



To the Senate Committee on Banking, Housing, and Urban Affairs Hearing on:

**OPPORTUNITIES AND CHALLENGES FOR
ECONOMIC DEVELOPMENT IN INDIAN COUNTRY**

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November 10, 2011

Pilamaya ye, thank you!

Chairman Johnson, Ranking Member Shelby, and distinguished Members of the Senate Committee on Banking, Housing, and Urban Affairs—*Mitakuyapi, Tuktel He Najin Oyate Wiyankapi Win Lakota emacyapi na Tanya Fiddler English emacyapi, k'sto*. To all of you, my Lakota name is “She Stands Where the People Watch Her Woman” and my English name is Tanya Fiddler. I am an enrolled member of the Cheyenne River Sioux Tribe. I am the Executive Director of Four Bands Community Fund, a nationally recognized Native CDFI that serves the Cheyenne River Sioux Reservation in north central South Dakota. I am also the Chair of the South Dakota Indian Business Alliance (SDIBA) and Co-Chair of the Native CDFI Network (NCN). Let me begin by saying *Pilamaya ye, thank you*, for the opportunity to appear before you on behalf of the people and organizations that are working to create Native private sector economies throughout the state of South Dakota and on reservations nationwide.

Introduction

The mission of Four Bands Community Fund is to create economic opportunity by helping people build strong and sustainable small businesses and increase their financial capability to create assets and wealth. This is no easy feat on the Cheyenne River Sioux Reservation. Similar to other rural reservation communities we experience substantially higher rates of poverty and unemployment than mainstream America and face a unique set of challenges to economic growth. Lack of physical, legal and telecommunications infrastructure, access to affordable financial products and services, and limited workforce development strategies are common challenges that our growing Native business owners face and must overcome in order to be successful in our economy.

The Cheyenne River Reservation encompasses Dewey and Ziebach Counties, two of the poorest counties in the nation. Sixty-two percent of the residents in Ziebach County live below the poverty level. People often travel 50 to 100 miles on poorly maintained roads to access basic goods and services. The median household income is \$27,000, nearly half of the United States average. The Bureau of Indian Affairs estimates that we have an 88% unemployment rate.

Most residents of Cheyenne River have little expertise with banks, savings accounts, or effective use of credit. The Bank On Initiative estimates 21% of households are unbanked and 26% are underbanked in Dewey and Ziebach counties. The majority of Native communities, 86 percent, lack a single financial institution within their borders to access affordable financial products and services. We are fortunate to have three banks on the Cheyenne River Reservation but none of them report credit histories for their customers, adding to our challenges when it comes to small business lending. In other places without a local bank, like the Pine Ridge Reservation, the Native CDFI is developing a Native-owned Credit Union to responsibly meet the needs of their population.

Despite these economic conditions, there is evidence to show that the work of Four Bands and other dedicated community and economic development organizations is beginning to pay off. According to data from the South Dakota Department of Labor, US Census Bureau 2000, and US Census Bureau 2005-2009 American Community Survey 5-Year Estimate, South Dakota's reservation counties with operating Native CDFIs have experienced significant growth over the last decade and have an economic momentum index that exceeds the state of South Dakota's index. From 2000 to 2009, the median household income on the

Cheyenne River Indian Reservation increased 51% - surpassing the state's average by 24%. During that same timeframe, our reservation saw a 20% increase in employment - nearly triple the state's average of 7%. The neighboring Pine Ridge Reservation where Lakota Funds has been operating for twenty-plus years saw similar results. From this data, we can determine that Native CDFIs are a proven solution to revitalizing reservation communities. More importantly in the world of business development, our reservation communities are demonstrating that we have the economic momentum for strategic investment that is critical for economic development. Yet, we have the huge task of securing partners at the state and local level for private investment and inclusive economic development strategies that will help us overcome the poverty and unemployment we experience. This is where the US Treasury CDFI Fund program comes in!

Growing the Private Sector on Cheyenne River

Four Bands has developed and implemented a number of strategies that contribute to the successful development of our local economy. A CDFI's greatest investment is in human capital – the community development financial institution model provides financial products **in combination with** development services, such as business and financial education, training and technical assistance, that increase entrepreneurial skills and financial capability for our tribal members. We realize that reversing multi-generational poverty requires a comprehensive approach to several issues at once, therefore, our core program areas include:

- a) Business & Entrepreneur Development – offering loan products and customized services aimed at creating businesses and developing entrepreneurial skills;
- b) *Mazaska K'sapa Nitama* (Your Money Wisdom) – helping develop sound financial management practices and asset building skills for adult individuals and families;
- and c) *Wicoicage Sakowin kin un Wicakagapi*

(Building for the Seventh Generation) – building long-term employment and life skills of our youth.

Since Four Bands began lending in 2002, our community impact has been steadily climbing as our programs experience significant growth. In 2002, we provided services to 84 clients and disbursed 19 loans. By 2010, those numbers progressed and we served 576 clients and disbursed 105 loans. On average, 80% of our loans are used to finance start-ups. We recently reached the \$3,000,000 mark in lending, and as a direct result have created over 100 Native-owned businesses and nearly 400 jobs since our inception.

A unique challenge in our area is the creditworthiness of our client base. Over 55% of our clients have no credit file and of the 45% who do have credit histories we've seen their average score 100 points lower than the national average. With this in mind, we have created a Credit Builder Loan program that has made sixty-two loans, totaling \$130,500, to help individuals create and repair credit histories, resulting in improved credit scores for nearly 90 percent of these clients within the first six months of participating in the program.

We also run an Individual Development Account (IDA) program, or matched savings program, that was launched in 2005 to help create owner's equity in assets like homeownership, business start up and higher education. Overall, \$300,000 in savings match has been committed in our IDA savings program for 52 adults and 95 youth to achieve their goals and move beyond poverty. The federal program that supports IDA programs, Assets for Independence under the Office of Community Service, is currently being recommended

for a 63% cut in funding in the House version of the 2012 budget. This program is one of the few resources available to invest in community asset building efforts.

In 2008 Four Bands launched a comprehensive public education campaign called Making Waves as part of the *Wicoicage Sakowin kin un Wicakagapi (Building for the Seventh Generation)* program in order to replace poverty and unemployment with financial literacy and entrepreneurship on the Cheyenne River Reservation. This program promotes the *ABCs of Financial Literacy and Entrepreneurship*® - key behaviors that people can incorporate into their lives. Through the implementation of the Making Waves Teacher Toolkits and Trainings, over 2,000 Cheyenne River Youth in 60-plus classrooms on our five reservation schools have been exposed to concepts of financial literacy and entrepreneurship. The Making Waves program had the support of tribal government, the school system and business community implementing the “Make Money Matter” and “Shop Cheyenne River” strategies that encouraged wise management of financial resources and local shopping habits. The Making Waves strategy has spread to the Pine Ridge and Crow Creek Reservations where they are implementing the *ABCs of Financial Literacy and Entrepreneurship*® as well.

Because of limited data and limited resources, we have also conducted in-depth market analyses in order to identify prime sectors for development and to keep dollars in the local economy. Our report, *“Business Opportunities in the Cheyenne River Reservation Market,”* released in September 2008, has been used by local entrepreneurs to identify customers, competition, successful marketing strategies, effective business operations, and potential business opportunities. As our economy has matured, we found the need to analyze the business-to-

business market and are currently working on the final version of a similar report to help boost our economy to another level.

As demands for our products and services continue to grow, Four Bands has developed into the “go-to” place for:

- Adult entrepreneurs with limited access to capital, business training, and coaching that assist in building sustainable businesses;
- Adults and families committed to financial independence and wealth creation; and
- K-12 youth interested in learning about entrepreneurship and planning for a sound financial future.

We understand the complex challenges of business development in our local environment and are able to assist businesses that are dealing with local, Tribal, State, and Federal jurisdictional issues.

Identifying and Overcoming Barriers

In our state, we are fortunate to have the South Dakota Indian Business Alliance working to enhance Indian business development by leveraging partnerships and resources of diverse institutions and organizations. SDIBA’s policy agenda addresses four sectors of economic development in Indian Country: Governance, Infrastructure, Finance, and Resources. More detail on SDIBA’s policy recommendations can be found in Appendix A of this document. Through the work of SDIBA, our state’s Tribes have celebrated two recent victories in influencing policies that support Indian business development. In March 2011, our Governor appointed the first-ever Secretary of Tribal Relations for South Dakota to emphasize the importance of Native American economic development and foster a better relationship between the state and South Dakota's nine tribes. Also, Tribal identification

cards are now accepted as a legitimate form of identification and facilitate Tribal members in doing business throughout South Dakota.

In the near future, SDIBA will be releasing a report titled, *“Native American Entrepreneurship in South Dakota’s Nine Reservations,”* which is a result of an in-depth market analysis of the small business development environment on South Dakota’s nine Indian reservations. Native entrepreneurs in reservation communities face many of the same challenges that non-Native, rural entrepreneurs face when trying to start or grow a business: isolated geographical locations, lack of access to small business capital, and lack of access to peer networks. The *“Native American Entrepreneurship in South Dakota’s Nine Reservations”* report identified the challenges that Native entrepreneurs on South Dakota’s other reservations face and include:

- Difficulty in securing collateral because of the trust status of Tribal lands
- Lack of affordable financial products and services
- Lack of entrepreneurship training and support services
- Lack of equity investment in Native-owned enterprises
- Inadequate telecommunications and transportation infrastructure

Some of the barriers identified in the report are similar to those identified in the Native American Lending Study conducted 10 years ago by the Department Treasury’s CDFI Fund. Native CDFIs are **the key organizations** that have been working to create innovative solutions to overcome these barriers. Additionally, the CDFI Fund’s research found that there exists a significant difference in the amount of capital investment in Indian Lands and Hawaiian Home Lands compared to the rest of the United States. The CDFI Fund’s Equity Research Report estimated that the investment gap between Native American and Native Hawaiian economies and the United States overall totaled \$44 billion.

This March, the US Census Bureau released 2007 Statistics for American Indian- and Alaska Native-Owned Businesses in the United States. This data showed the fruits of labor by Native economic development practitioners across the nation. In 2007, there were about 237,000 American Indian- and Alaskan Native-owned firms generating \$34.4 billion in gross receipts and employing 184,000 paid workers. Between 2002 and 2007, American Indian- and Alaskan Native-owned firms outpaced the growth of non-minority firms with a 28% increase in gross receipts and an 18% increase in number of firms.

However, according to the US Department of Commerce Minority Business Development Agency, there is still an entrepreneurial parity gap between American Indian and Alaskan Native firms. If American Indian and Alaska Native firms' gross receipts reflected the 2007 adult American Indian and Alaska Native population share, receipts would have amounted to more than \$160 billion—about \$126 billion more than the actual figure. Paid employment would have totaled nearly 829,000—about 4.5 times the actual employment. The number of American Indian and Alaska Native firms would have been over 383,000 firms—nearly 147,000 additional firms.

This entrepreneurial parity gap is the focus and opportunity for Native CDFIs throughout Indian Country. With investments from and partnerships with the Department of Treasury and other agencies, we continue to create innovative economic development strategies that are addressing these disparities. The Native CDFI Network, a member network formed in 2009, works to unite Native CDFIs in these efforts and to serve as a national advocate for Native communities throughout the nation. Their policy agenda, included in Appendix B,

outlines several key recommendations to overcome the unique financial and economic barriers that exist in Indian Country. For example, NCN supports establishing a supportive financial infrastructure that promotes economic stability in Native communities. In order to achieve this policy priority, NCN strongly recommends giving the Native Initiatives permanent language in the CDFI Fund's authorizing statute to secure future investment for Native Americans. We also work to demonstrate our impact in order to build private investment throughout Indian Country. One of the most significant tools for this is the New Markets Tax Credit program under Treasury that has been successful in attracting outside investment to leverage local efforts for the development of business, housing and community facilities that are needed for sustainable economic development.

Conclusion

Numbering 69 today, Native CDFIs are making a difference, have created economic development momentum within the communities they serve, and are still the main source of capital access and resources for Native business development. These unique financial institutions are helping to develop local businesses, create jobs, expand affordable housing, and build the skills of Native people throughout the nation. More importantly, Four Bands' investment in our reservation youth is creating a new culture of entrepreneurship and financial capability, giving us all hope for a strong economic future.

South Dakota Indian Business Alliance



2011 POLICY PRIORITIES AND RECOMMENDATIONS FOR INDIAN BUSINESS DEVELOPMENT THROUGHOUT SOUTH DAKOTA

In October 2010 the SD Indian Business Alliance conducted an Indian Policy Roundtable discussion to assist in developing strategies to support and expand Native entrepreneurship development on and off reservations. SDIBA and its partners have created the following policy recommendations on the local, tribal, state and federal levels that address challenges and barriers experienced by Indian businesses and partners.

The Recommendations align with SDIBA's "Strategic Approach to Sustainability for Business Development in Indian Country" and are broken out into the four keys areas identified in the strategy.

Policy Priority #1 - Governance: The first tier of the model is the foundation for Indian business sustainability and identifies development in the areas of separation of tribal government and business, the need for independent tribal courts, private sector-supportive policies at the tribal and state levels as well as long term strategic planning.

Enhance and promote strong partnerships with tribal, state and federal agencies to remove institutional barriers affecting Indian business development.

Recommendations:

1. Recognize Tribal identification cards as a legitimate form of ID to facilitate tribal members doing business throughout South Dakota.
2. Educate stakeholders on the unique challenges of reservation economic development and innovative solutions to overcoming these challenges (best practices).
3. Increase opportunities for data collection and integration within tribal and state economic development strategies.
4. Evaluate and revise regulations and policies that expand the Native private-sector throughout the State and on Reservations.
5. Create partnerships with Tribes and TERO to require preference for locally-owned Indian businesses in order to strengthen reservation economies.

Policy Priority #2 – Infrastructure: The second tier of the model builds on good governance and addresses the legal, physical and human capital needs of Indian businesses including commercial, business employment and zoning laws and regulations; utilities, roads, telecommunications challenges; and the need for workforce development and industry specific economic development strategies.

Identify financial, governmental and collaborative opportunities that will create and leverage existing resources for infrastructure development.

Recommendations:

1. Identify successful zoning and land-use planning models being used in Indian Country and support implementation at the local level.

SDIBA C/O Wakpa Sica Reconciliation Place, PO Box 1, Ft. Pierre, SD 57501, Attn: Stacey LaCompte

2. Create “Reservation Maps” and reports that highlight the economic opportunities for Native entrepreneurship development and feature these reports on websites and other literature.
3. Build on economic data, especially in the area of workforce development, to develop effective strategies for skill building and job creation in key sectors across the state.
4. Increase telecommunications infrastructure through public and private partnerships.
5. Hold quarterly stakeholder meetings to share innovative development models.

Policy Priority #3 – Finance: Access to capital is increased when sound governance and infrastructure are in place for the third tier of the model. Partnerships with commercial lenders, loan guarantee programs, CDFIs, tribal loan funds, equity funds and other debt and equity providers are essential to ensure we are meeting the financing needs of entrepreneurs in low-income, low-wealth communities.

Expand debt and equity resources available for Native-owned micro and small business through innovative products and services.

Recommendations:

1. Expand innovative financial products like individual development accounts and the GOED supported equity fund program.
2. Increase utilization of loan guarantee programs for traditional lenders and CDFIs that are serving Native entrepreneurs.
3. Share best practices during public events and conferences that will demonstrate the value of investment in Native entrepreneurs.
4. Expand financing incentives like CRA and tax-incentive financing that will increase access to capital for Native-owned businesses.
5. Increase access to affordable capital for tribal and community development loan funds to meet business financing needs.

Policy Priority #4 – Resources: The final tier of the strategy addresses the numerous personal, professional and business management tools needed for successful micro and small business owners.

Support collaborative resource development and connect Native entrepreneurs to new and existing resource networks.

Recommendations:

1. Work with partners to create a virtual resource center on SDIBAs website and distribute messages to announce new opportunities and events.
2. Approach SBA and SD SBDCs to identify strategies for getting technical assistance resources into local business networks (Chambers, CDFIs) that provide direct service to reservation entrepreneurs.
3. Convene listening sessions for Indian business owners to share their successes and challenges.
4. Ensure that entrepreneurial support organizations, like CDFIs, are listed in tribal and state resource directories.
5. Invite professional development service providers to identify themselves on SDIBAs website in order for Native entrepreneurs to access mentors and services.
6. Share best practices in K-12 entrepreneurial development to promote self employment as a strategy for job creation.

Policy Agenda



Uniting & Strengthening Native CDFIs



A Decade of Transformation

In 2001, the U.S. Department of Treasury's CDFI Fund released the Native American Lending Study. At the time, only two Native CDFIs were in existence. The findings of this study served as a catalyst for the Native CDFI field, and over the last decade Native communities have undergone an amazing transformation. Today there are nearly 60 CDFIs in existence with another estimated 60 in the pipeline.

These unique financial institutions are helping to develop local businesses, create jobs, expand affordable housing, and build the skills of Native people throughout the nation. Native CDFIs are renewing traditional Native values of self-sufficiency, wise resource management, and entrepreneurship. The Native CDFI Network, founded in 2009, works to unify Native CDFIs to form a strong national voice that will ensure the work of Native CDFIs continues to grow.

Policy Priorities & Recommendations



POLICY PRIORITY #1

Establish a supportive financial infrastructure that promotes economic stability in Native communities.

Native communities are faced with some of the nation's most distressed economies and poorest living conditions. The Native American Lending Study, published in 2001 by the US Department of Treasury revealed a lack of investment by mainstream financial institutions in these communities, resulting in lack of access to capital for Native American, Native Hawaiians, and Alaska Natives.

Recommendations:

1. Give the Native Initiatives permanent language in the CDFI Fund's authorizing statute.
2. Provide training and technical assistance to emerging and mature CDFIs, including underwriting and credit counseling.
3. Increase access to funding from federal agencies and designate Native CDFIs, including CDFI loan funds and not solely CDFI banks, as preferred lenders for loan guarantees offered by all federal agencies, including USDA and SBA.
4. Update the Native American Lending Study.
5. Increase access to public and private funding for CDFIs.
6. Deem Native trust lands as qualified investment areas for New Markets Tax Credits.

POLICY PRIORITY #2

Provide innovative financial products and services that adapt to the unique needs of Native economies and support self-sufficiency.

Without exposure and access to the mainstream financial industry for generations, many Native people do not understand the importance of financial management or how to begin building assets. The technical lingo and stringent terms of mainstream financial institutions discourages Native people from doing business with them. Developing fundamental financial management skills is essential to building healthy Native economies.

Recommendations:

1. Provide funding to support the CDFI Fund's Native Individual Development Account (IDA) Initiative.
2. Encourage tribes and federal agencies to develop a standard process for financing mortgages on trust land.
3. Implement mandatory financial education and entrepreneurship for children in grades K-12.
4. Increase access to financial education and entrepreneurial technical assistance for Native Americans, Native Hawaiians, and Alaska Natives.
5. Support financial products with flexible terms that address the circumstances of Native communities.
6. Share innovative strategies for green workforce, housing, and business development.

POLICY PRIORITY #3

Encourage fair and sound lending practices in Native communities.

The lack of banks, credit unions, and alternative lending institutions in and around Native communities, has made Native communities prime targets for predatory lending vehicles like high-cost loans against tax refunds, payday loans, pawn shop transactions, car title loans, high-interest credit cards, and mortgage loans with excessive fees or interest rates. Payday loans average 400% interest rates, and thrust borrowers into a downward spiral that eats up assets and often creates delinquent credit for Native individuals and families.

Recommendations:

1. Promote the use of the Earned Income Tax Credit (EITC) and Volunteer Income Tax Assistance (VITA) sites.
2. Enforce a small-loan interest rate cap of 36% Annual Percentage Rate (APR) or less.
3. Restrict Refund Anticipation Loan (RAL) marketing and lending at tax time.
4. Ensure a strong and well-enforced Community Reinvestment Act that effectively serves Native communities.
5. Conduct lender outreach and education to attract financial institutions to Native communities.



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