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Author

Pottinger, Richard

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COMMENTARY

The American Indian Development Bank?

RICHARD POTTINGER

In late July 1990, the Senate Select Committee on Indian Affairs called a hearing for Senate bill 2770, the "Indian Finance Corporation Act."¹ This bill proposed the most significant innovation in economic development for Indian Country since the passage of the Indian Finance Act in 1974.² It would have established a "finance corporation" patterned after the development finance institutions found elsewhere in the world. An earlier version, the Indian Development Finance Corporation Act, did pass both houses of Congress, only to be vetoed by President Reagan in November 1988.³ That proposal would have made available up to \$140 million for private sector development under the direction of a public/private corporation jointly owned by the federal and Indian governments. Because of strong support within the Indian community for this bill, it was reintroduced, despite the veto, during the next session of Congress, by Senators Inouye (Hawaii) and McCain (Arizona), as S. 143.⁴ It never made it to the floor of the Senate. What follows is the saga of this opportunity nearly gained but subsequently lost.

Richard Pottinger earned a Ph. D. in anthropology from the University of Colorado and currently is a speculative builder near Boulder, Colorado.

During an initial hearing in 1989, Senator McCain, in conversation with Dr. Eddie Brown, the top official for the Bureau of Indian Affairs (BIA), expressed his belief that S. 143 could pass the Congress even over a presidential veto.⁵ There was sufficient support in both houses to meet this contingency. Nevertheless, an effort was made subsequently to confer with the BIA in an attempt to resolve technical and other issues. This led to the formulation of a new bill, S. 2770, now renamed the Indian Finance Corporation Act, the word *development* having been dropped from the title. The new name was an ominous indication of just how the bill had been rewritten.

As the hearing of 25 July 1990 opened, Senator Inouye expressed some optimism regarding a vote on S. 2770 that fall.⁶ By the end of the day, however, it was clear that the bill had little or no support in the Indian community, and it was left on the committee room floor. No further action was taken in that session of Congress. The most imaginative proposal in behalf of economic development in nearly two decades had been rejected by its intended beneficiaries. As this article is being written, no new measures have been introduced on the congressional calendar. The issue now lies dormant, although not necessarily defeated.

The rejection of S. 2770 poses a number of interesting questions. Why did the Indian community come to mistrust this bill after earlier supporting the development finance proposal? This setback has left an irritation in the Select Committee that is not likely to lead to new initiatives on the committee's part. Still, the House and Senate did approve the initial legislation with some enthusiasm, and they are quite likely to endorse any similar proposal that has the support of the Indian community. Is a development bank, patterned after extremely successful institutions like the World Bank, a workable strategy to assist Indian development? What should this institution actually look like? What should be its mission? These are the questions that will be explored here.

This article supports the position that an American Indian Development Bank could be a powerful force in solving problems of underdevelopment not unlike those found elsewhere in the world. The International Finance Corporation, a member of the World Bank family and the most admired of the world development institutions, will serve as a model.⁷ Two case studies, focusing on the Great Plains and the Southwest, will illustrate how this model can help meet development needs. The discussion will close with a renewed strategy and proposal for an American

Indian Development Bank. To the extent that the economic viability of the Indian community is central to its cultural continuity, this issue is of broad contemporary relevance. The discussion begins with an introduction to the fundamentals of business venture development.

BASIC FINANCE

Indian Country has been described as a “capital desert,”⁸ with an acute shortage of capital to finance business ventures even when profitable opportunities can be identified.⁹ Yet, across the “border” lies the deepest and largest single financial market in the world—the United States. The difficulty seems to be more in gaining access to this existing resource than in creating a new one. Even when Indian business ventures do get off the ground, they have difficulty coming up with a financial structure that is beneficial to their growth and development. They either have too little capital or pay too much for the financing they are able to secure. Three concepts, virtually common sense despite their technical terminology, are basic to a discussion of these problems: “optimal financial structure,” “intermediation,” and “financial leverage.” A brief overview follows.

Most homeowners have a mortgage, which usually is for thirty years and carries an interest rate of about 10 percent. A \$50,000 mortgage, with these terms, would require payments of about \$440 per month. A modest change in the interest rate can have a fairly dramatic effect on the amount that can be financed. If the interest rate were to fall to 8 percent, the same monthly payment, \$440, would finance a \$60,000 house. On the other hand, if the rate rose to 12 percent, the monthly payment would cover only a \$42,500 mortgage. If this home were financed as if it were a car, for five years instead of thirty, the payments would rise to \$950 per month. And if the house were charged on a credit card, the payment would increase to \$2,200 per month. Obviously, a thirty-year mortgage at 8 percent is the most reasonable option for most people. But would you buy a car on these terms?

Monthly payments on a \$10,000 car would be only \$75 per month with the equivalent of an 8 percent, thirty-year mortgage. These payments would, of course, continue for thirty years, probably long after the car had been scrapped. A conventional auto loan, at 12 percent for five years, would require payments of about

\$225 per month. This would rise to \$525 per month on a credit card, but only for two years. These examples illustrate common sense financial strategy: Get the lowest interest rate possible, but try to match the term of the loan to the reasonable life of the item being financed. A thirty-year mortgage at 8 percent for a home and a five-year auto loan at 12 percent would probably be an "optimal financial structure" for most of us. While it would be nice to get the car loan at 8 percent as well, the payments would only drop to about \$200 per month. The banker, however, would have to make six of these five-year car loans for every \$10,000 financed on a home mortgage with a life of thirty years. One \$60,000 mortgage is the equivalent of thirty-six auto loans. The banker charges the additional \$25 per month for the extra work and risk, which seems perfectly reasonable. While the problem is more complex for a business with a mix of buildings, equipment, and other financing needs, the principles stay much the same.

Many Indian businesses are unable to develop an optimal financial structure. It is not that the money is not available; rather it is not available at appropriate terms, at the right time, or at a reasonable cost. As a consequence, these businesses typically are "underfinanced"—forced to buy a smaller house than they might otherwise be able to afford. Two businesses, one operated in a non-Indian urban area and the other in Indian Country, might be virtually identical in every other respect, but the same \$440 monthly payment might provide the urban entrepreneur with \$60,000 in financing, while its Indian counterpart receives only \$42,500. Consequently, the Indian business will not reach its full potential in terms of employment and economic impact. Since there currently is only one bank in Indian Country, run by the BIA, the Indian entrepreneur cannot shop around for better terms. This entrepreneur may also have to accept any terms that are offered—for example, ten-year financing at 12 percent. With these terms, the \$440 monthly payment now provides only \$30,500 in financing, about half that of the urban competitor. The incapacity to optimize a financial structure has a chilling effect on business development.

The process of providing the financing needed by a business to develop an optimal financial structure is called financial intermediation. A commercial bank is a money retailer or wholesaler and is in business to make a profit. It "buys" money in large quantities and parcels it out in smaller lots, as required, to meet the needs of the consumer. The bank covers its expenses and makes a profit through the "point spread," the difference between the interest

rate it must pay on the money it buys and its "selling price," the interest rate it charges on its loans. This difference is usually two or three percentage points or even more, depending on the risk involved. A bank needs several good loans to cover the losses on a single bad loan; this assumes there is a house to foreclose or a car to repossess to recover the original principal. The bank then has to make even more good loans to cover the expenses incurred in this default process. As a consequence, bankers are notoriously cautious about lending money. This leads to a famous catch-22: You have to borrow money to establish a credit rating, but you have to have a favorable credit rating to borrow money.

The National Center for American Indian Enterprise Development, a management consulting group, found that none of their business clients were able to access the conventional credit markets.¹⁰ Even if an enterprising Indian entrepreneur obviously could earn \$50,000 a year driving a \$25,000 truck, he most likely would have to come up with the \$25,000 in cash or seek assistance from the BIA.

Banks borrow most of the money they lend, although some of the money they lend is their own. They pledge their own money as a measure of good faith, risking it along with what they borrow as a promise to lend prudently. This relationship between what is borrowed and what is owned is called *leverage*, and the ratio between what the banks borrow—their debt—and their own money—their equity—is called, reasonably enough, a *leverage ratio*, or sometimes a *debt-to-equity ratio* (what they owe:what they own). Leverage ratios of 10:1 or even 20:1 are not uncommon in banking. Herein lies the magic of this industry. It is possible to leverage an initial investment to many times that amount by borrowing from the credit markets. A bank with \$10 of its own money can borrow \$100 or even \$200 and lend it at a higher rate of interest.

The original Indian Development Finance Act proposal would have created a financial intermediary with a conservative financial structure, borrowing very little money relative to its own resources. It would have been prevented by charter from borrowing more than \$50 million of the \$140 million of its total assets. This is a leverage ratio of 0.6:1. The second proposal, S. 2770, would have authorized a leverage ratio of 5:1, nearly ten times as great. Fully leveraged, with \$525 million in borrowed funds, this finance corporation would have had potential assets—funds available to lend—of \$630 million. This difference in leverage ratios explains

why the initial Senate proposal would have created a \$140 million development bank and the second a \$630 million finance corporation. These financial institutions would have started about equally, with \$90 million in equity for the development bank and \$105 million for the finance corporation.

Although most of the money in the development proposal would have been the bank's own, contributed by the federal and Indian governments, most of the money in the second proposal, S. 2770, would have been borrowed, making the institution look much more like a commercial bank. The word *development* was appropriately dropped from the title of the act when this change was made. The difference in leverage ratios really creates an arbitrary distinction between the financial structure of a development bank, on the one hand, and a commercial bank, on the other. However, the difference in the degree of leveraging may or may not be consistent with a particular financing mission. This is a useful distinction to keep in mind when trying to structure development financing for an entire country—in this case, Indian Country.

As if this were not enough, S. 2770 also would have transferred the existing BIA financial programs, the BIA bank, to the Indian Finance Corporation. These include a revolving loan fund with assets of about \$150–200 million, as well as the existing BIA loan guarantee program, with authorization to guarantee up to \$500 million in loans other than its own. A modest development grant program is part of this package as well. The loan program was reported to be in serious trouble, with a default rate as high as 50 percent. The guarantee and grant programs were reported fiscally sound. These inclusions would have increased the resources available to this new organization to about \$1.25 billion.

A loan guarantee is a promise by the federal government to meet a loan obligation if for any reason the borrower is unable to do so. The federal government supports guarantee programs ranging from home mortgages to loans for college students, the Small Business Administration (SBA), and the BIA. On average, the BIA programs have provided about \$20 million in new loan guarantees, \$10 million in new direct loans, and \$5 million in grants each year. The SBA, which operates a comparable program for the non-Indian business community, has provided from \$2.4 billion to \$4 billion in new guarantees and \$100–200 million in direct loans each year, and has funded an array of grant and special programs that defies reasonable measurement.¹¹

On a population basis, the Indian community already has been getting its fair share of government support. The SBA programs have provided about \$10 worth of loan guarantees per American citizen per year, the BIA program about \$20 per capita. The direct loan program of the SBA has contributed the equivalent of about \$.80 per person compared to \$10 per person through the BIA program. However, the BIA programs have not been provided effective financial intermediation by the banking system. The business community elsewhere has access to other financing, other banks. In Indian Country, this is the only bank. The BIA programs rarely allow Indian businesses to tailor their financing to achieve an optimal financial structure. The solution to the problem is not simply to flood the territory with more money, but rather to improve access to the nation's other financial markets. What is needed are alternatives to, not more of, the BIA.

The existing BIA program essentially is a gatekeeping credit facility. It is understaffed and provides very little technical support. Further, it is unresponsive to the intermediation needs of Indian businesses seeking to establish an optimal financial structure, and through its existing loan guarantees it does little to help establish viable credit relations between Indian businesses and the private banks. Typically, the BIA does not pay off loan guarantees promptly when loans default and does not allow the loans so guaranteed to be sold in the secondary financial markets. Other government loan guarantees, such as for students, small businesses, or housing, have none of these deficiencies. The BIA loan window operates more like a student financial aid service in a college or university than a loan office of a bank. The student aid office qualifies an individual and then disburses the money. It acts essentially as a gatekeeper, keeping those who do not qualify away from the money rather than trying to seek out and help those most likely to benefit. College financial aid offices do little or nothing to assure that students will become academically successful. Obviously, that is someone else's job. The BIA's record in helping Indian businesses prosper is equally unimpressive, but, then again, what can be expected of a gatekeeper? This does not mean that the BIA programs should be scrapped, only that help needs to be found elsewhere.

What started out as a fairly good strategy for a development bank ended up as a mongrel cross between a commercial bank and a gatekeeper credit operation—not much of an improvement over the status quo. There is also the real possibility that S. 2770 could

have created a monster—an organization that would have had enormous, exclusive power over Indian business financing. Most of the money provided would have been borrowed. This would have effectively destroyed the focus and mission of the original development bank proposal. As financial institutions go, it was not a pretty sight.

What finally and fortuitously killed this initiative was the absence of any assurance that the organization would have been truly responsive to Indian development needs. The first, or development, proposal was eloquent in making the various Indian governmental units (tribes, bands, villages, nations) the principal shareholders, or owners, of the corporation. Sixty percent of the voting stock had to be owned by these entities. Six of the eleven voting directors were also to have been elected by the Indian shareholders. The federal government would have provided one director, and the remaining four would have come from outside federal or Indian government service. All of this was swept away with S. 2770. The eleven directors were to have been appointed by the secretary of the interior, ten directly and the eleventh indirectly as president of the corporation. The finance corporation would have been headquartered in Washington, D.C., with a number of additional offices throughout the country. No provision was made for an appeals process, something the existing program had. This initiative was correctly perceived for what it was, a gatekeeping commercial bank with too much power and too little accountability or incentive to constitute a meaningful improvement over the existing program. It was not a solution to the problem. Alternatives do exist, however, one of which is suggested by the example of the International Finance Corporation of the World Bank.

THE INTERNATIONAL FINANCE CORPORATION

The International Finance Corporation, created in 1956 by the World Bank, is probably the world's best model of how a private sector development bank should work. To be a member of the IFC and thereby eligible to participate in its activities as a borrower or a lender, a country must be a member of the World Bank. Only sovereign nations of the "free" world, those with capitalist financial systems or accommodations, are members of the World Bank. A country becomes a member by buying an interest or shares in the bank, thereby contributing to its capital. The World Bank makes

loans only to governments. However, by 1956 it had become clear that the private sector around the world could benefit from similar development intermediation. This led to the creation of the IFC.

The board of governors of the World Bank, composed of one representative from each country, also serves as the board of governors of the IFC. Typically, each governor is the top treasury official of his or her country. For the United States, this is the secretary of the treasury. With about 140 member nations, the board of governors is too large to be an effective executive group. The bank's solution to this problem is quite novel. The major lending countries—the United States, Japan, the United Kingdom, France, and Germany—all appoint executive directors. Another sixteen directors are elected by small groups of countries, typically groups with a commonality of interests. For example, Greece, Italy, and Portugal, as a group, elect from among themselves their shared representative to the executive board; Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Spain, Surinam, and Venezuela all elect and share a single representative. No member country is more than a phone call away from an executive director who in turn has direct access to the bank's or IFC's president. Appointments are for a year or two and are backed up by an alternate from a second country within the group, who often becomes the next director. Retiring directors usually return to a development agency within their home country, thus making their experience and contacts available for future projects. This works for the world; it might work in Indian Country as well.

The IFC has a very conservative financial structure; a large proportion of the money it lends is its own. Its debt-to-equity or leverage ratio is only about 1.3:1, although the institution's charter authorizes a leverage ratio as high as 4:1. It has had thirty-five years of experience in this business and has had the freedom to leverage itself more fully. Yet, in 1990, rather than borrowing more money to expand, it chose to raise funds by selling shares in itself instead. This will reduce its leverage ratio even more. The highest the IFC's leverage ratio has ever been is 2.27:1. It has worked steadily to reduce that rate to its present level of 1.3:1. The IFC has had the choice over several decades of operation to approach the financial structure of the first Indian development proposal, with its low, 0.6:1 leverage ratio, or that of the second proposal, S. 2770, with an authorized leverage ratio of 5:1. It has chosen the conservative option.

Since the IFC's mission is worldwide private sector develop-

ment, there appears to be no end to projects requiring attention and financing. Yet the corporation is operating at only about 60 percent of its authorized capitalization. Instead of operating with \$4 billion in assets as it is, it could be operating with nearly \$7 billion, simply by borrowing the additional \$3 billion authorized by its charter. But the directors, and the world, seem quite pleased by the IFC's current performance. A number of regional banks—the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank—are setting up “mini-IFCs” in emulation. Many countries have established their own development finance corporations patterned on the IFC. Presumably, this financial structure, with its low leverage ratio, is important for the successful operation of a development bank.

The rationale may lie in the differing returns to equity and to debt. Most of the IFC's equity is in the form of paid-in capital and retained earnings, the profits it has earned in past development ventures. This is “free” money. The IFC pays no interest on these funds. However, it does pay interest on its borrowed money, its debt. If, for example, it lent \$100 of its own money at 10 percent, it would earn \$10 in interest. If it lent \$100 of borrowed money at 10 percent, it would still make the \$10, but now it would have to pay interest out of that amount to its lender. If it borrowed that \$100 at 9 percent and then lent it at 10 percent, it would only make \$1 on the loan itself. It would have to lend \$1,000 of borrowed money to match the return from lending \$100 of its own money. Leverage works two ways. If the investment were to fail, the IFC would still have to pay back the \$1,000 it borrowed. Therefore, to make a \$10 return, the bank would have to risk losing \$1,000 of someone else's money, or \$100 of its own. Leverage multiplies the amount of money available for investment but also the amount at risk in the event of failure. Highly leveraged banks make very cautious bankers. On the other hand, economic development is a risky business.

American commercial banks often are leveraged to 30:1. At these ratios, it takes only a few bad loans to incur huge losses. Clearly, the IFC became uncomfortable at less than one-tenth this leverage ratio. But to fulfill its mission, the IFC must be prepared to support high-risk ventures that might drive a commercial banker to insolvency, or insanity. As a consequence, it invented a very different form of leverage, much to the developing world's admiration. Criticism of the IFC is almost impossible to find, either among the countries that provide most of the money it invests and lends or in

the developing world where its achievements are almost legendary. It also carries the "AAA" credit rating in the world financial markets, as do such corporate giants as General Electric and IBM. AT&T, on the other hand, has only an "AA" rating, not quite up to the IFC's standard. These ratings come only to those organizations that have demonstrated a complete mastery of their mission.

The most distinguishing characteristic of the IFC is its capacity to mobilize resources for business ventures. For each \$1 the organization itself lends to or invests in a project, it mobilizes an additional \$5 to \$7 from other sources. It accomplishes this by becoming an honest broker to a venture, bringing together other financial institutions, technical assistance, and managerial sophistication, coupled with its own close supervision of the venture. If the business gets into trouble, it dispatches a special team to help turn the problem around. It monitors progress monthly, and a team visits each venture, everywhere in the world, at least once a year. In this role, the IFC has developed a reputation for turning what it touches into gold, often on a huge scale. The very fact that the IFC is involved in a project is apt to attract investors and lenders from all over the world.

The IFC lends to individual enterprises, but, in the process of doing so, it has learned to be a catalyst. This is a word frequently mentioned in discussions of its strategy. While it invests in business ventures at the enterprise level, it focuses on those ventures that might readily be emulated throughout the developing country. This is like introducing the first McDonald's franchise to a country rather than simply starting another restaurant. If the venture works, it will begin its own momentum and attract emulation without further help. In this way, not only a single enterprise is created, but an entire industry. This is development. Further, the experience gained through this exercise can be transferred to other countries with an even greater likelihood of success. Thus the IFC has learned to practice a different kind of leverage from the more common financial variety, and it does so successfully. As an honest broker, it mobilizes resources other than its own, and, as a catalyst, it innovates to create entire industries.

The IFC's structure, although not necessarily its mission, is very close to what was proposed in the Indian development proposal and was passed by the United States Congress. S. 2770 was very, very close to creating a development bank for Indian Country. But would it really work here? Case studies illustrate some of the possibilities.

CASE STUDIES

The need for an honest broker to mobilize resources and act as a catalyst is illustrated by two case studies. The first, Pueblo Electronics, which was developed in the mid-1980s, is based on a financial analysis that suggests a real "competitive advantage" for this kind of venture. The second case, Great Northern Express, is hypothetical and is directed to the northern Great Plains and Plateau, the least populated area in the United States, with no major cities north of Salt Lake City and Denver and an array of small Indian tribes scattered over thousands of square miles, rather than a single population concentration. Therefore, it is a particularly challenging context for a development strategy. Nevertheless, the case is an optimistic one. The task of a development bank is to build opportunities in these kinds of circumstances.

*Pueblo Electronics*¹²

Pueblo Electronics was established in the 1960s as a joint venture between a pueblo and the High-Tech Company (HT) of Silicon Valley, California. This was during an era of corporate missionary work among the Indians, and HT's goal was to join in this worthy cause. This operation was owned by the pueblo. About fifteen to twenty people were employed in electronic subassembly work provided by several of HT's divisions in northern Colorado. There was no business strategy guiding the enterprise, and it drifted along for over a decade, providing reliable employment for the work given. Pueblo Electronics never asked for more work. HT eventually relegated management of the venture to supervisory level personnel and more or less forgot the existence of the operation. The drift continued.

As a matter of routine, the annual payment to Pueblo Electronics of over \$100,000 per year for its subcontracting work came to the attention of HT's lead financial and cost analyst at the Colorado divisions. The financial aspects of the relationship had actually become something of a nuisance. The costs charged by Pueblo Electronics were ridiculously low when compared to the in-house cost of doing the same work. This created an accounting problem, with legal and tax implications. It turned out that, in its financial statements, HT had been showing its in-house cost rather than the actual cost charged by Pueblo Electronics. Over a decade or more,

this had the effect of contributing about \$2 million to HT's profits, none of which had been reported to the Internal Revenue Service (IRS) or the Securities and Exchange Commission (SEC). Although this amount was not large by HT standards (1990 profits alone were about \$1 billion), it was what accountants call "material." Therefore, the productivity of Pueblo Electronics had to receive scrutiny. Was the company really operating at the low cost it was charging, about 35 percent of HT's in-house cost for the same work?

The analyst was able to determine that Pueblo Electronics was indeed incurring costs at or actually below what it was charging HT. Pueblo's productivity (amount of work done per hour) was found to be about 95 percent of that of HT's Colorado operations. Colorado had the best record in the company, with productivity rates 30 to 50 percent higher than those of divisions in the urban Silicon Valley. Pueblo's wage costs were about two-thirds those of HT, and their overhead for building, heat, light, and so forth was almost negligible, under 20 percent of their wage bill. In contrast, HT's average overhead rate was about 230 percent of its direct labor wage bill. Officials of the pueblo government were quite pleased with the existing relationship. Even though the work was being done at about one-third of HT's costs, Pueblo Electronics was making \$60,000 to \$80,000 per year above its direct costs. The pueblo officials actually felt some embarrassment about this "win-win" relationship.

Nevertheless, a suggestion was made that Pueblo should double its prices to HT and that, if such an increase were invoiced, it would be authorized by the analyst. HT would still get the work at well below its own cost, but not so much below it that a significant accounting adjustment would be required. The initial intent of the relationship was an honest one, and the gains HT was making, despite the satisfaction of the pueblo officials, had not been intended. However, the amount that a supplier charges for its product is its own decision, not the buyer's. Pueblo Electronics never followed through on that suggestion, and adjustments were subsequently made to HT's financial statements, accepting the status quo.

HT's analyst drafted an internal memo about Pueblo Electronics. The quality of the work certainly was up to HT standards, and for well over a decade there never had been a problem with meeting delivery schedules. The cost advantage of contracting work with Pueblo was great. HT had a number of products that

were good technical offerings but marginal in their profitability, particularly a new line of lower cost voltmeters. If Pueblo Electronics were to assemble these products, not only would profitability surpass corporate standards, but prices probably could be lowered as well. HT had a chance to take a commanding position worldwide in this market.

HT's management provided a number of reasons why it would be risky to expand the relationship with Pueblo Electronics. Electronic instruments require skilled technicians to test, repair, and calibrate the finished product. However, not one manager hired by Pueblo Electronics in recent years had had any technical experience or training in electronics. In addition, the company had twenty managers over a ten- to fifteen-year period. This revolving door management was a serious problem. Pueblo rotated employees into and out of the management job on a regular basis, often requiring them to divide their attention between Pueblo Electronics and some other activity such as supervision of a trailer park. Many of these individuals, perhaps coincidentally, were also elected members of the pueblo council. HT's own production people consistently rated the pueblo workers as "very good" to "excellent." They could easily have found jobs in Colorado with HT. However, if HT were to embark on this venture, it would have to provide technical and managerial assistance, as well as accounting and other services. Developing an adequate assembly facility was still another problem, as were the entirely unknown legal ramifications of working in Indian Country.

While the competitive position that might have resulted for HT was certainly intriguing, there were simply too many unknowns and no effective means to resolve them. There was no honest broker available with the expertise and resources to put a real venture together. It looked too risky and costly, especially in management time and effort, for HT to go it alone. An accounting adjustment effectively buried the nature of HT's relationship with Pueblo Electronics, and it passed from further notice. Appropriate accommodations were made with the IRS and the SEC. At the time, the products under consideration for assembly at Pueblo were generating about \$6 million in annual sales and were employing about eighty people. The Colorado divisions were only about 10 percent of HT's total business, and every division had a similar group of products under similar cost pressures; they still do. This opportunity needed an honest broker to develop.

*Great Northern Express*¹³

A drive from Rosebud to Rapid City, South Dakota, will provide a useful introduction to the nature of underdevelopment in the area. Virtually across the "border" of the reservation, a major United States industry providing tens of thousands of jobs and accounting for over \$50 billion in economic activity goes on, or goes by, with little or no organized Indian participation. The contrast is startling. One of America's most footloose and open-to-entry industries, trucking, is without major representation in Indian Country. This is an almost ideal industry for people living in rural areas throughout the West, astride the major interstate highways. Most of the nation's intercity truck traffic travels on the five or six major interstates that pass near or through Indian Country. Some of the Indian territories are about halfway between the freight's point of origin and its destination, about six hundred miles either way. This distance, it just happens, is considered a full day's work for a driver. After about six hundred miles, either a second driver must take over, or the rig must be parked for the night so the driver can rest. If the driver were an Indian from one of these areas, he or she would be home.

Contemporary communications make Rosebud as effective as New York or Los Angeles as a dispatch center, or perhaps even better. The trucking industry is incredibly elastic in relation to differing scales of operation, from fleets of ten tractors to fleets of ten thousand. There are perhaps 100,000 owner/operators in the industry, each with a single tractor, as well as a handful of large firms with thousands of tractors. And the industry is thriving.

Midwest Motor Express of Bismarck, North Dakota, was established in 1938. The firm today employs 450 people and does about \$23 million in business each year in ten states, from Illinois to Washington. The company has a fleet of 125 tractors, 55 straightbed trucks and 400 trailers. Its bank, Norwest, is also located in Bismarck. Registered with the Interstate Commerce Commission as a "regular route carrier," it provides terminal services throughout the region. Its revenues are about \$50,000 per employee per year. This is on the low end for an industry where \$65,000 is the norm. About 60 percent of this revenue goes for salaries and 35 percent for operations (fuel and other necessities) and capital equipment. Trucking is a low margin industry, with an average of 5 percent net profits on revenues, irrespective of the size of the firm. It is also labor intensive.

The economics of the industry provide great growth opportunities. The very smallest firms, the owner/operators, have about the same profit margins as the largest operators. This means that an entrepreneur can go into business with a single truck and expand his or her operations almost indefinitely, although somewhere along the way, managerial and financial expertise have to be developed. This could be a good catalyst type of industry for the region. About 25 to 40 percent of the intercity traffic in the West, that passing just north of Rosebud, is carried by owner/operators. All it takes is a single truck and a driver to enter the fray, and the sky's the limit.

These case studies illustrate ventures that might be profitable in Indian Country. However, in both cases, alternatives to Indian enterprises exist within the economy. How can we expect the Indian enterprise to be successful in this competitive environment? After all, there always will be firms and entrepreneurs with more experience, better contacts, greater assets, and established business relationships with whom the Indian business must contend. An important question is whether Indian entrepreneurs might have some sort of competitive edge, a distinct advantage relative to their competitors.

COMPETITIVE ADVANTAGE¹⁴

Business ventures entail risk. At the outset, success and profitability are purely hypothetical. About 80 percent of all new businesses fail within five years. A banker investing on these odds would soon go bankrupt. And yet, over the past several decades, it has been small businesses, not the large corporations, that have accounted for most of the new jobs that have been created.¹⁵ This is the crux of the dilemma of financing development in Indian Country. Irrespective of the amount of money that is thrown at the problem, development will occur only through individual business ventures, businesses sustainable without continuous subsidy. The task that is central to both risk management and development is to identify and nurture those ventures meeting these criteria and to marshal the resources—technical, managerial, occupational, and financial—in the right mix to achieve the desired end. This is the role that the IFC has played so effectively in the developing world, thereby providing a good model for an American Indian development bank. Yet even this institutional response

may not be enough. Harvard economist Harvey Leibenstein has identified still another ineffable quality of successful industries and enterprises. He calls it *X-efficiency*.¹⁶ The business community often refers to it as *corporate culture*.¹⁷ It is considered a central source of sustainable competitive advantage.

HT's financial analyst found the quality and productivity of Pueblo Electronics, coupled with the lower cost, very attractive, given HT's competitive position. This experience was not unique to Pueblo and HT. The Zuni also entered the industrial electronics business in the 1960s with their AMIZUNI venture. Similar observations were made about that venture's quality and productivity, despite differences in management. This suggests that there may be a cultural source of competitive advantage grounded in the common experiences of the people of Pueblo and Zuni.

As a subcontractor of a subcontractor to IBM, AMIZUNI assembled computer cores. Computer cores in that early technology were composed of a network of very small toroidal cores, doughnut-shaped magnetic materials about the size of beads. Today they have been replaced by semiconductor microchips. These cores had to be strung with a network of small wires. When operating in IBM's 360 series computer, the workhorse of the age, they comprised the active memory of the computer. Richard Stoffle reported that in 1971

each [Zuni] trainee was expected to assemble a single computer core in six hours, once he was fully acquainted with the assembly process. One of the Zuni trainees built his first core in six hours and his second in four hours. Another worker began assembling cores in four hours and steadily dropped his time as he learned the assembly procedures.¹⁸

The Zuni workers routinely surpassed the non-Indian productivity standards by one-third or more. HT observed the same productivity advantage at Pueblo Electronics vis-à-vis its urban divisions in Silicon Valley, California. According to Stoffle, "familiarity with silversmithing is foremost in the preadaptation of Zuni industrial workers. Silversmithing has associated skills, values, and attitudes toward the division of labor which readily transfer to industry."¹⁹ Silversmithing also was a skill and tradition shared by the people at Pueblo.

Stoffle reported that Zuni associations with silversmithing actually caused problems. Apparently, traditional Zuni craft stan-

dards were too exacting. "Generally workers at all assembly stages had to be encouraged to accept *reduced production quality standards*" (emphasis added).²⁰ The Zuni workers had to be *deskilled* in the interest of increasing their output! This contrasts sharply with the "unskilled" and "unreliable" caricature of Indian workers that often has been put forth.²¹ HT, too, found that Pueblo workers readily achieved the company's quality standards, the highest in the industry. Most industrial workers elsewhere in the United States have no comparable tradition of craftsmanship. This suggests that, other factors being equal, the craftsmanship tradition could become the basis for a sustainable competitive advantage in a segment of the electronics industry. That is, it is quite possible that a certain kind of work in this industry could be done better here than anywhere else in the country.

The fundamental issue here is not cheap labor, but productivity and quality. Cheap labor often is no bargain, although it has long been a selling point for locating a facility in Indian Country. Today, cheap labor is available in Mexico, Taiwan, Singapore, Hong Kong, China, Korea, the Philippines, Brazil, and even in parts of the United States such as Appalachia. While all these places can offer cheap labor, productivity and especially quality can be far more problematic for them. Changes in wage levels can swamp cost advantages accruing to cheap labor, particularly when productivity is low and quality is poor. Achieving superior quality and productivity within an economy can sustain relative competitive advantage, even with changing wage levels. In segments of the electronics industry, Indian Country probably could sustain competitive advantage indefinitely. Laguna Pueblo has, in fact, successfully established a venture in electronics that builds on this very advantage.²²

The Mohawk have been said to be preadapted to work on "high steel" as construction workers, and the Inuit are noted for their innate ability to work with machinery.²³ The craft skills for which many peoples in the Southwest are well noted apparently transfer readily into certain types of work in the electronics industry, especially high-quality instrumentation rather than mass produced consumer electronics. What kind of work, then, builds upon the unique cultural traditions of the peoples of the Great Plains and the Northern Plateau?

Of course, the experience of economic advantage accruing to a cultural heritage is not unique to Native Americans. Every major brewery in the United States was either founded or developed by

a German-American. On the other hand, French, Italian, and Spanish names are common in California's wine country, e.g., Mondavi, Sebastiani, Gallo, Petri, Carlo Rossi. There are few noted vintners in the region with names like Joseph Schlitz, Gottlieb Heiliman, Adolph Coors, Jacob Schmidt, or Eberhard Anheuser and his son-in-law, Adolphus Busch. Apparently, German-Americans were preadapted to brewing (and consuming!) beer.²⁴ This is not to say that a people with a particular heritage are suited only for one kind of work. Not every German even likes beer, let alone is good at brewing it. But it makes little sense to insist that people be trained for jobs they hate while foregoing work they might enjoy and be truly good at performing. It is also bad business and misdirected development.

This saga of the American Indian Development Bank has journeyed through a discussion of the deliberations of a Senate committee, a consideration of relevant financial fundamentals, an analysis of the institutional character of the world's most successful private sector development institution, and descriptions of case studies of specific Indian enterprises. It also has explored the potential for using cultural characteristics as a competitive edge in developing business ventures. The underlying goal has been to encourage an understanding of this issue appropriate for the well-informed and concerned citizens of a free democracy. This approach necessarily leads to a consideration of next steps, the inevitable responsibilities of the citizens of a democracy to bring about reform and innovation.

REFORM

When Indian entrepreneurs approach a bank for financing, they usually are directed to a department or loan officer specializing in unusual programs and risks. The total volume of financing needed by new Indian entrepreneurs each year, which currently passes through BIA sources, is so small that it is not worthwhile for most banks to learn how to work effectively in this area. Yet the BIA programs are not unlike the financing programs offered by the Small Business Administration (SBA). Central to SBA financial assistance is a guaranteed loan program quite similar to that operated by the BIA. The cap on the amount of a single loan that can be guaranteed is \$500,000 for the BIA and \$750,000 for the SBA. Both programs guarantee 90 percent of the loan for up to thirty

years in the case of the BIA and twenty-five years for the SBA. Both are backed by the "full faith and credit of the United States government," which is the best credit risk in the world. However, unlike the guarantees of the SBA, those of the BIA do not allow loans to be sold in the secondary financial markets.

The secondary markets buy guaranteed loans from the banks that originate them. The originator charges a substantial fee for making a loan in the first place (e.g., the front end "points" on a home mortgage). After the loan has been performing for a year or two (a reliable repayment history has been established), it can be sold readily to the secondary market, usually at a discount (e.g., a loan for \$1,000 is sold for \$950). This profitable procedure provides incentive to the originator to make many more loans than he might otherwise be able to finance; he also collects a front end fee for each loan. Many banks have learned to incorporate this lucrative line of business into their operations. Most government loan guarantees, other than those of the BIA, are sold in the secondary market.

If the BIA program were made to conform to the standards of the much larger SBA, even using the same forms, Indian businesses could very well receive the same reception and attention from the banks as their counterparts do in the rest of America. This does not necessarily mean that the BIA program should be merged with that of the SBA, only that those aspects of the program that are of particular interest to the banks should look like those of the SBA in form, function, and performance. If the banks could work with the BIA in the same way they do with the far more familiar SBA, Indian businesses could begin to be appreciated for their enterprise. In addition, there may be a host of SBA programs for which Indian businesses qualify, but most Indian entrepreneurs are unaware of them and have no experience with them. Bankers often act as intermediaries in these circumstances, which is, after all, their job. In time, Indian businesses may qualify for financing on their own merits, without government guarantees, solely on the strength of their credit history.²⁵

Reform of the BIA program would require creation of new "forwarding and transfer agents" specializing in BIA "paper" or guaranteed loans. These agents would collect from the borrower in behalf of the new owner of the loan and would charge a fee for their services. This process is still another form of financial intermediation and probably would be a profitable venture for an Indian development bank.

THE AMERICAN INDIAN DEVELOPMENT BANK?

Indian Country needs an honest broker and catalyst, an organization that can seek out opportunity, assess its risk, and direct resources for its productive development. The Indian Development Finance Act, S. 721, passed both houses of the 100th Congress and came very close to establishing just such an organization. Although it is the intent of Congress to provide this resource, the bill was vetoed because it was seen as an expensive duplication of existing programs. This it probably was, although easily affordable by government standards and certainly in terms of its potential benefits.

The Senate Select Committee, and therefore the proposed legislation, was never able to develop a clear and forceful understanding of the mission of a development bank. The IFC, arguably the best model to draw upon, has evolved a strategy around the concepts of honest broker and catalyst. Rather than leveraging in the capital markets like a commercial bank, the IFC has learned to become a deal maker and broker, mobilizing the technical, managerial, and financial resources of others. It has become supremely successful; for each dollar of its own investments, five to seven dollars are found elsewhere. The IFC has also learned how to find industries that might work, might be locally sustainable in the long haul, and then establish a venture to act as a catalyst for others. As the case studies suggest, this strategy might work well for the American Indian Development Bank.

The IFC is prevented by charter from investing in more than 25 percent of the total funding of a project through equity participation, or loaning more than 25 percent of the financing package. Usually its involvement is between 10 and 20 percent of the total financing of a project. A similar goal should be set for the American Indian Development Bank. The objective is to build options and intermediation, not monopoly. Therefore, the original proposal was probably overcapitalized by a factor of 1.5 or even 2. Optimal financing for an Indian development bank that would be consistent with its mission would likely, at least initially, be less costly than funding the original proposal. Overcapitalization, which can destroy the incentive to become a broker and catalyst, can create a monopoly gatekeeper instead. A bank patterned after the IFC would make the proposal less costly and therefore more attractive politically.

Lacking a clear sense of mission, the Select Committee hobbled

together something that might have come from Dr. Frankenstein's laboratory. In an honest attempt at compromise, the committee sought to merge three distinct financial functions—a development bank, a commercial bank, and a gatekeeping financing facility—into one. Indian representatives turned this proposal down despite the promise of \$600 million in new resources for development, and S. 2770 never reached the Senate floor.

All three financing activities are necessary. Providing loan guarantees is a gatekeeping credit function distinct from development banking. The SBA and the BIA programs in these areas are at least under sound fiscal control if not necessarily well adapted—in the BIA's case—to serving their customers. Since the role of an Indian development bank would be mobilization, establishment of such a bank would likely result in expansion of the BIA loan guarantee program, not its transfer to another institution. A large part of the grant and loan programs might, however, be more productively assigned to the development bank.²⁶ Financial intermediation, not more cash, would fulfill the need for increased capital for development. Making the BIA loan guarantee program conform to other government guarantee programs, especially to that of the SBA, would encourage the commercial banks to fold Indian credit operations in with their other small business loans. This would contribute toward opening the financial markets rather than creating a monopoly institution so well financed that it would preclude building any form of relationship between Indian businesses and those markets for decades to come.²⁷ S. 2770 was a strategy for dependency, not self-determination. A bank with hundreds of millions of dollars on hand has no incentive to become a deal maker, an honest broker and catalyst.

Among the concerns expressed in the various Senate hearings were those of the smaller Indian groups. What assurance would they have that projects relevant to their needs would be undertaken by the development bank? Would the bank locate its offices nearest its largest customers, groups like the Navajo or Cherokee? These issues eventually killed the proposal. While the present discussion has dealt with the mission or mandate of an organization, there has also been consistent, subliminal consideration of the management strategies of the bank—how to translate mission into strategy and operations.

Central to management effectiveness is the structure of incentives provided for the people who must carry out an organization's mission. The suggested composition of the governing and execu-

tive boards of the Indian development bank, patterned after the World Bank and the IFC, would provide a measure of accountability to the smaller tribes. They would be shareholders in the bank and would be represented on these boards. However, the charter of the bank could strengthen this relationship by simply allowing any member entity to withdraw its share of the assets in the bank, after a reasonable startup period such as five years, and return them to the management of the BIA program, that is, to take their money and business elsewhere. The trucking case illustrates that there are single enterprises with the potential for broad application, somewhat like franchises, across a score of entities and irrespective of their size. This catalyst industry might meet some of their needs. Undoubtedly, there are others. And while the smaller groups may have little individual clout, collectively they would comprise the majority interest. If the managers of the bank wished to keep their jobs and to prosper along with a developing Indian economy, they would have to find a way of serving these interests, which, of course, is their mission.

It is possible to describe at some length the various ways in which the mission of broker and catalyst might be transformed into specific operations. Certainly one of the more interesting would be the capacity of a development bank to create special financing facilities for various interests within the Indian community, such as the Council of Energy Resource Tribes or the National Center for American Indian Enterprise Development. This would involve developing a consortium of banks to lend to these interests or at the direction of these interests, but with the development bank overseeing the operations. As a financial intermediary and broker, the development bank could, in effect, guarantee with its own assets the solvency of these investments. Their guarantee would encourage other banks without experience in Indian Country to invest with confidence, to pool their loans and risks, while at the same time providing Indian interests with readily available financing at the lowest possible cost. This strategy emulates that of the IFC. The key to understanding the strategies and options available to the American Indian Development Bank is the fact that it would be a player at a new institutional level within the economy and the financial community. Therefore, it would be able to create financing options and venture proposals that are inaccessible today.

A development bank is an exciting prospect for Indian Country. Such a bank could build upon the unique qualities that are a

product of culture, tradition, and even geography, to seek out those opportunities that might be sustainable in the long run. The experience of the IFC indicates that this kind of institution can be extremely successful. S. 721, the Indian Development Financing Act of the 100th Congress, needs to be reintroduced, perhaps somewhat scaled down, and accompanied by a major reform of the BIA loan guarantee program. To assure that there is no confusion about the mission of the institution, the first president of the American Indian Development Bank needs to be someone who has experience with the IFC.

NOTES

1. *Indian Finance Corporation Act*. Hearing before the Select Committee on Indian Affairs, United States Senate, 101st Congress, first session, on S. 2770, 25 July 1990, Senate Hearing 101-1131 (Washington, DC: U. S. Government Printing Office, 1991).

2. *The Indian Finance Act* 25 USC 1451 (PL92-262, 1974), as amended, is the current legislation for the BIA administered financing program for private sector business development.

The proposal to create a development bank grew out of a strategy developed by the American Indian Development Corporation of Albuquerque, New Mexico. Their work built upon recommendations of the American Indian Policy Review Commission report of 1976. They proposed, in the early 1980s, an "American Indian Development Finance Institution." This strategy evolved to become the Indian Development Finance Corporation Act (S. 721) of the 100th Congress (1988). After passage by voice vote with two-thirds of the Senate in support, it was passed in the House as H. 3621. President Reagan killed the legislation with a pocket veto in November 1988. He cited existing programs and claimed that the new proposal was a duplication of efforts.

The Albuquerque group's proposal was reported by the Select Committee on Indian Affairs, *An American Indian Development Finance Institution: A Compendium of Papers*, Senate Print 99-142 (Washington, DC: U. S. Government Printing Office, 1986).

The term *Indian Country* has a specific legal definition in United States Code 18 USC 1151 (1948). It essentially refers to all Native American entities entitled to the services of the Bureau of Indian Affairs irrespective of whether they were legally established by treaty, by executive order, or by legislation. There are perhaps six hundred or more Native American groups with some form of collective identity; many are recognized by states, but only about 310 tribes are recognized by the BIA in the lower forty-eight states and two hundred entities in Alaska. Over one hundred entities were officially terminated, some of which have since been restored. See Charles F. Wilkinson, *American Indians, Time, and the Law: Native Societies in a Modern Constitutional Democracy* (New Haven: Yale University Press, 1987).

3. *Indian Development Finance Corporation Act-Part II*. Hearing before the Select Committee on Indian Affairs, United States Senate, 100th Congress, first

session, on S. 721, 15 October 1987, Senate Hearing 100-239, part 2 (Washington, DC: U. S. Government Printing Office, 1988).

4. *Indian Development Finance Corporation Act*. Hearing before the Select Committee on Indian Affairs, United States Senate, 101st Congress, first session, on S. 143, 27 July 1989, Senate Hearing 101-400 (Washington, DC: U. S. Government Printing Office, 1990).

5. *Ibid.*, 54.

6. *Indian Finance Corporation Act*, hearing on S. 2770, 101-1131. See note 1.

7. Information on the World Bank and the International Finance Corporation have been drawn from *World Bank Annual Report* (various years) (Washington, DC: World Bank); *International Finance Corporation Annual Report* (various years) (Washington, DC: International Finance Corporation); *Moody's Sovereign Credit Report: International Finance Corporation* (New York: Moody's Investors Services, 1990); and the testimony and statement of S. Melvin Rines, vice president, Kidder, Peabody & Company, Inc., before the Committee on Banking, Finance and Urban Affairs, House of Representatives, 101st Congress, 24 May 1990, serial no. 101-128 (Washington, DC: U. S. Government Printing Office, 1990).

8. The phrase is attributed to Sioux economist Robert W. McLaughlin. The question of *seed capital*, the start-up money that also is lacking in many cases, is not included in this discussion. It is a subject for another paper, one on investment banking and equity participation. These topics, in turn, invoke the whole issue of tribal or governmental ownership of business enterprises, something that tends to politicize the management of these ventures, often to their economic detriment. On the other hand, many governments feel obligated to be everything to their people. Thus the issue of seed capital leads to a consideration of the appropriate role of local government, i.e., sovereignty. Although there are some excellent options and compromises available, such as beginning with tribal ownership but selling a majority interest in the venture over time to the employees through an employee stock ownership program (ESOP), this is not a subject that can be dealt with easily in a few paragraphs or pages.

9. Incredibly, no performance or accountability audit—either independent or in-house—of the existing BIA programs accompanied this proposed legislation. Senator Inouye stated during the hearing on S. 2770 that he would request such an audit by the Government Accounting Office. Evidence entered into the record from the Aberdeen, South Dakota, BIA office indicated that the direct loan program for that area had a default rate of 45 percent. The guarantee and grant programs were reported to be satisfactory.

10. The National Center for American Indian Enterprise Development, El Monte, California, reported that it had facilitated \$200 million in financing and business opportunities while helping to start four hundred new Indian businesses, creating three thousand new jobs since 1969. It reports a venture failure rate of 5 percent. *Indian Finance Corporation t. ct.*, hearing on S. 2770, 101-1131. See note 1.

11. Information on the SBA has been drawn from various publications and congressional hearings. Information on the BIA finance programs have been drawn from congressional hearings and *Financial Assistance for Indian Economic Development Projects* (Washington, DC: Bureau of Indian Affairs, 1985). Appropriations vary from year to year. Every attempt was made to characterize these programs as they were operating in the late 1980s, at the time of the various legislative initiatives.

12. This case study was prepared for a venture development group in the mid-1980s. Identities have been somewhat disguised at the request of the author. Pueblo Electronics has since been sold. Details of this case have been verified by the author through direct discussion with the principals involved, both at the HT Corporation and with employees and officials at Pueblo.

13. Sources: Michael Agar, *Independents Declared: The Dilemmas of Independent Trucking* (Washington, DC: Smithsonian Institution Press, 1986); American Trucking Associations, *Trucksource* (Alexandria, VA: American Trucking Associations, 1989); *Official Motor Carrier Directory* (Chicago: Official Motor Carrier Directory, Inc., 1991); and *Ward's Business Directory of U. S. Private and Public Companies* (Detroit: Gale Research, 1991).

14. The "economic theory" supporting this analysis is drawn from the field of industrial organization, nominally a branch of microeconomics but more commonly taught in the business schools. The basic strategy for Indian development is simply to extend what works elsewhere into Indian Country. This is essentially the strategy followed by the IFC. At the enterprise level, this theory of economic diffusion has been developed by Michael Porter of the Harvard Business School, in *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980); *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985).

15. David Birch, *Job Creation in America: How Our Smallest Companies Put the Most People to Work* (New York: Free Press, 1987).

16. Harvey Leibenstein, "Organizational Economics and Institutions as Missing Elements in Economic Development Analysis," *World Development* 17(1989): 1361-73.

17. The concept of a corporate culture received an important endorsement in the bestseller by Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies* (New York: Harper & Row, 1982). They found that culture, the attributes of which they described in some detail, was the most important factor in corporate performance.

18. Richard Stoffle, "Reservation Based Industry: A Case from Zuni, New Mexico," *Human Organization* 34(1975): 220.

19. Ibid.

20. Ibid., 223.

21. See, for example, Presidential Commission on Indian Reservation Economies, *Report and Recommendations to the President of the United States*, November 1984.

22. See note 26 below.

23. Ruth Blumenfeld, "Mohawks: Round Trip to the High Steel," *Trans-action* 3(1965): 19-22.

24. Michael Porter recently extended his approach to cover this concept in *The Competitive Advantage of Nations* (New York: Free Press, 1990).

25. "We have found from personal experience, with a couple of the local banks we deal with, the matter of sovereignty is not as important as the matter of how well you know each other and trust each other. We have had some types of loans with local banks that are strictly based on trust. There is no collateral at all." Testimony of Larry Kinley, chairman, Lummi Business Council, Bellingham, Washington, reported in Indian Development Finance Corporation Act-Part 2, hearing on S. 721, 100-239, part 2, 64. See note 3.

26. The federal government recently expanded the authorization of loan

guarantees available to the BIA from \$250 million to \$500 million. Perhaps \$200 million in authorized guarantees are currently unused.

27. Testimony by Raymond Goetting, chairman of the board for Laguna Industries, indicated that five years were spent developing a relationship with their corporate mentor, Raytheon Service Company, before any actual work began. By 1989, Laguna Industries employed 230 people and was contributing about \$10 million annually to the local economy. *Indian Development Finance Corporation Act*, hearing on S. 143, 101–400. See note 4. The Mississippi Choctaw report a similar effort in building and nurturing a relationship with a corporate mentor to develop their successful industry, which is located on the reservation and employs about fourteen hundred people, mostly in making auto parts. *Indian Finance Act*, hearing on S. 2770, 101–1131. See note 1.