

# THE LAKOTA FUNDS STORY

## How Indian Country is Building Financial Capability

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**F**or decades, the Pine Ridge Indian Reservation of South Dakota has been among the poorest, if not the poorest, counties in the nation. Much has been reported about Pine Ridge. Despite its exceptional beauty, most reports are only of poverty, high unemployment, alcoholism, and the subsequent grim effects.

Pine Ridge is not alone in the challenges it faces as a tribal nation. There are 566 tribal nations located across 34 states within the geographic borders of the United States. Each of these tribal nations exercises its own sovereignty and is legally defined as a federally recognized tribal nation. According to the Community Development Financial Institutions (CDFI) Fund's Native American Lending Study, "Economic and social conditions on many Indian Lands and Hawaiian Home Lands place them significantly behind the mainstream U.S. economy."<sup>1</sup> High unemployment and poverty rates along with low homeownership rates contribute to these disparities. In addition, Native people have historically lacked access to financial products and services.

### THE DEVELOPMENT AND EARLY CHALLENGES OF LAKOTA FUNDS

Thirty years ago, concerned tribal citizens from across the Reservation decided to take action. There were only a handful of businesses on Pine Ridge and none owned by tribal citizens. Previous economic development consisted of tax credit-financed factories in the 1970s established to provide employment, but by 1985, the credits had expired and the

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1 Community Development Financial Institutions Fund, "The Report of the Native American Lending Study." (Washington, DC: U.S. Department of the Treasury, November 2001). As of this writing, the CDFI Fund is updating this research and new figures will be released in 2016.

factories were gone. Tribal citizens believed that a “top down” approach would not work and that the Reservation needed to build the local economy from within. They needed a strategy that would encourage tribal citizens to start businesses and create employment opportunities.

With input from Reservation-wide meetings, citizens began to develop Lakota Funds, the first CDFI on an Indian reservation. The developers believed that loans and technical assistance to tribal citizens would lead to a more robust private-sector economy. Tribal leaders pointed out that Indian Health Service, federally funded schools, Bureau of Indian Affairs, tribal government programs, and other programs received millions of dollars in support, but virtually none of that money stayed and circulated in Pine Ridge. Nearly all of it went to border towns off the Reservation.

Lakota Funds made its first loan in 1986 with capital from a program-related investment from the Ford Foundation and other private investments. This began the program’s long and difficult journey. From the beginning, reporting requirements focused only on the number of loans made and the delinquency rate. After 68 loans and six months of lending, the delinquency rate was 85 percent. Lakota Funds needed to adjust its approach so it began to vigorously pursue collections and educate citizens with a lingering “grant mentality” who did not understand that loans needed to be repaid. The Fund managed to improve the delinquency rate, but making quality business loans continued to be a challenge.

After several years of lending, the Fund conducted a survey of borrowers and learned that 75 percent had never had a savings or checking account, 85 percent had never had a loan, and more than 90 percent had never been in business. Still, the Fund slogged on, creating business planning classes and peer lending, but many businesses still failed. Making good business loans in an environment with generational poverty and dependency on the federal government was a challenge. For 10 years, Lakota Funds struggled, learning valuable lessons along the way.

Meanwhile, new policies and practices such as Individual Development Accounts (IDAs) and financial literacy training were developing to help poor people build assets, based on the understanding that increasing income alone was not enough to move and keep people out of poverty. The Community Development Banking Act of 1994 and the 2001 Native

American Lending Study (NALS) led to more tribal interest in starting Native-led CDFIs.

It is a truism of economic development theory that credible institutions are essential to successful development, yet most Native communities lack the nonprofit institutions that are common in urban and rural communities across the country. Like Pine Ridge, many tribes also lack a developed private-sector economy. The situation is more serious when it comes to mainstream financial institutions. According to the NALS, 15 percent of Native communities are more than 100 miles from the nearest ATM or bank, and 86 percent of Native communities lack a single financial institution within their borders. The 2007 National Strategy for Financial Literacy report explicitly identifies Native communities as underserved by financial institutions. Unfortunately, the problem persists today. Although Native CDFIs have increased from two in 2001 to more than 70 currently, many Indian reservations still do not have any financial institutions.<sup>2</sup>

Not only does the lack of financial institutions pose a problem in accessing basic financial services, but it also makes business financing nearly impossible. The NALS found that more than 60 percent of respondents reported that business loans were difficult (37 percent) or impossible (24 percent) to obtain. That rate rose to almost 70 percent with loans of \$100,000 or more.

## THE TURNING POINT: A SHIFT TO FINANCIAL CAPABILITY

Lakota Funds began to realize that providing capital for loans was not enough. A turning point came in 1999, 13 years after its start. Lakota Funds was at an all-time low. Delinquency was high and operating funds were more difficult to obtain. Staff morale was low because of leadership turnover and lending remained difficult, with seemingly few positive outcomes. The Fund briefly considered closing its doors, and members began to reconsider their original mission to start a private-sector economy.

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<sup>2</sup> A field scan of existing financial capability programs in Indian Country in eight states in the northwest provides more detailed information. See First Nations Development Institute, “Building Assets and Building Lives: Financial Capability in Native Communities.” (Longmont, CO: First Nations Development Institute, 2015).

After much discussion, the Fund realized that what it really hoped to accomplish was to provide tools and opportunities for Pine Ridge residents to build personal and financial capability and become financially self-sufficient. Achieving this goal would lead to a nation of people who contributed to an economy instead of being a burden to it. The Fund began to speak about individual wealth creation, an entirely new concept on the Reservation. That focus on wealth creation instead of business development changed the way Lakota Funds did business.

Looking back, this goal should have been apparent. A first step to a successful business is building financial capacity among tribal citizens. Looking forward, the Fund sought out others who were pursuing the same goal. The Fund began coordinating with Tribal colleges and schools to offer financial education, entrepreneurship, and asset-building programs to the students. It also reached out to parents to introduce savings programs. Lakota Funds developed matched savings programs to provide individuals, families, and students with the financial foundation, support, and motivation to achieve their goals. Several years ago, Lakota Funds started the first depository financial institution on the Pine Ridge Reservation—the Lakota Federal Credit Union—a National Credit Union Administration chartered credit union.

Today, Lakota Funds provides credit-builder and business loans, business training, financial management training, and technical assistance. The Fund also promotes postsecondary education among youth, offering “Generations of Wealth,” a Child Development Account program since 2011. It is the first matched savings program for grade school children on an Indian reservation. Although preliminary, a 2013 evaluation showed that 90 percent of participating families reported they were more focused on future goals and were connecting economic planning with future opportunities. Among the enrolled children, 78 percent set goals related to college, a specific career path, or improving their prospects by saving more money.

Lakota Funds implemented an IDA in 2001, which includes a matched savings program for adults and a companion program for students entering high school. The student program uses classroom-based financial education and financial literacy apps to encourage teens to save for

postsecondary education. Families can open savings accounts at Lakota Federal Credit Union. The program involves monthly meetings with speakers and mentors who can inspire and educate teens about college, financial aid, and career goals.

## **BUILDING A STRONG FINANCIAL FUTURE IN INDIAN COUNTRY**

Real progress in building lasting financial capability in Indian Country requires comprehensive strategies and tools. Several organizations and coalitions advocate for stronger state and federal policies and programs that advance financial capability, including CFED and First Nations Development Institute. The Native Financial Education Coalition (NFEC), a national coalition furthering financial education in Indian Country, has made a number of recommendations that are consistent with lessons learned at Pine Ridge. These include targeted homeownership programs and homeowner education; financial education in school and youth programs such as Native Boys and Girls Clubs; financial education and training through Temporary Assistance for Needy Families and workforce development programs; and Native CDFI development that offers financial education, consumer credit counseling, business planning, credit repair, savings programs, voluntary income-tax assistance, and IDAs.<sup>3</sup>

More broadly, recommendations advocate for stronger partnerships and policies that improve financial access and protection for tribal nations. For example, NFEC recommends enacting consumer protection codes. Financial education can arm tribal citizens with the knowledge and tools to avoid becoming victims of predatory lending practices. Consumer protection codes can provide legal protections within tribal jurisdictions. The Blackfeet Tribe, Grand Traverse Band of Ottawa and Chippewa Indians, Cheyenne River Sioux, and Navajo Nation are examples of tribes who have adopted some type of consumer protection laws. First Nations Development Institute has developed a model consumer protection code that tribes can use as a starting point in their community. Another recommendation is to encourage cross-sector partnerships among tribes, state and local government, and the private sector. South Dakota enacted a law that allows tribal identification cards to be used for opening bank accounts and cashing checks. This helps to expand access to financial

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3 For NFEC's full recommendations, see [www.ncai.org/initiatives/nativefinancial-ed/NFEC\\_Factsheet.pdf](http://www.ncai.org/initiatives/nativefinancial-ed/NFEC_Factsheet.pdf).

services for tribal citizens who may not have a state driver's license or identification card.<sup>4</sup>

At Pine Ridge, building financial capability among people who lack access to financial institutions is a must, not only to improve individual capacity, but also to ensure that financial programs have a greater chance of success in achieving the goal of wealth creation and a vibrant local economy. One final piece of evidence that these changes have made a difference: Lakota Funds now has a delinquency rate of less than 5 percent.



*ELSIE MEEKS has more than 25 years of experience specializing in Native community development and is the Chairperson of Lakota Funds. In 2009, she was appointed by the Obama Administration to serve as the state director of South Dakota USDA Rural Development, a position she held for over five years. Prior to that, Meeks held president and chief executive officer roles at First Nations Oweesta Corporation, assisted with development and management at Lakota Funds, and was co-owner of Long Creek, LLC and Wanblee Mart. Meeks currently serves on the Board of Directors of the Northwest Area Foundation and was recently elected to serve on the Board of the Federal Home Loan Bank of Des Moines. She has held various local and national board positions over the years and has completed a six-year term on the U.S. Commission on Civil Rights. Meeks is also an enrolled member of the Oglala Lakota Sioux Tribe.*

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4 Native Financial Education Coalition, “[Supporting the Unique Role of Tribal Government and Community Leaders to Improve Financial Capability.](#)” (Washington, DC: NFEC, February 2015).