

Food Financing Efforts 2014:

Native CDFI Support of Native Farmers & Ranchers





ACKNOWLEDGEMENTS

This report was written by Krystal Langholz at First Nations Oweesta Corporation. We would like to thank all staff, participants in our study, and Lisa Wagner for assistance in the writing of this report. Special thanks to Hunkpati Investments for pictures of the Crow Creek Fresh Foods Initiative. All pictures used with permission.

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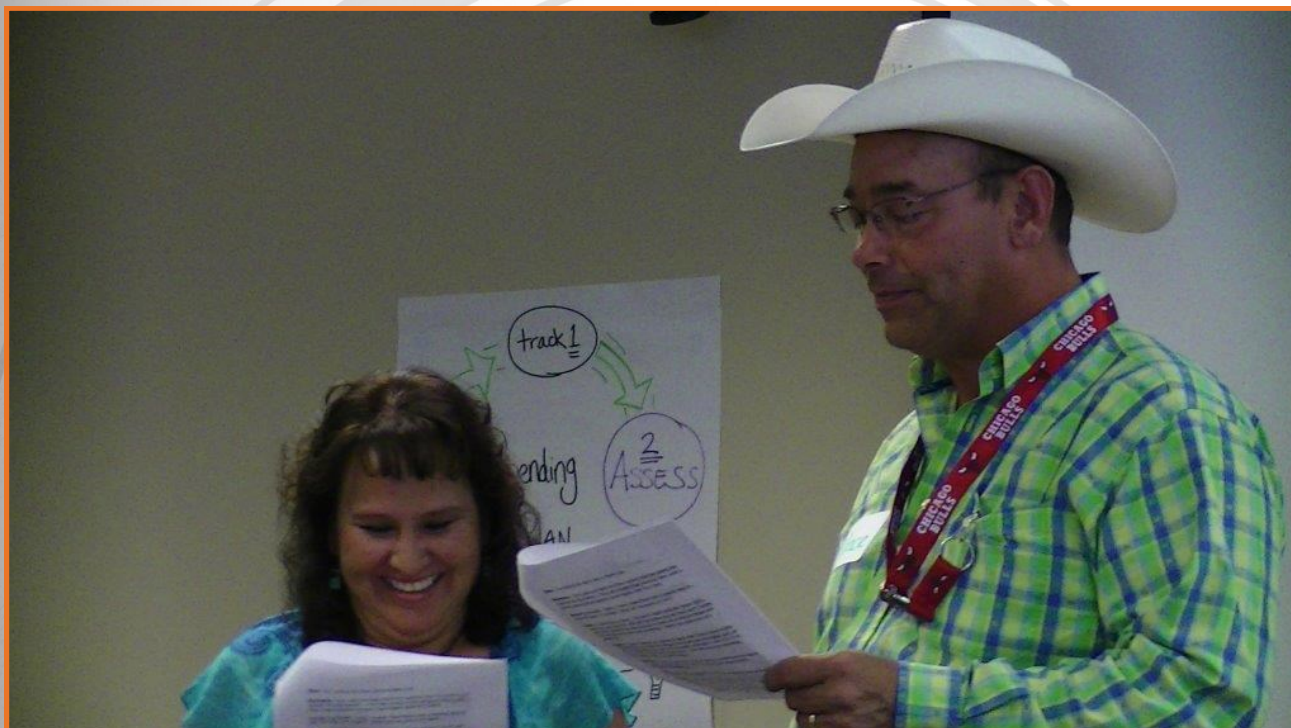
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EXECUTIVE SUMMARY

In August 2014, First Nations Oweesta Corporation (Oweesta) conducted a survey of Native Community Development Financial Institutions (CDFIs) in order to better understand the impact of Native CDFIs on Native agriculture, as well as to better ascertain the need for support services and capital for lending products that support Native agriculture. Key findings from this research include the following:



HARD AT WORK

- Over 40 percent of all Native CDFIs provide lending and training to Native farmers and ranchers.
- Native CDFIs report lending out just under \$6 million annually to tribes, farmers, and ranchers, all doing agricultural work.
- Of all Native CDFIs that provide agricultural loans or support services, 59 percent offer financial education classes and 65 percent offer business management classes to Native farmers and ranchers.

CHALLENGES

- Seventy-one percent of all Native CDFIs that provide these services desire additional technical assistance developing lending products or training specifically for Native farmers and ranchers.
- Fifty-six percent of these Native CDFIs report not having enough capital to serve the Native farmers and ranchers in their communities, reporting a deficit of nearly \$3 million in lending capital last year alone.

INTRODUCTION

First Nations Oweesta Corporation (Oweesta) is a national nonprofit dedicated to supporting economic growth in Native American communities through the creation, development and capitalization of Community Development Financial Institutions (CDFIs). In early 2014, Oweesta recognized the need to collect new information on the work of Native CDFIs in supporting healthy foods and Native agriculture in their communities.

Accessing healthy foods is a challenge for many Native Americans, particularly on rural reservations and tribal lands. The lack of local, sustainable food systems in Native communities has led to significant health problems and other related issues. Many Native communities experience high levels of economic distress, suffer from high rates of diabetes and other chronic diseases, rely heavily on food assistance programs, and demonstrate overall high instances of food insecurity. To compound the situation, economic and geographic isolation for many rural reservations has led to a lack of local resources, including access to education and capital, to help overcome these issues.

Native households across the United States are much more likely to be food insecure than other U.S. households. According to a 2012 Princeton Policy Report to Congress, 23 percent - or almost one in four - of Native households are food insecure. That number goes up to 28 percent for households with children (“Addressing Child Hunger and Obesity in Indian Country: Report to Congress.” Mathematica Policy Research 2012). Over 20 percent of the American Indian/Alaska Native (AIAN) population rely on food stamp/SNAP benefits, more than twice the rate of the U.S. population as a whole (2010 U.S. Census). Overlaying a map of food deserts in the United States with a map of reservations reveals a startling overlap (USDA Food Desert Locator Map, 2013).

Poor health indicators show the effect of food insecurity for the AIAN population, who experience the worst health status of any ethnic group in the United States. The AIAN population has the highest rate of type 2 diabetes and the fastest growing rate of obesity. The diabetes rate for the AIAN population of 16.3 percent was more than double that of the Non-Hispanic White population at 7.6 percent (CDC 2012 Summary Health Statistics for Adults: 2010). In 2012, 40.8 percent of the AIAN population 18 years of age and over was considered obese compared to 26.2 percent for the United States as a whole (CDC 2012 National Healthcare Disparities Report).

Geographic isolation of rural reservations creates higher transportation costs and fewer customers, discouraging retailers from locating in many Native communities. Many Native people are forced to travel 90-200 miles to access healthy food options. The food supply on reservations is typically characterized by convenience stores and gas stations that offer limited variety, focusing on highly processed and less nutritional food options. The existence of the USDA food distribution program which provides commodities to low-income families on reservations has only exacerbated the problem, offering mainly convenience-based foods that are high in fat, salt, sugar and preservatives.

Financing to support fresh food endeavors has historically been limited or unavailable for rural Native communities. Tribal trust land issues can make it difficult to effectively secure collateral, preventing access to project funding from traditional and non-traditional lending institutions. When financing is available it is typically higher-priced and short-term to adjust for the perceived risk of lending in Indian Country. Geographic isolation and limited market sizes reduce cash flow margins for projects, making this higher-debt financing with shorter terms and higher payments unrealistic for project sustainability. Native CDFIs have subsequently stepped into this gap to provide both capital and support services to Native farmers and ranchers.

METHODOLOGY

In August 2014, Oweesta conducted a survey of all Native CDFIs that are certified by the U.S. Department of Treasury Community Development Financial Institutions Fund (CDFI Fund) and a few Native CDFIs that have yet to be certified but are known to be actively lending (known as “emerging” Native CDFIs). In total, this list had 67 Native CDFIs of all different types— credit unions, community banks, and loan funds. Oweesta surveyed these Native CDFIs in order to better understand what services, if any, Native CDFIs were providing to Native farmers and ranchers in their communities. Another goal of the survey was to develop a deep understanding of the struggles of these programs in order to communicate these needs with a broader audience.

SURVEY METHOD AND RESPONSE RATE

Oweesta created a survey instrument using Survey Monkey, a web-based provider of survey solutions. Following the creation of this survey, Oweesta staff called all the known Native CDFIs. Personal interviews were conducted with 41 Native CDFI staff from around the entire country, providing us a 61 percent response rate. As these interviews involved in-depth lending questions, interviews were most often conducted with the executive director, portfolio manager, or lending officer of the organization. Data was stored in Survey Monkey and analyzed by staff at Oweesta.



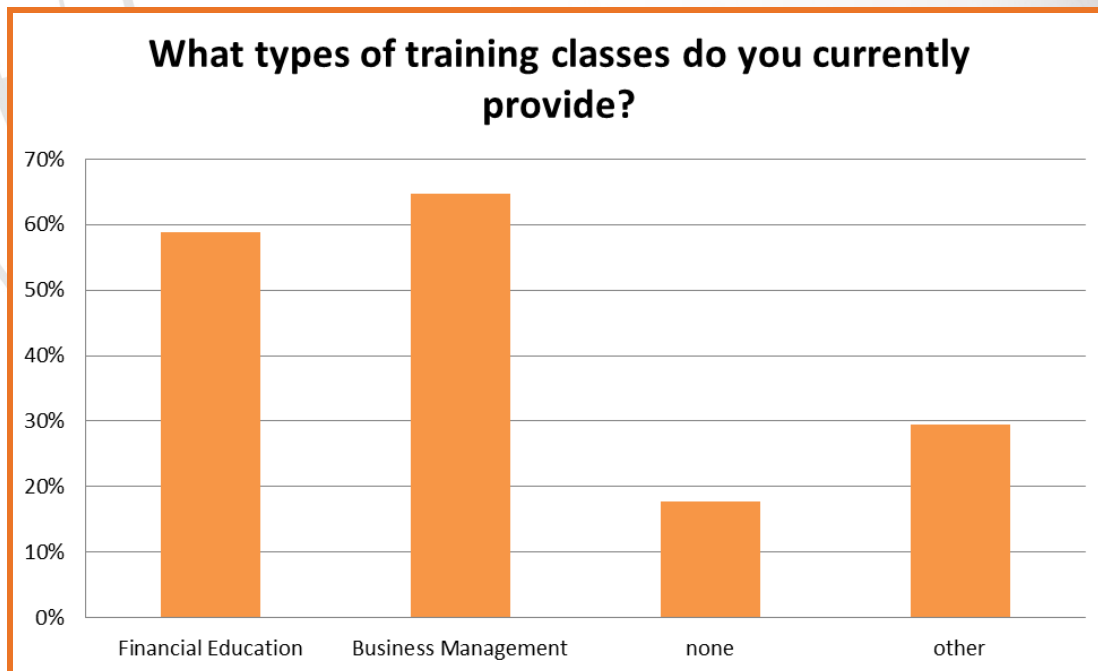
KEY OBSERVATIONS AND FINDINGS

HISTORY OF SERVICE

Oweesta has, through this study, discovered a long history of certified and well-established emerging Native CDFIs providing support and technical assistance for Native farmers and ranchers, as well as support for healthy foods efforts in their communities. While there is great diversity of services and lending products provided by Native CDFIs, over 40 percent of all Native CDFIs provide lending and training to Native farmers and ranchers.

These programs exist in Native communities for many reasons. As discussed, many Native American reservations are in rural, agricultural areas. These areas function almost entirely without access to traditional financing infrastructure, such as banks or credit unions, or traditional farming financing infrastructure, such as nearby USDA Farm Service Agency (FSA) offices or USDA Service Centers. Native CDFIs have endeavored to fill this gap, as surveyed Native CDFIs report lending out just under \$6 million annually to tribes, farmers, and ranchers for agricultural purposes. These loans often are often structured creatively to best match the farmer's cash flow, such as having one annual payment or payments only due during the summer months. Native CDFIs also report using inventive forms of collateral, such as older equipment, when concerns surrounding land ownership would otherwise impede lending.

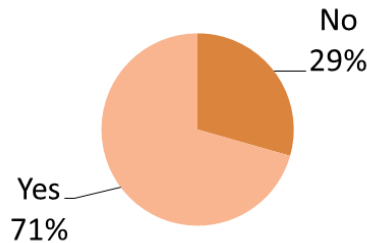
Native farmers and ranchers who do have access to these traditional historical capital markets often do not qualify for loans. Subsequently, many Native CDFIs have created loan products, such as "credit builder" or "credit repair" loans, that are designed to help individuals become credit worthy for these traditional financing sources. While individuals are building their credit worthiness, Native CDFIs are also providing classes and one-on-one support to these clients, helping them prepare for loans such as FSA loans. Of all Native CDFIs that provide agricultural loans or support services, 59 percent offer financial education classes and 65 percent offer business management classes to Native farmers and ranchers.



FACING CHALLENGES

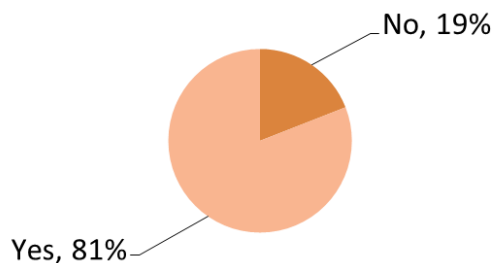
These Native CDFIs provide these products at great cost to their organizations and face many challenges. This has led a full 71 percent of all Native CDFIs that provide these services to desire additional technical assistance developing lending products or training specifically for Native farmer and ranchers. The reasons for these difficulties are many: lack of capital, the status of Indian trust lands, lack of training opportunities for these often self-taught organizations, and many other reasons. An astounding 56 percent of these Native CDFIs report not having enough capital to serve the Native farmers and ranchers in their communities. From just the Native CDFIs that provided an estimate of their capital needs, there was a reported deficit of capital needs of just under \$3 million in the past year alone in their quest to support Native farmers and ranchers.

Would you like additional technical assistance developing lending products or managing your portfolio for Native farmers and ranchers?



Similarly, many Native CDFIs that do not currently provide services to farmers and ranchers would desperately like to do so but are unable, frequently citing a lack of capital as the reason. Of the Native CDFIs that do not serve Native farmers and ranchers but otherwise served small businesses, 93 percent wanted to provide these services to farmers and ranchers and would do so if they had access to additional capital and training. In fact, 81 percent of Native CDFIs that weren't providing these services to Native farmers and ranchers, *including* Native CDFIs that strictly did housing or consumer lending, were interested in providing products and services for Native farmers and ranchers.

If your organization had access to additional capital and training, would you be interested in lending to Native farmers and ranchers?

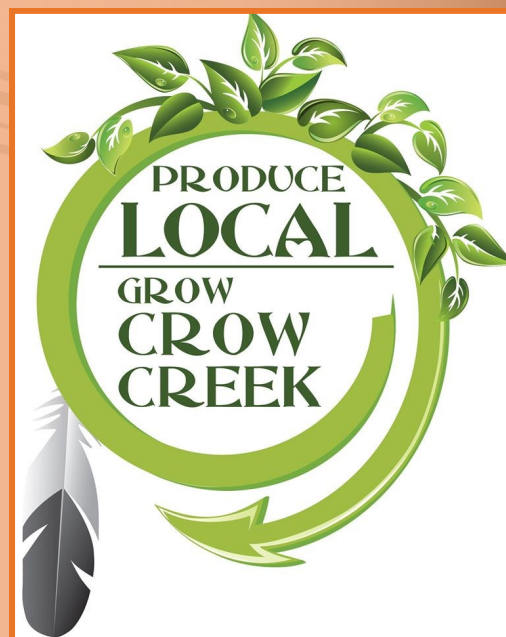


CASE STUDY: HUNKPATI INVESTMENTS

Hunkpati Investments (“Hunkpati”), a Native CDFI on the Crow Creek Reservation, launched the Crow Creek Fresh Foods initiative in 2010 to support the production and consumption of healthy foods on the Crow Creek Reservation. The Crow Creek Reservation, located in rural central South Dakota, has extremely limited access to healthy and fresh foods. The initiative began with a small school garden run by local youth. It has since expanded to a full community garden, a community orchard, and an associated farmers market to encourage food entrepreneurs and community organizations in the production and sale of healthy foods.

Hunkpati makes microenterprise and small business loans to food entrepreneurs, including local farmers and ranchers. Many of these loans have been creatively structured to best suit the needs of local food entrepreneurs. Additionally, some of these loans were made to first time farmers and ranchers that most likely would not have been able to receive funds from other sources, due to damaged credit or other reasons.

Hunkpati also has led a youth workforce program that employs teens to run the community garden project during the summer. These teens, such as Sarah Rockwood, pictured below, have in turn become food entrepreneurs themselves. Sarah and her sister started a small business, Fresh Grown Goodies, that sold jams and jellies. Money they made from their small business, as well as money they made working with the community garden project, was deposited into their Hunkpati Investment’s matched savings account.



RECOMMENDATIONS FOR SUPPORTING NATIVE CDFI FOOD FINANCING EFFORTS

BEST PRACTICES AND TECHNICAL ASSISTANCE

Native CDFIs are a necessary preliminary step for many food entrepreneurs in providing technical assistance and lending terms specific to their needs. Many times, Native CDFIs provide the first loans food entrepreneurs will take, readying them to later access traditional financing sources. Additionally, Native CDFIs often help borrowers access existing programs for which the borrower may qualify but of which they were previously unaware. This function is incredibly important in Native communities, where there has been a startling lack of outreach and capital available, despite the obvious and incredible need.

Native CDFIs have a clear need for technical assistance surrounding their food financing efforts. Native CDFIs have clearly and creatively responded to local needs through adapting existing programs and loan policies to serve Native farmers, ranchers, and other food entrepreneurs. Many of these programs were part of larger initiatives that supported entrepreneurship and economic development in their community, where the food financing efforts have grown organically through trying to be responsive to community needs. However, this natural growth process has meant that very few of Native CDFIs have had formal training on loan structuring, agricultural training programs, or other programmatic concerns specific to their food financing efforts. Our survey revealed a need for more peer to peer learning opportunities, as well as intermediary training surrounding these issues.



NEED FOR ADDITIONAL CAPITAL

Many Native CDFIs discussed the need for additional lending capital for their food financing efforts, while others requested operational support for their training and lending programs. While these capital issues were at least partially related to the larger capital access problems that Native CDFIs face, some of these concerns were specific to agricultural lending. For example, some CDFIs lamented that several of their capital sources, such as the USDA, had very strict policies forbidding agricultural lending. One large additional reason for this lack

of capital comes from the fact that most Native CDFIs had simply adapted existing funding sources, such as the CDFI Fund's award programs, for their Native food financing, instead of finding new funding sources for these programs. Consequently, there is clearly a need for these CDFIs to be made aware of existing funding resources that might be available to them specifically for food financings, as very few of them had applied for or even heard of many of the federal grant programs which were uniquely adapted to serve these efforts.

CONCLUSION

The need for healthy, local food options in Native communities is extremely well documented. Additionally, due to the rural nature of many reservations, agriculture remains one of the few economic development opportunities for Native communities. Native CDFIs have subsequently played an important role in the healthy foods movement in Native communities, providing both lending capital and training to Native farmers and ranchers. However, many of these Native CDFIs have a significant demand for these products and services that they are unable to meet due to insufficient resources. These Native CDFIs both want and need additional capital and training to better serve Native farmers and ranchers in their community.





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