



FEDERAL RESERVE BANK *of* KANSAS CITY

Roundtable on Entrepreneurship as an Economic Development Strategy in African American Communities

March 7, 2016

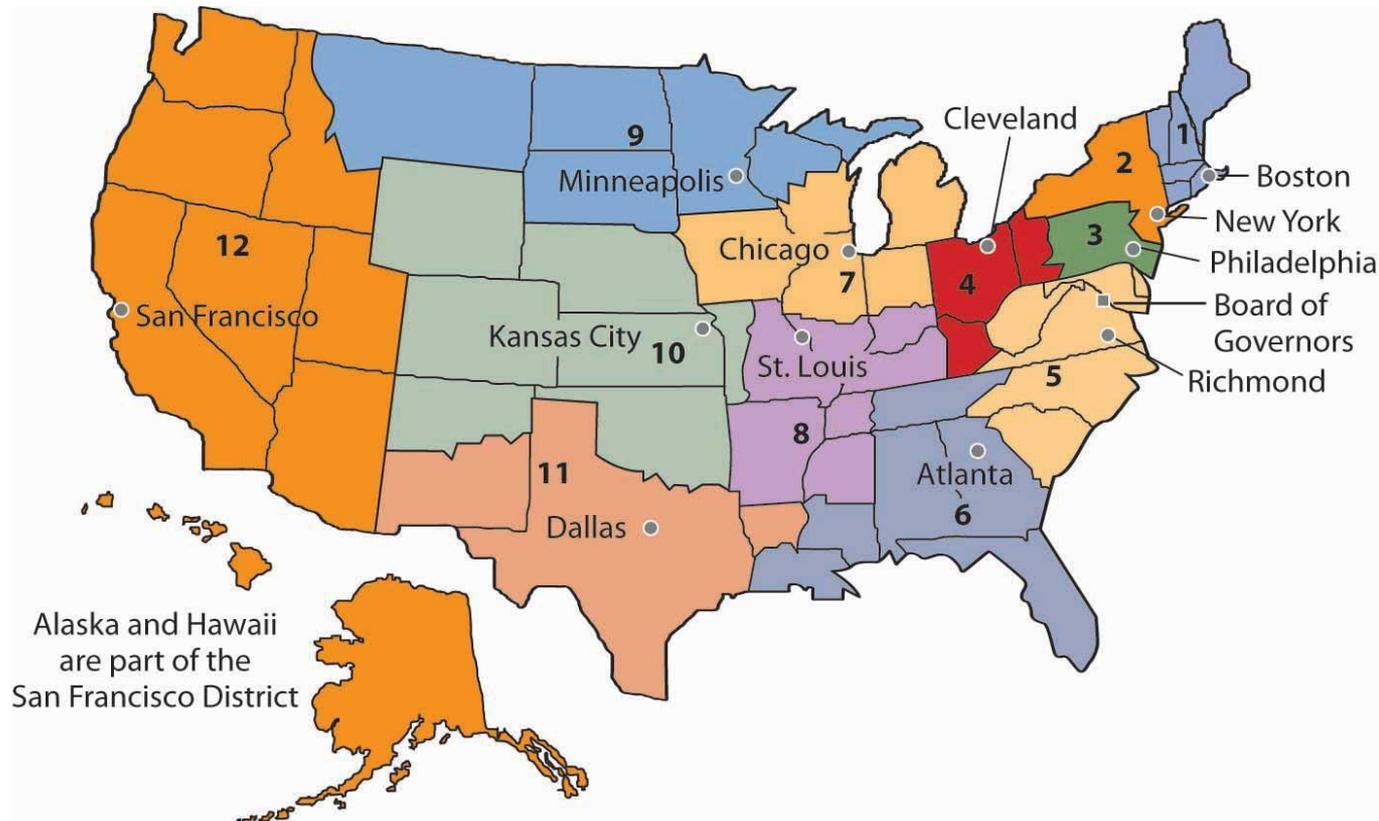


The Federal Reserve Bank

The views in this presentation do not necessarily represent the views of the Federal Reserve Bank of Kansas City nor the Federal Reserve System.

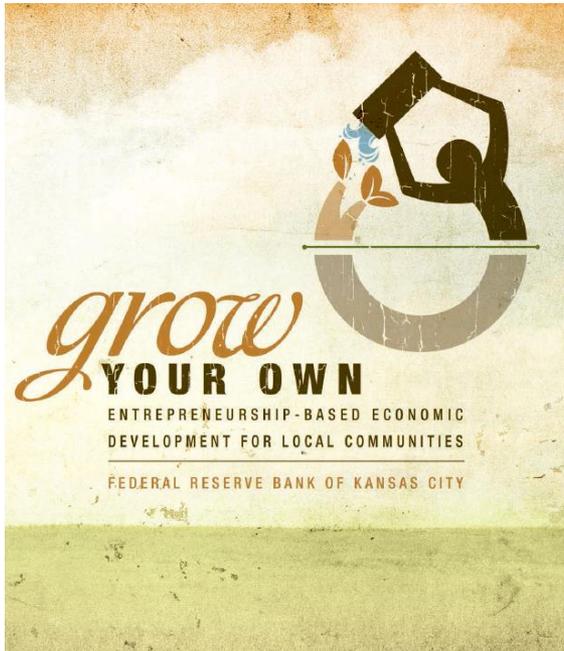


Federal Reserve Bank of Kansas City



The Tenth District consist of Nebraska, Oklahoma, Kansas, Colorado, Wyoming and portions of Missouri and New Mexico

The Federal Reserve Bank of Kansas City Perspective



The *Grow Your Own* eBook provides an overview of what it takes to conduct entrepreneurship based economic development.

The mission of the Community Development department of the Kansas City Federal Reserve Bank is to support the economic growth objectives of the Federal Reserve Act by promoting community development and fair and equal access to credit.

Our job is to serve as a neutral convener of resources between those who have and those who don't, because we know all segments of the population, including the less advantaged, benefit from both economic growth and fair and equal access to credit.

Visit: www.kcfed.org/community/smallbusiness

To download the eBook and other information.



Goals

1. To provide a heightened awareness of the disparities in entrepreneurship and economic and social consequences within Kansas City.
2. To help create a broader conversation in Kansas City around the issue of effective economic development in minority communities.
3. To acquire “on the ground” feed back on opportunities and challenges to reduce these disparities.



Omaha, Nebraska a Tale of Two Cities

Omaha, Nebraska is an example of how attraction based economic development can benefit large areas, but mask significant underdevelopment in parts of a community.

Positives

#3 - The Best Cities to Find a Job in 2016

#9 - 2015's Most Caring Cities in America

#1 - The Top 10 Best American Cities to Work in Tech in 2015

The 5 Best Big Cities (Best in the Midwest)
Time.com/money - August 2015

#15 - 2015's Best City for Families

#5 - Best Metro Area (Omaha-Council Bluffs) for STEM Professionals

Negatives

According to a 2008 Pew research report:

#3 Among America's 100 largest metro areas, Omaha has the third-highest black poverty rate.

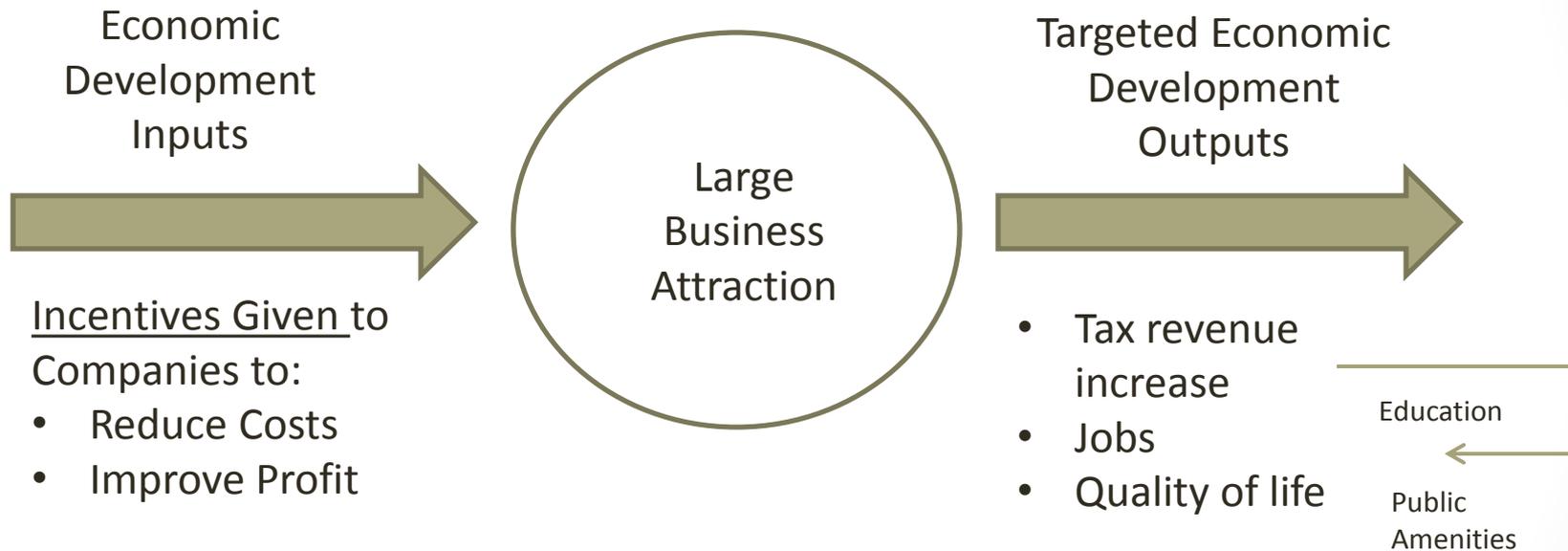
#1 ...its percentage of black children in poverty ranks No. 1 in the nation, with nearly six of 10 black kids living below the poverty line.

#2 ...only one other U.S. metro area, Minneapolis, has a wider economic disparity between how black and white residents fare.



Dominant Economic Development Model – Attracting New Companies

Current Economic Development Model Based Upon Attracting Companies



Challenges of This Kind of Economic Development for Disadvantaged Communities

1. Jobs brought in by new companies do not always match the jobs skills of the disadvantaged population.
2. Wealth creation is often indirect, through homeownership and investments as opposed to business ownership.
3. Often does not improve community resiliency and positive identity.

Defining Economic Development

The main goal of economic development is improving the economic well being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life. As there is no single definition for economic development, there is no single strategy, policy, or program for achieving successful economic. – **IEDC Economic Development Reference Guide**



INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

Economic development is based upon achieving certain goals in a community . The methods for achieving those goals should be left to the community. However, in most communities the attraction based model of economic development is the primary if not only model used. Current estimates show that over \$80 Billion annual is providing by states to use incentives to attract companies.

Defining Economic Development

My Definition

“Fostering a dynamic environment where economic opportunities can be discovered, taken advantage of and maximized to their fullest extent to create balanced and sustainable economic growth, jobs, a positive sense of ‘place’ and an improved quality of life in a defined geographic region.” – **Dell Gines**

My definition focuses on the important goals of balance, sustainability and positive sense of place. These are important for the long run health of all communities, including disadvantaged communities.

Our Primary Question In African American Communities is:

Why are we not focusing more on creating creators of jobs (meaning entrepreneurs) than creating consumers of jobs as an development strategy?

Why Entrepreneurship Is Vital to Economies

A few reasons why grow your own economic development is a powerful tool:

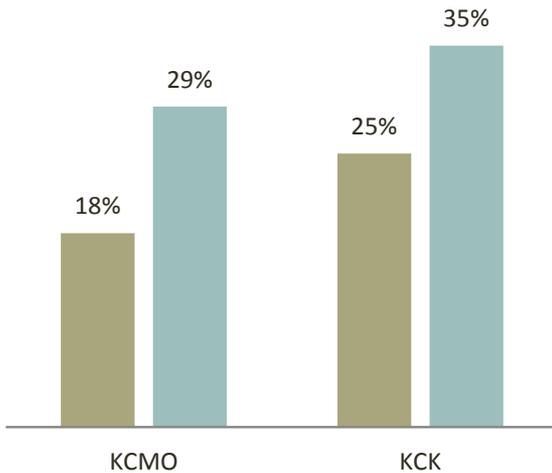
1. Entrepreneurs create jobs, increase local incomes and wealth (Henderson, 2002).
2. A higher ratio of entrepreneurial activity is associated strongly with faster growth of local economies (Barth, Yago & Zeidman, 2004)
3. Greater minority business density creates greater state GDP growth (Lowrey, 2005)
4. Local entrepreneurs are more likely than branch plants to reinvest their wealth locally.
5. Entrepreneurs create a sense of place.
6. The cost of job creation is lower (Edmiston, 2006)
7. Grow your own development is a more feasible way to develop traditionally economically challenged areas.
8. Grow your own development helps create diversified economies.
9. Entrepreneurship is seen as a pathway out of poverty.



Economic Data – Key Comparisons

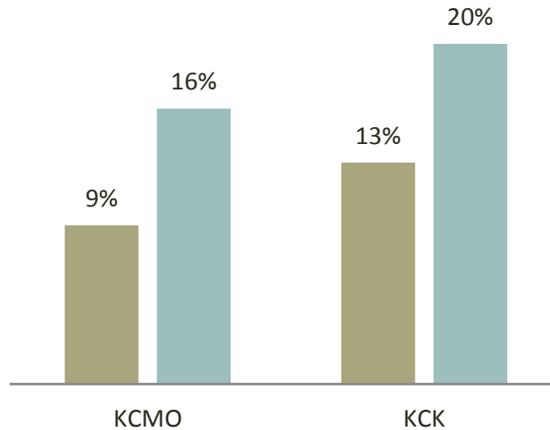
2014 Poverty Rate Comparisons All & Black

■ All ■ Black



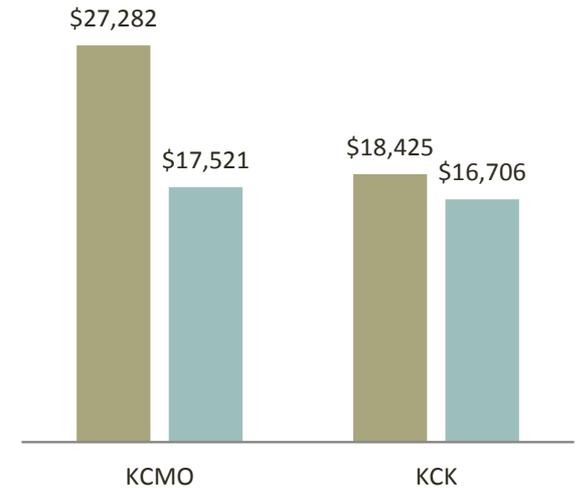
2014 Unemployment Rate Comparisons All & Black

■ All ■ Black



2014 Per Capita Income Comparisons All & Black

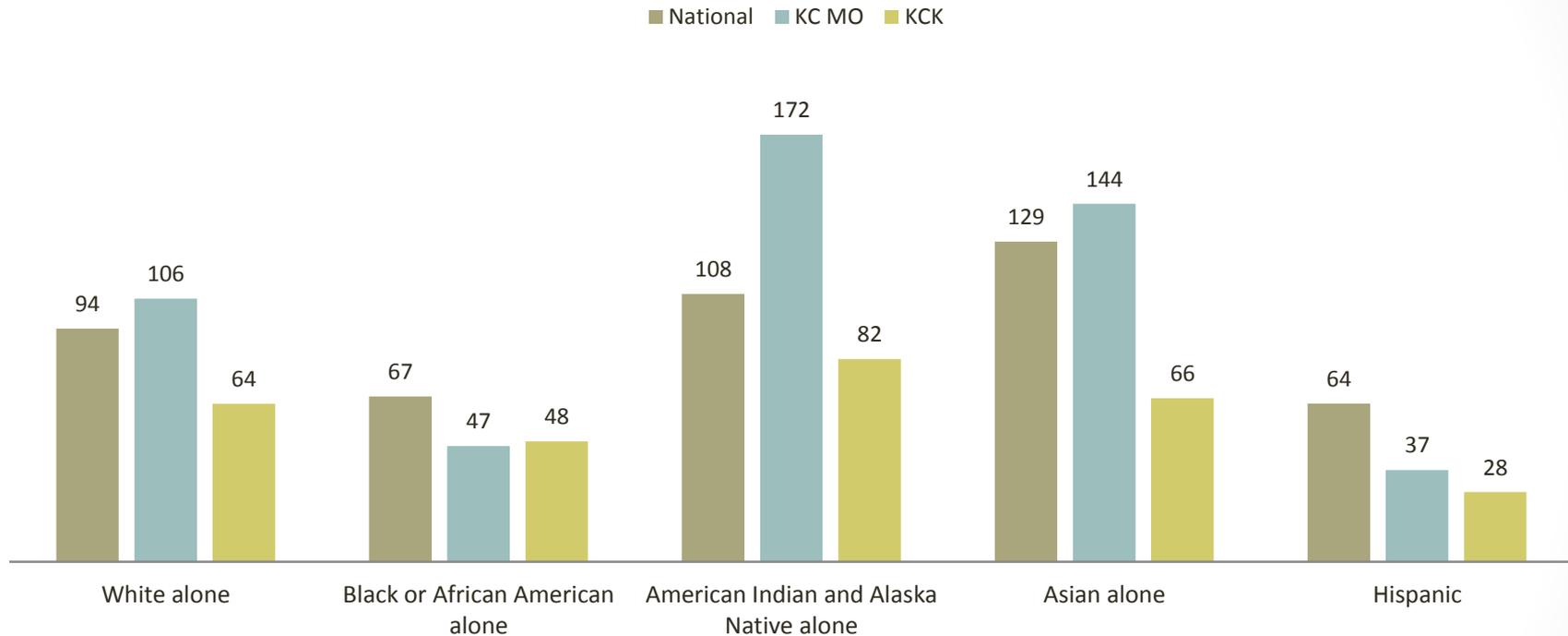
■ All ■ Black



Black communities have higher poverty rates, unemployment rates and lower income levels than average. Often this is by a significant margin.

Business Data - Business Comparison Numbers by Race

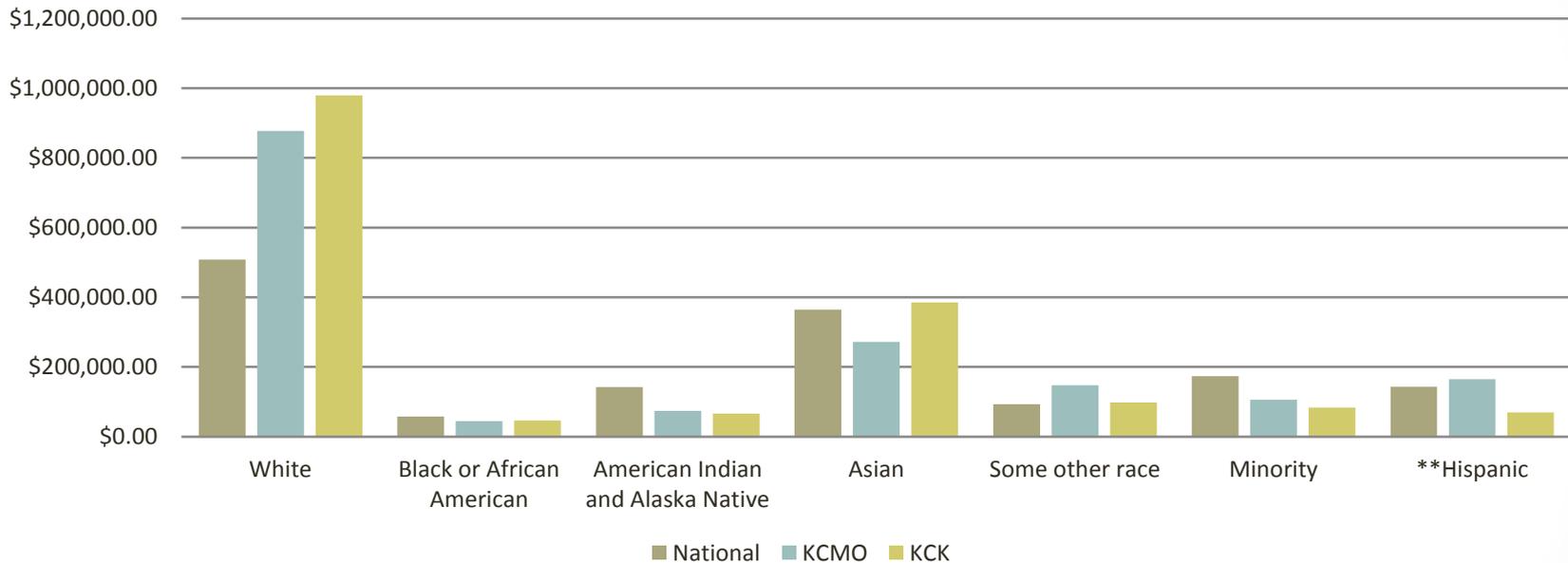
Business Density Comparisons Number of Business Per 1000 People



The number of businesses owned by African Americans is lower than national average and also lower than every other race in KCMO and KCK.

Business Data

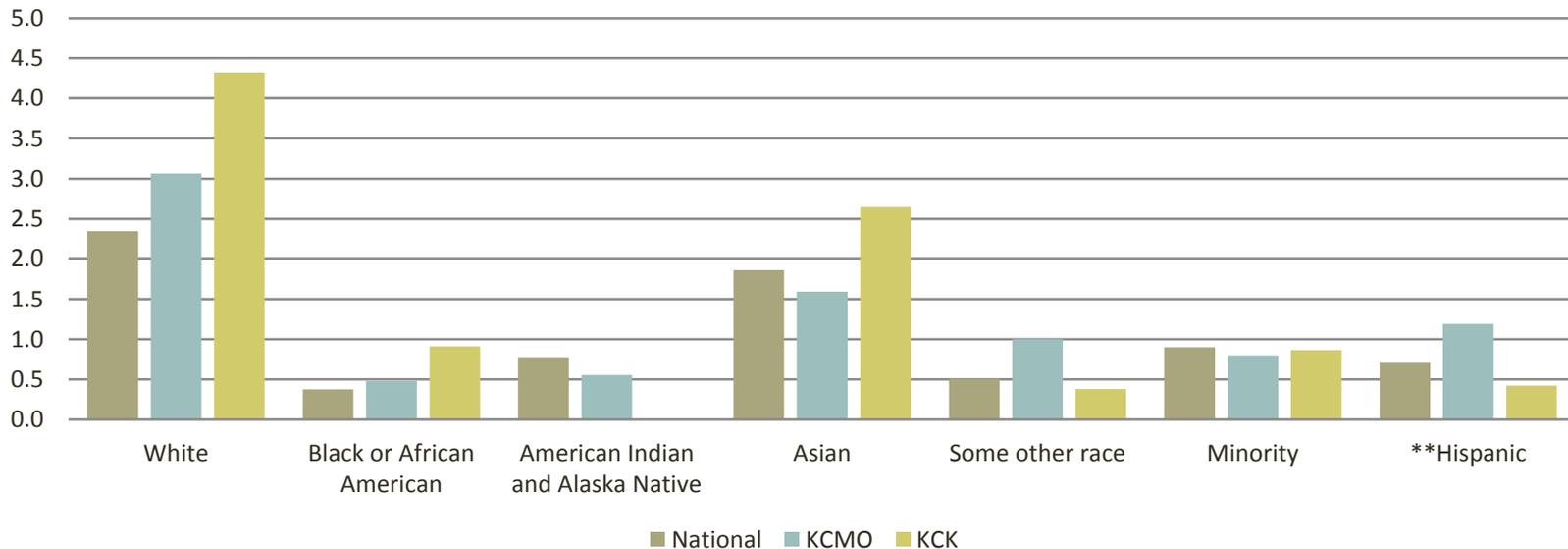
2012 Average Sales Per Firm



Black businesses average sales per firm lag every other race. At \$45,000 per year for KCMO and \$47,000 per year for KCK the average sales for a Black business are close to 20 times lower than the average White business in KCMO and KCK.

Business Data

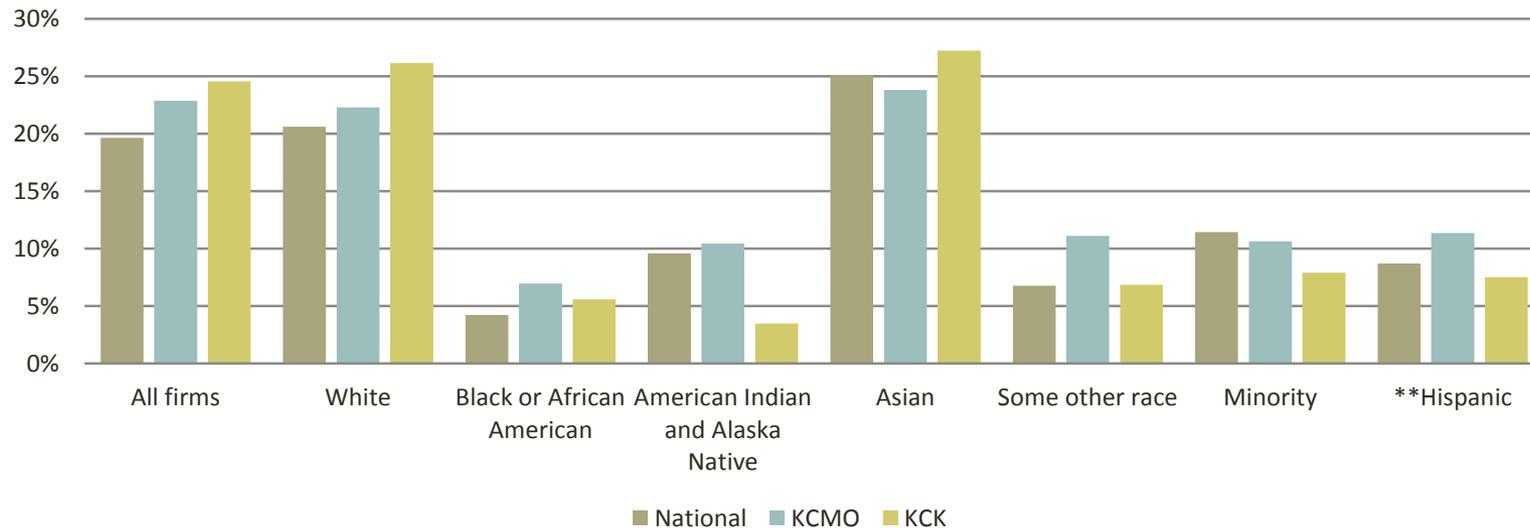
2012 Average Employees Per Firm



Black business employment per firm is the lowest out of all racial groups in KCMO at .5 employees per firm. In KCK, .9 employees per firm are more than double that of KCMO. However, in both KCMO and KCK, employment per firm is 5 times or more lower than that of White businesses. White businesses average 3.1 and 4.3 employees per firm respectively in KCMO and KCK.

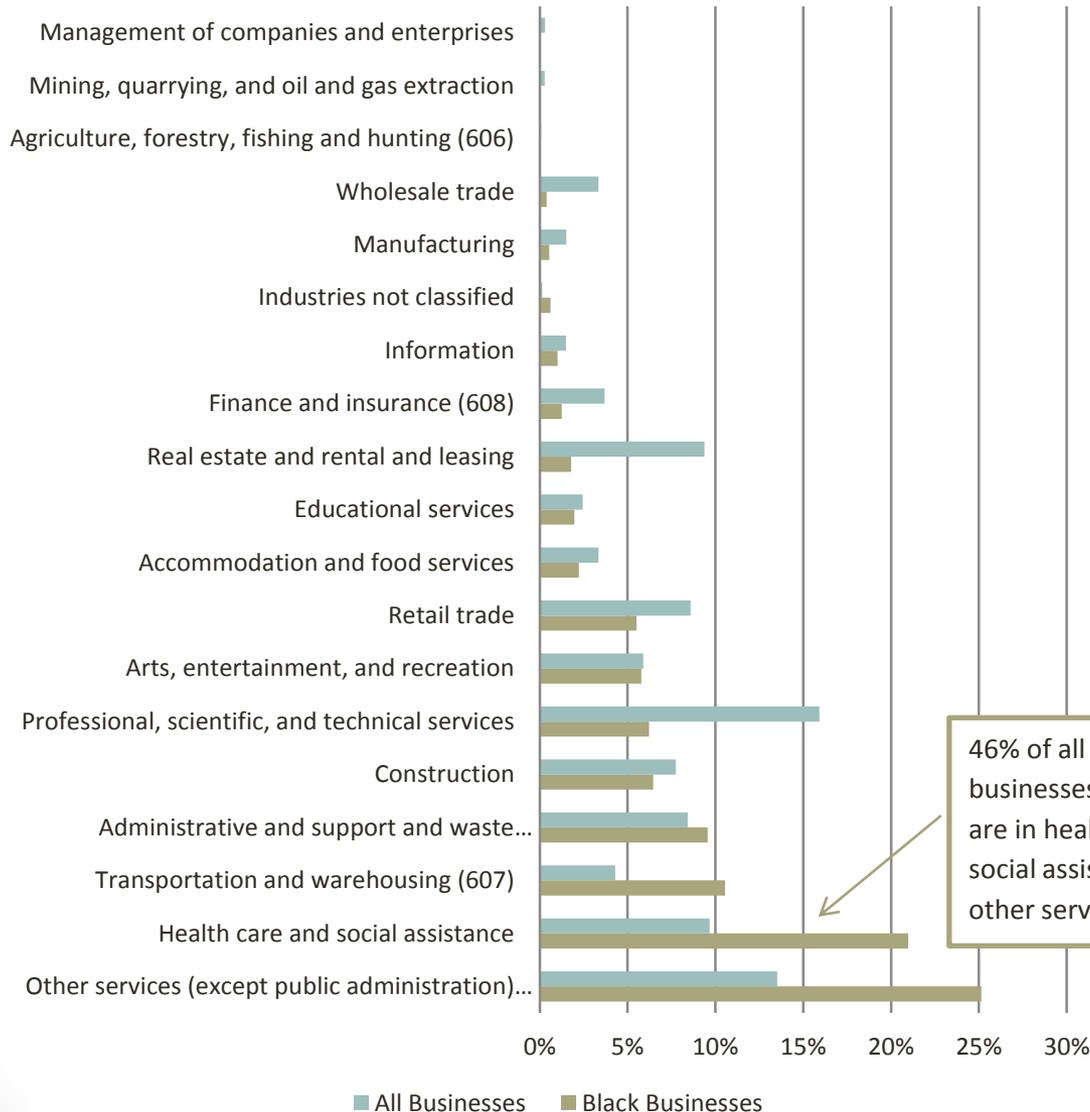
Business Data

2012 Firms With Paid Employees by Percentage



Employer owned firms have higher average sales and also are responsible for creating and maintaining local jobs. While higher than the national Black business averages of 4%, KCMO at 7% and KCK Black businesses at 6% have the lowest or second to lowest percentage of businesses that employ workers when compared to other racial groups. In KCMO and KCK approximately 25% of all White firms have employees, which is approximately four times more than Black businesses.

2012 Black Business by Industry in KCMO



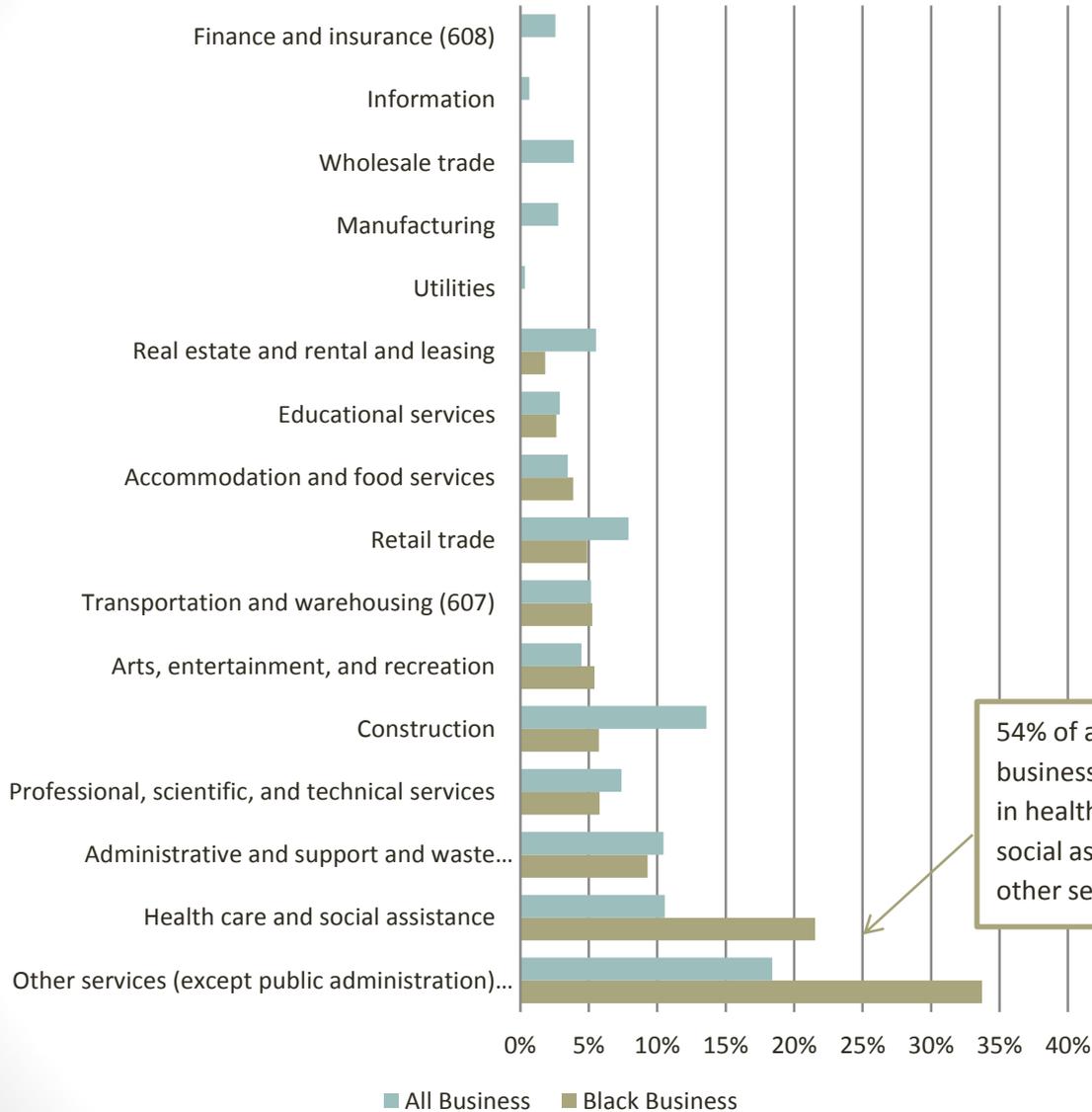
46% of all Black businesses in KCMO have firms in health care and social assistance and other services.

There are statistically no Black firms in KCMO in wholesale trade, agriculture, mining and management of companies and enterprises.

46% of all Black businesses in KCMO are in health care and social assistance and other services



2012 Black Business by Industry in KCK



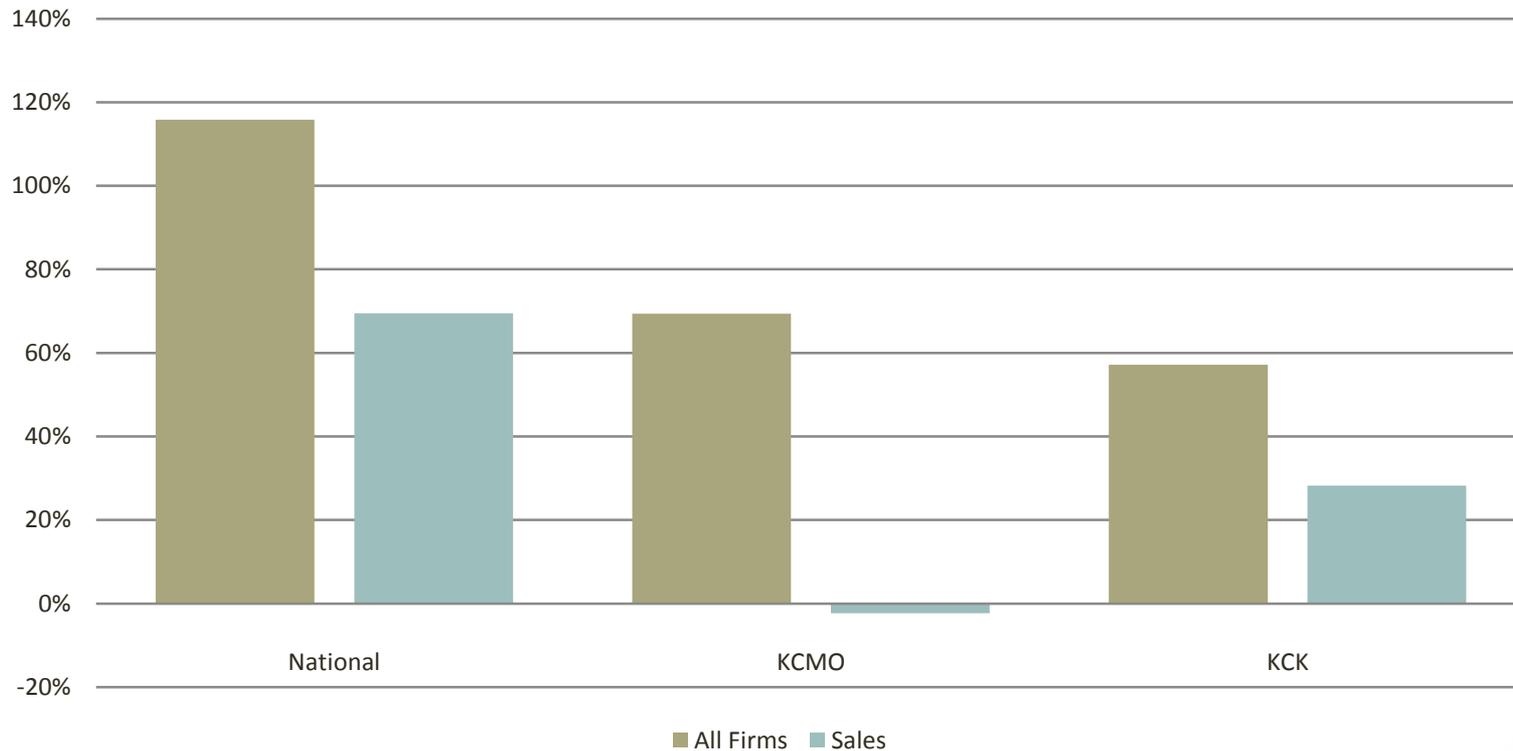
54% of all Black businesses in KCK have firms in health care and social assistance and other services.

There are statistically no Black businesses in utilities, manufacturing, wholesale trade, information and finance and insurance.

54% of all Black businesses in KCK are in health care and social assistance and other services

Growth

2002 to 2012 Change in All Black Firms & Black Firm Sales

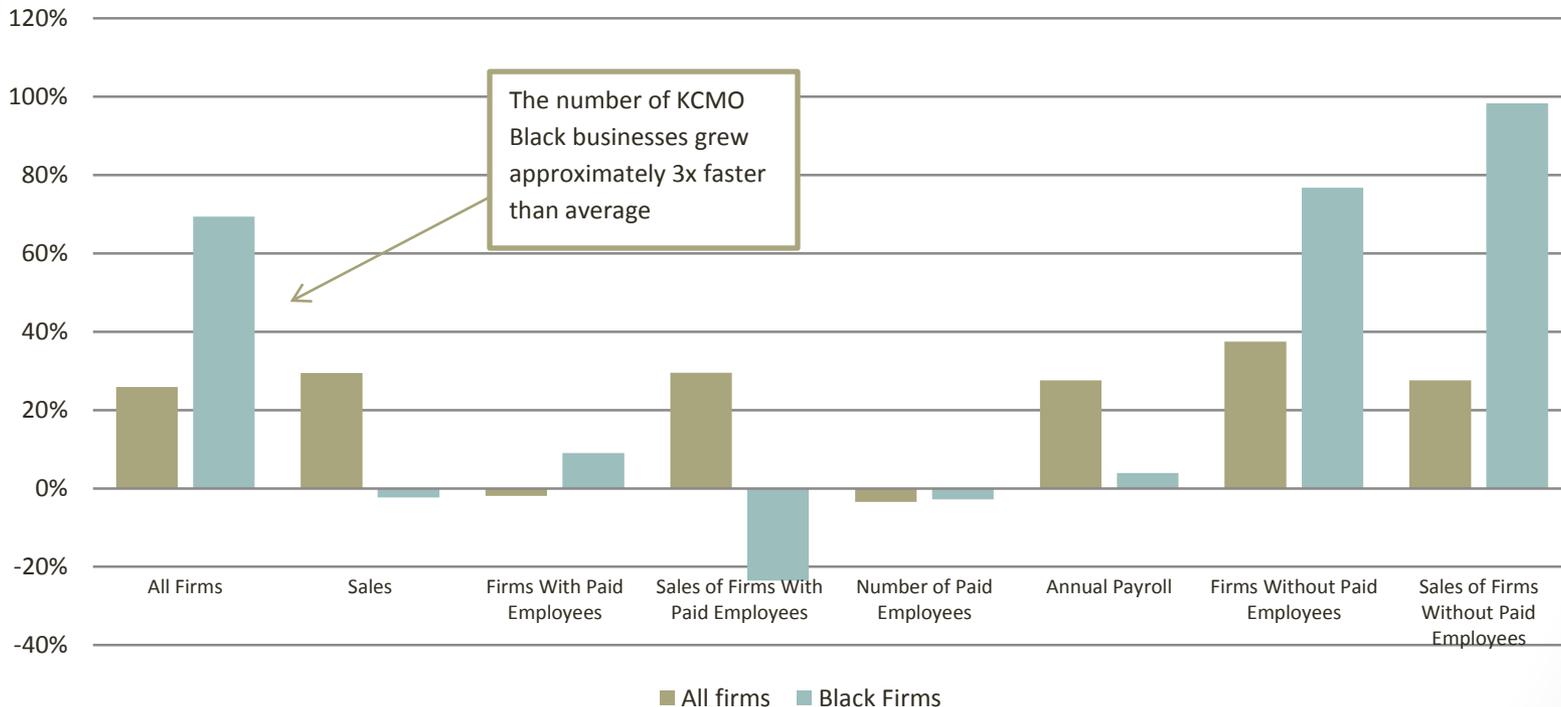


African American firms in KCMO and KCK lagged in both business growth and sales growth relative to the national African American business average.



Business Data – KCMO Business Changes 2002 to 2012

**2002 to 2012 KCMO Business Growth
All Businesses vs Black Businesses**

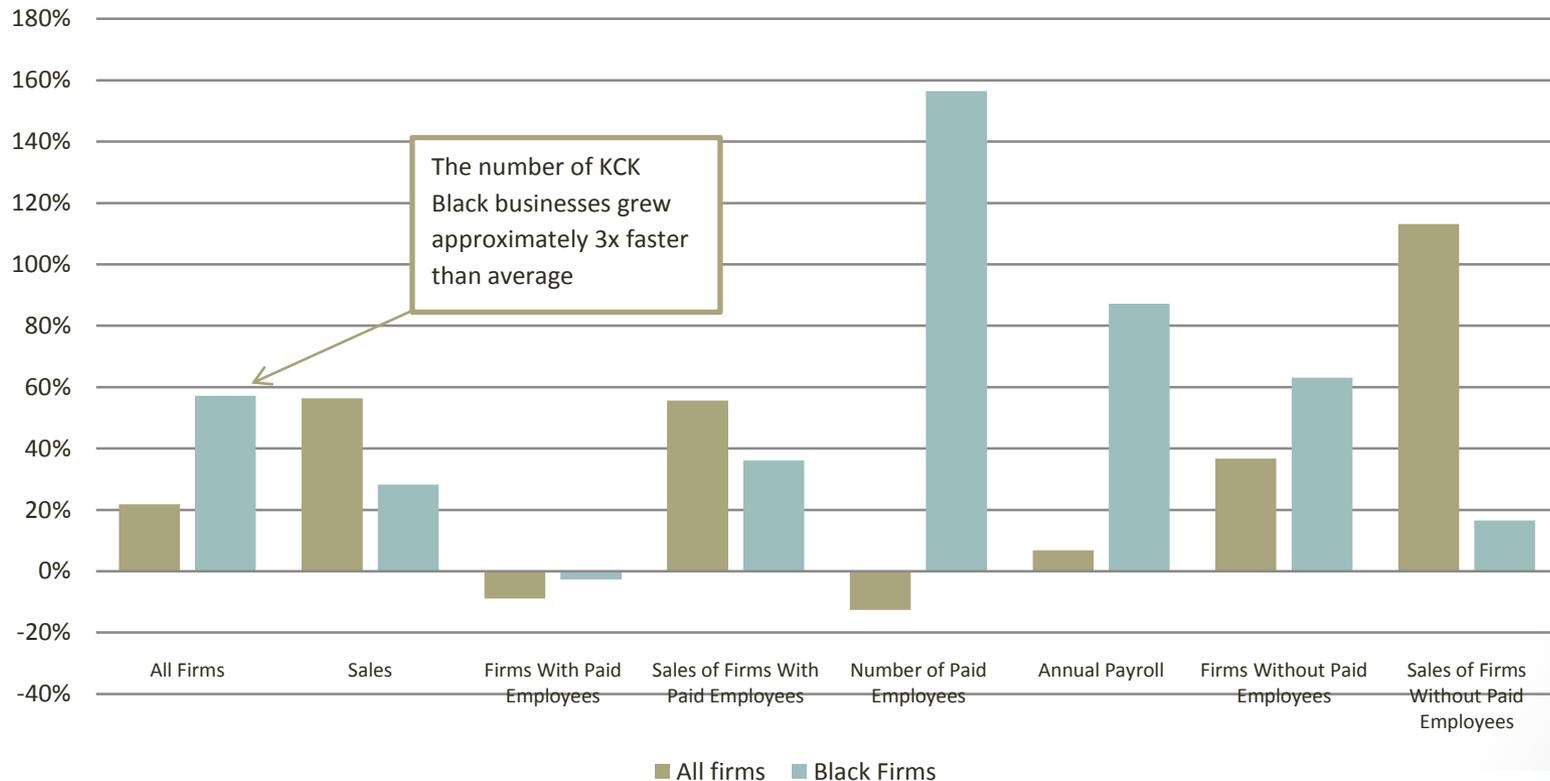


The number of African American businesses in KCMO grew faster than average compared to other businesses in KCMO in many categories.



Business Data – KCK Business Changes 2002 to 2012

**2002 to 2012 KCK Business Growth
All Businesses vs Black Businesses**

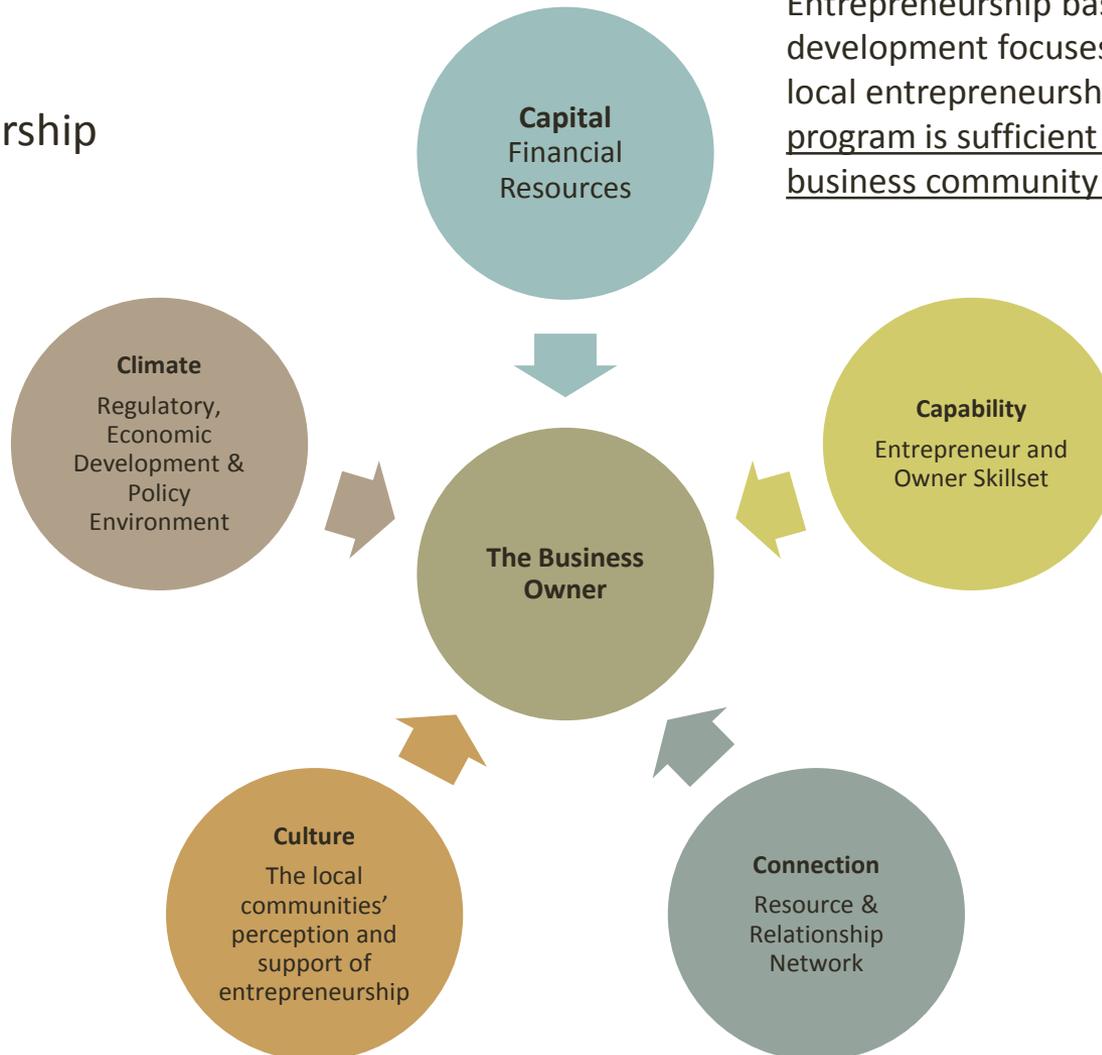


The number of African American businesses in KCK grew faster than average compared to other businesses in KCMO in many categories.



Grow Your Own – Entrepreneurship Based Economic Development

5Cs of the Entrepreneurship Ecosystem



Entrepreneurship based economic development focuses on creating strong local entrepreneurship ecosystems. No one program is sufficient to build the small business community alone.

Grow Your Own

- One alternative model to attraction based economic development is entrepreneurship based economic development or Grow Your Own economic development.
- In this model of development economic development is created by focusing on increasing startup businesses and helping to grow existing businesses within a community.
- This model has the potential to be more effective at improving local disadvantage communities by improving ownership, creating local jobs and improving community identity and resiliency.



Table Discussions

- Question #1 – What are some of the strengths of the Kansas City community (the entire city and Black community) that would help build a stronger Black entrepreneurial ecosystem and increase entrepreneurs?
- Question #2 – What are some of the weakness / barriers in the Kansas City community that would make it difficult to build a stronger Black entrepreneurial ecosystem and increase Black entrepreneurs?

Contact

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For more information & resources

<http://kansascityfed.org/community/>

To sign up for our Community Connections email newsletter please email me at the address above.

