

SUMMARY OF REMARKS

Patrick Borunda, Executive Director

ONABEN - A Native American Business Network

Thank you for this opportunity to comment on Senate 2010, which we hope will become the Native American Business Development, Trade Promotion, and Tourism Act of 1998. My remarks are shaped by my experience as the Executive Director of ONABEN - A Native American Business Network. Our regional, multi tribal organization is charged by our member tribes to create a private sector in Northwest Indian Country. I am pleased to report significant success. I am confident that our experiences are replicable elsewhere. This bill may play a pivotal role in making this possible. To that degree I am enthusiastic about the bill. Notwithstanding, I am critical of some aspects of this legislation. I believe it can and should be strengthened in specific ways.

All observers of Indian Country today are aware of the intense interest focused on Indian gaming. What few have articulated is that the real story of Indian gaming is neither in the profits nor in the intense political controversy. The most significant effect of Indian gaming is wages entering local economies. Like a nutrient bloom in formerly sterile seas, the wages create a medium for the growth of private enterprises on and near reservations. This private enterprise is the necessary if not wholly sufficient means to diverse, stable economies in Indian Country. Allowed to take root, culturally-appropriate private enterprise will find and fill niches in regional economies, generating income, building social stability, safeguarding our precious cultural heritage by ensuring economic as well as political self-determination. The beneficiaries will include our non-Native rural neighbors. It is my conviction that fostering the growth of private enterprise is the most important single contribution this legislation might make.

However, please note that I specified “culturally-appropriate” private enterprise. If this potential contribution is to be realized then one lesson learned by ONABEN over these past few years must be incorporated in your approach. There are culturally specific barriers to Indian people adopting the mainstream approach to business ownership. There is pervasive fear among ordinary reservation residents that adopting conventional business practices will cost them their cultural values and their community's respect. Any effort to build private enterprise in Indian Country that does not take this cultural bias into account is doomed to struggle and failure.

ONABEN encapsulates the solution by observing to our clients: “A business is not a money-making machine. It is a device to fulfill your commitment to make a contribution to your community.” Is the distinction meaningful? I point to ONABEN's record of accomplishment: From a cold-start in 1993 to the end of the third Quarter of FY 1998, ONABEN has assisted 250 business starts (almost entirely in rural and reservation areas of Oregon and Washington). These new businesses alone are adding over \$30 million/year to the region's gross domestic product and paying approximately \$1.5 million/year in federal income taxes. The SBA's cost to gain these benefits has totaled slightly more than \$1 million. ONABEN also assists over 400 established businesses / year, keeping them healthy and contributing to the region's economy.

The conventional approach to building businesses in America doesn't fit in Indian Country. Those who must embrace private enterprise will reject it. For this reason I believe that responsibility for implementing the Native American Business Development, Trade Promotion and Tourism Act should be placed on the Assistant Secretary for Indian Affairs in the Department of the Interior, subject to aggressive oversight. I believe that the SBA should be charged with playing the major role in an added section under Title II of this legislation. That added section should specifically address the creation of culturally consistent privately owned small businesses in and near reservation communities. One important contribution the Dept. of Commerce could make is assuring that the 1997 Census of Business once again reports Native American and Alaska Native Business as a separate category. In 1992 they were submerged in the vital and much larger category of Asian/Pacific Islander-owned business making our job much harder.

A Historical Economic Perspective

Contrary to self-serving but popular opinion, Native American communities are not being rescued by modern America from a historical norm of poverty. Prior to contact many, if not most, tribes lived extremely well by worldwide standards of the era. Include in the analysis living standards of Europe and Colonial America. Sophisticated indigenous economies created and distributed wealth for the benefit of the extended community. It has been two centuries of often-grotesque federal policy that have stripped the First Nations of their wealth and disrupted indigenous systems of distribution. These policies were either actively supported by or passively accepted by the majority (though not all) non-Native people in the country. It was in their economic self-interest to do so.

Despite systematic reductions of their supposedly treaty-protected homelands, Indian tribes entered the 1980's with substantial natural resources. These included 41.8 million acres of tribally owned trust land and 10.3 million acres of individually owned trust land. Reservations composed some 44 million acres of range and grazing land, 5.3 million acres of commercial forest, 2.5 million acres under cultivation. The tribes owned substantial energy reserves including 30% of western coal reserves and 4% of US oil and gas reserves (American Indian Digest, 1995).

Sadly, these assets did not translate to an adequate standard of living for individual tribal members at the beginning of the 80's. Nor do they provide such a standard in 1998. By virtually every socioeconomic indicator, Native Americans are suffering a life far from the mainstream experience of their fellow citizens. Unemployment in the 50%-90% range is not unusual, housing stocks are often at 20% or less of current needs (forcing crowding of several families into structures intended for one). Reservations endure extraordinary multiples of disease incidences experienced elsewhere in America.

One tragic legacy of the General Allotment Act of 1887 ('Dawes Severalty Act') is that large tracts of choice land inside reservation boundaries are not trust land and do not belong to tribal members. These lands belong to non-Natives who were permitted to purchase the land over the opposition of the tribes. On the Fort Peck Reservation for example, 69% of the agricultural land on the reservation is in the hands of non-Natives (US Dept. of Commerce, Economic Development Administration). Indian people live in poverty next to non-Natives growing wealthy

on resources set aside for tribal benefit.

Even when the resources supposedly remain in the hands of the tube they do not benefit the tube consistent with their market value. *Lack of access to credit is an important factor.* On many reservations, energy and mineral rights were leased to non-Natives with access to the capital needed to exploit the resources. The tribes had no such access. Federal trustees leased vast tracts of grazing land to non-Natives at extremely favorable terms to the lessee. The decisions were based on the apparent inability of the tube to economically employ the resource. Utilization of the agricultural land base reflects the same dynamic and effects of lack of tribal access to capital. Ownership notwithstanding, Indian people have lacked the necessary “down payments” to use their resources.

Structure of the Economy in Indian Country

The post-WW II economic structure of Indian Country has three elements: tribal governments, tribal enterprise and private enterprise.

Tribal government has tended to be distorted in its economic development functions relative to somewhat parallel state governments. The distortion in large measure reflected the lack of economic alternatives in reservation communities. Although the needs for water systems and sewers, blacktop and power poles were recognized, federal dollars were generally the only resource available for investment in crucial infrastructure. In the spring of 1997 the Congressional Research Office examined federal spending trends for fiscal years 1975-98. Their analysis revealed a "marked decline in federal spending (overall and per capita) on Indian related programs since 1975." Declines in health care, education and housing spending were each singled out for their unfavorable slopes. Combined with high unemployment, these facts meant control of the tribal government often represented control of the only source of jobs. Lacking adequate capital to ignite the reservation economy, tribal governments too often became battlegrounds over patronage.

In settings where a tribal resource (e.g. timber land, mineral deposit) might have given rise to a tribal enterprise or, in settings where economic development dollars may have engendered a manufacturing business, these enterprises were all too often non-competitive in their SIC (Standard Industrial Classification). Their primary purpose was actually to create employment in a setting where jobs were rare. The lack of competitiveness often disqualified these enterprises as sources of cash flow to collateralize borrowing. Tribal enterprise is a legitimate use of tribal assets but with notable exceptions, unable to brake the downward spiral of reservation communities and their economies.

Indian Country's private sector has also been notable for its less than anemic performance. In 1982 there were only 13,500 Indian owned private businesses in the United States. Their total revenues were a mere \$495 million. In 1987, the eve of IGRA, the number of businesses had grown 57% in five years to 21, 380. Their revenues increased 84% to \$911 million. The per capita ownership rates for Native Americans were still in the range of 10% of the per capita ownership rate of their white fellow citizens, less than 20% the rate of Asian-Pacific Islander

descendent citizens and far below the rates for Black and Latino communities. Obviously the many benefits of small business ownership, including job generation, employment training and stemming reservation community financial leakage, were not being enjoyed in Indian Country.

The absence of a small business sector poses a significant barrier to economic development on Indian reservations, rancherias and in Alaska Native villages. The most obvious losses are of owners' and employees' incomes. This is a major factor in holding median household incomes on reservations well below the medians for their states. Low income prevents building assets necessary to become creditworthy in mainstream financial terms. Less apparent but equally far reaching is leakage of earned income ordinarily stemmed by small, consumer-oriented businesses. This loss short-circuits the multiplier effect and dissipates the fruits of the communities' limited assets. Those few young Native Americans able to acquire higher education were drawn by opportunities off reservation, resulting in a "brain drain".

Small businesses are a necessary ingredient of a stable economy for Indian reservation communities and their rural neighbors.

The Indian Gaming Regulatory Act of 1988

In the late 1970's tribes had begun generating revenues from various types of gaming activities. In 1987 the Supreme Court confirmed that the tribes had retained authority to operate gaming establishments on trust lands without having to comply with state regulation. To resolve outstanding issues among tribes and states, the Congress passed the Indian Gaming Regulatory Act in 1988. Gaming expanded with breathtaking speed. Unfortunately the economic reality of Indian gaming is little understood. IGRA specifies that the net revenues from any tribal gaming are to be used for specific purposes:

1. Fund tribal government operations or programs
2. Provide for the general welfare of the tribe and its members
3. Promote tribal economic development
4. Donate to charitable organizations
5. Fund operations of local government agencies

Tribes may distribute a portion of net revenues directly to tribal members (per capita) only under a revenue allocation plan approved by the Bureau of Indian Affairs. The plan must describe the allocation of revenues among the five purposes above. If income is distributed on a per capita basis it is subject to federal income tax which the tube must withhold.

The General Accounting Office reported, as of December 31, 1996, 184 tribes were operating 281 gaming facilities. Examination of 178 facilities' financial statements (126 tribes) reported gaming revenues (dollars wagered minus payouts) of \$4.5 billion and other revenues of \$300 million from food, beverages, etc. Just eight facilities accounted for 40% of the revenues. Net income for the 178 facilities was \$1.9 billion or 38% of the \$4.9 billion in revenues. According to the GAO, \$1.6 billion was transferred to 106 tribes in 1995, more than 50% of this total to just ten tribes. Twenty tribes, 16% of the sample, indicated there were no transfers. The sixty-six

Class 11 facilities reporting earned a median income of \$0.6 million while the 112 Class III facilities had a median income of \$.9 million.

Effects of the Indian Gaming Act

The profits of Indian gaming are not making Indian people wealthy. Extremely few Native Americans benefit directly. However, the creation of Native controlled cash flow into tribal governments has restored a sense of options in gridlocked communities. Wages from employment created by the gaming operations is creating modest buying power with heartening results. Enabling this new control and buying power to be leveraged into material changes for Indian communities should be the goal of any federal legislation meant to benefit Indian Country. Surrounding non-Natives will also benefit from tribal members becoming more active in the regional economy.

What are the opportunities? Tribal governments are challenged to create tangible and intangible infrastructure. Infrastructure underlies sustainable economic development. Tangible infrastructure comprises the roads, water and power systems and schools so inadequately funded by the federal government for decades. Intangible infrastructure consists of uniform commercial codes, court systems and commitments to consistent policy between successive administrations. This infrastructure is necessary to preserve economic gains over time. Tribal enterprises' charge is to exercise responsible stewardship converting tribal assets to cash flow. In the long term their cash flow can be used to secure tribal debt for community purposes beyond their own growth as an enterprise. For all intents and purposes this is the dynamic at work with casinos, which are all tribal enterprises. In order to fulfill this constructive role, each enterprise must be competitive in their industry or its alternative role in the community acknowledged.

The private sector can help finance needed development by learning how to lend and to advise these sovereign nations. Tax incentives for conventional businesses or added resources for alternative lenders should be part of legislation meant to benefit Indian Country. Devices to facilitate issuance of bonds and notes by tribal governments should also be considered. To make the devices work mainstream financial institutions and interested business must learn how to do business on the terms required by the tribes. For their part, the tribes must learn about the imperatives of industry. Tribes must make reasonable accommodations to the needs of banks and others willing to be creative in their dealings with the tribes. Among these accommodations should be selective and highly restricted waivers of sovereign immunity.

Emergence of a Private Sector

The single most exciting effect of cash suffusing into reservation communities since 1987 is its effect on private enterprise. As noted above the growth from 13,500 in 1982 to 21,380 in 1987 was 57.5%. The count and receipts of Native American -owned businesses (NAB) soared between 1987 and 1992. In some areas of the country Native American private enterprise is approaching critical mass (able to sustain a chain reaction of growth).

Numbers of private enterprises leaped to 102,000 by 1992. This was a 378% growth. Growth of

Sales & Receipts from '87 to '92 was \$7.14 billion or 784%. The \$8.0 billion revenue figure places Indian-owned small businesses in the same class as General Mills, Colgate Palmolive and Time-Warner in terms of their contribution to the GDP. NAB Businesses are making a substantial and growing contribution to well being of communities and to financing of governments across America

In strictly financial terms, a business contributes by providing goods and services, which are valued by gross receipts. Some share of the gross receipts goes to purchase inputs in the form of other businesses' products. Indian-owned private enterprise made not less than \$6 billion worth of such purchases in 1992. A business also contributes by purchasing labor, which is paid out as employee income (\$820 million in '92), and in smaller businesses as owners' "draw" (\$732 million). This income is then spent to purchase goods and services.

Contrary to misconceptions of many non-Natives, this is taxable income at the state and federal levels. In many states there is a state sales tax which benefits the state government. ONABEN's analysis indicates that these state sales payments were not less than \$271 million in 1992. ONABEN -has extensively analyzed the contributions of private enterprise throughout the United States.

Minimum tax contributions of Indian-owned businesses in '92 were \$680 million. Actually, R was almost certainly in excess of \$1.0 billion (variance is an artifact of census restrictions on identifying businesses). ONABEN has done this analysis on a state by state basis: Washington \$13 million in federal income tax and \$14.6 million in state sales tax. In Oregon the figures were \$8 million in federal income tax \$3.4 million in state income tax

There is enormous untapped, but measurable potential for culturally consistent entrepreneurship in Native American communities. In the Northwest, we have analyzed business ownership rates per thousand population. In the state of Montana the white rate of business ownership is 97.7 businesses per thousand population. The Asian Pacific Islander rate is 61 businesses per I thousand population. Black and Hispanic citizens own businesses at 37.7 and 43.7 per thousand respectively. The Native American rate is 11 businesses per thousand. If Montana's Native Americans owned businesses at the combined all-groups rate of 91 + there would have been eight times as many Indian businesses! The 1992 Census of Business reported 540 Indian owned private businesses where the potential for over 4,400 exists.

The Native American rate of business ownership in Oregon is less than 15 per thousand, is the lowest rate of any community in the state and well short of the white rate of 82+ per thousand. We are able to project the actual numbers of business that would be in place if Indian people had ownership parity. We are well over 2,800 businesses short in Oregon. When m translate these numbers into economic contributions lost to the general community by virtue of the shortfall. In Oregon this loss is \$410-\$457 million to GSP, \$68 million in taxable wages and \$27 million in taxable business income.

ONABEN - A Native American Business Network

ONABEN - A Native American Business Network, is a non-profit, public-benefitted corporation created by Northwest Indian Tribes to increase the number and profitability of private enterprises owned by Native Americans.

ONABEN was conceived in 1992 and implemented by four Oregon tribes. Its genesis was the recognition that existing efforts to stimulate the growth of private enterprise in the state's Indian community were not working. The organization learned that there were cultural differences in approaches to business ownership, which had to be constructively harnessed rather than treated as barriers to be erased. ONABEN began delivering culturally focused services in 1993. *It has since help launch over 250 new, privately owned, Indian businesses, mostly in rural areas. These businesses, in diverse SIC'S, are already adding almost \$30 million a year to the region's gross domestic product.* Through these businesses, ONABEN is returning \$1.5 million in federal income taxes to the Treasury in 1998 alone. This amount is greater than the five-year investment to date by the SBA, ONABEN's leading federal financing source. The 400+ businesses ONABEN served in FY 1997 represent over \$107 million in gross revenues, more than a thousand jobs, and \$6.2 million in federal tax revenues.

ONABEN offers classroom training, individual counseling, assisted access to capital and to markets for its clients. It offers innovative programming for Native American women. In FY 97, ONABEN served 1,284 individuals with 8,119 classroom hours and 2,616 individual counseling hours. Clients spent at least 9,498 hours of business research in three ONABEN business information centers. In the first six months of FY 98, ONABEN provided 1,754 hours of counseling to 806 clients. ONABEN's three BIC's had delivered over 5,000 hours of service to 722 clients in 2,787 visits. Though focused on meeting some specifically Native American needs, non-Native neighbors benefit from ONABEN services. Some sites have up to 40% of their users coming from the nearby non-Native community.

ONABEN operates its own micro lending fund (OFS). Lending up to \$5,000 for 36 months, the fund is meant to leverage mainstream financial commitments and SBA guarantees by demonstrating our willingness to participate in loans. The fund takes a subordinate position if needed to increase the client's equity. Regardless of position, borrowers receiving loans with OFS assistance commit to remaining in a no-cost counseling relationship with ONABEN as long as there is a loan balance. This further reassures wary lenders.

The corporation has the experience needed to become an Intermediary in the SBA Microloan Program. A recent \$150,000 grant from the BankAmerica Foundation will be used to bring a full time credit analyst and administrative support person on board. ONABEN expects this to materially increase its capacity to process loan applications and promote participation by other credit sources in meeting the needs of its clients. The Union Bank of California recently entered into an agreement with ONABEN which will allow ONABEN to originate \$1,000-\$5,000 unsecured loans contingent on the maintenance of culturally focused business counseling of our clients.

The corporation publishes a Northwest Native American business directory in hard copy and on the Internet (www.onaben.org) and has been a major contributor to new Native Chambers and business roundtables. It operates an innovative, on-line, retail outlet for rural generated Indian products. Called Chinook (www.Chinook-art.com), the model has great potential to create markets for rural businesses without significantly adding to their marketing costs.

In 1997 ONABEN launched the Venture Out! Program. Venture Out! assists homebound, Native American women partner in a home-based, supplemental income business. The model has widespread relevance for welfare-to-work initiatives in and out of Indian Country. In its first year, in addition to bootstrapping the program, the Venture Out! Team assisted creating seventeen new home-based businesses and expanding seventeen more.

ONABEN has been a catalyst to generate resources for small business creation in Indian Country. Each of the tribes hosting an ONABEN site pays annual dues of \$2,500 plus 40% of the cost of operating their site. The ten tribes now hosting permanent sites each contributes approximately \$30,000 year in cash and services to maintain the network (totaling over \$300,000/year). To satisfy requests for additional services, ONABEN has secured over \$375,000 in private contributions, \$100,000 instate support and \$20,000 in earned income in the past two years. It has also secured over \$200,000 in federal funds from sources other than the SBA, its primary funding partner. Apparent success notwithstanding, needing to replace each non-tribal dollar every year has become a time consuming burden. Uncertain funding is a serious barrier to fulfilling ONABEN's potential.

ONABEN services are accessible to most Native Americans in Oregon. Permanent sites in Oregon include: The Grand Ronde Community, The Confederated Tribes of Siletz Indians, The Klamath Tribes, The Confederated Tribes of the Warm Springs Reservation and The Umatilla Indian Reservation. Smaller tribal communities at Coos, Coquille, Cow Creek and Bums Paiute can be served in a new partnership with the Oregon SBDC Network. Services are less readily accessible elsewhere. Permanent sites in Washington include The Makah Nation (serving five tribes), Chehalis Tribe (serving five tribes), The Yakama Naton and Confederated Tribes of the Colville Indian Reservation. ONABEN also has a site at the Hoopa Valley Tribe in Northern California. Additional permanent sites are being discussed for Quinault, Tuialip and Nisqually in Washington and at Ft. Hall and Nez Perce at Lapwai (Lewiston) Idaho.

Native American reservations, rancherias and Alaska Native villages do not enjoy the benefits small businesses ordinarily bring to community life in the United States. Historically, there have been significant legal and economic obstacles to small businesses taking root in Indian Country. Less obvious to most observers have been culturally specific barriers to creating a private sector in Native American communities. Awareness of these barriers already exists at the Office of the Assistant Secretary for Indian Affairs at the Department of the Interior. Rather than attempting to educate the Department of Commerce it would make more sense to take advantage of the awareness and expertise that already exists. Having said that, I must also ask that this committee aggressively monitor the performance of that office in this regard and demand high levels of productivity from it.

Since 1993, the SBA has partnered with ONABEN to field-test a culturally specific approach to nurturing Native American small businesses. The proof of concept is complete and unquestionably successful. The SBA has also partnered with the BIA and Tribal Colleges to establish a foundation of facilities called Tribal Business Information Centers (TBIC). These facilities create a sound medium in which to further develop the SBA's new base of experience. The seven tribal colleges in Montana have linked their TBIC's into a functioning network, enhancing the basic TBIC model. The issue now is bringing the concept to scale, maintaining its integrity while coordinating it with existing SBA resources, including the developing Montana Tribal Business Information Center Network, the existing Small Business Development Centers and the mainstream programs administered through the Districts. The Native American Business Development, Trade Promotion and Tourism Act should include specific mention of these efforts and charge the SBA with their expansion.

As the source of key industry and businesses development statistics the Department of Commerce could make an important contribution in the way it reports statistics. In the 1987 Census of Business Indian and Alaska Native-owned businesses were reported as a distinct category. This made it relatively easy to gauge our status and progress. In the 1992 Census of Business Native statistics were submerged with Asian and Pacific Islander statistics. As the numbers reported earlier about relative rates of business ownership demonstrate, this hopelessly distorts our database. The numbers should be reported separately for the 1997 Census.

The conventional approach to building businesses in America doesn't fit in Indian Country. It will be rejected by those who must embrace private enterprise. For this reason I believe that responsibility for implementing the Native American Business Development, Trade Promotion and Tourism Act should be placed on the Assistant Secretary for Indian Affairs in the Department of the Interior, subject to aggressive oversight. I believe that the SBA should be charged with playing the major role in an added section under Title II of this legislation. That added section should specifically address the creation of culturally consistent privately owned small businesses in and near reservation communities. The Dept. of Commerce should be charged to ensure that the 1997 Census of Business once again reports Native American and Alaska Native Business as a separate category.