

Testimony of Alejandra Y. Castillo, National Director
Minority Business Development Agency
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“Accessing Capital in Indian Country”

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Introduction

Good Afternoon Chairman Barrasso, Vice Chairman Tester, and members of the Committee. I am Alejandra Castillo, and I serve as the National Director of the Minority Business Development Agency, also known as MBDA, at the U.S. Department of Commerce. I am pleased to be here today to discuss the topic of “Accessing Capital in Indian Country.”

There are many programs within the Department that benefit tribes, including programs that offer grants to tribal governments for the purpose of economic and infrastructure development, programs that help tribal businesses export their goods overseas, and tourism projects that help attract more revenue to tribal lands. We are here today to discuss access to capital, but accessing capital is one prong of the business development strategy. The Department has many programs which can help Native-owned businesses thrive.

My testimony today will outline MBDA’s mission and vision in assisting the Nation’s 5.8 million minority-owned businesses, which also include businesses owned by American Indians and Alaska Natives. For the purpose of this hearing, I will highlight MBDA’s research findings on access to capital and steps MBDA is taking to create a more robust and sustainable ecosystem to help minority businesses obtain more capital for their current and future needs. Finally, I would like to share some specific examples of American Indian and Alaska Native firms that have grown as a result of working with MBDA.

The Minority Business Development Agency: Overview

For over forty-five years, MBDA has been working aggressively to expand the economic footprint of minority business enterprises (MBEs).

MBDA serves as the only federal agency tasked to help MBEs realize their full economic potential through technical assistance, public and private contracting opportunities, advocacy, research, education, and by serving as a strategic partner for growth and development. The bulk of this work is accomplished through our nationwide network of MBDA Business Centers. Each Center provides services that assist businesses in accessing capital, contracts, and new markets, as well as helping them to grow in size and scale.

Research Findings: Disparities in Access to Capital

In 2010, MBDA released a report entitled, “Disparities in Capital Access.” Some of the key findings included:

- Minority-owned firms receive lower loan amounts than non-minority firms. While the average loan amount for all high-sales minority firms was \$149,000, non-minority firms received an average of \$310,000 or more than twice the amount;
- Minority-owned firms are more likely to be denied loans. Among firms with gross receipts under \$500,000, loan denial rates for minority firms were about three times higher compared to those of non-minority-owned firms. For high sales firms, the rate of loan denial was almost twice as high for minority firms as for non-minority firms; and
- Minority-owned firms receive lower loan and equity investment amounts. Minority firms averaged \$29,879 in external debt compared with \$36,777 for non-minority firms. Minority firms had the most trouble obtaining external equity with \$2,984 on average compared with \$7,607 on average for non-minority firms.

Native business owners, especially tribal governments and Native entrepreneurs living in Indian Country, face many obstacles when trying to access capital. By any socioeconomic indicator, American Indians, Alaska Natives, and Native Hawaiians are the most underserved population in the country. This means that financial literacy, credit history, and access to lending institutions on or near Native lands may be lower than in other areas of the country. Many Indian reservations lack sufficient infrastructure such as adequate sewers, water, roads, and broadband. Many tribes are geographically isolated and therefore struggle to attract skilled workforces, teachers, and health professionals – which in turn, makes it more difficult for businesses to thrive on Indian lands. But despite these grim statistics, many tribes have succeeded in creating thriving economies and many Native peoples have successfully launched businesses. All things being equal, access to capital is really a relationship business and that’s where MBDA shines.

Minority Business Development Agency: Working with Native Communities

MBDA has a long history of partnering with our tribal and Native American colleagues, such as the National Center for American Indian Enterprise Development, the American Indian Chamber of Commerce of New Mexico, the United Tribes Technical College, and the Indian Pueblo Cultural Center. We embrace the rich culture of Native American tribes and we understand that while native-owned businesses might be classified as MBEs, the United States owes a unique trust responsibility to the various Indian tribes and Native Americans. We believe that the best way for tribes to effectively self-govern is to empower tribes and Native peoples to create jobs and opportunities on- and off-reservation. That is why six MBDA Business Centers are located in geographical areas with large American Indian and Alaska Native populations: Anchorage, Alaska; Fresno, California; Santa Fe, New Mexico; Bismarck, North Dakota, Tulsa, Oklahoma; and Bridgeport, Connecticut.

When a Native-owned firm comes to MBDA seeking assistance with access to capital, our Business Centers provide individually tailored consulting services to them. These services include helping them identify their immediate and long-term business needs; establishing projected growth tracks; implementing targeted plans of action for increasing the firm’s size, scale, and capacity; and providing strategic support to promote the achievement of the firm’s desired outcomes.

Additionally, MBDA advocates for MBEs, including Native-owned firms, in the traditional banking space through relationships with national level banks and countless community banks through MBDA's national Business Center network. We also work closely with another federal agency outside the Department of Commerce, the Small Business Administration, on increasing opportunities for MBEs to pursue micro-lending opportunities. Through these partnerships and our steadfast commitment to the American Indian and Alaska Native community, MBDA has served thousands of Native American businesses. This year, to date, our entire network of centers has worked with nearly 1,100 American Indian and Alaska Native firms. Further, over the past six fiscal years, FY 2009-FY 2014, MBDA has assisted American Indian and Alaska Native clients with accessing nearly \$1.87 billion in capital.

New Strategies to Improve Access to Capital for Minority-owned Businesses

In addition to providing access to traditional sources for capital, MBDA is pursuing alternative sources of capital for minority-owned firms. We created a new Access to Capital Team whose work has been two-fold: to educate clients and firms about the types of alternative financing available, and to advocate on their behalf with the kind of resource partners that minority-owned firms have a difficult time accessing. Minority firms lack adequate access to venture capitalists, angel investors, mergers and acquisitions firms, firms with internet-based platforms, and the many other firms that act as ever more important alternative sources of capital. As I mentioned earlier in my testimony, access to financial institutions by Native-owned businesses, particularly those in rural areas, is exacerbated by geography.

While putting experienced staff to work on the issue is important, it would be nothing without top-level engagement. That is why last October I spoke at the Minority Finance Forum, hosted in partnership with the Association for Corporate Growth in Chicago. I addressed over 800 investment bankers, private equity groups, bank fund managers, family offices, merger and acquisition companies, and banks. While there, I highlighted the need for minority-owned firms to play a role in the middle market and break the barrier in accessing capital. This message was well-received by the attendees. MBDA will continue to engage firms like these to help expand access for minority-owned firms.

Since we understand that many Native business owners might not attend minority business conferences in favor of those focused on Native enterprises, MBDA and other bureaus within the Department have been actively engaging Native business stakeholders. This past March, for instance, I spoke at the 29th Annual Reservation Economic Summit (RES), the leading American Indian enterprise development summit where Native American businesses gather with CEO's, policy makers, and elected leaders to shape the future of economic development in Indian Country. MBDA has also assisted The National Center with coordinating an "access to capital" workshop for the RES conference held this past March in Las Vegas. Additionally, the Department of Commerce, through the Secretary's Office, the Census Bureau, and SelectUSA, a program within the International Trade Administration, has contributed to this week's RES-DC Conference to make it a success.

Finally, MBDA is also engaged in the use of alternative finance through partnerships with a large portfolio of alternative capital providers including internet based lenders, angel investor networks, micro lenders, Community Development Financial Institutions, and other investors in the middle-market space. Through our Business Center Network, these resources are available to MBEs including Native-owned firms.

MBDA Native American Client Success Stories

MBDA has been successful in assisting Native-owned businesses access capital. I would like to highlight two examples of our work.

Given Oklahoma's high Native American population, it is no surprise that 85 percent of the Tulsa MBDA Business Center clients are Native American, including tribally-owned and individual Native-owned firms. One such client is Cherokee CRC, an award winning environmental, construction, and professional services company with Tribal 8(a) and HUBZone certifications. In Fiscal year 2014, the Tulsa MBDA Business Center helped the firm secure \$68 million in contracts and \$15 million in financing. The company is tribally-owned so all profits from these endeavors are returned to the Cherokee Nation. The tribe is currently constructing four new health clinics and a hospital with profits from Cherokee CRC and other tribally –owned businesses.

Another example is Terra Firma II, a construction management company located in Seattle, Washington founded in 2002 by Michael Giomi, a tribal member from the Walker River Paiute tribe of Schurz, Nevada. Terra Firma II was significantly impacted by the economic downturn in 2007/08 and faced difficulties procuring any type of funding for new development based on its past debt with an institutional lender. Prior to working with the Seattle MBDA Business Center, Terra Firma II's growth was extremely limited.

After Terra Firma II, became an MBDA client, the Seattle staff provided the company a detailed, four-step growth plan. The plan was set in motion in June 2012 and one year later, Terra Firma II secured a \$400,000 loan with Cobalt Mortgage, thereby ensuring it had assets and equity. The fourth step, which is still in process, is to assist the client in securing a new business line of credit so that it can have working capital for private, public, and Native American developments, thereby creating even more jobs.

Conclusion

Chairman Barrasso and Vice Chairman Tester, I want to thank you and this Committee for the opportunity to speak with you today. Fostering the success of American Indian and Alaska Native-owned firms is paramount to upholding our Nation's commitment to fostering economic prosperity in Indian Country. As we move forward, the Committee can be assured that MBDA will continue to do everything it can to improve access to capital for Native American firms and to promote the diversity of businesses in Indian Country to public and private sector procurement officers. We know much still needs to be done and we welcome your support of our work. I am happy to answer any questions you may have.