The Native American Entrepreneurship Report

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Executive Summary

Research for the Native American Entrepreneurship Report was conducted in order to examine the extent of entrepreneurial activity in Native communities and identify ways to increase such activity. A survey was sent to 70 diverse institutions that were identified as providing services to Native entrepreneurs. These included community-based financial institutions, tribal business information centers, Native American Business Development Centers, and tribal credit programs. In addition, a series of telephone interviews were conducted with key informants at five organizations that provide both financial and technical services to provide supplemental information from the survey data. This research yielded several findings about Native entrepreneurship, technical assistance, and costs of operations.

Overview of Native Entrepreneurship

- There are an estimated 170,083 reservation-based micro-entrepreneurs.
- Access to financing is a significant barrier for prospective entrepreneurs. Program directors cited a variety of reasons for this, including a lack of collateral, poor or no credit histories, as well as geographical isolation from mainstream financial institutions.
- There is considerable diversity in the types of organizations and services provided to Native entrepreneurs. A significantly smaller number of programs (38 percent) indicated that they provided both financial and non-financial services.
- Over 3500 individuals received either technical assistance or financial services from these organizations over the past year.
- The programs have structured their lending operations primarily to meet the needs of two types of borrowers — the micro-entrepreneur who requires a minimal amount of capital, and the small business owner who requires larger financial assistance.
- Fourteen organizations (48 percent) provided financial capital to micro-enterprises and small businesses. Six organizations disbursed micro-loans only.
- Twelve organizations (41 percent) were established in the 1990s, indicating that the growth of programs assisting Native entrepreneurs has been much slower than the field as a whole.
- A total of 373 loans were disbursed over the past year, for a total of $4.7 million.
- Eleven percent of clients served became borrowers. This is comparable to findings from the Aspen Institute’s work on micro-enterprise programs, which found that 11 percent of the clients served were borrowers.

Technical Assistance

- A general lack of education and experience about business is a significant challenge to prospective entrepreneurs. Among the areas of weakness were the limited knowledge regarding marketing, general business practices, writing a plan, and completing loan applications. In addition, the program directors acknowledged the importance of promoting financial literacy in Native communities in general.

- Technical assistance and training are critical components in the process. Technical assistance is provided throughout the process from assisting the client in preparing the loan application to running their business. Much of the training and coaching is informal, costly, and time-consuming. However, building a relationship with the client is critical to ensuring success.
- Providing non-financial services (training and technical assistance) are major programmatic expenses with 43 percent of total operating expenses spent on training and technical assistance.
- Twenty organizations (69 percent) provided some form of non-financial services, through technical assistance or training services.
- Training courses included all aspects of business development, such as financial management, planning, marketing, and procurement. Technical assistance services included one-on-one counseling, business visits, referrals, and loan packaging.

Costs of Operations

- Capitalizing the loan pool is one of the most significant challenges facing these programs. All but one of the programs reported they had exhausted their loan pool.
- The majority of the programs assisting Native entrepreneurs were small with few staff and limited budgets. The median staff size for the organizations responding was 3, and the median total income was $200,000.
- The majority of the programs providing non-financial services only were approximately 80 percent dependent on federal funding sources for their operations.
- Program costs tend to run similar to other micro-lending operations. The median cost per client served was $2656, and the median cost per training client was $1059. The Aspen Institute for a sample of micro-enterprise programs found that the median cost per client served was $1933, and the median cost per training client was $949.
- The estimation of program costs is extremely sensitive to the scale of lending and training activities. The cost of providing services is affected by several factors, including a need to provide extensive training and technical assistance, the maturity of the organization, and economies of scale within the lending operations.
- Two important characteristics to the success of entrepreneur lending programs are strong collection practices and staff who have prior lending experience.

Conclusions

This project generated several research findings. First, it was concluded that access to financing <u>and</u> limited business expertise and experience are significant barriers for Native entrepreneurs. It is impossible to delink inadequate financing from inadequate business expertise. Prospective Native entrepreneurs often lack the necessary business knowledge and skills to successfully start businesses. There is an issue of “readiness” both in being able to access lending capital, as well as in understanding and building a successful business operation. Any successful funding model will combine both. The combination may be through separate organizations coordinating services or may be one organization offering both credit and training. Either way, the research indicates that non-financial support needs to be provided throughout the process — from the development of the business plan through its implementation — in order to improve the chance for the client's success.

Second, the results of the survey show that providing non-financial services (training and technical assistance) are major programmatic expenses for these organizations, with 43 percent of total operating expenses spent on training and technical assistance. In addition, estimating the technical cost recovery indicates that the ability to recover these costs from income generated internally is limited. The program directors acknowledged that technical assistance is critical in building borrower readiness and should be provided throughout the process — from the development of the business plan through to the operation of the business. The median cost of training per training client was $1059, with the range varying from $125 to $5714. Existing comparison data available by the Aspen Institute (Aspen Institute, 2001) found that the median cost of training per client was $949. The percentage of total income generated internally is the proportion of total income reported by the organization that was generated from either the proceeds of the lending operations or the training activities. Across all organizations the proportion of earned income was 56 percent, but this percentage was significantly higher among those organizations that provided financial services only (95 percent) and negligible among those programs providing training only (1 percent). This finding is consistent with the fact that organizations engaged in lending are able to generate revenues, while those providing only non-financial services are dependent on outside funding. The majority of the programs providing non-financial services only were approximately 80 percent dependent on federal funding sources for their operations. The findings of the research indicate that the costs of providing non-financial services to prospective entrepreneurs often exceed the revenues generated from lending. Some form of subsidization of these services is required.

Third, the results of the research indicate that the lending programs may experience inadequate cash flow. However, it is important to note that the problem of inadequate cash flow is more complex. The costs of operating a lending program can be broken down into lending capital, a loss reserve, and general administration and overhead. Before technical assistance is even considered, a lending program needs very cheap capital (at about 0 to 3 percent), a net balance percentage for equity for loss reserve and general staff salaries and administration. It is difficult to find investors that will capitalize the loan pool with low interest, long-term notes. Funders expect utilization rates that drive up the loan loss reserve levels required to mitigate risk. To fund general operations and loss reserves from cash flow requires a higher volume of lending than most reservations can absorb. These conditions exist for even the most streamlined lending program. In most cases the income generated from lending operations cannot fund all of the above costs. Typically it has not even been sufficient to maintain the lending pool, and raising capital to re-lend has been a significant challenge for most programs. The inadequate cash flow that these programs experience, however, may only partially be due to the high costs of non-financial services. Instead it reflects the limited scale and scope of these operations. The research found that lending programs are often small with limited lending histories. Without a sufficient volume of loans, these programs cannot generate enough revenues to sustain their lending pool, and keep costs down. Community-based loan funds or micro-loan programs are vehicles through which funding has been provided. However, the research found that there is remarkable diversity in how these programs are structured. In addition, the recent establishment of some of these funds, with limited institutional histories, implies less that this model for financing may be unsatisfactory and more that there is a need to achieve organizational maturity.

I. Introduction

The *Native American Entrepreneurship Project*, underwritten by the Theodore and Vivian Johnson Foundation, was designed to investigate the following suppositions:

- Training of prospective Native American entrepreneurs has been underway for several years at tribal colleges.
- The results in terms of new businesses actually started on reservations are judged to be fairly meager.
- This may be due in large part to the relative paucity of funding available for start-up businesses on reservations.
- Although several attempts have been made to provide such funding, primarily in the form of micro-loan programs, no satisfactory funding model has yet emerged.
- This may be due to an inadequate cash flow resulting from the unusual need for training, coaching, and monitoring would-be entrepreneurs, the cost of which far exceeds the revenues returned to the lender by the successful business.

In undertaking the research, the first two suppositions were taken as given, with the primary emphasis directed towards understanding the validity of the remaining three. In particular, the focus of the research was directed to examining each element within the supposition. This included determining (i) whether a lack of financing may explain a lack of business start-ups on reservations, (ii) whether lending programs, which are designed to provide this financing, face an inadequate cash flow, (iii) whether the cost of non-financial services (training, coaching, and monitoring) exceeds the revenues generated from lending, and (iv) the degree to which this can explain an inadequate cash flow. By examining each element in turn, it is possible to determine whether funding through a micro-loan or other lending program may indeed be an unsatisfactory funding model.

Methodology

A literature search and review of existing studies regarding entrepreneurship and supportive services was undertaken, and three areas of data collection emerged: 1) the sector itself, 2) a structural analysis of reservation-based financial models, and 3) operational analysis of lending and technical assistance costs. This review indicated that little research had been done on the size and scope of the services available to support Native entrepreneurs. As a result, in developing the study, it became important to understand some of the characteristics of the sector as a whole. A necessary adjunct therefore was to collect some basic data on the types of services provided and clients served by a variety of institutions assisting Native entrepreneurs. The second part of the research plan was designed to provide an understanding of how lending programs are structured, an analysis of costs, and the interaction between providing both financial and non-financial services (training and technical assistance) to Native entrepreneurs. In-depth interviews were conducted for specific operational data regarding the third part.

In order to complete the first two objectives, a survey was developed and sent to 70 diverse institutions that were identified as providing services to Native entrepreneurs. These included community-based financial institutions, tribal business information centers, Native American Business Development Centers, and tribal credit programs. In this way, it was possible to gain a better understanding of the organizations available in the field that assist Native entrepreneurs. A total of 37 responses were received. However, not all of these organizations were currently providing services to Native entrepreneurs. As a result, the useable number of responses was 29, reflecting a 41 percent response rate. As in the non-Native micro-enterprise and small business field, respondents included organizations that provided non-financial services (training and technical services) only, and those that provided financial services.

The survey provided fundamental information regarding program services, structure, and costs. However, it could not fully capture whether programs confront an inadequate cash flow as a direct result of the need to subsidize non-financial services (technical assistance and training). In consequence, a series of telephone interviews were conducted with program directors to gather their individual perspectives on this question. Based on the findings of the survey, five organizations that provide both financial and technical services to Native entrepreneurs were selected and interviewed. These interviews revealed considerable diversity among these programs in terms of their organizational characteristics. No two operations were completely alike. Despite this variance, however, a number of common themes emerged.

This report provides background information on the field of entrepreneurship and small business development nationally, as well as an analysis of trends in the field of Native entrepreneurship and small business development. The report is broken down into five sections. The first two sections present a brief review of existing work in the field of entrepreneurship and Native entrepreneurship. It is evident that there is a limited amount of knowledge that currently exists about the Native micro-enterprise and small business sector. The third section presents the results of the survey, describing the program services and clients. The fourth section summarizes the findings from the key informant interviews, and the fifth presents the main conclusions and the advantages and disadvantages of lending programs as a model.

II. Overview of Entrepreneurship and Small Business Development

The National Commission on Entrepreneurship defines entrepreneurs as those individuals who *"put together all the resources needed — the capital, the management, the people, and the business strategy — to transform the invention into a product, process, or service innovation that finds a market and affects the economy*." Although this definition is rather narrow, limiting the concept of entrepreneurship to the economic sphere, entrepreneurship has most commonly been associated with economic activity. As observed by the Entrepreneurial Research Consortium, "entrepreneurship is one of America's most important mechanisms for adapting to economic change," and the most visible indicator of entrepreneurial activity is the creation and development of small business enterprises (Zacharis et al, 1999).

A recent report by the Small Business Administration (SBA) indicates that the small business sector is a major contributor to the national economy and experiencing record growth (SBA, 1999). Approximately 17 percent of all non-agricultural workers are engaged in some type of entrepreneurial activity (SBA, 1999). In 1998, the sector employed 53 percent of the private non-farm workforce, accounted for 47 percent of all sales, and contributed 51 percent of the private gross domestic product (SBA, 1999). Between 1988-1996, the number of small firms (defined as firms with fewer than 500 workers) increased by 11 percent, and almost 900,000 new businesses were established in 1998 alone. According to the SBA, 76 percent of net new jobs were created by small businesses between 1990-1995.

Some of the greatest growth of the sector has been among women and minority-owned businesses. Between 1987 and 1997 women-owned businesses increased 89 percent to 8.5 million, and minority-owned businesses increased 168 percent (SBA, 1999). According to the recently released 1997 Survey of Minority-Owned Business Enterprises (SMOBE), there was a total of 197,300 American Indian and Alaska Native-owned businesses (US Census Bureau, 2001). These enterprises generated $34.3 billion in revenues, and employed almost 300,000 individuals. The majority of these businesses were located in California, Texas, Oklahoma, and Florida. However, American Indian and Alaska Native-owned businesses were heavily represented in Alaska, where they account for 11 percent of all businesses, New Mexico and Oklahoma (representing 5 percent of all businesses), and Montana (accounting for 2 percent of all businesses) (US Census Bureau, 2001).

Micro-enterprises

An important subset of small businesses are micro-enterprises. Sixty-five percent of new businesses begin at home, and 75 percent of new business owners are also employed full-time in the wage market (SBA, 1999). The formation of micro-enterprises can be a first step in establishing a viable small business.

Defined as a "sole proprietorship, partnership or family business with fewer than 5 employees," the Aspen Institute estimates that there are approximately 2 million micro-entrepreneurs in the United States (Aspen Institute, 2000c). These businesses generated almost 1 million jobs between 1990 and 1995 (SBA, 1999). There are few estimates of Native micro-entrepreneurs. However, based on existing research and experience, we can make the following estimation.

Micro-enterprise activities are highly correlated with the level of unemployment. Based on the average unemployment rate of 50 percent, 447,586 individuals living in tribal areas (out of a total population of 895,173) are unemployed. Using the findings by Sherman for the Pine Ridge reservation, who found that 38 percent of individuals on the reservation were engaged in micro-enterprise activities, we can extrapolate that 170,083 individuals are engaged in some form of reservation-based micro-enterprise activity.

For economically disadvantaged populations, micro-enterprises can be a means to stabilize incomes, generate employment, and expand the productivity of economic activities that are occurring informally in a community. Sherman, in an examination of micro-enterprise activity on the Pine Ridge reservation (population 15,000, with 87 percent unemployment), found that 83 percent of households were involved in some form of micro-enterprise activity. Thirty percent of these entrepreneurial households received at least one-half of their income from these activities, and 5 percent received 100 percent. Sherman concludes that micro-enterprises allowed individuals to diversify income sources, contributed to cultural preservation, and allowed individuals, who faced barriers to mainstream employment, to engage in productive economic activities (Sherman, 1988). There may not be direct evidence to demonstrate that micro-enterprise serves as an "economic ladder" to small business development, but First Nations has found it can increase household income, foster financial literacy, encourage saving, and build business discipline. In addition, micro-enterprises can provide opportunities to increase economic self-sufficiency, particularly in the face of economic dislocations and high unemployment (Mclenigan and Pogge, 1991). Establishing micro-enterprises, however, can be challenging. As researchers have noted, micro-enterprises are often "high effort, high risk, and low profit" ventures in markets where entrepreneurs "face high competition and have low demand" (Schreiner, 2000; Christy et al, 2000).

Providing support for micro-enterprise and small business development has been the subject of much discussion in recent years, and there is some debate as to the services such enterprises need to be successful. Research suggests that entrepreneurs confront several barriers in developing small businesses (Adams and Pischke, 1992; OECD 1994; OECD 1998; Aspen 2000c). Among the most frequently cited are: 1) limited access to credit and financial capital, 2) a lack of information and knowledge as to how best to use resources, and 3) a lack of networks or peers who can provide support (Shorebank Advisory Services, 1995). Inadequate demand for products as well as limited labor skills have also been noted (OECD, 1994).

The few studies on Native entrepreneurship suggest that these factors are important for Native entrepreneurs as well. In general, issues of financing, a lack of business expertise, and limited tribal support are important (Garsombke and Garsombke, 1998; Lansdowne and Bryant, 1999; Pavel and Timmons, 1996). A study of Native entrepreneurs in Minnesota and Wisconsin found, for instance, that "aspiration" level, lack of formal business education, and lack of access to financial resources were rated as significant barriers to start-up businesses (Garsombke and Garsombke, 1998). Discrimination was also perceived as a factor as well. A series of interviews with Native entrepreneurs conducted by Lansdowne and Bryant, indicated that 1) the availability of start-up capital, 2) the presence of partners or mentors to provide support, and 3) the role of tribal government codes and ordinances to provide a supportive regulatory environment to the small business sector were critical factors in business success (Lansdowne and Bryant, 1999). These studies affirm that access to financial capital is indeed an issue for Native entrepreneurs.

The Evolution of Micro-enterprise Programs and Other Support Programs

Since the mid-1980s, the number of programs designed to nurture and support micro-entrepreneurs has steadily increased. The Aspen Institute estimates that there are currently 700 micro-enterprise development programs in the United States, compared to 100 in 1990 (Aspen Institute, 2000c). One of the first three in the United States was the Lakota Fund, started by First Nations in 1985. The other two were PEPP in Arizona, and WEDCO in Minneapolis. Many of these early programs were modeled on micro-loan funds in developing countries, such as the Grameen Bank, Bank Rakyat, and Accion International. (Adams and Pischke, 1994; Christy et al, 2000; O'Regan, 1992; OECD, 1998; Shreiner, 2000). These programs usually provided limited short-term loan capital, and adopted such practices as "group lending" and "village banking" (O'Regan, 1992; Aspen Institute, 2000c). This "credit-led" approach placed an emphasis on the lending and financial services to entrepreneurs (Aspen Institute, 2000c; O'Regan, 1992).

As these early efforts matured and other programs were established, a greater emphasis began to be placed on non-financial support services (Aspen Institute, 2000c). The growing move towards "training-led" micro-enterprise development programs occurred partly because "practitioners recognized the diverse challenges their clients faced in starting and operating a business" (Aspen Institute, 2000c). As USAID noted, non-financial assistance was critical because finance was not often cited as the first priority for many micro-entrepreneurs (USAID, 1995). The shift towards technical assistance and training was also a reflection of the low number of loans made through micro-enterprise development programs. (Aspen Institute, 2000e). According to the Aspen Institute, of the 56,000 clients served by 342 micro-enterprise programs, only 11 percent became borrowers (Aspen Institute, 2000e).

Many micro-enterprise programs offer a wide variety of non-financial support services, including counseling, one-to-one technical assistance and training to prepare their clients for financial assistance (Aspen Institute, 2000e). The 1999 Directory of Micro-Enterprise Programs reported that 92 percent of the programs listed offered technical and training assistance services (Aspen Institute, 1999a). Three types of training are generally provided, including business development courses, economic literacy training that focuses on banking, taxes, and budgeting, and personal effectiveness techniques which addresses goal setting, time management, communication, and personnel (Aspen Institute, 2000a). Research under the Self-Employment Longitudinal Study (SELP) in 1996 found that the average business development course was 28 hours, while more intense personal skill-building averaged 80 course hours (Aspen Institute, 1999a). Technical assistance services include one-to-one counseling in such areas as business planning, loan applications, and marketing (Aspen Institute, 2000f). Increasingly, programs are also providing follow-up assistance to support borrowers (Aspen Institute, 2000a).

Developing the appropriate technical and training services to meet the diverse needs of entrepreneurs can be challenging. As Schreiner states, "entrepreneurship training is more difficult than job training because the goal is not merely to provide business skills, but to help develop a new and viable organization" (Schreiner, 2000). To date, little research has been conducted on the effectiveness of various technical assistance and training materials and techniques (Aspen Institute, 2000a). Some observers have suggested that training provided through on-call assistance may be more effective than offering classes, while others have suggested that specialized technical assistance has a greater impact than more general education (Shorebank Advisory Services, 1995; Schreiner, 2000). The Aspen Institute, as part of its FIELD initiative, is currently assessing various training and technical assistance strategies, as well as methods for providing post-loan assistance (Aspen Institute, 2000b; Aspen Institute, 1999a).

While a great deal of discussion has focused on the role of micro-enterprise programs, there are several other types of institutions that support micro and small business entrepreneurs. The SBA, for instance, supports a wide variety of strategies and entities through various programs, including credit guarantee associations, venture capital networks, business incubators, one-stop business development centers, and business mentoring networks (OECD, 1998). These systems provide entrepreneurs additional sources of financing and technical support.

In addition, there are many other types of institutions that support micro-enterprise and small business development. Examples of these institutions include credit unions, community action agencies, business networks, employment and training agencies, and community-development financial intermediaries (Aspen Institute, 2000b). In particular, these institutions may be able to attract a wider client base, bring in new partners, and achieve economies of scale that smaller micro-enterprise development or loan funds are unable to reach (Aspen Institute, 2000b). Current research conducted through the FIELD initiative is testing whether these entities have certain advantages over traditional micro-loan programs (Aspen Institute, 2000b). These efforts are a way to identify how services to entrepreneurs can best be delivered to ensure effectiveness.

Unlike the increasing documentation of the field in mainstream communities, there are no current estimates of the number of micro-enterprise or other lending programs operating in reservation lands, and subsequently, little research on the scope and size of the programs available. In part this lack of information may reflect the paucity of organizations available. However, a survey of resources available indicates a number of different types of organizations that do, or potentially could, provide financial and non-financial services to prospective Native entrepreneurs. These entities include:

Financial Institutions: These include community-based loan funds, credit associations, and community development corporations that provide financial services to community members. Many of these organizations may provide consumer, housing, and small business loans, as well as technical assistance and training services (Festa, 1998). Community-based financial institutions operate most consistently like traditional micro-enterprise or small business development programs. According to Elsie Meeks, Executive Director of the First Nations Oweesta Corporation, there are approximately 20 community-based financial institutions, with at least six certified Native community development financial institutions (personal communication, Elsie Meeks).

Tribal Business Information Centers (TBIC): Funded by the SBA, the TBIC program is specifically designed to provide technical assistance and training services to small business owners and entrepreneurs in Native communities. The TBIC serves as an informational resource to community members, providing access to business-related computer software, on-site counseling, and business development workshops (SBA, 2001). The TBIC is often operated by the tribal college in the community. There are currently 17 sites located in seven states, including

Arizona, California, Minnesota, Montana, North Carolina, North and South Dakota.

Native American Business Development Centers (NABDC): Similar to Small Business Development Centers (SBDC), these agencies provide management and technical assistance services for Native Americans living both on and off reservation areas. The type of technical assistance offered includes financial and loan packaging, business plan preparation, procurement assistance, and minority and 8(a) certification. Funded by the Minority Business Development Agency (MBDA), there are currently 6 NABDC sites, serving Native entrepreneurs in Arizona, California, Oklahoma, New Mexico, the Northwest, and the Dakotas. Three of these sites are operated by the National Center for American Indian Enterprise Development (NCAIED).

Tribal Credit Programs: Operated by tribal governments, tribal credit programs vary greatly across communities. They may provide a broad range of financial services, including short-term emergency, housing, consumer, agriculture, and business lending, as well as non-financial services. Many of these programs began in the 1940s and receive funding from, or operate through the Bureau of Indian Affairs (BIA). Listings provided by the BIA area offices indicate there are 32 tribal credit programs.

Unfortunately, little additional information exists regarding the types of clients served or the services provided. An important objective in completing the research, therefore, was to gather preliminary data on the field in order to gain a better understanding of the services available to prospective Native entrepreneurs.

III. Native Entrepreneurship and Small Business Development

This study was designed to examine community-based programs that provide services to Native entrepreneurs. Specifically, its primary purpose was to investigate the following research supposition:

- Training of prospective Native American entrepreneurs has been underway for several years at tribal colleges.
- The results in terms of new businesses actually started on reservations are judged to be fairly meager.
- This may be due in large part to the relative paucity of funding available for start-up businesses on reservations.
- Although several attempts have been made to provide such funding, primarily in the form of micro-loan programs, no satisfactory funding model has emerged.
- This may be due to an inadequate cash flow, resulting from the unusual need for training, coaching, and monitoring would-be entrepreneurs, the costs of which far exceeds the revenues returned to the lender by the successful business.

Native entrepreneurs face barriers similar to non-Native entrepreneurs, such as lack of access to financing, limited formal business education, and few mentors and partnerships. All have been found to be significant issues. For Native entrepreneurs, however, the challenges to starting a business may be greater by virtue of their more isolated geographical location and the associated lack of available resources. As a result, Native entrepreneurs may face limited local markets for their products and a lack of economic support systems that may be available in more populated areas. In addition, the regulatory environment within reservation lands may not provide the necessary support for Native-owned businesses.

The survey captured basic data on the characteristics of programs serving Native entrepreneurs that had previously been unavailable. The survey results confirm that there is an array of programs and services available to prospective entrepreneurs. As in the broader micro-enterprise and small business field, there are programs that provide financial capital, and those that provide training and technical support. A significantly smaller number provide both types of services.

The organizations surveyed were considered those most likely to provide services to Native entrepreneurs. The oldest established organizations are the tribal credit programs which began in the 1940s. The tribal business information centers were established in the 1990s. Many of these organizations are small in size with limited budgets. Information from the survey found that the size of staff varied from 1 to 22 individuals. Budgets also varied across organizations, ranging from $33,000 to $932,000.

In examining the research suppositions, therefore, the majority of attention was paid to understanding the role of micro-loan and other programs in addressing the limited availability of credit, and their associated challenges. Based on a review of existing literature and resources, a survey was developed and sent to 70 organizations, including identified community-based financial institutions, tribal business information centers (TBICs), Native American Business Development Centers (NABDCs), and tribal credit programs. The survey asked for a variety of information, including the type of services offered to Native entrepreneurs, the characteristics of the loan portfolio, the types of non-financial services provided, and the program cost structure. Surveys were sent to 15 community-development financial institutions, 32 tribal credit programs, 17 tribal business information centers (TBICs), and 6 Native American business development centers (NABDCs). Five organizations were not currently in operation, resulting in a possible sample size of 65. A total of 37 responses were received for a response rate of 57 percent. The response rates from each type of organization are summarized in Table 1.

Table 1
Survey Response Rates

Institutional Type	*Responses Received*	*Percentage of responses received from total sample*
Financial Institutions	10	90
Tribal Credit Program	14	44
TBIC	10	59
NABDC	3	60
Total	37	65

The significantly lower number of responses from tribal credit programs may be partially explained by the fact that most tribal credit programs were not currently providing services to prospective entrepreneurs. Rather, their lending was directed to consumers, agriculture, housing, or providing short-term emergency loans. The limited relevance of the survey for these programs therefore may explain why so few completed surveys were received. As a result, there were a total of 29 useable responses, reducing the overall response rate to 45 percent. The small sample size means that the reported results cannot be generalized to all programs serving Native entrepreneurs, but represents the universe of those sampled only.

The results of the surveys indicated that there were 9 organizations that provided both financial and technical services to Native entrepreneurs. In consequence, 5 of these organizations were selected and a telephone interview was conducted with each of the program directors to gather their perspectives on the research suppositions directly. A series of guided questions were asked of each respondent, including what they saw as the needs of Native entrepreneurs, the role of the lending program in supporting these needs, and recommendations for further action.

IV. Survey Findings

The Types of Services Provided

As expected, a diverse number of institutions provide services to Native entrepreneurs in tribal communities. When broken down by institutional type, some distinct patterns emerge. As Table 2 shows, all financial institutions and tribal credit programs provided financial services, while all TBIC and NABDC organizations provided some form of training and technical assistance.

Table 2
Services Provided

Institutional Type	*Total*	*Financial Institution*	*Tribal Credit Program*	*Tribal Business Information Center*	*Native American Business Development Center*
% of organizations providing financial services	62	100	100	20	0
% of organizations providing training or technical assistance	72	71	33	100	100
Number of organizations responding	29	7	9	10	3

These responses indicate that several organizations provide both financial and non-financial services. In addition to lending, 71 percent of the financial institutions and 33 percent of the tribal credit programs provided some form of technical assistance or training. Twenty percent of those designated as TBICs also served as a community development loan fund, providing direct financial services to prospective entrepreneurs. These findings indicate that for a small number of organizations, these "institutional categorizations" are not mutually exclusive and do not capture the full range of services provided.

These findings are not unexpected because they are consistent with the initial types of organizations selected, but they do suggest that there may be two models of service delivery to prospective Native entrepreneurs. The first could be characterized as a "one-stop" approach, with both financial and non-financial services provided by one entity. Nine organizations indicated that they provided both types of services. The other model could be characterized as "specialized," in the sense that financial and non-financial services are provided by separate organizations. Indeed, among those organizations providing lending only, at least 2 indicated that training and technical services were available through other organizations in the community, including a TBIC or SBDC. Of the 29 responding, therefore, 9 organizations were combined "one-stop" lenders, with at least 2 others coordinating technical assistance through other entities.

Characteristics of Clients Served

The programs reported that 9130 individuals were served by these organizations in the past year. Approximately 68 percent of these individuals were low-income. However, not all individuals received financial or technical assistance. The total number of clients receiving financial or technical services was 3559. There was a remarkable degree of variation across programs, with some assisting over 500 individuals and others reporting as few as 4. The median number of clients served across all organizations was 67. As Table 3 shows, the median number of clients served varied by institutional type, with the number of clients served by the TBIC organizations being substantially higher (124). While the total number of individuals is similar for financial institutions and TBICs, as is the percentage of low-income individuals served, the actual number of clients is not. This finding most likely reflects the fact that the TBIC organizations are more likely to offer formalized training classes, thereby increasing the number of clients served directly. It is also important to note the high percentage of low-income individuals for both financial institutions and TBICs, while the sample size is too small for the others to report.

Table 3
Client Characteristics

Institutional Type	*Total*	*Financial Institution*	*Tribal Credit Program*	*Tribal Business Information Center*	*Native American Business Development Center*
Total number of individuals served	9130	2456	3930	2489	255
% of low-income individuals served	68	94	*	91	*
Total number of clients receiving financial or technical services	3559	641	611	2142	165
Median number of clients receiving financial or technical services	67	67	15	124	50
Number of organizations responding	25	7	5	10	3

* sample size too small to report

Providing Lending Capital

Eighteen organizations out of the 29 respondents (62 percent) indicated that they provided some form of loan capital to micro-entrepreneurs or small businesses. The majority of these programs reported that they supported both micro-entrepreneurs and small businesses. Only two indicated they provided micro-loans only. However, not all the organizations were actively lending. Four of the tribal credit programs reported, for instance, that their business lending was currently suspended or inactive. In consequence, their current lending was limited to short-term loans of under $2000 or less, and was based on meeting short-term emergency or personal needs. As previously noted, the tribal credit programs differ widely in terms of their purpose and structure. Further research is warranted to determine how credit programs could expand lending to Native entrepreneurs.

Fourteen organizations reported they had made loans to small business owners or micro-entrepreneurs in the past year. As Table 4 shows, the total number of loans disbursed was 373, and the total dollar value of these loans was over $4.7 million. The median number of loans disbursed across all organizations was 6, and the average number of loans was 27, indicating a wide variation across organizations. In fact, three large lenders accounted for almost 80 percent of the loans made. Using just the three largest lenders, their median number of loans is 59, with the median number of loans for the remaining group being 5.

Table 4
Loan Attributes

Institutional Type	*Total*	*Financial Institution*	*Tribal Credit Program*	*Tribal Business Information Center*
Total number of loans disbursed in the past year	373	269	37	67
Median number of loans in the past year	6	4	5	*
Total dollar value of loans disbursed in the past year	$4,754,111	$3,799,891	$626,520	$327,700
Median dollar value of the average loan	$12,481	$68,250	$19,104	$3858
Median number of outstanding loans	25	19	35	*
Number of organizations providing financial services	14	7	5	2

* sample size too small to report

Not surprisingly, financial institutions provided substantially more lending capital as indicated by the total dollar value of loans. This finding reflects the fact that financial institutions typically make larger loans. The median dollar value of the average loan is $12,481. However, this estimate hides a remarkable degree of variation both across and between institutions. The average size of loans among organizations ranged from $1000 to $100,000. For the three largest lenders, the median dollar value of the average loan was $4904, while the median dollar value for the remaining group was $25,000. Six organizations indicated that 100 percent of the loans disbursed were micro-loans (less than $5000). The smaller average loan size for the TBIC organizations is indicative of the average size of micro-loans disbursed.

The total median number of outstanding loans was 25. The relatively low median number of outstanding loans across these organizations may reflect the limited lending histories among the organizations responding, as well as the relatively small size of their lending portfolios. As previously noted, most of these programs were established over the past 10 years. The average staff size is 3 and the average income $200,000. The higher median number of outstanding loans for tribal credit programs (35) may reflect their longer and larger lending histories. The average staff size is 5 and the date established ranges from 1938 to 1996. Indeed the number of outstanding loans ranged from 5 to 3500.

Providing Technical Services

Twenty organizations out of the 29 respondents (69 percent) indicated that they provided some type of training or technical assistance services to prospective micro-entrepreneurs or small business owners. A total of 3186 clients received business training or technical assistance, with the median number of clients served as 84. However, there was considerable variation across programs, with some organizations serving as few as 5 clients, and others over 600. As Table 5 shows, 65 percent of these clients were served through TBIC centers. Unfortunately, it is not possible to determine how many TBIC or NABDC programs coordinate their activities with lenders.

Sixteen organizations indicated that they provided both formal training courses and technical assistance, while four provided technical assistance only. Training courses included all aspects of business development, including financial management, planning, marketing, and procurement. In addition, classes were offered in financial literacy — budgeting and credit — and general training such as computer or internet resources. A total of 634 individuals completed a training class. Few organizations required mandatory training. For those that did, clients were often required to take a training class, or complete a business plan in order to qualify for loan capital.

Table 5
Technical Services Provided

Institutional Type	*Total*	*Financial Institution*	*Tribal Credit Program*	*Tribal Business Information Center*	*Native American Business Development Center*
Total number of clients who received business training or technical assistance	3186	372	574	2075	165
Median number of clients	84	65	*	94	*
Number of programs that provide classes	16	4	2	9	1
Total number of clients who completed a training course	634	77	67	410	80
Number of organizations charging fees for technical assistance or training	2	2	0	0	0
Number of organizations responding	20	5	2	10	3

* sample size too small to report

Technical assistance included one-to-one counseling, visits to the business, referrals, and loan packaging. However, many of these services were provided informally and at the request of the client. Only five organizations indicated that they had a certain number of hours (ranging from 35 to 250 hours of assistance) allocated for each client. Technical support is provided from the development of a plan to after financial assistance is received.

The majority of these services were provided to the clients without charge. In consequence, the total amount of income generated from non-financial services across all organizations reporting was only $9500. In some cases, course fees were charged, but the funds were not returned to the program directly. This was most often the case for tribal college courses where the fees would go to the college rather than returned to the program itself.

One of the drawbacks of the analysis is that it is not possible to determine the number of clients who subsequently received a loan. Thus we are not able to tell how effective this technical assistance is.

Program Structure and Costs

Many programs serving Native entrepreneurs are constrained by inadequate funding, and the need to support lending operations, loan loss reserve, and general administration and overhead. Finding the resources to cover these expenses is challenging, even for the most streamlined operation.

The results of the survey show that providing non-financial services (training and technical assistance) are major programmatic expenses for these organizations, with 43 percent of total operating expenses spent on training and technical assistance. In addition, estimating the technical cost recovery indicates that the ability to recover these costs from income generated internally is limited.

Organizations were asked to provide basic expense and income data regarding the services they provided. It is important to keep in mind that this data is suggestive rather than conclusive. In order to examine this information, the analysis was divided into those organizations that provided financial services only, those that provided only technical services, and those that provided both.

Table 6 Categorization of Services				
	Total	*Organizations that provide financial services*	*Organizations that provide technical services only*	*Organizations that provide both financial and technical services*
Median number of full-time staff	3	5	2	3
Median total income +	$200,000	$280,000	$89,000	$334,000
% of total income from federal sources	30	*	80	39
% of total income generated internally	56	95	1	41
Median cost per individual served	$1550	$7000	$1250	$2151
Median cost per client receiving financial or technical services	$2656	______	$1364	$2656
Median cost of training per training client	$1059	______	$680	$1468
Median cost per loan disbursed	$16,083	$27,333	_____	$10,493
Number of organizations responding	23	5	11	7

* sample size too small to report
+ refers to revenues

As Table 6 shows, the majority of the programs were small, with limited staff and small budgets. Organizations that provide only lending had more staff than those that provided both technical assistance and lending. The median total income for organizations that provide only training and technical assistance services was $89,000.

The percentage of total income from federal sources is a measure of the dependence of the organization on outside resources. As the table indicates, those organizations providing technical services only are highly dependent on federal funding, with 80 percent of their income generated from these sources.

The percentage of total income generated internally is the proportion of total income reported by the organization that was generated from either the proceeds of the lending operations or the training activities. An important source is earnings of off-idle capital that could be hidden within the survey. However, across all organizations the proportion of earned income was 56 percent, but as the table shows, this percentage was significantly higher among those organizations that provided financial services only, and negligible among those programs providing training only. This finding is consistent with the fact that organizations engaged in lending are able to generate revenues, while those providing only non-financial services are dependent on outside funding.

The median cost per individual served is a rough measure of the level of resources invested in providing services to individuals. It is based on calculating the total amount of operating expenses divided by the total number of individuals served. The total median cost per individual served was $1550. As noted previously, not all of these individuals actually receive a loan or technical services, however. The total median cost for those who did receive services (clients) was estimated to be $2656. Again, there is a wide disparity across organizations. The total cost per client ranged from $1824 to $143,000. The $143,000 is an outlier, as a result of very high operating costs and few clients served.

The median cost of training per training client is an estimate of the level of the resources invested in providing training and technical assistance services. It is based on calculating the total amount of operating expenses that are associated with training divided by the total number of clients who received technical assistance and training only. The median cost of such training was $1059, with the range varying from $125 to $5714. As the table shows, the median cost of training was significantly lower for those organizations that provide training only ($680). This result is not inconsistent with the large number of clients these programs serve.

The median cost per loan disbursed is a rough approximation of the level of resources invested in lending activities. It is based on calculating the total amount of operating expenses associated with lending divided by the total number of loans disbursed in the past year. The cost per loan disbursed ranged between $1163 and $35,000. The median costs of $16,083 is extremely high as is the median cost for financial institutions only ($27,333). A possible explanation for these results may be that the operating costs reflect costs incurred for the entire lending operation, while the number of loans reflects the number of loans made to businesses only. This would imply that these figures are over-estimates. In addition, these numbers do not include the costs of servicing loans which would be included in the operating expenses, but not taken into account when looking at the total number of loans disbursed in the past year. A better measure might be to look at the cost per outstanding loan, which when calculated, reduces the cost per loan significantly.

The only existing comparison data available are figures from the micro-test database, developed by the Aspen Institute (Aspen Institute, 2001). Estimates produced from a sample of 36 micro-enterprise programs found that the median cost per client was $1933, and the median cost of training per client was $949. In addition, the median cost per loan was $7300 (Aspen, 2000c). These findings suggest that the numbers presented for Native lending programs are not unreasonable. However, it is important to note that the figures may not be directly comparable because of differences in the sample. The micro-test data are restricted to micro-loan operations only, while this sample includes small businesses as well.

The estimation of program costs is extremely sensitive to the scale and scope of the program activities. The costs of providing these services are affected by several factors. Training costs may be high as a result of the need to prepare the client for small business ownership. In addition, the fact that many of these organizations are immature implies that they may face higher operating costs than more mature organizations. Finally, the relatively small loan portfolios and limited lending histories suggests that these programs may not have reached the necessary economies of scale in their lending operations. This would result too in higher costs per client. All these factors would affect program costs.

The wide variation across programs is evident when they are analyzed individually. The following table is based on a sample of five programs, and illustrates the remarkable diversity among organizations. Programs vary greatly in terms of the number of clients served, the number and size of loans disbursed, their lending history, and their costs.

The proportion of total operating expenses associated with training and technical services is a measure of the amount of resources invested in providing non-financial services. The proportion for all programs was 0.48. As Table 7 illustrates, there is a considerable degree of variation, ranging from 0.2 to 0.75.

Table 7
Program Structure and Costs

	Total	*Program 1*	*Program 2*	*Program 3*	*Program 4*	*Program 5*
# of loans disbursed	126	59	5	50	4	8
# of clients receiving financial or technical services	1073	115	110	260	88	500
Average loan size	$66,143	$5806	$172,500	$11,912	$136,500	$4000
# of outstanding loans	185	30	35	106	8	6
Volume of outstanding loans	$993,587	$32,244	NR	$571,643	$377,000	$12,700
Proportion of total operating expenses associated with technical services	0.48	0.23	0.60	0.60	0.20	0.75
Technical cost recovery	0.43	0.63	0.29	0.29	1.13	0.02
Cost of training per client	$902*	$1112	$1823	$1044	$455	$80
Cost of training per loan disbursed	$12,529*	$2168	$40,080	$5427	$10,000	$4969

* average across organizations; NR=not reported

The technical cost recovery is a rough estimate of the degree to which income generated from the lending operations could contribute to the costs of providing non-financial services. It is based on calculating the total amount of income generated by the lending operations divided by the total amount of operating expenses associated with training. As the table shows, the average technical cost recovery for all programs was 0.43, with a high degree of variation across program, ranging from 0.02 to 1.13. In general, this finding provides some support for the proposition that the costs of providing non-financial services exceed the revenues generated from lending operations. However, this was not true in all cases. This variance may be due to the level of technical assistance and training provided.

As previously described, the cost of training per client is a rough estimate of the level of resources invested in non-financial services. The cost of training per client across all organizations was $902. However, as the table indicates there is considerable variance across programs, with costs ranging from $80 to $1823. As noted, however, not all of these clients will receive financial assistance. The cost of training per loan disbursed provides an estimate of the level of resources invested in non-financial services, relative to the number of clients who received financial support. As the table indicates, the cost of non-financial services per loan disbursed rises dramatically. Again, these figures are likely to be over-estimated. If the cost of training is calculated based on the total number of outstanding loans, the numbers most likely would fall. In addition, one of the drawbacks of the analysis is that it only includes the number of clients who received a loan from the program itself, and does not account for those clients who may have received technical assistance and training, but obtained financing from other sources. If these were accounted for, the cost of training per loan received would most likely fall.

V. Key Informant Interviews

While the survey provided fundamental information regarding program services and structure, it could not address all elements of the research supposition. In consequence, five organizations that provide both technical and financial services were selected for telephone interviews to gather their perspectives on the research hypothesis directly. A series of guided questions were asked of each respondent, including what they saw as the needs of Native entrepreneurs, the role of the lending program in supporting these needs, and recommendations for further action.

The Needs of Native Entrepreneurs

The interviews with key informants confirmed existing research that accessing financial capital is a significant challenge to prospective entrepreneurs. More specifically, those interviewed noted that Native entrepreneurs often cannot secure mainstream financing because of a lack of collateral, poor or no credit history, or geographical isolation from services. One director noted that "all of these people that are out there are considered to be — for one reason or another — high risk." As a result, mainstream financial institutions don't necessarily "have any interest in trying to deal with these folks." The lending programs, therefore, offer an important alternative source of capital.

A second significant barrier universally acknowledged by the directors is a general lack of business management skills among prospective entrepreneurs. Among the areas of weaknesses most cited were limited knowledge regarding marketing, developing a business plan, or general business practices. As one director observed, "there is a perception out there that [the client] can bring in an idea to the TA center — and when they walk out they will have all the answers and everything provided to them ..." Another noted that "there is a diversity in the readiness to grasp business principles and practices to starting a business."

The directors also noted a need to strengthen financial literacy skills in general, including providing information on money management and credit. One director felt that "there is a real crying need to try and get these types of educational programs out to the folks so that they will have the necessary expertise and tools."

Characteristics of Lending and Technical Assistance

While the programs engaged in lending and technical assistance activities, there was considerable variation in how these services were structured and delivered to Native entrepreneurs. Some of the program characteristics that emerged were:

- In recognition of the diverse capital needs of their clients, the programs were striving to meet the needs of two types of borrowers — the small micro-entrepreneur (predominantly a craft or artisan) who required small amounts of capital, and the small business owner with larger financial needs. At least three organizations indicated that they had recently expanded their loan limits or added an additional fund to increase lending opportunities.

- The use of a loan committee to review loan applications and render decisions. The loan committees were often made up of a diverse group of representatives, including community business owners, financial representatives, TBIC directors, and others. The diversity of representation on the loan committee was considered a valuable asset in lending decisions.

- Establishment of a "loan guarantee" program. At least two programs structured all or part of their lending program as a "loan guarantee" program, where the loans were actually made by a local bank, but guaranteed by the loan fund in case of default. Providing the guarantee eliminated the need for the program to incur expenses associated with servicing the loans, and demonstrated a working partnership between the lending program and local financial institution.

- The ability of the borrower to leverage the loan they received with matching funds from the tribe. Two organizations reported that matching funds were available from the tribe.

- Completion of a formal business course was not required prior to submitting a loan application for the majority of programs. The completion of a business plan was a pre-requisite.

- Extensive technical support including mentoring and coaching was provided to the client throughout the process. As one director described, "we have to provide a lot of TA around [the loan], and on-site visits, and a constant — not handholding, but definitely shadowing, mentoring, making ourselves available, being willing to look at their situation more and redo things if we have to …".

- The programs rely on outside resources and partners to supplement their activities. Organizations frequently mentioned as collaborators were state Business Development Centers, the Small Business Administration, and local educational institutions.

Despite the many operational differences, a number of common issues emerged from the discussions with program directors. The relatively intense nature of mentoring and coaching the client throughout the process was apparent. One director described it as building relationships — "we are sort of like their friends and relatives that can help them … and we do whatever we can to help people to get their business started." Another noted that the small size of the community meant that the program staff often met clients informally in the community, providing an opportunity to maintain contact and provide advice. Providing these types of support services was considered to be a critical element in improving the client's chance of success.

Another issue that emerged was a question of what type of training should be provided and how it is best delivered. One program related that they used to require formal business training, but "it didn't really fit the needs of the client…and so I guess our feeling was that if we worked with them more one-on-one, and bring them along as we see their needs — what areas they need help in — and just stay in close contact with them…" Another felt that "you are not necessarily going to go to school to learn how to become a better entrepreneur." In addition, program directors wondered about the cultural applicability of a number of business development curriculums which their clients often found daunting and difficult.

Program directors offered a number of recommendations on how training services might be better structured, including a greater emphasis on business development and the use of short intensive seminars on various business topics. In addition, adopting an “incubator” model was suggested as a potential approach.

The importance of providing both financial and non-financial support to prospective Native entrepreneurs was evident from the interviews and reinforces the findings of previous studies. Opportunities for training and technical assistance are best provided throughout the whole process from preparing the business plan to its operation. The implication of these findings is that providing financial capital alone will not ensure client success. The need to prepare and assist the client in developing and operating a business is an essential component in the process.

The interviews also reinforced the variation in structure and services among lending programs that was found in the survey as well. Although core services may be the same, the scope of these services and their delivery vary. These differences most likely reflect the community needs and its resources.

VI. Conclusions and Recommendations

The majority of the organizations studied were small with few staff and limited budgets. The median staff size for the organizations was 3 and the median total income was $200,000. Yet over 3500 individuals received either training assistance or financial services, and a total of 373 loans were disbursed over the past year, for a total of $4.7 million.

One of the most frequently cited challenges confronting these programs was related to financing both their lending and technical support services. The majority of these programs depended heavily on federal grant sources to sustain their operations. Finding the financial resources to maintain these services was challenging and one program had reduced their services when grant dollars ended. One director stated that, "a real part of the difficulty that we face in trying to obtain funding, whether it is for technical assistance or for the loan portfolio is that there is literally hundreds and hundreds of sources out there and many of them are so narrow in their focus and so specific we are constantly almost on a daily basis researching and investigating sources of income, and probably ninety percent of the time after we really take a close look at the application we are simply not eligible…"

Entrepreneurship

In response to the initial research suppositions, the following conclusions can be drawn. First, access to financing and limited business expertise and experience are both significant barriers to Native entrepreneurs. Prospective Native entrepreneurs not only lack the capital to start businesses, but they often do not have the necessary financial and business knowledge and skills to start businesses. There is an issue of "readiness" both in terms of being able to acquire lending capital, and in building a successful business operation. So, even were there sufficient financing, the need to prepare prospective entrepreneurs for business ownership would still be required. Second, technical assistance is critical in building borrower readiness and should be provided throughout the process — from the development of the business plan through to the operation of the business. Third, there are a variety of technical assistance programs and resources available to prospective entrepreneurs. Training courses included all aspects of business development, such as financial management, planning, marketing, and procurement. Technical assistance services included one-to-one counseling, business visits, referrals, and loan packaging. The majority of the programs providing non-financial services only were heavily dependent on federal funding sources for their operations.

The ability to combine financial and technical support allows for the provision of technical assistance (training, mentoring, coaching) to be tied to the lending in a way that better ensures that the needs of the client are met. It also allows for better monitoring of the client throughout the process, and greater co-ordination of services. The integration of these services also provides a means to generate revenue that could subsidize some of the costs of technical assistance. However, the potential disadvantages are that programs that provide joint services may not reach the necessary economies of scale in their operation, nor allow them to focus on their areas of strength.

Program costs tend to run similar to other operations serving entrepreneurs. The median cost per client served was $2656 and the median cost per training client was $1059. This compares to a median cost per client served of $1933 and the median cost per training client of $949 reported by the Aspen Institute for a sample of micro-enterprise programs. In addition, the median cost per loan disbursed was $16,083 (Native) compared to the median cost per loan disbursed of $7300 (Aspen). These costs are affected by several factors, including a need to provide extensive training and technical assistance, the maturity of the organization, and economies of scale within the lending operations. Two important characteristics to the success of entrepreneur lending programs are strong collection practices and staff who have prior lending experiences.

Perhaps the most serious challenge has been in finding the capital to re-lend to prospective entrepreneurs. The total amount of income generated from the lending activities is typically not enough to sustain their lending, and all but one of the programs reported that they had exhausted their lending capital. Initially financed through federal sources, these programs have been unable to access additional resources.

These findings provide support for the research supposition that lending programs do experience inadequate cash flow, yet it is not clear that this is necessarily the result of the high cost of training and technical assistance, although this may be a contributing factor. Rather it may reflect inefficiencies of scale and scope within the lending operations themselves. Without the ability to expand its loan portfolio, lending programs are unable to improve their financial efficiency, and face continued dependence on outside resources. As the Aspen Institute has observed for the sector as a whole, “increasing volume is a key to bringing down costs, a challenge in a field that is fragmented among small providers who are not yet close to reaching potential economies of scale …” (Aspen Institute, 2000a).

Capitalization

Community-based loan funds are one vehicle through which financing for Native entrepreneurs can be provided. All of the institutions stated, however, that their ability to provide financial and technical support suffers from inadequate funding. In particular, the inability to capitalize their loan pool means that lending programs are unable to generate revenues sufficient to sustain their fund, and keep costs down. Due to a lack of financing options, the organization cannot spread the risk, nor have secondary markets for their loan bundles as a way to recapitalize their loan fund. Utilization of fund dollars, therefore should combine both the volume of loans to total capital and an ability for earning interest that subsidizes non-financial services. By over-capitalizing the loan fund, it is possible to generate excess revenue that can be used to finance the fund operations. However in light of the need to prepare clients for business, as well as the need to achieve economies of scale in lending operations, this may not be possible. As a result, specialization of services may be necessary until this situation can be achieved.

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