

U. S. Department of the Interior  
Assistant Secretary—Indian Affairs  
Office of Indian Energy and Economic Development  
Division of Economic Development

Tribal Economic Development Principles at a Glance Series

# Tips for Tribal Economic Development Directors



*This is the eighth in a series of economic development primers produced by the Division of Economic Development (DED), Indian Affairs Office of Indian Energy and Economic Development (IEED), to offer answers to fundamental questions about creating jobs and expanding economies in tribal communities.*

*If you would like to discuss economic development matters in more detail, please contact the DED at (202) 219-0740.*

## **I have just been hired as a tribal economic development director. What should be my first steps?**

Start with an assessment of your community's economy by obtaining baseline economic information regarding unemployment, underemployment, and labor participation rates. For example, determine how many tribal members work in the community and how many must travel outside of it for jobs, identify the largest employers in the community and their prospects for growth, and learn about what types of services are offered in the community and what services tribal members must leave the community to obtain.

In addition, determine what steps the tribal government can take in order to create a business environment that encourages outside investment. If the tribal government is unstable and has an underdeveloped legal infrastructure, outside capital will be difficult to attract.

Also, determine whether the tribe has adopted a secured transactions code and, if so, whether liens attached pursuant to the code are recorded in a state registry. Become familiar with secured transactions codes and their role in increasing tribal members' ability to use credit to purchase the equipment, furniture, and vehicles needed to start or sustain a business.<sup>1</sup> Encourage tribal leadership to adopt the Model Tribal Secured Transactions Act (MTSTA), if they have not already done so, and encourage them to enter into a joint powers agreement, memorandum of understanding, or compact with the state to register liens arising from the code. For the MTSTA to have an effect there must be a means to enforce it. Determine what other codes, if any, the tribe has adopted to facilitate investment, lending, and business development and expansion.

Finally, find out where tribal entrepreneurs and would-be entrepreneurs can obtain financing for their businesses. Does the community have a Community Development Financial Institution (CDFI) or other sources of capital? Are there nearby banks where tribal members deposit their savings? Do those banks regularly lend to tribal members? If not, why not? Acquaint yourself with how tribal and Native-owned businesses can obtain financing.<sup>2</sup> Identify businesses that are eligible for the Indian Loan Guarantee Program and other federal sources of capital.

<sup>1</sup> Consult DED's online primer, "Why Tribes Should Adopt a Secured Transactions Code" at <http://www.bia.gov/cs/groups/xbia/documents/document/idc1-032812.pdf>.

<sup>2</sup> Consult DED's online primer, "Financing a Tribal or Native Owned Business" at <http://www.bia.gov/cs/groups/xbia/documents/document/idc2-046402.pdf>

## **What do I do next?**

Meet with tribal leaders, tribal members, and other stakeholders to determine the economic goals of the tribe. Also determine what kind of economic opportunities tribal members want for future generations.

Goals might include developing a “business friendly” environment, thereby making it easier for tribal members to obtain products and services locally, and finding ways to circulate dollars within the tribal economy. Then, develop a realistic strategy to achieve those goals over a 10-to-20-year horizon.<sup>3</sup>

Your initial assessment of your community’s economic strengths and weaknesses will inform this planning. If tribal members must travel outside their community to obtain jobs or services, determine whether these also can be established in the community.

## **How much time should I spend applying for grants?**

Keep in mind that a “grant writer” and an “economic development director” are two different jobs. The tribe should employ someone who is responsible for tracking federal, state, and private grant opportunities and applying for those that correlate with the tribe’s long-range economic plan. However, your tribe’s economic model should not be dependent upon obtaining grants.

Grant originators may advocate economic development priorities that conflict with those of your tribe. Your community’s economic destiny ultimately lies in the hands of its members and leaders. So relying solely on grants is an unsustainable strategy that may frustrate tribal self-governance.

Your tribe can reduce its dependence on outside funding by developing profit-making tribal businesses. This is called an “enterprise strategy.”

<sup>3</sup> Consult DED’s online primer, “Comprehensive Tribal Community Planning” at <http://www.bia.gov/cs/groups/xbia/documents/document/idc1-032916.pdf>.

## How can we embark on an “enterprise strategy”?

Tribes can and should establish diverse businesses. Consult with your tribe’s attorney about how these businesses should be structured to address state and federal tax requirements and regulations, if any, and to preserve tribal assets.<sup>4</sup> Consider starting tribal businesses that offer services or products that tribal members would otherwise have to travel outside the community to obtain. Also consider launching tribal businesses that leverage tribal tax and procurement advantages.<sup>5</sup>

To avoid investing in an enterprise with a high risk of failure, consider retaining a disinterested and credentialed third party, such as a university or economic development consulting firm, to conduct a feasibility study to identify the types of businesses that are likely to prosper in your community.<sup>6</sup>

## What is the tribal government’s role with respect to tribal businesses?

According to research done by the Harvard Project on American Indian Economic Development<sup>7</sup> and others, tribal businesses whose management is separated from tribal electoral politics have the best chance of succeeding.

While the tribal government appoints the tribal business’s board of directors and approves its initial operating plan, it should then allow the business to make hiring and day-to-day operation decisions. Tribal businesses that become politicized create an uncertain environment for investment. Outside investors, partners, and lenders seek stability and might be hesitant to invest in tribal businesses where management changes occur after tribal elections or whose tribal government interferes with the business’s operations. As the Harvard Project explains,

*Enterprises that are insulated from political pressures are more successful. Where political leaders can interfere directly in enterprises, pressures tend to mount for them to do so—to the detriment of performance. Conversely, where mechanisms exist to separate strategic (that is, political) decision-making from operational (that is, managerial) decision-making, enterprises seem to perform better.<sup>8</sup>*

Perhaps the most damaging kind of tribal government intrusion into a tribal business occurs when political pressures, rather than sound business decisions, determine who is employed at the business.

<sup>4</sup> Consult DED’s online primer, “Choosing a Tribal Business Structure” at <http://www.bia.gov/cs/groups/xbia/documents/document/idc1-032915.pdf>.

<sup>5</sup> Consult DED’s online primer, “Procurement Opportunities for Federally Recognized Tribes” at <http://www.bia.gov/cs/groups/xbia/documents/document/idc1-032811.pdf>.

<sup>6</sup> Consult DED’s online primer, “The Importance of Feasibility Studies for Federally Recognized Tribes,” <http://www.bia.gov/cs/groups/xbia/documents/document/idc1-029888.pdf>.

<sup>7</sup> The Harvard Project is an academic center located in the John F. Kennedy School of Government at Harvard University that studies prosperous Native economies to determine what makes them successful. For more information, visit [www.hpaied.org](http://www.hpaied.org).

<sup>8</sup> Miriam Jorgenson and Jonathan Taylor, “What Determines Indian Economic Success? Evidence from Tribal and Individual Indian Enterprises,” June 2003, at 13.

## **How can a tribal government retain control of a tribal business?**

The tribal government should: Control, fund, and share in the profits of the business; select its board of directors; enact uniform rules to govern the business; require the business to provide regular financial reports to the tribe; choose an independent accounting firm to audit the business; and retain the option to revoke the business's charter and fire its board members at will.

## **What can be done at the outset to help a tribal business succeed?**

The tribal business should prepare a strategic plan annually. Tribal leadership can use the plan to hold the business's board of directors accountable for achieving goals outlined in the plan. Tribal leadership should also require that the board of directors provide regular, detailed reports on the company's operations and finances.

## **How should I deal with development proposals?**

Outside promoters, tribal leaders, and tribal members often bring development project proposals to the tribe. When this occurs, a development proposal's first stop is often the economic development director's desk. Upon receiving a proposal, you should determine whether the proposal is consistent with the comprehensive 10-to-20-year plan that the tribe has adopted. If it conflicts with the tribe's long-range economic priorities, the proposal should be rejected.

However, even proposals that are consistent with the tribal plan should be scrutinized. Oftentimes, tribal leaders lack the expertise to know for certain whether a proposed economic development project, opportunity, enterprise, business, or technology will succeed or become a costly failure. Just as a tribe is well served by retaining an outsider to conduct a feasibility study before launching a tribal business, it should consider arranging for an impartial and qualified third party to conduct a feasibility study to determine whether a development proposal is worth pursuing. Such studies should assess a project's market, technical, and financial feasibility. They can also assess a promoter's reliability and the credibility of his or her claims.

Feasibility studies empower tribes to make informed decisions regarding their economic futures by distinguishing viable economic opportunities from investments and enterprises that are likely to fail. They may also serve as third-party due diligence documentation for tribal businesses seeking capital, federal or state grants, or other kinds of project funding. An economic development feasibility study performed by a reputable third party can often fulfill many of a lender's or investor's due diligence requirements by answering questions they might have about a project's chances of success. When the lender or investor concludes there is a chance that the project will not succeed, they may avoid financing it altogether or may adjust the loan repayment terms to reflect the perceived higher risk of failure.

## **Are there any other cautions to observe about development project proposals?**

It is important to remember that economies are built one project at a time, with some projects attracting related businesses and gradually creating a network of enterprises that are interdependent and place-based. As the Harvard Project and Native Nations Institute have concluded,

*. . . the approach of looking for a big hit can be . . . damaging. It sets high expectations, demands extraordinary execution on many fronts at once, and often overtaxes human resources, particularly in smaller Native nations. And if the bet does not pay off, the failure diminishes investor and tribal confidence . . . . Evidence from Indian Country shows that most successful Native nations have taken another path, one predicated on exploiting local advantages and building on experience. These successful enterprises have started small while, at each stage, business managers and employees learn about the marketplace and develop new ways to capitalize on their knowledge.<sup>9</sup>*

You also should plan on grand openings, rather than ground-breakings, for your tribe's development projects because unanticipated problems and delays may arise between a project's conception and completion. By raising expectations and then deflating them, you may quickly lose the confidence of tribal leadership and its development partners.

## **Should my tribe encourage entrepreneurship?**

Yes. An independent business strategy should be a part of a diverse tribal economic development plan. Where there are many small local businesses, not only do tribal members have more opportunity to consume products and services close to home, but their dollars will circulate longer within the community.

<sup>9</sup> "Managing the Boundary between Business and Politics: Strategies for Improving the Chances for Success in Tribally Owned Enterprises," Kenneth Grant and Jonathan Taylor, *Rebuilding Native Nations*, University of Arizona Press, 2007, p. 192.

## **What can my tribe do to encourage entrepreneurship?**

You can start by identifying roadblocks to private business start-ups. For example, does the tribe lack an independent judicial system that can decide inevitable business disputes? Does it impose cumbersome and time-consuming permitting and business site leasing requirements? If so, tribal entrepreneurs might choose to open their businesses in nearby towns rather than in the community.

The tribe's goal should be to establish an environment conducive to creating and sustaining independent businesses. Some tribes with the financial resources to do so make available to entrepreneurs industrial parks and incubators, i.e., attractive business sites already plumbed for sanitation, water, electricity, and broadband service.

Tribal incubators usually consist of a single building with multiple, separate offices each occupied by separate, independent businesses. The theory behind incubators is that their tenants will assist and learn from one another, and even enter into joint ventures and other collaborative commercial relationships and transactions.

There are tribes that are able to provide low-interest financing for entrepreneurs who need seed money for their start-ups or expansions, or that employ staff to assist entrepreneurs in preparing business plans.

However, even a tribe with few resources can still take advantage of federal programs to train and increase the business knowledge of its emerging entrepreneurs. The Federal Deposit Insurance Corporation (FDIC) and the U.S. Small Business Administration (SBA) offer free, web-based training on how to start up and manage a small business.<sup>10</sup>

<sup>10</sup> "Money Smart – A Financial Education Program." <https://www.fdic.gov/consumers/consumer/moneysmart/business.html>.



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