CDFI Fund Native American Lending Study

Equity Investment
Roundtable and Research Report

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The Johnson Strategy Group, Inc.

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Table of Contents

Guide to Figures

Graphs:

Charts:

Tables:

INTRODUCTION

Indian Country needs more capital to focus on its growing infrastructure and business needs. This report focuses on the question of equity capital access: how much equity capital Indian Country has, how much its equity investment gap is relative to what it should have, and the benefits to reversing the gap. It also covers the landscape of available equity, the barriers on all sides to tribes obtaining more equity, and the strategies and actions recommended to bring more equity capital access to Indian Country.

> "I know what we need to do. All the ingredients are there. We just need to put the pieces together. The challenge is, are tribes ready and is Congress and the administration willing to provide or create the necessary receptive environment and support to 'enable' Native Nations to prosper."
>
> *Chairman Bobby Whitefeather*
> *Red Lake Band of Chippewa Indians*

> The corner of Indian Country and Wall Street. For a long time it seemed as if this particular intersection didn't exist.
>
> *Mark Fogerty, "At a Crossroads", American Indian Report, June 2000*

With greater access to and use of equity capital in Indian Country, the U.S. will have one more powerful engine of growth driving its economy, and Indian Country will realize more progress and self-sufficiency.

> I am sure that there are many among you who have big dreams but who are wishing that if only you had some capital, some human resources, and some social recognition. I was feeling the same.
>
> *Founder of global venture capital firm Softbank, Masayoshi Son*
> *Nicholas Kristof and Sheryl WuDunn,*
> *Thunder from the East: Portrait of a Rising Asia*
> *(New York: Alfred A. Knopf, 2000), p.2*

> A new enterprise or a rapidly growing one must have access to different sources and kinds of funds at different times. Foreclosing any one of them can have the same effect as depriving a developing organism of a vital nutrient.
>
> *Lawrence Litvak and Belden Daniels,*
> *"Business Capital Needs in California: Designing a Program",*
> *California Research Bureau report (CRB-98-005, April 1998), p.17.*

The research and roundtable discussion findings on equity investment in Indian Country are designed to provide the background and recommendations for enhancing equity capital access and use in Indian Country.

BACKGROUND ON NATIVE AMERICAN LENDING STUDY

In 1994, Congress passed the Reigle Act which authorized the CDFI Fund to conduct a study identifying the barriers and impacts to accessing capital in Indian Country. The CDFI Fund Native American Lending Study has brought together government, tribal leaders, and financial institutions, participating in 13 regional workshops with a primarily lending focus. The CDFI Fund also performed considerable research and conducted a Native American Financial Survey.

One of the outcomes of the Native American Lending Study workshops was to expand the inquiry into the closely related area of equity, both as an added dimension of access to capital, but also for its favorable impact on lending. A research project was conducted during the Fall of 2000 and the CDFI Fund Native American Equity Investment Roundtable Discussion was held on November 28-29, 2000 in Scottsdale, AZ. This was a historical meeting, bringing together for the first time tribal leaders, representatives from the whole variety of public and private sector sources of equity, federal government representatives, and other experts. This report summarizes the results of the equity research and roundtable discussion. A separate roundtable summary proceedings report is also being prepared, and released to participants.

SCOPE OF REPORT

This report is organized into the following sections:

- **Executive Summary** – The major findings and recommendations of the report including a three-step action plan to address barriers to access to capital and the equity investment gap in Indian Country.

- **Equity Investment Roundtable and Research Methodology** – CDFI Fund's process utilizing complementary approaches – research reporting quantitative, objective data along with qualitative dialogue on impressions, opinions, experiences, relevant stories, and anecdotal evidence in the roundtable.

- **Indian Country and Indian Country Funding Sources** – An overview of the structure of enterprises in Indian Country, the sources of funding for Tribal enterprises and economic development, and a need to focus more on equity capital, Indian Country as an engine of growth and data relating to Indian Country business revenues, sales and industry composition.

- **Equity Landscape and Applicability to Indian Country** – An analysis of the way equity markets function, what investors want and why they need it as a way of understanding the causes of equity underinvestment in Indian Country. This includes the applicability of various equity types to Indian Country and the decision criteria of various types of equity funding sources.

- **Barriers** – The most frequently raised barriers which apply to Indian Country access to equity capital. These barriers are organized into seven major themes. The strategies and actions, as outlined in the final chapters of this report, are also organized around these same themes.

- **Equity Investment Gap** – An analysis of the cumulative impact of the barriers in terms of equity investment gap in Indian Country. This analysis includes the current level of equity investment in Indian Country, what the Indian Country equity level should be, and comparisons to equity investment in states and foreign countries with similar profiles.

- **Strategies and Actions** – A listing of the top strategies to overcome the barriers and address the equity investment gap, including strategies and actions by seven major themes, the advantages of investing in Indian Country, and model approaches in use which could be altered or expanded to realize the opportunity of Indian Country as an engine of economic growth. This section concludes with a three-step action plan that covers a one to ten year horizon.

- **Appendices** – Footnotes that are cited in the body of the report, a Bibliography of source materials, and Glossary of Terms.

CDFI Fund Native American Lending Study
Equity Investment Roundtable and Research Report

EXECUTIVE SUMMARY

Indian Country is capable of much higher growth and economic success if its equity investment capital gap can be bridged. This study identifies the key barriers to access to equity capital, their impact, and strategies and actions to overcome these barriers.

Indian Country is an important domestic emerging market in the U.S., which can function as an engine of growth, offering faster growth than the U.S. overall.

- The minority population as a whole is expected to represent 50% of the U.S. population by 2050, double its current proportion. The Native American population has grown 50% faster than the U.S. population overall over the last five years and is expected to grow at double the U.S. rate by the year 2035.[1] Native American-owned businesses proliferate at seven times the growth rate of all firms in the U.S and grow sales at more than double the U.S. rate.[2] Native American-owned business revenues grew up to 55% a year from 1987-1992[3] and are expected to continue to grow at healthy double digit rates. Native American buying power is projected to almost double from 1990-2001.[4] Virtually all job growth in the U.S. has come from small business during the 1990s, and minorities represent the fastest growing segment of the workforce. This rapid minority and Native American growth is contrasted with the much slower annual growth rate of 5-10% for all U.S. businesses, reinforcing the importance of Native American businesses as an engine of growth.
- Further growth in Indian Country can enhance this Native American and small business growth even further. As historical sources of U.S. economic growth become less important, it will become increasingly important to the growth of the overall U.S. economy to stimulate domestic emerging markets. Indian Country is one of those domestic emerging markets that collectively will serve as new engines of U.S. economic growth.

Indian Country is a potentially large market operating in a variety of industries.

- Buying power of Native Americans is estimated at $35 billion for 2001[5]. With roughly half the Native American population in Indian Country, Indian Country buying power is assumed to be half of this or less.
- Estimated revenue in Indian Country is estimated at $25 billion from Indian Country businesses and trust assets annually[6]; and roughly $9 billion comes from

federal government programs in 2001; totaling $34 billion in annual Indian Country revenue.
- Businesses can be found in a variety of industries including gaming/resorts/hospitality, natural resources, services, construction, manufacturing, and wholesale and retail trade.

However, Indian Country growth is coming from a development base farther behind the U.S. overall.

- This is evidenced by its economic characteristics proportionate to its population – which substantially lag the U.S. overall.
- Indian Country needs to catch up to overall U.S. levels.

Indian Country's economic development is hampered by limited access to credit and equity capital.

- This need is frequently voiced by tribal leaders.
- This was also one of the top needs expressed in the 1995 White House Conference on Small Business.

There are four primary sources of capital in Indian Country. These are:

1. Tribal financial (internal) resources
2. Guaranteed loans, grants, and tax credits from government
3. Debt capital, primarily from banks
4. Equity from external investors

The CDFI Fund Native American Lending Study has focused primarily on access to debt capital, but participants in the workshops requested a related focus on equity capital.

- Many of the same issues arise when examining access to equity as do for access to lending, and equity capital is also needed.
- Additional equity would make it easier to provide additional credit to tribal and other enterprises.

Most forms of externally provided equity have not commonly been on the tribal radar screen as potential sources of capital.

Indian Country receives only a fraction of equity funding.

- Indian Country is estimated to have $10 Billion in equity capital.[7]
- This level of equity capital is only 0.03% of U.S. total equity.

There is an equity investment gap in Indian Country of $10 Billion less than the amount of equity Indian Country should have now.

- The $10 billion in equity currently believed to be in Indian Country is compared to the roughly $20 Billion it should have based on comparable demographic and economic circumstances.
- The gap between the current equity capital investment in Indian Country and proportionate U.S. levels is even higher at $44 Billion.

The benefit to bridging the equity investment gap is an additional $16 Billion in GDP and roughly 600,000 jobs. Roughly 4 times this GDP benefit would be obtained if equity capital in Indian Country were brought comparable to U.S. levels.

- Bridging the equity investment gap of $10 Billion in Indian Country should then create around $16 Billion in additional GDP for Indian Country, increasing it by 76%. The GDP increase would occur as enough equity is invested to close the gap over probably about 15-20 years.
- This additional GDP translates to approximately $10,000 more in per capita income, bridging the roughly $9,000 per person gap in income between Native Americans and the U.S. average, and would lift more people in Indian Country out of poverty.[8]
- Bridging the equity gap should produce roughly 600,000 new jobs created or retained over the next 15-20 years. This would more than double the current level of employment in Indian Country, but would employ the growing Indian Country workforce over the next 15-20 years at a normal rate of unemployment for the U.S. overall.

Barriers to equity entering Indian Country come from all parties – the tribes, investors, financial markets system, and the federal government. The primary barriers to getting more equity into Indian Country, in order of importance and frequency mentioned, include:

1. Legal clarity regarding Indian Country rules, regulations, legal codes
2. History of profitability and returns in Indian Country is not available – no excitement about the investment potential in Indian Country
3. Equity investors have not reached out to tribes or Indian Country businesses
4. Lack of articulated, agreed-on, consistent Tribal vision and goals
5. Dual role of government and business management
6. Bureaucratic “red tape” and slow decision-making from Tribal government
7. Lack of Tribal administrative capacity and business skills – especially financial literacy and understanding of equity markets, and business planning
8. Lack of market and trade information about Indian Country
9. Infrastructure inadequate
10. Lack of and need for training and technical assistance

11. Fear and lack of understanding about tribal sovereignty and sovereign immunity waiver issues from the point-of-view of equity investors
12. Investors have a regional focus, but are not located in Indian Country
13. Ignorance of the advantages of investing in Indian Country
14. Exceedingly long delays through BIA processing of both business proposals and land leases
15. Splintered and inconsistent federal support for business and economic development or management training and technical assistance activities; scale too small

Strategies to overcome the barriers to obtaining equity capital in Indian Country and positive actions to enact the strategies can be taken by each of the main constituencies in this issue – tribes, government, and investors.

Top strategies are listed below. Strategies and actions mentioned most frequently are listed first, and the rest follow in order according to the number of times mentioned.

1. Clarify legal codes and framework, protection, and dispute resolution – including sovereign immunity waiver clarification and judicial remedies and independence
2. Expand equity fund presence in Indian Country through sponsoring internal equity investors and bringing in external equity investor presence
3. Public/private intermediary to develop community or regional level equity programs, liasoning between institutional investors and public sources, and local equity investment and "deal flow" development
4. Establish tribal net income reinvestment policies into the same tribe's or other tribes' businesses or infrastucture
5. Create development by growing clusters of related or supporting businesses
6. Improve physical and telecommunications infrastructure
7. Provide entrepreneurial training
8. Solidify a strategic view of tribal goals and development strategy
9. Expand administrative capacity of Tribal governments, especially financial literacy and strategic and business planning ability
10. Introduce community-based finance on a very localized basis
11. Separate goals and management of business and government in tribes
12. Cut "red tape" in BIA and other federal agency interactions with tribes
13. More targeted economic development funding towards Indian Country
14. Promotion and image changing, including an investment guidebook or web site, and "investment road shows" highlighting Indian Country opportunities

One of the first steps is to gather reliable information on Indian Country.

- More specific information is needed on GDP and GDP growth, the number and types of tribal enterprises and other businesses in Indian Country, total and unmet demand for capital of various types, investment experience and risk, development goals of the tribes, and management training and administrative capacity building needed.

- The federal government, in conjunction with tribes, could survey Indian Country.

Repairing this equity investment gap would involve creating a climate conducive to equity investment, and promoting the economic development necessary to attract equity on an ongoing basis.

- The federal government would need to provide enough funding to improve Indian Country equity investment readiness, and private sector investors would need to be attracted sufficiently to invest enough equity, in order to reach enough investment critical mass to stimulate and then sustain meaningful further economic development.
- This development would then form the basis for sustained equity capital investment in Indian Country.
- A virtuous cycle would than be created, benefiting all parties.

The government should view the needed funding as investment to reduce long-term future costs as Indian Country becomes increasingly able to attract private sector capital.

Investors will only invest long-term in Indian Country if their return on investment is likely to be more than adequate to compensate them for the risks inherent in investing.

- This is how investors scour the globe for the most attractive opportunities.
- To consistently attract equity, Indian Country must be at least as attractive to investors as other potential investment locations, including alternative domestic and foreign emerging markets.
- Short-term incentives or mandates might spur equity investment in the short-term, but will not be sustainable long-term without further attractive business and economic development.

From the Tribe's point-of-view, any steps taken must start with a community focus at the tribal or regional level.

- Key strategies and actions include determining tribal strategic goals, clarifying the legal and regulatory climate on reservations and creating impartial judiciary remedies, developing enhanced financial and business literacy and experience, adding administrative and planning capacity, offer peer- or community- based equity structures, create development or industry clusters, design a reinvestment strategy for income from tribal assets, and outreach and networks with potential equity investors.
- Various forms of equity need to be introduced to tribes as potential sources of capital.

Investors need to be made aware of Indian Country opportunities and advantages, and need assistance navigating the new territory of Indian Country.

- The single most frequent reason investors cited for why equity investors did not invest in Indian Country was that the opportunity never came up and they were never approached by anyone from Indian Country.
- Education about Indian Country culture and structure, promotion of investment advantages, Indian Country market growth promise and untapped needs, the labor market, and successful investments in Indian Country would go a long way toward interesting investors in serving Indian Country.
- Investment pre-screening and filtering of the best opportunities and post-investment tracking and assistance with regulations are valuable services tribes can provide to investors to attract and retain them.

However, current forms of mainstream equity finance do not apply to the majority of businesses, and so there is a mismatch between most private equity financing and the greatest needs of Indian Country.

- Angel investors and venture capitalists could fund startup or small to medium-sized, very high-growth businesses, generally in high-tech fields – and if they are geographically nearby.
- Later-stage private equity could be used to expand established, successful businesses with the potential for high growth. Collectively, these are maybe 10% to 20% of enterprises.
- But, the majority of small, "mom and pop" or medium- to slow- growth companies, especially those in remote areas, would only attract equity with a public or social benefit component.

Approaches used elsewhere in the U.S which are ready to go and could be adapted to Indian Country include:

- Industry or sector-specific incubators with a full complement of management training and technical assistance perhaps tied to various federal, state and local programs
- Angel investor networks
- Community development venture capital
- Strategic partnerships with corporate America

In fact, in Indian Country there have been numerous partnerships with corporations, but this approach could be used even more widely if some of the barriers to equity investment in Indian Country were addressed.

All these model approaches and successes with each approach tell us that solutions are out there, at work, right now. All that needs to be done is to adapt these model approaches to the particular needs of Indian Country, or even region by region or Tribe by Tribe, and then fund and offer them on a large scale throughout Indian Country.

A frequent suggestion is to create a public-private intermediary which would liason between the federal government and investors on one hand, and the tribes or regions on the other.

- This intermediary could create a network of deals and investors, mentor entrepreneurs and business owners, and manage or co-invest in any investments.
- The intermediary would provide the needed technical assistance, but would try to locate or create investments which are likely to generate a reasonable rate of return on investment.
- Existing examples of intermediaries linking business communities with potential investors, helping both while each operates in their normal way, could serve as a template for such an intermediary.
- Creating an intermediary interfacing between the government and the various regions or tribes, which would have a focus similar to that of international intermediaries, is one possibility.

Indian Country is an emerging market right here at home and should be treated at least as well as developing countries worldwide have been by the U.S.

Indian Country, if provided the proper government investment and access to equity capital, could transition to sustainable, independent growth.

- There has never been a better time than now for the U.S. to invest to help Indian Country participate more fully in the current U.S. prosperity.
- The federal government has the means to help Indian Country jump ahead and become self-sustaining, advancing while pursuing individual tribal goals consistent with tribal culture.

This look at equity investment in Indian Country and what it could be gives us a good idea of where we are now versus where we could be.

From	To
Subsistence plus low investment funding, a "continue as we are" strategy	**High investment in future self-sustainability**
Confusion and lack of understanding on the part of all parties	**Clarity of goals, plans, and requirements**
Economy trailing the U.S.	**Economy growing toward par with the U.S.**
Equity capital desert	**Growing and thriving equity investment**

The recommendations to enhance equity capital access in Indian Country and bridge the equity investment gap fall into three easy steps.

Policy Recommendations and Milestones: An Action Plan

These various strategies and actions can be placed into a 3-step sequential action plan, complete with milestones and timetable.

Step 1

Getting Ready

Do the background work:
(Including Top Strategies and Actions Number 1-4, 6, 8-12)

- Tribal nation building: goals, structures, laws, recourse
- Administrative/organizational capacity and skill-building, including financial literacy and knowledge about equity alternatives, as well as strategic and business planning skills
- Federal, state, and Tribal government coordination and simplification
- Creating private equity investment funds of various types, intermediaries, and networks; and attracting equity investors' presence in Indian Country
- Create an attractive investment environment – simple, fair, filled with incentives, and initially perhaps guarantees
- Build physical and telecommunications infrastructure (including roads, telephone and internet service, electric power, gas, water/sewer, health care facilities, schools, cable television)

Timeline: Now through 2 - 5 years

Step 2

Develop the Economy

Create thriving, value-creating diverse businesses opportunities:
(Including Top Strategies and Actions Number 5-8, 13)

- Explore business expansion opportunities
- Partner on infrastructure projects which could earn a strong return on investment with expert companies
- Form startups, incubate them, and pre-screen them
- Plan business enterprises to tie into existing business needs
- Create target industry "clusters"
- Monitor performance and provide ongoing technical assistance in order to perform to market return on investment and value creation

Timeline: 6 months from start of Step 1 to 10 years

Step 3

Attract Equity

3

Attract and retain equity investors:
(Including Top Strategies and Actions 2, 14)

- Promotion of Indian Country equity investment opportunities
- Go to investors with "road shows"
- Form long-term relationships with key equity investors
- Enter the many networks
- Develop relationships with intermediaries
- Provide post-investment assistance with doing business in Indian Country and incentives on new projects
- Monitor performance and provide ongoing technical assistance to enhance performance in order to retain equity investors

Timeline:
Short-term: **immediately for existing opportunities in Indian Country**
Long-term: **Start after both Step 1 is complete and the first of the Step 2 new business is ready for operation -- with a duration of 1 year – each tribe at their own pace**

Long-term, doing all three steps and then waiting for equity investors to earn the kind of investment returns that excite them about increasing their presence in Indian Country might take a total of 15 years. Up to five years to execute the three-step process and up to 10 years for equity investors to realize their returns adds up to a total time horizon of up to 15 years to achieve a much greater level of equity in Indian Country, and to sustain private sector interest with a minimum of public sector support.

The recommended action plan will be a WIN-WIN-WIN for each constituency – tribes and Indian Country, equity investors, and the federal government.

WIN for Indian Country

Indian Country is experiencing a serious equity investment gap which is limiting GDP growth, sales, profit, and job growth as well as the quality of jobs and skills which can be learned on the job. Reversing this gap would grow the Indian Country economy and bring more and better jobs. There are ways to attract and retain outside equity investors while still achieving Tribal goals and remaining true to Tribal culture.

WIN for Equity Investors

Equity investors get a new source of deal flow from the engine of growth that Indian Country is becoming. With the proper screening and value-added/technical assistance services brought by equity investors, and with the proper training in the basic management skills to create value for investors; investments in Indian Country should offer attractive rates of return, while diversifying risk.

Since Indian Country has been very underserved in the equity field, there should be lots of low-hanging fruit for the first equity investors in. Later, the impact of the changes being made now, should lead to continued attractive equity investments.

WIN for the Federal Government

The federal government can help Indian Country participate in the U.S. boom, and can directly stimulate growth by ensuring that Indian Country has reasonable access to equity capital, and can attract and retain it. Providing greater access to equity would by its nature improve many other development goals for Indian Country. And, providing better access to equity capital leads to more access to lending and other forms of debt financing. This would further the goals of the Reigle Act.

Some of the benefits to the federal government in pursuing the strategies outlined in this report include:

- More useful way of targeting federal money
- Leveraging public funds with private sector funding and support
- Assisting in the creation of sustainable economies
- Long-term cost savings as the private sector increasingly provides funding for more businesses and jobs, gradually displacing the public sector in this area
- Increasing the use of existing programs in Indian Country

Indian Country, if provided the proper government investment and access to equity capital, could transition to sustainable, independent growth over one generation.

EQUITY INVESTMENT ROUNDTABLE AND RESEARCH METHODOLOGY

ROUNDTABLE DISCUSSION

In November 2000, the CDFI Fund convened a round table meeting of Tribal officials, Native American entrepreneurs, key private and public sector equity players, government agency representatives, and experts who understand access to capital. This was the first time that representatives from all types of equity from incubators and angel investors through to various types of venture capitalists, private equity funds, and public stock market investment banking from both private sector funds and public sector programs were brought together to discuss the potential equity market on Indian reservations. Like the Fund's 13 Native American Lending Study Workshops, the goal of this round table meeting was to have input from individuals that have direct experience in dealing with the barriers of accessing or providing equity investments, as well as developing strategies and actions in the process.

Participants had experience with investing equity in Indian Country or other potentially transferable successful approaches to equity investment, experience with barriers to equity investment in Indian Country, or were recognized experts on the equity market and what drives it. Forty-seven participants participated in a lively 2-day roundtable discussion. Almost half of the roundtable participants were private market players experienced with equity capital. The discussion was documented by a court reporter and flip chart pages created during the roundtable, and was subsequently summarized in a separate proceedings report which also includes a list of participants.

This roundtable focused on defining the equity investment landscape, the elements of success for equity capital investors, and Native American opportunities for getting on the equity investment radar screen. Structured discussion topics included:

- The equity investment landscape and radar screen
- Equity investment gap in Indian Country
- Equity types and investment criteria
- Equity investment issues, barriers, and impacts (from private sector vs. tribal perspectives)
- Strategies to improve access to equity capital
- Action plans and model approaches that can be transferred to Indian Country

Each participant received a workbook on the equity investment game and a detailed report capturing proceedings and the results of team breakout sessions on strategies and actions.

RESEARCH METHODOLOGY

The CDFI Fund conducted research on equity investment in Indian Country to provide the background and recommendations for enhancing equity capital access and use. Primary research included numerous discussions with equity market participants about equity investment in Indian Country. The people who provided forthcoming remarks about their experiences investing in Indian Country, trying to invest in Indian Country, or who could shed light on why they had not yet considered investing in Indian Country are listed in the Bibliography of this report as sources. Other primary research incorporated into the equity investment research included relevant findings about equity investment from the CDFI Fund Native American Financial Survey, and major preliminary findings from the CDFI Native American Lending Study which were also relevant to equity investing. Additionally, a questionnaire was developed for participants in the equity investment roundtable, which provided some limited, but useful information about Indian Country equity investment performance.

Extensive original research and analysis was done into the amount of equity in Indian Country using mostly Census data and Indian Country businesses from the Dun & Bradstreet Minority-Owned Business Database. Further research and analysis to estimate the amount of equity in economies comparable to Indian Country was based on similar state Census and other information. Additionally, data on comparable countries was taken from various United Nations, International Monetary Fund, and World Bank data sources including the International Finance Corporation/Standard & Poor's global stock market figures; Milken Institute Capital Access Index; Heritage Foundation ratings on ease of capital flows; and other sources. This data along with information on the effects of various public sector-sponsored, economically targeted, and community development equity investment programs was analyzed to estimate the benefits of bridging the equity gap.

This primary research and analysis was supplemented with over 150 secondary research sources. These came from a combination of general press; books on investment and/or obtaining financing; government publications, testimony, and press releases; academic research articles; practitioner articles and guides; and tribal or Indian Country publications. A complete list is provided in the Bibliography at the end of this report. Further analysis was done by combining information from these publications to draw conclusions, such as the geographic mismatch between venture capitalists and Indian Country.

In particular, successful model approaches being used elsewhere which might transfer well to Indian Country were developed based on published reviews of these efforts, through subject matter expert knowledge of what is being done in different programs, through interviews with practitioners, and emerging from the roundtable discussion.

Materials from the equity investment research were also used in the Equity Investment Roundtable, cited above, to provide a general overview of the equity landscape and to provide structure for the roundtable discussions. The roundtable discussions and conclusions were then incorporated with the research to complete the picture for this report. These two approaches were mutually reinforcing and confirming.

I. INDIAN COUNTRY AND INDIAN COUNTRY FUNDING SOURCES

INDIAN COUNTRY AND TRIBAL ENTERPRISE STRUCTURE

Indian Country is comprised of reservations and other tribal land, regions, or villages, including those of Alaskan Natives and Native Hawaiians.[9] The nomenclature used in this report refers to Native Americans when speaking of American Indians, Alaskan Natives, and Native Hawaiians living anywhere in the U.S., and refers to Indian Country when referring only to the subset of Native Americans living in Indian Country. On federally recognized reservations in the lower 48 states, land is held in trust for the tribes by the United States government. There are 562 federally recognized tribes in the U.S. Tribes are sovereign and have sovereign immunity, meaning that they are immune from legal prosecution unless the sovereign immunity is waived. This is frequently done with specific business investments.

In Indian Country there may not always be a clear delineation between the public and private sector. Some tribal governments maintain a dual role – governance and management oversight of tribally owned enterprises. Some tribes have established enterprises as businesses owned by the tribe and managed by a separate Operating Board selected by the tribal government.

When doing business with non-Indian Country enterprises, tribal businesses may set up limited liability partnerships in order to preserve the tribe's tax exempt status, and to allocate tax benefits to other non-Indian partners (partnerships).

In general, for external parties such as equity capital investment sources doing business in Indian Country, their concern is to be clear on who the external equity partner is doing business with and what are the rules of the game. They are concerned especially with how asset ownership, liabilities, and potential eventual investment exit strategies; applicable laws, codes, permits, and regulations; and judicial or alternative dispute remedies all would work when investing in Indian Country.

THE FOUR SOURCES OF FUNDING FOR INDIAN COUNTRY

There are four primary sources of capital in Indian Country. These are:

1. Tribal financial (internal) resources
2. Guaranteed loans, grants, and tax credits from government
3. Debt capital, primarily from banks
4. Equity from external investors

The tribes have significant resources of their own, particularly those with rich natural resources, successful gaming operations, or particular sources of competitive advantage such as location. They can reinvest retained earnings or they can choose to distribute them, or some mix of the two. Historically, tribes have looked toward federal grants and loans to supplement what they have. These two resources have served essentially as a source of internal equity.

External equity investment is the least used form of financing in Indian Country.

Most sources of equity from outside the tribe have not commonly been viewed as potential sources of capital. External equity investment is the least used form of financing in Indian Country, yet tribes are a part of domestic emerging markets. They need this source of capital to grow. External equity investment is equity funding provided by investors from outside the company. Additional owner investment in the business would be an example of internal equity, and a purchase of company stock by the local bank would be an example of external equity – that is externally-provided equity.

Banks and lenders only give money to people who *have* money. Equity investors give money to people who *know how to get* money.

Equity provides funds for businesses not qualifying for loans, but which are good investments. Banks and lenders only give money to people who *have* money. They provide liquidity and expansion capability to those who have cash flow and collateral. Equity investors give money to people who *know how to get* money. They give money to management with business plans they believe in. They are willing to take a risk.

The CDFI Fund Native American Lending Study has focused primarily on access to credit capital, mostly various forms of lending from banks, but participants in these workshops requested a related focus on equity capital. Many of the same issues arise when examining access to equity as do for access to lending, and additional equity would make it easier to provide additional credit to Tribal and other enterprises.

Many of the same issues arise when examining access to equity as do for access to lending, and additional equity would make it easier to provide additional credit to Tribal and other enterprises.

FOCUS ON EQUITY AS PART OF THE LARGER CAPITAL ACCESS ISSUE

During the Native American Lending Study workshops, participants recommended increased focus on externally provided equity as well as lending, as financing which has been traditionally underutilized by tribes.

Tribes have traditionally used their own money to fund new enterprises or have sought grants from various government agencies such as BIA, HUD, USDA, and EDA; or loans from banks or through government programs such as SBA, HUD, and CDFIs. Most government programs supply grants, loan guarantees, or tax credits. Grants can be used as equity, but then are expected to be supplemented with funds added from the tribe's coffers or from external private sector financing. Loans are facilitated with equity to be leveraged or with partial loan guarantees in order to entice the participating bank or CDFI to make a loan which might be too risky to make otherwise.

Loans can serve many types of businesses, but not all. The fact is that banks require "two ways home". They want ongoing cash flow to pay the interest and the principal when it is due. They also want collateral – mostly physical assets like land, buildings, machinery, and inventory to repossess and sell – as security for a loan in case it cannot be repaid in full. Small enterprises or businesses just getting started may not have the cash flow or the physical collateral banks require to support a loan. Service businesses or those providing mainly knowledge like software or professional advice typically can only borrow once they are established based on their cash flow and working capital. So, any Native American enterprises which can not or do not want to use their own tribal or individual funds, or can not obtain a large enough grant or loan, is currently often starved for funding. Externally provided equity could fund some of these businesses.

> Equity can fund businesses not qualifying for loans, but which are good investments.

INDIAN COUNTRY AS AN ENGINE OF GROWTH

Small businesses in the U.S. and particularly the faster growth in minority-owned business have been an engine of growth. Growing small businesses have provided half of revenue growth, most of new job growth, and 51% of U.S. GDP. They also provide much of the innovation the U.S. has become famous for. Particularly the 10% fastest-growing small businesses, the most likely to receive equity funding, have contributed most of these gains.

Minority-owned businesses are growing even faster than small businesses overall. Since minorities will comprise 50% of the population by the year 2050 to 2060[10], and a similar part of the labor force, and will have significant buying power; growth in this area is crucial. Minorities are also projected to contribute between 44% and 70% of the growth in future consumer purchasing power between 2000 and 2045 – growth which will multiply minority purchasing power by roughly 3 to 5 times by 2045. In 2045, minorities are projected to represent between a low estimate of 29% (with current income disparity between minorities and non-minorities in the U.S.) and a high estimate of 36% (with elimination of income disparity) of all U.S. consumer purchasing power.[11] At an average 33% of purchasing power, the minority market cannot be ignored. Over the last 10 years, Native American buying power has outpaced the overall average U.S. growth in buying power.[12]

Much ado has been made about investing in emerging markets around the world. The main attraction has been high growth along with superior return on investment which can be achieved in a relatively short period of time, seeming to outweigh any risks.

> Instead of looking to the emerging markets to Asian, Latin America, or Africa for growth and diversification, investors can get the same growth and diversification in the U.S. 'emerging' minority market – without the political and currency risks.
>
> *Nathan Chapman*

However, right here in the U.S. are several domestic emerging markets. Nathan Chapman, founder of eChapman, believes that "instead of looking to the emerging markets to Asian, Latin America, or Africa for growth and diversification, investors can get the same growth and diversification in the U.S. 'emerging' minority market – without the political and currency risks."[13] Women-owned businesses, minority-owned businesses, and businesses in community development areas in inner cities and rural areas, can all be domestic emerging markets.

Domestic emerging markets will probably provide most of the growth in the U.S. economy over the next 50 years and will comprise an increasing portion of the U.S. marketplace. The Milken Institute adds "Economic growth can not be sustained without the inclusion of minority businesses and an infusion of capital into those businesses… affecting not just minority businesses, but putting the nation's macroeconomy at risk."[14] Sales per employee grow twice as quickly for minority businesses as for Fortune 500 companies, growing at an average 17% vs. 8% for large corporations.[15] And sales in Native American businesses are 116% of the minority average, jobs represent 123% of the minority average, and new hires are 112% of the minority average.[16]

> Economic growth can not be sustained without the inclusion of minority businesses and an infusion of capital into those businesses… affecting not just minority businesses, but putting the nation's macroeconomy at risk.
>
> *The Milken Institute*

Indian Country is one of these domestic emerging markets which could grow much more if provided with the right assistance and enough capital to invest. The Native American population is the fastest growing since the 1970s and remains the third fastest growing population in the U.S. In its current state, Indian Country has significantly lagged the U.S. in development. Native American unemployment was 50% in 1997[17] and median unemployment in the 2000 CDFI Fund-sponsored Native American Lending Survey of Indian Country was also 50%, but with a most common level of 70%.[18] Poverty rates from 1997-1999 reached 26% for Native Americans, improving from earlier in the decade, but still high.[19] Household income was about three quarters the U.S. level from 1997-1999.[20] However, Native American buying power, measured as disposable income, almost doubled between 1990 and estimated 2001, with $35 billion in buying power anticipated for 2001.[21]

Indian country is a large and diverse market.

Indian Country is a larger and more diverse market than many equity investors may have realized. Large equity providers such as major investment banks and corporate partners are beginning to wake up to the substantial opportunities available, and some large deals have been done.

The most recent 1992 Census Bureau count finds almost 115,000 Native American- and Hawaiian-owned businesses with sales of $ 9.1 billion.[22] The number of Native American-owned firms grew between 37% and 93% from 1987-1992, more than 7-19 times the U.S. rate.[23] Revenue growth rates from 1987 to 1992 were 23% - 55% per year, double to five times the national rate[24], and are projected to continue growing at a healthy double digit rate[25] . Projecting the 1992 Economic Census revenue growth rate from the 1992 Census revenue leads to higher estimates, at least $25.8 billion projected at the end of 2000, and possibly much higher. A Dun & Bradstreet Minority-Owned Business Database containing less than 10% of Native American-owned businesses reveals about $19.0 billion in revenues in 1999-2000.[26] This total should be regarded as a minimum. The Native American businesses in the Dun & Bradstreet data tend to be the largest businesses.[27] Over three quarters of Native American and Asian & Pacific Islander businesses do not have paid employees and their average revenue is very small.[28] Extrapolated to the full projected 1997 number of Native American-owned businesses, adjusting for size, appears to yield a total revenue estimate of at least $22.9-26.4 billion. Add to this the latest Indian gaming revenues reported at $9.6 billion in 1999 which were mostly not captured in either the 1992 Economic Census or Dun & Bradstreet data.[29] Taking these more current estimates together suggests an overall Native American business revenue range of about $33 – 39 billion[30] , with an average of $36 billion. This is a big and growing contribution to the U.S. economy – a definite engine of growth.

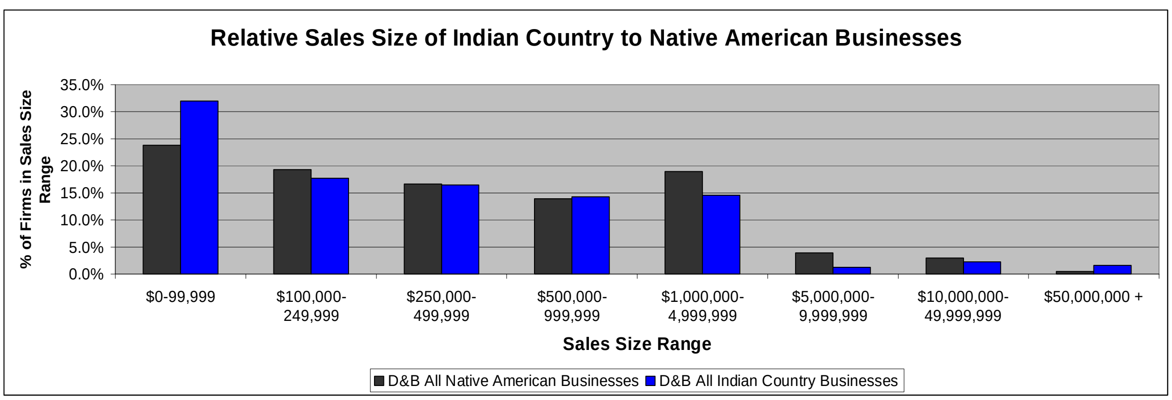
Although we know that about half of all Native Americans live on reservations and other tribal lands[31] , the data has not revealed how many Native American businesses operate on reservations. A quantification of Indian Country businesses is problematic, and has not yet been done. The Dun & Bradstreet database of Native American-owned businesses shows most located in big cities. It can be difficult to separate Indian Country businesses located adjacent to large metropolitan areas. Additionally, there can be quite a bit of movement in and out of Indian Country during various stages of production, and in terms of location for various business activities. For example, a tribal business might produce goods on the reservation, and then sell them in a retail location off-reservation in a nearby city. Some Indian Country businesses have expanded off-reservation, and some businesses based outside of Indian Country may have operations in Indian Country. Additionally, a tribe of Indians is not considered an individual, so tribally owned enterprises may not be listed as Native American-owned even though the whole tribe owns them – understating the proportion of Native American-owned businesses located in Indian Country. These tribal enterprises tend to be larger than individually-owned businesses, so the undercounting can be significant when looking at revenues, employment, or capital numbers in Indian Country. Further study to quantify businesses in Indian Country is recommended.

Absent an Indian Country firm count, several methods were used to estimate total revenues (or receipts) of Indian Country businesses to assess the size of the market. These several estimates point to about $15 billion in revenues from general business, and with gaming revenues added, $ 24.6 billion in Indian Country revenues.[32] Roughly another $4.5 billion is held in Bureau of Indian Affairs (BIA) managed trust accounts and tribal asset management accounts for tribes in Indian Country.[33] At a 10% rate of return, these funds would produce another $450 million in revenue annually. The total Indian Country revenue from business enterprises would then be about $25 billion.

Total annual Indian Country revenue from business enterprises is estimated at $25 billion.

This seems somewhat high relative to the total Native American business revenue estimate of $36 billion. One possibility is although most Indian Country businesses are smaller than overall Native American businesses, there are more in the largest revenue category, probably large tribal enterprises. It is this category which affects the overall revenues most strongly. The revenue size distribution of Indian Country vs. Native American firms is pictured below.

Graph 1



Sales Size	$0-99,999	$100,000-249,999	$250,000-499,999	$500,000-999,999	$1,000,000-4,999,999	$5,000,000-9,999,999	$10,000,000-49,999,999	$50,000,000 +
D&B All Native American Businesses	23.8%	19.3%	16.6%	13.9%	19.0%	3.9%	3.0%	0.5%
D&B All Indian Country Businesses	32.0%	17.7%	16.5%	14.2%	14.6%	1.3%	2.2%	1.6%

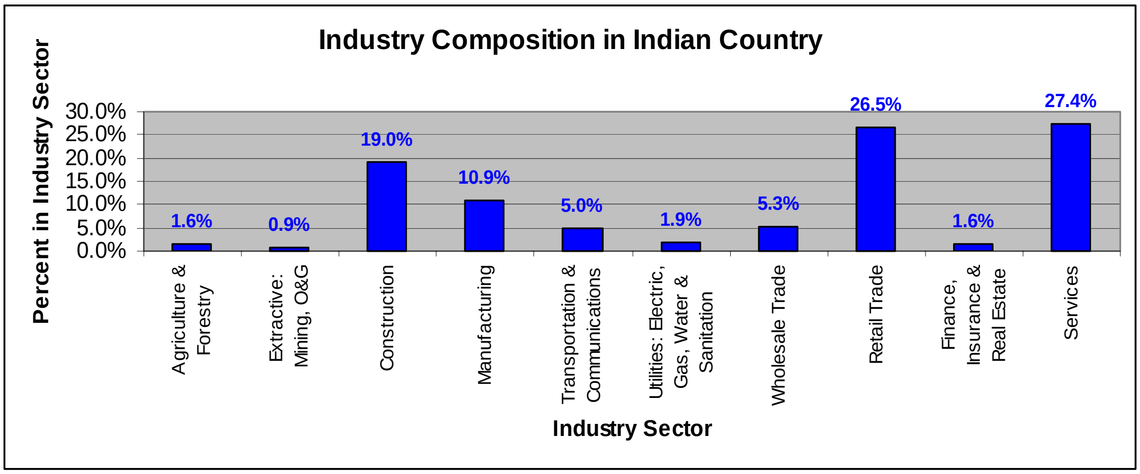
Source: Dun & Bradstreet Minority-Owned Business Database, CDFI Fund segmenting of Indian Country

Graph 1: Relative Sales Size of Indian Country to Native American Businesses
This graph represents the percent of firms in each sales size category, Indian Country vs. all Native American. There are more very large and very small firms in Indian Country out of all Native American-owned firms.

Tribal funds from profits on tribal businesses and assets are reinvested into the reservation economy, stimulating the formation of a wider variety of businesses operating in diverse industries. Despite the high profile of casinos, the majority of Native American business comes from many industries. Casinos have provided a strong income stream to some tribes, particularly those near population centers. Natural resources have also provided an income stream for some tribes. These industries for tribes who have them – many times the only significant source of capital flowing into Indian Country – have provided the funding for limited infrastructure development and the development of diverse reservation economies. So, far from just the gaming and natural resources business image of reservations, Indian Country has diverse businesses large and small.

The largest concentration of Indian Country businesses comes from service businesses, especially hospitality, personal, business, health, and engineering and management services; ahead of the retail trade. Construction and contracting is the third high concentration of business.

Graph 2



Source: Dun & Bradstreet Minority-Owned Business Database, CDFI Fund segmenting of Indian Country

Graph 2: Industry Composition in Indian Country

The percent of companies in each industry sector in Indian Country are shown.
Indian Country has firms in a wide variety of industries, especially services (27.4% of firms), retail trade (26.5% of firms), and construction (19% of firms).

To illustrate the diversity and potential size of businesses in Indian Country or tribally owned, some examples include:

- Design and manufacture of new small aircraft – one of only 4 approved by the FAA since 1992 (MICCO Aircraft Company, a Seminole Tribe joint venture)[34]
- $125 million limited partnership interest in Voicestream Wireless Corporation which may be converted into Voicestream Wireless stock worth $860 million, and potentially more if the Deutche Telekom takeover goes through (Cook Inlet Region Inc., an Alaskan Native Corporation)[35]
- Telecommunications supplies, aerospace parts, medical services company operating in the U.S. and Germany with sales of $52 million, almost double last year's. The company is its area's 3rd largest employer with 85% of the workforce tribal members. (Cherokee Nation Industries)[36]

- ➢ Superior resources management enterprises including very productive sustained timber operations and the country's premier commercial elk hunting operations (White Mountain Apache Tribe)[37]

- ➢ $80 million resort and spa project creating over 400 jobs with preference to tribal members (developed jointly by Santa Ana Pueblo and Hyatt Development Corporation)[38]

- ➢ Energy company with fuel distribution, marketing, retail gas stations with convenience stores, and the authority to do exploration & production (Navajo Oil & Gas Corp., a tribal-owned corporation), which can provide revenue to the tribe, funding a long-term development plan

- ➢ One of the largest sand and gravel businesses in the country (Salt River Pima-Maricopa Indian Community)[39]

- ➢ Diverse multi-enterprise industrial economy with more than 12 large and many smaller tribal businesses on the reservation, 5 of which involve automotive components and other manufacturing, producing $314 million in annual sales. Together these tribal enterprises are one of the state's top 10 employers. (Mississippi Choctaws)[40]

One key to both economic development and increased equity investment in Indian Country is to continue to develop innovative, market-leading enterprises.

THE RADAR SCREEN

During the November 28-29, 2000 Equity Investment Roundtable Meeting convened by the CDFI Fund, the concept of a Native American Investment Radar Screen was used to depict current and potential sources of financing. The sources, or "blips," on the radar screen are organized into four quadrants according to four financing types: lending, early equity, venture capital, and mid-large cap equity. (See also discussion of equity landscape in this report.)

The concept here is that there is a group of usual sources of financing which tribal leaders and other Native Americans seek. These are, so to speak, "on the radar screen" of business leaders in Indian Country. However, as we have covered, there are many other investment choices which have not typically been used in Indian Country. These are depicted on the radar screen farther and farther away from the middle, the less they are used. Most of the equity investment sources are not used at all, or only occasionally.

Charts 1, 2, and 3 represent three different perspectives of the Native American Investment Radar Screen.

- Chart 1 depicts the Current Native American Investment Radar Screen. As noted on Chart 1, most financing concentrates in the lending or early equity type with a dependence on federal sources (HUD, BIA, USDA, SBA loans) and debt financing from banks and credit unions.

- Chart 2 identifies the Potential Future Native American Radar Screen. Here, some of the types of financing which may be most applicable to Indian Country have been moved inward toward the center to represent potential increased usage, including various forms of equity.

- Chart 3, the New Tribal Investment Radar Screen, demonstrates how participants at the November 28-29, 2000 Equity Investment Roundtable Meeting view the Radar Screen of the future. This should be considered as a supplement to Chart 2 and provides more specifics on types of financing and new ideas from Tribal leaders and equity sources who attended the Roundtable Meeting (e.g., tribal sources, venture funds based on gaming assets, targeted corporate partners and funds).

Chart 1

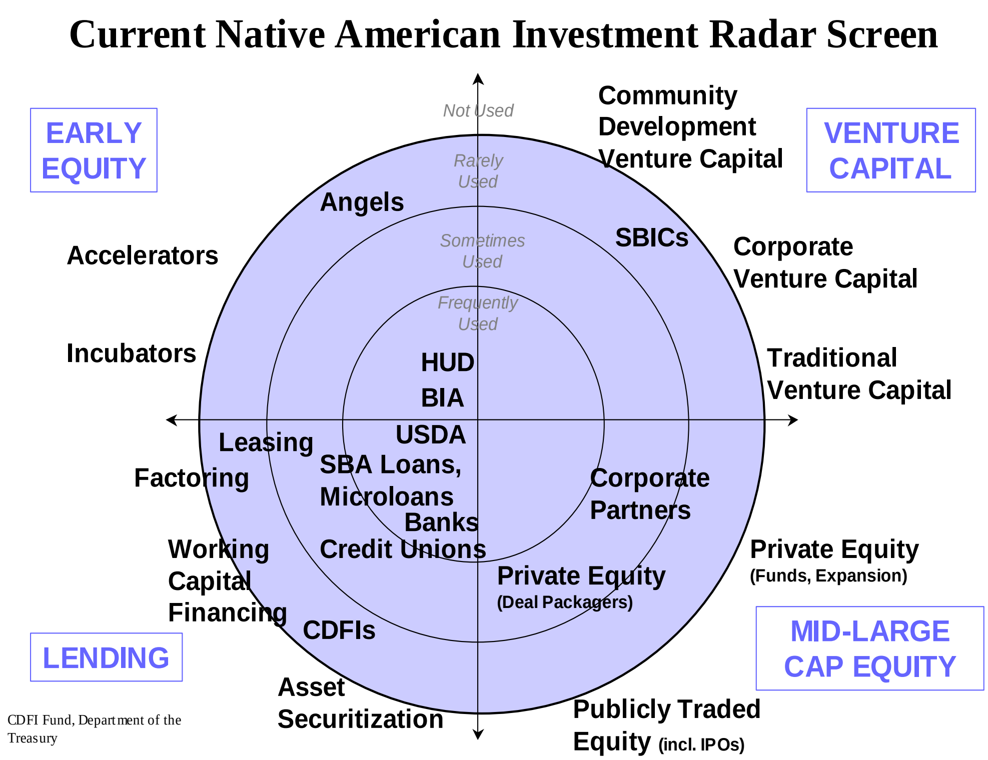


Chart 2

Potential Future Native American Investment Radar Screen

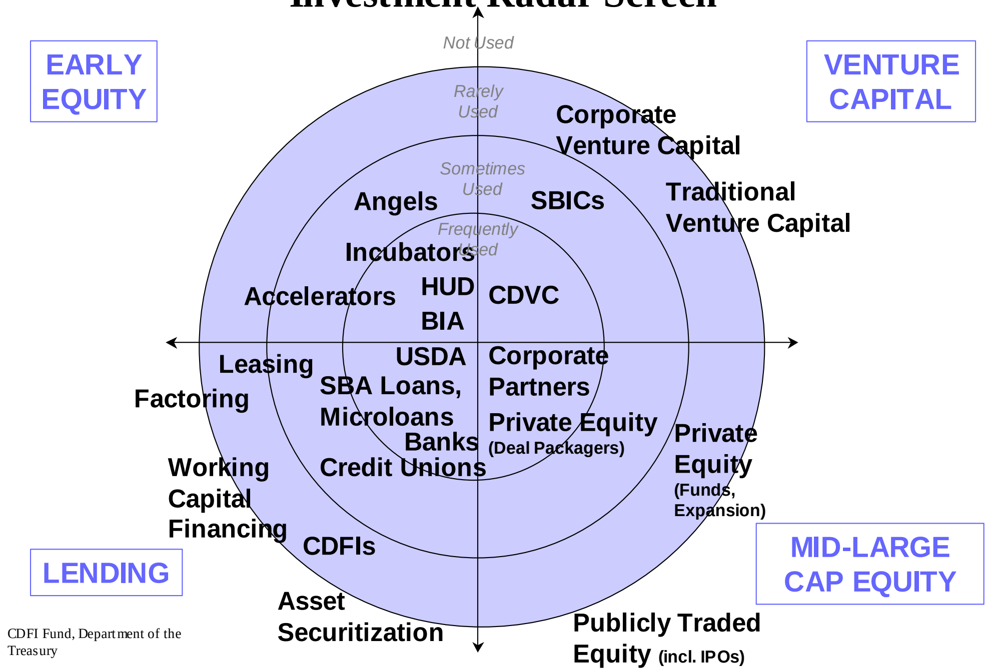
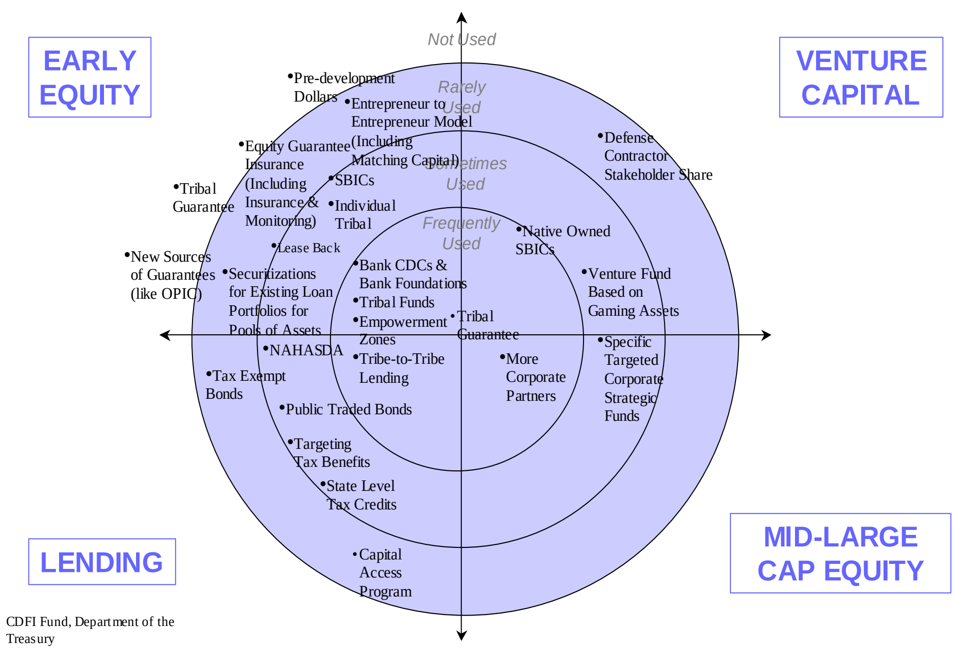


Chart 3

The New Native American Investment Radar Screen

(From Perspectives of Participants at the November 28-29, 2000 Equity Investment Roundtable)



The most common reason given by equity investors, even those focusing on minority-owned enterprises, for why they have not invested in Indian Country was that nobody from Indian Country approached them and asked for equity. Only two in eleven such funds closest to Indian Country contacted for this research have done any deals with Native American-owned businesses, and only one in Indian Country. This may be largely because equity investments have typically been "off the radar screen" of tribes. And, as a result, Indian Country has been off the screen for equity investors.

Bringing the Radar Screen into Focus

The Radar Screen exercise conducted during the November 2000 Roundtable Meeting identified not only new "blips" or opportunities for financing but also some general principles for targeting financing and bringing the Radar Screen into clearer focus. These include the following:

1. All parties (tribal, private equity, federal, etc.) need to be educated on the Radar Screen and its implications.

2. Although there are sources that appear on the edges of the Radar Screen (e.g., Chart 3, New Sources of Guarantees), these should be pursued so that they can potentially be moved to the center.

3. The players in the equity investment arena need to remove barriers that prevent sources of financing and tribes from coming to the table.

4. Tribes should explore "monetizing" the value of their assets to open up new avenues of finance, such as conservation and environmental finance.

5. There is a variety of free floating capital seeking an institutional base and the Radar Screen concept can help such capital find a home or partner within tribes and the financing types on the Radar Screen.

II. EQUITY LANDSCAPE AND APPLICABILITY

To understand the causes of equity underinvestment in Indian Country, and improve access to equity capital to remedy it, it is necessary to understand not only Indian Country, but also the way the equity markets function, what investors want, and why they need it.

HOW EQUITY FINANCING WORKS

Some tribes and individual Native American entrepreneurs have experience in obtaining external financing from a variety of equity funding sources, which may be preferable over lenders sometimes and have different requirements. Equity funding involves buying stock. With equity financing, each share of stock represents part ownership in a company. Each share includes that share's voting rights and right to receive that share of the profits as they are paid out in dividends or distributions. One of the major differences between stock and loans is that there is no requirement to make any payments on the stock, and the stock never comes due. The owner of a share of stock owns it forever until he sells it.

When enterprises receive equity funding they sell part ownership in the enterprise in return for money and varying degrees of advice, contacts, and other assistance. The concept is one of joint ownership, sharing the challenges and joys of running the business, but with the original owners in the driver's seat.

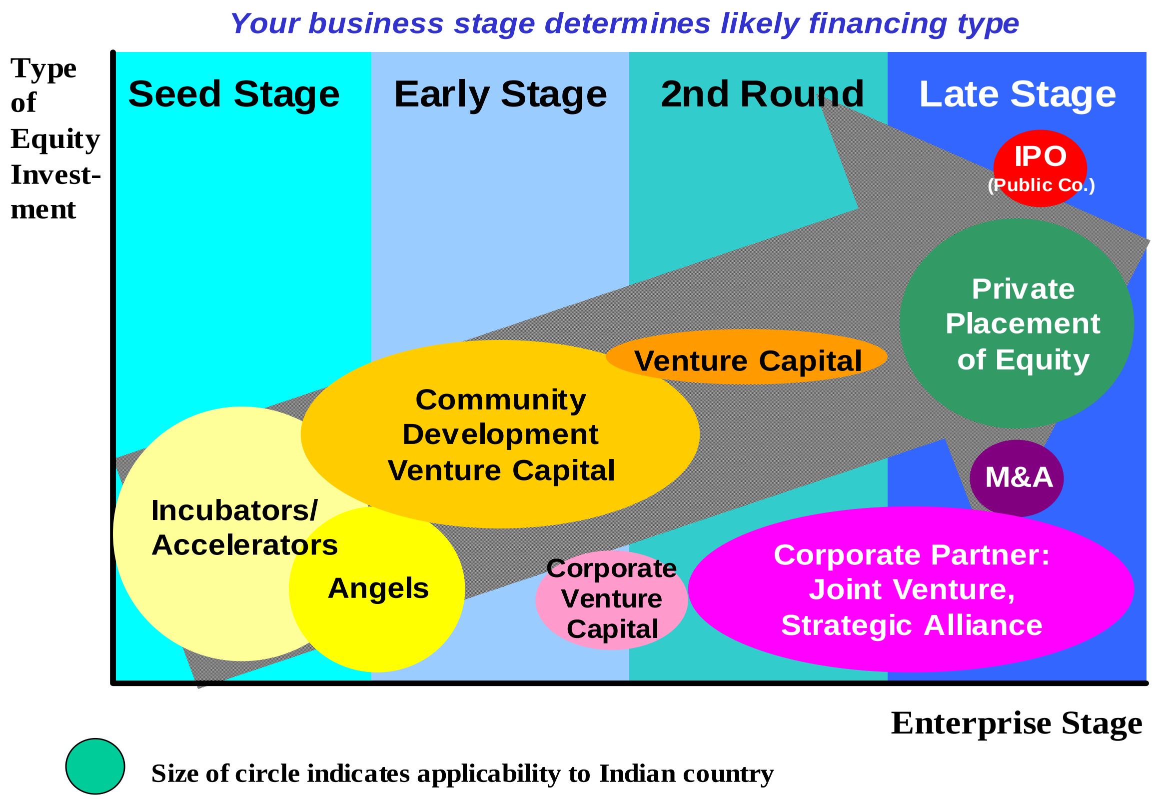
Since stock which is not publicly traded in the stock market often does not pay dividends and is hard to sell quickly, usually the equity investor will require that business owners agree to provide a way for the investors to exit. This is done after significant growth using the money provided should have occurred – usually after 5-10 years of investment. The stock would be sold at its value then, not for the original amount paid, unlike loans where the amount borrowed is the same as the amount to be repaid. Exit strategies might involve management buying the investor's shares perhaps with a loan, going public, selling the business to another larger company, selling to employees in an Employee Ownership Plan (ESOP), to customers in a cooperative, or other method.

EQUITY LANDSCAPE

Equity investors invest different types of capital for each business's different stages of growth and size, from just beginning to more established. We will now briefly cover the equity landscape, depicted in Chart 4, The Equity Landscape, by business stage.

Chart 4

EQUITY LANDSCAPE



Each type of equity investor is described in more detail. This is covered on the next page in Table 1, Equity Investors: Profile and Criteria.

Table 1

CDFI Fund Native American Equity Investment Report

Equity Investors: Profiles & Criteria

			Venture Capitalists							
Investor Profile	**Incubators & Accelerators**	**Angel Investors**	**Traditional Venture Capitalists**	**Community Development Venture Capitalists**	**SBICs**	**State Venture Capitalists**	**Corporate Venture Capitalists**	**Corporate Partnering**	**Private Placement of Equity**	**Initial Public Offering (IPO)/ Publicly Traded Stock**
U.S. Market Size	Over $14 Billion 850 incubators	$40 - 60 Billion 400,000 Active Angels Each Year	$80 Billion 80% of VC market 1300+ VCs	$400 Million (est.) 50 + funds	$5 Billion 72% Equity 356 SBICs	$285 Million $1 Billion in Total Capital 150 Funds	$8 Billion 370 CVCs	NA	$60 - $180 Billion	$ 16.6 Trillion
Investment Size:										
Range		$200,000 - $ 5 million	$1 - 30 million	$50,000 - $1 million	$250,000 - $5 million	$50,000 - $5 million	$250,000 - 20 million	NA		Varies
Usual	Under $500,000	Less than $ 1 million	$ 19 million	$250,000	375000 - $1.1 million	$100,000 - $250,000	$ 8 million average			
Investment Goal(s):										
Financial Return on Investment (ROI)	2nd: ROI	1st: ROI	1st: ROI	2nd: ROI	1st: ROI	ROI	2nd: ROI	2nd: ROI	1st: ROI	1st: ROI, Value Growth
Social (Jobs, etc.)	1st: Local, Regional Development	2nd: Fun of Helping Start a Business		1st: Social Goals	2nd: Social Goals	Economic Development				
Other			2nd: Speed	Priorities Shifting	Stimulate Small Business	Priorities Evenly Divided	1st: Strategic Fit	1st: Strategic Fit		
Target Return	NA	25% - 50%	40%	10% - 30%	NA	NA	40%	20% or more	15% - 25%	10% - 22%
Actual Return	Negative Industrywide Few Modest Winners	25% - 32%	13% - 19% >30% since '95	2% - 5%	NA	15% - 20%	20% - 100%	15% - 100%	15% - 20%	13% -17%
Failure Rate or % Losses	High - NA	35% - 40%	50% - 80%	NA	0.67% - 9%	12% - 20%	NA	NA	NA	Low
Company Type:										
Growth Rate	Explosive	High-Growth	High-Growth	Varies	Varies	Varies	High-Growth	Medium to High	Medium to High	All
High-Tech vs. All	Usually High-Tech	All But Usually High-Tech	All But Usually High-Tech	All	All	All	All But Usually High-Tech	All	All	All
Early vs. Late Stage	Seed, Startup	Seed, Startup, First	Startup, First, Second	Seed, Startup, First, Second	Early and Late	Early and Late	Startup, First, Second	Late	Late	All, Most Late
Value Added:										
Local Important	Yes - On site	Yes	Yes	Yes	Yes	Yes	No	No	Some	No
Degree of Involvement	High	High	High	High	High	Varies	Medium	Medium	Low	Minimal

APPLICABILITY OF VARIOUS EQUITY TYPES TO INDIAN COUNTRY

Growth Needed

Current forms of mainstream external equity finance do not apply to the majority of businesses, and so there is a fundamental mismatch between most private equity financing and the greatest needs of Indian Country. In many cases, this is because the business is really meant as a substitute for a job with another employer, and is really meant to pay enough compensation for the owner and maybe another employee or two. The business is not intended to grow much beyond this.

The businesses that mainstream outside equity investors want to finance are very high-growth and young to medium-high growth and more mature businesses. They are generally not looking for slower growth businesses. Incubators, angel investors and venture capitalists could fund startup or small to medium-sized, very high-growth businesses, generally in high-tech fields – and if they are geographically close to investors. Later-stage private equity could be used to expand established, successful businesses with the potential for high growth in value. Collectively, these are maybe 10% to 20% of enterprises.

> The majority of businesses in Indian Country may need more public sector- or socially-oriented funding at first.

Personal funds, internal sources such as reinvested earnings and bootstrapping, and corporate partnering via strategic or business alliance are the sources of capital for the majority of small firms, growing at 20% or less per year.[41] So, the majority of small, "mom and pop" or medium- to slow-growth companies, especially those in remote areas, would only attract external equity investors with a public or social benefit component. The majority of businesses in Indian Country may need more public sector- or socially-oriented funding at first until more high-growth businesses can be spawned or expanded. Community development venture capitalists (CDVCs), Small Business Investment Corporations (SBICs), New Market Venture Capital (NMVC) firms, America's Private Investment Corporations (APICs), and state or other public venture programs or public/private consortiums or intermediaries may fill this need.

Regional Focus and Networks

Sequoia Capital, a leading venture capitalist, uses the bicycle rule. If they can not ride their bicycle to the firm under consideration, they will not invest.

Both angel investors and venture capitalists invest locally. Location is important to 94% of angel investors,[42] with over 90% of angels investing within a half day's travel time.[43] Sequoia Capital, a leading venture capitalist, uses the bicycle rule.[44] If they can not ride their bicycle to the firm under consideration, they will not invest. Generally, their radius is between 30 minutes and a day's travel away. About 30% of venture capital investments are in the same metropolitan area as a venture capitalist's office.[45] This is practical due to the hands-on nature of angel and venture capital investing. Venture capitalists have 5-10 portfolio companies to monitor and advise each, while angels may only have one or a few, but prefer to spend more time with them.

Venture capitalists will even require funded firms to relocate close to the venture capitalist's office as a condition of funding. Many international firms have moved to Silicon Valley for this reason, and firms in smaller cities in the U.S. may have trouble retaining their high-growth firms.

Some venture capitalists will go further to obtain more deal flow. Net importing metro regions often receive close to half of their venture capital from venture capitalists not in their metropolitan area. [46]

Both business angels and venture capitalists obtain their deal flow through a network of trusted sources, most or all of whom are local.

Both business angels and venture capitalists obtain their deal flow through a network of trusted sources, most or all of whom are local. They tend to also be networks of people who move in the same circles. As "Eric Schmidt, CEO of Novell confirms that it is a myth that anyone can raise venture capital without the right contacts, ' Yeah, right – anybody can raise capital for an Internet company if they know the same guys that I do.''"[47] Native Americans residing in Indian Country are not usually plugged in to these networks because of distance and operating in different social and business groups. The next best way to approach potential investors is through a deal-structurer or matchmaker who is trusted by both sides. But, again, Indian Country business people may not know these sources either for the same reasons. Investors do make some investments from 'over the transom' or from people previously unknown to them. But these have to be extraordinary opportunities to catch their eye and account for less than 5% of total venture funding.

Native Americans residing in Indian Country are not usually plugged in to these networks because of distance and operating in different social and business groups.

For these reasons, the regional nature of angel investing and traditional venture capital is currently limiting for much of Indian Country since reservations and tribal lands are often remote without convenient, quick transportation options. The extent of the mismatch can be seen in Table 2, Venture Capital vs. Indian Country Geography. The states with the highest percent of venture capital offices and investments are not generally the states with the highest proportion of Native American firms, which may need funding, and Native American population, which is the source for entrepreneurs who made need funding as they start businesses in the future.

Table 2
Venture Capital vs. Indian Country (Native American) Geography

	Venture Capital		Native American	
Top States	**% of Offices**	**% of Investments**	**% of Firms**	**% of Population**
California	23.6%	34.9%	10.3%	0.9%
Massachusetts	9.0%	11.5%	1.6%	0.2%
New York	22.6%	5.9%	5.4%	0.4%
Texas	5.2%	4.9%	3.1%	0.5%
Pennsylvania	2.5%	3.9%	1.7%	0.2%
D.C.	3.4%	3.7%	3.9%	0.3%
Colorado	1.8%	2.9%	1.8%	0.9%
Minnesota	1.7%	2.5%	0.9%	1.2%
Washington	1.7%	2.8%	4.2%	1.8%
Illinois	5.3%	2.2%	3.0%	0.2%
Hawaii	NA	0.0%	48.6%	63.6%
Alaska	NA	0.0%	6.6%	16.4%
New Jersey	NA	NA	4.5%	0.3%
New Mexico	NA	0.5%	4.3%	9.5%
Maryland	NA	1.2%	4.2%	0.3%
Virginia	NA	1.1%	3.5%	0.3%
South Dakota	NA	0.0%	1.0%	8.2%
Oklahoma	NA	0.5%	2.3%	7.8%
Montana	NA	0.0%	1.1%	6.5%
Arizona	NA	1.6%	2.4%	5.5%
North Dakota	NA	0.0%	0.8%	4.8%
Wyoming	NA	0.0%	0.9%	2.3%
Nevada	NA	0.6%	3.2%	1.8%

Sources: Michael Horvath, “U.S. Venture Capital Flows: Empirical Evidence and Implications”, *Stanford University White Paper*, November 1999; Deborah Markle, “Rural Equity Market Innovation: A National Snapshot”, Rural Policy Research Institute (RUPRI), January 20, 1999; and “Asian & Pacific Islander, American Indian, & Alaska Native-Owned Firms Compared to All U.S. Firms by State: 1992”, *1992 Economic Census*, U.S. Census Bureau.

The concentration of venture capital is high and is not well-matched with the states with the highest concentrations of Native American firms or population. Just two regions, Northeast and Pacific, account for 60% - 78% of venture capital supply, while venture capital investments were mostly concentrated in Silicon Valley and Route 128 in Boston.[48] Table 2 reveals that the top 10 states for populations of Native Americans and their firms often had less than 1% of venture capital available. There was an approximate match in concentration levels of venture capital investments and Native American firms in only 9 states, New York, Texas, District of Columbia (D.C.), Colorado, Washington state, Illinois, Arizona, and with a slightly less close match in Pennsylvania and Minnesota. There was a close match between venture capitalists and Native American population, the source of entrepreneurs, in only 3 states, Washington state, Maryland, and Virginia, with a somewhat less close match in 2 others, Minnesota and Nevada.

> The concentration of venture capital is high and is not well-matched with the states with the highest concentrations of Native American firms or population.

Less precise locations are available for angel investing. However, angel investors appear to be spread out more than venture capitalists, and are concentrated in somewhat different parts of the country. For instance, there are greater concentrations of angels in New England and the Southeast.[49] California, the Pacific Northwest, Texas, and Florida are the states where concentrations of angel investors and Native American firms are best matched. Looking at the potential businesses of the future, Washington state is the only good match between angel investors and the Native American population.[50] The population numbers indicate the location of potential entrepreneurs not yet in business, but who might start a business. Having a match between angel investors and the potential Native American entrepreneurial pool in only one state will constrict funding of new businesses.

> "What's sobering is how difficult it is to effectively do rural venture capital. What's been encouraging is the range of models that show equity investment can be done in rural America.
> *Deborah Markley, Rural Policy Research Institute's 3 Year Rural Capital Equity Initiative*

The local focus of angel investors and traditional venture capitalists makes the role of community development venture capitalists (CDVCs), New Markets Venture Capitalists (NMVCs), Small Business Investment Corporations (SBICs), and state venture capitalists even more important for largely rural Indian Country. These groups will typically more likely locate off the beaten track, and target more distant communities. Local networks or offices for these types of equity need to be established in Indian Country.

Fear of Outside Investors

Indian Country enterprises may not want to approach outside investors or accept deals with outside equity providers or partners due to fear of losing control or making a bad deal. There have been some investors, like angel investors who instead turn out to be "devils", who have used their ownership to take control and change the direction of the business enterprise, often in ways the previous owner did not favor or could not accomplish. Venture capitalists are notorious for changing management or taking control if an investment starts moving in a negative direction. However, most of the time, taking control is only done when the business is not performing well, and the external investor is in danger of taking a loss. In this case, it may be in the interest of the Indian Country enterprise and those who work there to change management to turn the business around.

There is also sometimes fear that external investors will not deal fairly with tribes or Indian Country entrepreneurs and will require more than a fair share of joint venture investment in or too little of the return from Indian Country enterprises. Partly, this fear stems from being less informed about financial market and large corporate partnership practices and legal structures. Tribes may also find it difficult to value non-monetary contributions of assets, intellectual property, and training. Dean Parisian, President of Native American Advisors, Inc. and a member of the White Earth Chippewa tribe, "warns that some tribes are still unsophisticated about high finance and susceptible to getting ripped off".[51] Better financial education and preparation, and "arming both sides equally" will help to avoid this fear. This will also help because external investors prefer to deal with parties conversant with financial practices and legal structures.

Use of Venture Capital in Indian Country

Tribes have used venture capital for some limited financing.

Tribes have used venture capital for some limited financing. According to the CDFI Fund Native American Financial Survey, venture capital was used by 4.9% of tribes most often to finance large businesses, 3.4% of tribes used it most often to finance economic development, and 1% of tribes used it most often to finance reservation infrastructure. Economic development and reservation infrastructure are more usually financed using federal government loans and grants.

Tribal members in Indian Country have used venture capital also, but not commonly. Venture capital is used most often to finance large businesses by 3.9% of tribal members, 1.9% of tribal members for small businesses, and 2.4% of tribal members to finance seed, or microbusinesses.[52]

Significant Value-Added by Equity Investors

Despite the initial limited applicability or accessibility of traditional equity financing to Indian Country, it is very important for Indian Country to access all external equity financing that it needs, partly to obtain expert help.

Venture capitalists and angel investors are known for providing advice, business contacts, and management recruiting, if necessary, in addition to equity funding. The amount of productive resources, defined as informational, human, and organizational capital, controlled by a venture capital firm is an effective predictor of profitable exit after at least 6 years of funding. [53] This result is probably applicable to other types of equity investors since they all try to add value in addition to their equity. Traditional venture capital funds, particularly the most successful ones, are the gold standard of value-added services. Business angels can also offer similar or even more guidance and expertise, but the value of their support is more inconsistent across different angels since it is usually based on an individual or a few individuals. Angel funds or pools may start to mimic venture capital benefits since more diverse experience and contacts would be represented. Community development venture capital assistance is also very valuable, particularly in readying companies for funding which otherwise would probably not have obtained equity, so that they are able to grow and provide jobs, community development, and other social benefits.

In order to develop better value-added services and target the best companies to fund, equity investors themselves are continuing to improve the services they can offer entrepreneurs to reduce risk and enhance their own returns. Angels would like to learn more about the up-front screening and due diligence venture capitalists use. Angel investors tend to spend more time with the company after investment providing operational assistance. Venture capitalists, incubators, and others could probably benefit from learning more about angel monitoring and assistance techniques, although the highest benefit to the funded company comes from angel investors with deep industry-specific knowledge.[54] Venture capitalists may not have this deep an involvement in a particular industry, and so may not be able to duplicate this level of post-investment involvement. Private equity investors in the later stages offer less assistance and probably could develop more effective monitoring techniques in some cases. Programs designed to provide this transfer of learning would benefit equity investors and the companies they fund.

> A public sector investment in providing training, technical assistance, and value-added services after an equity investment is made pays off strongly in long-term success.

So, a public sector investment in providing training, technical assistance, and value-added services after an equity investment is made would appear to pay off strongly in long-term success of the funded enterprises.

Variety of Approaches

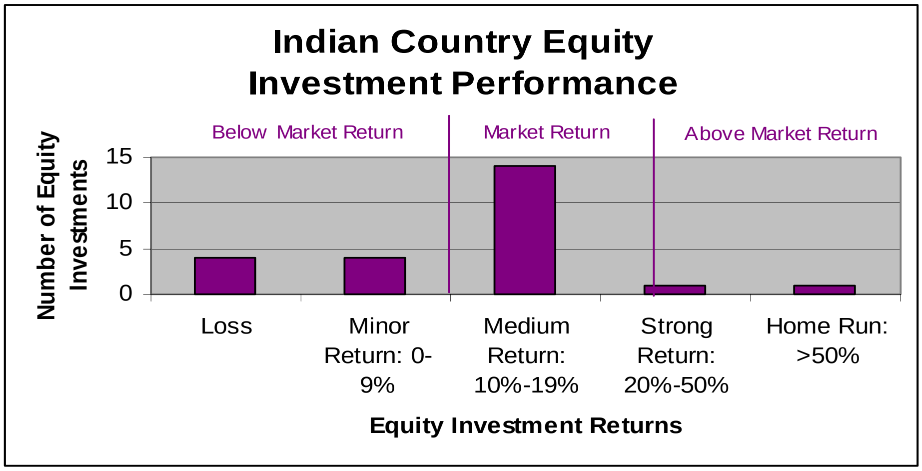
It seems to be crucial to meet local or regional needs with specific approaches that are most likely to work in that particular area.

Most of the types of equity described above in the equity landscape have been successfully utilized to develop economic clusters, communities, and rural areas – all areas with applicability to Indian Country. However, most of these approaches have also met with failure in other cases. The wide variety of successful approaches suggests that it seems to be crucial to meet local or regional needs with specific structures, approaches, and supporters that are most likely to work in that particular area.[55] This will be especially true in Indian Country due to the diversity of levels and types of economic development in the 562 tribes. There are many different starting points. It may be the case, as is indicated by numerous community development venture capital and finance pioneers that there may be some strong ways to bring equity to communities effectively, but their scale has remained too small. They need to be extended across the country, and in the case of Indian Country, throughout Indian Country on a regional or tribal basis.

PERFORMANCE OF INDIAN COUNTRY EQUITY INVESTMENT

There have been no studies of the performance of equity investments in Indian Country, although there have been some articles and limited studies on tribal enterprise profitability and social benefits such as job creation. Additionally, investors are not required to publicly report investment returns except confidentially to the IRS in tax returns. Investment return information is generally only available to potential investors. Limited and anecdotal information was gathered for this research study, as available, with the voluntary disclosure of several equity investors in Indian Country. This is far from comprehensive, but can lead to some interesting conclusions. Equity investments in Indian Country can do very well, but usually provide a normal market rate of return or do worse, as pictured in Graph 3.

Graph 3

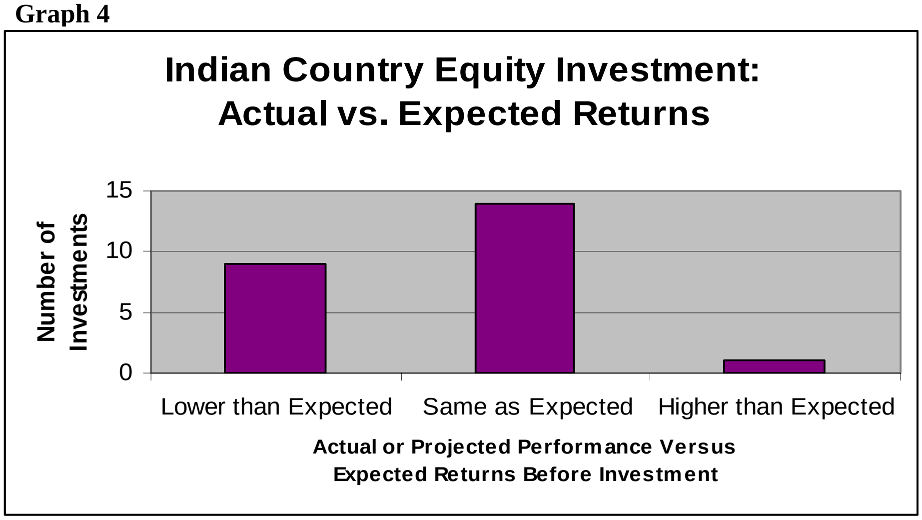


Source: Interviews with equity funds focused on investing equity into minority-owned businesses (see Bibliography for list), questionnaires filled out by Equity Investment Roundtable Participants, and returns implied from Mark Fogarty, "At a Crossroads: Indian Country Meets Wall Street and Vice Versa", American Indian Report, June 2000, p. 15.

Graph 3: Indian Country Equity Investments Performing Below, At, or Above Normal Market Rate of Return on Equity
This graph measures how many equity investments in Indian Country fell into each rate of return %.

In general, investments seem more likely to do worse than expected or meet expectations.

Graph 4



Source: Interviews with equity funds focused on investing equity into minority-owned businesses (see Bibliography for list), questionnaires filled out by Equity Investment Roundtable Participants, and returns implied from Mark Fogarty, "At a Crossroads: Indian Country Meets Wall Street and Vice Versa", American Indian Report, June 2000, p. 15.

Graph 4: Indian Country Equity Investment Actual vs. Expected Returns
This graph measures performance versus expectations compares the number of Indian Country equity investments providing lower return on investment than expected versus the same as expected versus higher than expected.

Some of the reasons for underperformance, based on comments from investors, arise from the barriers to access to equity capital. These barriers are discussed next.

III. CLASSIFYING BARRIERS, STRATEGIES, AND ACTIONS ACCORDING TO THEMES

THEMES

Ultimately, the goal of this report is to document potential solutions to improve access to equity capital in Indian Country. Classifying the many barriers to equity investment, as well as strategies and actions to improve access to equity capital, allows the information to be presented in a format which is solution-oriented. Organizing themes were developed based on strategies to improve equity access which emerged from the Native American Lending Study roundtables, the Equity Investment Roundtable, and equity research. The barriers which impede the flow of equity to Indian Country and the tribes and other businesspeople from seeking external equity investment, strategies to overcome those barriers, and specific actions which need to be taken fall into several themes:

- **Institution Building – Building Access to Capital**
    - Starting equity funding institutions in Indian Country
    - Attracting equity funding institutions or local offices to Indian Country
- **Nation Building: Strengthening Strategy and Legal Frameworks**
    - Setting tribal goals, strategy, and plans
    - Clarifying the legal and judicial environment
- **Diversification: Building a Strong Economy**
    - Developing the Indian Country economy further
    - Focusing on more industries, with greater vertical integration
    - Building "New Economy" businesses
- **Investing in Human Capital: Capacity-Building and Education**
    - Training and technical assistance in:
        - Tribal organizational, management and planning skills
        - Business management skills
        - Financial literacy and familiarity with financial markets
- **Alliances and Networks: Building Partnerships through Regional Strategies**
    - Building partnerships between regional groups of tribes and investors
    - Sharing tribal skills and goals regionally
- **Federal Government Role**
    - Federal government role in supporting local initiatives
    - Simpler interface with the Bureau of Indian Affairs (BIA)
    - Coordination between various federal and state government programs and regulations
    - Integrating splintered federal government program funding
- **Other Equity-Specific Barriers**

IV. BARRIERS TO INVESTING EQUITY IN INDIAN COUNTRY

BARRIERS

Table 3 displays the barriers most frequently raised and which apply to Indian Country. Some of these are specific to Indian Country and some are common to all investment in emerging markets, domestic and foreign. Competition for equity capital is global, and so potential investments have to compete on this basis to sustain funding interest.

It is interesting to note the high degree of correlation between barriers mentioned by various sources. There is 60% correlation between barriers raised during the 13 regional workshops conducted as part of the CDFI Fund Native American Lending Study, and the results of the CDFI Fund Native American Financial Survey from both the Native American and the Financial Service Organizations (FSO) point of view. There is also a high degree of correlation between these predominantly lending-oriented sources and the issues raised in the CDFI Fund Native American Equity Investment Roundtable and related research, indicating that many of these barriers are common to all forms of investment and are systemic. The commonality between Indian Country equity barriers and those of other similar equity investment situations – rural equity, state programs, and foreign developing economies – also confirm the systemic nature of these barriers. This commonality provides confidence that the key barriers have been identified.

Key barriers include:

1. Legal clarity regarding Indian Country rules, regulations, legal codes
2. History of profitability and returns in Indian Country is not available – no excitement about the investment potential in Indian Country
3. Equity investors have not reached out to tribes or Indian Country businesses
4. Lack of articulated, agreed-on, consistent Tribal vision and goals
5. Dual role of government and business management
6. Bureaucratic "red tape" and slow decision-making from Tribal government
7. Lack of Tribal administrative capacity and business skills – especially financial literacy and understanding of equity markets, and business planning
8. Lack of market and trade information about Indian Country
9. Infrastructure inadequate
10. Lack of and need for training and technical assistance
11. Fear and lack of understanding about tribal sovereignty and sovereign immunity waiver issues from the point-of-view of equity investors
12. Investors have a regional focus, but are not located in Indian Country
13. Ignorance of the advantages of investing in Indian Country
14. Exceedingly long delays through BIA processing of both business proposals and land leases

15. Splintered and inconsistent federal support for business and economic development or management training and technical assistance activities; scale too small

The full listing of barriers from all sources, including the 15 key barriers, is segmented by theme in Table 3. The reason for grouping barriers by theme is to indicate that for each theme, these barriers need to be overcome by effectively implementing the recommended strategies to ameliorate barriers.

Table 3
Barriers by Theme

Barrier (by Theme)
Institution Building – Building Access to Capital
Equity investors have not reached out to tribes or Indian Country businesses
Indian Country not even on investors' "map"
Lack of local financial institutions and private investment funds
Deal clutter at venture capitalists and private equity funds
Discrimination/stereotyping Native Americans or the deal:
Perception of risk by investor
Indian Country deals may be avoided due to perception
Cost of equity capital may be prohibitively high due to perceived risk
Not speaking the same language
Different Native American vs. investor culture
Spoken language/infrastructure communication barriers
Inexperience working with tribes
Deal filtering terms and concerns
Recognition of diversity of 562 tribes: not one Indian Country market
Banks lack capacity to do larger deals
Bank regulations restrict amount of equity investment
Financial service organizations (FSOs) made presentations many times before Tribes used any services

Barrier
(by Theme)

Nation Building: Strengthening Strategy and Legal Frameworks

Legal clarity (rules and regulations; commercial code)
- Unclear
- Ad hoc

Investors do not understand tribal governmental or legal systems

Bureaucratic "red tape"
- Governments not designed for fast decision-making
- Tons of regulations, permits, etc. to obtain to do business

Administrative costs of doing business

Tribal sovereignty and sovereign immunity

Perception of judicial unfairness

Lack of tribal dispute resolution systems

Structure of government/dual role of government and business management
- Obscures strategy or execution
- Inconsistency/instability discourages investment
- Change in tribal governmental leadership creates uncertainty
- Council greed, animosity, and prejudices
- Takes time away from important functions
- Creates appearance of favoritism
- Dual duty to shareholders and voters
- Tribal ownership hurts profitability and employment stability

Diversification: Building a Strong Economy

Lack of direction on tribal vision and goals

Infrastructure inadequate
- Inadequate roads and road quality
- Inadequate telecom and information technology (IT)/computers
- Lack of a distribution system
- Lack of warehouses, storage

Lack of market and trade information

Barrier (by Theme)
Indian Country market and business climate
Limited growth in local markets, particularly when remote
Often small size of local markets
"Trade deficit"
Rural communities lack volume and ability to sustain and grow employment opportunities
History of profitability and returns in Indian Country not available or lacking
Tribal primary objective is jobs more than profits
Short-term vs. long-term benefits
Inability to produce a quality deal flow
Native Americans have the lowest per capita business ownership rate in the U.S.
Demographics of Indian Country
Poverty, high unemployment
(increases number with income < $10,000: 7 times less likely to start a business)[56]
Most businesses are very small and not high-growth
Misconceptions that only big opportunities are gaming and natural resources
Barriers to economic development exist
Government amounts too small and fragmented to invest in business development well
(2001 budget provides $428,000 per tribe but only about $24,000 per tribe per program)[57]
Investing in Human Capital: Capacity Building and Education
Administrative capacity of tribal governments
Skills level
Financial literacy
Economic development
Planning ability (Increases sales, profit, job growth; funding)
General business knowledge
Bad impression on investors/unprofessional
Not learning from mistakes long-term; investors do
Lack of business skills and sophistication
Lack of employees with marketing training
Tribal members lack financial knowledge or experience
Lack of understanding of private equity market

Barrier (by Theme)
Less than "full spectrum" management capabilities Lack of basic education No funds for higher or alternative education Absence of entrepreneurship programs Member resistance to training programs/education Limited or no work experience Few employment opportunities and training
Labor skills Enough highly skilled workers Access to low-cost, skilled labor Access to low-cost, unskilled labor
Lack of and need for technical assistance
Lack of managerial services
Government amounts too small and fragmented to invest in business development
Negative assumptions about investors by tribes Perception of using outside equity investor as risky
Alliances and Networks: Building Partnerships through Regional Strategies
Investors are not located in Indian Country, but have a regional focus
Recognition of diversity of 562 Tribes vs. regional links
Lack of mutual "transactional trust"; parties not getting into deal flow
Lack of coordination between tribes and financial institutions/investors
Federal Government Role
Federal control/influence/administering role of BIA
Cumbersome, conflicting, or ineffective federal and state programs and regulations
Tribal owning tribal enterprise does not qualify as an individual for >50% minority ownership with SBA

Barrier (by Theme)
Procurement disincentive to bring in Non-Native American external equity investors: if they dilute ownership to below the >50% minority ownership required for procurement advantages
Dual taxes from the state and the tribe

V. IMPACT OF THE BARRIERS TO ACCESSING EQUITY CAPITAL

These barriers collectively have produced a spotty record of investing in Indian Country. Some investments are able to come to fruition, while some get stalled or repelled in the process. Many times tribal leaders and other Indian Country businesspeople do not seek equity. This was the number one reason given for not investing in Indian Country: Nobody asked. Additionally, equity investors have not established a presence in Indian Country, either because of the barriers mentioned, or because they have not even considered it.

Barriers to advantageous investment in Indian Country have produced equity investment returns which are more often lower than expected rather than higher (as is discussed more fully in the section of this report called "Performance of Indian Country Equity Investment"). From conversations with equity investors investing in Indian Country, it appears that the worst investments, and some of the average ones, performed below expectations because of some of these barriers, rather than because of fundamental economic conditions in Indian Country. And "once burned, twice shy", as the old saying goes. Investors encountering significant barriers expressed hesitancy about investing in Indian Country again, or were much more particular about the conditions surrounding the right investment opportunity, limiting those that could qualify. Many tribes do not know what these conditions need to be, according to these investors. However, discussion in the Native American Equity Investment Roundtable indicated that some tribes do know what needs to be changed, but they do not have the resources and funding to accomplish those changes.

For all these reasons, barriers to equity investment have caused a substantial shortfall of equity investment in Indian Country. This equity investment gap in Indian Country has contributed to much slower development, GDP growth, and a smaller number of jobs than there could have been with more widespread equity available for business growth.

EQUITY INVESTMENT GAP

Holes in the U.S. Equity Market

The U.S. financial markets are perhaps the most efficient and liquid in the world. There are very few needs which remain unmet as legions of clever investment bankers, lawyers, and others constantly come up with designer securities to meet any need. However, one incompletely satisfied need in the U.S. marketplace is equity financings in the smaller amounts typically needed by small and start-up businesses. Two types of holes exist.[58]

First, there is an information gap keeping potential investors from entrepreneurs. Some investors operate by themselves rather than as part of a large group which makes them hard to find. Many investors also often prefer anonymity, operating behind the scenes out of the spotlight. So, their efforts are not publicized, let alone marketed. This fragmentation and lack of information leads to an inefficient market in the early stages of a business's life. Unless a business owner is plugged into the same social and business networks as potential investors, it is often difficult to locate the investors needed. Typically, a startup business needs $100,000 to $1,000,000 in equity, and this can be hard to find when it is hard to even find the investors. More established players may appear to be candidates to finance a business, but they are looking for larger deals.

Second, for reasons which will be discussed later in this report, traditional venture capitalists who are the first people entrepreneurs think to approach to raise equity, have been forced by market conditions to migrate to larger and later investments. Once a business is started and shows promise of growth, and if management is experienced, then venture capitalists may fund the business. So, entrepreneurs, particularly those new to a business, or with a very new concept have trouble finding money in the $1 million - $ 3 million range.

Both of these holes in the U.S. equity financing market impact small business formation and growth, both of new entrepreneurial enterprises and of established small businesses which could grow. Between 35% and 45% of all firms planned to expand in the next 2-3 years, if financing were available.[59] Thirty percent of businesses identified lack of access to credit, working capital, and cash flow as major obstacles to business expansion.[60]

"The smallest firms generally lack the financial resources to survive."[61] A new business requires $4.2 million to at least $16.5 million in funding for its first five years.[62] Twenty five percent of the top 60 recommendations adopted at the 1995 White House Conference on Small Business identified capital access as a top priority.[63]

The smallest firms generally lack the financial resources to survive.

Financing is needed across the U.S. for:

- 50,000 startups/yr (5% - 10% of all startups)
- 220,000 ventures growing faster than 20% up to 50% /yr.
- 80,000 ventures growing faster than 50%/yr.[64]

A national state program survey of early-stage investing found that 95% of the fund managers believe there is a capital gap in their region.[65] A quarter of small and mid-sized businesses said that they were unable to obtain adequate financing in 1998.[66] The *shortfall* of patient early-stage high-risk investment equity capital is:

- SBA estimates $60 billion annually (1996)[67]
- Another estimate concludes $20-$30 billion per year for the U.S.[68]

➢ The smallest fast-growing companies are short between $3 billion and $45 billion in the U.S. in 1996.[69]

A total of about $85 billion of patient early-stage high-risk investment equity capital is needed by US small business as of 1996 and growing fast.[70] Projected venture capital in 2000 was $80 Billion[71] and business angel capital was $50 Billion,[72] totaling $130 Billion of relatively early-stage equity capital. Although the amount of earlier-stage capital available has exploded in recent years, it is still unclear whether present demand is being met, not just in magnitude of dollars, but also in types of businesses funded in the amounts they need.

Minority-owned businesses are even more underfunded by equity financing

Minority-owned businesses are even more underfunded by equity financing, obtaining only about 2% of all external private equity and 3% of funding from Small Business Investment Corporations (SBICs), despite minority-owned business-focused specialty fund strategies.[73] A 1992 estimate of the shortfall of all minority business capital for any stage business in the *Venture Capital Journal* based on the then-specialized SBIC (SSBIC) experience, now discontinued, which focuses mostly on minority business investing, was $140 billion.[74] This investment shortfall would be composed of primarily equity since over 72% of SBIC's investments are equity or involve equity features.[75] The additional flood of money entering private equity investments of all kinds for all businesses, about $300 billion more from 1992 to 2000,[76] could have partially offset this equity shortfall since 1992 because the increase in private equity available is more than the unmet minority-owned business's equity need. However, a very small amount is going to minority-owned businesses – even though their need is growing faster than the general economy.

This seems puzzling given that many minority equity investments can earn above average returns for similar risk. Three examples are:

Minority equity investments can earn higher returns for similar risk.

➢ **TSG Capital Group**, the largest venture capital and private equity investment fund focusing on minorities, with $700 million in total assets and a 16-year average annual return of about 40%[77] versus 25%-30% for overall venture capital over the same period.

➢ **Syncom Capital Corporation**, successful minority venture capitalist started in 1978 and now in the process of raising their third fund with a goal of $300 million. Their first fund earned an average annual return of 20% from 1980-1990[78] vs. 13.1% for venture funds formed and liquidated in the same period,[79] their second fund is too young to gauge returns yet, and their third fund is expected to earn 25% annual returns[80] – this versus 13% return for venture capitalists over the last 25 years.[81]

➢ **EChapman**, a publicly traded company investing in a series of Domestic Emerging Markets (DEM ™) mutual funds containing publicly-traded domestic emerging companies such as technology stocks, with a focus on including minority-owned or managed companies. These funds outperformed comparable market indices from 1995-2000. For example, the DEM Equity Fund earned a 1 year return as of 6/30/00 of 92% vs. the Russell 2000 Growth Index benchmark return of 28% over the same period, and 42% from inception in 1998 to date vs. 14% for the Russell 2000. The just over 1 year old DEM Index Fund earned 83% over the year ending 6/30/00 vs. 28% for the Russell 2000 Growth Index. Longer-term, the DEM Index, whose portfolio risk (beta) matches that of the overall stock market (defined as the S&P 500 Index) has not had a loss year from 1990-1999, and has returned a compound annual growth rate of 29%, higher than the S&P 500 return.[82]

Equity investment in companies that pursue diversity outperform the overall stock market too. Minority-friendly and diverse companies' stocks outperformed the stock market over the last 3 and 5 years as of 1999.[83]

If the institutional investor perception or fear is that minority-owned investments are higher risk, Jeffrey Brown of Webster Bank finds regarding bank customers that "there is not a direct correlation between demographics and customer profitability, and the same is true of unprofitability." [84] This observation seems to be true of equity investments based on spotty and anecdotal evidence as well. Most minority-focused equity investors do not disclose their returns and losses, as most private equity funds do not either – except to potential investors. However, clearly from the above examples, attractive returns on equity investment are available.

Equity Investment Capital in Indian Country

In addition to the nationwide holes in providing smaller equity investments, there is a significantly lower amount of equity financing at work in Indian Country than there should be given its population, size of its market, and economic characteristics. We will refer to this as the "Equity Investment Gap". It is certainly compounded by the equity financing holes described above, but occurs across the board in Indian Country, in both smaller and larger businesses.

> There is a significantly lower amount of equity in Indian Country than there should be.

It is difficult to measure precisely what the equity levels in Indian Country are. There have been no surveys of equity levels in the various tribal and individual enterprises on tribal lands. A reasonable estimate can be developed using Dun & Bradstreet's Minority-Owned Business Database. Although it is the most thorough database available which sorts companies by owner ethnicity and provides equity data, the database contains only about 8% of Native American-owned businesses (defined as American Indian, Eskimo and Aleut; Hawaiian Native-Owned data is not available in their database). The most recent Economic Census available from 1992 shows a total of almost 114,000 firms owned by American Indians and Alaska Natives. The Dun & Bradstreet database contains 8,852 of them. However, these represent a higher proportion of revenues from the larger group, 53% of currently estimated Native American-owned businesses' revenue. Of those, only 990 have disclosed their net worth, or equity investment to date – which is revealed on a voluntary basis only. So, reliable net worth data is only available for about 1% of Native American-owned businesses.

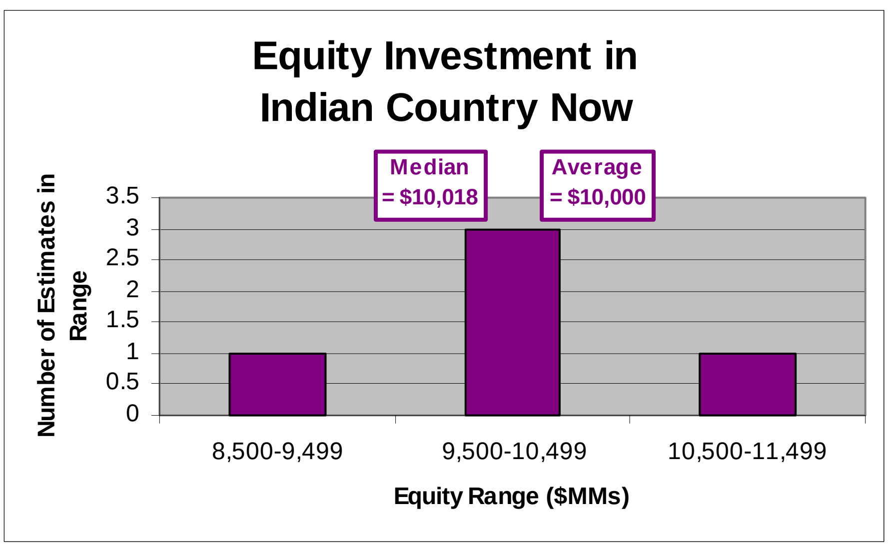
Research based on Dun & Bradstreet data was analyzed, excluding firms not located in Indian Country. The total Dun & Bradstreet Indian Country data represents about 4% of estimated total Indian Country revenues. It is a limited sample but is based on actual figures rather than projected numbers and is current, so it has value as an indication of the level of Indian Country net worth and a portrait of Indian Country businesses. Extrapolating from the Dun & Bradstreet sample with net worth in Indian Country, to the full population of businesses projected from the 1992 Census using historical Census growth rates, took into account differences in size or industry composition between the two groups.

The sample with net worth data provided in Indian Country shows a total of $451 Million and this can be extrapolated to $10 Billion for the full universe of all Indian Country firms.[85]

Reasonable estimates ranged from $9 Billion to $11 Billion. However, there was a distinct concentration among the estimates in the $10 Billion range. Both the median and the mean were $10.0 Billion. The distribution of estimates is shown below.

Indian Country is estimated to have $10 Billion in equity.

Graph 5



Graph 5: Equity Investment in Indian Country Now
This graph estimates of equity in millions of dollars invested in Indian Country.
Various estimates were made of the equity invested in Indian Country. This graph shows the distribution of the estimates – how many were of which size – and the average along with the median (or middle) value.

The proportion of equity provided by external equity investors appears to be much lower. Most outside equity investors have little familiarity in Indian Country.

External Equity Capital Based on Proportion of U.S. Firms Owned by Minorities Funded with Equity

> Indian Country's share of U.S. externally-provided private equity is only 0.06%. Including public equity, the percent would be much lower.

About 2% of minority-owned firms received external equity funding. Only a small amount of minority-owned businesses, 5%, were Native American-owned. And, the average Native American-owned firm is 15% bigger than the average minority firm.[86] Taken together, these statistics show that Native American-owned firms' proportionate share of the externally provided private equity invested in the U.S. today is 0.115%. This level is roughly confirmed by the proportion of SBIC funding which went to Native American-owned firms, 0.13% of the investments and 0.08% of the investment dollars.[87] Current estimates vary for the total of all forms of private equity invested in the U.S. today – converging at about $325 Billion.[88] So, the externally-provided private equity funding which is in place using this approach is $ 374 Million.

Half of these businesses were assumed to be in Indian Country By contacting equity funds focusing on minorities likely to have funded a business in Indian Country, we were able to confirm that almost 40% were on reservations, and some may have been missed. If half of Native American private equity invested by investors from outside the business is in Indian Country, then Indian Country's share is 0.0575% of the U.S. externally-provided equity investment. This translates to $187 Million.

No estimate of direct investment by corporations or other entities is available for Indian Country. However, one large deal which raised $500 million in public flotation of bonds and a similar amount in bank financing had one outside equity partner in addition to a small additional internal equity investment in expansion. To back up the debt financing, probably $150 – 300 million of equity was also raised, mostly from the outside partner. This is likely a minimum since there are corporate joint ventures in Indian Country which may have involved direct equity investment.

And, there are no public offerings of equity from Indian Country businesses, so Indian Country's percent of public equity is 0%.[89]

Measurable externally provided equity investment in Indian Country ranges from $337 – 487 Million, centering on $412 Million. Again, this is likely a minimum estimate.

Our best estimate of the equity currently invested in Indian Country is $10 Billion, including at least $412 Million of externally provided equity.

What the Indian Country Equity Level Should Be

How much equity should be in Indian Country to be comparable to similar communities? The most obvious answer is that equity in Indian Country should be at the same level of investment as it is in the rest of the U.S. However, The U.S. is presently the largest and most successful economy in the world. But, there is widespread variation in equity investment levels in different communities in the U.S. Given Indian Country's relatively smaller population, largely spread out geography, high unemployment and poverty levels, less developed infrastructure and education or skill level, perhaps Indian Country *as it is now* should not have the same levels of equity investment as the U.S., but *should work towards obtaining it*.

Approach to Determine Appropriate Level of Equity in Indian Country

In addition to comparing Indian Country to overall U.S. levels, two other approaches were used. Considering Indian Country's size, comparing it to subsets of the U.S. with comparable population or GDP would produce more realistic estimates since larger economic size seems to attract proportionately more capital. Just look at metropolitan New York City, Chicago, or San Francisco to see that this is true. However, much of Indian Country is rural, and can be remote. Therefore, it is very different from cities only, and more comparable to states with both cities and rural areas. States with a large concentration of Native Americans and Native American-owned firms and which were mostly rural, as well as those with similar population, Gross State Product (GSP), unemployment, and poverty levels to Indian Country, were selected as similar to Indian Country. Similar states were then used to estimate the equity that Indian Country should have based on these states' levels. This approach is similar to the widely accepted practice of valuing the equity in companies using market comparable companies.[90]

An additional similar approach was used, but with countries rather than states. This approach tried to estimate the appropriate level of equity in Indian Country by selecting comparable countries. Countries were screened and selected according to population, Gross Domestic Product (GDP), per capita income, unemployment rate, poverty rate, and several capital access indicators which indicated how favorable government policies were toward equity capital access and performance.[91]

Equity was estimated using each of these approaches on several dimensions – GDP, population, jobs, and firms. Each of these dimensions should determine the need for capital. These dimensions provided a way to answer the question of equity level proportionate to population size, or economic size based on GDP, jobs, or firms. For example, using similar states or comparable countries groups, the amount of equity per dollar of GDP was calculated and multiplied by an estimate of Indian Country GDP. Then, the amount of equity investment per person was calculated and multiplied by the estimated population of Indian Country. The same thing was done using jobs and firms in Indian Country.

Consensus View of How Much Equity Should Be in Indian Country

Pulling these various approaches together, gearing equity to each factor – GDP, population, jobs, and firms – provides a range of indications, as is shown in Table 4 below. The differences between indications for various factors can be explained by differences in productivity from each factor – the link to creating equity value – and the resulting need for equity.

Table 4
Equity Which Should Be in Indian Country
($Billions)

Approach	Equity Estimates Based on Indian Country Factors Below: GDP	Population	Jobs	Firms	Average
Average Equity Which Should Be in Indian Country Now	16.3	24.4	20.2	20.0	**20.2**
Average Equity Which Should Be in Indian Country to Meet U.S. Levels	30.1	100.0	64.9	22.0	**54.3**

The combination of the various approaches leads to an estimate of the amount of equity which Indian Country should have now. The indicated range is $14 Billion to $18 Billion, with an average of $16 Billion.

> Indian Country should have $16 Billion in equity now relative to similar economies.

To be proportional to the U.S., determined using the same factors as shown in Table 4, equity in Indian Country would have to be about $46 Billion.[92]

It is more proper to view the equity investment gap between Indian Country and U.S. levels of equity capital as two gaps. The first is the gap between what equity Indian Country has now and what it should have, given its current conditions. The second is the equity gap corresponding to the gap between Indian Country's current emerging market conditions and the U.S.'s current conditions as the world's leading economy.

Implicit in the higher value of overall U.S. equity is the notion that Indian Country has to continue to develop, growing toward overall U.S. levels of economic performance, to attract more equity.

Implicit in the proportionately higher value of equity at U.S. levels is the notion that Indian Country has to continue to develop, growing toward overall U.S. levels of economic performance. Indian Country must offer both attractive potential investments and a successful track record of past investments to attract equity.

Equity Investment Gap in Indian Country

Indian Country's economic development is hampered by limited access to credit and equity capital. This need is frequently voiced by Tribal leaders. This was also one of the top needs expressed in the 1995 White House Conference on Small Business, and is a major small business issue as described in the earlier section in this report on "Holes in the U.S. Equity Market".

Minority-owned businesses are underrepresented in obtaining equity financing, obtaining only about 2% of all external private equity, with Native American businesses receiving only about 0.1%[93] or less, definitely less than that in Indian Country.

In addition, much of Indian Country is rural and rural areas also face an equity shortfall. A 1997 RUPRI Rural Finance Task Force concluded:

> Equity capital markets are unorganized and often nonexistent in rural communities. National and regional venture capital firms require annual rates of return usually in excess of 30% on equity investments, an amount that exceeds the performance available from most rural business projects. Moreover, the minimum size of a project required by venture capital firms usually exceeds that of rural business or development projects…Only very limited equity or quasi-equity funds to support rural development are available from government or public/private partnership sources.[94]

A 1999 RUPRI Rural Equity Capital Initiative study found that rural areas had some, but limited, access to venture capital. However, rural capital needs are for a variety of forms of capital other than bank debt, including various types of equity or equity hybrids.[95]

Indian Country has had three strikes against it historically in attracting equity.

Indian Country has had three strikes against it historically in attracting equity. Providers of equity capital have mostly not sought out and adequately served the type of enterprises which make up the majority of Indian Country firms – enterprises which are minority-owned, often small, and usually rural.

The CDFI Fund Financial Survey of Native American tribal organizations and private sector financial service organizations was sponsored by the CDFI Fund as part of its Native American Lending Study in 2000. Regarding the availability of equity, the survey found that private equity investment was the product or service second least likely to be found on or near a reservation or Indian lands. Private equity investment, including startup capital and venture capital, was offered on reservation or Indian lands by only 3% and near a reservation or Indian lands by only 12% of non-tribally affiliated financial institutions. Eighty-five percent did not offer it. Private equity was also rated difficult or not possible to obtain by 66% of Tribal members residing on reservations or Indian land. Less than 1% rated obtaining private equity investment easy and 7% easy or somewhat easy.[96]

Private equity investment was the product or service second least likely to be found on or near a reservation or Indian lands.

The Indian Country equity investment gap is $10 Billion, given its current conditions and development status; but $44 Billion if Indian Country wants to reach U.S. levels.

Since there appears to be only $10 Billion equity presently invested in Indian Country when there should be $20 Billion there compared to comparable economies, and $54 Billion to be comparable to U.S. overall levels, there is a significant equity investment gap. The equity investment gap in Indian Country is $10 Billion, given its current conditions and development status; but $44 Billion if Indian Country wants to reach U.S. levels.

Another estimate confirms the general magnitude of the equity investment gap. A study appearing in the Venture Capital Journal was done using 1992 data, and quantified a capital gap for minority-owned enterprises.[97] Taking Indian Country's estimated proportion of this gap based on their portion of minority-owned enterprises, growing this gap from 1992 to the present in tandem with Indian Country firm and revenue growth, and compensating for the larger size of Indian Country businesses would suggest a gap of $10.5 Billion today. This is close to the $10 Billion estimate we made of the equity investment gap in Indian Country versus comparable economies through more specific methods.

At the current level, Indian Country has only about 50% of the amount of equity it should, and that it probably needs to meet its growth potential. Indian Country is way off of having enough equity capital financing to join the majority of the U.S. which has recently enjoyed such a phenomenal economy. This gap would be especially severe if it constricts development of New Economy businesses in Indian Country.

Indian Country has only about 50% of the equity it should.

The gap grows further when considering only equity from external investors since our estimate of externally provided equity is only about 4% of total Indian Country equity and only 2% of the amount of equity which should be in Indian Country based on comparable economies. So, the task of bringing in sufficient equity to bridge the gap in Indian Country has a long way to go. It will need to be done by enhancing both equity capital access and potential equity investment attractiveness.

The disparity between the amount of equity Indian Country should have and what it does have, is explained by the differences between firm locations generating GDP in Indian Country and the U.S. as a whole and state by state, and other countries; as well as by different employment and pay levels.

Lacking adequate equity, Indian Country businesses will fall progressively farther behind their better-capitalized competitors. And, starved for more development and economic progress, tribal living standards will continue to lag the rest of the U.S.

Indian Country appears to be an "equity desert". What is needed is irrigation, seeding, weeding, and growth.

Much like for the developing countries, although there is an ocean of capital scouring the globe looking for opportunities, investors are not always efficient about looking in unfamiliar places. This can create a capital desert for ignored places. Indian Country appears to be such a desert.

What is needed is irrigation, seeding, weeding, and growth. The benefits would be a bunch of vibrant oases in the desert spreading until they finally meet and no part of Indian Country is left barren and underinvested.

IMPACT OF REVERSING THE EQUITY INVESTMENT GAP

A shortfall in equity capital in Indian Country may be restricting growth. Currently, Indian Country has a significantly lower proportion of the U.S.'s firms or GDP than is indicated by its proportion of the U.S. population. If the equity investment gap were reversed, more businesses would be financed or expanded, enhancing Indian Country's economy. More GDP would be produced, translating to higher per capita incomes and greater job growth.

Additional GDP Growth

Investing further in Indian Country should produce more bang for the buck than investing in the U.S. generally. Each new dollar of equity capital invested in Indian Country should produce approximately \$1.50 – 1.73 of additional GDP according to the country comparisons, and \$1.54 additional GDP based on the similar state comparisons with

GSP. At a consensus number of $1.60 of new GDP created for every $1 of new equity investment in Indian Country, this is about double the U.S. overall level.

Bridging the equity investment gap of $10 Billion in Indian Country at a rate of $1.60 of new GDP created for every $1 of new equity investment in Indian Country, should then create around $16 Billion in additional GDP for Indian Country, roughly doubling it. This translates to approximately $10,000 more in per capita income, bridging the roughly $9,000 per person gap in income between Native Americans and the U.S. average,[98] and would lift more people in Indian Country out of poverty.

Bridging the equity investment gap in Indian Country should create around $16 Billion in additional GDP, roughly doubling Indian Country GDP.

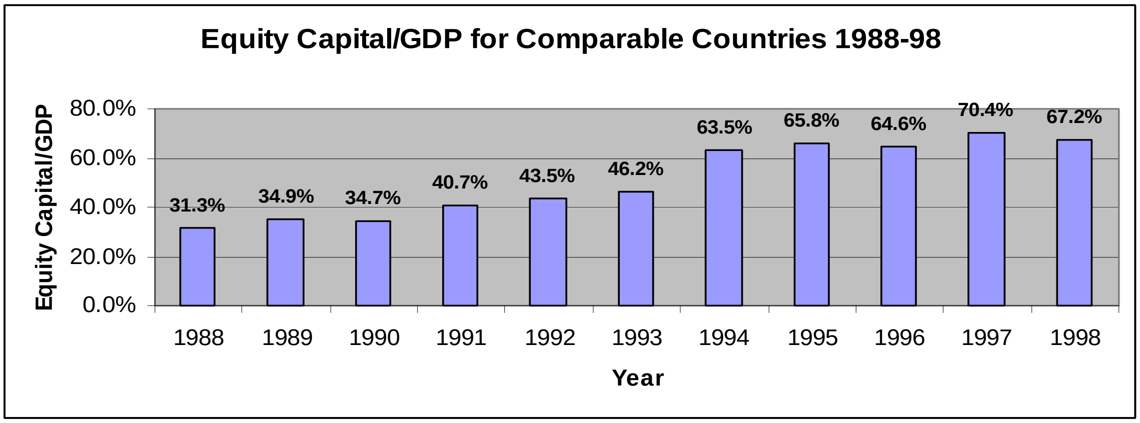
Investing in Indian Country should produce more bang for the buck -- double the U.S. incremental GDP.

The additional GDP produced beyond what the U.S. produces on average proportionately should not be surprising because in capital-constrained areas, pent-up demand for funding for good projects where management did not know how to, or were not able to, obtain equity financing can now be funded. There is generally a large amount of "low-hanging fruit" just waiting, and more which can then be developed. Emerging markets show us that there is a virtuous circle at work once a critical mass of capital invested is reached and sustained long enough.

Critical Mass of Capital

There is a critical mass of capital that must be invested in order to move from sustenance and dependence to real growth and independence. Enough of a start is needed to attract external investment and trigger a virtuous cycle of sustained growth. This happened in Latin America and Thailand in the 1970s, and Indonesia from 1963-73. In each case, GDP growth of about 6% was stimulated and sustained when the savings rate or the investment ratio of investment to GDP reached between 23% and 26% and then grew.[99] This finding is confirmed by a 1999 study of decade-average investment rates versus GDP growth rates from 1950-1990 for 160 countries. There is a clear positive relationship between higher investment and higher GDP growth. Exceeding 30% investment/GDP generally resulted in high sustained GDP growth from 4% to 13%.[100]
In our research into the more developed, developing countries in our screen in the 1990s, we find that an equity to GDP level of about 31% is present as growth takes off in 1988, and then the proportion of equity obtained grows higher to about 60% to 65% to support growth.[101] This is shown in Graph 6.

Graph 6



Graph 6: Equity Capital/GDP from 1988 to 1998 for countries comparable to Indian Country
This graph shows the amount of all forms of equity invested these countries divided by their Gross Domestic Product (GDP). Equity relative to GDP for these countries has grown tremendously from 1988 to 1998.

Looking only at the fastest and most consistent growers in the comparable countries group, we find that between 37% and 45% Equity/GDP seems to have launched the fastest growth.

It is not only important how much is invested, but also whether the equity invested comes from inside or outside the country. Internally generated equity is limited to the growth rate of the economy and the returns on investment. Once external sources of equity investment are interested in investing, massive sums are available to be redirected to the growing country. So, starting the cycle sufficiently to attract outside equity intensifies and speeds its results. This is what happened in the great growth stories of the last 50 years. Equity capital was attracted by progress and attractive returns, leading to a boom in the economy.

In order to start the cycle, enough aid and public sector investment is required to develop entrepreneurs, infrastructure, and social services and support functions. This level of investment must continue for about a decade in order to develop far enough economically to attract outside investors so that the growth can be sustained.[102]

The U.S. through public and private sector investment funds these emerging markets countries, but we have invested far less at home in Indian Country. A higher level of equity investment is not only desirable, but necessary to reach critical mass to create and sustain healthy economic growth to catch up to overall U.S. growth of 5.4% over the 10 years from 1989-98 and equity levels matching GDP over the same period. The investment required to get growth going in Indian Country at the U.S.'s 5.4% rate appears to be about 45% equity/GDP, initially, but probably leveling out at level of 60%-65% based on comparable countries with similar GDP growth rates.

Currently, Indian Country's estimated equity investment/GDP is 48%. This indicates progress in Indian Country, but is only at the beginning level needed to jumpstart the Indian Country economy. This level of equity/GDP is akin to 8-year-old levels of equity/investment in the comparable countries, as can be seen in the Graph 6. So, in this way, Indian Country lags foreign emerging economies by almost a decade.

Closing the equity investment gap in Indian Country to the level it should be, given today's conditions, would bring Indian Country's equity investment/GDP to par with the total U.S. at 10 year average levels, but only half the U.S. level at the most recently available 1998 level.

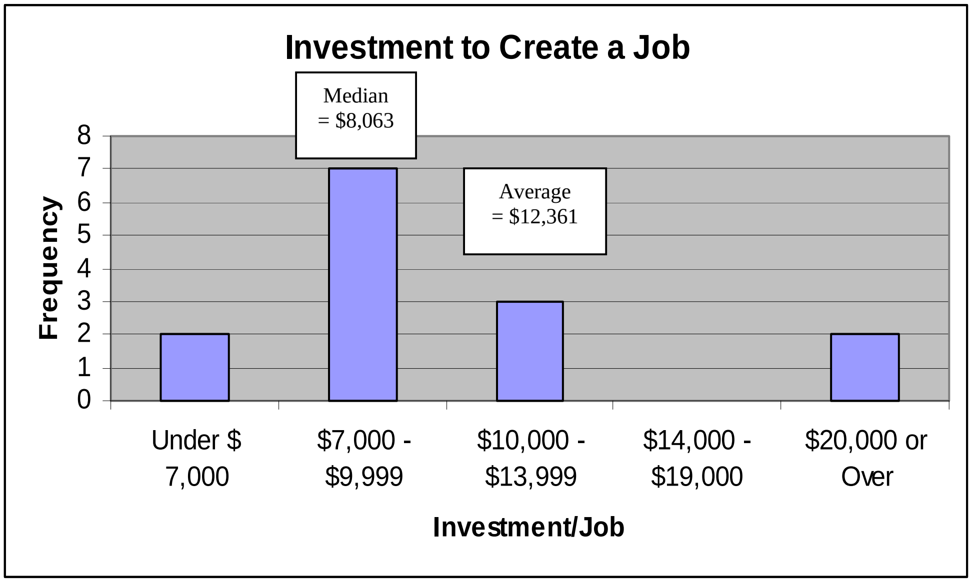
Job Creation as a Function of Investment

> "It is the Inc. 500 of the nation, not the Fortune 500, that are the true engine of job growth."
> *Jeffrey Sohl*

Venture-backed companies increased their employment by 45% in the first 5 years.[103] This is many times the national employment growth rate and can be contrasted with the net decline in jobs experienced in most large corporations during most of the 1990s. "It is the Inc. 500 of the nation, not the Fortune 500, that are the true engine of job growth."[104] From 1979 to 1993, over 75% of net new jobs were created by less than 10% of small businesses, just the very fastest-growing.[105] These tend to be the ones most in need of equity to grow and hire.

The investment required to create a job can be measured from various capital programs, many with a community or economic development focus. It appears to take about $10,000 in equity investment to create a job. However, estimates vary widely depending on whether debt or equity was raised, what location and industry it was invested in, and the primary purpose of the investment – purely seeking a financial return or targeting a social return involving providing jobs also. The tightest part of the range appears to be in the $7,000 – 13,000 of equity per job range. This is shown in Graph 7.

Graph 7



Graph 7: Equity Investment in Dollars Necessary to Create a Job
This is the number of dollars which must be invested in equity in a firm to create one job. This graph looks at the frequency with which estimates based on various investment programs fell into each category of the number of dollars of investment required to create a job.

Indian Country can create roughly 600,000 jobs by closing the equity investment gap.

This job creation response to new equity investment, particularly when invested with a community or economic development focus, of about $10,000 of equity investment/job is much lower than the U.S. level of $105,667 total accumulated equity invested/job and the state level of $57,826. This $10,000 of new equity investment/job produces roughly $40,000 in additional revenue/job, more than paying for the new jobs.

Therefore, bridging the equity gap should produce 95,000 to up to 1 million net new jobs created or retained. The lower estimate of 95,000 new or retained jobs based on the U.S. rate and 173,000 jobs based on the state rate would reduce unemployment in Indian Country, employing an additional 10%-19% of the available Indian Country workforce. The higher estimate of job creation is based on the lower $10,000 equity investment necessary to create a job based on various programs. Bridging the equity investment gap at this rate would triple employment in Indian Country, and would require importing labor from surrounding communities, reversing the flow at many reservations. Most of the programs on which the estimate is based are fairly small or limited in purpose. Therefore, creating jobs in response to the additional equity investment necessary to bridge the gap on a nationwide Indian Country scale probably falls somewhere in between these estimates. And, there is a tradeoff between more jobs and the higher pay that often applies for skill sets which attract equity capital, since the investment in each business will need to support both. An estimate of 586,500 jobs created splits the difference between the rate for the most similar states and the rate for community development-oriented investment programs. There would definitely be a material improvement in Indian Country employment.

This number is more than the currently estimated number of unemployed people in Indian Country. However, if the number of people of working age grows between 18% (166,000 more people) and 35% (327,000 more people) between now and 10-15 years from now, only Indian Country residents would need to fill those new jobs. This range is based on differing levels of population growth and therefore unemployment. The 18% figure is based on full employment based on a 4% "natural rate" of unemployment. The 35% growth in Indian Country residents of working age assumes population growth kept pace with this job growth, maintaining the current 50% level of unemployment. The eventual outcome is likely to fall somewhere in between. Either way, looking at past and projected[106] population growth rates, this 18% - 35% population growth needed to support employment of Indian Country residents without having to look for workers from off the reservation, seems reasonable with 10-15 years over which the growth will occur. Additionally, as reservations build an increasingly attractive economy, more Native Americans might be interested in moving back to a thriving reservation environment with plenty of job opportunities.

Innovation

Much evidence exists that innovation is enhanced when small, fast-growing firms are financed with equity. Typically their growth is based on a new business model, market, or technology. Returns to equity investors are on the order of 30 times their returns than later in the innovation cycle – reflecting future growth, additional profits, and higher employment usually using higher skill levels and providing better pay and benefits. R&D expenditures rise to double digit growth rates after venture funding.[107] This kind of innovation grows the economy, adds value and so continues to attract more capital.

Innovation can also feed on itself in a way helpful to the community. The newest industries can be targeted. Entrepreneurs with innovative ideas can be encouraged. After receiving equity, they not only implement their innovative idea, but look for new ones too. This creates a fertile climate of innovation which in turn attracts not only equity capital to grow the idea into a business, but also skilled people and support services to serve this new field.

Enhanced Ownership and Wealth

More and larger business enterprises in Indian Country adequately financed to grow, including equity finance needed, would provide greater ownership and accompanying wealth. This occurs both through common ownership of Tribal enterprises and through entrepreneurialism and independent business ownership. Ownership can also be spread to employees through such techniques as instituting an Employee Stock Ownership Plan (ESOP) or profit- or value-sharing incentive compensation plans paying a bonus mimicking wealth growth. These approaches have been very successful across the U.S. over the last 15 years. Between 3% and 9% of small and mid-size U.S. businesses offered employee ownership or equity.[108]

Building ownership of businesses builds wealth. This is evidenced in the extreme in the U.S. by the high proportion of the nation's wealthiest who obtained their wealth in one generation through business ownership. Self-employed people make up 20% of the workers in the U.S., but account for two thirds of the millionaires.[109] Two thirds of the Forbes 400, the richest Americans, are entirely self-made and created their wealth in one generation.[110] If this type of staggering wealth seems remote from Indian Country, it shouldn't. Native Americans are the 10th highest ancestral group of millionaires in the U.S.[111]

Wealth in turn helps build businesses, since personal funds are the usual first source for entrepreneurs. Wealth in the community can be reinvested into the tribe's ventures and can also become a source of informal "angel" equity investing, particularly from successful Tribes or business people in Indian Country, who want to invest back into Indian Country.

VI. ADVANTAGES OF INVESTING IN INDIAN COUNTRY

Table 5 lists some advantages to both equity investors and tribes or tribal members commonly cited for utilizing externally provided equity investing in Indian Country. After a lengthy earlier discussion about the barriers to investing in Indian Country, it is useful to remember the many advantages of investing in Indian Country.

Table 5

Advantages of Equity Investment in Indian Country

Advantages to Both Sides
Investing in Indian Country:
Growth potential as a domestic emerging market
Largely untapped market Pent-up demand Low-hanging fruit
Unique cultural heritage is an asset
Minority-owned business advantages (with <50% outside investment)
Tax advantages are potentially available
Small and minority-owned businesses produce abnormally high returns
Diversification/reduction of risk to investors Different economic cycles? Low correlation between U.S. and Indian Country economies
Tribes/Businesses Taking Outside Equity:
Grow business faster and create jobs
Grow ownership and wealth
Reduction of risk to owner No risk to land, which is a barrier with lending Less risk of default since no debt payments are required Eliminates biggest risk factor for business failure: undercapitalization
Obtain valuable contacts, expertise, and partner resources from outside Indian Country
Access best management practices and more employee skills

VII. STRATEGIES, ACTIONS, AND MODEL APPROACHES

STRATEGIES WITH ACTIONS

The purpose of identifying barriers to greater equity capital access is to then find strategies to overcome these barriers, and determine specific actions which can implement the strategies. Looking at "model" approaches successfully being used in Indian Country and elsewhere can also lead to both strategies and plans to accomplish them. Successful model approaches could be adapted to Indian Country and expanded.

The strategy portion of the Native American Equity Investment Roundtable was probably the most lively and engaging portion of the gathering. Clearly, the participants wanted to work together to try to overcome some of the barriers discussed. Strategies fell largely into two clusters. The first involved deal-making, incentives, funding and assistance flow while the second focused on education, capacity building, information technology, and the tribal role and relationships. The strategies raised at the roundtable are captured in the separate Proceedings report on this roundtable.

Top strategies stressed as important and converging from all sources, both the roundtable and the extensive research, are listed below:

1. Clarify legal codes and framework, protection, and dispute resolution – including sovereign immunity waiver clarification and judicial remedies and independence
2. Expand equity fund presence in Indian Country through sponsoring internal equity investors and bringing in external equity investor presence
3. Public/private intermediary to develop community or regional level equity programs liasoning between institutional investors and public sources and local equity investment and "deal flow" development
4. Establish tribal net income reinvestment policies into own or other Tribal businesses or infrastucture
5. Create development with clusters or supporting goods and services
6. Improve physical and telecommunications infrastructure
7. Provide entrepreneurial training
8. Form a strategic view of tribal goals and development strategy
9. Expand administrative capacity of Tribal governments, especially financial literacy and strategic and business planning ability
10. Introduce community-based finance on a very localized basis
11. Separate goals and management of business and government in tribes
12. Cut "red tape" in BIA and other federal agency interactions with tribes
13. More targeted economic development funding towards Indian Country
14. Promotion and image changing, including an investment guidebook or web site, and "investment road shows" highlighting Indian Country opportunities

The full gamut of strategies suggested for Indian Country or tried elsewhere is listed in Table 6. Most of these strategies were suggested by more than one person or source.

Table 6
Strategies with Actions

Institution Building – Building Access to Capital

Gather information on capital needs
- Number of businesses started
- Existing businesses' unmet need

Create a minority business capital access institute

Establish mechanism to "screen" deal flow
- "Jurامediary" for deal-making with specification of standards
- Gatekeepers/matchmakers
  - Recruit community of deal "vetters" and experts
  - Establish core of brokers who can add value, knowledgeable about financing and Indian Country
- "Business plan presentation as a spectator sport"

Establish tribal equity funds for tribal members' business ventures/expansions

Expand equity fund presence in Indian Country
- Provide low-cost loans from public sources which are a multiple of private equity funds raised (like SBIC, OPIC)
- Provide guarantees to funds for losses either in cash or using tax credits
- Fund-of-funds investment to provide funding to funds serving Indian Country
- Establish tribal sovereign investment fund (Indian "monetary fund", including technical assistance)
- Sponsor a nationwide CDVC serving Indian Country
- Sponsor a private equity fund to expand established businesses in Indian Country with below traditional threshold size investments
- Encourage financial institutions to address gaps in capital markets
- Private sector single-purpose equity capital pools

Create financing intermediaries for developmental deals
- Large scale national intermediaries
- Local assistance (CDFIs)
- Native American controlled and run entities

Community-based finance on a very localized basis
- Peer-based finance from market 'go between' intermediary to Tribal members
- Revolving equity fund (Like revolving loan funds)

Table 6

Strategies with Actions

Public/private intermediary
- Public/private sector development of community or state level equity programs

Leverage public capital with many times the public amount in private capital

Evolve from fund with strong emphasis on economic development to greater emphasis on ROI
- Institutions created with public sector involvement may privatize later

Reduce "frictions" to access
- Broadband access
- Loan loss reserve funds across Tribes
- Capital access enhancements (equity guarantee, bond insurance)
- Lower transaction costs and information infrastructure
- Cross Tribal 501(c)(3) structure issuing revenue bonds and bond insurance to structure financing

Targeting of potential investors
- Engage "virgin angels" with networking and training on evaluating and structuring deals
- Embark on business development program to attract corporate partners in tribal enterprises and infrastructure

Promotion & image changing
- Direct investment guidebook
- Prepare an "investment road show" highlighting Indian Country opportunities

Provide training to investors interested in Indian Country about how it works and cultural issues

Expand CAPCO program by including corporations and individuals as qualified investors of equity

Integrate venture programs with other economic development programs

Insert language for the specific assistance of Indian Country businesses into New Markets Venture Capital program

Vehicles to reduce risk, including federal government initiatives
- Create downside risk protection for the private investor, focus on early encouragement
  - Bond insurance

Structure securities/new investment mechanisms appropriate to small business/Indian Country

Tribes provide after-investment services/tracking

Table 6
Strategies with Actions

Nation Building: Strengthening Legal Frameworks

Legal clarification/protection/dispute resolution
- Establish clear commercial codes plus other business-related codes
- Clarify when and how sovereign immunity may be waived
- Mediation and arbitration alternative
- Independent judiciary

Change vernacular from "sovereign immunity waiver" to "sovereign guarantee": non-threatening

Set up staggered Tribal Council elections to ensure continuity in tribal government

Keep tribal disagreements behind closed doors: present a united front

Cut bureaucratic "red tape"
- Establish "quick track" decision-making for businesses doing business with tribes

Separate goals and management of business and government
- Spin off tribally-owned enterprises to a separate body for oversight
- Delegate privately-owned enterprise decision-making authority to a non-political body

Focus the tribal government on developing infrastructure and social programs

Tribes share sense of sovereignty across tribes
- Appellate courts at regional level
- Standardization of codes

Diversification: Building a Strong Economy

Form strategic view of tribal goals/development strategy
- Set clear goals and plan multiple years into the future to achieve the goals: gives long-term direction and confidence to investors

More targeted economic development funding towards Indian Country
- Follow-up/implementation of White House Conference on Economic Development in Indian Country in 1998 recommendations

Business development via creation of an environment where businesses can take hold and profit

Create local competitive advantage

Table 6

Strategies with Actions

Improve physical and telecommunications infrastructure
- Congress should appropriate funds for tribal physical infrastructure (>$7.2 Billion + cost of doubling telecommunications needed)
- Public infrastructure and skill building in conjunction with or followed soon by private investment
- Examine federal and state government effective restrictions on infrastructure development
  - Quality standards too expensive for sparsely populated rural communities
- Entice corporate partners to help fund and do infrastructure improvement
- Develop capacity to maintain infrastructure

Create development from scratch or enhance existing development with clusters
- Find indigenous entrepreneurship
- Create business development clusters
- Create an industry cluster to attract investors and investor networks
- Build markets for investment opportunities

Development/production of supporting goods and services for existing and new businesses

Development/production of intra-industry/components businesses
- (Good target in small local markets)

Encourage expansion of on-reservation businesses off the reservation as well

Diversify tribal economy
- Grow emerging industries which are not location dependent, especially high growth

Create Tribally-owned CDCs with limited waivers of sovereign immunity

Establish tribal net revenue reinvestment policies

Equity institutions could use capital investment to induce firms to locate in the area

Create or add to investment incentives
- Financial incentives
- Tax Incentives
- Increase incentives for defense contractors, military
- Incentives to reduce risk
- Public incentives for private regional or national venture capital funds focused on Indian Country
- Tribes take initiative to incentivize development

Table 6

Strategies with Actions

Investing in Human Capital: Capacity Building and Education

Expand administrative capacity of tribal governments (with funding)
- Skills level
- Financial literacy
- Planning ability
- Bargaining and legal structuring skills
- General business knowledge
- Hire/develop professionals
- Create regional inter-tribal support or joint ventures with other tribes to share resources

Business training & networking
- Mentorship programs with industry
- Package educational materials via venture forums
- Offer seminars to tribes on universe of equity investment done by entities with tribal relationships
- Enhance BusinessLINC (Learning, Investment, Networking and Collaboration) program
- Apply technology to deliver degree programs to remote tribal locations
- Tribes fund scholarships for business degrees
- Conduct training in the core skills needed to create value to attract and retain equity

Fund "telesuite" programs, including test locations in Indian Country

Use regional tribal organizations as a conduit for education on investment

Establish nationally funded reservation "Development Authority" that provides training and technical assistance (T&TA)

Entrepreneurial training
- Create better incubators/accelerators and capacity to create deals
  - Full-service, full-spectrum advice/training incubators by industry type – all sectors
- Congress should appropriate funds for entrepreneurial/financial technical assistance with focus on deal-making
- Educate entrepreneurs on equity investment
- Tribal college curriculum enhancements for business and entrepreneurial training

Alliances and Networks:
Building Partnerships through Regional Strategies

Create an entity as a gathering place for experts and intermediaries; physical and virtual
- Create a virtual organization out of the Roundtable
- Create new venues for investors and tribes to come together

Table 6
Strategies with Actions

Inter-tribal association of financing "players"
Interest Tribes with successful economies to invest in other Tribes and enterprises in Indian Country
Tribes should assume burden of responsibility to educate local jurisdictions and financial community Establish foundation of respect and trust
Study of how the private equity market finds and shares information with angel investors and venture capitalists
Federal Government Role
Move away from dependence on BIA
Cut "red tape" in BIA and other federal agency interactions with tribes
Reprogram federal agency development efforts to tribal targets (Corps of Engineers, etc.)
Improve coordination between federal government programs
Improve federal and state government outreach to Tribes
Develop cultural understanding and sensitivity training: including how Indian Country works For federal and state government
Mobilize Native American, Alaskan Native, and Native Hawaiian communities to greater state and federal government participation

MODEL APPROACHES IN USE WHICH COULD BE ALTERED OR EXPANDED

There are a variety of "model" approaches in use across the U.S. which might be very applicable to expanding equity investment in Indian Country. Some successful approaches might be expanded in size, scope or reach; some might be combined in interesting ways; and some might be adapted to the needs of each Tribe or to different sectors or industry segments. For example, incubators, angel investors, community development venture capitalists, and specialized or minority enterprise Small Business Investment Corporations all significantly help new or small business enterprises get started, funded, and grow. Encouraging diversification of existing private equity investors into Indian Country as an emerging domestic market and increasing the use of partnering with publicly traded corporations are promising for larger or more established enterprises.

Incubators

Incubators focusing on the full gamut of specific industries or sectors could provide very customized advice, training and technical assistance to startup or small companies. Ideally, incubation services provided would include the full-spectrum of management skills and contact. Some industry-specific incubators taking a broad approach to imparting management skills and assistance, as well as providing funding or connecting with funding sources, operate in the automotive, food service/restaurant, and high-tech electronics design and manufacturing industries.

Based on 9 studies of public and seed capital, "Successful economic development strategies, including those that contain a financial investment component, involve a coordinated multiprogrammatic strategy that pulls together business development, manufacturing improvement, marketing, and other services."[112]

This approach could be very useful as a seeding strategy throughout Indian Country, but careful attention has to be devoted to what has and has not worked well in the world of incubation. And the scope of the incubation effort must be enlarged if it is to make much difference in Indian Country.

Community Development Venture Capitalists: Kentucky Highlands

Community development venture capital (CDVC) strives for a "double bottom line" of financial and social returns. The investments a CDVC makes incorporate social purposes in the business plan and operations in order to help develop a particular community. In many ways for very small and startup businesses, CDVC may be the most appropriate (or sometimes the only) form of external equity financing. Kentucky Highlands Investment Corporation has used a very successful approach for 30 years in a rural, disadvantaged setting. They have created their own deal flow of attractive investments by essentially incubating and providing training and technical assistance to potential entrepreneurs to get them to the point where they have a viable business idea and plan to fund. Kentucky Highlands is the largest CDVC with $45 million in assets. However, the Kentucky Highlands approach could be used much more widely and on a much larger scale in Indian Country. This could best be done with some form of public sector encouragement or funding, ideally from the CDFI Fund.

Nationwide Angel Investor Networks

Angel investors fund and provide expert assistance to 10-40 times the number of startup companies as venture capitalists. Until recently, angels were hard to find. They tended to be wealthy individual investors who guard their privacy and operate only locally, hearing about investment opportunities only through trusted advisors, colleagues, and friends. Angel investor networks have linked angel investors and made matching angel investors with entrepreneurs easier. Networks are growing in number, but also coverage.

Among the best examples out there are the Small Business Administration's ACE-Net and a new angel network, the RAIN Fund, which is expanding nationally including in Indian Country. Starting or partnering with angel networks for coverage throughout Indian Country will make available the largest source of startup equity capital, potentially surmounting its former regional, more restricted focus.

Equity Guarantees: AVRA

A number of different types of equity guarantees have been offered, mostly by state programs. One guarantee system which could be expanded and used in Indian Country is offered by the American Venture Resource Association (AVRA). AVRA will buy investments in failed companies equity investors have in their portfolio at 50% of their original cost. Reduced downside risk does not diminish upside potential. This program may be most attractive to small or less diversified equity investment funds as well as angel and other individual investors.[113]

Public/Private Model Programs

Experience with various state equity programs, community development venture capital funds, and international donor equity fund programs suggests that in general a combination of public and private sector participants in programs works best. Three ways to do public/private programs are to do matching, usually using a multiple; use public guarantees of private investment or other credit enhancement; and use a public/private intermediary. The principal behind public sector matching, guarantees, or investment tax credits provided to private sector funds – other than to stretch public dollars – is interesting.

Public/private matching can result in a balance of economic development and financial return objectives. Grants from foundations and governments or public dollars contributed in support of the program can supply low or no cost funds for equity investment funds. The private sector institutional investment in equity investment funds does require a market rate of return on investment in order for that equity investment fund to keep attracting funding. Usually, the private sector funding will be many times the public sector or grant funding, usually within the range of 3-20 times. Using a weighted average return on investment required, then, leads to an overall below market return on investment required for the portfolio, while still keeping the private sector investors happy. This allows the public/private fund to forgo some financial return in pursuit of social or economic development goals. Each "investor" in the equity fund gets what they wanted, and there is more equity capital for more diverse businesses in often-underdeveloped areas with limited traditional equity available.

Forming a public/private intermediary addresses many needs where the best of both public and private can come together, each with their own expectations and advantages or skills. They will each do what they are best at. A model description of the structure for this follows from a survey of public equity programs by the California Research Bureau:

> "a public/private intermediary that would catalyze the development of existing or new networks. . . The goal would be to fund (perhaps with a local match requirement) local public/private intermediaries whose mission would be to catalyze the formation of early-stage investment structures, particularly in underserved industry markets and regions. . . engaging private sector experts to identify. . . early-stage small companies with growth potential. A committee of knowledgeable local business angels, venture capitalists, technical experts, and legal and financial experts could review and rate the companies. A mentoring group might assist the companies to develop their business proposals and presentations. The public/private intermediary and local advisers could identify potential domestic, national, international and corporate investors who might be interested in particular companies. Corporate venture funds might also be encouraged to participate or to become a strategic partner. . . Information about each company's offering could be circulated among potential investors and made available on a website. . . The public/private intermediary could hold quarterly venture capital forums, organized by industry and by business stage of development. . . targeted forums. If successful, the public/private intermediary could assist in bundling smaller business angel investments into a single deal under one manager. . . The state might take a small equity position . . . in order to attract and encourage investment in regions or industries that do not have an established investment record. . . The public/private intermediary would be responsible for managing the investment, including providing technical assistance and other services . . . [and for] invest[ing] the correct amount of funds. [114]

Multiplying Capital

After a company receives equity, it may be able to receive matching investments or investments which were contingent on obtaining equity from selected venture capitalists. For example, Silicon Valley Bank offers "Quick Start", a program in which a startup obtaining seed equity capital can also receive a loan of 30% to 40% of that equity capital. These are loans to new, cash flow negative companies, without earnings, and often without other collateral. And, the loans do not usually carry restrictive covenants. Silicon Valley Bank understands the value of intangible assets so they can do these types of loans.

Other banks also have programs providing loans to startups provided venture capitalists fund the company with equity first. Essentially, these banks have learned that venture capitalists have tough screens and high levels of assistance, if needed, and so these companies are more likely to succeed. These companies also have deep pockets behind them. Banks have also learned that this is an engine of growth which they do not want to miss. They want to be first in to serve this new, growing customer.

Indian Country could leverage any equity investment into more capital from banks. Not only startups, but generally, more equity in the company means greater debt capacity – the ability to borrow more.

Corporate Partnering

For Indian Country businesses which are more established, but could expand, probably the best choice of external equity provider would be corporate partners. Corporate partners bring management and technical expertise, established business relationships, skills training, assets, and other benefits to their partner companies, and perhaps equity investment in the Indian Country business. Even if these corporations do not bring outright money to the table, the value of their industry influence, knowledge, contacts, purchasing advantages, and other intangible assets is equivalent to an equity investment – one that Indian Country business enterprises would otherwise have to fund to create for themselves. Indian Country does have a history of successful large business joint ventures with large corporations. For instance, examples include:

- Manufacturing joint venture between the Mississippi Choctaws and first General Motors and later Ford Motor Company to make automotive components, with 1999 sales of about $100 million [115]
- $80 million hotel project developed jointly by Santa Ana Pueblo and Hyatt Development Corporation
- Alaskan Tribal $125 million limited partnership investment in a publicly traded wireless phone company – a valuable investment and it provides access to wireless service for Alaskan natives

Tribal Growth Funds

Tribes have established tribal growth funds for reinvestment of tribal funds into their community, but this approach can be expanded by investing jointly with outside equity investors. Similar to the corporate partnering strategy, it is more general since the tribal growth fund may invest in a portfolio of businesses on the reservation rather than just one operation. Co-investors may include equity funds, angel investors, wealthy individuals, corporations, banks, or other investors. Partners may be passive investors or active co-investors.

The Southern Ute Growth Fund serves as an example of this approach. It is one of three parts of the tribe's master plan. The growth fund was formed to make high-risk, high-return investments for growth in tribal assets. The fund uses financial engineering to borrow at relatively low rates, monetizing assets, and then invest the funds in higher-return ventures. As the loans on assets are paid down, the fund increasingly invests equity. The success of the growth fund is helping to bankroll the tribe's economic development, diversifying out of their depletable oil & gas resource base, investing for the future.

Set up to invest tribal funds jointly with external investors, the fund as of 1999 had $100 million to invest, with a target return of 15% or more. This joint investment approach evolved out of earlier oil & gas partnerships with individual passive investors and corporations. Soon, these same investors were investing in numerous businesses through the growth fund, almost exclusively on the reservation.

This model approach combined five ingredients for success. First, the tribe designed a master plan for their future direction along with the entities and investment vehicles to carry out the plan. Second, the tribe's assets were monetized through borrowing. Third, the tribe entered into individual and corporate partnerships in its oil & gas business, which was initially partially incentivized with a tax credit. Fourth, using these pre-existing investor relationships, the Southern Ute Growth Fund was formed to invest tribal equity along with external investors. Fifth, there was a "living link" intermediary who understood both sides and who managed the ongoing relationship between the tribe and the other investors. [116]

Actions Taken by Countries in Changing Foreign Direct Investment (FDI) Laws and Regulations

Corporate partnering or investment gone international is foreign direct investment. Foreign direct investment (FDI) inflow is essentially foreign corporate investment in the domestic economy, often in conjunction with a local corporate partner business. This would be analogous to Indian Country attracting corporate direct investment or joint ventures with large corporations.

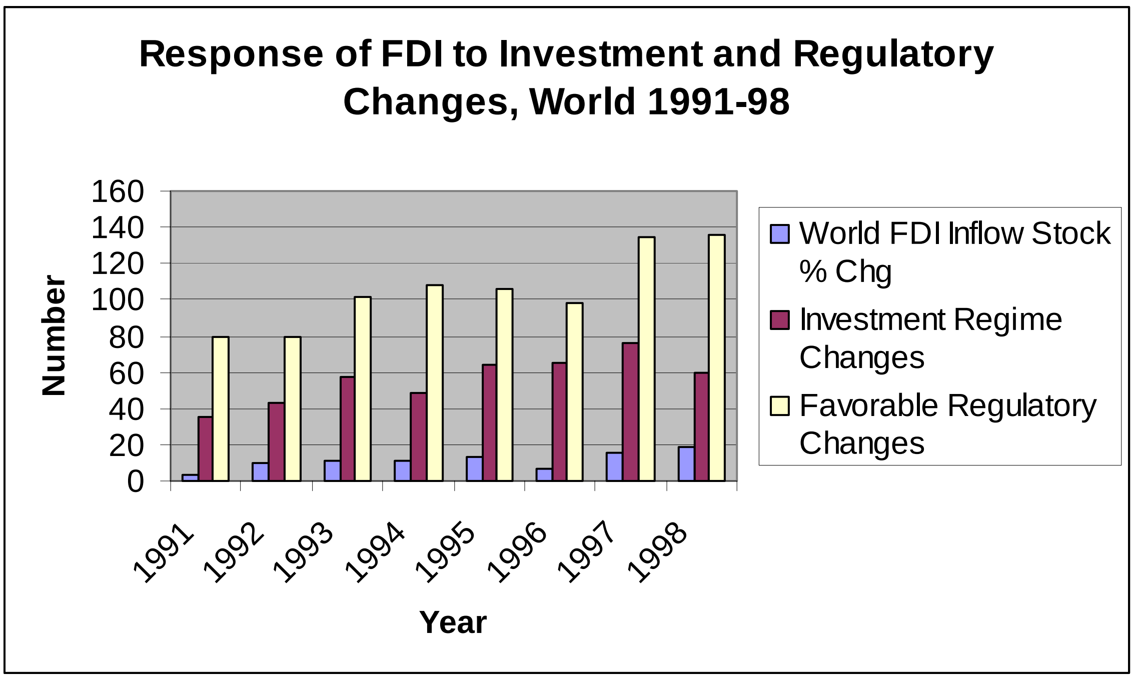
Over the last decade, with globalization, most countries have wanted to attract outside equity investment in the form of foreign direct investment. For many developing countries, this outside equity investment dwarfs their publicly floated market capitalization, and sometimes the total of their domestically-owned businesses. Foreign direct investment has been a source of economic growth, jobs, skills and new industry knowledge, more sophistication in management as well as exposure to global management practices, and in some cases has led to infrastructure development to facilitate the investment which can also be used for other purposes as well. Some countries have deliberately targeted the industries in which they want foreign direct investment in order to create the knowledge at home to create domestic entries into this industry.

Changes countries have made to attract investment have included: [117]

- More promotion (45%)
- More incentives (45%)
- More liberal operating conditions (39%)
- More sectoral liberalization and privatization (10%)
- Negative: Less incentives or more control (6%)

The impact of these changes on the level of foreign direct investment stocks is shown in Graph 8.

Graph 8



Graph 8: Response of Foreign Direct Investment to Investment and Regulatory Changes Favorable to Investors, World 1991-98
This graph charts the rise of favorable investment regime and regulatory changes in foreign countries that led to a rising level of Foreign Direct Investment (FDI).

Foreign direct investment has been generally responsive to these changes, rising as more favorable changes occur.[118] These changes were largely successful.

Customizing and Expanding Model Approach Successes

All these model approaches and successes tell us that the task is feasible. Solutions are out there, at work, right now. All that needs to be done is to adapt them to the particular needs of Indian Country, or even region by region or Tribe by Tribe, and then fund and offer them on a large scale throughout Indian Country.

POLICY RECOMMENDATIONS AND MILESTONES: AN ACTION PLAN

There is a simple 1-2-3 strategy to move from where access to equity is now in Indian Country to where it could be. Next is a sequential action plan, complete with milestones and timetable.

Step 1

The first step is to do the background work with tribes and potential equity investors to create an investment climate attractive to investors while obtaining tribal goals. This can be done most effectively through regional level training and technical assistance. Then each tribe would make their own changes, as suggestions and techniques discussed at the regional level are enacted with individual interpretations tribe by tribe.

1

Getting Ready

Do the background work:
(Including Top Strategies and Actions Number 1-4, 6, 8-12)

- Tribal nation building: goals, structures, laws, recourse
- Administrative/organizational capacity and skill-building, including financial literacy and knowledge about equity alternatives, as well as strategic and business planning skills
- Federal, state, and Tribal government coordination and simplification
- Creating private equity investment funds of various types, intermediaries, and networks; and attracting equity investors' presence in Indian Country
- Create an attractive investment environment – simple, fair, filled with incentives, and initially perhaps guarantees
- Build infrastructure (such as roads, telecom, utilities, etc.)

Timeline: Now through 2 - 5 years

This step can begin immediately. It should take about 2 years to cover these areas with the regional groups of tribes, with implementation at the tribal level to start immediately after each topic is covered at the regional level. Start to finish tribal implementation should be possible over 2-5 years.

During this time, starting as soon as possible, regional groups in Indian Country could work together with federal and state governments to coordinate between government programs, simplify interactions between tribal governments and federal and state government, and simplify requirements tribes need to satisfy for federal and state programs.

Also during the first two years, discussion about how to best get equity investor office locations in or near Indian Country can begin at both the regional and tribal level in Indian Country, and with potential equity investors. Additionally, the federal government can discuss the best ways to stimulate the creation of equity investor locations in or serving Indian Country using existing programs through agencies like the CDFI Fund, Small Business Administration, U.S. Department of Agriculture, and others. Lastly, the federal government could discuss the possibility of starting Indian Country's own equity investor funds, intermediaries funneling deal flow and money both ways between Indian Country and equity investors, or creating networks of investors interested in Indian Country. Part of this approach to potential equity investors could be a program designed to educate them about doing business and the opportunities in Indian Country.

Achieving the milestone of background preparation for an attractive investment climate and service of Indian Country by equity investors, then has three timelines:

- Immediate plugging in of ready-to-go opportunities in Indian Country to equity investors newly attracted to Indian Country
- Now through two years background preparation at the regional level
- Now through five years individually customized background preparation at the tribal level

Step 2

The second step is to create additional business opportunities attractive to equity investors. This step would be accomplished through additional economic development resulting from tribal strategic goals and planning. An emphasis would be placed on both expanding existing businesses ready to grow, and on creating new businesses, especially in New Economy industry sectors like the internet or high-tech health care. The important thing is to develop a thriving economy with diverse businesses which create value. Equity investors will be most attracted to high-growth opportunities. With the expansion of the Indian Country home market, strong opportunities for growth should exist in both low- and high-tech industries. With additional economic development in this direction, equity investors will naturally be attracted to Indian Country and will want to stay and expand their presence.

2

Develop the Economy

Create thriving, value-creating diverse businesses opportunities:

(Including Top Strategies and Actions Number 5-8, 13)

- Explore business expansion opportunities
- Partner on infrastructure projects which could earn a strong return on investment with expert companies
- Form startups, incubate them, and pre-screen them
- Plan business enterprises to tie into existing business needs
- Create target industry "clusters"
- Monitor performance and provide ongoing technical assistance in order to perform to market return on investment and value creation

Timeline: 6 months from start of Step 1 to 10 years

Once tribal strategic goals and plans are set, further economic development planning can begin at the tribal level. This could start as soon as the tribal goal-setting and strategic planning exercise is complete, potentially as soon as 6 months after the start of Step 1 in each region for the tribes attending the regional workshops.

The federal and state governments can best support these efforts through more coordinated and consistent funding of management training and economic development programs, and through a much bigger investment in economic development. Existing successful programs could be further extended into Indian Country and new programs responsive the particular needs of tribes or regional groups could be designed.

A concerted plan for economic development can take years to fully implement. New business opportunities can be planned, approved, funded, and executed in anywhere from a few months to 5 years. Considering the interlocking nature of the bet economic development, 10 years is a reasonable maximum time to see real change. By that time, momentum can be created so that businesses will flourish and be funded with minimal further public technical assistance or funding. Private sector business partners and investors of all types would be active in Indian Country.

- Milestones would include:
- Economic development plan based on the tribe's strategic plan, perhaps with regional components as well – 6 months to 1 year for first plan
- Training, technical assistance, and public-private funding for business expansion or new businesses, including:
    - Business-specific management and entrepreneurial training
    - Formation of full-service business incubators in different industry sectors which include both technical and business management skills
    - Business strategic planning, business planning, and financial planning training and technical assistance

Timeline is 3 months to 2 years to provide the assistance needed to really launch or extend businesses for those businesses requiring technical assistance

- Business expansions or new businesses actually start operations – immediately to 5 years after funding is in place
- Related businesses are developed to serve them – simultaneous with new business opening or expansions, to months or years after business activity is created or expanded

Step 3

The third and final step is to aggressively target equity investors with strong opportunities for investment in Indian Country. Potential strategies and actions to accomplish this step are listed below.

3

Attract Equity

Attract and retain equity investors:
(Including Top Strategies and Actions 2, 14)

- Promotion of Indian Country equity investment opportunities
- Go to investors with "road shows"
- Form long-term relationships with key equity investors
- Enter the many networks
- Develop relationships with intermediaries
- Provide post-investment assistance with doing business in Indian Country and incentives on new projects
- Monitor performance and provide ongoing technical assistance to enhance performance in order to retain equity investors

Timeline:
***Short-term:* immediately for existing opportunities in Indian Country**
***Long-term:* Start after both Step 1 is complete and the first of the Step 2 new business is ready for operation -- with a duration of 1 year – each tribe at their own pace**

Step 3 can be done twice – right away for Indian Country businesses ready-to-grow, but starved for equity capital – and again as the launching of funding for new business opportunities readied by Steps 1 and 2.

Once the first two elements of Step 1, background preparation, and Step 2, creation of a stream of additional opportunities ("deal flow") is accomplished, then Step 3 should produce a big response. Investors would only need to be linked to and shown the new opportunities to greatly increase their investment in Indian Country.

Milestones in Step 3 include:

- Design of equity investor outreach programs – Indian Country to investors and investors to Indian Country – 3 to 6 months after enough new opportunities to showcase have been identified
- Implementation of equity outreach programs – 1 month to 1 year
- Design and implementation of investor tracking and post-investment assistance and relationship management programs run by each tribe for their outside business partners and equity investors – 1 to 2 years – 1 year to set up and 1 more year to implement computerized management information systems solution, if needed. This might be done on a regional or nationwide Indian Country basis to share resources, and would have the added advantage of consistency.

Long-term, doing all three steps and then waiting for equity investors to earn the kind of investment returns that excite them about increasing their presence in Indian Country might take a total of 15 years. Up to five years would be required to complete the 3 steps, and most outside equity investors have a 10 year fund life, so that they reassess the size of their funds and their target markets as they raise funds every 10 years. Most investments are made in the first few years of a fund's life. Once the business has had a chance to grow, investors will realize their return. If these returns are generally favorable, then investors will commit more and more to Indian Country. This same 10 year assessment period would especially pertain to new Indian Country equity investment vehicles managed by Indian Country entities as they raise funds to invest in Indian Country equity investment opportunities, and again raise funds for a new fund 10 years later.

Up to five years to execute the three-step process and up to 10 years for equity investors to realize their returns adds up to a total long-term time horizon of up to 15 years to achieve a much greater level of equity in Indian Country, and to sustain private sector interest with a minimum of public sector support.

GETTING WHERE WE WANT TO BE: WIN-WIN-WIN SITUATION

This look at equity investment in Indian Country and what it could be gives us a good idea of where we are now versus where we could be.

From	To
Subsistence plus low investment funding, a "continue as we are" strategy	**High investment in future self-sustainability and growth**
Confusion and lack of understanding on the part of all parties	**Clarity of goals, plans, and requirements**
Economy trailing the U.S.	**Economy growing toward par with the U.S.**
Equity capital desert	**Growing and thriving equity investment**

There has never been a better time than now for the U.S. to invest to help Indian Country participate more fully in the current U.S. prosperity. We have the means to help Indian Country jump ahead and become self-sustaining, advancing while pursuing individual tribal goals consistent with tribal culture.

Putting the investment and effort into Indian Country now is a WIN-WIN-WIN strategy for each constituency:

WIN for Indian Country

Indian Country is experiencing a serious equity investment gap which is limiting GDP growth, sales, profit, and job growth as well as the quality of jobs and skills which can be learned on the job. Reversing this gap would grow the Indian Country economy and bring more and better jobs. This report has recommended ways to attract and retain outside equity investors while still achieving Tribal goals and remaining true to Tribal culture.

WIN for Equity Investors

Equity investors get a new source of deal flow from the engine of growth that Indian Country is becoming. This deal flow would grow with further development and investment.

With the proper screening and value-added/technical assistance services brought by equity investors, and with the proper training in the basic management skills to create value for investors; investments in Indian Country should offer attractive rates of return, while diversifying risk.

Since Indian Country has been very underserved in the equity field, there should be lots of low-hanging fruit for the first equity investors in. Later, the impact of the changes being made now, should lead to continued attractive equity investments.

WIN for the Federal Government

The federal government can help Indian Country participate in the U.S. boom, and can directly stimulate growth by ensuring that Indian Country has reasonable access to equity capital, and can attract and retain it. Providing greater access to equity would by its nature improve many other development goals for Indian Country. And, providing better access to equity capital leads to more access to lending and other forms of debt financing. This would further the goals of the Reigle Act.

Some of the benefits to the federal government in pursuing the strategies outlined in this report include:

- More useful way of targeting federal money
- Leveraging public funds with private sector funding and support
- Assisting in the creation of sustainable economies
- Long-term cost savings as the private sector increasingly provides funding for more businesses and jobs, gradually displacing the public sector in this area
- Increasing the use of existing programs in Indian Country

Indian Country, if provided the proper government investment and access to equity capital, could transition to sustainable, independent growth over one generation.

FOOTNOTES

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8. "Income 1999", Washington, D.C.: U.S. Census Bureau, September 26, 2000, <http://www.census.gov/hhes/income/income99/99tablea.html.>
9. Indian Country is composed of Indian reservations in the lower 48 states. Although, technically, Alaskan Native Villages are not part of Indian Country, due to the Alaska Native Claims Settlement Act and the 1998 Supreme Court decision that these lands are not technically part of Indian Country, Alaskan Native Villages also do not have ready access to capital and face many of the same barriers to obtaining it, as well as many of the same economic challenges. Native Hawaiians have not been federally recognized as tribes, and so their home lands are also technically excluded from Indian Country. However, again, they face many of the same issues surrounding capital access as their lower 48 reservation neighbors. In this report, we have used Indian Country to refer this broader group.

   In this report, we have used the term "Native American" to mean Native Americans living anywhere in the U.S., and the term "Indian Country" to include only those residents of Indian Country. When we speak of an Indian Country economy or cite Indian Country total figures, we mean the sum of those figures from reservations plus Alaskan Native Villages and Hawaiian Home Lands. The same hold true for firms – Native American-owned means located anywhere in the U.S., while Indian Country businesses are located in Indian Country.

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12. Jeffrey Humphries. *Buying Power at the Beginning of A New Century: Projections for 2000 and 2001*. Selig Center for Economic Growth, Terry College of Business, The University of Georgia, July-August 2000, p.3.
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invested to be productive. When returns are lacking and change is not imminent, equity capital tends to flow out of the country quickly. However, it must be noted that these are aggregate numbers and the optimal way to determine how much equity investment there should be is to look at the productivity of and value generated by that equity capital on a industry, company, and project basis. In this way, the amount of equity investment will be appropriate to sustain growth.

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GLOSSARY OF TERMS

This glossary was prepared by the CDFI Fund for the Native American Lending Study/Action Plan from a variety of sources (see Sources at the end of the Glossary). It is intended as an educational tool for process participants. As such, we welcome comments, including any additions or corrections. Please contact Rodger Boyd, Program Manager, CDFI Fund Native American Lending Study/Action Plan, U.S. Department of the Treasury at (202) 622-8258.

Accelerators. Service and capital providers to seed-stage companies just getting started. They generally quickly accelerate a company through the incubator, early-stage, and then onto first round venture capital funding as fast as possible. They provide the equity and the know-how and network of resources and relationships. They are similar to incubators but accelerators stay with the startup longer while incubators graduate startups when they are funded. See also **Incubators.**

Acquisition. One company, the acquirer, buys another, the target. Either assets or stock can be acquired, but usually stock is acquired. The acquisition can be paid for with cash or the acquirer's stock. See also **Merger.**

Angel Investors. Provide startup funding, expertise, and contact. Often have experience in the same business and want to be closely involved. Their motivation is return on investment but also the fun of helping to launch a company. Money provided is often less than $1 million. Also called **Business Angels.**

Appraisal. Official report required by lenders, regulators, trust provisions, or tax codes giving an estimate or opinion of value based on analysis of pertinent data by a qualified appraiser.

Balance Sheet. A detailed listing of assets, liabilities and owner's equity accounts (net worth) showing the financial position of a company at a specific point of time.

Banks. Financial institutions that are businesses operating under federal and state regulations. They offer a variety of services such as savings accounts, checking accounts, safe deposit boxes, loans and investments. Accounts in most banks are insured against loss by the Federal Deposit Insurance Corporation (FDIC).

Bond. In contrast to short-term loans, lines of credit, receivable financing and intermediate-term loans, a bond is a long-term promissory note, generally 10 to 20 years. Bonds are usually secured. Debentures are unsecured.

Book Value. Stock is represented on the balance sheet at net book value, or assets net of all liabilities. Net book value represents the equity capital originally paid in plus profits less dividends or distributions.

Bootstrapping. ***Similar to using the founder's resources is the "any which way you can" using any money you can get your hands on approach. This used to be known as "pulling yourself up by your bootstraps", hence the term "bootstrapping". Bootstrapping involves financing with personal savings, credit cards, second mortgages, customer advances, and vendor credit. Bootstrapping is a good way to further the power of the founders' own cash infusion into the firm, but it often does not generate enough finance to support rapid growth.***

Business Angels. See **Angel Investors.**

Business Plan. Critical for equity funding, the management team of a business needs to compile a plan for how they will start or grow their business. Business plans should include the business concept, the management team profile, the market size and potential, the strategic position of the proposed product or service, and the financial possibilities presented in a financial projection complete with return on investment to investors. The package should also include a sources and uses of funds statement on the proposed investment. See also **Strategic Plan, Projections, Sources and Uses of Funds,** and **Return on Investment.**

Capitalization. The total amount of all long-term capital. It includes:

- Long-term debt
- Preferred stock
- Common stock
- Capital surplus
- Retained earnings

As a general rule, long-term debt securities should not exceed 50% to 100% of stockholders' equity, including preferred stock.

Capitalization Rate. A discount rate used to determine the present value of a series of future cash receipts. It is also referred to as the reciprocal of the P/E ratio. For example, a 20 P/E is a capitalization rate of 5% (one divided by twenty).

Carried Interest ("Carry"). The general partner's share of the profits generated through a private equity fund. This is the sweetener to make sure the fund managers have a strong incentive for the investments to perform well. Carried interest taken by equity funds normally are about 20% with the other 80% owned by the limited partners, although some stellar funds have been able to get as much as 30% carry.

Cash Flow. The income remaining after all cash expenses and debt service have been paid. However, there are many types of cash flow, and it is frequently not clear which definition of cash flow is being used with just this term, so it is wise to ask for clarification if it is not clear which type of cash flow is being discussed. See also **Operating Cash Flow** and **Free Cash Flow**.

Co-invest. Invest jointly with other equity funds to share risk and contacts and expertise.

Collateral. Assets pledged to a lender to secure a loan. This includes stocks, bonds, evidence of deposit, and other marketable properties which a borrower pledges as security until a loan is repaid. In mortgage lending, the collateral is the specific real property being financed which the borrower pledges as security. If a secured loan is not repaid, the lender is entitled to liquidate the collateral and apply the proceeds against the balance of the loan. The secured lender's claim on collateral is senior to that of other creditors in the event of the borrower's bankruptcy.

Commercial Bank. Government chartered financial institutions that accept deposits and make loans for consumer purchases, business or commercial development and real estate development.

Common Stock. Ownership in a company. Each common stock share includes that share's voting rights and right to receive that share of the profits as they are paid out in dividends or distributions. See **Equity.**

Community Development Credit Unions. Credit unions that serve predominately low-income communities. They offer a wide range of consumer financial services including small mortgages and loans for housing rehabilitation to individuals and tenant associations often with a particular emphasis on homesteading and the formation of limited equity cooperatives.

Community Development Venture Capitalist. Similar to venture capitalists, although they look for the double bottom line – financial and social returns. Community development venture capitalists tend to operate in underserved areas. They may go into earlier stage companies and more closely resemble incubators or angels, and for other investments look like traditional venture capitalists, sometimes co-investing with traditional venture capitalists.

Community Reinvestment Act. Passed in 1977, it states that commercial banks and thrifts have a continuing and affirmative obligation to help meet the credit needs of the local communities which they serve. It requires regulatory agencies to evaluate these institutions' record of meeting the credit needs of their designated community, consistent with the safe and sound operation of the institution.

Consolidation. This is an investment strategy for a fragmented or consolidating industry in which a LBO buyout fund acquires numerous small players in an industry, combines them, to become a leading or dominant player in that industry, and then often takes the larger entity public. This is also known as a **Rollup.**

Control. Possession of the power to direct management and policies through the ownership of voting securities, usually defined as more than 50% ownership. The less than 50% ownership interest is referred to as a **Minority Interest.**

Control Premium. The additional premium above the trading price of stock paid to acquire control.

Convertible Preferred stock. Preferred stock is stock with preference over common stock in the case of liquidation or bankruptcy. It also receives dividends first before common stock. If it is cumulative preferred stock, then if dividends have not been paid, the preferred dividends accrue and must be paid before common stock dividends can be paid. Additionally, preferred stock carries a much higher dividend rate than common stock does, and is more likely to pay dividends. Preferred stock may carry voting rights.

Convertible preferred stock confers the option to convert the preferred stock to common stock, at the option of the stockholder. Convertible preferred stock is most popular with venture capitalists since it offers bond-like income, with upside potential.

Corporate Venture Capitalists. Similar to traditional venture capitalists, but corporate venture capitalists also look for strategic fit with their corporation's strategic goals. Sometimes they co-invest with traditional venture capital firms.

Corporate Partnering. Usually done by business units or the business development area of a much larger corporation, partnering may be extended to companies with a strategic fit and at a more proven stage of development for the product or the company. Partnering is usually done via a formal procurement, joint venture or strategic alliance, or distribution agreement. Actual funding may be provided or just directed business or commissions. Expertise is also usually contributed, and sometimes use of assets. Partnering with a large corporation adds credibility in the marketplace to a smaller business and fresh offerings to extend their product line and new approaches to the large partner.

Cost of Equity. The cost of equity to a company is the return equity investors require to invest in a company's stock. The cost of equity, or the return investors in the major U.S. stock markets expect, is the current risk-free 3 month Treasury bill rate of 6% plus the U.S. equity risk premium of 6% for a total of 12%. This is the return stock market investors expect from a diverse portfolio of U.S. stocks. For any one stock, the risk may be higher or lower.

The risk in Indian country is higher than in the U.S., largely due to the Tribe's sovereign nature, and also due to the Indian country economy which shares many characteristics with riskier emerging economies of developing countries. Therefore the return that equity investors require will likely be higher than that required for many similar investments outside Indian lands.

Credit Analysis. Assessment of the borrower's financial capability to repay debt.

Credit History. Record of a borrower's previous track record in meeting its financial obligations.

Credit Unions. Non-profit financial institutions owned by members who have something in common. You must be within the credit union's field of membership to join a credit union. All individuals must share a common bond with one another either in a single group, a multiple group or a community credit union. There are three types of common bonds. 1) *Work-related:* If your employer belongs to a credit union, you should be eligible to join. 2) *Mutual interest:* Your house of worship or local community group may have started or may belong to a credit union you can join. 3) *Where you live:* Your neighborhood or county may have established a community credit union for all people living within your geographic area.

Credit unions operate under federal or state laws. Many offer a variety of services such as share (savings) accounts, share draft (checking) accounts and ATM cards. Accounts in credit unions are insured. Most credit unions have their accounts insured by the federal government. Some state-chartered credit unions have private insurance.

Current Assets. Assets held in cash or which are convertible into cash within one year.

Current Liabilities. Liabilities of a company that will mature within one year or within the normal operating cycle of the business, whichever is longer.

Debenture. A debenture is a long-term debt obligation that is not secured by any specific collateral. Like any other creditor in an unsecured position, the debenture holder has a claim on any assets the business owns that are not already pledged as collateral.

Discounted Cash Flow (DCF). An analysis tool that permits comparison of investment alternatives by computing the net present values of their expected cash inflow and outflows using a specified discount rate. See also Net Present Value (NPV).

Distributions. Cash or stock returned to the limited partner after the general partner has exited the investment. Stock distributions are also called "in kind" distributions.

Dividends. Payments to each stockholder of a declared portion of profits.

Dow Jones Industrial Average (DJIA). The oldest stock index, the Dow consists of 30 very large industrial stocks which were originally created to be a bellweather for the economy.

Due Diligence. Doing your "homework" on a potential investment before closing a deal. Typically, it includes a review of management, the accounting and financials, customer relationships, contract/agreement/licensing/lease terms, and anything else deemed important to the future success and value of the business.

Earnings. A general term which means profit from the business. It is computed in the income statement by subtracting all expenses including taxes from sales. Also, referred to as 'the bottom line" since it appears at the bottom of the income statement. However, there are many intermediate forms of earnings, so it is wise to ask for clarification if it is not clear which type of earnings are being discussed.

Equity. Shares of common stock representing part ownership in a company. Each share includes that share's voting rights and right to receive that share of the profits as they are paid out in dividends or distributions. Stock is represented on the balance sheet at net book value, or assets net of all liabilities. Net book value represents the equity capital originally paid in plus profits less dividends or distributions. The market value of the stock may be more than or less than the book value, and is the value someone would pay for the stock. See also **Valuation**, **Fair Market Value**, **Market Capitalization**, and **Common Stock.**

Equity Risk Premium. This is the additional return that investors require to invest in equity vs. risk-free government securities stemming from the additional risks of equity ownership. Such risks include country risk, market risk, political risk, infrastructure adequacy, and sometimes liquidity or repatriation risk. Currently, the U.S equity risk premium is estimated at 6%, with the equity risk premium for developing countries increasing up to the most risky group of developing countries such as Russian and Indonesia at about 35%.

The equity risk premium is added to the government risk-free rate, the 3 month Treasury bill in the U.S., to get the cost of equity for the U.S. stock market. The cost of equity to a company is the return equity investors require to invest in a company's stock. The cost of equity, or the return investors in the major U.S. stock markets expect, is the current risk-free 3 month Treasury bill rate of 6% plus the U.S. equity risk premium of 6% for a total of 12%. This is the return stock market investors expect from a diverse portfolio of U.S. stocks. For any one stock, the risk may be higher or lower.

The risk in Indian country is higher than in the U.S., largely due to the Tribe's sovereign nature, and also due to the Indian country economy which shares many characteristics with riskier emerging economies of developing countries. Therefore the return that equity investors require will likely be higher than that required for many similar investments outside Indian lands.

Exit. Sale of the equity owned in order to realize the equity investor's return. This typically is accomplished by doing another round of financing which replaces an earlier one, taking the company public in an IPO, merging with or being acquired by another company, or being bought out by management or another investor.

Fair Market Value. The price at which a transaction would take place between a willing buyer and a willing seller, each with possession of the facts, and neither under any compulsion to buy or sell.

Financial Institutions. Businesses, including banks, savings and loans, and credit unions, that provide services such as checking accounts, savings accounts, loans and more.

Financial Plan or Projections. Financial projections of expected future performance, usually over 5-10 years. The financial plan usually also includes a more detailed financial budget for the first year, often month-by-month or quarter-by-quarter. An income statement (profit & loss), balance sheet, and cash flow statement should ideally be prepared.

Financial Ratios. The fixed or approximate relation between financial data. The following are generally used financial ratios:

Current Ratio. Current assets divided by current liabilities. Current ratio is a common financial analysis tool used to measure the liquidity of a business.

Quick Ratio (Net). The total of cash, receivables and marketable securities divided by current liabilities. A measure of the liquidity of a company that is more stringent than the frequently use current ratio, which includes inventory and prepaid expenses in the calculation.

Working Capital (Net). Current assets less current liabilities. See Current Ratio and Quick Ratio (Net) above.

Price/Earnings Ratio. The market value of a company expressed as a multiple of its earnings for the most recent calendar/fiscal year or last 12 months. This ratio is used as a convenient way of comparing the share values of companies in similar industries. See **Capitalization Rate**.

Debt to Equity Ratio. Total liabilities divided by total stockholders' equity. This ratio is a common investment analysis tool used to measure the degree of leverage a company uses. Variations of this ratio are derived by excluding certain categories of debt or equity from the calculation (e.g., subordinated debt may be included in equity). See **Debt to Equity Tests**.

Financial Statement. Written record of the financial status of an individual, association, or business organization. The financial statement includes a balance sheet and an income statement and may also include a cash flow statement.

Founder, Family, and Friends (The 3 Fs). Those most likely to invest earliest in a business, internal resources and those close to you.

Free cash flow (FCF). Cash flow after reinvestment needs. See also Discounted Cash Flow (DCF).

Fund. The dominant form of equity investors, usually owned by a limited partnership. There have long been private equity funds and venture capital funds, and more recently angel investor networks and funds are forming. The fund is funded by institutional investors who need a good return on their money and is managed by professional equity investment managers who are experienced in equity investments and often in company management and entrepreneurship, as well as in the industries invested in. Venture capital and private equity partnerships usually have more than one fund.

Fund of Funds. A private equity fund which invests in other private equity funds rather than directly into companies.

General Partner. The fund manager. Only the general partner in a limited partnership can have an active role in management so that the limited partners can enjoy limited liability.

Guarantee of Payment. A pledge by a corporation or individual to provide repayment of a loan.

Income Statement. Part of the financial statements, the income statement records sales and all costs to arrive at income. Also called a **Profit & Loss (P&L) Statement.**

Incubators. Provide space, services, technical and business expertise, contacts, and a very small investment. Sometimes entrepreneurs with only an idea are put on the incubator payroll while they develop the company. Meant to jump-start new companies from scratch to the stage where they can receive another round of money.

Individual Trust or Restricted Land. Real property held in trust or restricted status by the federal government for individual tribal members may be mortgaged with the approval of the Secretary of the Interior, and may be subject to lien and foreclosure.[1] In 1956, Congress explicitly authorized mortgages and foreclosures of individual allotments[2]

"to encourage individual Indian landholders to utilize commercial credit to the maximum extent possible," to encourage the extension of that credit by
reassuring lenders that they could obtain foreclosurable first mortgages on trust lands, and to clarify that the federal government would not be a necessary party or retain any claim to the land after a foreclosure sale.[3]

The law clearly states that individual trust or restricted land can be mortgaged, and, with the consent of the Secretary of the Interior, can be sold to a person who is not a member of the tribe if foreclosure is inevitable or the property cannot be transferred within the tribe. The non-tribal member would receive a fee simple interest in the land. To obtain the Secretary's consent, a bank must gain the approval of the BIA.

Initial Public Offering (IPO). Called going public, an initial public offering is the first time a company's securities have been offered on publicly traded stock exchanges. Initial public offerings are structured by investment bankers who underwrite the offering.

Interest Rate. The ongoing cost set by a lending institution for the use of its money, usually expressed as an annual percentage.

[1] 25 USC § 483.a.

[2] An "allotment is land that was removed from tribal ownership and given to individual members of the tribe by the federal government during the late nineteenth and twentieth centuries. Today, this land is generally held by the descendants of the "allottee" as individual trust or restricted land.

[3] *Northwest S.D. Prod. Credit Ass'n v. Smith,* 784 F.2d 323, 326 (8th Cir. 1986), quoting S. Rep. No. 1647, 84th Cong., 2d Sess., reprinted in 1956 U.S.C.C.A.N. 2304-05.

Internal Funds. Funding out of retained earnings from the business's own operations.

Internal Rate of Return (IRR). The discount rate, or rate of return, which causes net present value of the investment or project to be equal to 0. See also **Net Present Value.**

IPO. See **Initial Public Offering.**

IRR. See **Internal Rate of Return.**

Joint Venture. A legal entity comprised of two or more parties working together on a project, usually limited to one project. Joint ventures may be represented in different forms of ownership.

LBO (Leveraged Buyout). Acquiring a company with mostly debt and only a little equity. Management might buy out the old stockholders or an LBO investment firm might buy the old stock.

Letter of Credit. An instrument or document issued by a bank guaranteeing the payment of a customer's drafts up to a stated amount for a specified period for which the customer is charged a fee.

Limited Partners. The partners putting up most of the money for equity funds to invest. These are often institutional investors such as pension funds, endowments; individual investors; banks; utilities; insurance companies; and others. They do not take an active role in the limited partnership, and they enjoy limited liability – their loss is limited to their investment and they are not personally liable for the partnership's actions. Distributions of cash or stock from exited investments are taxable only at the personal level, which for tax-exempt investors is not at all.

Line of Credit. Under a line of credit agreement, the bank provides a business access to a certain maximum short-term loan amount, available at the request of the business. The business may draw on the line when necessary and repay when the funds are no longer needed. Lines of credit are designed to finance specific business needs, such as seasonal build-ups in inventories or receivables.

Liquidity. Amount of assets in cash or cash equivalents in excess of short-run liabilities.

Liquidity Discount. See **Marketability Discount.**

Living Dead. Moderately or poorly performing companies backed by venture capitalists or angels.

Loan. Transaction wherein an owner of property, called the lender, allows another party, the borrower, to use the property. The borrower customarily promises to return the property after a specified period with payment for its use, called interest.

Loan Term. The amount of time over which a borrower is expected to repay the loan.

Loan-to-Value Ratio. The ratio of money a lender is willing to loan relative to the appraised value of the property. Maximum loan-to-value ratios have been specified by banking regulators.

M&A. Mergers and **Acquisitions.**

MBO (Management Buyout). A leveraged buyout in which the management team buys the company with the help of equity investors and mostly debt financing. A special case of LBO in which management buys out as much of the equity as possible and continues to run the company.

Management Fee. A fee, usually 1% to 2%, paid to an investment fund for managing assets to invest in stated investments, for example, equity or venture capital.

Market Capitalization. Sometimes called "market cap" for short, this is the total market value of all outstanding shares of stock selling on stock exchange(s). It is the price per share times the number of shares outstanding.

Marketability Discount. The discount from the value of comparable publicly-traded peer companies due to lack of a ready market for privately-held stock which does not trade over the stock exchanges. The marketability discount is higher if the company is in some way unattractive to potential investors, and lower for a profitable, growing company or one with a strong market position which would be more attractive to buyers. Also called a discount for lack of liquidity.

Merger. Two companies exchange stock for stock in a newly created combined entity, usually affectionately called Newco while the deal is being structured. The exchange of stock is tax-exempt. This is often used when companies wish to combine in a 'merger of equals' rather than one buying the other. See also **Acquisition.**

Mezzanine Financing. This is financing of lower risk than venture capital, but higher risk than established public companies. It can be composed of subordinated debt, equity, preferred stock, combinations of the above or hybrids such as convertible bonds or convertible preferred stock. It is often used as a bridge between venture capital or private equity and going public.

Minority Interest. Less than 50% ownership interest is referred to as a **Minority Interest.**

Minority Stockholder. Stockholders with less than 50% ownership.

Mortgage. A mortgage is a long-term debt instrument secured by a specific piece of real property, such as land or a building, which is the collateral. It may be a first mortgage, whereby the lender has a first lien (first claim on the collateral) or a second, third, fourth, etc., mortgage, where the lender has a lien junior to the preceding mortgage(s).

Native American Housing Assistance and Self-Determination Act of 1996. The NAHASDA, which became effective October 1, 1997, separates Indian housing assistance from public housing assistance. One of its major objectives is to promote the development of private capital markets in Indian country and to allow such markets to operate and grow.

The Secretary of HUD, through ONAP, implements NAHASDA. Each fiscal year, the HUD Secretary will make block grants to Indian tribes that have submitted Indian housing plans that comply with the requirements of the program. With the block grant funds, recipient tribes will have the flexibility to design new programs, continue existing programs, and leverage additional housing resources through public-private partnerships with private lenders.

Net Book Value. Stock is represented on the balance sheet at net book value, or assets net of all liabilities. Net book value represents the equity capital originally paid in plus profits less dividends or distributions. Also called **Net Worth, Owner's Equity,** and **Shareholder's Equity.**

Net Present Value (NPV) Method. An analysis tool that permits comparison of investment alternatives by computing the net present values of their expected cash inflow and outflows using a specified discount rate. See also **Projections** and **Discounted Cash Flow (DCF).**

Net Worth. The value of assets over and above the liabilities of an individual or business. Also called **Net Book Value**, **Owner's Equity,** and **Shareholder's Equity.**

No Interest Loan. A loan, primarily from a public sector program, for which the lender does not charge interest. Repayment of the loan may be made in periodic payments or in one lump sum at the due date.

Non-Bank Institution. A non-depository institution such as a mortgage banker, life insurance company, or community loan fund which provides credit for housing needs.

Operating Cash Flow. Earnings before interest expense, tax expense, and depreciation, depletion, and amortization expense. Also called EBITDDA or EBDIT.

Operating Earnings. Earnings before interest and tax expense. Also called EBIT.

Organic Growth. Growth from within without acquiring other businesses.

Owner's Equity. Stock is represented on the balance sheet at net book value, or assets net of all liabilities. Net book value represents the equity capital originally paid in plus profits less dividends or distributions. Also **called Shareholder's Equity**, **Net Worth** and **Net Book Value**.

Partnership. Legal entity formed by a contract between two or more people or firms in a joint business who agree to pool their funds and talents and share in the profits and losses of the enterprise.

Patient Equity. Long-term equity investment, for equity and venture capital funds, usually 5-7 years.

Portfolio. The group of investments an investor or an investment fund makes.

Preferred stock. This is stock with preference over common stock in the case of liquidation or bankruptcy. It also receives dividends first before common stock. If it is cumulative preferred stock, then if dividends have not been paid, the preferred dividends accrue and must be paid before common stock dividends can be paid. Additionally, preferred stock carries a much higher dividend rate than common stock does, and is more likely to pay dividends. Preferred stock may carry voting rights.

Private Equity. The category of stock investment in a privately-held (also called closely-held) company whose stock is not traded on any public stock exchange. Technically, the name applies to any stock investment in any non-publicly traded company, but as venture capital and other early-stage sources of equity have proliferated, the term has come to refer primarily to larger, later-stage investments in expansion, consolidation, buyouts, and mergers & acquisitions.

Private Placement of Equity. This is selling stock to a private equity fund or a group of accredited investors without going public. Usually these are larger investments provided to existing companies with a good history. Capital provided is often used to fund growth to the next level – for example, opening other locations, expanding nationwide or internationally, introducing a new product, scaling up operations to serve a new, large customer. May also provide capital for a merger or acquisition, for example, to buy one or more competitors or companies who fit a need in growing or rounding out the business. Private equity is sometimes used as a last step in growing a company sufficiently to take it public in an initial public offering (IPO) of stock in the stock market.

Pro Forma Financial Statement. A financial statement adjusted for the planned effects and use of proceeds of a proposed financing transaction.

Pro Forma Income and Expenses. Statement showing the projected annual income and operating expenses of a project. See also **Financial Projections.**

Profit and Loss (P&L) Statement. Part of the financial statements, the income statement records sales and all costs to arrive at income. Also called an **Income Statement.**

Projections. A forecast of the future as management sees it. Projections usually refer to financial projections of expected future performance, usually over 5-10 years. However, projections are done of expected sales called marketing projections as well to provide the basis for the financial projections. Strategic plans also impact the marketing and financial projections.

Public Company. A company with stock traded on public stock exchanges like the New York Stock Exchange (NYSE) , American Stock Exchange (ASE), and NASDAQ.

Publicly Traded. Stock traded in public stock exchanges.

Rate of Return. Measure of the profitability of a project, business, or investment; usually calculated on an annual basis. Determined by dividing the income earned by the amount of investment in the project. See also **Return on Investment** and **Return on Equity.**

Recapitalizing. Whenever there is any change in the overall composition of the debt and equity structure of a business, it's referred to as a recapitalization. In many cases, recapitalizations involve the conversion of debt securities to equity securities. They can occur because of financial problems or voluntary actions, such as a business owner converting some of this common stock into preferred stock. Other common recapitalizations are stock splits and stock dividends. Sometimes referred to as a 'recap'.

Regulation A. Allows most types of companies to raise up to $5,000,000 in a year exempt from registration of securities under the Securities Act of 1933 when doing a private placement of equity without restrictions on investor type. Legal advice should be sought regarding these types of offerings.

Regulation D. Allows specific exemptions from registration of securities otherwise required under the Securities Act of 1933 when doing private placements of equity if certain conditions are met and limits observed.

There are 3 specific rules which describe the exemptions possible – Rule 504, 505, and 506. Rule 504 allows up to $1,000,000 in stock to be sold in a year with very few limits on the number or nature of investors. Rule 505 allows for the sale of up to $5,000,000 in a year to an unlimited number of accredited investors and up to 35 unaccredited investors. This rule is consistent with many state securities laws. Rule 506 allows the sale of an unlimited amount of stock to accredited investors and up to 35 unaccredited, but sophisticated, investors. These terms have precise definitions and legal advice should be sought regarding these types of offerings.

Return on Equity (ROE). The return to equity investors. The return on equity will be different from the return on investment (ROI) only if there are additional investors of a different type –say debt investors, or equity investors who bought equity at a different time. See also **Rate of Return, Return on Investment (ROI), and Internal Rate of Return (IRR).**

Return on Investment (ROI). The return to all investors in an investment, project, or business; providing equity and debt including loans. The term is also commonly used to refer to one's own return. For equity investment *where that is the only investment,* such as angel investment or venture capital, it would be the return to those providing equity. See also **Rate of Return, Return on Equity (ROE)** and **Internal Rate of Return (IRR).**

Return on Time (ROT). The speed with which the investment can be grown far enough to exit and earn a return. More a concept than a number, it refers to the strong effect time has on the return on investment.

Risk and Cost-Based Pricing. Banks sometimes assert that the risks or costs associated with making loans to people on a reservation are higher than those associated with loans to people located elsewhere. For example, the BIA approval process may increase the cost of making a mortgage. Banks, therefore, may assert a need to price loan products higher if the borrower resides on an Indian reservation.

Lenders may consider risk and cost in setting prices and other terms and conditions for loans. However, pricing policies should be based on legitimate risk and cost factors; they should not be hypothetical or speculative, or based on generalized assumptions. Pricing policies should be evaluated to ensure that pricing differences are supported by documented differences in risks and costs and are applied in a nondiscriminatory manner. See also **Equity Risk Premium.**

Risk-Based Capital Requirements. Banking regulations which force lenders to place money in reserve against each loan made. The funds placed in reserve are adjusted for the risk of the loan so that the amount set aside in reserve increases as the risk of a loan increases.

Rollup. This is an investment strategy for a fragmented or consolidating industry in which a LBO buyout fund acquires numerous small players in an industry, combines them, to become a leading or dominant player in that industry, and then often takes the larger entity public. This is also known as a **Consolidation.**

Round. Refers to round of financing, typically from venture capitalists. Now, increasingly incubators or angel investors are financing early rounds. Each round adds to or takes out the last round.

Rural Housing Native American Pilot Loan Program, Department of Agriculture. The Rural Housing Native American Pilot (RHNAP) Loan Program was jointly developed by the Rural Housing Service (RHS) and Fannie Mae. In this program, the RHS guarantees loans made on tribal land. The pilot is modeled after the Section 502 Guaranteed Rural Housing (GRH) loan program, which was modified to work on trust lands. The loans are 30-year fixed rate loans and can be for the purchase of existing homes or for new construction. The loan can be for 100 percent of the value of the property.

S&P 500. The Standard & Poor's 500 Index is most commonly used as the benchmark stock index to approximate the U.S. stock market. It consists of 500 different actively traded large company stocks in diverse industries.

Savings and Loan Associations (S&Ls). Financial institutions similar to banks. An S&L is a financial intermediary which receives savings and traditionally reinvests those savings mainly in mortgage loans. Federally insured S&Ls display the logo of the FDIC.

Savings Bank. A financial intermediary which receives savings and invests those deposits in mortgages and other securities allowed by law.

SCOR (Small Corporate Offering Registration). A way to offer up to $1 million in stock to the public, if certain conditions are satisfied, under Rule 504 of Regulation D. This is also called a ULOR, or Uniform Limited Offering Registration, in some states.

Secondary Market. To help increase mortgage lending in Indian country, banks may obtain capital by packaging mortgage loans made in programs especially for Native Americans and selling them on the secondary market. Fannie Mae and Freddie Mac (Federal Home Loan Mortgage Corporation) are government-sponsored enterprises that buy mortgage loans made to Native Americans.

Fannie Mae. A federally chartered private corporation with the public mission of promoting housing for all Americans by attracting investment capital into mortgage lending.

Freddie Mac. A federally chartered private corporation established by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of home ownership and rental housing.

Section 184, Department of Housing and Urban Development. Under the provisions of Section 184 of the Housing and Community Development Act of 1992, Congress created the Section 184 Loan Guarantee Program to increase the availability of mortgage capital in Indian country. The program covers single-family residential loans made by eligible lenders to eligible Native Americans whose home sites are on Indian land. Commercial structures are not eligible for the Section 184 program. The guarantee covers 100 percent of the outstanding principal and interest as well as other necessary and allowable expenses. Borrowers make a modest down payment and pay a fee of 1 percent for the guarantee. The required terms and uses of the loan are flexible so that they may be tailored to the needs of the individual borrower.

Security. Real or personal property collateral used to back up a mortgage or lien, which gives the lender tangible property that may be sold upon default to pay off the indebtedness.

Seed-Stage, Seed Capital. Companies in the seed stage are just getting started, and may be no more than an idea and an entrepreneur, or may be closer to demonstrating the success of a prototype. Seed capital is the earliest outside money to support the growth of the seed investment.

Shareholder's Equity. Stock is represented on the balance sheet at net book value, or assets net of all liabilities. Net book value represents the equity capital originally paid in plus profits less dividends or distributions. Also called Owner's Equity, Net Worth, and Net Book Value.

Socially-Responsible Investments. Investing only in equity investments which meet one's social values – often looking for companies with a good diversity, environmental, ethical, or community support record. Investments in companies operating in harmful industries or producing dangerous or socially undesirable products are usually excluded from consideration. Examples include tobacco, alcohol, and certain types of defense businesses.

Sources and Uses of Funds. A schedule submitted as part of a financing application that identifies the different sources of funding and provides a line-item identification of how those funds will be used.

Sovereign Immunity of the Tribes. Indian tribes are sovereign entities with the power of self-government within the United States. This status comes form their sovereignty as aboriginal peoples and from their relationship with the federal government under statutes, treaties, and other agreements. Sovereign immunity prevents a court from entering orders against the tribe itself in the absence of an effective waiver, but it does not extend to the rights of individual tribal members. The principle that tribes enjoy the sovereign's common law immunity from suit is well established. The immunity extends to agencies of the tribes.

Strategic Plan. An output of the strategic planning process. Management discusses their vision of the future, strategy to realize that vision, specific actions to implement the strategy, and expected outcomes. The strategic plan usually looks out five years or further. Strategic plans include market and sales forecasts, long-term financial projections, the capital budget with project projections, the annual operating budget for the next year, and the degree to which targets will be met. See also **Business Plan.**

Subordinated Debt. Debentures, a form of debt, which come after any senior debt claims, in the event of bankruptcy. They generally have a lower debt rating, often below institutional grade which institutional investors will consider safe investments, and so often carry a higher interest rate. These are often referred to as "sub debt" or "junk bonds".

Subordinated Loan. A loan that is repayable only after other debts with a higher claim have been satisfied.

Tax Credits. Tax benefits, granted for engaging in particular activities, that are subtracted on a dollar-for-dollar basis from taxes owed.

Thrift Institution. A financial intermediary that specializes in gathering the savings of individuals; savings and loan associations, savings banks, credit unions.

Tribal Enterprises. Tribally-owned businesses, ultimately owned by all tribal members.

Tribal Funds. Tribes have their own equity funds from substantial income from gaming, natural resources and royalties, tribal enterprises and investments, and other sources. Frequently, tribes will reinvest in other tribal enterprises or Native American-owned businesses on the reservation or which will employ Native Americans from the reservation. However they do not necessarily reinvest in their own tribe. And sometimes when they do invest, the motivations are mixed. They invest for a financial return, but also to create jobs for tribal members on the reservation, and often only in businesses which fit tribal culture – often socially-responsible investments.

Tribal Civil Jurisdiction. Except in certain states, tribal courts have exclusive jurisdiction over a suit by any person against an Indian for a claim arising in Indian country. Public Law 280 provides that certain state courts have jurisdiction to adjudicate disputes in Indian country located in those states. This law generally applies, with some specific exceptions, to Alaska, California, Minnesota, Nebraska, Oregon, and Wisconsin. Other states have asserted optional jurisdiction under Public Law 280.

Tribal Sovereignty. Before the Europeans settled in America, Indian tribes were sovereign political communities. Since the formation of the United States, the federal government has recognized Indian tribes as domestic dependent nations under its protection. The Constitution recognizes the sovereign status of Indian tribes by classing Indian treaties among the "supreme law of the land" and establishes Indian affairs as a uniquely federal area of concern. As domestic dependent nations, federally recognized Indian tribes, including Alaska Native villages, possess power to govern their members and their territory.

Banks must recognize tribal sovereignty when doing business with an Indian tribe or its members because the Supreme Court has recognized that Indian tribes have authority to license and regulate non-Indians engaging in commercial transactions with the tribe or its members.[4] Therefore, banks may be required to follow tribal law when conducting such commercial transactions.

In certain states, Congress has authorized the state courts to exercise civil jurisdiction over actions involving individual Indians in Indian country.[5] Public Law 280 may permit state courts to exercise jurisdiction in cases involving loans secured by the personal property of
individual Indians.[6] However, because Public Law 280 did not provide the states with the authority to encumber property held in trust by the United States for Indians,[7] mortgages on individual Indian trust land may not be foreclosed in state court.

[4] *Merrion v. Jicarilla Apache Tribe*, 455 U.S. 130, 144 (1982); Montana v. United States, 450 U.S. 544, 565 (1981).

[5] Act of Aug. 15, 1993, Pub. L. No. 280, 67 Stat. 588 (codified as amended at 18 USC § 1162, 25 USC §§ 1321-1326, and 28 USC § 1360) ("Public Law 280").

[6] It should be noted that Public Law 280 applies only to individual Indians and does not give state courts any jurisdiction over Indian tribes.

[7] 28 USC § 1360(b). The federal government has exclusive and protective jurisdiction over Indian trust land and Indian allotments, and federal approval is required for any alienation of Indian property.

[8] *Boisclair v. Superior Court*, 801 P.2d 305 (Cal. 1990).

Trust Land. This is land held in trust by the federal government, which holds the legal title, for the benefit of a tribe or individual. There are often restrictions on whether this land can be mortgaged. In the event of foreclosure, tribal trust land carries restrictions on transfers of title, especially to non-tribal members.

VA Direct Home Loans for Native American Veterans Living on Trust Lands. A Department of Veterans Affairs (VA) direct loan can be used to purchase, construct, or improve a home on Native American trust land. VA direct loans are generally limited to the cost of the home or $80,000, whichever is less.

VA Loan Guarantee Program. Eligible veterans, including Native American veterans, may apply for loans guaranteed by the VA. The guarantee program is intended to encourage lenders to offer all veterans loans with more favorable terms. VA-guaranteed loans are made by private lenders such as banks, savings and loan associations, or mortgage companies.

Valuation. The fair market value of a company's stock. In equity financing, the valuation sets the price per share investors will pay to buy stock and thus their percent ownership, and the amount per share that the owner(s) will receive for selling some of the company's stock.

Value. The worth of a property as established by the willingness of a buyer to purchase it and a seller to sell it under terms accepted by both, both being fully informed of market conditions.

Venture Capitalists. Private equity fund investors who invest in small, fast-growing
companies. Sometimes they come in at an early stage of the company's formation, but increasingly are looking for much larger investments in companies with some track record, or with management with a stellar track record. They are only interested in extremely high-growth, usually high-tech, companies in a huge market. Investments usually range from $1 million to the tens of millions. Traditional venture capitalist funds hope to return their money several times over in a few years. In addition to money, they are highly valued for their advice, contacts, expertise, and savvy at identifying strong new companies. Venture capitalists often co-invest with others.

Working Capital. Cash and other assets which can be converted to cash quickly net of any liabilities due soon. The calculation is current assets minus current liabilities.

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