. Also, people suffering from these problems will either not be allowed into the groups or will be forced by the added group pressure to deal with the problems and act more responsibly.

Because all group members will be responsible for each other's loans they will provide the tracking or monitoring of loans, decreasing staff time spent in this area with the previous individual loans. Each person's ability to get a loan will be dependent upon the person getting the loan before them being current on his/her payments. Because people will be



Gerald Sherman, Director of the Lakota Fund, surrounded by Bangladesh children.

grouped, more clients can be serviced by each staff member with fewer contacts. This will allow a greater case load with more consistency, which will lend itself to creating a higher repayment rate.

What the group lending process does is prepare a person to receive a loan. By the time they go through group formation, orientation, training, and certification, they are prepared to receive a loan and much more likely to repay. Grameen Bank stresses this point very much: preparation of the borrower.

The process of group formation itself will be the screening process that selects only those who have the greatest need; those who have been left out of most of the development programs that come to the reservation; those with the greatest degree of Indian blood, the most traditional, the poorest. Only a person who really needs money will go through the rigorous process for a beginning loan of only \$400. This will ensure that the loans will go to the poorest people on the reservation and not to those who are best at taking advantage of reservation programs for the poor.

Last of all, the group process involves people to such an extent that they really begin to feel ownership of the loan program; something we have tried to convey but have been unsuccessful at doing in the past. Our Bank Workers will go out to the people to do business rather than them coming in to the office. It will truly be the "people's bank." ■

Gerald Sherman, an Oglala Lakota, is Director of the Lakota Fund.

Resource Documents Available from FNFP

1. "Reservation-Based Community Loan Fund Manual" - 110 pages.
A how-to manual developed to assist members of Indian tribes in creating a community loan fund. The material presented is based on the experiences of members of the Oglala Sioux Tribe and First Nations Financial Project in developing the Lakota Fund—the first, and to date, only reservation-based community loan fund. Includes useful information on Community Economic Development, Capital Formation, Organizing, Program, Staff and Board Development, Structure, and Fundraising.
2. "Trust: A Matter of Control" - 28 pages.
An historical and legal account of BIA management of tribal and individual trust funds. Also includes discussion of three FNFP tribal trust fund models.
3. "Tribal Marketing Casebook" - 94 pages.
Case stories in marketing for producers and artists. The casebook includes:
 - Goal setting, planning, and management for business owners and managers
 - Market assessment
 - Cost Estimations
 - Distribution
 - Promotion and advertising
4. Tribal Marketing, packet of two booklets.
This packet is designed to help plan and use a marketing strategy that suits your tribal business venture. It explains in detail the four basic steps of effective marketing and will provide you with important information about pricing and advertising.
5. Summary document on "Price Waterhouse, In-depth Review of Indian Trust Funds for the BIA—Summary, Issues, and Comments" - 40 pages.
FNFP has prepared a summary of the major PW recommendations and the rationale behind each. Issues raised from these recommendations are identified and comments are made for further exploration.
6. "Evaluation of Reservation-Based Loan Programs" - 35 pages.
This document summarizes the results of a survey of 25 reservation-based credit unions, relending programs, and Indian credit associations. The study explores the conditions that lead to successful loan programs and analyzes factors that generate problems.
7. Packet on "Negotiating Lower Interest Rates From Your Bank."
Each packet contains three copies (one for your tribal office, one for your attorney, and one for your bank) of the following documents:
 - Relevant sections of the "Indian Tribal Governmental Tax Status Act"
 - Relevant sections of the IRS Code
 - Model Tribal "Hold Harmless" Resolution for the Banks.

Please Note: Using the order form at the bottom of the next page, check off those publications that you would like to purchase. ALLOW 4 TO 6 WEEKS FOR DELIVERY.

Appendix D

NAVAJO BUSINESS JOURNAL

December 1996

Volume 1

Shiprock RBDO Captures "Best of Technology Award"

SHIPROCK - "A Boot-and Jeans, Traffic-Free, Kicked-Back, Family-Oriented, Meat-and-Potatoes, T-Shirt Shop Environment."

That's how the Shiprock Regional Business Development Office (RBDO) is advertising the Shiprock Agency in cyberspace, according to Doreen Hammond, economic development specialist at the Shiprock RBDO.

Hammond said the promotional campaign is a concerted effort with the Four Corners Partnership to lure more retailers, manufacturers, and hospitality businesses to the Four Corners Region, namely to the Shiprock Agency.

In fact, the unique internet marketing strategy helped the Shiprock RBDO win a beautiful "Best of Technology" sandpainting plaque award at the recent New Mexico Rural Economic Development Forum, which was held in Farmington on October 17-18th.

"I am very grateful for the recognition the Forum gave to our work. I am particularly pleased to have the recognition because everything was done in our office with a zero dollar budget," said Hammond. "Willard Harris, the computer genius behind the technology, and I worked together to form an economic development web site different from any we have seen on the internet. I'd like to think the award is another acknowledgement of the high caliber of talent within the Division of Economic Development. You know, this is the fourth year in a row an entry from the Division of Economic Development has earned a first place award and that is an impressive record that the Navajo people ought to be proud of," Hammond added.

As a member of the Four Corners Partnership, Hammond said, "Shiprock RBDO shares the partnership's web site with the other represented communities each of whom promotes its own area as a part of the whole region.

"We're interested in recruiting major businesses into this re-

gion so the information going out on the internet is aimed at them, not at local businesses or tourists."

The Four Corners Partnership is a coalition of economic developers from San Juan County Utah, San Juan County New Mexico, Montezuma County Colorado, and the Colorado Economic Development Region Nine (Region Nine includes six southwestern Colorado counties) and individuals from the Shiprock Agency of the Navajo Nation.



Arlene Touchin and Doreen Hammond proudly display "Best of Technology" award.

Shiprock RBDO staff said utilizing the World Wide Internet system is not only innovative, but may prove to be economically more feasible than the traditional methods of advertising in magazines and promotion through trade show fair booths.

Speaking of a traditional approach, Hammond said their promotional strategy is anything but that.

In fact, the package put together by Hammond and Systems Analyst Willard Harris, is punctuated with humor as exemplified in the beginning of this story, has a few maps, and pertinent data about the Shiprock Agency.

"It's a very original, creative and humorous approach," she said. "I have not seen anything on the internet like this. Everything I've seen so far has been dry, straight, and boring," Hammond said. "We used a whole different approach.

"We speak directly to the viewer and use a comfortable conversation mode with a little humor to get our message across. Data is kept to minimum, the idea being to "hook" the prospects and get them to call for additional information. Then we can continue the dialogue on a personal basis."

The Project Development Department within DED also won an honorable mention certificate for its efforts in printed advertising.

From the Executive Director.....



Ya at teeh....My name is Arthur P. Allison and I am the Navajo Nation Division of Economic Development Executive Director here on the outskirts of Window Rock.

When I came on board, I realized the importance of communicating with each other.

Moreover, I know what it feels like to work in the private sector and wonder what the Navajo Nation government is doing to help Navajo entrepreneurs.

In fact, that's why I decided to have a division newsletter to let you know what we're doing in the realm of economic development.

The Division of Economic Development currently has the following departments under its auspices: Administration; Small Business Development, which oversees regional business development offices in Fort Defiance, Tuba City, Chinle, and Shiprock; Business Regulatory; Project Development and Support Services. We also have Navajo Times, Navajo Nation Shopping Centers, and Navajo Wool Marketing

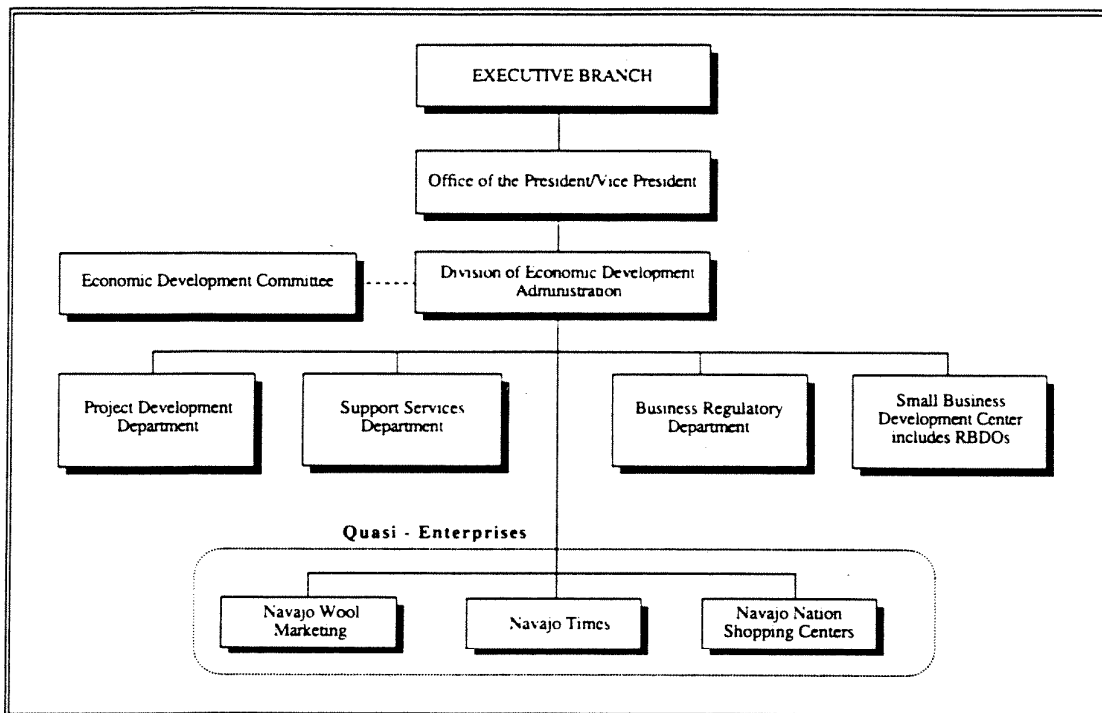
under our division.

I say currently because we may merge with the Division of Community Development per a directive from the Navajo Nation Council to help reduce operating costs of the overall tribal government. The ultimate decision thus lies with the Navajo Nation Council as to whether or not we will consolidate our divisions.

During my short tenure here, I have found my job as the executive director of the Division of Economic Development quite challenging, to say the least. But above all, I am devoted to help my people boost our overall economy. With your support, and on behalf of the overall division staff, we look forward to overcoming the many challenges that lie ahead to make a better tomorrow.

If you have any questions, comments or suggestions about economic development, please feel free to call me and if I'm not available, I hope you'll be able to meet with one of my very fine and competent staff. Thank you.

**Arthur P. Allison, Executive Director
Navajo Nation
Division of Economic Development**



Navajo Nation Division of Economic Development Creates Unique Partnership to Promote Navajo Artists

GALLUP - Partnership is the key to success, according to a leading clothing design manufacturer.

Georgy Boston, president and owner of FuTech Design, Inc., of New York, New York, said she is working cooperatively with the Navajo Nation Division of Economic Development and approximately 20 Navajo artists to help market their unique designs on an array of products.

Some of the current items that are on sale include T-shirts and posters, however, Boston said future items also will include framed art, pottery, silver jewelry, baskets, and additional lines of designer clothing.

"It'll take a lot of work to develop and market each area, but there's real potential in every area," she said.

To help kick off the marketing campaign, Dilcon, Arizona native Billy Betoney, Jr. recently signed an array of his designer T-shirts and posters for Farmington and Gallup Walmart shoppers.

"They (artists) design whatever they feel comfortable designing," Boston said. "Hopefully, we'll be able to go beyond the Southwest Region and to other stores such as K-Mart, Sears, and J.C. Penneys."

Boston said major retailers are relying on

Futech to provide them with new products by working with micro markets, which includes unique artwork designed by American Indians. Other tribes she has created partnerships with include the Senecas, Cheyenne, and Shawnee nations.

"The Navajo artists will be a part of this business venture and they'll get a chance to earn a living," she said. "It'll give the Navajo people a chance to get into the market place. It's taken one year to get this far, but the rewards will be remembered."

She believes the new partnership will be successful because of commitment from the Navajo Nation and the Navajo artists will be receiving exposure at the retail level.

In addition to marketing the current line of products, Boston said she also is specifically interested in beginning a new business venture with Navajo women clothing designers.

For more information, please contact: Georgy Boston, FuTech Design, Inc., 12 East 33rd Street, 12th Floor, New York, New York, 10016 (212) 725-4570 or write to: Wava Begaye, Navajo Nation Division of Economic Development, P.O. Box 663, Window Rock, AZ. 86515.



Georgy Boston, President of Futech Designs, Inc., Navajo Nation President Albert Hale and Senator Pete Dominici R-N.M., wait to speak to Walmart shoppers in Gallup, N.M.

RBDO's Striving to Provide More Technical Assistance at the Local Level

ALBUQUERQUE - Why do many Navajo businesses fail?

That's a question that staff members within all the Division of Economic Development Regional Business Development Offices (RBDO) would like to find an answer to.

RBDO staff discussed this issue along with other economic development topics at a recent quarterly RBDO meeting here in the Land of Enchantment.

Every year, a handful of Navajo people develop business plans that include their marketing strategy, management plan and financial projections for such businesses as laundromats to auto service centers.

Accordingly, many of these potential Navajo entrepreneurs request for financial assistance from the Navajo Nation Business Industrial Development Fund (BIDF)....and some of them are fortunate enough to receive a loan from the Navajo Nation.

The BIDF was established in 1987 by the Navajo Nation Council to provide loans up to \$150,000 to qualified Navajo-owned businesses located on or near the Navajo Nation. The loans can be used for new business start-up; purchase of equipment, working capital; permanent improvements; and for the purchase of existing business interest(s).

The first project under this program was funded in 1988. Since its inception, the BIDF has funded 41 commercial/industrial/tourism projects and 64 small business loans for a total of \$28.9 million. To date, approximately \$11.9 million in principal, interest, and rent has been repaid into the BIDF which allows the Navajo Nation Division of Economic to continue making loans to more entrepreneurs.

RBDO staff members assist potential Navajo entrepreneurs by processing business site leases; sub-leases; modifications; assignments; leasehold mortgages; and management agreements as well as pro-

viding technical assistance with business development plans.

However, once the individuals have obtained a loan whether it be from the Navajo Nation, commercial bank or federal sources and the business site lease has been fully processed, they are on their own.

DED officials state that many Navajo businesses are in default to the Navajo Nation, as a result of not making prompt monthly lease payments and not making payments on their BIDF loan.

Consequently, the RBDO staff recently decided to pool their resources with Navajo Community College (NCC) and develop a proposal that will seek funds

to conduct a comprehensive analysis of why many Navajo businesses fail. RBDO staff said it is hoped the study will help identify specific areas of training that Navajo businesses may need. For instance, the study may reveal that many Navajo businesses need technical training and assistance in accounting and marketing.

Al Kuslikis, coordinator for the Development Foundation at NCC, stated that NCC is interested in establishing a business development center. However, RBDO staff noted that the Division of Economic Development is in the process of establishing a center called the Tribal Business Information Center (TBIC), which will be headquartered in Window Rock.

The TBIC's were designed to assist individuals, tribal businesses and tribal governments with information about various small businesses and economic development programs that are offered by federal and state agencies. It will house the latest computer technology; allow access to state-of-the-art business development resources; have an extensive business reference library, and it'll contain management videos designed to help entrepreneurs plan or expand their businesses. Currently, there are TBIC's located in Montana, North Dakota, South Dakota, and Wyo-

Since its inception, the BIDF has funded 41 commercial/industrial/tourism projects and 64 small business loans for a total of \$28.9 million. To date, approximately \$11.9 million in principal, interest and rent has been repaid into the BIDF which allows the Navajo Nation Division of Economic Development to continue making loans to more entrepreneurs.

RBDO's Striving, continued

ming.

RBDO staff noted that rather than having only one main TBIC in Window Rock, they would like to have a TBIC at each RBDO site.

The joint study will therefore, also include a component on how to link the TBIC from Window Rock to all the RBDO sites.

Richard Kontz, financial officer within DED also made a presentation about a new program that was recently established called the Micro Enterprise Loan Program (MELP).

With an initial allocation of \$250,000, the MELP will provide a source of financing for micro-businesses such as self-employed individuals, home-based businesses, cottage industries, and very small retail or wholesale businesses that employ less than five people. The MELP will be administered by the RBDO staff in accordance with guidelines that are being developed by DED staff.

Loans will range from a first loan up to \$2,500 to be repaid over a 12-month period; a second loan up to \$5,000 to be repaid in 24 months can be made if the first loan is repaid; and a third loan up to \$7,500 to be repaid in a period of 36 months can be made if the second loan is repaid.

"Once an individual has graduated from this program then they can move into the regular Small Business Loan Program where loans range from \$10,000 to \$150,000," Kontz said. "Monthly training is required and sponsored by the RBDO's. The initial training allocation of funds for this program from the BIDEF will be \$250,000, which should fund 100 initial loans." The Micro-Enterprise Program guidelines are currently being reviewed in the tribal SAS process.

Sherry Allison, Ed. D, Senior Program Manager for the Indian Children's Program at the Univer-

sity of New Mexico, spoke about personal development.

Allison noted that one of the most important elements of personal development is the concept of change, which must first be made by individuals themselves.

She said that change takes at least 3-5 years to occur and it is usually a leader who makes change. One inevitable aspect of change, she said, is disagreement, but it is fundamental to successful change.

Historically, she said leaders have controlled and administered repression rather than expression.

If the Navajo people really want to make change, she said they should begin focusing more attention towards the youth.

"If you want to make a change in your organization or structure, you should work with the youth," she said. "You need to change their behavior because there's a lot of apathy at the local level."

For instance, she said, Native Americans are 11 times more likely to die from alcoholism than other races and Native Americans also have the second greatest number of people with disabling conditions of

all ethnic groups, however many of these disabilities are preventable.

She noted that the easiest thing to change is a person's knowledge, which helps change their attitude then their behavior. And one of the first steps in initiating change is to talk about what's important to an individual..their values.

She said that one of the worst times to initiate change is when there's a lot of tension or stress in the organization and how a person handles conflict is the key. Moreover, she said conflict is usually the doorway to change.

"In most cases, as you go through change, you have to get worst to get better," she said. The best time to institute change therefore, is when there's the least amount of stress."

"If you want to make change in your organization or structure, you should work with the youth," she said. "You need to change their behavior because there's a lot of apathy at the local level."

*Sherry R. Allison, Ed. D
Senior Program Manager
Indian Children's Program
University of New Mexico*

Appendix E

EASING THE EQUITY CRUNCH
ON THE
CHEYENNE RIVER SIOUX RESERVATION

Client: Orville Mestes
Director
Office of Planning & Economic Development
P.O. Box 590
Eagle Butte, South Dakota 57625

Reader: Professor Dall Forsythe

Submitted By: Georgia Emory
April 12, 1994

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EXECUTIVE SUMMARY

The Cheyenne River Sioux Tribe is currently seeking compensation from the U.S. Congress for land that was flooded by the construction of the Oahe Dam in the 1950s. It is the intent of the Tribal Council to use the income generated by the compensation fund to enhance the economic development opportunities for the Tribe.

RECOMMENDATION ONE: Create an Equity Injection Program and a Peer Lending Program as mechanisms to enhance economic development opportunities on the Cheyenne River Reservation. One of the major impediments to economic development on the Cheyenne River Reservation is the equity crunch or the lack of equity. Potential business owners lack appropriate equity to contribute as collateral for a bank loan or as their own seed money. Without access to equity, they are denied credit to start or expand their businesses. It is proposed that initially approximately a third of the income from the compensation money be used to fund an Equity Injection Program and a Peer Lending Program.

The **Equity Injection Program** is modeled on the Bureau of Indian Affairs' successful Indian Business Development Grant Program (IBDGP). The Program would have the following features:

- Viable businesses receive commercial bank loans for up to 70% of business needs.
- Owners contribute 5-10% of their own equity.
- The Tribe supplies the remaining 25% equity by purchasing stock in the corporation.
- The owner agrees to buy the stock back in five to seven years.
- The proceeds are placed in a revolving fund to finance additional businesses.

The **Peer Lending Program** is modeled on several microlending programs which seek to lend money to smaller businesses which need loans under \$5,000. The Lending Program would have the following features:

- Groups of reservation members who wish to start or expand their own businesses would receive business training.
- Upon completion of training, the group reviews each member's loan application.
- First time borrowers receive a one year market rate loan for up to \$500.
- Subsequent loans of up to \$5,000.
- Each group monitors loan repayment to the revolving fund and establishes a joint savings account to create their own equity pool.

The costs and benefits of creating or using Tribal banks, credit unions, tribally owned businesses, compensating balances, or grants are also outlined in this report. However, they are not recommended as most of these mechanisms fail to address the underlying equity problem or they provide less financial leverage for the Tribe than the Equity Injection and Peer Lending Programs do.

RECOMMENDATION TWO: Establish a non-profit organization to develop and run the **Equity Injection and Peer Lending Programs**. These two programs could be established under the Department of Planning and Economic Development. However, for reasons of flexibility, political independence and ability to tap additional resources, it is recommended that the Tribe adopt the non-profit structure.

RECOMMENDATION THREE: Start to develop the organizational capacity needed to

establish the non-profit organization and to administer the Programs. Although the income from the compensation fund will not be available until the end of the year, at the earliest, Cheyenne River should begin the task of creating the non-profit, developing a Board of Directors and a staff and designing the policies and programs, now.

TABLE 1

THE KEY FEATURES OF THE RECOMMENDED PROGRAMS

PROGRAM	FEATURES
EQUITY INJECTION PROGRAM	<ul style="list-style-type: none">•Bank approves loan for 65-70% of capital needs•Owner contributes 5-10% of own equity•CRST purchases stock for the remaining 25 %•CRST to provide ongoing technical assistance•CRST not liable for corporation's debt•Owner repurchases stock in 5-7 years•Proceeds reinvested in other businesses
PEER LENDING PROGRAM	<ul style="list-style-type: none">•Groups receive business training•Group members review and approve each other's loans•Initial loan: up to \$500 for one year at market rate•Subsequent loans up to \$5,000•Regular group meetings to receive loan repayments, additional technical assistance and group support•Establishment of a group savings account•Proceeds from the loans reinvested in new loans

TABLE 2

THE BENEFITS AND COSTS OF THE EQUITY INJECTION PROGRAM

PROGRAM	BENEFITS	COSTS
EQUITY INJECTION PROGRAM	<ul style="list-style-type: none">•Realistic capital structure•CRST does not have to develop internal credit review and monitoring capabilities•Increases the likelihood of funding a successful business•Minimizes political influence•Creates a good credit history•Leverages CRST's resources•Owners contribute some at-risk money to demonstrate their commitment	<ul style="list-style-type: none">•Risk of loss•Compensation fund income not available for other purposes•Staffing required•Not suitable for very small businesses

TABLE 3

THE BENEFITS AND COSTS OF THE PEER LENDING PROGRAM

PROGRAM	BENEFITS	COSTS
<p style="text-align: center;">PEER LENDING PROGRAM</p>	<ul style="list-style-type: none"> •Increases the small business survival rate •Increases the chance of making a successful loan •Provides business owner with moral support, motivation, and business contacts •Minimizes political favoritism •Builds equity and a credit record •Leverages CRST's resources •Savings pool helps business owners •Targets the start up or expansion of very small businesses 	<ul style="list-style-type: none"> •Risk of loss •Compensation fund income not available for other purposes •Very labor intensive •Lead time needed to develop program and train staff

TABLE 4

THE BENEFITS AND COSTS OF THE OPTIONS NOT RECOMMENDED FOR ADOPTION BY CRST

PROGRAM	BENEFITS	COSTS
<p style="text-align: center;">TRIBAL BANK</p>	<ul style="list-style-type: none"> •Viewed as more approachable by reservation members •Develop an expertise in loan types or sizes currently not available •Makes other reservation-based banks more competitive 	<ul style="list-style-type: none"> •Does not solve the equity problem •Will have same lending requirements as other banks •Cannot limit services to tribal members •Larger loans may become the primary focus •Staffing required •Duplication of banking services
<p style="text-align: center;">CREDIT UNION</p>	<ul style="list-style-type: none"> •Able to make very small loans •Low-income credit unions can receive deposits from non-members •Eligible for technical assistance from other organizations 	<ul style="list-style-type: none"> •Risk of making a bad loan •Technical assistance not designed for small business lending •Staffing required
<p style="text-align: center;">TRIBALLY OWNED BUSINESSES</p>	<ul style="list-style-type: none"> •Demonstrated ability in running businesses •Targets larger businesses •Profits fund the Tribal Budget 	<ul style="list-style-type: none"> •Risk of loss •Overlooks more labor intensive businesses •Will concentrate activity in Eagle Butte •CRST to develop capacity to do the financial review of business ideas •Target for political influence •Limits ability to leverage CRST's resources

TABLE 4 con't.

PROGRAM	BENEFITS	COSTS
<p style="text-align: center;">COMPENSATING BALANCES</p>	<ul style="list-style-type: none"> •Overcomes collateral problem •Earns interest 	<ul style="list-style-type: none"> •Does not address the equity problem •Removes incentive for bank to do a thorough loan review •Borrower has little incentive to make the business work •Risk of loss •No financial leverage •Crowding out by people who already qualify for loans
<p style="text-align: center;">GRANTS</p>	<ul style="list-style-type: none"> •Addresses the equity problem •No paper work or follow up 	<ul style="list-style-type: none"> •One time use of the income from the compensation fund

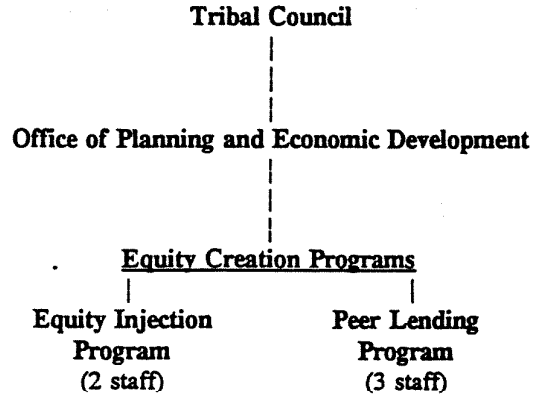
TABLE 5

THE BENEFITS AND COSTS OF ADOPTING A TRIBAL GOVERNMENT PROGRAM OR A
NON-PROFIT STRUCTURE FOR PROGRAM IMPLEMENTATION

STRUCTURE	BENEFITS	COSTS
TRIBAL GOVERNMENT PROGRAM	<ul style="list-style-type: none">•Measure of control•Some cost savings	<ul style="list-style-type: none">•Political interference
NON-PROFIT	<ul style="list-style-type: none">•Insulation from politics•Ability to solicit funding from foundations•Qualify for financial and technical assistance•Nonretail banks may be able to invest	<ul style="list-style-type: none">•Start up time required•Overhead expenses

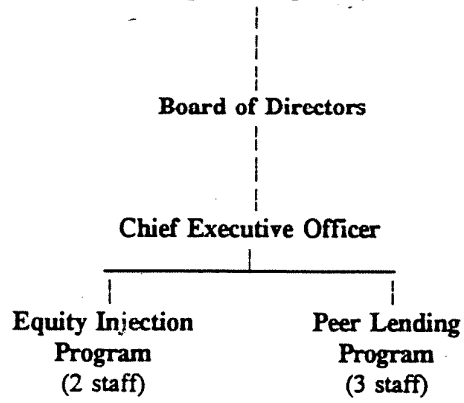
CHART 1

Tribal Government Organizational Structure



Non-profit Organizational Structure

Tribal Council <--- funding and audit ---> Non-profit Organization



I. INTRODUCTION

Construction on the Oahe Dam began in 1948 as part of the Pick-Sloan Plan to control flooding on the Missouri River. The creation of the dam also led to the creation of the Oahe Reservoir, which ironically flooded thousands of acres of farmland upstream, including land on several Native American reservations. During the 1950s, a series of treaties with the U.S. Congress authorized payment of compensation to the affected tribes for the lost reservation land.

Recently, the Standing Rock and Fort Berthold reservations asked for and received additional compensation from the U.S. Congress to reimburse them more fully for the loss of land and the economic livelihood that it provided. The Cheyenne River Sioux Tribe (CRST) also plans to petition Congress for just compensation and has hired a consultant, Robert McLaughlin, to determine the true economic loss to the Tribe. In the past, Congress has requested detailed plans for use of the money, before granting compensation. CRST has already decided that, if it receives the money, it will be placed in a compensation fund and that income derived from the fund will be used to promote economic development on the reservation.

The purpose of this report is to recommend the establishment of a non-profit organization to develop and administer an Equity Injection Program and a Peer Lending Program. These two programs are mechanisms for creating new, private businesses which the Cheyenne River Sioux Tribe could include in its economic development plan.

The Tribe has been very successful at managing its own tribal corporations. However, with the exception of ranching, individually owned businesses, which help to build a diversified economic base, are a rarity on the reservation. To fill this gap, it is recommended that the Tribe

start an Equity Injection Program and a Peer Lending Program for individual entrepreneurs who want to start their own businesses, but lack the equity or business training to do so. The main features of the two programs are summarized in Table 1.

A portion of the annual income generated by the compensation fund should pay for these programs. The rest of the fund income should be spent on education and the development of tribal corporations, according to priorities set by the Tribal Council. In part, the education expenditures should improve the quality and quantity of services provided by the local community college, and both kinds of expenditures should provide tribal members with job-related skills and encourage them to seek out business opportunities. In the final analysis, the goal of these programs is to expand the economic opportunities available to tribal members so that they can realize their dreams.

II. BACKGROUND

The Cheyenne River Indian Reservation was established by treaty in 1889 in Dewey and Ziebach Counties in South Dakota. Located in the north central part of the state, the reservation is roughly the size of Connecticut and has a total population of almost 15,000. The total Native American population is a little under 11,000.¹

Over time, the amount of reservation land available to Native Americans has shrunk. The Surplus Land Acts of 1908 and 1910 allowed non-Indians to homestead on the reservation. CRST lost more of its land when the Oahe Dam was constructed in the 1950s to control flooding downstream on the Missouri River. The Missouri and Cheyenne Rivers form the eastern and southern boundaries of the reservation. When the Missouri was impounded below the confluence of the two rivers, flooding occurred in both river basins and necessitated the relocation of 30% of the Tribe to the township of Eagle Butte, located in the middle of the reservation. Not only were homes lost, but so was a significant part of the economic base of the reservation: the flooded land had been a source of jobs and income through farming, grazing, gathering, timbering and hunting.²

Although Eagle Butte is the largest township on the reservation, the seat of the Tribal Government, and headquarters for Bureau of Indian Affairs' programs, its economy could not provide enough jobs for all of the relocated population. Over time, the reservation employment situation has not improved. The largest formal sector employers of members are the Tribal, State and Federal governments and the agriculture industry, predominately cattle ranching. However, the Tribe reports that it has an 86% unemployment rate. Those members who do not have formal sources of income live on welfare, land lease payments and income from odd jobs.

The average per capita income is approximately \$3,000.³

In addition to the high unemployment rate, there is a chronic housing shortage, a high rate of infant mortality, and a high incidence of alcoholism and other chemical dependencies.⁴

Cheyenne River Sioux Reservation Economy At A Glance
<ul style="list-style-type: none">•Roughly the size of Connecticut<ul style="list-style-type: none">•Approximately 15,000-residents<ul style="list-style-type: none">•11,000 Native Americans<ul style="list-style-type: none">•86% unemployment rate•\$3,000 average per capita income

In an effort to create jobs, the Tribal Council has been very aggressive about starting Tribal Corporations. The Tribal Government Corporation Ordinance (Resolution No. 214-91-CR) was adopted in 1991 to establish Tribal Governmental Corporations. These corporations share a Board of Directors which is separate and independent from the Tribal Council, although Council Members may also be Directors. The corporations are represented by one share of stock which the Tribe as a whole owns; dividends from this share are paid to the Tribal Government to fund programs benefiting the Tribe. While the assets are held separate from the Tribe, there is Tribal Government oversight since the corporations are subject to an audit and must make an annual report to the Council.

Currently, the Tribal Corporation is a conglomerate overseeing the management of a telephone company, a cable company, a grocery store, a print shop, a gas company, and a company which owns air time on a communications satellite. The Board of Directors and the CEO work together to develop clear operating policies for each business. Adhering to these policies has enabled the utilities to turn a profit for the first time and the supermarket is about

to become profitable in its first year of operations under Indian control. The telephone company and supermarket are building additional space, but, in spite of this capital expense, the Tribe projects that the conglomerate will be able to contribute \$150,000 or approximately 3% of this year's \$4.6 million Tribal Government General Fund budget.⁵

The conglomerate currently has \$200,000 available to fund new tribal ventures and is pursuing several casino operation options and a franchise to bake and distribute cookies. But, the conglomerate is not the only tribal entity involved in business activity. The Tribal Office of Planning and Economic Development, which wrote the Tribal Governmental Corporation Ordinance, operates a construction company and recently received funding for a hotel; both of these will eventually become tribal corporations as well.⁶

Although some financing for new operations has been made available from the conglomerate's revenues, funding new projects has been an uphill battle. Financing for projects from commercial banks has not been easy to obtain. The only remaining recourse was for the Office of Planning and Economic Development to apply for private and federal grants. It has done so with some success, particularly through the Bureau of Indian Grant Program. The bottom line though is that these finance funds are limited and infrequent.

One of the reasons it has been so hard for both the Tribe and individual members to obtain financing is that conventional collateral, in the form of land or buildings, cannot be used for most reservation-based projects. Policies establishing the reservation restrict the use of land (and anything attached to the land) in its use as collateral. Given that a bank cannot seize land or buildings in the event of a default, they rarely make real estate based loans. To their credit, banks are more willing to consider cattle, truck or car loans since these loans automatically generate seizable assets.

A second reason for the lack of business credit available to members is the absence of tribal member equity. This problem and the collateral problem are much the same. Typically, entrepreneurs take a second mortgage on their property and use the cash as an equity contribution to their business project. But, just as tribal members cannot put a house, ranch or land up as collateral, they also cannot get a second mortgage and use the proceeds as an equity contribution in a business. In addition, the low levels of income mean that individuals do not have savings which they could use as risk capital. Faced with this equity crunch, entrepreneurs are forced to ask banks to lend 100% of the businesses' start-up financing needs. Banks do not lend on those terms.

III. EQUITY CREATION: MODELS AND RECOMMENDED PROGRAMS

In order to solve the equity crunch on the Cheyenne River Reservation, I propose the creation of two programs: the Equity Injection Program and the Peer Lending Program. Both programs have their origins in existing, successful equity creation models which meet the equity needs of different sized entrepreneurs. The Indian Business Development Grant Program was designed to help larger businesses, while peer lending programs target micro-enterprises.

A. TARGETING LARGER BUSINESSES

i. THE INDIAN BUSINESS DEVELOPMENT GRANT PROGRAM MODEL

The Equity Injection Program is modeled on the one Bureau of Indian Affairs' (BIA) program which solves the equity problem. The BIA's Indian Business Development Grant Program (IBDGP) creates equity for businesses so that the amount of debt financing is reduced

to appropriate levels. IBDGP provides grants for up to 40% of a business's capital needs, if the other 60% comes from private financing. Although it is a successful program, the IBDGP lacks adequate resources.⁷

The program came into existence as The Indian Finance Act, Public Law 93-262 in April of 1974. When the program first started, many of the businesses received the loan portion of the package from the BIA revolving loan fund as a way of speeding up the process. After three years of operations, the program had not created the viable businesses which its sponsors envisioned. The General Accounting Office (GAO) was asked to analyze the program. The GAO reported that a lack of proper loan servicing, inadequate technical assistance to the businesses, and poor analysis of the loan packages contributed to the high rate of business failure.⁸

Funding for the program was discontinued until Congress reauthorized it with Public Law 98-449 in 1984. The IBDGP was revamped to be available to both individuals and the tribes and required that the debt financing come from community banks. To avoid political pressures, approval of the BIA grant was moved to the area offices. Restricting the loans to banking institutions meant that the applications required the same amount of scrutiny that non-Indian loans required and assured that loan decisions were made for economic, not political, reasons.⁹

An independent review of IBDGP's track record in the BIA Aberdeen Area Office found that 83.1% of the 152 loans that were approved during fiscal years 1987 through 1992 resulted in successful business operations. (In dollar terms, the ratio is even better: the dollar value of the grants to successful ventures over the total dollar value of the grants made is 86.7%.¹⁰) The national average for successful business start-ups is 50%. These grants were made to a variety of businesses: transportation, livestock, manufacturing, and service and retail operations.¹¹

Although the program is very successful, it is woefully under funded. In fiscal year 1993, a little less than \$4,000,000 was available to the IBDGP. This amount is divided equally among 12 BIA areas. Last year, \$433,000 was available for the IBDGP in the Aberdeen Area. This year, the Aberdeen area allocation was cut to \$333,000.¹²

Cheyenne River had three grants approved in fiscal year 1993, before the money ran out. Grant money, totalling \$281,700, funded two cattle operations and the construction of a tribally owned Super 8 hotel. This year, because there is such a shortage of funding, the BIA Aberdeen Area office is trying to limit the grants to \$25,000 per request to be able to help more businesses. The Area office also grants only 25% of the capital needs instead of 40%, the maximum allowed under the Indian Finance Act.¹³

So far for fiscal year 1994, roughly \$79,000 has been dispersed in four grants to Cheyenne River businesses, three for cattle and one for a lodging house. Two more proposals are being reviewed, one for a cattle project and another for a day care center. John Lemke, who is under contract to administer the IBDGP at Cheyenne River, says that there is demand for much more grant money, including proposals for several minimarts to service outlying regions on the reservation, a truck stop, a five and dime store, and several hog confinement projects.¹⁴

Depending on the type of business involved, the bank will have different requirements for the capital structure. The bank loaned the lodging house 75% of its capital needs. The cattle operations required a 25% investment of personal capital, in addition to the grant, and the entire herd serves as collateral on the loans.¹⁵

ii. THE EQUITY INJECTION PROGRAM

Congress created the IBDGP because reservation businesses needed equity to avoid starting out with a tremendous debt burden. In addition to providing equity in the form of grants, the IBDGP requirement that the business plans and loan applications be approved by private sector banks has been a major factor in the successful start up and expansion of reservation businesses.

The Equity Infusion Program proposed here has the same goal— creating equity so that successful, individually owned and managed businesses are developed. The Program would also use private sector banks to review and approve a business loan.

Some specific points of the Equity Injection Program's operation are:

Process of Equity Provision:

- The Tribe would provide equity funding by purchasing stock in the company.
- The relationship between the Tribe and the company is such that the Tribe may provide technical assistance to the company, but it assumes no corporate liability in excess of its initial investment.
- The length of the relationship would be determined by agreement based on a projected cash flow which would include normal business income and expenses, reinvestment in the company, contributions to a stock repurchase fund, and interest expense. It is envisioned that the relationship will be in place for five to seven years.
- At the end of that time, the owner has two options: 1) buy the stock back at cost in one or several blocks over an agreed upon time frame, or 2) start paying dividends.
- Inability or failure to exercise these options would lead to a renegotiation of the stock agreement with possible legal penalties.

Proceeds from the Shares:

- The proceeds would be deposited to the Equity Injection Capital Fund and recycled by participating in other equity creation deals.
- Money in the Fund would not be idle, but would be invested in short maturity investments (i.e., certificates of deposit, cash equivalents, time deposits) awaiting use for the next equity injection.

Incentives for Success:

- A deal would be structured so that the owner would put up at least 5-10% of his or her own at-risk capital.
- The Tribe would contribute 25% and the banks fund the rest.
- The Tribe would not purchase the equity until after the bank has approved the loan, thus insuring that due diligence on the business plan has been done and it is a viable operation.
- As far as possible, these loans should be made by adhering to strict loan underwriting criteria without the assistance of a government loan guarantee. Typically, guarantees cover up to 90% of the new money in a loan and specify the maximum interest rate that can be charged. While most off reservation banks offer competitive interest rates, banks on the reservation usually charge about 2% more, in order to compensate for what they perceive as being higher risk loans. Thus, getting a guarantee on these loans would force reservation banks to offer a lower rate mandated by the guarantee and help the business owner by lowering the interest expense.¹⁶

Benefits:

- 1) Businesses will have a **realistic capital structure** with manageable debt service.
- 2) Review and approval by a bank means that the Tribe does not have to develop **internal credit review and monitoring capabilities**.
- 3) Approval and ongoing monitoring by a bank **increases the likelihood of funding only viable businesses** and reduces chances of business failure and loss of the Tribe's investment.
- 4) External review imposes economic discipline and **removes political favoritism**.

- 5) Involvement by the banks enhances reservation/off reservation business relationships and helps business owners create a good credit history, which can be used for future financing needs.
- 6) Involvement by the banks means that the Tribe can leverage its resources and participate in more equity fundings.
- 7) Contribution by the owners of some at-risk money demonstrates their commitment to an ongoing, successful business.

Costs:

- 1) The Tribe forgoes direct investment of earnings on the money invested in the businesses and is exposed to the risk of loss. While IBDGP has an 87% success rate, 13% of the businesses fail.
- 2) Since the funding for the Equity Injection Program is part of the income earned from the land compensation fund, that income will not be available for other purposes. However, since the money is committed for five to seven years at a time and then recycled, the largest draws on the income will be during the first several years of the program. Unused money can be invested to earn interest until it is needed. (See Appendix I)
- 3) A program administrator will be required to track the equity infusions and to give any technical assistance to business owners needed before and after the approval of the loan. The administrator will ensure that there is no recourse against the Tribe for any of the businesses' liabilities.
- 4) Banks will still not be interested in making small loans. Total capital requirements for amounts under \$5,000 will require another mechanism. (See TABLE 2)

B. TARGETING SMALLER BUSINESSES

i. THE PEER LENDING MODEL

In order to provide small business loans to people who have no equity, organizations in Chicago and rural areas of Arkansas, North Carolina, and South Dakota have experimented with a peer lending model based on the experiences of the Grameen Bank in Bangladesh. After initial tinkering to make the model fit the cultures and opportunities of the inner-city, the rural South and a midwest reservation, these programs are reporting successful job creation or expansion. The Peer Lending Program is patterned on these efforts.

The goal of most peer lending programs is to help the borrower create his or her own successful business by providing business training and small loans. The individual loans are approved by the borrower's group, who has reviewed either a business plan or a cash flow statement and a business description. First time borrowers are restricted to the amount that they can borrow, usually \$2,000 or less. The entrepreneurs have the opportunity to eventually borrow up to \$10,000. After that, the businesses have developed strong credit track records and are encouraged to seek loans from commercial banks.

There are several reasons to require review and approval of the loan by the group that trained together. During the process of training, the members hear each other's business ideas and have an opportunity to assess one another's character and determination to succeed. The members approve the loans based on their belief in the group member, the feasibility of the business idea, and the ability of the business to meet the repayments.

In order to keep the principle and interest payments manageable, the loans are intentionally kept small and the payments are usually made on a biweekly basis. Once the

borrower has proven him or herself capable of managing the debt, by repaying in full, he or she can apply for larger loans. The training staff members, as well as the borrowing group, meet regularly to offer technical assistance, moral support and encouragement.

After the first loan is approved, the group members open a joint savings account. Based on the loan payment cycle (once a month or every two weeks), the members make an agreed upon contribution; the savings account acts as another source of capital for the members, and it can also be used to cover bad loans.

Experience shows the peer review and the provision of technical assistance help keep the default rate low. Some organizations encourage members to cover bad loans, while others encourage mutual help by denying increased loans to groups that have had a default. Either way, the staff relies heavily on group members to screen loans and to enforce payment schedules. In addition to peer pressure, some programs also take an item of value from the borrower as collateral.

Currently, five Native American reservations are experimenting with peer lending programs. The Circle Banking Project of the Lakota Fund, started by the First Nations Development Institute on the Pine Ridge Reservation in 1989, has the longest track record.

The Circle Banking Project forms groups of four to six people who receive some business training and "Personal Effectiveness Training" and learn to cooperate as a group. For the group to become certified to borrow at the end of the training, each member must pass a written test.¹⁷ Then the group reviews a member's loan, and if they approve it, the staff does a final review.¹⁸ Each group member can borrow up to \$400 for a first loan; up to \$1,000 on subsequent loans. No more than one immediate family member can participate in the same group, in order to increase business diversification and decrease favoritism. Group members

take responsibility for each other's loans by co-signing the loan and covering missed payments.¹⁹

ii. THE PEER LENDING PROGRAM

The goal of most peer lending programs is to "enable owners of the smallest of the small businesses to become economically self-sufficient through self-employment, whether in a sideline, home-based enterprise, or a full-time storefront operation."²⁰ Cheyenne River could help its members to reach economic self-sufficiency by starting its own circle or peer lending project, using some of the income from the compensation fund to cover staff expenses and to create a capital fund. (See Appendix I)

Some of the specific points of the Peer Lending Program's operation are:

Process of Peer Loan Provision:

- Training sessions should be held several times a year at a variety of sites around the reservation, so that all micro-entrepreneurs would have the chance to participate with people from their area.
- Training should include information on defining the product or service offered, identifying the market and creating a marketing plan, learning to keep simple books, to make a budget and cash flow projections, as well as how to make a determination on each other's loan applications.
- At completion of training, group members are encouraged to present their loan requests for group approval.
- Loans that are not approved can be resubmitted once suggested changes are made.
- The groups open and make regular deposits into their group savings account.

Proceeds from the Loans:

- The proceeds from the loan repayments would be deposited to the Peer Lending Capital Fund and recycled to make more peer loans.
- Money in the Fund would not be idle, but would be invested in short maturity investments, awaiting the next round of loans.

Incentives for Success:

- First time borrowers would be limited to \$500 one-year, market rate loans.
- To limit the misappropriation of funds, checks would be made payable directly to vendors from whom the borrower is purchasing supplies upon receipt of an invoice.
- The group would meet every two weeks for loan updates, additional information and advice and payment collection, as well as to make savings deposits to create an equity pool for the group.
- A series of larger loans, with a maximum of \$5,000, could be made after members repay their original loans.

Benefits:

- 1) Business training and technical assistance **increases the survival rate** of the new businesses.
- 2) Using the group as the loan committee **increases the chances of making a successful loan.**

The group can be thorough in their character assessment and will make only those loans they think will work. The group structure also creates peer pressure which helps keep members current on their loans and can aid collection, in the event of a default.

- 3) The group structure gives individual entrepreneurs **moral support, motivation, and a source of business contacts and ideas** that they would not have by working alone. The group also helps to decrease the isolation that many home-based entrepreneurs face.
- 4) The group structure **minimizes political favoritism.**
- 5) Successful completion of the program and graduation to the larger loans helps a business to

build equity and a credit track record for future financial transactions.

- 6) Formation of the Peer Lending Capital Fund allows the Tribe to leverage its resources by recycling the loan proceeds.
- 7) The savings pool helps business owners learn how to plan ahead and enables them to make business decisions about their own future. It encourages reinvestment in the business for future growth and profits. The savings pool also introduces people to the banking system around them.
- 8) The loan size targets the start up or expansion of very small home-based businesses, a sector in which commercial banks have no interest. Currently, small businesses are the primary source of new jobs nationwide, and they will continue to be as corporate America continues to scale down.

Costs:

- 1) Although peer review and ongoing technical assistance increase the chances of business success, there is **no guarantee that all the loans will be repaid.** The Lakota Fund currently has a 20% default rate on its Circle Lending loans.
- 2) Since funding of the Peer Lending Program comes from the income earned from the land compensation fund, that **income will not be available for other purposes.**
- 3) **Peer lending is very labor intensive,** requiring a staff with outreach and training skills and some ability to work with numbers. In-class training is only a part of the technical assistance that must be offered. The staff must be able to overcome people's initial resistance to sharing their business ideas and personal financial statements with a group. If several group members also receive some form of welfare, other lending programs

have found that the labor component is increased. The loan officers spend much of their time trying to convince participants that if they join the program, they won't be worse off. For example, Aid to Families with Dependent Children regulations limit household assets to \$1000, and loans exceeding this amount will automatically disqualify a person from receiving benefits. However, if the person is self-employed, he or she may keep transitional benefits (Medicaid and childcare) for up to a year. Earned income will also decrease the food stamp allocation a person receives, but only at a ratio of one dollar's worth of food stamps for every three dollars of earned income over a certain amount.

3) **Lead time** will be required to develop a program, to hire and train the appropriate staff and to create training and outreach materials. Training materials are available from a variety of organizations and could be adapted for use by the Peer Lending Program.

(See TABLE 3)

C. OTHER MODELS

There are other options available to the Cheyenne River Sioux Tribe to create businesses or to increase the availability of credit on the reservation. Some of these models have been pursued by other tribes with various degrees of success. The most common problem with these mechanisms is that they either fail to address the equity crunch issue or they limit the Tribe's ability to leverage their resources.

i. TRIBAL BANK

Part of the income from the compensation fund could be used to capitalize a tribally owned bank. This bank could be a chartered commercial or development bank which would offer all the standard savings, checking and credit services to members of the reservation. When the only bank in Browning, Montana closed several years ago, the Blackfeet Tribe reopened it, to keep a bank on the reservation. The establishment of the Blackfeet National Bank required a million dollars, technical advice furnished by the Council of the Energy Resource Tribes and successful fulfillment of the U.S. Currency Comptroller regulations.²¹

Elouise Corbell is the bank's director and a member of the tribe. Although she says that the bank is starting a non-profit community development office to help people learn about credit and how to fill out an application, the bank itself is restricted to making loans on the same criteria as any other commercial bank. A tribal bank may not give tribal members credit preference, since any kind of racial discrimination is forbidden under federal regulations. Corbell also tells tribes not to expect a bank to be a big money maker for them.²²

Benefits:

- 1) A tribally owned bank might be more culturally sensitive and be **viewed as more approachable by reservation members** than a regular bank.
- 2) As part of its charter, the bank could specify that it will **develop an expertise in a certain type or size of loan** not currently available in the area.
- 3) A new bank might **make the other reservation-based banks more competitive.**

Costs:

- 1) Creation of a bank **does not solve the equity problem** in a business's capital structure. Even if the bank could loan 100% of the capital requirements for a business, the huge interest payments would severely decrease the company's chances of survival.
- 2) The bank would be regulated so the **same lending requirements** would apply to its loans that apply to loans currently made by non-Indian commercial banks. In other words, loan requests which do not qualify at present would remain ineligible.
- 3) The bank would be regulated, so it would **not be able to limit service to tribal members only.**
- 4) The need to make a profit might curtail the type of lending the bank undertakes. **Larger loans, which are not so needed at Cheyenne River, may become the primary focus.**
- 5) A tribally owned bank would require staffing by **people with financial and managerial skills** who might be more productive in other businesses.
- 6) There are **already several banks on the reservation** offering full service. The real problem is an equity shortage, not a lack of checking accounts. (See TABLE 4)

In short, a tribal bank would be as bound by regulations as the present banks are. Establishing a tribal bank on the Cheyenne River Reservation would be a duplication of effort which would not lead to the creation of new businesses. For these reasons, I do not recommend that CRST pursue this option.

ii. CREDIT UNION

A credit union more directly addresses the problem of equity creation through savings and it does have the ability to make loans. Typical reservation-based credit unions either take savings deposits or sell shares of ownership to their members. The emphasis of most credit unions is to be consumer-oriented, so they lack an economic development focus. As a result, most of the loans are consumer loans, although some small business loans do get approved. Depending on the training of the staff, performance, in terms of making successful loans, has ranged from good to dismal.²³

Benefits:

- 1) Credit unions have the ability to make very small loans like peer lending programs can.
- 2) If the credit union is designated as a low-income credit union, it can receive deposits from non-members. The Sisseton-Wahpeton Federal Credit Union, in South Dakota, is a low-income credit union and has been able to generate over \$750,000 in non-member deposits, which it can then relend.²⁴
- 3) A credit union is eligible for technical assistance from the National Credit Union Administration and other agencies.

Costs:

1) **The quality of the character based loans may be low as staff makes the lending decisions.**

They may not be able to perform as in depth character assessments as the peer lending programs do. The structure also leaves room for decisions based on political, not economic, factors.

2) **Although technical assistance is available to credit unions, most of it is customer-oriented and does not address lending to small businesses.**

3) **A staff will need to be hired and trained in lending procedures, credit counseling, and business training. (See TABLE 4)**

Although a credit union would be able to make smaller loans, they are usually consumer oriented. The technical assistance that most organizations offer to credit unions would not be appropriate for establishing a credit union whose emphasis is small business lending. I find that a credit union would not be the best solution for the Tribe's equity problem.

iii. TRIBALLY OWNED BUSINESSES

The Tribe could decide to expand its current strategy and use part of the compensation income to fund more tribally owned businesses. As mentioned earlier, Cheyenne River has been successful in starting or turning around businesses and making a profit. Several other tribes, including the Passamaquoddy in Maine and the White Mountain Apache in Arizona, have also used this strategy to their advantage. More Cheyenne River Tribal Government Corporations could be established to provide employment and, ultimately, to fund the Tribal budget.

Benefits:

- 1) The current management and Board of Directors of the Tribal Corporation have a **demonstrated ability in running the businesses**. The Office of Planning and Economic Development has generated several successful projects which have or will become part of the Tribal Corporation.
- 2) This approach allows the Tribe to establish **larger businesses**, which a single business person might not attempt to do.
- 3) Profits from the businesses help to **fund the Tribal Budget**, making it less dependent on outside sources of income.

Costs:

- 1) Directly owned businesses can also **lose the Tribe's money**. The Penobscot Tribe in Maine has recently lost \$20 million as a result of six businesses failing.²⁵
- 2) Smaller, and potentially **more labor intensive, businesses are overlooked**.
- 3) Emphasis on starting larger businesses will **concentrate most of the economic growth in Eagle Butte** where the infrastructure is most developed. Populations in outlying regions would not benefit.
- 4) The Tribe would have to **develop the capacity to do all the financial and marketing review** that a bank does for free, in order to make sure the business is economically viable. Without in depth review, projects could be decided for political or prestige reasons.
- 5) In addition to geographic concentration, the consolidation of businesses under one board of directors could create an **easy target for political maneuvering and posturing**.
- 6) Complete financing of a business uses more resources than the Equity Injection Program

would. This option **limits the Tribe's ability to leverage resources.** (See TABLE 4)

Cheyenne River has been very successful with its tribally owned businesses. However, now there is a need to concentrate on private sector development on the reservation. Since both the Equity Injection Program and the Peer Lending Program are aimed at increasing the ability of individuals to start and expand private businesses, I recommend that part of the compensation fund income be spent on these programs and not simply on the expansion of tribal corporations.

iv. COMPENSATING BALANCES

Another way to encourage the formation of individually owned businesses and alienate the collateral problem is to use a compensating balance. Sometimes a bank will accept funds as a certificate of deposit (CD) and hold it as a guarantee on a loan. The Tribe could place money with a bank to guarantee an individual's loan. Depending upon the arrangement with the individual and the bank, the Tribe could subsidize the loan by allowing the individual to pay the bank the difference between the interest on certificate of deposit and the loan. Should the borrower default, the bank uses the CD to cover the loss.

Benefits:

- 1) The certificate of deposit could **overcome the collateral problem.**
- 2) If the Tribe does not subsidize the borrower, it **earns interest** on the deposit.

Costs:

- 1) If the loan is not subsidized, the borrower is still carrying interest expense on 100% of the business capitalization. This option does not address the equity problem.
- 2) The use of a guarantee removes the bank's incentive to perform a thorough review of the loan and could set the borrower up for default.
- 3) With a guarantee and no personal at-risk money involved, the borrower has little incentive to make the business work.
- 4) There is a high probability of loss of money through default. Depending on the size of the loan, the certificates of deposit may also exceed federal deposit insurance limits.
- 5) Compensating balances afford the Tribe no financial leverage.
- 6) If the loan is subsidized, people who might already be eligible for a loan will want to use this mechanism, crowding out those who could not get a loan otherwise. (See TABLE 4)

The use of compensating balances does not create an appropriate incentive structure for success. It does little to encourage entrepreneurs to establish ongoing businesses with financially sound capital structures or bankers to review loan proposals thoroughly. The Tribe assumes all the risk in the transaction, with little financial reward. I think that the opportunities for failure are very high. Therefore, I recommend that CRST avoid the use of compensating balances.

v. GRANTS

One other option for the Tribe would be to duplicate the BIA's IBDGP completely and give grants to the business owners, instead of buying stock.

Benefits:

- 1) Like the IBDGP, the grants address the equity constraint problem and would get the businesses off to a financially healthy start.
- 2) A grant program would require no paper work or follow up after the grant is given.

Costs:

- 1) Giving a grant would only use the income from the compensation fund once. Establishing a capital fund from repayments allows the money to benefit many businesses and reduces the reliance on the compensation fund income for on going funding. The compensation income could be used for other purposes. (See TABLE 4)

Unlike the revolving capital fund structure of the Equity Injection and Peer Lending Programs, a grant program would not be self-sustaining. The capital outlays to the recommended programs end after five years, freeing up compensation fund income for other purposes. A grant program would need capital outlays for the life of the program. I do not support this one time use of the income.

IV. ADMINISTRATIVE STRUCTURE AND IMPLEMENTATION
OF THE PROGRAMS

In addition to deciding which option(s) the Tribe should adopt to create equity on the reservation, CRST must also decide whether the programs should be part of the Tribal Government or exist as a separate 501(c)(3) or tribal non-profit organization. Then CRST must begin to develop the infrastructure to manage the programs.

A. TRIBAL GOVERNMENT PROGRAM STRUCTURE

If the Tribe chooses to run the Equity Injection and Peer Lending Programs as Tribal Government programs, the logical department to administer the programs is the Office of Planning and Economic Development, since it currently oversees the IBDGP. The IBDGP staff, under John Lemke, has been aggressive about marketing the program and generating successful loan applications. They have financial expertise and good working relationships with the local financial institutions necessary for creating a successful Equity Injection Program. If the Equity Injection Program replaces the IBDGP, it would be a natural fit to have the staff take up the new program. (See CHART 1)

The IBDGP staff also handles BIA loans and guarantees, so additional personnel may be needed to take on these programs. In addition, more staff would be needed to develop and manage the Peer Lending Program. The Lakota Fund is currently operating with a director, an office manager and three trainers/lending officers. Six people will initially be required to handle the two programs.

Benefits:

- 1) Establishing the programs under the Office of Planning and Economic Development would provide a larger **measure of control** by the Tribal Council.
- 2) There may be **some cost savings** on overhead.

Costs:

- 1) The closeness to the Tribal Council may introduce a **political dimension** to the running of the programs. (See TABLE 5)

B. NON-PROFIT STRUCTURE

Creating a non-profit to run the programs requires the same number of staff (some of whom may be from the Planning Office), plus the development of an independent Board of Directors to oversee the organization. (See CHART 1)

In setting up the non-profit organization, the Tribal Council would have four functions:

- The Tribal Council would prescribe the governance structure of the non-profit by writing the bylaws which would state the number of Directors, policies for their appointment and termination, and the mission of the organization. Typically, boards have an odd number of Directors. In order to build continuity, the Directors should serve four year terms. The first cadre of Directors should be appointed by the Council, with half (plus one) to serve four years and the other half to serve two years, in order to build in staggered terms. Future vacancies would be filled by appointments made by the Directors. Council Members may serve on the Board, but may not constitute a majority. Board Members may not benefit from the non-profit's programs and may be asked by the majority to step down from their position if they are not contributing to the organization by regularly attending meetings.
- The Council would also be responsible for writing the founding policies of the non-profit, including its mission statement. However, once the non-

profit has a Board, it is the Board's responsibility to hire and fire staff and to set salaries, budgets, operating policies, and procedural guidelines for the Programs.

- The Tribal Council would establish a line item in the Tribal Budget for an annual transfer of compensation fund income to the non-profit.
- The Tribal Council would maintain some oversight of the non-profit by requiring an annual report detailing how the money was spent, how many businesses and borrowing groups were started, etc. Dissatisfaction with the non-profit's performance would be expressed in writing with specific complaints. If the non-profit is unresponsive to the complaints, funding can be reduced.

Benefits:

- 1) Operating under an independent board of directors permits some **insulation from politics**.
- 2) A non-profit can **solicit funding from foundations**, and diversify its funding sources.
- 3) Under the community banking bills currently in front of the U.S. Congress, a community development organization, which this would be, would **qualify for financial and technical assistance**, when a public agency would not.²⁶
- 4) There are some proposed changes to the Community Reinvestment Act (CRA) which, if approved, would allow **nonretail banks to invest outside their area and receive CRA credit if they invest in loan funds servicing low-income census tracts**.²⁷

Costs:

- 1) **Time needed** to develop a Board of Directors and to establish a non-profit organization.
- 2) **Overhead expenses** associated with separate facilities. (See TABLE 5)

One of the reasons that the Tribal Corporation has been so successful is because it has

a strong, independent Board of Directors and it operates outside of the Tribal Government. In order to duplicate this success and to take advantage of other financial and technical resources, I recommend the implementation of the programs under a non-profit organization.

C. Implementation Timetable

Late spring/early summer, 1994: The compensation legislation goes to Congress for introduction. Depending on which bill the legislation is attached to, funding may be available by the fall or year end. In the meantime, CRST can use the time wisely to build the programmatic infrastructure to have the programs ready to start when the funding arrives.

Summer, 1994: The JTAC Committee and Tribal Council decide on the appropriate structure for the governance of the programs and make budget recommendations to be included in the Tribal Council's next fiscal year budget. If a non-profit structure is selected, they need to start the incorporation by writing the bylaws and mission statement in accordance with IRS regulations or other codes regulating non-profits, and start to make Board appointments. Founding policy and procedures written by the Board or the Department of Planning and Economic Development should be submitted for approval by the Council.

Fall, 1994: The Board or the Office of Planning develops a job description for a Chief Executive Officer (CEO) and starts the search for an appropriate individual by placing ads in local and national publications. Interview and hire the CEO who then develops job descriptions for the staff. After the job descriptions have been approved by the Board or Department of Planning, the CEO will conduct a personnel search and will interview potential staff members. The CEO will develop the details of the programs, including policies and guidelines and necessary agreement forms, and will begin to develop relationships with the local banks and introduce the programs to the banks and

the community.

Three months before the funds are received: The Chief Executive Officer Director hires staff: two Equity Injection Program positions, one office manager and two trainers/loan representatives for the Peer Lending Program. The staff will be trained in their roles and will help develop outreach and training materials, and the necessary intake, loan request, and equity injection forms. All forms and policies should be reviewed by legal council for compliance with the law.

Two months before the funds are received: While staff training continues, the staff should start to market the programs. Outreach, in terms of letting the members of the reservation know that the programs are available, is crucial, especially in the outlying areas. Part of the outreach program should include a door-to-door survey of people's skills, which asks them if they would like to turn some of their hobbies or talents into businesses. From the data gathered from the survey, staff can assess areas of interest and target them as the initial peer lending training areas. Once interested people are identified, locations and dates for training in those areas should be fixed and tribal members invited to an informational meeting.

Funding received: Peer Lending participants can start their training the week following their informational meeting. Training should be held once a week, for seven weeks in a convenient location near the participants. Equity Injection participants can also be recruited from the surveys and informational meetings and should receive technical assistance as soon as they need it.

Two months after funding is received: The first Peer Lending Borrowing group is formed and acts as a loan committee on the first loan. They agree on a biweekly savings

contribution and continue to meet to review new loan requests and the status of outstanding loans. An information meeting is held for a new group in another location and the cycle starts over.

Annually: Evaluate both programs and make needed changes.

V. RECOMMENDATIONS

In its barest essentials, the keys to Indian economic development have two crucial components: Reservations need capital, both human and financial; and reservations need an economic and legal environment that can attract and hold that capital.²⁸

I propose that the Cheyenne River Tribe take advantage of the opportunity afforded to it by the compensation money and use some of the income to develop its human capital and an economic environment that will attract and support more economic development. Specifically, I make the following three recommendations.

1) **Programs:** That Cheyenne River spend part of the income from the land compensation fund to establish and finance the operations of an Equity Injection Program and a Peer Lending Program. The goal of both of these programs is to create equity and develop the skills for the founding and flourishing of individually-owned, reservation-based businesses.

2) **Structure:** That the Tribe adopt the non-profit structure to run these two programs because it would give the organization more flexibility in terms of generating financial and technical assistance and in minimizing political considerations.

3) **Implementation:** That CRST use the time lag prior to the receipt of the compensation fund to develop the programs. The introduction of legislation authorizing the compensation payment will probably take place this spring. It is conceivable that the Tribe will not receive any money for at least a year. This time lag could be put to good use by

constructing the programs.

Additional Considerations: In order to be successful, it is important to do three things, regardless of which structure or program(s) is adopted:

- Identify and eventually hire highly qualified staff.
- Establish well defined policies and operating procedures.
- Establish up front what the client can expect from the organization and what is expected of him or her.

VI. CONCLUSION

Establishing an Equity Injection Program and a Peer Lending Program are two of the steps that Cheyenne River can take toward greater economic development. Start up of these programs will require approximately one million dollars annually for the next five to seven years to establish strong capital funds and to effectively manage the programs. (See Appendix I) The Tribal Council should review the programs to make sure that the capital funds are large enough to meet demand for funding or to generate sufficient income to make the programs self supporting. If the Council decides that the money available from repayments is sufficient to meet ongoing demand, annual capital funding from the compensation income could be stopped, freeing that money to meet other economic development needs.

It will be the Tribal Council's job to decide the priorities for spending the rest of the compensation fund income. This report seeks to provide one piece of the solution to the economic development puzzle.

APPENDIX I

The Lakota Fund's annual operating budget of roughly \$270,000 supports five staff members who oversee the Circle Lending and Small Business programs. The Cheyenne River Peer Lending Program would need four staff members with an estimated operating budget of \$230,000. The Circle Lending has a \$600,000 capital fund balance, of which \$250,000 is currently outstanding in loans to members of 10 good loan groups. The Cheyenne River Peer Lending Capital Account could start with a \$50,000 balance which would be increased annually until it reaches the proper size to meet demand and/or to generate enough income through loan interest payments and investments to help cover operating costs.

Based on present salary ranges at Cheyenne River, I would estimate that the operating budget for business expenses and two staff members for the Equity Injection Program would be approximately \$75,000. The capital fund should start with a balance of \$500,000. Depending on the demand for the program, annual additions should be made to the fund balance over the next five years.

For illustration purposes, I chose to freeze the capital accounts additions after five years. At that time, \$250,000 would be available for lending through the Peer Lending Program and \$2,500,000 would be invested in equity, with \$500,000 available for new businesses each year. In order to maintain those balances, a reserve account should be established for both programs, so that losses from defaults do not diminish the amount of money available.

The Lakota Fund has established reserves equal to 30% of the loans which are current, 40% of the value of the loans which are 60 days past due, 50% of the loans 90 days past due and writes off the value of the uncollectible loan after a year.²⁹

I have provided three budgets for the combined programs which demonstrate the impact of changing the assumptions about the size of the reserve expense and losses. All other assumptions have been held constant. The reserve expense is calculated at the default rate, without taking into consideration any recovery of assets after the default.

The first projected budget assumes that the loss experience in the Equity Injection Program and the Peer Lending Program will be equal to the historic losses in the IBDGP (13%) and the Circle Lending Program (20%).

The second projected budget gives a more pessimistic scenario for the Equity Injection Program based on the worst year of the IBDGP. By 1992, 31% of the BIA grant money extended in 1988 was associated with bad loans. For the Peer Lending Program, I have assumed a 30% annual default rate.

The third budget is based on optimistic projections. Although IBDGP has had two years with no defaults, I have assumed a default rate of 5%. For the Peer Lending Program, the rate is assumed to be 10%.

Projected Budget
Historic Loss Scenario
(000s omitted)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
<u>Equity Injection Program</u>						
Interest Income ¹		\$ 2	\$ 2	\$ 2	\$ 2	\$ 2
Operating Expense 96		75	79 ²	83	87	91
Capital Contribution		500	500	500	500	500
Reserve Expense ³		65	65	65	65	65
<u>Peer Lending</u>						
Interest Income ⁴		4	9	13	17	22
Operating Expense		230	242	254	266	280
Capital Contribution		50	50	50	50	50
Reserve Expense ⁵		<u>10</u>	<u>20</u>	<u>30</u>	<u>40</u>	<u>50</u>
Total Expense		\$ 924	\$ 945	\$ 967	\$ 989	\$1,012
						\$ 481
<u>Compensation</u>						
Fund Income ⁶		<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Funds Available for Other Projects		\$2,076	\$2,055	\$2,033	\$2,011	\$1,988
						\$2,519

¹ Assumes that the money in reserve is invested at 3% for the year.

² Both operating expense figures assume a 5% inflation rate and no increase in staffing levels.

³ Reserve expense assumes a default rate of 13% and is calculated using the formula: 500 x .13. Actual results may vary.

⁴ Assumes that reserves are invested at 3% and the rest of the funds are loaned at 8%.

⁵ Assumes a 20% default rate and is calculated using the formula: fund balance x .20. Actual results may vary.

⁶ Projected income from a \$100 million compensation fund invested at 3%.

Projected Budget
Pessimistic Scenario
(000s omitted)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
<u>Equity Injection Program</u>						
Interest Income ¹	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5
Operating Expense 96	75	79 ²	83	87	91	
Capital Contribution	500	500	500	500	500	--
Reserve Expense ³	155	155	155	155	155	155
<u>Peer Lending</u>						
Interest Income ⁴	4	9	13	18	22	22
Operating Expense	230	242	254	266	280	294
Capital Contribution	50	50	50	50	50	--
Reserve Expense ⁵	<u>15</u>	<u>30</u>	<u>45</u>	<u>60</u>	<u>75</u>	<u>75</u>
Total Expense	\$1,016	\$1,042	\$1,069	\$1,095	\$1,124	\$ 593
<u>Compensation Fund Income⁶</u>						
	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Funds Available for Other Projects	\$1,984	\$1,958	\$1,931	\$1,905	\$1,876	\$2,407

¹ Assumes that the money in reserve is invested at 3% for the year.

² Both operating expense figures assume a 5% inflation rate and no increase in staffing levels.

³ Reserve expense assumes a default rate of 31% and is calculated using the formula: 500 x .31. Actual results may vary.

⁴ Assumes that reserves are invested at 3% and the rest of the funds are loaned at 8%.

⁵ Assumes a 30% default rate and is calculated using the formula: fund balance x .30. Actual results may vary.

⁶ Projected income from a \$100 million compensation fund invested at 3%.

Projected Budget
Optimistic Scenario
(000s omitted)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
<u>Equity Injection</u>						
<u>Program</u>						
Interest Income ¹	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Operating Expense 96	75	79 ²	83	87	91	
Capital Contribution	500	500	500	500	500	--
Reserve Expense ³	25	25	25	25	25	25
<u>Peer Lending</u>						
Interest Income ⁴	4	8	12	17	21	21
Operating Expense	230	242	254	266	280	294
Capital Contribution	50	50	50	50	50	--
Reserve Expense ⁵	<u>5</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>25</u>	<u>25</u>
Total Expense	\$ 880	\$ 897	\$ 914	\$ 930	\$ 949	\$ 418
<u>Compensation</u>						
Fund Income ⁶	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Funds Available for Other Project	\$2,120	\$2,103	\$2,086	\$2,070	\$2,051	\$2,582

¹ Assumes that the money in reserve is invested at 3% for the year.

² Both operating expense figures assume a 5% inflation rate and no increase in staffing levels.

³ Reserve expense assumes a default rate of 5% and is calculated using the formula: 500 x .05. Actual results may vary.

⁴ Assumes that reserves are invested at 3% and the rest of the funds are loaned at 8%.

⁵ Assumes a 10% default rate and is calculated using the formula: fund balance x .10. Actual results may vary.

⁶ Projected income from a \$100 million compensation fund invested at 3%.

Ending Capital Fund Balances
(000s omitted)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
Equity Injection Program	\$500	\$1,000	\$1,500	\$2,000	\$2,500	\$2,500
Peer Lending	\$50	\$100	\$150	\$200	\$250	\$250

ENDNOTES

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4. Ibid.
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7. Robert McLaughlin, "Assessment of the Aberdeen Area Office Indian Business Development Grant Program IBDGP: Fiscal Years 1987 through 1992," Solen, ND: Robert McLaughlin Company, 1992, 1-6.
8. Ibid.
9. Ibid., 1-6.
10. Ibid., 13.
11. Ibid., 21 & 31.
12. John Lemke, telephone interview, 11 Jan 1994.
13. John Lemke and Orville Mestes, personal interviews, 26 Jan. 1994.
14. John Lemke, telephone interview, 11 Jan. 1994.
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17. Valjean McLenighan and Jean Pogge, The Business of Self-Sufficiency: Microcredit Programs in the United States (Chicago: Woodstock Institute, 1991) 14.
18. Ibid., 32-33.
19. First Nations Development Institute, "Lakota Fund: Matching Capital to Culture," Ten Year Report (Falmouth: First Nations Development Institute, 1991) 43.
20. McLenighan, 4.

21. First Nations Development Institute, "Blackfeet Tribe Invests in its Community," Ten Year Report (Falmouth: First Nations Development Institute, 1991) 40.
22. Ibid., 40.
23. In a survey of credit unions, it was found that some organizations never even sent out statements or tried to collect on the loans. One officer did not keep regular office hours, making it hard for people to actually give him the payments. Not surprisingly, these organizations experienced high default rates. David H. Festa and James R. St. George, Evaluation of Reservation-Based Loan Programs, diss., John F. Kennedy School of Government, May 1988, 7.
24. Ibid., 19.
25. Jordana Hart and Daniel Isaac, "Penobscot finances questioned; Tribe's \$40m settlement may have been mishandled," The Boston Globe 7 Nov. 1993, 29 & 34.
26. CDFI Coalition, "CDFI Legislation Summary," 24 Nov. 1993.
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28. Joseph P. Kalt and Stephen Cornell, "The Redefinition of Property Rights in American Indian Reservations: A Comparative Analysis of Native American Economic Development," 121-150 American Indian Policy: Self-Governance and Economic Development ed. Lyman H. Legters and Fremont J. Lyden (Westport: Greenwood Press, 1994) 131.
29. Lakota Fund Staff, telephone interview, 25 Feb. 1994.

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Appendix F

**APPENDIX F: A Supplementary Proposal
for Economic Training**

One proposal apart from the Indian Entrepreneurship Program and current training opportunities available at the Bishop Indian Reservation is considered to merit inclusion as an appendix. This program would be a cooperative training corporation similar to Harvard Student Agencies in Cambridge, MA, which began in a University basement and has grown into a \$4.5 million company. At H.S.A., a select group of students are given the opportunity to manage small businesses under the corporate umbrella, such as a catering business, a cleaners, a publishing company, or a travel agency, for a one year term. Prior to this term is a three-month, hands-on training period which includes the development of a budget and business plan. At the end of each year, the dozen Agencies each pass on to new management trainees. All employees of H.S.A., with the exception of half a dozen accounting and senior staff members, are students.

A similar system could be set up in conjunction with the Indian Entrepreneurial Program and possibly the vocational services run by OV CDC. (The inclusion of the vocational students as non-management employees would be tricky, as explicitly hierarchical situations are probably best avoided). With adequate grants or other start-up capital, a series of small businesses could be established on the reservation under one corporate umbrella, possibly as a non-profit if adequately tied to the Indian Entrepreneurship Program. These businesses could then provide a training ground for Program participants and graduates, a potential larger source of employment, and a community-based economic development project that would likely enhance both the Reservation and the BPDC significantly. The author of this report would be happy to provide additional technical advice if requested.

Endnotes, Interviews, & Bibliography

Endnotes

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