Karen West, Nov. 6th, 2014, for submission to Beyond Silicon Valley: Growing Entrepreneurship in Transitioning Economies, Personal Learning Assignment (PLA) 5:

Note that the answers below were taken from the video lecture in regard to the experiences of the seed accelerators, angel investors and venture capital contributions to start-ups in Cleveland,Ohio, but for my local area here in Boston,MA,USA, it was taken both from the entrepreneur interviews that I did for my mid term assignment, and also from doing a web search this week.

Funding programs to support seed accelerators like the Ohio Third Frontier’s One Fund program, angel investor incentives such as the Pre-Seed Capitalization Program, and entities that support venture capital funds such as Ohio Capital Fund are examples of programs put in place to increase access to capital and mentoring for start-up companies.

I did not expect to find when I did a web search on the topic that either the Silicon Valley area or the Boston,MA area where I live would have incentive programs to encourage the start up culture since it already seems to be vibrant here from some of the previous assignments I've done in this class. However, what I found is that Boston does have extra incentives to encourage entrepreneurs in Boston and I imagine if Boston does, Silicon Valley does too, even though they already have an established reputation for the encouragement of entrepreneurs and it is less necessary in those economies.

Here is the article I found and I share in full since it covers all the details discussed in lecture about “incentives in the local ecosystem for encouraging economic development and investing and keeping entrepreneurs in the Boston and MA area at large.” So below I quote the news article from August 13, 2014 when our current Governor, Deval Patrick, made this announcement.

Governor Deval Patrick today signed H.4377 “An Act To Promote Economic Growth in the Commonwealth,” building on the Patrick Administration’s successful economic development strategy of investing in education, innovation and infrastructure. The economic development package provides new tools and training to ensure the Massachusetts workforce meets the needs of employers, invests in our Gateway Cities to promote development across the entire state and provides incentives to create jobs and stimulate the economy.

Also on Wednesday, Governor Patrick re-filed legislation that limits the use of non-compete agreements and adopts the Uniform Trade Secrets Act to ensure that government acts to retain talented entrepreneurs, supports individual career growth and encourages the development of new, innovative businesses to drive future economic growth. The legislation also includes a provision to give local governments across Massachusetts control over the number of liquor licenses in their jurisdiction. Placing the authority to approve liquor licenses in the hands of municipal officials will allow local communities to make responsible decisions regarding their economic development and growth and free the Legislature from time-consuming local issues.

“In important ways, this legislation improves existing tools and provides a few new ones to continue our strong job growth, and I thank the Legislature for being so responsive,” said Governor Patrick. “At the same time, we have unfinished business, so I am filing further legislation today to give innovators and municipalities all the tools they need to grow jobs and opportunity.”

“An Act To Promote Economic Growth in the Commonwealth,” signed on Wednesday, bolsters the economic revitalization of the Commonwealth’s Gateway Cities with $15 million for the Gateway Cities Transformative Development Fund and encourages the reuse of brownfields in economically distressed areas of Massachusetts with $10 million in funding.

“This legislation makes many targeted investments in our emerging industries, like Big Data and advanced manufacturing, that are necessary to create a competitive environment here in Massachusetts and grow our status as a leader in the world economy,” said Senate President Therese Murray. “By capitalizing on our state’s existing and developing industries, as well as investing in a strong, educated workforce, we are outlining a path to success for our residents and promoting economic development throughout the entire Commonwealth.”

“This comprehensive bill will help ensure that residents, businesses and communities are able to compete and excel in a dynamic economy,” said House Speaker Robert A. DeLeo. “We’ve made substantial gains in strengthening our economy and must now focus on broadening the circle of prosperity beyond Greater Boston to all regions of the Commonwealth. This bill does just that while preparing future leaders through provisions like MassCAN, a computer science education partnership and the Talent Pipeline Initiative.”

Building on a strong record of growth in the state’s world-class innovation economy, the economic development package also adopts Governor Patrick’s proposal to create a pilot Global Entrepreneur in Residence Program to retain and attract entrepreneurs who are growing companies and creating jobs in the state. The program will be piloted at the University of Massachusetts Boston and the University of Massachusetts Lowell and will allow qualified, highly skilled, international students currently in Massachusetts to stay here after graduation if they are starting or growing a business and contributing to the local economy.

“This bill provides significant new support for the Commonwealth’s economic development strategy,” said Housing and Economic Development Secretary Greg Bialecki. “Ensuring the long-term economic prosperity of the Commonwealth means extending growth and opportunity to every corner of the state.”

In the area of workforce development and training, the Act includes $12 million for the middle skills job training grant fund to support advanced manufacturing, mechanical and technical skills at vocational-technical schools and community colleges. Also, the Workforce Competitiveness Trust Fund will receive $1.5 million to prepare Massachusetts residents for new jobs in high-demand occupations, helping close the middle-skills gap and creating a seamless pathway to employment.

The economic development legislation also includes a number of initiatives to expand the Commonwealth’s world class innovation economy including $2 million for a Big Data Innovation and Workforce Fund to promote the use of big data, open data and analytics, and $2 million for the Innovation Institute Fund at the Massachusetts Technology Collaborative (MTC).

The legislation also creates a $1 million talent pipeline program that will provide matching grants aimed at increasing technology and innovation internships, and another $1 million for a start-up mentoring program to connect early-stage entrepreneurs, technology startups and small business with experienced business enterprises and capital financing.

"This package tackles three key areas important to driving job creation," said Karen Mills, former Administrator of the U.S. Small Business Administration and Senior Fellow at Harvard Business School. "It expands opportunities for small businesses to get the capital they need to grow. It invests in helping workers gain skills in critical sectors important to the state's future. And, it strengthens ecosystems to encourage and support entrepreneurship. This is a great example of leaders in the public and private sectors coming together around a playbook for growing our economy and creating good-paying jobs."

A separate provision increases the Housing Development Incentive Program’s (HDIP) annual cap from $5 million to $10 million over the next four years, and allows larger developments to qualify by eliminating the 50-market-rate unit per project cap. The expansion of the HDIP will provide residents of Gateway Cities with increased access to market-rate as well as affordable housing.

The legislation also:

Expands on the Commonwealth’s international tourism and marketing efforts, capitalizing on new connections overseas, helping to bring more businesses and jobs to Massachusetts and more tourists to our world class destinations;

Increases the total financing allowed under the Infrastructure Incentive (I-Cubed) program from $325 to $600 million, and raises the number of allowed I-Cubed projects within any community from three to eight. The program provides innovative financing for public infrastructure projects expected to leverage significant economic investment;

Dedicates $3 million to the Housing Preservation and Stabilization Fund, which provides a flexible method for funding affordable housing for low-income families and individuals;

Establishes a financial services advisory council to exchange ideas and develop strategies for business and government to work together to strengthen the Commonwealth’s financial services industry; and

Creates a job creation incentive under the Economic Development Incentive Program (EDIP), allowing business to receive a tax credit up to $1,000 per job created, or up to $5,000 per job created in a Gateway City, so long as the total credit per project does not exceed $1 million.

Along with signing the bill, Governor Patrick also included a number of vetoes and amendments including sections 52, 65 and 97, which propose a new “live theater” tax credit. This new tax credit does not satisfy the 2012 Tax Expenditure Commission’s requirement of a clear societal purpose that is most efficiently met by the proposed tax expenditure, and it is not needed to encourage these kind of investments. The Inspector General has criticized the lack of sufficient safeguards in this provision to ensure that the credits are properly directed.

Governor Patrick also vetoed Sections 101 and 115, which designate entire municipalities as an “eligible location” under Chapter 40R. A blanket designation of an entire town as an “eligible location” conflicts with the goal of Chapter 40R to encourage communities to create smart growth zoning districts near transit stations, in areas of concentrated development such as existing town centers and in other highlight suitable locations.

Governor Patrick also returned back for amendment two other provisions of the bill requiring a study of the “angel investor” tax credit and requiring telephone counseling rather than delaying for two years the requirement for counseling new mortgage holders.

So that concludes in detail what the state of MA, Boston in particular, is doing to encourage investment and retention of entrepreneurs in this area.

The climate for entrepreneurs varies by city and state in the USA, as exemplified in this class. Cleveland, Ohio was not a good place for attempting to be an entrepreneur 10 years ago until they set up some incentive programs, and I imagine that there are many similar type economies that exist in the US that are similar. However, I live in Boston,MA, and although not as vibrant as Silicon Valley, it is a good place to attempt to be an entrepreneur.

I know the above article I shared from the recent August 13, 2014 announcement from our current Governor, Deval Patrick, it did specifically mention mentoring. Here are those few sentences from above shared again: “The legislation also creates a $1 million talent pipeline program that will provide matching grants aimed at increasing technology and innovation internships, and another $1 million for a *start-up mentoring program to connect early-stage entrepreneurs, technology startups and small business with experienced business enterprises and capital financing*.”

I did do a search to find something specific that mentions “incubation” and “seed funding” for the Boston area, but what I found were listings of angel investor and venture capital groups, so I imagine these things exist but I do not have a specific name to share here. In previous assignments, I've mentioned Boston's “The Boston Foundation” that recently merged with “The Philanthropic Initiative” to help encourage entrepreneurs in areas that are important to the Boston area. Also, I shared the “Massachusetts Technology Transfer Center” web site of resources they have for encouraging entrepreneurs, meet ups in Boston and Cambridge, and contests such as the “Massachusetts Technology Challenge” where people compete to receive funding for a start up. Recently from one of my entrepreneur interviews, I also learned of another resource called “Quirky” where people vote online on your idea to receive funding but that is not unique to the Boston,MA area and was shared with someone I know from Albany, NY actually. I also do not have any specifics on later stage investing in Boston, other than these things. The article I shared above from Governor Patrick does specfically mention the mentoring and support of early stage entrepreneurs though. I suspect though that one of these resources I mentioned here does have support for later state start ups as well.

From my entrepreneur interviews that I did recently, the one for which I worked from 2002-2004, Oasis Semiconductor, which is now part of Conexant, I learned from interviewing the former Oasis CEO, what the differences may be in the investment sizes of angel investing verses venture capital. For venture capital, they often give larger investments which allow larger salaries and equipment for the start up, but the trade off is that the employees receive less stock options, and there is a stipulation of a higher return on investment for the venture capitalist. For angel type investors, they usually have less funds to invest, which require lower salaries for the employees, but more stock options for each employee, and less strict requirements on the return on investment to the angel investor. The way that this angel investment pays off is when there is an exit event, where either the company goes public, or it is bought by another company. When it is bought, those extra stock options become very valuable, especially for the earliest members of the company, who have been surviving on a lower salary to get the company started. Also, if there is any government contributions, those tend to be less than what a venture capitalist or angel investor may contribute, since their fund is spread across the city and state. Although I have no specific examples, the philanthropic contributions also tend to be smaller than the venture capital contributions, in a similar way to the angel investments.

In the previous paragraph, I mentioned what I learned for the Boston area most active investors, but upon doing a web search for the entire USA, based on number of deals made, this is what I found. For the USA, the **top angel investors in 2013** were:

1. Golden Seeds (Calif./Mass./NY) — This active group focuses on women-led startups. Recent investments include group-reservations company Groupize, color-recommendation app Plum Perfect and Little Pim, a children’s foreign-language teaching startup.
2. Tech Coast Angels (Southern California) — Crunchbase calls Tech Coast the largest single angel investor group in the U.S. Investments this year include online-entertainment site HitFix, in a $1.8 million round that Golden Seeds joined in as well.
3. Houston Angel Network (Houston) — This nonprofit Texas powerhouse focuses many investments locally, and participated in 33 deals last year, for a total of nearly $9 million. HAN also recently created its first sidecar fund, Texas Halo Fund I, which raised $2 million. Recent investments include marketing-image company Cinegif and device-connectivity firm Meshify.
4. Central Texas Angel Network (Austin, Tex.) — CTAN has more than 120 members and invested nearly $10 million in 33 deals last year. Its most recent deal provided funding to Austin-based sales-contest startup FantasySalesTeam.
5. Sand Hill Angels (Sunnyvale, Calif.) Sand Hill has more than 100 members and made 32 investments last year. Investments this year include a series B funding for medical-device firm RenovoRX, in which Golden Seeds co-invested.
6. Launchpad Venture Group (Boston) — The largest Northeast-based angel group, Launchpad focuses exclusively on local startups and invests up to $1 million per round. Last month, it participated in a $3 million funding round for online-catering startup ezCater.
7. New York Angels (New York City) — This Big Apple AAPL -0.16%-focused group funds up to $1 million per deal and has invested over $100 million over the past decade. In February, NYA participated in a $1.5 million funding round for student-research firm Citelighter.
8. Desert Angels (Tucson) — This Arizona group has over 95 members and has invested over $26 million in more than 65 companies since 2000. Most recently, cancer-fighting biotech Sialix saw both Desert Angels and Launchpad participate in its $4 million Series B financing.
9. Investors’ Circle — This national nonprofit is the oldest and largest angel group, having funded more than 270 companies to the tune of $172 million. Last month, its Philadelphia chapter provided $1 million in funding to advanced-lighting firm Luxtech.
10. Alliance of Angels (Seattle) — The Northwest’s angel nexus has invested over $80 million in 200 companies since 1997. A typical year sees $10 million in investments from the group. Recent investments include participation in a $30 million round for fast-growing Seattle beauty startup Julep last month.

The **VC Investment By Region** report I found on venture capital investments in the US verses a few other countries reported:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Region** | **Invested Capital US$b** | **Invested Rounds** | **% Change (amount invested)** | **% Change (deals)** | **% of the Global VC Activity** |
| United States | 33.1 | 3,480 | 0.9% | -4.6% | 68.2% |
| Europe | 7.4 | 1,395 | 19.4% | 5.7% | 15.3% |
| Canada | 1.0 | 176 | 14.4% | 23.0% | 2.1% |
| China | 3.5 | 314 | -30.0% | 20.3% | 7.2% |
| India | 1.8 | 222 | 12.5% | -2.2% | 3.7% |
| Israel | 1.7 | 166 | 54.5% | 17.7% | 3.5% |
| **Total** | **48.5** | **5,753** | **1.9%** | **0.2%** | **100%** |

Quoting from the executive summary of this article:

2013 was a solid year for the global VC industry. Reversing the decline seen in 2012, investment levels rose 2% to US$48.5b. This somewhat flat performance masks an exceptional fourth quarter in which investment soared by 10% and the number of rounds by 10%, reflecting improving economic fundamentals toward the end of the year and paving the way for a stronger 2014.

European and Israeli rebounds failed to counterbalance flat US and Chinese declines. Stronger signs of growth in the US economy, which account for 68% of global VC activity, came too late in the year to make a significant impact on the overall figures. The remarkable rebound in Europe, which saw a 19% rise in capital invested and 6% rise in the number of deals, although highly encouraging, was not enough to drive significant movement in the global total. Europe accounts for only 15% of global VC Activity.

China, the third largest hotbed in the global VC rankings, had a poor year in which the value of deals fell by US$1.5b, marking the lowest point for the country since 2009. In previous years, China has been a close second to Europe in terms of its global significance for VC activity, but the closure of the domestic stock exchanges during 2013 had a significant impact on the sector, as China declines from 11% of global VC dollars invested in 2012 to 7% in 2013.

India, fourth in the global CV rankings, saw an increase in dollars invested of 13%, reflecting strong interest in its consumer services sector, although the number of rounds fell back slightly. Israel performed strongly with a US$0.6b rise in the value of investments – 55% up in terms of value and 18% up in terms of the number of rounds. However, with economies accounting for just over 7% of the global industry, such improvements, while highly significant in local terms, do litte to move the global needle. Canada, which accounts for 2% of global VC activity, also had an extremely strong year, with volumes up 23% and value up 4%.

Based on my knowledge of my local region and country, Boston,MA, USA, I would seek the above mentioned resources if interested in being an entrepreneur. My observations in the high tech industry, and also mentioned in the current Governor Deval Patrick's August 2014 report, internationals are encouraged to stay if they have an entrepreneurial idea that is considered good for our economy, and programs have been set up to encourage that. For local or foreign investors, if you do your homework on what you think would be a good investment in the Boston area, I think an investor will get good return on their investment in this area.